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EU Enlargement and Current Adaptation Challenges

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Introduction: The Context of Enlargement

The European Union's (EU) enlargement process was an integral part of the EC/EU's wider integration project and, surprisingly, it has not yet halted. The journey from six to twenty seven has been a long and complicated one, and the realisation of some of the projects has required much time and political consideration. It seems that the queue of countries that are on the waiting list to join the EU remains a long one even after the 2004 and 2007 enlargements. Enlargement cannot be considered an automatism and must not be taken for granted when reviewing past, as well as future extensions. For example, it is noteworthy, that even those European countries that maintained strong reservations towards continued integration projects of the European Community (i.e. Great Britain) eventually pursued accession to the EC/EU, in spite of efforts to direct the trajectory of integration towards either an economic or political objective. Integration became a notable valve for the consensual solution to achieve the interests of a number of European states, mainly; France and Germany. The current, positive state of European relations, confirms that history may teach many valuable lessons.

A great deal of the effects enlargement has had on the socio-economic and institutional character of the present-day EU remains hidden. Nevertheless, the first audit of the 2005-2008 period, suggests that EU enlargement was not fundamentally modified, although this was what several West European countries had expected, and were concerned about in the 1990s. On the other hand, the institutional and economic parameters underwent radical transformations in transition countries heading towards the EU. The extensive analysis carried out by the employees of the European Commission in February 2009, pro-

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vided convincing evidence of this in regards to the economic sector (European Economy 1/2009).

Enlargement of the EU from 12 to 15, and then to 27 members was undoubtedly sparked by the decisive impulse that ended the cold war. After 1998, neutral states and former communist countries had the opportunity to choose their ‘anchor’ in European institutions through the integration process. Had it not been for this geopolitical fact – closely connected with the collapse of the Soviet Union and the loss of its sphere of influence – Europe would, without doubt, have evolved into a fundamentally different entity in both qualitative as well as quantitative senses.

It was clear that the potential candidates from Central and Eastern Europe were economically disadvantaged when compared to the advanced countries of the ‘older’ EU members. These ‘fresh’ democratic states, with problematic political and economical institutions, required rapid and difficult transitions in order to establish political and economic stability. This reality dragged on throughout the 1990s – like a red thread – as the accession process wound down, though it has, to a great extent, influenced the socioeconomic and institutional basis of the enlarged EU; complicating the finalisation of some of the EU’s policy goals, especially those related to the establishment of a single common market and the Economic and Monetary Union. The political will to open up the integrated community to new members was great on both sides of the former ‘iron divide’ since 1993. Among other reasons, this was due to the fact that the EU was quite busy with negotiations in preparation for the European economic and Monetary Union and absorbing a recently reunified Germany.

In the period preceding their accession to the EU, most newly democratic states in Central and Eastern Europe, which constituted functionally pluralistic systems, were preoccupied by two strategic priorities: realising their domestic political-economic transformations and the gradual (and successful) conclusions of the 31 chapters of accession talks. Significant help came in the form of the so called ‘Euro-agreement,’ conducted between membership candidates and the EU. This was the first opportunity to forge structured political-economic contact with the EU, its existing and future membership.

Since 1995, the so-called ‘White Book’ had existed as a means of priming candidates on the procedures required for inclusion into the single, internal EU market. This document was naturally something more: it also became the means which helped direct the institutional, technical and financial assistance derived from EU funds to the states that wanted to participate and enter into the single internal market even before they actually, and formally, joined the EU.

In all European Commission documents, and at Summits of the European Council in the first half of the 1990s, enlarging the EU to include Central and East European states had been viewed as a crucial contribution to political stability, democratisation and the respect for human rights on the European continent. It was expected that this would create more favourable conditions for economic growth, investment and the general prosperity of citizens, both within the new democracies as well as in 'old' Europe. The EU considered this preparatory period to be a contribution for consolidating economic reforms in potential candidate countries in order to create a reliable legal-institutional framework for entrepreneurs. In practice it was evident – in the years preceding the actual enlargement – that accepting the rules of the single market was beneficial for candidate countries as it supported foreign and local investment and expanded regional and international trade. The natural expectation was that enlargement would also contribute to solving a number of international problems ranging from issues of environmental security, to constructing and proliferating democratic societies and to fighting transnational crime.

