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Intereconomics

*Suggested Citation:* Csaba, László (2001) : Double talk - the political economy of eastward enlargement of the EU, Intereconomics, ISSN 0020-5346, Springer, Heidelberg, Vol. 36, Iss. 5, pp. 235-243

This Version is available at:

<https://hdl.handle.net/10419/41103>

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László Csaba\*

## Double Talk – The Political Economy of Eastward Enlargement of the EU

*There is an inherent ambiguity in the attitude of the EU towards eastern enlargement. On the one hand, since the Gothenburg Council of June 2001 the EU appears to be at last on the brink of a first round of eastward enlargement. On the other hand, the major internal reforms in the EU which are essential if enlargement is to take place have so far made only unsatisfactory progress. What are the reasons for this situation? What are the perspectives?*

With the final declaration of the Gothenburg Council of June 2001, enlargement of the European Union seems to have come within easy reach. Confirming the deadlines incorporated in the road-map adopted at the Nice Council of December 2000, the EU member states declared explicitly their determination to make the EU enlargeable by 2004, so that the electorate of the countries of the first round of enlargement could participate in the election of the new European Parliament due that year. Since the legal conditions of the EU allow only full members to participate in constituting the supreme law-making, controlling and co-decisive body of the organisation, this commitment requires intensive work and meeting the tough deadlines set down in the road-map. Given that the practical work on enlargement, i.e. on closing the chapters on accession, did accelerate in the period between Nice and Gothenburg, there seems to be a real chance for the breakthrough. All the more so, since the EU side has traditionally refrained from making explicit commitments in terms of deadlines. It is an open secret that the traditional main players in the EU, Germany and France, have been less than enthusiastic about naming a deadline. However, they have been persuaded by the majority, led by the Swedish presidency, that without setting deadlines bureaucracies can continue foot-dragging endlessly. And indeed, if one compares the successful conclusion of northern enlargement by 1995 to the

regular postponement of eastward enlargement, with deadlines moving from 1996 to 1998, then to the millennium, then 2002/3 and currently even to 2005/6 in the specialised literature, setting an official target is an important incentive, even if it is not met in reality.

Technically speaking the EU, for the first time in its history, seems to be prepared for a first round of eastward enlargement. This means that the Amsterdam Treaty of 1997 has created the leeway for expanding the community to up to 20 members. The financial guideline for 2000-2006 adopted at the Berlin Council of March 1999 has created a financial leeway for member states to take on board up to five members, provided member states agree in the finalisation of annual budgeting for the Union to stock up related funds. Here the bottom line is the leeway provided by the difference between actual spending – which was only 1.06 per cent of common GDP in 2000 – and potential maximum spending, limited to 1.27 per cent of common GDP by the Edinburgh compromise of 1992. Since the joint GDP of 12 acceding countries is only 6 per cent of that of the incumbent EU, an additional funding of 0.21 per cent of the GDP of EU-15 plus the incremental funding emerging from economic growth and inflation together is sufficient to accommodate the combined estimated needs of about 5 new members, quite in line with the financial guideline in force until 2006.

For the first time in its history the EU approved preaccession financial assistance for candidates in the range of € 45 billion for the period until 2007. This money cannot be redistributed for other uses and is aimed at technical assistance for accession countries in the areas they most need to intensify efforts, such

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as improving their administrative capacities, or managing farming sector and rural development.

Last but not least, by having adopted the road-map in Nice as a supplement rather than a part of the Nice Treaty, this guideline for negotiations may well be adhered to, quite irrespective of whether and when the Treaty of Nice is ratified. Following the rejection of the Treaty by the Irish referendum it is not at all clear if and when this controversial piece of contractual bargain<sup>1</sup> will enter into force and if so, in what shape (Irish concerns will need to be addressed in one way or another, e.g. by supplements or interpretations annexed to the body of the Treaty, as happened prior to the second, successful Danish referendum on Maastricht).

However, it is important to underscore that enlargeability to the east is not at all conditional upon the ratification of the Nice Treaty and the entering into force of the novelties contained therein. Whatever we think of the merits of the Treaty (and there is plenty of room for analytical concerns of various sorts<sup>2</sup>) and even if we accept all the arguments that require a major repair for the Treaty to make sense in answering already accumulated problems of EU workability<sup>3</sup> one thing should be clear. Enlargeability is by no means contingent upon the fate of the Treaty, since its preconditions have already been brought about by the presently functioning Amsterdam Treaty and the financial guideline for 2000-2006.

