

Report  
of the Reflection Group on

# The Political Dimension of EU Enlargement: Looking Towards Post-Accession

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*Rapporteur:* Ania Krok-Paszowska



The Robert Schuman Centre for Advanced Studies  
EUROPEAN UNIVERSITY INSTITUTE

with

The Group of Policy Advisors  
EUROPEAN COMMISSION

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EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

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This report reflects the discussions at seven meetings in 2000-2001 of the Reflection Group set up jointly with the Group of Policy Advisors of the European Commission and the Robert Schuman Centre, European University Institute, Florence. The discussions were based on a set of expert papers commissioned for the Reflection Group. The first session was chaired by Jacques Delors, and interim reports I and II were co-authored by Marjorie Jouen (Notre Europe, Paris). The report does not necessarily reflect all individual opinions of the Reflection Group members; nor does it correspond to the position of either the European Commission or the Robert Schuman Centre.

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## **TABLE OF CONTENTS**

**Final Report**

**Interim Report I** – Welfare State, Labour Market and Industrial Relations

**Interim Report II** – Economic Potential, Market Regulation and Privatisation

**Interim Report III** – Democracy, Nation and State

**Interim Report IV** - Common Foreign and Security Policy and Defence

**Interim Report V** - Justice and Home Affairs

**Interim Report VI** – Multi-level Government and Regional Policy



This is the key moment for broadening the focus for discussing the future scope and character of the EU. The enlargement process is bringing the CEECs into the EU and it has helped to provide the framework for fundamental political and economic reforms. Application of the *acquis communautaire* has been an important tool in this process. Enlargement also represents the long-awaited reunification of Europe after the divisions of the cold war period. However, with enlargement the EU will face a new challenge: that of reinforcing its internal cohesion so as to move beyond a quantitative enlargement to a Union that is both efficient and democratic. The EU will have to more clearly define its political ambitions and its role as an influential global actor. Enlargement will change the Union and the Union must prepare now for this change.

We believe that *enlargement opens the door for dynamic development and new opportunities*. The CEECs have followed a broad EU framework for democratic, social and economic reform. *Divergence is manageable, despite the import of greater diversity*. However, certain conditions will have to be met. The reunification of Europe must be a two-way process, taking account not only of the interests and requirements of current members but also the interests and capabilities of the candidates. The fears and prejudices of the public must be addressed and actors must be prepared for a greater degree of burden-sharing. First, *the concept of solidarity must be reinforced and reaffirmed*. Second, *good governance is of crucial importance in steering the EU to a "successful" post-accession stage*. Third, *enlargement requires a radical re-thinking of the institutions and structures of the Union*. Fourth, enlargement has an external as well as an internal dimension. *The EU must develop an integrated neighbourhood policy*.

**Enlargement opens the door for dynamic development and new opportunities: they must be seized.**

So far the enlargement process has been a positive-sum game for both candidates and member states. Indeed, the benefits of enlargement reach further than a simple win-win situation with the current status quo remaining largely unchanged. The net economic gains of enlargement to the Union are estimated to be greater than the potential costs. Enlargement will lead to greater economies of scale in a larger market with a greater variety of goods and services. The trade and investment climate will further improve once remaining tariffs and other barriers are removed. Greater investment, an increase in productivity and the benefits of more efficient allocation of resources and greater economies of scale will also increase the rate of growth in the CEECs while current members, especially those bordering the CEECs will profit from the increased wealth and consumption in these countries.

Nevertheless, large sectors of public opinion, both in the EU and the CEECs, are worried. The concept of “the other Europe” lingers on in the EU publics’ minds. The CEECs are often seen as being somehow different to the current members by reason of their history, level of development, and lack of democratic traditions. There are also more specific economic worries. Powerful actors: sectoral interest groups, regions and even countries fear an increased burden, and one they are not sure they are prepared to meet, at least in the short term. There are persistent public fears of importing crime, large-scale migration and “social dumping”. It should be remembered here that very similar worries were expressed when the European Community enlarged to include Greece, and later Portugal and Spain. Such fears turned out to be largely unjustified, and most studies on the effects of the current enlargement argue that the negative impacts should not be overstated. For instance, the overall scale of migration from candidate countries is likely to be low, although concentrated in border areas. Indeed, most workers from the CEECs will be temporary migrants or cross-border workers, relying on their national social provisions. Many are already working in the formal and informal economies of member states, with little effect on labour markets or social cohesion. In any case, restrictive immigration policies may actually be counter-productive in the emergent new labour-market context. Many current member states are already facing labour shortages, both for highly-skilled labour and for flexible and cheap labour. Public opinion in the member states needs to be reassured that enlargement is not a threat to the Union but an opportunity, and despite the import of greater diversity, it is manageable, although choices will have to be made requiring new and adapted policies.

Citizens from the CEECs are also worried about the effects of enlargement: that their customs and traditions will be eroded by the imposition of permissive “western” norms and values; that their weaker economies will be undermined by intense competition, and that their social welfare systems will further deteriorate or simply become too expensive for the ordinary citizen. Public opinion in the candidate states needs to be reassured that the CEECs will be treated as full and equal partners, not second-class members. Despite the conditionality imposed by the EU, especially with respect to the *acquis*, this is a much more voluntary and flexible model than these countries experienced under the Soviet system. Indeed, there is no single model and a considerable degree of autonomy remains in domestic decision-making. Just as the current members, various CEECs will have different institutional solutions adapted to their circumstances.

A public information campaign is needed now to address both EU members and candidates, not simply explaining the technicalities, facts and figures of enlargement, but aimed at meeting the emotional dimension (hopes, fears, perceptions, stereotypes) of enlargement.

**Divergence is manageable, despite the import of greater diversity, but new creative policies are needed.**

Diversity need not mean political, economic or social incompatibility. Stable democracies have emerged in Central and Eastern Europe. Various empirical studies have shown similarities across Europe in the political values and behaviour that are essential to democracy. The CEECs have forms of government and electoral systems that fit comfortably within the range of institutional solutions found among the current member states. Indeed, with recent experience of constitutional debates and with constitution making still fresh in their minds, CEECs could make a significant contribution to the debate on European constitutionalism. In the enlarged Union both old and new members will have a joint responsibility to ensure that norms and practices on minority rights and rules against extremism are clear and adhered to by all parties. The values and goals of the EU have been adopted in the Charter of Fundamental Rights, as proclaimed at the European Council in Nice, and this should be made binding. For the CEECs, membership of the EU is sought not only because it represents the hope of support for faster economic development through structural and cohesion funds but because it represents reintegration and development in social and cultural terms after almost fifty years of exclusion from the European mainstream.

The limited size of CEE economies (the total size of the GNP of the ten CEECs comes to under 5% of that of the EU-15) means that they do not pose a great danger for economic or monetary stability in the EU as a whole. In judging the performance of CEECs too much emphasis is put on low levels of GNP and too little on the health of CEEC economies. The level of development of financial and economic institutions in most candidate states are appropriate for their level of development and in some cases are better than could be expected. Moreover, percentages of industrial output and agricultural production in GDP do not fall much outside the range of differences found between current EU members. Thus in terms of economic structures, they do not add more diversity than already exists among current members and most have virtually completed their transition from a command to a market economy. These are countries with considerable potential for growth and with the right policy mix should be able to achieve the sort of performance seen in Ireland or Finland since those countries joined the EU.

Most CEECs have now adapted their welfare systems from the state socialist minimum safety net and some have introduced quite radical reforms. Indeed, the CEECs can be seen as a place of socio-economic experimentation from which valuable lessons can be drawn by current members, many of whom are also faced with the need to adapt their systems to changing circumstances. Nevertheless, in the short-term, radical social reforms have proved politically costly for the candidates. Many of these reforms are difficult for the public to accept and understand. So far social tensions in most countries have remained relatively low, but further restructuring to improve competitiveness and the need to implement even the limited social acquis is likely to result in rising unemployment and a resort to the informal sector. All this makes social welfare more costly to run and more difficult to finance. The challenges faced by the CEECs in striking the right balance between increasing the competitiveness of the economy and the cost of social security should not be underestimated.

**The concept of solidarity must be reinforced and reaffirmed: successful enlargement requires an investment.**

The EU needs to be generous and not grudging if it wants to have new members that are constructive and communitarian in their approach. In order to overcome differences and reduce disparities in terms of per capita income and development, the concept of solidarity must be reinforced and reaffirmed. This requires mutuality, reciprocity in terms of trust and cooperation but also transfer of resources so as to create conditions for economic dynamism (FDI) and, last but not least, political commitment. In this context, it is worth remembering the immense positive impact of the Marshall Plan on post-war western Europe, which was based on the recognition that substantial additional help would be needed for Europe to overcome its erstwhile political, economic and social problems. Moreover, aid was linked to the concept of self-help.

Enlargement will inevitably lead to calls for greater public investment, particularly through the application of structural and cohesion funds. Although enlargement to include all 10 CEECs would increase the population of the EU by over one quarter, in terms of GDP the weight of the CEECs is only about 6% of the Euro area alone. Average real incomes in the candidate states are about half of those in member states. The low level of GDP in the CEECs means that their relative contribution to the EU budget will be rather small.

If the EU is to finance enlargement within the existing ceiling of 1.27 percent of GDP, it will need to make a radical reallocation of structural and cohesion funds so as to apply the current criterion of 75% of EU average GDP. In other words, the richer countries will have to pay more for transfers and the poorer current member countries will receive less. Some major recipients of

structural funds in the EU-15 would no longer be eligible. For the CEECs, who will be beneficiaries of funds, issues may arise about rules for national co-financing due to the difficulty some of the new members will have in assigning adequate resources for this.

However, if structural funds were to be overwhelmingly diverted to the CEECS, this would strain European solidarity, leading to resentment in poorer regions of the EU-15 who would see withdrawal of funds in circumstances where their real economic situation has remained unchanged. We thus believe that more funding will be needed in the longer term, requiring a raising of the EU's own resources ceiling if the new members are to receive the same structural, cohesion and agricultural payments from the EU as the current members receive. Nevertheless, even with greater resources, the consequences of enlargement on the EU budget will depend on how structural and cohesion funds are allocated, and even more particularly on developments in the Common Agricultural Policy (CAP), which still comprises about 50% of EU budget expenditure.

Past experience in the EU shows that the emphasis on promoting greater cohesion leads to mutual advantage for both richer and poorer member states. Structural and cohesion funds will help the poorest states to develop and at the same time provide greater opportunities for the richer countries in terms of trade and investments. If the acceding states' economies continue to grow, the addition of 100 million consumers to the European single market should serve as a motor of growth throughout the EU. Both sides stand to gain, but the factors of divergence have to be well-managed to ensure that the single market produces overall growth rather than stimulating uneven development and even greater regional disparities.

Budgetary transfers should be aimed at financing investment and promoting self-sustaining growth. The development of healthy and competitive economies is more in the Union's interest than over-reliance on the transfer of structural and cohesion funds, however well intended. The transfer of funds should not lead to a culture of dependency in any EU country. The infrastructure, both physical and in terms of education and training, provided by direct or indirect transfers to weaker economies should also encourage private investment flows. Foreign direct investment (FDI) offers the opportunity to strengthen CEEC economies both structurally and financially. Public-sector assistance should be focussed in such a way as to encourage private-sector investment.

The prospect of enlargement has already brought about profound economic consequences in the CEECs and the more successful candidates have reaped the benefits of being perceived as frontrunners. Those lagging behind are in danger of emerging as “double” losers. They still have significant hurdles to overcome in their transition to a market economy and they will be negatively affected if they are not included in the first wave of EU accession. A special set of policy measures should be set up for those countries left out of the first wave of enlargement as well as for the countries that have been offered Stabilisation and Association Agreements, *i.e.*, potential candidates for membership. There is a need to understand their sensitivities and to address the problems that will arise from being (temporarily) left out. To avoid new lines of division in Europe, new forms of cooperation should be developed between members and (potential) candidate members to encourage greater economic and cultural interaction in border regions, especially in cases where there are strong cultural and ethnic links. There needs to be a reassessment of intra-community initiatives such as Interreg and external assistance programmes such as Phare in relation to regional cooperation. All funds should be put together in one single package for more targeted and tailor-made regional policy programmes in relevant border areas.

**Good governance is of crucial importance in steering the EU to a “successful” post-accession stage: a technical approach to negotiations cannot replace political engagement.**

The relationship between the EU and the CEECs has been highly asymmetrical, with the EU laying down political and economic conditions and an extensive set of formal rules to be implemented. The challenge of developing appropriate institutional (administrative) capacity to implement the *acquis* in the CEECs is indeed considerable. Moreover, there is a lack of faith on the part of current member states in the CEECs’ ability to overcome this problem.

We believe that the lack of mutual trust and reciprocity as well as shortcomings in implementation may have greater disruptive effects on the functioning of the internal market than incomplete adoption of *acquis*. The procedures for implementation and control mechanisms of the *acquis communautaire* are getting exceedingly bureaucratic. The difficulties of implementation and the administrative complexity of rules present considerable challenges even for long-standing member states, which also have gaps in implementation. More attention should be paid to the candidates’ ability to cope effectively with implementation of core *acquis* and less on sometimes overly technical issues and detailed implementation of accession criteria, so that there is a qualitative leap forward in the level of negotiations. A post-enlargement system of monitoring of progress on remaining problem areas could be

introduced. The Commission's 1995 White Paper on Pre-Accession gave a reasonable definition of core acquis for the single market, which could be taken as a starting point.

Obviously, the core acquis that is essential for the functioning of the internal market must be fully and properly implemented from the moment of accession. Nevertheless, the ability of the candidates to implement (and finance) some sections of the 80,000 page long acquis is debatable as is the wisdom of insisting on full compliance of parts of the acquis which could be implemented at a later stage. The gap in the level of development between most member states and the candidate states means that the cost of implementing parts of the acquis in some policy areas may be disproportionately high for the candidates, even to the extent of negatively affecting their competitive positions. The very scope and detail of the acquis means that it may not always adequately address the specific problems and levels of development of given candidate states. Applying some aspects of the acquis could make economic convergence more rather than less difficult.

We need to be aware that good governance is not only a question of the EU laying down standards in candidates. The EU itself must make sure it lives up to its own standards. In this respect, the proposals on the principles of good governance in the Commission's recent White Paper on European Governance are a good starting point and should be followed up.

### **Enlargement requires a radical re-thinking of the institutions and structures of the Union: the time for minor incremental changes has passed**

Enlargement will significantly increase the number of countries in the Union as well as introduce a larger element of socio-economic diversity to it. So far, the accession of the CEECs has been dominated by technical negotiations in a process similar to that of previous enlargements. However, with this technical process drawing to an end, we now need to look beyond this to a post-accession EU.

To date most proposals for dealing with a politically and socio-economically diversified EU have been defensive - aimed at preserving the existing status quo. Various proposals for creating a core EU, an avant-garde or multi-speed EU bring with them the danger of institutionalising divisions. Enlargement requires a radical re-thinking of the institutions and structures of the Union. The introduction of EMU and the strengthening of foreign and security policy, which will sharpen the role of the EU as a significant global actor projecting collective power, reinforces this requirement. It is therefore essential for the European Union to define the objectives and methods of

integration and to agree on a common political project that reaches beyond enlargement and reflects the EU's role in the post-cold war world.

The future members need to be involved now in the debate on Europe's future. There will be a Convention to discuss the options for the future structure of the EU leading to the 2004 Intergovernmental Conference. Candidates should take an active part in discussing the options with delegations of similar composition and weight as those of member states. The CEECs are countries of small and medium size that understand well the advantages of European integration. They have repeatedly expressed their desire to participate fully in EU policies. The EU needs to be politically generous in allowing future members to play an integral role in decisions that will affect them. At the same time, full inclusion of candidates in the debate will encourage them to take a constructive stand and place more responsibility upon them to accept and implement decisions that are taken.

The calculation of costs and benefits of enlargement should not be confined to the economic sector alone. The security and political gains are likely to be as high, if not higher than the short-term economic gains. Enlargement also has a moral dimension which underlies the various political, economic and even technical aspects encountered in the pre-accession strategy and in negotiations. It entails a re-affirmation of the values of freedom and democracy, of shared historical and cultural identities and the solidarity principle upon which the Union is based. This is all the more urgent given the greater uncertainty and unpredictability in the world following the terrorist attack upon the United States.

**The EU must develop an integrated neighbourhood policy, otherwise it will be unable to meet the pan-European challenge**

With the institutional, political and economic challenges that will inevitably accompany enlargement, there is a danger that pressures will increase to make the enlarged EU more inward-looking. This should not result in the creation of a newly divided Europe, with the division merely moved a few hundred kilometres to the east and south. The EU is thus faced not only with questions of how and on what terms the first new members will be let in, but also how to deal with those left out of the first wave of enlargement. Moreover, it needs to focus more attention on the problems of close neighbours who have expressed concerns about negative trade and political implications of enlargement. They are worried about the implications of sharing an external border with the EU in terms of trans-border trade, cooperation, seasonal workers, and daily commuting. The CEECs are no less worried. New divisions will damage the

image of the EU in the East and undercut the position of pro-western reformers. Any deterioration in their economies will lead to increased poverty, greater instability and a further weakening of democracy.

Candidate countries left out of the first wave of enlargement should have the possibility to deepen cooperation in decision-making in areas, which do not have a direct impact on the internal market. A possible solution might be to offer them a seat at the Council table on a par with full members in specified and limited policy areas such as the common foreign and security policy and justice and home affairs. In the future this could possibly be extended to states that are part of the European Conference, *i.e.*, near neighbours. In such a case, the fundamental basis of the Union would have to be defined, on the edges of which there could be more flexibility providing for various forms of partial membership or closer cooperation.

The EU needs to have borders to define its territory, legal system and policies, but these borders have to be managed in a way as not to raise new divisions in Europe. Citizens of neighbouring countries should not be made to feel that they are being treated as potential criminals under the pretext of security. This will only serve to underline the difference between those who find themselves within the area of freedom, security and justice and those left on the outside. Hard borders make it more difficult for bona fide travellers and businesspeople to cross them while largely failing to stop criminals and illegal migrants.

Continuing assessment of how to manage the external border, making it more “user friendly” should be undertaken. Secure borders should not make cross-border cooperation more difficult nor should they exacerbate specific local conditions where members of the same ethnic group (co-nationals) are found on either side of a new hard border. This is not to argue that border controls should be lifted. However, security should not only be understood in defensive terms, but should be considered as part of a wider neighbourhood policy. An element of such a policy would be to promote greater cross-border cooperation to counter the widespread perception that organised crime and immigration are strongly linked and the notion that immigration is a cost rather than a potential benefit. Security concerns could be addressed by the creation of an anti-terrorist pact and a greater degree of police and judicial cooperation between current member states, candidates and third states bordering the enlarged EU.

The EU needs more active involvement with its exterior borderland neighbours to the east and to the south. It should develop more effective external economic policies than those it has implemented so far. New forms of regional cooperation could be drawn up in partnership with bordering third countries as a

way of reducing differences in levels of development on either side of the border. There may also be scope for greater political and security cooperation.

The EU should guard against isolating itself from its neighbours, many of whom are historically and culturally linked to Europe. In order to ensure peace and stability, being a part of Europe should not be synonymous with being a member of the EU and it is essential that those who remain outside are not seen as second-class Europeans. With so many new neighbours, the EU needs to define its relationships with them and consider developing alternatives to membership that will be attractive enough to enable it to maintain a manageable size.

## **Interim Report I - Welfare State, Labour Market and Industrial Relations**

### **Summary**

Social reform is linked to the consequences of economic transformation. Despite incontestable economic progress, there has been an increase in poverty, unemployment and inequality in the CEECs. Although there have been some worries that the requirements of social protection will have a negative influence on the CEECs' economic competitiveness, those countries that have introduced radical social reforms have been more successful in limiting overall inequality and maintaining social stability. Where governments have failed to carry out reforms, social welfare budgets absorb a large and rising share of the budget with less then available for marketisation and moderisation. The evidence points to social reform being a sound investment rather than a cost which will decrease competitiveness. The conclusion that growth and social spending can be compatible also stems from the past experience of the European Community. Indeed, there is a general consensus shared by most member states and CEECs that social policy should be a concern of the state and that there should be a balance between solidarity and competition. Nevertheless, not all choices in the social fields give equal results. Some choices may result in social institutions that actually promote growth while others may block it. The CEECs should find their own solutions as welfare regimes should be geared to the specific context of each economy and society.



## **Introduction**

The architects of transition from a socialist to a market economy placed the emphasis strongly on neo-liberal market policies and tended to neglect social reforms. The policies of the IMF and the World Bank have not taken account of the social dimension. Nor do the EU's Copenhagen criteria mention social cohesion and policy. In accession negotiations the emphasis of the EU has been on a functioning market economy and the ability to withstand competitive pressure leaving little place for a social agenda. Much of the debate about the social consequences of enlargement for both current member states and the candidates has centred around the question whether the latter are entering a "virtuous circle" of the development process, in which growth stimulates growth or a "vicious circle" in which the requirements of social protection will lead to economic stagnation.<sup>1</sup> Ten years into the transition we see, despite incontestable progress in transforming the economy, an increase in poverty, unemployment and inequality in the countries of Central and Eastern Europe (CEECs). This was a region used to the concepts of universal social safety nets, full employment and job security and a large measure of income equality. It is now faced with often inadequate safety nets and limited social reforms, large-scale unemployment caused by restructurisation and privatisation, and an increasing gap between the haves and the have-nots. There is real social hardship among significant sectors of the population. Indeed, the social effects of transformation could lead to the rise of populist politicians and political instability. There is increasing realisation among CEEC policy makers and international economic organisations that social reform is inextricably tied up with the consequences of economic transformation. In this report we will consider what sort of social and welfare systems are being put into place in the CEECs and how they align with the sort of social safety nets and labour market policies that are expected by the public. Given that the CEECs are negotiating membership of the EU, to what extent do their social reforms, labour market policies and industrial relations line up with those existing in current member states? What is the trade-off between increasing the competitiveness of the economy and the cost of social security?

## **The European Social Model**

Before we can study how the candidate countries' welfare regimes are evolving, we must first understand what kind of models of welfare systems we are talking about. In this context, the European social model is often referred to, but whether there is a single uniform model is rather questionable. Indeed, it is generally accepted that there are different types of models, maybe as many as

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<sup>1</sup> See, for instance, Tito Boeri, Herbert Brücker *et al.*, *The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States. Final Report* (Berlin and Milano 2000: DIW, CEPR, FIEF, IAS, IGIER).

there are countries. However, the typology developed by Esping-Andersen, who bases his criteria on the commodity character of labour, the matrix of social equity, and the public-private welfare mix, is the most widely applied. On this basis, Esping-Andersen has identified 3 models, namely the social-democratic Scandinavian one, the conservative-corporatist German one and the decentralised Anglo-Saxon one, to which it is necessary to add the Mediterranean one characterised by a conflictual tradition. Despite differences in the share of public social security and health expenditures in GDP between various European states, Europeans in general share a common understanding of the state's role in raising social standards and the desired balance between solidarity and competition. This applies both to welfare culture and to institutions. In contrast to the USA, there is a consensus that social policy is a permanent concern of the state and that the welfare state should provide more than a just basic safety net. The public authorities, whether national or regional, are seen as arbitrators and protectors, responsible for helping the vulnerable and the disadvantaged in society and for alleviating hardships caused by certain economic policies.

The size and the scope of this welfare state is generally held to comprise not only the pension system and social provisions such as health care and education, but also employment policy (including equal opportunity, e.g., the fight against social exclusion and different types of discrimination), social dialogue and industrial relations. Such a comprehensive welfare state is expensive, however. In the past 10-15 years, all member states have been faced with the need to reduce their budget deficits and increase their competitiveness, and most have undertaken reforms of their welfare systems. Some have carried out drastic change, others more limited reforms. The reforms have notably dealt with the introduction of new pension systems (*i.e.*, adding a third or a fourth “pillar” based on voluntary contributions), the restriction of entitlement to unemployment benefits to those actively searching for jobs, the introduction of greater flexibility to the labour market, and the decentralisation of social services provision.

### **Social Acquis and Preconditions for Integration**

If the perspective of accession is seen as a powerful disincentive for carrying out radical reforms in the candidate states, the preconditions set by the EU are often over-estimated. In actual fact, the “hard” acquis on social policy is rather limited. The 70 directives adopted by the EU in the social domain concern only four chapters, e.g., free movement of workers, equal opportunities, labour regulations, and health and safety at work. Preconditions are linked to the single market, the social protocol, the Amsterdam Treaty and other regulations linked to social dialogue (non discrimination, information and consultation with the

workers). Nevertheless, the adoption of the *acquis* requires the candidates to introduce costly reforms and gives rise to tough negotiations.

Another group of constraints concerns the “soft” *acquis* which has developed recently under the Luxembourg and the Lisbon processes and which includes employment and the fight against social exclusion. In these fields, we are not dealing with formal obligations but rather with recommended or desired changes in policies and behaviour that would help candidate states to integrate more easily into the EU. Such ‘moral’ obligations are well reflected in the process of adoption and negotiation of the joint assessment reports on employment. The definition of priorities for each country results from a dialogue with the Commission and is aimed at reaching better common understanding while preparing for accession.

Preconditions also derive from the Copenhagen economic criteria. The requirement for reforming the welfare state, in its content and its shape, especially with respect to social policy and employment, is linked first to the necessity to improve the economic competitiveness of candidates and second to guarantee the financial sustainability of social policies.

The EU has no formal grounds to require reforms for other reasons, although fears of so-called social dumping, excessive immigration from candidate countries and, more generally, unfair competition are often raised in debates on the consequences of enlargement. However, such fears are not founded on empirical studies or scientific analysis. The arguments are not convincing and recent studies point to limited migration (Morawska 2000; Salt *et al.*, 1999; European Integration Consortium 2000).

In their attempts to conform to EU requirements governments in the candidate states have been tempted to give priority to those reforms that are least detrimental to economic competitiveness. Reforms linked to employment and labour market objectives have been accelerated while those that are less directly linked to competition have been less of a priority. Governments have also tended to postpone the most costly reforms and concentrate on those directly linked to the adoption of the *acquis*. Moreover, they have been reluctant to carry out unpopular and difficult reforms in sectors such as health and education services, where structural and management reforms require considerable investments and rationalisation of the labour force. In such cases, governments are faced with both an administrative reform and a high human burden. There are still considerable differences between candidate states with respect to the degree to which they understand the extent of the reforms required by EU accession.

## **Content and Evaluation of Reforms in Candidate Countries**

In the early 1990s transformation of the social security system was not one of the priorities of reform policy. The received wisdom was that the new economic regime had inherited an operating social security system from the old regime and that reforms could be put off until priority objectives had been dealt with. In many cases the pension, health and education systems continued largely unchanged with administrative tasks simply being transferred from state enterprises to the state. Social policy was thus used to compensate for the immediate social consequences of economic transformation.

However, budget deficits forced governments to restrict spending on social services and the social safety nets put in place under communist regimes came under increasing pressure. The strains on the welfare system were more serious in some countries than others and in these countries fiscal problems moved social policy considerations to the forefront. Countries such as Poland, which had 9 million old age or disability pensioners in a total population of 39 million, or Hungary were more seriously affected than the Czech Republic or Romania. Unlike Poland and Hungary, Romania's low levels of foreign debt left it less open to pressure from the IMF to reform either its economic structures or its welfare system while the legacy of the Ceausescu regime was a virtual absence of reform-minded elites.