During the preparatory phases, and the enlargement process itself, the institutional-economic and institutional-political dimensions fused because these processes were specific in timing and political-economic spaces. A number of authors and observers of the enlargement have considered this 'big bang' enlargement process of ten states – along with their largely dysfunctional economies – to be the most complicated economic challenge to the EU and its membership. It should be noted however, that in the cases of Malta and Cyprus, accession to the EU was viewed more as a political or institutional challenge, whereas the states of Central and East Europe had to consider problems with adapting to the competitive conditions of the European and World market-places owing to the discrepancies in size and geographic proximity. Quantitatively, the EU enlargement from 15 to 25 brought about a GDP rise to the overall sum of only about 5%, while the EU's population grew by around 20%. The later accession of Bulgaria and Romania only highlighted this asymmetry.

During accession negotiations, glancing around the negotiating table, it was clear that the EU was evolving into a truly a heterogeneous economic and institutional entity. Yet, given the new population base and the vast disparities in economic capacities, how was the EU readying itself to absorb such a 'motley-crew' of new members? The substance (acquis communitaire), the actual procedure for enlargement was divided into 31 segments (chapters), and followed a certain logic based first on EU policies pertaining to a single internal market, followed by other policies pertaining to the internal EU sector; second came the external policies of the EU; and finally, the chapters dealing with the financial control and institutional anchoring of the candidate-country into EU structures including how many votes in the Council, and the number of MEPs in European Parliament would be allotted to the candidate country upon its entry into the EU.

In relation to this, Amery speaks of five stages in accession negotiations between 1998 – 2003. These were:

1. The ‘screening’ acquis stage (April-November 1998);
2. The ‘open chapters stage’ – considered rather ‘simple’ by both sides (EU and candidate). Negotiations within this stage were held with six candidate countries between October 1998 and January 2008;
3. The stage of expanding negotiations to an additional six candidate countries (February-December 2000);
4. The stage of ‘acceleration,’ mirroring the implementation of the so-called ‘road map’ and clarifying the position of the EU on almost all chapters (January-December 2001);
5. The final stage, connected with discussing themes that were meant to be projected in the chapters, was connected to budgetary costs, and those that lead to the serious political discussion at the Copenhagen Summit, culminating the negotiations (January 2001- February 2002).

Accession proceedings, conceived by the European Commission and the European Council in structure and timing, complemented the on-going economic reforms, and the transformative process as a whole. This was initiated by national political elites, and large segments of civil society of candidate countries. The synergy of the socio-political and geopolitical processes in the ‘old’ EU, and within the countries of Central and Eastern Europe was quite extraordinary and many observers agree that without pressures from the EU the newly democratic states of Central and East Europe would have taken a much longer time to implement reforms.

From recent observations, one could say that as soon as *the* ‘goal’ of membership was achieved, the momentum for continuing reform efforts typically slowed, and political elites often start to flirt with Euro-sceptic attitudes and new members begin to acknowledge the burdens, challenges and risks membership carries. This applies particularly to the ‘behaviour’ of Bulgaria and Romania after joining the EU (2007), which was connected to security links to a number of EU countries, including verbal warnings that had no impact on the dynamics of institutional reform or public opinion in Bulgaria and Romania. It is here that the EU, with its 25 member states really manifested itself as a ‘soft power,’ this will surely be projected into the further operations of the EU, as in the attitude undertaken by many member states towards further enlargement. The euphoria of the ‘big bang’ enlargement has been exhausted, and will not be repeated. Consequently, it is important to note that the Eastward enlargement brought about and solidified the true end of the Cold War in Europe; it was a decisive step in transforming the states of the former Soviet bloc from communism to liberal democracy and gave a new meaning to the word ‘*European*.’

