The European Union's Eastward Enlargement

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Abstract

In July 1997 the Commission of the European Union presented its Agenda 2000. This document not only suggested to start accession talks with some East and Central European countries (CEEC) in early 1998 but it also provided proposals for a restructuring of EU expenditures. On this background this contribution discusses the state of readiness of the Central and East European countries to become EU members over the next few years and the Union's capacity to absorb up to ten CEEC over the next decade or so.
This study concludes that the European Union has become an anchor of stability to the CEEC that guarantees both democracy and economic security--much more than could be expected only a couple of years ago. The Union's readiness to accept the membership of CEEC has, in a decisive way, contributed to their societal, political and economic stabilization. There is almost a contest among the CEEC on which one is going to meet the accession criteria first and best. The enlargement process, however, is connected to problems the resolution of which realistically postpone its successful conclusion at least into the year 2005. The main reasons are (1) the welfare gap between the EU area and the CEEC, (2) the need for more institutional and economic changes in the CEEC to make them ready for acces-sion, and, most importantly, (3) the necessity for the European Union to prepare herself for accession by a comprehensive financial reform and fundamental institutional changes.

Kurzfassung

Im Juli 1997 stellte die Kommission der Europäischen Union ein Dokument mit dem Titel Agenda 2000 vor, in dem nicht nur vorgeschlagen wird, Anfang 1998 mit einigen ostmitteleuropäischen Ländern Beitrittsverhandlungen aufzunehmen, sondern auch Schritte zur Reform der EU-Ausgabenstruktur vorgeschlagen werden. Vor diesem Hintergrund diskutiert der vorliegende Beitrag zum einen die Fähigkeit der ostmitteleuroäischen (OME-) Staaten, in den nächsten Jahren Mitglied der EU zu werden, und zum anderen die Kapazität der Union, im Verlauf der nächsten zehn oder mehr Jahre bis zu zehn OME-Staaten zu absorbieren.
Diese Untersuchung kommt zu dem Ergebnis, daß die Union in sehr viel stärkerem Maße als zunächst offenkundig zum Stabilitätsanker für Entwicklungen in Ostmitteleuropa geworden ist. Ihre grundsätzliche Bereitschaft, sich unter bestimmten Voraussetzungen für die OME-Staaten zu öffnen, hat entscheidend zu ihrer gesellschaftlichen, politischen und wirtschaftlichen Stabilisierung beigetragen. Zwischen ihnen findet geradezu ein Wettbewerb statt, wer zuerst und am besten die von der EU festgelegten Kriterien zum Beitritt erfüllt. Der Erweiterungsprozeß ist jedoch mit einer Reihe von Problemen verbunden, die dessen Abschluß bis mindesten in das Jahr 2005 verlegen dürften - und das gilt sogar für die am weitesten transformierten OME-Staaten. Die Hauptgründe bestehen darin, daß es (1) noch über mehrere Jahrzehnte ein erhebliches Wohlstandsgefälle zwischen dem EU-Bereich und OME geben wird, daß (2) noch eine Vielzahl von weiteren institutionellen und wirtschaftlichen Veränderungen in den OME-Ländern stattfinden müssen, um sie beitrittsfähig werden zu lassen, und vor allem, daß (3) die EU sich selbst durch eine umfassende Finanzreform und institutionelle Veränderungen auf eine Erweiterung vorbereiten muß.

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I. Introduction

1. The special importance of the European Union for East Central Europe

During 1995 and 1996 it became clear that the European Union would prove to be more important for the inclusion of Eastern Europe into the world economy than initially expected, and other organisations (such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the United Nation Economic Commission for Europe (ECE), the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) or the International Bank for Reconstruction and Development (IBRD/ World Bank)) would, at least in relative terms, lose part of their significance.

During the summer 1993, the European Council decided in Copenhagen, that in principle it should be possible for the CEEC countries to join the EU if they fullfilled certain criteria. One of the conditions for joining was an genuine institutional stability which had to guarantee the democratic and constitutional order and the protection of human and minority rights. Additionally, the future members would have to develop a functioning market economy to cope with the competition and the market forces within the Union. Moreover, the CEEC are expected to adopt the aims of the economic and monetary union. Those criteria were specified in the White Paper of 1995 and finally confirmed by leading west european politicians such as Chancellor Helmut Kohl and President Jacques Chirac. This was very important since the CEEC can now determine in which directions their reforms shall lead and what the measures are supposed to accomplish. But at the same time, this has also increased the expectations towards the EU on behalf of the CEEC, because most parts of Eastern Europe's population count on a quick and steep rise in their living standards through EU help, even though these hopes are very unlikely to come true.

