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Eastern Europe between Transition and Accession: An Analysis of Reform Requirements

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Kiel Working Paper No. 991

**Eastern Europe between Transition and Accession:
An Analysis of Reform Requirements**

by

Daniel Piazolo

July 2000

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Eastern Europe between Transition and Accession: An Analysis of Reform Requirements*

Abstract:

This paper examines the transition process within Eastern Europe and the integration process with the EU and shows that the requirements for the transition towards a market economy overlap with the requirements for EU accession. Furthermore, the economic situation of the candidate countries is examined and it is pointed out that there is a large gap in the economic development between the Central and Eastern European countries and the EU. The paper argues that the acceding transition countries still have substantial reform tasks ahead of them and that the expanding EU membership requires also considerable reforms within the EU to reduce the danger of standstill for European policy making.

Keywords: European integration, transition economies, regional integration, EU enlargement, *acquis communautaire*

JEL classification: F15 (economic integration), F02 (international economic order - economic integration), P20 (socialist system and transitional economics: general)

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1. Introduction

The end of Socialism in Eastern Europe has opened up the opportunity to transform the centrally planned economies into market economies and to integrate Eastern and Western Europe politically and economically. The transition process within Eastern Europe and the integration process with Western Europe are the focal points of this paper. The paper examines the overlap between transition and integration, sketches briefly the situation in the Eastern European countries with respect to the economic transition and to the European integration process, discusses the institutional framework for European Integration, describes the Acquis Communautaire and derives some policy conclusions concerning necessary reforms within the Eastern European countries and the EU.

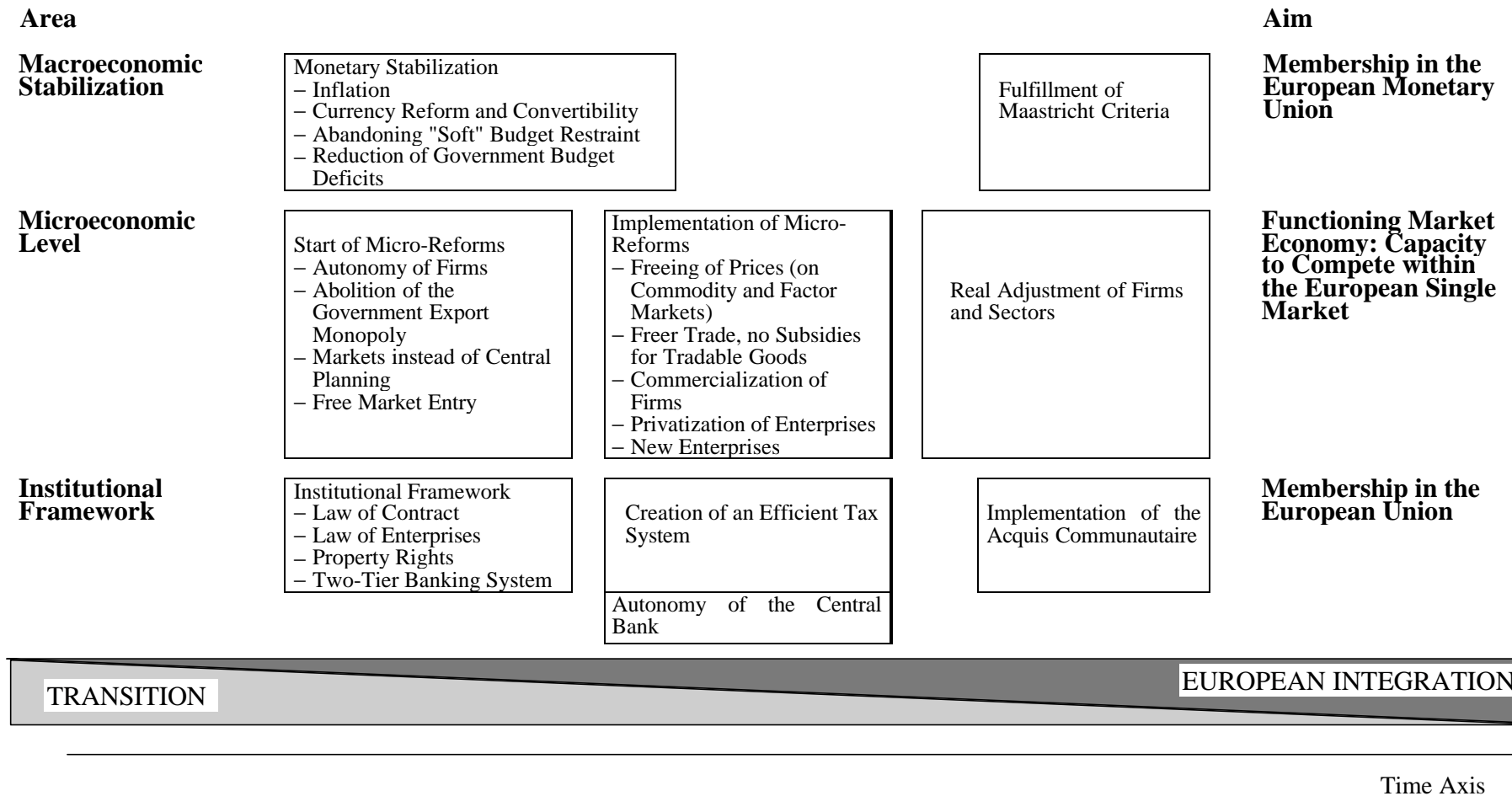
2. Overlap and Coincidence between Transition and Integration

Transition and reorientation towards Western Europe have been the two decisive challenges for the Central and Eastern European Countries (CEECs) since 1989.¹ Whereas in the early 1990s the transition from the central planning system to a market economy was the main goal of economic policies, the requirements for closer integration with the Western European countries have increasingly gained importance at the end of the 1990s. The overlap between these two processes is represented in Figure 1.