The priorities of economic reforms – despite the specifics of individual Central and East European states – brought about activities in six main sectors:

1. macroeconomic stability;
2. price stabilisation;
3. liberalising trade commitments;
4. changes in manufacturing and service privatisation;
5. constructing social safety-nets;
6. creating respective institutional structures, and legal frameworks, which are necessary for a functional market economy.

These reforms were not only vital for the revising the former socialist states' and getting them to 'change' their perceptions, they were also meant to reflect the demands that are explicitly being made on new members of the EU.

This is in contrast to the pre-1989 period, when *all* candidates were states with a functioning market economy, and democratic institutions, even though there were exceptions (Spain, Portugal and Greece). The analyses of many West European experts assumed that joining the EU would liberalise the new members: a key condition for economic growth, towards full-employment, and eventually for wide-spread prosperity and economic security in the region.

The effects of enlargement are usually divided into microeconomic and macroeconomic categories, and are closely related with theoretical analyses of the effects of integration. The first balance with regard to the practical development in new member states in connection to the readiness during the accession process is more than capturing.

The Microeconomic Dimensions of Enlargement

Microeconomic effects, in relation to the enlargement process, include a wide range of facts that influence the environment in which economic agents operate. It is vital that we also include effects that precede the actual entry to the EU (May 2004, resp. January 2007); ones that were radical and steered towards an accelerated modelling of the functional market economy and pluralistic democracy. Naturally: the prime mover of reforms was national political will, and the interests of the citizens of the post-communist country in question.

Visions of entry into the EU, and taking advantage of pre-entry aid such as structural-regional funds and the common agriculture policy, as well as accepting assistance from the EU during the construction phases of new democratic and pro-market institutions, were probably the most important effect of, and motivation for, the realisation of transformation policies.

Entry into the EU was often regarded as a goal, not an instrument. Reservations based on Euro-scepticism, and doubts over the EU's future development, or the necessity of adaptation (Lisbon Treaty) appear in new members usually only after entry, when the 'hand is already in the glove' or 'ruka v rukave.' The target function of the effort for entry into the EU, 'at any cost' (so to speak), changes after the entry more into an instrumental function, when integration mechanisms are understood more frequently as tools to implement national interests, viewed rather as a narrowly and a non-complex and integration goal, involving compromises and 'victims,' often retreating to the background.

Avery argues of three, especially troublesome domains, in the accession proceedings; ones that could be projected in the behaviour of new member states: firstly, the enlargement's impact on the EU's budget; secondly, the common agricultural policy; and thirdly, the impact on structural funds. The microeconomic dimension of the impacts the enlargement had depended on the success of the performed transformation, economic reforms and the development of economic parameters. These developed quite well in the second half of 2008 in accession countries, for example they facilitated the entry of Slovenia and Slovakia to the Euro-zone, they were however considerably disrupted by the global financial crisis and especially by the global recession, that also affected all new EU members and possible candidates between 2008/9. The crisis phenomenon is exceedingly fresh and open for analysis. It is certain however, that it may influence public perceptions of the EU both negatively and positively. There are signals that show that a sharp worsening of the economic and social parameters from the second half of 2008 are creating a positive impulse in society towards intensifying integration. Indeed, Iceland serves as an example, as it applied to join the EU towards the end of 2008 in a bid to cushion its economic hardships.

The Copenhagen accession criteria adopted in 1993 included the ability and obligation that a candidate country adopts the full *acquis communitaire* before entering the EU, knowing that certain aspects of adoption would not be immediately realised, and that certain transition stage would be necessary.

Avery notes that it was clear it would have been a mistake to wait for a candidate country to be fully ready, as this would slow down the enlargement process and complicate the tempo of economic and political reforms. From the very beginning, it was clear to the Commission that transitional periods would be vital, but chapters dealing with a single internal market and its legislature were considered a priority by the 15 EU members. The meticulously prepared 'White Book' bears witness to this fact. There was concern of a 'permanent,' possible abuse of competing advantages, or of violating legislature of the internal market, e.g. in the area of the environment. The institutional preparedness of candidates was also being increasingly monitored.

