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Horst Günter Krenzler

The EU and Central-East Europe: The Implications of Enlargement in Stages

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The EU and Central-East Europe: The Implications of Enlargement in Stages

Report of the First Meeting of the Working Group on the Eastern Enlargement of the European Union

Chairman: Horst Günter KRENZLER

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Chairman: Horst Günter Krenzler

Rapporteurs: Susan Senior Nello and Karen E. Smith[1]

14-15 May 1997
European University Institute
Florence

[1] Susan Senior Nello drafted the economic part of the report, and Karen Smith the political and institutional part. The report of the Working Group does not necessarily reflect all of the opinions of the Working Group participants. The report has been published under the responsibility of Horst Krenzler.

List of Working Group Participants

Chairman: Dr. jur. Horst Günter **Krenzler**, Generaldirektor für Auswärtige Beziehungen a.D.

Günter **Burghardt**, Director General, DGIA, European Commission
Fraser **Cameron**, Adviser, DGIA, European Commission
Mircea **Cosea**, Member of the Romanian Parliament
Claus-Dieter **Ehlermann**, Professor of Law, European University Institute
Piero **Fassino**, Minister for European Affairs, Italy
Ettore **Greco**, Deputy Director of the Istituto Affari Internazionali, Rome
Kirsty **Hughes**, Head of the European Programme at the Royal Institute of International Affairs, London
Ferenc **Mádl**, Professor of Law, Eötvös Loránd University, Budapest
Yves **Mény**, Director of the Robert Schuman Centre and Professor of Social and Political Science, European University Institute
Rainer **Rudolph**, Legationssekretär Auswärtiges Amt, Bonn
Susan **Senior Nello**, Lecturer of Economics, University of Siena
Karen E. **Smith**, Lecturer of International Relations, London School of Economics and Political Science
Bo **Stråth**, Professor of Modern History, Robert Schuman Centre, European University Institute
Loukas **Tsoukalis**, Professor of Economics and European Integration, University of Athens
Wolfgang **Wessels**, Professor of European Studies, University of Cologne
Jacek Sariusz **Wolski**, Rector of the College of Europe in Natolin, Warsaw
Jan **Zielonka**, Professor of Political Science, Robert Schuman Centre, European University Institute

I. The Importance of the Issue of Enlargement in Stages

Ten Central and East European countries (CEECs) applied for EU membership between 1994 and 1996: Bulgaria, Czech republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. All ten have signed special "Europe" (association) agreements with the EU, and all participate in the EU's "pre-accession strategy", which is to help prepare them for eventual membership.

Enlargement will depend on whether the applicant meets certain conditions, as set out in the June 1993 Copenhagen European Council conclusions. Because not all applicants will meet the conditions, enlargement will take place in "stages", to some countries before others.

Decisions on enlargement are being taken this year. The Commission presented its opinions on all the applications in July 1997, following the conclusion of the intergovernmental conference (IGC) in Amsterdam in June. In its communication 'Agenda 2000', the Commission recommended that accession negotiations begin with the Czech Republic, Estonia, Hungary, Poland, and Slovenia.[2] The December European Council could then decide to open negotiations with suitable applicant countries.

Enlargement in stages would allow the EU to manage enlargement with less difficulties and to better maintain the momentum of integration as it enlarges. It would give the less advanced CEECs more time to prepare for accession and for the competitive pressures of the internal market, which is in their interest and could mean enlargement would be less costly. But enlargement in stages will have economic, political, and security implications for those CEECs left out of the first stage. The gap between the economies of the excluded CEECs and those joining the EU will widen as the new member states from Central and Eastern Europe enjoy the greater economic advantages associated with EU membership. The excluded CEECs could feel isolated and marginalised, which could have destabilising effects on their political systems and ultimately European security. The implications of enlargement in stages need to be considered, and soon, since these issues will certainly arise later in 1997.

In May 1997, the newly established European University Institute Robert Schuman Centre Working Group on Eastern Enlargement, chaired by Horst G.

[2] The Agenda 2000 report was published in July 1997, subsequent to the Working Group's discussion in May 1997.

Krenzler, met to discuss the problems of enlargement in stages and to consider ways of managing it. The Working Group's discussion was based on two background reports: Susan Senior Nello and Karen E. Smith, "The European Union and Central and Eastern Europe: The Implications of Enlargement in Stages"[3], and Mircea Cosea, "Are There Sufficient Reasons for Romania's Admittance to the European Union in the First Stage? Consequences of a Possible Postponement". This report, published under the responsibility of its chairman, is based on the Working Group's discussion.

II. How and When to Distinguish among the CEEC Applicants?

The Opening of Membership Negotiations

As it is clear that some CEECs will join the EU before others, a major question arises: should the EU begin negotiations with all of the CEEC applicants at the same time (the "regatta option"), or only with those CEECs that meet the membership criteria? The advantages of the regatta option are that it would signal the EU's intention to enlarge to all of the CEECs, even if some join before others. The exclusion of some CEECs right from the beginning of the enlargement process could provoke feelings of isolation, and might prove to be a very difficult decision to communicate to those countries.

The members of the Working Group generally felt, however, that the disadvantages of the regatta option outweighed these advantages. Negotiations should begin only with those CEECs that are considered ready and able to join. Differentiation among the CEECs will have to place at some stage, and it would be preferable to do so sooner rather than later. To differentiate after the opening of negotiations by putting some negotiations "on hold", as suggested by some members of the Working Group, would have the same effect of provoking frustrations and would be perhaps even more politically difficult.

A consequence of conducting negotiations with all the CEECs would be a negotiation process determined in its pace by the slowest "boat". All then would find themselves on a "slow track" to accession. Conducting so many negotiations at the same time would also strain the Union's negotiating capacity. Politically, opening negotiations with all ten CEECs would make it extremely difficult to

[3] Published as *The Consequences of Eastern Enlargement of the European Union in Stages*, Robert Schuman Centre Working Paper n° 97/51 (Florence: European University Institute).

exclude Turkey, which applied for membership in 1987 but does not yet meet the conditions.

The decision not to begin negotiations with some of the candidates makes it all the more important to strengthen the feeling of belonging to the European family for these candidates, by implementing an appropriate strategy (see part IV below). One such option is the French suggestion of a Standing Conference of the Union with all candidates, separate from the process of negotiations, which was also taken up in the Commission's Agenda 2000 report.[4]

Distinguishing among the CEECs

The June 1993 Copenhagen European Council set several general conditions for enlargement to Central and Eastern Europe:

- the applicant state must have achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;

- the applicant state must have a functioning market economy with the capacity to cope with competitive pressures and market forces within the Community;

- the applicant state must be able to take on the obligations of membership, including adherence to the aims of economic and political union; and

- the EU must be able to absorb new members and maintain the momentum of integration.[5]

The Working Group discussed the more specific criteria that could be used to determine whether the CEECs meet these conditions. Because there are so many potential indicators, the Union will enjoy a certain amount of discretion in deciding which applicant countries should join when. One suggestion by the Working Group for determining whether the CEEC can take on membership obligations would be to set a maximum transition period (no longer than 12

[4] Volume II, part IV.

[5] European Council in Copenhagen, 21-22 June 1993, Conclusions of the Presidency, SN 180/93, p. 13.

years, the original EEC transition period), and consider whether the country can make the transition to full membership within that length of time.

The Political Criteria

There are essentially three "political" conditions for EU membership. The applicants must have achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. They must be able to take on the obligations of membership, including adherence to the aims of political union. In addition, the Union would have to be able to absorb new members and maintain the momentum of integration.

Acceptance of the so-called *acquis politique* is included in the membership obligations, and encompasses the Maastricht Treaty provisions on Common Foreign and Security Policy, as well as statements and policies already agreed in the framework of foreign policy cooperation. This should not pose any specific problems, and may reassure outsiders (particularly those countries with whom the acceding CEECs have had tense relations) that the EU's current approach would continue along more or less the same lines.

Assessing whether the applicants adhere to the aim of political union and whether the EU can enlarge successfully will be, to a considerable degree, a subjective decision. There does not seem to be a clear idea within the EU itself about what the future shape and orientation of an enlarged EU will be. It is generally acknowledged that more "flexibility" is necessary in an enlarged Union, but the exact form that flexibility will take remains undefined, in spite of the Amsterdam European Council conclusions.

The condition of stable democratic institutions guaranteeing the rule of law and respect for human and minority rights could be assessed using several yardsticks, including a list of factors compiled by the European Bank for Reconstruction and Development[6], and the principles of the Council of Europe Framework for the Protection of National Minorities[7]. The Working Group agreed that the stability of rules, stability of institutions and development of civil society should be taken into consideration, as should the extent to which human and minority rights are protected in the applicant state.

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[6] See European Bank for Reconstruction and Development (no date), *Political Aspects of the Mandate of the European Bank for Reconstruction and Development*, London.

[7] See Council of Europe (1995).

The state of relations between the applicant countries, and between the applicant countries and other countries in the region, will also be an important consideration in any enlargement decision, although it is not a formal membership condition. The EU has encouraged the CEECs to cooperate with each other, as in the Pact for Stability in Europe, with some degree of success, but the EU would like to see further efforts by the CEECs.[8] The issue remains a concern, given the implications of enlargement in stages for relations between the newly enlarged EU and outsiders. The better the relations among the CEECs are before enlargement, the less likely it is that the CEECs will perceive EU enlargement as a divisive and exclusive process. As the Commission noted in Agenda 2000, applicant countries should resolve outstanding border disputes before they accede to the Union.