For the transition process from a centrally planned economy towards a market economy, three main areas of reforms have been identified, namely macroeconomic stabilization, real adjustment at the microeconomic level and creation of the institutional framework (cf. Siebert 1991). Macroeconomic stabilization seeks to overcome the instabilities relating to the price level, the

¹ In this paper the term "CEECs" covers the ten Eastern European countries who have opened negotiations about membership in the European Union. In March 1998 negotiations have started between the EU on the one hand and the Czech Republic, Estonia, Hungary, Poland and Slovenia (plus Cyprus) on the other hand. In February 2000 Bulgaria, Latvia, Lithuania, Romania and Slovakia (plus Malta) have also begun negotiations about EU-accession.

Figure 1 — Areas and Sequence of Reforms for the Advanced European Transition Countries



Sources: Siebert (1999); Siebert (1991); World Bank (1995); own additions and representation.

exchange rate and the state budget, which emerged in many transition economies after the onset of economic reform. The reforms at the microeconomic levels aim to establish viable markets through conversion of state conglomerates into separate legal entities (commercialization), privatization of these firms, price liberalization and opening up to international trade. Furthermore, the possibilities for firms to enter into and exit from the market have to be assured. After the establishment of these macro- and microeconomic reforms, prices will tend to mirror world market prices and thus to reflect the costs and the scarcity of goods and factors. However, the allocation of factors and inputs within the firms inherited from the Socialist era may not fully correspond to the new prices both at the input and output level; some output may not be competitive under the new conditions; part of the physical capital stock may have become obsolete; and national and international competition may intensify. Therefore, individual domestic firms and the whole economy experience a transformation "shock".

The reform of the institutional framework has to ensure that a meaningful and beneficial decentralization of economic decisions occurs. The new legal foundation has to establish and enforce private property rights, a viable law of contract and a law of enterprises. Furthermore, the responsibilities of monetary policy and financial intermediation have to be separated through the

establishment of a two-tier banking system. Finally, the independence of the central bank has to be guaranteed in order to ensure macroeconomic stabilization (cf. Siebert 1999). These three areas of reforms are interdependent in the sense that success in one area will be attained only if sufficient progress is made in the other two. Furthermore, simultaneous progress in all these areas is also required to gain credibility for economic reforms.²

The requirements for the accession of the CEECs to the European Union also fall in these three main areas of necessary reforms for transition. The European Council defined at its meeting in Copenhagen in June 1993 three criteria which applicants would have to fulfill before accession (cf. European Commission 1999a): (1) the political criterion: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, (2) the economic criterion: existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the European Union, (3) the criterion concerning the adoption of the *acquis communautaire* (see also below): ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. Whereas the second Copenhagen criterion addresses the

² The link between institutional reforms and economic growth as well as the progress in transition towards a market economy in 25 transition countries are discussed more closely in Piazzolo (1999). A more fundamental description of the overall societal effects of the transition from socialism to capitalism is offered by Kornai (2000).

reforms necessary on a microeconomic level (as indicated in Figure 1), the third criterion covers the institutional framework and the macroeconomic stabilization. In the primary objective concerning the rule of law, the first Copenhagen criterion is also targeted toward institutional capacity–building. Consequently, there is a considerable overlap between the requirements for transition in the CEECs on the one hand and for the integration with Western Europe on the other hand.

3. The Economic Differences between the Advanced Transition Countries and the EU

Economic disparities between the EU and the candidate countries are still huge by the end of the 1990s as reflected in Table 1. The Table provides data for the aggregate of the 15 present EU members (labeled EU15), the ten transition countries that have applied for membership (the dates of the application are given in Table 3 – see below) and for three other applicants (Cyprus, Malta and Turkey).

Table 1 — Key Data for 1998 on the EU and on the Candidate Countries for Membership in the EU

