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Challenges of the European Union enlargement: A note from the polish perspective

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Grzegorz Gorzelak

Challenges of the European Union Enlargement – a Note from the Polish Perspective

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1. The Development Levels

The main challenge of the current enlargement stems from the formula 18:4, which means that the number of population of the enlarged EU will increase by 18 per cent, while its GDP only by 4 per cent. This shows the discrepancy between the new and the old members states, and the magnitude of effort which would be needed to overcome it to fulfil the goal of cohesion.

One should keep in mind that GDP is a stream category, measuring a flow of given economic values in a given period of time. It represents the results of the effort which a given economic system has done in a year. However, a stock category of accumulated wealth should be a better measure of differences between countries, regions, households, since the difference in flows do add up over long periods of time¹. One can assume that the differences in accumulated wealth between the old and the new Member States are greater than in the case of the GDP values. This is represented by endowment with social, transport, technical etc. infrastructure, level of housing, equipment of households etc. It can be assumed overcoming this gap could be much more difficult than alleviating the differences in the levels of the GDP.

One should not limit the reflection of differences in the level of development only to internal discrepancies within the enlarged EU, but include into the analysis also the new external borders. The following table 1 presents the estimates of these differences.

The depth of disparities between the Member States of the European Union and its neighbouring countries following the enlargement will increase. In lieu of the disparities between Germany versus Poland and The Czech Republic, and Austria versus The Czech Republic, Slovakia and Hungary, there will be even greater differences between Ukraine and its neighbours (Poland, Slovakia and Hungary), Slovenia and Croatia, as well as Hungary and Romania. The differences between Albania and Greece, and between Russia and Finland will continue to be the widest with regard to the Member States and their neighbours outside the European Union. Only the (ranked seventh) disparity between Poland and Germany, comparable to the difference between Poland and Ukraine, will become such an internal disparity within the EU.

¹ Until now a category which would add to the flow values the imputed value of the part of the accumulated stock that was used in a given period of time has not been commonly applied in statistical practice.

Table 1: European disparities, GDP per capita according to Purchasing Power Parity (PPP), 1999

Rank	Border	Ratio of GDP	Rank	Border	Ratio of GDP
1.	<i>Finland-Russia</i>	3.91 : 1	16.	<i>Germany –The Czech Republic</i>	1.83 : 1
2.	<i>Greece-Albania</i>	3.90 : 1	17.	Romania-Ukraine	1.79 : 1
3.	Hungary-Ukraine	3.32 : 1	18.	Poland –Belarus	1.74 : 1
4.	Slovakia-Ukraine	3.18 : 1	19.	<i>Austria-Slovenia</i>	1.61 : 1
5.	<i>Greece-Bulgaria</i>	2.94 : 1	20.	Romania –Yugoslavia	1.56 : 1
6.	Hungary-Yugoslavia	2.85 : 1	21.	Hungary – Croatia	1.55 : 1
7.	<i>Germany-Poland</i>	2.84 : 1	22.	Poland –Russia	1.48 : 1
8.	<i>Greece-FYROM</i>	2.60 : 1	23.	Estonia- Russia	1.41 : 1
9.	Poland-Ukraine	2.48 : 1	24.	<i>Italy-Slovenia</i>	1.36 : 1
10.	<i>Austria-Slovakia</i>	2.41 : 1	25.	Bulgaria-Yugoslavia	1.32 : 1
11.	Romania-Moldova	2.39 : 1	26.	Lithuania-Belarus	1.28 : 1
12.	<i>Austria-Hungary</i>	2.35 : 1	27.	Latvia- Belarus	1.27 : 1
13.	Slovenia-Croatia	2.26 : 1	28.	Latvia – Russia	1.08 : 1
14.	<i>Austria- The Czech Republic</i>	1.96 : 1	29.	Lithuania – Russia	1.08 : 1
15.	Hungary–Romania	1.83 : 1	30.	Bulgaria-FYROM	1.07 : 1

italics: current borders of the European Union; **bold:** future borders of the European Union.