Amery notes that the experiences from prior European Community enlargement reveals that there was always a transition period associated with enlargement one which was vital for handing over the acquis in various fields. In the case of Central and East European countries, the transition period was usually negotiated to be longer, which reflected the considerably lower economic, institutional and infrastructural level of post-communist candidate countries. In some sectors, there was also an exceptional agreement with implementing

European Law, especially in regards to environmental requirements, safety at the workplace, state subsidies, and agricultural policy (etc). Some observers worried that new members will have trouble fulfilling the commitments in areas prioritised for the EU 27 integration process.

The Macroeconomic Dimensions of Enlargement

The macroeconomic dimensions of enlargement, and adaptation, usually include economic growth, inflation-rates, and the degree of economic convergence. Part of the macroeconomic information is also the development of the public debt, generally the state of the public budget, the development of salaries, employment and unemployment. A number of these processes projected even into the readiness of countries in fulfilling the Maastricht criteria for entry to the Euro-zone. To date, out of all the new members, only Slovenia (2008) and Slovakia (2009) have managed to meet these requirements. During the second half of the negotiation process, the EU enlargement was associated to an expectation of contributions to increased economic growth, and market expansion. It was simultaneously clear that enlargement increased the EU´s population by around 20% but only 5% in GDP. From this perspective, one can say that the macroeconomic contribution of new members to the EU 27 is largely insignificant. In 2007, the EU's 27 GDP hovered at around 12,340 billion (Euro), out of which only 840 billion (Euro) originated from Central and Eastern Europe.

The adaptation process (2005-2009), produced results that exceeded the purely *economic* view and considered political-economic factors, where a number of new members approached reforms that were not desired among many 'old' members due to the lack of political will (reforms in social networks, tax reforms etc).

The fears some maintained that the macroeconomic outlook could be impaired due to clashes between national politics, and the policies required by the convergence of politics and economic related to the logic of realising that Maastricht criteria were not met. Amery thought that a change in the interest rate, in an effort to meet these criteria, could result in an antagonism with the goals of the monetary policy, needed for urging the real economy. On the contrary, the expectations of the European Commission were met, in the sense that entry to the EU with their economic and institutional context (appeal to foreign capital) will support economic growth and structural changes.

Concurrently, it was apparent that the economic subjects inside the new members and abroad have more or less anticipated the perspective of joining the EU from the mid-1990s and this influenced the economic behaviour, and general operations, of the market. This is why prior to the actual entry, the dynamics of economic growth changed in a number of countries. This, in turn, had an effect on social bases and the development of other macroeconomic parameters. This also explains that the actual 'moment' of entry did not cause the economic players any special surprises due to the fact that many such changes had occurred before entry. A key starting point in anticipation of entry to the EU could have been considered in the onset of accession negotiations, when both parties internally expected negotiations to end positively.

Accommodating New EU Members during the Global Economic Recession and Other Changes to Global Economics (2008 – 2009)

EU integration processes have recently been influenced by institutional matters and disputes about their anchor in the Lisbon Treaty, and also by efforts to fortify cooperation in some policies (internal security, energy). From the second half of 2008, (i.e. from the time of the French Presidency in the Council of the European Union) a new situation has been unfolding for economic, and subsequently, social processes: the crisis in international financial markets. Its causes, circumstances, and impacts on the EU's macroeconomic indicators were analysed in January 2009 by the European Commission. When the Commission (November 2008) prepared the so-called European Economic Recovery Plan, which was backed by the European Council meeting (the European Summit), in December 2008. The agreement was not simple; each member maintained its position when facing the common 'plan.'

It is apparent that a there has been, and will continue to be, a significant decline in economic growth throughout the EU. However, some new EU members will maintain a certain economic dynamic while others have asked the IMF for financial assistance. Due to the current extraordinary impact of the global recession on the adaptation processes – that fully affects the EU and the entire European continent – it is imperative to pay greater attention to these issues.