In most candidate countries the communist welfare systems are still in the process of transformation. Behavioural inertia and the weight of inherited institutions slowed down the rate of change. The first phase of transformation therefore was piecemeal, taking on elements of both the pre-war Bismarckian model and continuing with parts of the state welfare system that characterised the communist model. The process was largely one of muddling though, reacting to necessary fiscal transformation rather than creating a strongly reformed social welfare system. The introduction of parliamentary democracy contributed in equal part to both status-quo-oriented and to transformative social policies (Kovacs 2000).

In all the countries, policy makers are faced with difficult policy choices of how to dismantle the statist and inefficient former system without setting off popular discontent while at the same time adopting a system that would be both acceptable to the public and sustainable. The process of denationalising the welfare sectors has been protracted, partial and uneven. Not only has market reform taken precedence over social reform, but also parliaments have been engaged in constitutional and party political squabbles, often leading to delays in their legislative agendas. For instance, in 1992 in Hungary the Antall government's planned reform of the social security system was delayed by the

legislature's failure to adopt necessary new laws and regulations (Pataki 1993a). The welfare state has also been linked to the rule of law and positive socio-economic rights were included in most of the new constitutions. In some countries such as Hungary and Poland, the constitutional court has shaped social policies. In 1992 in Poland, the Olszewski government's proposed pension scheme reform was declared unconstitutional by a ruling of the Constitutional Court (Sabbat-Swidlicka 1993). Three years later, in Hungary the austerity "Bokros Package" named after Finance Minister Lajos Bokros, was introduced. Under the package the welfare system was trimmed down, with reductions in unemployment, health care and childcare benefits as well as the introduction of tuition fees for university students as of 1996. However, the Constitutional Court ruled several elements of the package to be unconstitutional. In such cases constitutional courts and adherence to the rule of law have actually been an obstacle to rational social policy (Sadurski 2000). In part this is due to the socialist legacy of positive rights, which have been taken up in so many constitutions. In other cases, however, positive rights were not enforced. In Lithuania the Seimas adopted a national health insurance scheme based on employee contributions in 1997, which contradicts the constitutional provision that the state will provide free health care, but the scheme was not challenged by the Constitutional Court. In other constitutions, such as those of Estonia or Slovenia social welfare rights were deliberately kept restricted and vague. There was a recognition that many are not enforceable, often unrealistic and difficult to delineate.

So what were the priorities and focus of the welfare reforms and what kind of systems have emerged? The candidate countries' social regimes are often portrayed as hybrid regimes made up of leftovers from communist social policy and uncritical imitation of the US welfare model. Despite the prevailing preconception about creeping Americanisation of reforms, in reality the situation is more of a combination of Beveridge and Bismarckian models. The Americanisation of welfare regimes has remained in the realm of rhetoric rather than strategy. In some cases the gap between language and practice was large. In the Czech Republic, despite Vaclav Klaus's Chicago School rhetoric the social safety net remained largely untouched. What has happened though, is a readjustment of levels of welfare provision more in line with actual economic capacity. That said, we see is that welfare measures are only partly dependent upon levels of GNP. Shared traditions and values also affect choices of welfare systems.

Prior to the imposition of communist rule, Central and East European countries (CEECs) shared the continental tradition with most countries following a Bismarckian model. Indeed, Hungary had one of Europe's oldest social welfare systems, with a compulsory health insurance scheme in place

since 1891, followed by a compulsory pension plan in 1929 (Pataki 1993b). As was the case in other CEECs, the assets of social insurance schemes were nationalised under the communists and made part of the state administration.

Political legacies from both pre-communist and communist periods constrain the extent of reform and determine its direction. For all the CEECs, memories and even some institutional continuity of the European welfare state tradition, meant that these countries were not prepared to uncritically and unconditionally accept the World Bank model, contrary to what happened in several Latin American countries. Indeed, in the first half of the 1990s CEECs actually increased public social expenditure relative to GDP and did not abolish any of the major social transfers and services of the former regime. Among CEECs, Poland has had the highest level of pension and other social transfers, averaging 17.7% of GDP during 1990-1997, followed by Slovenia with 14.8% (Keane and Prasad 2000). Refuting some pessimistic neo-liberal predictions, Poland has continued so far to experience rapid growth, despite having the highest proportion of social transfers. Social welfare budgets in Romania in the mid-1990s represented a smaller proportion of GDP, but this still came to over 10%, about twice as much as in market economies with a national income per head of population similar to Romania's (Osiatynski 1997). Nevertheless, health and education expenditures in Romania remain the lowest among the CEECs, contributing to a growing gap between Romania and other countries in the region.

Where governments have failed to carry out structural reforms, social welfare budgets absorb a large and rising share of the budget, with less then available for marketisation and modernisation. This leads to the complaint that the large allocations spent in trying to alleviate poverty merely serve to produce even more poverty. In countries that have carried out more extensive reforms, average standards of public welfare provision have fallen in certain fields such as unemployment benefits, which are now subject to more stringent criteria. The share of private social spending has risen, although the state still remains the main redistributor of welfare. State-run social security is mixed with private insurance schemes and an emphasis on individual responsibility for social welfare above state intervention. Hungary and Poland adopted multi-pillar models of pension systems in 1998 and 1999 respectively. In Bulgaria a major reform of health and pension systems has recently been undertaken. Unemployment compensation in the form of insurance programmes, based on contributions and tied to the number of years worked, has been implemented in all the candidate countries with the exception of Estonia. Several countries (Bulgaria, Hungary, Romania and Slovenia) also have an assistance system, with a fixed amount paid by the state. However, the mounting costs of pension schemes, due to hidden unemployment, price indexing, and policy pressures are

now leading to more fundamental reforms rather than the former muddling through.

### **Social Spending: Investment or Cost?**

The candidate countries have experimented with various reforms during the transition. At the same time, in western states there has been an ongoing tough debate between those advocating a neo-liberal thesis and those arguing for socio-democratic policies. The most fervent exponents of the former were the IMF and economists such as Jeffrey Sachs. They explained that CEECs were confronted with a stark choice between boosting economic growth and increasing social spending. If they were to choose social spending, they would run the risk of never catching up with the western countries.

Wagener (2001) dismisses this thesis and shows that the absence of social reforms has resulted in increased collective costs as well as political costs. First, as increasing numbers of workers were made redundant by drastic economic reforms, the state was unable to sustain the financial burden and was forced to severely restrict unemployment benefits. The people experiencing a deep fall in their earnings had little choice than to turn to the informal economy. Second, voters promptly expressed their disapproval in elections, by voting out incumbents and voting in candidates who favoured a more balanced combination between social and economic reform. Recently, it has been argued that the countries that had higher average levels of social transfers were more successful in limiting overall inequality and thus maintaining social stability and reducing political resistance to structural reforms. This in turn facilitated economic growth (Keane and Prasad 2000).

Another series of arguments leading to the same conclusion, *i.e.*, that growth and social spending can be compatible, stem from the past experience of the European Community. Throughout the 1950s, '60s and '70s, the member states experienced both unprecedented economic growth and social progress. Although the economic, social and political context is different today and mainly characterised by the growing importance of the knowledge-based economy and globalisation, it is worthwhile to pursue the same kind of policy mix. After several years of doubts, it is now widely recognised in Europe that social policy (comprising education, social security, the provision of social services, employment policy) constitutes a productive factor, which contributes to European economic competitiveness.

Meanwhile, not all choices in the social fields give equal results. Some choices may result in social institutions that actually promote growth while others may block it. It may be wise to let the candidate countries find their own

solutions, as the western model may not be that valid for their circumstances and even somewhat out-dated in its design, structure and application. In that case it may be better to define a very general framework for social welfare, more similar to the US federalist model, which allows for rather large policy options and differences at the level of individual states, while still retaining a coherent whole.

The question of who pays for a social system that is both inclusive and efficient cannot be ignored. This leads to the question of whether it might not be necessary to re-allocate some of the current EU financial assistance to candidate countries, to set up new co-financing projects or to increase overall levels of EU funding. However, the availability of increased funds would raise issues of governance. If funds are to be increased, candidate countries' governments will need to improve their capacity to tackle corruption and tax evasion and to assure transparency. Even if new financial arrangements were to be introduced, it would be necessary to make clear choices and define social priorities. Although unemployment is often cited as a major issue, problems associated with poverty have more recently come to the forefront, affecting significant sectors of the population. Moreover, conditions have worsened for minorities such as the Roma, who suffer increased discrimination in terms of employment and access to housing, education and other services.

### **The Role of the Social Dialogue**

Social dialogue is part of the EU acquis but in most candidate countries it is still only weakly institutionalised and the capacity of interest organisations is progressing slowly. This is due in part to the communist legacy and in part to the context of economic transformation (Wiesenthal 1996). The CEECs have had to overcome their lack of experience with self-organised collective action. The social structure existing under egalitarian socialism was not conducive to the emergence of strong and defined social interests. Moreover, high levels of uncertainty in the period of economic transformation delayed the stabilisation of interests.

Although new unions have been formed since the transition to democracy, old unions have survived, reformed themselves and because they have often been able to retain most of their material and non-material assets, they are often in a strong position relative to new unions (Reutter 1996). With the exception of Solidarity in Poland, the largest unions in most CEECs have had to overcome their reputation of acting as "transmission belts" between the communist party and workers. Many have seen their membership levels decline dramatically. Unions are further weakened by a lack of inter-union cooperation and by a high degree of decentralisation and fragmentation. In the private sector in particular

union membership is low and unions are poorly organised. For instance, in the Czech Republic about 53% of economically active Czechs are members of a trade union, but only 22% in the private sector are unionised (Orenstein 1996). In Hungary, about 40% of the workforce are trade union members, the vast majority in the public sector (Héthy 1999). On the employers' side, the social basis for collective action is rather narrow given that for the most part the new economic actors are either very small enterprises or large foreign companies. The lack of frameworks for cooperation at national level has left many countries with competing confederations of employer organisations.

Although the state has withdrawn from direct control of civil society, it has been very strong with respect to its "social partners". The ability of the state to dictate the system of consultation and collective bargaining has been strengthened by the realities of economic reform such as large-scale privatisation, the need to impose wage limits, and high unemployment. Social dialogue is almost impossible to put in place under the threat of plant closures and unions have found it difficult to protect their workers' interests. In countries where the pace of economic reform and privatisation has been slower, many employer organisations represent the state sector and it is difficult to assess to what extent they can be considered as being independent of the state.

National experiences of tripartite agreements in the candidate countries have varied since 1989. However, all have been linked by the fact that they emerged when the larger part of the economy was not privatised. In these circumstances the state dominated. In Czechoslovakia and Hungary corporatist institutions designed to intermediate between and reconcile different social and economic interests were established early on and are relatively well institutionalised. However, even in these countries tripartite bodies were initially not based on legislation but on general agreements between government, trade unions and business associations. Indeed, some countries (*e.g.*, Bulgaria, Poland and especially Romania) established tripartite bodies, which represented "ad hoc cooperation" rather than institutionalised dialogue (Reutter 1996). Such cooperation took the form of short-term remedies to pre-empt conflicts rather than a coherent programme of social and economic measures. It was aimed at helping to maintain social peace and to bring on board social partners to stabilise and support the reform process. However, where tripartite bodies were less institutionalised, industrial action and strikes have been more frequent.

A debate as to the role and framework of social dialogue has been emerging in the EU. Some politicians and experts wonder whether it is worth burdening economic and social reconstruction with the training and the formation of social partners. It is feared that this may only make it more difficult for them to adapt to the new context of the emerging services economy.

Moreover, there is a risk in concentrating and relying too much on existing social partners without considering how representative they really are and what the population's attitude is towards them. Young people may look towards NGOs such as Greenpeace and consider them as more representative of their aspirations. Such an evolution would leave the social field completely uncontrolled. Taking this into account, the European Commission tends to favour the strengthening of social dialogue mechanisms at bipartite level, rather than solely concentrating on tripartite bodies, in order to avoid increasing state power which is still high in the candidate countries.

Indeed, regional experiences, for instance in Euroregions straddling the German-Polish border or the Austrian-Hungarian border are indicative of the emergence of a new type of social dialogue with local authorities rather than central governmental institutions playing a key role. Such decentralised dialogue may be more dynamic; directly addressing concrete and day-to-day concerns of workers and firms. A similar development can be detected in the framework of the pre-accession programmes that encourage twinning and enhanced co-operation between trade unions from the EU countries and the candidate countries. An enlarged social dialogue including representatives of civil society has developed over the last years in many countries of western Europe and the EU doctrine of social dialogue has to adapt to new conditions.

### **Hidden Unemployment and Informal Social Provisions**

A potential source of social crisis is the degree of hidden unemployment and increasing open unemployment. There is substantial hidden unemployment in sectors that have not been restructured (steel, coal and agriculture, notably). Many state enterprises maintain a large, partly redundant workforce who is still protected by soft-budget constraints. In such sectors there are many workers who are technically employed but in practice are more often laid off or on short time than working a full week. Over-employment and low productivity levels mean that there is substantial potential unemployment in the CEECs (Bruhnes 2000). Although statistical data in the candidate states is increasingly reliable, the extent of the grey and black economy makes employment levels rather difficult to measure. In many cases unemployment benefits are claimed by people working in the informal sector. Another worrying tendency is the structural nature of unemployment. In Hungary, Poland, Romania, Slovakia and Slovenia long-term unemployment of more than one year makes up between 40% and 50% of all unemployment. Youth unemployment is another problem. Between 30%-40% of the total number of unemployed in the Czech Republic, Slovakia, Slovenia and Poland are under the age of 25. In all these countries there are also considerable regional and sectoral disparities with respect to both hidden and open unemployment.

However, one of the legacies of the former regimes is that in the circumstances of the command economy, with shortages and lack of choice, people learned to overcome shortfalls through household production, farming small private plots and working in the second economy. Such skills have been useful in helping them to cope with the difficulties of economic transformation. But the side-effects may be that even with low levels of unemployment benefits, support from the family and relatives and/or informal work may discourage active job seeking, thus keeping people stuck in the poverty trap. Moreover, a large informal sector leads to high levels of fraud and evasion of taxes and social contributions. The result is a vicious circle: the state imposes very high social contribution costs to make up for the shortfall, and the high social contribution costs encourage illegal work.

Health care and education pose more complex problems than old age, invalidity and unemployment income security. In the former it is not only necessary to re-organise the financial provisions for these systems, but they depend on capital equipment and labour resources. In the CEECs labour resources in these sectors are plentiful, while capital resources are scarce. Restructuring leads to unemployment and resultant social costs. Health care has generally deteriorated although care must be taken when trying to assess the situation. Health care expenditures as a percentage of GDP are generally lower in the candidate states than in current member states, but there are wide variations between the candidates, as there are between member states. All but three of the candidate countries spend a greater proportion of their GDP on health care than does the UK (World Health Report 2000). Average life expectancy at birth is higher in the member states, but, for instance, infant mortality rates in the Czech Republic are lower than in some member states. Moreover, simply looking at measurements such as the ratio of hospital beds to inhabitants can be misleading.

Health care and educational reforms are more difficult than pension reform as they require longer-term investments and improvements in staff training. What is important here, *i.e.*, investment in health and education, is the degree of understanding of the imperative to improve standards. Among some candidate members this need is seen much more clearly than in others. Hungary and the Czech Republic re-introduced health insurance funds early on. Poland launched health care and education reforms in 1999. Health service provisions, which had been predominantly a state affair, are now partly privatised and decentralised. In health care we see the candidate countries progressing towards a Bismarckian model of medical insurance with personal contributions towards expenses. However, in Romania the state sector persists largely unreformed. Chronic under-financing and the channelling of budget resources to subsidise state industry has led to a severe degradation of social services.

For the region as a whole, the past decade has seen neither a radical marketisation and privatisation process in social policies nor the entrenchment of a relatively intact communist-type welfare state. However, the problem with piecemeal, gradual change is that it leaves open uncertainty about the end-state of the transformation process. Hybrid solutions may appear and remain for a long time, although what matters is how effective these states are in solving problems in welfare rather than what models they choose. The models should be evaluated by considering their sustainability and flexibility. In the end, the availability and sustainability of the chosen system is more important than the ideology underlying it.

### **Expectations from the Public: Nostalgia, Social Heritage and Willingness to Carry Out Reforms**

This brings us to the question of public expectations and capacity to accept change. On the one hand, there is a legacy of a deep distrust of government and administrative agencies on the part of the public. This follows from the abuse of power, the enforcement of political participation and failed promises on the part of the communist authorities. But in many of these societies, the perception of the state as being illegitimate and alien is even more deeply rooted. Most of central and eastern Europe fell under one of the four, Russian, Prussian, Habsburg and Ottoman empires and has seen only a short period of national independence during the inter-war years, soon followed by the imposition of communist rule. The tendency to retreat into family and friend networks and reluctance to develop links with the state has a long history.

At the same time, the public also expects the state to function as provider and protector. There is a traditional dependency on a welfare system the state can no longer afford to provide. While many social services under communist regimes were inadequate and had to be shored up by users in the form of extra payments and some material input, their existence was at least assured. One of the most salient characteristics of the socialist welfare state was the guarantee of full employment. Social protection came in the form of job security for the active and pensions for the retired. State-owned enterprises were social units, taking over many tasks of the social security system by providing not only employment, but housing, crèche facilities and holiday centres. Health care was directly provided by the state. Education was the pride of communism. In short, workers were protected by a paternalistic state. Government subsidies on food, housing, and transportation helped to compensate low earnings. There were fixed pensions, guaranteed incomes and broad social functions were exercised by enterprises. Even today, most constitutions include a reference to “social justice” or a “social state”, although they vary as to the nature and specificity of guarantees and undertakings.

The reliance on the family and relatives and reciprocal self-help relations between individuals continues the practice found under communist welfare systems of in-kind and in-cash help and protection, *i.e.*, care for the elderly, health care, child care, etc. The relative strength of the informal social welfare circuit, possibly as high as 20 to 40 percent of total welfare spending by some estimates (Kovacs 2000) may help to explain why there is little sign of social unrest in even the less fortunate candidate countries. This combination of distrust of the state and dependency on it, is a contradictory and paradoxical legacy.

Is there still nostalgia for the former social system? The populations of the candidate countries do not perceive clearly the real costs of the welfare state. Sometimes they have directly and strongly suffered from the privatisation of higher education or health services, but in other sectors, depending on the countries, the functioning of the public services has remained little changed (*i.e.*, primary and secondary education, trade unions, etc.). Poverty and unemployment are perceived as both direct and temporary consequences of the economic transition. Social exclusion is usually equated with social stigma (handicapped people, ethnic minorities, Roma) and few connect it to a poorly functioning socio-economic system.

In most cases those who have lost out are diffuse and weakly organised, although for instance, pensioners in several countries have formed political parties that contested elections. Other groups, such as miners or railway workers, who had a privileged status in the former regime have more to lose under the reforms, at least in the short term, and are likely to resist change. Where enterprises are neither privatised nor restructured, vested interests will try to maintain their privileges and pressure policy-makers to put off reform pointing to the immediate dire social consequences. Socio-economic differences appear to be the most important cause determining support or lack of support for collective state provision of welfare (see Rose 1993).

The capacity to accept change should not be underestimated, however. The lack of well-organised entrenched interests has meant that, despite attitudes which largely favour the old system, the adoption and implementation of radical reforms is meeting with relatively weak resistance. Social tensions have been lower than expected, despite the fact that opinion polls have consistently shown that large sections of the population expect the state to remain the main provider and guarantor of welfare. A cultural shift through which the public now look less to the state for their support, and more to their own efforts and enterprise is slowly taking root, although more markedly in countries which have carried out more extensive reforms earlier. The public do not expect instant pay-offs; life under communism taught people to keep expectations low and patience long

(Rose 1999). There is indeed a time lag also between the introduction of reforms and their social effects. Many reforms are ongoing and full results may not be seen for the next ten years. The important point is that change has been undertaken and the gap between those who have made the change and those who have not is bound to increase. The extent of this cultural shift should not be underestimated. The past ten years have been marked by a process of intense learning for the countries of CEE. The public is waking up from illusions and shocks, and engaging in a process of normalisation. With clearer perspectives and more realistic expectations, the public should become more willing and able to understand the new programmes. Reformers are thus faced not only with certain socio-cultural constraints, *i.e.*, what are citizens going to accept and what do citizens expect, but also with the need for a relatively efficient bureaucracy to apply and implement new programmes and a capital market to finance them.

Despite a liberalisation of welfare regimes, experiments are not that different to those being undertaken among current member states. The expectation is that no new obstacles will be created in the social sector such as a predefined level of performance, for instance in health care, or given proportions on welfare spending in certain sectors or the introduction of specific types of welfare models. But a problem may be the need to concentrate on certain aspects that are conditional (health and safety at work) and thus neglect other changes in welfare that may be important for the candidates. There is certainly for the time being no harmonisation as to levels of protection, but it was generally agreed that convergence should be a consequence rather than a precondition of enlargement.

## **Conclusions**

All the CEECs are faced with the need to strengthen and modernise their administrative structures to promote consistent and non-corrupt governance and an ability to enforce legislation. They need to downsize the black and grey economy, improve tax collection, create employment and training schemes and ensure the development of autonomous social dialogue. Nevertheless there are significant differences between the CEECs in the extent to which social reforms, modern labour market policies and social dialogue have been introduced. They also differ with respect to their capacity to implement such reforms and their understanding of the extent of reform required. Some countries have carried out more radical and wide-ranging reforms than others, although most have chosen models that are not widely divergent from current European ones. In many cases, CEEC policy-makers have been advised by experts from current member states and in some cases, member states faced with the need to adapt their own systems to changing circumstances, are studying solutions taken up by CEECs. There is no uniform European social model and it is accepted that welfare

regimes should be geared to the specific context of each economy and society. Nevertheless, there is a general consensus shared by both current member states and candidates that social policy should be a concern of the state and that there should be a balance between solidarity and competition. The evidence points to social reform being a sound investment rather than a cost which will decrease competitiveness. Social spending leads to less inequality, less social exclusion and greater acceptance of structural reform. Frontrunners in market reform and privatisation have also tended to be frontrunners in social reform. Where neither has made inroads, social welfare budgets absorb a large and rising share of the budget and are increasingly thinly spread. In Romania the inability of politicians to agree on implementation of economic and social reforms has led to an increase in support for populist programmes.

Moreover, those countries that have taken on social reforms earlier and taken steps to adopt employment and labour market policy priorities in line with EU policies are creating a more stable economic and financial environment and will be in better position to function effectively in the European context. Despite the fact that there are few “hard” pre-conditions in terms of the *acquis* on social policy, “soft” pre-conditions in the form of recommended or desired policy objectives do exist and their implementation should make integration easier.

Nevertheless, some words of caution are in order. In the short-term, radical reforms have proved politically costly for governments who have introduced them. Several years will need to pass before the suitability and sustainability of reforms can be gauged. For the time being, many of these reforms are difficult for the public to accept and understand and this is not made easier by the lack of experience and know-how on the part of both private and public sectors setting them up. Reforms are also expensive to implement. The recent reform of the healthcare system in Poland has led to widespread strikes by doctors and nurses and public discontent about standards and access to healthcare. Public dissatisfaction is fuelled not only by resistance to change but by political and administrative bungling of reforms. So far social tensions in most countries have remained relatively low, but further restructuring to improve competitiveness and the need to implement even the limited social *acquis* is likely to result in rising unemployment and a resort to the informal sector. All this makes social welfare more costly to run and more difficult to finance. The challenges faced by the CEECs in striking the right balance between increasing the competitiveness of the economy and the cost of social security should not be underestimated.

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## **Interim Report II – Economic Potential, Market Regulation and Privatisation**

### **Summary**

Health, not wealth is the key factor determining whether an economy will be able to meet the objectives of achieving increasing convergence of economic performance and greater social and economic cohesion within the EU. Most CEECs are now small, dynamic economies with institutional frameworks and financial sectors that are adequate, and in some cases better than could be expected for their level of development. Eight of the CEECs have relatively healthy economies and even though they are poor, their prospects for sustainable economic growth are good. They are already more integrated with the EU than was the case with previous enlargements. Their economies are no longer essentially different from market economies of the EU. Their institutional infrastructure should enable them to respond positively to traditional types of transfers such as structural and cohesion funds, and transition periods can deal with more significant problems. It is likely that the EU can withstand this type of diversity because it is not that different to what it has withstood before. Nevertheless, continuing emphasis should be laid on regulative institutions and state capacity to uphold and enforce the rule of law and to (re)regulate relations between economic actors. Properly functioning institutions are crucial for the credibility of the internal market and to attract foreign direct investment (FDI). CEECs with an inadequate institutional basis, greater corruption and less advanced market reforms at the time of entering into negotiations may need more specific and longer-term help and perhaps some kind of partial membership in areas not impinging on the single market.



## **Introduction**

The CEECs have now passed through more than a decade of economic transition. Most of them have overcome the deep recessions they experienced in the early 1990's, although a few are still lagging behind. However, the gap between the laggards and the frontrunners is increasing rather than declining. This is a worrying trend because it suggests that the countries that failed to reform their economies at an early stage will find it increasingly difficult to catch up. They will not attract the necessary inward investment, they will have little incentive to restructure further, and they will become increasingly dependent on aid rather than trade. But does the same reasoning also apply to the CEECs that have made more progress in creating a functioning market economy and the capacity to withstand competitive pressure? Will they join the EU only to find that the gap between old and new members does not close, and that a stronger economy and increasing prosperity are as distant a prospect as ever?

This report will argue that health, not wealth is the key factor determining whether an economy will be able to meet the objectives set by the Amsterdam treaty of balanced and sustainable development, improving living standards and high levels of employment with the aim of achieving increasing convergence of economic performance and greater social and economic cohesion within the EU. With the exception of Romania and Bulgaria, and in contrast to the countries of the former Soviet Union which still have significant economic and institutional problems, most CEECs are now small, dynamic economies with institutional frameworks that are "normal", and in some cases better than could be expected for their level of development and financial sectors that are appropriate for their level of development (Gros and Suhrcke 2000). If a regression line GDP/quality of institutions is drawn, then these countries are situated above the line of what would be expected. Russia and the CIS come under the line, lower than one would expect, as do the Balkans.

This report will first give an overview of the economic reforms of the past ten years. The reasons why some states are doing better than others are manifold and shall be discussed in the second part of the report.

### **Ten Years of Economic Reforms: the State of Play**

All the CEECs have a legacy of communism, similar mentalities and similar social and economic structures. However, there were differences in starting points in 1989/90. At one extreme, there were the Baltic states, which were highly dependant on central orders coming from Moscow. In Latvia and Lithuania 40% of the industrial companies were directly controlled by Soviet

ministries. Not so far behind was Bulgaria where a system of centralised allocation of resources was still functioning at the eve of the fall of the Berlin wall. Moreover, the country was very dependant on its external trade with the Council for Mutual Economic Assistance (CMEA) (60% of GDP). At the other extreme, Poland and Hungary had experienced the beginnings of economic liberalisation and limited reforms since 1987-1988. Poland had a small private sector; Hungary already had some market institutions. The other national economies fell between these two extremes but all the economies were based on a socialist model with state-owned companies and the complete integration of financial and economic systems.

