A EUROPEAN UNION WITH 36 MEMBERS?
PERSPECTIVES AND RISKS
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PERSPECTIVES AND RISKS

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# TABLE OF CONTENTS

Introduction by Péter Balázs .......................................................................................................................... 7

**Part 1. Extending the Single Market from 27 to 36**
Trade and Investment Opportunities in an Enlarged Economic Area by Tamás Novák ......................... 13
Extending the Single Market – Investment and Trade by Mihajlo Babin and Miloš Erić ....................... 27
The Labour Market in an Enlarged Economic Area by Klára Fóti ......................................................... 47

**Part 2. Budget and Common Policies**
The MFF and EU Enlargement: A Game on Two Levels by Christoph Schnellbach ............................ 63
Putting 'Rural' at the Centre of the European Union's Cohesion and Enlargement Policy by Andrew F. Fieldsend ........................................... 81

**Part 3. Eurozone**
The Eurozone and the Future of the EU by Dusan Sidjanski .............................................................. 139
Some Aspects of the Enlargement of the Eurozone by Julius Horváth ................................................. 153
Turkey – A Potential Eurozone Candidate? by András Málnássy ....................................................... 169

**Part 4. New Foreign Policy Dimensions and Regional Cooperation**
Convergence or Divergence: EU and Turkish Foreign Policy over the Last Decade by Ahmet O. Evin and Emre Hatipoglu ......................................................... 185
Regional Cooperation in the Western Balkans by Oleg Levitin ............................................................ 199
Towards EU36: The Role of the Visegrad Group by Tomáš Strážay .................................................... 213

**Part 5. Institutions, Democracy and Identity with 36 Member States**
EU36: The Impact of EU Enlargements on Institutions by Péter Balázs ........................................... 227
The Referendum Experience and the EU36 Perspective by Frédéric Espinito ......................................... 257
Enlargement: Between Vision of Europe and EU Machinery by François Saint-Ouen ............................ 267
EU36 and the Need to Revise the European Federalist Agenda by Nicolas Levrat .................................. 281

Conclusion by Péter Balázs .......................................................................................................................... 287
Notes on Contributors ............................................................................................................................ 295
Notes on Institutions .............................................................................................................................. 299
Appendix .................................................................................................................................................... 303

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The views and opinions expressed in the articles are those of the authors and do not necessarily reflect the official policy or position of their institutions.
A European Union (EU) with 36 members is a pure working hypothesis today. Extending future territorial contours is in full harmony with one of the main political objectives of the organisation as the European Communities (EC) offered the possibility of membership to “all European states” from the first day of their existence. Those well-known enlargement perspectives have accompanied the evolution of European integration since the very beginning, starting with the original Article 237 of the Treaty of Rome, across various re-numberings of the basically unchanged provisions, up to the current version of Article 49 of the Lisbon Treaty. The objective of an “ever closer Union” is an explicit provision of the Treaty about deepening integration, whereas targeting “all European states” is an implicit political intention of achieving an “ever larger Union”.

As it has been repeatedly suggested in connection with the interpretation of the Treaty provisions about enlargement, the concept of “Europe” has never been clearly specified: no generally accepted and justified connection between the geographical, cultural and political understandings of Europe was defined in the context of the EC/EU basic treaties. In this book we have also stressed the importance of the second element defining the eligibility of future members, pointing out that the content of “statehood” has not been properly described either (see chapter by Balázs). In this respect, the situation in Europe has become definitely more complex than at the time of founding the EC/EU. In the post-Cold War period, after the dissolution of Czechoslovakia, Yugoslavia and the Soviet Union and leaving aside German unification, 24 new states emerged in the continent. State building is not a fully finished process yet having regard to territorial disputes, “frozen conflicts” and aggressive occupation manoeuvres.

In spite of the still malleable structure of some European states, the final size of the European Union can be forecast with the help of the actual political map and by applying a large and inclusive geographical concept of the European continent. In this attempt, we have to use the definition of a “state” in the perspective of EU accession conditionality. According to our hypothesis, the integration structure embracing “all European states” would be a 44-member-strong organisation. This forecast does not pretend that the final stage will ever be attained. Our hypothetical EU36 concept indicates a milestone on this road, probably not far away from the distant and uncertain end. However, the initial steps laying down the political basis for the EU36 hypothesis are to be found in recent times. The first step was the concrete promise formulated by the EU15 in June 2003 in Thessaloniki concerning the future – and obviously conditional – membership of all the Western Balkans countries. This important event took place in the presence of all the candidates of that time including the 12 future members of the 2004 and 2007 enlargements and Turkey. After a decade, one single state of the targeted Western Balkans region joined the EU: Croatia, in July 2013. Montene-
gro started the accession talks in 2012 and Serbia in 2014. Bosnia and Herzegovina, Kosovo*, Macedonia** and Albania are still on the waiting list. Accession negotiations with Turkey have been ongoing since 2005 without perspective of conclusion in the near future. Iceland started entry negotiations with the EU in 2010, put them on hold in 2013 and revoked the membership application in 2014.

Our starting point for analysing the potential next size of the expanding EU was the Enlargement Report issued regularly by the European Commission. This document not only assesses the progress of negotiations with the individual candidates but gives the list of those applicants which are considered by the EU as future members by evaluating their compliance with EU norms. In doing so, the Report is an authentic mirror of the enlargement process. EU Enlargement Reports inspired our research and the series of international conferences held in 2012 and 2013 trying to analyse the various aspects of the hypothetical EU36 model. This book is the summary of the most important findings.

The whole project was initiated by the Centre for EU Enlargement Studies (CENS) of the Central European University, which coordinated and outlined the project activities during the implementation period. The project gathered an international network of the core partner institutions, which grew in size and prominence with time, and the following circle constituted the key project team: the Centre for EU Enlargement Studies, CENS (Budapest, Hungary); the Centre for European Legal Studies, CEJE (Geneva, Switzerland); the European Bank for Reconstruction and Development, EBRD (London, UK); the European Cultural Centre (Geneva, Switzerland); the Faculty of Economics, Finance and Administration, FEFA (Belgrade, Serbia); the German Institute for International and Security Affairs, SWP (Berlin, Germany); the Global Studies Institute (Geneva, Switzerland); the Istanbul Policy Centre at Sabanci University (Istanbul, Turkey); and the Research Centre of the Slovak Foreign Policy Association, RC SFPA (Bratislava, Slovakia). Finally, we organised eight problem-oriented workshops on the major thematic topics, which revealed further challenges and formulated cogent questions based on the project goals. The areas we covered are listed below in the chronological order of the workshops held:

- “Extending the Single Market from 27 to 36,” Belgrade, Serbia, 20 April 2012;
- “Extending the Trans-European Networks,” London, UK, 27 June 2012;
- “The Prospects of Enlargement: Institutions and the Political Dimension,” Berlin, Germany, 7 December 2012;
- “Political consequences of further enlargements,” Istanbul, Turkey, 15 March 2013;
- “Democracy, Institutions and Identity,” Geneva, Switzerland, 26 April 2013;
- “Regional Cooperation and Neighbourly Relations,” Bratislava, Slovakia, 30 May 2013;

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence. The name “Kosovo” is used in this book for practical purposes and is without prejudice to the status-related dispute.

** The official UN-sanctioned provisional name for the country is “The Former Yugoslav Republic of Macedonia.” The name “Macedonia” is used in this book for practical purposes and is without prejudice to the name-related dispute.
The main project finding is that the EU36 model has a realistic possibility of coming into being and it must be included in the long-term strategic planning of the EU. This project and the book entitled “A European Union with 36 Members? Perspectives and Risks” is a contribution of the entire project team to the development of the EU36 theoretical model and of future prospects of European enlargement of the candidate and potential candidate countries mentioned in the European Commission’s Progress Reports. This exercise also brings to the fore some of the problems that do no regularly come up during a typical “fulfilment of conditions” style of investigation.

This book is divided into five major parts followed by a conclusion summarising the main messages that were gathered during the project implementation. The opening Part 1. “Extending the Single Market from 27 to 36” revolves around the issue of a single market in an enlarged economic area. Tamás Novák states that conclusions drawn from previous enlargements can only have limited relevance in predicting the impacts of future enlargement rounds on trade and investment processes. Future enlargements make the EU more diverse and make it difficult to ensure an adequate and uniform implementation of the single market. Mihajlo Babin and Miloš Erić assess the theoretical framework and the statistical data of trade policies and investment practices based on real economic parameters. They derive conclusions that opening up to new markets increases the potential for investment, rather than losing it to new member states, and that enlargement is a prosperous development agenda for both the current member states and for aspiring countries. Klára Fóti deals with the current and possible future developments in the labour market and labour mobility in an enlarged economic area. She demonstrates that the demographic developments in the Western Balkans show similar characteristics as was the case with the Central and Eastern European countries when they joined the EU, as well as that demographic patterns strongly influenced labour market developments.

Part 2. “Budget and Common Policies” sheds new light on the common understanding of the EU budget and common policies in the EU36. Christoph Schnellbach outlines the positions, debates and obstacles to further developing the budgetary system within the EU, arguing that the negotiations take place on two levels: the international level and the national level. The EU36 theoretical model gives insights into the EU’s institutional set-up and shortcomings in the budgetary system. Andrew F. Fieldsend explores the place of rural areas in EU policy for the programming period 2014-2020, using the results from the EU Framework 7 project “Rural-Jobs.” Rural development actors should look beyond Common Agricultural Policy (CAP) funding and adopt an integrated approach which better mobilises Structural Funds to promote rural employment creation and economic prosperity. The lessons learned and the experience gained may prove to be of considerable value to rural development actors in candidate and potential candidate countries. Endre Orbán quantitatively assesses the impact of the further enlargement on its budget and on the structural funds. He shows that only Turkey would involve a greater impact in terms of the regional policy, while the Western Balkans countries taken individually or regionally have only a slight impact on the average gross domestic product (GDP) of the EU.

Part 3. “Eurozone” deals with the current challenges and further prospects of the Eurozone. Dusan Sidjanski claims that in order to guarantee the long-term survival of the euro it is inevitable that the creation of a political Union or a European Federation is envisaged. Ideally, the political Union should embrace all the present 28 member states. Pragmatically, the urgency which exists at the Eurozone level explains why the 18 actual members are more inclined to take new steps towards a European Federation. Julius Horváth mainly examines
the behaviour of the governments of Poland, Hungary, Slovakia and the Czech Republic and their deep scepticism concerning their decision to join the Eurozone. He states that such attitudes can happen with other candidate and potential candidate countries, leaving them permanently outside the Eurozone. András Málnássy examines Turkey’s rapid growth and development over the last decade, which can be interpreted as one of the success stories of the global economy. He addresses the concern of whether the Eurozone is an optimal environment in which a less developed country can catch up, raising the question of what would happen if Turkey joined the Eurozone before joining the EU.

Part 4. “New Foreign Policy Dimensions and Regional Cooperation” studies foreign policy practices and the advancement and importance of regional aspects in the EU36. Ahmet O. Evin and Emre Hatipoglu point to an attitude of both convergence and divergence between European and Turkish foreign policies. Both parties’ outlook towards the Balkans, Russia and the Caucasus suggests that interests could converge on a number of points, while the divergence can be partially explained by the evolution of Turkish foreign policy-making over the last decade. Furthermore, an increasingly strong link between domestic politics and foreign policy has encouraged Turkish policy-makers to adopt a more assertive and independent stance, occasionally at the expense of its relations with the Western alliance. Oleg Levitin looks into broad areas of impact of regional cooperation in the Western Balkans and into the transformative role of the EU in this respect. According to the author, maintaining good neighbourly relations and participating in regional cooperation, as explicit conditions for progress towards integration into the EU, is one of the most efficient tools in Brussels’ hands to support stability in the region. Tomáš Strážay assesses the current and future possibilities of cooperation between the Visegrad Group and countries aspiring for EU membership, with a primary focus on the Western Balkans countries and Turkey. He focuses on the possibilities of cooperation between the Visegrad Group and the Western Balkans, concluding that EU enlargement policy continues to rank high among foreign policy priorities of the Visegrad Group.

Finally Part 5. “Institutions, Democracy and Identity with 36 Member States” reflects on the issues of European identity and the functionality of European institutions. Péter Balázs echoes the impact of EU enlargements on institutions, emphasising the need for changes of major EU executive bodies, stressing the role of national parliaments and suggesting shorter mandates for the European Parliament and the European Commission. Frédéric Esposito writes about the referendum experience, exploring the opportunity to introduce a consultative referendum at the EU level within the EU36, based on the analysis of the referendum experience and the constitutional provisions in European countries. François Saint-Ouen starts from the hypothesis that enlargement can be seen as a mirror of the EU and the evolution of enlargement reflects the evolution of the EU itself. He questions a very technical and demanding negotiating process and “group” vs. “individual” application process. Nicolas Levrat highlights the essence of Federalism which allows and ensures a proper balance between central and regional institutions, calling for a relaunch of the EU momentum by working on redefining the vertical balance of power and recreating room for further enlargements to reach the EU36.

Last but not least, we would like to thank all the institutions and participants who have contributed to the success of the project and the book. We would also like to express our gratitude to Hungary’s OTP Bank for provided substantial financial support, the Friedrich-Ebert-Stiftung (FES) in Budapest for supporting the two Budapest-based workshops, the Open Society Foundations (OSF) for hosting our book launch in Brussels, as well as to the core partner institutions for the individual support they offered.
PART 1.

EXTENDING THE SINGLE MARKET
FROM 27 TO 36
TRADE AND INVESTMENT OPPORTUNITIES IN AN ENLARGED ECONOMIC AREA

TAMÁS NOVÁK

Chapter 1 – Introduction

The possible impacts of extending the Single Market to 36 members depend on several factors: the size of the new entrant, its per capita gross domestic product (GDP), the economic developments prior to accession, the level of trade and capital integration achieved, the international and domestic business cycle, etc. Most recently, the importance of the internal economic and political development of the European Union (EU) has also become an increasingly acknowledged issue. It is interesting to note that several EU countries have started to establish more intensive economic ties with third countries at the expense of a decreasing share of EU countries in their international trade. Some member states are increasing their foreign trade with third countries much faster than their intra-EU trade. This can reflect improving international conditions for trade and investments, which may eliminate the advantages offered by the single market of a very slowly growing region. In addition, domestic economic problems caused by different aspects of the economic crisis can urge politicians to introduce open or indirect measures in order to protect domestic producers, which may also very easily harm the smooth functioning of the internal market. To sum up, it is certainly true that, besides traditional economic expectations, the impacts of single market extension to new entrants are increasingly complex and are influenced by considerations which previously did not play a role. These all have to be taken into account in any impact analysis. This is not only an economic exercise, but increasingly relates to foresight or future studies as well.

The advantages of the internal market in a simple form are based on the neo-classical approach: eliminating trade and investment barriers = increasing investment activity because of bigger expected returns, efficient labour market, etc. These advantages come from eliminating the distortion of free competition. In theory consumers in each country gain from lower prices and any losses to the local producer will be more than compensated by the gains from greater competition. Increased competition and enlarged market opportunities stimulate the development and use of new technologies, which increase productivity, decrease costs, increase comparative advantage, improve living standards, and so on. Wider market opportunities enable firms to take advantages of economies of scale, which in turn increases productivity, decreases costs, increases comparative advantage, etc. Enlarged market opportunities, increasing national income per capita and increased production productivity
lead to increasing investments and higher economic growth rates. The final objective of the single market is higher economic growth, as this can sustain continuously the improvement of business and living standards.

The literature has warned that there are clear and obvious impacts of a country’s participation in different integration initiatives, as these definitely influence transaction costs that raise the issue of production versus exports. Customs unions are creating incentives for third countries to invest within them, in order to avoid trade-related costs. Baldwin et al. argue that the “enhanced growth and trade from economies of scale of integration may provide a stimulant to demand in the host economy. EU accession entails membership in the single European market and offers firms located in current EU member countries the opportunity to relocate production to countries with lower labour costs.”

A logical starting point and a possible tool for predicting the impact of enlargement is the analyses of the impacts of previous enlargement rounds. Several studies, including ex ante and ex post analyses, have tried to identify the trade and investment impacts of enlargement rounds. Despite the relatively large number of studies, one problem immediately has to be mentioned: no enlargement can be compared with the other without criticism, because of the significant differences between them. Differences between enlargement rounds can be based on the development level of the accession countries (measured, for example, by per capita GPD); the level of previous trade relations (e.g. asymmetrical trade liberalisation or customs union, etc.); trade compatibilities; the institutional system and form of capitalism applied in the given accession country; the number and size of the accession countries; and the economic policy pursued after accession, affecting most importantly foreign direct investment. This is not an exhaustive list of differences, but it indicates the problems with comparison. Given these very different backgrounds involving economic development, political maturity and other factors, one may suspect that conclusions drawn from previous enlargements can have only a limited relevance in predicting the impacts of future enlargement rounds on trade and investment processes. Nevertheless, some general messages can be formulated.

Chapter 2 – Results of Previous Research on Trade and FDI Implications of Enlargements

In evaluating the future prospects of the single market if it is extended to 36 countries, a review of literature on trade and foreign direct investment (FDI) implications of previous enlargements seems to be necessary. Economic history may serve as a good framework for future forecasts, bearing in mind all of the limitations mentioned earlier. Most of the re-

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search carried out on trade and FDI implications of enlargement rounds concludes that most of the impacts can be felt before enlargement actually takes place, while only a limited impact can be observed after accession. During the pre-accession period, when enlargement is already decided, accession countries harmonise their policies and regulations with the EU *acquis*, which is seen by business as a guarantee for better access to a much larger market. What is also interesting, however, and this relates to the post-accession period, is the structural and geographical change of trade and investments. Especially in the case of Central and Eastern European (CEE) countries, a substantial geographical change took place after accession, because trade rules changed favourably for a large number of accession countries. An additional and increasingly important factor influencing the impacts of extending the single market is the development of the single market itself, or more broadly the economic prospects within the EU. This issue gets an additional emphasis since the economic crisis increases the need for strengthened protectionist tendencies, in both their open and indirect forms, although obviously this is not allowed in the single market. And this change can very much influence the behaviour of old/large/big country strategies (and the behaviour of firms), resulting in relocation of production in favour of Far Eastern countries instead of CEE member states, or industrial downsizing/rationalising (e.g. in the car industry).

Countries in the Western Balkans and Turkey are (or will be) negotiating their possible accession at a time when the issue of smooth operation of the single market is threatened by collapsing Eurozone economies, very weak domestic demand, high unemployment, etc. We do not exclude in this study the necessity of finding those factors that are creating a new environment for the operation of the single market in the medium or long term, when the protection of the domestic market is supposed to be strengthened – even at the expense of the single market. Obviously, this cannot be quantified, but the most important directions of a possible change would help to identify the most important fields to be analysed at a later stage.

Since the creation of the single market, three waves of enlargement have taken place, each of them having special circumstances, making their comparisons very difficult. The 1995 enlargement with Austria, Sweden and Finland was characterised by an interesting situation. The new members were more developed in terms of per capita GDP than the EU average (except for Finland, the economy of which had been seriously hit by the collapse of the Soviet Union, but in the following years – due to radical structural changes – its economic growth was much higher than the EU average). The negotiations were faster and much easier than in previous and later enlargement rounds. In addition, two of the countries (Austria and Finland) had very special economic relations with East-Central Europe. This fact has also had an impact on their later development (‘historical’ relations helped and motivated Austrian investors in Central Europe). Their trade and investment relations developed very dynamically before and after their accession with their backyard, the East-Central European region, which later also became part of the European Union. The other peculiarity of this enlargement was that successful, competitive market economies joined the European Union with

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3 Or see the case of Nokia that relocated part of its production in 2008 from Germany to Romania, but later moved from there and also from Hungary to its Asian factory.
similar experiences, institutions and market principles, and most of the adjustment had already taken place within the European Free Trade Association (EFTA).4

The 2004 enlargement was again a unique case, given the large number of countries joining simultaneously. The level of economic development of the accession countries was much lower than the EU average, but their economic and political transformation was more or less successful (and similar), they went through a substantial catching-up process, and their institutional and structural changes were visible. Due to the pre-accession process, their trade and capital relations with the EU countries had reached a very high level that was reflected in outstanding shares of the EU in their trade. The very high trade integration was due to the collapse of the Council for Mutual Economic Assistance (CMEA), which required a very quick trade reorientation at the beginning of the 1990s, and this new direction of trade was reinforced by the Europe Agreements offering substantial trade advantages in East-West trade. In the meantime, the conditions of trade between themselves became less favourable, which distorted the trade in favour of the EU relation.5 In addition, the collapse of the domestic market in several countries, the wave of bankruptcies and the difficult budget situation forced the region’s countries one after the other to attract foreign direct investors, especially from Germany6 and Austria. These trends explain why trade integration and capital relations through the FDI channel were already strong, well before the accession date. At the same time, the trade and investment relations between the new members were quite underdeveloped due to several reasons, but many of these bottlenecks were eliminated with the extension of the single market. This explains the very dynamic trade developments between themselves later.

The 2007 enlargement with Romania and Bulgaria again had a different background. These countries were extremely underdeveloped, per capita GDP was around only 30-35 per cent of the EU average, meaning that with their entry a new underdevelopment level appeared within the European Union. Their pre-accession path was similar to that of the Central European countries, but with weaker institutional and economic structures. In addition, their post-accession performance was supervised by the Commission with great attention, indicating that the EU decision-makers were aware of the problems with their preparedness for membership.

Turning to the next (possible) wave of enlargement, most of the expected new member states are small and poor countries (Western Balkans states). These countries by definition cannot very much influence the economic structure or the economic processes in the EU. On the other hand, Turkey would be the largest member state geographically and its population will exceed that of the largest current member state. This country would bring a new dimension into the European Union due to its size and demographic trends. Clearly the Western Balkans countries and Turkey would have a different role and impact on the single market.

For the Western Balkans countries one may think that the example of a structurally, historically similar country, Greece, and its experiences could be a good example. It is especially telling if the Greek and Western Balkans trade performances are compared. Both are characterised by lower value added and in most cases a not very competitive production

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4 See, for example: Frank Schimmelfennig and Ulrich Sedelmeier, “Theorizing EU enlargement: research focus, hypotheses, and the state of research,” Journal of European Public Policy 9, 4 (2002).
5 This led later to the establishment of the Central European Free Trade Agreement (CEFTA).
6 Today, Volkswagen is the largest single foreign investor in Central and Eastern Europe.
structure. Given this similarity, it could be thought that the later analyses of the Greek experiences with the single market would be much more justified than using the example of the countries of the 1995 or 2004 enlargements.

Turkey is a different case given its size and development level, and the domestic capital and industrial groups are much stronger than in the Western Balkans countries, and stronger than they were in the Central European accession states. In this respect the trade and investment impacts should be different from those of the Central European country experiences, where the liberalisation steps were also taken before accession, but the time of application was quite short. A sudden flood of products is unlikely because Turkey enjoys tariff free access to EU markets (more precisely, Turkey is part of the Customs Union) and much of the impact of increased competition in lower value goods has already been felt. The period of free trade will last much longer than in previous enlargement waves, thus the adjustment to free trade or to liberalised investment relations without accession is quite lengthy.

Besides the direct impacts of membership, the indirect impact of accession of these countries (political stability, participation in EU decision-making mechanisms, etc.) theoretically would increase investments substantially because of infrastructural needs and market potential.

As members of the Internal Market, the new member states will have to comply with all of the EU acquis. Compliance with EU technical standards and the acquis on, for example, state aid, will contribute to the final removal of the non-tariff barriers to trade. And the larger internal market means that firms can expand production and take advantage of economies of scale. (In the case of Turkey this consideration may be important because of the size of the domestic market.) More competition will also lead to more choice and lower prices for consumers. The issue and potential for economies of scale can be analysed in terms of the total size of the EU, which would increase at least 20 per cent as regards its population. (The difference of demographic trends in the EU and Turkey confirms this forecast). This would imply a really large increase of the market and the potential number of consumers as well. And of course foreign direct investment flows into and between countries in an expanded EU are not part of a zero-sum game – a high proportion of investment in the new member states will be to take advantage of profitable opportunities or for serving local markets. The shift of low value, labour-intensive production to lower wage economies including, sometimes, the new EU member states is expected to speed up, if some of the advantages of the single market over liberalised economic relations with third countries (e.g. China) remain. In the past two decades CEE offered good opportunities for lower cost production (in most cases with lower value added), but these advantages are becoming less and less important with global liberalisation and emergence of very low cost locations in the Far East.

Potentially larger than the gains from trade are the potential longer-term benefits from the continuation of the reform and liberalisation process, which should lead to higher productivity and GDP growth, as was observed after the 2004 enlargement – but which partly halted as a result of the economic crisis of 2008. In theory, however, catching up definitely would mean an increasing purchasing power, which probably can have the largest impact in the case of Turkey having currently a huge number of poor consumers. The impact of economic growth and its sustainability will substantially determine the trade and investment opportunities.

The role of FDI in CEE countries has become important since the transition began, because of the huge need of capital for development and transformation. This need for external financing of investment emerged at a time when the whole international economy
started to rely more and more on international capital flows, which was facilitated by global liberalisation of trade and capital. Global intensification of FDI flows, trade liberalisation and the economic transition coupled with the integration of CEE countries. The triple objective of CEE countries – transition, world economic integration and EU integration – started through trade and investment integration. The demand for FDI in accession countries (CEE) was the only way to facilitate growth, promote technical innovation and accelerate enterprise restructuring, in addition to providing capital account relief in some of the regions’ countries (Hungary). This also means that countries in the Central European region did everything to attract as much FDI as possible. Some of the countries started this strategy earlier, others later, but it was accompanied by improving relations with the EU. We should not forget that the very big demand for FDI, the global surge of FDI flows and the pre-accession period occurred in parallel in the CEE countries during the 1990s.

In the literature on FDI, trade and accession during the past decade several very similar conclusions have been drawn. Bevan and Estrin prove that EU announcements about potential accession have significant independent effects on FDI flows to transition countries by increasing FDI to countries whose likelihood of accession is enhanced. This also means that FDI inflow speeded up significantly from the date when their accession timetable was established, not after the accession was actually realised. But here we again have to make some additional remarks. 1998 and 1999 when the accession timetable was laid down were also important dates from other aspects in the economic transformation of Slovakia and the Czech Republic. The Czech economy entered into a very imbalanced macroeconomic situation in 1998-99, the solution of which was a macroeconomic stabilisation programme with major privatisation deals in the banking sector and in manufacturing (obviously with foreign capital, because the previous voucher-type privatisation did not lead to efficiency improvements). In Slovakia the country’s isolation ceased when Meciar was replaced by the Dzurinda’s cabinet, resulting in a very deep shift of political power and economic strategies, one of the core elements of the latter being the aim of attracting greenfield foreign investment as soon as possible. This highlights the importance of internal economic and political changes, besides simply establishing a road map for accession.

Moreover, Bevan and Estrin also draw attention to an interesting phenomenon, namely small EU countries that are otherwise not very active in FDI (e.g. Austria and Sweden), which may be explained by “EU firms seeking lower labour costs and perceiving relatively low transaction costs in managing production facilities over a short distance”. They observed “unexpectedly high levels of FDI between particular CEEC and countries of Western Europe that have not previously been major sources of FDI because of the differential in real unit labour costs and the relatively short distances between countries,” for  

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9 They also suggest that successful and quick economic transformation and early timetable for accession are reinforcing each other.
10 Ibid.: 786.
11 Ibid.
example between Germany and Poland, between the Czech Republic or Hungary and Austria, and between Finland and Estonia. Estrin et al. reach a similar conclusion from case studies and survey findings. There is a very important message: the effects of the extension of the single market to these countries should be explained by acknowledging very specific factors, and because of this we cannot expect the same impact from the future accession of Western Balkans countries and Turkey. Obviously, their accession also would have special characteristics that could lead to a similar development as was observed in CEE, but the explanation and the group of countries affected (namely the potential investing countries and firms) may be very different. This also refers to the fact that FDI flows before and after accession followed one direction, namely firms from more developed regions in the neighbourhood invested in less developed CEE countries. At the same time, FDI flows between CEE countries started to substantially increase after accession.

Other studies have analysed the FDI impact of the 1995 enlargement involving Austria, Finland and Sweden. Egger and Pfaffermayr found a substantial, positive anticipation effect in the period between the announcement and the formal establishment of each integration step. They also suggest that neither the Single Market Programme nor the previous enlargement exhibited any further positive effects on intra-EU FDI volumes after their establishment. They proved in their paper that anticipation effects on FDI typically take place between the announcement and the formal establishment of an integration event. According to their analysis, a clear anticipation effect of the 1995 enlargement was felt between 1993 and 1995, but there was no additional effect in the period after the formal enlargement in 1995. On the one hand, FDI does not increase before the official announcement of an integration step. On the other, the integration effects seem to be exhausted with the formal completion. This statement holds for both the Single Market Programme and the integration.

Given the conclusions drawn from the literature on trade and FDI effects of enlargements, we may say that the extension of the single market to new countries (obtaining the membership) during the previous enlargements had no additional effect or only a very marginal one. On the other hand, the decision about enlargement – in the case of the 2004-2007 enlargements – had a substantial impact on FDI flows. Foreign investors seemed to calculate with lower risks from the date of knowing the membership for sure, which resulted in increasing FDI flows into the future member states. The adjustment and the integration through FDI occurred before the accession date. The preparatory phase for EU membership has a much bigger impact on trade and FDI flows through its stabilisation effect, which results in lower country risk.

As regards trade implications, there are several theoretical and empirical studies on trade integration impacts. The European Commission has prepared an in-depth analysis of trade developments before and after the Big Bang enlargement of 2004. According to the analysis, trade flows between the ‘old’ and ‘new’ members significantly increased before the accession. According to them, the increasing trade flows were due to both the substantial

trade liberalisation laid down in the Europe Agreements and later the strengthening prospects of membership. Trade agreements with the EU in the 1990s established a step-by-step free trade with asymmetrical tariff reduction in favour of the Central European countries in industrial products. After the transition shock at the beginning of the 1990s, coupled with the collapse of Eastern markets leading to a very fast trade reorientation towards the EU, these liberalisation steps resulted in a further surge of trade flows. In 2003 the EU15 accounted for 67 per cent of total EU10 exports and 58 per cent of their total imports, compared with 57 per cent and 55 per cent, respectively, in 1993. After the accession, the share of ‘old’ member states in ‘new’ member states trade remained stable or started to decline slightly, due to an intensification of the intra-trade of new member states and the increasing role of third countries in most of the EU member states.

There is another factor that explains the high trade increase before and after accession in 2004 (and 2007). Most of the countries from the region are small countries with a limited domestic market, which forces them to look for market opportunities abroad. This also explains their higher trade integration with the EU15 countries than trade relations among EU15 countries. Obviously, this trade openness and reintegration varies across the region. The intra-EU10 trade surge was due to improving access to each others’ market, a problem that during the 1990s diverted trade to the then EU member states. By the end of the previous decade, however, the share of EU trade of individual countries started to decrease in favour of third countries, mostly in the Far East. This phenomenon may indicate that, because of the changing international economic environment and the clear differences in growth and development prospects, the advantages of the single market started to become weaker than those offered by different fast growing countries and regions. This changing geographical composition of trade not only characterises the EU10 countries; the restructuring can be observed in the case of the EU15 as well, indicating that the advantages of the single market over trade with third countries can disappear.

From the above literature overview we may say that certain firmly based conclusions can be drawn from the experiences with previous enlargements. Most if not all of the analyses agree on certain conclusions.

1. Most of the impacts on trade and FDI were felt before accession took place. After accession no major positive changes could be observed.
2. Impacts were felt after the announcement of accession of a given country, implying that this step had the largest impact on country risk.
3. After accession significant additional impacts were observed, but these were less favourable compared to developments with third countries.

Clearly, these conclusion may have relevance for the next enlargements as well, but we have to note that (1) the framework conditions have substantially changed in light of the financial and economic crisis sweeping around the world; (2) the potential new member countries have very different characteristics compared to previous enlargement waves; (3) the expected changes within the European Union in response to internal and external challenges can be

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15 Ibid.
16 According to plans, by 2015 Germany’s most important trading partner would be China, not an EU country.
very significant, which without doubt will change the environment (and probably the attractiveness and functioning of the single market) in which prospective enlargements can take place in the future. Obviously, at this moment we cannot draft the future conditions and environment in which the extension of the single market may occur. What we can do at this point, bearing in mind that during the previous enlargement rounds the impacts were felt almost exclusively before the accession actually took place, is to indicate those factors and fields that in the future will influence the development of the single market – if it remains to exist at all – and its extension to additional countries.

During recent decades global liberalisation in most parts of the world economy has been probably the most important economic phenomenon influencing global production, trade and investment trends. The external conditions were forcing a deepening of the EU market – free trade, capital movement and labour mobility – are no longer sufficient, given the sluggish growth in several EU countries. In previous decades the system was so successful that people came to believe in what former US President Ronald Reagan called the magic of the market place.\footnote{George Soros. Worst financial crisis in 60 years marks end of an era. The Financial Times Limited (22 January 2008) p. 1. http://www.econ.uchile.cl/uploads/documento/59e60a4463e6679b09b50e2b109360fe4cd387e5.pdf} Liberalisation was also influenced by the operations of transnational businesses embracing the global economy. At this moment transnational corporations remained the major drivers of business activities through their network of subsidiaries. The international ‘resolution’ to the market problem (liberalisation and extending business activities abroad) stabilised growth in an increasing number of countries, drawing in more and more markets and consumers. Unstopped liberalisation has been the key driver of global economic development.

Global liberalisation has undervalued the achievements of EU liberalisation. The Customs Union was a great achievement during the 1960s and 1970s, but its importance has since decreased due to General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) negotiations and agreements. The number of countries liberalising has increased and for capital mobility world economic integration probably became even more important than regional economic integrations. (‘Emerging markets’ became attractive investment targets. The mainstream economic thinking behind transformation was the Washington consensus requiring massive liberalisation and privatisation, thus creating very favourable trading and investment conditions for international business. The differences between doing business within the EU, in the single market, and with third countries have decreased significantly.)

In parallel with the EU enlargements, popular arguments against the single market have emerged in several countries asserting that the single market idea involves channelling the negative implications of globalisation, including (1) loss of jobs, because of increased competition; (2) disappearing industries because of weaker, smaller domestic economic actors; (3) a negative impact on structurally weak regions, which was expected to ease by regional and structural policies, though these are seemingly without success as reflected in further increasing regional differences within the EU. These negative implications deepened as the world economic crisis started to hit European economies, leading to the introduction of several forms of state intervention (the most notable sectors were banking and car manufacture, or ‘buy domestic’ products movements) with the aim of protecting domestic enterprises. In some countries open discrimination against foreign-owned companies is obvious. The crisis of the single market was expressed clearly by the Monti Report in 2010.
“A new strategy for the Single Market at the service of Europe’s economy and society’ is: ‘the Single Market (...) is less popular than ever, while Europe needs it more than ever.... The Single Market is seen as ‘yesterday’s business’ compared to other policy priorities. Social support for market integration is waning, including among business leaders and trade unions. Single Market regulations are often perceived as threatening established interests, flattening national diversity or as counter-productive to a well-functioning market economy. As a result of the global economic crisis, confidence in the positive role and fair functioning of markets has been reduced. ‘Integration fatigue’ is thus compounded by a feeling of ‘market fatigue’.”

The single market, the aim of which was clearly to deliver higher growth rates in order to keep the pace with other fast growing regions and to successfully compete with them, has not been very successful. During the past two decades in relative terms by comparison with the rest of the world, the EU’s economic performance has deteriorated. There are, of course, explanations for this that have precious little to do with the single market; even more the problems with the realisation of the single market can be blamed on the limited successes and even the absence of sufficient structural reform and weaknesses in the functioning of product, capital and labour markets. But the results, especially in view of the EU crisis, are quite disappointing.

Referring to the challenges mentioned in the Monti Report, the crisis of the single market is obvious and not all countries see the EU’s future in further deepening economic cooperation. State intervention would stop further market integration. There is the danger that governments fall in love with protectionism and ‘saving the domestic economy’, which leads to an increasing state role in the economy. (Research question for the future: what can be the implications of the wave of new protectionism if economic and financial problems could not be solved?)

At the same time, we should not forget about the new trends of economic thinking. For example, Stiglitz writes: “Neo-liberal market fundamentalism was always a political doctrine serving certain interests. It was never supported by economic theory. Nor, it should now be clear, is it supported by historical experience. Learning this lesson may be the silver lining in the cloud now hanging over the global economy.” Creation of the single market with the participation of less developed countries in many cases is unfavourable for the weaker countries, as their adjustment due to the increasing competition is unsuccessful (a kind of neo-colonial feature.). These days it is not very difficult to find unsuccessful countries in the EU. Mainstream economic thinking, in parallel with the economic policy and theory applied recently, is changing. The major message of these changes is that the market is unable to solve market problems; intensive state intervention is needed. This is a completely different approach compared to recent decades. The question is: what does it mean for the single market? The answer obviously will lie in the future structure of the European Union, probably containing country groups with different speeds. The increasing number of interventions that can be observed are focusing mostly on (1) an artificial increase of efficiency; (2) the rescuing of certain firms or industries; (3) structural changes divorced from market forces –

19 Joseph E. Stiglitz. The End of Neo-liberalism? Project Syndicate (7 July 2008) http://www.project-syndicate.org/commentary/the-end-of-neo-liberalism-
increasing risks (bubbles everywhere and in several sectors). These changes are expected to be reflected more and more, with support not for absolute liberalisation but for direct and indirect forms of protectionism.

On the other hand, there are several conditions in the world economy that have not changed significantly in spite of the recent transformation. On the global level, the openness of economies and markets de facto has not weakened. But the (geographical) pattern of trade is changing and the most remarkable feature of that is the shift indicating that the business turns towards more promising and growing markets instead of slowly growing EU countries.

Chapter 3 – Conclusion

Given the results from the literature review regarding the impacts of enlargement on trade and FDI flows, it is clear that the most important impacts of any enlargement were felt before accession took place. This impact may be even stronger in the case of Turkey, which is already part of the Customs Union. On the other hand, the extent of impacts now depends on a set of very uncertain trends. We can conclude that at least the following aspects have to be analysed in order to reach a well-founded conclusion about the possible trade and investment impacts of the extension of the single market in addition to the pre-accession trade and investment flows.

1. Globalisation is rapidly changing the context in which the single market operates. The conditions for establishing trade and investment contacts with fast growing countries are made easier by global liberalisation, WTO membership, fast economic growth and increasing demand in several parts in the world. All these mean that the original advantages of the single market (economies of scale, increasing demand for consumer and investment goods for business, etc.) have decreased or disappeared. The problem has even become larger as growth poles can be found outside the EU, drawing EU firms to strengthen their business connections with third countries instead of developing trade and investment relations in a slowly growing single market. In the EU in general, demand is sluggish and negative impacts of the Eurozone crisis are anticipated to be felt for at least the next 5-10 years. While in the 1990s and in the first half of the past decade the slower growth of the EU was compensated by fast growth in new member states and the secure internal market, today slow growth of the EU cannot promise much advantage. This explains the need for relaunching the single market by the 2011 set of measures, from which the decision-makers expect 1-2 per cent additional GDP growth, making the business environment more attractive. The question is, however, could this be done with artificial instruments if the relocation of production from EU countries or the downsizing of industries continues? Obviously, the future member states perhaps could deliver higher economic growth, which could be especially important in the case of Turkey, given its size and that the potentially very large increase of domestic demand could represent an attractive investment and trade target. After fixing the accession date, the experiences of previous enlargements can be seen here as well. And because of the development level of the country (and its size), this impact could be extended after the accession. At the same time, EU trade partners and investors have to face much bigger competition from third country competitors than was the case with the Central European new member states.
2. Enlargement makes the EU more diverse and at the same time makes it more difficult to ensure an adequate and uniform implementation of the single market. As experiences show, there are still several sectors where the single market has not been successful and serious protective measures have remained. Differences in language and regulation hamper services and goods trade in Europe significantly. These bottlenecks also explain the need for further measures with which efficiency can be increased and the barriers eliminated. The question however remains: what happens if the most likely differentiation of countries (a two- or three-speed EU) is developed? The very core countries can easily further develop the single market among themselves, but the remaining countries would see different alternatives as well. In this environment, new members are expected to join the periphery countries and this would limit the potential positive impacts of the single market on trade and investments.

3. The single market has to compete with third country business opportunities. Without further development and an impetus related to enlargement to 36, the results may disappear. The fields of competition are the following:

- International economic integration continues through the operation and strategies of transnational firms that are optimising their strategies on a global scale. Regulations regarding trade and investment are increasingly harmonised due to the WTO. At this moment only a few inward-looking large countries remain more or less outside the international economic integration. But given the unstoppable globalisation, the single market has to offer better opportunities for market participants; otherwise, doing business with third countries becomes more advantageous.

- Growth poles outside the EU. During the past decade the EU itself has experienced slower economic growth than any of the most important regions or countries (except for Japan, but it is not so important in this case). Average growth remains under the USA’s GDP growth, not speaking about emerging countries in the Far East or in Latin America. This slower economic growth has occurred despite the creation of the single market, the introduction of the euro or the initiation of the Lisbon programme. The current economic crisis further eroded growth prospects, hitting the demand side through loss of jobs, problems of bank financing and high levels of state debt. Slow growth prospects can push firms further towards third countries, which can limit the trade and investment opportunities of the single market. Without fair growth prospects, it is not well founded to expect a major improvement of trade and investment opportunities.

Given these competitive forces, there are two basic directions of future development which can be expected as far as the single market is concerned. Further market liberalisation or turning to somehow inward-looking strategies using open or indirect protectionist measures (cf. Hungary). The single market is today only a precondition for withstanding competition, as the difference between the level of liberalisation within the EU and in relation to third countries is lower than it was earlier. In the next stage it would be useful to analyse different scenarios for single market development and its implications for the EU36.
Bibliography

Chapter 1 – Introduction

European integration is frequently perceived as a political project, rather than one dealing with economics. However, data frequently points to a conclusion that the enlargement process often ignores bilateral relations and/or politics, and goes right to the point – the effects on the markets, i.e. the European Union (EU) single market and the market of the enlargement country. Such a position is only strengthened by analogous effects the EU integration has had on a homogenous groups of countries (such as the Visegrad Four, or the Baltic states), although these countries perceived themselves as almost entirely different in comparison with their close neighbours and had in fact distinctive relations with key EU economies or the EU as a whole.

The enlargement of the European Union can be envisaged from various perspectives, yet the focus of this paper is on the economic perspective. Although trade policies and investment practices could be influenced by political decision making, the authors will only assess the theoretical framework and the statistical data, and derive conclusions based solely on real economic parameters. In that respect, the data will be analysed on the macro level and will not go deeper into different regional and sectoral developments.

In this analysis, the logical matrix will be constructed on the interconnections between foreign direct investment and trade opportunities. The common economic policy objectives are set as a fulfilment of improvement of selected macroeconomic indicators. If the interconnections are only analysed on the national level, then the big picture might be a bit too blurry and static. As a matter of fact, it looks more like an accounting exercise in comparison to the assessment of the EU enlargement impact on the accession countries. This perspective is more reliable and dynamic because it shows a wider perspective and enables the tracing of causes and consequences. These arguments provide enough rationale for the introduction of the main methodological approach in this study. It is necessary to adopt the approach of integral analysis of two macroeconomic indicators in all examined cases and not to go case by case and analyse each indicator on an individual basis. The conclusions and statements of the authors will be derived on the basis of statistics and relevant data set. The authors firmly believe that the analysis of effectiveness of EU enlargement should be based on the data analysis.

1 The authors would like to extend their gratitude to the Ministry of Education, Science and Technological Development of Serbia for their support through the project on “Advancing Serbia's Competitiveness in the Process of EU Accession” (No. III47028).
As has already been mentioned, investment will be perceived as an instrument for trade account balance improvement. Also, from the standpoint of new member states, investment can be defined as a tool of economic convergence with old member states and completion of the process of transition. Therefore, the starting hypothesis is that investment leads to improvement of the trade balance and could influence positive effects on the labour market. Indisputably, every single investment is specific and in general would not exercise the same effects in different countries. However, the well-known rule can be repeated that investment which creates innovation of products leads to an increase in employment and that investment which creates innovation of processes can lead to a decrease in employment. These rules of thumb are extremely important for diversifying types and effects of investment, but in the context of this study, investment will be used as a broad framework.

Chapter 2 – Objectives and Indicators

2.1 Objectives

The study will not shed light upon specifics related to the trade policies, investment and nature of the economic growth in individual EU member states, but will try to answer a set of simple questions:

a. Is there any deterioration of macroeconomic indicators in the existing member states that can be linked to the EU enlargement process?

b. Were there any positive effects on selected macroeconomic indicators in new member states, which would justify further enlargement?

These questions shall be used as a general framework for the analysis in the study. EU enlargement as a long-term project certainly could not be continued if negative effects have occurred in old member states and consequently would be repeated in the next enlargement cycle.

If the enlargement process has led to an increase of wealth in new member states and has not threatened economic growth and investment in existing member states, then this is reason enough for the continuation of EU enlargement. By providing an evidence-based answer to the above questions, the aim of this paper is to prove that this assertion (still) stands.

2.2 Theoretical Assessment of Selected Indicators

The analysis of EU enlargement effects is a complex topic and therefore needs to be assessed by using several indicators. Our focus will be on the impact of foreign direct investment (FDI), gross domestic product (GDP) growth rate and trade balance.

The transition from a socialist towards a market economy would not be possible without the inflow of foreign capital. The EU enlargement process in the 1990s and early 2000s was fuelled by positive worldwide economic growth and trade liberalisation. In these settings, enlargement was a win-win process that benefited both existing member states and the accession countries.

The increase of economic growth and prosperity was based upon attracting foreign di-
rect investment. In the early stages of transition, the accession countries’ domestic savings were not an adequate source of investment. Therefore, foreign direct investment was one of the main instruments of EU accession countries’ economic convergence with existing member states. The literature provides proof that FDI is positively related to both source and host country GDP, and is related inversely to the distance between the countries and to unit labour costs. In addition, investment has been both market and efficiency seeking. Finally, announcements concerning potential membership may create vicious and virtuous circles of growth, EU membership and FDI.

