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EU Eastern Enlargement: the case of the former 'second-wave' applicant countries

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Sándor Richter et al.

**EU Eastern
Enlargement**

**The case of the
former 'second-wave'
applicant countries**

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EU Eastern Enlargement

The case of the former 'second-wave' applicant countries

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Executive summary

In December 1999 the European Union did away with the division of the candidate countries into two different groups; in early 2000 accession negotiations began with the former second-wave countries as well. In the first part of this paper the background of this development and its possible impact on the various groups of EU applicants is analysed. The conclusion is that the EU's decision can best be interpreted as a politically motivated gesture. From an economic point of view, neither the analysis of the Commission's findings published in the 1999 Regular Report about the maturity of the former second-wave candidate countries for full membership, nor these countries' macroeconomic performance and level of development – compared to the EU average or the former first-wave candidate countries – justify the Commission's decision. Nevertheless the original dual distinction indeed does not seem to hold any longer. A 'snapshot' of the situation in summer 2000 shows that the spectrum of EU candidates according to their maturity for accession ranges from Hungary, Poland and Slovenia as the countries best prepared to Bulgaria and Romania as less prepared. The other five candidate countries lag, in one or more respects, somewhat behind the leading trio, with good chances for catching up within a short time.

In the second part of this paper five short reports by authors from the former second-wave countries analyse the impact of the EU's decision in their home countries. It turns out that a broad spectrum of the political elite in the countries involved responded positively to the EU's invitation. Preparatory activities for accession have been stepped up in each country concerned. The results of public opinion polls made after the invitation to start accession talks show that those supporting the idea of joining the EU outnumber those opposing it; yet in some of the former second-wave countries 'eurosceptics' represent a considerable part of the population. The legal harmonization process is in progress, but a lot remains to be done, in particular in law enforcement and control. The country reports refer to the likely problematic chapters of the 31 to be negotiated in the accession talks. The reports address the accession-related expectations in the business sector, the actual problems of competitiveness and the programmes initiated to enable domestic firms to face the challenge of accession to the EU – a perspective that has become somewhat less remote after the Helsinki decision.

Keywords: *EU enlargement, 'second-wave' applicant countries, 'Helsinki group' candidates, accession negotiations, maturity for EU membership, costs of and benefits from EU accession*

JEL classification: *F02, F15, F42*

EU Eastern Enlargement: The case of the former 'second-wave' applicant countries¹

Part I: Overview

by Sándor Richter

1 The EU enlargement process after the Helsinki summit

At its meeting in Helsinki in December 1999, the European Council did away with the division of the candidate countries into two different groups which had been set up when the accession negotiations began on 30 March 1998. From the beginning of 2000, Bulgaria, Latvia, Lithuania, Romania and Slovakia have, at least theoretically, the chance of acceding to the EU at the same time as or even earlier than the Czech Republic, Estonia, Hungary, Poland and Slovenia.²

This change affects three discrete groups of EU applicant countries: the former 'second-wave' countries that have now been invited to join the first league; the former 'first-wave' countries that have now lost their privileged position; and finally the 'left-outs', those countries that have received no invitation to join the European Union, yet whose political aspirations, trade intensity, financial and other economic relations with the EU qualify them as potential candidates for EU membership at some time in the remote or not so remote future.

Former 'second-wave' countries

For the group of countries in the former second wave, the merger of the two groups is a sort of present. The governments in the countries involved can present the gesture made by the EU to their constituents as a political masterstroke: an acknowledgement of the progress the country has achieved in strengthening democracy and facilitating transition to a market economy. Apart from this, coming closer to EU membership at least in virtual terms may have a positive impact in so far as it may secure for the governments concerned the external political support they need to initiate new measures and accelerate

¹ Recently the terminology 'Luxembourg group' and 'Helsinki group' appeared, the first referring to the former 'first-wave', the second to the former 'second-wave' group of applicant countries. The new terms indicate the host city to the respective summit meeting where the EU members initiated the practical beginning of the accession negotiations with the countries concerned. Although the new terminology to distinguish the two groups of candidate countries may seem politically more correct than the old one, it disguises rather than reflects the reason for distinction. Therefore this paper insists on the traditional terminology, using 'first-wave' and 'second-wave' applicant countries.

² Cyprus and Malta are in the group of twelve candidate countries, but as none of them belongs to the region of Central and Eastern Europe, their case will not be discussed here, just as the special case of Turkey.

the ongoing reform of the economy and the legal and institutional systems. The onset of accession negotiations marks a good reference point in the struggle to introduce reforms more rapidly in the course of the customary domestic political skirmishes between adherents of and opponents to reform. Similarly, the EU may serve, more effectively than hitherto, as a scapegoat for many difficulties that these and other reforms may entail for various groups of the society. (The EU may thus join the IMF and the World Bank in this role.)

The other side of the coin is that, until recently, sitting in the second row accorded these countries a relatively comfortable position. Whereas the former 'first-wavers' were forever in the limelight, the actual degree of preparedness for membership on the part of the 'second-wavers' attracted less attention. Now that they have been lumped together in one group with the former first-wavers, their economic performance and maturity for membership will be compared more frequently with those countries and more often than not the outcome may be unfavourable for the former second-wavers.

Former 'first-wave' countries

For the former first-wavers the change seems to be of limited practical importance. They enjoyed the advantage of being among the privileged few with whom accession negotiations had already begun. Though theoretically any of the former second-wavers may accede earlier than one or more of the former first-wavers, this is unlikely. As negotiations with the former first-wavers are at an advanced stage, even if the former second-wavers were to display better economic performance or greater readiness to introduce institutional reforms and the stipulations of the *acquis communautaire*, this may not make up for the two-year delay in starting the negotiations. Consequently, the division between the two groups will persist, even if only tacitly. Only a severe and lasting economic and/or political crisis in one or more of the countries in the former first-wave group may lead to their losing the initial advantage of an early start that they had over the second-wavers.

'Left-out' countries

In the longer term, the beneficiaries of the Helsinki decision may well be those countries that have been left out: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Yugoslavia, and some of the successor states to the former Soviet Union.³ These 'left-outs' enjoy close economic relations with the EU but none of them has entered into an association agreement with the EU nor does any of them (except for Croatia after the recent political changes) have good prospects of becoming members of the Union. Now that ten

³ For a detailed analysis of the 'left-out' status, especially that of the countries in the Balkans, see V. Gligorov, 'Delaying Integration. The impact of EU eastern enlargement on individual CEECs not acceding or acceding only later', *WIIW Research Reports*, No. 267, July 2000.

accession candidates have started the accession negotiations, the 'second-wave' category can be interpreted as an empty box for the present, with the possibility of it being re-introduced at any time. Seen in a five- to ten-year context, the more fortunate (or capable) left-outs may thus be able to leapfrog straight into that category.

Months prior to the Helsinki summit, the EU offered stabilization and association agreements (SAAs) to five countries in South-East Europe. The offer was related to the Kosovo crisis and not to the enlargement in any respect. These SAAs may have the potential to provide a solution similar to the Europe Treaties already concluded with the ten CEE candidates, offering the prospect of accession at the end of a very long road.

Of the five South-East European countries, Croatia's prospects to shorten its way to EU membership improved spectacularly due to the political landslide triggered by the election victory of the political parties which opposed the autocratic regime related to late President Tudjman. The EU and the governments of the member countries warmly greeted the changes. Politicians interviewed after the opposition's victory in Croatia expressed their hope that the country, whose historical, cultural, economic etc. relations with Western and Central Europe have always been intense, may soon join the list of EU applicant countries. The change in the EU's attitude is similar to the one in the case of Slovakia following the departure of the Mečiar government in 1998. The difference appears in the circumstance that Slovakia had already had an association agreement with the EU in force and had been among the candidate countries when the political problems suddenly blocked the country's further progress towards membership. Croatia starts its approach to the EU from a position which corresponds to that Slovakia (then as part of Czechoslovakia) and the Central European applicant countries had already achieved in 1990. (That certainly does not mean that Croatia will need ten years to attain the present status of the candidate countries.)

The other sub-group of left-outs, some successor states to the former Soviet Union, except Russia, are in a different situation: the Partnership and Co-operation Agreements (PCAs) that these countries⁴ have concluded with the EU bear no comparison with the Europe Treaties or the planned SAAs to be offered to the sub-group in South-East Europe. For the countries in that particular sub-group, the political, security and economic context of the whole issue is much more complicated in both global and local terms owing to the myriad uncertainties surrounding Russia's political and economic aspirations and opportunities in the future. Apart from the uncertainties related to Russia, this sub-group is too heterogeneous even to expect being treated in a standard and consistent manner by the EU. Anyhow, the very fact that the merger of the accession candidates into one group was politically motivated lends some hope to the latter countries. Notwithstanding their poor

⁴ Except for Tadjikistan.

economic record, they can harbour the hope that the EU will conjure up some sort of 'carrot' for them so that they do not lose heart.

Impact on the EU

The unification of the two groups bears little practical significance for the EU, except that a number of new negotiating teams will have to be set up, increasing considerably the burden on the administrative capacities of the Commission and also the related costs.

2 Why the change ?

The Commission's explanation in the 1999 Regular Reports

The Composite Paper of the 1999 Regular Reports, after an overview of the progress achieved in the individual applicant countries concerning their maturity for membership, elaborated on two options of which the Commission had to choose. The first was to carry on with the practice according to which negotiations would be opened only with countries which have made sufficient progress and are in a position to satisfy the economic conditions for membership in the medium term; the second was to start negotiations with all countries which meet the Copenhagen *political* criteria (even if they are not in the position to fulfil the economic criteria). While pondering the pros and cons of the options, the Commission took account of the 'dramatic changes in the European political landscape, mainly as a consequence of the crises in the Balkan region'⁵.

Although the Commission was aware of the risks related to the second option⁶, it finally recommended that 'negotiations should be opened in 2000 with all candidate countries which meet the political criteria for membership and have proved to be ready to take the necessary measures to comply with the economic criteria'⁷.

Political considerations in the background of the decision

The unification of the two groups can best be interpreted as a political gesture. As will be discussed later in this paper, the economic performance or maturity for membership of the former second-wave countries did not really justify the change.

The original separation of the candidate countries into two groups was not a unanimously popular idea in the member states. Equal treatment of all candidate countries has always had important supporters. The motives for the equalizers may have been quite different,

⁵ 1999 Regular Reports, Composite Paper, European Commission, 1999, p. 26.

⁶ The text mentions (a) creating a precedent (of lack of sufficient preparation) for future accessions; (b) loss of momentum for reform in the 'second-wave' countries; (c) the danger of very long negotiations. See 1999 Regular Reports, Composite Paper, European Commission, 1999, p. 27.

⁷ Op. cit., p. 28.

ranging from those calling for 'political correctness' and rejecting differentiation of the applicants on this ground, to those tacit opponents of the eastern enlargement who hoped to block or delay the enlargement process via supporting simultaneous negotiations with each member of a big heterogeneous group, whereby the date of accession of more mature members in the group would actually become in one way or another dependent on the progress of the weakest members in the group.

The involvement of NATO and NATO-member EU states in the recent war in and around Kosovo and the supportive attitude of Romania and Bulgaria must have played a decisive role in the invitation of these two countries to the accession negotiations. The change of the government in Slovakia must have had a very similar impact. Latvia and Lithuania have had no comparable 'merits' recently, but leaving them out from the circle of countries joining the first-wave group was certainly not feasible politically.

