

CHANGES IN THE EUROPEAN UNION'S NEW MEMBERS' ECONOMIES

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Abstract: The Copenhagen accession criteria have enabled the EU to encourage and monitor economic and political change in the candidate countries. The EU should not modify the list of the criteria or set them in stone by including them in a future treaty.

Since the EU Treaty gives any European country the right to apply for Union membership, any attempt to draw a final boundary around its territory which excluded European countries would not be consistent with the Treaty. Moreover, politically it would be undesirable for the EU to attempt to define its final boundaries since this would weaken the EU's ability to encourage positive change in potential candidates. Ambiguity is preferable to a definite 'no'.

The debate about absorption capacity is harmful since the term is inherently vague and is interpreted by many in the candidate countries as an excuse for closing the Union's doors. However it now seems unlikely that the debate will go away. We therefore believe that it would be best if the term was deconstructed into its individual components and considered in that light. The debate would then shift onto solid ground and focus on real issues such as budgetary capacity and institutional adjustments. "Absorption capacity" would become a to-do list for the existing Member States rather than a barrier to the candidate countries or an excuse for delaying or preventing their accession.

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The political context for future enlargements

A larger EU will need institutional change and more efficient decision-making procedures. It will also require a rebalancing of the respective representation of large and small countries. An overstretched and ineffective EU cannot play a stabilising role in its neighbourhood and the wider world. We recommend that EU governments acknowledge that the Constitutional Treaty will not be adopted in its current form. Sensible and functionally

oriented improvements to the working practices of the Union could be dealt with in a new intergovernmental conference; including a careful review of the rationale for all institutions where currently there is one representative per Member State.

We believe it would be a mistake for the EU to impose an artificial "pause" on enlargement while these institutional debates are proceeding. Such a pause would be destabilising for applicants and could become a trap from which it would be difficult to emerge (if a pause was officially declared, it would also need to be ended by a unanimous decision, which may prove problematic). Instead, the Union should proceed in a measured way, handling all applications on their merits, neither accelerating nor retarding the process. In fact, this would mean at most one more accession in this decade, namely Croatia.

A Union of 27 or more Member States will require more flexible ways of policy-making. While the idea of a "core Europe" is unlikely to gain traction, the increasing use of "variable geometry" or "enhanced co-operation" appears both inevitable and indeed desirable. While moving in this direction, the EU needs to take care not to endanger existing achievements, such as the single market, and to ensure democratic accountability of new initiatives [3].

The budget review of 2008-09 must take into account the possible impact of future enlargement. A serious restructuring of the EU's spending priorities will be required for successful future accessions, in particular those of Turkey and the countries of the Western Balkans.

Candidates and potential candidates

If the countries of the Western Balkans are to be able to address their many challenges in terms of economic reform, statehood and the integration of minorities they need to be offered a credible EU perspective. Without such the Western Balkans could turn into an area of political and economic instability surrounded by EU Member States, where nationalism, economic deprivation and organised crime could flourish. The Union could be faced with the stark choice between integrating the Western Balkans into the EU or having to take responsibility for running them as protectorates if they turn into failed states. The Union must therefore adhere to its Thessaloniki commitment to the eventual accession of these countries and should avoid any linkage between the entry of Turkey and the entry of the countries of the Western Balkans.

The accession of the Western Balkans confronts the EU with new challenges compared with the previous eastward enlargement. The countries that joined the EU in 2004 were relatively homogenous, stable nation states that were motivated by the desire to 'rejoin Europe'. In the Western Balkans, the EU is dealing with more fragile, fractious countries. To help these countries along the path to greater stability and prosperity the EU needs a more proactive approach: simply setting conditions and waiting for governments to fulfil them in their own time will no longer be enough. The EU must also devote real resources to the accession process, both in terms of expertise and money. Since the accession of these countries will take time, the EU needs to find ways of maintaining momentum for positive change. It should gradually integrate the candidates into various EU policy areas, and should include them in a customs union.