Key determinants of FDI inflows in Central and Eastern European candidate countries’ (CEEC) economies are the size of the host economy, host country risk, labour costs in the host country and openness to trade. In a study with a similar focus, the key determinants of the growth of FDI to the region are the pace of income growth and the success with which CEEC governments orient their policies to be conducive to business. Traditional FDI determinants are: market potential, low relative labour costs, a skilled workforce and relative endowments having significant and plausible effects. The principal aim of the foreign direct investment is to maximise production and this can only be achieved by exporting products. The exporting rationale is based upon the host country’s demand assessment. Intra-national demand has proven to be quite weak and not sufficient for maximisation of returns of investment. The increase of exports from accession countries was a logical and desired outcome. Even though FDI and exports might theoretically be alternative strategies for multinational corporations, there are important examples in practice whereby FDI sometimes complements exports through the mechanism of stimulating exports of intermediate goods to the home country. With the 1992 Single Market programme, the abolition of border controls on intra-EU trade, as well as the harmonisation or mutual recognition of standards and other regulations, are intended to increase intra-EU competition and hence intra-EU trade.

The most important macroeconomic roles of foreign direct investments are:

a. Enhancement of economic growth;
b. Increase of exports;
c. Reduction of unemployment;
d. Stabilisation of currency.

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3 Ibid.
7 Poland was the only accession country with a significant national market.
Foreign direct investments are used to decrease the gap between potential and actual gross domestic product, to reallocate resources and to improve efficiency of production processes. The flow of foreign direct investment is directed towards higher returns on capital. Consequently, the flow of capital from the existing member states to the accession states was a rational presumption and a predictable outcome. Foreign direct investment might lead to negative effects in the capital outflow countries. However, this was not the case in the ‘pre-accession’ period of 1990-2004, due to positive worldwide economic trends. Removal of trade barriers and convergence with the single market opened new markets for the exporters of existing member states, which exceeded the negative effects related to production outsourcing to the accession states.

The EU cohesion policy, creating more favourable conditions for investments in peripheral regions through funding, training, infrastructure, and research and development activities, succeeded in attracting multinational firms, counteracting agglomeration forces which lead to a concentration of economic activities in core regions (of the EU). The role of cohesion policy and structural funds will be even more important in the future due to the negative effects of the economic crisis.

Chapter 3 – Methods and Empirical Analyses

3.1 Data and Data Sources

The purpose of looking into different groups of countries among EU member states is to examine the effect the enlargement of 2004 had on existing member states of the time and to determine whether further enlargements will have a positive or a negative effect on current members of the European Union. Furthermore, we examine the available data in relation to all the countries on the enlargement agenda (candidate and potential candidate countries) in order to determine what general effects their accession to the EU would have on their economies. We examine the effects enlargements had and could have on current members of the European Union (particularly 15 countries in 2004, as the enlargement of 2007 coincided with the onset of the global economic crisis, while the enlargement of 2013 is still too fresh to result in any meaningful data concerning its impact), but we also study effects on new members (particularly the eight Central and Eastern European economies acceding in 2004, without Cyprus and Malta, as well as Bulgaria and Romania in 2007).

The data used in this paper comes solely from Eurostat databases. The main indicator used to measure economic growth was gross domestic product at market prices, measured as a percentage change on the previous period (Eurostat code: nama_gdp_k). The period we examine is from 1991 until 2012 – even though data is available for two more years, we...

12 Data extracted on 12 August 2013.
have excluded them, as 2013 and 2014 figures are still just estimates. We look into the value of this indicator for all member states of the European Union as of August 2013 (EU28), but also take account of these values in the countries on the enlargement agenda for which Eurostat has data available – Iceland, Montenegro, Macedonia, Serbia and Turkey.

Furthermore, foreign direct investment has been measured as direct investment in the reporting economy, with all countries of the world as a ‘partner state’ (Eurostat code: bop_fdi_main). The longest period available is between 1995 and 2011. We also consider, in addition to EU28 states, the countries on the enlargement agenda, albeit now the data is available only for Iceland, Macedonia and Turkey.

Finally, the impact on foreign trade has been analysed through two sets of indicators – the first is a sum of exports and imports of goods and services (at 2005 exchange rates, with 2005 being the reference year) in millions of euro (Eurostat code: nama_exi_k). From this data we calculated the total amount of foreign trade with 2005 as a base year (2005=100) and compared it to values this indicator had throughout the observed period. In addition, the same data was used to calculate the coverage of imports of goods and services by exports in all EU28 states, as well as enlargement countries (Iceland, Montenegro, Macedonia, Serbia and Turkey). The observed period was from 1991 until 2012, whilst we also took into account the estimates for 2013 and 2014 concerning the amount of foreign trade in order to have a better grasp of the trends.

In regressions concerning the countries joining in 2004 (EU8), we have also used two variables that have been ‘politically’ defined (EU8 Status and EU8 Status Detailed). The first indicator is binary, 0 or 1, depending whether the EU8 states were or were not members of the European Union at any particular time, 2005 being the cut-off year. The second indicator goes into more detail on the very process of enlargement for each of these countries, indicating steps beginning with their political decision to join the EC/EU, which corresponds to the beginning of the transition process, followed by being granted candidate for EU membership status, commencing the accession negotiations, and finally acceding to the EU. As the process advances, this indicator changes value from 0 to 4. The primary purpose of this exercise is to determine what kind of effect, if any, the enlargement process itself has on potential new EU members, rather than the membership alone.

The following designations and acronyms are used in this paper:

a. EU28 – 28 member states of the European Union as of July 2013, with the most recent accession of Croatia included in the analysis;
b. EU27 – 27 member states of the European Union prior to Croatian accession in July 2013, with Romania and Bulgaria as latest additions;
c. EU15 – 15 member states of the European Union as of 1995, following the Fourth enlargement of 1995 with Austria, Finland and Sweden, and prior to the accessions of 2004, 2007 and 2013;
d. EU8 – Eight new Central and Eastern European member states from the 2004 enlargement, excluding Cyprus and Malta;
e. EU2 – Romania and Bulgaria;

13 As the 2004 enlargement took effect on 1 May 2004 and we have been analysing data on an annual basis, we have decided to account for EU membership only in the first full year of the membership, which is 2005.
3.2 Statistical Analysis

The trends of economic indicators were assessed by joinpoint regression analysis. The significance level was set at $P \leq 0.05$. Each joinpoint marks a significant change in the trend, and an annual percentage of change (APC) and the corresponding 95% confidence interval are computed from each trend using generalized linear models assuming a Poisson distribution. In the final model, the joinpoint analysis also provides an average annual percentage change (AAPC) – a summary measure over a fixed interval, which is computed as a weighted average of the APCs from the joinpoint model.

We have used five different economic indicators (GDP, FDI, Coverage, ExIm and ExIm 2005) as the dependent variables and year as the independent variable. The by-variables were three chosen groups of European countries (EU27, EU15 and EU8). A number of joinpoints were set between 0 and 4. The Grid Search method was selected. The minimum number of data points from the beginning of the series was set at three and there were at least four data points between two joinpoints. The permutation test and Bayes Information Criteria (BIC) were used to select the best joinpoint models. The first one was with an overall significance level of 0.05 and 4499 randomly selected data sets. Along with that we described the stated economic indicators values with their mean and median for the examined periods as well.

We also used a specific procedure – a comparability test to compare two segmented line regression functions. All two-way combinations of the three different groups of European countries as by-variables were tested. The main goal of the comparability test was to compare two sets of trend data whose mean functions are represented by joinpoint regression.

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14 Joinpoint Regression software, version 3.5.3, available through the Surveillance Research Program of the US National Cancer Institute.
Specific interests were to test:
  a. whether two joinpoint regression functions were identical (test of coincidence), or
  b. whether two regressions mean functions were parallel (test of parallelism).\textsuperscript{18}

In order to identify the most informative predictors in linear economic indicators time series models, we used univariate and multivariate linear regression analysis with the ‘Enter’ method for optimal selection of variables.\textsuperscript{19} Dependent variables were respectively five economic indicators for EU15 and EU8 countries, and independent variables were: year, the same economic indicator for EU8 countries, detailed status of EU accession for EU8 countries, and status of EU membership for EU8 countries. The squared multivariate correlation coefficient, unstandardized regression coefficient \( b \) with its 95% confidence interval, standardized regression coefficient beta and their probabilities of rejecting null hypothesis are given. The significance level was set at \( P \leq 0.05 \).

**Chapter 4 – Impact Assessment**

**4.1 Impact on Existing EU Member States**

This analysis is aimed at our first question – whether there is any deterioration of macroeconomic indicators in existing member states which could be linked to the enlargement process and accession of new member states. We have picked the 2004 enlargement for four groups of reasons:

a. The 2004 enlargement was large on every scale – in terms of population, economy, territory and the very number of acceding states. Larger enlargements are likely to have more effect on existing member states;\textsuperscript{20}

b. Unlike the previous enlargement of 1995, the countries acceding in 2004 were mostly under the EU15 average. This would likely be the case with any future enlargement having the current enlargement agenda in mind, except for the case of Iceland;

c. The enlargements of 2007 and 2013 are challenging for evaluation at this time: the former coincided with the onset of the global economic crisis, while the latter is still too recent to analyse its impact;

d. Sufficient time has passed since the 2004 enlargement, which makes ample data available to evaluate the enlargement impact both in enlargement countries and the existing EU member states.

Joinpoint analyses show (see Table 4.1) that there are no negative trends on selected macroeconomic indicators in the EU15 that were a result of the 2004 enlargement.


\textsuperscript{20} Still, it might be worth noting that in a scenario where all countries on the enlargement agenda joined the EU at the same time, making it the EU36, the impact would be considerably smaller than that of the 2004 enlargement, regarding population, economy and territory. If Turkey were to be excluded, the impact would be similar to that of the accession of Romania only.
Table 4.1: Joinpoint regression analysis of selected economic indicators in Europe, by groups of European countries, in 1991-2011 period.

<table>
<thead>
<tr>
<th>Economic Indicators</th>
<th>Years</th>
<th>Mean</th>
<th>AAPC† (95%CI)</th>
<th>Number of joinpoints</th>
<th>Years</th>
<th>APC‡ (95%CI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (Mean Percentage change on previous period)</strong></td>
<td></td>
<td></td>
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<tr>
<td>EU27 1991-2011</td>
<td>2.37</td>
<td>5.1</td>
<td>(-8.8 to 21.1)</td>
<td>3</td>
<td>1991-1995</td>
<td>46.2*      (12.6 to 89.7)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1995-2006</td>
<td>1.7          (-4.6 to 8.5)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006-2009</td>
<td>-36.6        (-72.2 to 44.6)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2009-2011</td>
<td>38.3         (-39.4 to 215.4)</td>
</tr>
<tr>
<td>EU15 1991-2011</td>
<td>2.19</td>
<td>8.7</td>
<td>(-9.7 to 31.0)</td>
<td>3</td>
<td>1991-1995</td>
<td>49.4*       (6.2 to 110.3)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1995-2006</td>
<td>4.5          (-2.9 to 14.9)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006-2009</td>
<td>-45.3        (81.4 to 61.2)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2009-2011</td>
<td>88.8         (-35.9 to 456.0)</td>
</tr>
<tr>
<td>EU8 1991-2011</td>
<td>1.95</td>
<td>5.5</td>
<td>(12.2 to 26.9)</td>
<td>3</td>
<td>1991-1995</td>
<td>67.9*       (17.4 to 140.2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1995-2005</td>
<td>-3.0         (12.5 to 7.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2005-2008</td>
<td>-43.2        (81.7 to 76.2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2008-2011</td>
<td>39.5         (-20.8 to 145.7)</td>
</tr>
<tr>
<td><strong>FDI (Mean direct investment income in million ECU/EUR)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU27 1994-2010</td>
<td>17,750</td>
<td>5.7*</td>
<td>(3.7 to 7.7)</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU15 1994-2010</td>
<td>26,383</td>
<td>5.6*</td>
<td>(3.5 to 7.7)</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU8 1994-2010</td>
<td>7,163</td>
<td>5.6</td>
<td>(-6.2 to 18.9)</td>
<td>3</td>
<td>1994-1997</td>
<td>10.2        (17.8 to 47.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1997-2000</td>
<td>-35.3        (-64.0 to 16.1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2000-2004</td>
<td>53.0*        (14.2 to 105.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2004-2010</td>
<td>3.2          (-6.5 to 13.9)</td>
</tr>
<tr>
<td><strong>Coverage (Coverage of imports by exports)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU27 1991-2012</td>
<td>1.01</td>
<td>0.2</td>
<td>(-0.1 to 2.6)</td>
<td>2</td>
<td>1991-1993</td>
<td>2.3         (-0.6 to 5.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1993-1997</td>
<td>-0.8*        (-0.9 to -0.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007-2012</td>
<td>1.9*         (1.3 to 2.6)</td>
</tr>
<tr>
<td>EU15 1991-2012</td>
<td>1.04</td>
<td>0.4*</td>
<td>(0.2 to 0.7)</td>
<td>2</td>
<td>1991-1993</td>
<td>4.6*         (2.2 to 7.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1993-1999</td>
<td>-0.4*        (-0.5 to -0.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2009-2012</td>
<td>2.2*         (1.0 to 3.4)</td>
</tr>
<tr>
<td>EU8 1991-2012</td>
<td>0.98</td>
<td>-0.5</td>
<td>(-1.2 to 0.3)</td>
<td>2</td>
<td>1991-1996</td>
<td>-4.7*        (-6.7 to -2.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1996-2007</td>
<td>-0.1         (-0.8 to 0.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007-2012</td>
<td>3.0*         (0.8 to 5.5)</td>
</tr>
<tr>
<td><strong>ExIm (Mean Exports and imports by the EU countries and by third countries – volumes in millions of euro)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU27 1991-2014</td>
<td>283,571</td>
<td>1.5</td>
<td>(0.4 to 2.6)</td>
<td>2</td>
<td>1991-1996</td>
<td>-7.1*        (-10.4 to -3.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1996-2006</td>
<td>5.6*         (4.1 to 7.2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006-2014</td>
<td>2.0*         (0.2 to 3.8)</td>
</tr>
<tr>
<td>EU15 1991-2014</td>
<td>448,074</td>
<td>3.1*</td>
<td>(2.2 to 4.0)</td>
<td>2</td>
<td>1991-1995</td>
<td>0.2          (-3.6 to 4.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1995-2006</td>
<td>5.2*         (4.2 to 6.2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006-2014</td>
<td>1.8*         (0.5 to 3.2)</td>
</tr>
<tr>
<td>EU8 1991-2014</td>
<td>63,430</td>
<td>8.0*</td>
<td>(7.8 to 9.9)</td>
<td>2</td>
<td>1991-1998</td>
<td>13.4*        (11.1 to 15.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1998-2007</td>
<td>9.5*         (7.8 to 11.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007-2014</td>
<td>3.7*         (1.7 to 5.8)</td>
</tr>
<tr>
<td><strong>ExIm (2005=100)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU27 1991-2014</td>
<td>86.6</td>
<td>5.5*</td>
<td>(4.8 to 6.1)</td>
<td>1</td>
<td>1991-2007</td>
<td>7.2*         (6.6 to 7.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007-2014</td>
<td>1.7          (0.1 to 3.5)</td>
</tr>
<tr>
<td>EU15 1991-2014</td>
<td>89.1</td>
<td>5.0*</td>
<td>(5.2 to 6.6)</td>
<td>1</td>
<td>1991-2006</td>
<td>8.1*         (7.4 to 8.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006-2014</td>
<td>1.9*         (0.3 to 3.6)</td>
</tr>
<tr>
<td>EU8 1991-2014</td>
<td>84.6</td>
<td>4.8*</td>
<td>(3.4 to 6.1)</td>
<td>2</td>
<td>1991-1993</td>
<td>-4.8*        (16.9 to 9.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1993-2007</td>
<td>7.6*         (6.8 to 8.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007-2014</td>
<td>2.2*         (0.3 to 4.0)</td>
</tr>
</tbody>
</table>

† average annual percentage change; ‡ annual percentage of change; *P≤0.05
In fact, FDI shows a constant positive trend during the entire observed period (1995-2011); the only significant drop, which failed to change the trend, was at the onset of the global economic crisis (see Figure 6.5).

Selected foreign trade indicators are generally positive. Joinpoint identifies three different trends (see Figure 6.11) in total amount of foreign trade – stagnating (1991-1995), fast growth (1995-2006), and growth (2006-2014 est.). However, it is worth noting that the amount of foreign trade dropped significantly in 2009, returning to previous levels only in 2011. Nevertheless, the EU15 maintained a positive trend. If we take 2005 as an index year, only two trends are identifiable – fast growth until 2006 and somewhat slower growth after that year (see Figure 6.14). Finally, coverage of imports by exports was on a negative trend from 1993, but started recovering in 2009 at a rapid rate (see Figure 6.8).

GDP growth rate for the EU15 was rising until 1995; then it was on a negative trend as growth was slowing down until 2005. Following that, the global crisis induced a quicker decrease of growth, ultimately followed by a shift in trend in 2008 (see Figure 6.2). However, the dataset is still somewhat limited and GDP growth results for the coming years might change that.

Regression analysis shows a somewhat stronger connection between the EU15 and the EU8 countries (see Table 4.2). However, the only variables that point to a significance of EU8 membership in the EU are those related to the foreign trade levels of the EU15, something quite expected. However, all these relations are positive, i.e. membership of the EU8 in the European Union only increased either the amount of foreign trade in the EU15 or coverage of their imports with exports.

Regarding GDP growth rate, the EU15 show a strong correlation with the growth rate of the EU8 countries. This could have been anticipated, as these economies are interconnected and it would be improbable for the average of one entire group of economies to deviate from the other. However, the crisis itself has shown that individual exceptions are possible, both positive and negative. Direct investment into reporting economies failed to show any correlation between EU15 and EU8 countries, or the status of EU8 countries – in other words, FDI in EU15 countries has been entirely unaffected by the EU8 becoming members of the European Union. Finally, foreign trade demonstrates a relation between the level of foreign trade of EU15 economies and the status of European integration of EU8 countries. All of these relations are positive, nonetheless. Even though the primary drive for an increase of foreign trade in the EU15 seems to be time itself, the EU8 becoming EU members has had a positive effect on the amount of foreign trade of the EU15 (P=0.022), while the EU8's road to membership has had a positive effect on the EU15's coverage of imports with exports (P=0.003).

These analyses lead us to the conclusion that enlargement of the European Union does not adversely influence existing EU members.

---

21 i.e. trade increases as time passes.
Table 4.2: Regression models with economic indicators for EU15 as dependent variables.

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>R²</th>
<th>b</th>
<th>95% CI</th>
<th>beta</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>lower</td>
<td>upper</td>
<td></td>
</tr>
<tr>
<td>GDP models with EU15GDP as dependent variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>0.062</td>
<td>-0.087</td>
<td>-0.250</td>
<td>0.076</td>
<td>-0.248</td>
</tr>
<tr>
<td>EU8 GDP</td>
<td>0.610</td>
<td>-0.188</td>
<td>-0.304</td>
<td>-0.072</td>
<td>-0.536</td>
</tr>
<tr>
<td>Year</td>
<td>0.086</td>
<td>-0.258</td>
<td>-0.800</td>
<td>0.284</td>
<td>-0.737</td>
</tr>
<tr>
<td>EU8 Status Detailed</td>
<td>0.094</td>
<td>-0.011</td>
<td>-0.295</td>
<td>0.317</td>
<td>0.031</td>
</tr>
<tr>
<td>EU8 Status</td>
<td>0.094</td>
<td>-1.449</td>
<td>-5.264</td>
<td>2.366</td>
<td>-0.332</td>
</tr>
<tr>
<td>FDI models with EU15 FDI as dependent variable</td>
<td>0.667</td>
<td>1.382</td>
<td>845</td>
<td>1.919</td>
<td>0.817</td>
</tr>
<tr>
<td>Year</td>
<td>0.740</td>
<td>916</td>
<td>208</td>
<td>1.623</td>
<td>0.541</td>
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<tr>
<td>EU8 FDI</td>
<td>0.672</td>
<td>1,048</td>
<td>-642</td>
<td>2.739</td>
<td>0.619</td>
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<tr>
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<td>609</td>
<td>-333</td>
<td>1.550</td>
<td>0.360</td>
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<tr>
<td>EU8 Status</td>
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<td>9,018</td>
<td>-355</td>
<td>18,392</td>
<td>0.535</td>
</tr>
<tr>
<td>Coverage models with EU15 Coverage as dependent variable</td>
<td>0.031</td>
<td>-0.001</td>
<td>-0.003</td>
<td>0.001</td>
<td>-0.175</td>
</tr>
<tr>
<td>Year</td>
<td>0.067</td>
<td>-0.001</td>
<td>-0.003</td>
<td>0.001</td>
<td>-1.001</td>
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<tr>
<td>EU8 Coverage</td>
<td>0.408</td>
<td>0.007</td>
<td>0.002</td>
<td>0.011</td>
<td>1.615</td>
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<td>EU8 Status Detailed</td>
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<td>-0.062</td>
<td>-0.016</td>
<td>1.892</td>
<td>0.003</td>
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<td>0.001</td>
<td>-0.002</td>
<td>0.005</td>
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<tr>
<td>ExIm models with EU15 ExIm as dependent variable</td>
<td>0.954</td>
<td>15,961</td>
<td>14,410</td>
<td>17,512</td>
<td>0.977</td>
</tr>
<tr>
<td>Year</td>
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<td>-2,820</td>
<td>-9,719</td>
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<td>-0.173</td>
</tr>
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<td>EU8 ExIm</td>
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<td>8370</td>
<td>16,396</td>
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<td>13,099</td>
<td>10,320</td>
<td>15,878</td>
<td>0.802</td>
</tr>
<tr>
<td>EU8 Status</td>
<td>0.949</td>
<td>4.80</td>
<td>4.31</td>
<td>5.29</td>
<td>0.974</td>
</tr>
<tr>
<td>ExIm 2005=100</td>
<td>Year</td>
<td>0.949</td>
<td>4.80</td>
<td>4.31</td>
<td>5.29</td>
</tr>
<tr>
<td></td>
<td>Year</td>
<td>0.982</td>
<td>-2.96</td>
<td>-2.02</td>
<td>1.43</td>
</tr>
<tr>
<td></td>
<td>EU8 ExIm 2005</td>
<td>Year</td>
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<td>4.14</td>
<td>2.79</td>
</tr>
<tr>
<td></td>
<td>EU8 Status Detailed</td>
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<td>0.969</td>
<td>3.617</td>
<td>2.834</td>
</tr>
<tr>
<td></td>
<td>EU8 Status</td>
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</table>
4.2 Impact on New Member States

It is extremely difficult to assess the effect of EU enlargement on states that are currently in the enlargement process without having at least a timeframe concerning their accession to the EU. As this still seems to be intangible, a much easier (and more accurate) method of evaluating these effects is to look into outcomes of the 2004 enlargement in economies which were similar in their performance, size, and political and social background to those in the present enlargement agenda. This obviously relates more to the Balkan countries than to Iceland, which is in category of its own, or to Turkey, whose population is triple that of all other enlargement states put together. Nevertheless, the question of Turkish and Icelandic accession to the EU is more on the political side of the fence, while Balkan countries still have a political go-ahead dating back to the conclusions of the European Council summit of Thessaloniki in 2003, but alignment of their laws with the acquis and economic performance and readiness to face the competition of the single market are still very much the subject of discussion.

Joinpoint analyses of EU8 performance in the past two decades display more trends than those of EU15 countries – apart from the global economic crisis both groups of nations shared, the EU8 also went through a process of transition, only to be closely followed by accession to the EU as well. Therefore, this was something to be expected.

Following the transition gap and the first trend that lasted until 1995, GDP growth rate was increasing at a steady rate all the way to 2006, at levels well above 5 per cent. The ensuing negative trend due to the global economic crisis lasted until 2009, when another phase of growth increase started (see Figure 6.3). However, it is worth noting that the second trend (1995-2006) coincided with the European integration process almost to the date, during which these economies recorded significant growth rates.

Direct investment shows an even clearer picture – there was an upward trend until 1998, followed by a short drop that lasted until 2001. Subsequently, a fast increase in FDI levels began and lasted until 2005, when a sizeable upturn in FDI levels was recorded, and this enlarged level has been maintained and further increased until today (2005-2011). The significant increase of FDI coincides with the final stages of EU integration (opening accession negotiations), while the final surge, which was the most significant one, came as a result of the membership itself (see Figure 6.6).

Foreign trade was heavily influenced by EU membership (see Figures 6.9, 6.12 and 6.15). The volume of foreign trade has been on the rise constantly since 1993, with the exception of the first years of the economic crisis, and this has also been identified by trends in both total amount of exports and imports, and their indexed value. Coverage of imports by exports has actually been improved due to the crisis (actually, more prudent behaviour induced by the crisis) – three trends have been identified, a sharp drop at the beginning of the transition (1991-1996), followed by a period of relative stagnation (1996-2007), leading to a significant improvement (2007-2012).

Regression analyses (see Table 4.3) strongly point out the correlation between EU enlargement and trade and investment performances of accession countries. Foreign invest-

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ment displays interconnections with the status of accession, i.e. as the process continues and develops, the investment become higher. The same is true for the amount of foreign trade, though it did not seem to have an effect on the coverage of imports by exports.

This proves that enlargement countries profit not only from membership, but also from the process itself – the process is, however, not an adequate substitute for the full membership at the end. The economic impact of accession to the EU is, unsurprisingly, far profounder than we have shown by way of these selected indicators; nevertheless, they are not only preconditions, but also signs of an economy that is entering a different, faster and deeper stage of development.

Table 4.3: Regression models with economic indicators for EU8 as dependent variables.
Chapter 5 – Conclusion

The European integration process, though often impeded and conditioned by politics, is still more about economy than anything else, especially for those who already enjoy the benefits and responsibilities of the single market. The more time a country spends in the EU, the more its citizens, entrepreneurs and the political elite are aware of the impact membership has on the economy – and this is why economic implications are first to surface once a discussion about new potential candidates begins. The political implications usually highlight economy-related matters, such as the rule of law and corruption issues, which are essentially tools for a predictable and enforceable business environment. However, behind all this EU conditionality, which actually boils down to adopting and efficiently implementing the acquis, economic interests prevail. The EU will gladly accept any (European) country with a compatible economy and adequate workforce, if it respects the Copenhagen criteria. This is why economic interests (and compatibility) are what is key for Iceland leading the pack (despite its own reluctance), Western Balkans countries trailing behind, and Turkey being kept at bay for decades, which is unprecedented. The reasoning for this is publicly almost always political, but the economic impact is such that it just reiterates the claim that economic interests are behind the actual pace of accession of these countries.

However, this fear usually emanates from the concern (more) developed EU countries have about the unemployed workforce from poorer member states, or future member states. The mythical scenario where unqualified workers from ‘the East’ flood ‘the West’ never materialised – nonetheless, it still persists, as enlargement continues eastwards through the Balkans to Turkey. And it does so regardless of restrictions placed on the freedom of movement for new EU members, visa policies towards some candidate and potential candidate countries, and long-existing ethnic communities of potential member states in the most developed EU countries.

As regards FDI, it is perfectly clear that opening up to new markets increases the potential for investment, rather than losing it to new member states. Economies of scale attract investors; they do not drive them away. While there is a new competitor in the field each time a new state joins the EU, competition itself is already very fierce in the EU28. In addition, free trade agreements (or even the unilateral abolition of customs tariffs the EU tends to offer potential candidates, with some restrictions) already make these countries attractive for investment. Furthermore, candidate status reaffirms their reputation of a state ruled by law with a functioning market economy, and it is this, rather than membership itself, which brings new investment.

Finally, GDP growth rates point to the European Union being an opportunity, not a holy grail. Growth stems from increased competitiveness and investment, which is a result of market economy performance, the rule of law and ever-increasing efficiency – the only way for an economy of a country to ‘survive’ the competition of the single market. But enlargement is an opportunity for everyone. It does not benefit only the existing members (proven in a way by candidate countries struggling to join) or candidate countries (because the enlargement agenda is still in existence, and has been with various degrees of enthusiasm since the EU was founded) – it benefits all. Moreover, no country has ever seriously considered leaving the Union, and most certainly not for economic reasons. Therefore, EU enlargement seems to be a prosperous development agenda for both current member states and for the accession countries.
Figure 6.1: Scatter plot, Joinpoint Model, and Annual Percentage Change of the GDP series for EU27.

Figure 6.2: Scatter plot, Joinpoint Model, and Annual Percentage Change of the GDP series for EU15.

Figure 6.3: Scatter plot, Joinpoint Model, and Annual Percentage Change of the GDP series for EU8.
**Figure 6.4**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the FDI series for EU27.

**Figure 6.5**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the FDI series for EU15.

**Figure 6.6**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the FDI series for EU8.
**Figure 6.7:** Scatter plot, Joinpoint Model, and Annual Percentage Change of the coverage of imports with exports series for EU27.

**Figure 6.8:** Scatter plot, Joinpoint Model, and Annual Percentage Change of the coverage of imports with exports series for EU15.

**Figure 6.9:** Scatter plot, Joinpoint Model, and Annual Percentage Change of the coverage of imports with exports series for EU8.
Figure 6.10: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU27.

![Figure 6.10: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU27.](image1)

Figure 6.11: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU15.

![Figure 6.11: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU15.](image2)

Figure 6.12: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU8.

![Figure 6.12: Scatter plot, Joinpoint Model, and Annual Percentage Change of the amount of foreign trade series for EU8.](image3)
**Figure 6.13**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the indexed amount of foreign trade (2005=100) for EU27.

**Figure 6.14**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the indexed amount of foreign trade (2005=100) for EU15.

**Figure 6.15**: Scatter plot, Joinpoint Model, and Annual Percentage Change of the indexed amount of foreign trade (2005=100) for EU8.
Bibliography


Chapter 1 – Introduction

Current European Union (EU) policy documents related to employment and labour market issues often emphasise the future challenge of a more diverse workforce within the EU as a consequence of increased mobility and migration. Indeed, even the recent economic crisis has not induced much change in mobility (apart from the fact that outflow from the Mediterranean EU member states increased due to serious recession there). Although the inflow of workers from the 10 “new member states” may have been reduced to some extent into several member states, as is pointed out by a recent research,\(^1\) no mass return happened. It is remarkable, however, that future enlargements and its potential impacts are hardly mentioned within this context. This is all the more striking since Croatia already joined the EU in mid-2013 and, as has been emphasised by another document on future enlargements, the country’s accession could be regarded as the first step towards a series of accessions of other countries in the Western Balkans region.

If the labour market in an enlarged economic area is seen not just as the total of labour markets of the constituent member states but rather as an entity itself in its complexity, where interactions and relationships matter, one of the major issues is labour mobility. As can be clearly seen nowadays, further enlargement could raise many issues and challenges from this point of view. Although the free movement of workers is one of the basic principles of the EU, it seems likely that initially restrictions would remain in place for a certain period (this usually lasted seven years during the previous rounds of accessions of less developed countries). This is all the more likely since many of the (potential) candidates have a recent history of large labour outflow precisely to some of the EU member states (the most notable example is Turkey). In addition, as has already been the case, there are large differences between the average gross domestic product (GDP) per capita of the current EU member states and most of the countries which are to join the EU later.

As a background for constructing a theoretical model of the EU36, this study aims to focus on those key factors which have the potential to strongly influence future labour mobility developments. Therefore, first the situation in the potential member states will be analysed on the basis of macroeconomic, demographic and labour market indicators. In the second part of the study, experiences of the previous, most recent enlargements (in 2004

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and 2007) will be outlined with special regard to possible lessons and implications for future enlargements.

Chapter 2 – Economic Context

2.1 Income Differentials

From the point of view of potential future mobility, an analysis of income differentials is of high importance, since this could be a key factor behind high motivation for moving to another country. Although in the case of Croatia, the income differential from the EU average is more or less equal to Hungary and in its order of magnitude the situation in Turkey seems comparable to that of Bulgaria and Romania, in other countries the GDP in purchasing parity standard is much lower than the EU average: in Macedonia and Serbia it is just slightly higher than one third of the average, whereas in Bosnia and Herzegovina it is lower, and the lowest can be found in Albania, where it is just slightly higher than one quarter of the EU average.

Table 2.1: Income differentials, as reflected in GDP purchasing power standard (PPS). (Index, EU27 = 100).

<table>
<thead>
<tr>
<th>Countries</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>38</td>
<td>40</td>
<td>44</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Germany</td>
<td>115</td>
<td>116</td>
<td>116</td>
<td>116</td>
<td>118</td>
</tr>
<tr>
<td>Hungary</td>
<td>63</td>
<td>62</td>
<td>64</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Romania</td>
<td>38</td>
<td>42</td>
<td>47</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Montenegro</td>
<td>36</td>
<td>40</td>
<td>43</td>
<td>41</td>
<td>41°</td>
</tr>
<tr>
<td>Croatia</td>
<td>58</td>
<td>61</td>
<td>64</td>
<td>64</td>
<td>61</td>
</tr>
<tr>
<td>Macedonia</td>
<td>30</td>
<td>31</td>
<td>34</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Serbia</td>
<td>32</td>
<td>33</td>
<td>36</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>Turkey</td>
<td>45</td>
<td>46</td>
<td>47</td>
<td>46</td>
<td>49</td>
</tr>
<tr>
<td>Albania</td>
<td>23</td>
<td>23</td>
<td>26</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>27</td>
<td>28</td>
<td>30</td>
<td>31</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Eurostat.
°: Provisional data.

Although income differentials are important when analysing migration potential (and help in explaining past and current mobility trends – see, for example, the section on experiences of the most recent enlargements), this cannot be regarded as the only influential factor. Political and economic developments and stability, both in the sending and the previous migration patterns (so-called network migration) and other factors (such as costs of migration) also play a prominent role. Among these factors, the next section focuses on recent economic developments and possible prospects.
2.2 Recent Economic Developments with Special Regard to the Crisis

Economic development in most of the countries (i.e. Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia) is restrained by their low export capacity, and this is reflected in their high trade deficits. “Current accounts displayed marked deterioration in the period prior to the crisis in two economies: Montenegro and Serbia. Most of the countries in the group rely on major transfers in the form of remittances from their nationals living and working abroad, thus partly offsetting the high trade deficit.”2 The most well known example of this is Albania (but in Serbia this moderating effect is also considerable). In addition, some of the countries are struggling with twin deficit since their budget deficit is at quite a high level, being around 5 per cent (e.g. in Croatia and Serbia, despite all previous efforts of fiscal prudence, watched by the International Monetary Fund (IMF), and Albania). This has the potential of further exacerbating the debt position of these countries.3

It is understandable that after the crisis broke out, almost all the countries recorded a negative GDP growth rate (with the exception of Albania and Kosovo, but even in these countries it became much lower than before, being 3.3 per cent and 2.9 per cent in 2009, as against 7.5 per cent and 6.9 per cent in 2008, respectively).4 Their GDP, however, fell by varying degrees, and in some countries at least certain signs of recovery could be observed from 2010, for example in Macedonia and Bosnia and Herzegovina, as well as in Montenegro, where GDP fell by 5.7 per cent in 2009, but grew by 2.5 per cent in 2010.5 Although the crisis also hit Turkey, this is the only country where a remarkable recovery could be observed: here already in the second quarter of 2009 an economic recovery was registered, which further developed, leading to a not less than 9 per cent growth. According to analysts, “this is due to an impressive package of fiscal consolidation and institutional reform”, which “has continued to have a positive impact on economic growth.”6

As regards most of the countries of the region, however, the growth prospects in the short term (within the next one or two years) do not seem to be promising: in view of the continuing crisis in the Eurozone, especially in nearby Greece and other southern European countries, the export prospects are weak and there are no signs of other factors which could help further recovery.

Chapter 3 – Some Demographic Features and Labour Market Trends

3.1 Demographic Features

As an introduction to the topic, it is worth having an overview of some basic data relating to population and demographic developments.

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3 Ibid., 28.
6 See Ibid., country study on Turkey, 12.
Table 3.1: Population, population growth, life expectancy and share of urban population in countries of the region, 2012°.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Population (million)</th>
<th>Population growth (% per annum)</th>
<th>Life expectancy at birth (years)a</th>
<th>Share of urban population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>3.2</td>
<td>0.3</td>
<td>77</td>
<td>54.4</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>3.8</td>
<td>-0.1</td>
<td>76</td>
<td>48.8</td>
</tr>
<tr>
<td>Croatia</td>
<td>4.3</td>
<td>-0.3</td>
<td>77</td>
<td>58.1a</td>
</tr>
<tr>
<td>Kosovo</td>
<td>1.8</td>
<td>0.9</td>
<td>70</td>
<td>:</td>
</tr>
<tr>
<td>Macedonia</td>
<td>2.1</td>
<td>0.1</td>
<td>75</td>
<td>59.4</td>
</tr>
<tr>
<td>Montenegro</td>
<td>0.6</td>
<td>0.1</td>
<td>75</td>
<td>63.5</td>
</tr>
<tr>
<td>Serbia</td>
<td>7.2</td>
<td>-0.5</td>
<td>75</td>
<td>56.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>74.0</td>
<td>1.3</td>
<td>75</td>
<td>72.3</td>
</tr>
</tbody>
</table>

°Unless otherwise indicated. a: 2011

In terms of population size, the pattern is heterogeneous: five countries can be regarded as rather small (Kosovo, Macedonia, Montenegro, Albania, Bosnia and Herzegovina), two are medium-size (Croatia and Serbia) and Turkey is very large, comparable in size among the current EU members with Germany, the biggest EU country. As regards life expectancy, however, which ranges from 75 to 77 years (with the exception of Kosovo), the countries constitute a more homogeneous group, being similar to the general European pattern. There is, however, some variation in population growth, which is the highest in Turkey and Kosovo.

Although, as could be seen, income differentials are large compared to the EU average, some other key demographic indicators also show similar patterns to the EU average, or to those of some current member states. As regards total fertility rates, it exceeds the level of simple reproduction (2.1) in Kosovo only. Otherwise, it is in Turkey that the level is the closest but even here there is a clear declining tendency (see Table 3.2).

Table 3.2: Total fertility rates.

<table>
<thead>
<tr>
<th>Countries</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>1.50</td>
<td>1.51</td>
<td>1.54</td>
<td>1.56</td>
<td>1.61</td>
<td>1.60</td>
<td>1.61</td>
<td>1.57</td>
<td>:</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.29</td>
<td>1.32</td>
<td>1.38</td>
<td>1.49</td>
<td>1.56</td>
<td>1.60</td>
<td>1.57</td>
<td>1.51</td>
<td>1.50</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.43</td>
<td>1.50</td>
<td>1.47</td>
<td>1.48</td>
<td>1.55</td>
<td>1.58</td>
<td>1.55</td>
<td>1.48</td>
<td>1.51</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.28</td>
<td>1.31</td>
<td>1.34</td>
<td>1.32</td>
<td>1.35</td>
<td>1.32</td>
<td>1.25</td>
<td>1.26</td>
<td>1.34°</td>
</tr>
<tr>
<td>Romania</td>
<td>1.35</td>
<td>1.39</td>
<td>1.40</td>
<td>1.42</td>
<td>1.53</td>
<td>1.57</td>
<td>1.54</td>
<td>1.46</td>
<td>1.53</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>1.21</td>
<td>1.20</td>
<td>1.20</td>
<td>1.21</td>
<td>1.22</td>
<td>1.23</td>
<td>1.24</td>
<td>1.26</td>
<td>:</td>
</tr>
<tr>
<td>Kosovo</td>
<td>2.50</td>
<td>2.60</td>
<td>2.40</td>
<td>2.40</td>
<td>2.40</td>
<td>2.30</td>
<td>2.30</td>
<td>2.20</td>
<td>:</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1.52</td>
<td>1.46</td>
<td>1.46</td>
<td>1.46</td>
<td>1.47</td>
<td>1.52</td>
<td>1.56</td>
<td>1.46</td>
<td>1.51</td>
</tr>
<tr>
<td>Montenegro</td>
<td>:</td>
<td>1.60</td>
<td>1.63</td>
<td>1.69</td>
<td>1.77</td>
<td>1.85</td>
<td>1.69</td>
<td>1.65</td>
<td>1.71</td>
</tr>
<tr>
<td>Turkey</td>
<td>:</td>
<td>:</td>
<td>:</td>
<td>2.10</td>
<td>2.09</td>
<td>2.04</td>
<td>2.03</td>
<td>2.09</td>
<td>:</td>
</tr>
<tr>
<td>Albania</td>
<td>2.00</td>
<td>1.90</td>
<td>1.85</td>
<td>1.79</td>
<td>1.76</td>
<td>1.74</td>
<td>1.74</td>
<td>1.75</td>
<td>:</td>
</tr>
<tr>
<td>Serbia</td>
<td>1.57</td>
<td>1.45</td>
<td>1.43</td>
<td>1.38</td>
<td>1.40</td>
<td>1.44</td>
<td>1.40</td>
<td>1.40</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Sources: Eurostat, and for Kosovo, Bosnia and Herzegovina and Albania: World Bank, World Development Indicators.
: No data available. °: Break in time series.
In some cases this may be due to considerable previous emigration, as a consequence of which the age composition of the population is unfavourable from a demographic point of view: the share of children and young people is low. However, there are countries where despite the low fertility rate nowadays (and large emigration), the age composition remained relatively favourable (due to a higher fertility rate before). For example, in Albania the share of the young population is still high (21 per cent), similarly to Montenegro (19 per cent) – see Table 3.3. (Although the pattern of development is similar among the listed member states, low fertility rates cannot be attributed in all cases to emigration, but rather to a long-standing tendency of natural decrease of the population – in Hungary for example, this started already about 30 years ago).

Despite the time lag between current fertility rate and the age composition, as is clear from Table 3.3, the share in the population of the youngest age group shows a more or less similar pattern (quite understandably), but from a different angle. The figure is highest in Kosovo in this case, too. The share of the youngest population is actually lower than the EU average in Serbia and Croatia (even if by just two and one percentage point, respectively), and they show the lowest figures among those countries (in Table 3.3) where there are comparable data available. The population growth is negative in both countries (being -0.5 and -0.3, respectively – see Table 3.1).

**Table 3.3**: Share of population of less than 15 years of age.

<table>
<thead>
<tr>
<th>Country group/countries</th>
<th>2013 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27+</td>
<td>16</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>14</td>
</tr>
<tr>
<td>Hungary</td>
<td>14</td>
</tr>
<tr>
<td>Romania</td>
<td>16</td>
</tr>
<tr>
<td>Montenegro</td>
<td>19</td>
</tr>
<tr>
<td>Bosnia and Herzegovina++</td>
<td>16</td>
</tr>
<tr>
<td>Croatia</td>
<td>15</td>
</tr>
<tr>
<td>Albania++</td>
<td>21</td>
</tr>
<tr>
<td>Kosovo+++</td>
<td>27</td>
</tr>
<tr>
<td>Macedonia</td>
<td>17</td>
</tr>
<tr>
<td>Serbia</td>
<td>14</td>
</tr>
<tr>
<td>Turkey</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: For Albania, Kosovo and Bosnia and Herzegovina: World Bank, World Development Indicators.
For all the other countries: Eurostat.

To sum up, considering recent demographic developments, the potential member states have to face the same or very similar challenges as the current members: an ageing population, low fertility rates which, in most cases, do not reach the level needed for simple replacement, etc. Therefore, the demographic pattern of these countries cannot be compared to that of the developing countries and this is also true for Turkey, even if its pattern is slightly different. Relating this to the focus of this paper, i.e. the development of the future labour market in an enlarged economic area, migration potential from these countries is an important issue, but the potential depends not only on demographic factors but also on many other elements,
such as political and economic stability, and within the context of the latter, labour market developments, migration history, i.e. previous emigration patterns, as well as the political and economic circumstances of the host countries, etc. Among these, the next section focuses on some indicators reflecting recent labour market developments.

3.2 Labour Market Trends: Employment, Unemployment and Economic Activity

When looking at trends, the employment rate is certainly one of the most important indicators, showing how the labour market reacted to the crisis.

Table 3.4: Employment rates in selected EU member states and in potential member countries (employed persons as a percentage of working age population, i.e. 15-64 years).

<table>
<thead>
<tr>
<th>Country group/</th>
<th>Countries</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
</tr>
<tr>
<td>EU27</td>
<td>65.3</td>
<td>72.5</td>
<td>58.2</td>
<td>65.8</td>
<td>72.7</td>
<td>58.9</td>
<td>64.3</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>61.7</td>
<td>66.0</td>
<td>57.6</td>
<td>64.0</td>
<td>68.5</td>
<td>59.5</td>
<td>62.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>57.3</td>
<td>64.0</td>
<td>50.9</td>
<td>56.7</td>
<td>63.0</td>
<td>50.6</td>
<td>55.4</td>
</tr>
<tr>
<td>Romania</td>
<td>58.8</td>
<td>64.8</td>
<td>52.8</td>
<td>59.0</td>
<td>65.7</td>
<td>52.5</td>
<td>58.6</td>
</tr>
<tr>
<td>Iceland</td>
<td>85.1</td>
<td>89.1</td>
<td>80.8</td>
<td>83.6</td>
<td>87.3</td>
<td>79.6</td>
<td>78.3</td>
</tr>
<tr>
<td>Albania\a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>57.1</td>
<td>64.4</td>
<td>50.0</td>
<td>57.8</td>
<td>65.0</td>
<td>50.7</td>
<td>56.6</td>
</tr>
<tr>
<td>Macedonia</td>
<td>40.7</td>
<td>48.8</td>
<td>32.3</td>
<td>41.9</td>
<td>50.7</td>
<td>32.9</td>
<td>43.3</td>
</tr>
<tr>
<td>Kosovo\b</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Montenegro\c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serbia\d</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>44.6</td>
<td>66.8</td>
<td>22.8</td>
<td>44.9</td>
<td>66.6</td>
<td>23.5</td>
<td>44.3</td>
</tr>
</tbody>
</table>

Source: Eurostat, unless otherwise indicated.