Author: after *World Development Report 2000-2001*, World Bank-Oxford University Press, 2000, Washington-New York

However, the difference in human capital seems to be smaller than the discrepancies in material aspects. The levels of qualification of the citizens of old and new Member States – although existing, especially due to differences in the technological advancement – are definitely smaller than 5:1 or 4:1 which would represent the gap in material wealth. This fact should be considered as a major chance for overcoming the material incoherence in the enlarged European Union.

One of the great challenges of enlargement stems from the danger that the iron curtain created by the political divide after the Second World War may be now replaced by the “golden curtain” one: disparities between the new members states and their eastern neighbours may grow even further, to outweigh the disparities along external borders of the European Union before enlargement. Can the EU politicians and administration go beyond the immediate interest of the Member States and help, in an efficient way, the countries like Ukraine, Belarus, Moldova, Albania, and the former Yugoslav republics (except Slovenia) to embark on the path of secure economic growth and - in some cases – also on the process of democratisation and building civic societies – so that these countries may hope to become the members of a further enlarged European family?

On the one hand, the experiences with the eight post-socialist countries entering the EU in May 2004 are encouraging, since the EU assistance, technical and later directed to concrete investment projects, no doubt, was an important factor in increasing the preparedness of these countries to become full members of this organisation. However, on

the other hand, these countries have demonstrated persistent determination to proceed with market reforms and strengthening their democratic political systems, which has not been fully the case of the potential members listed above. In most of the cases (and the Turkish part of Cyprus may be included into this group), these countries have wasted most of their time after the collapse of the communist system. Can they be influenced by the EU and by the example of the new members (and the Greek part of Cyprus in the case of this particular case)? This remains to be an open question.

2. Financial Assistance and its Potential Effect

According to decisions taken in the process of negotiations, the overall net financial cost of enlargement will be 13,131 million Euro (see table 2).

Table 2: Financial flows between 10 Member States and the EU, 2004-2006, general framework of Copenhagen agreement, 1999 prices (in million Euro)

2004 – 2006	CY	CZ	EE	HU	PL	SI	LT	LV	SK	MT	TOTAL
Pre-accession aid	17	432	159	558	2,302	122	302	237	286	9	4,425
Agriculture	95	975	214	1,322	3,871	326	594	314	522	21	8,254
Structural actions	38	950	237	1,171	4,743	159	545	406	651	35	8,934
Internal actions	26	222	26	212	779	61	54	49	97	11	1,537
Additional expenditure	2	25	78	180	412	114	320	85	124	1	1,339
Special cash flow facility	38	358	22	211	1,443	101	47	26	86	66	2,398
Temporary budgetary compensation	300	389	0	0	0	131	0	0	0	166	987
Total allocated expenditure	516	3,351	735	3,654	13,549	1,014	1,863	1,117	1,766	310	27,875
Subtotal – without pre-accession aid	499	2,919	576	3,095	11,247	893	1,560	879	1,480	300	23,450
Traditional own resources	-107	-276	-33	-397	-550	-76	-88	-28	-140	-55	-1,749
VAT resource	-43	-309	-27	-253	-808	-94	-57	-35	-107	-16	-1,749
GNP resource	-245	-1,750	-151	-1,434	-4,574	-530	-322	-197	-606	-93	-9,902
UK rebate	-33	-238	-21	-195	-621	-72	-44	-27	-82	-13	-1,345
Total own resources	-428	-2,573	-231	-2,279	-6,552	-771	-510	-287	-935	-177	-14,745
Net balance	88	778	504	1,374	6,997	243	1,352	830	831	133	13,131

Note: In case of political settlement for Cyprus an additional amount of 127 million Euro in payments should be foreseen for the three years 2004/2005/2006

It has to be admitted that 13,3 million Euro will not become a major burden on the EU budget. Looked upon from the side of the new Member States, this will constitute ca. 1 per cent of their GDP during these three years, which is not much when compared to expectations and needs of these countries.

