The New Europe

by Lothar Katz

2004 Enlargement Of The European Union

On May 1st, 2004, ten new countries with 75 million people have joined the European Union (EU) in its biggest enlargement ever. Now representing 25 countries, its total population of more than 450 million exceeds that of NAFTA member countries Canada, Mexico, and the United States combined.

While politically diverse and not always fully aligned, the EU represents a strong and homogenous economic entity. With its common currency, unrestricted internal trade, and harmonized laws and regulations, the union's single-market philosophy reaches far beyond free trade agreements such as NAFTA. Its combined Gross Domestic Product (GDP) of over $11 trillion is higher than that of the United States, making the EU the largest single market in the world.

The new member countries include the Czech Republic, Poland and Slovakia in Central Europe, the three Baltic states of Estonia, Latvia and Lithuania, further Hungary and Slovenia in Southeastern Europe, as well as the two Mediterranean island states of Cyprus and Malta. Together, they represent a rich pool of cultural diversity and economic opportunities. As a brief introduction, here are some facts about economy and cultural background of each of the new members, listed in order of their respective population.

Poland

With a 2003 Gross Domestic Product of $427 billion, Poland's economy almost matches in size the nine other new members combined. Its population of just under 39 million is even higher than that of the others taken together. Per-capita income, however, is still one of the lowest across the whole EU. While Poland was the first of the former East Bloc countries to endorse economic liberalization in the 1990's, it still imports significantly more than it exports and is struggling to match the economic progress of its closest rivals, the Czech Republic and Hungary.

Culturally, Poland represents an interesting mix of influences from West and East. Having been seized and occupied by foreign powers repeatedly, it always re-emerged with an even stronger sense of national pride. Its people have a well-deserved reputation for being resourceful and persistent. However, since Poles tend to be less individualistic than other Eastern Europeans, the country's entrepreneurial spirit remains somewhat underdeveloped.

Czech Republic

The western part of former Czechoslovakia, the Czech Republic became a separate political entity in 1993, when it separated from Slovakia. Its central geographic position within Europe quickly helped boost the country's trade with the EU. Today it is one of the most prosperous of the new member countries. Car production is noteworthy; other primary exports are machinery and transport equipment. While higher than those in Poland, wages are still substantially below EU average, and the Czech Republic has become the destination of several international manufacturing outsourcing operations.

Although their language is closely related with Polish, the Czechs are quite different culturally. Many are creative individualists who nonetheless have a strong work ethic, a love of learning, and great flexibility. The country also boasts a strong education system.

Hungary

Even back when it was still a Communist country, Hungary's economy was liberal to East Bloc standards, allowing people to become small-scale entrepreneurs. Since 1990, when it held its first multi-party elections and started becoming a free-market economy, it has enjoyed consistent growth, especially in the quickly expanding private sector. Consequently, the combination of domestic expansion and influx of foreign capital drove unemployment rates down to less than 6%, substantially lower than the EU average. Hungary has become the object of significant foreign outsourcing engagements in manufacturing and lately also in the IT and technology sectors.

Hungary is a country of proud individualists. Its people value relationships and trust higher than logical arguments. They enjoy lengthy conversations and debates. At times they may appear pessimistic, but that is usually balanced by a strong achievement focus.

Slovakia

After it split out of former Czechoslovakia in 1993, Slovakia faced an economic challenge as it represented the smaller and less-developed of the resulting two countries. While good progress has been achieved and foreign investments have picked up in recent years, public debt, inflation, and an unemployment rate of more than 15% remain concerns. Slovakia's language is very similar to Czech, and its culture shared many influences with the Czech Republic. The country also has a Hungarian minority of around 10% of the population.

Lithuania

The largest Baltic state with a population of 3.6 million, Lithuania carried a heavy burden after its independence from the Soviet Union in 1994 (together with Estonia and Latvia) since its economy was mostly tied to Russia's. Hit hard by the Russian financial crisis of 1998, it is now slowly recovering and strengthening its industrial and technology sectors, while primary export products remain textiles and minerals. Lithuania's history includes long periods of Russian and Polish influence. The latter had a strong impact on the culture, which is quite different from the other Baltic states.