Not surprisingly, in all the countries where comparable data are available, the employment rate declined in 2009 (with the exception of Macedonia, where it slightly increased; however, in Macedonia, decrease in GDP was the lowest, being 0.9 per cent only, and it quickly recovered by 2010, which may have started already in 2009). What could be more worrying, however, especially when the labour market is considered with a view to future enlargement, is that the employment rate in general is much lower than the EU average in all potential members of the Western Balkans, and in most of them it is even lower than the current member states with the lowest employment rate. It is also clear that the crisis even deteriorated, for example, the relative position of Croatia later in 2010 (there in 2009 the employment rate was higher than in Hungary, whereas by 2010 it did not reach even the Hungarian level). In Turkey, however, obviously as a consequence of its quick economic recovery, the employment rate has been increasing continuously since 2010; it grew by 4 percentage points.
between 2008 and 2012. As can be seen, women’s employment rate varies to a large extent: it ranged between 76.5 per cent (Iceland) and 12.6 per cent (Kosovo) in 2009. The variation is large even within the region, i.e. among the countries of the Western Balkans, being for example 51 per cent in Croatia. This is obviously due to large differences in women’s economic activity between the countries concerned (unemployment also matters, but to a lesser extent.) If compared to the current EU member states (with the exception of Malta), it is precisely in most of these countries that women’s inactivity is the highest: according to Eurostat data, the proportion of inactive women of working age exceeds 70 per cent in Kosovo, in Turkey it approaches that level, in Montenegro it is nearly 60 per cent, in Macedonia and Serbia nearly 50 per cent, and it is only in Croatia that women’s inactivity is lower than that of Italy, being 46 per cent.7 Women’s economic activity is strongly determined by the demographic context characterising each country (see just two relevant indicators, the total fertility rates and the share of population of less than 15 years of age in Table 3.2 and Table 3.3 respectively). There seems to be quite a straightforward relationship between women’s economic activity and their willingness to work, which underlines the importance of demographic context. As can be seen from Table 3.5, in countries where women’s economic activity is high, the willingness of those women, who are inactive, is also high.

Table 3.5: Share of women willing to work among those who are economically inactive.

<table>
<thead>
<tr>
<th>Country group/Countries</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>73</td>
</tr>
<tr>
<td>Iceland</td>
<td>91</td>
</tr>
<tr>
<td>Kosovo</td>
<td>45</td>
</tr>
<tr>
<td>Macedonia</td>
<td>65</td>
</tr>
<tr>
<td>Montenegro</td>
<td>62</td>
</tr>
<tr>
<td>Serbia</td>
<td>57</td>
</tr>
<tr>
<td>Turkey</td>
<td>58</td>
</tr>
<tr>
<td>EU27 average</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Responses given in the Third European Quality of Life Survey in 2012, Eurofound, Quality of life in enlargement countries.

A good example for this is Croatia vs. Kosovo: in the former, where women’s economic activity is relatively high, the majority of inactive women are willing to work, whereas this is not the case in Kosovo, where women’s inactivity level is the lowest in the region. The two countries show entirely different demographic features (see Table 3.2 and 3.3).

As a consequence of the crisis, unemployment in all countries reached a two-digit level, as shown by Table 3.5. It is consistently the highest in Macedonia – at first sight this could be surprising and even contradictory to what was mentioned above (i.e. that the crisis did not hit the labour market there as severely as in other countries). As can be seen from Table 3.4, however, its employment rate is continuously one of the lowest (only in Kosovo is it lower), being even smaller than in Turkey when it was the worst (in 2009, immediately after

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The number of unemployed, being around or sometimes even more than one quarter of the labour force, is also very high in Bosnia and Herzegovina. This is all the more remarkable, since it can be assumed that a large part of the working population is employed in agriculture (the majority of population in the country lives in rural areas: see Table 3.1).

### Table 3.6: Unemployment rate in the Western Balkans countries and Turkey.
Number of unemployed in labour force, in percentage.

<table>
<thead>
<tr>
<th>Countries</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>11.6</td>
<td>9.6</td>
<td>8.4</td>
<td>9.1</td>
<td>11.8</td>
<td>13.7</td>
</tr>
<tr>
<td>Macedonia</td>
<td>36.0</td>
<td>34.9</td>
<td>33.8</td>
<td>32.2</td>
<td>32.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Montenegro</td>
<td>29.6</td>
<td>19.3</td>
<td>17.2</td>
<td>19.3</td>
<td>19.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>8.80</td>
<td>8.90</td>
<td>9.80</td>
<td>12.7</td>
<td>10.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Albania</td>
<td>:</td>
<td>13.5</td>
<td>13.0</td>
<td>13.8</td>
<td>13.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Bosnia and Herzegovina(^1)</td>
<td>31.1</td>
<td>29.0</td>
<td>23.4</td>
<td>24.1</td>
<td>27.2</td>
<td>27.6</td>
</tr>
<tr>
<td>Serbia</td>
<td>20.9</td>
<td>18.1</td>
<td>13.6</td>
<td>16.1</td>
<td>19.2</td>
<td>23.0</td>
</tr>
</tbody>
</table>

Note: * Estimates by WIIW
\(^1\): Data from April of each year.

Apart from general high unemployment, the fact that youth is particularly hard hit is a cause for concern: “the youth unemployment rates range between about 35% in Croatia and Montenegro, 50% in Serbia and 60% in Bosnia and Herzegovina.” Long-term unemployment poses another problem in several countries: in Macedonia, Montenegro, Bosnia and Herzegovina and Serbia.

We could get a more refined picture about people who are in employment on the basis of the European Working Conditions Survey, which was a Europe-wide survey including most of the Western Balkans countries conducted in the first half of 2010. As can be seen from Table 3.6, the share of self-employed persons is the highest in Albania, where the majority of male workers (51 per cent) can be found in this category. In 2005 this figure was even higher in Turkey (61.2 per cent), but it dropped to 37.8 per cent by 2010, which could still be considered high compared both to the EU and some other countries of the region. This share is also conspicuously high in Kosovo, where almost half of male workers are self-employed (48.9 per cent). In the case of the former two countries, i.e. Albania and Turkey, high self-employment can be assumed to be related to the dominance of agriculture: when the sectoral composition of workers is considered it turns out that in both countries the share of agriculture is above 20 per cent.
Table 3.7: Employment status in several Western Balkans countries, Turkey, in the EU and groups of EU member states on the basis of the European Working Conditions Survey.

<table>
<thead>
<tr>
<th>Countries and Country groups</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employed</td>
<td>Self-employed</td>
</tr>
<tr>
<td>Croatia</td>
<td>Male</td>
<td>81.7%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>85.1%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>83.2%</td>
</tr>
<tr>
<td>Macedonia</td>
<td>Male</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>Male</td>
<td>37.7%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>62.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>44.2%</td>
</tr>
<tr>
<td>Albania</td>
<td>Male</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.0%</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Male</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.0%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>Male</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.0%</td>
</tr>
<tr>
<td>EU15*</td>
<td>Male</td>
<td>79.8%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>86.2%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>82.6%</td>
</tr>
<tr>
<td>EU27**</td>
<td>Male</td>
<td>78.8%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>85.3%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>81.7%</td>
</tr>
</tbody>
</table>

Source: Fifth European Working Conditions Survey, 2010 (Question 6: Are you mainly…?).
Note: All EU Member States before Eastern enlargements (2004, 2007, respectively), i.e. until 30th April 2004

** All 27 Member States of European Union as of 2010

In Kosovo, however, it is the share of the wholesale, retail, food and accommodation sector which is the highest, and although the share of self-employed persons is lower in
Montenegro, there the share of workers employed in this sector is even higher than in Kosovo, the figures being about 30 per cent and 25 per cent respectively.9

Even prior to the crisis, the labour market seemed to be less stable in the region than among the current EU members: according to the European Quality of Life Survey conducted in 2007, the share respondents reporting no job security was higher in all the three countries examined than in either the Central and Eastern European members (11 per cent) or the EU as a whole (9 per cent).10 In Croatia this figure stood at 13 per cent, whereas in Macedonia it was very high at 34 per cent, and in Turkey 15 per cent.

Chapter 4 – Recent Migration Trends from the Region: Key Destination Countries

As is well known, the countries of the region have a recent emigration history, which could influence the future labour market in an enlarged economic area. Therefore, it is worth presenting a brief overview, identifying the key destination countries and trends in the stock of migrants over the past several years.

In terms of absolute numbers, the key destination country remained Germany, where the number of people born in Turkey was close to 1.5 million in 2009. The second largest country of origin from the region was Croatia: the stock of those born in this country was almost 250,000, and the number of people born in Serbia and Montenegro was also substantial, reaching 209,000. The number of emigrants from Bosnia and Herzegovina who lived in Germany was 176,000 in the same year. Although in general inflow to Germany has recently declined, asylum seekers from Serbia have increased recently, becoming the third most important group among asylum seekers: “their number increased almost eight-fold in 2010.”11

The second most important destination country is Austria, although here the number of Turkish-born citizens was lower in 2007 than those living either in France or in the Netherlands (155,900, 243,400 and 194,800, respectively). As is known, Austria is also a major destination country for citizens from the successor states of former Yugoslavia. In addition, the inflow from some of them has recently increased. The number of people originating from Serbia and Montenegro actually exceeded even the number of Turks, being 187,900 in 2009 (as against 159,000 Turks). The number of those who were born in Bosnia and Herzegovina, but living now in Austria is also high: 133,50012. Unlike in Germany, the inflow increased over the past couple of years: “Taken together, the successor countries of the former Yugoslavia accounted for 11% of new immigrants.”13

As regards other destination countries, Greece was definitely very important for Albanian immigrants, at least in 2001, when not less than 403,900 people born in Albania lived in the country (unfortunately, more recent data is not available).

Among the EU15 countries there are some where the number of citizens from the former Yugoslav republics is large (for example, in Sweden, 71,600, in the Netherlands 52,800 in the

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9 Eurofound, Labour Mobility within the EU, 2012.
10 Eurofound, Quality of life in Croatia, the Former Yugoslav Republic of Macedonia and Turkey 2011, p. 84.
12 Ibid., 2009 data
13 Ibid., 262.
year 2009). Their share of the foreign population, however, is the largest in Slovenia, where they constituted 88 per cent of foreign citizens at the beginning of 2010. The share of migrants from Bosnia and Herzegovina alone is not less than 47 per cent. The shares of the other countries are as follows: Macedonia 11 per cent, Serbia 11 per cent and Croatia 9 per cent. “Most immigration is temporary labour migration, in particular for construction. The vast majority of the corresponding work permits which are issued to migrants are tied to a specific employer.” The dominance of workers from the region is obviously related partly to traditional ties, but partly also to a recent policy (in the wake of the crisis) setting up quotas, 95 per cent of which are reserved for nationals of the former republics of Yugoslavia. Hungary is another EU member state which is geographically very close, and where a relatively large population born in the former Yugoslavia lives. In 2009 their number was 33,700. Many of them are ethnic Hungarians. In terms of the number, a similar size of population originating from Serbia and Montenegro lived in Belgium (34,200) in 2007. Belgium was also a host country for 89,000 people who were born in Turkey in the same year.

Chapter 5 – Experiences of the Last Waves of Enlargements: Impact of Labour Mobility

It seems particularly relevant to examine these experiences, since the initial fears regarding a high inflow from would-be members to some of the potential destination countries (EU15) will most likely reappear during the next rounds of enlargement. As is well known, these fears led to the seven-year transition period, when restrictions on the free movement of persons were introduced. There were some member states (the UK, Ireland and Sweden), however, which opened their labour market right after the accession of the eight countries of Central and Eastern Europe, in 2004. A large inflow to the United Kingdom (UK) and Ireland as a consequence can clearly be seen from Table 3.7. In those countries the growth was much more pronounced than elsewhere. As can be seen, between 2005 and 2007 the numbers of new EU citizens doubled in the case of these two host countries. The impact of the crisis, however, is also strong – in Ireland, which is one of the countries hardest hit by the economic recession, the number of foreign residents declined between 2008 and 2010, from 211,000 to 180,000. Despite the decrease, however, citizens of the EU10 remained the largest group of foreign nationals living in Ireland (vis-à-vis those of EU15 and third country nationals, respectively). At the same time, it should be noted that, not surpris-

14 Their inflow increased in recent years, especially from 2007, when it grew to 12,500 (from 7,900 in the previous year). In 2008 the inflow was 13,000 and despite the crisis it remained basically at the same level in 2009, when it was 12,900. It may well be that this is related to the negotiations Slovenia conducted on bilateral agreements with Bosnia and Herzegovina. “Although this has not been signed, there are protocols in place that are based on mutual cooperation between employment agencies” (OECD, International Migration Outlook, 320), and one of them was signed in 2007 (OECD, 2011).
15 OECD, International Migration Outlook, 320.
16 For details see: OECD, 320.
18 2007 for both data. Ibid., 387. National data: Population Register Directorate General Statistics and Economic Information (DGSEI)
ingly, the crisis adversely affected job opportunities not only for the native population, but also for the mobile workers in Ireland.

The situation is different with the EU2 (i.e. Bulgaria and Romania), related obviously to their later entry. The crisis, however, does not seem to have had an effect on the inflow of their citizens to the major destination countries (although it may well be that without the crisis, their number would be even higher). As regards the increase in their number in Spain in 2009 and 2010, this is understandable in view of the fact that Spain granted free access to Bulgarian and Romanian nationals in January 2009 (which, as is known, was withdrawn from Romanians in the summer of 2011, Spain referring to serious labour market disturbances). At first sight, however, it is not easy to explain why the number of EU2 residents increased in Italy, which applied restrictions, even if with simplifications (as it still does). This question is all the more relevant since Italy was also severely hit by the recession. There are two plausible explanations for this: one is that the increase reflects the regularisation of illegal Bulgarian and Romanian migrants having already stayed in these countries before the accession (similarly to the case of the EU10 citizens in Germany and Austria). The other is that the inflow, especially in Italy, is highly demand-driven, i.e. there are some sectors and occupations which are characterised by significant labour shortages, and therefore the EU2 citizens are in high demand in certain specific segments of the labour market, for example in the health and care sector. This assumption is confirmed by the fact that the employment rate of EU2 workers declined to a lower extent than in Spain.  

Table 5.1: Number of foreign residents from the member states of the recent two waves of enlargement in key host countries, by EU10 and EU2 citizens, 2005-2010 (thousand).

<table>
<thead>
<tr>
<th>Host country</th>
<th>EU10 member states</th>
<th>EU2 member states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany*</td>
<td>483</td>
<td>564</td>
</tr>
<tr>
<td>Ireland**</td>
<td>100</td>
<td>161</td>
</tr>
<tr>
<td>Spain*</td>
<td>71</td>
<td>103</td>
</tr>
<tr>
<td>Italy*</td>
<td>81</td>
<td>95</td>
</tr>
<tr>
<td>Austria*</td>
<td>75</td>
<td>81</td>
</tr>
<tr>
<td>UK***</td>
<td>293</td>
<td>303</td>
</tr>
</tbody>
</table>

Sources: Eurostat, EU LFS, Eurostat population statistics, national data sources, European Commission Directorate-General Employment


In sum, although large inflows followed both waves of enlargement to certain countries (involving citizens from certain Central and Eastern European new member states), at the

European level this did not mean a substantial increase: the proportion of EU citizens of working age (15-64) living in an EU country other than their own increased by 0.8 of a percentage point between 2004 and 2010 (from 2 per cent to 2.8 per cent). In addition, it appears that both prior to and after the crisis the inflow of workers was mainly demand-driven (see the examples of Ireland and Italy as host countries).

Chapter 6 – Conclusion

Although there are many political and economic challenges the Western Balkans countries should face in the coming years, today it seems that in many respects lessons drawn from the previous two waves of Eastern enlargement could be relevant. Even if in the case of Turkey the scale of previous migration flows cannot be compared, in some other aspects the EU will have to deal with similar challenges as it did during the most recent enlargement.

For example, apart from Turkey and Kosovo, the demographic developments in the Western Balkans in many ways show similar characteristics as was the case of Central and Eastern Europe. It is also within the context of demographic trends that a quite direct lesson can be learnt. Between 2000 and 2011 the EU15 population between 0 and 14 years decreased by 1 per cent, in the Central and Eastern European members it declined by almost 25 per cent, whereas in the Western Balkans countries the decrease was somewhat lower. “The average population decrease in the NMS-10 almost doubled over the past decade, compared to the period 1989-2000. About half of the reduction from 2000-2011 is due to net emigration from the region, while the other half stems from a natural decrease in the population, with birth rates consistently lower than death rates. In the Western Balkans countries, the population figure remained almost stable and increased by about 10% in Turkey.”21 As a consequence of enlargement and the free movement of labour, this will definitely change: the population is also expected to decline in the Western Balkans countries much more rapidly than today, and this will also derive from two sources: natural decrease and net emigration to the current EU member states. This, however, will not happen in Turkey, although its development path also points in this direction, albeit over a much longer term.

Bibliography


20 It stands for the 10 Central and Eastern European countries which joined the EU in 2004 and 2007, respectively, i.e. Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania Slovakia and Slovenia.

21 Astrov et al. New Divide(s) in Europe, 52.


PART 2.

BUDGET AND COMMON POLICIES
THE MFF AND EU ENLARGEMENT: A GAME ON TWO LEVELS

CHRISTOPH SCHNELLBACH

Chapter 1 – Introduction

In the past two decades, after the completion of the single market, the European Union (EU) has grown from 12 to 28 member states. Faced with these successive waves of enlargement, the Union has reformed its institutional setting. The Lisbon Treaty has strengthened existing EU responsibilities and added new competencies, and has undertaken a profound review of its governance of macro-economic policies in the wake of the global economic and financial crisis. It has also confirmed the existing practice of budgetary decision making by giving treaty status to the system of multiannual financial planning and by abolishing the distinction between compulsory and non-compulsory expenditure. At the same time, the camps of net contributors and net beneficiaries have become more pronounced than ever in the EU.

The recent turmoil in European markets puts at stake the premise which made the EU so attractive for candidate states over the decades: economic stability and maximisation of prosperity. Germany and France have always been central to economic integration, developing the Community from a regional trade union to a global player. To be part of the political and economic bloc was not only in the interest of the otherwise excluded countries in the periphery, but also in that of the Union’s oldest members and core states. The integration model provided by the EU became attractive even for rich states such as Britain, Denmark and Austria. For the poorer states from southern and eastern Europe, the prospect of financial assistance from the Union in the accession process was the main incentive for economic and political reform.

As the enlargement process is entering a new phase, EU governance is marked by elements of continuity and factors of change. Traditionally, the Franco-German partnership has a strong influence on the decisions that are taken in European institutions. This also applies to the EU’s budgetary system. While the camp of net contributors remains very resistant to endowing the Union with significantly larger financial resources, the increase of economic diversity in the EU as a consequence of enlargement suggests that there will be a strong club of countries benefiting from cohesion expenditure and funds. This serves as the starting point. Who are the contributors and beneficiaries in an enlarged European Union of the prospective 36 member states, including Iceland, the Western Balkans and Turkey? This paper addresses national planning and EU policies on issues such as conditions for ongoing and new membership of the EU and the EU’s multiannual financial framework (MFF) for the period after 2013. Based on rational choice institutionalism, the paper aims to help develop an EU36 theoretical model.
Chapter 2 – The EU Budget

The budget is a focus for repeated negotiation among EU member states and institutions and offers important insights concerning its organisational scope and workings. The EU budget reflects the ‘deepening’ and ‘widening’ of European integration. While following firmly established rules, it also reveals the delicate balance among member states and between member states and EU institutions. Such relationships are dynamic in nature and subject to constant renegotiation. Still, the EU finds it difficult to break away from budgetary path dependencies, once particular activities or rebates have been hooked onto the budget.¹

Historically, the EU budget has fulfilled a wide range of functions: (a) as a means of side-payments that are necessary to gain the overall consensus and political cement in relation to further economic, particularly market integration; (b) as the source for financing European public goods that benefit not only individual member states but European citizens at large; or (c) as the basis for redistribution from wealthier to poorer regions of the EU in order to foster economic convergence towards a higher standard of living across the EU; and (d) as a means of financing Europe’s role as a global actor.²

There is a long history of EU struggles to shift budgetary priorities to embrace new challenges within the Union and internationally. Starting with the Treaty of Rome, the EU budget has evolved in different phases. In the first phase (1958-1969) the European Economic Community (EEC) was financed almost exclusively by member states’ contributions. The second phase (1970–1988) set the framework for the development of European Communities finances and established their constitutional base. The budget treaties of 1970 and 1975 created an independent budgetary resource and dealt with conflicts regarding the size and distribution of European Commission monies. In 1970 member states’ contributions were gradually replaced by own resources consisting of customs duties and sugar levies only (the so-called traditional own resources). From 1975 onwards, own resources based on value added tax (VAT) were included.

The European Parliament was granted significant budgetary powers, giving leverage in its inter-institutional battles with the Council. The 1984 Fontainebleau agreement, with the agreement on the British rebate, was a mechanism designed to deal with Margaret Thatcher’s confrontational approach towards the EU budget, but did not provide a long-term budgetary regime to absorb the impact of the southern enlargement and the re-launch of integration with the Single European Act (SEA).

The idea of creating a multiannual financial framework was born out of the EU budget crisis of the late 1970s and 1980s. In 1979, 1984, 1985 and 1987 the Council and the European Parliament were not able to agree in time on the following year’s EU budget. This triggered the use of the cumbersome system of provisional twelfths: if the annual EU budget was not adopted at the beginning of a year, only a sum equivalent to not more than one twelfth of the budget appropriations for the previous year or of the draft budget proposed by the Commission, whichever was smaller, could be spent each month for any chap-

The second phase (since 1988) has been one of relative budgetary calm, comprising the four major budgetary bargains, and featuring two different evolutionary trends. In 1988 the EU moved to multiannual ‘financial perspectives’ for which the Commission makes proposals and the Budgetary Authority (Council and European Parliament) negotiates agreements. This has concentrated budgetary politics into periodic strategic bargains or package deals, linking national costs and benefits, reform of specific policy areas, regional imbalances and enlargement. The adoption of the first multiannual financial framework (the Delors I package running from 1988 to 1992) provided for conditions which ensured a smooth and successful budget procedure. This was achieved by establishing legally binding expenditure ceilings and creating a new category of own resource: the member states’ contribution based on gross national product (GNP) which balanced expenditure needs within the own resources ceiling.

1988, the first year of the Delors I package, was the last time that the provisional twelfths arrangements had to be applied. Since then three further multiannual financial frameworks have been agreed upon, each of which covered seven years. Whereas the first two multiannual agreements (Delors I and II) are associated with an impressive increase in budget size, a new budgetary paradigm emerged from the third multiannual agreement (Berlin in 1999), endorsing stabilisation and incremental reorientation.

This paradigm shift is related to the pressure of imminent enlargement and the growing fatigue of ‘net contributors’ that raised the prospect of a return to the earlier zero-sum bargaining on EU finances. Each round of EU enlargement in the past had shifted budgetary priorities and undermined previous bargains. Thus, the Commission’s primary concern from the outset of the negotiations, as set out already in the Agenda 2000, was to reassure Member States that the enlargement costs would be limited and absorbed within the existing budgetary framework without a full-scale reform of the budgetary acquis.

Over the last two decades, the structure of the EU budget changed only slightly; agricultural and regional spending remain the two largest spending blocks. Still, the EU budget is largely scrutinised and assessed under the lens of national fiscal interest and the net contributor/beneficiary logic. Two developments reinforced this trend. First, the introduction of a fourth budget source in 1988 related to member states’ GNP, which was later replaced by gross national income (GNI). Second, the collapse of the ‘horizontal equity’ principle following the Fontainebleau agreement, which implied that states were given differentiated treatment. Over time, more and more corrections to the own resources provisions have been introduced in order to compensate budgetary imbalances of some member states. All forms of corrections, be it on the revenue or on the expenditure side, are based on two principles. First, expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. Second, any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.

The European Commission – traditionally an advocate for a bigger EU budget – was forced to pay more attention to managing EU spending. However, substantial reform was

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4 Blavoukos and Pagoulatos, “Accounting for coalition-building”: 566.
required for the 2007-2013 framework, not only as a result of EU enlargement: new EU members were no longer outsiders but active players in the budget negotiation process. Pressure also derived from the proposed reallocation of EU funds away from the priorities of the past.

The medium-term reform of the EU budget is a key European policy issue. The Commission has submitted its proposals for the multiannual financial framework of the EU from 2014 to 2020. The decision-makers from politics, business and civil society are in the process of formulating its content and financial positions.

2.1 The 2011 EU Budget

The EU budget for 2011 provides for a spending level of EUR 141.8 billion in commitments and EUR 126.5 billion in payments. Overall, total commitments of the current multiannual financial framework (MFF) from 2007 to 2013 are almost EUR 976 billion. Own resources account for 99 per cent of the budget. They are not allowed to exceed 1.23 per cent of the EU’s GNI. The remaining 1 per cent of budget revenue comes from other sources of income such as taxes on EU staff, salaries contributions from non-EU countries to certain programmes and fines on companies for breaching competition laws.\(^5\)

Own resources provide the EU’s main revenue. There are three kinds of own resources. Traditional own resources (approx. 13 per cent of the EU budget) are mainly customs duties on imports from outside the EU and sugar levies. Own resource from value added tax (approx. 11 per cent) and own resource based on gross national income (approx. 75 per cent) form the main part of the EU budget. As for the latter, a standard percentage is levied on the GNI of each EU country. This is used to balance revenue and expenditure, i.e. to fund the part of the budget not covered by other sources of income.

When the EU Council and the European Parliament approve the annual EU budget, total revenue must equal total expenditure. In practice, however, actual revenue and expenditure usually differ from the estimates. The surplus is used to reduce EU countries’ contributions to the budget for the following year.

In the past, some net payer countries felt that they were paying too much towards the budget. Measures were taken to correct (compensate) these imbalances, most notably the British rebate – the UK is reimbursed by 66 per cent of the difference between its contribution and what it receives back from the budget (worth about EUR 4 billion in 2010). The calculation is based on its GNI and VAT. Other measures include lump-sum payments to the Netherlands and Sweden and reduced VAT call rates for the Netherlands, Sweden, Germany and Austria.\(^6\)

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2.2 The Numbers in the New EU Budget

In its initial amended proposal for a Council regulation, the Commission proposed to raise amounts for the period 2014–2020 to EUR 1,033 billion in commitments (1.08 per cent of the EU GNI) and EUR 987.6 billion (1.03 per cent of EU GNI) in payments. However, in the final Council Regulation laying down the multiannual financial framework for the years 2014-2020 the numbers where substantially reduced (compare Table 2.1):

Table 2.1: MFF 2014-2020.


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On the income side of the budget, the Commission proposed two new own resources: a financial transaction tax (FTT) and an EU VAT component. Furthermore, the system of corrections and rebates should be replaced according to the proposal by a system of fixed annual lump sums. A positive response to the Commission’s proposal came from France, on the condition that these resources would fully substitute for existing resources and that thus it would reduce the contributions paid out of national budgets. Particularly the idea of a levy on a European share of an international FTT was embraced by the French government.8

However, the FTT was not feasible in the EU27 due to resistance from the UK, Sweden and other member states. An EU-wide proposal that was dismissed suggested a 0.1 per cent tax on regular trades and 0.01 per cent on derivatives. Initially, the EU-wide tax was estimated to bring in EUR 57 billion a year. Even in the Eurozone, an agreement to introduce the tax could only be achieved among 11 countries. Using the method of enhanced cooperation, the following countries agreed to implement an FTT based on the proposal of the European Commission: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain.9

2.3 Priorities in the EU Budget

Following the ideas of the Commission, clear priorities should be assigned in all future expenditures. Priorities have been roughly outlined in the Europe 2020 strategy:10

- Supporting research and innovation;
- Expansion of the education system;
- Facilitating business start-ups;
- Modernisation of agricultural policy;
- Targeted use of cohesion policy; and
- Consideration of energy and climate policy targets.

The current multiannual financial framework has six headings (Heading 1: Sustainable growth; Heading 2: Preservation and management of natural resources; Heading 3: Citizenship, freedom, security and justice; Heading 4: EU as global player; Heading 5: Administration; Heading 6: Compensations), two of which are broken down into subheadings (1A: Competitiveness for growth and employment; 1B: Cohesion for growth and employment; 3A: Freedom, security and justice; 3B: Citizenship), and one sub-ceiling under Heading 2 (1st pillar CAP). Article 312(3) of the Treaty on the Functioning of the European Union (TFEU) states that the number of categories of expenditure in the multiannual financial framework shall be limited and shall correspond to the Union’s major sectors of activity.

Any proposal to change the current structure in a future MFF needs to be evaluated against this TFEU requirement.

A sub-heading has exactly the same legal and budgetary implications as a normal heading. Its only function is to convey a political message (e.g. that Heading 1B belongs with Heading 1A, and that both are part of the Lisbon expenditure). In budgetary terms, the current MFF therefore has eight headings. A sub-ceiling (e.g. for the 1st pillar of CAP) contains the included expenditure but leaves the margin under the entire heading pooled together so that use of the margin under the sub-ceiling for other programmes within the heading (but outside the sub-ceiling) does not require a revision of the MFF.

Chapter 3 – The Multiannual Financial Framework

The MFF is an inter-institutional agreement between the European Parliament, the Commission and the Council. The MFF involves a time frame of at least five years, and agrees on the EU expenditure structure and the spending limits for each policy area.

With the Lisbon Treaty (in force since December 2009) a number of innovations have come into force. Thus, the MFF will continue to be legally binding. The Lisbon Treaty introduced a requirement that the multiannual financial framework be set out in a regulation and therefore be applicable and binding in all member states directly. The four previous multiannual financial frameworks (since 1988) were part of inter-institutional agreements between the Council, the Parliament and the European Commission.

In addition, the competencies of the European Parliament have been extended. The EU parliament is now enabled to decide on an equal footing on all items of expenditure of the EU budget. Previously, a distinction was made between compulsory and non-compulsory expenditure. The Council and the Parliament together had the final say on non-compulsory expenditure, which included the annual expenditure on economic and social cohesion and internal policies such as research and education. The European Parliament was excluded from compulsory expenditure that was necessary under the treaties, including the largest budget item, the CAP.

3.1 Leftovers from Previous Negotiations

The last rounds of negotiations, which were completed in late 2005 for the 2007-2013 budget, ended with a political dispute, several governments explicitly criticising the outcome. However, negotiators voiced relief that a deal had been possible at all, but indicated general dissatisfaction that neither governments’ individual interests nor overall policy ambitions for the EU were properly reflected in the agreed budget allocations. Necessary reform of several areas was stalled due to the need to reach a consensus agreement.

Due to prevailing problems from the last negotiation rounds, the current negotiations are even more complicated – especially in the context of the political and economic difficul-

ties relating to the European sovereign debt crisis. The enlarged European Union has 28 governments at the negotiating table, each with veto powers and strong preferences for budget items of particular importance to their domestic interests. In parallel, there is an increasing pressure to meet new and different priorities not currently reflected in the budget. To compensate or correct budgetary imbalances of some member states, corrections were established in the last negotiating round. The main corrections are: the UK rebate – approximately EUR 3.6 billion in 2011 – and the rebates on the financing of the UK rebate. Furthermore, lump-sum payments to the Netherlands (EUR 605 million) and Sweden (EUR 150 million) led to a reduction of their annual GNI payments for the period 2007-2013. Reduced VAT call rates were introduced for four member states for 2007-2013 – Austria (0.225 per cent), Germany (0.15 per cent), the Netherlands (0.1 per cent) and Sweden (0.1 per cent). In addition, all the member states concerned retain 25 per cent of the amount collected for traditional own resources.

3.2 A Game on Two Levels

The design of the EU budget is a product of a series of intergovernmental bargains between the governments. Hix and Hyland understand the EU budget as an equilibrium outcome of a bargaining game between the member states, in which each government is a rational actor. Each player is willing to pay into/take out of the budget exactly how much it believes it will gain/lose from the EU’s non-spending policies (such as the single market and monetary union). Therefore, the ‘losers’ in the process of economic integration and regulation demand fiscal compensation through expansions of the budget and increases in spending in main policy areas. For example, in the Single European Act the doubling of the structural funds was explicitly linked to the completion of the single market. Smaller countries like Greece, Ireland and Portugal argued the single market would primarily benefit the ‘core economies’ of the EU (Germany, France) at the expense of those on the periphery. In the Maastricht Treaty, the cohesion fund was a side-payment for Spain in order to support the German-oriented design of the European Monetary Union. This cost/benefit calculation also applies for the cuts in EU expenditure – those reforms will only take place if those states which benefit most from the budget (such as France in the case of the CAP) can be ‘bought off’ with other policies.

From this perspective, governments carefully calculate how much they will gain or lose from EU policies when bargaining over the budget in the MFF. Drawing from theories of international relations, an analysis of the MFF negotiations needs to consider different levels. Robert D. Putnam used the notion of “two-level games” as a metaphor for domestic-international interactions.

The politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of


foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.  

This constellation has been reflected in the budget negotiations. The decision-making process for agreeing an EU budget has resulted in a strong tendency of EU member states towards maintaining the status quo, mainly influenced by the dominance of narrowly defined national interests in the negotiations. National representatives in the Council are often constrained by domestic actors prior to their presentation of country positions at the EU level, which in effect puts boundaries on the political mandate to negotiate in Brussels. This is most obvious in federated states with many veto players due to different levels of governance, but it can also be seen in member states with multi-party systems, strong parliamentary committees and constitutional courts.

The pressure to veto an agreement can be especially strong for the larger member states which contribute significantly to the budget.

In the current set-up, the demands on member state negotiators are often very high in terms of bringing back evidence of success to their parliaments and constituencies. The measure of success is often reduced to the best possible monetary deal in terms of net contributions (so-called *juste retour*), rather than focusing on the wider policy priorities. This can be aggravated if the member state negotiators at the EU level are tasked with focusing on public finances rather than higher-level policy priorities.

### 3.3 Key Issues for the Future EU Budget

At the end of the difficult negotiations of the currently valid MFF (2007–2013) it was agreed at the European Council to undertake a fundamental review of the MFF for the coming period. There were heated discussions about the level and structure of the output side, as well as rebates on the revenue side.

In ongoing negotiations the following questions are being discussed:

- Which compromise is possible between the financial constraints of member states and the Lisbon Treaty’s new competencies regarding the EU institutions?
- How will the EU budget be adjusted to the policy guidelines of the Europe 2020 strategy?
- How to reform the EU’s own resources system (and introduce an EU tax)?
- Will the EU have a role in securing some of the risks of private infrastructure projects through the EU budget (project bonds)?

The reform of the EU budget is also connected with revisions in specific policy areas. The two heavyweights of the present EU budget are the Common Agricultural Policy (approx. 43 per cent) and regional policy (35 per cent). Both areas are also among the largest items of expenditure in the new MFF.

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17 Euractiv.de, “Finanzrahmen und EU-Budget ab 2014.” [Financial framework and the EU budget from...](#)
The EU Commission published its ideas for the future of the EU budget in October 2010. The Polish commissioner Janusz Lewandowski is responsible for Financial Programming and Budget. From 28 February to 2 May 2011, the Commission conducted a consultation on “Europe 2020 project bonds” to finance infrastructure. Prior to formal submission of the proposal there was speculation about the possible budget amount, about shifts and the introduction of an EU tax. On 29 June 2011 the Commission presented a proposal to establish the multiannual financial framework and a draft for a new own resources decision. The proposals constitute what is known as the MFF package, because it contains a large number of proposals: one MFF Regulation, five legislative acts on EU own resources, and about 70 sector-specific proposals on activities including agriculture, cohesion, research, training, development and others. The proposals define rules such as the conditions of eligibility and the criteria for the allocation of funds, and establish instruments in the individual policy areas.

The proposed MFF package serves as a basis for the negotiations. Depending on the legal act, the Council adopts the MFF package either together with the European Parliament (co-decision), or after having received either the consent or the opinion of the European Parliament. Different rules apply for the adoption of the various legislative acts of the MFF package. The MFF Regulation is adopted by the Council by unanimity after having obtained the consent of the European Parliament (the European Parliament may approve or reject the Council’s position, but not adopt amendments). The five legislative acts on own resources are also adopted by the Council, the basic act (decision) by unanimity and the implementing acts (regulation) by qualified majority. The European Parliament has to give its consent on one implementing act and its opinion on all other acts. The sector-specific legal acts are, as a general rule, subject of the ordinary legislative procedure. This means that the Council and the European Parliament decide together, and that the Council decides by qualified majority.

The European Parliament’s formal position was adopted prior to the publication of the Commission’s proposals, at the plenary of 8 June 2011, following an intense year of work by its Policy Challenges (SURE) Committee. The key messages of the 176 paragraphs are as follows. Concerning the total budget, a minimum increase of 5 per cent is needed compared with the 2013 budget. Cohesion policy and CAP spending should remain on the current levels. In addition, the Parliament called for a reform of the own resources system in order “to achieve an autonomous, fairer, more transparent, simpler and equitable financing system, which can be better understood by the citizens, and make clearer their contribution to the EU budget.” In this context, the Parliament opts for an ending of existing rebates, exceptions and correction mechanisms and insists that the Union should be able to collect directly its own resources independently from the national budgets. It also puts forward that a seven-year cycle is followed by five-year cycles or 5+5 year cycles in the next period to bring the MFF’s duration into line with the EP’s five year mandates.

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20 Ibid, Paragraph 160.
The Commission has addressed in its proposal essential requirements of the European Parliament. MEPs nevertheless reacted very differently to the Commission’s proposals.\textsuperscript{21} The planned timing of the legislative process anticipated the negotiations to last until the end of 2012. The aim was to achieve an agreement by the end of 2012 on the overall MFF framework in order to ensure that the 2014 annual budget is prepared in time and that the relevant programmes and instruments are operational from day one. After long negotiations and alterations, the MFF was finally approved in the course of 2013 by a unanimity vote by the Council and a subsequent assent by the European Parliament. At the Council, the 28 member states analyse, negotiate and agree on a common position on the MFF package. The negotiations take place on four different levels: Technical experts (working parties); Ambassadors (Committee of Permanent Representatives); Ministers (Council); Heads of State or Government (European Council). The European Council provides guidance to the Council in the form of a political agreement on the key political issues.

Negotiations in the Council are implemented in two tracks. Within the political track, 28 member states work on the key political elements of the MFF package. A regular dialogue between the Council of Ministers and the European Parliament takes place. After the European Council reaches an agreement on the political issues its content feeds into the legislative work of subordinate institutions.

In parallel with the political track, the 28 member states discuss in the relevant preparatory bodies and Council configurations the technical elements of the sector-specific proposals (legislative track). The aim is to align the member states’ positions as far as possible. Care is taken to ensure that this work does not prejudge the outcome of the negotiations under the political track.

In the first two parts of the MFF package, each member state – no matter how big or small – can veto and therefore halt the whole decision-making process. This is also important for the prospect of an enlarged EU36 with a potential 36 veto players. If the budget has to be adopted by unanimity, any decision-maker can veto a proposed change. As the balanced budget rule prevents expenditure from being increased without simultaneously raising revenue, this will lead to increased side-payments. As a result, all legislators can demand that contributions made to the EU budget or MFF are exactly equal to the compensations they receive. Compensations can take two forms: direct benefits from expenditure programmes, or indirect benefits from non-expenditure programmes.

According to the Commission’s working paper “A Budget for Europe 2020”, there is a clear link between the structure of the budget and the degree of flexibility:

A limited number of headings allows for the pooling of unallocated margins and greater possibilities to re-allocate funds between areas of spending in order to react quickly to unforeseen circumstances. The number of headings represents, however, just one element in determining the overall level of flexibility. With additional instruments, it is possible to ensure sufficient flexibility with a larger number of headings.\textsuperscript{22}

In the EU36 framework, three main options for the structure of the next MFF can be distinguished:


\textsuperscript{22} European Commission, \textit{A Budget for Europe 2020}, 18.
• No change: the current headings remain unchanged;
• Europe 2020 structure: restructuring of the current headings;
• Europe 2020 titles: renaming the current headings with limited restructuring.

The latter option is the most likely scenario for the next MFF negotiations with potentially 36 EU member states at the table. The “Europe 2020 titles” option would rename the titles of the headings of the MFF to reflect the Europe 2020 headlines, but not change (or only marginally) the underlying structure. The advantages would be that the Europe 2020 strategy is given visibility, the political and administrative costs would be limited (no need to rework the underlying structure) and the stakeholders’ understanding would be easy to assure. The disadvantage of this option is that only a marginal change is perceived.

Table 3.1: “Europe 2020 titles” (European Commission).

| H1 (including a subheading for cohesion) | Smart and inclusive growth: Competitiveness and cohesion for growth and jobs (education, research, innovation, transport, energy, ICT, cohesion, employment) |
| H2 (including a subceiling for 1st pillar CAP) | Sustainable growth: Natural resources (CAP including rural development, environment) |
| H3 | Security and citizenship (justice, home, immigration, culture, media, etc.) |
| H4 | Global Europe |
| H5 | Administration |


The report drawn up by the European Parliament’s SURE committee proposed a variant – to establish under a Europe 2020 heading four subheadings involving linked policies that would also favour better coordination and implementation synergies between them, as follows:

Table 3.2: “Europe 2020 titles” (European Parliament).

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1. Europe 2020
   1a. Knowledge for growth
       Including research and innovation, education and lifelong learning and internal market policies.
   1b. Cohesion for growth and employment
       Including cohesion (economic, social and territorial) and social policies.
   1c. Management of natural resources and sustainable development
       Including agriculture, rural development, fisheries, environment, climate change, energy, and transport policies.
   1d. Citizenship, freedom, security and justice
       Including culture, youth, communication and fundamental rights and freedom, security and justice policies.
2. Global Europe
   Including external action, neighbourhood and development policies.
3. Administration
ANNEX
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3.4 The Net Payer Debate

The debate over the net contribution of the EU member states positions is as old as European economic integration itself. Depending on the calculation, different results are used in political discourse – when appropriate.\(^{23}\) Net receipts or contributions are not fixed. They vary over time and there are various ways of calculating net contributions to the EU budget, depending, for instance, on whether countries’ administrative expenditure is included. In addition, one can use either absolute figures (which indicate that Germany is the largest contributor), the proportion of gross domestic product (GDP), or per capita amounts (the latter indicators show that Denmark is the largest contributor). EU member states may chose different methods in order to present their country in a more favourable light.

Some countries may even form a coalition in order to pursue their interests. In 2011, five EU states (Germany, France, Great Britain, Finland and the Netherlands) called for the budget of the EU in 2014 not to be increased more than inflation. In response, a joint letter signed by 12 current net beneficiary countries (Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Portugal, Romania, Slovakia, Slovenia, Spain) stressed the need to use the EU budget as an instrument to support an exit from the crisis, bolstering EU competitiveness and strengthening internal cohesion.

Consequently, in a joint statement prior to the General Affairs Council in September 2011, the ministers from Austria, Finland, France, Germany Italy, the Netherlands, Sweden and the UK agreed on a common position regarding spending restraint in opposition to the Commission’s proposal.\(^{24}\)

3.5 Germany’s Position on the EU Budget

The German Foreign Office represents the federal government in the EU budget negotiations. The Foreign Office stressed that Germany gives top priority to the limitation of EU spending to no more than 1 per cent of EU GNI. The federal government has frequently rejected the introduction of an EU tax and has proposed to abolish the existing VAT-based own resources in the EU budget. However, Angela Merkel’s centre-right government endorsed the Commission’s proposal to introduce a Financial Transaction Tax (FTT).

The German government wanted to reduce the level of expenditure to prevent the introduction of an EU tax, to avert the introduction of a new funding category for the transition regions in the Structural Funds, involving setting a higher discount for the German net contribution.

In order to engender the necessary public acceptance of European spending, Germany has put forward that the large net contributors are on the same level – that is, that the financial burdens placed on the economically stronger member states are comparable. Changes in the expenditure column must be balanced by corrective measures in own resources. From


the perspective of the German government, this process ensures fairness in the allocation of member states’ financial contributions.

The German position emphasises the fact that the expenditure side is dominated by the two largest expenditure blocks, agricultural policy and structural policy. About 80 per cent of the EU’s cohesion funds go to the regions of greatest need (the Convergence objective, previously known as objective 1), while 20 per cent of funds go to richer regions (the Regional Competitiveness and Employment objective, previously known as objective 2) and cross-border cooperation (the European Territorial Cooperation objective, previously known as objective 3). While all funds contribute to the Convergence objective, the European Social Fund (ESF) and the European Fund for Regional Development (ERDF) contribute to Regional Competitiveness and Employment and only the ERDF to the third objective.

The aim of the Convergence objective is to promote growth-enhancing conditions and factors leading to real convergence of the least developed member states and regions. In the EU27, this objective concerned – within 18 member states – 84 regions with a total population of 154 million and per capita GDP at less than 75 per cent of the Community average, and – on a ‘phasing-out’ basis – another 16 regions with a total of 16.4 million inhabitants and a GDP only slightly above the threshold, due to the statistical effect of enlargement. In an EU36 there would be an expansion of eligible regions in Europe, as the acceding countries in south-eastern Europe mostly have GDP below 75 per cent of the EU average (see Figure 3.1).

**Figure 3.1: GDP per inhabitant in Europe.**


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Germany’s main demand for cohesion policy (in line with the coalition agreement) is to establish generous transitional arrangements for former objective 1 regions (that is, to the benefit of the Länder in the eastern part of Germany). For the German government, the principle that funds are to be concentrated in the neediest regions is generally applicable. The German Foreign Office therefore seeks to continue comprehensive assistance in all regions of the EU, its prime goal being the continuation of the current objective ‘regional competitiveness and employment’. Germany holds the widespread structural support in the Union as indispensable.26

Chapter 4 – EU Enlargement and the Budget

The EU’s enlargement policy provides financial aid for acceding countries (Croatia in 2013), candidate countries (including Iceland, Macedonia, Montenegro, Serbia, and Turkey) and potential candidate countries (including Albania, Bosnia and Herzegovina, and Kosovo) to support their efforts in enhancing political, economic and institutional reforms needed for them to become a member of the European Union. One of the instruments offering assistance to countries engaged in the accession process is the Instrument for Pre-accession (IPA), which supports the stabilisation and association process of candidate countries and potential candidate countries. The new IPA post-2013 proposed by the Commission, consists of five different components: Assistance for transition and institution building; Cross-border cooperation (with EU member states and other countries eligible for IPA); Regional development (transport, environment, regional and economic development); Human resources (strengthening human capital and combating exclusion); and Rural development.27

If the enlargement process continues with the same pace, some of the current candidate countries will become acceding countries in the period 2014-2020. Slovakia for instance, which joined the European Union in 2004, stated Pre-accession Assistance as one of their priorities for Heading 4 expenditure, accompanied by the new EU member Croatia. Croatia joined the EU in July 2013 and was therefore invited to attend most of the Council meetings and preparatory gatherings of the Council’s working parties as an observer until its accession. Since Croatia will be a member state of the EU in the period 2014-2020 and once acceded is to contribute to the EU budget, it is both a stakeholder and shareholder in these budget negotiations.