What is, indeed, conditional upon Nice and its aftermath is the modalities of an eastward enlargement, i.e. answering such questions as when, how many and which countries could be taken on board, not least under which conditions. It is absolutely clear that for the time being the EU lacks the historic vision and security policy priority that had been characteristic for its establishment or even for its southern enlargement. For various reasons European policy in general, and enlargement in particular, is not

a bestseller in the domestic political agenda in any of the major EU players. A Europe of the multinationals, the threat of the European superstate, eggheads in Brussels wasting taxpayers' money and wanting to rob poorer countries of their fair share of entitlements,<sup>4</sup> or even the fear of Brussels taking over ever more national competences have all been highly profiled in individual EU incumbents. These claims make a strawman out of a bureaucracy employing fewer people than the free city of Hamburg or Marseille alone. The split between pro-European and pro-enlargement élites and business circles<sup>5</sup> and an electorate orientated mainly by tabloids and infotainment fearing basically crime and major costs, has reached the point where it may become prohibitive.

It is important for candidate countries to realise that although the closing of negotiating chapters is important, marshalling support for their case among the EU electorate is equally so. It is telling that the initiative by Günter Verheugen to theorise about a possible referendum on enlargement in Germany produced an uproar. Likewise the initiative of the FPÖ in Austria to launch a referendum on enlargement met stiff resistance by the governing class, with President Klestil making open references to constitutional arrangements making referenda conditional upon prior approval by a wide parliamentary majority. In sum, the lack of public support may be more than a mere sign of a bad mood. As the deputy director of the French Institute of International Affairs put it, the rigid and selfish French bargaining position was not the cause but only a symptom of the hidden agendas and backward-looking, narrowly nationalistic mentalities actually dominating EU fora and discussions.<sup>6</sup> And this is exactly what we called double talk in the title. On the one hand, from a diplomatic and negotiating/tactical point of view the Gothenburg Council, with its making the deadline for first accessions explicit, can be seen as a breakthrough, or at least a potential for this. On the other hand, observance of

<sup>1</sup> The chairman of the committee on foreign affairs of the European Parliament labelled the Treaty a "catastrophe": cf. E. Brok: Post-Nice state of the preparations for EU enlargement, in: INTERECONOMICS, 2001, Vol. 36, No. 1, pp. 7-11, here p. 7; an Italian counsellor on foreign affairs saw it as a thinly veiled attempt to enhance entry barriers to new entrants: L.V. Ferraris: Ostmitteleuropa: ein neuer Politik-Stil in der EU? – presentation to the 10th anniversary conference of Europa Universitaet Viadrina entitled "Der Beitrag der Ostmitteleuropäischen Staaten zur erweiterten Europäischen Union", Frankfurt an der Oder, 13-14 July 2001.

<sup>2</sup> Cf. in detail L. Csaba: Az EU fogadókészsége a Nizzai Szerződés után (Eastward enlargeability of the EU after the Nice Treaty), in: Európai Tükör, Vol. 6, Nos. 2-3, 2001, pp. 30-50.

<sup>3</sup> R. Baldwin, E. Berglöf, F. Giavazzi, M. Widgren: Nice Try: Should the Treaty of Nice Be Ratified?, in: Monitoring European Integration series, No.11, CEPR, London, June 2001.

<sup>4</sup> Spanish policy-makers repeatedly explained that not only the amounts of their current transfers, but also Spanish shares in total EU regional spending were untouchable. "Has Andalusia grown richer by the entry of Poland?" they ask rhetorically. Pointing towards a possible new alliance the new Italian minister of finance Tremonti pledged support to enlargement only following the solution of Mezzogiorno problems (reported in: Financial Times, 21.5.01).

<sup>5</sup> P. Barnevik, H. Grabbe, E. Vaes: Opening up: the business opportunities of EU enlargement, Message of the European Round Table of Industrialists to the Gothenburg Council and the World Economic Forum, June 2001.

<sup>6</sup> D. Moisi: Caught between enlargement and globalisation, in: Financial Times, 15 January 2001.

domestic developments in major EU players, as well as the evolution of the EU agenda in the context of the Laeken process, aimed at specifying the future shape of the EU for the 2004 IGC, all point towards lasting and even intensified applications of brakes in terms of funding and policies that render large-scale enlargement concepts, especially of the recently popularised big bang version,<sup>7</sup> highly improbable.

As a matter of fact, an outright rejection of the Nice Treaty as an embodiment of the one-size-fits-all approach may well be seen as in the best interest of candidates;<sup>8</sup> however, given the prominence of narrow national posturing it may well end up rejecting even the smallest enlargement.

### One Step Forward, Two Steps Backward?

In a way typical of the functioning of the EU, reform deliberations have been evolving on two different tracks. One track is that of grand projects and visions elaborated by think tanks and political personalities. Another track emerges in the course of compromises and improvisations during the daily work of state administrations, reacting to immediate challenges and local crises. The two together lay the groundwork for the actual capacity of the EU Community of 15 to take on new members.