	EU 15	Transition Countries as Candidates										Other Candidates		
		Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	Cyprus	Malta	Turkey
GDP at current prices														
- 1000 Mio ECU	7585.6	11.0	50.1	4.6	42.4	5.7	9.5	140.7	33.9	18.1	17.4	8.1	3.1	175.8
- in % of EU	100.00	0.15	0.66	0.06	0.56	0.08	0.13	1.85	0.45	0.24	0.23	0.11	0.04	2.32
- per capita in ECU	20234	1337	4869	3181	4201	2337	2567	3639	1507	3356	8797	12217	8201	2771
- per capita in % of EU	100	7	24	16	21	12	13	18	8	17	44	60	41	14
Real GDP relative to 1989 (1989=100)	120	66	95	76	95	59	65	117	76	100	104	162	164	155
GDP per capita in Purchasing Power ^d in % of EU	100	23	60	36	49	27	31	39	27	46	68	78 ^b		37
Gross value added by sector (%)														
- agriculture	2.3 ^c	21.1	4.5	6.2	5.9 ^b	4.7	10.1	4.8	17.6	4.6	3.9	4.6	2.8	16.1
- industry and construction	30.7 ^c	28.7	41.8	26.3	32.7 ^b	29.5	31.5	36.5	40.7	33.3	37.7	21.9	27.5	27.4
- services	67.0 ^c	50.2	53.7	67.5	61.4 ^b	65.8	58.4	58.7	41.7	62.1	58.4	73.5	69.7	56.5
Economic activity rate (%)	67.5 ^b	50.4	61.0	61.2 ^b	51.7	58.8	61.4	57.3	63.6	59.9	59.4	61.5		51.3
Unemployment rate (%)	10.0	16.0	6.5	9.9	7.8	13.8	13.3	10.6	6.3	12.5	7.9	3.3	5.1	6.4
Agriculture: % of total employment	5.2 ^b	25.7	5.5	9.4 ^b	7.5	18.8	21.0	19.1	40.0	8.2	11.5	9.6	1.8	42.3
1998 inflation rate (%)	1.3	22.3	10.7	10.5	14.3	4.7	5.1	11.8	59.1	6.7	7.9	2.2	2.4	84.6
Consumer price index (1995=100)	105.4	3224.4	130.7	151.3	167.0	133.4	142.7	154.0	578.4	119.8	128.6	109.0	108.2	618.4
General government deficit/surplus compared to GDP (%)	-1.5	-0.3 ^b	-2.2 ^b	-2.6 ^b	-5.4 ^b	1.8 ^b	-0.7 ^b	-2.6 ^b	-3.5 ^c	-4.4 ^b	-1.5 ^b	-0.9 ^e	-7.7 ^c	-7.2
Balance of trade in Mio ECU	+19200	-607	-2198	-1376	-2409	-1232	-1858	-16792	-3154	-2045	-936	-2354	-742	-16359
EU share of total imports (%)		45.0	63.3	60.1	64.1	55.3	50.2	65.9	57.7	50.4	69.4	61.9	69.3	52.4
EU share of total exports (%)		49.7	64.2	55.1	72.9	56.6	38.0	68.3	64.5	55.8	65.5	50.4	52.8	50.0
Candidate country share of total extra-EU trade ^f (%)		0.3	2.2	0.3	2.2	0.2	0.3	3.1	0.8	0.8	0.8	0.2	0.2	2.5
EU FDI stocks held in the economy, at end of 1997 (Mio ECU)	658570	347	7669	399	8120	177	390	7165	748	1290	809	269		3489
Total area (in 1000 km ²)	3191	111	79	45	93	65	65	313	238	49	20	9.2 ^a	0.3	775
Total population (in 1000s)	374888	8230	10290	1446	10092	2439	3701	38667	22489	5393	1978	663 ^a	378	63451
Total population in % of EU	100.00	2.20	2.74	0.39	2.69	0.65	0.99	10.31	6.00	1.44	0.53	0.18	0.10	16.93
Population per km ²	117	74	130	32	108	38	57	124	94	110	98		1198	82

^a Data provided by Cyprus refer to the Government controlled area only, with the exception of data on area which refer to the whole of Cyprus. - ^b 1997. - ^c 1996. - ^d GDP is expressed in purchasing power standards (PPS) to enable correct comparison of volume of goods and services produced by different countries. - ^e 1995. - ^f Sum of imports and exports.

Sources: Eurostat (1999); Eurostat (2000); EBRD (1999); World Bank (2000); own calculations.

The economic size of the candidates for EU membership is small compared to the EU15. Poland as the largest transition country likely to join the EU has an economic size of less than 2 percent of the EU15. All other transition countries with a candidate status have a economic size of less than 1 percent of the EU15. In terms of Gross Domestic Product (GDP) per capita, the inhabitants in the candidate transition countries reach between 7 (Bulgaria) and 44 percent (Slovenia) of the EU15 average. The difference in development is, however, better represented by the data about the GDP per capita given in Purchasing Power Parity. According to this measure, GDP per capita in the ten transition countries ranges from 23 percent of the EU15 average for Bulgaria up to 68 percent for Slovenia.

Table 1 displays also the ratio of the real GDP for 1998 relative to the GDP for 1989 and shows that only few transition countries were already able to reach the pre-transition level of economic activity. In 1998, only Poland and Slovenia had passed the 1989 GDP level and Slovakia had just reached it. Latvia's economy in 1998 had shrunk to 59 percent of its 1989 level.

How far the candidate countries are from the EU15 is also underlined by the disparity of sectoral composition of GDP indicated in Table 1. Whereas agriculture accounts for only 2.3 percent of GDP and 5.2 percent of total employment in the EU15, this sector contributes between 3.9 (Slovenia) and 21.1 percent (Bulgaria) to GDP and between 5.5 (Czech Republic) and 40

percent (Romania) to overall employment. The service sector contributes 67 percent of GDP in EU15, but only 41.7 percent in Romania and 53.7 percent in the Czech Republic. The share of the sector "industry and construction" in most transition countries is higher than in the EU. The EU15 has on average an industry sector accounting of 30.7 percent of gross value added. Hungary, Lithuania, Poland, Slovakia and Slovenia have a larger industry sector than the EU and the Czech Republic and Romania have even an industry sector accounting for more than 40 percent of GDP.