According to the experiences of the old Member States, there exists a kind of a development multiplier effect of the funds coming to a given country from the European Union. The following table 3 demonstrates this phenomenon. In all cohesion countries the estimated increase of the GDP dues to the financial flows from the EU was on average over 2 times higher than the share of these flows in the respective GDP values.

Table 3: Structural Funds and Cohesion Fund in the cohesion countries, 1989-2006

	Greece	Portugal	Ireland	Spain
(A) Increase in GDP due to CSF				
1989-93	4.1	7.4	3.2	1.5
1994-99	9.9	8.5	3.7	3.1
2000-06	7.3	7.8	2.8	3.4
B) Percentage share of CSF in GDP (annual size of CSF)				
1989-93	2.6	3.0	2.5	0.7
1994-99	3.0	3.3	1.9	1.5
2000-06	2.8	2.9	0.6	1.3
(C) "Beneficial impact" of CSF with respect to GDP, "multiplier"				
1989-93	1.6	2.5	1.3	2.1
1994-99	3.3	2.6	1.9	2.1
2000-06	2.6	2.7	4.7	2.6
Average 1989-2006 (approx.)	2.6	2.7	2.8	2.4

Source: LOLOS, 2001.

A similar relation is estimate by an *ex ante* evaluation for Poland (see table 4).

Table 4: General impact of funds for the EU on Polish GDP (in per cent) and unemployment rate (UR) (in percentage points), 2004-2010

Years	Only funds assumed in the National Development Plan		Funds assumed in the NDP and further (after 2006) funding (2.5 per cent of the GDP yearly)	
	GDP	UR	GDP	UR
2004	0,22	-0,14	0,22	-0,14
2005	1,13	-0,71	1,13	-0,71
2006	2,51	-1,48	2,51	-1,48
2007	3,33	-1,77	4,57	-2,52
2008	2,83	-1,15	5,66	-2,73
2009	1,56	-0,27	6,30	-2,80
2010	1,22	-0,05	7,43	-2,84

Source: Bradley; Zaleski, 2002

A cumulative process is assumed, and it is estimated that a constant funding in the period 2004 - 2006 and least till 2010 will result in net increase of Polish GDP by almost 7.5 per cent, and decrease the unemployment rate by almost 3 percentage points. Similar values can presumably be assumed for other Central European countries. For

example, the increase of GDP due to realisation of the National Development Plan (NDP) for Latvia was assumed to reach 6.5 per cent.

The emergence of the development multiplier can be explained by the differences in the structures of expenditures of the funds paid from the state budget to the European Union. Overall sums transferred from the EU to the Member States are approximately twice as large as net payments, since the Member States contribute almost as much as their net gain. However, it should be noticed that the funds transferred from the EU are mostly spent on pro-growth projects, like building infrastructure, training, technology transfer etc. which would probably not be the case if these funds had remained in the national budgets, from where they would be spent in higher proportions on social and current issues. So the payments from the EU to the Member States are composed of two parts: net payments and the payments which are in fact own resources of these states, but redistributed according to the priorities of the Commission. This redistribution is probably mostly responsible for the effect of the development multiplier.

Therefore, a crucial question arises: to what extent the new Member States will be able to utilise the assistance coming from the European Union for accelerating their growth and structural change? This is more a political than economic question, and the answer should be sought upon not only in the capital cities of the new Member States, but also in Brussels.

3. Absorption Capacity

There are several issues related to the absorption capacity:

- the overall preparedness for turning the flows of structural aid into new development factors;
- readiness of local and regional governments, as well as organisations and institutions to prepare and implement efficient, economically viable projects;
- availability of own resources for programme preparation, prepayment and contribution requested by the additionality principle.