By the year 2000, Poland had surpassed its 1989 GDP level by 28%, Slovenia by 14% and Hungary by 5%. The Czech Republic was just under its 1989 level. But if the Baltic States and Slovakia have shown their ability to join the four other central European candidates, Romania and Bulgaria have lagged behind. They continued to suffer from a decline or a very low increase in production during the last few years with their GDP in 2000 reaching about three-quarters of 1989 levels (71% for Bulgaria and 76% for Romania).

Most CEECs have succeeded in shifting their external trade from the former CMEA countries to the EU economies. The more successful (Estonia, Hungary, Poland, Slovenia, Czech Republic) have reached a level of integration similar to - and in some cases even higher than - the current member states (around 70% of their external trade); a level greater than was the case for Portugal and Spain when they joined the EU. The limited impact (in scope and duration) that the recent Russian crisis had on the CEECs' economies (the Baltic states being the hardest hit) demonstrated the growing dependence of these countries on the western part of the continent. According to recent macro-economic studies, a 1% increase of GDP in the EU generates 0,6% growth in the CEECs (Lemoine 2000).

With the help of foreign investment most CEECs have changed their production from cheap and poor-quality products or unsophisticated materials consuming a lot of energy to value-added goods which are complementary to those produced in the EU, such as electrical equipment or materials for transportation. A large number of plant closures are expected in the near future when a second phase of industrial restructuring will be carried out, notably in Poland, the Czech Republic and Slovakia. Many workers will be made redundant in weak or uncompetitive sectors such as in mining, steel, agriculture, or simply because of the implementation of delayed privatisation. Large numbers of SMEs have also been created but they have not been able to absorb excess labour capacity.

Although there are various ways of conducting the economic transition and comparisons are rather difficult, the basic elements of reforms aimed at developing a market economy and a healthy basis for economic development in a free exchange market framework are rather similar. Four main ingredients make up the set of structural and financial reforms: the banking system, the financial market and currency stability, privatisation and restructuring of companies policy and tax reform. Of course, the policy-mix and time-scales vary between countries.

The reform of the banking system consists broadly of two parts: first in the separation of the central bank and commercial banks, second in cutting the links between the banking system and the state. This includes adherence to rules that safeguard financial stability and cleaning-up balance sheets (reduction of uncertain debts). This stage has now been reached by most of the central European countries. At the forefront are Estonia and Hungary where privatisation of the banks has been almost completed. In Lithuania and Latvia, the relations between companies and banks are not completely transparent but significant progress has been made since 1997. Lagging behind are Romania and Bulgaria where political rather than commercial interests still prevail. Privatisation of the Romanian banking system began only in 1998-1999 and the banking network is still underdeveloped. In Slovenia, historical links between industry and the banks remain strong. But it is not only the scope of privatisation that matters. One of the key conditions underlying a thorough reform of the banking system and the functioning of a healthy financial system is the implementation - and not merely the adoption - of bankruptcy law. The five-year delay in implementing the bankruptcy law in the Czech Republic was an important factor in bringing about the 1997 financial crisis. Until recently, bankruptcy laws were not enforced in Slovakia, Bulgaria or Lithuania. This contributed to both the reluctance of foreign companies to invest in these countries and the instability of these national economies. This is still the case in Romania.

Every government has been confronted, at some point in the past ten years, with a financial crisis that was often aggravated by high rates of inflation, budget and current account deficits as well as trade balance deficits. Governments have been forced to take recourse to solutions such as monetary “freezing” (either through a crawling peg system or a currency board, linked to the DM, the Euro or the US dollar). Such monetary discipline proved to be effective in Poland, Hungary and more recently in Bulgaria, but has failed in Romania.

CEE governments have taken several different approaches to privatisation. The most transparent approach is directly copied from the way privatisation has been carried out in western countries. It consists of identifying a list of marketable companies - generally the biggest ones – that are completely or partly sold through calls for tenders. Usually a percentage of the capital is temporarily kept under state or national control, although in Estonia 100% foreign ownership has been allowed since 1991. This type of direct sales privatisation was carried out by the Hungarian government which had sold half of the list of its marketable companies by 1995: the share of private capital in GDP rose from 24% in 1989 to 68% in 1996 and to 80% in 1999. It generated considerable revenues for the state. When carried out by open process and focussed on competitive plants, this kind of operation has stimulated the interest of foreign investors in Hungary, Estonia, Poland, and the Czech Republic.

Another approach was preferred for the privatisation of smaller companies: they were sold to former managers or employees often on preferential terms, such as the offering of deferred payment options. In economic terms, this produced very different results from one country to another. It boosted the development of SMEs in Poland but in Romania and Bulgaria it led to corporatism, corruption and greater bureaucracy.

A third method of privatisation through vouchers was favoured in the Czech Republic, Slovakia and several other countries. Driven by social, political and distributional considerations, the shares of public companies were distributed to citizens. However, such schemes generally failed in their aim of developing a widespread capitalist spirit among the population. Lukewarm interest among private citizens left corporate ownership structures managing the shares. Opaque ownership structures and links between banks and enterprises allowed many enterprises to put off restructuring. Latvia, which chose this method in 1995, quickly abandoned it in 1996. The Czech government also changed its policy, and since 1998 has encouraged the merging of investment fund portfolios, their transformation into financial holdings and their transfer to foreign investors.

Both the extent and the success of privatisation schemes vary between countries. Slovenia, with relatively high levels of industrial productivity, could afford to leave much of industry in public ownership. Only 55% of GDP is currently produced by the private sector. In comparison, in Slovakia, which is not on the top of the list with regard to privatisation, 75% of GDP was produced by the private sector in 1998. Privatisation in Bulgaria made little progress until 1997, when the government adopted a new strategy, trying to sell bigger companies through calls for tenders and to attract foreign capital. However, there was little interest from western companies and 60% of GDP is still owned

by the state. In Romania, the first wave of privatisation failed to achieve its targets. By the end of 1996, over three-quarters of the total book value of companies allotted to the State Ownership Fund remained in state ownership. Despite a new privatisation programme in 1997, progress remained slow because of disagreements between the governing parties and social tensions (*i.e.*, the coal miners' strikes and protests in the Jiu Valley). Such problems have not been limited to Romania. In many CEECs, the state has kept on less competitive companies because they are difficult to sell and/or for social reasons in that they are large-scale employers. Restructuring has a social cost and governments, such as those of Slovakia and Poland are faced with large increases in the numbers of unemployed and the persistence of long-term unemployment.

All the CEECs have adopted systems inspired by the western model made up of four main taxes: tax on individual incomes, tax on business profits, VAT and excise duties. A notable exception is Estonia where profit taxation does not exist. Compared with other structural reforms, the rate of adoption has been rather rapid. Hungary undertook its first fiscal reform in 1988 and had an integrated tax system in place by 1995. By contrast, Slovenia implemented VAT only in 1999, while the Bulgarian government delayed the launch of a programme to fight corruption - a necessary pre-condition for efficient tax collection - until 1997. Indeed, the adoption of a tax system does not necessarily engender effective implementation. Tax evasion is still much higher than in most EU states. The size of the unofficial economy is estimated at over 40% of GDP in Romania and Bulgaria, 30-40% in Slovenia and Hungary, and 20-25% in the other candidate countries. Some countries like Bulgaria have recently addressed this question by coupling a tax reduction to a stricter observance of the law.

This brief overview shows that despite being faced with similar challenges, transition paths have varied between countries. Poland was faced with an economic crisis early on, which then gave way to a steady recovery. Slovenia has managed a smooth transition since gaining independence from Yugoslavia. The Czech Republic has recently been confronted with a financial crisis, while Romania, and to a smaller extent Bulgaria, have never really emerged from a series of deep economic and financial crises. Rapid liberalisation, *i.e.*, liberalisation of prices and external trade, a drastic reduction of public subsidies and spending, restructuring and privatisation of state-owned companies and strict monetary policy, seems to be the basis upon which sound economic growth and trade can be built. More moderate or gradual approaches have allowed vested interests from the former regime to consolidate their power and made it more difficult to implement necessary economic and structural reforms. Delays in reforms and implementation of regulatory frameworks have led to an increase in the size of the informal economy and greater corruption.

Moreover, the pain and sacrifices, which have to be borne by the population at large, last longer and make them more reluctant to support pro-reform politicians.

However, rapid liberalisation has to be undertaken with care. The Czech government had to implement two austerity plans in 1997 to overcome a financial crisis, which was largely brought about by a privatisation strategy that had failed to sever the links between the state and commercial banks and the failure to set up a good regulatory framework in the first place. On the basis of the Polish experience, Ekiert (2001) has argued that the key to sustaining the reform momentum and implementing policies is the sequence in which reform measures are introduced. In the Polish case, this was decentralisation, followed by an enforceable tax regime, reform of the central administration, a second phase of decentralisation, and finally extensive reform of public services. That said, the transformation of the Polish state and economy has also benefited from a large neo-liberal consensus among politicians and the media. In addition, robust political competition and the pluralist nature of Poland's civil society prevented the emergence of powerful interest groups able to block the reforms. In Romania, in a very different political and social context, and on the advice of IMF experts, the government tried to implement a rather similar drastic plan in 1997, with far less success.

### **Why Some States are Doing Better than Others**

Some states are clearly doing better than others. The prospect of enlargement has already brought about profound economic consequences in the CEECs and we can see three new groups of states emerging. Those countries that are already NATO members and/or members of the so-called Luxembourg group who have been involved in accession negotiations since March 1988 have reaped the benefits of being perceived as frontrunners. Most of their trade has already been redirected towards the EU and they generally had higher cumulative levels of FDI. For many businesses an enlarged Europe is already a reality. They sell to EU consumers; they supply EU businesses and enter into partnerships with firms in the EU. Progressive adoption of the *acquis* has helped to improve business confidence and inward investment in these countries.

The second group of countries are the so-called Helsinki group, which started negotiations two years later, in March 2000. Some of these may catch-up with the frontrunners; others are lagging behind and may be closer to countries that have concluded Stabilisation and Association Agreements (SAA's) with the EU. The latter are potential candidates for membership. Finally, there are the countries of the former Soviet Union, which have Partnership and Cooperation Agreements (PCA's) with the EU but no perspective for membership. They have

made significantly less progress in the transition from a command to a market economy and their institutional development is very weak.

Hungary, Poland and the Czech Republic have attracted the most foreign direct investment (FDI): between 1989 and 1999 these three countries received 75% of the total. Significant inflows of FDI followed on economic and institutional reforms in Estonia and later Latvia and Lithuania. Estonian cumulative FDI per capita between 1989 and 1999 is similar to that of the Czech Republic and Hungary: \$1115 compared to \$1764 for Hungary and \$1447 for the Czech Republic. Such economic integration fuels faster growth of productivity, trade volumes, national incomes and attracts other flows of foreign capital. The lesson was understood by the Slovak and Bulgarian governments in 1998 and 1999, when they launched economic and institutional reforms openly aimed at attracting foreign capital. Romania and Bulgaria still lag behind with a cumulative total per capita reaching a quarter of the average level of the other 8 CEECs.

If the quality of institutions in the first and most of the second group is “normal” for their level of development and in some cases better than expected, then prospects for sustainable economic growth should be good. This is not to argue that everything is already perfect. Indeed, the amount of effort these countries have had to expend to create “the capacity to uphold economic freedoms, maintain the rule of law, resist corruption and regulate relations among economic actors” (Bruszt p.3) is often underestimated. With the fall of communism and for some time into the transition, many of the states were weak and lacked the capacity to create and regulate institutions held to be conducive to successful economic transition. The reasons are several. The communist state was not nearly as powerful as the received wisdom would have us believe.<sup>2</sup> The model pushed by the IMF and the World Bank in the early 1990s was one of rolling back the state, de-institutionalising, de-regulating, and liberating markets. At the same time, the intervention of the state was essential in building the conditions for a market economy. This meant that liberal market rules were being grafted onto the institutional structure of the command economy. Hence, the focus of neo-liberals was on “liberating” the market from bureaucratic intervention.<sup>3</sup>

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<sup>2</sup> Ekiert 2001. See also David Stark and Laszlo Bruszt, *Postsocialist Pathways* (Cambridge: Cambridge University Press 1998), p.16 where they argue that by the late 1980s communist states had lost much of their infrastructural power with “cumbersome but weak bureaucracies, ineffective in achieving the goals of economic growth and social integration...”

<sup>3</sup> Recently even the World Bank has re-discovered the importance of effective state institutions. See *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press 1997).

More emphasis is now being laid on regulative institutions and state capacity to uphold and enforce the rule of law and to (re)regulate relations between economic actors. However, regulative institutions have to work to be effective. In most CEECs they work, in Russia and the CIS they don't. For instance, Russia has adopted a regulatory system in finance based on the American model, but without a competent judiciary there are no effective checks to ensure the system works and the regulations are being carried out. The laws have been passed, but if the state cannot guarantee basic rights, there is nothing to prevent the misuse of asymmetries of economic power. The same problems of weak, but very centralised administrations making state capture by particularistic interests easier have been encountered by other newly independent states following the disintegration of the Soviet Union.

Good institutions, understood as an “appropriate legal and institutional framework for markets to function properly” which can be “entrusted with ensuring enforcement and legal certainty” (Pelkmans, Gros and Ferrer 2000:56 note 5), are thus crucial for the credibility of the internal market and to attract foreign direct investment (FDI). Such legal, regulatory agencies decentralise power, represent different emerging interests, fix rules and provide stability and predictability. Decentralised power reduces the risk of private groups misusing state power and increases the opportunities for diversified representation of interests (social partners, local government, autonomous agencies). On indicators of legal effectiveness and credibility,<sup>4</sup> Russia and the former CIS score lower than the CEECs, with the Czech Republic, Estonia, Hungary, Poland and Slovenia scoring best on most indicators. In the latter, state administrative structures are being rebuilt to create a robust, regulative state with the capacity to enable development and resist its own corruption. This should ensure that economic actors can perform transactions without fear of being deprived of their property by economic predators or by arbitrary state intervention. Similarly, it should prevent powerful economic actors from using the state to infringe upon the rights of other private actors and redistribute wealth and improve prospects for themselves.

This seems to suggest that countries not only get more investment because they have more chance of joining the EU, but because they have better institutions in the first place. Once the first set of institutions are put in place and the first set of basic rules are being applied, then the prognosis is optimistic. Of course, not only institutions, but also policies matter. However, if institutions are

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<sup>4</sup> Components of the credibility indicator are predictability, political stability, levels of violence, reliability of judiciary and lack of corruption. See Aymo Brunetti, Gregory Kisunko and Beatrice Weder, *Credibility of Rules and Economic Growth: Evidence from a Worldwide Survey of the Private Sector* (The World Bank Economic Review 1998, vol.12 No.3: 353-384).

weak, then there will be problems in implementing policies. In some countries, the institutional infrastructure is too weak to stimulate either domestic investment or attract foreign investment. In these cases initial circumstances seem to have overwhelmed policies - where the state was weak and the role of the state was not sufficiently reduced in the first place, then state capture ensued with resulting problems of lack of legal effectiveness and low credibility. What can a country do to get out of this vicious circle? The first step seems to be to eliminate excessive asymmetries in the market, enforce basic rights and the rule of law and prevent the state's own corruption. If these basics are there, then the longer-term prognosis is optimistic. Without these basic conditions, a country cannot hope to successfully complete accession negotiations. Adoption of the *acquis* will not result in its effective implementation and enforcement.<sup>5</sup> It is possible to have strong economic growth with an inefficient judicial system and even an inefficient public administration, but a minimum threshold of institutional development is necessary to ensure a functioning market. While the more successful 8 CEECs need to improve institutions to increase efficiency and effectiveness of already functioning markets and to give themselves a comparative advantage, others do not even have functioning markets.

### **The Possible Impact of Membership on the CEECs and the EU**

Although enlargement to include all 10 CEECs would increase the population of the EU by over one quarter, in economic terms this fifth enlargement would have less impact than previous enlargements. In terms of GDP the weight of the CEECs is only about 6% of the Euro area. Their combined monetary supply is not much higher – just over 8% of the corresponding euro area aggregate. These countries are much poorer with on average about half of the average GDP per capita at purchasing power standards found among the EU-15. However, they are not dissimilar in terms of the structure of their economies, with percentages of industrial output and agricultural production in GDP that do not fall much outside the range of differences between current EU members. Thus in terms of economic structures, they do not add more diversity than already exists among current members and most have virtually completed their transition from a command to a market economy. Moreover, with average inflation of about 5% (although some individual countries have levels nearer to 10%), fiscal deficits close to 3% of GDP, and an average public debt of about 30% of GDP, these countries are close to meeting the Maastricht criteria for monetary union and are in a better position than some of the southern member states in the early 1990s which have since joined the Euro zone. Nevertheless, there would be greater disparity than currently exists among current members in terms of per capita

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<sup>5</sup> In accordance with the decisions of the 1995 Madrid European Council, candidate countries are required to adjust their administrative structures to enable EC legislation to be transposed into national legislation and for that legislation to be implemented effectively.

income and development as well as disparity in economic and institutional capacity to absorb and implement the single market acquis.

Enlargement should bring benefits to the CEECs in terms of reducing the cost of trading with the EU, eliminating remaining trade barriers, lowering interest rates, etc. Exports to the CEECs account for only about 2% of EU-15 GDP, whereas the CEECs' trade with the EU-15 makes up almost 25% of their GDP. Indeed, with economies more oriented to EU trade than many current members themselves, the CEECs stand to gain more from enlargement. However, due to the small overall size and openness of their economies, there would be little risk to the EU, for whom the impact of enlargement will be lower and the gains less significant. Moreover, if the CEECs joined the Euro zone there would be little threat to the EU financial system because their economies are so extremely small. Their size and the closer alignment of their economies with those of the Euro zone mean that upheavals would be considerably smaller than those associated with the UK joining the single currency area.

If enlargement is a guarantee that investment and growth is likely to continue, in other words, if it provides security for investment, giving increased certainty about property rights, single currency, etc., then those countries left out of enlargement may suffer dramatically. There will be less confidence that they will continue to reform their economies and that they will be willing or able to repay their debts. Even for the frontrunners the process of catching-up will take a long time. Ten years on only Poland and Slovenia had a higher real GDP compared to 1989. With the economies of current member states growing by 2% per annum, and those of the CEECs by about 5% per annum,<sup>6</sup> the Czech Republic will take 25-35 years to catch up with the EU-15 average.<sup>7</sup> However, regional disparities are already significant among the EU-15, with Spain, Portugal and Greece likely to take up to 20-30 years to catch-up with the other twelve members. And there are also differences between individual applicant states and pockets of prosperity around capitals or in regions bordering on the affluent West.<sup>8</sup>

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<sup>6</sup> Growth rates in the CEECs are falling as a result of the global slowdown but their economies are proving more resilient than other emerging markets. Although central Europe and the Baltic states, which have the most export trade with the EU are more exposed than south-eastern Europe and the former Soviet Union, their strength lies in the sustained efforts they have made in carrying out market-oriented reforms. See EBRD Transition Report 2001.

<sup>7</sup> See e.g., Sándor Richter, "EU Eastern Enlargement: Challenges and Opportunity," The Vienna Institute for International Economic Studies (WIIW), Study No. 249, (July 1998), pp. 40-42 or John Eatwell, Michael Ellman, Mats Karlsson, D. Mario Nuti, and Judith Shapiro, "Not 'Just Another Accession' - The Political Economy of EU Enlargement to the East", (Institute for Public Policy Research: London, 1997).

<sup>8</sup> The traditional East-West divide is not the only source of divergence. For instance, Austria's GDP per capita is more than double of that of Portugal: \$25,666 compared to \$ 10,167

Of course the new periphery of the EU may prove to be more dynamic than the core, just as Ireland was in a previous enlargement. But it would still need to do an awful lot of catching-up. According to the second report on social and economic cohesion of the Commission (2001 p.10), “The ratio between the 10% richest regions to the 10% poorest ones (GDP/inhabitants) which is 2.4 will almost double to 5.3 after the enlargement”. Such differences do matter. Although there is also a great deal of diversity within the US, disparity between the US member states has been in the region of 1 to 2, between the EU regions 1 to 5 and that disparity is likely to increase to 1 to 10 in an enlarged EU. Is such diversity tenable?

It can be argued that the system of transfers within the EU will serve to diminish the disparity between those regions and sectors that gain the most, and those that lose. The future development of transfers in the form of structural and cohesion funds, reforms to the common agricultural policy and decisions on net budgetary inputs of present members will have an important influence on how diversity might be managed. However, it is the countries that become members first that will be the ones to get increased grants (structural funds, etc.) and increased investment and thus the gap between the more successful CEECs and less successful is likely to increase rather than decrease. The negative economic repercussions of being left out of the “first wave” of enlargement may be quite substantial. A pro-growth policy will be needed for the more backward regions and possibly for those left out of the first wave of enlargement. Poorer countries have fewer policy options and need more outside support. There are different policy options at different levels of economic development. The question is how much support these countries can absorb without becoming totally dependent and how much preference should there be for the poorest? Some may now need more help to overcome initial circumstances, *i.e.*, Romania, but even more so countries like Albania where the institutional structure has all but disintegrated. However, EU members are unlikely to be willing to agree to full eligibility for structural and cohesion funds for those left out, arguing that one cannot have full benefits without full obligations.

### **How Well are the CEECs Prepared for Membership?**

The CEECs are already more integrated than was the case with previous enlargements. Eight of the candidate members have relatively healthy economies and even though they are poor they seem to be doing the right things. They are no longer transition economies and no longer essentially different from

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(figures for 1997). Slovenia’s GDP per capita (\$9.039) is nearly as high as that of Portugal. For some basic economic data comparing the eastern and the western part of the continent see e.g. <http://www.evd.nl/main.asp> or <http://www.worldbank.org/eca/eu-enlargement/index.html>.

market economies of the EU. Indeed, to continue to treat them as transition countries would be merely an excuse to keep them out.

There is some convergence towards a “mythical” EU model, but in practice the EU has tolerated a degree of diversity already. All current member states are market democracies but they differ in the public/private mix of industry and services. In practice, EU members have different interpretations and different levels of compliance with respect to the *acquis*. Nevertheless, the EU has provided very detailed guidelines to help CEECs to adopt the *acquis* (for instance, the 1995 White Paper, the National Programmes for the Adoption of the *Acquis* and the regular country reports), with the Copenhagen criteria used to clarify what the EU is taking on. Thus the EU already has a great impact in the CEECs due to the imposition of the *acquis* although this is a much more voluntary and flexible model in application than the model these countries experienced under the Soviet system. Moreover, pressures of globalisation, as much as EU-isation provide the motivation for many of the reforms being carried out. In some fields, American consultants and advisors are proposing different solutions and giving different advice, which leads to some confusion (*i.e.*, social security reform, police and security). However, this is not necessarily a problem, since there is no need to exactly replicate existing models. Just as the current members, various CEECs will have different institutional solutions. For the time being, candidate members are expected to apply and enforce the *acquis* to the highest standards found within the EU as it is generally recognised that once a country becomes a member, the incentive to rapidly adopt and implement the *acquis* lessens. Moreover, the capacity of enforcement by the EU should not be overestimated.<sup>9</sup>

Should the EU be trying to impose a model by insisting on adoption and implementation of the whole *acquis* or would it be more helpful to define a “core” internal market *acquis* tailored to fulfilling critical economic functions in acceding countries? Not every directive and decision is equally important for optimal economic performance; indeed, some aspects of the environmental or social *acquis* may actually impede growth. If the economic impact of a directive is low or if it could impede growth in the CEECs the timetables for adoption should be more flexible. Not everything has to be adopted at accession, although any attempts to change or gain permanent exemptions from the *acquis* would delay the accession process indefinitely by putting everything up for (re)negotiation. However, what does seem to be of crucial importance is that at

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<sup>9</sup> However, peer review and mutual evaluation may be set to play a larger role. See for instance, the public reprimand for Ireland over its expansionary budget plans. *Financial Times*, February 12, 2001, p.2 and February 13, 2001, p.16. The European Commission and the IMF have also criticized Slovakia for a planned budget deficit of 3.9% as likely to risk stabilization of the economy. *Financial Times*, February 13, 2001, p.2.

the time of accession, the new members have the ability to continue the process and assume the obligations of membership. In other words, the new members must have sufficient judicial and administrative capacity to implement and enforce the *acquis*, they must have completed the transition to a functioning and competitive market economy and they should be capable of sustaining catch-up growth to avoid permanent dependency on transfers.

Thus convergence may merely mean that an economy becomes healthy and performs adequately. This may be taken to mean macro-economic stability and a functioning market economy with institutional development conforming to internationally accepted standards. Such conditions should enable countries to attain the Maastricht and Amsterdam objectives of catch-up growth.

In the 1980s membership of the EU had a dynamic effect on countries such as Spain or Ireland. Candidate members have potentially even better prospects due to their economic structure. They are more industrialised and have a more skilled labour force than was the case with Spain and Portugal at time of accession. They already have better market access with EU markets now more open and flexible. The CEECs are much more dependent on the economic health of the EU than the other way around.

### **What Conclusions Can Be Drawn?**

It is difficult to define what is acceptable diversity in an enlarged European Union. Politically it may be expedient to get all the CEECs on board, but will the EU be able to cope with such economic diversity? There is strong political convergence in the sense that democratic values are accepted and upheld throughout the CEECs but economic convergence seems to be lagging behind. It is probably too late and politically unacceptable to introduce a virtual or partial membership limited to a sort of European Economic Area (EEA) in which free trade in industrial goods could be complimented by other free movements made possible by the adoption of large parts of the internal market *acquis*. Unlike countries such as Norway or Switzerland, which do not want the “burden” of political membership and sharing of sovereignty, the candidate members want political security as well as economic advantages. So the EU is faced with sometimes contradictory enlargement strategies. The requirements of a foreign policy driven enlargement strategy based on security, stability and common values are different to a strategy based on economic performance and administrative capacity. For the candidates, economic membership and greater assistance does not go far enough. There is a fear that any type of partial membership along the lines of EEA would be a halfway house and provide an excuse for interminable delays in according full membership. The CEECs also want greater security and a political voice.

In practice, however, the thresholds of eligibility for membership are economic rather than political. The problem is that the alternative to membership may not be to become a Norway or Switzerland. Exclusion may lead to political instability, to an increase in populist politics or to being sucked into Russia's sphere of influence.

The challenges are significant. However, for the more successful candidates with a more developed institutional basis and a functioning economy, the expectation is that they will be able to maintain sustainable growth. They have open economies and should be able to withstand competitive pressures. The state is strong enough to withstand pressure of particularistic groups and institutions are adequate for their level of development. They should respond positively to traditional types of transfers such as cohesion funds, regional development, etc. and transition periods can deal with more significant problems. It is likely that the EU can withstand this type of diversity because it is not that different to what it has withstood before, and these new members are likely to follow the path of Portugal or even Ireland.