This structure is the legacy from the centrally planned economy. The central planners had a pronounced preference for (heavy) industry while disregarding and even discriminating against the tertiary sector. According to Gros and Suhrcke (2000), this characteristic would allow – even after ten years of transition – an economist without any access to time series data to distinguish the previously centrally planned economies from all other countries in the world.³

³ Furthermore, the formerly centrally planned economies have a higher energy use than expected from their GDP level and have a higher proportion of their population in secondary and tertiary education. Apart from these findings, there are few characteristics that markedly distinguish the advanced transition economies from other countries. Consequently, Gros and Suhrcke (2000) conclude that transition has apparently been accomplished in Central Europe. However, as the latest annual reports from the European Commission (1999b, 1999c) on the CEECs' progress towards accession discuss, the CEECs still have to advance in their reform process. In this perspective, the transition continues to a market economy that can stand the competitive pressures within a common market of advanced industrialized economies.

The preeminent importance of the EU15 as a trading partner for the candidate countries is also shown in Table 1. Between 45 percent (Bulgaria) and 69.4 percent (Slovenia) of total imports originate from the EU15 and between 38 (Lithuania) and 72.9 percent (Hungary) of all exports are heading towards the EU. For most advanced transition countries, the share of the EU for total export or total import is near or above 60 percent, which represents a marked change from the pre-1989 trade pattern.

4. The Institutional Framework for European Integration

The so-called Europe Agreements were initiated in the early 1990s to provide a framework for the gradual economic and political integration of the CEECs with the present EU members. The first two Europe Agreements were signed by Poland and Hungary in December 1991 and entered in force in February 1994, as shown in Table 2. The other eight CEECs have also signed Europe Agreements with the EU, and the last Europe Agreement (with Slovenia) entered into force in February 1999. The Europe Agreements aim for full EU membership in the long run and provide for reductions in trade barriers, co-operation in economic, financial, technical and cultural fields, and a forum for political dialogue.⁴ In that respect, the Europe Agreements go beyond bilateral

⁴ In the first Europe Agreements the reference to full EU membership was rather vague. The preambles mentioned only the CEECs' desire for full EU membership (cf. Langhammer 1992: 3).

free trade agreements and are, consequently, the most far-reaching agreements that the EU has ever signed with third countries (cf. European Commission 1999a).

In order to bridge the period until the Europe Agreements entered into force, the EU agreed upon Interim Agreements with the six first CEECs signatories and upon Free Trade Agreements with the other four CEECs. These temporary agreements expired with the establishment of the validity of the Europe Agreements (see Table 2). With the Interim Agreements entering into force, custom duties applicable to imports into the EU were eliminated for manufactured goods from the involved CEECs. In January 1994 and in January 1995 most residual duties on sensitive goods were deleted.

The Europe Agreements and the Interim or Free Trade Agreements are characterized by asymmetry, with the CEECs reducing the trade barriers more slowly than the EU. The CEECs were allowed to keep tariffs for a restricted list of manufactured products from the EU when the Interim or Free Trade Agreements entered into force, but had to gradually reduce these tariffs according to a preset timetable. By January 2000, virtually all industrial exports from the EU to the CEECs have occurred under duty-free conditions.⁵

⁵ Poland has been granted an exception for certain products of the car industry allowing the gradual reduction of the tariffs over a longer time period. Similarly, Hungary has obtained an exception for steel products (cf. European Commission 1999a).

Table 2 — The Europe Agreements and the Interim or Free-Trade Agreements between the EU and the CEECs

	Europe Agreements		Interim Agreements
	Signed	In force since	In force since
Poland	16.12.1991	01.02.1994	01.03.1992
Hungary	16.12.1991	01.02.1994	01.03.1992
Czech Republic	04.10.1993	01.02.1995	01.03.1992
Slovakia	04.10.1993	01.02.1995	01.03.1992
Romania	01.02.1993	01.02.1995	01.05.1993
Bulgaria	08.03.1993	01.02.1995	31.12.1993
			Free-Trade Agreement in force since
Estonia	12.06.1995	01.02.1998	01.01.1995
Latvia	12.06.1995	01.02.1998	01.01.1995
Lithuania	12.06.1995	01.02.1998	01.01.1995
Slovenia	01.06.1996	01.02.1999	01.01.1997

Note: The Interim and Free Trade Agreements expired upon entry into force of the Europe Agreements.

Source: European Commission (1999a).

The Europe Agreements also contain specific arrangements for sensitive industries. In the textiles sector the EU eliminated duties on imports from the CEECs in January 1997 and all quantitative restrictions in January 1998. The CEECs progressively reduced their tariffs for imports of textiles from the EU until January 2000. The Agreements also established gradual liberalization for farm products, processed farm goods and fisheries for trade between the EU and the CEECs, with January 2002 scheduled as the date, when all tariffs and

quantitative restrictions have to be eliminated. Furthermore, the Europe Agreements entitled the Contracting Parties to take emergency measures only in specified exceptional cases and allowed under certain restricted circumstances the use of anti-dumping measure under the terms established by the World Trade Organization.

As it was mentioned, the Europe Agreements were signed with the intention of full EU membership for the CEECs. Consequently, it is very difficult to distinguish between the effects of the Europe Agreements per se and the incremental consequences of full EU membership. Through regional integration between with Western Europe as embodied in the Europe Agreements and EU membership, the CEECs will join the world's largest individual market.