It is a close to consensus view among analysts (reflected in the literature in the pieces on Nice quoted above) that the IGC failed to bring about more efficient and less clumsy ways of integrational decision-making. Various functional considerations, such as the need to extend qualified majority voting on issues of a non-procedural nature, or the need to prioritise procedures and transparency over national representation and the alleged "inevitability" of equilibrating national transfer balances, or the necessity of focusing spending on areas and measures that demonstrably serve joint and common interests rather than a given policymaker's constituency, have frequently been reiterated but never heeded. The compromises of Nice also reflect the ongoing preoccupation with the domestic sellability of the deals, not with the improved workability of common organs. As former British secretary of the Foreign and Commonwealth Office, Sir Geoffrey Howe<sup>9</sup> said

bluntly, when supranationalist institutions lack the public trust and respect to do the job, national legitimacy and the processes required of it (i.e. convincing the public and reflecting national constituencies' views) inevitably superimpose their logic over the concerns of integrational efficiency or functional rationality.

This is truly bad news for the candidates. The message therefore is not, as often misread in the region, that old-fashioned nationalistic posturing pays well also in Europe, indeed is a *modus operandi* of the EU itself. Rather, as is known from broader international experience,<sup>10</sup> breaking with the dominance of vested interest groups is a precondition for any policy reform to get through. Or vice versa, as long as vested interest policies prevail, the chances of deep-going reforms are minimal and the probability of reversals very high. And this is exactly what we observe within the EU despite repeated declarations of various sorts.

As long this "realist" vision of international affairs prevails it is hard not to see accession as a threat, at least for currently existing arrangements. It is hard to overlook that losses are easy to locate (say, a lost job or a closed workshop in city X), while the benefits of large markets usually invoked in economic analysis such as better quality, wider choice, improved purchasing power of the same unit of income and avoidance of external destabilisation are next to impossible to sell in a daily political discourse. Therefore even the best-meaning analyses<sup>11</sup> must highlight the "dreadful" similarity of Poland to Spain, which is even enhanced under the customary (though unjustified) *ceteris paribus* assumptions. If truly nothing were to change, any enlargement is by definition about redistribution in a zero sum game. As long as the debate, even in the abstract, falls short of postulating a win-win situation in terms of additional growth, additional stability and additional prosperity, the bottom line can only be a pious call for the Spanish to exercise more solidarity. And given that Andalusia will, indeed, not become richer by the accession of Poland, it is hard to sell the idea to Spanish elected MPs that they should reject a part of that to which they have already become accustomed.

<sup>9</sup> G. Howe: A middle way for Europe, in: Financial Times, 28 November 2000.

<sup>10</sup> R. Bates, A. O. Krueger: Generalisations arising from the country studies, in: R. Bates, A. O. Krueger (eds.): Political and Economic Interactions in Economic Policy Reform, Oxford etc. 1992, Basil Blackwell, pp. 444-472, here pp. 457 f.

<sup>11</sup> J. Nötzold: Der EU-Beitritt Polens: die Bereiche Freizügigkeit, Landwirtschaft, industrielle Wettbewerbsfähigkeit, in: Integration, Vol. 23, No. 3, 2000, pp. 198-208.

<sup>7</sup> This would leave out Bulgaria and Romania but take all other 10 candidates. Accession talks with Turkey have not yet been launched as Turkey has not as yet met the political criteria for qualification (as spelled out in Copenhagen in June 1993).

<sup>8</sup> D. McCoy, J. McHale: Ireland's example to the east, in: Financial Times, 3 July 2001.

The solution may hardly lie elsewhere than where it could be seen at the time of publishing of the Agenda 2000, namely in being explicit about de-emphasising the role of transfers on both sides, and particularly, applicant countries' being able to conceptualise their benefits under a no transfer assumption (which is politically improbable anyway).<sup>12</sup> This approach has certainly not penetrated the minds of decision-makers, if e.g. the Czech government, even as late as July 2001, presents the potential advantage to the country as gaining in transfers at least four times as much as the Czech contribution could be.<sup>13</sup> Similarly, Slovenian Premier Janez Drnovsek already lamented at the plenary of the European Economic Summit of the World Economic Forum (1 July, 2001 in Salzburg) that his country was becoming a potential contributor to the joint EU budget in net terms. As long as this approach, popularised by the openly Eurosceptic Baroness Thatcher, focusing on net balances prevails a larger scale enlargement is improbable. Under this angle only the alibi scenario, i. e. taking only Malta, Cyprus and possibly Estonia and Slovenia in, could be implemented. This, however, would dilute the substance of enlargement, both as a means of creating political stability and prospects, and as a means of triggering those internal EU reforms that are needed primarily for the interests of present incumbents. The decision of the Ecofin of May 2001 to reimburse those funds (of some € 7.5 billion) which have been generated in 2000 due to higher growth and higher inflation, at a time when funding the Stability Pact for the Balkans is just as unclear as the funding for the rapid reaction force to be set up by 2003 as part of the common foreign and security policy of the EU, is a clear signal. The message is that candidates should not expect net contributors to exert more generosity than before, rather less generosity is likely.