Less successful candidates with an inadequate institutional basis, greater corruption and less advanced market reforms at the time of entering into negotiations may need special solutions. As things stand they are unlikely to catch up and the gap may widen. If negotiations drag indefinitely and they have little hope of becoming members in the foreseeable future they may fail to carry through deeper institutional and structural reforms. If they join before they are really ready they may follow the path of Greece rather than Ireland, lagging behind and finding difficult to catch up in qualitative as well as quantitative terms. These countries may need more specific and longer-term help in institution building, twinning, and perhaps some kind of virtual (political) membership in areas not impinging upon the single market.<sup>10</sup> Such virtual membership would not be acceptable to the countries that are making good progress in negotiations and are likely to be included in a "first wave" of accession. However, it may be a temporary solution for those left out of the first wave and the countries of the western Balkans. From the point of view of the EU, this would help to deal with the fears of erosion of the internal market if

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<sup>10</sup> Former Bulgarian President Stoyanov has suggested that all 12 candidate states be granted "political membership" by 2004 taking up seats in the EU policy making bodies and only become full members at a later date when they meet economic criteria. See [www.centraleurope.com/news](http://www.centraleurope.com/news) 28 January 2000.

certain candidates were to accede before they were really ready. For the candidates, it might ease the disappointment of being left out as well as provide for a greater level of cooperation in decision-making in areas, which do not have a direct impact on the internal market.

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## **Interim Report III – Democracy, Nation and State**

### **Summary**

Most CEECs are functioning democracies which share the core values of the EU. Their transformation to competitive market economies has been virtually completed and their institutional infrastructure constitutes the basis for good governance. However, there is increasing diversity between the better prepared candidates and the less prepared ones, as well as East European countries that are unlikely to join the EU in the foreseeable future. Moreover, the effort required to achieve a liberal democracy and functioning market economy has been greater than initially expected. The lack of policy alternatives given the need for successive governments to pursue neo-liberal economic policies has led to a wide gulf between political elites and their electorates. Policy-making is not dependent upon the wish of the electorate and while their passivity, and even alienation, has allowed politicians to push through decisions without public debate, this leads to a democratic deficit and in the longer term may backfire.

CEE states have rather weak infrastructural powers and are struggling to manage the EU accession process. Although the state has acted as an agent of change, creating and introducing reforms, it still has difficulty in controlling and implementing these reforms. The state needs the population's voluntary cooperation to accomplish goals. As more structured and defined interests emerge, more negotiation and dialogue will be needed with the state.

In some CEECs, consolidation of democracy has been hindered by dominant nationalities that have regarded any minorities as a threat to their perceived right over a particular territory. CEECs are faced not only internal minorities and their multiple identities, but some also have external minorities in neighbouring states. The inclusion of minority rights under the Copenhagen political criteria has raised these questions not only in the CEECs but also among member states.



## **Introduction**

A distinction is often made between central and eastern European countries, including the Baltic states (CEECs) and the former Soviet Union in terms of history and culture. The CEECs, now involved in accession negotiations, have a pre-communist democratic tradition, however weak, and memory of a market economy. They are now functioning democracies which share the core values of the EU such as respect for human rights, freedom of expression, religion and assembly, and non-discrimination. Their transformation to competitive market economies has been virtually completed and their institutional infrastructure constitutes the basis for good governance. To achieve this, the CEECs have had to undergo four institutional transformations simultaneously. At the political level, they have undergone democratisation and the setting up of liberal constitutionalism. At the economic level, they have been engaged in building market institutions. The state itself has had to be reformed and decentralised. The structures of civil society and party systems are being institutionalised. The countries of the former Soviet Union have made much less progress in political and economic transformation.

However, the CEECs and the countries that have emerged from the former Soviet Union also share a number of major politico-cultural contradictions or tensions that are a legacy of communism. There is a general sense of disenchantment with the uneven results of economic and social reforms and a continuing adherence to egalitarian and collectivistic solutions to as ways of overcoming difficulties of transition and the uncertainties of identity. Such internal factors pose a potential threat to political stability. This report will outline the shared legacies of these countries, but will argue that an increasing gap is emerging between the more successful and the less successful states in terms of political and economic transformation. It will discuss to what extent such differences are due to differing experiences under communist regimes, to questions of identity and nation-building and to choice of institutional set-ups.

### **Recent History: Shared Legacies but Diversity of Regional Experience**

Throughout the region the effort required to achieve a liberal democracy and functioning market economy has been greater than initially expected and not all the countries are proceeding at the same pace. The need for whatever party or parties that are in power to pursue neo-liberal economic policies and to largely ignore their social impact may lead to a backlash against the West. Is there a real danger of “movements of rage” and nationalism or populism erupting?

Some area specialists would argue that substantive democracy and liberal values are not firmly grounded. Institutions are new and relatively weak, and elites and parties are unstable and alienated from society. Some of the countries of the region are “electocracies”, formal democracies which should not be automatically regarded as liberal democratic communities. Many of these democracies have experienced institutional conflicts with both parliaments and presidents involved in struggles for power. There have been examples of parties of power or authoritarian party hegemonism as well as statism or dirigisme reminiscent of Peronista-style politics, such as Franjo Tudjman’s regime in Croatia, Ion Iliescu’s first presidential term in Romania or Meciar’s government in Slovakia. Most recently in Ukraine, President Leonid Kuchma has arrested government ministers and come down hard on the opposition. In many of these countries, leaders have been able to call on selective authoritarian memories of past national glories; *i.e.*, of the Tiso regime in Slovakia or Pavelic in Croatia. The good news is that so far, such leader’s appeals have proved not to be lasting and they or their parties have been successfully voted out of office.

The whole region has had to cope with the collapse of an old system which has yet to be replaced by a new one, leaving people uncertain and insecure and ready to seek protection from the need for risk-taking, intense competition, and responsibility for individual actions. For some the reaction has been to seek security by turning to charismatic leaders promising easy solutions to economic and social hardship by targeting scapegoats and preaching intolerance, exclusiveness, and a rejection of compromises. The rather desperate condition of these societies is held by some to provide fertile ground for nationalist or populist (neo-Peronist) movements. As a result, they could pose major challenges to the future of European democracy.

There is, however, a growing diversity of regional experiences. In the post-communist world the countries which have had the most success in reforming their economies also tend to be those with the best ratings for civil and political rights. These have tended to be countries emerging from what Kitschelt (1995) has called national consensus communism, *i.e.*, regimes where communist elites had reached some form of limited accommodation with alternative elites, especially in the latter part of the 1980s. They had communist parties in which reformers had some influence, or which were becoming increasingly technocratic rather than ideological. Those countries that emerged from patrimonial communism where communist elites were able to dominate the transition process and impose their preferred constitutional designs have found it more difficult to establish stable democratic institutions and efficient market mechanisms underpinned by respect for the rule of law and an enforceable legal system. Developments have been affected by differences in history and tradition, the nature and length of the previous regime, the types of regime transitions and

the institutional choices made. It does seem to matter whether a communist regime was in place for about 40 years or over 70 years. It does seem to matter how harsh the preceding regime was and the extent to which it destroyed civil society. It does seem to matter whether new or incumbent elites won the founding elections. Thus the extent and type of political reforms and choice of institutions varies between countries as does the extent and timing of economic reforms.

The various countries of the region also now differ in their position vis-à-vis the EU. The most successful are those which have made the most progress in reforming their economies and which are closer in political culture to the norms and values of the EU. They have entered a virtuous circle with the likelihood that they will gain in prosperity and security. The reforms have been painful, but there is understanding of the need for reform and recognition that the changes must be made irrespective of EU membership. They expect membership on their own merits, they want to join the EU as equal partners and they are prepared to fight their corner in areas important to them. There is less resentment of imposition by the EU of reforms given that the prospect of membership is realistic in the short to medium term. At the same time, citizens of these countries are beginning to be confronted with the concrete, practical implications of membership. This more realistic picture of obligations as well as rights has made for a more sceptical public and political elites need to develop a public information strategy aimed at the grassroots.

Those countries that have made less progress in economic reform and with greater political instability are less likely to join the EU quickly. They are nevertheless expected to take on the *acquis* with a view to future membership. However, if accession is perceived as being unlikely in the short to medium term they may begin to wonder if the hardship engendered by reform and adaptation was all worth the effort. There will be more resentment, more of a victim complex and more attachment to the myth of 1989 – that they were betrayed by the West in 1945 and that in the context of a re-unification of Europe, membership is owed them.

Finally, there are countries emerging from the communist legacy which have no realistic chance of joining the Union in the foreseeable future. They either are seen as potential EU candidates, *i.e.*, the countries of the Western Balkans which have been offered Stabilisation and Association Agreements or they are not even taken into consideration as prospective members. However, many of these countries will be directly and often negatively affected by enlargement.

Given the increasing diversity between the better prepared candidates and the less prepared and less successful, the threat of a resurgence of populism will differ between countries and between classes. It is however difficult to estimate to what extent disillusion and backsliding in reforms will prove to be a source of populist mobilisation. Other factors may come into play, such as party mobilisation along religious or ethno-nationalist lines. Such parties or movements are dangerous given that they are unlikely to seek compromise on many issues. However, the non-participatory and passive nature of these societies, often blamed for the weakness of civic associations and interest groups, also means that they are not very contentious and thus provide little scope for mobilisation. Indeed, disillusion is already a fact of life in many of these countries, even in the most successful, not only among workers but also among the emerging middle class, confronted as they are with rising prices, high interest rates and increasing unemployment as well as a lack of responsiveness on the part of political elites. However, disillusion and dissatisfaction may take different forms. Ten years into the transition, more structured and defined interests are emerging and replacing the fear of the unknown and the chaos of the early 1990s.

In the first years of the transition it had been difficult for elites to discern what society wanted. Interests on both sides (mass – elite) were relatively non-articulated. This gave the political elites considerable discretion in the policies they pursued. However, with different groups in society beginning to make more specific demands and a clearer distinction emerging between winners and losers of the transition, politicians have been slow to start a social dialogue.

When the middle class, the so-called “winners” are dissatisfied with politics and politicians, they will look for new movements, such as the recently created Citizens’ Platform in Poland, which they see as a better way of expressing their interests. Or they will protest against what Agh (1994) has called “overparticipation”, e.g., recent demonstrations in Prague against the nominee to head Czech television and what was seen as an attempt by the main coalition and opposition parties to divide the spoils of office between them taking little account of the public good. The “losers”, workers fearful of losing their jobs, the unemployed, pensioners, and farmers are more likely to support populist movements that tend to dichotomise the political process, dividing society into “us” the people and “them” the elites. Populists tend to see themselves as true democrats who voice popular grievances and opinions that are systematically ignored by governments, mainstream parties and the media. Where parties are weak in the first place and where elites are disconnected from the problems of society, the conditions for populism are ripe. So far, however, populist movements such as the Polish Self-Defence Movement (*Samoobrona*) have been able to mobilise people in sporadic protests, but have not been

particularly successful in elections. Overtly nationalist parties such as the Slovak National Party (*SNS*) or the Great Romania Party (*PRM*) and the Party of National Romanian Unity (*PUNR*) have been more successful in electoral terms, at times even acting as junior partners in governing coalitions. Nevertheless, in most CEECs parties that have tried to appeal to populist or extremist sentiments in society have failed to gain representation in parliament or have managed to win no more than a handful of parliamentary seats..

The experience of communist party rule has left many with an aversion to ideology, but there is also a lack of identification with political parties, a sense that political parties do not really represent the voter. This may be due to frustration at the lack of policy choices: ex-communists carry out similar policies to centre-right governments. However, the reaction has not been one of a large increase in the numbers voting for populist, nationalist or extremist leaders,<sup>11</sup> although in most CEECs voter turnout has decreased over successive elections.

### **Actors: Institutional and Cultural Aspects**

Although it is generally accepted that there is a body of common accepted values in Europe, any assessment of how the CEECs will fit into existing EU structures must take into account institutions as well as cultural phenomena or social capital. What kinds of institutions have been adopted, how do these institutions work and cope with challenges in practice and how do they translate these challenges into the political process?

In most of the CEECs state institutional structures are now quite stable and self-enforcing. However, most of these democracies have seen attempts by parties to hijack institutions to further their influence, giving rise to patronage, corruption and clientalism. There have been examples of institutional squabbling between presidents and prime ministers, and between the executive and the legislature, as each tried to consolidate their position and create political custom. Even constitutional courts, set up to ensure that the rules of the game are adhered to, have been implicated in political and ideological conflicts. On the one hand, constitutional courts facilitate the balance of power between institutions, playing a prominent role in settling political and legal disputes between ruling parties and the opposition and thus contributing to the consolidation of democracy. On the other hand, it can be argued that the role constitutional courts have played in the new institutional set-up actually stimulates parliamentary irresponsibility. In some cases, members of parliament

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<sup>11</sup> Although in the 2001 elections in Poland, *Samoobrona* won an unprecedented (and unexpected) 10.2% of the vote, making it the third largest party in parliament.

have scored points with voters by supporting electorally popular, but economically irrational policies, relying on the constitutional court to filter out some of their more preposterous stances.

All the CEECs have opted for a pure parliamentary model or a semi-presidential system which operates along largely parliamentary lines, *i.e.*, a government led by a prime minister accountable to parliament and a president with only reactive powers. Although presidential powers vary somewhat from country to country, the powers of the president are generally limited in favour of parliament and a government accountable to parliament, with the latter remaining the focal point of policy-making. Parliamentary as well as semi-presidential systems in the CEECs have tended to show more flexibility in terms of power-sharing arrangements and gridlock-avoiding mechanisms than the types of semi-presidential systems chosen by countries emerging from the former Soviet Union. In the former, prime ministers are more likely to be supported by a parliamentary majority, they can be removed by a vote of no confidence and new governments can be formed or elections held to break stalemates. In the latter, presidents and parliaments are in direct competition in setting the policy-agenda. Governments in both Russia and Ukraine have had great difficulty in getting their legislation through parliament, with presidents taking recourse to issuing decrees with the status of law, while laws passed by parliament have been vetoed by presidents. Moreover, the personalisation of power in the form of an executive president has tended to weaken parties, although so-called “parties of power” have been formed with close ties with presidential administrations, prime ministers and government ministers. The nature of such parties is clientalistic rather than programmatic. They are united by corporate interests rather than political orientation.

Programmatic political parties are undeniably important for a stable, responsible and responsive democratic process. In the CEECs most parties originated within parliament or at the elite level and the links between parties and social groups which tend to stabilise the electorate and align the party system along societal cleavages remain relatively weak. Given most parties’ underdeveloped or autonomous regional and local organisation, parties have been oriented towards the state rather than society. For parties with nominal organisational structures and able to draw upon only limited party identity and loyalty, participation in government affords the opportunity of rewarding members with numerous posts in government and state agencies. Moreover, the substantial economic role played by parties in the transformation from a planned to a market economy has led to parties being more interested in creating clientalistic networks and filling key administrative posts with their own people than in developing their grassroots organisation. Thus the party system is being built on the costs of the state, colonising the state apparatus and being financed

by it. However, the situation may not be that different from parties in the West which have increasingly loose links with the electorate and stronger links with the state.

Certainly, parties are in flux throughout Europe. Electorates are more educated, fickle and fragmented with more focussed interests and identities. The left/right division is declining as are the organisational capacities of even well-established parties. Parties which used to run their own newspapers, research institutions, and associated trade unions are now downsizing and focussing on the core business of winning elections. Finally, not only are parties changing in nature, they also face increased competition from civil society agencies and actors. One way that elites may reconnect with society is through decentralisation and the increasing importance of local government elites.

The presence of counter elites and their ability to win founding elections made the process of democratisation more likely to succeed in the CEECs than in the countries emerging from the former Soviet Union. In the longer term though, what may be equally important is a willingness on the part of political elites to exercise mutual tolerance and accommodation. This allows for a spreading of the responsibility for difficult reforms and for power sharing rather than strict application of majority rule with respect to formal rules as well as informal political practice. For instance, in Slovakia, which has had more fundamental political and institutional conflicts than the Czech Republic, the emphasis by the ruling Movement for a Democratic Slovakia (HZDS) on Slovak identity as a ground for national unification, prompted perhaps by the lack of an established tradition of Slovak statehood, and its political culture of “winner takes all” led to conflict between the president and governing parties and all but excluded the opposition from any parliamentary input. The defeat of the HZDS and its nationalist coalition partners in the 1998 elections signalled a shift to a more cooperative and inclusive political culture. The question is to what extent Slovakia’s development will depend on its economic record and the ability of the current government to keep the coalition intact. Meciar is not a spent political force and could return to power in the future. Nevertheless, most politicians in the CEECs have begun to learn the art of bargaining and compromise, even though the newness of constitutional solutions and unstructured party systems have led to more intense competition than is the norm in more established democracies.

In the case of Central and Eastern Europe there is little empirical evidence to support the argument that a change to majoritarian first-past-the-post electoral systems (FPTP) would facilitate strong government or that proportional representation (PR) encourages instability. This is largely because these are systems in which the first few elections took place without strong and

established parties. In the new democracies that chose a first-past-the-post system, legislatures were composed of large numbers of small parties, often regional rather than national, and a large numbers of independents. They enjoyed none of the advantages associated with FPTP systems in more established democracies: a clear cut choice for voters, single party government and the exclusion of extremist parties from parliamentary representation. When Russia and later Ukraine changed to a mixed electoral system, including party lists, the reasoning was that party lists would reduce the number of independents, stabilise the party system and promote more predictable legislative behaviour. This would in turn lead to more stable government. In the CEECs that chose list PR, that choice was partly historical (most had PR in the interwar period) and partly a conscious decision to strengthen the role of party organisations in recruitment and nomination of candidates. Most electoral laws included provisions which have strongly reductive effects on parliamentary representation in an unstable and fragmented party system – high electoral thresholds, small district magnitudes, national lists, etc. In the CEECs, political practice suggests that government instability is not so much a function of the large number of parties making up a coalition government, but is due to the factional and fluid nature of party affiliation. To an extent this applies to all post-transition democracies, irrespective of electoral system. Certainly in the short term a moderate form of list PR which reduces disproportionality while ensuring reasonably “fair” representation, especially in ethnically heterogeneous states, seems to be more likely than FPTP to encourage democratic consolidation.

However, it can also be argued that there is no ideal institutional setting. Both consensual and majoritarian systems have their respective strengths and weaknesses. In most of continental Europe, the former is seen as generating more accountability and consensus, even if it is somewhat less efficient in terms of speed and consistency of decision-taking. Indeed, the CEECs have not brought any substantially different institutional solutions to the EU. Most have introduced largely consensual models that follow their traditions based on pre-war models – themselves usually copied from western European examples and some American input. There were initially some ideas of introducing elements of direct democracy, ignoring the need for parties, etc., but as elites became more aware of the degree of uncertainty to be managed and the enormity of the tasks ahead of them, the urge to experiment decreased and was replaced by a sense of urgency to create proven and usable institutional solutions.

The process of EU-isation is serving to strengthen the executive at the cost of the legislature through the necessity to adopt and implement huge amounts of legislation in the context of the *acquis*. Most is adopted through a fast-track procedure which gives little opportunity for parliament to scrutinise,

let alone amend it. Indeed, conditionality and globalisation can be seen as the functional equivalent of war: they give the executive more power to by-pass parliament and to justify the lack of consultation with the public by the need to avoid economic crisis. Moreover, a decline in support for parliaments (lack of trust in the integrity and professionalism of deputies, lack of trust and identification with parties)<sup>12</sup> may also strengthen the executive. In the early years of democratisation, the huge task of changing the economic and political system and the desire of parliaments to keep their primary role as major policy maker had resulted in CEE legislatures being more active in setting the policy agenda and initiating new bills than legislatures in more established democracies. However, the EU accession process requiring huge quantities of legislation – often following a model imposed by EU directives - to be passed at speed, is changing the character of these parliaments (at least in EU-related affairs which are increasingly subject to bargaining among negotiators in Brussels rather than in the national parliamentary arena). Thus the accession process reinforces the leadership of even a weak executive.

This phenomenon has also been seen among member states where between 1987 and 1992 the single market required the passing of over 2000 directives. This was imposed by the executive and parliaments did not have much input in the process. The EMU criteria decided upon at the Maastricht council were imposed on parliaments. In much the same way, the imposition of criteria for membership is reducing the possibility for parliamentary independence in the CEECs. Nevertheless, the lack of legislative input should not be overstated. A great deal of discussion still takes place in CEE parliaments about the way that legislation should be prepared and governments do not have it all their own way. Increasingly also other actors, economic and social agencies and NGOs are getting involved in lobbying for their own interests.

Parliaments are also affected by the de-politicisation of the enlargement process which is not popular except with elites and therefore not so open to the democratic process.<sup>13</sup> Policy-making is not dependent upon the wish of the

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<sup>12</sup> Support for legislatures is not constant and varies from country to country and over time. This applies both to CEECs and EU member states. However, support for the legislature in countries such as Hungary, Bulgaria, Poland and the Czech Republic is declining rather than increasing. See Norton and Olson (1996) and data on trust in public institutions in Poland, Czech Republic and Hungary at [www.cbos.pl/ENGLISH/cbos\\_en.htm](http://www.cbos.pl/ENGLISH/cbos_en.htm).

<sup>13</sup> Survey data on how people would vote in a referendum on joining the EU gave positive answers from 45% of Czech, 49% of Lithuanian, 55% of Polish and 65% of Hungarian respondents. See [www.cbos.pl](http://www.cbos.pl). Support for enlargement among member states is even lower with an average for the EU-15 of 43%. The lowest levels of support are in Austria 33% and France, Germany and the UK at 35%. However, in eight EU countries support for enlargement hovers around 50%, except for a high level of 70% support in Greece. Preliminary findings Eurobarometer 55, July 2001 at <http://europa.eu.int/com/DG10>.

electorate and their passivity, and even alienation, is an advantage in the short-term allowing politicians to push through decisions without public debate. However, this leads to a democratic deficit and in the longer term may backfire. The state is imposing huge burdens on the population and it needs the population's voluntary cooperation. This conundrum is not easy to solve. The example of the Danish referenda on Maastricht and the euro or the Irish rejection of the Nice Treaty only serve to bolster politicians' feelings that the public is not to be trusted with the European project.

### **Type of State that is Emerging and Coping with the Acquis**

With constitution making fresh in their minds, CEECs could make a significant contribution to the debate on European constitutionalism. Given their socialist legacy and the inclusion of socio-economic rights in many of their constitutions, the aspect of social rights rather than human rights may be brought to the fore. However, in their own constitutional debates CEECs have drawn upon existing western models and there has been no significant experimentation or innovation of state models.

Unlike the case of West Germany in 1945 which was designed as a stable, buffer state with a stress on security, social cohesion and redistribution, what has emerged in the CEECs since 1989 is a model more similar to the American one: regulatory but not redistributive; not too participatory with an emphasis on repressive law and order. The geopolitical post-1945 context with its threat of a rival ideology and possible military conquest has been replaced by the post-1989 fear of immigration and floods of refugees. With ageing populations and slipping birth rates, EU states need high economic growth or high levels of immigration to solve labour shortages. However, immigrants pose a threat to social cohesion. Member states also have cut down the welfare dimension to make themselves less of a magnet, putting a greater emphasis on competitiveness and less on solidarity.

The dismantling of the command economy and party state showed up the need for a state as a vital precondition for individual rights, markets and democracy. Public institutions were needed to deal with the regulation of markets, enforcement of economic rights and obligations, and creation of a predictable policy environment. Market relations require some degree of stability, predictability and capacity for readjustment. This has led to a requirement for more rather than less state, and for greater efficiency of public institutions. The paradox of privatisation is that state has had to manage the process and increase administrative capacity.

Managing the EU accession process has led to even greater challenges, but the post-communist state has not always been able to rise to such challenges. Before 1989, the CEECs were states with despotic powers capable of imposing or forcing policies on citizens without their agreement. This has also led to a legacy of distrust between state and society. After 1989 despotic powers were replaced by infrastructural powers. The state had to negotiate with citizens and needed their voluntary cooperation to accomplish goals. The problem was that the CEECs started with very weak infrastructural state powers and needed to introduce far-reaching reforms to the state apparatus. They also needed to change the attitudes and mentality of state administrators to become “servants” of the people. Change, however, takes time. The state has acted as an agent of change but is taking more time to change itself. It has created and introduced reforms, but now has more difficulty in controlling and implementing these reforms. Indeed, with society becoming more structured and aware of its interests, more negotiation and dialogue is needed with the state. Yet problems of lack of transparency, inefficiency and even corruption are reoccurring themes in the Commission’s progress reports on the candidate states.

### **Nation and State: 19<sup>th</sup> Century Models or New Interpretations**

Modern states in eastern Europe are more recent creations than most in western Europe emerging as they did from the disintegration of first the Ottoman Empire and then the Prussian, Austro-Hungarian, and Russian empires. Indeed, Russia, in the guise of the Soviet Union, retained its empire until 1991, having lost only its westernmost parts following the Bolshevik Revolution. Among the CEECs only Poland, Hungary, Bulgaria, Romania and Albania are direct continuations of previously existing states. The Czech and Slovak republics result from Czechoslovakia’s “velvet divorce”. Among the states that emerged from the former Soviet Union and Yugoslavia, only the Baltic states had experienced about 20 years of independent statehood in the last century before 1991. Unlike western Europe where nationalism generally developed after, or resulted from the creation of nation-states, modern nationalism in eastern Europe arose before nation-states were created. This meant that nations in eastern Europe were often defined not in inclusive ‘civic’ terms (as the people of particular states and territories), but in more exclusive cultural or ‘ethnic’ terms, since they did not correspond to the existing multinational imperial states in which they found themselves. Ethnic conceptions of the nation are by definition exclusive and illiberal, placing the rights of collectivities above those of individuals.

In some CEECs, constitutional development and the rule of law have been threatened by the tendency of dominant nationalities to regard any minorities as a threat to their perceived exclusive right over a particular territory. Serbia and Croatia practiced aggressive majoritarianism and exclusionary politics showing

that political mobilisation based on inflaming nationalist passions and memories of oppression is not conducive to successful democratisation. In Macedonia there was an awareness on the part of the political elites that given its ethnic geography, cooperation and consensus rather than exclusiveness would give them the best chance of building a stable democratic polity. Citizenship was defined in civic terms. However, despite attempts by political elites, ethnic tensions have remained high both at mass public level and between political parties. Electoral alliances and coalitions have been based more on common ethnicity and personal relationships between individual leaders than on common party programmes. In this part of Europe, progress towards a model of “consociational plural democracy”<sup>14</sup> in which political elites demonstrate a willingness to cooperate with and accommodate the demands of minorities rather than “centrifugal plural democracy” in which the dominant groups seeks to control minorities<sup>15</sup> has been very uneven.

The new states have rejected federalism as a way of dealing with multi-ethnic or multi-national societies. Federalism in post-communist countries has been discredited and states tend to cultivate a sense of unity. However, some regions are reassessing their position. In Galicia, in western Ukraine, once the stronghold of supporters of Ukrainian nationhood and the notion of a strong, unitary state, many are now looking for greater autonomy from an increasingly pro-Russian and anti-reformist Kiev. In Latvia, with the majority of ethnic Latvians only slightly outnumbering Russians and other minorities, some form of federalism may be a good solution. The same problem is arising in Macedonia, now a unitary state, but with calls from the Albanian minority for a bi-national, bilingual state rather like Belgium. Any type of federal solution, however, is anathema to the Macedonian Slav majority who fear that any moves by the Albanians for greater autonomy would increase the likelihood of a realignment to form a greater Albania or an Albanian federation.

