In 2004, the European Union will grow from 15 member states to 25 with the addition of ten new members: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta and Cyprus.

"These were all countries behind the Iron Curtain, by and large, when we were growing up," said Don Stevens in his introductory remarks. "They've all made a choice to go in the direction of Western institutions. Free trade, open economies and reformed political systems are all part of their future as they struggle to leave the past behind."

Discussing these issues were panelists Peter Widmer, a financial advisor based in Switzerland; Eugene Megyesy, Jr., Honorary Consul General, Republic of Hungary; and Gregory Fasing, Honorary Consul of the Slovak Republic for Colorado, Wyoming and New Mexico.

Peter Widmer: Potential for growth

Peter Widmer was Chairman of Julius Baer Investment Management Inc. and Member of the Executive Board of Julius Baer Holding Ltd., the holding company of the Julius Baer Group, a financial services institution operating worldwide. Based in Zurich, Widmer retired in 1999 and now acts as advisor to a small number of wealthy European families.

The group of ten new countries slated to become members of the European Union in 2004 is "the only growth area that Europe has," said Peter Widmer.

At this time, the ten candidates account for less than 10 percent of the GDP of the enlarged European Union. But this is likely to change. "Some people say Central Europe is going to be a building site for the next 20-30 years. There are so many projects going on and so many infrastructure needs such as roads, railways, water and waste management systems."

"Slow" is how Widmer describes Europe's economic recovery, which he said is "almost exclusively export driven. There is no domestic recovery yet, certainly not in Germany which accounts for one-third of the euro zone output. Estimated GDP growth in 2003 for the euro zone is 0.5 percent."

Affecting growth in some of the EU15 states are structural issues relating to the cost of labor, productivity and rigid labor laws. "These are all unresolved problems," said Widmer.

Economic growth in the ten new additions is projected to be 4 percent in 2004-05 D- higher than the 2.5 percent projected for the existing EU. "The Eastern European new members are attracting a strong and rising flood of foreign direct investment. Twenty percent of Germany's FDI already goes into Central Europe and the trend is up."

However, the ten countries "are not a homogeneous group. For example:

- Latvia, with 2.3 million population, has one of Europe's highest growth rates, low taxes, fast rising productivity and wages at 20 percent of the European level.
- Slovenia is the only Balkan country that functions well.
- Poland is the largest of the new countries; it represents half the population of Central Europe and half of the GDP, but they need to get their public finances under control.
Bumps in the road to EU expansion

Peter Widmer, Eugene F. Megyesy Jr., Gregory J. Fasing

- Czech Republic has attracted the most FDI per capita over the last five years and Prague is the most favored city for regional business headquarters. It has a well-educated, multilingual and cheap work force.

Said Widmer, "For the ten countries, progress toward meeting EU requirements for admission is still patchy. Preconditions include stable democratic systems, observation of Western human rights, functioning legal systems and market economies."

The unemployment rate for the new member states runs as high as 15 percent, compared to 8 percent for the EU15.

It will be several years, 2006 at the earliest, before the EU10 are eligible to join the euro. "But they will be trading in euros like we all are."

To prepare for enlargement, a task force has been hammering out a constitution for the past two years. "Its aim is to make the EU more democratically accountable, less centralistic; in short, to be able to operate with 25 members using 28 different languages.

A draft was submitted to the EU summit last June. The next summit will be held Dec. 12-13, 2003, at which time the constitution will be submitted for a final vote. If approved, the constitution must then be approved by separate votes in all 25 nations. "Approval has to be unanimous. If one country says No, it's back to the drawing board. The outcome is still uncertain," said Widmer.

Among the issues yet to be settled at the upcoming summit is the distribution of power. "The small countries fear they are at a disadvantage because the big countries have too much power."

To offset this, a double majority voting principle has been proposed. "In order to get something approved you would need 50 percent of the states and 60 percent of the population."