Some Working Group participants noted that an additional factor should be taken into account, and that is the question of geopolitical stability. This is particularly the case because NATO decided in July 1997 to enlarge to the Czech Republic, Hungary, and Poland. The impact of being excluded from the EU could be magnified because of the limited extent of NATO enlargement. For these geopolitical reasons, Estonia has often been cited as a possible candidate for early EU membership, since it would not join NATO. The effects on regional stability might have to become a consideration in EU enlargement decisions, depending on the impact of NATO enlargement.

The Economic Criteria

Progress in creating a functioning market economy

There was general consensus among the Working Group that the indicators chosen to assess how far the CEECs have developed a functioning market-oriented economy should relate both to the macroeconomic performance of the CEECs, and to their success in transition (microeconomic restructuring, privatisation and systemic change).

The Maastricht criteria[9] were taken as a starting point in the search for

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[8] There has been much concern that the EU's encouragement of regional cooperation is an attempt to block the CEECs' accession to the EU because a separate regional grouping could serve as an alternative to EU membership. See Körmendy (1992), p. 248 and Adameic (1993), pp. 24-25.

[9] The Maastricht Treaty spelt out five criteria:

indicators of macroeconomic performance of the CEECs. However, the Maastricht convergence criteria are not accession criteria, and the Working Group considered them inappropriate as such on a number of grounds. Not even all of the present EU member states can meet them. The Maastricht criteria are indicators of macroeconomic performance, and in assessing progress in transition, account also has to be taken of microeconomic developments. Transition is an ongoing, dynamic process and even if a CEEC meets the macroeconomic criteria at a particular moment, this is not necessarily a guarantee that it will continue to meet the criteria on a sustainable basis.[10]

Though the Maastricht criteria may be inappropriate as accession criteria, there was agreement in the Working Group that they cannot be ignored in view of the obligation of CEECs joining the EU to endorse the ultimate objective of economic and monetary union (EMU). Given the time lag before enlargement, if EMU proceeds according to the timetable set out in the Maastricht Treaty, it is likely to be in Stage 3 when the CEECs at the head of the accession list join. As non-participating countries (i.e. with derogations from EMU) during Stage 3 those countries would none the less be obliged to adopt the *acquis* of Stage 2 of EMU and to follow rules relating to fiscal discipline, liberalisation of capital movements and the coordination of economic policy, and would have to accept the primary objective of price stability. Given the inflationary pressures associated with transition, the need to cope with capital movements, and the burden imposed by transformation on the budget, these obligations could prove difficult to meet. The loss of the exchange rate instrument and of control of

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i) Successful candidates must have inflation rates no more than 1.5% above the average of the three countries with the lowest inflation rate in the Community.

ii) Long-term interest rates should be no more that 2% above the average of that of the three lowest inflation countries. This is to ensure that inflation convergence is lasting, because otherwise higher expected future inflation in a country would be reflected in higher long-term interest rates.

iii) The exchange rate of the country should remain within the "normal" band of the ERM without tension and without initiating depreciation for two years. At the time of the Maastricht Treaty the "normal" band referred to the margins of +/-2.25%, but since August 1993, in some circles it is now taken to refer to +/-15%.

iv) The public debt of the country must be less than 60% of GDP.

v) The national budget deficit must be less than 3% of GDP.

[10] As the Christodoulou Report (1996) of the European Parliament (Annex I, p. 17) points out, this is particularly likely to be the case if CEECs have not completed structural reforms, introduced sound economic and monetary policies and achieved a satisfactory level of underlying convergence. As was pointed out in the Working Group discussion, in the context of transition economies, particular attention has to be paid to the consequences for unemployment and growth.

monetary policy implied by full participation in EMU could be even more costly for the CEECs.

Some of the concepts underlying the Maastricht criteria assume a different meaning in transitional and market-oriented economies. The concept of public deficit in the Maastricht Treaty refers to central, regional and local government as well as social security funds. As Daviddi and Ilzkovitz (1996) point out, the budget situation of local and regional governments is often difficult to assess in the CEECs. The creation of adequate social safety nets is a central element of the transformation process and this could lead to a substantial increase in government deficits[11]. A clearer understanding of how privatisation has been taken into account in calculating public deficits is also necessary. The Maastricht criteria refer to public debt, but the legacy from the past means that in general data for the CEECs refers to foreign debt. With regard to interest rates, the underdeveloped long-term capital markets in many of the CEECs mean that data on long-term bonds is generally not available for these countries. Table 1 (in the Appendix) therefore sets out both long-term bond yields for some of the present EU members, and the Central Bank discount rate and lending rates for these countries[12] and some of the CEECs to illustrate that interest rates are generally higher in the latter.

Inflation is proving extremely resilient in the CEECs, and, as shown in Tables 1 and 2 of Appendix 1, most CEECs fail to meet the criteria on inflation and interest rates[13]. As emerges from Tables 2-5 of Appendix 1, and allowing for difficulties of comparison, most CEECs meet the Maastricht fiscal criteria, but some seem unlikely to meet the exchange rate criterion.

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[11] A further difficulty could arise from the high share of budgetary redistribution in GDP. According to Palankai (1996) this amounted to 6O% for Hungary in 1993, compared with 40-45% in Western Europe, and 46% for the Czech Republic.

[12] The discount rate is defined as the rate at which monetary institutes lend or discount eligible paper for deposit money banks. The lending rate is used to meet the short-run and medium-run financing needs of the private sector.

[13] Economic transformation may contribute to inflationary pressures through price liberalisation, the ending of the CMEA trading system (and the consequent increase in energy prices), devaluation and increased public spending on infrastructure and unemployment benefits, wage indexation, and, in some countries, servicing of the public debt. As a result there may be increased inflationary expectations and these could prove self-fulfilling. The high levels of interest rates in most CEECs reflect the need to reduce these inflationary pressures.

In order to assess the microeconomic "readiness"[14] of the CEECs to join the EU, it is useful to consider Table 6 in Appendix 1, which was produced by the EBRD (European Bank for Reconstruction and Development). The Table brings together and summarises the main indicators of progress in restructuring, privatisation and systemic change. Further indicators could be added to this list, such as the rates of growth and of investment, and the ability to reduce unemployment, which are shown in Table 4. In most CEECs there is still a need for further progress with regard to restructuring of the banking and insurance systems and large-scale industry as well as the implementation of additional measures with regard to social security.[15]

The capacity to cope with competitive pressures and market forces within the Community

With regard to capacity to cope with competitive pressures and market forces within the Community, the risk is that with removal of the barriers many firms in the CEECs whose output was destined for the domestic or former CMEA[16] markets would be unable to survive in an enlarged EU market. Against this it can be argued that the CEECs have an advantage as a result of lower wages, but in many cases this is offset by the structural shortcomings of industries.[17]

Although productivity has been increasing in most of the CEECs in recent years, there has been considerable pressure for wage increases, fuelled by the need to raise low living standards. In some cases (and notably the Czech Republic in early 1997), nominal currency stability has undermined the cushion which undervalued exchange rates provided during the early years of transition. One of the results of legislative approximation in the areas of social and environmental policy could be to raise production costs in the CEECs.

In deciding which economic sectors in which CEECs are ready to cope with competitive pressures and market forces in an enlarged Community, a detailed

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[14] The questions of macroeconomic performance and microeconomic transition are intrinsically linked, so what is entailed here is a shift of emphasis.

[15] For an extensive discussion of these issues, see Agenda 2000.

[16] Council for Mutual Economic Assistance or Comecon.

[17] For instance, as the EC Commission's Agricultural Strategy Paper (1995), p. 7, argues, despite lower labour costs, inefficiencies in food processing and distribution mean that a doubling or more of wheat prices between the farm gate and the border is not exceptional in many of the CEECs.

analysis of their economies is necessary and should take into account progress in the following areas:

- the creation of a stable and competitive economic environment, *inter alia* through the privatisation process and the introduction of an adequate legal framework with regard to property rights, contracts, competition and company law
- the evolution of the banking and financial sectors
- the development of a modern, efficient administrative system and a role of the state appropriate to a market-oriented economy[18]
- restructuring and modernisation of industries in decline such as coal, steel, agriculture and shipbuilding
- widening of the industrial base and the development of small and medium enterprises
- success in developing industries characterised by growing demand and high technology which are at the core of an information society[19]
- demonopolisation and/or the development of a suitable regulatory framework for sectors dominated by former state-owned enterprises, such as energy and telecommunications
- the introduction of measures to encourage R&D and technological innovation
- measures to promote foreign investment

Governments in the CEECs are under considerable pressure from producer interests to introduce protectionist measures, and other forms of assistance to enterprises[20], so care should be taken to resist lobbying activities. This is a further reason for the importance of coordinating industrial policy with

[18] This involves a reduction in state ownership and the use of direct controls, but it should not be taken to imply that transition can be achieved simply by the withdrawal of the state. This misconception led to the problem of "desertification" in many of the CEECs during the early 1990s.

[19] However, newly established domestic private firms are in a weak position as they have to cope with the "infant industry syndrome" (Palankai 1996, p. 247) which involves building new capacities, looking for new markets, consolidating management techniques and so on. Foreign direct investment, strategic alliances with Western firms and joint ventures can play a key role in this process.

[20] The Hungarian economist, Kornai (1980, 1986) has described the network which linked "the paternalistic state and the firm which is its client" in the central-planning system, and it appears that transition has not been completely successful in breaking down this type of "tutelage" relationship.

competition policy and trade measures.[21] Trade liberalisation is required by the obligations of the Europe Agreements and Uruguay Round, but the CEECs have a certain amount of leeway in interpreting these obligations.[22] On numerous occasions the CEECs have used the various protective clauses allowed for in the Europe Agreements[23], even though protectionism is unlikely to prove an efficient instrument in promoting improvements in competitiveness. The degree of unrestricted trade an applicant country has achieved with the Union before enlargement will be an important element to be considered.