A final possible interpretation of the changes is that the EU has perhaps changed its tactical approach: unlike the earlier tactic of banning countries to the second-wave group, the countries involved will be encouraged to make every effort to catch up. The trust now placed in those countries should pay off in terms of increased efforts; in brief, the carrot has replaced the stick.

Maturity for membership according to the 1999 Regular Reports

The Commission's 1999 Regular Reports focused on developments in individual countries or in the candidate countries in general; the Commission tried to avoid a direct comparison of the candidate countries. A careful analysis of the texts, primarily that of the Composite Paper, makes it possible however to summarize the Commission's implicit assessment of the candidate countries' positions compared to one another. The results are shown in Table I.1.

It is clear from the table that the only group of criteria where all first-wave and second-wave countries corresponded to the requirements was that of the political ones (then Bulgaria and Romania only conditionally, since then they have fulfilled the pre-set conditions).

In the case of the first sub-group of economic criteria, 'existence of a functioning market economy', there were two groups of countries: in the first group a functioning market economy was in place, in the second group not yet. The members of these groups are nearly identical with those of the first-wave and the second-wave groups – except for Latvia, which managed to subscribe to the club of countries with functioning market economies. In the case of the second sub-group of economic criteria, the situation is the same; again Latvia, the only one of the second-wave countries, was considered being able in the medium term to withstand the competitive pressure and market forces within the Union.

Concerning the 'legal approximation' and 'administrative and judicial capacity', the two sub-groups for legal criteria, the picture is more differentiated. In the case of the former, of the five countries which achieved 'good progress', two – Latvia and Slovakia – are from the group of the second-wave candidates. All the three countries with mixed results are from the group of the second-wave candidates and only slow progress was attained by two first-wave candidates. In the second legal sub-group all second-wave countries except for Romania attained mixed results.

Table I.1

**Evaluation of the EU candidate countries' maturity for membership
according to the 'Copenhagen criteria'**

Political criteria	Existence of a functioning market economy	The capacity to withstand competitive pressure and market forces within the Union	Legal approximation	Administrative and judicial capacity
All candidates: yes but: Bulgaria Romania conditionally	yes Poland Hungary Estonia Slovenia Czech Rep. Latvia	medium term: yes Poland Hungary Estonia Slovenia Czech Rep. Latvia	good progress Hungary Latvia Bulgaria Slovenia Slovakia	good progress Hungary mixed results Poland Czech Rep. Estonia Slovenia Lithuania Latvia Bulgaria
	no Slovakia Lithuania Bulgaria Romania	not yet Slovakia Lithuania Bulgaria Romania	mixed results Estonia Lithuania Romania	
			slow progress Poland Czech Rep.	slow progress Romania

Source: Own evaluation based on the text of the Commission's 1999 Regular Reports.

Summarizing the table's message, it is more or less clear: had the decision been made on the basis of all the criteria and not only the political ones, of the five second-wave group candidates Latvia alone could have joined the first-wave group in 2000, or – in the case of a somewhat less strict evaluation – three countries: Latvia, Lithuania and Slovakia.

Macroeconomic performance

Looking at the growth performance of the countries concerned, it is clear that only three candidates from the former first-wave group (Hungary, Poland and Slovenia) managed to achieve sustainable growth over 1997-1999 and have prospects to maintain it in 2000-2001. (See Table I.2a) None of the former second-wave group countries attained a comparable record. Of the other two countries in the former first-wave group, the Czech

Republic and Estonia have different problems with a similar impact on growth: the Czech Republic's growth performance suffers under the burden of the economic policy and privatization strategy applied in the early stage of transition, while Estonia under the impact of the Russian economic crisis in 1998/1999. Estonia had an impressive growth record in 1997-1998 and its prospects to achieve a good growth performance this year are favourable; the Czech Republic will probably have to cope longer with its heritage.

Table I.2a

Selected indicators of former 'first-wave' and 'second-wave' EU applicant countries and selected 'left-outs' Annual GDP growth rates, real, in %					
	1997	1998	1999	2000e	2001e
'First-wave' countries					
Czech Republic	- 1.0	- 2.2	- 0.2	1.5	2
Estonia	10.6	4.7	- 1.4	5	5
Hungary	4.6	4.9	4.5	5.5	5.5
Poland	6.8	4.8	4.1	4.5	5
Slovenia	4.6	3.8	4.9	4	4
'Second-wave' countries					
Bulgaria	-7.0	3.5	2.4	4	4
Latvia	8.6	3.9	0.1	4	4
Lithuania	7.3	5.1	- 4.1	2	3
Romania	-6.9	-5.4	-3.2	0	1
Slovak Republic	6.5	4.4	1.9	2	3
'Left-outs'					
Croatia	6.8	2.5	-0.3	1.5	2.5
Macedonia	1.4	2.9	2.7	4	5

Source: WIIW Database; for the Baltic states 1997-1999: *Statistics Finland*, 2000-2001 estimates: *The Baltic Economies Macro Overview Q2 2000*, Trigon Capital, Estonia, 6 June 2000.

Of the former second-wave countries, Latvia and Lithuania displayed a similar success in 1997-1998 and drop in 1999 as did Estonia in these years, but their recovery may be less rapid. Slovakia's problems are in many ways similar to those of the Czech Republic. Romania is far from achieving sustainable growth. Bulgaria, after several aborted attempts to stabilize its economy, may eventually attain a good growth performance from this year on. Nevertheless sustainability is a critical issue in each of the countries concerned except for Hungary, Poland and Slovenia.

In the field of inflation (see Table I.2b) the borderline between the former first-wave and second-wave countries is quite indistinct. While each of the first-wave candidates has low or decreasing inflation, three of the second-wavers, Bulgaria, Latvia and Lithuania, have had a CPI record as good as or even better than the members of the first-wave group. This

is the result of the currency board system applied in these three countries. Nevertheless, it is important to mention that the former first-wavers (except for Estonia) did not need to import price stability via a currency board to achieve their improving inflation record. This fact underlines the domestic and also external credibility of the concerned governments' economic policy.

Table I.2b

Selected indicators of former 'first-wave' and 'second-wave' EU applicant countries and selected 'left-outs'					
CPI inflation, annual average, in %					
	1997	1998	1999	2000e	2001e
'First-wave' countries					
Czech Republic	8.5	10.7	2.1	3.7	4.0
Estonia	12.5	6.5	3.9	5	4
Hungary	18.3	14.3	10.0	8.3	6.5
Poland	14.9	11.8	7.3	8	7
Slovenia	8.4	7.9	6.1	7.5	5.5
'Second-wave' countries					
Bulgaria	1082.3	22.3	0.3	5	3
Latvia	7.0	2.8	3.2	4	4
Lithuania	8.4	2.4	0.3	3	4
Romania	154.8	59.1	45.8	40	35
Slovak Republic	6.1	6.7	10.6	15	11
'Left-outs'					
Croatia	3.6	5.7	4.2	5.5	6
Macedonia	4.4	0.8	-1.1	3	5

Source: WIIW Database; for the Baltic states 1997-1999: *Statistics Finland*, 2000-2001 estimates: *The Baltic Economies Macro Overview Q2 2000*, Trigon Capital, Estonia, 6 June 2000.

The ratio of the current account deficit to GDP cannot be used alone for the interpretation of a country's external position. Other indicators, such as non-debt creating financing of the country through FDI, accumulated foreign debt etc., may decisively influence the sustainability of the external equilibrium of the countries concerned. With these reservations, it can be seen from Table I.2c that only three of the former first-wave countries: the Czech Republic, Hungary and Slovenia, have a record of a better than -5% current account deficit/GDP ratio or prospects for such a ratio in the next two years. Poland's recent record and prospects are less convincing, and this applies to Estonia as well. Of the second-wave group, Slovakia's respective indicator has a decreasing tendency, Bulgaria's record is mixed, the other three countries cope with very high current account deficit/GDP ratios.

Table I.2c

**Selected indicators of former 'first-wave' and 'second-wave'
EU applicant countries and selected 'left-outs'**

Current account/GDP, in %

	1997	1998	1999	2000e	2001e
'First-wave' countries					
Czech Republic	-6.1	-2.4	-2.0	-2.4	-2.6
Estonia	-12.1	-9.2	-6.3	-6	-6
Hungary	-2.1	-4.9	-4.3	-4.3	-3.8
Poland	-3.0	-4.4	-7.5	-8.4	-8.1
Slovenia	0.2	0.0	-2.9	-3.5	-3.6
'Second-wave' countries					
Bulgaria	4.2	-0.5	-5.5	-6.3	-5.9
Latvia	-6.1	-10.6	-10.2	-9	-8
Lithuania	-10.2	-12.1	-11.2	-9	-8
Romania	-6.1	-7.2	-3.8	-3.9	-5.0
Slovak Republic	-9.9	-10.1	-5.7	-3.9	-3.2
'Left-outs'					
Croatia	-11.7	-7.1	-7.3	-7.7	-7.7
Macedonia	-7.4	-8.8	-4.0	-8.6	-10.4

Source: WIIW Database; for the Baltic states 1997-1999: *Statistics Finland*, 2000-2001 estimates: *The Baltic Economies Macro Overview Q2 2000*, Trigon Capital, Estonia, 6 June 2000.

Summarizing, it seems that the selected macroeconomic indicators more or less justify the earlier distinction of first-wavers and second-wavers, but neither the former two-group nor the present one-group concept is able to address the complexity of the issue. According to a snapshot made in the summer of 2000, Hungary, Poland and Slovenia have characteristically better indicators than the seven other candidate countries, followed by the mixed record of the Czech Republic. Estonia is an outlier in the first-wave group in some respects, and the three Baltic states show many common features in this comparison. They seem to belong more into one common group between the first- and second-wavers than being divided between the two groups. Finally, Bulgaria and Romania are distinctly further away from the necessary macroeconomic performance and stability needed for EU membership than any other candidate country.

Level of development and membership in the EU

The gap in the level of economic development between the candidate countries and EU incumbents and the related problems have been one of the most important issues in the discussions about the feasibility of the EU's eastern enlargement. Using the EU(15) average GDP per capita at purchasing power parity (PPP) as a measuring rod, the difference between the groups of former first-wavers and second-wavers is obvious:

per capita GDP in 1999 ranges between 38% and 73% of the EU average in the case of the first group, and from 24% to 49% in the second. (See Table I.3) In this respect, Slovakia, with 49%, fits in better with the first-wave group, but in the case of the other former second-wave countries the distinction seems to be justified. There is a remarkable difference between the group of former first-wavers and that of the former second-wavers in the economic growth performance in the last decade. Except for Estonia, each member of the former group surpassed or came close to the level of development attained immediately prior to transition. In the second-wave group the countries are all far from that level, except for Slovakia, which fits in better with the first group in this respect, too.

