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**Article**

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CESifo Forum

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*Suggested Citation:* Inotai, András (2001) : Reflections on the "Eastern" Enlargement of the European Union, CESifo Forum, ISSN 2190-717X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 02, Iss. 2, pp. 24-29

This Version is available at:

<https://hdl.handle.net/10419/166079>

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## REFLECTIONS ON THE "EASTERN" ENLARGEMENT OF THE EUROPEAN UNION

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More than a decade after the fall of the Berlin wall and the unprecedented changes in Central and Eastern Europe, the enlargement of the European Union towards the transforming and partly already transformed countries seems to become an integral part of the EU's integration strategy. So much time was required by Spain and Portugal to progress from the birth of democratic institutions to membership in the EU. Certainly, both countries were called market economies. However, if we look at their development level, economic structure, the degree of private ownership and international competitiveness in the late seventies and early eighties, at least some of the present candidate countries behave much better. Obviously, one can argue that the EU of the early eighties and that of today are substantially different. The *acquis communautaire* is qualitatively superior to that of twenty years ago. However, the association agreement and the consequent preparation for membership made part of the candidate countries much more integrated into the EU structures than the Mediterranean countries were immediately before accession. Moreover, the problems, challenges and tasks of today's Europe can neither be compared with those of two decades ago.

### Strategic goal without strategic plan

Following a decade of gradual progress with more and less dynamic development, the transforming countries of Central and Eastern Europe first

signed association agreements with Brussels (between 1991 and 1996), then they were invited to start official negotiations on accession (from 1998 and 2000, in two groups). At present, the negotiation process is well underway. The Commission's Strategy Paper on Enlargement from November 2000, containing a road map for negotiations and the ambitious plans and actions of the Swedish Presidency (first half of 2001) have obviously been supporting the process which resulted in an "upgrading" of the enlargement issue in the general agenda of the EU. However, there are many other factors which played or are playing an important role in raising enlargement to the priority strategic areas of Community activities. However, not all of them lead necessarily to an identical assessment of what, when and how to act.

First, the record of political, economic and institutional relations between the candidate countries and Brussels as well as the EU member countries has fundamentally shaped progress in the last decade and created a special intrinsic (authentic) dynamism of the enlargement process. The share of the candidate countries in total trade of the EU increased from less than 3 per cent a decade ago to 12.3 per cent in the EU's global exports and to 9.6 per cent in the EU's global imports.<sup>1</sup> The ten candidate countries (CCs) proved to be the most dynamic trade partner of the EU in global comparison. While the EU's total exports grew by 63 per cent between 1995 and 2000, its exports to the CCs increased by 112 per cent. A similar development can be registered on the import side as well (84 and 118 per cent, respectively). The driving motives were the creation of bilateral free trade in manufactured goods, privatization in the CCs, the often decisive role of foreign direct investment and the institutional development towards a functioning and increasingly competitive market economy.

Some of the accession countries are in a better position than Spain and Portugal were

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<sup>1</sup> All data, if not differently indicated, are taken from or calculated on the basis of Eurostat. External and Intra-European Union Trade, No. 6. 2000.

Second, the negotiation process in itself provided a special dynamism. As more and more chapters have been closed, including some of the most delicate ones (four freedoms of the single market or environment), the enlargement had to be considered not as a remote objective but as a strategic issue on the EU's current agenda.

Third, the agreement on reforming the institutional structure of the EU signed in Nice has practically removed the last self-made barrier on the way to enlargement. As a result, the road seems to be cleared, and the accession is now dependent on two factors, namely the level of preparation of the CCs and the finalisation of the negotiations.

Fourth, global challenges have also contributed to the upgrading of the "Eastern" enlargement. For most business involved in Central and Eastern Europe, either as an important market for goods and services or as a not less relevant location for internationally competitive production, it became clear that the sustainability of predictable and rapidly growing business opportunities requires also the legal and institutional(ised) integration of the CCs into the EU structures. Although, in current GDP terms, the new entrants do not offer a huge economic potential. However, taking into account the growth potential of the region, the rapid increase of productivity, the emergence of new and competitive structures, a large number of promising investment opportunities leading to economies of scale savings (e.g. in infrastructural development or environment protection), the importance of these countries must not be underestimated. More importantly, there are a number of hidden resources in the region at the threshold of the knowledge society (general level of education, high quality manpower, outstanding achievements in selected areas of research and development, high level of flexibility of the citizens, good adjustment capacity to the changing environment, etc.). Some of these factors will obviously be upgraded by the coming global challenges and the answers to be given to them. Finally, the CCs represent a major contribution to the EU's global external trade balance. Between 1995 and 2000, the EU's cumulative global trade surplus amounted to EUR 45 bn, while its surplus from trade with the CCs reached almost EUR 100 bn, or more than twice of the former figure. Both in 1999 and in 2000, the EU's global trade deficit (EUR 14 and 86 bn, respectively) sharply contrasted with its trade surplus with the CCs (EUR 16 and 17 bn, respectively).

