

Mayhew, Alan

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A European Union View of Enlargement to Central and Eastern Europe

By Alan Mayhew¹

1. Background

The European Union will have concluded association agreements (so-called Europe Agreements) with 10 countries in central Europe by the end of 1995; Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovak Republic, Hungary, Slovenia, Romania and Bulgaria. It was agreed at the European Council meeting in Denmark in June 1993 that associated countries in the region could become members of the European Union under certain conditions. At the Essen European Council in December 1994, the European Union agreed a strategy to prepare for the accession of the associated countries to the Union. As part of this strategy, a White Paper on the preparation of the associated countries for integration into the internal market of the Union was published in June 1995. At the Madrid European Council in December, a strategy document on enlargement and agricultural policy and a paper on progress towards enlargement will be presented to the Heads of Government by the European Commission. Up to now four countries have applied for membership, Hungary, Poland, Romania and Latvia; the other associated countries are expected to follow suit.

EU political leaders, most recently Chancellor Kohl in Poland, have clearly stated that enlargement will take place relatively soon (2000-2005). The Treaty of Rome states that any European state may join the Union subject to the unanimous agreement of the Council of Ministers and a simple majority in the European Parliament.

2. The costs and the benefits of enlargement from the perspective of the EU

The benefits of enlargement in the political, security and economic areas outweigh the costs:

- Political stability and security in central Europe is a prerequisite for the present Union's own security. Enlarging the Union to the east, even without an enlargement of NATO, would be a strong force for stability and security in Europe.
- The opposite is worth stating; if central Europe descends into political and economic chaos (perhaps

partly because the expected accession to the Union does not take place), the whole process of European integration could be put at risk.

- The economic catching-up process in central Europe, which includes higher investment spending over many years, will provide a market for the existing Union's exports; this can already be observed in the export statistics of several EU member states and especially in Germany.
- Central Europe will be an interesting production location for EU enterprises, many of which cannot continue producing within the EU because of unfavourable cost structures and lack of market flexibility.
- The integration of central Europe will tend to break up many restrictive practices in EU markets which lead to this inflexibility. It can therefore create new jobs and help Europe's penetration of foreign markets.

The economic costs related to enlargement are generally specific sectoral or regional costs, while the benefits will accrue more generally:

- Certain low productivity, high cost sectors in the Union may have to adjust, e.g. agriculture or certain heavy industries. But structural adjustment is necessary here with or without enlargement.
- Certain regions are dominated by an industry which is affected by enlargement either in its local market or in the wider EU market.
- Budgetary cost will accrue, notably in the common agricultural policy and the EU structural funds.
- There could be some additional migration into the EU; this can be considered as a cost but should probably be considered to be a benefit.

There could also be an institutional cost in the sense of increasing the difficulty of operating the institutions of the

¹ Free University of Brussels, Leuven University and Economics University of Poznan. Until June 1995 director, European Commission, Brussels. Dr. Mayhew was responsible for relations with Central and Eastern Europe and the PHARE assistance programme. He was adviser to the Polish Prime Minister 1991-92.

EU; but these problems should be tackled in the Intergovernmental Conference (IGC) next year.

Enlargement will be beneficial to the Union. It is also a historical chance to secure peace and prosperity on our Continent which must not be missed for petty political reasons.

3. The main problems for enlargement on the EU side

The future of the European architecture and the institutional question: Should the Union integrate more deeply by developing the Common Foreign and Security Policy and so-called „third pillar” policies (judicial and home affairs) or should it adopt more flexible forms of integration? Decisions on such complex issues are of major significance. The EU also faces a series of major institutional problems and its present structures, designed for 6 or 9 countries, cannot meet the needs of the current 15 members and certainly not of 20 or more. Voting rights of „large” and „small” countries in the Council, the powers and size of the European Parliament and its relation to national parliaments, the role of the European Commission and the question of language are all problems which need to be addressed. The current state of preparation of the IGC suggests that it will not really tackle the most difficult problems and this inability to solve the obvious problems may give ammunition to those who are against enlargement.