Through accession to the EU, the Eastern European countries will also accept the common external tariffs of the EU, which are often lower than the present tariffs imposed on its imports from third countries, i.e. for countries that are neither EU members nor members of the Central European Free Trade Area (CEFTA). CEFTA can be seen as a complement to the Europe Agreements. Whereas the EU and the individual Central and East European countries reduced the bilateral trade barriers according to the Europe Agreements, tariffs among the Eastern European countries were not affected. Following persistent

requests from the EU, the CEFTA was founded in 1993 by the Czech Republic, Hungary, Poland and the Slovak Republic to strengthen intra-regional trade ties, that have become severely diluted with the dissolution of the Council for Mutual Economic Assistance (CMEA) in 1989 (cf. Kaminski 1999).⁶ Slovenia joined CEFTA in 1996 and Romania followed in 1997. Since all CEFTA members have applied for accession to the European Union, CEFTA functions as a waiting room for EU membership (cf. Siebert 1999: 189).

Insights concerning some likely aspects of the Eastern Enlargement process of the EU can be drawn from the previous enlargement rounds. Table 3 represents the time table for the four previous enlargement rounds integrating nine new members and the data of the application and the issuing of the opinion of the European Commission for 15 other countries, who also have applied for membership.⁷

Whereas domestic politics of a European country determine the decision of whether to apply for EU-membership, the timing is also influenced by the state of other applications. Despite the fact that in principle the equality of all applicants is emphasized in the negotiations procedures, a clustering of

⁶ The breakdown of intra-CMEA trade and the striking trade (re-)orientation of the CEECs towards the EU are examined in Piazzolo (1997).

⁷ As mentioned in Table 3, the applications from Switzerland and Norway are currently suspended.

countries does tend to occur. The application and accession of Denmark and Ireland was determined by the circumstances of Great Britain. Portugal's application and accession was effectively linked to the Spanish case. Furthermore, it has been claimed that the early application of Austria induced a quicker application of the Scandinavian countries because of the joint EFTA link (cf. Preston 1997). As an exception, Greece was able to disconnect itself from the other two Mediterranean applicants. Since the accession of new countries has to be ratified by all EU members in a time consuming procedure, a clustering of East European countries that has materialized during the opening stage of negotiations is likely to remain relevant for the actual accession.

Table 3 — Timetable of Enlargement Rounds

	Application	Opinion of Commission	Opening of Negotiations	End of Negotiations	Accession
UK	09.09.1961		08.11.1961	29.01.1963	
	10.05.1967	29.09.1967	30.06.1970	22.01.1972	01.01.1973
Denmark	10.08.1961				
	11.05.1967	29.09.1967	20.06.1970	22.01.1972	01.01.1973
Ireland	31.07.1961				
	11.05.1967	29.09.1967	20.06.1970	22.01.1972	01.01.1973
Norway	30.04.1962				
	21.07.1967	29.09.1967	30.06.1970	22.01.1972	—
Greece	12.06.1975	29.01.1976	27.07.1976	28.05.1979	01.01.1981
Portugal	28.03.1977	19.05.1978	17.10.1978	12.06.1985	01.01.1986
Spain	28.07.1977	29.11.1978	05.02.1979	12.06.1985	01.01.1986
Turkey	14.04.1987	14.12.1989 13.10.1999			
Austria	17.07.1989	01.08.1991	01.02.1993	12.04.1994	01.01.1995
Sweden	01.07.1991	31.07.1992	01.02.1993	12.04.1994	01.01.1995
Finland	18.03.1992	01.11.1992	01.02.1993	12.04.1994	01.01.1995
Norway	25.11.1992	24.03.1993	05.04.1993	12.04.1994	—
Switzerland	26.05.1992				
Cyprus	04.07.1990	30.06.1993	30.03.1998		
Hungary	31.03.1994	16.07.1997	30.03.1998		
Poland	05.04.1994	16.07.1997	30.03.1998		
Estonia	24.11.1995	16.07.1997	30.03.1998		
Czech Rep.	17.01.1996	16.07.1997	30.03.1998		
Slovenia	10.06.1996	16.07.1997	30.03.1998		
Malta	16.07.1990	30.06.1993	15.02.2000		
Romania	22.06.1995	13.10.1999	15.02.2000		
Slovakia	22.06.1995	13.10.1999	15.02.2000		
Latvia	13.10.1995	13.10.1999	15.02.2000		
Lithuania	08.12.1995	13.10.1999	15.02.2000		
Bulgaria	14.12.1995	13.10.1999	15.02.2000		

Notes: Following de Gaulle's rejection of the UK's first application in 1963, the applications of Denmark, Ireland and Norway were dropped. They were reactivated when the UK reapplied in 1967. In 1972 and 1994, referenda in Norway rejected the terms of accession. The application from Switzerland was suspended, though not withdrawn, following the rejection of the Treaty about the European Economic Area by referendum in December 1992. Malta's application had been suspended in October 1996 and has been reactivated in September 1998. The Commission's opinion, issued in December 1989, was against the immediate opening of negotiations with Turkey. Following the Commission's revised opinion and suggestion from October 1999, the European Council in Helsinki decided in December 1999 to grant Turkey a special candidate status, but not yet to open negotiations.

Source: Preston (1997); own additions.