One of the main arguments advanced in favour of the EFTA countries forming the European Economic Area (EEA) or joining the EU itself was the loss in relative competitiveness that their firms would experience if they were left out of the Single Market. In the case of the CEECs the question of expected benefits from participating in the Single Market is rendered more complex, as account also has to be taken of their capacity to cope with competitive pressures. None the less, some members of the Working Group argued that CEECs participating in the internal market were likely to benefit from an additional stimulus to competition and technical progress, and from the greater scope for exploiting economies of scale.[24] Insofar as enlargement succeeds in creating a more dynamic economic environment, some of the adjustment costs might be eased.

Though the Copenhagen criteria refer to the ability of the CEECs to withstand competitive pressures in an enlarged EU, the question also arises for the existing EU(15) member states. The sensitive sectors, such as agriculture, textiles, clothing, coal, footwear, and steel, play an important role in the weaker regions and member states such as Greece and Portugal. With the removal of barriers there is a risk that some of the weaker EU regions and sectors would no longer

[21] Zielinska-Glebocka (1996).

[22] See the section on trade below.

[23] For instance, Poland used general safeguards for balance of payments purposes in 1993 and 1996, and for motor vehicles in 1994. In 1994 tariffs were imposed on telecommunications on the basis of the infant industry argument, and in 1996 protective measures were imposed on petrochemical imports on the basis of the restructuring clause (Zielinska-Glebocka, 1996).

[24] See Emerson et al. (1989) and the Cecchini Report for a description of these effects.

be able to compete with low-cost production in the CEECs, so would experience higher rates of unemployment and closures.[25]

Various arrangements have emerged to meet this fear. For instance, outward processing trade has been used widely in the clothing and textiles and this largely accounts for the rapid increase in the CEEC share of extra-EU imports of these products.[26] The share of CEEC exports in extra-EU imports of motor vehicles also rose[27], partly as a result of the role played by Western subcontracting and investments.

Acceptance of the acquis communautaire concerning the Single Market

The Working Group also considered it likely that the speed and progress of the accession negotiations will depend on success in the programme for regulatory alignment with the Single Market set out in the Commission's 1995 White Paper, *Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union*.[28] Integration of the CEECs into the Single Market entails the elimination of physical, technical, fiscal and tariff barriers between participating states.[29] For that purpose the

[25] Cadot and de Melo (1995) have used estimates of a gravity model, and extrapolations of observed structural developments to analyse whether increased imports from the CEECs is likely to result in job destruction in the EU. Their simulations suggest an upper limit of some 13,000 jobs being lost in the EU, with very little regional concentration (apart from some 850 jobs being lost in coal production in Lorraine).

[26] The CEEC(6) share of extra-EU imports of these products grew from 7% for each group in 1989, to 13% and 14% respectively in 1994 (UN/ECE, *Economic Survey of Europe 1995-1996*).

[27] The share of CEEC(6) exports in extra-EU imports of motor vehicles also rose to 5.3% in 1994 (UN/ECE, *Economic Survey of Europe 1995-1996*).

[28] The Single Market is defined as an area without internal frontiers in which the four freedoms (of movement of goods, services, people and capital) are ensured.

[29] One way of eliminating the barriers to movement of goods and services would be to introduce common rules and regulations. However, the detailed, technical legislation that this involved was likely to prove too complex and costly, as well as running the risks of excessive uniformity and bureaucratic interference. To meet this difficulty the Community relies so far as possible on the principle of mutual recognition (established in the famous *Cassis de Dijon* case of 1978), according to which all goods lawfully manufactured and marketed in one member country should be accepted also in other member countries. Exceptions related to public health, the fairness of commercial transactions and the defence of the consumer are permitted.

CEECs will have to put into place "legislation and regulatory systems, standards and certification methods compatible with those of the European Union".[30]

Though the list is not meant to be exhaustive, the regulatory alignment of the CEECs to the internal market requires measures and investment in the fields of: health, safety and consumer protection; environmental protection; services, including transport, energy, telecommunications and financial services; customs and indirect taxation; competition policy and social policy. This is a far greater challenge than in earlier enlargements because Community legislation has expanded considerably and the task of adopting the *acquis* was easier for the economically-developed applicants that had participated in the European Economic Area.

With regard to social policy the aim is to ensure in the end the operation of a "level playing field". However, some members of the group argued that social and environmental policy areas should probably not be entirely harmonised prior to accession.[31] To do so is to require the CEECs to accept tighter obligations than existing member states, as many derogations have been granted for environmental regulations, and the UK had opted out of the Social Chapter. As some members of the Working Group pointed out, there is also a tension between requiring the CEECs to accept the acquis on the Single Market and introducing a long transition period before freedom of labour movement.

Ability to take on the *acquis* will also be measured according to whether the applicant country has met its obligations under the Europe Agreement. The Europe Agreements also committed the CEECs to adopting competition policies compatible with those of the Community and this objective was further specified in the 1995 White Paper.[32] In this context external pressure to force measures which are unpopular, but essential to the transformation process, may play an important role. The introduction of effective anti-trust measures is urgently required in the CEECs, where the legacy of central planning has left a

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The introduction of the Single Market also has to respect the principle of subsidiarity whereby legislation at the Community level should only be introduced where the same or a better effect cannot be achieved at a regional or national level.

[30] Conclusions of the European Council at Essen, 9 and 10 December 1994, SN 300/94, p. 13.

[31] See Smith et al. (1996) for a discussion of this issue.

[32] The White Paper makes reference to Articles 85, 86 and 90 relating to competition rules, and Article 92 concerning state aids.

concentrated structure of production, and often privatisation of state enterprises has not been accompanied by adequate measures of demonopolisation. The need to bring legislation in line with that in EU countries in areas such as the control of state aids can provide CEEC governments with a strong justification for resisting the pressure of producer groups.

However, the proposals presented in the 1995 White Paper are sometimes difficult to respect in the conditions of transitional economies. For instance, the EU rules on restrictions on vertical restraints may prove excessively binding in countries attempting to set up adequate distribution networks. Similarly, the exigencies of privatisation and restructuring may require a flexible approach to controls on state aids during a certain transition period, still to be determined.[33]

A full assessment of the degree of regulatory alignment of the CEECs would require a detailed analysis of the state of legislation in each of the CEECs and is beyond the present scope. An important consideration will be the ability of the public administrations to implement and to monitor compliance with Community legislation, in particular in areas such as finance and external borders. As it is clear that some flexibility has to be granted in the form of temporary derogations during varying transition periods, it is also clear that the legislatory *acquis* of the Single Market has to be adopted in its entirety at the end of these periods.

III. Implications of Enlargement in Stages

The implications of enlargement in stages for the EU's institutions

Enlargement will have far-reaching implications for the EU's institutions and decision-making processes.[34] Reforms will need to be undertaken to ensure that enlargement does not lead to slower or blocked decision-making, and unwieldy institutions. The Amsterdam European Council wanted to reform the voting procedures and particularly extend majority voting in all three pillars, reassess the weighting of the votes in the Council in order to better take into account the relative weights of small and large member states (given that the next enlargement will include a large number of small or medium-sized states) and streamline the institutions.

[33] Smith et al. (1996).

[34] The institutional implications have been discussed in EC Commission (1992), pp. 14-16, and EC Commission (1996a), pp. 14-18.

Only very limited results were achieved. Qualified majority voting has been extended to a few more areas within the first pillar; in these areas the co-decision procedure (allowing the European Parliament a veto power) has also been extended. The intention is to reduce the number of Commissioners from large member states to one upon the first stage of enlargement (if it includes five or less member states), provided that by that date, the weighting of the votes in the Council has been modified (see Protocol on the institutions with the prospect of enlargement of the European Union, article 1). No final agreement has yet been achieved regarding this question. In the two "intergovernmental" pillars, the Common Foreign and Security Policy, and Justice and Home Affairs, no breakthrough towards majority voting was possible. Unanimity remains the rule; majority voting is only possible in very limited cases. Amsterdam has so far failed to prepare the Union for the enlargement process. Further steps are necessary even before the first enlargement takes place to agree on a modified weighting of the votes in the Council; the Amsterdam European Council concluded that a new revision of the institutional arrangements will be necessary before the membership of the Union exceeds twenty member states.

The implications of enlargement in stages for the structural funds

While the economic criteria provide an indication of the speed at which the CEECs are catching up with existing EU members, as Table 7 shows, with the exception of Slovenia, the GDP per capita in the CEECs remains far below that of the poorest EU members.[35] Despite the rapid growth of the CEECs, it appears likely that it will take many years to eliminate the income disparity compared with existing EU member states.[36]

According to Courchene et al. (1993)[37], the financial perspective for the 1994-

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[35] When comparing per capita income in the CEECs and EU it is essential to bear in mind the limitations of comparisons of this type. All the CEECs have rapidly growing private sectors, much of which fails to show up in official statistics, though it must be recalled that most EU economies also have substantial "informal" sectors. A second difficulty arises in that the prices of non-traded relative to traded goods tend to be lower in poorer countries. For this reason comparisons of per capita income are often made on the basis of purchasing power parity (PPP). However, as Table 7 illustrates, even using this measure, per capita income in the CEECs is much lower than in the existing EU.

[36] Baldwin (1994) estimates that even with 5% growth, the catch-up period ranges from 8 years for Slovenia, to 22 years for Poland and 26 years for Slovakia.