Table I.3

GDP of the former 'first-wave', 'second-wave' and some other selected countries in 1999, USD billion

	at current exchange rates	at PPP	Per capita, EU 15 = 100	Index, 1990 = 100
'First wave'				
Czech Republic	53.1	135.9	62	96.5
Estonia	5.2	11.6	38	85.7
Hungary	48.9	113.8	53	102.7
Poland	154.7	344.6	42	137.6
Slovenia	19.6	31.1	73	113.3
'Second wave'				
Bulgaria	12.0	42.8	24	74.9
Latvia	6.3	14.1	29	57.8
Lithuania	10.6	24.1	31	65.6
Romania	34.0	133.8	28	79.6
Slovak Republic	18.8	56.0	49	104.2
Other economies				
<i>a) economies in transition</i>				
Croatia	20.1	31.9	33	82.3
Macedonia	3.4	9.3	21	92.5
Ukraine	30.8	168.9	16	40.8
Russia	181.8	1007.1	32	59.4
<i>b) EU and other developed industrial states</i>				
EU-15	8511.0	7997.8	100	117.8
Greece	125.6	151.8	69	120.6
Portugal	109.0	150.7	72	124.9
Spain	595.2	654.2	80	122.4
USA	9221.8	8141.0	143	132.3
Japan	4366.9	3225.7	120	112.8

Source: OECD, WIIW.

Certainly the relative level of development in comparison among the candidate countries is only one, and perhaps not the most important aspect of this issue. It is worth doing this exercise comparing the applicant countries' level of development with that of the relatively less developed members of the EU. The proper basis for comparison should be the level these 'poor' EU members achieved *prior to* their accession. In Table I.4, the relative level of development of these countries is indicated. The data show relative development levels ten, five and three years before accession and in the year of accession compared to the average per capita GDP level of the European Community, or European Union, respectively, to which they acceded (e.g. Ireland joined the European Community of six, Portugal the European Community of ten countries). The results clearly show that in the case of the four relatively less developed EU members, there had been no catching up in the decade before accession, for Spain the gap even expanded, to a considerable extent.

Table I.4

**GDP per capita, USD at PPP, compared to the EU average
10, 5 and 3 years prior to accession and in the year of accession
in selected countries**

		10 years prior to accession	5 years prior to accession	3 years prior to accession	in the year of accession
Ireland		1963	1968	1970	1973
(basis of comparison: EU 6) ¹	Ireland	.	.	1849	2406
	EU-6	.	.	3213	4195
	Ireland as % of EU-6	.	.	58%	57%
Greece		1971	1976	1978	1981
(basis of comparison: EU 9) ²	Greece	1995	3431	4232	5697
	EU-9	3468	5543	6737	9236
	Greece as % of EU-9	58%	62%	63%	62%
Spain		1976	1981	1983	1986
(basis of comparison: EU 10) ³	Spain	4124	6331	7207	8425
	EU-10	5475	9117	10335	12353
	Spain as % of EU-10	75%	69%	70%	68%
Portugal		1976	1981	1983	1986
(basis of comparison: EU 10) ³	Portugal	2852	4995	5586	6474
	EU-10	5475	9117	10335	12353
	Portugal as % of EU-10	52%	55%	54%	52%

Notes: For the basis of comparison that 'EU' was selected to which the country concerned actually joined.

1) EU-6 = Belgium, Italy, France, Germany, Netherlands, Luxembourg.

2) EU-9 = EU-6 + Ireland, Denmark, United Kingdom.

3) EU-10 = EU-9 + Greece.

Source: OECD.

Looking at the development level of the 'poor' EU members relative to the ten eastern candidate countries, it turns out that Slovenia has already now the highest relative level of development compared to any of the poor EU countries had in the year of its accession to the EU, and Slovenia's respective indicators fit well to that of Spain. Greece has a pendant in the Czech Republic, Portugal in Hungary with nearly identical levels of development in 1999 for the candidate countries and, in the year of their accession to the EU, for the concerned EU members, respectively. Slovakia is not significantly behind the Portugal/Hungary duo, the gap between the poorest EU member Portugal (in the year of accession) and Poland is already wider. All other candidate countries lag much more behind the EU members compared.

Finally, trying to summarize the answer to the question raised in the title of this section, 'why the change?', it must be underlined that the decision to do away with the distinction between first-wavers and second-wavers cannot be justified by economic reasoning. Taking into consideration either the Commission's assessment of the candidate countries concerning their maturity for membership, or the main macroeconomic indicators of the applicant countries or their distance from the EU average concerning the level of economic development, it is obvious that there remained *de facto* distinctly separate groups of candidate countries with sharply different chances for accession to the EU in the medium term. This holds, even if the original distinction between first-wavers and second-wavers does not reflect the real situation in the summer of 2000. A threefold distinction would allow a better approximation to the present state of affairs concerning the ten candidate countries. Slovakia, Latvia and Lithuania can be qualified as countries in the process of leaving the group of former second-wavers and gradually approaching the former first-wavers, especially the Czech Republic and Estonia, namely those members of the group of first-wavers which have been coping with considerable problems recently. For Romania and Bulgaria, the 'box' created originally for the second-wavers can be regarded appropriate further on, though Bulgaria's chances to catch up with eminent former second-wavers relatively soon seems to be better than those of Romania's.

Part II: Country reports

Introduction

After having received the invitation to start accession talks, life suddenly became much more exciting for the former second-group countries. Accession to the EU became, from a very remote target up to the Helsinki summit, an opportunity depending now primarily on the economic performance and grade of preparedness of the countries concerned. The competition with the members of the former first-wave countries for early accession became open again. In order to assess what has changed since the invitation to the accession talks and what to expect next in the former second-wave countries, brief country reports were written following a common outline.

One issue to analyse was the reaction of the political elite (the government and the political parties in opposition) and the general public to the invitation. We were curious to know how public opinion about EU accession had changed, what steps were initiated by the government upon the invitation, and what is now the officially expected accession date in the country concerned. An analysis of the state of the harmonization process and the identification of the probably most difficult chapters of the 31 to be negotiated was also required. Another issue to be investigated was the business environment in the country concerned: the grade of preparedness of the industry to join the EU, expectations concerning costs of and benefits from accession, an assessment of the increased competitive pressure after joining the EU. Finally we asked about the expected changes in the business climate in the period between the start of the negotiations and the date of accession.

The following brief country reports address these issues. Nevertheless, due to scarce or not available or non-existent information in the case of one or more issues mentioned above, these reports do not claim to provide a comprehensive answer to all the questions raised.

Evgeni Peev

Bulgaria

EU accession prospects after the Helsinki summit

Reactions in Bulgaria

The present government of Prime Minister Ivan Kostov is the first Bulgarian government since 1990 with clear EU-accession and market-economy orientation. Open-minded Bulgarians look upon the EU invitation as a kind of recognition of the new Bulgarian policy, and EU integration is considered the main factor of Bulgaria's development. However, the main concern is the ability of the Bulgarian side to defend the country's own interests at the talks. At the same time, the EU strategy is thought to be dubious, both before and after the Helsinki summit, regarding the accession dates and the attitude towards the less developed candidate countries.

Government position

As early as the beginning of its mandate, the current Bulgarian government laid the foundation for political and economic stabilization and started a policy of enhancing Bulgaria's integration into the European Union. In its *National Strategy for Accession to the EU*, based on the Copenhagen criteria, the government defined the priorities for a successful start of the accession talks. In June 1999, the Government of Bulgaria and the European Commission signed a document called '*Joint Assessment of the Priorities of the Economic Policy of Bulgaria*' which gives their joint position about the accomplishments and the development perspectives of the Bulgarian economy. A concrete expression of the efforts to make Bulgarian legislation compatible with EU legislation is the *National Programme for the Adoption of the Aquis*, in which the government defines its legislative priorities, and institutional and financial support for the process of alignment. With the National Plans for economic development and agricultural development in the rural areas, the government fulfilled the basic requirement of the European Commission that concerned using the financial aid given by the EU pre-accession funds. These documents indicate the Bulgarian government's commitment to getting prepared to fulfil the membership criteria.

After the decision of the European Council in Helsinki on 10-11 December 1999 to start accession talks with Bulgaria, government bodies were set up which started to work in February 2000 and are expected to participate in the talks. These are the European Integration Council, Co-ordination Council, Mission of the Republic of Bulgaria to the European Union, Directorate 'European Integration and Relations with International Financial Institutions' to the government, and Directorate 'European Integration' to the Ministry of Foreign Affairs. The newly established Joint Parliamentary Committee

comprises representatives of the Bulgarian and European Parliaments. Also a Joint Consultative Economic and Social Committee was set up. Three priority objectives are emphasized in the updated *Programme 2001* of the government: fast economic growth, finalizing the economic and social reforms and finally successful negotiations with the European Union about accession. The Programme includes a package of measures for the successful management of the negotiation process.

The next parliamentary elections in Bulgaria are due in May 2001, but even if there is a change in the government, there is no opposition party with real influence and a clearly declared negative attitude towards EU accession. On the contrary, the so-called political class, formed during the last ten years, sees a propitious opportunity of increasing its influence through access to the resources of the EU.

Expected accession date

There is no official government statement about the expected date of accession. According to Prime Minister Ivan Kostov, the Bulgarian accession may be expected in 2006.

Public opinion polls

A representative public opinion survey in November 1998 and another representative survey after the Kosovo war in April 1999 show stable positive attitudes of the majority of the Bulgarian population as concerns EU accession (75.6% of the sample before the war and 74.7% after the war). The Kosovo war has increased both optimistic and pessimistic attitudes towards EU integration. In November 1998, 37.7% of people believed that Bulgaria will become a member of the EU within five years, while in April 1999 this share was 40.1%. Respectively, 6.4% of people believed that Bulgaria would never accede to the EU while in April 1999 the pessimists made up 7.3%. The Kosovo war has clarified the attitudes towards the European orientation. The results of these two surveys are striking: about 65.5% of respondents said that Bulgaria should have an orientation towards Europe, 15.1% – towards Slavic countries, 0.5% – towards Asia, and 8.7% sees Bulgaria's role as becoming the crossroads between Europe and Asia. However, this pro-European position is not based on clear information about the practical accession requirements. As main obstacles to European integration people consider the inefficient economy (91% of respondents), the high level of crime (87.4%), lack of harmonization and control on standards (87.4%), and low prices in Bulgaria (only 39.8%). On the other hand, expectations about the date of accession are quite optimistic: in five years according to 37.7% of respondents, in ten years – 24.3%, in fifteen years – 7.7%, in twenty years – 5.9%, and never – 6.4%. For the time being, the idea of accession to the EU seems very abstract and people need more practical information about the real steps towards accession. As can be expected, the political, media and intellectual elite is more sceptical, but about 55% of respondents from this circle consider that EU relations are the main

priority for Bulgaria. According to the elite, the basic obstacles to European integration are: inefficient economy (64,2% of respondents), institutional and cultural (the so-called 'Balkan mentality') aspects and the EU policy towards Bulgaria, with high criteria for accession and lack of real interest to integrate Bulgaria.

According to a recent public opinion survey, the priorities of the government should be set in the following order: economic stabilization, diminishing unemployment, increasing living standard, decrease in corruption, talks with the EU. Although they are mentioned last, the talks with the EU set requirements that coincide with the opinion of the population on the priorities of the government. There is a favourable coincidence between the wishes of the people about the internal policy and the necessary external government orientation.