Croatia is making good progress with its accession preparations, and the EU should not discourage the country by making its accession date dependent on an agreement on institutional reform among the existing member-states. If the EU has not agreed institutional changes by the time Croatia is ready, the minimum changes required for Croatian membership would need to be included in Croatia's accession treaty. It is important that Croatia should be able to join the Union if and when it has completed its accession talks, not only for Croatia

but for the credibility of the EU accession progress. Delays in Croatian accession would send a negative signal to the Western Balkans [3].

The EU must do more to acknowledge the progress that Turkey has already made. The EU member-states should strive to maintain a more consistent and coherent line, reassuring Turkey that they remain committed to admitting it as a full member if and when the accession negotiations have been completed.

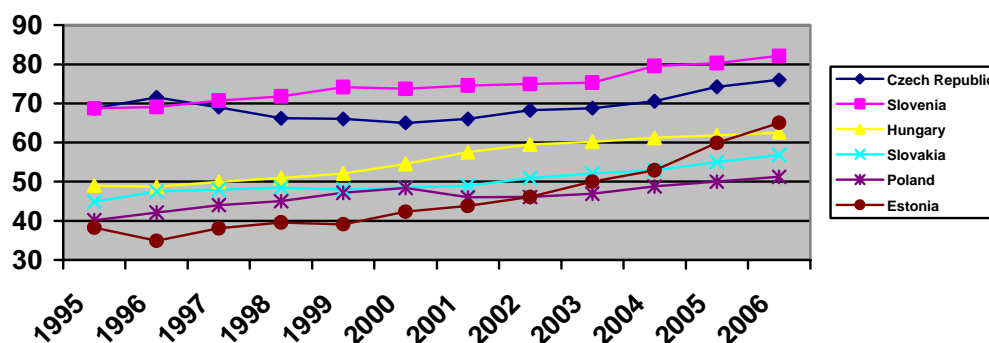
Given the strategic importance of Turkish accession for the long-term development of the wider Europe, the EU should not allow the question of Cyprus to derail the accession talks. A compromise needs to be found under which Turkey implements its commitments under the Ankara protocol while the EU lives up to its promise to free up trade with Northern Cyprus. Until such a compromise is in place, the EU may decide to suspend the negotiations on a limited number of chapters directly related to the customs union. If the negotiations were halted altogether, it would require a tremendous effort on both sides to re-start them.

Whatever the hesitation and hostility hanging over Turkey's accession negotiations, we believe that it is in both Turkey's and the EU's best interests that the accession negotiations be pursued in good faith and with a will to bring them to a successful conclusion.

Comparative study between the European Union's new member states

A new report from the [European Union Committee of the House of Lords](#) has come out strongly in favour of the wider economic effects arising from the expansion of the EU from 15 to 25 countries in May 2004. The House of Lords Committee believe that the expansion of the single market has acted as a catalyst for greater economic dynamism in the EU as a whole but that the impact has been many times greater for the new accession countries than it has for the well established EU nations. This report is in tune with a broadly favourable view on the most recent enlargement among mainstream commentators [1].

GPD per Capita for Selected New Member States



Source: Reuters EcoWin

Index of GDP per head, purchasing power standard, EU25=100, source: Eurostat.

Here is a brief selection of comments from their executive summary together with a couple of charts on the macroeconomic performance of some of the new EU member states.