Also on the table is whether or not the preamble to the constitution should contain a reference to the Christian heritage of the EU. "This is likely to be hotly debated. The French oppose this very strongly because they have a clear separation between state and church. And one of the next new members is Turkey, a predominately Muslim country."

There's a lot of work ahead, Widmer said, "but to tie together the destinies of different nations is key to avoiding hostilities in the future."

Note: On Dec. 13, efforts to forge a constitution failed. The enlargement itself is not at risk.

Eugene F. Megyesy, Jr.: Difficult transitions

Eugene Megyesy was born in Budapest, Hungary, and escaped after the 1956 revolution. He served in the U.S. Army in Vietnam and received the Bronze Star. He has a Juris Doctor degree from the University of Denver, and is currently a director at the law firm of Dufford & Brown, P.C. Fluent in Hungarian and German, he represents U.S. clients in Central Europe. A former assistant attorney general, Megyesy is Honorary Consul General, Republic of Hungary.
The Soviet-ruled Communist dictatorship that held Hungary in its grip for more than four decades was finally ousted in October 1989. "And that's when the difficult process of transition from a centrally planned economy to a free market economy and from one party rule to democracy began," said Gene Megyesy, classifying the transition in terms of political, social and economic.

"The political transition has been relatively simple. In 1990 Hungary held its first elections and political parties were formed. No matter which party is in power, every four years, the incumbents are voted out. But there has never been a no-confidence vote. There is political stability, even though it moves between the right and the left. The government is a parliamentary system with a unicameral legislature.

"The social transition is taking the longest because there is a generational divide between the older generation that grew up under Communist rule and the younger generation that's employed by multinational companies and companies that did not exist during the Communist era.

"Many in the older generation considered the Communist government to be illegitimate and, therefore, found ways to avoid the laws and take advantage of the system anyway they could.

"The younger generation represents the future value system for Hungary and the Eastern bloc countries," said Megyesy.

"Under Communist rule, everybody had a fairly low standard of living, but everybody was essentially on the same plain. Now the plain is changing because individual responsibility and individual abilities come to the forefront. Some people are going to do better than others, and that causes friction in society.

"The economic transition has been more difficult than the political transition and a little easier than the social changes.

Historically, agriculture, among other industries, had been the backbone of the Hungarian economy. "But in the early '50s the Communists decided that Hungary should be, among other industries, a steel-producing country even though Hungary did not have iron ore or coke resources and everything had to be shipped in. The state built very large industrial facilities to accommodate this shift."

In the post-Communist era, the newly elected government set about privatizing the state owned factories. "That's when the official economic transition began. However, privatizing the large factories proved to be a problem. The government really did not have full control of how it occurred at some of these facilities. Some of it was based on bidding. G.E. bid on and bought a light bulb factory that had a long Hungarian history.

"At this point, just about everything has been privatized with the exception of a few elements such as the national airline and the atomic energy facility. These will likely not be fully privatized."

An underground form of private enterprise - smuggling and the black market - existed in Hungary even during the Communist era. "Consequently, changing to a free market economy was desired and accepted by most people.

"Before 1989, 70 percent of Hungary's trade was with the East, which was incapable of paying its bills. That has been turned around. Now 80 percent of the trade is with the West and 20 percent is with the East. The shift was difficult but it went fairly well."
Bumps in the road to EU expansion

*Peter Widmer, Eugene F. Megyesy Jr., Gregory J. Fasing*

"There is a progression of economic development in the region. You start out by privatizing, attracting foreign direct investment, and then you grow strong enough to expand your own industries. For example, the Hungarian Oil & Gas Company now has enough capital to expand into Croatia, Romania and Slovakia.

"Hungary's financial system is probably one of the most developed in Central Europe. Budapest is trying to become a regional center for finance and education. Hungary is also trying to take advantage of the fact that we know how to deal with the East, we know how to deal with the Russians.

