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President : Jacques DELORS

# ENLARGEMENT OF THE EUROPEAN UNION: TOWARDS A LARGE AREA OF SOLIDARITY AND COOPERATION

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**Report by**
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Notre Europe participates in public debate in two ways. First, publishing internal research papers and second, collaborating with outside researchers and academics to contribute to the debate on European issues. These documents are made available to a limited number of decision-makers, politicians, socio-economists, academics and diplomats in the various EU Member States.

The association also organises meetings and conferences in association with other institutions and publications. Under the organisation's articles of association, a European Steering Committee comprising leading figures from various European countries and political and professional origins meets at least three times a year. Website: www.notre-europe.asso.fr

This seminar was prepared and organised for Notre Europe by Marjorie JOUEN and Malgorzata ZABOROWSKA.

## The Lucchini Foundation

The Lucchini Foundation was created in Brescia in 1990 to help disseminate a contemporary approach to industrial culture and boost the values of school and work as the basis of individual freedom and social growth and the basis for all moral, civic and economic progress for the community as a whole.

In recent years, the Foundation has launched a number of initiatives for meetings and studies on topical themes, with the help of well-known experts, and has published proceedings and other documents. The programmes and conference proceedings can be consulted at http://www.lucchini.it.

The Lucchini industrial group, of which the Foundation is the cultural wing, is mainly involved in steel production and is a European leader in special long steel products.

The organisers would like to warmly thank the President of the Republic of Poland and the President of the European Commission for giving their patronage to this seminar as well as the Polish Ministry of Foreign Affairs for its cooperation.

## FOREWORD

As the 2004 deadline draws nearer, I am increasingly convinced that successful enlargement eastwards will be the European Union's greatest and most exhilarating project over the next 15 years. However, a lack of enthusiasm characterises public opinion today. The citizens of the Fifteen often worry that, in embracing new Member States, the enlarged Europe will be reduced to no more than a free trade area. Similar concerns can be detected in the countries of Central and Eastern Europe. Though the goal is close, a certain fatigue is beginning to show, particularly among the young.

We need to take these fears seriously and come up with coherent responses. We need to perform an objective diagnosis of the obstacles and opportunities which the Union of 25 or 27 will encounter over the next ten years. It was with this aim in mind that Notre Europe and the Lucchini Foundation organised this seminar with the Polish authorities. I am pleased that this meeting reached its objective and allowed us to clearly identify the problems which exist but also the positive points from which we will be able to sketch out solutions. However, we have to take into account Bronislaw Geremek's impatience. I am ready to answer him as I think this impatience is totally justified. Yes, we need to act without delay to prepare for the post-enlargement if we want to make the enlarged Europe an area of solidarity and cooperation.

We have not only to reform the institutions the Convention is working on, or to define new budgetary perspectives – although financial matters are important and inadequate grants risk fuelling long-lasting resentment and leaving problems unresolved for years to come. We have also to mobilise our forces in three areas, which in my opinion are crucial conditions for successful enlargement.

Firstly, the candidates need to decide without delay what role they wish to play, individually and collectively, in the EU of 27. They have to answer the question: "What economic and social development do we want to promote for our country, our regions and our cities?" This capacity to project into the future is the starting point for mobilising the population, economic players and politicians. It is a precondition without which the Structural Funds and other EU funds will serve no purpose and which will, furthermore, risk ensnaring the new members in an enduring cycle of dependency.

Secondly, the EU needs to reinforce its message and practice in terms of cooperation: this dimension of building Europe is little-known and poorly understood. Europe does not need to be involved in everything, but it does need to encourage all the players, at every level, to work together to move forward. I believe that the analysis of 1986, which concluded that the cohesion policy was a necessary condition for the proper functioning of the internal market, remains entirely valid. If it needs to be updated and expanded, then we should be mindful that its success depends not only on the transfer of funds but also on working methods. Solidarity therefore needs to go hand in hand with cooperation.

Thirdly, we need to find a way to combine the exploitation of diversity with the control of nationalist and populist tendencies. It is important that we safeguard the Community acquis as a product of a practice which has transcended egoism and a misplaced pride which can sometimes be arrogant or obtuse. We need to guard against the temptation, under the pretext of preserving national identities and finances, to step back from the achievements of the Community practice. Renationalising common policies would without question be a move backwards for Europe's political maturity and economic competitiveness.

I am convinced that, by following action in these areas and identifying problems in advance, we will be working productively to ensure that the Union of tomorrow continues to be a large area bringing together competition, cooperation and solidarity, and an example of how interdependency can be managed and globalisation mastered.

Jacques Delors

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What will the needs of an enlarged Europe be in terms of solidarity and economic and social cohesion? What problems will the European Union have to resolve? What are its strengths? What policies and methods should it consider? While the negotiators in Brussels are moving into the final stages before the accession of the candidate countries, some 30 experts from all over Europe met for two days in Warsaw to compare and contrast their views on enlargement. The meeting closed with a public session at the Royal Palace, where leading political figures of the EU Member States and the candidate countries presented their outlook for the prospective enlarged Union.

The seminar itself focused on three issues:

- The economic implications of enlargement.
- Factors of instability and inequality.
- The assets of a 27-member Union and the lessons to be drawn from past experience.

Enlargement can deliver benefits for both current and future Member States of the Union. Such is the firm belief of former Belgian prime minister **Jean-Luc Dehaene** who, on opening the seminar, called on participants to prove him right. Obstacles remain, he said, but the process is coming to fruition. We must start preparing for the post-enlargement period, he added, to ensure that the Union can provide an effective response to the challenges lying ahead. The Convention must spell out the aims, options and organisation of tomorrow's Union, which will have to operate – and fulfil an important role, Mr Dehaene believes – in a globalised world. Hence the need to build and consolidate this area of stability and economic cohesion, he insisted, comparing the action required today across the continent to that carried out by the United States in post-war Europe under the Marshall Plan.

This position was strongly endorsed by **Jan Truszynski**, the Polish undersecretary of State for foreign affairs. As principal negotiator for Poland, his daily experience of short-term bargaining has made him well aware of the need to step back and take a five- to ten-year perspective in order to achieve a clearer view of both the weaknesses and the assets of the future Union.

## I – THE ECONOMIC IMPLICATIONS OF ENLARGEMENT

How will competition from the new members affect the industry, services and agriculture of the current Member States? And in the 12 candidate countries, which sectors will suffer from competition coming from the existing single market? Can several scenarios be envisaged for the modernisation of agriculture? What would be the financial cost of restructuring? Which sectors, regions and countries will be the hardest hit, and what will the consequences be for society and employment? These were the basic issues that the participants were invited to discuss after listening to presentations by Françoise Lemoine, of the *Centre d'études prospectives et d'informations internationales* in Paris, who analysed the problems facing the current Member States, and Andrea Szalavetz, of the Budapest World Economy Institute, who discussed those confronting the candidate countries.

According to **Françoise Lemoine**, the candidate countries have insufficient economic weight relative to that of the Union (having 25% of the existing members' population but only 4% of their GDP) for their accession to cause a significant shock. However, she does expect enlargement to produce asymmetric effects.

"Too small to matter", she said, pointing out that trade between the Member States and candidate countries account for only 3.5% of the Union's foreign trade, that the association agreements have already had the effect of removing most of the tariff and non-tariff barriers on industrial products, and that an increase in capital flows from the Union towards the accession States should not affect local investment. Nonetheless, the Union's economy will benefit from faster economic growth in the new Member States following accession, she added, before remarking that the free movement of workers could precipitate a considerable population movement, although the resulting flows would not be sufficiently large to have a significant effect on employment and wage levels in the Union.

As agricultural products had not been included in the liberalisation of trade, the removal of protection for such products will cause a drop in prices, boost trade and increase the Union's trade surplus, she predicted. At the same time, the new Member States will strengthen their position in the current EU market in the clothing and furniture sectors, and motor vehicle exporters will improve their penetration of central and eastern European markets.

Ms Lemoine predicts that the current Member States will further concentrate on activities that are capital-intensive, involve high technology and employ skilled labour, leaving labour-intensive sectors to the accession countries. She also expects the benefits and costs of enlargement to be markedly higher for those economies that are geographically close to the new members – i.e. Germany and Austria and, more specifically, their border regions.

She further believes that economic similarity (that of income levels) is a potential cause of competition between the accession States and the southern EU members, but does not expect that this will affect the economies of the least-developed Member States. Competition for private-sector capital will occur, she said, but the displacement of direct inward investment from southern Europe should be limited by the fact that those investing in the central European countries will be looking for new markets rather than lower costs.

More than a decade has gone by since the fall of the Berlin wall, and the central and eastern European countries (CEECs) have begun to modernise, stimulated by inward investment. Bilateral trade between the EU Member States and the CEECs has increased in line with the liberalisation of trade. Full accession will therefore not necessarily result in any dramatic new rise in such trade, in the opinion of **Andrea Szalavetz**, who believes that large multinational companies will reassess the location of their subsidiaries after enlargement and will close some of them. Business leaders will compare local production facilities in the new Member States with their counterparts in the rest of the Union in terms of productivity, profitability, size, profit-generating capacity and technical expertise.

Since the subsidiaries located in the candidate countries fall far short of optimum standards, the enlargement will surely lead to some streamlining. Overcapacity will become more conspicuous and less acceptable, predicted Ms Szalavetz. This raises two questions:

- Which subsidiaries will be closed and which will be developed to put them on a par with their counterparts in the current Union?
- Which transition countries are most likely to attract relocating subsidiaries?

Ms Szalavetz expects multinational companies to base their decisions on the size of the market and availability of factors of production in the host countries, as well as the latter's institutions and public-sector support to foreign businesses. Relocation outside Europe can be expected in sectors with little local added value. In Ms Szalavetz's opinion, the main losers could be the countries where investment was to a large extent focused on access to resources and which were unable to increase their level of technological know-how and local added value during the ten years of transition. The winners in this second wave of restructuring could be the countries that are largest in terms of population and/or geographical area. Ms Szalavetz concluded that more commitment was needed with respect to economic measures, while expressing some doubts and reservations: do the local and national authorities have the necessary resources and ability?

The debate, moderated by Mr Dehaene, was started by **Claire Sauvaget**, an official at the European Commission's Agriculture Directorate-General. She returned to the issue of agriculture and rural areas in the run-up to enlargement. The problems are on a quite different scale than before the previous enlargement exercises: the total farming area will increase by 38% and the number of farms by 75%, although the situations of the various countries are very diverse (half the farms being in Poland, a fifth in Hungary and a tenth in Lithuania). In the Czech Republic, the situation is comparable to that of the current Union. In Romania, however, 41% of the population still live in rural areas, as do 26% in Bulgaria.

Ms Sauvaget stressed the need for capital goods, but also pointed out the difficulties relating to modernisation and to the retraining of workers. She reminded participants that the 12 candidate countries require on average twice as much labour as the current Member States to produce the same quantity of farm products. Alongside the economic function, she called for the social function of agriculture to be taken into account. This is a factor that must not be ignored, she said.

Poland’s former foreign affairs minister **Bronislaw Geremek** remarked that the economies of eastern and western Europe are not complementary. Nevertheless, he does believe the two areas complement each other in another way: one side has plenty of money, too many goods and not enough people, while the candidate countries are in the opposite situation, offering western Europe a vast area in which to invest and a pool of labour. Hence his conviction that enlargement is not only a political opportunity but it also has economic potential that must be seized.

Dutchman **Arie Van den Brand** expressed the view that the current 15-member Union is not set in stone. He argued that, on the occasion of this enlargement from 15 to 27 Member States, we should review all policies and not restrict ourselves to fine-tuning and perpetuating systems that were designed and developed in a very different context, where the primary objective was to avoid war and food shortages in Europe.