The potential accession of the CEEC also calls for changes within the EU itself. It will probably be the biggest challenge that the European Common Market has had to cope with since its formation in 1957, because it will have to involve a fundamental reform of the European Union. Incorporating the countries of Central Eastern Europe (first the Czech Republic, Hungary, Poland, Slovenia and Estonia, in later rounds Bulgaria, Latvia, Lithuania, Slovakia and Rumania, all in all ten countries) is not comparable with the past enlargements of the early 70s (admission of Great Britain, Ireland and Denmark) or even the last expansion of the EU in January 1995 (admission of Sweden, Finland and Austria). Giving the EU membership to these countries would change the character of the whole european unification process. Earlier enlargements have only affected the size of the Union and can thus be seen merely as a change in the members' quantity, whereas the integration of the CEEC would be a change of the Union's quality since not only countries transforming their system from a planned to a market economy will become members thus confronting the Union with a whole set of economic, financial and political problems. Enlargement by up to ten countries from East-Central Europe over the next ten to fifteen years requires also the implementation of new rules regarding representation, voting as well as changes to the agricultural policy and the structural funds.

2. Starting-points within Eastern Europe

The foreign economic relations of the CEEC have undergone enormous changes since the end of the Cold War in 1989/90, when the economic systems started to transform into market economies and, finally, the Council for Mutual Economic Assistance (CMEA) was dissolved in 1991. In the beginning of the 1990s, the starting conditions within Central Eastern Europe were quite unfavourable. The competivtiveness of the CMEA member states had deteriorated by a large extent as the traditional export markets (fellow CMEA members, who on average had absorbed half of the exports) had practically disappeared. The CEEC had to adjust to the fierce conditions of the world market and now needed to compete with the more productive and aggressive Newly Industrialized Countries of Asia and Latin America. This reduced their market shares as well as their foreign exchange earnings and thus necessarily resulted in a decline in imports.

During the past years the CEEC have tried to raise the efficiency of their economies by introducing market procedures, acquiring foreign capital and also by decentralizing, deregulating and privatizing state-owned industries. Those institutional changes have lead to extensive problems which are likely to continue in the forthcoming years. Resources have been reallocated to a large extent. Because of this, however, large cuts in production became necessary from which arose high unemployment which then led to serious social problems. Those consequences have naturally aggrevated the necessary adjustments and conceal the danger of political drawbacks. Furthermore, the CEEC have hardly been able to divide labor between each other efficiently to cope with the international economic challenges; the CEFTA (Central European Free Trade Agreement), which consists of the Czech Republic, Hungary, Poland, Slovakia, Slovenia and, starting on July 1, 1997, Romania, has not been very successful so far - for political and economic reasons. Instead of trying again to create an mutually beneficial framework of economic cooperation, they count on help from and later membership in the EU, which they consider to solve most of their domestic economic problems.

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II. East-Central Europe's ability to join the European Union

1. Political and institutional changes

The reforms of the political system and the introduction of an institutional setting characterized by the division of powers has been accomplished almost completely in all ten CEE candidates that have applied for EU membership and can be considered irreversible (EBRD 1996: 136-209; Business Central Europe 1995, 1996; Weidenfeld 1995 a, 1995 b). The only exception is Slovakia because of the instability of its institutions and shortcomings in the functioning of its democracy. In all the other countries the party system has been consolidated and the state has withdrawn from most areas of public life. The development of interest groups as well as freedom of the press are guaranteed. However, the legal systems are not completely compatible yet, especially with regard to the area of human rights. Even though minority rights are embodied in every country's constitution by now, some irregularities have occurred by translating them into action, e.g. in Bulgaria, Estonia, Slovakia, and Romania. The reform of the civil, commercial and economic law is progessing which is necessary to complete the establishment of the market-oriented economic system. Making legal procedures and courses of law compatible to EU norms is seen as one of the major tasks for making an accession possible.

2. Economic changes

By looking at the economic reforms one gets a less coherent picture, certainly due to the different economic levels and structures within the several countries. The institutional transformation of the economy (i.e. the liberalization of prices, markets and foreign trade) as well as the jurisdiction in all relevant areas has been implemented in almost every CEEC. The restructuring of the banking system has been tackled comprehensively, which presupposes the development of independent money and capital markets. Furthermore, the privatization has led to a rapid increase of the private sector.

Nevertheless, there are distinct differences to be noticed between the different countries (Cf. EBRD 1997; IBRD 1997; Deutsche Morgan Grenfell 1997, pp. 35-46; Handelsblatt, 12/13 July 1997). In the Czech Republic, Poland, Hungary or Estonia privatization has been very successful so that by now almost half of the national product comes from private enterprises. In Bulgaria and Romania, the shares are yet much lower (27 per cent respectively 35 per cent, figures for 1995). The banking and credit systems as well as the stockmarkets have proven to be problematic as well (Schršder/Piper 1996). Even though a two-tier banking system with one central bank and several commercial banks has been introduced in all CEEC, the central bank usually is not as independent from the government as would be desirable and large shares of business banks are still state-owned. Moreover, the banking sector often suffers from undercapitalization, which diminishes its credit ceiling. In Romania for example, commercial banks have only conducted 15 per cent of all business transactions, in Bulgaria half of the debts are estimated to be bad debts. Likewise, the stockmarket system is fairly underdeveloped, partly because savings are usually not high enough to be invested in bonds and also because the supply of securities is still small.