Noting that the EU is approaching a new round of enlargements, the European Parliament called for the next MFF to take the costs of future enlargements into account, namely through adequate funding for the Instrument for Pre-accession. Furthermore, the European Parliament underlines that the IPA instrument should give priority to supporting the necessary improvements for candidate countries to comply with the acquis communautaire and facilitate the use of EU funding, in particular for civil society, social partners, minorities, NGOs, cultural heritage, as well as local and regional authorities.28

However, a political struggle over spending on the IPA has been counteracting the Commission’s and the European Parliament’s proposals. Interestingly enough, opposition comes from one of the newest EU members: the Cypriot presidency in 2012 proposed cutting EUR 50 billion off EU spending plans for 2014 to 2020 – spending on pre-accession aid and global development should go from EUR 70 billion to EUR 65 billion.29

Chapter 5 – Conclusion

EU enlargement has been part of the development of European integration right from the start. The goal was not only to include states within the common market, but to promote a safer, more prosperous, stronger and more influential European Union in the global arena. EU member states have agreed to extend the EU perspective to a number of countries in the periphery. However, membership of the EU will only be approved after a number of requirements have been met. There are some countries with growing opposition to further enlargement such as France, Germany and Austria – facing a group of promoters of EU expansion including the UK, Bulgaria, the Czech Republic, Estonia and Hungary.30 However, the economic and budgetary gain for EU member states through further enlargement is highly disputed. In terms of contributions to the EU budget, the acceding and (potential) candidate countries are at the lower part of the table. Turkey is the exception as it has the seventh biggest GDP in relation to EU countries. This leads to the assumption that all new member states in an EU36 would be net beneficiaries. Therefore, it is quite possible that further EU enlargement would lay another burden on future EU budget negotiations and intensify the political struggle between net contributors and beneficiaries.

In the future, the differentiated integration will play a bigger role in EU policy making. The method of enhanced cooperation is already used in a variety of areas. The Financial Transaction Tax may be an illuminating case. In an EU36, it will be much harder to find consensus in all member states. In budgetary issues as well as in tax policies, unanimity is needed. The introduction of an EU tax should be a long-term project, including future EU applicant states:

A suitable resource clearly has to be durable because, once adopted, it is likely to be in place for decades: the traditional own resources, after all, will have been in use for over forty years by the time a new budget deal is agreed for the period after 2013. It follows that it would be a mistake to base a decision on short-term considerations.

For example, a financial transactions tax has a particular appeal today in the aftermath of the financial crisis and would capitalise on current anti-banker sentiment, but will also have to make sense 10 years from now.31

In an extended EU36, including Iceland, the Western Balkans and Turkey, the European Union will need to redefine itself. When looking at the history of European integration,

widening and strengthening the Union were always complementary and not counterproductive. Further enlargement led to further integration and vice versa. This may not be the case for the EU36. The Eastern enlargement has shown the limits of EU expansion. A Europe of different paces has become reality. Like other forms of differentiated integration such as Europe à la carte and variable geometry, multi-speed Europe arguably aims to provide a solution to the dilemma between unity and diversity, widening and deepening of the European Union. However, none of these concepts will work as a panacea. Without political will – and a new narrative of European integration – it will be hard to achieve a new balance between eastern and western, old and new, or richer and poorer member states.

Bibliography


Chapter 1 – Introduction

This paper explores the place of rural areas in European Union (EU) policy for the programming period 2014-2020 in two respects. Firstly, with regard to the targeting of funds available to existing EU member states (illustrated by data for the present EU27, i.e. as of 2012) and secondly with regard to lessons we can learn from this analysis that may be of value to some of the countries that are identified as possible future EU member states by the European Commission (EC), i.e. Albania, Bosnia and Herzegovina, Croatia, Iceland, Kosovo, Macedonia, Montenegro, Serbia and Turkey.

Although there have been many attempts to define ‘rural’, it is now widely accepted that a single definition of ‘rural’ does not exist. Indeed, there is no internationally accepted definition of ‘rural’; the most commonly used being the one proposed for regions by the Organisation for Economic Co-operation and Development (OECD), which is based on a two-step approach:

- Firstly, local communities are identified as rural if their population density is below 150 inhabitants per km² (500 in the case of Japan);
- Then, statistical regions (e.g. NUTS 3 or NUTS 2, where ‘NUTS’ is an abbreviation for ‘nomenclature des unités territoriales statistiques’), are classified in one of three categories:
  - Predominantly rural region (PR): if more than 50 per cent of the population of the region is living in rural ‘local units’ (with less than 150 inhabitants per km²; 500 in the case of Japan);
  - Intermediate region (IR): if 15-50 per cent of the population of the region is living in rural ‘local units’;
  - Predominantly urban region (PU): if less than 15 per cent of the population of the region is living in rural ‘local units’.

2 E.g. Kinga Kerekes et al., Dezvoltare Rurală: Ocuparea forței de muncă în mediul rural | Rural Development: Employment in rural areas| (Cluj-Napoca: Accent, 2010).
3 OECD, Creating rural indicators for shaping territorial policy (Paris: OECD, 1994).
The OECD defines ‘local units’ mostly but not always as LAU 2 regions, where ‘LAU’ is an abbreviation for ‘local administrative unit’, for example grad (Bulgaria), commune (France), település (Hungary), commune (Romania) or ward (UK). But while it is appropriate to accept the OECD definition of rural at the NUTS 2 or NUTS 3 regional level, and thus for the analysis carried out in this paper, it should be kept in mind that the ‘predominantly’ approach cannot be applied at the local level where some kind of ‘absolute’ definition would be more appropriate. In this regard most countries have felt it necessary to adopt a definition of rural for policy purposes and the definition adopted by a country can influence the way in which official data sets are compiled. This reduces the room for judgement on the part of the researcher. Criteria which are used by the various EU member states include, amongst others: settlement size; maximum settlement size within a territory; population density; income; share of agriculture; density of dwellings; tradition; official classification; and employment profile.

But residents’ perceptions of the ‘rurality’ of their locality often differ from the official definition. Halfacree identified four broad approaches that rural researchers have taken towards defining the rural: (a) descriptive definitions; (b) socio-cultural definitions; (c) the rural as locality; and (d) the rural as social representation. Woods reviewed the shortcomings of each of these approaches. He concluded that “the dominant approach in rural studies today is to see ‘rurality’ as a ‘social construct’ (...) Researchers now try to understand how particular places, objects, traditions, practices and people come to be identified as ‘rural’ and the difference that this makes to how people live their everyday lives”.

For the analysis used here, the OECD definition of rural was considered to be adequate since, as Hoggart et al. pointed out, rural areas share two sets of properties which give them a degree of homogeneity. The first is captured by the OECD definition, whilst the second is pertinent to the discussion in this paper on the policy priorities of the European Union:

- They support relatively low population densities;
- Natural capital is abundant and is determined by physical features such as topography.

### 1.1 The RuralJobs Research Project

In December 2006 the European Commission published its first call for project proposals under the Food, Agriculture and Fisheries, and Biotechnology theme of the new Seventh Framework Programme for Research and Technological Development (‘Framework 7’). It
included the topic ‘New sources of employment in rural areas’, for which proposals were invited for ‘small collaborative projects’ with the expected impact of “allow(ing) a better targeting of rural development measures and future evolution of rural development policies in line with the Lisbon Strategy.” Five proposals were submitted from which the project entitled New Sources of Employment to Promote the Wealth-Generating Capacity of Rural Communities (abbreviated as RuralJobs, see Fieldsend10 for a short description) was selected for funding and was implemented between February 2008 and September 2010.

The RuralJobs research was founded on three hypotheses:

- That a territorial approach to improving the wealth-generating ability of rural areas through the creation of new sources of employment is required, whilst recognising the uniquely important role of agriculture and other land-based industries in the rural economy;
- Initiatives to create new sources of employment in rural areas must take full account of the existence of markets for the products of labour, whether these are in the primary, secondary or tertiary sectors. Frequently, the largest markets are in urban areas;
- Rural areas in different parts of the EU are fundamentally different from each other in many respects and that a single, EU-wide ‘solution’ or ‘strategy’ for the creation of rural employment is not appropriate.

The results of the RuralJobs research on the nature of employment in rural areas provide part of the evidence base for the assertion that the role of rural in the EU’s cohesion and enlargement policy should be reassessed.

1.2. Rural Areas in the EU27

The European Union’s Sustainable Development Strategy (EU SDS) has four key objectives, namely environmental protection, social equity and cohesion, economic prosperity and meeting our international responsibilities.11 The EU SDS recognises the role of economic development in facilitating the transition to a more sustainable society. Economic prosperity is to be achieved by promoting “a prosperous, innovative, knowledge-rich, competitive and eco-efficient economy which provides high living standards and full and high-quality employment.”12 The EU SDS is complemented by the Europe 2020 strategy13 which is designed to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. EC notes that “cohesion policy and its Structural Funds (…) are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.”14

12 Ibid., 4.
14 Ibid., 22.
EU cohesion policy is designed to reduce the gap in the levels of development of the different regions of the EU, in order to strengthen economic and social cohesion. For the period 2007-2013 the available resources amounted to just over EUR 347 billion at 2007 prices, allocated as follows: EUR 201 billion for the European Regional Development Fund (ERDF), EUR 76 billion for the European Social Fund (ESF) and EUR 70 billion for the Cohesion Fund. Eligibility for most of the two Structural Funds (the ESF and the ERDF) is determined on the basis of the gross domestic product (GDP) per capita, measured in purchasing power parities and calculated for the period 2000 to 2002, of NUTS 2 regions relative to that of the EU25. In brief, Structural Funds are allocated according to three objectives:

- Convergence, applicable to NUTS 2 regions with a GDP of less than 75 per cent of the EU25 average;
- Regional competitiveness and employment, applicable to NUTS 2 regions not covered by the convergence objective;
- European territorial cooperation, applicable to some NUTS 3 border regions.

The available funding is allocated as follows: 81.5 per cent (including the Cohesion Fund of just under EUR 70 billion) for the convergence objective, 16 per cent for the regional competitiveness and employment objective, and 2.5 per cent for the European territorial cooperation objective. Thus, over EUR 213 billion of Structural Funds are available for the poorer NUTS 2 regions. However, it has been estimated by the EU Directorate-General for Regional and Urban Policy that only 20 per cent of all ERDF money will be allocated to rural areas in the 2007-2013 programming period. This is despite the fact that 27.9 per cent of the population of the EU27 lives in LAU 2 regions defined by the OECD as rural (i.e. with a population density below 150 inhabitants per km²), and that these account for 82.8 per cent of the land area. According to the new EU urban-rural classification, 32.1 per cent of the population lives in ‘rural grid cells’ which cover 96.2 per cent of the land area of the EU27.

By contrast, the budget for the European Agricultural Fund for Rural Development (EAFRD), i.e. the ‘Pillar 2’ funding for rural development, is EUR 96 billion. Of this, EUR 76 billion is dedicated to supporting the agricultural sector through Axes 1 (competitiveness) and 2 (land management). Axes 3 (wider rural development) and 4 (Leader approach), which together are allocated EUR 18.5 billion, fund both agricultural and non-agricultural rural development projects. It is clear from this comparison that Structural Funds are a much larger (by a factor of over ten) source of funding for rural development, broadly characterised as a process to enhance the quality of life of rural residents and the economic performance of rural areas, than is the Common Agricultural Policy (CAP), but that rural areas may be receiving an inadequate share of this funding.

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There has recently been a debate on whether rural development in the EU can most appropriately be addressed by the CAP or cohesion policy. This has been resolved to the extent that ‘rural development’ will remain part of Pillar 2 of the CAP. By contrasting the economic prosperity and employment situation in rural and urban NUTS 2 regions of the EU and, in the context of the findings of the RuralJobs research, it can be argued that in the present EU programming period (2014-2020) rural development actors should look beyond CAP funding and adopt an integrated approach which better mobilises Structural Funds, and national and private sector funding. Furthermore this idea can be shown to be equally applicable to countries that are seeking to join the EU.

1.3 The Enlargement Strategy of the European Union

The EC’s Enlargement Strategy report lists the European states eligible for future membership. Of these, Croatia acceded to the EU on 1 July 2013. Iceland, Macedonia, Montenegro, Serbia and Turkey have the status of candidate countries, Serbia most recently having achieved this, on 1 March 2012. Albania, Bosnia and Herzegovina, and Kosovo are potential candidate countries. The accession dates of these remaining eight states are not yet known, and the EU lists the following key challenges to be addressed prior to accession:

- Increased focus on strengthening the rule of law and public administration reform;
- Ensuring freedom of expression in the media;
- Enhancing regional cooperation and reconciliation in the Western Balkans;
- Achieving sustainable economic recovery and embracing Europe 2020;
- Extending transport and energy networks.

It may be noted, therefore, that the Europe 2020 strategy, in the context of economic development, is considered to be an important component of the negotiations accompanying the enlargement process. It includes topics such as sound public finances, private sector development, research and innovation, climate change, social inclusion, and education and training. These topics are just as applicable to rural areas as they are to urban centres.

Since 2007, both candidate countries and potential candidates have received focused EU funding and support through a single channel – the Instrument for Pre-accession Assistance (IPA). The total pre-accession funding for the period 2007-2013 was EUR 11.5 billion. The legal basis for this assistance is Council Regulation 1085/2006, adopted on 17 July 2006. In order to achieve the objectives of each candidate and potential candidate as efficiently as possible, IPA consists of five components:

21 Ibid.
• Component I (Transition Assistance and Institution Building) is managed by the Directorate-General for Enlargement;
• Component II (Cross-Border Cooperation) is managed by the Directorates-General for Enlargement and for Regional and Urban Policy;
• Component III (Regional Development) is managed by the Directorate-General for Regional and Urban Policy;
• Component IV (Human Resources Development) is managed by the Directorate-General for Employment, Social Affairs and Equal Opportunities;
• Component V (Rural Development) is managed by the Directorate-General for Agriculture and Rural Development.

Components III to V are open only to candidate countries and aim to prepare these countries for the programming, implementation and management of Structural, Cohesion and Rural Developments Funds upon accession by approximating, to the greatest extent possible under External Aid rules, the implementation methods of these funds. Specifically, Component III, Regional Development, emulates to the greatest extent possible the ERDF and Cohesion Fund. Component IV, Human Resources Development, prepares candidate countries for the European Social fund, in the framework of the European Employment Strategy. Component V, Rural Development, helps the candidate countries prepare for post-accession EU-funded rural development programmes by implementing pre-accession assistance through systems which are as similar as possible to those required post accession. For the years 2014-2020 the EU expects to continue its financial assistance to enlargement countries through an integrated pre-accession instrument that retains the component structure, albeit in a modified form. In its Communication of June 2011, ‘A Budget for Europe 2020’, the EC proposed to allocate EUR 14,110.1 billion (current prices) to the new Instrument for Pre-accession Assistance, which will allow for a continuation of the current levels of support for candidate and potential candidate countries. The current distribution of funding between priorities can therefore be taken as indicative of the arrangements that will be implemented after 2013. Furthermore, the new package of funding for enlargement will reflect the funding priorities within the EU in the new programming period. The later parts of this paper explore whether the points made regarding targeting funding for rural development in the EU27 also apply to the candidate countries.

Chapter 2 – Methodology

Three separate sets of data are used in this study. Firstly, the results from the EU Framework 7 project RuralJobs, secondly, official NUTS 2 level data for GDP, population, employment and commuting activity for the EU27 and, thirdly, comparable data, where available, for some EU candidate countries.

2.1 The RuralJobs Research

The RuralJobs research was conducted in five contrasting NUTS 2 regions across the EU. The case study areas were sub-NUTS 3 level as labour market areas were used as the unit of study where possible. There were two case study areas in France, Hungary and the UK, and one in each of Bulgaria and Romania (Table 2.1).

The source material for the research consisted of (a) information gathered from semi-structured interviews with local actors/key experts, (b) quantitative data sets and (c) previously published (mainly local) studies. Approximately 20 interviews were conducted in each case study area, and interviewees included representatives of (a) decision makers; (b) local government experts; (c) community organisations / NGOs; (d) other experts (e.g. academics, consultants); and (e) the business sector (e.g. Chamber of Commerce, Farmers’ Union).

In each case study area, a SWOT analysis of rural employment potential was conducted from the results of the field research. The internal audit, i.e. the Strengths and Weaknesses, was based on the ‘assets’ of the case study area (human, social, physical, financial and natural capital). The external audit, i.e. the Opportunities and Threats, was based on factors influencing change in the rural economy (and therefore rural employment) in the case study area. Opportunities could be the basis of ‘new sources of employment’, while Threats are factors which are leading to a decline in employment in rural areas.

From the comprehensive lists of Strengths, Weaknesses, Opportunities and Threats for each case study area, the most important factors with respect to rural employment creation and sustainable economic prosperity were identified for use in a Strategic Orientation Round (SOR) analysis. A number of operational objectives were identified which were then clustered into a set of strategic orientations which could be the focus for future rural employment strategies in the case study area. These strategic orientations then formed the basis of the five ‘composite’ EU-wide strategic orientations for rural job creation which are described in this paper and which are aligned with the five ‘capitals’ identified by DFID.

2.2 Analysis of EU27 Data

All EU27 NUTS 2 regions were included in the analysis with the exception of the four French départements d’outre-mer (Guadeloupe, Guyane, Martinique and Réunion), and the Spanish Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla, which are located in Africa. Most data – GDP per inhabitant (expressed in terms of purchasing power standards, PPS) as a percentage of the EU27; employment rate as a percentage of the EU27; percentage of working age population employed by broad industry sector – were taken directly from the Eurostat website. Data for percentage of population (a) living in LAU 2 units defined as rural (OECD definition) and (b) living within 45 minutes driving time from centroids of

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26 For the methodology see Renata Januszewska et al., “Strategic Options for Regional Products as a Tool for Regional Development,” Bulletin UASVM Horticulture 66 (2009).

cities with at least 50,000 inhabitants were kindly supplied by Hugo Poelman in a personal communication on 7 May 2009, and were the data source used by Dijkstra and Poelman. These data were recalculated to NUTS 2 level.

Regions were defined as predominantly urban (PU), intermediate (IR) and predominantly rural (PR) according to the percentage of the population living in ‘local units’ (usually LAU 2 regions) with a population density below 150 inhabitants per km² (OECD, 2010). The final step of redefining regions with large urban centres was, however, not applied. Thus, six regions (Yugozapaden, Oberbayern, Aragón, Latvia, Lódzkie and Stockholm) remain defined as IR instead of PU and one (Västsverige) as PR instead of IR.

The usual EU15-EU12 distinction (i.e. ‘old’ member states and ‘new’ member states) is becoming increasingly outdated for several reasons, of which two are particularly pertinent in the context of this paper. Firstly, with attention turning to the accession of up to nine new EU member states, the continuing use of the term ‘new member state’ to refer to countries that acceded almost ten years ago is not appropriate. Secondly, it is misleading to assume that the two groups represent economically and socially homogeneous ‘blocs’. Indeed, there is much evidence, ranging from climate, through the nature of agriculture, to economic issues illustrated by the present difficulties being experienced by the Eurozone, that a north – south – east grouping of member states may be useful for some analytical purposes. Thus, in this paper the 27 EU member states are grouped as follows:

- EU11: Austria, Belgium, Denmark, Eire, Finland, France, Germany, Luxemburg, the Netherlands, Sweden and the UK;
- EU7: Cyprus, Greece, Italy, Malta, Portugal, Slovenia and Spain; and
- EU9: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

This ‘realignment’ is not as radical as it first appears. The EU15 is simply divided into ‘northern’ and ‘southern’ member states, while three small former EU12 member states composed of just four NUTS 2 regions (Cyprus, Malta and Slovenia) are grouped with the ‘southern’ member states. For the future, it is interesting to ask whether it is legitimate to group the nine possible future member states as a coherent group, as we have done with the EU27 for several years. As these nine include countries as diverse as Iceland and Turkey, the expectation must be that such a grouping is not appropriate.

2.3 Analysis of EU Candidate Country Data

In determining the allocations between components of the IPA, due account has been taken by the EC of the readiness of the decentralised management systems necessary for the implementation of Components III, IV and V in the current candidate countries, as well as the need for Component II funding as it relates to cross-border cooperation with member states to match that of the equivalent ERDF funding from heading 1b. The most recent
allocation data are given by the EC.29 Published in October 2011, these data reflect the fact that Montenegro had become a candidate country in December 2010, and the anticipated date of accession of Croatia was known (which resulted in the reduction of its 2013 IPA allocation by 50 per cent, except for rural development), but at that time Serbia was still a potential candidate country. Reflecting the degree of its alignment with EU legislation through the European Economic Area Agreement and its level of economic and social development, Iceland receives IPA assistance exclusively under Component I. Thus, suitable data sets covering IPA funding are only available for Croatia, Macedonia, Montenegro (2012 and 2013 only) and Turkey.

Finding comparable economic data has also proved to be difficult. The NUTS classification is defined only for EU member states but Eurostat, in agreement with the countries concerned, also defines a coding of statistical regions for EU candidate and EFTA countries. Of the candidate countries, Iceland, Macedonia and Montenegro are composed of one NUTS 2 region only, Croatia and Serbia (excluding Kosovo) are composed of three and four regions respectively, while Turkey has 26 NUTS 2 regions. It may be assumed that the three potential candidate countries will each consist of just one (Kosovo) or a very small number (Albania, and Bosnia and Herzegovina) of NUTS 2 regions.

Furthermore, the author has been unable to locate any data for the candidate and potential candidate countries for the classification of NUTS 2 regions according to the OECD system of predominantly urban (PU), intermediate (IR) and predominantly rural (PR). However a classification of Turkish NUTS 3 regions is available from MARA.30 At NUTS 2 level Eurostat provides population data for 2008 and area data for 2007 for Croatia, Iceland, Macedonia, Montenegro and Turkey. These data were used to classify Turkish NUTS 2 regions as ‘densely populated’ (DP), ‘intermediate’ (IP) or ‘sparsely populated’ (SP).

The following Eurostat NUTS 2 level data were also located: GDP per inhabitant (PPS) as a percentage of the EU27 for Iceland, Croatia and Macedonia (mean of 2006 and 2007), and Turkey (2006 only); employment rate as a percentage of the EU27 for Iceland and Turkey (mean of 2006-2008), and Croatia (mean of 2007 and 2008 only); percentage of working age population employed by broad industry sector for Croatia, Iceland and Turkey (mean of 2007 and 2008). Therefore, sufficient data were available for three contrasting candidate countries to allow worthwhile analyses to be made.

Chapter 3 – Results

In this section the rural economic development priorities identified by the RuralJobs research are described first. The relationships between rurality, GDP and employment in the EU27 are then shown. Finally, similar comparisons are made for the EU enlargement countries.

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29 European Commission, *Instrument for Pre-Accession Assistance (IPA).*
3.1 Rural Europe 2+2+

The RuralJobs consortium developed a conceptual framework (Rural Europe 2+2+) for a rural employment policy for the EU based on two complementary ideas.31

Firstly, the RuralJobs research has reaffirmed that most if not all sectors provide employment in rural areas. For example, a comparison of the employment profile of urban and rural areas in Hungary (2.68 and 1.67 million working inhabitants respectively) is of interest (Table 3.1). Data disaggregated by NACE (Statistical classification of economic activities in the European Community) code and town/village location are available from the Hungarian Central Statistical Office (HCSO) 2005 micro census. The employment profile of villages in Hungary is remarkably diverse. The most notable difference in employment profile is, as would be expected, in ‘Agriculture and related industries’, which accounts for 2.8 per cent of employment in Budapest and the towns, and 9.4 per cent in the villages. The percentage of jobs in ‘Mining and quarrying’ in the villages is double that in Budapest and the towns, although the total number of jobs is small. Notably, however, ‘Manufacturing’ accounts for over one quarter of jobs in the villages and just one fifth of jobs in Budapest and the towns. Three other sectors, ‘Construction’; ‘Transport and related industries’ and ‘Public administration etc.’ are marginally more highly represented in the employment profile of the villages.

By contrast, the relatively important sector of ‘Wholesale and retail trade, repair of goods’, accounts for a greater percentage of employment in Budapest and the towns, as do the high gross value added (GVA) sectors of ‘Financial intermediation’, ‘Real estate, services, business activities’, and ‘Education and Health and social services’. As these data are presumably based on the location of the worker’s residence rather than of the workplace, they may to some extent reflect the dependence of rural inhabitants on urban jobs, but they still imply that the sectoral diversity of the rural economy is greater than is commonly believed. Agriculture (farming) is therefore a distinctive (and declining), rather than a defining, source of employment in Hungarian rural areas, which have an economic diversity approaching that of towns.

Similarly, the RuralJobs research has shown that there is potential to create new jobs in rural areas in most sectors (Table 3.2). Any attempt to define rural employment by sector would therefore be both fruitless and misleading, as such a definition can lead to a restricted rural job creation strategy. How, then, can the concept of rural employment be interpreted for policy purposes? What, if anything, sets rural employment apart from employment in general? In line with the analysis of Hoggart et al.32 that natural capital (a stock of renewable or non-renewable natural resources – such as land, water and minerals – used for production) is common to rural areas, and the principles of endogenous rural development, the RuralJobs research showed that the one capital which is overwhelmingly a feature of rural areas, natural capital, still strongly characterises the profile of rural employment and underpins the central contribution of rural areas to the functioning of the regional economy. But this effect now goes far beyond the traditional rural sector of agriculture.

Thus, creating jobs in rural areas which are driven in different ways by natural capital can be considered to be the rural dimension of a regional employment strategy. The drivers of

32 Hoggart, Buller and Black, Rural Europe.
rural employment which arise from the sustainable exploitation of natural capital consist of two groups of two (hence Rural Europe 2+2+), as follows:

- Production using (a) renewable (e.g. land, sunlight, wind, water and tidal power) or (b) non-renewable (e.g. coal, gas, oil and other minerals) natural resources. These uses are especially relevant to the agri-food and energy supply chains, but also provide raw materials for construction and other sectors;
- Consumption by (a) non-residents of the territory including visitors and (b) residents of the territory. The latter is a commonly overlooked aspect, but natural capital is an important factor in encouraging people (including entrepreneurs who set up their own businesses and the retired) to remain in, or relocate to, rural areas. The consumption role of rural areas is therefore relevant not just to the tourism sector but also to several others such as Knowledge Intensive Business Services and health and social work.

Secondly, the other components of the sustainable livelihoods framework developed by DFID, namely the financial, human, physical and social capital in rural areas, must be developed in parallel with their natural capital. The five strategic orientations formulated by the RuralJobs consortium focus on the most important policy targets for employment creation across the EU. These were found to be widely applicable across case study areas (Table 3.3):

- SO1 (Encourage the development of key growth sectors) is to focus on the development of industry sectors linked to natural capital, as described above. The precise mix of sectors will vary from region to region;
- SO2 (Reinforce the local rural economy) develops the synergy between natural capital and financial capital (money used by entrepreneurs and businesses to buy what they need to make their products or provide their services). Several actions were identified which could help to establish, develop and sustain rural businesses, as well as to improve their competitiveness;
- SO3 (Improve skills and labour market participation in rural areas). Here, the synergies between natural capital and human capital (the skills and knowledge possessed by workers; workers acquire these skills both through formal education and through on-the-job and life experiences) are developed. This reflects the need to create more and better jobs in rural areas;
- SO4 (Develop infrastructure and services). The focus here is on developing the synergies between natural capital and physical capital (any non-human asset made by humans and then used in production); and
- SO5 (Ensure proper implementation of the strategy through support actions). Here the link between natural capital and social capital-related issues (the networks of relationships among persons, firms and institutions in a society, together with associated norms of behaviour, trust, cooperation, etc., that enable a society to function effectively) is explored, for example by encouraging community participation in rural economic development.

Rural Europe 2+2+ is consistent with the place-based development approach advocated by

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DFID, *Sustainable Livelihoods Guidance Sheets*. 

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Barca. The objective of this latter policy concept is to reduce persistent “inefficiency” (underutilisation of resources resulting in income below potential) and persistent “social exclusion” (primarily an excessive number of people below a given standard in terms of income and other features of well-being). Thus in rural areas the focus should be on the efficient use of natural capital facilitated by addressing weaknesses within the territory such as low skills levels and access to services. Barca argues that in future EU cohesion policy there needs to be greater coherence with the territorial policy concept through integrated, place-based development strategies.

3.2 Rurality, GDP and Employment in the EU27

GDP per inhabitant (PPS) is the most commonly used indicator of macro-economic activity and, by implication, of regional economic prosperity. Despite a high level of data scatter, Figure 3.1 suggests that across the EU27 there is a slight negative correlation between GDP (mean of data for the period 2006-2008) at NUTS 2 level and the percentage of population living in rural areas. For example, only one PU region (i.e. with less than 15 per cent of the population living in rural areas) is a low GDP region, i.e. has a GDP which is less than 75 per cent of the EU27 average (Slaskie in Poland). However, most low GDP regions are located in the EU9 (‘eastern’ EU). Although no EU11 (‘northern’ EU) or EU7 (‘southern’ EU) PR regions may be defined as very high GDP regions, i.e. have a GDP in excess of 150 per cent, few have a GDP below 75 per cent. PR regions are relatively more common in the EU7 than in the EU11, but their GDP, while on average lower than in the EU11, is clearly higher than in the EU9.

The three groupings of member states show clear differences in terms of employment rate, GDP and the relationship between the two (Figure 3.2). The employment rate exceeds 60 per cent in almost all regions in the EU11 (‘northern’ EU) and GDP is (only just) less than 75 per cent of the EU27 average in one (West Wales). In 17 regions, in-commuting is estimated to increase GDP by 6 per cent (the precise choice of threshold is constrained by the source data) or more. Of these, 14 are shown in Figure 3.2a and the other three are Inner London, Brussels Hoofdstedelijk Gewest and Luxembourg (Grand-Duché), which have GDP values in excess of 200 per cent. Excluding these from the analysis, a function of the form $y = 1.80x - 20.0$ can be fitted to the data ($r^2=0.23$). According to Eurostat 2007 data, the Dutch NUTS 2 region of Groningen may also benefit from in-commuting, from neighbouring Drenthe. There are a further three regions in the EU11 where GDP exceeds 150 per cent and employment rate is under 70 per cent. Two of these, Southern and Eastern (Ireland), and Île de France, are locations of capital cities (Dublin and Paris) which tend to

35 Ibid., xi
36 Ibid., xi.
37 Andrew F. Fieldsen, “Rural Europe 2+2+.”
38 Barca, An agenda for a reformed cohesion policy.
have high concentrations of economic activity,\textsuperscript{40} while Darmstadt includes the financial centre of Frankfurt.

In the EU7 (‘southern’ EU), where no regions benefit from in-commuting in terms of an increase in GDP by 6 per cent or more, the relationship between employment rate and GDP is comparable to that which applies to most NUTS 2 regions in the EU11 (Figure 3.2b). A function of the form $y = 1.85x - 20.3$ can be fitted to the data ($r^2=0.35$). Few regions have a GDP which is less than 70 per cent of the EU27 average. There is, however, a much larger percentage of regions in the EU7 (mainly the south of Italy) with employment rates below 60 per cent. Also, many EU7 regions, particularly in Greece and Portugal, have high rates of agricultural employment (10 per cent or more) and GDP tends to be lower in these regions for any given employment rate.

By contrast, there is a quantitatively different relationship between employment rate and GDP in the EU9 (‘eastern’ EU; Figure 3.2c). GDP exceeds 75 per cent of the EU27 average only in five regions, all of which include capital cities and in four of which in-commuting is estimated to increase GDP by 6 per cent or more. The exception is Közép-Magyarország where the labour market area for Budapest approximately coincides with the territory of the NUTS 2 region.\textsuperscript{41} Excluding the four regions with significant in-commuting, a function of the form $y = 1.72x - 51.6$ can be fitted to the data ($r^2=0.31$). Thus, for any given employment rate, GDP in these regions is substantially lower than in the EU11 and EU7. Even regions with employment rates approaching 70 per cent have a low GDP and some, especially in Romania, combine employment rates of around 60 per cent with a high proportion of employment in agriculture and GDPs under 40 per cent of the EU27 average.

In the EU11 there is little difference between PU, IR and PR regions in the mean values for GDP (Figure 3.4) or employment rate (Figure 3.3). If the 11 PU regions whose GDP is estimated to benefit from in-commuting by 6 per cent or more are removed from the calculation, the mean GDP for this group falls to 103 per cent. The mean employment rate is close to 70 per cent for all three groups of regions. Employment in agriculture increases from an average of 1.4 per cent of all employment in PU regions to 5.1 per cent in PR regions, whilst employment in financial intermediation and real estate declines from 16.2 per cent to 10.9 per cent. In all three types of region, on average approximately 34 per cent of jobs are in public administration and related sectors.

There is a more noticeable decline in mean GDP between PU, IR and PR regions in the EU7 (Table 3.4) and also evidence of a decline in employment rates (Figure 3.3), which are several percentage points below those in the EU11. There is a more marked increase in agricultural employment, from 2.9 per cent in PU regions to 13.4 per cent in PR regions. Employment in financial intermediation and real estate declines markedly from 13.5 per cent to 7.5 per cent, whilst in public administration and related sectors it is almost constant at around 27 per cent.

In the EU9, GDP declines from 117 per cent in PU regions to just 40 per cent in PR regions (Table 3.4) whilst employment rates decline from 64.4 per cent to 56.2 per cent (Figure 3.3). Differences in employment by sector are marked: agricultural employment increases from 1.4 per cent to 21.2 per cent, and employment in financial intermediation and real estate declines from 16.2 per cent to 5.3 per cent. Uniquely, there is a strong decline in

\textsuperscript{40} Ibid.

\textsuperscript{41} Ádám Radvánszki and Attila Sütő, “Hol a határ?” Falu Város Régio (2007).
public administration and related sectors employment, from 26.3 per cent in PU regions to 22.1 per cent in IR regions and 21.8 per cent in PR regions. In terms of absolute numbers of jobs, this is compounded by the lower employment rates in the latter.

The mean percentage of the population living in rural areas of PR regions is lower (57 per cent) in the EU9 than in the EU11 (69 per cent) and EU7 (67 per cent), but this is reversed for IR regions (Table 3.4). In all PU regions, according to the data supplied by Hugo Poelman, almost the entire population can, as might be expected, access urban centres. In PR regions, the mean value is 58 per cent in the EU11, 40 per cent in the EU7 and 75 per cent in the EU9, although there is considerable variation within each group of member states.

3.3 IPA funding, Rurality, GDP and Employment in the EU Candidate Countries

The proportion of IPA funding allocated to each of components II to V varies somewhat between candidate countries (Table 3.5). Rural development (component V) receives about one quarter of the funds, whilst three times as much is available for Structural Fund-related components, with half of the available money being allocated to Component III (regional development). As in the EU27, therefore, substantially more ‘regional’ funds are available than ‘rural’ funds.

Iceland is the only NUTS 2 region in an EU candidate country (for which data are available) with a GDP per head (PPS) in excess of 75 per cent of the EU27 average (Table 3.4). The low population density disguises the fact that over 200,000 of the 320,000 inhabitants live in the Greater Reykjavik area. For the other three countries, a slight negative correlation between GDP and population density appears to be evident, which is consistent with NUTS 3 level data for Turkey presented by MARA.42 GDP values for Croatia and Macedonia are in the range of the EU9, but the most sparsely populated Turkish NUTS 2 regions (mainly in the east of the country) have GDP values which are, at best, at the lower end of the EU9 range.

The data suggest that, in terms of the relationship between GDP per head (PPS) and rurality, Turkey (as well as Croatia and Macedonia) can be grouped with the EU9. This cannot be confirmed owing to the different x axis scales used in Figures 3.1 and 3.4. Istanbul (2,366 persons per km²) is undoubtedly PU, but Izmir and Ankara (311 and 176 persons per km²) are IR. The thresholds of 160 and 100 persons per km² in Figure 3.4 are those used to define DP, IP and SP NUTS 2 regions.

In terms of the relationship between employment rate and GDP per head (PPS) the value for Iceland (Figure 3.5) is consistent with the data for the EU11 (Figure 3.2a) and those for Croatia and Macedonia are consistent with the EU9 (Figure 3.2c). Several points can be noted regarding the Turkish data. Firstly, the high level of scatter, probably reflecting the area of the country (it is over twice as big as Germany). Secondly, the fact that in most NUTS 2 regions the official employment rate is lower than 50 per cent, i.e. lower than the poorest performing EU7 regions. Thirdly, many of the NUTS 2 regions with the highest employment rates are those where agricultural employment exceeds 40 per cent of all employment. In Turkey the relationship between employment rate and GDP per head (PPS) has similarities to that of the EU9 but for many regions the values for both parameters are lower. The data scatter means that the fitted function ($y = 0.88x - 2.0; r^2=0.18$) tells us very little.

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42 MARA, Instrument for Pre-Accession Assistance (IPA).
The employment profile by sector of Iceland (Figure 3.6) is similar to that of the EU11 (Figure 3.3). Agriculture accounts for 5.4 per cent of jobs, and around 35 per cent of employment is in public administration and related sectors. In Croatia there is a similar employment profile between Sjeverozapadna Hrvatska (which includes Zagreb) and the mean of the other two NUTS 2 regions, but the overall employment rate is substantially higher in the former.

In contrast to the sharp decline in employment rate with increasing rurality in the EU9 (Figure 3.3), mean overall employment rates are similar across all types of NUTS 2 regions in Turkey (Figure 3.6). It should be noted that the mean values mask substantial differences between regions: amongst the sparsely populated regions the employment rate varies from 26 per cent (Mardin) to 60 per cent (Trabson). However, mean employment profiles by sector differ remarkably between types of region. In the regions with the three largest cities (Istanbul, Izmir and Ankara) just 1.6 per cent of employment is in agriculture, while trade, hotels and restaurants, transport; financial intermediation, real estate; and public administration and related sectors account for 14 per cent, 4 per cent and 10 per cent of jobs respectively. By contrast, in the sparsely populated regions agriculture provides 17.9 per cent of jobs and all other sectors proportionately less.

Chapter 4 – Discussion

At the (NUTS 2) regional level, the route to economic prosperity as described by the EU SDS is broadly appropriate not just for predominantly urban regions across the EU27, but probably for most regions in the EU11 (‘northern’ EU). RuralJobs research in rural areas of Essex in the UK and Limousin in France has shown that the economic situation of these areas, and the regions of which they are part, fits the description closely. Most EU11 regions qualify for Structural Funds via the Competitiveness and employment objective (Figure 3.2a) and their populations can access a relatively plentiful supply of jobs, notably knowledge-based jobs, including (via daily commuting) from, if not in, rural areas.

However, it is clear that the description is far removed from reality in some other rural areas, particularly in the EU9 (‘eastern’ EU). Although commuting to work in urban centres can again be a means of increasing rural employment rates, in some regions, for example in Pazardjik AA, even the urban centre may not provide adequate numbers of jobs. In line with the present urban-rural allocation of Structural Funds, policy makers may attempt to justify focusing investment in urban centres on the basis that urban growth poles can disproportionately drive regional growth, a concept that can be traced back to the work of Perroux.43 New jobs would be located at the growth poles and commuting would be facilitated by improved transport infrastructure (Parr, 1999).44 But, as Copus et al.,45 there has been a disappointing lack of evidence of...
quantifiable spread effects to support this approach. Courtney et al.,\textsuperscript{46} were not able to confirm even the widely held view that market towns can act as sub-poles for their rural hinterlands. Furthermore, in many parts of the EU, so-called remote rural areas are not part of a labour market area with a major urban centre.\textsuperscript{47} Indeed, such an urban-focused strategy not only neglects the potential economic contribution of rural areas, it can contribute to their economic and social decline as funding is disproportionately targeted at urban centres.

The data suggest that, with the possible exception of Iceland (which in any case has a relatively small rural population), the EU SDS vision is also not at present appropriate to most rural areas in the EU candidate and potential candidate countries.

A number of issues converge at this point in the discussion. Firstly, in terms of economic prosperity, rural regions are disproportionately deserving of financial support for development. Secondly, this support should not be targeted at the urban centres within these regions. Thirdly, just as there is no generally accepted definition of ‘rural’ there is no simple definition of ‘rural employment’. Despite clear evidence that across Europe the proportion of the workforce employed in agriculture has been declining,\textsuperscript{48} a view has persisted in some quarters that rural employment remains dominated by agriculture. Consequently, the OECD notes that rural and agricultural issues have often been considered to be virtually synonymous,\textsuperscript{49} and it has been assumed that agricultural and rural objectives could be pursued through a single set of policies designed to aid the transition of the agricultural sector. If ever that were possible, that situation has changed, principally because agriculture is generally no longer the dominant sector in rural regions (at least in much of the EU27), either in terms of output or employment, as was demonstrated by the data for Hungary in Table 3.1. Strictly speaking, agriculture is not even dominant in the most sparsely populated regions of Turkey, although here its importance as an employer continues to be exceptionally high.

In response to this, the OECD formulated the principles of a new rural paradigm (Table 4.1).\textsuperscript{50} This is characterised by a focus on places instead of sectors and a focus on investments instead of subsidies. It rejects the view that urban areas should be competitive and rural areas should be sustainable. Rural (and urban) areas should be both competitive and sustainable and, as this paper argues, policy interventions should be targeted at developing their capacity to achieve this through a multi-sectoral approach to exploiting their local (endogenous) assets (territorial capital).

\textbf{4.1 Alignment of Programmes}

In the period 2014-2020, the EC foresees an amount of EUR 376 billion for economic, social and territorial cohesion in the EU28, including EUR 68.7 billion for the Cohesion

\begin{itemize}
  \item 46 Andrew K. Copus et al., “Cohesion Policy for rural areas after 2013: A rationale derived from the EDORA project (European Development Opportunities in Rural Areas) - ESPON 2013 Project 2013/1/2,” *Studies in Agricultural Economics* 113 (2011).
  \item 47 E.g. Radvánszki and Sütő, “Hol a határ?”.
  \item 50 Ibid.
\end{itemize}
Fund. Regarding Structural Funds, at the time of writing this paper (August 2012) it was proposed that regions will receive support within three defined categories:  

- Less developed regions, whose GDP is below 75 per cent of the EU27 average, will continue to be the top priority and will share EUR 162.6 billion;  
- Transition regions, whose GDP is between 75 per cent and 90 per cent of the EU27 average, will share EUR 38.9 billion;  
- More developed regions, whose GDP per capita is above 90 per cent of the average, will share EUR 53.1 billion.

Thus, IR and PR NUTS 2 regions in the EU9 (Figure 3.1) and those regions in the EU7 with high agricultural employment rates (Figure 3.2b) will be the main recipients of around 64 per cent of Structural Funds and most of the Cohesion Fund. The scope (and need) for increasing employment and economic prosperity is greatest in these regions. Whilst employment rates in many EU7 regions are low, in many EU9 regions productivity rates are also low (Figure 3.2c). Using 2007 data, the increase in GDP per head resulting from raising the employment rate (20-64 years) to the Europe 2020 target of 75 per cent was estimated to exceed 25 per cent in many EU7 and EU9 regions. By contrast, in most EU11 regions the increase would probably be 5 per cent or less. Hence the new convergence objective must recognise the particular importance of rural territories and communities in the regions it targets.

The Transition category would cover 51 regions and more than 72 million people, and is eligible for around 15 per cent of Structural Funds. Almost all of these would be IR and PR regions (Figure 3.1) including several with high agricultural employment rates (Figure 3.2b).

To maximise the benefits of EU funds to rural areas there is a need for a more integrated approach to rural and regional development policy and funding, and the EU’s proposed legislative package includes a Common Strategic Framework (CSF) which sets common rules governing the ERDF, the ESF, the Cohesion Fund, the EAFRD and the European Maritime and Fisheries Fund. Investment for growth and jobs and European territorial cooperation will be the goals. The funding programmes themselves will be better aligned with each other to increase their impact. The author’s view is that this must not mean trying to target individual programmes even more precisely, as this can create inflexibility and funding gaps, and indeed the CSF defines a set of 11 thematic objectives in line with the Europe 2020 strategy that will be common to all five funds. These are:

- Research and innovation;  
- Information and communication technologies;

52 European Commission, Growing Regions, 40.  
• Competitiveness of small and medium sized enterprises;
• Shift towards a low-carbon economy;
• Climate change adaptation and risk prevention and management;
• Environmental protection and resource efficiency;
• Sustainable transport and removing bottlenecks in key network infrastructures;
• Employment and support for labour mobility;
• Social inclusion and combating poverty;
• Education, skills and lifelong learning;
• Institutional capacity building and efficient public administrations.

For the ERDF, the ESF and the Cohesion Fund, the development of ‘multi-fund’ programmes will be an option for member states. Implementation will be via Partnership Contracts with member states, which set out an integrated approach for territorial development. The author suggests that these programmes should be investment-orientated and objective-focused rather than subsidy-orientated and beneficiary-focused so as to maximise their favourable impacts on the region as a whole, including with respect to employment. The proposed ex post conditionality provisions are intended to strengthen the focus on performance and the attainment of the Europe 2020 objectives.

A consequence of a separate rural development programme is that rural development actors tend to only target these funding streams instead of the larger sources of ‘mainstream’ funding (such as Structural Funds and national and private sector funding) which could be used to the benefit of rural areas. It may be noted that many of the 11 thematic objectives of the CSF are compatible with the Strategic Orientations of Rural Europe 2+2+. For example, the improvement of human capital, skills and adaptability, as described in RuralJobs SO3, is reflected in the CSF objective ‘Education, skills and lifelong learning’, and is necessary in support of rural job creation. This should be funded not only from the vocational training measures of the EAFRD but also from the ESF, via ‘mainstream’ training programmes which are properly designed to ensure their effective delivery in rural areas. For example, ESF-funded trainers should come out to rural areas (the larger villages or at least market towns) and/or part-day training should be offered so that smaller employers can afford to release their employees. In view of the linkages between urban and rural areas, eligibility of funds should not be constrained by urban-rural boundaries. Individual projects would define their territories of intervention.

Given the relative significance of rural areas in the EU candidate and potential candidate countries (and the relative lack of major cities), the same principles of alignment of funds to maximise their impact in rural areas can be applied.

4.2 Government and Governance

There is increasing debate in the literature on the relative roles of government and governance in rural development. The Partnership Contracts proposed for the 2014-2020 funding period are expected to be prepared by EU member states with the involvement of partners

55 Ibid.
56 Ibid.
in line with the multi-level governance approach, to ensure the ownership of planned interventions by stakeholders and to build on the experience and know-how of relevant actors.\textsuperscript{57} Each member state will be expected to organise a partnership with the representatives of competent regional, local, urban and other public authorities, economic and social partners, and bodies representing civil society, including environmental partners, non-governmental organisations, and bodies responsible for promoting equality and non-discrimination.