[37] Other estimates, such as those of Brenton and Gros (1993) and Fayolle and Le Cacheux (1996) also indicate huge costs for extending the structural funds to the CEECs on existing

99 period agreed at the Edinburgh summit entailed a commitment of per capita support to the two poorest countries (Greece and Portugal) of 400 ECU per capita in 1999. Given the "relative backwardness and evident lack of modern infrastructure"[38] of the CEECs, a transfer of 400 ECU per capita would seem a minimum claim. However, if applied to the four Visegrad countries, it would imply an increase in structural spending of 26 billion ECU, while the additional inclusion of the Baltic states, Bulgaria and Romania would raise the structural funds by 54 billion ECU per year. This is a huge sum when compared with the overall EU budget of 59 billion ECU for 1994. The transfers to the CEECs through the structural and cohesion funds proposed in Agenda 2000 are somewhat lower, but none the less substantial. The Commission proposed allocating 1 billion ECU to the CEECs each year over the 2000-2006 period as part of the pre-accession strategy, as well as 38 billion ECU from the structural and cohesion funds for the new member states. As a result, by 2006, the structural transfers for enlargement would account for about 30% of all transfers through the structural funds.[39]

A further difficulty in extending structural measures to the CEECs arises from the principle of additionality which aims at ensuring that Community funds do not simply replace national expenditure, and requires that Community measures are accompanied by matching funding from the member states of up to 50%. The estimated transfers from extending the structural funds on present criteria to the CEECs would represent an extremely high percentage of the GDP of these countries.[40] A ceiling, possibly in the order of 4% of GDP, is therefore likely to be placed on the size of the transfer to CEECs joining the EU. This would also help to take into account their absorption capacity. In parallel, a further geographical and thematical concentration of financial means in the present Union will be necessary, without giving up solidarity with the poorest regions of the Union. It is obvious that countries in the first wave of enlargement will have a definite advantage over countries left out, as they benefit fully from integration in the structural funds.

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criteria.

[38] Courchene et al. (1993), p. 114.

[39] Agenda 2000, volume I, p. 88.

[40] According to a study carried out by the Commission (1996b), these transfers would amount to 15% of GDP for Hungary, 18% for the Czech and Slovak Republics, 25% for Poland, and roughly 50% for Romania and Bulgaria.

The implications of enlargement in stages for the CAP

As shown in Table 8 even the countries which appear to head the accession list would make a sizeable addition to the level of agricultural production and labour force in an enlarged EU. According to the estimates presented in Agenda 2000, the costs of extending the present CAP to all ten CEECs would be in the order of 11 billion ECU per year by 2005 of which direct payments would account for about 7 billion ECU, market support measures (in particular for the dairy sector) would amount to 2.5 billion ECU, and accompanying measures would absorb a further 1.5 billion ECU.[41] Earlier studies generally suggested far higher costs of extending the CAP to the CEECs, with for example, Anderson and Tyres (1993) estimating a cost of 40.5 billion ECU for the Visegrad 4.[42]

It is difficult to make predictions concerning the impact of extending the CAP to CEECs joining the EU, partly because the CAP itself is under pressure for reform, and partly because after accession agriculture will probably be subject to a long transition period.

It has been assumed here that when the CAP is extended to the first wave of CEECs joining the EU, it will have been reformed further, with increased use of direct income payments and prices closer (but not completely) in line with world levels.[43] The question of how, and to what extent, farmers in the CEECs joining the EU will benefit from direct income payments remains open, but at least some extension of these payments to CEECs joining the EU seems likely, even though direct income payments in the EU have been introduced to

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[41] Agenda 2000, Volume II, p. 31.

[42] A large share of the difference in estimates is the result of different forecasts concerning future levels of production and consumption in the CEECs, and the extent to which the effects of the MacSharry Reform and the Uruguay Round Agreement are taken into account.

[43] Agenda 2000 proposed a radical reform along these lines with a reduction of the intervention price for cereals from 119.19 ECU/t to 93.35 ECU/t and reductions in market support prices of dairy products by 10% and of beef from 2780 ECU/t to 1950 ECU/t. Farmers in the EU (15) would be compensated for these price cuts through direct payments. Milk quotas would continue until 2006 and compulsory set-aside would be abolished.

With these reforms, the Commission proposed that expenditure from the EU budget for CEEC agriculture would amount to 17.8 billion ECU over the 2000-2006 period. This would consist of 0.5 billion ECU (rising to 0.6 billion ECU from 2002) in pre-accession aid, while new member states would receive a total of 6.2 billion ECU for market organisation measures and 7.6 billion for rural development accompanying measures over the 2002-2006 period (Agenda 2000, Volume I, Table 2).

compensate price reductions. These price reductions will not occur in the acceding countries. On the contrary, farmers in these countries will benefit from higher price levels, improved access to EU markets, and what remains of the EU system of export subsidies (though this is subject to GATT/WTO obligations being met). Farmers in CEECs joining the EU will therefore be placed at a competitive advantage *vis-à-vis* their counterparts in CEECs (temporarily) left out, not only on EU markets, but also in third countries, and the CEECs themselves.

The impact of enlargement in stages on trade

As a result of the provisions of the Europe Agreements, a free trade area in manufactured products (and to some extent services) will be in place before enlargement, including both the CEECs which join, and those which do not. The Europe Agreements permit the continued use of "contingent protection", or anti-dumping and safeguard measures[44] in EU-CEEC trade, but during the first years of operation of the Europe Agreements the use of these instruments was very limited.[45] However, it seems likely that the impact on potential trade, or

[44] A safeguard clause in the agreements (Article 24) permits "appropriate measures" to be introduced when a product is being imported in such increased quantities as to cause or threaten to cause serious injury to domestic producers or serious deterioration in the economic situation of a region. In addition there are provisions permitting the introduction of safeguard measures in specific sectors, such as agriculture (Article 15).

Although there is a standstill provision in the agreements (no new customs duties or quantitative restrictions can be introduced once the agreement enters into operation), the CEECs may introduce "exceptional measures" in the form of reintroducing or increasing tariffs in situations where there are "infant industries or certain sectors undergoing restructuring or facing serious difficulties" (Article 22). Given the transformation process, most industries in the CEECs fall in to these categories, so the CEECs virtually have a blank cheque to re-introduce restrictions.

[45] As Costello and Toledano Laredo (1994) illustrate, anti-dumping cases initiated against the CEECs fell from over 20 per year in the mid-1980s to only 2 cases each in 1992 and 1993. Because EU anti-dumping measures remain in force for 5 years, the CEECs have inherited a number of such measures from their state-trading past. At the end of 1993, 19 such measures remained in force against the CEECs with Poland (6) followed by Romania (5) facing the highest number of anti-dumping actions. In total, only 60 million ECU or 0.32% of EU imports were affected by anti-dumping measures in 1992. The highest share was for Bulgaria (1.24% of all exports to the EC) followed by Romania (0.7%). At least in the early years of operation of the agreements, safeguard measures were rarely used. In 1992, only two safeguard actions were taken: on Community iron and steel imports from Czechoslovakia, and on imports of sour cherries from, *inter alia*, Poland, Hungary, and Turkey (Costello and Toledano Laredo, 1994).

trade which would take place in the absence of such measures is significant. The threat posed by the mere existence of anti-dumping mechanisms or safeguards is likely to have implications for the level of trade.

Full integration into the Single Market and acceptance of the Common Commercial Policy (CCP) have to wait until accession (possibly with the application of a transition period). Enlargement in waves therefore means that different groups of CEECs are likely to move from a free trade area to a customs union (by adopting the CCP) and Single Market at different speeds.[46]

A major difference between a free trade area and a customs union is that the former requires rules of origin. These may be complex to administer and, the regulatory uncertainty to which they give rise means that market access is conditional (Smith et al. 1996). The CEECs joining the EU (and acceding to the CCP and the Single Market) before others will be at an advantage with regard to rules of origin and contingent protection. As a result there could be some trade diversion between CEECs joining the EU and those left out.[47]

The impact of enlargement in stages on FDI

Foreign direct investment (FDI) may contribute to transfers of technology, management techniques and marketing skills, and plays a central role in restructuring in the CEECs where domestic capital is scarce. According to World Bank estimates[48], FDI inflows to the CEECs and former Soviet Republics nearly doubled in 1995, reaching 5% of world inflows compared with only 1% in 1991. Inflows of FDI to the CEECs have been heavily concentrated in the three of the countries at the head of the accession list: Hungary, Poland and the

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[46] A free trade area entails the member states removing all barriers on trade between themselves, though they retain the freedom to implement different commercial policies towards third countries. In a customs union the member states remove all barriers on trade between themselves and introduce a common external commercial policy (for instance a common external tariff). A single market is a customs unions which also entails free mobility of factors of production.

[47] This risk could be particularly great as (with the exception of the Baltic states) CEEC exports to the EU tend to be relatively similar. Petroleum and petroleum products, and other raw materials are an important component of the exports of the Baltic states to the EU, and these are generally characterised by a low level of protection in international trade. In contrast, the exports from the other CEECs tend to be concentrated in the sensitive sectors, which are the sectors most subject to protectionist measures on world markets.

[48] *World Investment Report*, 1996, p. 64.

Czech Republic. The EU accounts for about three quarters of the FDI stock in Hungary and Bulgaria, two-thirds in the Czech Republic, Poland, Slovakia and Slovenia and just over 50% of the FDI stock in the Baltic States[49].

The motives for FDI in the CEECs include the chance to expand into new eastern markets, the opportunities offered by privatisation, and the possibility of exploiting low production costs. Foreign investors are attracted by the relatively cheap, well-educated labour supply and the nearness of some CEECs to major West European markets. However, the overall economic outlook, the institutional structure and the degree of economic and political stability also play a role in FDI decisions. Economic recovery was one of the factors contributing to the rapid increase in FDI since 1995.