Another difficult problem is the disentanglement of formerly state-run enterprises and the establishment of a proper competition law and an effective anti-trust policy. This is especially important when in some sectors there are not competitors enough, as e.g. in Slovenia, Slowakia or Bulgaria.

The liberalization of foreign trade has proven to be one of the most difficult political challenges. On the one hand, the population in the CEEC appreciates inexpensive foreign consumer goods but, once they are imported, additional unemployment is inevitable. For that reason, most countries (except Estonia) have introduced import tariffs to protect domestic producers. The structure of foreign trade has had to undergo tremendous changes after 1989. Now the CEEC conduct one half to two thirds (Hungary) of their trade with the European Union.

In a nutshell, one can say that the first phase of economic reform in Central Eastern Europe has been concluded quite successfully, even though there still are setbacks as e.g. in the Czech Republic and Bulgaria since mid-1996. On the whole, the high inflation rates have declined, in the Czech Republic and Slovakia even to less than 10 per cent p.a. Additionally, investment activities have increased so that economic growth rates have risen everywhere in 1996, in countries such as Slovakia, Slovenia and the Czech Republic up to 5 per cent and more. Those growth rates have started to affect the labor markets, e.g. in the Czech Republic, where the unemployment rate has decreased to under 3 per cent in 1995 but is slightly rising again, or Estonia, where it was even less. In other countries, however, a great number of workers lost their jobs due to rationalization and shut-downs of factories, so that the jobless rate amounted to over 10 per cent in 1996 in Bulgaria, Hungary, Poland, Romania, Slovakia and Slovenia.

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3. The Convergence Criteria

If the ability of Central Eastern Europe to join the EU was to be judged on the basis of real and monetary assessment criteria that were applied throughout earlier enlargements, the result would be quite sobering (Gabrisch 1995). These Convergence Criteria (not to be confused with the the EMU criteria) are based on real economic data such as per-capita gross domestic product (GDP). These data are important because they provide the base for the various transfer payments provided by EU funds. Whether the EU-members will accept the enlargement or not depends on how much they would have to transfer to those countries. It is a sad fact that even on the base of an average annual growth rate of 5 per cent until the year 2015 for the whole region, the CEEC could still only reach 44 per cent of the average EU 's GDP.

The monetary criteria used to analyze convergence (budgetary deficit as a share of GDP, public debt as a share of GDP, relative stability of prices and currency, level of interest rate) will make up for further problems. All CEEC have to cope with the dilemma of either having high growth rates or of keeping the inflation rate down. If they were forced to keep down inflation, economic growth would be slowed and thus economic convergence would be delayed.

Examining the economic development, comparative advantages and trade structures of these countries can be revealing because conclusions can be drawn whether or not the accession could be successful and what risks and chances lie within the enlargement process. Much hope has been put on direct investment as it is supposed to have a positive impact on the domestic economy, but when one looks at the amount of direct investment in the CEEC, it turns out to have been quite low. In 1994, the figure was 3.5 billion US$, which is only 1.5 per cent of worldwide foreign direct investment. In 1995, however, there was a rise to approximately 9.4 billion US$. Indeed most western companies have tried to profit from the low wages and social costs in Central and Eastern Europe. The influx of foreign capital obviously depends on the EU's readiness to support the inclusion of the CEE countries into the Union. Undoubtedly, the five prospective new EU members got a dramatic boost by the Commission's recent decision to start accession talks in early 199. The others, however, are likely to fall back.

II. The Position of the European Union

Considering the revolutionary changes that came about in Central and Eastern Europe since 1989/90 and the political, social and economic transformation that has occurred since then, the EU had to come to a decision on how to react to these countries. As democratic institutions and market economies were evolving, they, in fact, did not have an alternative but accepting their wishes to join the Union (Cameron 1995; Mayhew 1996). After all, it had always been the major objection towards closer relations with the communist CMEA members that the CEEC were planned economies, and with closer economic affiliation Soviet supremacy in Eastern Europe would have been furthered (Baumer/Jacobsen 1980). This obviously has changed by now.

It is, however, not surprising that the EU members expressed their reservations towards this wish, especially as it could affect the intended deepening. The initial reaction was suggesting a partial collaboration, for example by joining the EFTA (European Free Trade Area) (Baldwin 1994) and participating in the European Economic Area agreement. After that, it was suggested, one could think about expansion of the Europe agreements, but more important was that the CEEC should try to organize and unify themselves in an trade area as has been started in the CEFTA. Some of these thoughts were translated into action but have been not very successful, as the accession to the Union, from the beginning, remained East-Central Europe's first priority (Kšves 1992).

The West has always raised objections towards a too hasty integration of the CEEC into the EU. The financial consequences for both sides would be incalculable and the necessary institutional changes in the EU structure would threaten the Union's inner peace (Wiling 1995). Problems with majority decisions in the Council of Ministers and within the European Parliament would arise, as well as difficulties concerning the number of EU-commissioners and the turns of the EU presidency. Those questions have been dealt with at the Intergovernmental Conference which started in Turin at the end of March 1996 and came, for the time being, to an end with the conclusion of the Amsterdam Treaty of June 17, 1997.