The four previous enlargement rounds permit a typical enlargement procedure to be identified. At the beginning of negotiations the main outcome is already clear: the integration of new members into a club with the inherited regulatory system of the old members. Thus, the negotiations are not about a future pact between equal partners with both partners having to modify their rules for behavior, but solely about how and when the smaller partner will implement the rules of the larger partner. In fact, these are negotiations on temporary exemptions from the rules, but not negotiations on the rules themselves.

This approach embodies serious shortcomings which might become quite perilous in the future Eastern enlargements (cf. Preston 1997). Joining members have an incentive to conclude negotiations quickly and to solve any outstanding disagreements after being granted full membership with decision-making and voting rights. The UK, for example, started to re-negotiate its entry terms two years after its 1973 accession and achieved a contribution rebate (after a long and bitter dispute) in 1984. Spain accepted arduous provisions for its agriculture and fisheries during membership talks, but later demanded as full member significant side payments in common agricultural and fisheries policy negotiations. Such attempts to straighten up the balance of full membership might stalemate the EU policy decision process and might lead to a completely lethargic union of about 30 members after the Eastern European

countries have joined the EU. Consequently, leaving large outstanding disagreements untouched until the new members are inside the EU with full decision, voting and vetoing power could prove immensely costly.

This danger of standstill within European policies also emerges from Table 4 presenting information about the seats in the European Parliament, voting weights in the European Council of Ministers and the number of Commissioners for the present members and for the 13 candidates (including Turkey, but not Switzerland and Norway) for EU membership if no reforms would occur. According to the present rules the number of members in the European Parliament would increase from 626 to almost 1000, the voting weights within the Council would shift even more in favor of the smaller European countries and there would be 35 Commissioners in the European Commission.

Since the political decision process within such a European Union would slow down considerably, it is clear that comprehensive reforms are necessary. An Intergovernmental Conference started working in February 2000 in order

Table 4 — Effects of the EU Enlargement on the Political Decision Process (if no Reforms are undertaken)

Country	Population (in millions)	Seats in the European Parliament	Voting Weights in the Council of Ministers	Commission ers
Germany	82.0	99	10	2
Great Britain	59.2	87	10	2
France	59.0	87	10	2
Italy	57.6	87	10	2
Spain	39.4	64	8	2
Netherlands	15.8	31	5	1
Greece	10.5	25	5	1
Belgium	10.2	25	5	1
Portugal	10.0	25	5	1
Sweden	8.9	22	4	1
Austria	8.1	21	4	1
Denmark	5.3	16	3	1
Finland	5.1	16	3	1
Ireland	3.7	15	3	1
Luxembourg	0.4	6	2	1
Present EU	375.3	626	87	20
Turkey	63.4	89	10	2
Poland	38.7	64	8	2
Romania	22.5	44	6	1
Czech Rep.	10.3	25	5	1
Hungary	10.1	25	5	1
Bulgaria	8.2	21	4	1
Slovakia	5.4	16	3	1
Lithuania	3.7	15	3	1
Latvia	2.4	10	3	1
Slovenia	2.0	9	3	1
Estonia	1.4	7	3	1
Cyprus	0.6	6	2	1
Malta	0.4	6	2	1
Extended EU	544.3	963	144	35

Source: European Commission (2000a); Eurostat (1999).

to reform the political decision process and the Amsterdam Treaty, the latest EU treaty that has entered in force just in May 1999. One very likely reform step concerns a cap on the number of seats in the European Parliament at the level of 700. Furthermore, it is likely that for decision in the Council of Ministers a majority of votes has to represent also a majority of the European population in order to be decisive.

5. The Acquis Communautaire

Countries acceding to the EU are required to adopt the *acquis communautaire*, which represents the established institutional and regular framework with respect to European integration. An acceding country to the EU is obliged to accept and effectively implement the entirety of the *acquis* as it has evolved until the date of membership to the Union. The *acquis* consists of (1) the content, principles and political objectives of the Treaties (including those of the Treaty of Maastricht and the Treaty of Amsterdam); (2) legislation adopted pursuant to the Treaties, and the case law of the Court of Justice; (3) statements and resolutions adopted within the EU framework; (4) joint actions, common positions, declarations, conclusions and other acts within the framework of the common foreign and security policy; (5) joint actions, joint positions, conventions signed, resolutions, statements and other acts agreed within the framework of justice and home affairs; (6) international agreements concluded

by the EU and those concluded among themselves by the member states with regard to Union activities (cf. Negotiation Delegation, 2000).

Generally, no derogation from the *acquis* is permitted. In certain circumstances temporary exemption may be permitted to grant the joining country transitional periods in order to progressively adopt the *acquis* in areas with extraordinary difficulty. The overall aim of the present EU, however, is the adoption of the complete *acquis* by the joining county. The precedent for this approach was set when Denmark, Ireland and the United Kingdom joined the European Community. To ensure that the joining countries share the same status, privileges, rights and obligations as existing members, the acceding countries had to adopt all that had been achieved with respect to the European integration. The desire to avoid "*acquis*-picking", where countries choose the easy elements from the European integration menu, or the situation of a multi-speed Europe induced the insistence of the implementation of the entirety of the *acquis* by the new members.

This approach, however, contains the danger of an ever increasing gap between the contents of the *acquis* and the requirements of the various member states. The *acquis* has grown to include an increasing numbers of treaties, rules and regulations as well as various joint projects. The *acquis*

consists now of about 80.000 pages, that have been grouped in various chapters for the negotiation talks as represented in Table 5.