Barca advocates “promoting experimentalism and mobilising local actors,” in part via innovative territorial actions.\textsuperscript{58} The RuralJobs case study areas in Essex are classic examples of what Marsden terms as the preserved countryside, characterised by strong anti-development and preservationist attitudes and decision making.\textsuperscript{59} However, participatory actions, such as the preparation of Village Design Statements (VDSs)\textsuperscript{60} have already prompted impressive levels of participation (80-90 per cent) in some areas. In such exercises, which can be termed place shaping\textsuperscript{61} the opposition to change tends to be less trenchant partly because the community feels a degree of ownership of the plans which affect it. Shucksmith believes that the Leader approach is of considerable relevance to both governance and place shaping.\textsuperscript{62} He suggests that Leader can involve not just horizontal partnerships (i.e. with other territories) but can also encourage multi-level governance by operating at a sub-regional level between the villages and (NUTS 1) regional bodies.

Thus, amongst other ideas, there is a case for extending the Leader approach, which at present is essentially a territorial measure in an otherwise sectoral programme (the CAP), to include some Structural Funds. In fact the EC, noting the need to strengthen and facilitate community-led local development, proposes such a development by giving responsibility for the implementation of local development strategies to Local Action Groups (LAGs) representing the interests of the community.\textsuperscript{63} Ideally, LAGs should be expected to implement integrated programmes which draw funding from both EU and national government sources, as well as from the private sector. Topics could range from assisting rural firms to create and market products based on local identity, through the installation of local, high-speed broadband networks, to measures designed to welcome new populations, including entrepreneurs, to rural areas.

Despite the undoubted success of Leader, difficulties remain. In several EU9 (‘eastern’ EU) case study areas, instances of lack of trust, unwillingness to cooperate, corruption amongst decision makers, and even recipients of funding ‘pocketing’ the money rather than using it for its intended purpose, were noted in the RuralJobs research. This is not a new finding and is certainly not limited to these case study areas. Böcher, for example, cited weaknesses in the implementation of Leader+ in Germany, especially in the poorer Länder.\textsuperscript{64}

\begin{itemize}
\item \textsuperscript{57} Ibid.
\item \textsuperscript{58} Barca, \textit{An agenda for a reformed cohesion policy}, p.ix.
\item \textsuperscript{60} E.g. \textit{Great Bardfield Village Design Statement} (Braintree, Essex: Braintree District Council, no date).
\item \textsuperscript{62} Ibid.
\item \textsuperscript{63} European Commission, \textit{Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund}.
\item \textsuperscript{64} Michael Böcher, “Regional Governance and Rural Development in Germany: the Implementation of LEADER+,” \textit{Sociologia Ruralis} 48 (2008).
\end{itemize}
Although it is not possible to generalise, it seems likely that such challenges will also apply in EU candidate and potential candidate countries.

There are also other issues. In Essex concern was expressed about the administrative burden and costs of implementing Leader, and it was felt that new LAGs spend 3-4 years out of seven working out what they want to do and then have only two years to disburse funding. Identifying what are the good projects to fund can be very difficult, and another challenge has been securing private sector funding and participation. A significant role for ‘traditional’ agencies in promoting rural employment therefore remains, especially via a strategic approach to the funding of larger projects which address longer-term needs through proactive project commissioning.

In several case study areas in the EU9, in particular, the RuralJobs research noted that local stakeholders are often not familiar with new trends in rural employment, or with the range of initiatives that are available to stimulate job creation. Greater dialogue between regions, both at institutional and LAG level, is needed. An example of how this can be achieved is the RUR@CT network (www.ruract.eu) of (mainly) NUTS 2 regions from across the EU. These regions are working together within the framework of a network of exchange of good practices and transfer of experience intended to further exploit the innovative factors of integrated rural development. Presently coordinated by Région Limousin and funded by the participating regions, such an initiative should be mainstreamed by the EU as part of its future rural or regional development strategy.

The recognition of the need for better coordination of EU, national and private sector funding is consistent with the aspirations of the Europe 2020 strategy. Rural development actors should look beyond CAP funding and adopt an integrated approach which better mobilises Structural Funds to promote rural employment creation and economic prosperity in line with Rural Europe 2+2+. The EU’s Common Strategic Framework and enhanced role for LAGs may constitute a legislative environment that will encourage this to happen. If it does, rural areas in the EU can become part of a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. The lessons learned and the experience gained, especially in the EU9, may prove to be of considerable value to rural development actors in EU candidate and potential candidate countries.
Appendix – Tables and Figures

Table 2.1: Case study regions included in the RuralJobs research.

<table>
<thead>
<tr>
<th>Name of case study area</th>
<th>NUTS 2 region and country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pazardzhik agglomeration area (AA)</td>
<td>South-Central Region, Bulgaria</td>
</tr>
<tr>
<td>2. Pays de Tulle</td>
<td>Corrèze, Limousin Region, France</td>
</tr>
<tr>
<td>3. Pays de Guéret</td>
<td>Creuse, Limousin Region, France</td>
</tr>
<tr>
<td>4. Hajdúszoboszló Local Labour System (LLS)</td>
<td>North Great Plain Region, Hungary</td>
</tr>
<tr>
<td>5. Karcag Local Labour System (LLS)</td>
<td>North Great Plain Region, Hungary</td>
</tr>
<tr>
<td>6. Bistriţa-Năsăud county</td>
<td>North West Region, Romania</td>
</tr>
<tr>
<td>7. The Chelmsford and Braintree Travel to Work Area (TTWA)</td>
<td>Essex, East of England, UK</td>
</tr>
<tr>
<td>8. Thames Gateway South Essex</td>
<td>Essex, East of England, UK</td>
</tr>
</tbody>
</table>

Table 3.1: Employment by groups of occupations in towns and villages of Hungary in 2005 (persons).

<table>
<thead>
<tr>
<th>Sector</th>
<th>NACE Revision 1 codes</th>
<th>Budapest and towns</th>
<th>Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, game farming, forestry and fishing</td>
<td>A,B</td>
<td>77,108</td>
<td>109,713</td>
</tr>
<tr>
<td>Mining, quarrying</td>
<td>C</td>
<td>4,142</td>
<td>4,219</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>D</td>
<td>540,759</td>
<td>316,084</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>E</td>
<td>44,354</td>
<td>17,809</td>
</tr>
<tr>
<td>Construction</td>
<td>F</td>
<td>186,211</td>
<td>92,616</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of goods</td>
<td>G</td>
<td>425,904</td>
<td>149,123</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>H</td>
<td>103,072</td>
<td>35,412</td>
</tr>
<tr>
<td>Transport, storage, post and communication</td>
<td>I</td>
<td>196,772</td>
<td>93,797</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>J</td>
<td>65,771</td>
<td>13,336</td>
</tr>
<tr>
<td>Real estate, services, business activities</td>
<td>K</td>
<td>245,480</td>
<td>57,021</td>
</tr>
<tr>
<td>Public administration and defence, compulsory social security</td>
<td>L</td>
<td>197,882</td>
<td>91,472</td>
</tr>
<tr>
<td>Education</td>
<td>M</td>
<td>248,506</td>
<td>81,275</td>
</tr>
<tr>
<td>Health and social services</td>
<td>N</td>
<td>204,517</td>
<td>68,746</td>
</tr>
<tr>
<td>Other community, social and personal services</td>
<td>O</td>
<td>139,693</td>
<td>35,792</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,679,971</td>
<td>1,166,415</td>
</tr>
</tbody>
</table>

Source: HCSO 2005 microcensus data, Table 3.1.7.
Table 3.2: Potential new sources of rural employment identified in each RuralJobs case study area in the framework of the Statistical Classification of Economic Activities in the European Community. See Table 2.1 for identities of case study areas.

<table>
<thead>
<tr>
<th>NACE sector</th>
<th>Case study area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture, hunting and fishing</strong></td>
<td>1 2 3 4 5 6 7 8</td>
</tr>
<tr>
<td>• A. Agriculture, hunting and forestry</td>
<td>* * * * * * * *</td>
</tr>
<tr>
<td>• B. Fishing</td>
<td>*</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td></td>
</tr>
<tr>
<td>• C. Mining and quarrying</td>
<td>*</td>
</tr>
<tr>
<td>• D. Manufacturing</td>
<td>* + + + +</td>
</tr>
<tr>
<td>• E. Electricity, gas and water</td>
<td>* + + + + *</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td></td>
</tr>
<tr>
<td>• F. Construction</td>
<td>+ + + + +</td>
</tr>
<tr>
<td><strong>Trade, transport and communication</strong></td>
<td></td>
</tr>
</tbody>
</table>
| • G. Wholesale and retail trade etc.     | * * + + + + + *
| • H. Hotels and restaurants              | * + + + + *     |
| • I. Transport, storage and communication| + *             |
| **Financial and business services**      |                 |
| • J, K. Financial intermediation, real estate etc. | * * + + + |
| **Other services**                       |                 |
| • L, M. Public administration etc., education |         |
| • N. Health and social work              | + + + + +     |
| • O. Other community, social & personal service activities | + + + + |
| • P. Activities of households            |                 |

Table 3.3: Strategic orientations for rural employment creation and their components arising from the SOR analysis of each case study area. See Table 2.1 for identities of case study areas.

<table>
<thead>
<tr>
<th>Strategic orientations and their components</th>
<th>Case study area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SO1. Encourage the development of key growth sectors</strong></td>
<td>1 2 3 4 5 6 7 8</td>
</tr>
<tr>
<td>• Production based on renewable resources</td>
<td>* * * * * * * *</td>
</tr>
<tr>
<td>• Production based on non-renewable resources</td>
<td></td>
</tr>
<tr>
<td>• Consumption by non-residents</td>
<td>* + + + + + *</td>
</tr>
<tr>
<td>• Consumption by residents</td>
<td>+ +</td>
</tr>
<tr>
<td><strong>SO2. Reinforce the local economy</strong></td>
<td></td>
</tr>
<tr>
<td>• Improve business practices</td>
<td>* + + + + + *</td>
</tr>
<tr>
<td>• Improve rural business support services</td>
<td>+ + * * * + *</td>
</tr>
<tr>
<td>• Improve the trading environment for rural businesses</td>
<td>* + * * + * *</td>
</tr>
<tr>
<td><strong>SO3. Improve the skills balance and labour market participation in rural areas</strong></td>
<td></td>
</tr>
<tr>
<td>• Improve skills in rural areas</td>
<td>+ * * * + **</td>
</tr>
<tr>
<td>• Promote labour market participation</td>
<td>+</td>
</tr>
<tr>
<td><strong>SO4. Develop infrastructure and services</strong></td>
<td></td>
</tr>
<tr>
<td>• Develop infrastructure in rural areas</td>
<td>* + * * + +</td>
</tr>
<tr>
<td>• Develop rural services</td>
<td>* + *</td>
</tr>
<tr>
<td><strong>SO5. Ensure proper implementation of the strategy through support actions</strong></td>
<td></td>
</tr>
<tr>
<td>• Mobilise the population around the strategic plan</td>
<td>+ *</td>
</tr>
<tr>
<td>• Valorise rural areas as places to live, work and play</td>
<td>+ *</td>
</tr>
</tbody>
</table>
Table 3.4: Mean values for EU NUTS 2 regions, categorised by member state group and the OECD regional typology, for GDP per head (PPS) as a percentage of the EU27 mean, employment rate of the working age population, and percentage of the population living in LAU 2 regions defined by the OECD as rural. Also mean, maximum and minimum values for the percentage of the population living within 45 minutes driving time from centroids of cities with at least 50,000 inhabitants.

<table>
<thead>
<tr>
<th>MemberState group</th>
<th>OECD regional typology</th>
<th>Number of regions</th>
<th>GDP % of EU27 mean</th>
<th>Employment rate %</th>
<th>Rural population %</th>
<th>Accessibility to urban centres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU11</td>
<td>PU</td>
<td>53</td>
<td>125</td>
<td>69.4</td>
<td>5</td>
<td>100 100 94</td>
</tr>
<tr>
<td></td>
<td>IR</td>
<td>71</td>
<td>106</td>
<td>69.4</td>
<td>32</td>
<td>95 100 42</td>
</tr>
<tr>
<td></td>
<td>PR</td>
<td>27</td>
<td>105</td>
<td>71.2</td>
<td>69</td>
<td>58 98 0</td>
</tr>
<tr>
<td>EU7</td>
<td>PU</td>
<td>12</td>
<td>110</td>
<td>63.7</td>
<td>9</td>
<td>98 100 95</td>
</tr>
<tr>
<td></td>
<td>IR</td>
<td>31</td>
<td>97</td>
<td>63.4</td>
<td>33</td>
<td>83 99 61</td>
</tr>
<tr>
<td></td>
<td>PR</td>
<td>19</td>
<td>85</td>
<td>60.3</td>
<td>67</td>
<td>40 98 0</td>
</tr>
<tr>
<td>EU9</td>
<td>PU</td>
<td>5</td>
<td>117</td>
<td>64.4</td>
<td>9</td>
<td>98 100 94</td>
</tr>
<tr>
<td></td>
<td>IR</td>
<td>32</td>
<td>54</td>
<td>60.7</td>
<td>40</td>
<td>82 100 58</td>
</tr>
<tr>
<td></td>
<td>PR</td>
<td>15</td>
<td>40</td>
<td>56.2</td>
<td>57</td>
<td>75 96 62</td>
</tr>
</tbody>
</table>

Source: Eurostat.

Table 3.5: Revised Multi-Annual Indicative Financial Framework: Breakdown of the Instrument for Pre-accession Assistance envelope for the period 2007-2013 into allocations by country and component (excluding Component I: Transition assistance and institution building), EUR and %.

<table>
<thead>
<tr>
<th>Component</th>
<th>Croatia</th>
<th>Macedonia</th>
<th>Montenegro+</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Cross border cooperation</td>
<td>96,724,549</td>
<td>32,476,703</td>
<td>9,007,238</td>
<td>20,636,056</td>
</tr>
<tr>
<td></td>
<td>13.4</td>
<td>8.6</td>
<td>18.4</td>
<td>0.7</td>
</tr>
<tr>
<td>III. Regional development</td>
<td>345,928,127</td>
<td>202,038,532</td>
<td>23,200,000</td>
<td>1,790,336,341</td>
</tr>
<tr>
<td></td>
<td>48.0</td>
<td>53.7</td>
<td>47.5</td>
<td>56.7</td>
</tr>
<tr>
<td>IV. Human resources development</td>
<td>95,017,000</td>
<td>55,080,000</td>
<td>5,757,077</td>
<td>479,630,000</td>
</tr>
<tr>
<td></td>
<td>13.2</td>
<td>14.6</td>
<td>11.8</td>
<td>15.2</td>
</tr>
<tr>
<td>V. Rural development</td>
<td>183,251,182</td>
<td>86,749,815</td>
<td>10,900,000</td>
<td>865,785,003</td>
</tr>
<tr>
<td></td>
<td>25.4</td>
<td>23.1</td>
<td>22.3</td>
<td>27.4</td>
</tr>
<tr>
<td>Total budget</td>
<td>720,920,858</td>
<td>376,345,050</td>
<td>48,864,315</td>
<td>3,156,387,400</td>
</tr>
</tbody>
</table>

Data source: European Commission Instrument for Pre-accession Assistance (IPA).

+ Data for 2012 and 2013 only.
Table 4.1: The OECD new rural paradigm.

<table>
<thead>
<tr>
<th></th>
<th>Old approach</th>
<th>New approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Equalisation, farm income, farm competitiveness</td>
<td>Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources</td>
</tr>
<tr>
<td><strong>Key target sector</strong></td>
<td>Agriculture</td>
<td>Various sectors of rural economies, e.g. rural tourism, manufacturing, ICT, industry, etc.</td>
</tr>
<tr>
<td><strong>Main tools</strong></td>
<td>Subsidies</td>
<td>Investments</td>
</tr>
<tr>
<td><strong>Key actors</strong></td>
<td>National governments, farmers</td>
<td>All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)</td>
</tr>
</tbody>
</table>


Figure 3.1: Relationship between the GDP per head (PPS) of EU NUTS 2 regions expressed as a percentage of the EU27 value (mean of data from 2006-2008) and the percentage of the population living in LAU 2 regions defined by the OECD as rural (i.e. with a population density below 150 inhabitants per km²). Filled circles: EU11 member states (Austria, Belgium, Denmark, Eire, Finland, France, Germany, Luxemburg, the Netherlands, Sweden and the UK); open circles: EU7 member states (Cyprus, Greece, Italy, Malta, Portugal, Slovenia and Spain); triangles: EU9 member states (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia). Three regions with GDP levels exceeding 200 per cent (Inner London, Brussels Hoofdstedelijk Gewest, and Luxembourg – Grand-Duché) are not shown.

Source: Eurostat.
Figure 3.2: Relationship between the GDP per head (PPS) of EU NUTS 2 regions expressed as a percentage of the EU27 value and the percentage of the working age population in employment (mean of data from 2006-2008) for (a) EU11 member states; (b) EU7 member states and (c) EU9 member states. See Figure 3.1 for member state groupings and excluded regions. Open circles in (a) and open triangles up in (c): NUTS 2 regions where GDP is estimated to be increased by 6 per cent or more owing to in-commuting (EC, 2007b, 2003 data); open squares in (b) and open triangles down in (c): NUTS 2 regions where the percentage of agricultural employment exceeds 10 per cent of all employment (mean of data from 2007 and 2008).

Figure 3.3: Percentage of working age population employed by broad industry sector in EU predominantly urban (PU), intermediate (IR) and predominantly rural (PR) NUTS 2 regions (mean of data from 2007 and 2008). See Figure 3.1 for member state groupings. Plain: agriculture (NACE codes A, B); hatched: industry (C, D); opposite hatched: construction (E); cross hatched: trade, hotels and restaurants, transport (G-I); horizontal lines: financial intermediation, real estate (J, K); vertical lines: public administration etc. (L-Q). Error bars = +1 SE.
**Figure 3.4:** Relationship between the GDP per head (PPS) of NUTS 2 regions of Croatia (filled squares), Iceland (circles), Macedonia (open squares) and Turkey (triangles) expressed as a percentage of the EU27 value (see Section 2.3 for data years) and the population density. Two regions with a population density exceeding 200 inhabitants per km² (Istanbul and Izmir) are not shown.

Source: Eurostat.

**Figure 3.5:** Relationship between the GDP per head (PPS) of NUTS 2 regions of Croatia (filled squares), Iceland (circles), Macedonia (open squares) and Turkey (triangles) expressed as a percentage of the EU27 value and the percentage of the working age population in employment (see Section 2.3 for data years). For Turkey, NUTS 2 regions where the percentage of agricultural employment exceeds 40 per cent of all employment are denoted by open, rather than closed, triangles.

Source: Eurostat.
**Figure 3.6**: Percentage of working age population employed by broad industry sector. Croatia (Sjeverozapadna Hrvatska: HR-NW; other regions: HR-Oth); Iceland (IS) and Turkey (densely populated: TR-DP; intermediate: TR-IP; sparsely populated: TR-SP). Plain: agriculture (NACE codes A, B); hatched: industry (C, D); opposite hatched: construction (E); cross hatched: trade, hotels and restaurants, transport (G-I); horizontal lines: financial intermediation, real estate (J, K); vertical lines: public administration etc. (L-Q). Error bars (Turkey only) = +1 SE.

Source: Eurostat.

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EU BUDGET AND COMMON POLICIES.
REGIONAL POLICY: WHAT’S NEXT?

ENDRE ORBÁN

Chapter 1 – Introduction

1.1 Introductory Notes

The so-called deepening vs. widening dispute\(^1\) has been a stable item on the agenda in the European Union (EU) for a long time. Historically, the European Union finally decided to do both and it presented a self-consistent conduct. As Finn Laursen points out, enlargement was linked with deepening all the time, as widening always claimed the revision of the treaties.\(^2\) So the European Monetary Union was developed, the European Parliament was strengthened step by step, new policies were transferred to the supranational level, the Common Foreign and Security Policy was built up, the Justice and Home Affairs appeared, and so on. We could continue the list up to the Lisbon Treaty, which tries to respond to the challenge of having 27 member states, e.g. through the introduction of the ordinary legislative procedure (article 294 of the Consolidated version of the Treaty on the Functioning of the European Union (TFEU)) and the new qualified majority rules (Article 238, Paragraph 3 TFEU).

However, the post-Lisbon era deals not only with the harmonisation of the new institutional settlement of the EU, but also with the new historical challenges that have emerged, such as the debt crisis, unemployment or the economic problems of the southern countries.\(^3\)

One could think that now the EU should stop and resolve its inner deepening problems, but in the view of the European documents the possibility of further enlargements has to be analysed, too. Notwithstanding the fact that the new disputes concerning a further widening refer to the concept of “enlargement fatigue”,\(^4\) it is important to see as clearly as possible the positive and negative sides of a potential further enlargement. Not only because the

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accession of Croatia is described to be an “unfinished business”, as long as its neighbouring countries do not become member states as well, but also because of the credibility of the European Union. The EU negotiates now with eight other countries, which cannot be lost through an indecisive and dilatory standpoint. In addition, as the case of Spain and Portugal demonstrated, a new enlargement can open new positions for the EU which probably leads inherently to some positive outcome.

It has to be admitted that the new global situation is very challenging. When academics talk about enlargement fatigue they take into consideration the Copenhagen criteria, which clearly refer to the EU’s capacity to have more member states. Originally this factor was referred to as ‘absorption capacity’; lately it is known as ‘integration capacity’ and has three relevant aspects: the institutional impact, the policy impact and the budgetary consequences of a newer enlargement. As Olli Rehn explained: “Before any further accession, the EU will need to decide on the overall budgetary means required. The Commission’s analysis will take account both of the budgetary aspects and of the increased economic dynamism generated by accessions.” Consequently, among others these are the most important factors which influence EU enlargement. In addition, some other elements could be pointed out as well, such as the interests of every single member state, the activism of the European institutions, the support of the population and the narrative frame, the context into which the whole enlargement is described. For example, a par excellence narrative frame was seen in the case of the Eastern enlargement, the re-unification of Europe which led to the re-entrance to Europe of 12 countries in the context of the post-Cold War era.

Following these introductory remarks, the methodology of this paper will be presented. Then some characteristics and tendencies of the European budget and of the regional policy will be discussed briefly and the EU36 concept will be assessed in the light of this background. Finally, there are some remarks as a conclusion.

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6 The EU36 concept covers Turkey, Iceland and the Western Balkans (Croatia, which joined the EU on 1 July 2013, Albania, Bosnia and Herzegovina, Macedonia, Kosovo, Montenegro and Serbia).
8 “The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries,” European Council, “Conclusions of the Presidency,” Copenhagen, 21-22 June 1993, 13.
10 For example, the UK supports Turkey’s membership as it might hinder the further widening of the EU. See: Neill Nugent, “Turkey’s Membership Application: Implications for the EU,” in *Toward the Completion of Europe*, ed. Joaquin Roy and Roberto Dominguez (Miami: Miami-Florida European Union Center of Excellence, 2006), 258.
1.2 Methodology

The purpose of this paper is to assess quantitatively the impact of the further enlargement of the EU on its budget, of which gross receipt is determined more or less by the two big financial assistance programmes: the so-called cohesion policy and the common agricultural policy.

This paper aims to analyse the impact of the further enlargement on the cohesion policy, focusing on the current rules – which obviously could change even dramatically by the time of a new enlargement. However, in order to make the calculations possible, the usage of the current rules and the equal treatment of member states as a basic principle have to be accepted. In this view, the only limit of the calculus is the multiannual financial framework (MFF).

The analysis aims to respond to a few important questions regarding the hypothetical future of the EU budget. In order to do this, (a) the gross domestic product (GDP) of the potential member states and how it influences the GDP of the EU will be analysed; (b) what kind of benefits and costs emerge with membership will be examined, regarding what would be the so-called net balance of the candidate and potential candidate countries; (c) in focus will be how developed their regions are, how the newly joined regions would influence the old ones and how all these could influence the argumentation of the old member states. The latter is a highly sensitive question. As the cohesion funds (one of the biggest EU financial assistance programmes) are in the centre of attention, the member states conform to their national interests and form “interest coalitions.” These competitive interests among the member states lead to different kinds of argumentation. However, a further enlargement could seriously change the numbers determining the current rules; consequently, it will be discussed how the interests of the member states could change along with the new accessions.

Chapter 2 – Present Situation

2.1 A Short Overview of the EU Budget

The budgetary negotiations are always a zero-sum game. Costs and benefits always go together; in other words, rights and obligations should have a balance. This is true especially for the budget of the European Union, which cannot have either deficit or surplus, being built upon the principle of equilibrium. However, compared to some other federal budgets, the budget of the EU is relatively small. While in the United States and Canada the federal government can decide about 20 per cent of the total GDP of the country, Brussels disposes of only around 1 per cent of European GDP.

13 Ibid.
14 If data are available.
15 Such are the net beneficiaries and the contributor countries, the “Friends of the Cohesion”. Among them can be distinguished the Visegrad Four countries (Hungary, Poland, Slovakia, the Czech Republic). Gábor Iván, *Bevezetés az Európai Unió költségvetésébe* [Introduction to the Budget of the European Union] (Budapest: Osiris, 2007), 176-185.
The budget of the EU can be structured in terms of five chapters. These are: 1. Sustainable growth; 2. Preservation and management of natural resources; 3. Citizenship, freedom, security and justice; 4. EU as global player; 5. Administration expenditures.16 From all these areas the first two involve around 90 per cent of EU expenditures, as the first part covers the cohesion funds, and the second the common agricultural policy.

However, the EU budget is not entirely composed of real “own resources”, in contrast with the wording of the founding treaties (Article 311 TFEU).17 The contributions of the member states based on their gross national income (GNI) are paid by the national treasuries, appearing as expenditure in the national budget. As this solution gives a membership fee-like characteristic to the EU budget, it is understandable why academics have been supporting for a long time, for instance, the creation of a European tax which could lead to fiscal federalism. Hence, after the speech of European Commission President Barroso about moving forward to federalism and the proposal of the European Commission on the creation of a financial transaction tax (FTT), it seems to be difficult to make long-term predictions, as it is not known what the situation will be at the time when the candidate and potential candidate countries join the EU.

Another important fact which determines the European budget involves the procedural rules which enable its creation. As Centre for European Policy Studies researcher Gabriele Cipriani points out, the EU budgetary process claiming unanimity in the Council has a pre-eminently intergovernmental character (Article 312 TFEU).18 In other words, it is in an integration fall-back *vis-à-vis* the monetary policy.

This intergovernmental character of the budget finally led to the so-called net balance perspective of the member states, which is lately supported by official statistics compiled by the European Commission as well.

From a historical point of view this has a close connection with a conceptual dividing point in the course of the European budgets. The turn appeared with Agenda 2000 and the enlargement involving the Central and Eastern European countries in 2004 and 2007. Since then the net contributors have not wanted to increase their contribution to the EU budget,19 thus the budget determines the possibilities of the European policies. However, before 2000 the situation was just the opposite.

Therefore, a ceiling of contribution to the EU budget exists which is agreed to be around 1 per cent of GNI. Obviously, the greater the GNI of a member state, the greater the contribution it has to give to the common budget.20 On the other hand, member states take part

20 Percentage shares of GNI base by member states in 2009 are led by Germany with 19.86 per cent, followed by France (15.59 per cent) and the UK (15.07 per cent). At the end of the list are Malta (0.04 per cent), Cyprus (0.13 per cent) and Estonia (0.14 per cent). European Commission, “Monitoring GNI for own purposes,” Undated, http://epp.Eurostat.ec.Europa.eu/statistics_explained/index.php/Monitoring_GNI_for_own_resource_purposes.
in financial assistance programmes, which have different kinds of eligibility thresholds (e.g. regional GDP per capita should be less than 75 per cent of the EU average GDP per capita in order to be able to claim support from the convergence funds).

Nevertheless, as contributions are expenditures of the national budgets, the member states would obviously like to maximise their profits from the financial support programmes of the EU. Consequently, adopting a new multiannual financial framework cannot ever be satisfying enough – it generates conflicts and tensions. As it is quite difficult to reach a compromise on the terms of the budget, this has led to an opaque system of deals of which the British rebate is only the most spectacular. Furthermore, the net balance perspective led to certain dividing lines among the member states. There is a potential tension not only among the net contributors and the net beneficiary countries, but also among the new and old member states. As the ceiling of the budget remains the same from MFF to MFF, this means that the old member states have to partly lose their shares in the budget in favour of the new member states. Briefly, on the one hand some countries resist losing their prerogatives, while on the other the new member states can always have a fear of being left behind and they cannot really influence the budget which will be in effect when they join the European Union.

2.2 A Short Overview of the Regional Policy

Economic and social cohesion has been one of the most important objectives of the European Union since the Single European Act of 1986. Lately it has been complemented by the need for territorial cohesion as well (Article 174-178 TFEU). This is clearly reflected by the high proportion of the structural funds in the budget of the EU, which shows it as the second most important policy. What is more, the importance of this objective is reflected by a linguistic nuance as well, as since 2007 the first chapter of the European budget is Sustainable Growth and not Preservation and Management of Natural Resources.

The regional policy is based on the principle of solidarity among the member states and of course it is an investment of the richer member states into the less developed ones. However, as new countries have joined the EU and the old cohesion countries (Spain, Portugal, Ireland and Greece) seemed to lose their eligibility for the structural funds, the concept of regional competitiveness was created, which aimed to lengthen the financial support for the regions of these countries.

However, it has to be admitted that while this policy aims to help the convergence of the regions, the differences between the rich and the less developed regions do not seem to be disappearing. Moreover, as the figures of the Eurostat Yearbook show, a divergence can be detected within the member states themselves as the dispersion of regional GDP per capita is growing. What is more, the new enlargements of the Union have strengthened the

21 Cipriani, Rethinking the EU Budget, 70.
23 The gross sum of regional cohesion in the budget of the EU during the 2007-2013 MFF was EUR 348.415 million.
centre-periphery geographic structure of the EU, which is in close connection with other policies such as innovation, transport, inner migration or the opening of the labour markets of the member states.

Meanwhile, the concept of global competitiveness came into play and Europe as a global player faces strong challenges in the world. As a consequence, the importance of competitiveness has been agreed upon (Lisbon Strategy, Europe 2020) which affects the whole regional policy and its budgetary position. Accordingly, the proposal of the Commission related to the 2014-2020 MFF seemed to accept the priority of competitiveness and to subordinate the regional policy to it. This can be concluded from the new list of the objectives of the structural funds, which are in line with the Europe 2020 strategy.

In addition, even the sums regarding the objective of convergence were reduced compared to the previous MFF. The proposal of the Commission was EUR 336 billion compared to EUR 354.8 billion during 2007-2013, both calculated in 2011 prices. Finally the negotiations among the member states and the EU institutions led to EUR 325 billion in 2011 prices (which is equal to EUR 363 billion in current prices).

During 2007-2013 MFF, ruled by the Council Regulation No. 1083/2006/EC, stressed three main objectives: cohesion, regional competitiveness and European Territorial


27 (1) strengthening research, technological development and innovation; (2) enhancing access to and use and quality of information and communication technologies; (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the European Agricultural Fund for Rural Development) and fisheries and aquaculture sector (for the European Maritime and Fisheries Fund); (4) supporting the shift towards a low-carbon economy in all sectors; (5) promoting climate change adaptation, risk prevention and management; (6) protecting the environment and promoting resource efficiency; (7) promoting sustainable transport and removing bottlenecks in key network infrastructures; (8) promoting employment and supporting labour mobility; (9) promoting social inclusion and combating poverty; (10) investing in education, skills and lifelong learning; (11) enhancing institutional capacity and an efficient public administration.

28 While the multiannual financial frameworks can be interpreted as the financial translations of the goals of the European Union, a report of the European Commission revealed that only 43 per cent of the 2007-2013 MFF is supporting the Europe 2020 strategy. See Daniel Tarschys and Jorge Núñez Ferrer, Investing where it matters. An EU Budget for Long-Term Growth. CEPS Task Force Report (Brussels: Centre for European Policy Studies, 2012), 15.

Endre Orbán: EU Budget and Common Policies. Regional policy: What’s Next?

Cooperation. The new framework re-structures the regional policy and puts together the first two objectives, leaving separate European Territorial Cooperation.30

Within the first part can be found the traditional convergence objective under the name of less developed regions. The new rules introduce a new category of regions, the transition regions, which aims to support regions with a GDP per capita between 75 per cent and 90 per cent of the EU27. And finally, the category of more developed regions covers the regions having a GDP per capita above the 90 per cent of the EU average.31

The most important category from the point of view of this analysis is that of the transition regions, as it seems to help more or less some regions of the net contributor countries. According to the Eurostat regional GDP index, among the transition regions we may find four from Belgium, seven from Germany, six from Greece, five from Spain, nine from France, three from Italy, one from Austria, one from Finland,10 from the UK, one from Croatia and Malta itself.32

Nevertheless in the proposal of the Commission the proportion of the convergence regions in the sources of the regional policy was planned to be reduced from the previous 57.16 per cent to 48.39 per cent (this heading finally has ended up with 52.45 per cent), while the transition regions would have had a proportion of 11.59 per cent compared with the present share of the ‘phasing in and phasing out regions’ which is 6.81 per cent. The latter category has finally gained 10.24 per cent.

Another novelty is the general capping rule, which means that all member states are eligible for cohesion funds only up to an equal percentage point of their GDP. In contrast, in the previous MFF individual scales operated, based on the GNI of the member states. The proposal of the Commission preferred to introduce a uniform 2.5 per cent which finally has changed during the negotiation process, ending up with 2.35 per cent and some corrective exceptions due to the financial crises and the economic regression in some member states (Hungary and the Baltic countries).33

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31 The share of this category is heavily criticised, especially on the base of the principle of subsidiarity. It is questionable whether these regions could finance their programmes nationally “except for those programmes with a strong European dimension.” Ibid. 30.

32 The codes of these regions are: BE32, BE33, BE34, BE35, DE41, DE80, DE93, DED1, DED2, DED3, DEE0, DEG0; EL13, EL22, EL24, EL25, EL41, EL43; ES41, ES61, ES62, ES64, ES70; FR22, FR84, FR30, FR41, FR43, FR53, FR63, FR72, FR81; ITF1, ITF2, ITG2; MT00; AT11; FI13; UKC2, UKD1, UKD4, UKD5, UKE1, UKF3, UKG2, UKH3, UKK4, UMM6, UMM0; HR01. See Eurostat, “Regional gross domestic product (PPS per inhabitant in % of the EU27 average) by NUTS2 regions,” Undated, http://epp.Eurostat.ec.Europa.eu/tgm/refreshTableAction.do?tab=table&想念=tab00006&language=en.

As can be seen, the rules of eligibility vary from MFF to MFF, which makes clear predictions difficult. However, some tendencies of the regional policy might be presented which the further member states have to face as well. On the other hand, the changing rules can produce strong debates among the member states, which might help us to understand their competing interests.

2.3 Current Tensions among the Member States

A clear division can be detected among the member states regarding the efficient functioning of the regional policy and regarding the goals of convergence and competitiveness. Declarations and the text of the Treaty on the European Union (Article 3, Paragraph 3 TEU) support the first objective of the policy, however the most developed countries prefer the perspective of competitiveness. In their view regional policy is not a ‘gift’ for the less developed member states, but an investment for growth.

Based on the spreading interests, two main groups emerged in the process of the 2007-2013 multiannual financial framework. These are the contributor countries (Sweden, Netherlands, the UK, Germany, France, Austria, and lately the Czech Republic) and the Friends of the Cohesion (led by Spain). Within the latter can be distinguished the Visegrad Four group, which is based on the cooperation of Hungary, Poland, Slovakia and the Czech Republic. The former division of the member states and the hidden tension between the two main objectives of regional policy seemed to be continuing in the process of the 2014-2020 MFF as well. However, in view of the Commission’s proposal the principle of competitiveness and the EU 2020 strategy have gained primacy.

Analysing the political declarations related to the 2014-2020 MFF, a few sources of tension can be pointed out, such as the aforementioned capping rule, which in its first version affected especially negatively the Baltic countries and Hungary, the budgetary proportion of the transition regions, which favours the regions of some contributor countries (especially France, Germany and the UK), and last but not least the amount of the budget – the contributor countries aimed to decrease the gross sum of the Commission’s proposal, which was EUR 1,024.8 billion compared with the EUR 993.6 billion of the 2007-2013 MFF. Finally, the outcome of the negotiations ended up with EUR 959.9 billion in 2011 prices (which is equal to EUR 1,082.5 billion at current prices).
Chapter 3 – Scenarios of EU28-36

Eurostat data shows that the candidate and potential candidate countries have GDP rates which are less than 50 per cent of the EU27. Consequently, at first glance it can be assessed that further enlargement of the EU would, on the one hand, increase the number of eligible regions and, on the other, mean a decrease of the present EU27 average GDP. These issues will be analysed in the following pages.

Among the countries that make up the EU36 concept Croatia has already joined the EU on 1 July 2013. Iceland, Turkey, Serbia, Montenegro and Macedonia are candidate countries, while Albania, Kosovo and Bosnia and Herzegovina are potential candidates.

Table 3.1: GDP per capita in purchasing power standard (PPS) in the candidate and potential candidate countries.

<table>
<thead>
<tr>
<th>GDP per capita in PPS</th>
<th>2001 (%)</th>
<th>2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>EU15</td>
<td>115</td>
<td>110</td>
</tr>
<tr>
<td>Sweden</td>
<td>128</td>
<td>126</td>
</tr>
<tr>
<td>Netherlands</td>
<td>134</td>
<td>131</td>
</tr>
<tr>
<td>Spain</td>
<td>98</td>
<td>99</td>
</tr>
<tr>
<td>Hungary</td>
<td>58</td>
<td>66</td>
</tr>
<tr>
<td>Poland</td>
<td>47</td>
<td>65</td>
</tr>
<tr>
<td>Romania</td>
<td>28</td>
<td>49</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>30</td>
<td>45</td>
</tr>
<tr>
<td>Croatia</td>
<td>51</td>
<td>61</td>
</tr>
<tr>
<td>Iceland</td>
<td>132</td>
<td>110</td>
</tr>
<tr>
<td>Turkey</td>
<td>37</td>
<td>52</td>
</tr>
<tr>
<td>Serbia</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Montenegro</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>Macedonia</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>Albania</td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>Kosovo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td></td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Eurostat.

3.1 The Impact of Turkey

Turkey, the 15th largest economy in the world and the 17th largest country with her 78.7 million citizens, started the negotiation process in 2005. If it was a member state, Turkey would be the second most populated country of the EU, but it would overtake even Germany by 2025. However, Turkey is already integrated into the ‘Western world’, being a member of

NATO, the Council of Europe and the OECD. Its path to the EU, however, is full of problematic issues – it is enough to think about the case of Cyprus.

Furthermore, institutional, cultural, geographical, economic and security concerns could be highlighted, but in all cases we could find arguments in favour as well. In this manner we might consider Turkey’s situation as a battle of two narratives: it is true that high unemployment could pose security problems within the EU, but the demographic statistics of the EU demonstrate the need for a young workforce. Similarly, under discussion are new security challenges which would occur at the new borders of the EU. Yet Turkey’s accession can be viewed as a unique opportunity to integrate a Muslim country, which could offer a new geopolitical importance to the EU. Moreover, considering Europe’s energy security, Turkey has a strategic value for the EU. In addition, it is argued that Turkey is not an adequately developed country, as around 32 per cent of its labour force works in agriculture and the rate of unemployment is 10.6 per cent, but it should be pointed out that the development index of Turkey is strongly increasing and compared with other member states, who even after more MFF periods are still below the 75 per cent eligibility threshold, maybe Turkey could be an eminent member of the organisation.

In the present situation the largest member states (Germany, France and the UK) also have the largest economies. This, however, would not be true for Turkey. It would add a lot to the population of the EU, but not to its GDP. In view of the earlier enlargements, it can be said that Turkey has a population similar to that of the ten Central and Eastern European countries in 2004, but an economy equal to Poland. Furthermore, even with a hypothetical 5 per cent annual growth of GDP, Turkey would not reach 4 per cent of the EU’s total GDP by 2015, while the ten Central and Eastern European countries had 4.6 per cent of European GDP in 2004. First of all, this means that Turkey’s economic impact would not involve a strong political influence, as is claimed by those who are against its membership.

Secondly, regarding GDP per capita, a huge difference can be seen between the EU27 and Turkey. As a result, while the accession of the economically leading country of the Western Balkans (Croatia) modifies only slightly the average GDP of the EU, Turkey’s accession with its more than 70 million inhabitants would definitely decrease the EU’s average GDP per capita, which would be less by around 9 per cent. However, such a decrease has already happened in the history of the EU. With the 2004 enlargement the EU15 average fell by 8.8 per cent and in 2007 by a further 4.3 per cent.

39 For another adequate description about the battle of cultural reasoning vs. economic reasoning, see: Claes H. de Vreese, Wouter van der Burg and Sara Hobolt, “Turkey in the EU?: How cultural and economic frames affect support for Turkish accession,” Comparative European Politics 10 (2012).
40 Nuray Ibryamova, “For Europe’s Sake: Securitizing Turkey’s EU Membership,” in Toward the Completion of Europe.
41 Hughes, “Turkey and the European Union”: 8.
42 Ibid.
Table 3.2: GDP per capita after the accession of Turkey.

<table>
<thead>
<tr>
<th></th>
<th>Population (millions, 2009)</th>
<th>GDP (billion euros, 2009)</th>
<th>GDP per capita (euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>499.78</td>
<td>11,751</td>
<td>23,513</td>
<td>100</td>
</tr>
<tr>
<td>Turkey</td>
<td>71.51</td>
<td>440.94</td>
<td>6,165</td>
<td>26.21</td>
</tr>
<tr>
<td>EU27 + Croatia</td>
<td>504.22</td>
<td>11,797</td>
<td>23,396</td>
<td>99.5</td>
</tr>
<tr>
<td>EU28 + Turkey</td>
<td>575.73</td>
<td>12,238</td>
<td>21,256</td>
<td>90.4</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.44

Thirdly, the whole territory of Turkey is below the 75 per cent threshold of the cohesion funds, which means that all 26 NUTS2 (Nomenclature of Territorial Units for Statistics) regions of Turkey would become eligible for the structural funds. It has to be emphasised at this point that even within Turkey a clear contrast among the regions can be detected. The dispersion of regional GDP is between 60 per cent and 123 per cent, as the western part of the country is much more developed. 78 per cent of Turkish GDP is produced there and 63 per cent of the population lives there.45

According to the planned capping rule, Turkey would be eligible for around EUR 10.5 billion a year. Taking into account the EUR 325,000 million gross sum of the convergence goal and considering a hypothetical further growth of Turkish GDP, based on 2009 data Turkey would be eligible for around a quarter of the present financial framework.

Table 3.3: The limit of future financial support in view of the new capping rule.

<table>
<thead>
<tr>
<th></th>
<th>GDP (million euros, 2009)</th>
<th>2.35% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>440,942</td>
<td>10,362</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Table 3.4: The hypothetical share of Turkey in the Structural Funds.

<table>
<thead>
<tr>
<th>Structural Fund for 2014-2020</th>
<th>325,000 million</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.35% of Turkey’s 2009 GDP</td>
<td>10,362</td>
<td>3.18%</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

However, this estimation should be softened in two directions. Firstly, one must not forget the so-called transition period, which was applied in the case of the earlier enlargements as well. For instance, Bulgaria and Romania were eligible only for 60 per cent, 80 per cent and then 100 per cent of their shares in the first three years respectively. Secondly, attention has to be paid to the low growth rate of the present European Union and to the fast


growth of Turkey, which was expected to slow down to 3.3 per cent in 2012 and rise to 4.6 per cent in 2013.46

**Table 3.5:** Comparing the growth of the EU27 and of Turkey between 2009 and 2011.

<table>
<thead>
<tr>
<th></th>
<th>2009 (billion euros)</th>
<th>2011 (billion euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP of EU27</td>
<td>11,754.74</td>
<td>12,649.78</td>
<td>7.6</td>
</tr>
<tr>
<td>GDP of Turkey</td>
<td>440.94</td>
<td>556.42</td>
<td>26.1</td>
</tr>
</tbody>
</table>

Source: Eurostat.

Taking into consideration the gross sum of the next MFF a hypothetical analysis can be made based on the general speculative growth of Turkey.

**Table 3.6:** The hypothetical share of Turkey in the structural funds in the light of its estimated GDP growth.

<table>
<thead>
<tr>
<th>General growth of Turkey, 2014-2020</th>
<th>2.35 % of GDP million euros</th>
<th>2014-2020 MFF million euros</th>
<th>% in the structural funds 2014-2020 MFF =100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>73,260</td>
<td>325,000</td>
<td>22.54</td>
</tr>
<tr>
<td>3%</td>
<td>74,710</td>
<td>325,000</td>
<td>22.98</td>
</tr>
<tr>
<td>5%</td>
<td>76,160</td>
<td>325,000</td>
<td>23.43</td>
</tr>
<tr>
<td>7%</td>
<td>77,611</td>
<td>325,000</td>
<td>23.88</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Nevertheless, the revenue side of the enlargement has to be assessed as well. If Turkey became a member state it would constitute 3.58 per cent of the total economy of the EU36 in the light of the data from 2009. This means that while Turkey would be eligible for more than EUR 10.5 billion from the structural funds, on the other hand the Turkish GNI would imply an around EUR 5 billion contribution to the EU budget yearly, which is around 3.5 per cent of the gross sum of the 2014-2020 MFF.

**Table 3.7:** The share of Turkey in the economy of EU36.

<table>
<thead>
<tr>
<th></th>
<th>GDP (billion euros, 2009)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU36</td>
<td>12,310</td>
<td>100.00</td>
</tr>
<tr>
<td>EU27</td>
<td>11,751</td>
<td>95.46</td>
</tr>
<tr>
<td>Turkey</td>
<td>440.9</td>
<td>3.58</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

---

Table 3.8: GNI of Turkey.

<table>
<thead>
<tr>
<th>Turkey</th>
<th>GNI (billion euros, 2009)</th>
<th>1% of the GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>520.26</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Source: World Bank and own calculations.47

However, according to the data of the World Bank, the GNI of Turkey had increased by 17 per cent to around EUR 612 billion in 2011. Taking into consideration the slowing GDP growth of Turkey, another very hypothetical calculation is possible on the revenue side of the European budget. Consequently, as Table 3.6 shows, not only does the share of Turkey in the structural funds grow together with its GDP, but also its contribution paid into the European budget.