**Jozef Oleksy**, the chairman of the Polish parliament’s committee on foreign affairs, wondered what would become of the common policies – and in particular the common agricultural policy (CAP) – after enlargement. Quoting the current Polish unemployment figures – 18%, compared with 8% on average in the Union, and just 5% in some regions such as Bavaria – he spoke of the need for a common employment policy and proposed that Europeans should also establish common policies for infrastructure and taxation.

As for agriculture, what is at issue is not merely direct aids. He pointed out that we must also determine how many farms Europe actually needs and called for a common approach to development.

**Joyce Quin**, a British member of parliament, sympathised with the rural populations who were fearful of change. However, she warned against placing excessive hopes in the CAP, which has not been equally helpful to all forms of production. Likewise, some rural areas have benefited more than others. She hoped that in future the agricultural policy would be both more flexible and better adapted to the Union's various regions.

We are lacking practical arguments in favour of enlargement, observed **Karl Heinz Klär**, a secretary of State in the Rhineland-Palatinate government. He dismissed the idea of a European superpower and advocated a regional approach at the level of the various countries.

**Jordi Pujol**, the president of the *Generalitat* of Catalonia, sounded a southern note amid the chorus of opinions that had been predominantly from northern and eastern Europe. He first wished to reassure the Poles by likening their position to that of the Iberian peninsula twenty years earlier. He recalled the concerns of the Spaniards and Portuguese when they abandoned a very protectionist system, and the substantial benefits reaped after joining the Community in spite of a number of sectoral and local problems. He believes enlargement is an opportunity, even if it does entail certain risks on either side.

Mr Pujol had come to Poland's Silesia province to inaugurate two plants, set up by Catalan companies, that had created 600 jobs. These relocations had opened up new markets for the companies but had also drawn sharp criticism from the Spanish trade unions. And Mr Pujol further mentioned the case of an American company which closed its operations in Catalonia and moved its 1,000 jobs to Poland.

He assured those present that the Spanish government was in favour of enlargement, even if it must overcome a few misgivings with respect to the Structural Funds since the number of potential beneficiaries will increase. He also emphasised that, in the enlarged Europe, the centre of gravity will move away from the south, but warned the central and eastern European candidate countries that the Union will nonetheless not be able to ignore the Mediterranean.

**Mr Dehaene** reminded participants that the fears the then nine EU Member States harboured about the accession of Spain, Portugal and Greece had turned out to be groundless. He observed that the economy is not a static zero-sum game but is, on the contrary, constantly expanding. Positive gains from enlargement can thus be expected for Europe as a whole.

Ambassador **Jorge Fuentes**, who is in charge of political dialogue with the candidate countries within the Spanish foreign affairs ministry, also made reference to the Spanish experience and in particular to the seven-year transition period provided for in 1986. He pointed out the current paradoxical situation in his country, which features a demographic deficit while also having a particularly high rate of unemployment. He stressed that the Spanish population was strongly in favour of enlargement. However, he added that the Spaniards' relaxed attitude is partly due to geographical distance and that we should understand the concerns of the Austrian and German regions neighbouring the candidate countries.

According to **Bruno Dethomas**, the head of the Commission delegation in Warsaw, Poland's main problem relates to education, and concerns rural society and its place in society as a whole. Residents of country areas form 20% of the working population but account for just 4% of the country's production. Unlike Ms Lemoine, Mr Dethomas does not think that the economic impact of enlargement should be dismissed as negligible, at least in the candidate countries, whose growth will increase by 1% (compared with 0.2% on average in the Union as a whole). **Ms Lemoine** agreed, while maintaining that, in macroeconomic terms, enlargement will have practically no effect in the Union. She further indicated that since most of industry is now privatised, the CEECs will have to achieve strong growth in order to attract investors.

**Mr Dehaene** warned against underestimating the ground covered over the past ten years in the CEECs, which have taken "tremendous" strides towards a western-model economy. He indicated that we must still spell out to public opinion in our countries the economic benefits of enlargement and the advantage for Europe of this new geoeconomic dimension in the context of globalisation.

In his opinion, the adjustments required of the Polish agricultural sector will be all the more sensitive since they will coincide with a review of the CAP. He argued that the difficulties in this area, in relation to solidarity and the Structural Funds, should not be underestimated. He also asked certain countries not to forget that the solidarity policy is subject to change, that they have no permanent rights to assistance, and that they must forego assistance from the funds once their development reaches a certain level.

In his view, this raises the broader issue of the Union's financial perspective. This is "a formidable challenge" for the post-2006 financial package, he said, before calling for the European financing system to be made more autonomous and less dependent upon State contributions, in order to move beyond the sterile confrontation between "net contributors" and "net recipients".

## II – FACTORS OF INSTABILITY AND INEQUALITY

What impact can we expect the accession of the CEECs to have on labour markets, income levels and population movements in the current Member States? What will be the cost to candidate countries of having to catch up in areas such as social regulations, training and education? Which regions stand to suffer? What can be said about the disparities in public administration practices between the current Member States and the candidate countries?
Two economists undertook to answer these questions. Christian Weise, of Germany, presented the issues as seen by the 15 current members, while Jan Szomburg, of Poland, outlined the point of view of the 12 candidates.

During the 1990s, the CEECs achieved a spectacular redirection of their exports to the European Union, pointed out **Christian Weise**, a researcher at Berlin's Institute for Economic Research. Geographical proximity played an essential role in these new trade flows, with the main partners being Germany and Austria, along with Finland, Italy and Greece, in western Europe, and Poland, the Czech Republic and Hungary in eastern Europe .
Recent years have seen a notable increase in direct inward investment from the European Union to the candidate countries, in particular Poland, the Czech Republic and Hungary. Austria also benefited from this trend because it is geographically close to the CEECs. Mr Weise noted that investors are often attracted at least as much by the prospect of better access to markets and the advantage of being the first to move in as by labour cost differentials.
The main economic effects can already be deemed to have taken place, with the exception of movements of people, he concluded. But he does not feel enlargement will prompt a massive population flow and expects only minor – and not necessarily negative – effects on wages and employment in the rest of the Union. The population movements will target mainly Germany and Austria, which were already the countries receiving most people from the CEECs, and will diminish over time. The effects on the labour market do not depend solely on the number of migrants but also on their level of skills. The arrival of highly qualified migrant workers can have beneficial effects for low-skilled indigenous workers. Border regions will be those most affected by enlargement, which will increase internal disparities in these areas. The impact will not necessarily be negative, however, as the most competitive businesses and sectors stand to benefit from the opening-up of new markets nearby. The border regions will also see a rise in the number of commuting workers. The most obvious economic effects of

enlargement will be concentrated in Germany and Austria. The impact will tend to be indirect in the other Member States.
Mr Weise was anxious that enlargement should be considered within the broader framework of the international interdependence of the Union's economies. The competition from non-European emergent economies in sectors such as textiles is of considerably greater significance for low-skilled German and Austrian workers than that from the candidate countries. Changes stemming from technological advances are having a much greater impact on these categories of workers than those resulting from internationalisation. In Mr Weise's opinion, reforming the CAP and the structural policy will probably produce more instability and political problems than all the other economic effects of enlargement. He noted in passing that any significant agricultural reform would have to provide for a reduction in income and price supports. The accession of poorer countries will bring down the Community GNP average, excluding from Objective 1 assistance approximately a quarter of the 85 million or so people in areas currently eligible. The rich countries will have to learn to look after their less-developed regions themselves.

How can we make a success of integrating the candidate countries, wondered **Jan Szomburg**, of the Gdansk Institute for Market Economics. He believes the economy's institutional and regulatory framework is essential, and he is anxious to draw lessons from what happened in eastern Germany, where massive transfers – of up to DEM 1.5 billion (EUR 800 million) a year – failed to deliver convincing results. Overnight, poorly developed East Germany found itself having to take on board the entire body of law of the Federal Republic and also that of the European Union. In spite of massive efforts, the potential of the new *Länder* was not exploited. Things might have been different if the regulatory system had been more flexible, he asserted.
This line of argument failed to convince Mr Weise, who thinks the domestic German situation was very different from that of the present enlargement. The German legislation was much stronger and did not have the advantages of the Community *acquis*.
First and foremost, Mr Szomburg called for the Union to let the candidate countries build on their advantages by preserving their national room for manoeuvre during transition periods. At their current stage of development, he said, the former communist States cannot rely solely on increases in labour productivity. They must make the most of their labour potential, flexible labour market and low wage costs. They must also be free to set their tax policy in order to attract and preserve inward investment.

It is in the interest of these countries to accept market rules and forces but, on grounds of solidarity, they should not be forced to accept constraints that would curb their development when this development also benefits the high-productivity and capital-rich countries.

Mr Szomburg invited the western European countries to espouse "creative destruction", remarking that the vast amounts spent on maintaining unprofitable and economically inefficient sites did not contribute to the overall development of wealth.

Since farming is considerably less intensive than in western Europe, the land in eastern Europe is often less polluted and of better quality. This being said, restructuring agriculture is a difficult issue for Poland. Its rural areas are suffering from an accumulation of negative economic and social phenomena, including unemployment, very low income and education levels, and social pathologies. The only way out for agriculture is modernisation and increased profitability, asserted Mr Szomburg. Contrary to other observers, he does not believe farm modernisation subsidies have negative side effects by encouraging farmers to preserve the old arrangements. On the contrary, he thinks that what is keeping smallholders from selling their farms is the mediocre price they can expect for them as long as their profitability remains low. He also deplored the fact that the liberalisation of trade between the EU Member States and the CEECs was limited to industrial products and services and did not include agricultural and food products.

Mr Szomburg drew attention to the particular situation of the regions located in eastern Poland, where closure of the border with Ukraine could cause despair. Finally, he spoke of three major challenges facing the former communist countries wishing to join the Union:

- Economic transition. Unlike countries such as Spain, Greece and Portugal, which had always had market economies, the candidate countries must adapt to a new economic system within a short period of time.
- The adoption of new regulations.
- Fast restructuring.

He highlighted the lack of public financing for implementing restructuring and development policies and expressed his alarm at the deterioration of labour skills and the emergence of a form of dual society, reflected in the increasing gap between the better-off and poorer population groups.

**Fernand Braun**, a former European Commission director-general, cautioned against trying to put too much on the negotiation scales before the end of the year. The possibility of national aids is, in his view, an open question, but one which must be left for discussion later.

Pointing out that when Spain and Portugal joined the Community the economic situation was excellent – a factor which played no small role in the success of that enlargement exercise – Mr Braun expressed the belief that with a new period of growth in Europe from 2004 on, many of the problems mentioned by participants would be resolved more easily than was expected. He also mentioned the situation Italy was in 1958, noting that in the space of 12 years – by 1970 – it had caught up with its competitors. He further indicated that Greece has remained a comparatively poor country because it has taken some time to resolve its governance problems, while Portugal, which was at the same level, is prospering because it has dealt with them.

Ambassador **Fuentes** added that Spain and Portugal caught up quite quickly with their counterparts because the gap between them and the others was not excessive. In the case of the central and eastern European candidates, the gap is much wider. He explained that his country is prepared to forego Cohesion Fund assistance but not the other Community transfers. He cannot accept that the accession of the candidate countries should make certain regions that are currently regarded as poor, and therefore eligible for assistance under the Structural Funds' Objective 1, notionally rich by bringing down the Community's average *per capita* GDP, just by a convergence effect.
He also cannot imagine that the share of agriculture in the economies of the candidate countries can remain at its current level. In Spain, he remarked, the agricultural population has dropped from 20% to 8% of the total. This trend is inevitable in Europe and will also take hold in Poland, where productivity and profitability in agriculture will increase.

Pondering the misgivings about enlargement, Poland’s former prime minister **Tadeusz Mazowiecki** has the impression that, on the German and Austrian side, fears are of a micro-economic nature while, on the Polish side, the main concerns stem from the prospect of another transition phase and the possibility that the country will be unable to compete and will be “colonised” by its new neighbours. It is hard, he added, to explain to Polish farmers that they must wait another ten years before they can get the same treatment as their counterparts in the present Union and, moreover, that by then the CAP will have been reformed and they may not receive anything at all. Lastly, he was quite critical of the negotiators' "take it or leave it" approach, which does nothing to help the Poles understand what enlargement is about.