### **Eurotax: Lack of Support**

A similarly important signal has been emitted recently by the failure to gather support for the idea of a Eurotax. The initiative originated with Romano Prodi at the time of his Italian premiership, and now it has been taken up by the Belgian presidency. In order to make policies leading to EMU understandable and to raise revenues, Italy did adopt a special EU tax. With

the majority of the electorate being pro-European, this did work out. Notwithstanding the fact that contrary to the tax in Italy the Union-wide tax has never been conceived of as an additional levy, but as a simple restructuring of community dues to make things simpler and more understandable, it has been subject to severe criticism from net contributors as lacking orientation and actually hindering overdue reforms.<sup>14</sup> Already the first Ecofin meeting has found the majority of finance ministers hostile to the idea. Whereas from the internal EU point of view this stance may well reflect a problem of accountability, for the accession countries' perspective it is anything but encouraging in terms of prospective generosity in terms of funding.

A lack of more money coupled with a lack of more efficiency and flexibility is a tough reality overshadowing the pompous and self-justifying statements of foreign policy chiefs talking about breakthroughs in Nice, Stockholm and Gothenburg alike. While the EU adopted a truly globalist and competitiveness-oriented general strategy in Lisbon, practical measures hardly back up this line. As a critical contribution by two commissioners highlights,<sup>15</sup> even the big success story, the single market, leaves much to be desired. Several regulations limit the movement of labour within the EU, from licenses to the lack of transferability of social security claims. Therefore annual intra-EU labour migration is about 0.5 per cent of the workforce as against 2 - 3 per cent within the USA. This is also relevant for EU enlargement and indicates that the customary estimates of 0.1 per cent of the EU labour force that may potentially move from east to west is probably an inflated figure (especially since it is typically not the unemployed and the unskilled who tend to move). The imposition of the seven year transition period for labour migration, a great accomplishment in the eyes of some EU representatives (such as Commissioner Verheugen speaking at the Salzburg European Summit of the World Economic Forum on 1 July, 2001) appears to be totally arbitrary and a concession to domestic politics in the two countries which in theory are the main supporters of eastward enlargement, namely Germany and Austria. The very fact that several countries, from Sweden to the Netherlands, decided not to apply this "achievement" is clearly supportive of our point.

<sup>12</sup> Cf. L. Csaba: *Mitteleuropa auf dem Weg zum EU-Beitritt*, in: H.-J. Wagener, H. Fritz (eds): *Im Osten was Neues. Aspekte der EU-Osterweiterung*, Bonn 1998, Dietz Verlag für SEF, pp. 44-67.

<sup>13</sup> As reported in: *Világgazdaság*, 11 July, 2001.

<sup>14</sup> B. Huber: *Eine neue EU-Steuer? Nein, dankel*, in: *Handelsblatt*, 10 July 2001.

<sup>15</sup> F. Bolkestein, A. Diamantopoulou: *Workers without futures*, in: *Financial Times*, 29 January 2001.

### Compromise on Agriculture

It is common knowledge that the Berlin compromise on agriculture has included a pledge to convene a farm reform summit in 2003 at latest. Two recent changes have been lending support to this initiative. First, foot and mouth disease triggered mass cuts in livestock, thereby completely turning upside down the planned financing of the sector. Second, as a reaction, the Green element in the German government prompted the country to switch sides: away from the guardians of the status quo toward the reform camp, led by the British and the Scandinavians. Most probably the meeting will be convened in 2002.

This is good news, since funding for many new members is not secured in the farming budget which takes up half of common spending in the internet age. But this is also bad news for those who believe that accession will mean skyrocketing prices coupled with lavish direct income supports for Central European farmers. As a matter of fact, as Commissioner Fischler noted, "With regard to the compensatory direct payments of the 1992 and Agenda 2000 reforms, their form and full immediate application appears poorly suited to the current situation in candidate countries. The primary need is to help the profound restructuring required in most of their agricultural sectors... Any move, therefore, to strengthen rural development policy is clearly in the interest of the candidates".<sup>16</sup> In other words, the EU is not prepared to extend fully the direct income support schemes to the candidates, though these account for about half of EU farming expenditures. Second, they do not accept the candidates' wish to be fully-fledged players from the outset. Finally they continue to treat avoidance of overproduction as a high priority, a point which seems to have been missed by most of those working on the long-term agricultural strategies in the region.