Participation in the programme of regulatory alignment set out in the 1995 White Paper, and an announcement by the EU that accession of a particular CEEC was acceptable can therefore play an important role in influencing FDI decisions in the CEECs. The White Paper sets out the steps necessary for progressive adoption of the internal market legislation on issues such as intellectual property, company law, financial services, competition law etc. In this way it provides a guideline of how to create an institutional framework capable of protecting the interests of foreign investors. The announcement that a CEEC is ready to join the EU is likely to be interpreted as a sign of its progress in transition, and may have a positive effect on expectations concerning the future economic performance of that country. The prospect of EU membership may be seen as a guarantee of economic and political stability, and so reassure foreign investors.

It therefore seems probable that enlargement in stages could lead to a redirection of FDI flows towards CEECs joining the EU at the expense of those left out. The tendency of FDI to concentrate in CEECs marked out to join the EU early is likely to be reinforced by the high share of FDI flows coming from the EU and the fact most FDI is already attracted by three of the countries at the top of the accession list.[50]

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[49] The World Bank, 1996.

[50] The new economic geography literature (Krugman and Venables 1990; Krugman 1991) suggests that there may be a risk of enlargement in stages leading to a divided pattern of development, with the economic performance of the CEECs (temporarily) left out of the EU lagging behind, if not deteriorating in absolute terms. According to this approach, factors such as nearness to a large market provide a strong incentive for other firms to locate in that area. This implies that if a CEEC is near to West European development centres, it is likely to have

Against this it might be argued that CEECs remaining outside the EU might be at an advantage in attracting FDI because of the opportunities to exploit social and/or environmental advantages. Producers within the EU might set up joint ventures or other forms of industrial cooperation with CEEC firms in order to take advantage of such "offshore" conditions. However, the 1995 White Paper specifically calls for regulatory alignment in the field of environmental and social policies, so, insofar as legislative approximation proceeds, there should be less scope for this type of "offshore" activity in CEECs outside the EU.

The evidence suggests that the announcement of the 1992 Single Market Programme caused a large increase in FDI in Spain and Portugal, and, at least initially, a fall in net FDI in the EFTA countries.[51] Negotiations for EU membership of Spain and Portugal began in 1980, and were concluded in 1986. Both countries expected to participate in the Single Market Programme and experienced above average FDI inflows in the late 1980s and early 1990s. Most EFTA countries suffered a decline in their FDI in the late 1980s, but, with the exception of Switzerland, this was halted, possibly as a result of policies being announced to ensure their participation in the 1992 Programme.[52]

As was pointed out during the Working Group discussion, the way in which the Single Market Programme was presented initially in the 1985 Cockfield White Paper and Single European Act represented a major marketing success. The timetable set out deadlines which fixed precise targets, and focused the attention of politicians and businessmen. At least in the late 1980s the predictions of an

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more chance of attracting industry, and FDI. In particular, CEECs sharing common borders with the EU(15) may be at an advantage in attracting economic activity, as there will be opportunities for transfrontier cooperation in the form of joint ventures, subcontracting, local and regional policy coordination and the expansion of transport and telecommunications infrastructure.

The new economic geography approach attaches importance to the fact that the location decisions of firms are very expensive to reverse, so expectations play a crucial role. In deciding where to locate, future policy (or uncertainty about future policy) may be as important as current policy. In a world where various outcomes are possible, the credibility of government policy can play a crucial role. The announcement that a CEEC is to join the EU may be taken as indication of its progress in transition, and as a guarantee of future stability, so may have large and lasting effects on the location of industry.

[51] For a more complete discussion of this issue see Baldwin et al. (1996).

[52] In 1989 Jacques Delors proposed the creation of the European Economic Area and its implementation began from January 1994, but by then Austria, Sweden and Finland had opted for full EU membership and joined in January 1995. Switzerland rejected joining the EEA in a referendum, and Norway voted against EU membership in 1994.

improved economic climate with scope for restructuring of EU industry appeared to become a self-fulfilling prophesy. Would it be possible to repeat this earlier success with the announcement of a clearly-defined, precise strategy for enlargement? The style of the 1995 White Paper suggests that it was an attempted step in this direction, but to acquire greater credibility, some of the uncertainties surrounding enlargement would have to be removed.

Migratory pressures

One of the fears of existing EU member states is that the introduction of freedom of movement of labour for CEECs joining the EU will lead to large-scale migratory pressures towards the West. However, most of the literature on the topic suggests that if ethnic upheaval and severe civil strife are avoided, migratory pressures will probably be on a manageable scale (possibly 3-5% of the populations of the CEECs).[53] The conditions for accession set out at the Copenhagen Summit aim at ensuring that this kind of political and economic collapse is avoided in prospective EU members.

However, predictions concerning migration are notoriously difficult to make, as a sudden worsening (or improvement) in economic conditions may alter the pressure to migrate substantially. If a hard core of EU members decided to move forward on a faster integration track, pressures to migrate could increase. As a result the view that migration within an enlarged EU is likely to be on a contained scale was not shared by all members of the Working Group.

A long transition period before introducing freedom of labour movement after accession would help to assuage Western fears concerning migratory pressures. However, any freedom of movement will first benefit those countries entering with the first enlargement.

The implications of enlargement in stages for security and foreign policy

Enlargement in stages will have implications for the EU's foreign relations and for European security in general. Enlargement has been agreed in particular because it should help spread stability and security eastwards, by consolidating democracy and the transition to a market economy. However, it could be perceived by outsiders as part of a process of re-creating a divided Europe, and might then contribute to a worsening of relations with the rest of Europe. Given the suspicion and even antagonism in relations between the CEECs and Russia,

53 See for example, Layard et al. (1992), Faini (1995) and Faini and Venturini (1994).

the newly admitted CEECs might push for a tougher EU stance against Russia. The EU's relations with other countries in the region could also be strained where the CEECs have had difficult relations (e.g. Bulgaria-Macedonia and Romania-Moldova).

Enlargement in stages will certainly affect relations between the expanded Union and those applicant states that have initially been excluded. The excluded CEECs could perceive that EU accession is too distant a prospect, and might even be destabilised by the process. Applying conditionality strictly may not enhance stability. Furthermore, the new member states from Central and Eastern Europe will be able to influence aid and trade decisions with respect to the other CEECs, the political dialogue with them, and eventual decisions on future waves of enlargement, possibly to the perceived detriment of the outsiders. This is potentially a greater problem where relations between the CEECs have already been tense (such as between Hungary and Romania, and Hungary and Slovakia). For these reasons, the relations among the CEECs should be taken into consideration in decisions on enlargement. The enlargement process should be used to find solutions to existing or potential conflicts. After all, the prospect of accession gives the Union a powerful political lever.

In addition, in July 1997, NATO decided on which countries it will embrace in a first stage of enlargement, and the process of NATO enlargement will occur before the first stage of an EU eastern enlargement. The three successful candidates for NATO accession are the same "top" candidates for EU accession, the Czech Republic, Hungary and Poland, but if both EU and NATO enlarge exclusively to these three countries in the first stage, the division of Europe could appear to outsiders to be an armed one as well. To avoid the potential negative effects of this for stability, some NATO members unsuccessfully proposed including Romania and Slovenia in the first round of enlargement. The Commission has recommended opening EU membership negotiations with Estonia and Slovenia. While inclusion in both organisations would presumably be the most stabilising for the countries concerned, accession to one or the other could also have a stabilising effect, whereas exclusion from both might not.

Only countries which are members of both NATO and the EU may become full members of the WEU. Differing membership in the EU, WEU, and NATO will continue, with the consequent difficulties for coordinating the security activities of these organisations. This could affect eventual decisions on an EU-WEU merger, as envisaged in the Amsterdam Treaty.

Building further ties between the Union and the CEECs excluded from the first enlargement could help reassure them that they were still moving closer to the

Union and thus help overcome the potentially destabilising implications of enlargement in stages. The Working Group's proposals for a "reassurance framework" are discussed in the next section.

IV. A Pre-accession Framework of Reassurance

Given the decision to proceed with enlargement in stages, one of the highest priorities should be to ensure that the consequence is not a differentiated pattern of development in Europe, with the CEECs left out of the first wave(s) of enlargement lagging increasingly behind. The Working Group agreed that the effects of opening negotiations with only a few CEECs must be countered by building a "reassurance framework" for those CEECs that are excluded from the first stage of enlargement. The objective of such a reinforced pre-accession strategy would be to minimise the possible drawbacks of being left out of the first stage of enlargement and to reassure the excluded CEECs that they are still in the queue for membership. What is necessary is a broad-based package which encompasses both the CEECs entering the EU in the first wave and those left out. In this process, signals will be very important, both in creating positive expectations, and in rendering the process of enlargement in stages more palatable to public opinion in CEECs left out of the first wave of enlargement. The governments of excluded CEECs should not have to return home empty-handed. In Agenda 2000, the Commission suggested a single framework (Accession Partnership) bringing together all the resources and forms of assistance available for preparing each candidate country for membership. This framework will include a multi-annual programme for adopting the *acquis* according to an indicative timetable.[54]

For this purpose, the members of the Working Group suggested that the Reassurance Framework should cover five main aspects:

- financial transfers
- trade
- agriculture
- investment
- institutional arrangements

[54] Agenda 2000, Volume II, p. A8/9.

Financial transfers

As can be seen from Tables 9-11, at present there is a large gap between transfers to the existing EU member states arising from the Common Agricultural Policy and the Structural Funds, and transfers to the CEECs through the PHARE Programme. According to the 1994-99 financial perspective, in 1997 about 26.5 billion ECU was allocated to the Structural and Cohesion Funds from the Community Budget, while roughly a further 37 billion was allocated expenditure on the CAP. In contrast the total EC budget allocation for spending on PHARE amounted to only 11 billion ECU for the ten years 1989-99. This estimate excludes grants and loans from the EU member states. If these are included the figure for assistance from the EU rises to 46 billion ECU over the 1990-95 period.