Dutchman **Arie Van Den Brand** wondered about the relevance of requiring the candidate countries – and the Polish agricultural sector in particular – to meet targets that were already obsolete. Why, he asked, should we not aim from the outset for a new form of agriculture that is more environmentally friendly and favourable to the balanced development of rural areas? **Mr Weise**, on the other hand, believes that it is precisely because the CAP is set to change that there is no reason for Polish agriculture to reap the full benefits right away. "That would not be reasonable", he said.

**Mr Klär** returned to the points made by Ambassador Fuentes. He would like to avoid concentrating the EU's assistance on the less-developed countries and abolishing assistance for the regions in rich countries that need it. He is in favour of preserving a minimum amount of Structural Fund assistance for sector-specific transnational and crossborder cooperation throughout the Union.

In conclusion, the chairman **Jan Olbrycht**, president of the regional council of Silesia, observed that enlargement and integration do not necessarily obey the same rationale. "What values will still be regarded as fundamental after the current enlargement?", he asked, going on to point out that the Poles intend to take part in the discussions on the future of the Union. "What values do we want to uphold together? It is important that this debate should take place," he insisted.

## III – THE ADVANTAGES OF AN ENLARGED UNION

What lessons can we draw from the previous enlargements of the Union? What value added has the cohesion policy contributed to the economic and social development of the Union as a whole? For their part, what can the new members bring by drawing on their past experience and their specific social and cultural features? These were some of the questions participants had an opportunity to address during the third part of the seminar.

"Ask not what your country can do for you – ask what you can do for your country." For **Ms Quin**, who moderated the debate, this recommendation Kennedy made to his fellow Americans might help the prospective members understand that what they can do for the Union is at least as important as what the Union can do for them.

**Marjorie Jouen**, adviser at *Notre Europe*, then spoke of the Community experience. The contribution of the 15 Member States goes beyond the 80,000 pages of rules and regulations that the candidate countries have been invited to incorporate into their national legislation, she said. It builds on an already long process of learning to cooperate and painstaking technique of bargaining between States with diverse social, economic and cultural characteristics.
She sees the Structural Funds experience as particularly instructive. The funds have been doubled twice and a Cohesion Fund has been set up to help the least wealthy States (Spain, Portugal, Greece and Ireland) deal with the constraints imposed by economic and monetary union (EMU). Ireland's performance in particular has been spectacular: its *per capita* GDP has progressed from 64% of the Community average in 1988 to 119% in 2000 thanks to steady annual growth of 6.5% over more than ten years. The choice of a national development strategy proved at least as important as the effects of the single market in this success. Ireland opted for a tax policy that attracted inward investment, but also established a social pact guaranteeing wage restraint and fair distribution of the fruits of growth, as well as a committed education programme which prepared the labour force for the country's new economic positioning.
Ms Jouen also recalled the basic principles set in 1988 to govern the awarding of funds: concentration of assistance, additionality, multiannual programming and partnership. They played an essential part in bringing about a change in public administration methods and led to the establishment of models specific to the European Union. In this connection, she

mentioned the "local action groups" established under the LEADER programme for rural development, the URBAN projects implemented in distressed urban districts, and the "local employment pacts". In her opinion, a genuine "cohesion and cooperation culture" emerged during these 40 years of Community activity and 12 years of structural assistance.

In particular, she noted that the rule of partnership – initially restricted to a vertical relationship between the Union, the Member States and the regions – has been broadened to include the social partners at first, then other players from the business community and civil society. She also mentioned the macroeconomic EMU criteria, the growth and stability pact and the open coordination method as original contributions the Union has made to promoting convergence among its Member States. The 1993 White Paper on "Growth, Competitiveness and Employment" and the employment strategy launched in Luxembourg in 1997 are also part of this strategy, along with the identification of good practice and the definition of relevant indicators and objectives.

The accession of Finland, Sweden and Austria provoked further changes, such as greater attention to equal opportunities, sustainable development and open government, noted Ms Jouen, before concluding that the success of the convergence challenge hinges on four conditions:

- undertaking extensive prior analysis of the economic and social problems
- selecting the right policies to address these problems
- identifying the relevant level for action (national, regional, local or sectoral)
- adopting strict and stable rules.

Moving on to what the new members will contribute, **Jiri Pehe**, a Czech lecturer at the New York University in Prague, divided the 12 candidate countries into four regional groups:

- <u>Central Europe</u>, encompassing the Czech Republic, Slovakia, Hungary, Poland and Slovenia. These countries have belonged for diverse periods to what he called the "German geographic and cultural sphere", and their accession will significantly enhance central Europe's influence in the Union, he believes. In the case of Poland, he noted that the Baltic influence moderates the country's central European character. Slovenia's identity is similarly marked by the influence of Italy and the Balkans.
- <u>The Baltic group</u> – Estonia, Latvia and Lithuania –, which tends to look northwards. The accession of the three Baltic States will strengthen the Nordic influence, but these countries' historic links with Russia should also be borne in mind.

- The Balkan group – Romania, Bulgaria and Cyprus –, whose religious traditions, history and culture differ substantially from those of most of the current members. According to Mr Pehe, full integration would therefore be more difficult for them than for the two previous groups, and their accession could strengthen the role of Greece, which shares their Orthodox Christian tradition. The three countries are also bridges towards the States of the former Yugoslavia, and their accession to the Union is likely to bolster the European ambitions of neighbouring Turkey.
- Malta is a special case and can be seen as a natural stepping stone to north Africa.

Mr Pehe pinpointed a certain lack of democratic experience among the 12 candidate countries which, he thought, will need some time to develop civil societies able to underpin democratic institutions. In closing, he pointed out the specific problem posed by the ten million or so Roma, or Gypsies, whose living conditions are poor throughout eastern Europe and who are currently divided by political and administrative borders. There are likely to be significant flows within this community as soon as the countries in which it lives form a single area. Mr Pehe even spoke of the emergence of a new nation in Europe, meaning that there will be 13, not 12, central and eastern European participants in the enlargement process.

**Janusz Reiter**, the Director of Warsaw's Centre for International Relations, regretted, as did other Polish participants, that the candidate countries, and his own in particular, should have been faced with a European *fait accompli*. He observed that Poland was one of the few countries that hoped to have an influence on the process, if only because of its size. Its closeness to Russia, and even more to Ukraine and Belarus, gives it particular expertise and there is no reason why it should adopt the same attitude as the western countries. Nor should the other candidate countries have to, he added. In all cases, modernisation should go hand in hand with tradition, thus reassuring them that these countries' identity is not under threat.

Mr Reiter briefly mentioned the very different perceptions of the International Monetary Fund (IMF) in Russia and Poland. While Russians see the IMF as a sort of blood-thirsty vampire, the Poles have a much more positive image of it. They accept those of its recommendations which they are capable of taking on board, while adding a few ideas of their own. Mr Reiter nonetheless has the impression that Poland has lost some of its post-1989 momentum and pointed out a degree of weariness among intellectuals, who have lost some of their creative energy for making progress in society.

**Ana Barbic**, an economist at the University of Ljubljana, stressed the need for the candidate countries and the Member States to exchange information and training, expressing the hope that seminars, conferences and workshops would promote networking and encourage participation on the part of NGOs. Slovenia had designed its agricultural reform in accordance with the CAP system. Ms Barbic was concerned that the future members might behave in a self-centred way, but was that not exactly what the existing Member States were doing? She regretted that countries such as Spain and Greece had not been in the forefront of promoting a policy of solidarity.

For his part, **Mr Geremek**, who fears that the Union might fall prey to Balkanisation, lamented the fact that the pace of preparations for accession should have slackened in Poland, and that the "now or never" feeling should be fading.

He was also unhappy that the Union should be discussing objectives and preparing to reform the institutions without waiting for the arrival of the new members. He is concerned by the persistence of *per capita* GDP disparities and spoke of "dramatic" contrasts between poor and wealthy areas. He reminded participants that the US's attempts to seal the border along the Rio Grande had been unsuccessful, and that the creation of a customs union with Canada and Mexico had ultimately proved more effective in somewhat reducing the disparities in development and in establishing cooperation links with the US's southern neighbour.

To make a success of enlargement, the CEECs' growth must remain at twice the rate of the current Member States, he said, while also pointing out that Ireland owes its success primarily to its economic boom and to the education effort – two issues that have sadly been absent from the accession negotiations. Any Polish exception within the communist system is due to the fact that agriculture was not collectivised. That is what saved the country's spirit of freedom. Hence the current problems and handicaps, he said, adding that Poland should not be penalised for having preserved its family smallholdings and having thus maintained a degree of entrepreneurship in this sector.

The Union is now promoting environmental protection. He considers this to be a good thing, and pointed out that Poland does, in fact, have many rural areas that have not been damaged.

Mr Geremek then called for some thought to be given to protecting the human heritage and suggested that a Community policy be devoted to the issue. He welcomed the discussions about European citizenship and a constitution for Europe but expressed the hope that the concepts, instead of remaining mere words on paper, will evolve into a deeply rooted feeling in which solidarity would play an essential part.

**Matthias Ruete**, a director at the European Commission's Enlargement Directorate-General, pointed out that European countries are in a better position to confront globalisation when they act together rather than separately. The internal market, freedom of movement and the recognition of diplomas are now taken for granted, but we should not forget that a lot of hard work was necessary before certain rules could be imposed. This effort must now be continued, but must also be adapted to the current problems and future challenges. He highlighted the need for cooperation between countries – a process already begun with twinnings – and the general trend towards a knowledge-based economy. As for the CEECs, he invited them to adopt a fast-track catching up strategy and to take giant steps forward. He warned them in particular against lagging behind and being content with letting themselves be carried along.

For Ambassador **Fuentes**, European regional policy is important but is not the only key to success for the candidate countries. Their progress will depend on the links they can establish with other members and on their trade relations, cooperation networks and rate of job creation. He believes regional policy is just an additional benefit.
Five years from now, Spain will no longer be receiving assistance from the Cohesion Fund, he said – welcoming the fact – but will still have access to the Structural Funds. He also gave the following warning to those who may be tempted to accuse the Spanish of a lack of solidarity with the accession countries: you could well find yourselves facing the same accusations when comes the turn of Romania, Bulgaria and Turkey.

For his part, **Mr Weise** called on participants not to isolate solidarity policies from the other areas – the internal market and competition – on which the Union is based. Solidarity, he observed, is not just about allocating funds; it is also about having the assurance of belonging to a whole. In his opinion, being a member of the Union is a form of insurance against economic downturns. It is better to be inside the Union than outside, he said, adding that the same goes for the World Trade Organisation (WTO).
In response to Mr Geremek, Mr Weise agreed that the Polish smallholders should not be penalised for having resisted collectivisation. But we should also recognise, he said, that the CAP forces consumers to pay more than they ought to for their food.

**Hanna Machinska**, from the information centre on the Council of Europe, emphasised the progress made by Poland in the run-up to accession. The country has acquired a certain degree of maturity in democratic and legal terms which entitles it to play a mentoring role for Belarus within the Council of Europe. It is simply a pity, she regretted, that the politicians have not made it sufficiently clear to public opinion that adoption of the Community *acquis* is both beneficial and necessary.

Europeans' ability to overcome nationalism is an asset that must be preserved at all costs, believes **Mr Klär**, who is hostile to any devolution of the Community *acquis* back to the nation States. He called on the Member States to avoid letting the CEECs drag them backwards in the name of a presumed respect for national identities.