Latvia

Having gained independence from the Soviet Union in 1994, Latvia's economy still remains problematic. Its per-capita income is the lowest of the three Baltic states, it depends heavily on imports, and inflation and budget deficits remain concerns. Only 57% of the country's 2.3 million people are ethnic Latvians. 30% are Russians, many of whom don't speak Latvian. Historically, the country's culture was strongly influenced during seven centuries of Germanic rule, and Latvians still share values such as discipline, loyalty, and work ethic.

Slovenia

Bordering Austria to the north and Italy to the West, Slovenia was formerly part of Yugoslavia, from which it separated in 1991. It always had strong ties to Western Europe which helped nurture economic development after its independence. Today, Slovenia's per-capita income is the second highest (after Cyprus) of the new EU members, and it went from borrower status to donor partner at the World Bank in early 2004. While it saw Greek, Roman, Italian, Austrian, German, and Slavic influences during its long history, Slovenia remains quite unique and fairly homogenous in both culture and language.

Estonia

The smallest of the three Baltic states both in economy and population, Estonia nonetheless boasts the highest per-capita income, owing to a strong focus on electronics and telecommunication. The broad fiber-optical and wireless infrastructure it created soon after its independence from the Soviet Union in 1994 helped boost its economic development. The country's culture is somewhat similar to Finland's, with many influences from Russia. The Estonian language also resembles the Finnish one. However, most Estonians believe that the comparison with Finland won't do them justice, as they feel they are more cosmopolitan.

Cyprus

Split into a Greek-Cypriot majority and a Turkish-Cypriot minority area, Cyprus is still struggling to fully exploit the advantages of EU membership. While all Cyprus passport holders have become EU citizens, only the internationally recognized Greek-Cypriot government is legitimized to represent the Mediterranean island within the union. The political disarray notwithstanding, the economy of Cyprus is prosperous and its per-capita income is close to the EU average.

Malta

This group of small islands in the Mediterranean is home to around 400,000 people and has a rich and often turbulent history. Influenced over the centuries by Arab, French, British, and other cultures, it remains an interesting cultural blend after its independence from Britain in 1964. In addition to tourism, its economy primarily depends on foreign trade and manufacturing of electronics and textiles.

What's Next?

The integration into the EU has opened up many opportunities for the new member states. Following the model of Ireland, Portugal, and others before them, each is advertising itself as an attractive target for foreign investments. Given generally good education levels and favorable business conditions, including labor cost that is usually less than half that of the largest EU economies, most of them should see many years of growing prosperity, especially in light of the ever-accelerating trend towards global outsourcing.

Getting ready to join the union was a major undertaking for each of the new member countries. In addition to meeting political and economic criteria, each first had to adopt the full body of EU law as part of their national law systems. Now that their accession has been completed, other countries are already going through the same process.

Scheduled to join in 2007 are Bulgaria and Romania. Other membership candidates include Croatia and Turkey. In addition to several countries of the western Balkans such as Albania and the former Yugoslav republics, the EU now borders with Russia, Belarus, and the Ukraine. Several of these countries are likely to also become candidates, further advancing the integration of Europe. In parallel, the EU is working to further advance the process of becoming a homogenous political and economic entity through the adoption of a new constitution while strengthening its governing bodies and political representation.

Lothar Katz is the founder of Leadership Crossroads. He has a wealth of experience in achieving productive cooperation across cultures and driving business success on a global scale.

A seasoned former executive of Texas Instruments, a Fortune 500 company, he regularly interacted with employees, customers, outsourcing partners, and third parties in more than 25 countries around the world. These included many parts of Asia, e.g., China, India, and Japan. Originally from Germany, he has lived and worked both in the United States and in Europe.

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