While candidate countries still hope and fight for larger production quotas, the reforms which make enlargement possible and affordable at all aim at improving biofarming, animal welfare, enhancing sanitary standards, and last but not least non-farm-related rural development. The latter includes cultivating the landscape, support for traditional communities and rural tourism, education, computer programmes, road building and basically anything not related to production. This is often seen as a threat to

vital national interests in the accession countries, although it is certainly not, if we think of the forthcoming WTO round, partly focusing on agricultural trade. The outlawing of direct export subsidies and direct production subsidies, deriving from the 1994 GATT agreement already pose a challenge to traditional agricultural policies in the Central European region.

It would be hard to forecast farming reforms by the EU. However, knowing the many veto points and the overpoliticisation of the issue, well-informed analysts conclude of the overview of reform drafts that neither the time nor the political will seems to be present for a genuine reform, and muddling through is likely.<sup>17</sup> This in turn put severe limits to the ability of the EU to accommodate a country like Poland where 27 per cent of the population lives from agriculture, or others where the figure is even larger (over 30 per cent in Bulgaria and Romania). In other words, public calls made in the Bundestag in favour of Poland are no substitute for the reforms paving the way for affordable Community treatment of that country's politically most important sector.

### Need for EU Reforms

Last but not at all least, it is symptomatic how the crisis in Macedonia and the visit by President Putin overshadowed the reform agenda in Stockholm in March 2001. While Germans "gained" exception from the financial sector liberalisation proposed by the Lamfalussy committee, the French escaped "in exchange" the liberalisation of the energy sector, and both sabotaged the common European sky agenda. It is hard not to see it as a foul compromise, where atmospheric improvement is produced by sweeping problems under the carpet. The lack of liberalisation and institutional efficiency mean a limited absorption capacity for new members, irrespective of statements of intent.

Knowing that the ever increasing co-decision rights of the European Parliament may well derail major elements of proposed legislation, even on such seemingly technical matters as financial sector supervision,<sup>18</sup> it is hard to overlook that more democracy in intra-EU affairs is not necessarily good news for countries knocking on the door of the club. In fact,

<sup>16</sup> U. Koester: How Good Are the Prospects for a Genuine Policy Reform?, in: INTERECONOMICS, Vol. 36, No. 3, 2001, pp. 125-130, here p. 129.

<sup>18</sup> R.C. Berschens: EU Parlament verlangt mehr Mitsprache, in: Handelsblatt, 26 March 2001.

<sup>16</sup> F. Fischler: The CAP Must Continue to Adapt to Society's Evolving Expectations, in: INTERECONOMICS, Vol. 36, No. 3, 2001, pp. 115-118, here p. 117.

democratic deliberation tends to be clumsy and thus promises of quick fixes must be greeted with healthy scepticism.

All in all, intra-EU reforms are certainly in the making. These, however, seem to be piecemeal at best, and we do not see how these would or could pave the way for a big bang enlargement. Whatever we think about the merits of such an approach in general and for security policy in particular, it is compelling to highlight the contractual and comprehensive nature of the EU. This is an organisation based on a series of treaties, but lacking a constitution or a strong and formalised common foreign and security policy. Thus the EU is basically about economic and legal issues, from the single currency to waste water directives. It is not a policy body that could or should be exchanged at will for Nato membership or vice versa. The importance of security considerations therefore should not overshadow the pre-eminence of economic/financial and legal issues in the EU. The latter are derived from the arrangements and policies of incumbent member states. If the latter process does not provide the foundation for joint policies, these will founder, as did the European Defence Initiative of the 1950s.

This point is well illustrated by the above-mentioned fate of capital market liberalisation. This issue has been part and parcel of the single market project. Also on the policymaking level there has been agreement among member states to go ahead. Still, in order to make the single European capital market work, no less than 42 laws should have been modified with a fast track procedure. This was seen as problematic by large countries, having secured their veto rights, as well as by the European Parliament which rejected the imposition of a deadline of 2003 for making its deliberations.<sup>19</sup> In sum, a theoretically and even politically uncontested technical regulatory issue, not entailing redistribution of funds, could come to a halt due to the comprehensive procedures, partly brought about by the wish to overcome the democratic deficit of the EU.

### Enlargement Talks

What has been presented only supports the insight that from among the four Copenhagen accession criteria, i.e. political democracy, market economy, solid institutions and the EU's ability to enlarge, it is the fourth which has been decisive for the outcomes

of EU *Ostpolitik*. As the Corfu Council of 1994 already noted, the EU is unable to enlarge short of major internal reforms. In the areas normally seen as sore points of the EU, such as decision-making, the internal market and farming reforms, as well as the ensuing financial room for manoeuvre, progress could be registered, however. Nevertheless, it would be hard to find any contribution to the international literature, especially an analytical one, that would qualify this progress as satisfactory (rather than feasible under the given political constraint, which is quite another cup of tea).