The strategic importance of enlargement can be argued for in a different way as well. In case enlargement will not take place or would be delayed, stability in Europe would be seriously questioned. In order to control an unstable situation or to ensure an apparent, superficial stability, damage limitation would be required with very high financial costs. Even if the EU grew more rapidly than in the last years, most of the increment of growth would have to be spent on preserving stability. In consequence, practically no resources would remain to improve the EU's (and Europe's) position in global politics and in the world economy.

Fifth, civil/ethnic wars and the remaining high level of uncertainty in most of the ex-Yugoslav republics and in some other parts of Southern and Eastern Europe forced the EU to take a clear position concerning its role and objectives in a region which, for the moment, does not belong to the countries negotiating on accession. Anyhow, the EU's growing commitment to stabilise this part of the continent has also contributed to upgrade, and consider in a broader context, the enlargement process.

Sixth, both Brussels and politicians in the member and the candidate countries have noticed that public support to the enlargement project may be (further) decreasing if no action is taken or, as until most recently, the enlargement is considered as one of the many tasks for the future but not for the present. In this context, the credibility of the EU is at stake, which, on the one hand is a major stability factor, and on the other, cannot be divided according to different geographic areas. Any loss of credibility in parts of Europe would necessarily affect the EU's credibility in other parts of the world, too.

Finally, also the ongoing debate on the future of Europe, which will be a key area of activities during the Belgian Presidency, needs the active participation of the CCs, both in their present position and, of course, even more as new members of an enlarging Community.

Today, most experts agree that enlargement belongs to the package of the most urgent strategic issues to be solved or answered by the EU. However, agreement on the strategic character has not yet been accompanied by an agreement on a transparent "travel plan" (and not road map), how, when, under which conditions, with what kind

Eastern enlargement is one of the most urgent strategic issues of the EU

of sequencing, with the participation of which countries, the enlargement process should be set in motion. There is one general guideline only. It states that countries can join once they are ready for joining, which generally means that they have finished negotiations on accession and the accession documents have been ratified. This principle should, however, be strengthened by an additional condition: no candidate country has the right to take any other country as its hostage. In other words: nobody has the right to block the enlargement process in case it is not yet ready to join the EU, while others have already done their homework.

At present, nobody knows to what extent the above-mentioned principle will be applied in the certainly difficult decisions on enlargement. And to what extent will other considerations, political, strategic or other, gain momentum in the next period.

Even the speed of the negotiation process may be hampered by intra-EU disputes (see the latest example of Spain in temporarily blocking the presentation of the common EU position on the free movement of persons). It is not difficult to predict that further stumbling stones are still on the road to accession. In addition, short-term election considerations may interfere into the enlargement process (labour issues in Germany or, more importantly, the EU's agricultural position and elections in France). If we add that partly extremely complicated technical issues have to be settled by negotiating various chapters, both public opinion and the attention of politicians can easily be diverted from the strategic importance of enlargement. Therefore, enlargement as a strategic question for the whole of Europe has to be emphasised constantly.

### **Shared objectives – growing differences in the candidate countries**

All CCs have clearly recognised the strategic relevance of their accession to the EU. Thus, all of them have made substantial efforts to accommodate their domestic economic and institutional structure to the EU requirements. Also, they started a communication campaign and, not less importantly, have been equipped for negotiations. Nevertheless, the situation is rather similar to the starting of the transformation process more than a decade ago. Also at that time, all countries wanted

to go into the same direction (political democracy and market economy). However, their capacity to implement reforms and create a functioning and competitive economy proved to be rather different. Also due to different historical legacies, different levels of preparation for transformation, different social contexts and different geographic locations, Central and Eastern European countries started to opt for different instruments, followed different ways and tried different sequencing of implementing selected policy measures.

It is obvious, that the absorption and adjustment capacities of the individual CCs, concerning the economic, legal and institutional requirements of the *acquis communautaire*, are quite different as well. Moreover, these differences are partly rooted in their present situation based on the diverging development of the last ten years. Differences can be identified at least on four levels.

First, there are manifest differences among the individual candidate countries. They can be registered in macroeconomic features (growth, inflation, unemployment, budget deficit, current account) and, perhaps more importantly, in their microeconomic performance (degree of privatisation, role of foreign direct investment, productivity growth, structural change, competitiveness, but also legal stability and transparency).