All these dimensions of absorption capacity definitely depend on the new Member States themselves, their political elites and economic organisations. The choice between poor and good experiences of some of the old members is wide, indeed. Until now, the experiences, especially on the national levels, are not encouraging. The National Development Plans, prepared in the Czech Republic, Hungary and Poland, cannot be labeled as progressive, coherent and comprehensive documents which would create sound grounds for acceleration of development of these countries with the use of the funds coming from the EU. A critical analysis of these documents reveals their internal incoherence, lack of a strategic thought on major goals and priorities and too great subordination to the formal requirements of the Brussels administration². To some extent this is a result of a persistent absence of strategic thinking in the central European countries – in none of the so-called Visegrad countries a far-reaching, comprehensive strategy of socio-economic development has been elaborated, and therefore the mid-term National Development Plan of Poland does not have any general framework to be hooked in. As a result, occasional, short-sighted projects have filled this document up, being the pro-

² In all these NDPs a kind of a check-list can be noticed: environment, equal rights, cohesion etc. have to present almost everywhere, no matter if this is appropriate or not. In a conversation with experts from Czech Republic and Hungary we coined a bitter phrase describing the internal virtues of our current National Development Plans: “form problems to slogans”, which reflects a very formalistic attitude of their authors.

ducts of mutually unrelated ideas and visions of particular segments of the state administrations.

Moreover, only in Poland – the most decentralised country among the CEECs – the regional system has been able to influence the National Development Plan through the Integrated Programme on Regional Development which has been composed from the projects submitted by the regions themselves. This, however, brought the programming process to the extreme of an uncontrolled fragmentation of the regional policy of the state which now has become an aggregate of the programmes and projects devised on the regional level.

The institutional preparedness of state and local administration to managing the structural and other funds of the European Union is far from being satisfactory as yet, and one may only hope that the delays can be overcome in the course of the time before May 2004. This preparedness is clearly regionally differentiated. Research on Poland reveals that the regions and localities which had been enjoying massive inflow of Phare projects have acquired much higher skills in designing and implementing EU-financed programmes than the regions which did not have this chance. Learning-by-doing thus seems to be the widely applied pattern of education in EU procedures and principles.

Most of the post-socialist countries face the necessity of deep, fundamental reforms of their fiscal system in order to match own input to the structural funds and other flows from the European Union. Most of these countries are delayed in this process, and overcoming these delays becomes one of the macroeconomic challenges to enlargement. In several cases this also holds true for local finances. As Swianiewicz (2003) states, in some cases (like Poland) the overall level of public debt closes to the constitutional threshold of 60 per cent, which prohibits further indebtedness by any public entity, also the local and regional governments (in spite of the fact that their debt constitutes only a small fraction – 3.5 per cent of overall public debt). In several countries (Czech Republic, Estonia, Hungary, Slovenia) there are a few cases of high indebtedness of local governments or insolvency problems within local budgets, but this – in principle – should not dramatically decrease the absorption capacity on the local level of the structural funds.

4. Regional Development and Regional Policies

It is not clear how the structural intervention in the regions of the new Member States will influence the regional differentiation of these countries. On the one hand one may assume that the funds pumped to the lagging regions will allow for acceleration of their growth rate and for closing the gap to the more developed ones. On the other hand – and this seems to be more probable – the poorer regions may lose the sharpened competition, for EU funds and foreign direct investment as well, which would lead to growth of regional disparities within the new Member States. Such a situation will create still another challenge for the structural policies of the European Union.

The situation of the lagging regions of Central European countries will be aggravated by the fact of where they are located (with the exception of the Czech regions) along the external borders of the enlarged European Union. These borders will be sealed which will jeopardise transborder relations which until now have been conducted mostly in the black or grey economic sphere. Moreover, the post-Soviet republics which will be the eastern neighbours of the lagging regions of the new Member States for a long period of time will demonstrate rather poor economic potential which will not create development impulses for the external regions of the enlarged European Union.