Table 3.9: The hypothetical contribution of Turkey to the EU budget in the light of its estimated GNI growth.

<table>
<thead>
<tr>
<th>General growth of Turkey's GNI for 7 years, starting in 2012</th>
<th>1% of the GNI (million euros)</th>
<th>Share of the 2014-2020 MFF (1,024,800 million = 100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>43,325</td>
<td>4.22</td>
</tr>
<tr>
<td>3%</td>
<td>44,183</td>
<td>4.31</td>
</tr>
<tr>
<td>5%</td>
<td>45,040</td>
<td>4.39</td>
</tr>
<tr>
<td>7%</td>
<td>45,869</td>
<td>4.47</td>
</tr>
</tbody>
</table>

Source: World Bank and own calculations.

As in the case of the earlier enlargements, which pulled down the average GDP per capita of the EU and which resulted in the so-called statistical effect, the impact of Turkey on the EU average GDP has to be taken into consideration as well. The statistical effect means the loss of the region’s eligibility for the convergence funds, because they go beyond the 75 per cent threshold from one day to another without real convergence. For example, after the accession of the Central and Eastern European countries the category of phasing out regions was created in order to maintain the financial support of the earlier eligible regions.

Along with a new enlargement it might be discussed again that there will be regions which are now eligible for the convergence sources though they will fall out of the sphere of the convergence goal. At this point there comes into play the proposal of the European Commission for 2014-2020, which introduced the category of transition regions with a regional GDP above 75 per cent of the EU average but below 90 per cent.

For the current multiannual financial framework this category mainly supports some regions of France, Germany and the UK. Yet with the accession of Turkey around 20 more regions could be affected, according to Eurostat statistics. In addition, a second statistical

effect comes into play as many of the present transition regions would leave the category. As the scale of transition regions is between 75 per cent and 90 per cent, a decline of 9 per cent would transpose almost all of the present transition regions into a higher category, thus changing the elements of the category.

**Table 3.10: NUTS 2 regions with a Regional Gross Domestic Product of around 75 per cent of the EU27 average.**

<table>
<thead>
<tr>
<th>Region code</th>
<th>Region name</th>
<th>1998</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>BG41</td>
<td>Yugozapaden</td>
<td>35</td>
<td>54</td>
<td>75</td>
</tr>
<tr>
<td>CZ02</td>
<td>Stredni Ceczy</td>
<td>67</td>
<td>72</td>
<td>74</td>
</tr>
<tr>
<td>CZ03</td>
<td>Jihozápad</td>
<td>68</td>
<td>73</td>
<td>71</td>
</tr>
<tr>
<td>CZ06</td>
<td>Jihovýchod</td>
<td>65</td>
<td>70</td>
<td>75</td>
</tr>
<tr>
<td>EL11</td>
<td>Anatoliki Makedonia</td>
<td>66</td>
<td>67</td>
<td>70</td>
</tr>
<tr>
<td>EL12</td>
<td>Kentriki Makedonia</td>
<td>85</td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>EL14</td>
<td>Thessalia</td>
<td>76</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>EL41</td>
<td>Voreio Aigaio</td>
<td>74</td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>ES43</td>
<td>Extremadura</td>
<td>60</td>
<td>69</td>
<td>72</td>
</tr>
<tr>
<td>FR92</td>
<td>Martinique</td>
<td>75</td>
<td>75</td>
<td>72</td>
</tr>
<tr>
<td>ITF4</td>
<td>Puglia</td>
<td></td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>ITF5</td>
<td>Basilicata</td>
<td></td>
<td></td>
<td>75</td>
</tr>
<tr>
<td>ITF6</td>
<td>Calabria</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>ITG1</td>
<td>Sicilia</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>PT18</td>
<td>Alentejo</td>
<td>72</td>
<td>73</td>
<td>72</td>
</tr>
<tr>
<td>PT20</td>
<td>Regiao Autonoma dos Acores</td>
<td>64</td>
<td>73</td>
<td>75</td>
</tr>
<tr>
<td>SI01</td>
<td>Vzhodna Slovenija</td>
<td>67</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>SK02</td>
<td>Západné Slovensko</td>
<td>49</td>
<td>57</td>
<td>68</td>
</tr>
<tr>
<td>UKK3</td>
<td>Cornwall and Isles of Scilly</td>
<td>68</td>
<td>75</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Eurostat.

This might have an important impact on EU budgetary discussions. The now eligible countries could be silently against the further widening of the EU. However, the regions affected by Turkey would not get out of the EU’s financial programme, they would become transition regions. This could lead to a mixture of the present interest coalitions. With the new transition regions other member states, such as Italy, the Czech Republic, Greece or Slovakia would support the enlargement of the budget of the category. From the perspective of the European Union this could lead to the strengthening of the competitiveness goal, as more member states would lobby to re-structure the budget concerning the two goals, convergence and competitiveness.

### 3.2 The Impact of Iceland

Iceland with its 320,000 inhabitants does not pose problematic issues for the cohesion funds of the EU. As the whole country is marked as one single NUTS 2 region with GDP data of 110 per cent of the EU27 average, it would not have any impact on the structural funds if Iceland finally became a member state. Therefore its membership would not influ-
ence the argumentation of the older member states and it would have no impact on the interest coalitions.

Table 3.11: GDP per capita after the accession of Iceland.

<table>
<thead>
<tr>
<th></th>
<th>Population (million, 2009)</th>
<th>GDP (billion euros, 2009)</th>
<th>GDP per capita (euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>499,780</td>
<td>11,751</td>
<td>23,513</td>
<td>100.00</td>
</tr>
<tr>
<td>Iceland</td>
<td>0,319</td>
<td>8,660</td>
<td>27,117</td>
<td>115.30</td>
</tr>
<tr>
<td>EU27 + Croatia</td>
<td>504,220</td>
<td>11,797</td>
<td>23,396</td>
<td>99.50</td>
</tr>
<tr>
<td>EU28 + Iceland</td>
<td>504,540</td>
<td>11,805</td>
<td>23,399</td>
<td>99.51</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

As regards its contribution to the EU budget, Iceland would have a share of around 0.067 per cent, so it would be at the end of the list cited in footnote 20.

Table 3.12: The share of Iceland in the economy of EU36.

<table>
<thead>
<tr>
<th></th>
<th>GDP (billion euros, 2009)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU36</td>
<td>12,310</td>
<td>100.00</td>
</tr>
<tr>
<td>EU27</td>
<td>11,751</td>
<td>95.46</td>
</tr>
<tr>
<td>Iceland</td>
<td>8.6</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Table 3.13: The GNI of Iceland.

<table>
<thead>
<tr>
<th></th>
<th>GNI (billion euros, 2009)</th>
<th>1% of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>9.9</td>
<td>0.099</td>
</tr>
</tbody>
</table>

Source: World Bank and own calculations.

3.3 The Impact of the Western Balkans Countries

As regards the Western Balkans one fact is undeniable: all of the countries are very poor in terms of the EU’s GDP per capita data; moreover, there are huge differences among the countries. The scale is large; it starts at 11 per cent and ends at 43 per cent. Therefore, and in contrast with the earlier enlargements, the EU assesses these countries individually and the best performer of them, Croatia, has already become a member state as of 1 July 2013.

The whole Western Balkans region can be qualified as still composed of transition countries\(^49\) and they are all lower-middle income countries, too.\(^50\) The region altogether has around 24 million inhabitants, and without Croatia less than 19 million, which is less than the entire population of Romania. The GDP of the six candidates and potential candidate countries amounts to 0.5 per cent of the GDP of the EU and it is only a bit higher than the proportion of now-EU member Croatia. As these countries are characterised by a low level of development, the main problems still concern the weak state structures and institutions,\(^51\) while regarding the NUTS system regions have not been determined in all the countries.\(^52\)

The literature regards Kosovo and Bosnia and Herzegovina as the most problematic issues.\(^53\) In addition, as in the case of Turkey there are concerns about unemployment and poverty, as well as security questions, especially regarding organised crime and arms smuggling.\(^54\)

With regards to EU negotiations, a bilateral heterogeneity might be detected under the Stabilisation and Association Process. Croatia has already entered the EU; Serbia, Montenegro and Macedonia are candidate countries, while Albania, Kosovo and Bosnia and Herzegovina are potential candidates.

Nevertheless, all of the Western Balkans would be eligible for the structural funds and with their low GDP data they would decrease the EU average by around 4 per cent. However, an important distinction should be made: while the region as a whole would decrease the EU average in a relatively significant manner (but still not as strongly as Turkey would), assessing these states individually shows how little effect they would have taken individually.

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51 Therefore the Council Regulation (EC) No 1085/2006 of 17 July 2006 established an Instrument for Pre-accession Assistance (IPA), which aims – besides other objectives – to support institution building in the Western Balkans (Article 2).


54 Serbos, “European Integration & South Eastern Europe”: 107.
Table 3.14: GDP per capita after the accession of the Western Balkans.

<table>
<thead>
<tr>
<th></th>
<th>Population (thousand, 2009)</th>
<th>GDP (million euros, 2009)</th>
<th>GDP per capita (euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>499,786</td>
<td>11,751,517</td>
<td>23,513</td>
<td>100.00</td>
</tr>
<tr>
<td>EU27 + Croatia</td>
<td>504,221</td>
<td>11,797,186</td>
<td>23,396</td>
<td>99.50</td>
</tr>
<tr>
<td>Albania</td>
<td>3,184</td>
<td>8,715</td>
<td>2,736</td>
<td>11.63</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>3,844</td>
<td>12,297</td>
<td>3,198</td>
<td>13.60</td>
</tr>
<tr>
<td>Croatia</td>
<td>4,435</td>
<td>45,668</td>
<td>10,297</td>
<td>43.79</td>
</tr>
<tr>
<td>Macedonia</td>
<td>2,048</td>
<td>6,676</td>
<td>3,259</td>
<td>13.86</td>
</tr>
<tr>
<td>Kosovo</td>
<td>2,180</td>
<td>3,912</td>
<td>1,794</td>
<td>7.62</td>
</tr>
<tr>
<td>Montenegro</td>
<td>630</td>
<td>2,981</td>
<td>4,731</td>
<td>20.12</td>
</tr>
<tr>
<td>Serbia</td>
<td>7,365*</td>
<td>28,883</td>
<td>3,921</td>
<td>16.67</td>
</tr>
<tr>
<td>Western Balkans total</td>
<td>23,689</td>
<td>109,135</td>
<td>4,606</td>
<td>19.58</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>19,254</td>
<td>63,466</td>
<td>3,296</td>
<td>14.01</td>
</tr>
<tr>
<td>EU28 + Western Balkans</td>
<td>523,475</td>
<td>11,860,652</td>
<td>22,657</td>
<td>96.35</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

* Data from 2008.

Table 3.15: Impact of individual Western Balkans countries on the GDP per capita of the enlarged EU.

<table>
<thead>
<tr>
<th></th>
<th>GDP per capita (euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU28</td>
<td>23,396</td>
<td>100.00</td>
</tr>
<tr>
<td>EU28 + Turkey</td>
<td>21,256</td>
<td>90.40</td>
</tr>
<tr>
<td>EU28 + Iceland</td>
<td>23,399</td>
<td>99.51</td>
</tr>
<tr>
<td>EU28 + Albania</td>
<td>23,267</td>
<td>99.40</td>
</tr>
<tr>
<td>EU28 + Bosnia and Herzegovina</td>
<td>23,243</td>
<td>99.34</td>
</tr>
<tr>
<td>EU28 + Macedonia</td>
<td>23,315</td>
<td>99.65</td>
</tr>
<tr>
<td>EU28 + Kosovo</td>
<td>23,303</td>
<td>99.60</td>
</tr>
<tr>
<td>EU28 + Montenegro</td>
<td>23,373</td>
<td>99.90</td>
</tr>
<tr>
<td>EU28 + Serbia</td>
<td>23,116</td>
<td>98.80</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

As the table indicates, the Western Balkan countries would not have a strong effect on the average GDP of the EU. They would decrease it between 1.2 per cent (Serbia) and 0.01 per cent (Montenegro), while their aggregated impact would be around 4 per cent, which is comparable with the accession of Romania and Bulgaria in 2007. Consequently, the whole accession of the region could cause a slight widening of the category of transition regions, with which only a few present members would suffer the second type of so-called statistical effect.

The potential share of the Western Balkans in the structural funds would not be too high. In 2009 the whole region without Croatia could have claimed EUR 1.49 billion. Compared to the 2014-2020 MFF, this means only around a 3.3 per cent share of the structural funds (EUR 10.5 billion for seven years), which is much less than the hypothetical 22-24 per cent share of Turkey.
Table 3.16: The limit of future financial support in view of the new capping rule.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (million euros, 2009)</th>
<th>2.35% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>8,715</td>
<td>204</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>12,297</td>
<td>288</td>
</tr>
<tr>
<td>Croatia</td>
<td>45,668</td>
<td>1,073</td>
</tr>
<tr>
<td>Macedonia</td>
<td>6,676</td>
<td>156</td>
</tr>
<tr>
<td>Kosovo</td>
<td>3,912</td>
<td>91</td>
</tr>
<tr>
<td>Montenegro</td>
<td>2,981</td>
<td>70</td>
</tr>
<tr>
<td>Serbia</td>
<td>28,883</td>
<td>678</td>
</tr>
<tr>
<td>Western Balkans total</td>
<td>109,135</td>
<td>2,564</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>63,466</td>
<td>1,491</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Table 3.17: The hypothetical shares of the Western Balkan countries in the Structural Funds.

<table>
<thead>
<tr>
<th>Structural Fund for 2014-2020</th>
<th>325,000 million euros</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5% of the 2009 GDP of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>204</td>
<td>0.063</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>288</td>
<td>0.088</td>
</tr>
<tr>
<td>Croatia</td>
<td>1,073</td>
<td>0.330</td>
</tr>
<tr>
<td>Macedonia</td>
<td>156</td>
<td>0.048</td>
</tr>
<tr>
<td>Kosovo</td>
<td>91</td>
<td>0.028</td>
</tr>
<tr>
<td>Montenegro</td>
<td>70</td>
<td>0.021</td>
</tr>
<tr>
<td>Serbia</td>
<td>678</td>
<td>0.208</td>
</tr>
<tr>
<td>Western Balkans total</td>
<td>2,564</td>
<td>0.789</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>1,491</td>
<td>0.458</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Furthermore, as in the case of Turkey, the change in the Western Balkans’ share in the structural funds based on average hypothetical GDP growth rates can be calculated. However, GDP data are not available for all the countries after 2009. Hence for the next calculation the 2009 numbers are used as a starting point.

Table 3.18: The hypothetical share of the Western Balkans without Croatia in the structural funds in the light of an estimated GDP growth.

<table>
<thead>
<tr>
<th>General growth of the Western Balkans without Croatia for seven years starting in 2010</th>
<th>2.35% of GDP million euros</th>
<th>2014-2020 MFF million euros</th>
<th>% of the structural funds 2014-2020 MFF =100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>10,544</td>
<td>325,000</td>
<td>3.24</td>
</tr>
<tr>
<td>3%</td>
<td>10,753</td>
<td>325,000</td>
<td>3.30</td>
</tr>
<tr>
<td>5%</td>
<td>10,962</td>
<td>325,000</td>
<td>3.37</td>
</tr>
<tr>
<td>7%</td>
<td>11,171</td>
<td>325,000</td>
<td>3.43</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.
In view of the relatively small GDP of the Western Balkan countries, their shares in the economy of an EU36 would be very modest. Consequently, even their contribution to the EU budget would not be that spectacular: slightly more than EUR 5 billion for seven years, which is around 0.49 per cent of the EU budget.

Table 3.19: The share of the Western Balkan countries in the economy of EU36.

<table>
<thead>
<tr>
<th></th>
<th>GDP (billion euros, 2009)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU36</td>
<td>12,310</td>
<td>100.00</td>
</tr>
<tr>
<td>EU27</td>
<td>11,751</td>
<td>95.46</td>
</tr>
<tr>
<td>Albania</td>
<td>8.71</td>
<td>0.07</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>12.29</td>
<td>0.099</td>
</tr>
<tr>
<td>Croatia</td>
<td>45.66</td>
<td>0.37</td>
</tr>
<tr>
<td>Macedonia</td>
<td>6.67</td>
<td>0.054</td>
</tr>
<tr>
<td>Kosovo</td>
<td>3.91</td>
<td>0.031</td>
</tr>
<tr>
<td>Montenegro</td>
<td>2.98</td>
<td>0.024</td>
</tr>
<tr>
<td>Serbia</td>
<td>28.88</td>
<td>0.234</td>
</tr>
<tr>
<td>Western Balkans total</td>
<td>109.13</td>
<td>0.952</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>63.46</td>
<td>0.582</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Table 3.20: The GNI of the Western Balkans countries.

<table>
<thead>
<tr>
<th></th>
<th>GNI (million euros, 2009)</th>
<th>1% of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>10,142</td>
<td>101</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>14,343</td>
<td>143</td>
</tr>
<tr>
<td>Croatia</td>
<td>48,897</td>
<td>488</td>
</tr>
<tr>
<td>Macedonia</td>
<td>7,466</td>
<td>74</td>
</tr>
<tr>
<td>Kosovo</td>
<td>4,579</td>
<td>45</td>
</tr>
<tr>
<td>Montenegro</td>
<td>3,315</td>
<td>33</td>
</tr>
<tr>
<td>Serbia</td>
<td>33,586</td>
<td>335</td>
</tr>
<tr>
<td>Western Balkans total</td>
<td>122,331</td>
<td>1223</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>73,433</td>
<td>734</td>
</tr>
</tbody>
</table>

Source: World Bank and own calculations.55

And finally, the hypothetical contributions can be calculated for a seven-year-long period in order to compare the tendencies with the gross sum of the upcoming multiannual financial framework. This estimation is again based on the data available from 2009.

Table 3.21: The hypothetical contribution of the Western Balkans without Croatia to the EU budget in the light of an estimated GNI growth.

<table>
<thead>
<tr>
<th>General growth of the Western Balkans’ GNI (without Croatia) for 7 years, starting in 2012</th>
<th>1% of the GNI (million euros)</th>
<th>Share of the 2014-2020 MFF (1,024,800 million = 100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>5,177</td>
<td>0.50</td>
</tr>
<tr>
<td>3%</td>
<td>5,279</td>
<td>0.51</td>
</tr>
<tr>
<td>5%</td>
<td>5,382</td>
<td>0.52</td>
</tr>
<tr>
<td>7%</td>
<td>5,484</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Source: World Bank and own calculations.

Chapter 4 – Conclusion

The enlargement of the EU has a very complex nature. On the one hand, the integration capacity of the EU has institutional, policy-making and budgetary aspects. On the other hand, the candidates must fulfil political, institutional and economic conditions in order to join the EU. Therefore the prospect of enlargement is one of the most important foreign policy instruments which can enforce stability, the rule of law, human rights and democracy.  

While in the case of the Central and Eastern European countries there was a narrative frame which dealt with the ‘return’ of these countries to Europe, the situation of Turkey, Iceland and the Western Balkans is more complicated, not only because cultural, religious, geographical and security concerns come into play, but also because of the changing economic conditions, e.g. debt crises and unemployment that strongly affect the European Union as well.

Therefore it is difficult to make predictions about the performance of the candidate and potential candidate states, and also about the capacity of the EU, as the economic development in the coming decades is very uncertain.

What is more, the burden of a new enlargement has to be borne by the first 15 member states. Notwithstanding the fact that there exists a so-called European solidarity and that negotiating with the Western Balkans and Turkey involves an opportunity to change the geopolitical context of Europe, strong financial concerns regarding the enlargement also exist. As the letter of David Cameron and other prime ministers cited above shows, contributor countries would not like to provide even more resources for the European Union.

Regarding the candidate and the potential candidate countries, all of them suffer from huge problems. While in the Western Balkans the main issues are still the weak state structures, Turkey’s biggest problem is its size and its high agricultural population, which makes it comparable to Romania. Therefore, this analysis could be complemented with another one focusing on the Common Agricultural Policy, which is the other enormous financial assistance programme of the EU.

With regards to regional policy, a conflict between the two objectives can be detected – the treaty-based convergence goal and the need for competitiveness. While the contributor countries support the second objective – since with the former phasing out regions and the

56 Serbos, “European Integration & South Eastern Europe”: 112.
now being introduced transition regions and more developed regions, even their regions gain
financial support – the less developed member states argue for a decrease of the conver-
gence sources.

The aim of this study was to assess the impact of the further enlargements on the struc-
tural funds and the changing interests of the member states. As the GDP per capita in all
the candidate and potential candidate states (except Iceland) is very small, the joining of
these countries would have a significant impact on the main indicator of the regional policy,
namely on the average GDP per capita.

Table 4.1: GDP per capita in EU36 context.

<table>
<thead>
<tr>
<th></th>
<th>Population (million, 2009)</th>
<th>GDP (billion euros, 2009)</th>
<th>GDP per capita (euros)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>499.78</td>
<td>11,751</td>
<td>23,513</td>
<td>100.00</td>
</tr>
<tr>
<td>EU27 + Croatia</td>
<td>504.22</td>
<td>11,797</td>
<td>23,396</td>
<td>99.50</td>
</tr>
<tr>
<td>Turkey</td>
<td>71.51</td>
<td>440.94</td>
<td>6,165</td>
<td>26.21</td>
</tr>
<tr>
<td>Iceland</td>
<td>0.319</td>
<td>8.66</td>
<td>27,117</td>
<td>115.32</td>
</tr>
<tr>
<td>Western Balkans without Croatia</td>
<td>19.25</td>
<td>63.46</td>
<td>3,296</td>
<td>14.01</td>
</tr>
<tr>
<td>EU36</td>
<td>595.31</td>
<td>12,310</td>
<td>20,678</td>
<td>87.94</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

Table 4.2. GDP per capita in EU36 context.

<table>
<thead>
<tr>
<th></th>
<th>GDP per capita (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU28</td>
<td>100.00</td>
</tr>
<tr>
<td>EU28 + Turkey</td>
<td>90.80</td>
</tr>
<tr>
<td>EU28 + Iceland</td>
<td>100.01</td>
</tr>
<tr>
<td>EU28 + Western Balkans</td>
<td>96.84</td>
</tr>
<tr>
<td>EU36</td>
<td>88.38</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

As Tables 4.1 and 4.2 indicate, the average GDP indicator would suffer a strong decline in
the context of anEU36. However, it has to be admitted that the EU has already suffered
such an impact – in 2004 when the decline of the average GDP was 9 per cent and again in
2007 when it was 4 per cent. As a consequence, it could be argued that the relatively small
or at least comparable costs of the regional policy will not ultimately determine the enlarge-
ment process.

Moreover, it is important to assess the countries individually, which shows that only
Turkey would involve a greater impact in terms of the regional policy, but regarding its
growth rates Turkey is probably the most promising country. Meanwhile, the Western
Balkans countries taken individually have only a slight impact on the average GDP of the
EU, and only if we aggregate them would their total impact mean a more significant change,
but that still remains below the impact of the enlargement of 2007.

In concrete numbers and considering some hypothetical growth rates of the candidate
and potential candidate countries, it can be seen that their accession would not mean too
high numbers in terms of the EU budget or in terms of the economy of the EU. Furthermore, the role of the transition period must not be forgotten, which delays the whole integration into the financial programmes of the EU.

Table 4.3: The costs and revenues after the new enlargement based on the data from 2009 and on the speculative hypothetical calculations with 7 per cent growth rates.

<table>
<thead>
<tr>
<th></th>
<th>Contribution to the budget for seven years (billion euros)</th>
<th>% in the budget 2014-2020 MFF =100</th>
<th>Share in the structural funds (billion euros)</th>
<th>% in the structural funds 2014-2020 MFF =100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>35-45.8</td>
<td>3.5-4.47</td>
<td>73.2-77.6</td>
<td>22.5-23.88</td>
</tr>
<tr>
<td>Iceland</td>
<td>0.7</td>
<td>0.067</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Western Balkans</td>
<td>5.48</td>
<td>0.49-0.53</td>
<td>10.5-11.2</td>
<td>3.2-3.43</td>
</tr>
<tr>
<td>Total</td>
<td>40-51.28</td>
<td>4.057-5.067</td>
<td>83.7-88.8</td>
<td>25.7-27.31</td>
</tr>
</tbody>
</table>

Source: Eurostat and own calculations.

First of all, they would also contribute to the EU budget, especially Turkey with its yearly spectacularly growing economy. Secondly, their shares in the structural funds could be compared with the now existing Instrument for Pre-accession Assistance (IPA II), which is foreseen to be EUR 14.11 billion for 2014-2020. As this financial instrument would cease to exist after the integration of the candidate countries, it can be assessed that at least the financial needs of the Western Balkans in the context of the regional policy are already covered.

And thirdly, one might consider the 25.7 per cent to 27.31 per cent share in the structural funds of the new potential member states to be extremely high, but this is nothing new. In 1987, Portugal, Spain, Ireland and Greece were eligible for 35 per cent of the structural funds, while their contribution to the central budget was only 7.7 per cent and their population was only 19 per cent of the Community.

However, the shares of the new potential member states in the structural funds might perturb the interest coalitions of the old ones; but of course, while the dominance of the net balance perspective exists, the main division will be among the net contributors and others. However, in the context of a new enlargement it should be admitted that the net balance perspective of the member states is too narrow. It is enough to think about the latest enlargements of the EU, which induced high production demand in EU15 which has a positive trade balance with the new member states.

As regards the interest coalitions, one could lobby to hinder the accession of newer countries if the gross sum of the structural funds would not grow along with the new enlargement, or at least this argumentation could be used to cover some other reasons.

Furthermore, with the 20 new transition regions other member states might lobby to expand the share of transition regions in the structural funds, which at the moment is favourable for a few contributor countries. However, with the construction of the transition regions a second statistical impact comes into play, which means that the now transition regions are going to

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58 Iván, Bevezetés az Európai Unió, 80.
59 Cipriani, Rethinking the EU Budget, 90-97.
become more developed ones as the new acceding countries pull down the average GDP per capita of the EU. Consequently, these concerned regions and their national governments could lobby for a further restructuring of the resources in the direction of competitiveness.

And finally, the new enlargement could probably lead to a change of the 75 per cent threshold, which would technically restructure the position of the regions. This solution could simply pass over the real disputes among the member states and could hinder any real claim for the reform of the budget. However, the latter is strongly supported by many academics given that many parts of the budget, especially the common agricultural policy, are heavily criticised.

**Bibliography**


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60 However, “Serious change in the budget is not likely unless the net balance issue is resolved first.” See: Alfonso Iozzo, Stefano Micossi and Maria Teresa Salvemini, *A new budget for the European Union? CEPS Policy Brief No. 159* (Brussels: Centre for European Policy Studies, 2008), 5.


PART 3.

EUROZONE
THE EUROZONE AND THE FUTURE OF THE EU

DUSAN SIDJANSKI

Chapter 1 – Introduction

The Monetary and Economic Union (MEU) created by the Maastricht Treaty – i.e. the euro and the Eurozone – were supposed to form the dynamic and most advanced element in the European Union. The Treaty defined the rules imposing the limits of 60 per cent of gross domestic product (GDP) regarding public debt, and 3 per cent in respect to budget deficit. The adoption of the monetary union, the euro and the European Central Bank (ECB) as a promising set was the logical consequence of the single market, of the four freedoms; it was meant to facilitate commerce and accelerate integration by controlling deficits and capping public debt, as well as by relying on an economic union. However, budgetary discipline was violated first by France and Germany, the two largest economies in the Eurozone, which are the driving forces of integration. As far as the economic union is concerned, it has remained at the planning stage in the absence of effective coordination of economic policies, which was supposed to follow and support the euro. In fact, the common currency, the symbol of sovereign power at national or supranational level, was created and put into circulation without being supervised and guided by a European political power. History does not seem to know of any monetary unions which survived without a political union. By way of example, the Latin Monetary Union formed in 1865 between Belgium, France, Italy, Switzerland and Greece collapsed in 1927.

By promoting the MEU, Jacques Delors followed the approach corresponding to the strategy of Jean Monnet, to the extent that it would result in greater integration of economic policies and related sectors and ultimately lead to the creation of a European Federation. Non-compliance with the rules of the economic and monetary union together with the outbreak of the financial crisis have cast doubt on the integration process which, despite its fluctuations, seemed to be continuing to progress. Nevertheless, the Eurozone, which represents the ‘dynamic core’ of the European Union, was and still is most affected by the crisis. Faced with the risk of widespread paralysis within the Eurozone, senior European officials headed by German chancellor Merkel and French president Hollande became aware of the urgent need for vigorous growth and greater integration into structures that prefigure a Political Federal Union.

Instead of generating the spillover envisaged by Jean Monnet and theorised by Ernst B. Haas1, under the pressure of the crisis the Eurozone provoked the reverse effect, a sort of

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spilldown which led to economic recession, breaking social solidarity and destabilising political structures. The interdependence of European economies led to a contagious effect of the crisis on the countries of southern Europe, threatening other members of the Eurozone. Prior to his appointment as head of the ECB, Mario Draghi warned against the important systemic effects the sovereign debts of three countries—Greece, Ireland and Portugal, which represent 6 per cent of the Eurozone’s gross domestic product (GDP)—could have. For those who did not want to ignore the facts, it was obvious that the contagion would not spare the major economies of the Eurozone either, starting with Spain and Italy.²

Moreover, this negative domino effect not only has an impact on the financial and economic fields, but also leads to an increase in unemployment, which in Greece and Spain affects more than a quarter of the population (30 per cent) and around 50 per cent of young people. With such budgetary austerity and dismissal of employees and workers in the public and private sectors, the state is not going to spend less, but in fact more on the unemployed and health care. The dilemma facing the government requires a difficult choice: either it cuts back on pensions, wages, education and culture, at the risk of provoking violent reactions, destroying its social networks and paving the way for extremist movements; or it increases its deficit and public debt by taking out loans at about 6-7 per cent interest, as in Spain and Italy. At this rate, we wonder when or rather if the state will ever be able to repay its debts, especially since it is in a recession and is recording negative growth. The example of Greece is premonitory in that it proves that the financial and the sovereign-debt crisis spreads quickly and affects all levels of society, while causing deep political instability. The last elections are proof of this: the elections were preceded by serious political disturbances that have caused the loss of one year of reforms for the state and the Greek economy, and have only increased the disastrous effects of the crisis.

The member states of the Eurozone are confronted with a political choice with far-reaching consequences: either they commit without delay to some sort of European Federation, or they accept the disintegration of the Eurozone and the demise of the euro. Since currency was first created three thousand years ago, we know that minting money is a sovereign act, a symbol of political power. To our knowledge, no currency has survived without the backing of a sovereign power. Hence the urgent need to consolidate the Eurozone, to equip it with efficient instruments and decision-making processes, and also place it under the supervision of a federal union. Only a political authority in the form of a European Federation will be able to guarantee a way out of the crisis, the future of the euro and the development of the European Union. It is also the only way for Europe to strengthen its position within the new global balance of power.

The implementation of an 18-member European Federation, which the other member states of the Union would be free to join, will allow a global approach to be adopted instead of the uncoordinated actions undertaken to date on a case-by-case basis. It represents a reversal of current perspective in support of a European undertaking, combined with a return to commensurate measures in a spirit of solidarity. Merkel’s stance comes to mind: although highly opposed to eurobonds being issued in the current situation, she has declared that she would contemplate the idea within the framework of a political union.

Chapter 2 – Structure and Functioning of the Eurozone

Ironically the Eurozone, which is the federative and pioneer core, is still functioning according to the intergovernmental method, whereas the 28-member Union mainly uses the community method. Therefore this gap should be bridged immediately by exercising enhanced cooperation or by adopting new methods of functioning, as demonstrated by the establishment of the Summit of the 18 Eurozone members. These adjustments would serve to increase the efficiency of the decision-making process, the European Parliament’s involvement and overall transparency. As a result the Eurozone, which represents a subgroup of the European Union, will benefit from the improvements written into the Lisbon Treaty, namely qualified majority, co-decision on proposal from the Commission and dual presidency. These advances could be adapted and applied in accordance with the Eurozone’s dimension and in compliance with the Treaties and Union law. In this way, the Eurozone would use the community method in the future.

2.1 Eurozone Summit and its President

The Council of the European Union defined the structure and functioning of the Summit of the 18 Eurozone members with effect from January 2013 in accordance with the Treaty on Stability. Its president sees to the preparation of and follow-up on work in close collaboration with the president of the Commission and on the basis of the preliminary work carried out by the Eurogroup. The Summit of the Eurozone heads of state or government is also attended by the president of the Commission. The ECB president is invited regularly, whereas the presidents of the Eurogroup and the European Parliament are invited on an ad hoc basis. Those heads of state or government representing states which ratified the Treaty on Stability, Coordination and Governance participate in the discussions on competitiveness, changes to the structure of the Eurozone and fundamental rules, as well as on specific subjects.

As in the case of the president of the European Council, the president of the Eurozone is appointed by the members of the Summit by simple majority. This procedure, which is modelled on the method used by the European Council, is carried out at the same time and in all probability will lead to the appointment of a single person responsible for both presidencies, provided that the president of the European Council is also a member of the Eurozone. In these circumstances, the president who has been assigned a twofold function will be called upon to guarantee harmonious cooperation between the Eurozone and all the member states of the Union.

In order for the president of the Eurozone to be credited with greater democratic legitimacy, he should preferably be appointed by the Summit after the latter has consulted with the presidents of the Commission and the ECB and further to approval by the European Parliament. This approval could be decided by a majority vote of those Members of the European Parliament (MEPs) belonging to member states of the Eurozone.

3 Article 326 of the Treaty on the Functioning of the European Union.
4 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
2.2 Decision-Making Processes of the Summit

The Summit primarily defines by consensus the main guidelines and instigates their implementation by the Eurogroup. While seeking a consensus, the Summit should be able to take decisions and adopt declarations by qualified or reinforced majority. This procedure would safeguard against vetoes and protracted wrangling within the pioneer group.

The groundwork would be entrusted to the president of the Summit in close collaboration with the presidents of the Commission and the Eurogroup, and, in certain cases, with the president of the ECB. The optimal procedure corresponding to the community method would imply that the proposal to the European Council or Council should be presented by the president of the Commission in the name of the Commission and the Eurogroup.

Chapter 3 – Organisation and Functioning of the Eurogroup

3.1 The President of the Eurogroup

He should be appointed by his peers acting on a joint proposal by the presidents of the Eurozone Summit and of the Commission and subject to prior recommendation by the European Parliament. This prior recommendation is required due to his function as head of the ‘Executive’ of the Eurogroup. As such, it would be wise for the subgroup of the European Parliament to be able to exercise democratic control over the Eurogroup president. Whenever the president of the Commission is a native of a member state of the Eurozone he could also be appointed as president of the Eurogroup. An alternative solution could be to appoint as Eurogroup president the vice-president of the Commission responsible for economic and financial affairs, following the example of the high representative. The consequences of this adjustment, and in particular the use of a motion of no confidence, have to be examined.

3.2 Structure and Decision-Making Processes

Preferably, the Eurogroup would operate under the presidency of the president of the Commission assisted by the vice-president of the Commission in charge of financial affairs. A second vice-president of the Commission should be responsible for social affairs. This troika would guarantee greater efficiency and harmony between actions taken at both Eurozone and Union level without increasing the number of presidents.

3.3 Decision-Making Processes of the Eurogroup

Decisions of the Eurogroup, just like those taken by the Union, can be divided into two distinct categories: legislative and governmental or executive decisions. In the first case, the legislative process should function in the form of simplified co-decision. Following the groundwork–integovernmental at present – carried out by the Commission
which should be composed of 18 members and the Eurogroup in consultation with the ECB, the Eurogroup president presents proposals for regulations or directives to the ministers of finance and economy and the MEPs from Eurozone countries. Having convened as a subgroup of the European Parliament, the latter come to a decision by a majority vote. In turn, the Eurogroup’s ministers decide by consensus which should be transformed into qualified majority.

In the second case, which concerns decisions of a governmental nature, they are characterised by their degree of urgency and efficiency. These decisions, on the basis of the groundwork of the 18-member Commission, the Eurogroup and the recommendation of the ECB, should be taken according to qualified majority and implemented under the supervision of the president and the competent vice-president of the Eurozone. Depending on the deadline, they could be submitted beforehand for assessment by MEPs from the Eurozone or, in certain urgent cases, submitted for their ex-post approval. In any case, they should be drawn up in consultation with the ECB.

3.4 Role of the ECB

The ECB should be closely involved in the preparation and implementation of decisions. In the near future, the ECB’s role during the crisis and post-crisis period should be assessed. This appraisal could be used as a benchmark for an overhaul of the ECB’s authority which, in all probability, would be modelled on the broader powers of the Central Banks of member states, in particular, such as the Bank of England, or the American Federal Reserve. These institutions have resources and instruments to counter the crisis which are more substantial and which enable them to intervene in connection with public debt or through the issue of bonds and other catalysts for economic recovery. The ECB’s scope of action needs to be expanded.

3.5 Urgent Decisions

The crisis has brought to light the large discrepancy between the speed with which investors make decisions and markets react, as opposed to the slowness of the European institutions to act. Therefore it would be advisable to reflect upon the manner in which a certain number of decisions could be taken urgently by the Commission and the Eurogroup or the ECB, or rather jointly by both institutions. Instead of going through a long procedure, these decisions would subsequently be approved by the Eurogroup members within the Council and the Parliament.

3.6 Appeal to the Court of Justice

In case of dispute, the Court of Justice would be empowered to rule in the first instance through chambers which could be made up for the most part of judges from the Eurogroup and member states which have adopted the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Final decrees could also be adjusted in the same
way on an *ad hoc* basis. However, these adjustments do not seem to be indispensable, since the Court essentially adopts a community view. As for the Commission, which has endeavoured to put forward its community interest and perspective adapted to the Eurozone right from the very beginning of the crisis, it would be more efficient if limited principally to members belonging to the Eurozone.

**Chapter 4 – Preliminary Remarks with a View towards the Future**

First of all, the community method, which with some exceptions is the rule according to the Lisbon Treaty, must urgently be applied within the Eurozone. The Eurogroup, spearhead of the European Union, has an obligation not to lag behind the Lisbon Treaty. By implementing the community method, the Eurozone will equip itself with a more efficient, rapid and balanced decision-making process. Indeed with the intergovernmental approach, right from the start decisions are subjected to the domination of the larger member states, in particular of Germany in agreement with France. This is the scenario which marked the reactions to the crisis. The new presidency and a more active participation of the Commission in policymaking will ensure a better balance and more honest choices, as will the use of qualified majority in the decision-making process.

Instruments such as the European Stability Mechanism (ESM) and other intergovernmental agreements are forming around this federative core. Under the influence of the community structure and functioning, and of the regained confidence and sense of solidarity, these mechanisms and agreements could be organised under the community aegis. Once this pole has been reinforced, it will be easier to adopt decisions to establish a Eurozone budget (3 per cent of GDP), an Economic Recovery Fund and a banking and fiscal union, not forgetting the social dimension.

As from now, the manner in which the structures and functioning of the Eurozone evolve should fit into one or several political proposals. These proposals drawn up by the Commission and by various European movements and task forces are intended to be the subject of the electoral campaign during the next European elections in June 2014. At least this is what has been promised by the president of the European Commission, who intends to present a proposal for a European Federation.

**Chapter 5 – Steps towards a European Federation**

Jean Monnet’s strategy of integration sector by sector ultimately leading to political union has reached the end of the line. The crisis has reversed the process, triggering a downward spiral movement (domino and contagion effect). Spillover has swung dramatically towards spilldown. One thing has become blatantly clear to the leaders, the members states and the people of Europe: the very survival of the euro, the Eurozone and indeed the whole of the European Union is at stake. We should not forget that since the first coins were minted, no currency has existed and survived without political sovereignty. If the euro is not to disappear it is in urgent need of a political framework, a political armature, in other words a European Federation. Steps towards reaching this goal must be taken as soon as possible by at least nine member states, in accordance with enhanced cooperation.
As we concluded before, reversion to the community method within the Eurozone should be initiated at the same time as the construction of the European Federation. It is paradoxical that the Eurozone functions according to the intergovernmental method while representing a pioneer federative core. In this respect, the vanguard is lagging behind the Lisbon Treaty. Consequently, the Eurozone must urgently revert to community mechanisms and processes of the European Union.

This can be achieved through the conclusions of the European Council or even better by establishing the new framework and procedures through enhanced cooperation. The Eurozone based on enhanced cooperation would be open to all members of the European Union at all times, subject to compliance with the acts already adopted within that framework. In addition, they would be subject to any conditions of participation laid down by the authorising decision.

5.1 Progression towards a European Federation

In the present circumstances, the path towards political union in Europe lies through the Eurozone. Today it is within this federative core that there is an urgent need for a federal framework. Therefore it is up to the Eurozone in association with the European Commission to prepare the groundwork as soon as possible and initiate negotiations between the 18 member states, while leaving the door open to other EU member states.

This opinion and recommendation are based for the time being on an analysis of the position and proposals of the principal actors in the Eurozone, namely Merkel, Hollande and the head of the Italian government, prime minister Letta. We can observe a certain convergence of opinions subject to slight differences in the degree of commitment towards a political federal union. These political leaders use a variety of different terms: political union, European Federation, Federation of European States, United States of Europe, and in certain cases, European Government or Economic Government. The latter cannot be suspended in space. It needs to function according to the community method and be an integral part of a European Federation.

In my view, the political union is ambiguous, as it implies the possibility of a centralised political union as well as a federal political union. A consequence of the first option is the diminishing role of the member states and regions, whereas the federal political union, a synonym for the European Federation, guarantees the national and regional identities of the different member states. This complies with the federal principle of subsidiarity. This is a principle whereby whatever can be carried out by a smaller body should never be made the responsibility of a larger one. According to this principle, “the Union will only assume tasks that may be accomplished together more effectively than by each state separately or tasks whose solutions require a contribution by the Union.”5 The second principle is related to dual participation or multi-level participation by the people (European Parliament), the member states (European Council, Council) and the regions and cities (Committee of Regions). The third principle stipulates that the Union is based on democracy and consequently that only European democratic states may be admitted as members.

5.2 Brief Summary of President Hollande’s Point of View

In his speech to the European Parliament on 5 February 2013 the French president addressed the Members of the European Parliament (MEPs) “as the representative of a nation which has linked its destiny to that of Europe and which still bears a special responsibility today. I address you as a political leader whose belief in Europe has guided his commitment. I address you as a head of state who has made the reorientation of Europe central to his action....”

After referring to the Nobel Peace Prize awarded to the Union, president Hollande stressed Europe’s slowness to respond faced with major decisions: “...it takes too long to make major decisions, decisions that are expected, hoped for; and it spends too little time reflecting on its direction and its overall architecture. Europe prides itself on being a major market, but it fails to defend it in the face of unfair competition. It allows its currency, the euro, to be vulnerable to irrational trends in one direction or another. Lastly, Europe is a continent where growth is too weak, where mass unemployment reflects the depth of the crisis, which is not, as has been said, a short-term transition but a major transformation.”

While recognizing the progress that has been made in budgetary discipline through the adoption of the six-pack and the two-pack, as well as the creation of the European Stability Mechanism and the enlarged role of the European Central Bank, he called for the next stage of the coordination of national economic policies: “The time has come to launch the major project of deepening Economic and Monetary Union; France is ready for this. It has two principles: integration and solidarity. Integration means defining shared objectives, harmonizing fiscal policies, bringing in structural reforms to make our economies stronger, as well as common policies on infrastructure and research. Integration means us having new financial instruments in order to launch innovative projects in the areas of new technologies, renewable energies, and energy and ecological transition. And since we’re for integration, we are for solidarity, since you can’t have one without the other. [...] From this viewpoint, the European Parliament has paved the way. You’ve gone beyond political sensitivities and floated the idea of common borrowing; I daren’t say Eurobonds, but you’ve imagined what the very terms integration and solidarity could be.

“Our position, France’s position, boils down to four principles. The first principle is a level of spending that maintains the common policies: firstly the Cohesion Policy, which finances the essential investments, not only for the beneficiary countries but for the whole of Europe, which benefits from it in terms of growth. [...] My second principle is that the budget, the Financial Framework that must be proposed, must build on the Growth Compact adopted last June. [...] My third principle is that the budget must support the most vulnerable Europeans and those most exposed to the crisis. [...] Finally, the last principle I’ll uphold in the forthcoming negotiation is a system of resources that is fairer and more transparent. [...] Europe can’t make do with being a market, a budget, a currency –invaluable though these instruments are. Nor can it be just a collection of treaties, a set of rules –necessary –for living together. [...] I believe it legitimate to work on a new EU architecture. I’m pressing the case for a differentiated Europe –to use Jacques Delors’ expression; it wouldn’t be a two-speed Europe, which incidentally would quickly become an unequal Europe or a

divided Europe; it isn’t an à la carte Europe either. No, a differentiated Europe is a Europe in which States – not always the same ones – decide to forge ahead, embark on new projects, release funding and harmonize their policies, beyond the substantial core – which must remain – of common powers. It’s this approach which allowed us to make borders a thing of the past with Schengen, create a single currency with the euro and introduce the financial transaction tax. This approach is a path to enhanced forms of cooperation, one open to everyone, everyone who wants to take part in them, and one day able to bring us together around these principles. In this Europe, the European Parliament will have a major role to play, because through its control it will ensure overall coherence.

“I also want to make Europe more transparent, I’ve argued in favour of budget, fiscal and social integration –this has happened. It calls for a political union that’s stronger –otherwise it is hemiplegic – which means a Euro Area government and new financial instruments for taking action, and a budget – under certain conditions – for the Euro Area coordinated with the European Union budget. All this being controlled by the European Parliament and the national parliaments.”

The following paragraph is significant: it refers to a stronger political union and a Euro Area government which is not only economic.

“In this worldwide redistribution of power, we must leave no doubt of Europe’s determination to support these values. But, here too, we must accept the consequences, with the clear-sightedness that is essential for developing a strategy to conduct a genuine common foreign policy, to have a European defence. France stands ready. Here too, it is time to end piecemeal initiatives and pool our forces and resources, to bring our industries closer together and also harmonize our positions in international bodies in which Europe must speak with one voice and act to resolve the conflicts that offend human consciences.”