The distinction between nation and state is a particularly salient one in eastern Europe. A nation requires some sort of internal identification or a sense of collective identity on the part of people who comprise it, but it does not

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<sup>14</sup> Consociational democracies adopt various techniques to incorporate all major social groups into government: government by a grand coalition of political leaders of all significant political segments; mutual veto to protect minority interests; proportionality in allocation of public funds, civil service appointments, in political representation; and substantial autonomy for each segment to run its own affairs (Lijphart 1984).

<sup>15</sup> Coercive policies against minorities can be non-territorial or territorial. Restrictive non-territorial policies can include discrimination against the minority’s cultural and educational system, discrimination in the allocation of economic resources, the monopolisation of police and judiciary by the majority, or the prohibition of minority parties. Gerrymandering or prohibitions against members of minorities owning land in designated areas are examples of restrictive territorial policies.

necessarily demonstrate the organisational characteristics of a state. A nation is thus not necessarily congruent with the boundaries of a state. This is still reflected in some of the citizenship rights granted by CEECs to their “foreign” nationals. For instances, émigrés who left Poland in the 1940s were eligible to vote in the first direct presidential elections or the various citizenship rights for Slovaks living outside the territory of Slovakia or ethnic Hungarians outside Hungary’s present borders.

Many of the CEECs fail to meet Linz and Stepan’s (1997:24) empirical conditions under which nation-building is congruent with crafting democracy. “These conditions are met only if there is no significant irredentia outside the state’s boundaries, if there is only one nation existing (or awakened) in the state, and if there is little cultural diversity within the state”. In other words, success in transition and state coherence seems to be linked to ethnic homogeneity. Many states have large internal minorities. Poland and Hungary, with only small internal minorities, have large external minorities in neighbouring states that a) are engaged in nation-building themselves and b) are unlikely to join the EU at the same time as they do. There is not only a question of internal minorities and their multiple identities, but also how to cope with external minorities of countries that join the EU. What happens to ethnic Hungarians who are not citizens of Hungary when they find themselves on the wrong side of the border? There is also the question of what should be the rights of minorities with respect to maintaining their language and traditions and to what extent they should integrate or even assimilate. The inclusion of minority rights under the Copenhagen political criteria has raised these questions not only in the CEECs but also among member states.

The post-1989 period has seen the recreating of national identities and the state following a 19<sup>th</sup> century model while the EU is setting conditions which will dismantle such states and create a new model of the 21<sup>st</sup> century. What kind of a model this will be is as yet not entirely clear. Nevertheless many CEECs are in the strange situation of building a state while aspiring to pool sovereignty once they join the EU. EU-isation implies a degree of de-etatisation, a relinquishing of absolute sovereignty and control of external borders. The European accession process is opening up several levels of nation and diversity: nation and diversity within individual states with minorities’ levels of identity differing according to types, history, etc., and nation and diversity in the EU as a whole with minorities being exposed to the international level and new social and economic opportunities, even to taking on a European identity.

The experience of countries such as Spain show that the impact of enlargement on state structures may also be to create greater regional diversity within nation-states. Even before enlargement, western voivodships (provinces)

of Poland are benefiting from cross-border trade and proximity to large German markets. They are in favour of a hard border between Poland and the countries to the east, so that the border with Germany can be softened. For eastern voivodships, however, a hard border with Ukraine will have detrimental economic effects.

The situation is uncertain, fluid and new identities are indeed emerging in the context of the EU. Scots and Catalans often look to Brussels rather than their state capitals. Their pro-European attitudes stem from a belief that the EU may lessen the domination of the nation-state. In countries such as Estonia or Latvia, the prospect of joining the EU may mean that the Russian minority will be more inclined to take on a European identity and communicate in a major European language, thus by-passing the need for an Estonian or Latvian identity and language. However, these states are still engaged in nation-building and are little inclined to compromise in this field. Nor is there much interest in federalism given the legacy of the ex-Soviet Union and ex-Yugoslavia.

Nevertheless, the whole relationship between territory and nation is changing. With the possibility of fast and frequent travel and access to media and communications which overlap national boundaries, minorities and immigrants may no longer feel the need to assimilate (*i.e.*, take on a new identity). They may be able to keep their national identity while living in another country. However, in Europe there is still a linguistic and cultural barrier to be crossed between countries. Also how much people will be inclined to move and not assimilate will depend perhaps more on how quickly nation-based welfare systems will be communitarianised. The power of the nation-state in redistribution is unbroken with the EU involved only in the fields of agriculture and regional aid.

### **Challenges for an Enlarged EU**

Faced with taking in fragile democracies the EU devised the Copenhagen political criteria to supplement the *acquis* which imposes the directives of the single market but has says nothing about liberal political values. Enlargement to include the CEECs thus brought the democracy debate into Europe but it was the Austrian case that warned that formal democracy is not enough, *i.e.*, coming to power in a legitimate way and following democratic procedures. Democratic substance in terms of values and behaviour is also required. The problem is that although meeting the Copenhagen criteria is a prerequisite of membership, there are no guidelines on how they are to be implemented once a country is a member. And the case of Austria has shown EU confusion on this point, with member states sanctioning Austria but the Commission declaring that this political aspect was outside its remit.

Given the politico-cultural legacies in the CEECs and the difficulties, if not hardships of the past ten years, society and state remain weaker in the CEECs than among current EU members. Although one can disagree as to the extent of this weakness and how deeply democracy and market are rooted in the CEECs, they still have some catching up to do. This leads to the question: will these countries catch up in a number of years or are they fundamentally different? This is an important distinction to make because it has serious repercussions on the extent and degree of diversity the Union can support. The answer to this question is made even more complex because it is still difficult to identify what matters and what doesn't in the context of the EU. In EU member states there has been a lack of debate about the future shape of the EU. Whether the project was European monetary union or enlargement, there has been little trust in the people to participate in such decisions. The avoidance of debate in the UK on when, and even whether to introduce the euro, is a case in point. In the CEECs as well, the quality of interaction between politicians and their constituents has been far from optimal. Elite failure, *i.e.*, the alienation of existing political elites from society, may be more of a threat to the consolidation of substantive democracy than the lack of a liberal political culture. Anyway, it is not always true to say that liberal values decrease in a straight line from West to East and indeed not all the states in the EU are necessarily paragons of liberal values.

What is worrying though is the increasing gulf between the political and business elites in the CEECs who want to join the EU as soon as possible and the doubts among many voters whether their economies would be strong enough to stand up to the competition, whether the EU would benefit more than the new members, whether they want to pool their sovereignty, and whether traditional values would not be swept away by Western liberal values. (Of course, a similar gulf exists in member states as well.) Indeed, the EU could show greater sensitivity to political realities in east central Europe. The failure to lift visa restrictions for Romania, but lifting them for Bulgaria, shortly before elections in the former may well have won votes for the extreme nationalist presidential candidate, Vadim Tudor. Such actions only reinforce many Romanian voters' sense of grievance and feelings of exploitation by the West. They betray an ignorance of the psychological problems of some of these countries and feelings of rejection or humiliation may reinforce anti-European attitudes.

However the choice of taking on board less prepared candidates together with better prepared candidates depends on the kind of Union that we want to emerge in the coming years. There is no agreement on this. Certainly not among the current members, with many of the original six tending towards federal, communitarian models and many of the newer members towards a looser, more intergovernmental models. But there are various layers of difference: between

large and small countries, between those that are more developed and those that are less developed, between those at the centre (whether territorially or functionally) and those on the periphery. Would a more federalist or a more intergovernmental model cope better with the challenges after enlargement? Should the EU be more flexible and decentralised or more integrated? If the Union is to become more integrated, diversity would be a liability. In a more open-ended EU, diversity might be an asset.

Many of the problems in CEECs are common to those found in EU member states, but the problems are deeper and more widespread in the former. The states are weaker, the institutions less rooted, the parties are newer and this makes it more difficult for these societies to cope with the uncertainty of the how and when of enlargement. There has since 1989 been an open moral appeal not to be forgotten or “sold out” as happened after Yalta. For the CEECs that have made the most progress in economic and administrative reforms and that have institutionalised a more inclusionary political culture, differences are not fundamental and the chances of catching up look reasonable, although slow. The tragedy of Central Europe is that it is moving eastward, with areas such as the Banat in Romania or Galicia in Ukraine being excluded from areas with similar history and traditions which are likely to be included in the European mainstream. It is in those areas that movements of rage may lead to extremist solutions. The perception of being scapegoated and victimised also encourages an evasion of responsibility and a tendency to blame others for shortcomings and failure to reform. Moreover, current neighbours of candidate countries are concerned about both the trade and political implications of enlargement. What will be the implications of sharing an external border with the EU in terms of trans-border trade, cooperation, seasonal workers, daily commuting? The candidate states are no less worried. Recent reports have called the Schengen agreement too restrictive and likely to create new divisions which would damage the image of the EU in the East and undercut the position of pro-western reformers.<sup>16</sup>

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<sup>16</sup> Reports of the Polish Public Affairs Institute and Stefan Batory Foundation. See [www.europeaninternet.com/poland/news](http://www.europeaninternet.com/poland/news) (20 March 2001).

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## **Interim Report IV – Common Foreign and Security Policy and Defence**

### **Summary**

Security in the EU encompasses the full spectrum of military and civilian issues. It is not only about defence but it also relates to an inclusive attitude towards enlargement and relations with near neighbours. Enlargement is unlikely to lead to any major differences in the foreign policy orientation of the EU in relation to countries outside the Euro-Atlantic area. However, differences might emerge in the relationship with the United States, and with close neighbours, *i.e.*, the Russian Federation and the CIS. The CEECs have a somewhat different perspective on security to most member states by virtue of being front-line states on the border of instability. In relations with Russia, historical experiences and geographical proximity make it inevitable that CEECs will have greater interests at stake. With respect to the EDSP, concerns among the CEECs have centred on fears that the creation of a European intervention force and the development of a defence identity may weaken the Atlantic Alliance and lead to the United States drawing back from the European continent. For the CEECs, NATO's defence commitment is particularly important and for this the US remains indispensable for the foreseeable future. In certain cases the understanding of the Western interest will differ between the US and the EU and this may put CEECs into an uncomfortable position. Moreover, if America shifts its strategic priorities towards East Asia and the Middle East, the CEECs will of necessity become more reliant on the EU for security making it difficult for them to pick and choose between NATO and the EU.



## Introduction

The EU has until now been a civilian power, not a military one. The development of a common foreign and security policy (CFSP), and even more the creation of a European defence and security policy (EDSP) brings with it not only increased capability, but new responsibilities. However, even among the current 15 member states, there are significant differences concerning the development of medium- and long-term policy aims in both foreign affairs and defence. There are different views with respect to the range of tasks to be performed as well as the geographic scope of these tasks. This will only increase with the inclusion of states that had long been within the Soviet Union's sphere of influence and have often experienced centuries of domination by foreign powers. Their perceptions of threats and what their security interests are, differ from countries that have long formed part of the Atlantic Alliance or that had chosen neutrality. For western Europeans security is often perceived more in terms of fighting organised crime and controlling the stream of illegal immigrants than worries about a military threat. For many eastern Europeans, memories of Russian troops stationed on their soil and guarding their western frontiers are still fresh and powerful. And they are probably even more affected by organised crime, human and drugs trafficking as well as instability just beyond their borders. Perceptions are bound to differ for some time to come.

Another challenge for the development of a credible CFSP and EDSP is whether the EU will be able to replace rhetoric by action when the need arises (Zielonka 2000). The EU is an emerging polity – its geographical and conceptual borders are still unclear and its citizens have little emotional commitment or loyalty towards it. The trust and identification of European citizens are directed towards their individual nation-states. Although support for a common foreign policy and a common defence policy is widespread,<sup>17</sup> the question remains whether this support would hold if soldiers' lives were at stake. Moreover, unless institutional reforms are undertaken, the EU will be incapable of the more rationalised decision-making and quick reaction essential for dealing with a crisis situation.

This report will first describe the development of the CFSP and EDSP following Maastricht and Amsterdam. It will consider the broad foreign policy and security interests of EU member states and the interests of candidate members. It will then deal with EU–US and EU–Russia relations and the possible consequences of enlargement upon the development of a common foreign and security policy and relations with close neighbours.

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<sup>17</sup> Support for EDSP is 73% and support for a common foreign policy is 65% according to the 54<sup>th</sup> Eurobarometer (April 2001).

## **The State of Play**

The 1997 Treaty of Amsterdam provided a new set of tools in the field of foreign and security policy. The CFSP had already been established by the Maastricht Treaty of 1993 but the provisions under title V in the Amsterdam Treaty brought the CFSP together in a single institutional framework. The objectives of the CFSP are fivefold: to safeguard the common values, fundamental interests, independence and integrity of the Union; to strengthen the security of the Union; to preserve peace and strengthen international security; to promote international cooperation; and to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms. A number of instruments are available for pursuing these objectives. The European Council first defines the principles and general guidelines of CFSP and then sets out common strategies to be implemented by the Union. The common strategies are implemented by the adoption of joint actions and/or common positions. Joint actions are legally binding operational actions addressing specific situations. Common positions define the approach of the Union towards a particular matter. This can be either geographical or thematic in nature and member states are expected to ensure that their national policies conform to the common positions. Member states also cooperate in the exchange of information and consult and inform one another on matters of interest in CFSP. All this has the aim of ensuring greater coherence, consistency, and effectiveness in EU external policies.

In CFSP matters, it is the Presidency that represents the Union. It is assisted by the Secretary-General of the Council who is the High Representative for CFSP. The institution of High Representative has given the EU a more easily identifiable figurehead as well as giving CFSP greater visibility and a higher public profile. However, the High Representative shares responsibilities with the External Relations Commissioner. Indeed, it is the external relations commissioner who has far more policy instruments at his disposal to implement CFSP. The complex system of shared responsibilities has prompted calls for the two positions to be merged to avoid overlap and ambiguity.

The Amsterdam Treaty also set up a framework for the development of a common defence policy and provided for closer institutional links with the Western European Union (WEU). Already in June 1992 WEU foreign and defence ministers had defined the WEU's operational role in terms of the so-called Petersberg tasks: humanitarian and rescue tasks, peace-keeping and crisis management including peace-making. At the NATO summit of January 1994 government leaders agreed to the development of a European Security and Defence Identity, but little concrete action followed.

In December 1998 in St. Malo the British and French governments called for a defence capability and limited military role for the EU. However, it was the Kosovo conflict which starkly showed how unprepared the EU was to intervene militarily in a crisis situation and how dependent it was on US military resources. At the Helsinki summit in 1999 European leaders agreed to work on the creation of the ESDP to perform small-scale “crisis management” operations, in which NATO would not be involved. This would involve the creation of a European rapid reaction force and additional civilian capabilities (such as policemen, administrators), to be operational by 2003 and would enable the EU to carry out the Petersberg tasks without having to call upon NATO for intelligence gathering, command and control capabilities, transport, etc.<sup>18</sup> It was also decided that the WEU would relinquish its crisis management responsibilities in favour of the EU and that its military staff would cease their activities. This was confirmed in the 2000 Nice Treaty in which the subparagraph describing the WEU as “an integral part of the development of the Union” has been deleted. However, there was little debate in Nice about the ESDP. The new defence policy was not included in the Treaty of Nice due to the fear that popular opposition in countries such as Denmark and Ireland would result in the whole treaty being rejected. Moreover, Britain, Ireland and Sweden vetoed any application of enhanced cooperation in relation to “matters having military or defence implications”. Enhanced cooperation in relation to CFSP measures will only be permitted with respect to the implementation of joint actions or common positions.

Security in the EU is thus more complex than in the context of NATO, which is primarily concerned with collective defence. In the EU security is only partly concerned with military matters, and even then it concentrates on conflict prevention and conflict management. Security covers such diverse fields as police deployment and training,<sup>19</sup> institution-building, border controls, humanitarian aid and combating illicit trafficking. It crosscuts intergovernmental and communitarian pillars.

## **Foreign Policy and Security Interests of Current Members**

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<sup>18</sup> The rapid reaction force is aimed at providing crisis management tasks through principally humanitarian and peacekeeping activities rather than the broader military tasks performed by NATO. However, there is some scepticism about the readiness of EU member states to devote adequate resources to back these political ambitions. Defence budgets show little sign of growing and it is still not certain that the broad target of being able to assemble a 60,000 strong European force at 60 days notice and to sustain it for a year will be achieved by 2003.

<sup>19</sup> For instance, the Feira Council in June 2000 set targets for the creation of civilian police capabilities so that by 2003 up to 5000 police officers would be available to deal with crisis situations beyond the EU borders.

There is increasing consensus on the need for the EU to turn itself into a global actor capable of making a difference in the conduct of world affairs. For years the increasing economic weight of Europe had not been balanced by its political weight. New treaty provisions provide the framework for the pursuit of a more robust CFSP, but in practice member states often find it hard to accept the limits on national freedom of action that such a choice represents.

The EU has been better at designing grand strategies than committing itself to concrete actions, let alone carrying them out. Common strategies under the CFSP have covered relations with Russia, Ukraine and the Mediterranean basin. However, they have been criticised for being too broadly defined to be effective and lacking substance. Many have focussed on areas where broadly based policies and cooperation mechanisms existed already, so that the common strategies added little of value. The common strategy for Russia has had little effect on the problem of Chechnya. The strategies have fallen short of their laudable aim of “projecting stability” and building a strong and stable network of democracies capable of sustaining closer political, social and economic relations with the EU.

The EU has been more successful in other aspects of foreign relations. In the early 1990s the EU signed trade and cooperation agreements with a number of CEECs. These were soon superseded by association or Europe agreements, which paved the way to a more coherent pre-accession strategy to prepare CEECs for membership of the Union. In 1999 the EU adopted the Stability Pact for South-Eastern Europe and set up the Stabilisation and Association Process. The process provides a mixture of incentives and conditions for this group of countries. The incentives are EU support and assistance under the Stabilisation and Association Agreements (SAA's) which are aimed at the creation of an area of peace, stability and economic development and which hold up the perspective of future membership of the EU. The conditions are that these countries adopt the values and models of the EU: democracy, respect for human rights and a market economy as well as mutual recognition of each other's borders, the settlement of all issues relating to the treatment of national minorities, and the pursuit of regional economic integration.

This all fits in with the EU's professed role of promoting human rights and democratisation and its policy of conflict prevention. The Stability Pact is an example of a coherent policy towards a specific group of countries. In most other respects the foreign policy of the EU as a single actor is still in its infancy. The EU has only recently become more assertive in foreign policy terms and this has taken place in a largely negative way, reacting to the Yugoslav wars or as a result of differences with the US. A recent communication from the Commission on conflict prevention sets out a framework for a more active CFSP

by using existing instruments such as development cooperation and external assistance, economic cooperation and trade policy, political dialogue and mediation but also through new instruments of ESDP. Its remit stretches beyond the European continent to encompass Latin America, the African, Caribbean and Pacific (ACP) countries as well as Asia. It acknowledges, however, that the effectiveness of the Union as a global political actor depends not only on a clear definition of EU objectives and the development of a capacity to act, but most importantly on a common approach and the political will to act. Noble principles underpinning foreign and security policies have often fallen victim to individual member states' historical alliances and self-interest. Former colonies and special relationships are relevant for the UK and France, but also Belgium and the Netherlands. Spain is more interested in the Barcelona process, the Mediterranean aspect of foreign policy. Indeed, both historical alliances and geographical location impact upon the perspectives member states have of their foreign and security interests. Finland, with a long border with Russia or Germany and Austria bordering the CEECs will have different concerns than Spain or Portugal.

In military security terms, NATO has been far more credible and active than the EU. The proposals for a EU military force have been accompanied by arguments about the extent of cooperation with NATO and fears that Washington may try to control its operations. France in particular is wary of what it sees as American interference but the five non-NATO member EU countries have also voiced concerns that NATO involvement in key decisions could undermine their neutral status. European officials see the rapid reaction force as a catalyst that will stimulate military modernisation and increase NATO peacekeeping options while US officials are afraid it will damage unity in the Alliance. There are tensions about military planning and the extent to which the rapid reaction force could operate independently from NATO. Opinions differ not only between the US and EU member states, but between the US and its close EU allies and other EU members. For some EU members the military capability required to perform the Petersberg tasks represents the maximum acceptable capability. For others it is but a first step in the direction of a collective EU defence capability.

Some states have increased spending on defence; others are unlikely to do so. Denmark has opted out on the ESDP but it devotes a greater proportion of its GDP on foreign aid than most other member states. Ireland, following the recent "no" vote in the Nice referendum, may well seek an opt out from European peacekeeping missions. Security in the EU encompasses the full spectrum of military and civilian issues. It relates to instruments and capabilities the EU has at its disposal in CFSP or ESDP. But security also relates to an inclusive attitude towards enlargement and relations with near neighbours. If some states decide it

is not in their interest to press ahead with enlargement, if they decide the whole process is too expensive or if they are unwilling to strike compromises, the security price of failure could turn out to be very high. Similarly too much emphasis on a “core” Europe or an insistence that enlargement is delayed until institutions are fully adapted may lead to candidates that are increasingly disillusioned, recalcitrant and suspicious of becoming second class members.

### **Foreign Policy and Security Interests of Candidate Members**

There is a tendency in the EU to view the CEECs as a fairly homogenous regional group of countries.<sup>20</sup> Within the framework of an enlarged Union these would all be small and medium-sized countries. All the countries are located to the east of the current borders of the Union and all have democratised and introduced market reforms over the past ten years. They are all significantly poorer than the current members of the EU. The international aspirations and commitments of the CEECs are also quite similar. They have all concluded association agreements with the EU and are engaged in accession negotiations. They have all participated in the Euro-Atlantic Partnership Council (EAPC), in the Partnership for Peace programme and are members of the Council of Europe. Although only three, the Czech Republic, Hungary and Poland, have become members of NATO, and four, the above-mentioned three plus Slovakia, have joined the OECD, most of the remaining CEECs aspire to membership of both bodies.

There are however also significant historical differences between CEECs, which may have an impact on how individual countries will behave once they are members of the EU. Traditionally they have had very diverse concerns and different alliances dating from the pre-second world war period and during the war. Under communist rule, they also followed somewhat different trajectories and experienced varying degrees of political repression and economic experimentation. To date, the overriding goal of accession to the EU has meant that CEECs have been rather reluctant to air their views about what kind of Europe they want.

Although the common interest of CEECs is to become part of an area of peace, stability and security, the image of the EU has remained primarily economic. Indeed, there has been a tendency to distinguish between two types of integration: economic via the EU and security related via NATO. This has led to a certain degree of compartmentalisation and only a gradual realisation that the EU is a political as well as an economic community. Accession negotiations have been geared to the technical aspects of adopting the *acquis*, especially in

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<sup>20</sup> Cyprus, Malta and Turkey, which has not yet fulfilled the political criteria for starting negotiations, have rather different historical, political, economic and cultural backgrounds.

the context of the single market rather than the formulation of a concept of political union. Indeed, many in the CEECs remain at least as cautious about political integration as some of the more sceptical members of the EU.

Nevertheless, the foreign policy and security orientation of East-Central Europe in the 1990s and early 2000s has been clearly dominated by the idea of integration with the West. As early as 1990, various CEECs made efforts to align their foreign policies with those of Western Europe on an *ad hoc* basis. A more institutionalised form of cooperation was set up following the Copenhagen summit of June 1993. This was motivated by a combination of cultural, economic and political considerations ranging from common European values and cultural heritage to expanding the area of peace and prosperity represented by the EU. Thus even for those who are NATO members already, the EU has added value as an area of stability and prosperity. Although some aspects of the acquis, namely Schengen may lead to problems with neighbouring states, EU membership nevertheless does represent a fundamental security value. Joining the EU is associated with the freedom to choose for a given set of values and not have a value system (*i.e.*, that of real socialism) imposed upon one. However, EU enlargement is much more difficult than NATO enlargement in technical terms and more far-reaching in societal terms. So far NATO enlargement has not made that much difference to relations and the degree of interpenetration between new NATO members and their non-member neighbours. Indeed, in some cases relations have actually improved; *e.g.*, since Poland became a NATO member it no longer feels as threatened by Russia while Russia appears to have accepted the new status quo. The repercussions of EU enlargement, given the imposition of an external border regime under Schengen, will be much more drastic for people living in border regions.

With respect to EDSP, concerns among the CEECs have centred on fears that the creation of a European intervention force and the development of a European defence identity may weaken the Atlantic Alliance and lead to the United States drawing back from the European continent. So far, NATO and the American presence in Europe have provided a more credible guarantee of security than the development, still largely rhetorical, of the EDSP. Particularly pronounced is the view that Europe is safer with the presence of the US as a counterbalance to the (potential) power of Russia. Precisely because it is led by the United States, NATO meets a deep psychological need for security which is not met by the EU. Most CEECs would like the 2002 Prague NATO summit to agree on the broadest possible enlargement of NATO to include not only Slovenia and Slovakia, but also the Baltic states, and later Romania and Bulgaria. Czech President Havel has recently called for the creation of a security zone stretching from Alaska in the west to Tallinn in the east. Such is the Poles' enthusiasm for a strong Atlantic Alliance that the French have referred to Poland

as “the US Trojan horse” which may undermine efforts to create a stronger European security and defence identity. Most CEECs would argue, however, that the one does not rule out the other. Many would like to play a more relevant and active role in both CFSP and EDSP.

All the candidates have concluded chapter 27 on CFSP and many have been associated with EU statements and declarations in the field of CFSP, although there is still little effective cooperation. To date candidate countries have had access to four foreign policy instruments: to align themselves with EU declarations, to adhere to EU political *démarches*, and by attaching a separate declaration to join EU common positions and joint actions. However, cooperation and participation in CFSP is very much at the EU’s discretion. For various reasons, an excuse can usually be found not to have the candidates participate and in practice foreign policy cooperation has mainly been limited to declarations and *démarches*. In this field, the CEECs have been generally happy to follow the EU line. With no former colonies there are few special interests involved and the EU has found it easy to draw upon the support of CEECs in issuing declarations. Enlargement is unlikely to lead to any major differences in the foreign policy orientation of the EU in relation to countries outside the Euro-Atlantic area. However, differences might emerge in the future in the relationship with the United States, with whom most CEECs want to retain a close relationship and with close neighbours, *i.e.*, the Russian Federation and the CIS. The EU has tended to concentrate on stabilising those areas that are already reasonably stable (*i.e.*, candidates for EU membership), paying less attention to those that have had a more difficult economic and political transition. For the CEECs though, these are areas of paramount importance.