One of the main objectives of the Treaty of Amsterdam was to make the Unions's institutional structure more efficient with a view to enlarging the Union, with new Member States joining. This includes an increase of the Parliament's power, more use of qualified majority voting, a stronger presidency for the European Commission, and closer ties with the national parliaments. Regarding the accession of new members and the differences between Member States which are already existent between the 15 current members some groups of countries will be allowed to move faster and go further than others. Furthermore, the weighting of Member States in the institutions will be modified when new states join in the future. Since the Commission is set to be limited to 20 members, the bigger countries will in effect give up their second Commissioner. At the same time, the weighting of Member States in the Council will be readjusted, to ensure that a decision taken by a mojority of Member States corresponds at the same time to a sufficient percentage of the Union's population. The "hows" and "whens", however, are not decided yet, and it is not difficult to predict that the solution of these problems will not be easy.

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After all, these are not just technical difficulties. They mirror the question on how to deal with the shift in the political and economic balance of power in the "New Europe". The changed role of the unified Germany has been subject to many discussions as it has altered the fragile equilibrium that had existed before German unification. It was apprehended that the vast German influence on the

Union was yet growing with the extension of the Union by Finland, Sweden and Austria in 1995. Hence, the relative significance of the Mediterranean countries, most prominently of France, Italy and Spain, was to decrease. Even though no German government would consciously aspire such a position, those fears will make it even more difficult to accept the CEEC's applications.

There can be, however, no doubt that regarding the Central and Eastern European countries Germany acts for different reasons, although this may increase the fears noted above. As a consequence of the World War II, the CEEC were burdened by belonging to a block they did not favour and were not able to oppose. Subsequently, they were isolated politically as well as economically which now in course of their transformation changed into enormous structural and economic problems and a low standard of living. Germany has felt obliged to ease these problems, starting in the 60s with the *Ostpolitik*, whose logical continuation now is to support the CEEC's applications for joining the EU.

1. Problem Areas

a. Opening of markets for goods, services, capital and labor

The CEEC are attractive customers for EU producers, at least in the long run. To receive the urgently needed hard currencies, they need to export themselves. However, the already decided upon opening of the Western markets has mainly taken place in those areas that are not very interesting to the CEEC, whereas the attractive markets for textiles, agriculture and steel have been kept closed or opened only gradually. Until similar terms of competition (which temporarily will lead to unemployment, social strain and wage-dumping) are established it will prove necessary to accept periods of transition.

b. Application of the EU legal regulations

In 1995 the EU has published a White Paper (EU Commission 1995) where the essential measures in the particular areas of the single market are described and a chronological order for the approximation of the legal regulations is lined out. It is explicitly said that a "merely formal" transcription would not suffice to obtain the hoped for economic results or to guarantuee an effective functioning of the EU's single market after the expansion. Therefore, it is equally important to errect an institutional framework which allows for a transformation of these legal regulations and their implementation. This is a task which in the end could prove even more difficult. Thus, the EU expects all countries that would like to join to already adjust to the conditions that prevail within the EU. But it is often noted that in certain CEEC such as Slovakia democracy and the rule of law are not yet been realized.

c. Agreements among the CEEC

Naturally, the EU expects that existing bilateral problems are solved before the accession, especially the problems with minorities and border lines. Hence, Hungary and Rumania, Hungary and Slovakia as well as the Baltic States have to come to terms accordingly.

d. Access to support by the EU: the agricultural and structural funds

For most CEEC the accession to the EU is not only a "return" to Europe und thus a manifestation of their aim to become part of the all-European integration network, which guarantees political and economic stability. Becoming a member of the EU would furthermore mean an access to the structural funds, which imply a strong support for these countries as they transform into market-oriented democracies. However, if the EU transferred to the CEEC what it now grants its present members, then the EU would completely collapse financially.

The differences in development levels are considerable: Denmark's current income per capita is a quarter higher than the EU's average (125 per cent), whereas Portugal and Greece reach only about half of the EU's average (50 per cent). The GNP per capita lies between about 25 000 ECU in Denmark and about 5000 ECU in Portugal. The differences between the 70 regions of the EU are even steeper. In Germany for example there are regions whose economic force lies much below the accounted average for all of Germany. In the 25 poorest regions of the EU every fifth person is unemployed whereas in the 25 wealthiest regions the unemployment rate amounts to 5 per cent. In certain areas of Spain, the unemployment rate exeeds 30 per cent, in Luxemburg this figure hardly reaches 2 per cent.

On the basis of purchasing power parity calculations income per capita in Poland and Hungary only reaches half of the level of the two poorest EU-countries. If Poland and Hungary were treated the same way as Greece and Portugal from 1999 on, then the subsidy per capita would amount to 400 ECU, adding up financial requirements to about 20 billion ECU p.a. Agriculture would need the biggest chunk of these subsidies. There are more farmers in CEEC than in the EU as a whole. In Poland alone more than one quarter of the population works in agriculture, whereas in the EU it is only 6 per cent respectively. In case of an accession and by simply adopting the current agricultural policy, the EU would have additional costs of about 9 billion ECU by the year 2000. Some estimates rate the expenses even higher.