It is essential to avoid such a wide discrepancy between transfers arising from Community policies for CEECs joining the EU, and the far smaller amount of PHARE funds available for CEECs remaining outside the first wave(s) of enlargement. In part such a difference in treatment will be avoided by the transitional periods which seem likely before the CEECs joining the EU can participate fully in the CAP and structural measures. However, it is also necessary to introduce an intermediate programme between PHARE and EC policies which involves participation of all CEECs in cost-intensive Community policies prior to accession. In this way all CEECs (including those not in the first wave of enlargement) could benefit from additional transfers for structural measures, R&D and agricultural restructuring.

This strengthened and transformed Programme could take the form of an "Accession Partnership" which would complement the Europe Agreements and which would set out a framework of clear, accession-related objectives. In particular, priority could be given to institution building and support for investment, both to improve infrastructure and to modernise the economy. The measures would be individually tailored to the needs of the CEEC in question. The aim would also be to get away from an approach based on technical assistance, and render the beneficiary country directly responsible for the implementation of measures. In this way the CEECs would also gain experience of working with Community policies prior to accession.

The Edinburgh summit fixed the ceiling on contributions of the EU member states to the EC budget at 1.27% of their GDP. It appears unlikely that there will be the political agreement necessary to increase that ceiling in the next financial perspective which is due to begin after 1999. Part of the ceiling from the 1994-99 package remains unspent and could be re-allocated for structural spending under the next financial perspective. This suggests that structural spending after 1999 could be in the order of 0.46% of the GDP of the EU. Even with such measures, some reallocation of structural funds away from the present major beneficiaries appears inevitable with enlargement, and is likely to encounter the resistance of the poorer countries of the EU(15). Subsequently it appears likely that the CEECs joining the EU in the first stage will also have to share in the financial solidarity necessary to ensure adequate transfers to CEECs left out of the first wave of enlargement.[55]

As shown in Tables 9 and 10, the International Financial Institutions play an important role in contributing to the financing of the Economic Restructuring Programme in Central and Eastern Europe. The EC Budget would provide the basis for financing the revised pre-accession programme, but this should be supplemented by financial assistance from the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the World Bank, together with continuing support for macroeconomic stabilisation from the IMF and DGII of the EC Commission. It is necessary to ensure that these organisations continue to play an active role, even after the accession of some CEECs to the EU[56], and to organise an appropriate mix of grants and loans.

Trade measures

As shown in Tables 12-14, since 1989 there has been a dramatic increase in trade between the EU and CEECs.[57] With the exception of agriculture, the Europe Agreements set in place a free trade area, and in practice there still remains much scope for the CEECs to make use of the concessions which this entails. The CEECs should take care in exploiting the leeway offered by the Europe Agreements for them to introduce protective measures as this could run counter to their long-term interest in industrial restructuring and modernisation.

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[55] Agenda 2000 suggests a doubling of the present 1.5 billion ECU in PHARE money per year, by adding 1.5 billion ECU in structural expenditure, in particular in the fields of transport and environment, and 0.5 billion ECU for modernising agriculture. The total amount allocated would remain the same, meaning that those CEECs that do not join the EU in the first phase will receive a higher allocation after the first stage of enlargement.

[56] In particular, it is necessary to ensure that the World Bank continues to lend to CEECs even after they have joined the EU.

[57] Caution should be used in using official statistics because of the high level of unregistered trade.

The Community has made it clear that it will not remove contingent protection until the CEECs have made substantial progress in applying the *acquis communautaire* with regard to competition policy and state aids.[58] However, the process of legislative approximation to the Single Market remains slow.

The CEECs remaining outside the first wave of enlargement would remain at a disadvantage in trade matters *vis à vis* those joining as a result of the operation of rules of origin. A proposed method for overcoming this disadvantage would be to introduce a customs union for all CEECs prior to joining the EU. In the case of Turkey a customs union was created with the Community as an intermediate step and a substitute for early accession.

The creation of a customs union between the EU and the CEECs would, however, have certain disadvantages at this stage. Adoption of the Common Commercial Policy (CCP) is indeed already part of the *acquis* that the CEECs will have to accept on accession. However, the creation of a customs union would entail loss of autonomy for trade policy on the part of the CEECs, and the obligation to accept the CCP in all its complexity. Over time the Community has evolved a "hierarchy of trade preferences" involving trade concessions to developing and other countries, and the CEECs would be required to take on the obligations this requires towards third countries. Moreover, with the exception of tariffs applied by the Baltic States on imports from Scandinavian countries, in most cases the tariffs applied by the CEECs are higher than the Common External Tariff of the Community. The additional strain on limited Community resources posed by negotiation of a customs union would distract from the more complex tasks of accession negotiations and evolving a broader-based pre-accession strategy adequate to convince the CEECs left out of the first wave of enlargement that they remain in the integration process.

Agriculture

Extensive measures to assist the adjustment of CEEC agriculture prior to enlargement would also reduce the discriminatory effect of enlargement in stages on the agriculture of CEECs (temporarily) left out of the EU. Such measures would have to include further improvements in market access[59], additional attempts to ensure that EU export subsidies do not lead to market disturbance

[58] Smith et al. (1996).

[59] These could include reduced tariffs, increased tariff quotas, and greater flexibility to ensure higher utilization of quotas, and more transparency and prior warning in the use of safeguards.

in the CEECs, and increased assistance for the structural adjustment of CEEC agriculture prior to accession. In the case of Portuguese accession, the Community financed a pre-accession programme of agricultural adjustment. If a similar programme were introduced for the CEECs[60] it could help to overcome the particular difficulties faced by the food industry, and could also be used to further environmental objectives and overall programmes of rural development.

Investment

Under the PHARE Programme, financial assistance was given for investment in infrastructure in fields such as transport, telecommunications and energy. Aid was also given to investment to modernise the economy, through measures such as privatisation and restructuring, the introduction of less energy-intensive and more environmentally-friendly means of production, the development of financial services, help for small and medium enterprises and so on. The aim of the revised and reinforced pre-accession strategy should be to continue and increase Community and IFI support for such measures. The European Investment Bank could play a leading role in this context as the focus of the activities of the European Bank for Reconstruction and Development appears to be shifting further eastwards.

The revised pre-accession strategy should also aim at creating a framework in which private foreign and domestic investment are encouraged. By stressing that the CEECs left out of the first wave(s) of enlargement remain part of the integration process, and by providing adequate institutional and financial backing to illustrate that this is the case, much could be done to avert the risk of investment diversion away from those countries.

Institutional provisions

The Working Group also discussed the potential institutional innovations that could be designed to link further the excluded CEECs and the EU, in addition to accession partnerships with the CEECs. One option is that of partial membership, or permitting the CEECs to join only some policy areas.[61] For example, the CEECs could fully participate (e.g. enjoy the right to vote) in the second and third pillars, the CFSP and Justice/Home Affairs. This option was

[60] For a more detailed discussion, see the "Agricultural Strategy Paper" and Agenda 2000, Volume I, p. 87.

[61] As had been suggested in 1991 by then Commissioner Frans Andriessen (1991).

generally rejected by the Working Group, although it was noted that extending partial membership would have an important symbolic value. Allowing the CEECs to participate in only some policy areas would be entirely too complicated to implement in practice. Differing memberships of policy areas would be very hard to coordinate and ensure consistency: for example, the procedure for applying sanctions (first a unanimous common position in CFSP, then a decision taken in the Community framework) could be further complicated because of differing memberships in these frameworks. EU membership has always been understood as a balanced set of mutual rights and obligations governed by a single institutional framework, and should remain so. There would be the additional risk that partial membership could be perceived by the CEECs as "second-class membership", a substitute for full membership, or a way to delay further enlargement.

An additional way of including all the CEECs would be to offer full membership but to set long transition periods that are linked not to a time limit but to the fulfillment of certain conditions. Once a CEEC meets the criteria in a specific policy area, then it would become a full member, with voting rights and obligations. But such an approach would "import" unresolved transition problems into the EU, would be difficult to manage institutionally, and would put at risk policies and the single institutional framework of the Union.

Participation in EU programmes in, for example, research and development, education, internal market, and customs cooperation, should be extended. The CEECs could participate in expert group meetings in specific policy areas, to help familiarise the applicant countries with Community policies and procedures.

The "structured relationship", part of the pre-accession strategy, could certainly be strengthened. It is based on multilateral meetings between the EU and the CEECs, but frequently meetings have no defined objective or agenda, and are ill-prepared. Cooperation should have specific aims, and meetings should be prepared adequately, and in coordination with the CEECs. Specific aims could include preparation of the CEECs for membership and cooperative projects in areas such as environmental protection, transport, and so on.

Agenda 2000 maintains that the structured relationship will be overtaken by the strengthening of bilateral relations with each applicant country, through accession partnership. Instead of regular meetings, ad hoc multilateral meetings could be held when needed to deal with wider issues. To underline that enlargement is an ongoing process involving the whole of Europe, the European Conference would bring together heads of state or government, and possibly ministers, to consult on issues that arise in the framework of the CFSP and

Justice and Home Affairs. Consultations are particularly important to allow all participants to discuss neighbourhood problems in Europe and other problems of common concern like the fight against organised crime, illegal immigration, drug trafficking, and so on. The "sense of belonging" to the Union would be strengthened by collective European-wide cooperation.