"At this point Hungary has conformed to all the EU ascension requirements. I think for Hungary and the Hungarian people there will be difficulties in the first few years of membership. The subsidies that these ten new countries are getting are much lower than what Portugal and Spain received, because the economies are different in western Europe. Agriculture is one area where there's going to be some difficulty.

"But if Hungary survived 45 years of Communism and managed to establish the highest standard of living in the region, I am confident that she will prosper with the free market economy and democracy."

**Gregory J. Fasing: Easier to do business**

*Engaged in the private practice of law representing both people and businesses, Greg Fasing has appeared before the Colorado Court of Appeals and the Colorado Supreme Court numerous times and has filed appellate pleadings in the United States Supreme Court. He was appointed a Deputy District Attorney the month following his admittance to the Colorado Bar in October 1976. He served on the Denver District Court Commission on Judicial Performance from 1992-99. Since 1994 he has represented Slovakia as its Honorary Consul in Colorado, Wyoming and New Mexico.*

Since 1989, Slovakia's transition to a free market economy has run more or less parallel to that of Hungary's, said Greg Fasing.

Touching on the history of the region, Fasing noted that the Slovaks and Czechs in 1918 joined forces to form Czechoslovakia. Following World War II, Czechoslovakia fell under the control of the Soviets where it remained until 1989 when the Soviet Union collapsed. The Slovaks and Czechs separated peacefully on Jan. 1, 1993 and once again became two separate nations.

"Slovakia voted overwhelmingly to join the European Union and is now integrating fully with Western standards as required by the EU.

"The Communists did one thing well, said Fasing, "they put an emphasis on education. So in Slovakia we have a tremendously educated work force, just like in the Czech Republic, Poland and Hungary. The people are ready to do business and a lot of multinational companies are taking advantage of that educated work force."

Fasing referred to numerous companies that have discovered Slovakia and other Central European countries.
Bumps in the road to EU expansion

Peter Widmer, Eugene F. Megyesy Jr., Gregory J. Fasing

"Johns Manville in 2001 acquired a fiber glass company called Skloplast, which is outside of Bratislava. About a year ago, the company had a chance to invest millions of dollars into another plant in China. Instead, it chose to expand in Slovakia with a $100 million investment at its Trnava location.

The Czech Republic and Hungary are also on businesses' radar screens. "All of these countries offer numerous incentives to attract Western companies.

"Dell Computer has recently opened a call center in Slovakia to service German consumers of Dell products. Hyundai, as of yesterday, was trying to choose between Slovakia and Poland to put in a huge factory capable of producing 300,000 vehicles within a few years after it's built.

"U.S. Steel, about five years ago, bought a major industrial complex in Eastern Slovakia not far from the Ukraine border.

"Volkswagen makes all their transmissions in a factory outside of Bratislava. And the list goes on and on. Companies are moving in. You not only see American companies but also German companies, which find the cost of business is much cheaper in Slovakia.

The ability to attract money and investment is the driving force behind Slovakia's economic growth. "There's been a tremendous build-out since World War II and it's going to continue because the Communist regimes in these countries did not invest in a lot of infrastructure other than military-related systems.

"So there's a huge market here that's going to continue with EU expansion. The standardization that the EU is going to bring to this part of the world will make it a lot easier for people to do business politically and economically. And the Central European location provides an efficient base from which to export all over the world."

Q. What is the situation around environment control and the black market in Hungary and the other countries?

Megyesy: All of the Hungarian environmental laws conform to EU requirements. Hungary is now approaching the cleanup phase. Most of the wastewater is treated in Hungary. I think the pollution levels in some of these industrial areas are going to take a cleanup effort, but it's not on the scale that you have in certain industrial portions of the Czech Republic or Poland just because Hungary didn't have as much heavy industry as those countries.