Legal system

The basic elements of internal market legislation are in place. As regards *public procurement*, in August 1999 Bulgaria adopted a new law based on the key principles of the Community *acquis*. Concerning *property rights*, *bankruptcy* and *insolvency legislation* has a high degree of compliance. Concerning *intellectual property rights*, in 1998 Bulgaria prepared amendments to the copyright law to widen the scope of administrative violations and to increase the level of fines. In March 1999 Bulgaria became an observer in the Administrative Council of the European Patent Organizations. In September 1999, a new law on *trademarks* came into force. Concerning *company law*, Bulgaria has an adequate legal framework. Amendments to the Commercial Code were prepared in view of its further alignment with the First, Second, Eleventh and Twelfth Directives. In the field of *accounting*, national accounting standards were adopted to align with international accounting standards. Bulgarian accounting legislation needs to be amended to achieve further alignment with the Fourth, Seventh and Eighth Company Law Directives. Concerning *data protection*, a law on identification documents entered into force in April 1999 which corresponds to the requirement of the Council of Europe Convention no. 108 on personal data protection. Bulgaria has alignment in the field of *audio-visual legislation* and is continuing to liberalize its telecommunications market. The new *VAT* and *excise laws* have a high degree of compliance. Legislation in the area of *justice and home affairs*, particularly in immigration and justice, has aligned with the *acquis*. In all of these areas the capacity of the administration to *implement and enforce legislation* is a key problem for further legal system development.

However, despite some progress in alignment in *agriculture*, there are problems with veterinary inspection re-enforcement, including at border posts, and land restitution to create a land market. There has been less progress in the *social sector legislation*. Some progress took place in *environmental* legislation but the main problem is the lack of investment strategy in this field.

Bulgaria has progressed in setting up a the *legal framework* and *institutions* for the application of EU legislation. However, the human and financial resources need to be strengthened in order to ensure effective *implementation and enforcement capacities*. In its updated Programme 2001, the government envisaged the parliamentary debate and approval of 60 bills, 24 of which are amendments to laws already in force, connected with changes in European legislation. Priority will be given to those relating to the social sphere and employment, agriculture, ecology, state financial control, administration, telecommunications, and culture.

Problematic chapters

It is still too early to forecast the development of the talks, and predict which chapters will be 'easy' or 'difficult' for Bulgaria. This is proved by the first discrepancy between the views of the Bulgarian government and the EU at the start of the talks. The Bulgarian government suggested to open eight 'easier' *acquis communautaire* chapters, whereas the EU opened only six of them (without Statistics and Telecommunications and Information Technologies). The government has the ambitious plan to develop and present negotiation positions on 17 thought to be 'easy' chapters this year. The plan includes the development and presentation of position papers on four more chapters in the first half-year of 2001. The ambition is to catch up with the already negotiating countries (e.g. the Czech Republic), which reveals the voluntarism of the Bulgarian government.

In fact, negotiations were opened on the following six chapters: Education and training; Culture and audio-visual policy; Science and research; Common foreign and security policy; Small and medium-sized undertakings; External relations and development aid. Of these, four are already provisionally closed. External relations and development aid and Culture and audio-visual policy have not been closed yet. Five new chapters will be open for negotiation until the end of 2000: Free movement of capital, Company law, Statistics, Telecommunications, and Consumer protection.⁸

The business environment

Preparedness of the industry

Industrial policy is based on the government's 'Bulgaria 2001' programme. The main policy targets are sustainable economic growth, the acceleration of privatization and restructuring. Structural reform in the field of industry is implemented through the privatization process. Laws have been adopted in the field of privatization, foreign investments and competition. Medium-term programmes include a programme for accelerating the privatization of state-owned enterprises, legislation development and

⁸ <http://www.euractiv.com/cgi-bin/eurb/cgint.exe/16888?714&1015=3&1014=enforce7>

integration into the European internal market, restructuring strategic sectors, the attraction of foreign investment, and support for small and medium-size enterprises (SMEs).

For the time being Bulgaria has designed no clear industrial policy strategy. As regards *sectoral* policy, specific restructuring programmes are being applied for some sectors, such as steel, chemical, and pharmaceuticals and defence industries. Their main objectives are to ensure firms viability in market conditions and alternative employment for the redundant workers. A *Strategy for the development of Bulgarian high-tech industry* was adopted by the government in February 1999, aiming at establishment of modern manufacturing of high-tech products and services. The government adopted a mid-term *Investment Programme* for the period 1998-2001 concerning infrastructure projects in telecommunications, roads and transport facilities, energy and construction. In practice, however, a prominent feature of the Bulgarian industrial policy is its passivity and bureaucratic carelessness to sectoral development.

In the updated Programme 2001, several basic tasks are set in order to activate firms through a governmental industrial policy: holding a constant dialogue and shared responsibilities between the social partners – state institutions, organizations of employers and entrepreneurs, and trade unions; co-operation for the development of high-tech activities and support for the introduction of *new technologies*, including the building of high-tech parks; encouraging the introduction of *energy-saving productions* and technologies aiming at raising the competitiveness of Bulgarian goods; creating a network of laboratories and certifying mechanisms in alignment to the European requirements and the demand of the market for certified products characterizing the free movement of goods; supporting the implementation of systems for quality control ISO 9000.

The main principles of Bulgarian industrial policy have aligned with the EU industrial competitiveness approach. However, many sectors continue to face significant problems in adjustment to market conditions. The main issue is the restructuring of the heavy industry. It is of particular importance to accelerate the privatization process. However, privatization is not enough because *two sectors* have been formed in the economy – one with the characteristics of a market economy, and the other one with transitional characteristics. In these conditions, efficient industrial policy should include *active state intervention* instead of passive bureaucratic observation as before. As opposed to the views that after privatization the state is 'freed' from its responsibilities, it turns out that its tasks in some cases will become even more complicated after privatization. Until 'normal' owners appear, the state should carefully monitor the development of privatized enterprises. The establishment of institutions for *post-privatization monitoring of enterprises* is recommendable.

Expectations

The situation after the start of the accession talks with the EU resembles the beginning of the transition to a market economy in Bulgaria in the 1990s. Both now and at that time, there are tangible discrepancies between the expectations and the real outcome of the processes. The expectations then were that privatization meant a heavy blow against the monopoly state ownership and the communist nomenclature; liberalization – a blow against totalitarian planning and totalitarian state; stabilization – setting hard budget constraints. Now, ten years later, it could be ascertained that none of these expectations materialized. What actually happened was a redistribution and ruining of national wealth (not privatization), persistent destruction of the economy through unfair competition and export of national capital, and a bureaucratic financial chaos. There is a positive (but not qualitative) change in the major participants then and now at the start of the talks with the EU. There are no new political forces, there is no exhaustive analysis of what happened during the past ten years, there are no sentenced criminals (except for some petty crimes) and there is no true market ideology. This leads to suspicions in the public about a new discrepancy between the announced advantages and disadvantages of joining the EU and the real outcome of it. In Bulgaria's recent history, there are several examples of mass lies with disastrous consequences for the people. Apart from the 'road to market economy' after 1989, these were the 'building of communism' (1960-1980), the 'developed socialism' (1970-1990), and Bulgaria with a 'qualitative new growth' (1985-2005). Consequently there follow disquieting analogies with the new aspiration to 'accession'.

Positive expectations are connected with the development of tourism, agriculture and food industry, and the light industry among the traditional branches, development of modern information technologies, and closing down or restructuring of the sectors unable to produce goods for the European markets. The latest surveys show that the basic factor for the economic recovery of the country in 1989-1995 was the export to the EU, whereas there is no redirecting of products sold on the former CMEA market to the European markets. Bulgaria's accession to the EU is conceived as a long-term objective, so there are no concrete expectations related to accession itself but rather to the preparation for it – e.g. new laws normalizing the relations between employers and employees. These are laws envisaged by the Bulgarian government to be approved in the parliament soon. They are aimed at the harmonization of legislation in the social sphere and employment (Economic and Social Counsel Law, Social Investment Fund Law, Law on National and Regional Projects Financing, and Employment Law).

The expectations are not only for a high standard in industrial relations, but also for *easier access to capital* and increase in employment. If the accession process develops normally, the *main loser* should be the 'transitional' sector in the economy mentioned above. Losers would be the peculiar network among political circles, 'crony' firms and the criminal world, which flourished in Bulgaria in 1992-1996 and is now losing functions (but ready for

revenge in the next elections). The state bureaucracy is in an in-between position. It will win in the process, but lose from the result. The hopes of all retrograde forces ('crony capitalism' network, communists, those with Russian orientation) are that the Bulgarian population will not vote for a government who will be able to govern independently of the bureaucratic whims in Brussels and economic advice à la Harvard Institute for International Development, leading to a handful of wealthy people and general ruin (such as in Russia). The vague intentions and inefficiency of the IMF and the European clerks nourish these hopes. All this leads to a certain scepticism of the Bulgarian intellectuals about the real winners after the country's accession to the EU.

Competitive pressures after accession

The evolution of the key factors – EU integration, FDI, hard budget constraints in state-owned enterprises, corporate governance in the privatized sector and development of small and medium-sized enterprises – shows different levels of adaptation of the Bulgarian economy to the new competitive environment.

The higher the degree of *economic integration* to the EU prior to accession, the better the Bulgarian economy will be prepared for full membership. The degree of trade integration with the EU is increasing steadily. The EU accounted for 52% of exports and 49% of imports in 1999. The two main product categories that are both exported and imported by Bulgaria are textiles and chemical products. Bulgaria exports basic metals to the EU and imports machinery equipment from the EU. Machinery imports increased in 1998, showing that Bulgaria is upgrading its production capacity. However, the level of intra-industry trade between Bulgaria and the EU remains low. This indicates that Bulgaria must improve the competitiveness of its exports on the EU markets.

The more enterprises have access to *external financing*, the greater will be their capacity to compete on the EU markets. In 1998 the share of gross fixed capital formation in GDP was only 11.6%. The three-year investment programme adopted by the government in 1998 has been targeted at infrastructure development. But the main point has been how to convince private agents to invest in the country.

Establishing *hard budget constraints* for state-owned enterprises is a basic element of the government strategy to improve the competitiveness of the public sector. The implementation of the 'isolation' programme (restructuring with constraints on further borrowing) and recent incomes policy measures are positive steps. (The state-owned loss makers were classified in two types: Group A – enterprises for isolation, restructuring and privatization, and Group B – enterprises for liquidation or privatization.) However, financial discipline of state-owned enterprises is still weak. Tax and social security arrears of big state monopolies squeeze the national budget under the currency board.

Corporate governance structures' adjustment to the EU structures has been the main problem in newly privatized enterprises. The experiences of Russia and the Czech Republic after mass privatization show that the new owners are frequently as inefficient as the previous owner, the government.

The number of *small and medium-sized enterprises* (SMEs) in Bulgaria is about 90% of all registered economic entities. However, the share of SMEs in total employment is about 41%, and is lower than the EU average. Until now many bureaucratic obstacles constrain SMEs' penetration of the EU markets.

The Bulgarian economy needs large domestic and foreign investment, market-oriented owners after privatization and entrepreneurship to cope with competitive pressures within the EU. However, so far these factors have been constrained and the country's competitiveness is low. Positive developments in the areas mentioned above may help a new competitive environment to gradually take shape.

Expected changes in the business climate

According to the most optimistic views on the date of Bulgaria's accession to the EU, it could happen in 2006, according to the most pessimistic ones, in 2080. The uncertainty is tremendous and it is hazardous to make predictions in this area. But even now it can be stated for sure that only a miracle could help Bulgaria to mobilize its internal resources for attaining high growth. If there were a change in the business climate (positive or negative) in the near future (the next five years), it would be a result of a political decision made abroad, not in Bulgaria. In a more distant perspective (ten to twenty years), a positive development can be expected due to the natural change of generations. In the short term (one to two years), the preservation of the currency board will be the guarantee for a positive development of financial stability in the country. Positive changes in the business climate of the country will be connected with the dismissal of corrupted people from governing positions. Another significant indicator will be the results of the forthcoming parliamentary elections in May 2001.