In this regard, it is not possible to separate 'new' from 'old' members: the economies are deeply interconnected, and 'old Europe' presents key trading channels to the new members, including the Czech Republic. The analysis therefore contains the situation in the EU as a whole, keeping in mind the fact that the decisive role in adaptation belongs, first and foremost, to the larger EU countries, those whose economies contribute to the EU's total GDP.

As the financial situation was further complicated (Autumn 2008), perpetuated by the collapse of the largest mortgage banks in the US, Western Europe reached the conclusion that that it would not manage to steer clear from the coming recession which will, this time, be deep and have serious consequences. A social order was formed for the rapid-reaction of the respective political, economic and central banking institutions. It is important to note that the French Presidency and French President Sarkozy exerted an extraordinary activity in terms of the European Council, and unprecedented meetings of the Euro-zone at the Heads of Government level. The European Commission was active too, and quickly prepared the aforementioned Recovery Plan from the recommendations brought forward by the Council. The goal of this plan (programme) was to alleviate the impending economic collapse by using measures on both the levels of members, as well as on a European level, that would totally constitute an EU GDP of around 1.5%.

Public reactions were not always positive. A number of experts questioned governmental interference into the economy as 'wasting' tax-payers' financial resources, and increasing the role of the state in economic life. Undoubtedly, political-economic discourses have found themselves in new turnings, and will steer toward a significant reinforcement of the role of the state. Also, this is how the level of public debt will rise, and its burden will be carried on by future generations.

Towards the end of 2008, the Euro-zone found itself in a full-blown recession. The expected GDP growth for 2009 is a mere 0.9%, and according to the European Commission's projection, by 2010, the decline should reach -1.9%. In spite of this, the differentiation of this decline in individual countries is interesting. This was influenced by a number of factors: the degree of openness the national economies and banks had towards the financial crisis, furthermore the place of the economy during the course of the industrial cycle, the situation on the mortgage market and other specific national factors. Estimates of the GDP dynamics for 2009 as forecast by the Commission show, for example, that for Germany there is a visible decrease of 2.3%, for France a decrease of 1.8%, for Great Britain a decrease of 2.8%, for Italy a decrease of 2%, for Ireland a decrease of 5%, for Austria a decrease of 1.2%, for Spain a decrease of 2% etc. For the entire Euro-zone, the decrease is by 1.9%. If the EU is presented as a whole (27) the prognosis for 2009 predicts a decrease in the GDP of 1.8%.

In light of the impact the global crisis has on growth in the new members in 2008 and 2009, a somewhat more positive picture appears: In 2008 the following countries experienced (tentative) positive growth: Bulgaria (6.4%), Czech Republic (4.2%),Slovakia (7.1%), Slovenia (4%), Romania (7.8%), Poland (5%) and Latvia (3.4%). Hungary experienced slight growth of 0.8%. Contrarily, countries that experienced decline in 2008 were Lithuania (2.3%) and Estonia (2.4%).

The crisis is expected to 'hit home' in 2009, when the growth dynamics markedly slow down even in the new members. This decline will be by several percentile points, although it will not necessarily produce negative figures. In Bulgaria, the expected GDP growth for 2009 is 1.8%, in the Czech Republic it is 1.7%, in the Slovak Republic 2.7%, in Romania 1.8%, in Poland 2%, in Slovenia by 0.6%. The decline expected in Estonia is -4.7%, in Latvia is -6.9%, in Lithuania - 4.0% and -1.6% in Hungary.

It is important to realise that from the year 2004-2007 a number of new members noted stable and high economic growth exceeding 10-12%. It is therefore safe to assume that dips in economic growth will result in a decline of employment opportunities, rises in unemployment, rises in public debt, and a deficit in the public budget. This provides the base for a worsening of macroeconomic indicators until at least 2010 which is quite probable, even though some of the predictions made by the Commission expect that there could be a turnaround (u-turn) by the end of 2009. With this, a new stage is opened for new member states, in their macro- and microeconomic adaptation.