But what **Istvan Szent-Ivanyi**, chairman of the Hungarian parliament's committee on foreign affairs, wants is fair and equal treatment and a balanced distribution of financial assistance to promote the development of all Union countries. "Is this Europe really a Union of all European countries or just the fairly homogeneous club formed by its rich nations?", he asked. In terms of its geography, history and culture, the new Europe will be different from the one we know today, he continued. It will be more focused on central Europe, small and medium-sized countries will have a greater role and the influence of Germany will be stronger than it is now. He nonetheless remarked on certain trends he deems damaging and reprehensible, such as the efforts of certain States to upset the political balance and bring things back to where they started, and the demands of some countries to play a predominant role (France and Germany) or strike particular agreements (United Kingdom, Italy and Spain).

**Jan Kulakowski**, who was responsible for Poland's accession negotiations under prime minister Buzek, considers that the main issue remains solidarity and its instruments: the Structural Funds. He called for it to be analysed in greater detail, down to the very foundations of the Union. In his view, the crucial factor is the *Community method*, for it ensures a balance between Member States by compensating for disparities in size.
As a cofounder (while exiled in Belgium) and former secretary of the European Trade Union Confederation, Mr Kulakowski regretted that so little attention should have been given to social issues in the debate and that issues such as equal opportunities between women and men and the unions' fear of social dumping should have been ignored. Nor had there been any mention of social dialogue, he pointed out, wondering if enlargement might change the situation. In conclusion, he called on participants not to underestimate the political aspects of

enlargement. "The Union is a political whole," he said, "and enlargement is first and foremost a political challenge."

**Mr Pujol** then expressed his surprise at what he called a "kind of gloom and lack of confidence in the European process" within the candidate countries. "There has been talk about the Member States' lack of trust in the candidate countries, but what I have noticed here is mistrust of the current EU States." The fact that Estonia and Latvia see Union membership as a threat to their identity came as something of a surprise to him. He would have thought accession would reassure countries which, in the course of their history, have been threatened first by Sweden and then by Russia. But never by Europe, he exclaimed, before noting that if they remain isolated these countries will have no future. The example of Poland seems obvious to him, and he pointed out that the threat to Catalonia's identity never came from Europe but from Spain. The Union would be a lot more attractive if there was better explanation of what has been achieved in terms of enhancing regional and national diversity.
As regards Spain, accession was not merely a matter of economic development – nor even of democratic consolidation – but of "putting history right", he asserted, pointing out that for two centuries Spain had remained outside Europe and that it had had to "catch up with history".
Now it was Poland's turn to "find its place in the European whole", he said, saying that as a friend of Poland he wished to speak frankly and was surprised to find that the country was "lacking in self-confidence". Paradoxically, those who do have faith in Poland are western European companies, he indicated. He warned his Polish partners that they should not fear a degree of "agricultural suffering". This is inevitable, for no country can modernise with 18% of its working population in agriculture. Should it remain a pool of labour for the European Union? he asked, before warning that, in any case, Poland will keep that status whether it joins the Union or not, and that it is in the country's best interests to "join as soon as possible".

We should bear in mind that Poland recovered its sovereignty only 12 years ago and is therefore not very inclined to share it with a larger body, pointed out **Mr Mazowiecki**. He is worried by the current trends towards uniformity and believes the legalisation of euthanasia in the Netherlands and Denmark is a blow to European culture. All that is not easy to explain to the Poles, he said, and pointed out to Mr Weise that the problem is not whether the Poles should be congratulated or criticised for having defended their identity along with their small family farms, but whether rapid rural exodus is the only way to handle the inevitable

transformation of agriculture. He went on to remark that the 80,000 pages of Community *acquis* are quite simply unintelligible to the layman.
Mr Mazowiecki thought Kennedy's words quoted by Ms Quin were "very nice" but believes that "a lot of water will still have to flow down the Thames, Rhine and Vistula before the future European citizen is able to say what he or she can do for the Union." The 21st century has not got off to a very auspicious start, he added, expressing shock that we should be restricting agricultural production in Europe when people are starving elsewhere in the world. He concluded his contribution by declaring that Europe would have to compensate for what happened in the Balkans by welcoming all the States of the former Yugoslavia. However, he said, "peace in that region will be possible only if we replace the economy of war by an economy of peace."

For her part, **Lena Kolarska-Bobinska**, the head of the Institute for Public Affairs in Warsaw, explained that what the Poles were afraid of was not losing their sovereignty or their national identity. Their fears have to do with their economic situation and the prospect of not being given equal treatment.

In the opinion of **Jean Nestor**, the secretary general of *Notre Europe*, the European Union has few means of coercion and the Community *acquis* is not designed to establish any form of domination. Law books and growth statistics may not make compelling reading, he said, but the law is nonetheless what allows us to live together while respecting each other's identity and differences.
In his view, the fate of the candidate countries will not be decided by agriculture or the Structural Funds. Community assistance is not what makes or breaks a country's policy. So much is obvious from the contrasting examples of Ireland and Greece, he pointed out. The first question the candidate countries should ask themselves is: what do we want? And, in Poland's case: how many farmers? In what kind of farming? How can we make effective use of the Community's assistance to achieve these objectives?
The funds will not determine the objectives, insisted Mr Nestor. The timetable envisaged for reforming the CAP and the Structural Funds after the enlargement exercise provides the candidate countries with an opportunity to negotiate the reform of the Community *acquis* with the other Member States in order to ensure it is better adapted to their needs.

**Gabriela Mihailovici**, the head of the EU accession department of the national bank of Romania, was of the same opinion. The candidate countries must be persuaded that the reforms are of concern to them, she said. But people are not getting the right signals. They must nonetheless be encouraged to understand that joining the Union has nothing to do with the activities of the IMF and World Bank. The Union is neither Father Christmas nor the bogeyman! Romania has to comply with certain obligations and carry out reforms, but we can make our own decisions on economic development and how to put it on the rails.

It is not enough to identify the right objectives, rejoined the Hungarian undersecretary of State for European affairs, **Béla Szombati**. We must have the means to achieve them, make the instrument consolidating the single market available to all and ensure that all members contribute to the Union's strength. To speak of solidarity, he explained, is to establish a link between the economic capability of a country at the time of accession and its strength five or ten years down the road. In his view, this additional potential for development changes everything, so a strengthening of the cohesion policy is necessary. Mr Szombati rejected any notion of a dual system in which the CEECs and current Member States would not receive equal treatment. He observed that the targets of the common policies are not as closely tied to production as they were in the past and that considerably more attention is given these days to the quality of output, food safety, lifestyles and preserving the population of certain areas.
Is identity an issue? Mr Szombati had no hesitation in replying "I, as a Hungarian, see no contradiction between being European and being Hungarian. We can talk of multiple identities, but a lot of work remains to be done before we can really speak of a European identity."

**Mr Pehe** quoted Churchill "the Balkans produce more history than they can consume" and went on to review the cultural handicaps and assets of the future members. He called for Community assistance to be given a broader scope, in particular in order to continue strengthening democracy and civil society. National and regional cultures must be steered towards modernisation, he insisted, for the economy alone will not ensure integration.

## IV – MAKING THE UNION AN AREA OF SOLIDARITY AND COOPERATION

During a public session held in the gilt stucco surroundings of the Royal Palace, **Ms Kolarska-Bobinska** drew preliminary lessons from the seminar regarding the expected economic impact and the reforms of Community policies that the wider development disparities and greater inequality will require. **Mr Nestor** then outlined the means available to an enlarged Union to cope with the solidarity and cooperation needs discussed that morning. He indicated that the seminar had helped to identify three problems.

- How can the accession countries achieve a higher sustained rate of growth than the current members?
- How can social integration be achieved without reducing the CEECs to the status of pools of labour?
- How can agriculture be restructured?

The discussions also showed that the CAP and Structural Funds are no cure-all for these problems, but do provide "additional scope for development".

**Bronislaw Geremek** warned against procrastination. Time is short, he said, both for the candidate countries and the European Union. The latter must take pressing decisions that are not technical but deeply political in nature.
How can we ensure that the Union remains an area of solidarity and cooperation, he asked, adding that the word "solidarity" has particular resonance in Poland. In an organisation based on the principle of economic freedom and competition, there can be no solidarity without calling on citizenship, he asserted, and further pointed out that the eastern European countries must catch up a 50-year delay caused by a regime that was not of their choosing. He claimed that to promote a feeling of common responsibility for European decisions, citizens should contribute directly to the Union's tax revenue.

For **Elmar Brok**, the chairman of the European Parliament's committee on foreign affairs and a member of the Convention, the challenge facing Europe is to find its place on the world stage and build an area of stability and cooperation across the entire continent. Since agriculture is not what matters most in our economies, Mr Brok is convinced we will eventually find the right solution. He acknowledged the unease of his fellow-Germans at the prospect of their eastern neighbours arriving on the labour market, but believes the market enlargement makes up for these apprehensions. In passing, he reminded participants that the French had put forward similar arguments 15 years ago but that it was France, along with Germany, that had benefited most from the entry of Spain into the Common Market. He therefore believes the benefits of the forthcoming enlargement will outweigh its shortcomings.

Ambassador **Fuentes** remarked that the call for "more Europe", one of Spain's priorities for its presidency during the first half of 2002, notably meant "more solidarity". He claimed that enlargement is "of fundamental importance to all". Certain arrangements will not be concluded before the elections in France and Germany, but everything will be wrapped up by the end of the year, or the beginning of 2003 at the latest.

His message was optimistic. Enlargement will probably involve 10 countries, equivalent to one-third of the Union's population, one-third of its geographical area and one-tenth of its GDP. To comfort all those in eastern Europe who have mixed feelings about the Union, he recalled how the Spanish felt on the eve of their accession. They thought the negotiations had been disastrous, that the Commission was treating them far worse than their predecessors and that they would be dominated by their stronger neighbours within the Common Market. "They were wrong," said Ambassador Fuentes. He added that "the Community *acquis* is a fact. The candidates must adjust to it, rather than the other way around. But the new members are not being swallowed up. On the contrary, they are being helped. It is a win-win situation."

Ambassador Fuentes admitted that the Spanish were aware they would no longer be receiving assistance from certain funds within five years, and called on the eastern Europeans to adopt a similar long-term view. He told them that they could depend all the more on solidarity since their countries were complementary, and concluded by stressing the political and historical – rather than the economic – nature of integration. The aim is to "correct a poorly written page of history," he said.

**Danuta Hübner**, the Polish secretary of State for European affairs, indicated that she was speaking as a representative of a future Member State rather than as a minister of a candidate country. She explained what Poland meant by solidarity. Solidarity, she said, is mainly the guarantee that the new members will be granted the same rights and status as the current ones. But it also means that their country will remain open to trade and cooperation with the rest of the world. In practice, the issue for Poland is its crossborder trading and human relations with its eastern neighbours.

Lastly, solidarity means that all – existing and new members alike – should take part in the political and economic reform of the Union. This implies appropriate representation in the debates of the Convention. Ms Hübner stated that the Polish government intends to play a full role in the reform of the institutions.

**Béla Szombati**, from Hungary, fully endorsed these comments on equality and solidarity. What do we need for the Union to become this large area of solidarity and cooperation we are hoping for? First of all, political will, he said, indicating that the commitment to integration answers challenges that are increasingly relevant at continental and global level rather than at national level.

Hungary is willing to give more weight to rural development in agricultural policy, but it is also anxious to preserve a common policy at Community level and is against devolving assistance to the national level. It wishes not just to preserve the essence of the cohesion policy but also to strengthen it as a suitable instrument for improving the workings of the single market.

Mr Szombati insisted on the need for equal treatment, noted that internal and external security are interrelated and advocated common policies on the environment, transport and social issues. He spoke of striking a balance between Community and intergovernmental decision-making, and between the Union and its Member States, but also called for the Community method to be strengthened while preserving enough flexibility to ensure that the institutions can adapt. He did not exclude the option of resorting to closer cooperation arrangements that could allow those who wished to move further, as long as this did not involve a split from the others. He remarked that if we want to push integration and European policies ahead we must establish a budget that is in line with requirements and provide for additional own resources.