The replacement of a multilateral approach with strengthened bilateral links, however, is not necessarily the best option. An increasing emphasis on bilateralism could give the impression that regional multilateral cooperation is less of a priority. As several Working Group members noted, building links among all European countries has been one of the EU's objectives, and it is not clear that the differentiated bilateral approach to the applicant countries would contribute to this.

Conclusions

- EU enlargement will take place in stages, as some CEECs will be ready to join before others. EU enlargement to the CEECs will help stabilise them, by consolidating their democracies and market economies, and integrating them into Western economic and security structures. Enlargement in stages could, however, have negative implications for those CEECs left out of the first stage. A broad-based new pre-accession strategy must be geared towards minimising these implications and thus ensuring that enlargement does spread stability and security eastwards.

- The EU should not begin negotiations with all ten CEEC applicants at the same time, though this would signal the EU's will to enlarge to all the CEECs. Conducting negotiations with so many applicants would complicate the accession process and slow down the negotiations for all of them, as it would overload the Union and its negotiating capacities.

- To try to counter the negative implications for the excluded CEECs, the EU should build a "reassurance framework". This would include additional targeted financial transfers in the context of "accession partnerships", aimed at better preparing the CEECs for eventual EU membership. The pre-accession strategy should include participation of all CEECs in cost-intensive Community policies, such as structural measures, assistance for agricultural restructuring, and Community programmes. Measures should be taken to promote further growth in EU-CEEC trade. The CEECs should be granted improved market access for their agricultural products. Private foreign direct investment should be actively encouraged and the International Financial Institutions should continue to support the transition even after the accession of the CEECs to the Union. A strengthened institutional framework could be created by extending the participation of the CEECs to Community programmes and establishing the European Conference, which would provide a forum for dialogue on CFSP and Justice and Home Affairs issues at a high political level. More radical options, such as partial membership, would be unworkable in practice and thus should be rejected.

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Appendix 1 Tables

Table 1: Interest rates in selected CEECs and EU members

	long -term government bond yield 1997 forecast	long -term govern-ment bond yield 1995	Lending rate	Central Bank discount rate (1995)		Central Bank discount rate (1995)	Lending rate
Maastricht criteria	8.5						
Belgium	5.9	7.34	8.42	3.0	Czech Republic	9.5	12.80
Denmark	7.8	8.61	11.8	4.25	Hungary	28.0	32.6
Ireland	7.4	8.30	6.56	6.50	Slovakia	9.75	15.64
Sweden	8.2	9.41*	11.11	7.00	Poland	25.0	33.5
Germany	5.7	6.5	10.94	3.00	Slovenia	10	24.85
Portugal	8.0	10.34	13.80	8.93	Latvia	24.0	34.56
Spain	8.0	11.04	10.05	9.00	Croatia	8.5	20.24
Italy	8.8	12.21	12.48	9.00			

*1994

Source: IFS and EIU (Economist Intelligence Unit) as reported in *The Economist* of February 22, 1997 for the forecast of long-term bond yield.

Table 2: The Fiscal Criteria and Inflation in the CEECs

	Govt. deficit/ surplus % GDP 1995 (i)	Inflation (average annual increase in CPI) '93	'94	'95	External debt 1994 (est.) $ billion	External debt 1994 as % GDP
Czech Republic	1.8	21	10	9	10,7	28
Hungary	-5.0	23	19	28	28,0	66
Poland	-2.9	35	32	28	42,2	37
Slovakia	-2.2	23	13	11	4,1	30
Slovenia	0	32	13	18	11.1	15
Bulgaria	-7.0	73	87	63	10.5	100
Romania	-4.3*	256	136	32	5.4	17
Estonia	0.3	90	48	29	0,186	4
Latvia	-2.0	109	36	25	0,364	6
Lithuania	-2.0	409	72	40	0,438	7
Croatia	1.7		98	2	2,3	15
Albania	..		23	10	0. 925	45

* 1994

Source: Van den Bempte and Theelen eds. (column i), Eurostat, BERD, UN/ECE, OECD and World Development Report, Handbook of International Trade and Development Statistics

Table 3: Exchange rates of CEECs' currencies

National currency per US$, annual average, official exchange rates

	1992	1993	1994	1995	1996 (Sept.)
Czech Republic - koruna	28.8*	29.153	28.785	26.451	26.535
Hungary -forint	78.988	91.933	108.160	125.681	156.670
Poland - zloty	1.3626	1.8115	2.2723	2.4250	2.7781
Slovakia - koruna	28.9	30.77	32.045	29.7	30.711
Slovenia - tolar	81.29	113.24	128.81	118.52	134.38
Bulgaria - lev	24.49*	32.71	66.0	70.7	3,201.19
Romania - lei	307.97	760.05	1,655.09	2,033.28	12.040
Estonia - kroon	12.912	13.223	12.991	11.465	0.552
Latvia - lat	0.736	0.675	0.560	0.528	4.000
Lithuania - talona	1.773	4.344	3.978	4.000	

Source: Van den Bempte and Theelen eds. and International Financial Statistics

Table 4: Changes in GDP, Investment and Unemployment in the CEECs

% labour force

	Unemployment rate 1993	Unemployment rate 1994 est.	Change in total employment 1990-1994	Growth of GDP '93	'94	'95	Investment annual % change 1995
Czech Republic	3.5	3.2	-9.6	-0.9	2.6	5.2	
Hungary	12.0	10.4	-26.1	-0.8	2.9	2.0	12.3*
Poland	16.4	16	-14.9	3.8	5.0	7.0	
Slovakia	14.4	14.8	-15.4	-4.1	4.8	7.4	19.0
Slovenia	15.5	14.2	-20.5	1.3	5.3	4.8	8.2
Bulgaria	16.4	12.8	-25.7	-2.4	1.4	2.5	14.3
Romania	10.2	10.9	-8.5	1.3	3.9	6.9	
Estonia	5.0	5.1	-18.6	-8.6	2.4	2.5	10.5
Latvia	5.8	6.5	-14.4	-14.9	0.6	-1.6	
Lithuania	3.4	4.5	-12.0	-30.4	0.9	2-2.5	12.6
Croatia	16.9	17.3	-25.2	-3.7	0.8	-1.5	
Albania	22.0	18	-19.4	10.9	7.4	13.4	

* 1994

Source: Eurostat, BERD, UN/ECE, OECD and World Development Report, Handbook of International Trade and Development Statistics

Table 5: Indicators of the macroeconomic performance of the CEECs

	public deficit % GDP (1)	foreign debt % GDP* (2)	inflation (3)	growth of GDP (4)	Unemploy-ment (5)**
Czech Republic	+	+	-	+	+
Hungary	-	-	-	-	+
Poland	+	+	-	+	-
Slovakia	+	+	-	+	-
Slovenia	+	+	-	+	-
Bulgaria	-	-	-	+	-
Romania	-	+	-	+	=
Estonia	+	+	-	+	+
Latvia	+	+	-	-	+
Lithuania	+	+	-	-?	+
Croatia	+	+	+	-	-
Albania	..	+	-	+	-

*Given difficulties in finding comparable data on public debt (the Maastricht criterion), foreign debt has been used here.

** The use of + to indicate an unemployment level lower than the EU average might be somewhat misleading in that a low unemployment rate could be an indication of lack of progress in transition and the fact that much labour remains to be shed.

(1) + public deficit less than 3% GDP
 - public deficit more than 3% GDP
(2) + foreign debt less than 60% GDP
 - foreign debt less than 60% GDP
(3) + inflation rates no more than 1.5% above the average of the three countries with the lowest inflation rate in the Community
 _ inflation rates more than 1.5% above the average of the three countries with the lowest inflation rate in the Community
(4) + above EU (15) average of 2.4 for 1995
 - lower than EU (15) average
(5) + above EU (15) average 10.9 for 1995
 - lower than EU (15) average

Table 6: Progress in Transition in the CEECs

	private sector as % GDP mid-1995	Enterprises			Markets and trade			Financial Institutions		Legal reform
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Czech Republic	70	4	4*	3	3	4*	3	3	3	4
Slovakia	60	3	4*	3	3	4*	3	3	3	3
Hungary	60	4	4*	3	3	4*	3	3	3	4
Poland	60	3	4*	3	3	4*	3	3	3	4
Bulgaria	45	2	3	2	3	4	2	2	2	3
Romania	40	2	3	2	3	4*	1	3	2	2
Estonia	65	4	4	3	3	4	3	3	2	3
Latvia	60	2	4	2	3	4	2	3	2	3
Lithuania	55	3	4	2	3	4	2	3	2	2
Slovenia	45	3	4*	3	3	4*	2	3	3	3

Source: ERBD Annual Report 1995 and Transition Report Update, April 1996

(1) Private sector share of GDP mid-1995

(2) Large-scale privatisation
4 more than 50% state assets privatised; 3 more than 25%; 2 scheme almost ready to be implemented, 1 little done

(3) Small-scale privatisation
4 comprehensive well-designed programme implemented; 3 programme implemented, but design or lack of central supervision leaves some issues unresolved; 2 substantial share privatised; 1 little done

(4) Enterprise restructuring
4 restructuring programme which substantially improves corporate governance in operation; strong financial discipline at the enterprise level; large conglomerates broken up; 3 structures created to promote corporate governance or strong action to break up conglomerates; 2 moderately tight credit and subsidy policy; weak enforcement of bankruptcy legislation; little action to break up large conglomerates; 1 lax credit and subsidy policies weakening financial discipline at enterprise level; few other reforms to promote corporate governance

(5) Price liberalisation and competition
4 comprehensive price liberalisation and price competition; antitrust legislation in place; 3 comprehensive price liberalisation and price competition; 2 price controls remain for some important categories; 1 price controls remain formally controlled by the government

(6) Trade and foreign exchange system

4 few import or export quotas; insignificant direct involvement in exports and imports by ministries and state-owned former trading monopolies; almost full current account convertibility at unified exchange rate; no major non-conformity of customs duties; 3 Few import quotas; almost full current account convertibility at unified exchange rate; 2 Few import quotas; almost full current account convertibility in principle but with a foreign exchange regime which is not fully transparent (possibly with multiple exchange rates); 1 widespread import controls or very limited and prudential supervision

(7) Competition policy

(8) Banking reform and interest liberalisation

4 Well functioning banking competition and prudential supervision 3 Substantial progress on banking recapitalisation, bank auditing and establishment of a functioning prudential supervisory system; significant presence of private banks; full interest rate liberalisation with little preferential access to cheap refinancing; 2 Interest rates significantly influencing the allocation of credit; 1 little progress beyond establishment of a two-tier system.