Therefore the EU has been confronted with a paradoxical situation. On the one hand the escalating crises in south-east Europe have drawn attention to the dangers if too many countries are left without a European perspective. The democratic changes in Croatia and Serbia, but also the outbreak of fighting in Macedonia, or the strengthening of the extreme right in Romania have all indicated the need for broad inclusive policies. On the other hand the practical possibilities of enlargement continue to depend upon financial, institutional and domestic policy arrangements and priorities. Given that the latter have improved only to a very limited extent, the elbow room for truly lavish policies has remained narrow indeed.

The European Union has initially looked at enlargement through its traditional incrementalist approach and via economic glasses. Thus the Luxembourg Council of December 1997 and its follow-up, the Berlin Council, set the conditions for a first round of enlargement covering only the first six out of the twelve applicants. Then, influenced by the Kosovo War, the Cologne and Helsinki Councils of 1999 opted for an open door policy, embracing even Turkey as a potential candidate. This second approach perceives *Ostpolitik* primarily as a means of stabilising the immediate neighbourhood of the EU by providing a European perspective and technical assistance to a large number of countries that otherwise would be willing to go to war. However, financial and political backing in terms of palpable measures continue to lag behind the great promises to a considerable degree.<sup>20</sup>

Actual enlargement talks cannot be built on vague promises, nor on those reforms that had already been

<sup>19</sup> Cf. Financial Times, 28 March, 2001 and Handelsblatt, 26 March, 2001.

<sup>20</sup> Speaking at the Central European economic summit of the World Economic Forum in Salzburg, 29 June 2000, Bodo Hombach, the coordinator for the Southeast European stability pact ironically pointed to his having more superiors than subordinates in assisting the reconstruction of the region.

urged and formalised by the July 1997 edition of Agenda 2000, but not actually endorsed by the member states. Therefore the Commission first adopted delaying tactics, by unexpectedly introducing the phase of *acquis* screening in 1998-2000, turning the entry bargain into a kind of comprehensive examination of applicants. While this measure undoubtedly enhanced the alertness of decision-makers in central and eastern Europe, and even pushed them in implementing unpopular though necessary reforms, still this phase contributed to the no progress situation of those years. Following the Helsinki decisions to accelerate and widen enlargement talks the Commission inevitably found the only correct answer. This was to emphasise that acceleration is possible only if it does not lead to the detriment of quality, i.e. of the high standards of existing EU stipulations and requirements.<sup>21</sup> While underscoring that the EU is not raising additional requirements of entry candidates, the interpretation of the *acquis* and of conditions of meeting it have certainly become stiffer. This of course, varies among candidates.

This state of affairs has certainly reflected a true dilemma for the EU: whichever of the "quick but small", "big bang" or "the long delay" they choose, there are foreseeable and sizeable costs associated with each option.<sup>22</sup> The solution, as always in EU history, is likely to emerge from a series of improvisations rather than from a truly broad debate on the optimal ways, means and budgeting of integration.

This is not to belittle the Laeken process, since the more a candidate country thinks of its future as part of the EU, the more immediate its concerns over the size and workings of supranationalism is likely to be. From this angle the boycott of the right-wing government of Austria has certainly alerted the candidate countries to the threats inherent in majority decisions and also in informalism.<sup>23</sup> The more one is serious about a large number of potential accessions, the deeper one must be concerned about the stagnation of common institutions and their lack of efficiency and flexibility. On the other hand, for the time being applicants are the mice that need to adjust themselves to

the present qualities of the elephant whose back they are about to ride.

This state of affairs objectively puts candidate countries in a mutually competing position. As long as the financing guideline and the reforms of structural funds and agricultural policies have not created the "material foundation" for a big bang approach, the timing of entry continues to matter. On the one hand countries' ability to cope with the *acquis* is greatly conditional upon their domestic political balance of forces. The Czech farming lobby for instance is not comparable to its Polish counterpart. Protectionism in Estonia is non-existent, while Slovenian farm prices are currently above the EU level. The room for cooperative solutions, advocated by some<sup>24</sup> is very limited.