Latvia

EU accession prospects after the Helsinki summit

Reactions in Latvia to the EU invitation to start accession talks

In Helsinki, in December 1999, the EU Council decided to begin accession negotiations with Latvia. Politicians called this invitation 'the second most important event in the last ten years for Latvia after independence', 'historical' etc. The event was constantly in the headlines of the newspapers, TV and other mass media. A hopeful tone had dominated in the media already before the event, though at the same time experts reminded how difficult it was to attain a positive decision for Latvia. Even in interviews with Latvian officials, the other possible outcome (no invitation) was also considered.

The reaction to the EU invitation differed among the various segments of the Latvian society. A very positive attitude was expressed by the majority of politicians, government and persons working in the state sector (people who have more information about the EU). Yet the euroscepticism of the general public grew in the period November 1999 to February 2000 (see below).

Basic position of the government concerning the start of the negotiations

The political will to join the EU is manifest in Latvia, both in the government and in the society at large. Latvia's approach to the EU is based on the conviction that only EU membership makes it possible for Latvia to participate actively in the economic, political and cultural development on a European and global scale, thus membership will enhance the country's sovereignty. However, while preparing for the negotiations, more and more thoughts have been given to Latvian national interests in the context of the accession to the EU. The negotiation background was prepared in close co-operation with the representatives of various social and professional groups in different sectors to ensure a complete and comprehensive wording of national interests.

The special interests of Latvia are defined in the following sections of negotiations: agriculture, fishery, foreign trade relations and customs union, environment and energy. Attention is also paid to the EU budget, financial conditions and the institutional structure.

The government is aware that accession implies full acceptance of the actual and potential rights and obligations arising from membership and the institutional system of the European Union, known as the *acquis communautaire*. The Latvian government expects that the negotiations with Latvia will be based on the same principles and criteria as the

negotiations conducted with other candidate countries. However, the pace of negotiations should be set for each acceding country according to its individual degree of preparedness.

Current position and possible alternative positions in case of change of government after the elections

The Latvian political system provides a stable foundation for the process of reforms and it has a firm commitment to the strategic target of EU accession. A common understanding of priorities in the government and the Saeima (the Latvian parliament) facilitates the reform process. Ever since the first steps towards EU membership were made, all political forces represented in the Saeima have been endorsing accession to the Union as a main priority.

State of accession negotiations

Since the beginning of the negotiations, five chapters have already been provisionally closed (Common foreign and security policy, Small and medium-sized enterprises, Science and research, Education and training, Statistics) and three are still open (External relations and development aid, Culture and audio-visual policy, Competition and state aid). The following eight additional new chapters will be open for negotiation until the end of 2000: Freedom to provide services, Free movement of capital, Company law, Fisheries, Transport, Economic and Monetary Union, Industrial policy, Consumer policy.⁹

Activities initiated and policies announced in order to achieve EU membership

Over the recent period, activities to achieve EU membership were allocated in three main directions:

- legislative development presented by the National Programme for the Adoption of the Acquis (NPAA),
- economic development presented by the National Development Plan (NDP),
- strengthening the activities of co-ordination units.

The most essential instrument for the process of legal harmonization is the Latvian National Programme for Integration into the European Union. On 13 June 2000 the Cabinet adopted the updated version of that Programme. The Programme is annually updated including the achieved progress and planned activities of Latvia.

The Latvian National Programme for Integration into the European Union includes about 95 priorities, which are organized in four strategic directions:

⁹ <http://www.euractiv.com/cgi-bin/eurb/cgint.exe/16888?714&1015=3&1014=enforce7>

- to prepare the society for the EU entry;
- to prepare the economy for the EU entry;
- to prepare Latvia for the role of an EU member country with related rights and obligations;
- to prepare the state administration for the EU entry.

As accession to the European Union involves a wider scope of issues actually covering all of the internal and external policies, the need for an enhanced accession policy has emerged. Just before the opening of the accession negotiations, on 9 February 2000, the Saeima adopted the *Strategy for Integration into the European Union*. The political function of the Strategy is to strengthen the link between the parliament and the government in the accession process and to reveal the essence of membership to the whole Latvian society.

A National Development Plan (NDP) was accepted by the government at the end of 1999. In the view of the European Commission, the National Development Plan of Latvia should be considered as the strategic document and background for application for financial support from the EU. This document describes the differences in the level of development between regions in the country and between the country and the EU. However, the NDP was not accepted by the European Commission and needs to be elaborated in 2000.

In addition to the PHARE Programme, which has focused on the strengthening of public institutions and economic and social cohesion, two new pre-accession financial instruments – ISPA and SAPARD – were introduced. The PHARE implementation structures have been rationalized in Latvia in order to avoid dispersion of funds and to increase transparency.

The European Integration Council, the Council of Senior Officials, the European Integration Bureau, the European Affairs Committee (at the Latvian parliament, the Saeima), the Delegation for the EU Accession Negotiations, the Secretariat of Delegation for the EU Accession Negotiation and the Ministry of Foreign Affairs EU department a.o. are expected to ensure an effective management of the process. Offices charged with the implementation of EU-related policies were set up in individual ministries.

Officially expected date of accession

Latvia set an ambitious timetable at the start of the EU negotiations. The country intends to be one of the first new members admitted to the EU. Latvia's former Prime Minister Andris Skele said in Helsinki in December 1999 that the country would be ready to join by 2004. The minister of foreign affairs expressed the commitment of the Latvian government to fully assume the rights and obligations of membership in the EU at the moment of accession;

as the possible date of such preparedness he mentioned 1 January 2003. The actual entry date may be a later one due to the quite lengthy ratification procedure.

Public opinion polls – the popularity of EU accession among the population

The public opinion polls organized by the European Integration Bureau in co-operation with the Market and Social Research Company SKDS in every third months indicate an increase of euroscepticism in Latvia. The results of the public opinion poll organized in May 2000 showed a steady number of those who would vote against Latvia's accession to the European Union and a reduction of those who would vote for accession. If a referendum about joining the EU were held tomorrow, 39.7% of Latvia's inhabitants would vote in favour of it, and 37.3% against it, but 23.0% are still undecided.

Table II.1

Public opinion about Latvia's accession to the EU

(distribution in %)

Data	For	Against	Undecided
November 1998	46.6	26.8	26.6
February 1999	36.6	30.4	33.0
May 1999	44.2	31.0	24.8
August 1999	50.7	29.6	19.7
November 1999	49.7	28.0	22.3
February 2000	43.5	37.7	18.8
May 2000	39.7	37.3	23.0

Those who support accession are mostly young people with better education, higher incomes, living in Riga and employed in public service. Those who would vote against it are mostly people living in rural areas, in the countryside (51.9% of this layer of society are against accession). The reasons for this attitude may be rooted in the situation in agriculture and regional reforms.

There is a significant difference in the attitude of Latvians and non-Latvians (mostly Russians), respectively. Latvians are more positive about joining the European Union. There are 47% who would vote for it among Latvians and only 39.1% among non-Latvians.

State of the harmonization of the legal system with that of the EU

According to the Commission's view on the *four freedoms*, the process of alignment was proceeding relatively well in Latvia. Alignment concerning the free movement of services has already progressed significantly. Restrictions still exist with regard to the freedom of establishment of foreign branches in Latvia. Preparations should be made in this respect to ensure a substantial opening up of the Latvian insurance market. In the area of free

movement of capital, liberalization of the remaining restrictions concerning inward investments as well as restrictions concerning the acquisition of land by foreigners needs to be pursued. The necessary legislation on free movement of persons, freedom of establishment and mutual recognition of diplomas and professional qualifications has not been adopted yet. The short- and medium-term priorities of the Accession Partnership in the field of competition and state aid have been all met to a large extent. The priorities relating to the Internal Market have been met only partially, although steady progress was made.

Further efforts will be required by Latvia to reach full alignment with the *acquis* in the areas of public procurement, intellectual property rights and company law, accounting and auditing. Now that the process of the alignment is quite advanced, far greater attention must be paid to ensure an effective implementation and enforcement of legislation.

A specific regulation on the measures of customs authorities for the protection of intellectual property was adopted in February 1999 and came into force in June 1999. The new Criminal Code, which came into force in April 1999, contained provisions governing criminal responsibility for infringement of copyright and illegal use of copyrighted work. Latvia should make greater efforts at ensuring effective enforcement of legislation on intellectual property rights, particularly with regard to border control.

In the field of *industrial property* rights, Latvian legislation is broadly in line with the *acquis*.

Legislation on the protection of *personal data* has not been adopted yet and (consequently) a supervisory body does not exist. Latvia has not signed the Council of Europe Convention on Personal Data Protection yet.

In the area of *company law* current legislation is only partly in line with the *acquis*.

Greater attention should be paid to the judicial capacity regarding the enforcement of company law, and the capacity of courts to treat bankruptcy cases needs to be improved.

In the area of *accounting and auditing* Latvian legislation requires some revision in order to be fully in line with the *acquis*.

The Association Council took note of positive developments in the field of justice and home affairs and encouraged Latvia to pursue its efforts, particularly as regards the strengthening of the police capacity and co-ordination in the fight against organized crime, including drug trafficking.

Likely problematic chapters at the accession negotiations

Obviously there is consensus on the general position of the Latvian government concerning *acquis* fulfilment in the majority of chapters. However problems may appear in those chapters where quantitative parameters (like quotas etc.) are relevant and in chapters where Latvia has its special needs or claims for a transitional period. (For example, it may be difficult for Latvia to fulfil the EU condition to set up strategic fuel reserves for 90 days.) Despite the strict entry requirements, Latvia will not seek many exemptions from Brussels.

In environmental protection, for instance, meeting the EU environmental standards would cost Latvia more than it can afford. There is a broad understanding on the Latvian and the EU side that full implementation of the environmental provisions depends on the social and economic development of the country. The most difficult area to be negotiated will be agriculture where there is still a lot to do as concerns legislation alignment and the establishment of appropriate administrative structures to manage the Common Agricultural Policy.

Latvia is prepared to implement the relevant EU legislation requirements in the field of tax policy by the time of its accession to the EU, except for provisions of EU Directives 92/79/EEC and 92/80/EEC stipulating excise tax rates for cigarettes and smoking tobacco. At the moment Latvia has a much more liberal policy on cigarettes and smoking tobacco than the EU. Latvia will request a transitional period.

Latvia stands for a gradual increase of financial contributions to the EU budget, as in the previous cases of EU enlargement. The rationale for transitional arrangements concerning the financial contributions is that the full amount of own payments would be due immediately after accession while transfer from the EU would only gradually increase and reach its normal level a number of years later. Consequently, transitional measures will be necessary to prevent an incipient, temporary, large deterioration of Latvia's budgetary balances.

Latvia will propose a transitional period to meet *acquis* requirements in the fields of deposit guarantees, investor protection and mandatory civil liability insurance.