5.3 Brief Summary of Chancellor Merkel’s Standpoint

While still insisting on greater budgetary discipline and deepening of economic integration, the German chancellor has softened her position, which had been considered too rigid at the beginning of the crisis, and emphasised the need for a political union: “My vision is one of political union because Europe needs to forge its own unique path. We need to become incrementally closer and closer, in all policy areas.” She described the new architecture of a new Europe in which the European institutions take precedence over the member states. (What about the German Constitutional Court in Karlsruhe?)

She considers that “Over a long process, we will transfer more powers to the Commission, which will then handle what falls within the European remit like a government of Europe. That will require a strong Parliament. The Council of Heads of State or Government will be a kind of Second Chamber. And finally, the supreme court will be the European Court of Justice. That could be what Europe’s political union looks like in the future, some time in the future and after a good number of interim stages.” Although she has not

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7 These are integral elements of the proposal that the Franco-German couple should promote.
yet adopted this architecture, I would like to stress the importance of her political will to promote a European Federation and to establish it starting at the Eurozone level. There is an urgent need for this.

These few quotes demonstrate that the chancellor is in favour of a European political union which must have the characteristics of a European Federation. It is only logical that this union and its institutions should have primacy over the member states. It is indeed significant that following the example of the programme put forward by Lammers and Schäuble in 1994, the chancellor is in favour of transferring powers to the Commission, which will have the role of a European government. On the other hand, it is hardly logical to turn the heads of state or government, in other words the European Council, into a Second Chamber. Instead, a reconstituted Council of Ministers should form a European Senate, thereby introducing a separation of powers between the legislative Council and the governmental Council. This idea improvised by the chancellor deserves careful consideration – particularly since, in my opinion, the European Senate which constitutes the other component of the legislature, could be made up of ministers or state representatives appointed by governments along with representatives chosen by the parliaments and upper chambers of the member states. Eventually, this institutional configuration could be supplemented by a regional, metropolitan or municipal senate.9

Moreover, in the same interview, Merkel admits that the crisis had forced the 17 countries which share the single currency to forge closer political and economic ties. This is an example of the principle of enhanced cooperation when put into practice.

With regard to eurobonds, an idea which she has been categorically opposed to right from the start, she admitted that she was nevertheless open to this eventuality in the long term at the end of an extensive process of economic and political integration: “Eurobonds will not do as a means to resolve the current crisis. Shared liability is something we will only be able to contemplate once the EU has achieved much greater integration.” In other words, she defines greater integration as a prerequisite for considering recourse to eurobonds. Political union of Eurozone countries as well as other member states is a precondition for the possible introduction of eurobonds.

5.4 Brief Overview of the Point of View of the Italian Prime Minister Enrico Letta10

One of the main points which emerge from his speech is the determination of his government to continue to stabilise public finances, while at the same time pursuing measures to stimulate growth. Europe should return to being a motor of sustainable development. Just as Hollande had mentioned in his speech, he maintains that Italy’s fate is closely intertwined with that of the European Union. Two destinies united as one. Immediately after taking office, Letta visited Brussels, Berlin and Paris to give a sign without delay that his government is “a European and Europeanist government.” The response to the crisis should therefore

9 Proposal made by the Länder during the negotiation of the Maastricht Treaty which gave birth to the Committee of Regions.

be greater integration, moving towards a federal Europe. Otherwise, the cost of non-Europe, the weight of failed integration, just like the risk of monetary union without a political and banking union, would become unbearable.

In the last part of his speech about “new Europe,” he calls to mind the EU’s contribution to the creation of a peace area. In his opinion, the Nobel Peace Prize is not yesterday’s news. “Europe is not a thing of the past, but a journey on which we have all embarked heading towards the future. Europe is the political area which rekindles the hope which inspired our society during the period of post-war reconstruction. It also represents the political area which enables us to put an end to wars due to stereotypes, mistrust and timidity. Europe is our journey. Its history is not written against our will. It is written by us. The horizon is European. Imagining Italy without Europe is in effect to weaken our sovereignty.”

Today as we struggle to overcome unemployment and inequality and to defend and promote our rights, Italy’s demands cannot be separated from the solutions provided by Europe. He goes on to mention the need to knock down the wall dividing the north from the south of the continent, similar to the divide between northern and southern Italy.

Enrico Letta maintains that the port towards which we are travelling is the United States of Europe and our ship is called “Democracy.” We have the right to dream of a political union and it is our duty to make this dream clearer. We can have a more unified Europe provided that there is greater democracy: through the European parties, through direct election of the president of the Commission, as well as through a bold and tangible track record these dreams can be made to come true.

Like president Hollande, prime minister Letta stresses the external challenge. Italy lives in an ever larger world, characterised by the arrival of new emerging powers which are changing the global balance. Faced with giants such as China, India and Brazil, European states do not have any other choice than to develop a common policy to obtain the critical mass required to interact with these new actors and to influence global processes, which implies a new task for the Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP). In conclusion, as in the past Italy commits itself to a European federation equipped with an essential set of sovereign powers.

5.5 Direct Election of the European President?

It is impressive to see that several European leaders recommend direct election of a European president or, in the specific case of prime minister Letta, of a president of the European Commission. Wolfgang Schäuble has also been known to publicly advocate direct election of an EU president, as for example in the speech he gave on receiving the Charlemagne Prize, as have certain Commissioners such as Viviane Reding and Michel Barnier. This idea put forward a long time ago and which was once defended by François Bayrou, should not remain an improvised concept but is worth in-depth analysis. This also implies that those advocating this idea have previously considered the consequences of the election of a president of the European Union or a president of the European Commission which

11 This idea was first evoked by the UDF party President François Bayrou in the early 2000s. See Dusan Sidjanski, *The Federal approach to the European Union or the quest for an unprecedented European federalism. Research and Policy Paper No. 14* (Groupement d’Etudes et de Recherches Notre Europe, 2001), 61.
is not compatible with European political culture. In fact, with the exception of the French “quasi-presidential system” (Maurice Duverger)\(^\text{12}\), the great majority of European states practise the system of parliamentary democracy, which implies that the executive power is answerable to Parliament. This would not be the case if the president of the EU or the Commission were directly elected by European citizens.

5.6 What Conclusions Can Be Deduced from this Overview?

The idea of a European Federation or a Federation of European States has been put forward by the president of the Commission. However, without advocating direct election of a president of Europe or of the Commission, European Commission president José Manuel Barroso readopts the proposal to choose presidential candidates according to the results achieved during the European Parliament elections.

With the exception of the French president, who does not go as far as to propose a United States of Europe or a European Federation, the public announcements made by the two other political leaders reveal a much clearer stand on the subject.

The first step is to develop more structured proposals for a European Federation. These proposals should be both brief and intelligible enough to be the subject of a public European debate during the European elections campaign in 2014. This has been promised by president Barroso.

Any future discussions drawing on the federative core represented by the Eurozone should be inspired by negotiation characterised by synergy and a win-win approach, in the same spirit as was experienced during the drawing up of the Single European Act.\(^\text{13}\) These negotiations led to a domino effect which was both dynamic and positive: the bold proposals put forward by the different states avoided ending up with the lowest common denominator; on the contrary, each input played a substantial part in enhancing the project. This was particularly true of the proposal by Denmark which led to the addition of a chapter on social policy. As for the prime minister of the United Kingdom (UK) Margaret Thatcher, she accepted the institutional advances believed to be indispensable for the functioning of the ‘single market’, which was her primary objective. Unlike the ‘package deals’ which correspond to a levelling downwards, the negotiations were driven by a synergy which triggered off a cumulative process, an escalation procedure which led to maximum results in almost all the sectors involved.

During these negotiations coordinated by Emile Noël, secretary general of the European Commission, another significant example was the acceptance by all member states – including Great Britain and Denmark, who at first had been reluctant – of the institutional reforms demanded by the Benelux countries, in exchange for the internal market which had been largely favoured by these two member states, and in particular by the UK prime minister Margaret Thatcher. This is an excellent example of a negotiation process in the form of positive contagion.

If we attempt at the same time to reproduce negotiation characterised by synergy within the Eurozone, we could draw on the viewpoints mentioned, in particular the attitude of


\(^{13}\) Dusan Sidjanski, *The Federal Future of Europe*, 110.
France concerning eurobonds in relation to the prerequisite put forward by Germany of greater integration and political union. France might be able to succeed in introducing eurobonds by accepting a more integrated political union with increased powers. A strong sense of solidarity, that is to say politically speaking within a European Federation, would facilitate the implementation of measures and instruments which would be more efficient and socially responsible.\textsuperscript{14}

Need I add that when Emile Noël was secretary general of the Commission he was its representative at the intergovernmental conference chaired by Jean Dondelinger, at that time secretary general at the Ministry of Foreign Affairs in Luxembourg, in order to emphasise the role of the Commission and small and medium-sized states in the process of the European construction. We can only hope that the European Commission and its president, as announced, will take an active part in promoting the future federal political union. Evidently, in this whole process the leading role of the Franco-German couple in association with Italy and the Benelux, as well as role of the European Commission will depend on their ability to put forward and negotiate well thought out and structured proposals for a European Federation.

\textbf{Chapter 6 – Conclusion}

It is well known that the latest member states to join the EU have principally been motivated by the following objectives. Firstly, for political purposes and support in their democratic transition; secondly, for encouragement in their transition towards a market economy; and thirdly, with the hope that enlargement will bring economic benefits and that, at the same time, the EU36 will be less cohesive and less inclined to engage in political integration (e.g. UK). The latter is not the case for many members recently admitted. At the same time, the reasons which inspire the eight future members to form the EU36 vary considerably: stabilisation of their new democracy, peace and cooperation in the region, and, in many cases, economic interests and financial support.

The future enlargement raises many questions on both sides. Are the criteria used by the Commission and the Council for the admission of new members too formal? They take into consideration the economic and social situation and official policies, as well as the degree of democracy based essentially on the analysis of the constitutional and legal system. In fact we do not consider, as should be the case, the behaviour of political parties, civil associations and citizens, or what is referred to as civil society, which is fundamental. At the same time, we observe that in different candidate countries the attractiveness of the EU is based essentially on economic interests and less on values and democratic principles. It is also evident, as in the case of Hungary, that it is difficult for the European institutions to effectively supervise the real functioning of democracy. It is possible that in the future new competences will be inspired by Kant and by the rules that govern federal states like Germany and Switzerland.

Another question is related to the composition and functioning of the European Commission. Experience has proven that the Commission composed of 28 members is not easy to manage. Consequently, the Treaty on the European Union (Article 17, paragraph 5) envis-
ages a reduction in the number of its members. As is the case of many governments where an inner circle exists in the form of a cabinet or senior ministers, the member states which are not included as senior members of the Commission could participate as associate members, just as secretaries of state operate in some member states. It is clear that many adjustments will have to be adopted by the EU36.

The crisis has encouraged the leaders of the Eurozone to be enticed towards the intergovernmental method under the aegis of the Franco-German couple. Paradoxically, the most advanced group of 18 members is operating in the traditional intergovernmental mode within the European Union which, in the area of economic integration, generally functions according to the community method. The solution to this problem is simple yet clever. Jean Monnet’s invention of the community decision-making process guarantees a more balanced, coherent and democratic functioning. When drawing up its proposals, the Commission consults with many social and economic actors and national experts who are primarily concerned. The formal proposal is addressed simultaneously to the Council and the European Parliament, which in principle represents the European common interest and a balance between small, medium-sized and large member states. The final decision in the form of regulations and directives are adopted by co-decision between the Council and the European Parliament. This is a more transparent, efficient and democratic decision-making process, the Commission being the only European institution accountable to the European Parliament.

In order to be capable of responding to challenges and the emergence of new big powers, the European Union will have to speak with one voice. This is the price to pay for maintaining its status and its influence in the changing world, where the United States and Europe are suffering a relative decline. With this aim in mind, the role of the Franco-German couple, the federal core represented by the Eurozone and the prospect of a European Federation have to be taken into consideration by all the member states of the European Union and a future EU36.

Bibliography

Chapter 1 – Introduction

European countries face hard decisions concerning restraints on their national sovereignty. There are some European countries which joined the European Union (EU) and also entered the Eurozone. There are other European countries, which are not members of the European Union, and even a larger number of countries which are not Eurozone members. Thus, the question of the EU as well as of Eurozone enlargement is alive.

As of 1 January 2014, 18 countries are inside the Eurozone. These include the founding six members of the European Economic Community (Germany, France, Italy, the Netherlands, Belgium and Luxemburg) and three additional western countries (Austria, Finland, and Ireland). Furthermore, the Eurozone also involves five southern countries (Spain, Portugal, Greece, Cyprus and Malta) and four former socialist countries (Slovenia, Estonia, Slovakia and Latvia). The first 11 countries in the list joined the euro in 1999. Greece joined in 2001, followed by Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011 and Latvia in 2014.

There are also 18 countries which are not members of the Eurozone. This includes 10 countries which are members of the European Union (the United Kingdom, Denmark, Sweden and seven former socialist countries – Poland, the Czech Republic, Hungary, Romania, Bulgaria, Croatia, and Lithuania). In addition, there are eight countries which are not members of the Eurozone nor of the European Union. Five countries among them are candidates for membership in the European Union (Iceland, Turkey, Serbia, Macedonia and Montenegro) and three are potential candidates for membership in the European Union (Albania, Bosnia and Herzegovina, and Kosovo).

This paper discusses some of the issues which emerge in discussions of the enlargement of the Eurozone. We begin with a short review of the theoretical literature on criteria for choosing an exchange rate regime. We also briefly discuss the issue of the inter-connection between fixed exchange rates (including monetary union) and growth of the economy. In the following section we discuss the experience with euro adoption, i.e. the good and the bad years of the euro. Next, we discuss the experience of some of those European Union member countries which did not adopt the euro. Finally, we summarise and conclude.
Chapter 2 – Theoretical Literature on Criteria for Choosing an Exchange Rate Regime

2.1 Literature on Choosing the Exchange Rate Regime

The issue of whether to adopt the euro is part of a vast literature concerning the theoretical aspects of choosing an optimal exchange rate regime. This literature typically discusses how to make a choice – at the country level – between different types of exchange rate regimes.

On the highest level of abstraction authors like Helpman\(^1\) and Kareken and Wallace\(^2\) show that in an environment where asset markets are complete, money is neutral and there are no rigidities, there is no welfare impact of exchange rate regime. In other words, the type of the exchange rate regime does not really matter. This means that a particular exchange rate regime might perform well under certain types of rigidities and imperfections, but might not work under other types of rigidities and imperfections.

Helpman and Razin, in a two-period general equilibrium model, show that a floating exchange rate regime dominates a fixed regime, since the latter reduces the number of assets in the economy.\(^3\) In a similar spirit Neumeyer presents a model in which adoption of a currency union is the result of a trade-off between the benefits of reducing excessive volatility of exchange rates and the costs of reducing the number of assets in the economy.\(^4\) The fluctuation in exchange rates that reflect economic shocks may seem excessive, but it helps allocate resources efficiently, while exchange rate volatility caused by non-economic (political) shocks reduces efficiency. Neumeyer sees currency union as a monetary rule that attempt to improve welfare by insulating money from domestic politics.\(^5\) His main insight is that adoption of a common currency increases welfare when the gains from eliminating excess monetary volatility exceed the cost of reducing the number of financial instruments in the economy.

One can also discuss the choice of the exchange rate regime under the so-called Impossible Trinity conditions. If high capital mobility is considered as given – as it is under current economic conditions – then countries need to choose between two options. Either a country opts for a float with independent monetary policy, or it opts for the fixed exchange rate regime, and gives up its monetary policy independence. In addition, exchange rate regime choice is also discussed in light of the currency crisis experience. These discussions have typically advised small open economies to avoid intermediate exchange rate regimes.

The most widespread approach in discussions about the conditions and characteristics under which a country should join monetary union originated in optimum currency area theory. The classical paper of Mundell suggested labour mobility as an important criterion of

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5 Ibid.
the optimum currency area in which currency is assumed to be fixed. Subsequent research puts forward additional criteria, among others, openness of the economy by McKinnon, diversification of the economy by Kenen, capital mobility by Ingram, similarity of policy attitudes by Haberler, similarity of inflation rates by Fleming, and similarity of real exchange rates by Vaubel.

Some authors, such as Machlup, raise the point that for choosing the exchange rate arrangements the economic considerations are not of foremost importance. He for example argues: "what ultimately counts however, is that all members are willing to give up their independence in matters of money, credit, and interest. Pragmatically, therefore, an optimum currency area is a region no part of which insists on creating money and having a monetary policy of its own."

The practical criteria for adopting the euro dealt with an operationalised version of the criteria discussed in the previous part. These are the Maastricht criteria, which included criteria of similar level of inflation rates, similar long-term governmental interest rates; both defined as below the reference value. Two other criteria involved fiscal similarities, notably debt and deficit criteria, based on the Stability and Growth Pact. In addition, there is a criterion on exchange rate stability before adopting the euro, which was operationalised as membership in the Exchange Rate Mechanism II (ERM II) for the minimum period of two years.

2.2 Literature on Exchange Rates and Growth

The adoption of the euro in the countries of Central and South-East Europe is not perceived by the general public and even policy makers separately from the issue of the real convergence of these countries. It is really the growth impact of euro adoption which these countries would like to obtain. In what follows we provide a short overview of the discussion of the relationship between exchange rate regime and growth.

Schnabl reviews the experience of the East Asian and European transition economies

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14 Ibid., 71. This helps us to understand why in the Central and South-Eastern European countries we observe an interesting situation: countries with similar structural economic characteristics opted for different exchange rate regimes. For example the Czech Republic opted for a managed float while Slovakia joined the Eurozone; Romania introduced float and Bulgaria currency board; Serbia and Albania have float while other Western Balkans countries introduced various fixed exchange regimes.
with respect to growth and exchange rate stability.\textsuperscript{15} His results support the view that there is a negative impact of the exchange rate volatility on growth in these regions. Reinhard and Rogoff compare their classification of exchange rate regimes to official International Monetary Fund (IMF) classification in terms of growth performance.\textsuperscript{16} Under \textit{de jure} classification, growth performance is weakest under free float and highest under limited flexibility regimes. The Reinhard and Rogoff classification shows the worst growth performance happens under freely falling exchange rate regimes, and the best performance happens under limited exchange rate flexibility. These results point to the fact that limited currency flexibility supports economic growth.

De Grauwe and Schnabl, studying the relationship between currency stability and real growth in the context of South-Eastern and Central European countries for the period 1994-2004, came to the conclusion that not only “association of exchange rate stability with higher real growth remains robust,” but also that membership of these countries in the European Monetary Union (EMU) would have a positive impact on their growth rates.\textsuperscript{17}

One cannot say that the literature is conclusive concerning the relationship between exchange rate regime and real growth. There are views which see a positive relation between membership in the monetary union and real growth prospects as membership aims to support macroeconomic stability, especially low inflation, sound finances and promotion of investments. This should happen mostly through the elimination of the exchange rate risk and its positive impact on trade. Indeed, Frankel and Rose have found a strong positive impact of membership in the monetary union (irrevocably fixed exchange rate regimes) on trade and real income.\textsuperscript{18}

On the other hand, there is the classical view of Friedman that flexible exchange rate regimes allow countries to adjust more easily to real shocks.\textsuperscript{19} In Friedman’s view, under fixed exchange rate regimes real exchange rate adjustments happen through relative price changes, which work slowly due to significant price rigidities. This process of slow adjustment might then lower real growth. There is also empirical evidence in favour of the hypothesis that countries with more flexible exchange rates grow faster. For example, Edwards, when presenting regularities of Latin American and Asian experiences with exchange rates, concludes that countries with more flexible exchange rates tended to grow faster in the long run than countries with rigid currency pegs.\textsuperscript{20} He also obtains results indicating that dollarised countries do not perform better than countries which kept their own currency, and that countries with flexible rates better accommodate external shocks than countries with rigid rates.

Chapter 3 – Good and Bad Euro Years

After introduction of the euro it seemed that a period of good years had arrived. However, the recent financial crisis, which originated in the subprime crisis in the United States, also led to severe recession in Europe and pointed to the vulnerability of the Eurozone.

The discipline effect which was expected once the euro was adopted turned into its perverse side as some policies of the Eurozone countries became unsustainable. In some countries it was wastefulness in the public sector, in other countries it was the creation of bubbles in the real estate sector. In the core western European countries it was their unwillingness – at times – to take the fiscal criteria seriously, and instead of pretending that they were helping to enforce them they assisted in creating the environment in which government bond spreads between the core and periphery countries were minimal. This helped the under-pricing of European sovereign risk.

Leadership was not exercised on a European level in enforcing discipline on Eurozone countries. It was assumed that the restrictions foreseen in the Stability and Growth Pact would guarantee fiscal responsibility, prevent excessive borrowing and avoid the need to bailout a Eurozone member country. However, the Maastricht criteria were not enforced consistently, which led some countries to postpone adjustment. The negative effect of this postponement was not felt immediately, as these were years of abundance of credit, and of low spreads on sovereign debt. Then came an exogenous shock to the system, the supply of credit was suddenly diminished and the crisis spread to some Eurozone countries.

One should note, however, that the fiscal position of countries which were later seen as crisis-prone (Greece, Portugal, Spain, Ireland and even Italy) was quite healthy in the first years after euro adoption. In the 1990s most of these countries significantly reduced their debt-to-gross domestic product (GDP) ratios. In the first years of this century the positive performance continued. High growth guaranteed a decrease of debt-to-output ratio. For example, just before the crisis Spain had a budget surplus and a relatively low debt-to-GDP ratio. The question can be raised concerning who was to tell the governments in such a situation to tighten their fiscal policies. The analytical frameworks used to assess the sustainability of fiscal positions were rather weak in their ability to foresee the crisis. After the crisis, it became typical to blame the governments. However, the irresponsibility in government fiscal behaviour stems from the almost insatiable passion of the electorate for increases in state entitlements.

Once the crisis arrived the atmosphere moved from an optimistic state to a pessimistic one. The issue which was seen positively by markets and analysts was seen later negatively by the same set of actors. Villaverde, Garicano and Santos argue that some countries (Greece, Portugal, Spain, Ireland) introduced substantial structural and fiscal reforms in the 1990s when they intended to enter the Eurozone. However, once the euro was introduced and the interest rate converged across Europe, there was no more incentive to continue with the structural and fiscal reforms. They would argue that consequently “by the end of the euro’s first decade, the institutions and governance in the Eurozone periphery were in worse shape than they were at the start of the decade. The credit bubbles unleashed by the euro not only

undermined competitiveness and increased indebtedness, but they also undermined the institutional basis of these economies.”

European reaction to the crisis involved the introduction of austerity measures under strong conditionality, which to an extent pacified the markets and restrained the spread of the crisis. One still does not know whether the vicious circle of high deficits and debts, which led to fiscal cuts and the fall of demand and output, will eventually lead to larger or smaller deficits and debts in the future.

Despite the recent bad years the belief in the euro as an important world currency remained. The euro has become the second most important reserve currency of the world. The rescue packages helped to stabilise the situation in the southern economies. The recent crisis influenced the core countries which guarantee euro stability (Germany, France, Austria, the Netherlands and others) only to a small extent. One might not speak about the crisis of the euro and Eurozone, but rather about crisis in some countries which adopted the euro.

Chapter 4 – Experience of Non-Euro EU Members

One can examine the further enlargement of the Eurozone from the viewpoint of core countries which guarantee the stability of the euro. The incentives for these countries to help admit a country to the currency union might differ from the incentives of a country to join a currency union. Bayoumi makes an argument that “the entrant gains from lower transaction costs on trade with the entire existing union, while the incumbent regions only gain on their trade with the potential entrant. As a result, a small region will always have a greater incentive to join a union than the union will have an incentive to admit the new member. A corollary of this is that, even if a country would prefer a free float across all regions, it may still have an incentive to join a currency union with other regions.” This incentive might be stronger in cases when countries are really small. The arguments from the optimum currency area literature also seem to support this view. The criterion of openness introduced by McKinnon seems to hold for small countries. In his words: “if we move across the spectrum from closed to open economies, flexible exchange rates become both less effective as a control device for external balance and more damaging to internal price level stability.” In other words, the more open the economy, i.e. the smaller the economy, the greater incentive it would have to enter the monetary union. Thus not surprisingly, we see the smallest transition economies like Estonia, Lithuania, Latvia, Slovakia, Slovenia, Montenegro, Kosovo, Bulgaria, Bosnia and Herzegovina with clear policies of either currency board adoption, or euro adoption (euroisation). On the other hand, we see the larger transition economies like Poland, Romania, Serbia, the Czech Republic and Hungary with different exchange rate policies.

However, that was not the situation at the beginning of the 1990s. At that time, for example, Central European countries were in favour of fixed regimes as this was important for preventing possible inflation hikes during the price liberalisation programmes. Also in that

22 Ibid.
period, fixed exchange rates helped to deliver overall macro-stability and facilitated convertibility. In the early 1990s these fixed regimes were introduced with substantial initial devaluation. However, during the second half of the 1990s these countries slowly began to abandon fixed exchange rate regimes and moved towards more flexible arrangements to allow pressures for appreciation of their currencies.25

Currently there are 10 countries which are members of the European Union but not members of the Eurozone. The rules of the game are known. Those European countries which join the European Union are expected to join the Eurozone. Accession treaties of individual countries contain the rule regarding adoption of the euro. An exception to stay out of the Eurozone was given only to the United Kingdom and Denmark. In addition, only the United Kingdom, Denmark and Sweden might employ a popular referendum when deciding whether to adopt the euro or not. The option of a referendum is not given to other EU member countries which would like to join the Eurozone.

The exception to stay out of the Eurozone provided to the United Kingdom seems to be having a permanent effect. It appears the United Kingdom does not intend to join the Eurozone in the near future.26

Denmark seems to be a specific case as the country is not a member of the Eurozone, however it is a member of the European Exchange Rate Mechanism II (ERM II).27 In 2000 there was a referendum concerning adoption of the euro, which was defeated with 53 per cent of votes against. The Danish currency, the krone, being inside the ERM II mechanism, is in practical terms very firmly fixed to the euro, as it oscillates in a tight band. This puts a restraint on the independence of the Danish central bank, and it might potentially strengthen the pro-euro movement in domestic Danish decision making.

Sweden, in contrast with the United Kingdom and Denmark, has no opt-out clause in its accession treaty with the European Union. Sweden still seems to stay outside the monetary union. A 2003 referendum had negative results, despite the efforts of the government.28

There seem to be two approaches to understanding why countries stay out of the Eurozone. First, the potential Eurozone member countries need to fulfil the nominal macro-economic conditions before joining the Eurozone. Thus, one can say that all countries had tried to join the Eurozone and only some were able to fulfil the criteria and subordinate other aims of economic policy to the aim of joining the euro.

Second, one cannot say that all countries put the same efforts into joining. There is a set of former socialist EU member countries where there is a limited effort to adopt the euro. The recent financial crisis and the consequent sovereign debt crisis in Europe led to increased

25 The Czechs moved towards a more flexible regime after a currency crisis in May 1997. The Slovaks adopted a more flexible rate in October 1998. In January 1999 Poland extended the fluctuation band for its currency, followed by Hungary, which in May 2001 introduced a regime shadowing the ERM II with fixed parity and a ±15 per cent band.


27 Lithuania also entered the ERM II, and plans to adopt the euro from the beginning of 2015.

scepticism in some of these countries concerning the usefulness of joining the euro area. As a result one observes conscious policies to postpone joining the Eurozone.

Since the Central and Eastern European (CEE) countries joined the EU, increased importance has been assigned to maintaining as many competences as possible on the national level. This strategy also concerns monetary policy, which is to become an exclusive competence of the EU in the case of Eurozone accession. This trend is fuelled by the fact that joining the EU did not lead in the CEE region to a substantial increase in living standards, and thus even scepticism about EU membership grew. In addition, the recent sovereign debt crisis in Europe sent a signal to these countries that being a member of the Eurozone is not a guarantee for avoiding deep domestic crisis.

In addition, in 2012 the growth performance of the seven non-euro countries was better than that of the euro area. The average growth of the seven non-euro CEE countries in 2012 was around 1 per cent, compared with a contraction of more than a 0.5 per cent in the euro area. Similarly, in 2011 the growth of the non-euro CEE EU countries was faster than the growth in the Eurozone. These growth results strengthen those who oppose joining the Eurozone, even if it is not clear whether the sovereign debt crisis is a result of euro introduction or a result of policy failures. In addition, Alho mentions that Sweden has performed quite well outside the Eurozone. Initially the krona weakened, which helped in adaptation to the recession, and later appreciated against the euro.

In the following we present short country studies of Central European economies in relation to their policies of euro adoption.

4.1 Hungary

Hungary joined the European Union in 2004, since when we can distinguish two periods of how the respective governments related to the issue of euro adoption. In the period 2004-2010 Hungarian policy makers missed several self-imposed target deadlines for joining the Eurozone. Clearly, at that period there was no substantive effort to introduce the euro. One can view the self-imposed target deadlines as a part of the political rhetoric of the otherwise strongly pro-European government. From 2010 the new Hungarian government initially continued in the self-imposed target deadlines rhetoric, but after a year or so clearly switched its policy. Today, it seems that the issue of Hungary joining the Eurozone is simply not on the table as an economic and political option, at least in the short or medium-term period.

It is not only that Hungary is facing a huge debt problem which originated in the socialist period. The high debt and the tradition of relatively high nominal inflation were the main reasons why the country did not meet the Maastricht criteria. But in both periods one did not see an effort to build political consensus across the political spectrum for euro adoption.

In the period 2002-2010 the ruling socialist government issued official dates for euro adoption, first 2008 and later 2010, which was a date stated by the Prime Minister as well as

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30 Alho, “Should the Eurozone Enlarge?”
the Finance Minister.\footnote{Miklós Jenei, “Lesz-e magyareuró 2014-re?” [“Will there be a Hungarian euro?”], \textit{Index}, 25 October 2010. http://index.hu/gazdasag/magyar/2010/10/25/euro/ accessed on 21 February 2014.} Willingness to introduce the euro in Hungary weakened after the new government of Fidesz came into power in 2010. Initially the National Economy Minister spoke about euro adoption in 2012. However, in February 2011 the Prime Minister made it clear that he does not expect the euro to be adopted before 2020.\footnote{MTI Hungarian News Agency, “Orbán: 2020-ig nem lesz eurónk” [“Orbán: We will not have euro until 2020”], \textit{Index}, 5 February 2011. http://index.hu/gazdasag/magyar/2011/02/05/orban_2020-ig_nem_lesz_euronk/ accessed on 21 February 2014.} Yet there were also voices which called for more intensive efforts to join the Eurozone. For example, in September 2010 the governor of the Central Bank – nominated by the previous government – called for speedier introduction of the euro in Hungary: “Euro has future, its introduction should receive absolute priority from Hungarian politicians.”\footnote{Cited in Jenei, “Lesz-e magyar euró 2014-re?.”}

Currently, the Hungarian government is putting strong efforts into decreasing the deficit under the 3 per cent criterion, as well as decreasing the overall debt-to-output ratio. Similarly, one observes a push towards lower inflation and lower long-term interest rates. The Economy Minister stated it would be a long time before Hungary would be able to meet the criteria for joining the Eurozone.\footnote{MTI Hungarian News Agency, “Hungary’s new euro convergence plan projects faster growth, smaller deficit – but slower euro adoption,” \textit{Realdeal.hu}, 17 April 2013. http://www.realdeal.hu/20130417/hungarys-new-euro-convergence-plan-projects-faster-growth-smaller-deficit-but-slower-euro- adoption/ accessed on 21 February 2014.} In April 2013 the Hungarian Prime Minister stated that Hungary cannot seriously consider joining the Eurozone until the country is closer to the West European average income.\footnote{MTI Hungarian News Agency, “Orbán: Hungary will keep forint until its GDP reaches 90% of Eurozone average,” \textit{Politics.hu}, 26 April 2013. http://www.politics.hu/20130426/orban-hungary-will-keep-forint-until-its-gdp-reaches-90-of-eurozone-average/ accessed on 21 February 2014.} Similarly, the incumbent governor of the Central Bank stated that it could take 20 years before Hungary joins the Eurozone. He also stated that the EU should change its policy of forcing members to join the Eurozone.\footnote{Jeremy Stanford, “Matolcsy: 20 Years until Hungary Joins Euro,” \textit{The Daily Hungary}, 31 August 2012. http://www.thedaily.hu/matolcsy-20-years-until-hungary-joins-euro/ accessed on 21 February 2014.}

A poll was conducted in Hungary in which 500 Hungarians responded to one question: “Some reckon the preparation for Eurozone entry should start during the next government cycle of 2014-2018, others say the process to introduce the euro should rather start after 2018. What do you think?” Citing fears of austerity and high inflation, almost 60 per cent said that Hungary should opt to start Eurozone entry preparations after 2018. Slightly less than 30 per cent wanted it to take place between 2014 and 2018. Those who did not know or did not want to respond accounted for 15 per cent.\footnote{Margit Feher, “Hungarians Want Euro Later Rather than Sooner,” \textit{Wall Street Journal}, 4 February 2013. http://blogs.wsj.com/emergingeurope/2013/02/04/hungarians-want-euro-later-rather-than-sooner/ accessed on 21 February 2014.}
4.2 Poland

It is interesting to note that Poland’s position vis-à-vis euro adoption is becoming more sceptical as time passes. The current Minister of Finance, Rostowski, had published articles already in 1999 suggesting that Poland should adopt the euro as soon as possible, even if this adoption might be unilateral. The argument was that entering the Eurozone through the ERM II system would be less optimal as Poland is a catching-up country, and thus the Balassa-Samuelson effect under a stable exchange rate would result in inflationary pressures, which might call for a restrictive monetary policy with a dampening effect on economic growth.

Poland also joined the European Union in May 2004. Similarly to Hungary, the left-leaning government presented a target for adoption, which was later delayed by the more sceptical government under the Kaczynski twins. In 2008 the new government published a roadmap, in which it was stated that the nominal convergence criteria might be achieved and the euro might be introduced in 2012. Wochnik states that “since then, the Tusk government has sent mixed messages.” For example, in January 2012 the Polish Minister of Finance stated that Poland wants to fulfil the fiscal requirement in 2015, but he did not state the target date for entry. He added that it is difficult to predict whether Poland will fulfil all the requirements, and that it is “likely, but it is not our goal. Whether we will fulfil the exchange rate criteria? That is unlikely since we do not assume that we will have joined ERM II.” Wochnik also writes that the Prime Minister, during his visit to Canada in May 2012, stated that Poland is ready to join the Eurozone once all countries observe the rules.

Wochnik cites an opinion poll from August 2012 in which more than 50 percent of respondents stated that adoption of the euro would be wrong for Poland, and only 12 percent argued that it would be good for Poland. In addition, over 40 percent of respondents stated that Poland should not adopt the euro and that adoption would negatively shape the national identity. Close to 70 percent stated that the euro would negatively impact their households.

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39 These were articles in the leading Polish newspaper Rzeczpospolita. See Andrzej Bratkowski and Jacek Rostowski, “Zlikwidowa´człotego” [To Abolish the Zloty], Rzeczpospolita, 6-7 March 1999, and “Wierzymy w euro” [We Believe in the Euro], Rzeczpospolita, 26 April 1999. See also their academic article “Unilateral Adoption of the Euro by EU Applicant Countries: The Macroeconomic Aspects,” in Transition and Growth in Post-Communist Countries: The Ten-Year Experience, ed. Lucjan T. Orlowski (Cheltenham, UK: Edward Elgar, 2001).


42 Wochnik, “Poland and Further Enlargement of the Euro Zone.”

43 Cited in Wochnik, “Poland and Further Enlargement of the Euro Zone.”

44 Wochnik, “Poland and Further Enlargement of the Euro Zone.”

45 Ibid.
Only 12 percent of respondents argued that euro adoption would be good and only 1 percent that the euro should be adopted right away.

In 2012 Polish Central Bank governor Belka stated: “For Poland joining the European Union was not only an economic project, but a political project. We have political ambitions, we want to be in the core of Europe.” Belka also argued that further political integration in Europe might be expected, which could be difficult for Poland to accept. As he put it: “The problem we’ll be getting into in five years’ time is that the euro will change into a more integrated area. I don’t want to call it a federation, but it will be integrated more tightly. For a country like Poland, it will be more difficult politically and psychologically to join, but it also will be more costly to stay outside.”

4.3 The Czech Republic

Currently, in the Czech Republic a target date for the introduction of the euro has not yet been established. In the Czech Republic we find a similar pattern as in Hungary and Poland. After joining the European Union in 2004 there was an expectation that the Czechs would adopt the euro towards the end of the decade. However, the Czech Prime Minister Topolánek – who was in office from September 2006 until May 2009 – at the beginning of his term stated that he was in favour of introducing the euro at a later time period. Topolánek, together with the governor of the Central Bank Tuma, agreed that the Czech Republic is not ready to introduce the euro and to enter the ERM II. Topolánek has said that the ambition of the government to introduce the euro remains strong; however, the country needs to introduce higher flexibility into the labour market and to reform the expenditures of the central budget. Topolánek has emphasised that the issue is not only about the Maastricht criteria but also about the need to position the country on the right medium-run growth path.

In August 2007 the Czech government adopted a strategy for accession to the Eurozone. However, the relevant document did not set a target date for adopting the euro. According to the document, the timing would depend on the ability of the Czech economy to reform public finances and on the ability to increase the flexibility of the Czech economy.

The discourse in the Czech Republic was heavily influenced by the former Czech President Klaus, who was seen as a firm opponent of euro adoption, suggesting in addition that the opt-out clause might also be considered for the Czechs. In December 2010 Prime Minister Necas stated that the country should not negotiate a formal opt-out in relation to joining

47 Ibid.
50 Ibid.
the euro. During a television debate Necas said: “it is clearly showing that the costs of keeping the crown are lower than those of adopting the euro. It will remain like that for a very long time.”52 Necas said President Klaus had asked the government to consider negotiating an opt-out from the commitment to adopt the euro. But he said there was no need for that as “no one can force us into joining the euro (...) We have a de facto opt-out.”53

In 2012 the Central Bank governor Singer stated: “All I can say is that I can’t see this country adopting the euro during my term at the central bank, which ends in mid-2016.”54 Singer considered as one of the main obstacles to joining the Eurozone the requirement to spend at least two years in ERM II. “On the euro adoption I can say that time wise it’s very difficult (...) to seek to spend two years in the ERM system anytime soon.”55

The new Czech President Zeman, who entered office in autumn 2013, seems to have a favourable opinion towards adopting the euro in the Czech Republic. However, more than 80 percent of Czechs are against adopting the euro, according to the Eurobarometer poll.56 In the same article the deputy governor of the Czech Central Bank stated: “Being inside the euro is not a sign of the quality of a country’s economy –the crisis has proved that the average Czech household says, ‘Thank God we don’t have to pay for these profligate Greeks.’”57

4.4 The Slovak Republic

Already in 2003 there was a joint agreement between the National Bank of Slovakia and the Slovak government that the euro should be adopted as soon as possible after the Maastricht criteria were fulfilled. A detailed strategy was worked out in 2004 with the target for fulfilment of the Maastricht criteria in 2007 and with the target date of entry into the Eurozone in 2009.58

Indeed, the Slovak Republic joined the Eurozone in 2009. Towards the end of 2006 Slovakia basically fulfilled all the Maastricht criteria. It was the express decision of the ruling government coalition under Prime Minister Dzurinda, which was also supported by most of the opposition parties. It is interesting that in Slovakia there was support not only from the opposition parties but also from the general public.59
The target date, 2009, was set after joining the European Union in 2004 and the country subordinated different dimensions of its economic policy to the aim of adopting the euro. As in that time period Slovak economic growth was exceptionally high, it decreased the potential growth-related tensions which appeared in other Central European countries.

Chapter 5 – Conclusion

The recent sovereign debt crisis stemmed from persistent differences across Europe. These differences are mostly determined by different levels of competitiveness and to a lesser extent by differences in public finance performance. Now the crisis seems contained, but there still is a shadow concerning the stability of the Eurozone arrangements. Such an environment is not conducive to large Eurozone enlargement.

One sees in the behaviour of the governments of Poland, Hungary and the Czech Republic deep scepticism concerning their decision to join the Eurozone. If this sceptical view persists it might happen in the future that these countries – as well as other potential Eurozone countries – might stay permanently outside the Eurozone.

It is interesting to note that Kohutikova – probably the most important economist and central banker behind euro adoption in Slovakia – said in the summer of 2012 that the current open issues in the Eurozone “should not be a hindrance for some small countries adopting the common currency. On the contrary: it should be a positive challenge for them.”

Gros vehemently supports euroisation of the Balkan countries, especially Macedonia, Bosnia and Herzegovina, Albania and Kosovo. His argument is specific to these countries: euroisation would eliminate political influence over providing credit. But this is not a problem in the Central European countries where foreign ownership of commercial banks to a large extent guarantees that the political class has very little political influence over credit allocation.

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38. Rousek, Leos and Marcin Sobczyk. “Poland, Czech Republic diverge on Euro-Zone


Chapter 1 – Introduction

The Centre for EU Enlargement Studies (CENS) has initiated a multiannual and multi-country project entitled “A European Union with 36 Members? Perspectives and Risks”. The main idea of the project is to support the issue of enlargement and to discuss the future political, economic, socio-cultural and security aspects of a greater European Union. Within an enlarged Europe with 36 member states, Turkey presents a case of exciting analysis. Turkey is one of the most promising emerging economies, together with Mexico, Indonesia and Korea (MIST countries) representing the second line of the emerging economies. According to the International Monetary Fund (IMF), Turkey was in 2012 the 16th biggest economy in the world, and wants to be among the top ten economies in 2023.1

I am examining in this research paper Turkey and its possible Eurozone entry. My field of enquiry concerns whether the Eurozone is an optimal environment in which a less developed country can catch up. What would happen if Turkey joined the Eurozone before joining the European Union, supposing it can meet the Maastricht criteria? I also examine whether this accession would be beneficial for Turkey in its current state. I try to present details and various aspects of the issue and give an impression of whether this accession is advantageous or not for a country like Turkey.

Chapter 2 – The Turkish Economy and the Maastricht Criteria

2.1 Current State of the Turkish Economy

Turkey has recovered quickly from the global financial crisis. The Turkish economy expanded by 2.2 per cent in 2012 and grew by 3 per cent in the first quarter of 2013.2 The forecasts indicate that this economic expansion will continue to be sustainable in the future.3

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According to the IMF, the Turkish economy is expected to grow by 3.4 per cent in 2013 and 3.7 per cent in 2014.\(^4\) Compared to the Eurozone, the United States and the BRICS countries, probably only China and India will expand more than Turkey in these years.

### 2.2 Main Figures Focusing on the Maastricht Criteria

1. Annual inflation in 2012 stood at 8.94 per cent. This was higher than the reference value. Inflation was 8.17 per cent in August 2013. The Turkish Central Bank is fighting hard against inflation and so inflation may decrease in the coming years; however, it is not an easy fight. Inflation criterion is always considered a neuralgic point. For example, the combination of monetary and fiscal policy limited by the exchange rate band led to a higher inflation rate in the countries of the East and Central European regions searching for ways into the Eurozone.

2. Nominal long-term interest rates also stabilised at a higher level and have not yet met the Maastricht criteria.

3. An exchange rate regime is not relevant at the moment, but suppose that Turkey could comply with this criterion.

4. The EU-defined government budget deficit as a ratio of GDP was 2.8 per cent in 2012 and Turkey satisfied the Maastricht criteria. With this performance Turkey also outperformed 22 EU countries.

5. Turkey’s debt per GDP ratio was 36.1 per cent in 2012, which was below the level in 24 EU countries and well below the Maastricht criteria.

Although Turkey has already met three criteria, a question should by all means be raised concerning whether it would be a wise decision to join the Eurozone, especially as Turkey stands on a different level of real convergence compared with Germany or the other core countries within the Eurozone. To answer this question, first of all we must take a look at what possible advantages and disadvantages could arise in a less developed country from euro adoption.

### Chapter 3 – Advantages and Disadvantages of Euro Adoption

#### 3.1 Determination of the Advantages

I would like to specify seven possible advantages which are as follows:

1. Stability: The Economic and Monetary Union (EMU) could provide monetary stability to a less developed country, which would be hard to achieve on its own. Monetary stability is of key importance for the national economy, including the external perception thereof. Reduced risk premiums make gains for entrepreneurs while involv-

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better debt-financing conditions, both for the business sector and the government budget. Interest rates of less developed countries contain a so-called “risk premium factor” to compensate foreign investors for the uncertainty of future rates. With euro adoption, this risk premium will be removed from domestic nominal interest rates, involving lower real interest rates and the stimulation of domestic investments. Joining the stable monetary area is also welcomed by the capital market. At the same time, it may still make the country more attractive to foreign investors. The National Bank of Hungary reviewed the advantages of euro adoption for Hungary. According to its calculations, monetary stability could increase the gross domestic product (GDP) growth rate by 0.08 to 0.13 percentage points due to lower real interest rates in the long run.

2. Lower exchange rate risk: Exchange rate risk will not exist any more after euro adoption, rather only in commercial contexts other than those of euro denomination, leading to a better business environment in terms of both trade development and investment decisions.

3. Trade expansion: With due regard to the aforementioned, the single currency could greatly help trade expansion and improve competitiveness of each sector or the performance of the national economy as a whole. According to calculations by the National Bank of Hungary, trade expansion could result in a GDP growth rate 0.55 to 0.76 percentage points higher in the long run.

4. Higher investment rate: Investment expansion will be less hindered by the current account deficit due to euro adoption, as foreign investors would not fear a possible depreciation. Therefore, after the single currency has been adopted, the country will be able to maintain the macroeconomic balance, even despite a higher current account deficit. The higher investment rate will boost, and prepare for, stronger economic activity, a more dynamic growth and faster income convergence towards EU standards in the long run.

5. Price transparency: The euro will bring more transparent prices, thereby making a great contribution over time to harmonisation in terms of wages and prices, based on theoretical models.

6. Lower transaction costs: Both individuals and businesses can achieve substantial savings with conversion costs being eliminated and transaction costs reduced. According to the National Bank of Hungary’s estimates, gains on lower transaction costs may achieve a one-off increase of GDP by 0.18 to 0.3 percentage points.

7. Lower monetary reserves needed: With these reserves allocated to and centralised by the European Central Bank (ECB), national currency deposits are no longer required, thus releasing cash for other purposes such as development or debt relief.

According to the National Bank of Hungary’s estimates, the benefits listed above could result in additional GDP growth by 0.6 to 0.9 percentage points in the long run.