Agriculture: Even without enlargement, a new stage of reform in the Common Agricultural Policy will have to be started soon, moving EU prices nearer to world prices and compensating farmers with direct income or other payments. Agriculture is an important problem because it is such a vital part of the economy of several associated countries (in Poland a little under 20% of the population is directly employed in agriculture and in Hungary it contributes 10% of GDP). The associated countries need guidance today on what sort of agricultural policy they should adopt both to succeed in the transition and to achieve integration with the Union. The question is whether the more protectionist agricultural Member States (such as Germany) will agree to another reform so soon after the Uruguay Round, even though the reform would be in the interest of the whole Community.

Income redistribution — the Structural Funds: The Structural Funds of the Union redistribute income to the poorer areas of the Union in the form of structural investment, mainly infra-structure. At current levels of per capita redistribution and income in the associated countries, a rough calculation suggests that the additional cost would be ECU 38 billion per year. The Union’s net contributors are keen to prevent this expenditure from rising and if possible to reduce it. The net recipients do not wish to give up their „rights” to redistribution in favour of central Europe. The solution here must be in „graduating” the richer regions in the existing Union out of the Structural Funds (some regions of Ireland, Spain, France and the United Kingdom

have progressed so well that they really should not receive structural funds in the future), while phasing in the structural funds for central Europe to take account of the absorption problem.

The power of anti-enlargement lobbies: Lobby groups at the Union can be far more effective than at the national level, because the trade-offs between winners and losers which operate at the national level do not operate at the Union level. It must be expected then that the lobby groups representing those sectors, regions or interests which may lose out from enlargement will be very effective.

Which associated countries will join? It is not expected that all the associated countries will be ready to join the Union at the same time. The Union has not given any real indication how it will decide which countries can join first; there is no date and no measurable criterion. The Union will require that economic reforms have progressed well and that above all the reform-willingness of the government is proven. It will also wish to be sure that it is not importing serious frontier or minority problems when new members join. The solution of such problems was the objective of the Stability Pact launched by the Union in 1994. There are two possibilities for discriminating; the Commission opinions on some countries may, for the first time ever, be negative or the Union may start to negotiate with all the candidates but then will proceed at different speeds.

4. Problems on the associated country side as seen from Brussels

Problems existing in central Europe are mainly associated with the speed of preparation for enlargement:

- *Reform:* In some countries reform-willingness in the government appears to be low. These countries will not succeed in entering the Union.
- *The administration:* In most countries the reform of the administration has been very slow and ineffective. The transformation of the economy and the integration with the Union requires an efficient administration able to procure sufficient resources to make the legal and institutional changes which are necessary (viz. the White Paper). Progress needs to be very rapid if enlargement is to take place in the first years of the next century.
- *The government:* Some governments in the region appear to think that accession is a purely political act which cannot be prepared for. The decision on accession will of course be political but that decision will not be taken if there has been poor preparation. It would be advisable in most governments for a senior minister to be responsible for the preparation of accession.

5. Transition and integration

With the Union’s emphasis clearly on integration, it is tending to forget that the transition of the economy, the sustained rise in private investment and economic growth

achieved through continued reform and stability-oriented macro-economic policies, is not only vital to the future of the associated countries but also the most important but never-mentioned criterion for membership of the Union. The real challenge is to manage transition and integration in a way which pushes both forward. The associated countries should reject out of hand any advice from the Union which is likely to slow down transition and the Union should drop all thoughts of creating a „level playing field”, which is just an attempt to eliminate any competitive advantage which the associated countries might have in EU markets.

6. Will enlargement take place?

The prospect of enlargement has become less clear over recent months as the future of the Union itself has become less certain. Difficulties with the IGC, disputes over economic and monetary union and uncertainty over the future European architecture have made the political leadership of the Union weaker and without direction. If the IGC does not tackle the major questions facing the present Union

there is a risk that enlargement will be delayed and eventually that the Union itself might start to break up. If enlargement is delayed, many of the associated countries may be destabilised as they float between an inward-looking Union and a nationalistic Russia.

The Union needs to give another push to enlargement by announcing for instance that it will start negotiations with the associated countries that want to join at the same time as with Malta and Cyprus. It should be prepared to establish a sort of surveillance mechanism which sets intermediate objectives for policy in the associated countries on the road to accession. It could now take over some responsibility for policies in the associated countries as a sort of down-payment on membership: the associates could already hand over responsibility for some competition issues to Brussels for instance. And the PHARE programme could be transformed into a structural fund and administered as such.

The problems associated with enlargement are complex but manageable. The Union has an immense responsibility to promote enlargement and through it peace on the European continent.