The time factor is important in more than one respect. For one, the EU *acquis* is not stagnant, it is a quickly growing body of legislation. The last ten years alone saw more bulky and more costly regulations, e.g. in environmental protection, consumer safety and animal welfare, than the 1957-1990 period. On the other hand, with the single currency and single market, entry criteria are currently much higher than they used to be two decades ago, or even a decade ago when Nordic enlargement was negotiated. The Amsterdam Treaty alone already precludes opt-outs, a solution several incumbents enjoy. Thus a later agreement can by definition never be a better one, as e.g. the Polish chief negotiator assumed in a recent interview.<sup>25</sup>

This is all the less likely as the willingness for more solidarity in intra-EU finance is not given; rather, a decreasing redistribution is probable. For instance, the idea of partly renationalising farm support, or of enhancing the co-financing requirements for regional funding, already make these limits palpable. And we have not even started discussing the usual horse-trading that emerges when current net beneficiaries come up with political blackmailing in order to ensure their continued preferential or privileged treatment. For instance the fact that Spain, Portugal, Ireland and Greece currently all qualify for EMU has not led to the abolition of those cohesion funds, established in 1992, which serve precisely the attainment of this objective. Support for Nordic farming, or for cities like Lisbon can hardly be justified on any general grounds.

<sup>21</sup> G. Verheugen: Die EU-Erweiterungsverhandlungen: Stand und Ausblick, in: *Integration*, Vol. 23, No. 4, 2000, pp. 221-228, here p. 221.

<sup>22</sup> H. Grabbe: *Profiting from EU enlargement*, London 2001, Centre for European Reform, pp. 55-60.

<sup>23</sup> M. Maier: *Haiders Schatten über Europa. Lehren aus de EU-Boycott gegen Österreich*, in: *Internationale Politik*, Vol. 55, No. 4, 2000, pp. 29-35.

<sup>24</sup> P. Majoros: *The role of CEFTA in "member states"* EU integration efforts, in: *EU Working Papers*, No. 2, Budapest 1998, College of Foreign Trade.

<sup>25</sup> J. Reed: *Polish EU negotiator prefers the long game*, in: *Financial Times*, 3 July 2001.



Thus, those holding on longer are inevitably manoeuvring themselves into a situation where they have to share fewer benefits with more partners.

The good news in the bad news is that following Helsinki, and even more Nice, accession negotiations have indeed been accelerating. Several countries from the Helsinki Group, like Slovakia, managed to conclude a large number of negotiating chapters. Some countries from the Luxembourg Group managed to accelerate talks. This was owing to the fact that enlargement is a mutual learning process. EU countries have witnessed front-runner countries' making progress in privatisation, liberalisation and stabilisation, not making reversals in political democracy, and surviving changes in governments without major shocks. Candidate countries have learned more about the technicalities as well as the intricacies of EU arrangements. They have by now much better understood that a lack of agreement between, say, Germany and Spain is not necessarily a deliberate policy to keep any post-communist country out of the Community. Last but not least, sensing their own limitations the EU negotiators have also given up much of the fundamentalist approaches of the early period, and have shown more understanding towards, for example, the funding needs and the related time required to implement measures in, for example, environment, transport and rural development.

Assisted by the road-map adopted at Nice some of the candidate countries managed to conclude the most controversial chapters in 2001. For instance Hungary managed to conclude such technically demanding and politically controversial items as free movement of labour, free movement of capital, financial services, intellectual property, taxation and customs union. Among the remaining chapters we find those where the EU has yet to develop a final negotiating stance, like budget and institutions, and some where considerations of money and the length of the transitional arrangement are the subject of the negotiation proper.

The European Union has clearly adopted a policy in which several items of negotiations as well as their final outcome are consciously left in the dark.<sup>26</sup> This helps induce more effort on the side of the applicants, but also helps keep differentiation within tolerable limits. Therefore all analytical endeavour has only a

limited predictive ability. The outcome will surely result from three interconnected items: the way conditionality – and also even-handedness, or equal treatment – is being applied to candidates, the progress of reforms among incumbents, and agreement between the three major players, none of which can be taken for granted at the moment.<sup>27</sup>

### Perspectives

As we tried to document above the inherent ambiguity of the EU towards eastern enlargement, also reflected in the Copenhagen criteria, has persisted to date. Progress is possible, though, and in some cases palpable, but outcomes are contingent upon a large number of partly interrelated unknowns. Thus any prediction is inevitably shaky.

What we have seen is indicative of some, but by no means adequate, progress in internal reforms of the Union. Neither Amsterdam nor Nice have come up with a new algorithm that is able to improve the efficiency of the EU's workings with 27 or 32 candidates. Financial generosity, as reflected in approved budget figures rather than non-compelling normative policy statements is not negligible, but very limited. Last but not least those reforms that could in theory technically bridge the problem posed by the large number of newcomers have not materialised to date. Therefore the EU is not able to make a big bang, not able to take on ten new member states. This finding is purely descriptive and should not be interpreted in normative terms, either macroeconomically or for security policy. In both planes different approaches are certainly conceivable and feasible, under some scenarios even optimal. But there remains a difference between normative and descriptive approaches.