Has the Union reached the stage where it needs a constitution? Mr Szombati has no answer to that question but believes that there is always room to improve the current treaties. He noted that the Union does not yet cover the whole of Europe and that a number of European countries are still outside it. He proposed that those closest to the Union should be offered the prospect of accession, and that the others should be given opportunities for partnerships.

**Mr Pujol** still remembers what Jacques Delors said, shortly after the fall of the Berlin wall, on the obligation to welcome the eastern European countries that had freed themselves of communism. Like Ambassador Fuentes, he drew parallels with the previous enlargement exercises and reminded participants that, not so long ago, a number of Member States still regarded Spain, Portugal and Greece as "Club Med" countries that had only "sea, sand and flies" to offer.

He believes the drop in the Community’s *per capita* GDP resulting from the forthcoming enlargement is a difficulty that can be overcome. The widening of disparities between rich and poor is a more serious problem. What worries him is the displacement of the Union's centre of gravity towards central Europe and the effect on the Union's relations with the Mediterranean countries.

Referring to the success of the 1995 Euro-Mediterranean conference, Mr Pujol regretted the lack of follow-up to that event. "Europe's southern border is one of our most sensitive and dangerous ones," he declared, highlighting the population explosion, "the formidable immigration that we cannot contain" and the threat of fundamentalism. He is quite happy, he said, to talk about the Baltic area and Kaliningrad, but he would like Europe to understand that it absolutely must take part in the development of the Mediterranean's southern rim.

Coming back to the candidate countries, which are already largely regarded as future members, and to the lessons we must draw from the previous enlargement exercises, Mr Pujol expressed his confidence in Poland's growth potential but stressed the need for a change in attitude among the people and leaders of the candidate countries. That is what occurred in Ireland, he said, and also in Finland which, after losing the crucial Soviet market, accepted to restrain its wages, at least for a while, at the request of its prime minister. He also mentioned the example of Greece, which stagnated as long as it maintained a critical approach to the Union. The country began benefiting from Europe and became a success story when attitudes changed and the leaders attempted to address questions such as the socioeconomic model desired, the existing shortcomings and the strategy needed to overcome them. He called on the future members to draw inspiration from that example.

Mr Pujol concluded with a warning to those who might be tempted to condemn each step of the negotiation as unacceptable. That is the wrong approach, he said, because on concluding the negotiations the leaders will have to sell them to their population. They must therefore start preparing to explain them as of now.

# ANNEXES

## The effects of Eastern Enlargement on the Economy of the Fifteen

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An analysis of the consequences of enlargement to the East on the economy of the European Union allows one to draw several conclusions: its macroeconomic impact on the whole of the Europe of 15 will be weak but will have more notable effects on certain areas of activity in certain sectors and on the economy of the countries closest to the new members.

*A weak macroeconomic impact*

The economic weight of the candidate countries in comparison to that of the Union is too weak for their integration to constitute a significant shock. The new members will increase by a quarter the population of the European Union, but will only represent 4 percent of its GDP.

Enlargement will also not be a significant trade shock. Exchanges with candidate countries have little weight in the production, demand and external trade of the EU. Trade with these countries (average import and exports) represents 1 percent of GDP and 3.5 percent of total external trade of the Union, far too little too affect employment or salaries. In addition, trade between the EU and the candidate countries has for some ten years already largely been liberalised thanks to the association agreements which progressively eliminated the majority of tariff barriers on industrial products.

In the same manner, an increase in capital flows of the Union towards the new members should not affect local investment. Direct investments of European firms in the candidate countries are only 0.8 percent of their fixed capital investment in the Union and 1.5 percent of total direct investment abroad.

This absence of major macroeconomic challenge linked to enlargement could be resumed according to the following formula "too small to matter". However, the gains for the economy of the Union will be far more marked as integration will accelerate economic growth of the new members, favouring the convergence process.

In one area the size of the new members is significant, that of the labour force resources. The active population is equivalent to one third of the Union's. Taking account of the gap in revenues, the free movement of workers could create a potentially important migratory flow. However, the experience of other enlargements and simulations of the current one foresee that such flows should not be large enough to have an impact in any significant manner the level of employment and salaries in the EU.

*More notable effects in certain sectors*

The entrance of the new members into the single market will eliminate all the obstacles to trade which currently still remain, in the form of quotas, residual customs tariffs, anti-dumping measures, technical barriers (norms, health rules). Agricultural products have been left aside during trade liberalisation and the suppression of protections will provoke and fall in prices, an acceleration of trade and a growth in the excess production of the EU. Trade in industrial products is also still the object of not insignificant trade restrictions and their removal could have notable effects in the sectors where the new members are, for the current 15 members, important suppliers or markets. The new members should re-enforce their positions in market sectors in the Union such as clothing and furniture, and exporters from the Union increase their presence in the markets such as the automobile industry.

In a general manner, eastern enlargement will drive the economies of the EU to increase their specialisation in those activities where they have a comparative advantage, that is to say, industries with high levels of capital, technology, and qualified labour, and to leave to the new members those industries that require labour intensive production. According to this logic, among the "winning" sectors in the Union one will find equipment goods, the transport sector, and among the losers one could include the clothing sector, and furniture production. However, the adjustments will be made more within each of the different sectors. In effect, specialisation among products in the 15 and the future members will be highly contrasted: the first are located largely within high quality and the second low technology, and they are not competitors in the same sectors of the market. Competition from the new members should bring a pressure on European producers to improve the quality of their products. In addition, trade between the EU and the candidate countries is more and more trade that takes place within the same industry and corresponds to the international division of production processes. This integration of production systems, favoured by geographic proximity, will be stimulated by the single market.

*An asymmetric shock*

The costs and benefits of enlargement are clearly more important for those economies geographically closer to the new members, due to reasons of the intensity of economic and commercial relations that already exist between the two. These countries (Germany and Austria), and more specifically their border regions, are also more directly concerned by the potential of immigration, taking approximately three-quarters of the total. Enlargement could then have a critical effect on the conjuncture of sectoral and regional impacts. An influx of immigrant labour that is likely to reduce the salary of non-qualified workers in certain local industries.

The economic proximity (of level of income) is also a factor of potential competition between the new members and the Southern countries of the Union. The textile sector holds an important position in their respective exports, and here the new members may have a price advantage, due to the low work costs. However, Southern Europe has a specialisation in quality (medium and high), where the future members are not present. Aside from this, the degree of similarity of export structures of the Southern and Eastern countries is not particularly high (except in the case of Portugal) which indicates that the potential competition from the new members is not of a nature that is likely to the economies of the less developed countries. Competition will effect private investments but the redirection of direct investment away from Southern Europe should be limited given the fact that investments in Central Europe are motivated not by the search for lower costs but rather for markets, and directed in large part towards services. On the contrary, enlargement will bring a redistribution of the Structural Funds in favour of the new members, and to the detriment of the current beneficiaries. This is an important financial challenge, nevertheless, passed experience shows no direct relationship between the size of structural aid and the growth of the economies that benefit from it.

On the economic plan, the entrance into the European Union of the candidate countries will prolong the structural evolutions that began some 12 years ago. For the economy of the 15 the shock will not be a major one, but it will be largely asymmetric, as the current Member States are also unequally exposed to its effects. This will transform the new geography of the enlarged Europe.

# Two neglected effects of EU enlargement: Rationalisation and specialisation

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In the "long transition decade" transforming countries have achieved remarkable success by letting themselves driven ahead by modernisation-inducing FDI. EU integration will however enforce these countries to re-examine their present specialisation patterns. The rationalisation wave expected to occur following enlargement will make local economic policy decision-makers ponder on how to reinvent their countries' world economic position.

Although the trade creation effect of EU-enlargement and the acceleration of inward FDI are oft-proclaimed benefits to accession countries, neither of the two expected consequences is as straightforward as they seem.

Consider the gravity model of trade developed to assess the long-term trade potential between two countries or two groups of countries. Drawing the analogy of the gravity law in physics this model suggests that the amount of trade between any two countries is influenced by their respective size and the (economic) distance between them. In the late eighties, trade flows between Eastern European countries and the west, were far below their gravity norm. As trade liberalisation was proceeding at a rapid pace EU-CEEC bilateral trade increased. The most advanced transforming economies quickly approached the hypothetical level suggested by the gravity model not only because of the dismantling of EU-CEEC trade barriers but also as a consequence of trade augmenting FDI. At the present level of economic interpenetration however, a fully-fledged membership will not automatically involve a significant further increase in bilateral trade. What's more, as a consequence of rationalisation measures, some newly accessing countries or specific non-member countries may take part of other accession countries' present regional and EU-export over.

Who will be the losers? Foreign-owned subsidiaries of large, blue chip MNCs are considered reasonably well prepared to meet the challenges of intensifying competition. Nevertheless, plant closures can be expected since the owners of local subsidiaries will reconsider the issue of location following accession. Locational competition will open up again, as a consequence of local subsidiaries' changing position in their mother companies' global organizations.

Following accession, the owners will have to reassess their organisation, and recalculate factor costs. They will have to decide whether the technological and management capabilities in their individual local subsidiaries are sufficiently developed for an EU-company. So far MNCs' expectations towards their local subsidiaries in candidate (extra-EU) countries have been lower than towards their subsidiaries in EU member-countries. Following accession however, the owners will compare the productivity and profitability-levels, the size, the income generating capability, and the technological level of their production facilities in the new member-countries with their established subsidiaries in core EU-countries.

In order to understand the difference between MNCs' expectations towards an EU-based and an extra-EU subsidiary and thus the difference between the operational properties of EU-based and extra-EU subsidiaries (which goes much beyond simple productivity differences) we have to examine the business history of these companies. In transforming countries, most key actors in the fast moving consumer goods sector (FMCG) were bought by foreign investors. Privatisation offered a unique opportunity to MNCs competing in the saturated market of developed countries, to gain huge new markets. Therefore, they established local subsidiaries with overlapping activity and product mix in several transforming countries. The acquired companies were restructured only up to a specific level to make them capable to meet the local and regional market related expectations. Technology was upgraded and the financial position of these companies was restructured so that the newly acquired companies could provide adequate quality. Besides producing a wide range of products themselves, these companies manage the distribution of their mother company's complementary products that are not produced locally. Domestic market orientation is not exclusive (since these companies also have regional and some EU sales as well) but dominant.

This high share of domestic sales, a wide product line and a relatively low level of technological- and a high level of labour-intensity do not comply with the actual trends in the industries in question. Which are these trends? The optimal size and specialisation level of FMCG companies keep increasing in advanced economies. Companies have to comply with stricter and stricter safety, environmental and hygienic standards. Compliance necessitated huge investments, which made efficiency requirements increase as well. The need for an optimum use of resources involved rationalisation steps. FMCG companies in advanced countries have thus been undergoing painful rationalisation for years. The survivors were large and highly efficient companies, with a relatively narrow product line and consequently, a strong global orientation.

The capital- and technology-intensity of the present EU-companies in these industries are radically higher, the labour intensity radically lower than a decade ago. Since the subsidiaries in candidate countries are far below the optimum level from the point of view of both size, technology level, labour-intensity of production, and profitability – accession will surely lead to rationalisation. Redundancies will become more conspicuous and less tolerable.

The question is, which subsidiaries will be shut down and which ones will be developed in order to make their features comparable with EU companies?

The surviving production facilities among the competing locations in the new EU member-states, will undergo a second wave of restructuring. Investment will have a clear trade-augmenting character. The survivors can expect an increase in their specialisation (a narrowing of their product line) in the length of their production runs as well as in the technology intensity of production.