The number and diversity of member states has also increased since the first enlargement and will rise considerably with the Eastern enlargement. The members of an EU with more than 20 states will have to cope with increasingly different problems. Consequently, the processes of deepening and widening the EU will continually grow in difficulty. The policy conclusions at the end of the paper lay out that an enlarged EU will require provisions that allow a subset of members the flexibility to advance further integration without extending automatically the *acquis* which would make future enlargement rounds even harder. For a Union with more than 20 countries, deepening and widening at the same time appears to be only feasible within an multi-speed Europe. For the presently negotiating candidates, the complexities of the present *acquis* requires a close examination, of which parts should be implemented immediately, which parts should be postponed until full membership and for which parts transition periods after EU membership should be negotiated.⁸

⁸ This has been examined, for example, by the World Bank for the case of Poland (World Bank, 1997). Extending this World Bank study, Bucknall (1999) examines the costs of Poland's compliance with EU environmental standards as ascertained by the *acquis*.

Table 5 — Chapter Headings for Screening and Negotiations Concerning the *Acquis Communautaire* for the Coming Enlargement of the EU

To enable a discussion about the various requirements of the <i>acquis communautaire</i> in an orderly and exhaustive manner, the <i>acquis communautaire</i> has been partitioned into 31 chapters for the purposes of the screening and the negotiations	
Chapter Number	Chapter Title
1.	Free Movement of Goods
2.	Free Movement of Persons
3.	Freedom to Provide Services
4.	Free Movement of Capital
5.	Company Law
6.	Competition Policy
7.	Agriculture
8.	Fisheries
9.	Transport
10.	Taxation
11.	Economic and Monetary Union
12.	Statistics
13.	Social Policy / Employment
14.	Energy
15.	Industrial Policy
16.	Small and Medium-Sized Undertakings
17.	Science and Research
18.	Education, Vocational Training and Youth
19.	Telecommunications and Information Technologies
20.	Culture and Audio-Visual Policy
21.	Regional Policy / Structural Instruments
22.	Environment
23.	Consumers and Health Protection
24.	Cooperation in Justice and Home Affairs
25.	Customs Union
26.	External Relations
27.	Common Foreign and Security Policy
28.	Financial Control
29.	Financial and Budgetary Provisions
30.	Institutions
31.	Other

Notes: A detailed examination of the extent to which the existing laws, regulations and institutions of the candidate accord to the *acquis communautaire*, called *acquis screening*, precede the actual negotiations about the *acquis communautaire*. Only the first 29 of the 31 chapters are covered by the *acquis screening*.

The chapter called "Institutions" relates to the acceding country's participation in the EU institutions (Commission, Council, Parliament, Court of Justice, Court of Auditors, European Investment Bank and other institutions).

The chapter entitled "Other" deals with the issues not anticipated before or unique to the acceding country.

Source: European Commission (2000b).

Even if it is arguable whether the *acquis* constitutes the best institutional framework for the transition countries due to the existing development gap relative to the current EU members, it is likely, that the *acquis* will stabilize the continuing political and economic reform process by given clear targets for institutional-building.

Due to its enormous size and complexity, the implementation of the *acquis* creates also a considerable adjustment burden for the joining countries. The open conflict between the EU and Poland concerning the *acquis* chapter "agriculture" in early 2000 indicates that the complete integration of the CEECs into the EU will occur with substantial friction and will require several years. For example, the Polish negotiators regard it as absolutely necessary that local producers can sell within Poland meat and milk products that do not fulfill the high EU hygiene standards for several years after EU membership. Further friction to the negotiations about the *acquis* is added through the disagreements about the CEECs' access to the structural funds and to the direct transfer payments to farmers within the Common Agricultural Policy as well as about the transition periods for the free mobility of persons.

In the latest annual reports from the European Commission (1999b, 1999c) on the CEECs' progress towards accession, it is pointed out that only Hungary and the Czech Republic have advanced in the adoption of the EU framework

concerning technical standards and certification whereas the other CEECs feature distinct deficits. Additionally, environmental and social standards are aligned slowly in all CEECs. Thus, it is unlikely that the CEECs are able to ensure that most firms in their countries could fulfill the EU norms and standards within three or five years. Furthermore, the CEECs can not yet completely fulfill the Copenhagen economic criterion of the existence of a functioning market economy and the ability to stand the competitive forces within the EU (cf. European Commission 1999b). Consequently, the CEECs' have to muster refreshed verve to advance substantially on their reform path.

6. Accession Dates

The problems with the limited capacity to compete within the EU and with the adoption of the *acquis* point either to the necessity of a delayed EU accession of the first CEECs (in or after the year 2006) or long transition periods in many areas after an early EU membership (in the year 2003 or 2004) allowing exemption to the applicability of the *acquis*. As of mid-2000, it appears quite likely that the first Eastern enlargement round will take place only in the year 2006 or 2007 with eight Eastern European countries, i.e. the Czech Republic, Hungary, Poland, Slovak Republic, Slovenia and the three Baltic States. It would be distortionary to draw the EU border between the Czech Republic and the Slovak Republic. Furthermore, it also would not be sensible to include

Estonia in the EU, but to leave the other two Baltic countries Latvia and Lithuania outside the EU. Additionally, the two small Mediterranean countries Cyprus and Malta are likely to accede the EU at the same time as the first CEECs.