The economic impact of the 2004 enlargement has been positive, both for the old EU-15 countries and for the new Member States. Enlargement has acted as a catalyst of economic dynamism and modernisation for the European Union, helping the economies of old and new Member States to better face the challenges of globalisation. At the same time, the economic

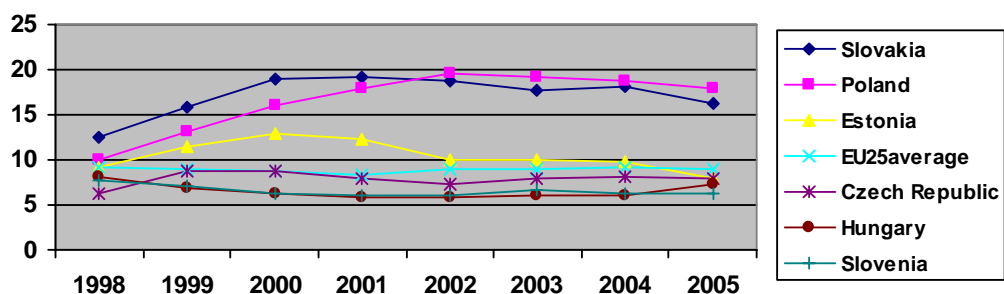
changes induced by this enlargement have been absorbed quite smoothly, and there is no evidence of disruptive impacts on the product or labour markets.

Most of the new Member States (with the exception of Poland) are small, and their income levels are much lower than in most of the EU-15 countries. Taken together, their economies have a GDP of €5.6 billion, which is the equivalent of the size of the Dutch economy and accounts for only around 5 per cent of the EU-15 GDP. Therefore, it is clear that the impact has been significantly bigger for the new members than the old ones. While the EU-15 is the destination of 70 per cent or more of the new members' exports, the new members account for only around 4 per cent of EU-15 trade. Total EU-15 exports amount to €2,150 billion, of which €82 billion go to the new Member States. The equivalent figures for imports are €2,070 billion and €9 billion.

Similarly, flows of foreign direct investment (FDI) from west to east have been hugely important for the recipient countries, but much less so for the countries where they originate. In 2004 the new Member States accounted for only 4 per cent of the FDI outflows from the EU-15 (53 per cent went to other EU-15 countries, and 12 per cent to the US). Taking these asymmetries into account, it is safe to assume that the impact of enlargement on the new members is roughly 20 times larger than on the old ones. [2]

With their fast-growing economies and large pool of highly-skilled, low-cost workers, the new Member States have helped West European companies to cope better with the competitive pressures coming from emerging Asia and elsewhere. Therefore, enlargement has left the EU economy as a whole better prepared to cope with globalisation.

Unemployment Rates in Selected New Member States



Source: Reuters EcoWin

Percentage of labour force, annual average, source: Eurostat.

It is safe to assume that the impact of the 2004 enlargement on the new members was roughly 20 times larger than on the old ones. Although the available studies have relied on very different assumptions and methodologies, they have come to broadly similar conclusions: First, the impact of eastward enlargement on the EU-15 has been limited. Second, the impact—though small—is positive. Third, as pointed out above, much of the impact has taken place already since economic integration between Eastern and Western Europe has proceeded gradually since the early 1990s. Most studies conclude that the cumulative economic gain for the old EU is below 1 per cent over a period of five to ten years.

The increase in the number of Member States and the concomitant wider spread of interests and positions has made aspects of EU decision-making more laborious. But suggestions that enlargement could lead to gridlock in the EU institutions are not borne out by evidence.

We recommend that in future the EU does not endorse target dates for EU entry until the accession negotiations with the candidate in question are almost complete and the EU is fully satisfied that the candidate can assume the obligations of membership.

It is essential that future enlargements do not import existing disputes about borders, the treatment of minorities and recognition into the Union. At the same time, however, the EU must be careful not to allow third countries to effectively gain a veto over the accession of a candidate by preventing the settlement of an existing dispute.

The EU must use conditionality in a consistent and credible manner. Rather than aiming for a "big bang" enlargement of the Western Balkans, the EU should stick to a system under which each country progresses towards membership as fast as its pre-accession preparations allow.

Bibliography:

[1] <http://www.publications.parliament.uk/pa/ld200506/ldselect/ldcom/273/27302.htm>

[2] [European Union Committee of the House of Lords](#) Reports 2006.

[3] European Union - Fifty-Third Report