Which transforming countries are better positioned in the newly opening locational competition? Market size and factor endowment will clearly influence MNCs' decisions. Institutional tightness and the proactive behaviour of authorities: investment promotion efforts, investment after-care programmes will also play a role. Equally or even more important are the management capabilities of local subsidiaries, their ability to assume corporate functions other than production (subsidiaries' independent market acquiring capability and R&D potential will be considered).

The winners of the rationalisation wave will not only expand their activity, but will also undergo significant changes both in technological and organisational term. Production technology will be upgraded so that the length of the production run, the variety of the product mix, as well as the capital and labour intensities of production will become more similar to the ones of established subsidiaries in core EU countries. Subsidiaries will gain more extensive product mandates in terms of markets served, and will cover more functional areas (than simple production) in the case of the products they will specialise on. As a consequence, the original market-seeking character of these subsidiaries will change. The motivation of the second investment wave that upgrades the survivors will be of an efficiency-seeking character.

At present, the distribution of market-, resource- and efficiency-seeking investments is uneven across transforming countries. The above-described rationalisation wave hits market-seeking investments i.e. companies that were originally established to serve the domestic market and that proved unable to turn into efficiency seeking investments. Resource-seeking investments may also undergo a rationalisation wave as a result of factor cost changes. Relocation to extra-EU countries can be expected in industries characterised by low local value-added.

EU enlargement will redraw new members' specialisation patterns. Transforming countries with a large domestic market and a relatively high share of FDI stock in sectors where market-seeking investment is dominant may benefit from further investments in these sectors (carried out to upgrade existing subsidiaries). Small, outward oriented economies with a large share of FDI stock in industries where resource-seeking investment is dominant may face a defensive increase in this type of specialisation as a result of plant closures in industry segments with market-seeking FDI.

According to the most pessimistic scenario, countries with a high share of resource-seeking investment that proved to be unable to moving up the ladder of technological learning and increasing the local value-added during the decade of transition may become the great losers. They may not only be unable to retain their market-seeking investors but will also be hit by a relocation wave in industries where resource-seekers face a reduction in factor cost differentials. Therefore, economic and regional policy-makers are recommended to target the local market-oriented subsidiaries with creative investment after-care programmes and do their best to make them the great survivors of the rationalisation game. Furthermore, they are recommended to do their best (shoulder to shoulder with foreign subsidiaries' local management) to increase local value-added, and improve existing subsidiaries' position in their mother companies' global organizations. Thereby they can contribute to turning investors' initial resource-seeking motivation into an efficiency-seeking or strategic asset seeking one.

## The Factors of Instability and Inequality:The Problems seen from the 15

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From the perspective of the EU-15, the GDP of the twelve applicant countries (AC) is rather small. This is also true for the countries' share of foreign trade of the EU-15; although the latter grew substantially during the 90s – due, among others, to bilateral trade liberalisation- and is not negligible. Not surprisingly, empirical studies of the overall macroeconomic impact of enlargement on the EU-15 tend to come up with positive but quite small effects. In some cases, indirect effects might be larger than direct effects, i.e. Italy might benefit less from increased trade with the applicants themselves, than from the increase in German demand caused by enlargement-induced growth in Germany. However, while the overall effect will probably be small, specific Member States, regions, sectors or parts of the labour force might be more severely affected than others. Therefore, a closer look at the features of economic integration of "old" and "new" Members is justified.

### ***Some characteristic elements of economic integration in Europe***

*Trade*

During the 1990s, the CEECs managed to redirect their exports away from the former CMEA members towards the European Union. The trade volume has increased significantly and the EU has become the most important trading partner of the CEECs. From the point of view of the EU, the AC are much less important partners. Geographical proximity seems to play a key role in determining bilateral trade flows. Main trading partners are Germany and Austria, as well as Finland, Italy and Greece on the EU side and Poland, the Czech Republic and Hungary on the CEE side. Regional trade data available indicate that this pattern also applies at the regional level. However, eastern German, as well as western Polish regions do not account for significant shares in total trade of their respective countries. CEECs have been able to change the commodity structure of their exports from inter-industry to intra-industry trade, i.e. their export structure is now more similar to that of the EU as in the early 1990s; this reduces adjustment pressures in the labour market. However, it is important to note that bilateral exchange is overwhelmingly trade in vertical differentiated products with the CEECs being exporters of product variations with lower unit values. Only Hungary seems to be an exception. There is no indication that the CEECs constitute a severe competition for the EU cohesion countries or other EU members.

*FDI*

As in the case of trade, recent years have seen a marked increase in FDI flows from the EU to the AC, dominated by the main trading countries but also by France and the Netherlands. While FDI flows are important for the receiving countries (most notably Hungary, the Czech Republic and Poland), Austria is the only EU member where CEE plays a prominent role as a destination for FDI flows. Other than being the case with trade, there are practically no FDI flows from the AC to the EU. The choice of destination seems to be influenced, in general, by proximity and political stability. The motives for investment are not entirely clear. While surveys show a slightly above average importance of wage costs advantages for FDI in CEE (compared with overall FDI outflows from the EU), there are also indications that this is not the dominating influence factor. Market access and first-mover advantages also play a decisive role.

*Migration*

Migration is often cited as the most important post-enlargement effect with automatically associated negative consequences for EU members. One reason for this is that – contrary to the GDP and the trade volume - the size of the population of the applicants is quite noteworthy. However, diligent analyses do not expect a massive influx of migrants after enlargement and see only minor – and by no means necessarily negative - effects on wage and employment in the EU. Migration flows will be directed mostly into Germany and Austria as these countries are already home to the largest shares of CEEC citizens in the EU. Actual migration flows depend on the income gap, the labour market situation in the destination country and the stock of migrants. The share of citizens of the country of origin that are already living abroad determines, on the one hand, the destination choice of new migrants. More importantly, on the other hand, it dampens the potential for further emigration from a specific country because the propensity to migrate is not distributed evenly among the population. It is, therefore, to be expected that migration flows will rise after enlargement (there are only comparatively few CEECs citizens already living in the EU). However, the inflow will not be as excessively high as sometimes expected and it will slow down over time. The actual labour market effects do not just depend on the number of migrants but also on their qualification. Highly qualified migrants can have positive effects for low qualified domestic workers.

*Border regions*

Border regions are potentially most affected by enlargement accentuating internal disparities inside these regions. Competitive enterprises, sectors and areas will gain from the proximity of new markets and the supply of a wider selection of inputs. Less competitive ones will suffer from increased competition. Along the EU:CEEC border, the impact will most likely be concentrated on the eastern Austrian regions. The impact is not necessarily negative on balance but the adjustment pressure will be highest here.

***<u>The assessment: The economic impact of enlargement and its consequences on welfare, employment and disparities</u>***

The direct economic effects of enlargement on the EU-15 will be concentrated, to a significant degree, on Germany and Austria. For these countries, a positive (but small) net-impact of enlargement on welfare and growth is to be expected. Their positive trade balance with the East leads to a net-gain in employment. Easily forgotten, but just as significant are the positive welfare effects for importers of intermediate goods and for consumers that are caused by imports into the EU from the applicants. Adjustment pressures are unavoidable in this process. The pressure concentrates on workers with a comparatively low level of qualifications. They produce goods which compete with imports from the AC. They are affected by FDI outflows, insofar as these flows are determined by labour costs. Thus, regions with a high share of labour-intensive production (and, to some degree, those that depend on traditional industries like coal and steel) face additional challenges. Finally, low-qualified workers tend to compete with migrants in the labour market. However, at the regional level, permanent migration will be directed to centres of economic activity, exactly because their labour markets can absorb the additional supply of labour more easily. Empirical studies on the effects of migration, even those on cases of massive migration, overwhelmingly fail to find a significantly negative impact on the labour market. The border regions will experience an increased number of commuters. This will, on the one hand, put local services under pressure, but is, on the other hand, beneficial for consumers. From a German perspective, it has to be taken into account that the western part of Poland is not the economic centre of Poland and is not very densely populated. This puts a limit on possible adjustment pressures from daily commuters.

Regions and industries of other EU-15 Members, particularly those in the cohesion countries, are not deeply involved in trade with the applicants. The most important consequences of enlargement on these countries is likely to be more competition from enterprises from the new Members operating in the German or Austrian markets and the increased demand in these markets due to the growth caused by enlargement. Existing empirical studies do not find a significant impact for either case.

Overall, the measurable positive and negative effects of enlargement will both be concentrated on the EU neighbours of the applicants. At the national level, the net balance will be positive and even in the most challenged regions (at the border) positive as well as negative effects will take place. The remaining problems can be dealt with at the Member State level. It is the responsibility of the EU, particularly the EU competition control, to ensure sufficient room for manoeuvre for national measures.

The adjustment pressure has to be put into perspective. Economic relations with the AC are only one part of the international interdependence of the EU economies. Competition from newly-industrialised countries (e.g. textiles), as well as from other EU Members (e.g. the construction sector), is in many aspects more important for lowly qualified German and Austrian workers than is competition from the AC. In addition, technological change exerts similar pressures on these groups of workers and is, most probably, much more relevant than internationalisation.

## ***Problems ahead? Consequences of enlargement-induced changes in EU transfer policies***

The effects of the enlargement-induced reforms of EU agricultural and structural policies will most probably cause more serious instability and political problems than the direct economic impact of enlargement will. The issue of CAP reforms cannot be discussed here in depth. However, it should, at least, be noted that reform pressures do not only stem from enlargement, but also from various other sources (WTO, budget, BSE, disapproval of ill-founded subsidies, etc.). Future developments are extremely unclear at the moment, but any meaningful reform would have to include a reduction of income and price support payments. Such reforms would benefit consumers (via lower prices or better quality), taxpayers (less spending or more value for money) and exporters of non-agricultural products (less trouble in WTO). The specific impact on farmers depends on the specific regulations of any reform proposal. A lack of further reform – however likely or recommendable – would mainly result in an additional burden for the net-contributors to the EU budget - most of all for German taxpayers.

The effects on Structural Funds are easier to calculate (if no reform takes place). Today, the most intensely supported regions in the EU-15, i.e. the objective 1 regions, have approx. 83 mill. inhabitants. According to calculations of DIW Berlin, this figure will fall by a quarter after 2006 due to convergence; this will happen even without enlargement. The inclusion of poorer Members lowers the average GDP for the EU. As a consequence, an additional quarter of today's objective 1 population will no longer qualify for support in an EU-25 (i.e. without Bulgaria and Romania). This will mainly affect Germany (Thüringen, Brandenburg and Mecklenburg-Vorpommern who have 6.8 mill. inhabitants), Spain (e.g. La Mancha, Murcia and Asturias; 4 mill.), the UK (e.g. West Wales and Merseyside; 3.8 mill.) and Greece (Kentriki Makedonia and Kriti; 2.3 mill.). This effect gives cause for concern in the case of Greece in particular, because Greece will remain a relatively poor EU Member even after enlargement. Germany, Spain and the UK can support their poor regions at least as well as could be done by the EU. National support as well as generous (and differentiated) compensation payments from EU Structural Funds for the affected regions should be sufficient to cushion any negative impact of enlargement.

***Some recent DIW studies on the consequences of Eastern enlargement***

To be downloaded from the Institute's homepage:
http://www.diw.de/english/abteilungen/wlt/projekte/

Herbert Brücker, Tito Boeri, et al. (2000): The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States. Berlin and Milan: DIW, CEPR, FIEF, IAB, IGIER.

Christian Weise, Martin Banse, Wolfgang Bode, Barbara Lippert, Ferdinand Nölle, Stefan Tangermann (2001): Reformbedarf bei den EU-Politiken im Zuge der Osterweiterung [Necessary Reforms of EU Policies as a Consequence of Eastern Enlargement.], in co-operation with the Institute for Agri-cultural Economics, University Göttingen, and the Institute for European Policy, Berlin, commissioned by the Federal Ministry of Finance. (This does only exist in German language. For a summary in English, cf. Christian Weise, EU Eastern Enlargement Can Be Financed – Increased Need for Reforms, Economic Bulletin of DIW Berlin, October 2001.)