The business environment

The grade of preparedness of industry for accession to the EU

The Russian crisis revealed the difficulties many enterprises face in re-orienting their trade in order to compete on the global market. As a result of the crisis, Latvia has put more emphasis on an analysis of industry, defining competitive advantages, identification of

market failures and involvement of all key actors such as industrialists, universities and centres of excellence. The new approach acknowledges that there is a competitiveness gap between Latvia and EU member states and recognizes the need for government support for the industrial sector, at the same time respecting the principles of the free market.

Expected changes in the business climate in the period between the start of the negotiations and the date of accession

In the course of the accession negotiations, the business environment will be adjusted to EU requirements. The legal framework for the enterprise sector is largely in place already. In order to foster the further development of the private sector, the detailed regulatory regime will be simplified. Business registration procedures are relatively transparent and consistent already, but an important problem of inconsistent interpretation and application of laws and regulations by different authorities after enterprise start-up remains. A large number of administrative barriers to investment in Latvia have been identified with the help of the business community and international investors. This survey helped the government to develop a precise action plan towards implementation of recommendations of investors, as well as monitoring the implementation of the action plan together with businesses.

Lithuania

EU accession prospects after the Helsinki summit

Reactions in Lithuania to the EU's invitation to start accession talks

The governmental institutions, the media, and the society view Lithuania's future membership in the EU as an anticipated result of the progress made by Lithuania. Taking this view into consideration, the invitation for negotiations was welcomed but did not provoke an especially enthusiastic reaction. The importance of the decision to invite Lithuania to negotiations was emphasized by the official Lithuanian sources. The start of the negotiations is characterized as an exceptional event in the relations between Lithuania and the EU. Membership in the EU is considered as the essential precondition of modernization of the Lithuanian economy and society and full-fledged participation of the country in international affairs.

Position of the government on the accession negotiations

The principles of the Lithuanian government about its position on the negotiations for EU membership are laid down in the government's programme of action 1999-2000, which was confirmed by the Seimas (the Lithuanian parliament) resolution No. VIII-1420 on 11 November 1999. The government has the strategic aims to guarantee national security via integration of the country into NATO and the EU, and to strengthen the national economy. To achieve these aims, the government has a determined programme to negotiate actively for the accession to the European Union, finish these negotiations as soon as possible, and try to better satisfy the economic and social interests of Lithuania's economy and citizens.

The statement made at the opening of the negotiations in Brussels presents the evaluation of these negotiations. Lithuania declared that it approves the EU's aims and principles and will negotiate with the perception that it has to approve and adopt the *acquis communautaire* the way it is at the moment of Lithuania's accession to the EU. The Lithuanian government thought it necessary to draw attention to the fact that technical adaptations, transitional periods, stipulations or exceptions may be necessary in various sectors. The government thinks that the institutions of the EU have to be reformed in order to function effectively and have to be based on the principles of democracy, clearness and subsidiarity. All countries of the EU have to be equal in rights and properly represented. The adoption stages of separate *acquis* sectors, the required transitional periods, exceptions and their substantiation are stated in the negotiation positions and are confirmed by the government.

Possible alternative positions on the negotiations for EU membership in case of change of government after elections

At present it is difficult to predict the results of the Seimas elections due in October 2000, but it is quite possible that the left-wing parties and political forces will gain much more influence in the Seimas and the government. The left-wing parties (founded recently and having not much influence so far), the Lithuanian Peasants' Party and the New Union (Social Liberals) won most of the mandates during the elections to the municipality councils held on 19 March this year. The positions of these parties on the integration into the European Union are moderate. The Lithuanian Peasants' Party, referred to in the media as the Eurosceptics' Party, declares that it supports the idea of Lithuania's integration into the EU. However, it believes that rather long periods of preparation will be needed (according to the party leader, it would take 10-15 years), furthermore, there can be no rush in granting a right for natural and juridical persons of foreign countries (including the EU) to acquire land under property right. The New Union approves the integration of Lithuania and considers the official integration schedule quite realistic, however, it wishes to clarify main issues of the negotiation processes and seeks for conditions thought to be the most favourable for Lithuania.

Some political forces may gain significant representation in the new government: the right-wing parties – the Lithuanian Liberal Union and the Homeland Union (Lithuanian Conservatives), the party of the centre – the Lithuanian Centre Union, and the left-wing one – the Lithuanian Democratic Labour Party. Neither of these parties is against the integration of Lithuania into the European Union, nor for a slowdown nor suspension of the negotiation process. For instance, the Lithuanian Liberal Union declares in its programme that integration into the economic and security structures of the West will be beneficial to every citizen of Lithuania, thus, it is seeking rapid integration. The Lithuanian Centre Union approves the forthcoming membership of Lithuania in the European Union, it just wishes to conform the integration schedule with the national calendar of interior reforms. The Homeland Union (Lithuanian Conservatives) further on thinks that integration into the EU and NATO is the essential task of Lithuania because, according to the party, membership in these organizations is the basic guarantee for the country to have security and good economic development. The Lithuanian Democratic Labour Party also agrees with the principles of the European Union. It is thus possible to draw the conclusion that after the elections and a possible change of political forces represented in the Lithuanian government, the official position of the Republic of Lithuania with respect to the negotiations with the EU will not shift significantly.

Activities initiated and policies announced in order to achieve EU membership

In the framework of a process co-ordinated with the European Commission, the following programmes are implemented: Lithuania's EU Accession Programme (National

Programme for the Adoption of the *Acquis* – NPAA), Research Programme on the Impact of Lithuania's Integration into the EU, TAIEX progress database (a database on the approximation of the national legislation to that of the EU), National Programme of Education and Training of the Civil Servants in Preparation for EU, and the 'Twinning' programme of PHARE for the development of institutions.

The task of the NPAA is to assess the integration steps already made and being in preparation, evaluate related costs, i.e. financial, human, material, intellectual and other resources that are necessary for the harmonization of the national laws with the requirements of the EU. The programme covers the whole *acquis*. Once in every three months the results of NPAA implementation are summarized and discussed in the Governmental Commission of European Integration.

Lithuania completed the bilateral phase of the screening. To intensify the exchange of information between Lithuanian institutions and the European Commission and member states of the EU, the European Committee initiated the preparation of quarterly reports (Lithuania's Progress towards Accession to the European Union) on the progress made, in addition to yearly reports.

In order to improve the information available to the Lithuanian society about the country's integration into the EU, the European Committee is establishing European information centres in nine regions of Lithuania. The aim of these centres is to inform the inhabitants of the regions concerned, and provide information to companies, organizations and businessmen as well.

Officially announced expected accession date

Lithuania plans to finalize the negotiations by the end of 2002, and it is supposed that the country will be able to join the EU in the year 2004.

Public opinion poll results – the popularity of accession to the EU

By request of the European Committee, the 'Vilmorus' centre of public opinion analysis examines the attitude of the society towards Lithuania's integration into the European Union every month. (Many other companies in Lithuania make analogous analyses.)

According to data from the poll in March 2000, 61.3% of the respondents agree to EU accession (in November 1999 this share was 56.8%). 15.0% of them support a rapid integration into the EU ('as soon as possible'). Categorical eurosceptics ('never join the EU') make up 17.5%. The majority of the respondents would vote against a rapid integration.

In the survey made in November 1999 people were asked to indicate which aspects of life would improve and which would become worse if Lithuania joined the EU. In most cases the supporters of the integration indicated that economic development (72.8%), education (70.2%), the situation of the youth (69.5%), national security (68.5%), the overall standard of living (67.2%), export (66.2%), and environmental protection (62.0%) would improve and that relations with Russia would get worse (28.5%). Eurosceptics mostly think that integration into the EU would negatively influence the situation in agriculture (63.8%), relations with Russia (51.1%), the overall standard of living (41.3%), and the possibility to find a job (40.3%).

The youth and people of higher education and higher income who live in cities (particularly in Vilnius and Klaipeda) are above the average in supporting accession to the EU. According to the parties' identification, they are supporters of the right-wing parties. People of pre-pensionable age, lower education, low income and living in villages speak more against the integration into the European Union. They are supporters of the left-wing parties.

The state of harmonization of the Lithuanian legal system

The first National Law Harmonization Programme that covered Lithuania's preparation for membership in the European Union had been prepared and approved by the government as early as in 1995. The more recent NPAA includes a plan for harmonization, indicates legal methods for the adaptation of the *acquis communautaire*, earmarks the institutions responsible for harmonization, and provides the approximate terms of fulfilment. Lithuania notifies the European Commission about the current situation of harmonization of law, indicating prepared, confirmed and enforced regulations in the quarterly reports on improvement.

Problematic chapters of the 'acquis communautaire', the nature of difficulties

The most problematic chapters are indicated through taking into consideration the experience of the states that have already started negotiations (e.g. Poland, Estonia) and the current situation of Lithuania. Difficulties may be related to lack of funds, legal and institutional complexity of certain issues and psychological problems that may arise if the requirements for membership in the EU were rejected by public opinion.

On the basis of these factors, the most problematic sector will be agriculture. To implement the *acquis* in this sector, it is necessary to review the policy of agricultural development and subsidies; prepare about 150 regulations (mostly technical), modernize the agricultural production sector, set a development policy for rural areas, raise standards and increase competition. Modernization here requires huge investment. Social and psychological

criteria remain important in this area, they are intensified by the eurosceptic Lithuanian Peasants' Party.

The transport sector can be considered the second problematic area. Reorganization of this sector demands huge investments.

The third problematic sector is environmental protection. The implementation of the environmental protection *acquis*, particular in areas such as water cleaning, waste control and integrated control of pollutant prevention, demands costly investment programmes. About 50 regulations should be prepared and enforced. For full *acquis* implementation in this sector, it is necessary to reorganize and improve the institutional infrastructure.

In 1999 Lithuania adopted a new strategy for the development of the energy sector. However, *acquis* implementation in this area remains a complex and difficult task, particularly taking into account the vital economic importance of this sector. One of the most difficult problems to be solved is the development of a system that would ensure the functioning of the energy sector in extreme conditions. That requires a legal basis, funds for accumulation of oil and oil products reserves, and an institutional management structure for extreme cases. Companies in the sector must be restructured and prepared for privatization in order to join the European energy systems. When the plan to gradually close the Ignalina Nuclear Power Plant starts to be implemented, it will necessary to ensure a high level of nuclear security and mitigate economic and social consequences due to the decreased volumes of electric power production and an increase of unemployment in this region.

State of the negotiations

Since the beginning of the accession negotiations five chapters have already been provisionally closed (Common foreign and security policy, Small and medium-sized enterprises, Science and research, Education and training, Statistics) and three are still open (Competition and state aids, Culture and audio-visual policy, External relations and development aid). The following eight additional chapters will be open for negotiation until the end of 2000: Freedom to provide services, Free movement of capital, Company law, Transport, Social policy, Industrial policy, Telecommunications, Environmental policy.¹⁰

¹⁰ <http://www.euractiv.com/cgi-bin/eurb/cgint.exe/16888?714&1015=3&1014=enforce7>

The business environment

Expectations concerning the costs of and benefits from EU accession

At present, Lithuanian economic literature and official sources do not give a comprehensive evaluation of benefits and costs of membership in the EU because they are difficult to calculate. It is complicated to discern which political, economic, and social changes in the country are related to the preparation for membership in the EU and which to the establishment of a stable democracy and competitive market economy. The results of a partial approach to costs and benefits follows below.