We are at the end of phase one of a profound discussion on the future policies of the EU among which the agricultural policy and structural policy are by far the most important. These policies in their traditional shapes have been long challenged by claims of reforms which opted for more progressive, efficiency-oriented activities and programmes which would enhance the competitive position of the European Union in the global setting. Some proof of these discussions we can find also in one official document of the Commission (CEC 2002):

„At regional level, in particular, there is a clear demand, for both political and economic reasons, that future policy should not focus exclusively on the least developed regions, and that it should continue to take account of the problems and opportunities arising in urban areas, areas undergoing economic restructuring or with permanent natural handicap as well as the cross-border dimension.”(...) „Cohesion policies should also strengthen the links between the wider strategic objectives of the Community adopted by the European Council in Lisbon, and the support given by the Structural Funds. Key among these are: more and better jobs, greater social inclusion, equal opportunities, and continued push towards the knowledge-based society.”

One should remember that the new members will belong to the group of net beneficiaries of the traditional, old-type structural agricultural and other policies, and that they will probably opt for slow pace of changes and shallow reforms. This creates still another challenge for the forces of change and modernisation. Will the enlarged European Union of 25 be able to cope with the needed reforms in a more complicated decision-making system in which the status quo will have more supporters than it was the case before enlargement? This is – like several others – still an open question.

Regional policies should approach the four regional cases (leaders, winners, laggards and losers) differently, and the efficacy of the external intervention in particular types is strongly differentiated. Moreover, all regions should be made subject to regional policy, and not only the losers and the laggards – as it is the case now. This is important, since we should look at the EU not only for the inside (cohesion), but also from the outside (competitiveness). There is no proof that these two dimensions are not mutually competitive (as there is no proof that the regional policy dilemma has a compromise solution), at least in the medium-range. Embracing by the regional policy also the leading and winning regions could enhance the competitiveness side of the EU development, as it also could accelerate the catching-up process of the new Member States.

From the point of view of the new Member States the question arises related to their preparedness to utilise this considerable amount of money in an efficient way. Besides the administrative capacities to manage these considerable funds, the general orientation of the regional policies of the EU and the new members should be disputed.

As it appears from official documents, most of the CECs pursue equity-oriented regional policies, even in spite of the formal declarations which are being formulated by the governmental agencies. For example, in Poland it has been stated in a document approved by the Polish parliament that for the first period of 10-15 years the regional policy should achieve a fast rate of growth in order to close the civilisation gap to Western Europe, at the expense of growth of the regional differences in the country. This has been also repeated in the first part of the National Strategy for Regional Development for Poland and in the National Development Plan approved for this country in winter 2003.

It might be proposed that the regional policies of and for the accession countries should avoid the failures of the traditional approaches and should be concentrated on the following priorities:

- developing infrastructure connecting the peripheral regions to the national and European core areas, and thus integrating the socio-economic space of the new Member States with the old and new European cores;
- increasing human and social capital, with special emphasis on the lagging regions which might increase their absorption capacity, and in this way increasing the efficiency of the use of Structural Funds and other form of EU structural assistance;
- creating networks of transfer of innovation and technology, both on the international level and within the new Member States. Relating the less advanced regions (and their research and academic units) with the more advanced ones may appear the most efficient way of enhancing the endogenous potential of the lagging regions and a fruitful channel of transferring experience and know how for the more to the less advanced territorial systems;
- creating networks for interregional, international cooperation, especially in the field of institutional support for businesses.

Also, supporting growth in the post-Soviet republics may appear the most efficient instrument for decreasing the continental peripherality of the eastern regions of the new Member States. The experiences of the Cross-border Cooperation Programme should be repeated along the new eastern borders of the European Union. This would need going beyond the future external boundaries of the enlarged EU, as it was done in the past with the CBC programme.

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