An Overview of Political and Economic Aspects of the European Union Enlargement

Dan Ciupală

The dismantling of the communists regime which generated the so-called Iron Curtain presented the countries of both eastern and Western Europe with the challenge of completely redefining their relationships, overcoming the artificial division of Europe.

The EU decided to offer the countries of central and Eastern Europe the prospect of membership opened by the Treaty on European Union (the "Maastricht Treaty") of 1992 which states that any European state may apply to become a member of the EU[1] and these countries started to prepare making the significant reform efforts required to achieve this goal.

In March 1998 the European Union formally launched the process that will make the enlargement possible, involving ten applicant countries from Central and Eastern Europe: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These states must share the values and objectives of the European Union as set out in the founding treaties. Moreover, the European Council calls that compliance with the political criteria laid down at the Copenhagen European Council is a prerequisite for opening of accessions negotiations, and compliance with all "the Copenhagen Criteria" is the basis for accession in the Union. In this respect it has been said that the process that started in 1998 was not one of negotiations but one in which the European Commission assessed the progress which the applicants were making in meeting those criteria[2]. Finally the negotiations will determine the conditions under which each applicant country joins the European Union.

Moreover, the progress in negotiations must go hand in hand with progress in incorporating the *acquis communautaire* into legislation and implementing and enforcing it. Each applicant country presents its position on each of the 31 chapters of the *acquis Communautaire* and engages in negotiations with the member states. On joining the European Union, applicants are expected to accept the *Acquis communautaire* – the detailed laws and rules adopted on the basis of the Union's fundamental treaties such as the Treaties of Rome, the Treaty of Maastricht and the Treaty of Amsterdam.

The Copenhagen European Council set out the conditions for EU membership in June 1993 in the so-called "Copenhagen Criteria" which require the following of the candidate countries:

– stable institutions to guarantee democracy, the rule of law, human rights and the protection of minorities (the political criterion);

– a functioning market economy and the capacity to cope with competitive pressure and market forces within the EU (the economic criterion);

– the ability to take on all the obligations of membership, i.e. the entire body of EU law (the so-called *acquis communautaire*), and adherence to the aims of political, economic and monetary union (the *acquis* criterion).

In the 1990's the EU concluded European Agreements with the following countries in central and eastern Europe: Hungary and Poland in December 1991, Romania, Bulgaria, the Czech Republic and Slovakia in February 1995, Estonia, Latvia and Lithuania in February 1998 and Slovenia in February 1999[3].

The main aim of these agreements was to liberalize trade between the EU and the country in question. Apart from regulating trade policy issues they also set out the guidelines for political dialogue and for cooperation, for example, in the areas of industry, environmental protection and transport. The European Agreements also include provisions and simplifications for bringing national laws into line with EU law, which helps the accession candidates greatly in their preparations for joining the EU.

Apart from the European Agreements the EU has Association Agreements with Turkey (since 1964), Malta (since 1971) and Cyprus (since 1973). The aim of each of these earlier agreements was a customs union with the EU. In the case of Turkey this came to fruition with a Customs Union agreement in 1995.

Along with the European Agreements (with ten central and eastern European countries) and Association Agreements (with Cyprus, Malta and Turkey) the EU's support for these countries is based on Accession Partnerships and financial pre-accession instruments known as PHARE, ISPA and SAPARD:

Accession Partnerships provide an overall framework under which all the forms of support for these accession candidates are implemented. It is within this framework that the priorities for the adoption of the *acquis communautaire* are defined and the funds available to pursue these priorities are put together for each country. The scale of this support is based on the progress made by the respective accession candidate particularly in the implementation of the programme to adopt the *acquis.*

PHARE, which was originally an acronym for "Poland and Hungary Action for the Reconstruction of the Economy", has, as the French term "phare" (lighthouse) suggests, proved to be one of the most important EU instruments for economic restructuring of the accession candidates[4]. Under the PHARE programme to support the process of reform in the countries of central and eastern Europe, the EU has made available a total of 10.6 billion euro between the years 1990 and 2000. Since 1998 the programme has been tailored specifically to the needs of the accession process. Approximately 70% of its budget goes on supporting investment to comply with the *acquis* and about 30% goes towards institution building in the candidate countries. The latter includes the highly successful "twinning" arrangements between EU institutions and those of the accession candidates[5].

In order to intensify accession preparations the Berlin European Council in March 1999 decided to introduce additional pre-accession instruments in the areas of agriculture (SAPARD or Special Accession Programme for Agriculture and Rural Development, to promote modernization of agriculture and the food industry) and structural policy (ISPA or Instrument for Structural Policies for Pre-accession, to promote infrastructure projects in the areas of transport and the environment)[6].

Between 2000 and 2006 a total of 21.84 billion euro (i.e. 3.12 billion euro per year) is being made available as pre-accession assistance to the ten countries of central and eastern Europe, half of it through the PHARE programme, a third through ISPA and a sixth through SAPARD. There are separate financial assistance arrangements for Cyprus and Malta (approx. 95 million euro for 2000 to 2004). Turkey currently receives about 177 million euro each year, but the Copenhagen European Council decided that these funds will be increased significantly as of 2004[7].