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Until 2010 the EU would have to pay subsidies of about 12 billion ECU or even more to CEEC farmers. These amounts exeed the ability and probably also the willingness of the EU to support Eastern Europe. Apart from the agricultural subsidies that make up for about half of the EU budget, the structural and cohesion funds take up the second largest amount of about one third of the budget. As the EU's solidarity policy tries to help structurally weak areas to enable them to adjust their economic standards and living conditions to the EU average, a massive support (of some billions of ECU) for the CEEC in this area would become necessary as well.

After an accession of the CEEC, those members who now profit from the EU transfers would have to cope with a limitation of these amounts. The enlargement of the EU towards Central and Eastern Europe would inevitably be combined with a diversion of transfers from the former receiving countries to the new members. Hence it follows that not only the CEEC countries but also the EU will have to prepare for an enlargement towards Central Eastern Europe. An accession will not be possible without a previous drastical dismanteling of the EU subsidies. Thus it is obvious that the EU enlargement and the EU reform or deepening are closely connected. This can only be solved by specifying subsidies even further. At the same time the CEEC have to be prepared that sensitive areas will remain closed for some time and open up only very slowly.

Since the enlargement towards Central Eastern Europe is a doubtlessly necessary political task, another solution could be to first of all safe money in other areas and secondly to reduce support for the CEFTA countries to a justifiable degree. The following measures have been proposed (DIW 1996; Franzmeyer 1996):

Concerning structural policy, the CEEC should not be treated according to the principle of equal nominal treatment but rather by the principle of absorption capacity. The current support for the four cohesion countries, currently supported by the Union, amounts to about 3 per cent of their GDP. Particularly Greece has big difficulties to absorb such large sums without coping with a declining rate of efficiency. In the CEFTA countries - with their low per capita income - this rate would reach not 3 per cent but rather 8 per cent which would certainly overburden the economy. Going down to 3 per cent would then total 12 billion ECU of subsidies, not the expected 30 billion ECU. This amount would have to be raised, however, according to the above-average growth in the CEEC until equal treatment with the cohesion countries is reached.

Furthermore, one should arrange for a transition period so that in the beginning only part of the amount would be due. Moreover, the EU's structural policy should be reformed and help should be limited to those countries and regions that are really in need. Only 27 per cent of the EU population resides in these so-called "objective-1-areas", but over 50 per cent receive aid.

Reforms should be continued in the EU's agricultural policy. This is already inevitable as a result of the Uruguay Round agreements. Especially export subsidies are to be reduced and grain prices should not be supported as much anymore. The national budgets should little by little take over the compensatory direct help to the farmers.

The net costs for the accession of the CEFTA countries thus could be limited to 10 to 15 per cent of the EU budget, at least in the beginning. There remains, however, a strong tendency that this amount would increase, e.g. when transition periods run out or when the structural absorption capacity rises. In any case, by these measures the EU would gain time and, what is even more important, the efficiency of the EU system would also be enhanced. Moreover, other transition regulations will be needed in the following areas: freedom of movement for labor, harmonization of technical standards and norms, civil law and ecology.

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The Commission's long awaited "Agenda 2000 - For a Stronger and Wider Union" of July 15, 1997, covers most of these problems. This package includes poposals for a new seven-year financial framework, running up to 2006. Since the present spending ceiling of 1,27 % of the Union's GDP is to be kept some radical reforms have to be introduced. They include a shift of agricultural subsidies from prive support to direct payments to farmers. The agriculture commissioner, Franz Fischler, wants to cut EU support prices by 30 % for beef, 20 % for cereals and 10 % for diary produce. As far as the stuctural funds for regional aid are concerned the number of areas which can apply to the main regional fund is to be limited. There should be a reduction of coverage from today's 51 % of the EU's population to 35 %. Although the cohesion fund that benefits Greece, Ireland, Spain and Portugal is to be kept the Commission wants to peg the combined structural funds at 0.46 % of the EU's GDP, and distribute about 30 % of them to new members. However, transfers are to be capped at 4 % of their GDP.

These proposals of the Commission will be on the Luxembourg's summit agenda to be held in December of 1997. Since some of the current members such as Spain and Portugal would lose from the reforms it can be doubted that the decisions of the European Council will be as radical as the proposals of the Commission have been.

e. Risks on behalf of the CEE countries

The positive aspects of the accession of the CEEC will not show immediately for the biggest part of the population. Even though access to western goods will be eased and their prices might often decline, the overwhelming competion will take away many jobs in the industry and agricultural sectors increasing social problems at the same time. On the background of growing foreign direct investment a possible result could be a rising apprehension over a "selling-out" of the country and subsequently an increase in nationalism as has been noted e.g. in Poland and the Czech Republic. As a consequence, the effort for reforms might slow down and the political support of adopting EU regulations could decline. Existing weaknesses in the public administration and the inability of adjusting to the required demands could reinforce the EU's reservation towards advocating a speedy accession.