Former Polish foreign minister, Bartoszewski has complained of insufficient cooperation between Poland and the EU in matters of European defence stating that consultations and dialogue alone do not make for effective cooperation. Eight of the ten CEECs offered contributions to the EU Capabilities Commitment Conference held in November 2000. Poland, for instance has recently offered a brigade for the rapid reaction force. However, the reluctance of the EU to engage in security cooperation with CEECs (due to the lack of trust in their ability to protect data, adequately guard their borders, fight crime, etc.) has led to increasing frustration. Indeed, CEECs have found greater trust and reciprocity within NATO where they have been entrusted with peacekeeping missions, intelligence gathering and joined in undercover operations. The CEECs are generally pro-US and would hate to have to make a choice between loyalty to the US and loyalty to the EU should US-EU relations deteriorate. The choice for the Atlantic Alliance is clear. Other options for foreign and security cooperation such as a reformed alliance with Russia and the CIS, neutrality or non-alignment or collective security through the CSCE have either been rejected

out of hand or never come off the ground. A reliance on national resources was considered impractical and inadequate while regional cooperation between CEECs has been seen as complimentary to other security guarantees rather than an end in itself.

The CEECs thus have a somewhat different perspective on security by virtue of being front-line states on the border of instability. The EU looks at Russia's campaign in Chechnya and see a weak military machine. The CEECs look at Russia's invasion of Chechnya and see a threatening power. Many have been confronted by wars just across their borders in the 1990s. They are more directly concerned with territorial defence. For countries such as Estonia or Latvia NATO membership is a moral issue putting right the Soviet Union's annexation of their countries in 1940 and lifting the threat of Russia reasserting its influence over their region. To argue that their membership of NATO represents a challenge or affront to Russia, as often portrayed by western commentators, would be to return to the idea that the world must be divided into great power spheres of influence and that small states have no say in the matter. Indeed, for small CEECs it seems absurd to argue that Russia, so much larger and more powerful, could feel threatened by their membership of NATO. At the same time, membership certainly does not rule out close economic or cultural links with Russia. Their choice is very clear – NATO membership is a priority, a way of transcending the past and safeguarding their independence, and an achievable goal. Moreover, unlike the EU which has been involved in enlargement negotiations for several years, NATO has already welcomed three new members. Membership of NATO for Romania and Bulgaria, who are likely to be excluded from the first wave of EU enlargement, could be a way of softening the blow of exclusion. However, for the CEECs suggestions that Russia should someday be included in NATO gives rise to fears that the two former superpowers will again decide upon their future over their heads.

Finally, a brief mention should also be made of Cyprus, which is rapidly advancing in accession negotiations and is among the front-runners for a first wave of enlargement. However, Cyprus is still a divided island and there has been no diplomatic breakthrough between Greek Cypriots and Turkish Cypriots. The admission to the EU of a divided Cyprus without a peace deal opens the way to a potential crisis with Turkey, which has made veiled threats that it would then consider annexing northern Cyprus or withdrawing its candidacy. Given Turkey's membership of NATO and its strategic importance, there could also be repercussions for EU-US relations. Postponing Cyprus' accession, on the other hand, gives rise to the probability of a Greek veto to prevent any other country joining the EU.

## **EU Relations with the US**

The balance of power between the US and the EU is gradually changing with the EU not only catching up with, and possibly overtaking the US as an economic power, but also emerging as an entity that is increasingly perceived as a political power. One of the problems in EU-US relations has been the lack of clarity on the final destination of Europe and what its real nature is or should be. There is still a wide-ranging debate on what kind of a Europe is developing and whether it is moving in the direction of more intergovernmentalism or supranationalism. In the absence of certainty, many American commentators have projected their own model to explain where Europe is heading and suggested that the EU should take its cue from eighteenth century America, adopting a constitution along the lines of James Madison's "compound republic" with its complex separation of powers. However, it would be wrong to place too much reliance on historical precedents. Although the EU's constitutional structure does bear some resemblance to the American federal model in terms of vertical and horizontal separation of powers, the EU differs from the US example in that nation states already exist. US federal institutions rest on three shared cultural elements: a common religion, a common language, and a shared legal culture whereas EU institutions are underpinned by complex, interwoven interests and pragmatic political practice consensually accepted by overlapping cultural and political groups. EU institutions have developed as a series of pragmatic responses to economic and geopolitical interdependence and are influenced by all three of its most important member states, France, Germany and the United Kingdom. Moreover, eighteenth and nineteenth century structures may not be that relevant in a post-modern polity with "multilevel governance", which in the EU rules alongside, rather than in place of, national governments.

Prior to the September 11 attacks on the US, tensions between the EU and US were much in the news. Since then, a common threat has brought the two sides much closer, but underlying disagreements remain. First, there has been Europe's plan for a rapid reaction force and possible competition with NATO. But there are also different views on the need for missile defence, President Bush's rejection of the Kyoto protocol, the Echelon electronic snooping affair, or the attitude to take towards North Korea. In itself this is nothing new – France's withdrawal from NATO in the 1960s or serious disagreements about the deployment of cruise missiles in the early 1980s remind us that current transatlantic tensions are not unprecedented. The difference now, however, is that the relationship between Europe and the US is more clearly an EU-US relationship than ever before. This is partly due to the creation of the office of EU High Representative and the powers vested in him. EU-US relations are also gradually replacing bilateral relations between individual EU member states and the US. This has been particularly evident in trade relations. The EU is already

the largest integrated market in the global economy and it has the world's second reserve currency. Forty-five percent of US investments overseas are in Europe and 60% of foreign investment in the US is made by EU companies. Two-way investment between the EU and US amounts to over \$1,100 billion and there is increasing intertwining of the two economies. There are huge common interests, but there are also commercial rivalries. Trade disputes over a wide range of goods are a concern. There are also significant differences in socio-economic culture, with a greater role for the state and a more regulatory framework in the EU.

The US is also faced with an EU that is prepared to play a more overtly political role as an international actor. It is no longer content to follow the American line in the Middle East or Asia and is starting to formulate its own economic and political ambitions. Ideas in the US and in the EU on how to deal with certain regimes have differed, *e.g.*, how to deal with Cuba or North Korea, although there is still considerable scope for joint coordination of action. However, in the field of security, especially "hard" security, there is still an asymmetrical relationship. The US has far more facilities and capability to carry out large military actions and it is keen to retain its dominance in NATO. Although the US wants to lighten its load in Europe it is wary of giving the EU too much autonomy in military matters. Moreover, in military and security matters – unlike trade matters - the pattern of relations is usually bilateral, *i.e.*, between the US and individual EU states.

Before September 11, it seemed that US engagement as the world's chief guardian and peacemaker would be likely to decrease for a number of reasons. The US faced no major external adversary or peer challenger, who would push it towards a more active international role. Sectional and regional issues in the US, which had been largely ignored during the period of external Cold War threat, were re-emerging. Its economy had already begun to slow down. The US is also going through a demographic change with the growing electoral influence of southern and western mountain states containing large Hispanic and Asian populations leaving it more likely to look towards South America and the Pacific Rim. American political elites are no longer dominated by eastern seaboard Atlanticists, but by politicians from states in the south and west that have historically been less internationalist. Younger generations of Americans have no experience of the Second World War or even the Cold War. There has been more self-absorption in Washington and a tendency towards unilateralism in the current administration, or at least less willingness to engage in protracted multilateral debates. However, although an isolationist consensus seemed to be emerging, events overtook strategies. The terrorist attacks of September 11 showed that America was both vulnerable and connected to the rest of the world. The US had to step back from the unilateralism and isolationism that marked the

early days of the Bush administration. As the world's only superpower and with no other actor capable of taking over the US' international role, the US has sought to forge a broad coalition to counter the threat of international terrorism and to cooperate more fully with its EU allies.

Recent events reaffirm that conflicts between the US and the EU are not of a fundamental nature. The bottom line is that America's economic, political and military interests are still centred in Europe. Nevertheless, the EU is becoming a more assertive political power and in the longer term for internal reasons the US is likely to place less emphasis on Europe and look to other regions. In certain cases the understanding of the Western interest will differ between the US and the EU. Both sides need to redefine their roles to make the Euro-Atlantic relationship work, but both blocs will continue to share important common interests and values. Moreover, CEECs in particular are likely to continue to see the US as a credible and important partner, if not leader and to be very uncomfortable when there are disagreements between the EU and the United States.

### **EU Relations with Russia**

The Russian Federation's relationship with the EU will be affected by enlargement towards the East, the Kaliningrad question, and the presence of significant Russian minorities in the Baltic states. For the first time, Russia may be giving priority to relations with Europe, especially in the fields of trade and investment, rather than developing a special relationship with the US in the old superpower mode. Contacts between Russia and the EU have been put on a more regular footing under the Partnership and Co-operation Agreement (PCA) which came into force in December 1997.<sup>21</sup> Cooperation under the PCA prioritises the stimulation of trade and investment, cooperation on energy, environment and nuclear safety, reinforcement of dialogue on justice and home affairs as well as dialogue and cooperation on security issues. There have been several EU-Russia summits since 1997, including contacts not only between EU heads of state and government and the president of the Russian Federation, such as at the March 2001 EU summit in Stockholm, but also increasingly between the European Commission and Russia.

The EU is Russia's largest trading partner, accounting for 36.7% of Russia's imports and 33.2% of its exports. However, the structure of bilateral trade shows a considerable imbalance, with fuel and primary products

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<sup>21</sup> The EU has concluded PCAs with eleven of the countries that emerged from the former Soviet Union, including the Russian Federation, Ukraine, and Moldova. The PCAs do not offer these countries any perspective of future membership although in Helsinki the EU recognised their "European destiny".

representing the bulk of Russia's exports while imports from the EU are dominated by finished industrial goods. At a recent summit in Moscow, Russian and EU officials agreed to set up a high-level group to look into setting up a common economic area. The Commission has suggested wider use of the euro in EU-Russia trade. Russia's interest would be that a changeover to the euro would help transform EU-Russian trade into EU direct investment into Russia.

Following the EU-Russia summit of 17 May 2001 in Moscow, both parties reaffirmed their intention to promote closer dialogue and cooperation on political and security matters in Europe. The EU undertook to inform Russia on developments in ESDP matters and Russia agreed to inform the EU on the development of its security and defence policy. The leaders expressed the desire for cooperation to continue to evolve gradually and in a structured way.

Nevertheless, both Russian and EU political elites are uncertain about where Russia belongs. Russia is worried about the expansion of NATO and its interests in former Yugoslavia have often collided with those of the EU and United States. Its cultural and historical heritage has been influenced by the West to a lesser extent than has been the case in many of the CEECs. Economic reforms have been less successful. Russia already has a common border with EU member state, Finland. With enlargement the Baltic states would form the EU's external border with Russia and the EU would encircle Kaliningrad. At the same time, the EU also is ambivalent about Russia's place in Europe. For the time being there is little enthusiasm on either side for inclusion in the EU. However, a closer relationship with the EU would provide a counterbalance to Russia-US relations and greater opportunities to ensure that the eastward enlargement of the EU does not damage Russia's interests. The fundamental problem for the EU in the longer term though, is how to decide where the future borders of the EU should be and whether future decisions on membership should be made on the basis of the Copenhagen criteria alone. At a certain stage Russia might meet these criteria and apply for membership. For the EU to then turn around and say that the country is too big or too far east would hardly be a legitimate argument.

Relations with Russia after enlargement are an area in which the CEECs will have greater interests at stake. Historical experiences and geographical proximity make this inevitable and the EU's policy of cooperative engagement with Russia may be somewhat modified. While CEECs are happy to engage in the development of economic and cultural relations with Russia, they are wary of moves to placate Russia or to engage in greater security and defence cooperation. The dividing line for CEECs is rather clear: their choice is to be part of a western security system and it is difficult to image this stretching to the unstable region to their east. Given their experience of cooperation with their large eastern neighbour, their fears may not be entirely irrational.

## **Changing Relationships – New Near Neighbours and Consequences of Enlargement**

There has been a shift in Europe's view of itself. For years, European politicians had justified the need for integration by referring to the suffering caused by the Second World War. The focus was largely internal, ensuring that European states would become so interdependent that they would never go to war against each other again. This argument no longer carries such weight among the younger generation and it is gradually being replaced by a focus on the future and Europe's role in the world. That role is ambitious in foreign policy terms, in economic terms and now even has a military dimension. It is not restricted to internal matters, but is increasingly aimed at international economic cooperation and trade, external assistance and the promotion of human rights and democratisation. Tony Blair, speaking in Warsaw put it as follows: "Whatever its origin, Europe today is no longer just about peace. It is about projecting collective power [...] Such a Europe can, in its economic and political strength, be a superpower: a superpower, but not a super-state". To this end, the EU wants to develop a strong, coherent common foreign and security policy as well as building up a defence identity. Given the EU's legitimacy gap and the lack of identification with a European "demos" this is easier said than done.

However, the EU may be beginning to develop a new concept of power, combining military and non-military aspects of security – with only the partial attributes of a state. So far, the EU has been more active in "soft" security fields concentrating on improving cooperation and peaceful settlement of disputes, than in anything of an overtly military character. In the CEECs and southeastern Europe it has stimulated economic and political reforms, played an active role in trying to prevent conflicts over minorities, and supported the fight against international crime. In the fields of crisis management and conflict resolution it has as yet had less of an impact, although recent attempts to prevent civil war breaking out in Macedonia show a willingness to intervene more decisively.

CEECs, in common with most EU members, see an effective European security policy as complimenting, and not competing with NATO's collective defence commitment. However, it is the defence commitment that is of particular importance for the CEECs and for this the US remains indispensable for the foreseeable future. America remains a more potent symbol of security than the EU. The vision is one of integrated transatlantic and European security and not a choice of either/or. The EU's drive towards a common defence policy is not seen as replacing NATO security guarantees and has not led any CEECs to withdraw their applications for NATO membership. Indeed, for countries that are likely to be excluded from the first "wave" of enlargement, NATO membership is seen as providing a strong political signal that they are "in": it is

important economically as well as politically because it engenders increased stability and thus a more attractive climate for foreign investors. However, the experience of the three new NATO members has shown just how much restructuring and upgrading of the military is necessary to reach NATO standards, and NATO is likely to increase its accession requirements. Moreover, if America shifts its strategic priorities towards East Asia and the Middle East, the CEECs will of necessity become more reliant on the EU for security.

The EU is gradually showing a greater willingness to get involved in crisis prevention and conflict resolution especially in close neighbourhoods (neighbourhood policy) or areas with special interests, but there is still a gap between rhetoric and delivery. There is a clear need to pay more attention to the problems of close neighbours so that an enlarged EU does not have a detrimental effect upon them in economic terms. This also has security implications because any deterioration in their economies will lead to increased poverty, instability and a further weakening of democracy. The EU has been quite active in pushing its internal security agenda in the shape of Schengen, but the opportunities for greater participation and cooperation under the PCAs have not been fully exploited by either side and CFSP policies have been rather “fuzzy”. Moreover, acquiring a military status under the ESDP may raise suspicions and lead neighbours to take counter actions. So far it has perhaps been NATO that has been more successful in building up a close relationship with Ukraine to enhance regional security. While Ukraine does not aspire to NATO membership, it has signed a Charter of Distinctive Partnership with the Alliance, participated in NATO-led peacekeeping operations in the Balkans, and established a joint battalion with NATO member Poland.

The CEECs' inclusion in Europe will increase security in real terms and in terms of perceptions, giving these countries more confidence to build bridges towards Russia and bordering states. The downside may be that these countries have concentrated so hard on reaching their goal and made such sacrifices, that actual achievement of EU membership may turn out to be somewhat of an anti-climax. They will need to re-think the role they want to play in terms of their foreign policy interests and strategic priorities. In the context of the EU, they are likely to see security in the broader framework of common goals and values, greater regional integration and building of trade links. Security in military terms is inextricably linked to NATO, notwithstanding a special European role within it.

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## **Interim Report V - Justice and Home Affairs**

### **Summary**

The hard external Schengen border regime is at odds with the undertaking that there would be no new divisions in Europe. CEECs are faced by stringent requirements with respect to their borders with third countries and the prospect that barriers between them and current members will not be fully lifted upon accession. There is low support for enlargement among the general publics of the EU, but there is high support for law and order. Fear of organised crime, illegal migration and the terrorist threat have led to calls for ever tighter border regimes. Member states doubt the CEECs' capacity to implement the acquis over the entire range of JHA issues. Current forms of association keep CEECs out of operational elements of EU cooperation, mainly due to concerns about data-protection and corruption. This leaves CEECs without practical experience or effective participation in EU bodies, thus limiting the learning effects and causing frustration while not mitigating in any way the demands put upon them. Moreover, the EU has not taken on responsibility for the problems that may arise as a consequence of its insistence on the implementation of hard borders. Although CEECs accept that harder borders are a price that will have to be paid for accession, the moral and symbolic costs are substantial. A hard external border would sever the links minorities have with countries with which they have the most cultural affinity, common language and family ties. Since internal borders will not be lifted for some time following accession, greater flexibility should be introduced at external borders especially where local economies interact. It is in the EU's own strategic interests to ensure that such border areas do not become economically depressed areas of large-scale migration.



## **Introduction**

The Single European Act was aimed at bringing down any remaining barriers between member states to enhance the four freedoms of movement of labour, capital, goods and services. The gradual elimination of internal borders meant that external borders had to be strengthened to increase security and to protect the internal market. This has had a significant impact on candidates to the EU who have seen a lifting of internal barriers for current members but who have been faced by increasingly stringent requirements with respect to their own borders with third countries and the prospect that barriers between them and current members will not be fully lifted upon accession. Candidates want to remove internal barriers as soon as possible, to limit restrictions upon the free movement of labour and to introduce greater flexibility in the external borders regime without compromising their eligibility for full Schengen membership. Current member states want to ensure that new members will fully implement Schengen to counter fears among their publics about illegal migration, human trafficking, bogus asylum seekers, etc. Public opinion in frontline states, *i.e.*, those bordering the CEECs, is worried about large influxes of unskilled labour undercutting wages and leading to an increase in local unemployment. Politicians are worried about a possible populist backlash if such fears are not addressed. There is a lack of trust in the ability of CEECs to implement the required *acquis*, to upgrade weak public administrations and judiciaries, and to deal effectively with corruption.

This report will first describe the creation of the EU as an “area of freedom, security and justice” and outline the new policy objectives this engenders. It will then discuss the specific problems of the CEECs in relation to JHA and Schengen. The need to build up trust between the EU and the CEECs will be addressed as well as the instruments and strategies employed by the EU to deal with the challenge of meeting the aspirations of the candidates without eroding the *acquis* or compromising security and without adding to public distrust in member states.

## **An Area of Freedom, Security and Justice**

The Amsterdam Treaty provided for the progressive establishment of an area of freedom, security and justice, and extended the scope of communitarian policy-making in justice and home affairs (JHA). This has resulted in the adoption of dozens of new legislative acts and the submission of new legislative initiatives to address a range of policy objectives covering asylum, immigration and external border management, visa policy and the combating of illegal trafficking in human beings as well as judicial cooperation. New bodies such as the European Police College and the prosecution agency Eurojust have been

created. The Schengen acquis was incorporated into the framework of the European Union. JHA is one of the most confusing areas of integration with communitarian and inter-governmental parts as well as hard and soft acquis. Within the Schengen framework there are full members, members that have opted out of parts of Schengen, and non-EU associated members (Iceland and Norway).

The economic rationale of a common market and an economic and monetary union has been linked to a security rationale based on the freedom to live, work and move around in a law-abiding environment. On the one hand, the free movement of people within the area of freedom, security and justice of is seen as encouraging labour mobility and as an element promoting greater integration; on the other hand, free movement of people from outside this area is perceived as difficult to control and therefore potentially dangerous. Thus, the concept of a common single internal security zone has introduced a new dividing line between those countries that find themselves within this zone and those on the outside. The undertakings in the Amsterdam Treaty that the Union shall provide citizens with a high level of safety allows the EU to insist that CEECs conform to the rules and standards of this “area of security” and provide the justification for insisting that the Schengen regime and JHA acquis are fully applied and implemented. A large number of mechanisms of control have been introduced, from Schengen border control and the Schengen Information System (SIS), to Europol and the Customs Information System. Numerous binding and non-binding restrictive texts in the areas of asylum and immigration have been adopted as well a measures aimed at improving cross-border law enforcement.

The Schengen Agreement, aimed at lifting internal borders, was first signed by Belgium, the Netherlands, Luxemburg, France and Germany in 1985. Four other countries – Italy, Spain, Portugal and Greece – had joined by the time it had entered into force in 1995. However, both Italy and Greece had to wait for seven years before the other members accepted that they were ready to be fully admitted to all the operational parts of the system. Current Schengen members Austria and Germany, both with long common borders with the CEECs, are unlikely to agree to any compromises and will insist on external border controls with new eastern member states to be maintained for some time beyond accession. Nor is there any flexibility with respect to Schengen commitments, which have to be fully applied by the CEECs regardless of the nature of the prior border regime with neighbouring countries not joining the EU. There are no possibilities for negotiating opt-out clauses.

## **Anxieties and Fears of the Member States**

More than 10 years after the fall of the Berlin Wall and the disintegration of the Soviet Union and Yugoslavia, public opinion in the EU is insisting on insulation against the volatile environment many of the newly democratic and newly independent states are seen to represent. Faced with enlargement to the east, the reaction of the Union has been “to protect its havens of prosperity from an invasion of ‘Tatars’, its high living standards from the need to redistribute wealth to poor regions of post-communist Europe and its social acquis from a more liberal American-type approach” (Mungiu-Pippidi). The financial and economic costs of enlargement are more easily explained and justified by governments than costs in terms of increased internal security risks. Crime and drug trafficking as well as illegal migration are among the foremost concerns.<sup>22</sup>

Fear of organised crime and illegal migration is a highly emotive issue and has been eagerly seized upon by political forces opposed to enlargement. The campaign for tighter border controls is thus closely linked with the popular policy of combating crime. There is an undesirable tendency to link crime, especially organised cross-border crime, with migration. Spectacular media images of human traffickers abandoning boatloads of immigrants off the coasts of EU member states or migrants being found in containers only reinforce this perception. In fact only a small proportion of worker-tourists or asylum seekers have any links with organized crime and those who do have such links are usually victims. Moreover, the solution to the problem of organised cross-border crime does not lie in tighter and tougher border controls. Most experts agree that improving police and security cooperation between countries is more efficient than investing in large numbers of border guards or in expensive surveillance technology. Indeed, within the Schengen area, firm borders as demarcation lines and border controls may have disappeared, but they have been replaced by motorized gendarmerie and sophisticated surveillance systems along a broader border zone.

The free movement of persons from the new members will be restricted for some time to come. Austria and Germany are insisting on transitional periods of two to seven years before EU borders are opened up for the new member states. However, permanent migration is likely to have less impact than first feared. Not only are total numbers likely to be lower than early predictions

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<sup>22</sup> Since the end of the Cold War threats to security have been seen as criminal rather than military. A recent Eurobarometer survey (No.54 April 2001) shows that 55% of respondents think that an enlarged Union will guarantee greater peace and security. However, when asked what were the most important criteria applicant countries should meet, 93% of responses pointed to the fight against organised crime and drug trafficking. Only respect for human rights and principles of democracy scored higher (95%).

suggested, but most economic studies show that an influx of migrants has little effect on the general level of wages and is not usually accompanied by an increase in unemployment. Nor does the experience of the EU in past years form a basis for such fears. Migration of workers between EU member states is low; only about 2% of EU nationals reside in another country, although there are more daily cross-border commuters. Despite relatively large differences in standards of living and unemployment levels between member states, there is apparently little incentive to migrate. One of the reasons is that social benefits and the informal economy help to mitigate the negative effects of unemployment. Other reasons have to do with differences in language and culture. Since the fall of the Berlin Wall migrants from the CEECs have represented only 15 per cent of the total migration to the Union. Permanent emigration from the CEECs has fallen substantially over the last decade, although short-term and transit migration is increasing. At present, only 0.2% of the total EU workforce comes from the ten central and eastern European candidate countries.<sup>23</sup> Not all the movement is from east to west: more EU citizens work in Slovenia than Slovenians in the EU. Some 700,000 Poles have returned to Poland in the past few years to take advantage of new economic opportunities, outstripping the number of Poles migrating to the EU.<sup>24</sup>

Nevertheless, there is a worry that large-scale cross-border migration along the long common border will severely affect regional labour markets. Especially among unskilled workers, there is a fear that workers from the CEECs will undercut their wages and take their jobs. However, recent migration from the candidate states to Germany and Austria, which receive the biggest rate of migrants, has not had such an effect, probably because migrants move to places where their services are most needed, *i.e.*, where there are shortages in the labour market in the first place (SER 2000). Moreover, the influx of a new workforce could provide a large stimulus to local economies at little cost to the EU. Commuters who cross the border to work, but continue to live in their own country will pay taxes at work, but use social services at home.

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<sup>23</sup> In Austria, which has the highest proportion of CEEC labour force in the EU, workers from the candidate countries account for 1.2 per cent of the workforce, while in Germany they number 0.4 per cent. These are of course official statistics and do not include the undocumented labour force. Some estimates suggest that that the real amount of workers from the region is double the figures shown in official statistics. See *Migration in central and eastern Europe: 1999*, (Geneva: International Organization for Migration, 1999).

<sup>24</sup> See [www.centraleurope.com/polandtoday/news](http://www.centraleurope.com/polandtoday/news) (19 January 2001).

## **The CEECs in Relation to JHA and Schengen**

The inclusion of the Schengen acquis into the EU framework has presented the CEECs with a tough new hurdle. This together with the shift of many JHA issues from the intergovernmental third pillar to the communitarian first pillar left the CEECs facing a rapidly evolving body of legislation. Preparation for enlargement in this area started very late and it is being hampered by the fluid nature of the JHA acquis. Problems remain in the field of external border controls where CEECs have had to transform their border guards into professional non-military forces. Demilitarisation has not yet been completed in Bulgaria and Romania. There is still a large degree of diversity in legislation relating to illegal migration. Full implementation of the EU's visa regime is as much a political problem as a legislative problem. The requirements of fully applying the Schengen acquis creates problems for existing forms of regional cooperation, and makes it more difficult for CEECs to cope with their ethnic minorities within or outside their borders. Those countries with larger ethnic minorities on the other side of borders or with significant cross-border trade are reluctant to adopt the EU's visa regime and are likely to try to delay adoption until just before or even upon accession. This leads to worries in current member states that problems in implementation will only become obvious once these countries are members and it will be more difficult to apply pressure.

In addition to the hard acquis on Schengen and JHA, candidates are confronted with common objectives and priorities in policy areas that still do not form part of the formal acquis. Indeed, more than half of all JHA-instruments adopted by the Council are so-called "soft instruments", such as recommendations or resolutions, which are not enforceable within national legislation (Den Boer). Despite common objectives, the EU still does not have single common policies in areas such as asylum and immigration and there are still major divergences in the policies of current member states. Moreover, the pre-policy making process, *i.e.*, third pillar JHA issues being dealt with by numerous working groups in the Council secretariat, is extremely opaque. This makes it difficult for the CEECs to prepare and adjust their policies to those of the EU. Moreover, their fundamental policy orientations may differ substantially. The case of eastern border regimes springs to mind, with member states such as Germany or Austria putting highest priority on securing eastern borders to prevent illegal migration and cross-border crime, while CEECs with minorities in neighbouring countries and significant cross-border trade are less interested in hard borders. Another example of different priorities is the fight against money laundering. Although most CEECs recognise the need to conform to EU directives and decisions on money laundering, their interest, given their high dependence on the influx of foreign capital, may be against a very strict application of the rules against money laundering.