The Luxembourg European Council of 1997 declared that while compliance with the Copenhagen political criteria was a prerequisite for the opening of negotiations, the economic and *acquis* criteria must be assessed "in a forward-looking, dynamic way"[8]. It decided to open accession negotiations with Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia (the so-called "Luxembourg Group"), which started in the spring of 1998. The decision to open negotiations with Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta was taken in Helsinki in 1999 and these negotiations with the "Helsinki Group" started in the spring of 2000.

The accession negotiations between the EU and ten accession candidates – the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia – were concluded at the European Council of 12-13 December 2002 which was also held in Copenhagen.

The ceremonial signing of the Treaty of Accession with the ten accession countries took place in Athens on 16 April 2003 with the participation of the heads of state and government and the foreign ministers of the countries involved. The Treaty of Accession sets out the conditions of accession for the ten accession countries on 1 May 2004.

Under Article 49 of the EU Treaty the formal pre-conditions for the signing were the positive opinion of the European Commission (given on 19 February 2003), the approval of the European Parliament of each application for accession (granted with overwhelming majority for each country on 9 April 2003) and finally the decision taken by the European Council on 14 April 2003 to accept new member states.

Negotiations are continuing with Bulgaria and Romania with the aim of their accession in 2007. With regard to Turkey, the European Council will decide at the end of 2004 on the basis of a report and recommendation of the European Commission whether to open accession negotiations.

The signed accession treaty requires the ratification of each of the signatory states according to their constitutional requirements. None of the current Member States requires a referendum on the issue, which means that the national parliaments will have responsibility for ratification.

The majority of the EU Member States plan to complete their parliamentary ratification process by the end of 2003. As the country that hosted the concluding accession negotiations, Denmark was the first Member State to ratify the treaty on 11 June 2003.

Further to the referendums they had organized, the ten acceding countries will become full members of the EU upon their accession on 1 May 2004. As of this date, European law (known as the *acquis communautaire*) will in principle be applicable in these countries. However, periods of transition were agreed with the future member states on certain EU provisions affecting various areas of life. Following their accession, the new Member States will participate on an equal basis in the institutions and committees of the EU. They already have the status of active observers, which grants them the right to speak but not to vote in these bodies.

Consequently we could be concerned about the rightfulness of the reasons, which legitimated this EU enlargement due on 1 May 2004.

The main argument in favor of maintaining the EU availability to enlargement towards the "Helsinki Group" is the hope of the most nationals of this countries that the successful model of the EU with its values of democracy, the rule of law, the protection of human rights and minorities can be transferred to the countries of central and eastern Europe, thus ensuring lasting peace, freedom, security and political stability.

Moreover, consolidating peace and mutual security in an enlarged union, will enable the development of trade and investment within the geographic area of Europe. With the accession of the applicant countries, the population of the European Union will grow by more than 75 million into an economic area of almost 450 million people and will thus become the world's largest single market, one which is admirably equipped for the challenges of global competition[9].

The economic potential of the candidate countries is considerable: the EU will thus integrate valuable growth markets with these countries. It will also be easier for small and medium-sized companies to conduct business under the common rules of the enlarged economic area.

While the basic institutional requirements for the enlargement of the EU will be fulfilled, the fundamental reorganization of Europe brought about by enlargement demands a conceptual response from the European Union extending to questions about its ability to act both internally and externally, its relationship with its Member States, the relations among its institutions and above all its meaning for the citizens of Europe. To this end, over the last one and a half years, the Convention in which the accession countries were active participants drew up a future-oriented draft constitution, which was presented to the Thessaloniki European Council in June 2003. The Presidency Conclusions of that Council welcome the Convention's Draft Constitutional Treaty as a good basis for starting. One of the aims of the new constitution is to ensure the enlarged Union's capacity to act by means of a reform of the institutional architecture and of the instruments and procedures.

Under the economic aspects, the single market will be expanded with the accession of the new Member States. The free movement of goods, already largely introduced under the Europe Agreements will be become complete in relation to the accession countries. Also the full freedom of movement for people will be introduced. This means that the citizens of both the old Member States and the acceding countries will be able to travel freely everywhere in the enlarged European Union. An exception to this will be the sensitive area of the free movement of workers, for which there will be a phased transitional period of up to seven years during which Member States can retain their national arrangements. However, the necessity for such arrangements to continue is to be examined after two years. The *acquis communautaire* is to be generally applicable five years after accession. However, a Member State may still maintain its national arrangements for a maximum of two additional years should there be major disruption to its national labour market or the threat of such disruption, but only in such cases.

The free movement of capital to and from the new member states will also become applicable upon accession. However, national rules will continue to take precedence, for example with regard to the purchase of agricultural and forest land in all the accession countries with the exceptions of Malta, Cyprus and Slovenia for a transitional period of seven years, or 12 in the case of Poland. Different rules will apply to self-employed farmers who have leased land[10].