And this reservation still is quite strong. At best, Germany, the UK, the three Scandinavian countries and maybe Austria and the Netherlands support the accession. Most other countries remain neutral and some are strictly negative. Even though French President Jacques Chirac stated during his recent visits in Warsaw and Prague that he "wished" Poland to be a member of the EU by the year 2000, he might not have been quite serious. There are many reasons to assume that Southern European countries, including France, will try to avoid too strong an orientation of the EU towards the East and instead focus on the Mediterranean (Aliboni 1996; EuropŠisches Forum 1996). Furthermore, it is not clear at all on how the European Parliament will decide on this question.

Now, that the problems are identified, the measures of the accession should be described. At a European Council meeting in Essen in December 1994, the EU has layed down an accession strategy, which consist of the Association Agreements, the PHARE Program, the Adjustment to the EU's Legal Regulations, and the "Structured Dialogue".

2. The Association Agreements

All ten CEEC that have applied to become members of the Union have already concluded so-called Association Agreements with the EU. These Association Agreements constitute the legal framework for the association between the accession candidates and the EU and comprise political as well as economic relations (Faini/Portes 1995; Mizsei/Rudka 1995). The Association Agreements support Central Eastern Europe throughout the transformation process and pave the way for the creation of a free trading zone (agriculture is largely excluded). The markets are being opened asymmetrically to the advantage of the CEEC countries: Within five years the EU reduces trade barriers such as tariffs and quantitative restrictions. Yet, the associated countries are only obliged to do that after ten years. However, there are sensitive markets, those for iron, steel, coal, energy and textiles. They will only be liberalized to a limited extent in the forseeable future. Thus, the market for trading goods has been opened in 1995 and for iron and steel in 1996. For textiles the liberalization is scheduled to begin not before 1998. Furthermore, the EU can reaggrevate the access to the markets for the CEEC by a "selective protection clause", which takes effect when the domestic supplier is put under too much pressure in adjusting to this. This measure covers predominantly industries that rely on manpower, energy and resources because in those areas the CEE countries enjoy a comparative advantage.

Whilst these sensitive group of products makes up for half of the exports in certain CEEC (e.g. Rumania), they are quite unimportant regarding overall EU imports (between 1 per cent and 4 per cent). This restricted access to the markets limits the CEE countries' chances for growth on the basis of exports, which then again reduces business opportunities within the EU for CEE companies.

A liberalization of the markets for agricultural products has turned out to be impossible without a general reform of the common agricultural policy (Comes 1995). The CEEC have merely succeeded in attaining reduced rates of levies concerning subsidized products. Those preferential advantages, however, are not considered to be of high significance (Gabrisch 1995: 82; Inotai 1992; Izik Hedri 1993; Klunkert 1994; LŠufer 1994; Messerlin 1993; Neven 1995; Tangermann 1993; Wysokinska 1994). Particularly the initial CEFTA countries, which have been in association with the EU longer than others, complain about still having disadvantages compared to the EU members when the markets are being liberalized, in spite of the emphasized asymmetry. The main reason for that was, naturally, the slow adaption to market conditions (quality, assortment and marketing), yet these countries could not tolerate to accept a deficit in the agricultural sector in which they were used to obtain a surplus, which was used to finance industrial imports.

As one can see, the CEE countries' expectations and the opportunties actually achieved via the agreements differ greatly. All ten association countries thus show deficits in their trade with the developed market economies, even the CEFTA leader, the Czech Republic.

3. Financial and technical aid: the PHARE Program

The PHARE Program is the EU's most important instrument to financially and technically cooperate with the CEEC and to support the transition processes and the political and economical reforms. It was set off in 1990 for Hungary and Poland and was extended to all Central and Eastern European countries, including the Baltic states as well as Albania and Slovenia. The Program is based on need and concentrates on a limited number of programs according to the requests of the certain countries. The means of the PHARE Program are being used for aid, mostly for technical assistance and the transfer of know-how, but also for investment. For better organization of the investment programs, PHARE has extended its cooperation with the EBRD and the EIB. Until the end of 1995, PHARE has supported projects in 11 CEEC countries with an amount of 5.42 billion ECU (http://europa.eu.int/en/comm/dg1a/ phare/whatisph.htm). Major emphasis is put on the restructuring of state-owned firms and the development of the private sector in the CEEC countries, 23.5 per cent of the funds available to PHARE were spent in this area. Other projects that have been aided are the restructuring of agriculture, public administration and institutions, reform of social service and employment, education and health, environment and nuclear security. Infrastructure was particularly furthered since it had been decided in Essen in 1994 that 25 per cent of the PHARE means should be spent in that area. Furthermore, the CEEC are allowed to spent 10 per cent of their PHARE assignment on financing their membership in joint programs with other countries. From 1995 to 1999, the PHARE budget amounts to 6,69 billion ECU.