Alternatively, the ongoing crisis in the Balkans, but also the resurgence of instability in some of the applicant countries do not allow the EU to adopt a wait-and-see attitude. Especially under the clear hints from the Bush administration of their gradual disengagement, reflected by the very moderate stance taken by the US peace mediator in Macedonia in recent months<sup>28</sup> the EU and only the EU is able to provide the economic and political point of orientation that post-communist Europe needs. In fact, the Russian government has already made major efforts

<sup>26</sup> G. Urkuti: A bővítés első körének lebegtetése (The floating of the first round of EU enlargement), in: *Világgazdaság*, 29 March 2001.

<sup>27</sup> C. Grant: The perils of European enlargement, in: *Financial Times*, 28 June 2001.

<sup>28</sup> Cf. *Frankfurter Allgemeine Zeitung*, 14 July 2001.

to transpose the *acquis* in several areas. But in order to make these efforts credible, a first round of enlargement should take place within the foreseeable future. This makes us agree with Grabbe,<sup>29</sup> who sees the long delay as the gravest threat, and calls for the first, if miniscule, enlargement to happen around 2004, i.e. before the new financial guidelines are formalised. It is hard to overlook e.g. Spanish attempts to predetermine the financial flows, without any co-decision by newcomers, until 2013. This may indeed turn enlargement into a mockery or derail the entire process.

The EU needs to implement its reforms of the CAP and the structural funds. In so doing, enlargement is an additional, though by no means decisive, argument for implementing those changes that were basically elaborated for the Berlin Council, but torpedoed by the Latin members. On the other hand, candidates should stop looking at the EU as a gold mine and seeing their benefits in terms of net transfer balances. Actually, it is the new concept of environmental agriculture and regional development based on public-private partnership which should become dominant, not the amount of money they actually draw. Under this angle the ability to become part of the game and the impacts of playing are the major benefits for the acceding countries.

If there is anything to be learnt from the experience of southern enlargement<sup>30</sup> and the broader experiences of EU countries at the periphery,<sup>31</sup> this is the focal role of domestic policies. Any amount of external assistance can be wasted if domestic institutions remain weak and economic policies are populist. And likewise, diminishing amounts of external transfers may well be overcompensated by the overall improvement of the quality of a country as an investment spot, allowing for cheaper and more lavish funding of its sustainable economic growth. Being a net-contributor surely has not hurt German interests, and conversely, being a net recipient has not been of much help to Greece in its first decade of EU membership.

In other words, much of the macroeconomic and regulatory benefits for acceding countries is being realised during and by their preparation for full EU membership. Disinflation, consolidation of public

finances, bringing interest rates down, introducing the rule of law in general and in contractual practice in particular, enforcing auditing and disclosure requirements, and caring more about the environment are all policies that have a virtue of their own. Still, the political perspective that relates these to a popular objective helps these come to reality sooner than in most cases transforming societies would mature by themselves.

This process advances in a very uneven way. For instance in the 1998-2001 period the Czech Republic, Poland and Estonia have all made big jumps in terms of attracting foreign direct investment. Slovakia and Croatia have made up much of what was lost in terms of institution building in the 1990s. Bulgaria has made impressive progress in terms of stabilisation and growth. But it would be hard to overlook that enlargement is based on the fourth Copenhagen criterion, i.e. the Union's ability and willingness to enlarge. If foot-dragging continues and the period 2004-2006 is wasted, the window of opportunity may well have come to a close. The lack of enthusiasm in the west may well be coupled with diminishing interest in the east. And similarly to decades-long concubines, such an experience may never lead to fulfilment in the form of a proper marriage in the frame of a musical mass.

Certainly, looking at the statistics of an ever growing number of young people living outside wedlock, it would be hard to equal this to the end of the world. Still, there must be a reason why regularised, formalised, contractual arrangements have predominated in the history of mankind when stability, prosperity and long-term security is at stake, in both the private and the public spheres.

Thus the optimal solution, for the time being, would invest all efforts in meeting the deadlines of the Nice road-map and start with the first round of enlargement in 2004, followed by a second and third round, all in foreseeable sequence. To meet the deadline thus may be more important than bits and pieces of individual deals that can, and indeed will, always be subjects of political controversy and biased interpretations by vested interests. Time is not on the side of the applicants, and an imperfect enlargement is certainly superior to none.

<sup>29</sup> H. Grabbe, *op.cit.*, p. 61.

<sup>30</sup> A. Nagy: Lessons drawn from the EU accession of three southern European states and its effect on foreign trade, in: *Acta Oeconomica*, Vol. 50, Nos. 3-4, 1999, pp. 385-412.

<sup>31</sup> A. Boltho: What matters for economic success? Greece and Ireland compared, in: Z. Bara and L. Csaba (eds.): *Small Economies' Adjustment to Global Tendencies*, Budapest 2000, Aula Publ. Co. for the European Association for Comparative Economic Studies, pp. 151-170.