Christian Weise, John Bachtler, Ruth Downes, Irene McMaster, Kathleen Toepel (2001): The Impact of Enlargement on Cohesion, Background Report for the 2nd Cohesion Report, in co-operation with EPRC European Policies Research Centre, Strathclyde/Glasgow, Study commissioned by European Commission DG Regio.

## Solidarity of Policies and of Redistribution

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*An accumulation of challenges without precedent*

The societies of the CEECs (Central and East European Countries) must confront an accumulation of challenges that is historically unprecedented. These include:

- the challenge of transition: creation of a system of completely new rules in economy and the reform of "moonshine" market structures inherited from the Communist period;
- the challenge of integration and globalisation: the opening of the market to outward competition and foreign direct investments as well as institutional adjustments;
- the technology challenge: the necessity to utilise information and communication technology.

These three challenges not only arise at the same moment but they also simultaneously introduce a large degree of uncertainty, which requires from the CEECs a great capacity to adapt and to learn.

There are three main differences between accession situation of CEECs and cohesion countries:

- cohesion countries – in opposite to CEECs – have never after the Second World War lost their continuity with market economy;
- the single market did not yet exist and globalisation was still largely undeveloped;
- the information technology revolution had not yet occurred.

The speed and depth of the political, economic and socio-cultural transformation of the post-communist countries has created in those previously mentally egalitarian societies - large internal income disparities as well as regional, professional and social inequalities. This divergence process continues and is even aggravated by European integration. It should be kept in mind that these disparities arise in particular conditions of lower income levels in comparision to those of cohesion countries when entering the EU.

This particular accumulation of challenges together with current state of the CEECs' societies should be taken into account when fixing the accession condition and shaping future policies of enlarged Union.

*The "Eastern lung" of the EU as a chance for Europe in a global competition*

The CEECs societies dynamic and ability to adapt creates an opportunity to make this part of Europe an area of rapid growth and, as the result, to improve the perspectives for growth of the present Member States. It is possible to conceive a system of development based on diversified competition and the complementarity of factors of development that would allow Europe to fully exploit this opportunity. A more pessimistic scenario is possible as well. According to this scenario the CEECs don't manage to spread their wings and, as a consequence, do not stimulate growth in the Western part of the Continent.

*What form of solidarity?*

What are the conditions to assure the success of the candidate countries' integration? Having taken into account the theory and practical experience of the current Member States, we can retain three factors:

• The institutional framework and regulatory functioning of the economy

• Human and social resources

• Development aid

The latter two are relatively self-evident which cannot be said of the first one running the risk of a certain degree of ambiguity. Nevertheless, it is the key factor. If the regulatory and institutional frameworks are not adequate to the level of development, the considerable human resources and the important development aid are useless. Take the example of the Marshall Plan or the structural development aid for Ireland which brought about fruitful growth and development. Alternatively, the result of the transfer of funds and FDI to East Germany (roughly 1.5 billion DMs or 800 million euros during first 10 years) can hardly be judged as satisfactory. Since 1997, a process of divergence between the new and the old Länder has been observed.

The case of the former East Germany is a particularly important lesson for the integration of the candidate countries into the European Union. East Germany – a country not sufficiently prepared (and in a certain sense ill-developed) – had to adopt overnight the legal *acquis* of the Federal Republic of Germany and then, acquis of the EU. Currently, the vastly increased potential of the new Länder, which has grown considerably following the immense investment undertaken, is not being well exploited. If the regulatory system were different (and allowed - among other things - for the growth in employment), the GDP would rise in a much faster and more significant manner. At the current stage of development, the post-communist countries cannot solely count on the increased productivity of work: they must also use the potential of the work force to the maximum level. In order to make this happen their labour markets must be flexible and highly competitive with regards to wage costs. The regulatory system must not reduce their room to manoeuvre in this domain – for example, by reducing the number of hours to be worked a week. The candidate countries must also be granted a certain degree of liberty with regard to their taxation policies, as they would be incapable of attracting and maintaining foreign direct investments given that they offer investor less interesting compensation with regard to the quality of life or the qualification of the workforce (in order to counteract the agglomeration effects).

In a more general manner, the necessity to reform the institutional and regulatory framework is the most important message for the development of the countries in question. It is in their interest to largely accept the forces and the rules of the market. But the most important point of solidarity with these countries is not to impose on them the rules of the game that will hinder their development knowing at the same time that this is also beneficial for the highly productive and capital rich countries. Solidarity of policies should appear together with redistribution. Too high social, environmental or technical norms and standards may undermine the competitiveness of CEECs. The less policies solidarity granted (that is to say the rules of the game taking into account the level of development of the candidate countries), the higher the need for redistribution.

The case of former Eastern Germany well illustrates this dependence. Reflections on the current and future *acquis communautaire* should include this aspect as well as the requirements of global competition.

The western core countries should open themselves to the creative destruction that will allow the peripheral countries to use all their competitive advantages. Immense subsidies that aim to maintain the non-profitable and economically inefficient plants in western countries do not serve the general development of wealth.

*Some remarks on agriculture and rural areas in Poland*

The development of agriculture and rural areas creates the biggest problems for Poland, even if these are very different questions. Agriculture is relatively productive in certain territories (notably certain voivodships in the west of the country). Nevertheless, generally speaking, poverty is felt primarily in the rural areas where we can see an accumulation of the negative economic and social phenomena: unemployment, desperately low levels of income, very low level of education, social pathologies as well as the heritage of all these phenomena.

The current Member States cultivate a number of false clichés with regard to Polish agriculture and rural areas. The first consists of the myth of rural development and can be resumed as follows: "Let agriculture disappear completely and support the development of rural areas – thus the problems of unemployment and poverty will be solved by themselves".

This thesis is not well founded in comparison to the concrete characteristics of the majority of rural areas. Rural development must follow the path of the modernisation and increased profitability of agriculture; there is no other solution. The second myth concentrates on denouncing the negative effect of subventions for modernisation and restructuring, and presumes notably that these lead to the maintenance of outdated structures. However, sociological studies illustrate that the majority of small holdings owners are ready to sell them but that this path is impossible given the incredibly low price of agricultural land (which is a consequence of its low profitability). The simplified system of subventions recently proposed by the European Commission is likely to freeze the structure of Polish agriculture. According to this system each producer receives the same amount of subventions in proportion to the number of acres totally independent of production.

Thanks to the Europe Agreements, the EU has drawn the benefits from a liberalisation of trade in industrial goods and services. However, a liberalisation of trade in agricultural and food products that could have benefit the candidate countries has not been put in place. The question that one may ask is whether the very important and continuously deepening disparity in agricultural production between the current and future members constitutes a sound basis on which to construct a feeling of solidarity in Europe.

The principle of solidarity would be obviously introduced only with the same agriculture rules for all – new and old – member states of the European Union.

## The Community Experience :A strength for the future Union

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When asked the question “what common experiences can the current Member States bring to the future enlarged Union?”, one could respond simply, even if in a caricatured manner: the *acquis communautaire*. Such a response is undoubtedly traumatic for the candidate countries if they think of the 80,000 pages of rules and norms to be transcribed into national legislation as well as the laborious negotiations. At the same time, it is a legitimate response, to the extent that conformity with Community Law is the minimum criteria for defining a cohesive whole and exercising internal solidarity. Nevertheless, one should recall that this *acquis communautaire* only partially covers the reality of economic and social cohesion. In effect, the situation in those domains the most closely associated with cohesion – social affairs and employment, regional development, agriculture and rural development, urbanism and quality of life, infrastructure and transport, education and training – are the result of several decades of learning from co-operation, but also difficult arbitration between Member States each with their own socio-economic characteristics and cultures. In the perspective of the future enlargement and above all the EU after enlargement, several aspects of this legal and lived acquis are worth clarifying in detail.

*The experience of Structural Funds*

Created progressively between 1958 and 1975, the three Structural Funds ERDF, ESF and EAGGF, where not used together in the framework of regional development programmes until 1988, with the objective of reducing disparities between the regions in an EU of 12, and reinforcing economic and social cohesion. It is worth noting that after the accession of Spain and Portugal, the proportion of Europeans with an annual income of less that 30 percent of Community average rose from one-eighth to one-fifth. The story is well known: the doubling of funds association with a more rigorous application of their implementation between 1989 and 1993, with a second redoubling and the creation of the Cohesion Fund to allow the four least wealthy countries, Spain, Portugal, Greece and Ireland, to confront consequences of the constraints imposed by EMU. The result was not only the ‘take-off’ of these four countries, but also increased growth for the other eight members, who benefited from the growth of investments or imports of their partners.

The example of Ireland is evidently the most spectacular. Its GDP per capita rose from 64 percent of the Community average in 1998 to 119 percent in 2000, thanks to an annual growth rate of 6.5 percent over more than 10 years. The performance of the other three countries, the total population of which is some 60 million people, is less striking. Nevertheless, between 1988 and 2000 their GDP per capita rose from 67.8 percent of the Community average to 73.5 percent. The positive results for these countries, who never received more than 3.5 percent of their GDP in terms of Structural interventions, are usually explained in two ways: firstly the effects of the Single Market, and second the choice of the relevant national development strategy.

Notably, the success of Ireland was based on the combination of an attractive fiscal policy for foreign direct investment, a social pact that guaranteed wage moderation and the distribution of the fruits of growth to the least well-off, and a voluntarist educational programme aimed a creating a qualified work force adapted to the new economic position of the country. As for Portugal, in the more classical manner, efforts were placed to improve equipment and infrastructure, and to increase production capacity in targeting middle-range quality segments. This choice was probably coherent with the low level of qualification among the workforce and the need to open up opportunities for a largely agricultural community.

Another explanation as to the contribution of the Structural Funds to the reinforcing of cohesion stems from the base principles fixed in 1988: the concentration of aid, additionality, multi-annual programming, partnership. This conditions that were imposed for the funds played an essential role in the change of method in public management in the regions of the Member States, the transformation of mentalities, and finally of the improvements in the results obtained.

Over and above the specific experience of certain countries, one can consider that the Structural Funds have permitted the development of the EU's own "models" – certain of which have also been exported to other parts of the world – that have allowed certain territories to confront their structural problems. In addition, and without this list being exhaustive, it is true that for the LEADER 'Local Action groups' in rural areas, URBAN in inner-cities and Territorial Pacts for Employment, that are tools for mobilising local employment creation and the fight against unemployment. With certain nuances, one could also mention EURO-regions, which offers a very sophisticated and advanced framework for cross-border co-operation. These "models" of territorial management initiated by the structural interventions of the EU have often developed their own dynamic, thanks to their appropriation by particular regions.

*The added value of the Community, a culture of cohesion and co-operation*

One might consider that the 40 years of European integration, completed by 12 years of structural intervention, forged a certain culture of cohesion and co-operation, which has spread across all geographical levels and to numerous economic, political and social actors in Europe.

The idea of a European value added is illustrated by 4 practices in particular:

- Partnership: inscribed in the rules of the Structural Funds, it was initially limited to a vertical partnership between the EU, Member States and regions. It was made concrete by a co-financing agreement for regional development programmes and a surveillance committee comprising representatives from each level of public authority. It progressively enlarged to include the social partners, and then other social actors from the economic world and civil society, notably from associations interested in the protection of the environment and the promotion of equality between women and men. Partnership has thus become a common practice for the public management of development programmes, including non Community initiatives, in order to mobilise firms and the population at large.
- Multi-Sectoral Integration: initiated by the obligation to use Structural Funds in a combined manner and finance programmes of regional development, integration allowed the straight-jacket of sectoral policy to be broken. It has become a classical approach now used to resolve social problems such as employment, the fight against social exclusion and to improve urban regeneration, rural development and waste lands.