Compared to the CEECs' immense financial needs, this sum appears to be rather low. At an estimated population in the CEEC of about 110 million the annual amount of grants adds up to just 10 ECU per person. Moreover, there are other difficulties: Slovakia, for example, has called off only 50 per cent of the grants PHARE had granted, partly because of the inability to develop appropriate projects that could have been financed. On the other hand, the associated countries ask for a rise of the support for they are not able to finance by themselves the badly needed development of the infrastructure, as well as the necessary handling of the environmental problems, and the incorporation into the European communication networks.

4. Adjustment to the EU's legal regulations

The 1995 White Paper titled "Preparation of the Associated Countries in Central and Eastern Europe for Integration into the Internal Market of the European Union" (European Commission 1995) was supposed to function as a guide for the CEEC of how to adapt to the EU's legal regulations. It will serve as a guideline when changing to the economic procedures required within the Union's market. Yet, this will turn their current legal stucture upside down, particularly the civil and competition laws (Herrnfeld 1995; Pechstein 1996).

The White Paper distinguishes between the assimilation to the internal market and the accession to the Union, which would mean that all EU regulations have to be taken over entirely. The White

Paper focusses on the regulations that are essential for the functioning of the internal market. The Paper is divided into 23 sections. In each section it is pointed out what problems should be dealt with primarily. Priorities concerning the individual sections are not imposed. Furthermore, the Paper describes comprehensively the administrative and organisational framework that is necessary in each section when the EU's legal regulations should to be carried through efficiently. The regulations on the "four liberties" (free movement of goods, services, people and capital) are explained in detail.

5. The "structured dialogue"

Since the EU summit in Essen of December 1994, the "structured dialogue" is part of the preparation for accession of the associated countries. The White Paper, which was approved in Cannes in June 1995, is supposed to give much of the needed assistance in this process. This dialogue consists of meetings of the heads of state and government (usually once a year), and meetings of ministers of the following areas: foreign affairs (twice a year), development of the common market, particularly economic, financial and agricultural questions (once a year), transportation, telecommunication, research and environment (once a year), justice and domestic policy (once a year), culture and education (once a year). Certainly, this dialogue has led to intensified contacts, however, the CEEC criticize that those meetings usually remain on a very general level and therefore should be supported by more frequent meetings of experts. Furthermore, the CEEC should be involved in the development of regulations concerning them, particularly in the areas of agricultural and social policies. With respect to the joint foreign and security policies there have been almost no consultations, exept for the sanctions policy against Yugoslavia, which had been supported by all neighboring associated countries. Hence it should be noted that the CEEC, except for Slovenia, have become associated members of the West Europea Union (WEU) and are therefore included in its political consultation process.

Concerning the co-operation in legal and domestic policies, the biggest problem here is that the CEEC lag behind regarding the technical equipment as well as the lack of experts of international standing and experience. All CEEC have realized the necessity of jointly fighting organized and drug crime and to prevent trade with radioactive material. In 1994 and 1995 the ministers of Justice and of the Interior brought forward a number of proposals concerning these question as well as visa policies, the forgery of documents, the restitution of stolen cars and the joint border controls after the Schengen agreement came into force

6. The "initiation strategy" and the schedule for the accession

The accession instruments described so far are all part of a greater "initiation strategy" which has been applied since the Essen summit in December 1994 and is supposed to "give the associated countries a timetable at hand to prepare for accession". A substantial part of this strategy is the CEE countries' gradual takeover of the internal market regulations. The strategy is supported by the joint development of infrastructure, the co-operation in transeuropean networks, the promotion of co-operation between regions in environmental and other matters, and the co-operation on the state level in the areas of justice, foreign affairs, security and domestic policy, cultural events and education. This integration is supported by the PHARE project which emphasizes mostly the extension of infrastructure and intraregional co-operation.

The determination of the future stages of accession is difficult because no definite timetable has been set. Not even the Commissions's "Agenda 2000" of July 1997 comes up with a definite timetable. It only suggests that negotiations with the Czech Republic, Estonia, Hungary, Poland and Slovenia should open early in 1998 and that the first accessions could be as soon as 2001, although the year 2003 is assumed to be more likely. The other CCEC which have applied for membership, Bulgaria, Latvia, Lithuania, Slovakia, and Rumania, might join five years later. Given the complexity of the negotations, and the various potential sources of conflict over the related matters of budgets and the reform of the Common Agricultural Policy, this timetable looks quite optimistic. After all, the agreements have to be ratified by all member states according to their constitutional regulations. Hence, it follows that an accession is only effective after all fifteen member states have ratified it.

Considering these imponderablilities and all possible delays it is simply improbable that even the furthest advanced CEE country will become EU member before 2002; the year 2005 seems more realistic. But even then quite a long transition period is to be expected. This implies that in all likelihood there will be no real and complete internal market with the CEFTA countries before the year 2010. This process is only likely to be accelerated by adjustment and transition periods until the complete takeover of the then attained level of integration ("acquis communautaire") has been taken place. Earlier enlargements procedures may serve as examples. To be sure, the financial burden of the enlargement can be handled, provided that the EU subsequently endeavors reforms concerning its budget and its inner structure.