There is some good news: depressions push down prices in all international and internal markets. In the Euro-zone – where inflation in June 2008 had reached 4% – inflation fell to 1.6% in December 2008. Inflation in the whole of the EU in 2007 was 2.4%, in 2008 it was 3.7%. However, for 2009, it is expected to be 1.2%. It seems that macroeconomic adaptability in new member countries is demonstrated in 2009 by an even higher inflation pace. The main cause of the steep fall in the pace of inflation was the acute fall in the world prices of oil and natural gas, including other important commodities from the second half of 2008 thus worsening the outlook of the world economy and international trade. We can also count on an average lower inflation to affect salaries and so the employment costs in relation to production per unit.

The deep economic recession has, through its chain of events and context, affected public financing of members in an unprecedented manner. If, until now, members profited from budget incomes brought about by economic growth, the situation has turned around. Various stimuli "packages" affect this by causing the rise of the members' public debt. The average budget deficit in the EU – that was estimated to be around 2% GDP in 2008 – will probably become 4.4% in 2009. Members of the Euro-zone that found themselves in a deep deficit were: Ireland (6.3% GDP and in 2010 prognosis of 11%), Greece and Spain with an expected deficit of 4-5%, Portugal with 4.6% GDP, but also France with 5.4% and even Germany and Belgium with a deficit of around 3%. Great Britain, whose deficit has been around 2.7-3.4% for several years found itself at 4.6% in 2008 and is expected to be at around 8.8% in 2009, in 2010 it is expected to be at around 9.6%.

In such a situation several Euro-zone members have announced that they will probably break the 'magical' threshold of one of Maastricht's criteria in 2008, which allows for a budget deficit of a maximum of 3% GDP. Other criteria that are related to the standard of public debt, connected to the GDP, will be disturbed in 2009 and 2010 as a result of a slower growth rate and the effects that will have on the income of the public budget of the EU member states. The European Commission therefore expects the growth of public debt that will rise from 68.7% GDP in 2008 to 72.7% GDP in 2009 and to 75.8% in 2010 in the Euro-zone if the tools of economic policy do not change.

In January 2009, a member of the economic and monetary affairs, Joaquim Almunia, in an interview for the Brussels based weekly European Voice, drew attention to the seriousness and novelty of this situation and supported the thoughts of coordinated and supervised financial markets within the Euro-zone, that could help cross-border operations of financial institutions and concurrently prevent members from raising new barriers during the transposition of directives from the acquis communitare. The European Commission's expert group, under the leadership of Jacques de Larosiere presented an applicable study. Almunia states – and not only does this reflect his personal view – that there will be no changes in accession rules for newcomers interested in joining the Euro-zone "from Central and Eastern Europe". Except for Denmark, where it is possible that the public will change its view on opting-out, there is space for new members in three years at the earliest, during the time period from 2012-2013, declared Almunia. The crisis has complicated meeting some of the criteria, but in the case of others on the other hand has been a simplifying factor said the Commissioner. Nevertheless, countries that have breached the criteria of maximum deficit, and have one substantially higher than 3% have to expect corresponding proceedings in 2009 according to the Maastricht Treaty. The result will only be the Commission's fortified monitoring towards the finances of the respective state, but no sanctions.

The European Commission is apparently using this method to send out signal to the world financial markets, that even during a time that is a very critical period for the world and European economy, when the deficits of the public budgets grow in an unprecedented way, in most EU states (including Germany and France) mechanisms that will control the functioning of the Euro-zone will work. Some places in the EU, e.g. France, want to take advantage of the economic situation and fighting the recessions to enforce the regulation mechanisms in integration and for further advancement to a so called "economic government", that would balance out the role of the European Central Bank, and whose core would be formed by the Euro-zone members.

Disputes over how to best confront the recession and its social consequences and chain of events are in the EU becoming disputes over further formation of an European integration system and its governance. The Euro-zone, European monetary system based on the Euro will undergo another test. Budget deficits and other sharp rises in debts in the 16 Euro-zone members have constituted exceptional pressure on accommodating. Some already see the global crisis of the world and European economy to be a beginning of a crisis of the monetary Euro-system.

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