Second, economic relations with the EU reveal clear differences as well. 70 per cent of the EU's exports to CCs and 68 per cent of its imports from CCs are with three Central European countries only (Poland, Czech Republic, Hungary). Concerning the EU's trade surplus, more than 60 per cent is due to one bilateral relation namely trade with Poland. Also the export structure of the CCs to the EU indicates large differences. While more than 63 per cent of Hungary's exports to the EU consist of machinery, computers, electronics and transport equipment (generally considered to be "technology-intensive" goods), the same product group has a share of 49 per cent in Czech, 45 per cent in Slovak, 41 per cent in Slovene, 35 per cent in Polish and less than 20 per cent in the EU-related exports of all other CCs (data for 2000). Obviously, different specialisation patterns have already developed across Central and Eastern Europe, due to their level of economic development, their way of privatisation and the role of foreign capital, mainly of transnational companies in

There are many stumbling stones on the road to accession

the given economy. In addition, different export patterns result in different unit prices of exports. One ton of manufactured goods exported by Hungary to Germany equals DM 16,163 (or very similar to the German total of DM 16,635). In turn, one ton of similar exports to Germany by the Czech Republic is priced at DM 6,427, of Poland at DM 4,489 and of Latvia at DM 2,749.<sup>2</sup>

Third, differences can be identified within each candidate country, by comparing various main areas of EU maturity. For example, some countries are well prepared in economic terms. One can state that they have already become members of the EU. The legal adjustment process is a trickier issue. Of course, despite some delay almost everywhere, the transposition of EU laws and regulations has been going on, and in some countries is expected to be finished by the end of 2002. A different issue is, however, the enforcement of EU-conform rules. This has to be a two-way process, consisting of a top-down approach directed by the national legislation and a bottom-up process driven by the activities and absorption capacity of citizens, business and other organizations. In this context, foreign capital originated in an EU country has generally transferred to a candidate country not only financial resources, technology, marketing knowledge, but also part of the *acquis communautaire*. This aspect must not be ignored in the process of legal accommodation. No candidate country can state that it would be fully prepared for membership in the institutional context. Several institutions have still to be created or strengthened, and some of them can only start effective work at the moment of entering the EU (e.g. those linked to the common agricultural policy). Finally, also the level of public support in the individual CCs is rather uneven. In some countries, support is expected to remain sufficiently high in case of a referendum, while in others it may decrease once painful compromises should be accepted in the process of negotiations. Anyhow, dialogue with the public and preparation of the societies for accession is one outstanding task, since it is not politicians, business leaders, experts or just members of the negotiating teams who will join the EU but societies. Their maturity will largely determine whether the new country will become a successful member or not.

Fourth, most recently growing differences have been emerging in the speed (and quality) of the negotiations as well. It has been several times and rightly stressed that differences in the number of temporarily closed chapters do not matter very much, since even one unsettled chapter would block the closure of negotiations. Also, it is underlined that as long as the negotiation process lasts, all previously and temporarily closed chapters can be reopened.

Yet, either too big differences in the number of closed chapters or in the quality of them ("core" chapters vs. "soft" ones), or both features have some indicative character. If some countries will have closed 20 to 24 chapters by the end of the Swedish Presidency (end-June 2001), while others stay at 15 or 16, the difference can hardly be ignored. And this emerging "gap" could be strengthened by a "qualitative breakthrough", meaning that the most advanced negotiating countries may have finished work on the four chapters on "freedom" (goods, services, labour and capital), as well as on such issues as environment or taxation.

The evident acceleration of the negotiation process during the Swedish Presidency does not result exclusively from the Commission's road map. Also, it is the outcome of more flexibility on both sides. The EU was ready to provide transitional periods to the CCs in various areas, while the latter have withdrawn a number of previously formulated requests on not meeting the EU rules at the moment of accession. In some cases, one had the impression of a cross-country "competitive withdrawal" (similar to competitive devaluation). No doubt, these steps can be assessed in a positive way if the gains expected from the accelerated process and the earlier finalisation of negotiations resulting in earlier membership are significantly higher than the additional costs of adjustment before accession. It is unknown whether the decisions on withdrawing some requests were based on carefully prepared impact studies or were part of longer-term negotiation tactics to be implemented at a given stage of the talks, or were dictated just by the fear of lagging behind the others. It is, however, clear that all changes should be communicated to and discussed with the interested parties in the given candidate country (business sector, interest groups or wider public).

The negotiation process accelerated during the Swedish Presidency

<sup>2</sup> Figures calculated from: Statistisches Bundesamt, Fachserie 7, Reihe 3, Aussenhandel nach Ländern und Warengruppen, Zweites Halbjahr und Jahr 2000, Wiesbaden, 2001.