Economic considerations

Benefits: The assurance of free movement of goods, services, capital, and labour will eliminate production distortions. It would allow the manifestation of effects of economies of scale: the volume of export would increase and the prices would decrease, industry restructuring will accelerate. The entry of new enterprises into the market will increase competitiveness and eliminate the still existing monopolistic positions. Economic growth and stability, the increase of economic competitiveness, and ecologization of the economy should be manifested in the long run. Membership in the EU would restrict the opportunities of the Lithuanian government directly and indirectly to interfere with the functioning of the economy. The standards of the EU will be applied for all Lithuanian goods. This will increase the cost of Lithuanian producers but means benefits for the consumers.

Costs: The greatest economic costs are expected in the energy sector. This is related to the required closure of the Ignalina Nuclear Power Plant and establishment of the extreme situation system for the energy sector. The costs will be high in agriculture as well. Also, losses may occur due to restricted access to the Russian market.

Fiscal considerations

Benefits: The main transfers from the EU budget are allocated to the agricultural and structural funds programmes. Considering the fact that the agricultural sector in Lithuania creates more than 20% of GDP, Lithuania will be net recipient. Lithuania should also receive payments from the structural funds because the GNP per capita is much lower than 75% of the EU average.

Costs: Lithuania will have to pay a part of collected VAT and all customs duties to the EU budget, and an additionally set percentage of the GDP. The costs of the enlargement of the administrative apparatus in Lithuania and the loss that Lithuania would experience in harmonizing the tax system, also may be included into fiscal costs.

Social and political considerations

Benefits: Lithuanian citizens will also become citizens of the EU. They will be granted the right of free movement and residency in the territories of the EU member states. Lithuanian citizens also will have the right to vote and be a candidate in the elections of the European Parliament. Integration into the EU would increase the potential of Lithuania's foreign politics – Lithuania would be granted the right to participate in decision making at EU level.

Costs: These refer to an increase of the cost of work force, emigration of intellectuals, costs of restructuring the health care and educational systems, and expenses for retaining professional talent. There are fears how a small nation's identity can survive being integrated into a huge economic and political unit.

Security considerations

Benefits: The EU has an effective mechanism to fight drug and arms smuggling, illegal migration, corruption, terrorism, etc. In addition, membership in the EU would increase the possibility of Lithuania's entry to NATO.

The evaluation of membership benefits and costs allows to draw the conclusion that the benefits of membership in the EU will be revealed later on, while in the near future the costs and expenses of the preparation for membership and the membership itself will be more noticeable. Membership in the EU might be considered as a long-term investment in the future of Lithuania.

Expected changes in the business climate in the period between the start of negotiations and the date of accession

The government claims that it is interested in improving the business environment following these principals:

- only the market, open to any new economic initiative, may ensure competitiveness and progress;
- the government shall seek to increase competitiveness by improving the general conditions for business which is based on capital of local and foreign origin;
- functions which are not obviously in the competency of the state should be handed over to the private sector. Properties which are not necessary to execute state functions must be privatized even if they are profitable;
- the reduction of profit (income) tax, taking into account that the enterprises' debts are acknowledged as hopeless, should continue;
- unnecessary customs formalities will have to be eliminated to create more favourable conditions for the development of transit activity;

- the restrictions of land usage and the administrative settling of land allocation have to be annulled or simplified;
- regulations on wages, work time, vacations, requirements of security in a work place, must be simplified and rationalized;
- the mechanism of state aid to small and medium-sized businesses should be reorganized by introducing new forms of state support;
- the procedure in the case of unprofitable and insolvent enterprises and bankruptcy is to be improved which will allow quick withdrawal from the market for unprofitable economic subjects;
- the capital market should start functioning more actively providing and developing legal and taxable conditions for the appearance and trade of various direct and derivative financial tools. The development of a capital market should be accelerated by the privatization of state-owned enterprises through the stock exchange and including securities issued by the large enterprises into the trade lists.

Romania

EU accession prospects after the Helsinki summit

Reactions in Romania to the EU's invitation to start accession talks

The reactions have been generally positive with the political parties in power, opposition and population. Still, although there is a consensus that the invitation is a positive development, the interest is relatively weak. The explanation is quite simple: Romania is in a deep economic recession, the living standard gets lower month by month and it is clear for everybody that this invitation to negotiations does not imply any immediate or short-term improvement of the situation. It is generally felt that an important reason that determined the invitation of Romania to start negotiations was the country's supportive attitude towards NATO during the Yugoslav conflict.

Basic position of the government concerning accession negotiations

The current position is total support for negotiations. The main problems are of an organizational nature (who is responsible for what) and, despite the establishment of various programmes and working groups, there is a clear lack of focus and management of the process.

In the case of change after the elections, there will be no change in the position towards negotiations. It is to be noted that there has been a continuity in the negotiations between Romania and the EU during all post-1989 governments. One can expect that if the main opposition party (PDSR, headed by Mr. Iliescu) is coming to power, there will be even more interest in the negotiations in order to prove the new government's Western orientation and escape the traditional references to the old communist heritage. This is not just a speculation, given the fact that the discussions with the European Union had been positive also before 1996 and the political decision to start discussion on accession reached a political consensus already in 1995. In the case of coming into power of PDSR it is also to be expected that more stress will be laid on the social issues related to integration into the EU.

The activities initiated for the achievement of EU membership refer mainly to legislative and institutional harmonization; a timetable has been drawn up in this respect. Romania has a National Programme for the Adoption of the Acquis and a Medium-Term Development Strategy (2000-2004) that was presented to the European Union in March 2000. The activities initiated cover partially only some aspect of the issues related to accession. What remains to be done is institution building, enforcement of legislation, training of staff and, generally speaking, institutional reform.

Expected date of accession

The officially expected date of accession to the EU is 2007, but almost everybody believes that this date is a bit too ambitious. The current strategy and programmes cover only the period until 2003-2004; thus, at present, Romania has no detailed programme extending to the proposed date (2007). The date has been decided by Romania mainly on the basis of external factors (the EU timetable – the budget attached to the Agenda 2000 is for seven years) and does not take into account the endogenous factors (existing institutions, available staff, state of the economy, etc.).

Public opinion polls – the popularity of EU accession among the population

Public opinion polls conducted in 1999, but also in the previous years, had constantly shown a degree of support of more than 65% of the Romanian population for EU membership in case of a referendum. According to *Central and Eastern EuroBarometer* No. 8, 56% of the Romanian population has a positive image of the European Union (first ranked among CEE countries); among Romanian decision makers, 85% have a positive image of the European Union and 10% a neutral one. Partially, the high percentages of acceptance of the EU in Romania are determined by the lack of understanding of the real costs of integration into the EU. Basically, the majority of the general public and of the decision makers interpret the integration as a chance to get serious financial assistance, which is, of course, just one side of the coin. The positive attitude of the population towards EU integration is expected to remain unchanged in the long run given the fact that Romania will be a net beneficiary during the integration process.

State of harmonization of the legal system with that of the EU

Official estimates indicate that about 55% of the topics of the *acquis* have been totally or partially transposed into the Romanian legislation. This does not mean either that 55% of the Romanian legislation is fully compatible with the EU or that Romania has the institutional capability to fully enforce 55% of the EU legislation. Some areas seem to imply substantial problems: industrial policy, agricultural policy, environment.

Possible difficult chapters to be negotiated at the accession talks

The Commission has begun an analytical examination of the *acquis communautaire* in April 1998 with Bulgaria, Latvia, Lithuania, Romania and Slovakia. The domains in which Romania registers the greatest delays in the adoption plan are also the ones that record the greatest deficiencies in the degree of knowledge of the *acquis communautaire*: trade in industrial products (non-observance of contracts, delays in delivery and payments, quality problems, etc.), services (other than financial and banking), the environment, corporate law, telecommunications and the information society.

The chapters likely to be problematic ones for Romania are:

- *free movement of capital*: the perception and behaviour of the stock market operators in Romania is rather conservative and not very open to the participation of external financial players; secondary market not operational;
- *agriculture*: due to the structure of work force, low level of productivity, administration;
- *taxation*: significant reforms are to be implemented, such as global income tax, the shift from direct to indirect taxes;
- *economic and monetary union*: the current evolution of the Romanian economy makes this subject premature;
- *social policy*: both legislation and institutions related to this subject are still to be decided upon and implemented;
- *energy*: difficulties related to the liberalization of the market; strong opposition from the part of energy monopoly;
- *culture and audio-visual policy*: Romania is a signatory to the World Trade Organization Treaty and has difficulties in implementing the quota system regarding the origin of cultural and audio-visual products;
- *consumer protection*: lack of adequate infrastructure for enforcement of the law; very low level of consumer awareness of their rights;
- *common foreign and security policy*: the main issue refers to the need to secure and control the eastern border;
- *financial control*: the present system still allows for a huge underground economy and lack of financial discipline on the part of state companies;
- *financial and budgetary provisions*: Romania is still unable to draw multi-annual, project-oriented budgets despite the attempts made in the last two years; serious efforts and technical assistance are needed for overcoming this difficulty.

State of the negotiations

Since the beginning of the accession talks, five chapters have been provisionally closed (Common foreign and security policy, Small and medium-sized enterprises, Science and research, Education and training, External relations and development aid). The following four additional chapters are already on the agenda for negotiation until the end of 2000: Competition policy, Statistics, Telecommunications, Culture and audio-visual policy.¹¹ Romania intends to extend this list by the chapters on Consumers and health protection, Transport, Customs union and Company law.

¹¹ <http://www.euractiv.com/cgi-bin/eurb/cgint.exe/16888?714&1015=3&1014=enforce7>

The business environment

The grade of preparedness of industry for accession to the EU

Although Romania has begun the reform of industry, the activity resulted mostly in sectoral studies and strategies, without a consistent implementation. The Romanian government has not designed yet an industrial policy and the Ministry of Industry and Trade lacks the proper implementing and regulating power. Industry is largely non-competitive due to quality level, despite the low prices, as result of the very low level of quality of the capital stock and shortcomings in human skills. In 1999 this situation did not improve and may even have worsened as a consequence of the significant drop of investments in industry. Only in the case of a few industrial sectors could output be increased and exports indicated increasing competitiveness. This concerns in particular the textiles and footwear industries, which together made up 48% of Romania's export to the EU in the first five months of 1999. The producers of electrical equipment also increased their exports both in absolute terms and as a share of total Romanian export. However, Romania's traditional industry sectors such as steel, oil and chemicals were further losing ground.

In the automobile sector, the positive prospect is that the investment by Renault in Dacia would help to substantially modernize the sector. However, there has been some concern that the provided incentives might distort competition. There are also concerns about competition distortions because of continuing state aid for enterprises not related to an effective restructuring process, notably in the steel sector. An important dimension of industrial policy is the control of state aids.

Expectations concerning the costs of and benefits from EU accession

In the major industrial branches the expectations are mixed: the new opportunities are appreciated but also the risk of potentially stronger competition or even down-sizing or closing of companies are taken into consideration. The general perception is that in the mid term the negative aspects are much higher than the positive ones.

A lot of expectations are related to the ISPA and SAPARD programmes to be implemented as well as to the inflow of funds related to the 'Stability in the Balkans' programme. Anyway, the very slow evolution of the clarifications on these funds has determined a rather sceptical attitude.

The trade unions appear to be a more and more important player. Regarding the medium-term strategy, the position of the trade unions seems to be that first the stress should be put on economic recovery and only after that may convergence with the EU follow. Given the dramatic decrease of the living standard, it is to be expected that the trade unions will put a premium on securing an acceptable living standard as compared to any other subject of long-term interest.