Effective implementation of the EU acquis requires considerable investments in terms of training, manpower and technical infrastructure. CEECs are faced with widespread corruption, which is linked to the problem of insufficient resources for both police and legal personnel: *i.e.*, low wages, poor working conditions, lack of training, etc. Other problems relate to the organisational infrastructure of law enforcement agencies, the technological and organisational deficiencies at the external borders, and provisions in the field of criminal law. The CEECs' weakness in these areas and their limited implementation capabilities leaves them unlikely to be able to meet all the implementation standards required under Schengen. This is especially acute in relation to full participation in the Schengen Information System (SIS) where the CEEC's technical and organisational shortcomings have led to misgivings in the EU as to their reliability with respect to data protection.

So far this section has concentrated on largely technical problems. However, it is also important to consider the wider picture from the point of the view of the CEECs. Part of the problem in imposing a largely non-negotiable acquis is that it will not always function in the same way in different contexts. And, as already mentioned the policy orientations and interests of the EU and the CEECs may vary. There are some fundamental differences between most member states and the CEECs and they relate to both history (the legacy of the three empires) and development (weakness of institutions, rule of law).

## **Borders**

Eastern borders are newer and don't fit as well as western borders. Nations do not always find themselves within the confines of a nation-state. Borders shifted and changed substantially throughout the twentieth century, in the aftermath of the two world wars and following the disintegration of the Soviet bloc. For instance, the 1920 Trianon Treaty left about 1/3 of Hungarians outside Hungary's borders. Following World War Two Poland was moved about 200 km. to the west. Over 12,000 kilometres of new state borders have been created in CEE since 1989 alone. Borders in Western Europe were generally established earlier and have been more stable. Identities within these borders have evolved for centuries and there are fewer examples of cultural minorities finding themselves on the "wrong" side of the border or of a large proportion of the population being dissatisfied with current borders. Where border regions have been contested between different nations, as in the case of borders between France and Germany, the process of European integration and the gradual dismantling of barriers, which has allowed intensive cross-border interaction, have made the whole problem almost irrelevant. However, numerous states in Central and Eastern Europe continue to be confronted by large internal minorities, external minorities, and in some cases, such as Kosovo, Moldova or

Macedonia, even a majority in a neighbouring state. People on both sides of such a border may perceive it to be in the wrong place. Lifting restrictions on such a border in the context of enlargement, making it less of a barrier, would seem the wise thing to do. However some of these borders are between candidate countries and their non-candidate neighbours, who would be excluded once the candidates implement the Schengen acquis. The border between Poland and Ukraine or Hungary's border with Serbia's Vojvodina province fall into this category. A hard external border would sever the links minorities have with countries with which they have the most cultural affinity, common language and family ties. Hard borders between Hungary and Romania or Poland and Lithuania as well as Slovakia and the Czech Republic would lead to similar problems if some countries joined the Union before others. In the light of such an eventuality, Hungary recently passed the so-called Status Bill aimed at providing benefits to some 3.5 million Hungarians beyond its borders in Romania, Slovakia, Yugoslavia, Ukraine, Croatia and Slovenia. The law grants ethnic Hungarians who are citizens of neighbouring states the right to work for three months legally in Hungary, as well as social and health care rights, free university education, training courses and travel allowances. This fits into the concept of nation being larger than the nation-state and it is not confined to the CEECs alone. In the 1980s Germany paid Ceaucescu some DM.10,000 per person to allow ethnic Germans to emigrate from Transylvania to Germany. Ethnic Germans, whose families had lived outside Germany for centuries, were considered part of the nation and as such had the right to settle in the nation-state. Although Hungarians generally agree that ethnic Hungarians in other countries form part of their nation, the status law does not grant privileges in the shape of naturalisation or the possibility of emigration to Hungary.

Neighbouring Romania and Slovakia reacted negatively to the Status Bill saying it evoked the spectre of historic revisionism and represented an attempt at increasing Hungarian influence beyond its borders. Deterioration in relations would be unfortunate. Privileged access to Hungary for ethnic Hungarian Romanians or Slovaks will not endear them to fellow citizens nor make their integration in mainstream society any easier. The Hungarian government argues that the law will prevent a migration from the poorer neighbours to Hungary and Western Europe once Hungary joins the EU. There is no question of changing borders but rather the vision is of a reunified Hungarian nation within a unified Europe where state borders have become superfluous. However, such a vision is unlikely to become a reality in the short to medium term. Slovenia and Slovakia might join the EU at the same time as Hungary. Romania, Croatia and Yugoslavia will not. Ukraine is not even in the running. Moreover, the most difficult borders lie just outside the enlargement area. Hungary, with the largest external minorities will not go to war against its neighbours to reclaim its pre-1918 territories. Borders with and within the former Yugoslavia are much less

stable. They are new and contentious state borders and they are likely to be made even more so if some states are included and others excluded. Under the Schengen regime, the green border between Slovenia and Croatia will have to be replaced by a hard external border. Slovenia is currently training 2000 policemen who will patrol the Slovene/Croat border. The effect will be to fuel resentment and push the Balkans away from Europe. Yet it is difficult to envisage a stable and peaceful southeastern Europe without some degree of inclusion of former Yugoslav countries.

The EU has not taken on responsibility for the problems that may arise as a consequence of its insistence on the implementation of hard borders. Hungary or Poland's external minorities will be adversely affected by the Schengen regime, but that is seen as a problem for Hungary and Poland rather than the EU. Other countries may be pushed to take potentially divisive measures such as the Hungarian status bill. Ethnic Russians in the Baltic states will want to ease visa restrictions for relatives; Slovenia has close relations with Croatia; etc. The protracted uncertainty of who will join and when makes such initiatives all the more probable.

Nevertheless, there is a general acceptance that harder borders are a price that will have to be paid for accession and on balance the benefits are generally seen to outweigh the costs. However, the moral and symbolic costs for countries such as Poland are substantial. After the isolation and mutual suspicion between Poland and what were then the Soviet republics of Lithuania, Byelorussia and Ukraine, a great deal of effort was invested in improving relations and lifting travel restrictions. Negotiations on treaties of good-neighbourly relations, friendship and cooperation with neighbouring states were undertaken at a very early stage, well before formal applications for EU or NATO membership were made. They were not entered into as a direct result of pressure from western organisations, but from a genuine desire not to let past animosities rule present relations. Paradoxically, the most pro-European elites had made the biggest effort to improve relations with neighbours both to the west and the east. These same politicians are now being praised by Commission reports for increasing restrictions on travel and cross-border cooperation. However, perceptions do vary largely according to geographical location. People in western parts of Poland, or in the Czech Republic are not worried about a hard eastern border. A hard eastern border means softer western borders. With no external minorities and common borders only with EU member states and other candidate states, hard external borders are welcomed in the Czech Republic as a way of strengthening EU identity and representing tangible evidence of having fled the "East".

In relation to border control, CEECs now need an upgrading of technical equipment. Effective surveillance between border posts, one of the primary requirements of a hard border regime, is extremely difficult without state of the art material. Countries such as Poland and Hungary will have long borders with states falling outside the Schengen regime. There should be a more communitarian approach to the external border. Some form of multinational cooperation including joint border patrols would help these countries to guard their borders more effectively and share responsibility for a very difficult task. It would also make for more reliable and easier monitoring and evaluation of their performance. There also should be cooperation with border officials on the other side of the border. Good working practices and efficient procedures cannot be limited to one side of the border only.

## **Migration**

Migratory pressures on the borders of candidate members represent a serious challenge. Increasingly migrants from Third World countries are trying to enter Europe via the CEECs. The candidates are required by the EU to adjust their border control systems to conform to Schengen standards. The Union has provided money, technology and expertise to help them in this task. Nevertheless, the eastern and southern borders of the applicant states remain rather permeable, with few modern checkpoints. Border patrols and customs officials are underpaid and susceptible to bribes. Indeed, the extent of the challenge of effectively policing the new external borders is formidable. Poland alone has borders stretching for 3448 km. Its borders with Russia (Kaliningrad), Belarus and Ukraine, none of which are candidates for EU membership, make up one-third of the total. If Lithuania and Slovakia were to become members at a later date than Poland half of the total length of borders would form the external border of the EU. Much of the border area is made up of sparsely inhabited forests and marshlands, and thus difficult to patrol. Sealing these borders would take a lot of time and investment. Many politicians, and people living in the border regions especially, are unhappy about strengthening the borders. They have built up better and closer relationships with their neighbours, often with some difficulty overcoming historical hatreds. Ukraine is currently removing barbed wire fencing, which fortified the Soviet-era border, but it will need to increase patrols and cooperate more closely with Polish authorities to successfully intercept the thousands of illegal border crossers and smugglers. There are also the economic costs of sealing the eastern border of Poland: prior to the introduction of tighter border controls, the value of goods purchased by Ukrainian tourist traders alone represented nearly 50 per cent of the value of Poland's official exports to that country. Already the expectation that controls will get more stringent and visas will be introduced has led to a sudden influx of Ukrainian nationals.

## **Differences in Development and Institutional Capacity**

The success of the enlargement project, *i.e.*, the expansion of the area of freedom, security and justice, the promotion of sustainable economic development, creating social inclusion and the ability to integrate into Europe, will largely depend on the strengthening of institutions and governance in the CEECs. Good governance is linked to economic development and this gives CEECs a major incentive to develop accountable and transparent institutions. However, some CEECs are lagging behind in institutional development and will find it very difficult to cope with the *acquis*. Simply grafting the *acquis* onto immature institutions will not make them work in the way they do in the EU. Improving the quality of public institutions requires the development of greater accountability, broad social consensus and cooperation and significant financial resources. People need to be motivated to change from the rules and practices adopted under Communism to the new ones expected and required by EU membership. Accession negotiations have concentrated on formal requirements and have not sufficiently taken into the account the informal phenomena of widespread corruption and low accountability. Phare programmes have too often failed in their aim of building institutional social capital, and at times have actually served to underpin domestic administrative corruption and lack of effectiveness. However, it should also be acknowledged that good governance is sometimes difficult to find even in EU member states. Recent political corruption scandals in France and Germany do not set good examples for candidate states. Even western consular staffs have succumbed to bribery in issuing visas.

Specifically in relation to the Schengen *acquis*, formal adoption does not ensure effective border policies. Until organs of police and justice are upgraded and internal controls are strengthened, current member states are unlikely to agree to a lifting of internal borders. It is, moreover, difficult to enforce borders without cooperation from neighbouring countries. In many cases, these are countries with even greater problems of scarce resources and widespread corruption. In the CEECs customs officials and law enforcement officers have low, but regular wages. In countries such as Ukraine and Moldova they are often not paid for months on end. Professional training and improvements in infrastructure can help increase efficiency and effectiveness, but low pay levels will continue to be a problem.

Corruption and a legacy of political interference in the legal system persist in most of the CEECs. Strengthening public administration and the judiciary is thus crucial for the implementation problem. In many CEECs, civil servants are quite well versed on the technical issues, but weak administrative structures make the interpenetration of legal and illegal activities easier leading

to problems of fraud, corruption, money laundering, etc. More could be done by member states to stimulate such development through “learning by doing” and giving access to candidates in common programmes, sharing data, etc. The problem is that justice and home affairs have traditionally been associated with internal, national policies in the member states and are often seen as areas of vital national interest, which are not open to compromise.

There is a lingering tendency among many in the EU to believe that post-communist countries are somehow different from Western ones in terms of cultural norms and values. Many Central Europeans, eager to prove their “Western” cultural and religious credentials, implicitly accept this argument. However, various studies comparing countries at similar levels of development have found little evidence of religion or nationality as determinants of democratic attitudes. Development, and not culture appears to explain differences and similarities across CEE. Historical legacies of development should not be seen as cultural legacies. The border is increasingly economical rather than cultural. Countries such as Bulgaria and Romania have “a long legacy of stronger constraints: Ottoman rule, underdeveloped institutions, more closed and repressive communist regimes, large ethnic minorities...” (Mungiu-Pippidi p.9). They have been more severely affected by the Yugoslav wars and their economies have suffered accordingly. They require greater aid and more targeted investment, but most importantly they should not be pushed away or even benignly ignored by Europe. The cases of Moldova and Ukraine show that if they are rejected or ignored by the EU, they will turn increasingly to Russia. This is not simply a question of Orthodox countries coming together; it is the “solidarity of the rejected”. States in southeastern Europe will need flexible and more effective assistance programmes as well as practical advice.

### **The Issue of the Roma**

A complex issue, which touches upon the political criteria of accession, Schengen and JHA, is that of the Roma. The Roma face widespread discrimination and form the most marginalized and disadvantaged minority in the CEECs. Only about 5% of Romanian citizens have a passport, and among the Roma the percentage is far lower. Yet large numbers of Roma, not only from Romania but also from other CEECs have managed to cross borders despite border controls and barriers. There is little to keep them in their home countries where they form the lowest socio-economic group and where they claim they are discriminated against. However, the problem is that at Romania’s, and indeed other CEECs’ levels of development, it is difficult to create incentives for the Roma to stay. Under pressure from the EU, a number of countries have drawn up action programmes to improve the Roma’s access to education, employment, housing and social services, but to make any difference such programmes will

need to receive adequate financial support and to be implemented effectively over a number of years. Simply lifting legal discrimination and creating a national strategy to improve the Roma's lot is not enough. The Roma need to catch up educationally and economically. EU states insist on better treatment, but are loath to accept any Roma themselves, treating them as purely economic migrants and denying requests for asylum.<sup>25</sup> Indeed, prejudice against the Roma exists in both candidate and member states. Recently, the Czech government asked for a more global, European approach to the Roma problem. As Europe's largest transnational minority, the Roma are obvious candidates for a communitarian approach to a problem which should not be seen as being confined to the CEECs.

### **The Need to Build up Trust Between the EU and the CEECs**

The lack of mutual trust has been a stumbling block for both sides. Trust is an inherently risky process. It is also essentially irrational requiring as it does a leap of faith rather than a rational calculation of interests. Indeed, the problem of trust in the area of freedom, security and justice relates not only to the future enlarged area. The history of Schengen has shown that even among the current members there has been a lack of confidence in the ability of partners to sufficiently guard external borders and ensure internal security. Politicians have also been eager to pander to the public's fears of illegal immigration and international crime. Note, for instance, France's clamp down on its northern border with Belgium due to misgivings about the liberal Dutch drugs policy or the refusal to allow Greece to lift its maritime border controls when it signed up to Schengen due to concern among Dutch MPs about illegal migration. Such lack of trust is only likely to increase with enlargement given the widely held doubts among member states about the ability of CEECs to fulfil their undertakings. Candidates are seen as a problem threatening the area of freedom, security and justice rather than providing an opportunity for this area to be extended. Moreover, CEE citizens themselves believe that the EU does not trust them. But there are also examples of lack of trust and understanding on the part of the candidates. While most officials dealing with border issues accept that adjusting to Schengen requirements will require considerable investments along Poland's eastern frontier, others argue that the real problem is Germany's border with Poland. The argument runs that the surplus of border guards due to the elimination of the west German-east German border is the main reason for maintaining controls at the Polish-German border. Such notions of hidden agendas or ulterior motives reveals a basic lack of trust as well as a lack of understanding of western fears.

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<sup>25</sup> In the first six months of 2001, 1200 Czech Romas applied for political asylum in the UK, claiming they suffered persecution in the Czech Republic.

Member states have their doubts about the CEECs' capacity to implement the acquis over the entire range of JHA issues, from border control, illegal migration, or money laundering to data protection and the mutual recognition of court judgements. The mechanism of collective evaluation of the enactment, application and effective implementation of the JHA acquis may be useful for the EU but can hardly be seen as a vote of confidence in the CEECs. It is heavily skewed towards identifying what is wrong without providing solutions or working out clear timetables. The candidates are faced with a two-stage process: identifying those aspects of the Schengen acquis that must be in force upon accession, and trying to fulfil all the preconditions linked to full Schengen implementation so that internal borders can be lifted. They are required to provide an action plan of how they intend to achieve the objective of full Schengen implementation in all the policy areas included in the Schengen Convention. This includes not only legislative measures, but plans for improving equipment and infrastructure, training schemes, as well as descriptions of budgetary outlays and timetables. The EU member states want proof, and verifiable proof, that the candidates will be up to the job. Moreover, it is clear that internal borders will not be lifted until Schengen members, by means of a one-sided evaluation process, confirm that the new members are able to fully implement all aspects of Schengen provisions.

However, the Commission has not clearly defined which parts are more urgent than others, what would be the most logical order for candidates to adopt and implement the requirements or even provided a definitive list of which Schengen provisions have to be applied upon accession. Parts of the Common Manual on external borders remain confidential, making it even more difficult for candidates to know exactly what is expected of them. The Schengen Information System (SIS) is to be upgraded to SIS II before there can be a further lifting of internal borders, but there is still no certainty as to when it will become operational. Such uncertainty, and the prospect that internal borders may be maintained for years, even if CEECs largely adopt and implement the Schengen acquis, can only make it more difficult to reach mutual understanding and greater trust. It also negates the undertaking that there would be no new divisions in Europe.

Although CEECs are gradually obtaining greater access to information about decision-making in JHA and partial involvement in a number of specialised bodies in the fields of asylum, immigration and organised crime, current forms of association keep them out of operational elements of EU cooperation, mainly due to concerns about data-protection and corruption. This leaves CEECs without practical experience or effective participation in EU bodies, thus limiting the learning effects and causing frustration while not mitigating in any way the demands put upon them. There has recently been

some progress in this field, with a decision of the JHA Council of 15-16 March 2001 to allow Europol to negotiate agreements with Hungary and Poland on access to personal data. However, other candidates have not been included in this initiative. Not all have ratified the data protection convention and without ratification there can be no exchange of intelligence. There are also plans for CEE national training institutes to cooperate with the European Police College with a view to better prepare them for effective participation in EU police cooperation. More similar initiatives should be undertaken in JHA.

A push should be made for greater coordination and coherence so that candidates are not confronted with often conflicting signals from the EU. The EU has so far failed to come up with an integrated strategy in JHA. Aid and training has been piecemeal and there has been a lack of coordination both between EU-CEECs in general and EU and national (bilateral) programmes. Help in improving implementation should not be restricted to aid through transfer of expertise such as pre-accession advisors or twinning. Although some are excellent and the transfer of know-how is an essential element of an overall strategy, experience in practice has shown many advisors to be ill informed and unprepared for their task. The EU should also prioritise certain parts of the acquis, and divide it into accession JHA acquis and post-accession acquis. Indeed, the maximalist objective of full implementation of Schengen upon accession is neither realistic in terms of the probability of implementation nor desirable in terms of confidence building. And indeed, such a maximalist strategy lacks credibility given that not all EU members subscribe fully to Schengen. Nor have member states always shown a good record of signing, ratifying and implementing JHA instruments. The EU itself is in the process of adapting to the fact that JHA is now a communitarian project. A possible solution would be to identify a core acquis that is not negotiable and that must be in place prior to accession, leaving more flexibility on other aspects.

### **A More Flexible Approach**

The notion of flexibility is often used in relation to JHA and Schengen. Yet flexibility is rarely, if ever defined and it is difficult to know what the concept really means in the context of enlargement, European integration, or application and implementation of the acquis. The accession negotiations allow either side to request transitional measures in well-justified cases, meaning that the application of the acquis in certain areas may be delayed. Such a measure has been granted on the free movement of labour. Following strong pressure by Austria and Germany, the EU laid down a transitional period of two to seven

years restricting the movement of workers.<sup>26</sup> However, even here there is flexibility. Some member states, such as the Netherlands or Sweden, have indicated that they will admit workers from the CEECs immediately upon accession. Candidates each conduct their own negotiations. Hungary has accepted the transitional period but negotiated reciprocity of restrictions on workers from the EU. The Schengen regime, although inflexible for applicant states, allowed for opt-outs for a number of EU member states as well as partial opt-ins for a number of clauses. Implementation in a phased manner has been done before, but appears to have been ruled out for applicants. Nevertheless, the Czechs have requested a phased process of border management, stating that they can implement the *acquis* by 1 January 2003, but that they need a transitional period for the border management of international airports.

The problem for the EU in applying flexibility in the field of JHA is that there is low support for enlargement among the general publics of the member states, but there is high support for law and order. The external border regime symbolises the barriers that are to ensure that safety and security will be maintained within the Schengen area. In terms of public opinion, hard borders are secure borders and enlargement without the establishment of a hard external border would not be acceptable. Yet hard borders do not stop criminals or illegal migrants while visas and red tape discourage bona fide travellers and discriminate against businessmen. In practical terms, for citizens of CEECs that join the EU, membership will make little difference when they travel to other member states. Until internal borders are lifted, they will be stopped and checked at the border as they are now. The big difference will be for the EU's "close neighbours"; third country nationals who will be confronted by a new hard external border on their very doorstep. Given the realistic prospect that internal borders will not be lifted for some time following accession, greater flexibility should be introduced at the external borders. New members states will be obliged to adhere to the common visa policy and require visas for all third country nationals. These visas will have a uniform EU format and will be subject to EU issuing procedures. However, they will not be valid for travel in all Schengen states. For citizens of "close neighbours" such as "partial" Schengen visas should be made easily accessible – both in terms of formalities, *i.e.*, simplification of visa procedures, and cost. The imposition of visa restrictions should go hand-in-hand with a denser network of consulates and more flexible procedures, such as multiple entry visas, the possibility to apply for visas at the border or to receive visas by post. At present, applicants must travel to often distant capital cities and queue for hours to get their visas. The number of border crossings could be increased and made more professional with training and

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<sup>26</sup> This despite a recent report that recommends allowing at least 50,000 workers from outside the EU to enter Germany to deal with the problem of an aging workforce and the shortage of skilled workers. See *Financial Times*, 4 July 2000, p.2.

improvements in infrastructure being extended to border personnel on the other side of the border.

More flexible solutions should also be sought to cope with border regions where local economies have interacted for the past ten years. Euroregions might provide a possible framework for managing the border and its immediate hinterland. Such regions often straddle current members and new members as well as new members and their neighbours outside the EU. If cross-border movement is unduly restricted, small-scale trading and commuting will dry up leaving these regions with higher unemployment and fewer sources of income. The tightening up of borders has already curtailed the “bazaar economy” that had sprung up in the Polish border regions and it is estimated that up to 140,000 jobs will be lost on the Polish side alone as a result. It is vital for the EU’s own strategic interests to ensure that such border areas do not become economically depressed areas of large-scale migration.

The EU will need to define what kind of a relationship it wants to have with its neighbours. What can the EU offer those who are not candidates for membership, but who want to profit from the area of peace, prosperity and security on their doorstep? For rich and developed states in the European Economic Area (EEA) such as Norway or Switzerland, various ways of cooperation have been found. For poorer states, alternatives to membership should be attractive enough to stop an ever-growing number of states clamouring to join. This issue is all the more pressing because the present emphasis on hard borders increases the pressure for including as many candidates as possible in the first wave of enlargement. If borders were more open, it would not make such a difference if a country were in or out.

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## **Interim Report VI – Multi-Level Government and Regional Policy**

### **Summary**

Wide-ranging social and economic disparities will have to be well managed to ensure that the single market produces overall growth rather than stimulating uneven development. EU regional funding must be effectively targeted and implemented to ensure that not only inter-state disparities are lessened but that regional disparities within the CEECs do not significantly increase as a result of EU policies. Moreover, to avoid the emergence of new lines of division in Europe, it is also important to consider new forms of regional cooperation between members and (potential) candidate members to encourage greater economic and cultural interaction in border regions.

For the CEECs decentralisation and deregulation of government was a prerequisite for democratic and market transformation. All the CEECs have introduced reforms aimed at the creation of multi-level government. Over and above internal concerns of efficiency and legitimacy, however, choices on size and boundaries in many of the CEECs have been affected by the need to fit structures into the Commission's categories. This has altered the incentive structure and encouraged the creation of artificial entities. Although with time, regions driven by administrative convenience often do develop a life of their own, they should not be created solely for the purpose of ensuring eligibility for structural aid. Although regions are seen as an engine of social democratisation, allowing for greater citizen participation, the small size of many CEECs makes the case for extensive (multi-level) decentralisation of administrative capacities less obvious. The Commission should encourage decentralisation, or at least deconcentration, but it should be wary of imposing structures. The domestic political context and historical traditions should be taken into account.



## **Introduction**

In the EU, regional policy is seen as an evolving system of multi-level governance with policy-making and implementation being shared between actors at different levels of government. There has been a growing tendency to decentralise decision-making with respect to national and Community policies, thereby strengthening the role of regional and local authorities. Regional and local authorities are thought to be in a better position than central authorities to know what the particular strengths and weaknesses of their regions are.

Multi-level governance gives lower tiers a degree of autonomy from central government although the distribution of power between tiers of government varies between countries (and also over time). In many countries central governments continue to act as a 'gatekeeper' between supra-national and sub-national actors (Thielemann 2000). Nevertheless, for the CEECs decentralisation and deregulation of government represented one of the essential tasks of transition from a centrally planned, authoritarian state. It was necessary for reasons of both greater efficiency and effectiveness and as a prerequisite for democratic and market transformation. Moreover, once the CEECs join the EU they will need to meet all the conditions required of them to receive financial transfers in the form of structural and cohesion funds. For this they will have to have put in place decentralised administrative structures and a regional development policy so as to be able to benefit from funds, which come from the Community budget.

This report will provide an outline of reforms of territorial government in the CEECs and the challenges and problems faced by countries with little or no tradition of multi-level government or regional development experience. It will discuss the different types of regions in the EU and the CEECs and the distribution of power between different tiers of government. To what extent has the EU's insistence on the creation of comprehensive regional policies influenced choices in the CEECs and should greater flexibility be allowed and indeed encouraged? This report argues that EU funding must be effectively targeted and implemented and that it should be aimed at ensuring that not only inter-state disparities are lessened but that regional disparities within the applicant states do not significantly increase as a result of EU policies. Moreover, to avoid the emergence of new lines of division in Europe, it is also important to consider new forms of regional cooperation between members and (potential) candidate members to encourage greater economic and cultural interaction in border regions.

## Reforms in the CEECs

Territorial government in the CEECs before 1989 was based on the principles of 'democratic centralism' and 'homogeneous state authority'. The former required all territorial units to uncritically accept and implement decisions of central government ministries, controlled by the communist party bureaucracy. The latter assumed that the 'real' interests of the state and those of its territorial subsystems always coincided. Although one or two countries undertook some strictly limited attempts at decentralisation and democratisation before 1989, by and large the CEECs were faced with overhauling deeply undemocratic systems and replacing them by an entirely new system of government. The first territorial reforms were political in nature, in part aimed at displacing old provincial elites and in part seen as a symbol of change in the principles of administering the state. In some cases, notably in Czechoslovakia, which due to its hard-line communist regime was less prepared for institutional reform than some of its neighbours, political concerns took precedence over administrative and economic rationality (Illner 2001). Moreover, in most CEECs the pre-1989 institutional heritage lingered on in political and administrative cultures, despite the creation of new structures. Local and regional administrations have had to overcome bureaucratic behaviour, professional incompetence, and clientalism as well as instill civil servants with a more client-friendly attitude when dealing with the public.