As for the black market, Hungary has some vestiges of the mentality that you can work around the system. However, when you see the world rankings on corruption, Hungary's up in the top fourth or top third of the least corrupt countries. The problem is trying to get a handle on money laundering and money flowing from East to West, particularly from Ukraine. It's well known that there's a Ukraine Mafia and the Hungarian authorities are trying to deal with it.

Q. Have you seen any contradictions or difficulties with Slovakia and Hungary joining NATO as well as joining the EU?

Fasing: I think the standards that have been set by the EU are pretty parallel to the standards set by NATO: political stability, market economy, treatment of minorities. These countries have been working overtime switching from the Warsaw Pact and bringing things up to Western standards.
Megyesy: There have been some frictions as a result of these countries positioning themselves to join the EU and at the same time - in the case of Hungary, Poland and the Czech Republic - being members of NATO. It's a difficult tightrope to walk. Historically, Central Europe has been a buffer between the East and the West. It's still a buffer but there are more complications now.

Q. The population of the ten countries coming into the EU is nearly the same as the population of Turkey (70-75 million). How do Hungary and Slovakia look at the prospective entrance of Turkey, which is an Islamic country and which will be an enormous political power in the EU?

Fasing: Every time you add another country into the mix, you're going to change all the chemistry. You do get away from the little bit of cultural and even religious harmony that the core of the European countries has.

Q. What’s the structure of the government in Slovakia? Do you have two houses? How many parties do you have?

Fasing: There is a parliamentary system with a unicameral legislature. There are probably less than ten major parties and another ten that are minor parties. It becomes a much bigger mix than we're used to with primarily a two-party system. And then you get coalitions of parties. So you might have a party that is made up of four or five other parties.

Q. What’s the status of religion in Central Europe these days after years of the Communist regime trying so hard to wipe it out?

Megyesy: It varies from country to country. In Poland where it's 98 percent Catholic, the church maintained a very strong position even during Communist times and was a factor to be considered. In Hungary, the population nominally is two-thirds Roman Catholic, 7-8 percent Presbyterian, 4-5 percent Lutheran, and a small percentage Jewish and Greek orthodox. As for the practicing of religion, the numbers are much smaller than those numbers. Even though they lived 45 years under Communism, I am not sure the religions are in much worse shape than in Western Europe, because there the actual practice of religion is also significantly down.

Fasing: I think the religious mix is about the same throughout Europe. Slovakia is primarily Roman Catholic, so are the Czech Republic, Austria and Slovenia.

Megyesy: With regard to the debate on whether or not Christianity should be recognized in the preamble to the (EU) constitution, there is also an issue of whether or not there should be a recognition of God in the preamble. There are strong positions being taken by Poland, Spain and Italy, in favor of including those words in the preamble.

Q. There is a growing discussion in Europe about the optimal size of the EU. How big should it become? There are a lot of people who say the EU is going to kill itself if it becomes too large and unmanageable.

Megyesy: The domestic politics in each of these countries will have a very significant impact upon how the EU evolves.

Widmer: I think it'll all work out fine as long as there are no serious issues that come up to divide them. I think it will be similar to the U.N. and Iraq where if somebody wants to break away and not use the U.N., then they will.
Bumps in the road to EU expansion

Peter Widmer, Eugene F. Megyesy Jr., Gregory J. Fasing

Q. How is the Swiss investment community viewing this expansion of the EU and the proposed next expansion?

Widmer: It's viewed positively. But there's going to be a dilution of the stock. You're bringing in 75 million people to add 9 percent to the GDP. The earnings per share are going to go down. But we're buying potential for growth and we're buying an expansion of an area which is very important. Switzerland is not a candidate to join. We've found a way of working with the EU and they with us. Both sides agree that, politically, we can't get together. Switzerland is the second largest outside customer of the EU after the United States. So it's an important relationship.

In bringing the session to a close, Don Stevens said: "There may be a bumpy road in this alliance, but let's just remind ourselves that this expansion represents an enormous collection of economic power. These countries are democracies, they're free markets and they will strengthen and reinforce Western style institutions."