The integration of eight Eastern European Countries plus two Mediterranean countries at the same time might sound like an impossible task, but the overall population of these ten countries is with 75 million inhabitants smaller than the population of Germany (82 million). In this perspective the task of a comprehensive enlargement seems to be manageable. Nevertheless, the full integration of these ten countries into the institutional and administrative framework of the EU will require considerable time. Consequently, the EU will need a certain period for internal consolidation before a further enlargement might be feasible. EU accessions of Bulgaria and Romania as well as Croatia and maybe other successor republics of the former Yugoslavia are probable to take place only in the year 2012 or later.⁹

This likelihood of delayed EU accession of the CEECs and the existence of beneficial effects of increased credibility through regional integration indicate the necessity to find means to bridge the transitional period until full

⁹ At that time, the integration of Turkey into the then already quite heterogeneous entity with 30 countries will be feasible without changing the nature of the EU too abruptly.

membership without foregoing the credibility import into the CEECs through the EU accession process. Ambiguity about the date of membership might weaken the reform process in Eastern Europe. To overcome this uncertainty an early commitment by the EU to a guaranteed accession at the year e.g. 2006 will be necessary. A more desirable, but more improbable alternative would be early EU membership (i.e. in the year 2003) with transition periods for various areas until full compliance with the *acquis* is achieved. Such an early membership would erase the last doubts about the likelihood of success for the reform process within the advanced CEECs and would give a sizable boost to their economies through the reduction in uncertainty and the corresponding risk premium for investments. However, this early enlargement would also require a modified self-conception of the entity EU, which is unlikely to evolve quickly.

7. Increase of Flexibility within the EU

The prospect of a European Union of 25 or more members raises doubts, as to whether the desire to promote simultaneously enlargement and deepening can be fulfilled in the future. The depth of integration among the present 15 members, as characterized by 80.000 pages volume of the *acquis*, can only be transferred and implemented with considerable investment of resources and time. Since the members of an enlarged EU possess quite heterogeneous

economies with huge income differences (recall that e.g. Poland has a GDP per capita in Purchasing Power Parity of only 39 percent of the EU average – see Table 1), it becomes harder to ensure an appropriate fit of advanced common EU legislation. The expanding membership requires substantial reforms to establish viable and growth-enhancing institutions for the future.

To reduce the danger of standstill within European integration after the first Eastern Enlargement round, an increased flexibility for further integration schemes of a subset of EU members will be necessary. A Union of various speeds of integration does not imply a permanent segregation into fixed groups within the EU, but the possibility to promote further integration for a – at first – smaller group of EU states within the established EU framework and thereby under the control and legitimacy of the European Parliament. Initiatives like the Schengen Agreement for the abolition of border controls by a subgroup of members could then originate within the scope of EU institutions.¹⁰ Parallel to such a provision for increased cooperation among a subset of members, it

¹⁰ The Schengen Agreement was signed by Belgium, the Netherlands, Luxembourg, France and Germany in June 1985 to simplify travel between them with the main aim of the elimination of all internal border checks on both people and goods. Italy joined the Schengen Agreement in November 1990; Spain and Portugal in June 1991; Greece in November 1992; Austria in April 1995; Denmark, Sweden, Finland, Norway and Iceland in December 1996. Only in June 1997 was the Schengen Agreement incorporated into the EU with the conclusion of the Treaty of Amsterdam. Ireland and Great Britain decided to maintain their own border checks and did not join the Schengen Agreement. A special cooperation arrangement was concluded with the two non-EU member states Norway and Iceland.

would be necessary to restrict the general rule that joint actions are only possible with approval by all members. The Treaty of Amsterdam contains the "Benelux" clause (Article 306) that endorses arrangements among Belgium, the Netherlands and Luxembourg, if the objectives of these arrangements are not met by the Treaty of Amsterdam. In this respect, the present institutional framework of the EU already contains provisions for further cooperation among some members. A suspension of the geographical constraint would allow the extension of this possibility for further integration in an enlarged EU.

8. Conclusions

As the paper has shown, there is a considerable overlap between the reforms necessary during the transition from a centrally planned economy towards a market economy and the reforms required to join the European Union. Consequently, the advanced transition countries will complete their transition with the implementation of the *acquis communautaire*, the established institutional and regular framework of the EU. However, the CEECs have not yet the full capability to stand the market forces within the EU and to adopt all the obligations of EU membership as set out in the *acquis*. The CEECs still have to complete quite substantial reform tasks. Since the beginning of the transition, the anticipation of EU membership has helped the CEECs to progress with their reforms. The prospect of uncertain or rather late EU

accession due to delayed EU amendments by the present members might jeopardize the zeal and the endeavors for reforms in the CEECs. In this respect, the present EU members can encourage the ongoing reform process within Eastern Europe by quickly establishing flexible EU institutions that are fit for enlargement and by giving the CEECs assurance of certain and early membership.

A clear date for EU membership as well as viable, reformed EU institutions would give a boost to the reform process in the CEECs. Through the already advanced economic integration and interdependence between Eastern and Western Europe, also the present EU members will benefit. In this perspective, a clearly scheduled institutional integration process to complement the advanced economic integration process between Eastern and Western Europe is the best way to foster certainty and prosperity within Europe.

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