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IV. Concluding Remarks

It has become obvious that since 1991 both sides, the Union and the CCEC, have progressed greatly. The EU has realized that what was layed out in the Maastricht Treaty of 1991 had been based on a narrow integrational concept, centered on Western Europe which did not meet the challenges of the new Europe. Thus, the preparation for an accession of the CEEC paved the way for a fundamental change within the Union itself: the prospect of eastward enlargement has increased the pressure for reforms.

Many CEEC have likewise progressed enormously. Poland, the Czech Republic and Hungary, and also Slovenia and Estonia, have stabilized and consolidated their economies and democracies faster than expected. The possiblity of an accession into the EU has certainly functioned as a catalyst and has even set off a race of which country would meet the accession criteria first.

The countries mentioned above have already reached the second phase of transformation, or at least they are very close to reaching it. The required stabilization can now merge into an economic strategy for modernizing the economies which is closely connected with structural and growth policies, and especially with the setup of functioning social security systems.

The past years have, however, also pointed out problems that could offset a more intensive integration into the EU (Baylis 1994; Inotai 1995; Ow 1995; Widmaier 1996):

a. Imbalanced trade between the EU and the CEEC countries

Since the beginning of the 90s, the CEEC's foreign trade patterns have been reversed, the main trading partner now being the EU members. Even though the Association Agreements have been set out asymmetrically, they have, in fact, not succeeded in helping the CEEC in their economic reconstruction (Mšbius 1996; Quaisser 1995; Stadler 1995). Aside from the fact that most CEEC currencies have not been sufficiently depreciated so far it must be kept in mind that sensitive sectors such as the market for agricultural goods and heavy industry products have been left out. Because of the accruing surplusses, the EU's advantages so far have remained greater than those of the CEEC. Subsidized EU agricultural goods are now exported to the CEEC and thus supersede domestic production, which is not competitive anymore because of the massive cuts in subsidies during the free market reforms. By building up trade barriers to protect their domestic agricultural and industrial production, the CEEC are induced to take a wrong, a protectionist direction.

b. The CEE countries' lacking effort to co-operate with each other

The CEEC countries have not adequately used all their possiblities to cooperate mutually (Altmann 1995; Kšršsi 1996). This does not only apply for the co-operation between the Visegr‡d countries (which has failed mainly due to Czech opposition), but also to the Central European Free Trade Agreement (CEFTA) as a whole. Yet, its members decided in principle upon abolishing all trade barriers among each other by January 1, 1997 and except, starting by July 1, 1997, Rumania as a new member. Some Baltic countries are to follow suit. Efforts, however, to introduce a customs union, which means a uniform external tariff, have not been made so far.

c. Growing differentiation between the accession candidates

Immediately after the political and economic changes at the end of the 80s and the beginning of the 90s, it became clear that individual CEEC (which differed greatly in size of area and population as well as economic infrastructure, anyway), would use different strategies for the transformation of their economic systems. Poland, for example, applied the so-called "shock-therapy", at least in the very beginning, while Hungary employed a rather gradual approach, by which the social costs were supposed to be eased.

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The countries now become even less homogenous as they turn back to national traditions and as minority conflicts and other problems that had been repressed for decades break up again, even among the Baltic states which have always been perceived to be so uniform (Brown 1994; Grancelli 1995; Kupchan 1995; Mandelbaum 1996). Some countries have elected neo-conservative governments (such as the Czech Republic) or post- or neo-communist governments (Poland or Hungary) which reinforces their heterogeneity.

d. Deterioration of the social conditions

Most of the CEEC have to face a severe deterioration of the social conditions (Milanovic 1996; UNDP 1996a and 1996 b; Weidenfeld 1995 b; World Bank 1996: 66-84) The economic transformation has resulted in the shut-down of companies, or at least in a reduction of their workforce and in cuts in and depreciation of public benefits. Along with that went the pauperization of wide parts of society. In spite of the now again growing economy, most people have not managed to cope with the breakdown of the communist system as they have not realized how to start over again. The success of further reforms therefore is closely tied to the ability of the governments to combine economic growth with the creation of new jobs and the development of a decent social security system. Only if the CEEC governments manage that, they will be able to reduce the danger that social conflicts will erupt and that the opening vis-ˆ-vis the European Union will be threatened.

Thus, the EU will have to intensify its efforts in all these areas to keep the old atrocities, which had almost seemed to be overcome in the 1989/90 euphoria, from redeveloping or rising. Most of all, this means that the CEE countries' efforts for an EU accession have to be taken seriously and that promises made by the EU have to be reliable. This is particularly important as several expectations of the CEEC, e.g. determining the date of accession, will not be be compatible with those of the EU. This has become particularly clear after the publication of the EU's "Agenda 2000". Hence it follows that the EU has to accelerate its own inner reforms: Overdue changes can now be carried through and the preconditions for an enlargement into the East can be set. Furthermore, the EU should extend its financial aid for Central and Eastern Europe (Weise 1996). Investing and assisting now would certainly reduce the amount that must be paid later. This statement, however, does not obscure the fact that the European Union faces limits for the provision of economic stability to the CEEC. They main burden has to be taken by themselves.

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Endnotes

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