- Network Co-operation: incarnated in the Community initiative programme such as INTERREG, EQUAL, URBAN and LEADER, but not exclusively within them, transnational co-operation consists in an audacious bet aimed at stimulating economic and social cohesion, passing under the heads of the Member States. The EU encourages regions and towns that face similar problems to exchange their experiences and to play on their diversity and their complementarities. The benefit of such did not simply relate to issues of financing, but also the methodological support in the form of technical assistance. Today, through numerous associations and networks, this form of co-operation is a strong informal component of European cohesion. It is based on the multiple links that have developed between regions, towns, firms, unions and civil society organisations. There natural life span has also increased with the twining that is destined to reinforce the institutional capacity of the candidate countries.
- Programming: the obligation to formulate pluri-annual regional development programmes introduced a certain rigour and stability into the choice of policies. Moreover, this modern form of planning is associated with the obligation of a prior analysis of the strengths and weaknesses and a rationalisation of the choice and allocation of means and priorities.

*Open Method of Co-Ordination*

Another illustration of the contribution of the EU to the achievement of convergence between the Member States is the OMC. The precursor to this method was undoubtedly the criteria for macroeconomic stability of EMU and the results achieved by certain Member States who submitted themselves to such discipline, for example Greece, thus highlighting that the merits of this instrument should not be neglected. One could also note another domain in which the Community experience is useful: the fight against unemployment. Proceeded by the publication of the 1993 White Paper *Growth, Competitiveness and Employment,* the European Employment Strategy launched at Luxembourg in 1997 has allowed Member States to modernise their employment policies in a relatively co-ordinated framework. Without wishing to go into a detailed debate about the benefits of this strategy, the identification of best practices followed by the definition of indicators, and the commitment on the part of certain countries to obtain the set objectives constitute and undeniable improvement in method in a domain where it was clearly no longer possible to envisage progress along the traditional lines through the harmonisation of standards and regulations. The transformation of employment agency methods, a more individualised but stricter treatment of the unemployed, a managed flexibility of the labour market, and support for the services to people are all sources of job creation that stem from this strategy. In the same manner, the decline in unemployment in 1998/9 in Spain, Finland and France could be associated with this collective effort. This method is now also being extended into other policy areas, not always at the instigation of the European Commission, but also under the initiative of the relevant concerned actors: for social protection and retirement systems, for education and notably university teaching, and the fight against social exclusion.

*The experience of the two previous enlargements and the problems ahead*

If, for the EU, enlargement to Spain and Portugal was a source of learning in the domain of economic and social cohesion policy, the accession of Sweden, Finland and Austria brought other changes. Placed in a clearly more favourable situation, these countries drove the EU to place increased attention on equality of opportunity, sustainable development, and the transparency of public management. Inversely, they experimented with new working methods: Finland strictly applied the principle of additionality in launching innovative social and regional projects. In the same manner, Austria which clearly already had a vast experience with co-management, sometimes even with corporatism, experimented with new forms of partnership with actors other than the traditional organisations.

In conclusion, the experience of the EU of 15 illustrates that the success of the bet on convergence depends on four conditions of which some are not necessarily self-evident.

- The sound analysis of economic and social problems
- The choice of policies adapted to problems
- The choice of the relevant level of action (national, regional, intra-regional, sectoral)
- The adoption of strict and stable rules

This 'conditionality' cannot work without the help of strong technical assistance, that is to say support in learning the rules of the new methods. It was this last element that proved problematic for certain Member States and explains the persistent delays in certain regions, and this must not be neglected for the future Member States.

If in the past the EU has shown a striking capacity to adapt and innovate the structuring of cohesion instruments, the first question that is posed after 200 is that concerning the dimension of tools and the task to be completed. A second issue relates to the nature of the cohesion problem that exists in the new Members, some of which will be completely new to the EU, notably the treatment of certain ethnic minorities such as the Roms, but also those relating to the external borders where gaps in wealth are very important.

## **What may new members bring to the European Union?**

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Adding as many as 12 new members to the European Union in a near future will significantly change both the fabric and the structure of the EU. The 12 candidate countries have very diverse cultures and histories. Some of them will be readily compatible with those of a majority of current members; some will strengthen influences that have so far been only marginal in the EU.

The twelve countries that may in a foreseeable future become new EU members can be divided into four regional groups.

1. The Central European group consists of the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. Traditions and cultures of these five countries are predominantly Western. Each of them was for shorter or longer periods of time part of what could be called the German cultural and geographical space. Politically, all of them (in case of Poland, only parts of what Poland is today) were associated with the Hapsburg Empire. All of these countries will culturally and politically gravitate mainly toward Austria and Germany. Their membership in the EU is likely to significantly strengthen the Central European influence in the EU. In fact, Central Europe is likely to become the most important regional subgroup in the EU.

As far as Poland and Slovenia are concerned, the above applies with some qualifications. Poland's identity is not entirely Central European in that it is also a Baltic country, whose northern parts have natural ties with Scandinavia. Poland is also the only new prospective member that can be considered "a big country", or a country aspiring to the status of an European power. Therefore, Poland is likely to pursue much more than other Central European countries it own "European agenda."

Slovenia, although a very small country of only two million people, has three different identities that are going to play a role in its contributions to the EU. First, as has been mentioned, it is a Central European country with long historical ties to Austria and the German-speaking space in general. Second, some regions in Slovenia were in the past parts of Italy. Slovenia's presence in the EU thus may also strengthen the "southern wing" of the EU. Third, Slovenia is also partly a Balkan country—although the Slovenes do not like to be described as such. However, Slovenia will be an important bridge to the rest of the former Yugoslavia, whose various descendent states will soon also strive to become members of the EU.

2. The Baltic group consists of Estonia, Latvia, and Lithuania, all of whom will pursue close relationships with the Scandinavian countries. As mentioned above, Poland, too, is likely, at least partly, to look to the north. The EU membership of these states will strengthen the influence of the Scandinavian countries in the EU.

At the same time, each of three Baltic states has also historical ties with Russia, if only through their extensive Russian minorities. Just like Slovenia may open the door to the Balkans, the Baltic states will be useful in expanding the EU's relations with Russia.

3. The Balkan group consists of Romania, Bulgaria, and Cyprus. The history, religious traditions, and cultures of these three countries differ significantly from those of most current

members. As a result, a full integration of these three countries may be somewhat more difficult than is the case with the Central European and the Baltic countries.

In case of Romania and Bulgaria, it may also be difficult to raise their economic standards to those of the EU as quickly as is going to be the case with Central European countries, for example.

The main differences between these prospective new members and the rest are as follows:

- First, all three have Christian Orthodox traditions. Greece is the only current member of the EU that has compatible traditions. Their membership in the EU will significantly strengthen Greece's role, as a most developed member of this regional group. So far, Greece, with its unique culture and political history, has been to some extent a rarity in the EU. This will change.

- Second, they are all Balkan countries, with natural ties to not only Greece but also to the countries of former Yugoslavia. In this respect, they may be useful in serving as bridges to the states of former Yugoslavia.

- Third, their membership will geographically connect the EU with Turkey. Bulgaria, in particular, is a country with a relatively large Turkish minority. Turkey's European ambitions will be strengthened by adding these three particular countries to the EU.

- Fourth, the Christian Orthodox traditions of these prospective new members may also serve as a cultural bridge to Russia.

4. Malta is a special case in many respects. It will slightly strengthen the Southern wing of the EU. Its cultural traditions and history may also serve as an important bridge between the united Europe and northern Africa.

The Communist past of a majority of the twelve new members will play some role in their contributions to the EU. On the one hand, a certain lack of experience with democracy may mean that the new members may need more time to develop vibrant civil societies that give real life to the institutions of democracy. On the other hand (and this may be a slightly provocative thesis), the identification of intellectual and political élites in these post-communist countries with traditional Western values may, paradoxically, be stronger than in Western countries themselves, as emphasis on traditional Western values is part of integration efforts. In other words, the new post-communist members may suffer much less than traditional Western countries from value relativism with regard to universality of human rights, freedom, and democracy.

Romanies (or Gypsies) living in the candidate countries may represent a specific dimension. There are several millions Romanies living in eastern Europe. Although they belong to different tribes, and although various countries have adopted different policies toward minorities, the situation of the Roma people overall is bad in Eastern Europe. The EU needs to be prepared for possible large migrations of Romanies, unless their living standards in their current home countries can be improved rapidly. According to some estimates, up to ten million Romanies live in Europe. The inclusion of the East European countries in the next enlargement wave will create a unified space, in which a free movement of people is allowed, for a large ethnic group whose members have so far been separated by political boundaries and administrative barriers. In some ways, we could argue that a new nation will emerge in Europe, and that in some ways the next wave of enlargement includes not 12 but 13 nations.

# AGENDA

*TOWARDS A LARGE AREA OF SOLIDARITY AND COOPERATION*

***21-22 February – WARSAW (Poland)***

## THURSDAY 21ST OF FEBRUARY

**2.30 PM – 3.00 PM : WELCOME**
Jean-Luc Dehaene, Former Prime Minister of Belgium, President of the Collège of Europe in Bruges, Vice-President of the Convention on the Future of Europe
Jan Truszczynski, Under-secretary of State, Ministry of Foreign Affairs, Poland
Severo Bocchio, Director of Fondazione Lucchini

**3.00 PM – 4.30 PM : RESTRUCTURING AND ECONOMIC PROBLEMS AFTER ENLARGEMENT**
Key-note speaker 1 : The problems seen from the 15 : Françoise Lemoine (CEPII Paris, F)
Key-note speaker 2 : The problems seen from the 12 : Andrea Szalavetz (IWE, Budapest, HG)
Debate moderated by Jean-Luc Dehaene, B

**5.00 PM – 6.30 PM : THE FACTORS OF INSTABILITY AND INEQUALITY**
Key-note speaker 3 : The problems seen from the 15 : Christian Weise (DIW Berlin, D)
Key-note speaker 4 : The problems seen from the 12 : Jan Szomburg (Gdansk Institute for market economics, PL)
Debate moderated by Jan Olbrycht, PL

**8.30 PM – 10.30 PM :**
Dinner hosted by the Ministry of Foreign Affairs
Speech by Wlodzimierz Cimoszewicz, Minister of Foreign Affairs of Poland

## FRIDAY 22ND OF FEBRUARY

**9.30 AM – 12.30 PM : THE STRENGTHS OF AN EU-27 AND THE LESSONS FROM THE PAST**
Key-note speaker 5 : What may be drawn from the EU experience ? Marjorie Jouen (Notre Europe, F)
Key-note speaker 6 : What may the 12 bring ? Jiri Pehe (New York University, Praha, CZ)
Debate moderated by Joyce Quin, UK

## THE SESSION OPEN TO THE PUBLIC

**3.00 PM – 4.00 PM : REPORTS OF THE DEBATE**
Chair : Jan Olbrycht, Marshall of Silesia, PL
« Problems and obstacles encountered » - Lena Kolarska-Bobinska, (Institute of Public Affairs, Poland)
« Strengths and solutions » - Jean Nestor (Notre Europe, Paris, F)

**4.00 PM – 6.00 PM : HOW TO MAKE OF AN ENLARGED UNION A LARGE AREA OF SOLIDARITY AND COOPERATION ?**
Chair : Bronislaw Geremek, Former Minister of Foreign Affairs, PL
Elmar Brok, President of the Commission of Foreign Affairs, European Parliament, D

Jorge Fuentes, Special Ambassador for Political Dialogue with the Candidate Countries, Ministry of Foreign Affairs, ES
Danuta Hübner, Secretary of State for European Affairs, Ministry of Foreign Affairs, PL
Jordi Pujol, President of Catalonia, E
Bela Szombati, Under-Secretary of State for European Affairs, HG

**6.00 PM : Closure and drink hosted by the Italian Cultural Institute in Warsaw**

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|---|---|---|
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- *Athens (13 th & 14tth November, 1998):* ***Europe in search of (an) identity(ies).***
  *Available in French, English, German and Greek.*
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