### The agenda ahead

According to the road map of the Commission, the most prepared countries may finish negotiations on all chapters by mid-2002 or the end of the Spanish Presidency. To stick to this ambitious plan, several conditions have to be fulfilled. First, the EU has to present its common position paper in the remaining chapters at due time (e.g. the agricultural chapter cannot await the French elections). Second, the Nice treaty on institutional reforms has to be ratified by the national parliaments and the Irish "no" has to be "ironed out", since the chapter on institutions cannot be addressed before ratification by the fifteen. Third, both Belgium and Spain have to work as hard as Sweden did and be driven by a strategic approach instead of entering narrow-minded disputes on some issues. Unfortunately, due to the large financial implications of the chapters first of all on the agenda of the Spanish Presidency (regional policy, budget, agriculture), delays cannot be ruled out. Still, the enlargement process is unlikely to be stopped, since its consequences would be very detrimental for the whole of Europe.

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fulfilled

At the present stage of negotiations, three important developments deserve special attention. First, the low level of solidarity among the candidates. The point has been reached where every country is following its own interests, and there has been opened a space for individual interest implementation. It does not mean the fundamental lack of cooperation, dialogue, mutual information. However, no country should complain to be betrayed by some others who have been making more progress in selected chapters. Second, differences in the manoeuvring room and domestic limitations (constraints) of the negotiation teams are becoming manifest. Each country's capacity to compromise and new (worse) commitments is linked to the level of acceptance by its own politics and society. Certainly, pre-election periods do not favour a more flexible negotiating behaviour. But the real problem is in the society's flexibility. And this seems to be rather different even in Central European comparison. New positions, partial or total giving up of some objectives, restructured compromises can be generally absorbed better in Hungary or the Czech Republic than, for instance, in Poland. Third, negotiations on accession are by far not about accession only. This is a good opportunity for all

EU member countries to try to rearrange their previous position within the Community and create for themselves a better position or to insist on the already achieved benefits.

Until now, officially, the EU has repeatedly refused to name any date or any composition of the "first" group to join the Union. Nevertheless, 2004 has been mentioned in various EU documents, and a few CCs have envisaged in their preparation the year 2003. The latter's chance is only given if a few countries will be able to close the negotiations by mid-2002 and, for whatever reason, a quick ratification process can be carried out.

Much more important is designing a comprehensive and clear "travel plan" for the enlargement. If the final goal of the EU (and of the CCs) is to create stability in Europe, the process of enlargement has to remain open to all countries with which Brussels has started negotiations and, most probably, to some new candidates of ex-Yugoslavia. Evidently, such a huge projects needs time, transparency from the very beginning, and public support. In order not to threaten the project, and, consequently, sustain and strengthen continental stability, the following approach seems viable.

First, a small group of well-prepared countries should join the EU as quickly as possible (even in 2003). This group will not burden the EU's decision-making structure, institutions and budget. Their easy adjustment to EU structures will mitigate or even break the growing opposition to Eastern enlargement among Western European politicians and the broad public. This is the way to generate support for further (and more difficult) enlargements and keep the door of the EU open to other candidates. The other approach ("big bang") would threaten to destroy the enlargement process, because it would bring into the EU differently prepared countries with substantial financial needs, slower adjustment capacity with negative impacts on the decision-making process and the everyday work of institutions. An eventual delay of the enlargement in order to wait for less prepared countries would be extremely detrimental both for the advanced candidates and the credibility of the EU alike. Different treatment of differently prepared countries, on the other hand, would make the adjustment process non-transparent, unmanageable, chaotic and even more bureaucratic.

However, the main argument against the "big bang" approach is that it would enhance political and public opposition or even hostility against any further enlargement. As a result, some countries which, for obvious stability reasons, should join, will not be accepted and will remain outside the new Europe, with all the disastrous consequences.

Second, parallel to the small-group enlargement, a ten-year enlargement schedule of the EU has to be presented, with at least two further dates of potential enlargement, but without identifying any candidate country as new member. In this context, the Copenhagen criteria have to be applied in the future as well.

Those countries which remain outside the first wave of enlargement have to be involved in a number of Community programs. Some of them have already been opened up to the present candidate countries (e.g. research and development framework programs, educational projects). There is no question that new areas have also to be opened for them since the European integration makes different progress in different sectors. For instance, the security requirements of the continent, accompanied by financial considerations, may dictate a reevaluation of where the new external borders (Schengen) of the Union have to be drawn. Large infrastructural projects have to be planned and realised by including later member countries as well. Also, cross-border cooperation at the new border lines of the EU has to be strengthened. Finally, all countries which are expected to belong to the not-too-distant "future Europe", have to be invited to actively participate in the discussion about the architecture of the new Europe and be offered the chance to help shape it.

Third, and finally, accession provides to the first-wave countries not only new opportunities but also a new quality of responsibility. They have to work now in order to join the Union on the highest level of preparation and strengthen the support of the public for quick further enlargements. In addition, as new members they have to work very intensively for more regional economic cooperation based on enhanced regional stability and on the shifting of the European growth center towards the territory of the new entrants. Finally, they have to remain or become the advocates of a Union with an open-ended enlargement potential.