Assessment of the impact of increased competitive pressures after accession

In the past decade, in the absence of an industrial policy, little was done for actively restructuring the economy and preparing it for international competition. The Association Agreement with the EU provides for free trade completed in 2002. Given the fact that up to now the economy has not been restructured and that a medium-term strategy is just being defined, it is clear that even if the best possible strategy (including industrial policy) is adopted during 2000, it cannot bear fruit in two-years' time and Romania will be quite affected by the competitive pressures after 2002. Problems related to the expected impact of industrial free trade with the EU are immediate and much easier to perceive than those related to the accession many years from now.

Expected changes in the business climate in the period between the start of negotiations and the date of accession

Given the current economic situation and the signals from the business community, the Romanian authorities are considering the following measures:

- The key issue is the clarification of ownership rights. In this respect, the following steps should be taken:
 - (a) settling the disputed claims on ownership;
 - (b) completing the privatization process;
 - (c) attaining the optimal size of the public and private sectors of Romania;
 - (d) adopting regulations with a view to enhancing the confidence of people and companies (domestic and foreign) in the strength of the ownership system in Romania.
- The adoption of a package of corrective regulations to ensure the consistency of economic legislation. This should refer to:
 - (a) the removal of discrepancies and redundancies leading to inaccurate interpretation of rules and even to the inapplicability of some important provisions;
 - (b) filling up of the 'legal gaps', including the harmonization of rules and regulations with European Union standards.
- The settlement of the institutional framework would prove to be worthless unless it is accompanied by significant improvements in financial discipline throughout the economy.
- An essential issue is the reversal of the spread of underground economic activities. A stable taxation system, and the alleviation of bureaucratic constraints (which currently distort the activity of firms) are expected to stop the shift of firms to the informal sector, and even stimulate part of it to reintegrate. Institution building and the systematic and sustained fight against corruption, without political discriminations, would contribute to the enhancement of such an evolution.

Slovakia

EU accession prospects after the Helsinki summit

Reaction of the political elite to the invitation

At the Helsinki summit in December 1999, the heads of states and governments of the EU member states invited Slovakia, together with the other former second-wave countries, to start accession negotiations. The invitation came two years after the EU summit in Luxembourg, where Slovakia had been dropped from the group of front-runners for membership because of internal policy issues and had thus fallen behind the other Visegrád Four (V4) countries.

The decision of the top EU body was accepted as positive throughout the Slovak political spectrum. While the new cabinet regarded this event as an appreciation of the changes undergone since the last elections, the opposition stressed the abolishment of the division of candidate countries into 'waves' and greeted the adoption of the principle of a common starting line.

Officially, the leading opposition party, HZDS (headed by former Prime Minister Vladimír Mečiar), supports Slovakia's integration into the EU. However, the reality in 1995-1998 revealed rather sharp discrepancies between the official declarations of the then ruling party and real policy. As the HZDS still leads in public opinion polls, the question of the likely future attitude of this party towards the EU is frequently raised. Disregarding the relatively low probability of the HZDS being able to form the future government alone, a leading position of the party in any future government would probably result in a slowed-down accession process.

Activities initiated and policies announced to achieve EU membership

According to the 1999 Regular Report of the Commission, Slovakia fulfils the Copenhagen political criteria. However, the report calls for 'sustained efforts to ensure effectiveness in the fight against corruption' and emphasizes the need to strengthen the independence of the judiciary. Furthermore, courts will need reinforcement in order to improve commercial law enforcement. On the other hand, the Commission praised the Slovak government for 'impressive reform agenda' and considers Slovakia 'close to being a functioning market economy'.

The Regular Report identified a few problem areas. Beside the above-mentioned judiciary they included also areas related to the internal market:

- intellectual and industrial property legislation,
- bankruptcy legislation,
- public procurement and equal treatment of foreigners.

Relevant critical comments were also addressed to:

- environment issues,
- administrative capacities to adopt the *acquis*.

Since the Report was published Slovakia has made some progress in some of these areas or took the obligation to adopt some relevant adjustments during 2000. The area of public procurement is almost fully compatible with EU legislation since January 2000, when a new law on public procurement came into effect and a specialized agency was established. Full compatibility will be achieved by the end of 2002 following relevant adjustments in the area of free movement of goods.

In April 2000 the government presented a revised National Programme for the Adoption of the Acquis (NPAA). The NPAA is a key document in the process of EU accession. It draws up the government strategy until 2002 and thus becomes an indicator of fulfilment of the government programme manifesto. The NPAA distinguishes among short- and medium-term tasks.

EU accession and the public opinion

As confirmed by a recent public opinion poll carried out by the Polis Slovakia agency at the end of January, two thirds of the Slovak population are strongly in favour of EU integration while only 7.5% are strictly against it. EU supporters see better work and education opportunities along with a higher living standard and larger export markets as the biggest advantages of EU membership, opponents are afraid of the loss of a part of national sovereignty and a worsening economic situation.

Officially expected date of accession

The final target of the Slovak delegation is to finish all negotiations by the end of 2002 and to enter the EU in January 2004.

State of the accession negotiations

Slovakia formally began accession talks on 28 March 2000. Since then six chapters have been provisionally closed (Common foreign policy, External relations and development aid, Small and medium-sized enterprises, Science and research, Education, Statistics). Two chapters are open (Culture and audio-visual policy, Competition and state aids). The following additional eight chapters will be open for negotiation until the end of 2000:

Freedom to provide services, Free movement of capital, Fisheries, Industrial policy, Telecommunications, Consumer protection, Customs union, Transport.¹²

Likely problematic chapters

While there were no significant problems during the negotiations of the eight already opened and mostly already closed chapters, the negotiations of a few other chapters might be a different story. According to the General Position of the Slovak Republic, submitted in Brussels in February 2000, particularly important, sensitive and perhaps also tough negotiations and possible requirements for transitional periods are expected in the following issues.

– Internal market

Possible requests for transitional periods will concern mainly those areas where the current performance of the Slovak economy does not permit to adequately fulfil the European Union legislation. These include such areas as deposit guarantee schemes, investor compensation schemes, release of short-term capital and operations using money market instruments. Another sensitive area in the internal market is the acquisition of agricultural and forest land as well as the purchase of real estate by non-residents where mutually acceptable solutions will have to be sought. The Slovak Republic will probably ask for transition periods in certain tax-related areas.

– Transport

The transport infrastructure of the Slovak Republic will become part of the European transport network. The central location of the country in Europe necessitates considerable investment into the development of transport infrastructure in all types of transport. The most sensitive point in the harmonization of legislation in this area is the fulfilment of the requirement concerning the financial standing of domestic carriers.

– Environment

The environment chapter is expected to be among the most demanding ones where Slovakia will request several transition periods. However, in the formulation of its position, Slovakia respects the need to apply strict standards of environmental protection. The objective is to transpose the entire environmental legislation of the Union without any derogation. However, in view of the actual situation, Slovakia will not be able to fully implement the legislation by the envisaged date of accession. This is due, in particular, to the high investment needs and to the complex technical solutions involved in reaching European standards. This regards above all air protection, waste management, water protection, industrial pollution control and risk management, chemicals and genetically modified organisms.

¹² <http://www.euractiv.com/cgi-bin/eurb/cgint.exe/16888?714&1015=3&1014=enforce7>

– Energy

The negotiations in the energy sector are expected to concentrate on the liberalization of the electricity and gas markets. Another issue is the fulfilment of the obligation of compulsory oil reserve stocks, as the building of capacities for these purposes requires large investments.

Unlike some other candidate countries, Slovak agriculture should not pose significant problems in the accession process, although the issue is considered important and sensitive. On the other hand, areas such as regional development or the company law require further significant progress. Furthermore, the freedom of movement of persons will probably be the most sensitive area from the point of view of the EU.

Legislation related to chapters considered non-problematic also requires some adjustments. The current anti-trust law, for instance, is not fully compatible with EU legislation. The new law, which will be fully compatible, is supposed to come into force on 1 January 2001. Also the law on state aid is only partially compatible with EU legislation. Its amendment, to be adopted in 2001, will take effect in January 2002. Besides other aspects, the law provides the relevant framework for state assistance to small and medium-sized enterprises.

The business environment

Problems to be solved in industry before accession

In 1998 industry accounted for 27% of value added created. In the same year industrial companies provided jobs for almost 40% of all employed and industrial exports made up roughly 80% of total exports of goods and services.

One of the key problems of industry is the permanently increasing internal and external indebtedness. Outstanding inter-enterprise liabilities exceeded USD 8 billion at the end of 1999. In some cases, enterprises do not have enough cash to pay salaries or taxes and insurance contributions. The position of creditors vis-à-vis debtors is still considered imbalanced. The amendment to the Act on Bankruptcy and Settlement came into effect in August and focused on:

- motivation for financial restructuring of companies, while supporting restructuring of enterprises under the oversight of creditors and using a functional bankruptcy system;
- securing the correction of the bankruptcy mechanism through removal of barriers related to the implementation of the respective act and the absence of creditors' and debtors' motivation to use bankruptcy;

- ensuring that the announcement of bankruptcy does not imply the liquidation of an enterprise;
- abolition of preferential treatment for claims by the state and its agencies.

Tax burden

One of the government priorities, to be accomplished before EU accession, is the reform of the tax system. Strengthening the position of indirect taxes should broaden the tax base and increase tax revenues of the state budget. Institutional reforms should enhance the efficiency of the tax system.

In 1999 the Slovak government increased fiscal revenues through an increase of excise taxes on hydrocarbon fuels and tobacco products. The lower VAT rate was increased from 6% to 10% at the beginning of July 1999. The cabinet also prepares an amendment to the law on VAT in the medium term, the laws on excise tax on mineral oils and alcohol, and to the law on income tax (2001). The decrease of corporate tax from 40% to 29% valid since the beginning of this year is viewed as significant progress in decreasing the overall tax burden.

Financing

The access of most of enterprises to domestic bank loans is extremely limited. While in the period 1997-1998 state fiscal expansion caused a crowding-out effect and a dramatic increase in interest, the years 1999 and especially 2000 are characterized by a credit crunch. Although the state managed to decrease demand for domestic bank funding and interest rates fell to 8% in April, interest rates on new enterprise loans have not followed the sinking trend and the provision of new loans is almost frozen.

Stability and transparency of the legal system

Another factor with a negative impact on the business environment is the non-transparent legal system, frequent legislative changes and consequently limited predictability. A solution to these problems will require, apart from other measures, a complex reform of public finances. Under the current conditions, a reduction of the direct tax burden, while accepted as positive, necessitates adjustments of other taxes or relevant legislation (excise taxes, depreciation costs, etc.) or even the introduction of new taxes (tax on vehicles, property tax). Such measures, however, significantly limit the original purpose of tax burden reduction.

Ability to compete with firms from the EU

The best Slovak companies include primarily those with significant foreign capital participation. They also operate successfully on EU markets and their adaptation to

EU membership is expected to be rather smooth. Experience with FDI shows that foreign capital is vital for industry restructuring. While there is still much to do to create a motivating business environment, the core of Slovak companies should be able to compete on the EU markets in the medium term, provided the necessary restructuring goes on and strategic foreign companies as well as flexible small and medium-sized enterprises find a favourable and prospective environment in the Slovak Republic.

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