Central governments needed to deconcentrate some of their functions for reasons of efficiency and legitimacy. Governmental functions were shifted downwards to different levels with the aim of increasing internal administrative efficiency and improving the provision of services. One of the main motivations has been for decisions affecting citizens to be taken at an administrative level that better understands the local situation and can more rationally and efficiently use funds allocated towards dealing with local needs. Furthermore, the devolution of some state functions to autonomous territorial governments that can act on their own behalf serves to enhance the legitimacy of the system of government as a whole. It is argued that decentralised government promotes citizen participation by being both more representative of local and regional interests and more responsive to them. Over and above internal concerns of efficiency and legitimacy, the CEECs have introduced territorial divisions of multi-level government that will largely correspond to structures found in EU member states.

Nevertheless, the degree of decentralisation, *i.e.*, the extent to which power has been ceded from central authorities to lower tiers of government varies between countries. The structuring of territorial self-government is a consequence of differing geographical and political contexts. Although all were

faced with the need to change the principles of how to govern the state, CEECs differ in size, settlement patterns, and population density. Some also have geographically concentrated minorities. Furthermore, the extent to which different tiers of government are autonomous depends on a number of characteristics: the existence of local elected bodies representing territorial units and the power they have to carry out independent decisions on local issues; the institutional separation of such bodies from local agencies of the state and how autonomous they are vis-à-vis state administration; the extent of own financial resources and their discretion in using them. In some CEECs local and regional decision-makers still have a very narrow scope of authority.

## **Local Government**

Local government reforms were put into place first and local elections held as early as 1990. The democratic and economic foundations of local governments have been laid down and local identity and activism has increased. Local government, whether it is organised in one or two tiers, is closest to the citizen and is involved in day-to-day administrative matters and the provision of services. Its activities are mostly financed from its own resources. Local government reforms have generally been successful. However, in some CEECs local government units are too fragmented, making it difficult for them to mobilise sufficient resources for local development projects or efficient services. Thus in a number of CEECs a balance still needs to be struck between local identity and participation associated with small units and the economic and administrative efficiency of somewhat larger units.

Poland introduced its first local government reforms in March 1990. It then took several years before any new reforms dealing with intermediary tiers were introduced, although a pilot programme for a decentralised public administration was launched in 1993. Forty-four of the largest towns took over local responsibilities to see how new tasks would be managed. The idea was to introduce decentralisation 'by agreement' with local (municipal) authorities being asked to what district they would like to belong. On the basis of their answers, a rational map of about 300 local districts was drawn up. Thus local populations were consulted with the aim of rebuilding local identities and creating reforms with the people rather than against them. In the meantime, the government prepared central administrative reforms, which were a precondition of decentralisation. The aim was to leave central government with only those functions that lower tier authorities (regional or local) would be unable to fulfill. Three intermediary tiers of government have since been created. The average size of a municipality, the lowest tier, is 7000. In other CEECs local government is more fragmented, having mushroomed in the early 1990s. The Czech Republic has very small local government units as does Hungary, which set up

local government authorities in 1990. In Hungary the number of municipalities almost doubled between 1991 and 1998. The average size of a local government unit is now 3400 with about one-third made up of less than 500 inhabitants. In Estonia most units have between 1000-2500 people with almost one-third less than 500. Latvia and Lithuania have similar problems and mergers of small local government units are being undertaken in the interests of efficiency. However, there are some worries that voluntary mergers are taking place mainly between stronger municipalities, leaving weaker ones even more isolated. As in Hungary, local resistance to change has meant that efforts at amalgamation have had limited success.

## Regional Government

For a number of reasons, reforms of the intermediary (regional) level took longer in most countries.<sup>27</sup> There were more vested interests at stake, *i.e.*, regional elites associated with communist structures, and it was rightly recognised as more relevant for the distribution of political power than was local government reform. In many of the CEECs different sequencing of national and local elections resulted in repeated conflicts between central and local governments, making national authorities reluctant to introduce yet another source of potential confrontation. In some CEECs regions were seen as a costly luxury and an unnecessary addition to an already inflated state bureaucracy.

Hungary was the first to introduce a new intermediary tier of self-government. Since 1994 its 19 counties have been directly elected self-governing units with independent tax-raising powers. A regional development and physical planning law was adopted in 1996. Indeed, Hungary was the only CEEC to pass major regional policy legislation before 1997. The Czech Republic delayed the introduction of regions until 1997 amid low public support for regionalisation. The governments of these new, elected self-governing regions (14 *kraje*) only began to function in 2001. However, in both Hungary and the Czech Republic the new intermediary tiers are too small for NUTS II,<sup>28</sup> and therefore larger administrative territorial units were set up for the implementation of structural funds. Romania's 42 *judets* are also too small to be able to define and implement regional development objectives (NUTS II) and here again larger units made up of groups of *judets* have had to be delineated. Moreover, decentralisation in Romania has not yet involved the delegation of

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<sup>27</sup> For more detail on regional structures and regional policies in specific CEECs, see country chapters in Bachter, Downes, and Gorzelak, eds. (2000).

<sup>28</sup> NUTS (Nomenclature of Territorial Statistical Units) II are the units used for allocation of EU structural funds in areas eligible for support under Objective 1. The eligibility threshold is currently set at 75% of the EU average GDP per head expressed in terms of purchasing power standards.

authority to lower administrative levels so that regional decision-makers have a very narrow scope of authority. In Slovakia 8 regions were created in 1996 but self-governing powers have yet to be put into place.

#### **Multi-level government in the CEECs (2001)**

<b>State</b>	<i>Intermediary tier</i>	<i>Lower tiers</i>
Bulgaria	28 regions (6 statistical – NUTS II – units)	262 municipalities
Czech Republic	14 regions (8 statistical – NUTS II – units)	77 districts; 6242 municipalities
Estonia	15 counties	254 local administrative units (47 towns, 207 rural municipalities)
Hungary	19 counties + Budapest (7 statistical – NUTS II – units)	3126 settlements
Latvia	26 districts (5 statistical – NUTS III – units)	7 cities; 77 towns; 486 parishes
Lithuania	10 counties (1 statistical – NUTS II – unit)	55 municipalities (1999); to be increased to about 180 within five years
Poland	16 regions (NUTS II units)	373 counties; 2489 municipalities
Romania	41 counties + Bucharest (8 statistical – NUTS II – units)	2685 municipalities
Slovakia	8 regions (4 statistical – NUTS II – units)	79 districts; 2875 municipalities
Slovenia	-- (12 statistical – NUTS III – units)	193 municipalities

Sources: Bachtler, Downes and Gorzalek (2000); Hovarth 2001.

Until 1998 Bulgaria had nine regions which had no self-governing powers. In 1998 the number of regions was increased to 28 with the aim of corresponding to NUTS III level units. However, these are too small to meet EU-compatible objectives and institutions of regional policy. Therefore six amalgamated regions were established with no functions other than planning and development. In Poland the state administration reform of 1999 put into place self-governing regions and districts. The existing 49 regions have been replaced

by sixteen regions, which are managerial and administrative rather than political entities. A government appointed voivod (governor) coordinates development programmes with directly elected regional self-government.

Estonia has no regional self-government; its county level governance is an appendage of central government. Neither has Slovenia established a regional tier of government, although various proposals have been made. One possibility would be to create four units based on historical territories; another would be to base the new regions on the 12 planning units, which form the basis for NUTS III statistical regions. In both cases, as in Lithuania, there is an argument for taking the entire territory of the country and designating it as one NUTS II unit. Moreover, regional development in many of these small countries is seen as a central government prerogative.

It is clear that there is little agreement about the optimal size of regional units in the CEECs. In creating new units, the aim was to find new regional boundaries that would be acceptable to individual citizens, but also to have units that would be accepted by communities and local actors and in which they would be able to perform adequately. Functioning and activity of regions is important rather than size alone. Nevertheless, the units should be large enough to profit from economies of scale and to solve problems they are confronted with. This is important because good democratic and economic performance leads to greater support. However, only Poland has a territorial structure, *i.e.*, 16 regions (*województwa*), which corresponds to NUTS II criteria. Units of this size have populations of between two and five million whereas the units set up in most CEECs are much smaller. Indeed, a number of CEECs such as Estonia or Slovenia have populations of half this size and could actually be better qualified as region-states. In Estonia further administrative reform is seen as necessary to create the greater regional and local administrative capacity required by the EU. However, consensus is proving very difficult to achieve amid fears that strong regional government may result in some shifting of power in favour of ethnic Russians in some areas.

In somewhat larger CEECs such as the Czech Republic or Hungary, the need to adhere to NUTS II criteria has meant that existing intermediary tiers have had to be amalgamated for the purposes of EU regional policy and it remains to be seen how well these will relate to and interact with the 'real' regional units. Moreover, political entrepreneurs have been confronted with the problem that although regions should be made up of a political community that shares certain characteristics, in practice such criteria have been difficult to apply in the CEECs. As will be seen below, many CEECs have no clear territorial communities with strong traditions and their own identities. In some countries, there are no effective territorial organisations that could apply

pressure for substantial reforms. Decentralisation is still weak despite the creation of regional self-government because central governments have been slow and reluctant to concede competencies and financial resources to regional levels.

## **EU Regional Policy**

Should greater flexibility be allowed and indeed encouraged in the CEECs? What does the EU want to achieve in this region? In practice, it is inevitable that the EU will affect the development of the CEECs. With the exception of Poland, where regional reform was recognised early on as an essential part of the transition process, regionalisation only became an issue following pressure from the Commission which directly or indirectly shaped the process in a number of CEECs (Hughes, Sasse and Gordon 2001). Thus, in some cases national governments' influence over institution building and choices on size and boundaries were affected by the need to fit structures into the Commission's categories. To this extent the Commission is imposing a model on candidate states.

However, there is no uniform model in the EU itself with respect to patterns of regional and local governance. The distribution of power between different levels of government varies widely among current member states and is largely dependent on domestic political traditions and developments. There are different types of states and different institutional arrangements for the dispersion of regional funds. In some states, such as France or the UK, central government ministries control structural funds. Regional authorities are more embedded in federal Germany or in unitary Spain which has strong regional governments. However, even where there are tensions between regions and central governments, there is a certain amount of political correctness with regard to the democratic 'value' of regions. Regions are seen as an engine of social democratisation, allowing for greater and more grassroots participation. In the context of the EU, they are seen as a way of bringing decisions on Europe closer to the citizens. But in some cases, strong local or regional identities may encourage exclusive ethnic or religious identities. This has been a problem in Slovakia where local units were subject to gerrymandering to ensure they would not be dominated by the Hungarian minority. In Estonia the area around Narva is 80% ethnic Russian but is administered by Estonians. Regionalisation is opposed by many because even the capital Tallinn may be dominated by the Russian minority. Such problems are of course not limited to the CEECs. Northern Ireland or the Basque region in Spain are notable examples in the EU-15.

Nevertheless, since Maastricht there has been a trend towards increased regionalisation in EU member states although it would be premature to speak of a Europe of the regions. Institutional arrangements favouring greater regionalisation have been strengthened in the EU with the setting up of the Consultative Council of Local and Regional Authorities, the Committee of the Regions and by the concept of 'subsidiarity'. The EU has put pressure on the CEECs to decentralise for 'democratic' reasons but also because regional policy is seen as the foundation of the Union's structural policy. The Committee of the Regions and the Council of Local and Regional Authorities of Europe have been particularly outspoken about the need for the CEECs to divide their territories into regional units that would fit into the EU model for distribution of structural funds. In its Agenda 2000, the European Commission stated that a fundamental requirement of the *acquis* with respect to regional development is the candidates' ability to adopt and implement the cohesion policy and to participate in the structural funds. For this they need to have regions of sufficient size to be able to fulfil this function, *i.e.*, NUTS II level size, and they must elaborate development programmes to be implemented through EU funding. The Commission is also insisting on the creation of a comprehensive regional policy consisting of appropriate legal, administrative and financial frameworks to comply with its structural policy. Thus candidates are expected to adapt their policies to fit into EU regional structures. In other words, the incentive structure has been altered and institutions are being created to gain available funds.

How active a role should external partners take? Through its pre-accession support programmes of Phare, which has been redirected towards addressing problems of economic and social cohesion together with ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development) the EU is trying to prepare the CEECs to cope with the instruments of regional policy. The emphasis is on social and economic development but the candidates need to put in place the administrative and budgetary structures that will provide them with the institutional capacity to cope with the distribution and allocation of structural funds. Among the CEECs, some countries have strong traditions of centralisation; others have a history of regional-level government or more clearly defined regional identities. Some have introduced regional models that are largely administrative in character; others have created democratised regional governments responding to pressures 'from below' as well as external pressures. The Commission should encourage decentralisation, or at least deconcentration, but it should be wary of imposing structures. Although Hungary has closely followed the EU's implicit model of regionalisation, adjusting its institutional structures in close coordination with Phare programmes, such attempts in Romania proved less successful. In Romania, the network of regional development agencies established with the support of the

Phare programme collapsed: two billion Euro per year were allocated for pre-accession support, but Romania lacked the capacity to absorb and control the funds. The support programmes represent a considerable administrative burden and there are limits to what these countries can achieve. There is increasing recognition on the part of the European Commission that a more differentiated and tailored approach is needed to take into account the domestic political context and historical traditions.

### **Historical Regions and Administrative Entities**

One of the problems faced by many CEECs in trying to create more decentralised states has been the lack of obvious regional identities and interests. Although a number of states were formerly part of the Hapsburg Empire and thus have some experience, or at least tradition, of self-governing territorial administration, most of the newly-formed regions are artificial creations rather than historically and culturally anchored regional units. A number of factors have worked against the emergence of regions based on strong, historical traditions. The CEECs have been subject to frequent and recent boundary changes, many are relatively new nation-states and many are very small. For instance, in the case of Poland there was a large movement of population from the former eastern Polish territories to the western part of present-day Poland. Local identities have since developed, but regional identities in such places are still rather weak. Moreover, the experience of the partitions of Poland has led to an institutional preference for a strong and unitary state. This is also the case for many of the states that have recently emerged from the break-up of the Soviet Union, Yugoslavia and Czechoslovakia. There are no examples similar to federal states such as Germany or Belgium. The CEECs are all unitary states in which powers to local and regional tiers are granted by the central state in a top-down manner. This in contrast to the federalist vision of a bottom-up state in which regional forms of government may be primary, with higher-level government deriving power and discretion ceded to it from below. In the absence of strong historical regions, most of the new members states will side with more centralised, unitary states among the current EU-15 unless the financial incentives to create strong, independent regions are substantial. Indeed, in the Czech Republic a conscious decision was taken to create artificial entities rather than respecting the historical regions of Bohemia and Moravia, which would have fitted the NUTS II size. There was a fear that a historical region such as Moravia could develop separatist tendencies: taboo in a state that had only just emerged from a ‘velvet divorce’. However, doubts have since been raised whether this was a wise decision.

Regional government based on strong, historical traditions with clear regional identities and interest may be more dynamic and effective in making use of structural funds and regional policies. There is more public involvement and in some cases, such as Flanders citizens identify more with their region than with their state. New, administrative regions have yet to build up their identities. The administration is less supported by the local population than is the case with historical regions and thus the whole process is top-down rather than bottom-up. This may have a negative impact on the dynamics of development and may make for less effective use of EU regional funds simply because the needs of the region are not known or not recognised. However, there is also plenty of evidence that with time regions driven by administrative convenience often do develop a life of their own. Largely administrative creations, such as North-Rhine-Westphalia exist in the EU-15 and are successful. Indeed, within two years of the 1999 administrative reform in Poland, a number of regions (voivodships) have set up offices in Brussels to lobby for their interests. Regionalisation is indeed not only ethnic or cultural in nature but also economic.

In some cases regional policy rules are seen as an invitation to create artificial entities solely for the purpose of ensuring eligibility for structural aid. The prospect of enlargement to the poorer CEECs has encouraged some existing member states to reconsider their existing administrative structures. For instance, Ireland as a unitary, centralised state realised it was in danger of losing out on structural funds because its GDP had increased. By introducing a new regional structure and redrawing boundaries, poorer areas in the west of Ireland no longer had their average income raised by the inclusion of Dublin and were thus still eligible for aid. This could be termed 'negative regionalisation' driven solely by self-interest. Slovenia has not planned for regions, but could find itself applying a similar strategy. The Slovenian government has recently proposed dividing the country into the urban region of Ljubljana and the rest of the country. Other relatively small countries with rich capitals such as Prague or Budapest may create artificial administrative entities to limit the influence of these centres on the GDP of surrounding areas.

Many of the CEECs are extremely small making the case for extensive decentralisation of administrative capacities less obvious. Slovenia was a region in a federal state; the Baltic states are not much larger than the size of an average Polish voivodship. The Czech Republic is about the size of the German region of Bavaria. In some cases, decentralisation may be being taken too far. Regions should be politically legitimated with democratic representation. They should not simply be planning or statistical units.

## **Regional Disparities and Regional Policies**

In the centrally planned systems of the CEECs prior to 1989, concepts such as lagging or backward regions had little relevance and regional disparities were low compared to western states. Only a few countries, such as Hungary, had any experience of regional planning prior to 1989, and even there it was dominated by sectoral rather than regional concerns. At present, the performance gap between regions within the same country in CEECs is not greater than in Western Europe.

In many cases, regional disparities in the CEECs have similar causes to those found in the EU-15. There are socio-economically underdeveloped areas, areas of industrial deprivation where mining and heavy industry are being phased out and where the environment has been significantly damaged, rural areas with poor infrastructure, areas of long-term structural unemployment and backward border or peripheral regions. But there are also a number of problems that are more specific to the CEECs. One is the new and very clear west-east divide in terms of regional development disparities. Regions on the eastern periphery are disadvantaged by their distance from core activity in the EU and by the tightening up of borders with third countries in line with the Schengen acquis. In the case of CEECs that had been part of the former Soviet Union or which had very strong economic links with it, eastern regions are particularly disadvantaged. In the Baltic states these peripheral regions have large Russian-speaking minorities. In Romania, the eastern province of Moldavia has special problems for historical, cultural and economic reasons. Its industrial development was dependent upon imported raw materials and demand from the USSR. There are some exceptions to the west-east divide: in the Czech Republic it is the western regions that are somewhat disadvantaged having long been held back in their development by virtue of the exodus of Germans after the second world war and the fact that they were border regions during the cold war. However, on the whole it is the western border regions that have benefited most, apart from capital cities, from FDI flows, cross-border cooperation, the provision of services, shopping and tourism. This is in contrast to eastern border regions in the EU where proximity to the CEECs is seen as a disadvantage.

Another challenge in the CEECs is the number of states that are dominated by one, disproportionately large city. Hungary, the Czech Republic, Estonia and Latvia are dominated by their capitals; Prague, for instance has a GDP per capita of almost double the national average. Underdeveloped regions dominated by a large agglomeration are faced with a real problem, with relatively high average GDP per capita hiding large internal disparity. A number of CEECs are very small states in which regional disparities are on a very local scale. Many of these would benefit from a more international dimension to the

question of disparities, as large parts of their territories could be included in cross-border or transregional cooperation projects.

The territorial differentiation that will be produced, if not driven, by accession, means that regional disparities are likely to grow within the CEECs. Regions that border current EU members will have different interests than regions that border third countries. There will be increased competition for limited resources. Different regions will be competing for FDI and some will be seen as being much more attractive than others. Some regions still need to undergo large-scale structural changes.

Among the EU-15 disparities in income (GDP) per head between member states remain considerable, although they have gotten smaller over time. In the least prosperous states (Greece, Portugal and Spain) average GDP has risen from 68% of the EU average in 1988 to 79% in 1999. However, gaps between regions within certain member states have actually widened. In a Union of 27 members, eight CEECs (the exceptions being Slovenia and the Czech Republic) consisting of about 16% of the population of the EU-27 would form a group of countries in which average GDP would be around 40% of the EU average. Income gaps between countries and regions would double. Not only would more regions be eligible for assistance under Objective 1 (areas of low GDP per head defined as less than 75% of EU average in terms of purchasing power standards) but they would have greater needs (European Commission 2001).

The differences between rich and poor regions will increase after enlargement, possibly to a ratio of about 1:7. Less developed regions have even less chance of catching-up than they did when rapid industrialisation was a possible solution. Nowadays growth is increasingly driven by the presence of good transport and communications infrastructure, a highly qualified and innovative workforce and services – all lacking in backward regions. In Slovenia, for instance, regional disparities between 12 statistical regions (NUTS III size) have been increasing, with an improvement of the relative position of five most developed regions (with better education, R&D, services, etc.) and deterioration of the remaining seven with industrial regions suffering the most.

In this context the choice between focussing resources on less-favoured regions or actively supporting more dynamic regions despite the risk of further worsening disparities is not merely academic. Less-favoured regions may simply be too weak to be able to use the funds efficiently. Should the elimination of inter-regional differences be a priority for national regional policies in the CEECs or should they be allowed to pursue a more growth-oriented regional policy aimed at more dynamic regions? This would help increase national or state-level convergence although it would lead to greater polarisation within the

poorest states. However, without structural aid even the most developed regions may fail to grow with the result that neither the more nor the less developed regions will narrow the gap with richer member states.

In practice, the impact of structural funds has been dependent on the general economic conditions and the specific institutional set-ups of receiving regions. Their effectiveness has varied according to the objectives pursued and the various priorities given to infrastructure, training, education, and aid to the private sector. The CEECs have to improve their physical and human capital with particular needs in transport, telecommunications, energy and environment sectors. More investment is also needed in education, training and R&D. The Commission has recognised these priorities and pre-accession support is aimed at tackling these challenges. However, one of the problems for candidate countries in preparing for participation in regional policy and co-ordinating structural instruments is that in the run-up to accession they have to incorporate legislation on the structural funds using different financial instruments which subject them to different management procedures than they will be using once they become members. Pre-accession support in the form of ISPA and SAPARD as well as Phare CBC (Cross-Border Cooperation) is aimed at regional development but still managed by national administrations. However, regions rather than state capitals are increasingly in a better position to know what they need. The legal and institutional bases for developing regional policies are gradually being put into place in the CEECs. Regional development plans are being drawn up which involve partnerships between national and regional authorities as well as institutions of civil society, although there are still problems with implementation of regional development programmes. Institutions are new and underdeveloped, there is lingering uncertainty about competencies and financial resources for self-governing regions, poor coordination of resources and institutions, inadequate financial control, and a lack of qualified personnel. Moreover, the Commission is now preoccupied with financial management following criticism of the Santer commission. It will not provide funds for structures that are not yet in place or where the institutional capacity to administer the funds is lacking. Indeed, part of the EU's objective is to enhance accountability. Plans for regional development in the CEECs should lead to the elaboration of concrete regional policies that are essential for efficient and targeted allocation of structural funds.

### **Transborder and Cross-border Cooperation**

A larger proportion of the population in the CEECs than is the case in the current EU live in border regions (six out of every ten people). All seven Hungarian regions, for instance, are potential cross-border regions. A dense network of cross-border, inter-regional and trans-national partnerships should be

promoted with the aim not only of reinforcing economic interdependence but also of reaffirming the solidarity principle – likely to be strained if structural funds were to be overwhelmingly diverted to the CEECs – through greater cross-cultural understanding (Committee of the Regions 2001). CEECs have set up ‘Euroregions’ with neighbours among the current EU-15. But the idea of ‘Euroregions’ has also been taken up by neighbours of the CEECs to the east, *i.e.*, western regions of Ukraine or the region of Vojvodina in northern Yugoslavia (Serbia). In the past ten years, such regions have played an important role in developing economic, political and cultural cooperation. However, especially regions in the east and south bordering on third countries face a lack of support from national capitals, lack of resources and lack of administrative capacity.

Border regions in the west, in partnership with regions in EU member states, are faced with a problem of lack of coordination between Phare CBC and INTERREG funding. The two programmes were created independently of each other, have different objectives and fall under different directorates in the Commission. It is only after accession that INTERREG will apply to cross-border cooperation between regions in the Czech Republic and Germany or Austria and Hungary or indeed Poland and Lithuania. With large differences in size of countries sharing borders, cross-border cooperation can take place at various levels of contact, *i.e.*, central government with central government, or one or two regions of a large state and central government of a small state, but this will require the use of adequate tools. Moreover, it will not always involve cooperation between member states, but may include applicant states and near neighbours. Intra-community initiatives such as INTERREG and external assistance programmes such as Phare CBC and TACIS should be reassessed in relation to regional cooperation with funds being put together in one single package for more targeted and tailor-made regional policy programmes in relevant border areas. At present, the lack of alignment or indeed any coordination between these programmes complicates cross-border cooperation projects, where funding one side of a border is not matched by funding on the other.

Border regions are targeted for greater support because of their geographical disadvantages, *i.e.*, problems of accessibility and the negative impact created by borders. However, the economic argument should be reinforced by the political argument with cross-border cooperation acting as a motor of integration. This is particularly important in ‘difficult’ border regions such as the German-Czech Sudetenland or German-Polish Silesia but also between Hungary and Romania where there are strong cultural and ethnic links. Contacts at grassroots level are especially important and indeed to date cooperation at local levels in the form of exchanges and training have been more

intensive than those between regional authorities. The challenge is to find a way to coordinate programmes between members and non-members in cross-border partnerships. Such forms of regional cooperation could perhaps also take on broad aspects of policies relating to Justice and Home Affairs. For instance, local and regional authorities in border regions may be better placed to deal with problems of migration or crime than national authorities.

## **Conclusions**

All the CEECs have introduced reforms aimed at decentralisation through the creation of multi-level government. In many cases the process has been complex and lengthy. Indeed, decisions on the respective competencies and capacities of different tiers of government are never straightforward. Powers and finances must be devolved from central government to regional and local levels. The number of tiers have to be fixed, their geographical delimitations negotiated, their tasks and competencies agreed, and their means (revenues) laid down. All these are potentially contentious issues affecting the interests of numerous actors. Nevertheless, administrative reforms were seen as an essential tool for transformation, and in some cases this was recognised irrespective of EU conditionality.

Past experience in the EU shows that the emphasis on promoting greater cohesion leads to mutual advantage for both richer and poorer member states. Indeed, when the concept of social and economic cohesion was first introduced with respect to the new democracies of southern Europe it was seen as the best way to stimulate catch-up growth and to stabilise and consolidate these democracies. Achieving social and economic cohesion with respect to the CEECs is seen as much more of a burden. A considerable transfer of resources will be needed to create conditions for economic dynamism and so reduce disparities in terms of per capita income and development. This requires reinforcement and reaffirmation of the concept of solidarity. However, the costs as well as the benefits affect both sides. Structural and cohesion funds will help the poorest states to develop and at the same time provide greater opportunities for richer countries in terms of trade and investment. However, the factors of divergence will have to be well managed to ensure that the single market produces overall growth rather than stimulating uneven development and even greater regional disparities.

Much of the enlargement process has been essentially an elite project. It has seemed detached and distant from the lives of ordinary citizens. Regional policy and the allocation of structural and cohesion funds are important instruments for increasing the sense of belonging and attachment to the EU. They are the most practical and tangible manifestation of solidarity and reciprocity. Managed effectively, regional policy can provide the stimulus for bottom-up integration.

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