The accession countries will become part of the single European market upon joining the EU which means that there will no longer be any controls on goods at national frontiers. However, checks on people at internal borders – those borders between the old and new member states – will continue, even though the free movement of persons will come into effect upon accession. Checks on persons can only be dropped when the accession countries are able to show that the security of their borders with non-EU members – i.e. the new external borders of the EU – meets the standards required under the Schengen Agreement.

The accession countries will benefit from fair quotas for farm produce in the common agricultural market without raising concerns about over-production. They will also receive funds for rural development which will be about 50% more per capita than the funds earmarked for the current Member States[11].

For acceding countries to join the euro they must fulfill the Maastricht Criteria and thus also have participated in the exchange-rate mechanism for at least two years[12]. The introduction of the euro in the acceding countries is thus the final step of a multi-stage convergence process and can only be reached in the medium term even by those countries that have made the most progress so far.

Nevertheless the economic, social and political realities in the candidate countries are very often different from the average of the EU. The prospective candidate countries are less developed economic system and their economies are more oriented towards the agricultural sector than the average of the EU countries. The enlargement will only be financially sustainable if the agricultural and structural policies of the EU are reformed further on, as both policies represent 80% of the total EU expenditures. Already the present structure of the EU budget limits investment for the future like education and science to small amounts[13]. The reforms on agricultural and structural policies, which were decided by the European Council in 1999, are a remarkable step towards a financially sustainable budget after enlargement, but they do not represent a final model for the future. In this respect it has been already said that accession members should be wary of future EU initiatives, such as harmonization of taxes, which will reduce their competitiveness. Once the candidates countries join the EU, they should pursue a strategy that seeks to introduce economic dynamism to the region by forging an alliance with more economically liberal governments to prevent further centralization in Brussels, working to prevent the adoption of costly welfare entitlements in the new EU constitution, guarding the national veto system within the EU, and working to abolish or substantially reform the unfair Common Agricultural Policy[14]. To the extent that the accession countries can continue to unilaterally liberalize, their economic performance could provide a useful example for other EU countries[15].

To face the challenges the candidate countries must have a functioning and competitive market economy and democratic structures. Additionally young entrepreneurs from these countries call for the implementation of all human rights principles, a functioning legal and administrative system, the opening of borders, full market access for companies and individuals and the will for peaceful solution of bilateral conflicts as standards to be fulfilled.

In conclusion unity in diversity for Europe should be the guideline for future integration in Europe. The enlargement must not hamper steps forward in the deepening of the Union. Due to stability reasons the integration of the Central and Eastern European Countries is necessary for the European Union. The enlargement will increase the economic power of Europe in the long run. It is a contribution to stability, to accelerate economic growth, to the necessary change of the economic structures and to increase the pressure on the reform process in the European Union.

In this respect 1 May 2004 will mark the continuation of a series of enlargements which the EU and its forerunners have completed in the past and should be seen as a further high point within the complex process of enlargement.

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[1] Before the enactment of the "Maastricht Treaty", the six founding states Belgium, Luxembourg, the Netherlands, Italy, France and the Federal Republic of Germany were joined for the first time in 1973 by Denmark, Ireland and the United Kingdom in an enlarged European Economic Community (EEC). In 1981 Greece acceded to the European Community (EC), followed by Spain and Portugal in 1986. Most recently in 1995, Austria, Finland and Sweden joined the EU.

[2] Charles Jenkins, ***Negotiating EU enlargement***, in ***Unification of Europe. An Analysis of EU Enlargement***, edited by Centre for Reform, 2000.

[3] General Directorate Enlargement of the European Commission, ***Synthesis Report*** - Enlargement Futures Report Series 00/2, EUR 20115 EN.

[4] Swinnen J., ***Transition and integration in Europe: implications for agricultural and food markets, policy and trade agreements***, in "The World Economy", vol. (25,2), April 2002.

[5] *Ibidem.*

[6] General Directorate Enlargement of the European Commission, ***Synthesis Report***, Enlargement Futures Report Series 00/2, EUR 20115 EN.

[7] *Ibidem.*

[8] *Ibidem.*

[9] *Report on Economic Transformation* - Enlargement Futures Report Series 01/2, EUR 20116 EN.

[10] *Report on Economic Transformation* - Enlargement Futures Report Series 01/2, EUR 20116 EN.

[11] *Ibidem.*

[12] *Report on Economic Transformation* - Enlargement Futures Report Series 01/2, EUR 20116 EN.

[13] *Ibidem.*

[14] *Report on Economic Transformation* - Enlargement Futures Report Series 01/2, EUR 20116 EN.

[15] Marian L.Tupy, ***EU Enlargement: Costs, Benefits, and Strategies for Central and Eastern European countries*** in Cato Policy Analysis, No. 489, Washington, Cato Institute, 2003.