(9) Securities market and non-bank financial institutions

(10) Extensiveness and effectiveness of legal rules on investment

Table 7: GDP per capita in the CEECs and poorest EU member states

	GDP million $ 1994	Population million 1994	GNP per head US ($) 1994	GDP per head (PPP, $) 1994
Greece	28,526	10.4	7,700	10,930
Ireland	20,231	9.9	13,530	13,550
Portugal	40,147	3.6	9,320	11,970
Spain	211,542	39.1	13,440	13,740
Czech Republic	36,024	10.3	3,200	8,900
Hungary	41,374	10.3	3,840	6,080
Poland	92,580	38.5	2,410	5,480
Slovakia	12,370	5.3	2,250	..
Slovenia	14,037	2,0	7,040	6,230
Bulgaria	10,199	8,4	1,250	4,380
Romania	30,086	22,7	1,270	4,090
Estonia	4,578	1.5	..	4,510
Latvia	5,817	2.5	2,320	3,220
Lithuania	5,224	3,7	1,350	3,290
Croatia	14,017	4.8	2,560	..
Albania	1,808	3.2	380	..

Source: World Development Report

Table 8: Basic data on agriculture in the CEECs 1993

	land area (000 sq. km.)	Agricultural GDP $ billion	Agriculture as % GDP	Population in agriculture 1994 million
Bulgaria	111	1.3	10.0	0.9
Czech Rep.	79	2.2	3.3	1.4*
Slovak Rep.	49	0.9	5.8	
Hungary	93	2.8	6.4	1.0
Poland	313	5.5	6.3	6.1
Romania	238	6.3	20.2	3.4
Slovenia	20	0.7	4.9	..
Estonia	45	0.6	10.4	1.5
Latvia	65	0.5	10.6	..
Lithuania	65	1.1	11.0	..
EU	2363		3	18.1

*Czechoslovakia

Source: Eurostat, FAO and World Development Report and Tarditi et al (1995)

Table 9: Total Assistance from G-24 countries to the CEECs, 1/11990-31/12/1995

(including Albania, Slovenia and the Baltic States)

	Overall assistance		of which: grants	
	billion ECU	%	billion ECU	%
EU Member States	32.6	37.82%	9.9	11.48%
Of which:				
Germany	14.7	16.98%	3.8	4.37%
Italy	1.5	1.79%	0.6	0.70%
France	6.2	7.15%	2.3	2.66%
UK	0.8	0.97%	0.2	0.18%
Austria	3.4	3.97%	0.8	0.94%
EU total (EU+EIB+CECA+ member states)	46.1	53.45%	16.8	19.45%
EFTA	1.6	1.8%	0.7	0.78%
Of which: Switzerland	1.0	1.13%	0.5	0.59%
USA	9.8	11.31%	5.6	6.54%
Japan	5.0	5.83%	1.1	1.23%
Canada	1.7	1.99%	1.2	1.37%
Turkey	0.4	0.49%	0.03	0.04%
G-24 Total (excluding IFIs	64.9	75.23%	25.4	29.42%
G-24 Total (including IFIs*	86.2	100%	25.4	29.42

Source: European Commission
* International financial institutions

Table 10: G-24 Assistance Commitments
Billion ECU, 1/1/90-31/12/95

	EU member states	total EU	EFTA	G-24	IFIs	Grant total	% of total
Czecho slovakia 1990-92	3.0	3.7	.08	4.8	1.6	6.4	7.37%
Czech Republic	1.5	2.3	0.04	2.8	0.5	3.3	3.81%
Slovakia	0.6	0.9	0.03	1.1	0.4	1.4	1.67%
Hungary	4.2	6.6	0.1	8.7	4.0	12.7	14.67 %
Poland	13.7	16.1	0.4	23.3	7.1	30.4	35.25 %
Slovenia	0.4	0.6	0.02	0.7	0.2	0.9	1.01%
Bulgaria	0.7	1.8	0.2	2.6	1.4	4.0	4.62%
Romania	2.6	4.3	0.1	5.2	3.0	8.6	9.96%
Estonia	0.3	0.5	0.03	0.7	0.3	0.9	1.06%
Latvia	0.3	0.5	0.04	0.7	0.4	1.1	1.22%
Lithuania	0.4	0.7	0.04	0.9	0.5	1.5	1.68%
Albania	0.6	1.0	0.04	1.3	0.3	1.6	1.84%

Source: G-24 Scoreboard of Assistance Commitments to the CEEC (1990-95), 1996

Table 11: The 1994-99 Financial Perspective
million ECU

	1993	1994	1995	1996	1997	1998	1999
Total Community Budget*	69,177	69,944	72,485	75,224	77,989	80,977	84,089
of which:							
Structural funds	19,777	20,135	21,480	22,740	24,026	25,690	27,400
Cohesion fund	1,500	1,750	2,000	2,250	2,500	2,550	2,600
CAP	35,230	35,095	35,722	36,364	37,023	37,697	38,389

* The other sources of budgetary expenditure are: internal policies, external actions, administration and reserves
Source: EC Commission

Table 12: EU-CEEC Trade

	EU Exports					EU Imports					trade balance
	1989 bio ECU	1994 bio ECU	1995 bio ECU	1995 Share	95/94 % Var.	1989 bio ECU	1994 bio ECU	1995 bio ECU	95/94 % Var.	1995 Share	1995 bio ECU
Czech Republic	2.39*	7.93	10.12	20.5%	27.7	2.56*	6.37	7.86	23.5	18.8%	2.26
Slovakia		1.79	2.69	5.5%	50.1		1.87	2.62	39.6	6.3%	0.08
Hungary	2.99	6.16	6.77	13.7%	10.0	2.59	4.96	6.50	31.9	15.6%	0.27
Poland	3.95	10.82	13.50	27.4%	24.7	3.86	9.11	11.10	21.9	26.6%	2.40
Slovenia	..	3.67	4.38	8.9%	19.1	..	3.42	3.78	10.6	9.1%	0.59
Bulgaria	1.5	1.67	1.87	3.8%	17.2	0.53	1.34	1.76	31.4	4.2%	0.11
Romania	0.69	2.65	3.55	7.2%	34.2	2.55	2.51	3.26	30.1	7.8%	0.29
Estonia	..	0.31	0.45	0.9%	46.2	..	0.27	0.43	62.9	1.0%	0.02
Latvia	..	0.49	0.63	1.3%	28.8	..	0.72	0.87	18.0	2.1%	-0.24
Lith.	..	0.72	0.83	1.7%	14.5	..	0.73	0.88	17.5	2.1%	-0.05
				100%						100%	

* Czechoslovakia
Source: Eurostat

Table 13: The Increase in EU*-CEEC Trade over the 1989-95 Period

	% Increase in EU (12) exports 1995/1989	% Increase in EU (12) imports 1995/1989	% total extra-EU exports 1989	% total extra-EU exports 1995	% total extra-EU imports 1989	% total extra-EU imports 1995
Czech Republic and Slovakia	436.0	309.4	0.6	2.2	0.6	1.8
Hungary	126.4	151.0	0.7	1.2	0.6	1.1
Poland	241.8	187.6	1.0	2.3	0.9	1.9
Bulgaria	25	232.1	0.4	0.3	0.1	0.3
Romania	414.5	28	0.2	0.6	0.6	0.6

* EU(12)
Source: Eurostat

Table 14: The Increase in the EU Share of the Total Trade of Selected CEECs over the 1989-95 Period

	% total exports 1989	% total exports 1995	% total imports 1989	% total imports 1995
Czech Republic and Slovakia	18.2% (EC) 4.6% (Austria) 6.6% (GDR)	55.1% (Cz Rep.) 37.4% (Slovakia)	17.8% (EC) 5.5% (Austria) 7.8% (GDR)	56.4% (Cz Rep.) 34.7% (Slovakia)
Hungary	24.8% (EC) 6.4% (Austria) 5.4% (GDR)	63.3%	29% (EC) 8.6% (Austria) 6.2% (GDR)	61.6%
Poland	31.8% (EC) 0.5 (EFTA)	70.0%	34.2% (EC) 0.7% (EFTA)	64.7%
Bulgaria	5.5% (EC) 1.5% (EFTA)	37.2%	10.3% (EC) 3.9% (EFTA)	38.1%
Romania*	28.5% (EC) 3.2%(EFTA)	53.5%	13.8% (EC) 1.3% (EFTA)	51.3%

* Earlier data is for 1988
Unless otherwise stated the statistics are for EC 12 in 1989 and EU 15 in 1995.
Source: Economist Intelligence Unit (for Hungary, the Czech Republic and Slovakia), own calculations on the basis of PlanEcon and EC Commission, 1994b, (Romania and Bulgaria), own calculations on the basis of Rocznik Statystyczny (Poland).

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