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3.2 Determination of the Disadvantages Based on Empirical Examples

In the light of developments in recent years, we must draw attention to the experience that significant downside risks may also emerge, and there is no speaking of benefits only. I would like to present the Eurozone periphery countries to illustrate Eurozone membership problems for a less developed country. Peripheral countries can offer us enlightening experience. These countries faced the following challenges. The initially high domestic interest rates fell to the level of the Eurozone before joining, while real interest rates were much lower or became even negative in many countries. The volume of consumer and housing loans increased; unit labour cost heightened and current account deficit widened. These processes began before euro adoption, while still posing a challenge to the countries in question.

3.2.1 The Details of What Happened in These Countries

In the 2000s, the peripheral countries could enjoy the benefit of a very low level of interest rates, never seen before, on capital received with an eventual investment boom. It was entirely reasonable to borrow in euro at a rate of 1 to 2 per cent, while on real property investments a much higher value increase could be achieved. Such a boom obviously proved to be very attractive even for foreign investors involving capital inflow. This foreign capital inflow increased mainly into non-tradable sectors (inter alia construction) and house prices skyrocketed, especially in Spain and Ireland. This large investment in the housing sector started a boom-bust cycle in these countries. The boom and favourable global economic environment brought an ever-greater real wage growth. The increase of wages involved a boom in consumption and indebtedness of households. However, higher productivity did not follow this huge wage outflow. While unit labour cost sharply increased in the periphery, it remained stagnant in Germany. Therefore, these countries suffered a significant competitive disadvantage against Germany.

For the periphery, the euro was a vehicle working very much like the gold standard in the past. There was a medium of exchange with a value determined from the outside, especially by stronger national economies, better integrated globally, such as Germany’s. In addition, the euro continuously appreciated in the past decade. These countries could not keep pace with the more developed member states in competitive terms. Thus, the national currencies in question were stronger than they should have been based on country competitiveness in the global market.

It is the real effective exchange rate which shows the relationship between the national currency and global competitiveness. For these countries, this indicator clearly and significantly deteriorated following joining the European Union, that is, involving their national currency appreciation in real terms. Simply put, exports were more expensive while imports were cheaper than beforehand. At the same time, the real effective exchange rate was lower for the stronger economies such as those of Germany, Finland, France or Austria. Therefore, the euro was undervalued for them. The single currency thus has different impacts on national competitiveness, further increasing the pros and cons vis-à-vis the front-runners and the laggards, respectively, within the EU, since a strong currency puts a curb on exports and – through cheap imports – on domestic output as well, while a weak currency has a contrary impact. In particular, the trade balance of the countries concerned got off to a fast deterioration from the year following accession to the Eurozone, as a result of which current account deficits were higher and higher. The budget deficit so emerged because of lower
government revenues due to wage increases, and tax evasion was easy to cover by borrowing. In addition, the related consumption boom could be financed on a loan basis as the lower euro rates facilitated borrowing both to the government and households, while increasing the external debt enormously.

3.2.2 The Experience of Portugal

The experience of Portugal deserves special attention since this country was not really successful in fiscal adjustment after the shock of interest rates, that is, the greatest challenge for a newly-acceded Eurozone member state. In the late 1990s, Portugal’s economy saw strong growth. Lower domestic rates and good business sentiment triggered by the upcoming adoption of the euro increased both household consumption and investments. At the same time, the fiscal policy was too liberal, instead of offsetting credit expansion. As a consequence, government budget processes did not make a reasonable restrictive impact on public expenditure in this period of ‘good times’. Inflation weakened competitiveness and wage increases well above productivity growth in several years led to a higher current account deficit as well as to a slowdown of economic growth. The latter has been below 1 per cent on average over the years since 2000. Afterwards, investments fell a lot because of worsened growth outlook and a very high debt dependency ratio. The rate of unemployment quadrupled, increasing to 16.5 per cent in July 2013. Portugal is still struggling with a long and painful period of adjustment.

According to the European Commission, country-specific shocks such as lower risk premium and real interest rates, as well as a fast subsequent recovery of domestic demand, could be best dealt with through the channel of competitiveness. In particular, when inflation is accelerating and wage increases would exceed productivity growth, competitiveness will be worsened with an impact on the supply of traded products and net exports, the decrease of which will slow down economic growth and offset cyclical divergence. Thereafter, it would take a long time before the country could, through price and wage inflation, regain the competitiveness lost. Productivity growth makes a key contribution to better competitiveness. For Portugal, an adaptation or adjustment process got off to a start. While productivity in the manufacturing sector increased by 4 per cent per annum, wages fell by almost 2 per cent from 2001 to 2007. However, this was not enough to restore competitiveness and GDP growth was on average only about 0.5 per cent per year after 2000.

These experiences provide key lessons for a would-be Eurozone member state. To cope with the interest rate shock, the fiscal policy pursued should be able to offset credit expansion. In addition, the new members should find a way of curbing wage-based inflation. Productivity growth is a significant condition for competitiveness to be maintained, as well as for the progress of convergence. Due to market-oriented reforms, a strong growth of productivity was typical in the new Eurozone member states. For further growth of productivity, a good business climate should be provided with special regard to investment projects.

It all depends on what efficiency a new Eurozone member state could employ to face the challenges posed. An appropriate efficiency achieved will have a great impact on how the country concerned can cope with problems emerging after euro adoption.

According to Robert Mundell’s theory of optimum currency areas, later further developed by many researchers, the benefits of membership in a currency area depend on whether the member states have certain common characteristics, called optimum currency area features, such as business cycle synchronisation, structural convergence of national economies, elasticity of labour and product market, as well as financial integration. When costs and benefits of joining a currency area are assessed, it should be considered to what extent the country involved will meet these criteria.

A definite trend can be observed in business cycles as far as better synchronisation between the new member states and Eurozone member states is concerned. In this context, certain new member states may show a better example of synchronisation than current Eurozone countries as a possible consequence of the fact that the new member states were hit by less country-specific shocks. Labour markets prove to be more flexible in new member states. However, this difference, or its significance, should not be overestimated. At the same time, product markets are more limited. Financial integration improved significantly between the new member states and Eurozone countries. There is also evidence that endogeneity law is prevailing in this field. However, the risk-sharing is still very weak. All in all, in terms of traditional criteria of optimum currency areas, the new member states do not become worse off compared to the old ones at the time of euro adoption – they even get better off in some cases.

3.2.3 Lessons Can Be Learnt From These Examples

- Among other negative effects, I would highlight the risk of bubbles due to an inappropriate level of interest rates.
- A Eurozone member loses the possibility of a counter-cyclical policy response to a crisis situation. This is particularly true for countries where lower indebtedness would otherwise allow for this policy. This is exactly the case for Turkey at the moment.
- The risk of losing monetary independence should not be neglected either. The highest price which national economic policies have to pay for joining the EMU is the loss of the national currency, including possible devaluation thereof, a narrowed national monetary autonomy and sovereignty. This implies a new situation for economic players, in particular more direct pressure for adjustment will appear, and only limited mechanisms are available within national economic policy to facilitate adaptation. Due to a single interest rate, faster economic growth of the countries catching up may be more difficult.
- A further problem involves the euro exchange rate. The room for manoeuvre of a less developed country in external markets may be narrowed by the euro exchange rate being adjusted in line with the average global perception of the EU. Relatively high local inflation may increase euro appreciation. The appreciation in real terms will deteriorate local growth outlook, while helping curb inflation. The euro has been too strong in recent years, thus seriously hampering the export competitiveness of the Eurozone.
- Money flowing out of the periphery endangered peripheral countries’ banking systems in the Eurozone. In the United States, when something like that happens it is not deadly for the country’s currency union because the Federal Deposit Insurance

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Corporation is there to ensure that the national government, supported by the national central bank, protects depositors and shields states from insolvency. There it is much easier to follow the money flow when it leaves for other parts of the country. In the Eurozone, by contrast, every state government is responsible only for its own banking system and a cross-border bank resolution regime does not exist.

- While ‘open borders’ are the law of the land within the euro area, there are still substantial barriers to internal migration. Unfortunately, the labour market within the Eurozone is not flexible and not mobile enough, unlike in the United States.
- Lastly, countries that are that far from one another in real convergence have to be operated together through a common monetary policy.

### Chapter 4 – Possible Challenges for Turkey

#### 4.1 Could Turkey Avoid the ‘Periphery Disease’?

Although we have seen peculiar structural problems and economic policy errors in all the countries of the periphery, common ground could be also shown behind the crisis woes. These countries were unable to adapt to low real interest rates emerging after euro adoption. A low level of real interest rates facilitates investments, thereby accelerating economic convergence. At the same time, this process has certain fallouts, which may prove to be serious in an economic crisis. Due to property and share price bubbles, fuelled by capital inflow and excessive lending activity by the banks, financial imbalances appeared, and those would take a serious toll in economic terms and require long years for the necessary adjustments. After accession to the Eurozone, economic overheating used to appear. This could be pushed back by fiscal means, but it is really hard to convince governments about pursuing policies more severe than those laid down in EU regulations and to curb economic growth beyond the effects of automatic stabilisers. Therefore, the European Union has to develop a new institutional framework with the fundamental objective of preventing excessive risks and credit booms facilitated by the banks through incentives and curbs on the banks’ behaviour. Nowadays, this is a new branch of economic policy with a view to the future in particular. In the light of experiences of the periphery countries, it is often argued that less developed countries should be admitted into the Eurozone only after their convergence has been achieved in real terms. There are also counter-arguments supported by examples such as the Czech Republic with convergence in terms of interest rates implemented in a country to catch up. However, to avoid damaging side-effects from lower real interest rates involved in the newly-acceded countries, deliberate moves had to be made in advance. In order that the convergence be established to the fullest possible extent, inflation should be brought down to the European level well ahead of accession with an economic policy to ensure that high-risk premiums can be avoided. Evidence shows that a country should not apply for EU accession unless its macroeconomic indicators have proved to be stable for years.
4.2 Some Other Aspects to Be Considered for Turkey

The economic crisis shook the institutional footing of the Eurozone and now a new risk pool is being formed in Europe to genuinely ensure the stability of the single currency. From the economic crisis, the conclusion is drawn that speculative attacks can hit even currency union members, let alone that the attack is aimed at the government bond market rather than the exchange rate. During the crisis, the Eurozone governments learnt the lesson that the whole burden of economic ailment fell on the national governments despite the Single Market and the integration of financial services leading directly to the debt crisis. The deficiencies of the Eurozone show that it will be able to function only if the institutional framework is renewed on a common contribution basis to allow the functioning of last lender of the banking system to manage solvency problems therein, while governments may also need lenders of the last resort. These new roles produce budgetary obligations for the member states. In addition, it was during the crisis that awareness of this arose with immediate financial burden. This is contrary to the key principle accepted at the onset of the Eurozone whereby funds may be shared but every member state should pursue tight fiscal policies, not to be stretched beyond the limit, while waiting for support from the others. So far, the European Central Bank and agencies set up for crisis management have tried to stabilise the financial markets. However, the institutional line-up thus established cannot yet be considered balanced, since current capacities of the European Stability Mechanism can give actual assistance only to small countries, while proposals are yet to be formed on the issue of separation of the central bank and government powers in terms of legal status or independence. Institutional reforms taken so far are aimed at forcing governments to continue more disciplined functioning, while new challenges from the crisis have highlighted new tasks to be jointly financed. Thus it is conceivable that a new steady state can only be developed at a higher level of fiscal union where the major part of public revenue or tax receipts is centralised, and where supranational institutions play a greater role in shaping economic policies. This is definitely a new aspect for a country wanting to join. Discarding significant tax receipts must inevitably limit a country’s sovereignty.

4.3 Timing of Meeting Inflation and Interest Rate Criteria

Unlike fiscal and exchange rate criteria, the Maastricht Treaty clearly determined that, in terms of inflation and interest rate criteria, the convergence degree of a member state should be judged on the basis of a 12-month reference period. The price stability criterion of the Maastricht Treaty means that member states should have a price performance that is sustainable and an average rate of inflation that does not exceed by more than 1.5 percentage points that of the three best-performing member states in terms of price stability for a period of one year before the examination. The convergence criterion of long-term interest rates shall, similarly to the inflation-related one, apply to a one-year period in which member states should have had an average nominal long-term interest rate over a period of one year before the examination, which does not exceed by more than 2 percentage points that of the three best-performing member states in terms of price stability. In practice, 12 months are considered, going back from the last month of the data available at the time of the examination. Irrespective of this 12-month reference period, it should be kept in mind here, as for
each criterion, that not only and simply the actual inflation or interest rate figures should be compared with reference values. The sustainability of inflation (interest rate level) is checked using various other indicators, as is customary.

### 4.4 Bringing Down Inflation – The Biggest Challenge for Turkey to Meet the Maastricht Criteria

In Turkey the rate of inflation was 8.2 per cent in August 2013. To meet the relevant criterion, the country should push down inflation by a further 5-6 percentage points, posing a true problem for the country under the current circumstances. In testing a country for convergence criteria, however, not only the fact of hitting the figure specified is looked at but also whether the indicator achieved is sustainable or not. A lower inflation rate is considered sustainable if a permanently lower figure relevant to future inflation is integrated with inflationary expectations of market players. In monetary policy, it should be highlighted by what time and at what cost the disinflation target could be met in line with the Maastricht criteria.

However, economies may be hit by unpredictable shocks, the inflationary impact of which cannot be offset except at a high price (sacrifice) in terms of economic growth. Therefore, for example, the Turkish Central Bank may opt for tolerating additional inflation. Unpredictable events changing economic courses may thus delay the achievement of inflation targets. To meet the inflation criterion, it could be necessary to push the difference of inflation rates between the Eurozone and the national economy below the relevant figure of inflationary difference under balanced conditions, which could imply extra costs. This difference from the Eurozone inflation will not disappear except in parallel with economic convergence in the long run. Putting off joining the Eurozone could rather increase the costs since, in our estimates, if the disinflation process turns back or if it stagnates at a higher level for a longer period, then expectations will become rigid and less susceptible for a programme of lower inflation, making disinflation more expensive. From the point of view of disinflation costs, a strategy based on continuous mitigation of inflation may be the best, leading to a lower inflationary difference in a couple of years. Extra costs in relation to inflation reduced below the level of equilibrium may be offset. In particular, the disinflation process as a whole is expected to be done at a lower cost if the context of preparations for accession to the Eurozone allows for disinflation. The cost of disinflation in terms of growth sacrifice depends on several factors, particularly on:

- How credible the announced disinflation programme is; to what extent it is capable of influencing inflationary expectations;
- What combination of fiscal and monetary policy would lead to a path of lower inflation;
- How sustainable the economic players consider the desired monetary stability;
- The cyclical position of the national economy.

Based on the above, it is favourable if the disinflation programme is implemented to fulfil the terms of Eurozone accession by the government and monetary policy management in cooperation with one another. The disinflation programme’s credibility is greatly increased if Eurozone accession is not only one of many economic policy goals, but also appears as a
national interest affecting the country’s future prosperity beyond the direct economic effects. Therefore, economic players may consider it more probable if economic policy remains unchanged vis-à-vis the course set out. Credibility or authenticity is also helped by the fact that the European Commission and the European Central Bank are to follow up and evaluate the implementation of the convergence programme.

Meeting accession criteria must contribute to the right mix of fiscal and monetary policy to be developed. Rate-setting moves by monetary policy would be effective through appreciation and depreciation in terms of exchange rate. Therefore, a major role to be taken by the fiscal policy management is in general conducive to lower output costs, and – through its impact on the current account – the sustainability of the programme, including its credibility. On the part of monetary policy, joining the Exchange Rate Mechanism (ERM II) will support the credibility of an exchange rate-based disinflation strategy. At the same time, if the objective is credible, monetary conditions will become more and more determined; interest rates will converge to euro rates at the lower end of the yield curve, and exchange rate expectations will be significantly influenced by the rate of conversion expected. Therefore, as accession approaches, disinflation by means of fiscal policy should be increasingly emphasised. In this context, it could be more favourable if the inflation criterion is met after EU accession. Compliance with the Stability and Growth Pact will require a restrictive course for the government budget regardless of disinflation. As shown in the practice of countries that earlier acceded to the EU, wage policy could play an important role in disinflation, in addition to fiscal and monetary policy. The government’s direct wage policy influence is limited to those employed in the public sector. However, with a wage policy forum where a wage increase range is determined and where the private sector delegates have a say, positions and wage talks may have an influence on the inflationary expectations of the market players. Joining the Eurozone will indirectly enhance the sustainability of the disinflation process and, as a result of successful convergence, the significance of the balance of payments constraint will change.

To sum up, it is favourable, in terms of disinflation costs, for disinflation policy to be integrated with meeting the criteria of monetary union admittance. Coordinated fiscal and monetary policies improve the credibility of the disinflation programme, with a beneficial effect on inflationary expectations, thereby lowering the cost of pushing down inflation. The government’s commitment to joining the Eurozone well in advance may suitably outline the coordination of fiscal and monetary policy.

4.5 Expected Costs of Convergence for Turkey Based on International Experience

In terms of output costs of disinflation, significant differences can be observed by country and by disinflation period. The cumulative output cost vis-à-vis the disinflation period will show the extent of growth sacrifice relative to the trend that has to be accepted in exchange for a continuous drop in inflation by 1 percentage point. In four less developed EU member states with the most relevance, the difference is seen in the context of output cost due to disinflation. This difference exists between countries on the one hand, and in time on the other. According to calculations by the National Bank of Hungary, it was Greece where a forced disinflation proved to be most expensive in the 1990s (1 percentage point of disinflation was allowed for by 1.34 percentage points of slowdown in economic growth). It was
similar in Spain with the ongoing cost of disinflation from 1977 to 1985 (for every 1 percentage point drop in inflation 1.08 per cent of GDP had to be paid), while in Ireland stabilisation was also accompanied by a perceptible effect on output from 1981 to 1987 (inflation down by 1 percentage point took 0.61 per cent of GDP).

Output loss did not occur or was negligible in Greece in the 1980s, as in Portugal and Spain in the 1990s. Differences in the costs of disinflation can be explained by the stabilisation packages employed in terms of their composition and comprehensiveness and, ultimately, by the credibility of the programme. Disinflation was successful only in periods when other elements of economic policy supported the restrictive monetary policy. For example, in Ireland and Spain the rate of exchange acted as an effective nominal anchor from the beginning of disinflation, while in Greece exchange rate policy could become credible only several years after the policy had been announced in the late 1990s. A further significant difference is that the burden of disinflation was initially on the monetary policy almost entirely in Spain; appropriate fiscal and monetary policy coordination was implemented only in the mid-1990s. Furthermore, it should be noted that the prospect of monetary union involvement significantly influenced credibility and social acceptability of the fiscal adjustment. According to the National Bank of Hungary, it is established that in Europe output loss from restrictions was notably lower in the period before the Economic and Monetary Union than it had been in relation to fiscal restrictions made in the 1970s and 1980s.

Almost in every member state acceding to the monetary union, fiscal adjustment was required. However, only Italy, Spain, Portugal and Greece were forced to lower the rate of inflation to meet the relevant criteria. Even among them, only Greece implemented a major adjustment. To estimate the expected cost of disinflation, the experiences of the latter group of countries may give a clue. In view of the experiences of the countries where disinflation was a must to meet monetary union criteria, it should be emphasised that restricted monetary conditions did not provide for the inflationary difference to be overcome in any country. In the reference year and in the preceding two years, the nominal exchange rate weakened in general, while the benchmark interest rate exceeding the rate of inflation was mitigated. These monetary developments primarily resulted from conversion-related speculation. Earlier in the countries under review, the level of nominal interest rates was higher than the average of EU member states, and the exchange rate was more appreciated than the mid-rate of fixed exchange setting the future rate of conversion at the same time. In contrast, fiscal policy was strict in all countries – with the exception of Portugal. This economic policy mix was made possible by the reduction of inflation, which – with the exception of the largest forced fiscal adjustment in Italy – did not lead to a decline in the growth rate of GDP. Compared to the previous years, economic slowdown was not significant, since private sector demand acted as a counterweight to the impact of fiscal tightening.

Chapter 5 – Choosing Opting Out of the Eurozone

For Turkey, the fact that the country is not a member of any currency union should not be priced so high as for a small, open economy. Real economic cycles were the determinants of monetary indicators, rather than fluctuation and changes in risk perception. Given Turkey’s growing foreign exchange exposure to the Eurozone member states, it can be an aspect that the Turkish banking system has a last lender in FX terms as well. While the Turkish central
bank is not capable of playing the role of last lender except in terms of national currency, foreign exchange liquidity can only be provided against reserves previously accumulated. Thus it may be an important reason for Turkey to adopt the euro when facing increased foreign exchange exposure.

However, it makes you think that some emerging countries – for which many analysts earlier saw that independent exchange rate regulation was a curse, rather than a blessing – performed well under the circumstances of the present economic crisis, and that they could use their economic policy arsenal to stabilise the economy. At the same time, many Latin American countries carried out serious institutional reforms after economic policy failures – flexible exchange rate systems were implemented, shifted for inflation targeting; the independence and credibility of central banks was established; financial supervision and regulation was strengthened. The same is seen for Turkey. A new system of fiscal rules was implemented to break the pro-cyclical nature of fiscal policy. As a result of these reforms, Latin American countries significantly reduced the level of indebtedness over a decade, including a decreased share of external foreign exchange debt. The stability of the financial system was strengthened by the longer term of loans, and an improved current account and fiscal balance with significant foreign exchange reserves accumulated. These countries managed to reduce their economic vulnerability to the extent that they could pursue an efficient stabilisation policy. The evidence of some Latin American countries can serve as a good example for Turkey, regardless of the fact that the level of public debt and country risk premium is lower for Turkey than in the Eurozone on the average.

Chapter 6 – Conclusion

In my introduction I raised the question whether the Eurozone is an optimal environment for a less developed country like Turkey to catch up. Here I would like to try to provide an answer. I believe that the potential effect of the disadvantages is much more serious than the additional growth estimated at about 1 per cent GDP growth in the longer run as a benefit offered by Eurozone membership.

The interest rate set in the Monetary Union is not equally beneficial to the member states, which are not equally developed in economic terms. There is no single interest rate, for instance, for Ireland where economic growth reached 5-10 per cent and for almost stagnant economies such as the German one. A major argument against euro adoption in Great Britain is the poor correlation between business cycles in Britain and in other countries of the EU. Robert Mundell warned about this aspect, drawing attention to the necessary synchronisation of business cycles.

It is a fundamental recognition that the less developed economies faster growth; that is, when new EU member states are getting involved in the process of convergence they will inevitably grow faster than the older ones. Thus they need a different interest rate or will generate harmful bubbles. The bubbles will sooner or later burst, causing a two-digit output decline and public sector deficit of the same measure, finally driving the country concerned into a debt trap.

Bibliography


PART 4.

NEW FOREIGN POLICY DIMENSIONS AND REGIONAL COOPERATION
Chapter 1 – Introduction

The decade preceding Turkey’s official candidacy for membership of the European Union (EU) saw a succession of increasingly weak coalition governments in Ankara, fragmentation in the Turkish political arena and, correspondingly, increased volatility in Turkey’s relations with the EU. Yet, the EU and Turkey also came to share many of the same security concerns during the turbulent period of post-Soviet transition. Bloodshed in the former Yugoslavia demanded urgent international attention, as did the need for assisting the former Soviet republics to open up to global markets. Stability in the Balkans, Caucasus, and the Caspian region brought Turkey’s foreign policy priorities into a converging path with those of the EU and as well as the United States (US).

After the fall of the Iron Curtain, the Balkans as well as Eurasia became Turkey’s wider neighbourhood, which came to overlap with those of the EU as well as the Russian Federation. In the early 1990s, Turkey spearheaded the Black Sea Economic Cooperation (BSEC), established in 1992. It also took the lead, with US support, in connecting Caspian energy resources via pipelines to global markets. As early as 1992, prime minister Demirel called upon the newly independent states (NIS) of Central Asia to export their oil through Turkey. The EU followed suit by launching in 1995 a program of technical assistance to help the NIS maintain their pipeline networks. But it was the Ankara Declaration that led to the construction of the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, which together now constitute the Southern Corridor. Turkey’s opening to the post-Soviet neighbourhood was thus completed in the 1990s. Concomitantly its security discourses began to change and reflect a greater emphasis on trade and cooperation for

achieving stability in the neighbourhood.\footnote{Pinar Bilgin, “Turkey’s changing security discourses: The challenge of globalisation,” \textit{European Journal of Political Research} 44, 1 (2005).} The 1999 \textit{rapprochement} with Greece, following the expulsion of Kurdistan Workers’ Party (PKK) leader Öcalan from Syria and the subsequent normalisation of relations between Ankara and Damascus, also contributed to the gradual relaxation of a highly securitised foreign policy with respect to all neighbouring countries.\footnote{Ahmet O. Evin, “The Future of Greek-Turkish Relations,” \textit{Journal of Southeast European and Black Sea Studies} 5, 3 (2005).}

The singular initiatives of the 1990s have receded in memory as a result of the emphasis on post-1999 developments. Turkey’s foreign policy since 1999 has been largely viewed as following a path towards Europanisation,\footnote{Meltem Müftüler-Baç and Yaprak Gürsoy, “Is There a Europeanization of Turkish Foreign Policy? An Addendum to the Literature on EU Candidates,” \textit{Turkish Studies} 11, 3 (2010).} particularly after Ahmet Davutoğlu, as chief advisor to the prime minister, proclaimed the doctrine of “zero-problems with neighbours.”\footnote{Ahmet Davutoğlu, “Turkey’s Foreign Policy Vision: An Assessment of 2007,” \textit{Insight Turkey} 10, 1 (2008).} With the introduction in 2004 of the European Neighbourhood Policy (ENP) and Turkey’s membership prospects at the time, many observers saw a convergence between European and Turkish foreign policies to the extent that some policy experts even claimed that Turkey was “implementing the European neighbourhood policy for the EU.”\footnote{Bilgin, “Turkey’s changing security discourses.” Also see, Senem Aydın Düzgit and Nathalie Tocci, \textit{Transforming Turkish Foreign Policy: The Quest for Regional Leadership and Europanization} (Brussels: Centre for European Policy Studies, 2009).}

We differ from these assessments. Rather, we shall attempt to demonstrate that while EU and Turkish preferences converged on a number of foreign policy issues, the two parties’ views, interests and actions diverged on many others. The two parties converged when the EU resorted to a multilateral framework within the ENP. We also argue that divergences observed between the two parties can be partially explained by the evolution of Turkish foreign policy making over the last decade: an increasingly strong link between domestic politics and foreign policy as a result of increasing populism has led Turkish policy-makers to adopt a more assertive and independent stance.

An important opportunity arose for cooperation between the EU and Turkey as the focus of European foreign policy shifted from highly securitised preferences to the achieving of common understanding among its members. Unlike a typical nation state that projects power based on national interest, the EU has tried to create a common understanding of European foreign policy goals and, at the same time, to streamline individual member states’ efforts towards these goals.

Europe has aimed to domesticate its neighbouring areas within concentric circles. Governance, human rights, the rule of law and the promotion of liberal market institutions constitute the major pillars of this Europeanization process directed at prospective members first, and then, to its neighbourhood. Turkey has found many areas of convergence with the EU within this framework of a common understanding. For instance, both parties’ outlook towards the Balkans, Russia and the Caucasus, as noted, suggested that interests could converge on a number of points. Even in the Middle East, where Europe prefers to take the back seat and accept a US-driven policy, Turkey and the EU were able to cooperate on several occasions, such as the 2011 Libya intervention.
The most promising area for EU-Turkish cooperation has been their overlapping neighbourhood. While regional cooperation in several areas has been taken as evidence of overall policy convergence, the relationship between the two actors is also laden with many dormant and manifest tensions. More specifically, we argue that the EU and Turkey diverge on foreign policy especially (i) when European member states emphasise their own national priorities over the European common values and (ii) as Turkey tries to assert itself as a regional leader, occasionally at the expense of its relations with the West.

This paper examines cooperation and conflict patterns in the foreign policies of the EU and Turkey by examining three geographical areas. The following section will compare Turkish and EU foreign policy towards the Balkans and demonstrate that Turkey’s historical ties allowed Turkey to take on a more facilitative role in the ongoing conflicts in the region. The following section suggests that both the EU and Turkey’s dependence on Russian hydrocarbons make both players keen to maintain cordial relations with Russia. However, acute crises in the Caucasus have challenged Turkey, and to a certain extent the EU, in balancing their cordial relations with Russia against their transatlantic commitments. We finally argue that the Middle East constitutes a litmus test for assessing the extent of EU-Turkey cooperation in foreign policy. Our analysis suggests that Turkey’s increasingly independent and sectarian stance, coupled with its assertive tone, have started defining Turkey as an independent variable in, rather than a complementary factor to, Europe’s foreign policy.

Chapter 2 – The Balkans

The Balkan region in general – and the ex-Yugoslav states in particular – has constituted a formidable challenge for both EU and Turkish foreign policy establishments. Be it historical ties that the region has enjoyed both with west European states and Turkey, or that the region experienced a bloody civil war ‘in the heart of Europe’ in the first half of the 1990s, the Balkans have received considerable attention and assistance towards reconciliation and reconstruction. From a policy perspective, both parties understandably desire an immediate end to the ongoing conflicts, especially in the ex-Yugoslav sphere. With respect to the tools that the EU and Turkey employ towards these goals, however, there seems to be a divergence with Turkey adopting a softer approach in reconciling conflicting parties in the region.10 Similarly, the two parties seem to have begun diverging in the way the region is ‘imagined’, possibly due to the different legacies the Balkans have left in the European and Turkish memory.

The Balkans has occupied a special place in Turkish historical memory, and therefore policy making. This area, from Thrace to the Sava River, was considered to be the heartland of the Ottoman Empire in many ways.11 Consequently, any turmoil in this area threatened the very security and stability of the Empire. The uprising of various Balkan peoples, as a result

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11 Halil Inalcik, “The Ottoman State: Economy and Society, 1300-1600,” in An Economic and Social History of the Ottoman Empire: 1300-1914, eds. Halil Inalcik and Donald Quataert (Cambridge, UK: Cambridge University Press, 1997), 256.
of the sweeping waves of nationalism in the nineteenth century, directly caused the dissolution of the empire. A significant portion of the modernising Ottoman elite during the Empire's last century, as well as the founding elite of the Turkish Republic comprised Turks of Balkan origins. The Turkish republic inherited the Ottoman sensitivity to the Balkans. Early republican policy making was also informed by the idea of equating the stability of the Balkans with Turkey's security; hence Turkey's spearheading of the 1934 Balkan Pact that aimed to mutually guarantee the security of signatory states' borders. Against this backdrop, Turkey's active involvement in the post-Yugoslav Bosnian crisis was not surprising.

Europe's interest in the Balkans dates from post-Soviet developments when Europe's overriding priority became the unification of a divided continent. For Europe, the Balkans represented, until the nineteenth century, essentially Turkish territory on which the Habsburgs and imperial Russia had claims. European interest in the Balkans increased simultaneously with the 'Eastern Question' concerning the stability of the Ottoman Empire's European territories, and reached a climax during the Empire's rapid decline after the Turko-Russian War of 1877-78. European powers became preoccupied with the fate of these territories. As a result of the economic crisis after World War I, the Balkans remained in Europe's peripheral sight. Although Marshall Tito claimed to take an independent line, the Balkans as a whole was nevertheless separated from Western Europe until the Iron Curtain fell. The civil wars and massacres following the break-up of Yugoslavia sent a shock wave across Europe, all the more so because Europe was unable to deal with the situation without US help. These events called into question the effectiveness of the very European project itself. As a result, the EU included the Balkans in its enlargement strategy, and its enlargement perspective has largely shaped EU foreign policy toward the region.

The means with which the EU and Turkey employ their foreign policy tools have unsurprisingly diverged in the region. The two parties' approach as mediators between conflicting parties in the region illustrates their divergence. For instance, the EU saw the aftermath of the Dayton accords, a peace-building building process mainly led by the United States, as a means for Europeanising Bosnia and Herzegovina, akin to what the Maastricht treaty meant for the central and east European candidates at the time. This institution-building role has led the EU to confine itself to using 'manipulative' mediation techniques, which aimed to incentivise conflicting parties with carrots and sticks so that the parties would agree on which political institutions would govern Bosnia and Herzegovina, such as the constitution, statutes, the electoral system and so forth. This role is further amplified as a result of the EU's enlargement perspective. While the EU has taken on this role because of its historical legacy, it is nevertheless challenged by it because of its inability to fulfil the promises it has made or distribute the carrots in a timely and credible manner, especially with respect to issues that put the raison d'être of political parties in Bosnia and Herzegovina at stake. Bosnian political parties have blamed the EU for compromising on reforms that would strengthen these parties throughout the country, while the Serbian political parties have claimed that such proposed reforms were infringing on the Serbian minority's (and Republika Srpska's) autonomy. As a result, and not surprisingly, past mediation experiences of the EU and the US predominantly aiming at institutional and constitutional change have proved to be unsuccessful. In other words, the EU may have used a hammer where a scalpel was needed.

As a mediator, Turkey’s approach in the region has significantly differed from that of the EU. Despite (or possibly because of) being a weaker third party compared to the EU, Turkey’s mediation attempts towards reconciling the states of Serbia, Croatia, and Bosnia and Herzegovina were relatively more successful. Taking into consideration the need for mutual recognition among the conflicting parties, Turkey first aimed at resolving high-level issues between states, with the hope that tri-state resolutions between Bosnia and Herzegovina, Croatia and Serbia would positively reflect on the debates among Bosnia’s Bosniak, Croatian and Serbian citizens. In doing so, Turkey took a soft approach and, instead of searching for the optimal institutional setup for serving the conflicting parties, emphasised confidence-building measures and cultivated personal connections with a view to finding a solution. Turkey’s initial attempt aimed to have all three countries recognise one and others’ sovereignty over their respective territories. Accordingly, Turkey first arranged bilateral meetings among the three parties, with itself participating as the third party. For example, the meetings between Bosnia and Herzegovina, Serbia and Turkey commenced on 10 October 2009 in Istanbul during the South East European Cooperation Process meeting. These meetings were followed by two further series of meetings in November and December 2009 – coinciding with the Standing Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Conference and during the conference of the Alliance of Civilizations for Southeast Europe, respectively. A fourth meeting was organised in Belgrade in January 2010, which led to the appointment of a Bosnian ambassador to Serbia. A month later, all four states signed the Istanbul declaration, in which the signatories officially guaranteed Bosnia’s territorial integrity, and called for stability and economic cooperation in the region. Shortly thereafter, in March 2010, the Serbian parliament adopted a resolution that admitted Serbia’s role in the Srebrenica massacre and issued an apology.

While the EU and Turkey have been aspiring towards the same goal in the Balkans, that of political stability and the promotion of good governance, the rhetoric from Ankara has recently begun exhibiting some divergence from that of the EU. Turkey has gradually ceased to make references to values such as human rights and international governance, but instead has increasingly come to emphasise its historical legacy and ‘ownership’ in the region. A vivid example of this emphasis was Erdoğan’s ‘impulsive’ statement made in the city of Prizren on 22 October 2013 when, addressing a large audience of Kosovars, which included many ethnic Turks, he said, “Turkey is Kosovo and Kosovo is Turkey.” This statement raised eyebrows among European politicians, western and eastern alike. The strongest reaction was that of the Serbian president Nikolić, who immediately demanded an apology and threatened to pull out of trilateral talks that had been continuing among Serbia, Bosnia and Herzegovina, and Turkey. Turkish foreign minister Davutoğlu tried to diffuse the crisis by responding soon after: “Turkey targets developing good relations with Serbia and has the same relationship with the rest of the Balkans. Prime minister Erdoğan talked about the

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13 Zenelaj, Beriker and Hatipoglu, “EU/US and Turkey as Mediators in Bosnia.”
14 Žarko Petrović and Dušan Reljić, “Turkish Interests and Involvement in the Western Balkans: A Score-Card,” *Insight Turkey* 13, 3 (2011).
shared fate of people of the Balkans in his speech. Balkan countries should act together for peace and stability.”

Despite Turkey’s recent change of discourse with particularistic, historical and cultural overtones, its policy objectives in the region cannot be said to differ fundamentally from those of the EU. Turkey’s successful bid for conflict resolution in the region rested on its realisation that institution-building efforts, on which the EU had spent a great deal of energy and resources, may be futile as long as such institutions did not enjoy legitimacy in the eyes of the region’s stakeholders. Accordingly, Turkey’s emphasis on confidence-building measures and dialogue among conflicting parties facilitated an endogenous process in the formation of institutions in the post-conflict environment of the Balkans.

Chapter 3 – Russia and the Caucasus

Russia and Turkey constitute two most significant actors in Europe’s immediate neighbourhood, but both are considered to be lacking full European credentials. Historically, both Russia and Turkey (the Ottoman Empire) loomed large in the European imagination as strange realms populated with mysterious and threatening peoples. Although they became familiar actors, especially as of the great powers in the post-Napoleonic order, both, but particularly the Ottomans, remained as ‘others’ for Western Europeans. Russia isolated itself from Europe under the Soviet regime while Turkey joined the western bloc after World War II. Turkey continued to pursue – officially if not rigorously – its membership path while Russia explicitly rejected the idea of joining the European project, and defined itself as a Eurasian power. Russia is now perceived to mark the EU’s eastern border and relations between the two are guided chiefly by annual summits.

Russia’s preference to distance itself from the European family of nations as well as its continued tensions with the transatlantic alliance have proved to be a challenge to Turkey, in that Turkey has had to balance its role as a key ally of the North Atlantic Treaty Organization (NATO), a candidate for EU membership, and an aspiring regional power in the Caucasus. Historical distrust, moreover, continued to influence Turkey’s perception of Russia as an existential threat. Historically, Russia’s overriding objective had been to reach the Mediterranean through Ottoman territories. Russia’s distrust of Turkey, in turn, was reinforced by Turkey’s entry into the Western Alliance in the Cold War.

It was only after the demise of the Soviet Union that Turkey was able to take initiatives, as noted, both at the bilateral and multilateral level towards (i) domesticating its post-Soviet neighbourhood area; (ii) helping to stabilise a region in a flux; and (iii) jumping to take advantage of the economic opportunities offered by the transformation brought by the liber-

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18 An important source of this challenge relates to the EU’s promotion of values such as seeking international legitimacy, collaborating with others in the region, and looking for solutions in multilateral settings and international or regional institutions for foreign policy-making in the candidate countries. See Müftüler-Baç and Gürsoy, “Is There a Europeanization of Turkish Foreign Policy?” for an extended discussion on the role of the EU in shaping its candidate countries’ foreign policies.
eralisation of the post-Soviet economy. The liberalisation of the Russian economy opened up a vast market for Turkish commodity and service exports. By the same token, as a result of its economic growth, Turkey became increasingly dependent on Russian natural gas, which it had begun importing as early as 1986. Turkey’s increasing dependence on Russian gas eventually created an asymmetric relationship between the two countries. Between 2002 and 2013, Turkey’s natural gas imports from Russia increased by more than 130 per cent, from 11.7 billion cubic metres to 27 billion cubic metres,19 and Russia currently supplies about 10 per cent of Turkey’s crude oil.20 As a result, Turkey ran a EUR 14.5 billion trade deficit with its northern neighbour in 2012.21

Similarly, the dissolution of the Soviet Union marked the beginning of a new era for Europe’s relations with Russia. In this new era, the EU has aimed to establish a stable relationship with Russia, both in the economic and political sphere. The EU provides the largest and most stable market for Russian energy exports; “Russia is the third trading partner of the EU and the EU is the first trading partner of Russia.”22

On the basis of its own experience, the EU had hoped that significant interdependence between Russia and itself would entice Russia to gradually adopt the regulatory environment of the European market and a more cooperative stance in its relations with the EU. Russia, however, has preferred to maintain, as far has it could, its monopolistic approach rather than seeing the benefit of operating as part of a large and lucrative energy market. Against this backdrop, Europe’s Eastern Partnership policy stands as a coherent but less than effective foreign policy tool. Politically, the EU’s overriding priority has been to reduce Russia’s tutelage over its former satellite states (particularly Ukraine) and near abroad, with a view to implementing democratic transformation in this neighbourhood. In this respect, too, Russia has taken a diametrically opposite approach, preferred to define its security interests in terms of keeping the former Soviet Republics within its sphere of influence, and prevent Western encroachment in its near abroad.

While both the EU and Turkey have similar objectives with respect to their relations with Russia, especially the maintenance of a stable relationship, Turkey, unlike Europe, refrains from attempting to influence Russia’s domestic policy or Russia’s relationship with its near abroad. Unlike its active pro-democracy rhetoric in support of the Arab uprisings, Ankara has remained silent about the colour revolutions in post-Soviet states, especially during the pro-democracy movements in Ukraine.

The Caucasus perhaps is another challenging area in the triangulated relations among Russia, Turkey and the EU. Turkey’s opening to the region in the early 1990s had occurred with support from Washington, and the south Caucasus remained more of a geopolitical concern for the US and Turkey than the EU. The EU interest in the Caspian region has been focused on energy connections, notably the Southern Corridor, which would connect the Caspian hydrocarbons to the European market through the south Caucasus and Turkey. In the process of building the Southern Corridor, namely the Baku-Tbilisi-Ceyhan (BTC) oil

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21 Republic of Turkey Ministry of Economy Foreign Trade Statistics.
pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, both Georgia and Azerbaijan became Turkey's key partners. In addition to the significant energy cooperation, Turkey provides technical assistance to both countries including training to their army officers.

Two major developments in the region have posed serious challenges to Turkey and its diplomatic capacity: the Armenian-Azeri conflict over the Nagorno-Karabakh region, and the Georgian-Abkhaz/Russian tensions. In both of these cases, Turkey had to walk a fine line between keeping its cordial relations with Russia and maintaining its leadership role in promoting Western security values and structures in the Caucasus.

The armed conflict between Armenia and Azerbaijan, known as the Nagorno-Karabakh war, ended in 1994 with a frozen conflict and resulted in the unification with Armenia of the autonomous Nagorno-Karabakh region in Azerbaijan. This conflict and its outcome put Russia and Turkey on opposite sides from one another. In addition to its ethno-linguistic affinity with Azerbaijan, Turkey's energy interests and its dependence on Azeri hydrocarbons (Turkey imports over 10 per cent of its natural gas demand from Azerbaijan) have confined Turkey's focus to its bilateral partnership with Azerbaijan.

The energy leverage the Azeri have on Turkey was strong enough to prevent Turkey from normalising its relations with Armenia. When the Turkish government announced its intention to normalise relations with Armenia and open its borders, which had been closed as a result of Armenia's occupation of the Nagorno-Karabakh region, the Azeri government strongly protested and threatened to sever its energy ties with Turkey. Under the circumstances, the Turkish government chose to take note of the Azeri reaction and reverse its opening to Armenia, despite EU efforts and encouragement to normalise its relations with Armenia. The isolation by Georgia, Azerbaijan and Turkey of Armenia still continues with the result of reinforcing Armenia's ties with Russia.

The Russia-Georgia war of 2008 posed yet another challenging test for Turkey, as it found itself having to balance between its security commitments to the EU and US against its increasing energy dependence to Russia. Long discontent with Tbilisi's flirting with the West, Russia found a unique opportunity to retaliate when Georgia attacked South Ossetia on the grounds of territorial sovereignty. By extending support to Abkhazia and Ossetia, Russia would be able to add these two regions to its otherwise short list of allies in the Caucasus and bring them under Moscow's tutelage. Moreover, by attacking Georgia and thus putting Turkey on the spot, it would also be able to detract from the effectiveness of the Georgian-Azeri-Turkish troika that cooperated on the southern corridor, which provided the only competition to Russia’s monopoly of connecting Eurasian gas to Europe. Accordingly, within a day after Georgia had captured the South Ossetian city Tskhinvali, situated about 100 kilometres north of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, Russia deployed infantry and airborne units, easily overran Georgian forces, established a naval blockade of Georgian ports, captured four Georgian cities, and its forces advanced to within striking distance of the BTC pipeline.

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The shock waves from Russia’s immediate escalation of hostilities strongly reverberated throughout Europe and North America. Unlike those of its transatlantic allies, Turkey’s response to the crisis was one of ‘urging caution’ through diplomatic means. Turkey’s prime minister proposed a ‘Caucasus Stability and Cooperation Platform’, a reiteration of the Caucasus Pact initially proposed in 2000 by the president of Turkey, which had been rejected by Moscow, but supported by the EU then. Prime minister Erdoğan first presented the proposal to Russian president Medvedev and prime minister Putin on 13 August 2008 before flying to Tbilisi on 14 August to present it to Georgian president Saakashvili, who felt slighted because he was presented a document after it had been cleared by the Russians. In the event, it was French mediation that brought a cease-fire between Russia and Georgia.

Ankara’s compromising attitude towards Moscow came under Washington’s harsh criticism as did its reluctance to open the Straits to the US Navy. Declaring Russia’s actions as “bullying and intimidation,” the US wanted to intervene in the conflict by moving a flotilla from its navy’s Mediterranean fleet to the Black Sea, and asked Turkey’s permission for transit through the Dardanelles and the Bosphorus. The US request put Turkey in a difficult position. The Montreux convention required Turkey to prohibit the passage of warships bigger than 15,000 tonnes through the Straits. Furthermore, acceding to the US’ demands could have terminated the validity of the 1936 Montreux convention, an agreement that gives Turkey control over the Straits, and restricts the passage of naval ships not belonging to the littoral states of the Black Sea. Turkey has been sensitive about upholding the Montreux convention because its termination, possible by a unilateral breach, would open a Pandora’s box.

Turkey adopted a flexible interpretation of the Convention and allowed the passage of US warships under a certain tonnage with a view to maintaining the status quo of the Straits. While some senior US officials expressed resentment against this decision and others argued that Turkey’s position diverged noticeably from the EU’s position, it can be reasonably concluded that Turkey rather stuck to its national interests by adhering to the Montreux Convention, and that such diversion, if any, was minimal and ephemeral. That being said, at a historical juncture when tensions were high in a post-Soviet sphere where the Iron Curtain legacy was still felt, Turkey – at least officially – declared its commitment to its western allies. Surely, in the background of all this Turkey is aware that it does not have much room for manoeuvre in the Caucasus against Russia’s will.

Despite Turkey’s historical suspicions on both sides, Turkey and Russia have found a modus vivendi since they began cooperating from the inception of Organization of the Black Sea Economic Cooperation (BSEC). Thanks to energy, their relationship has since become increasingly interdependent, with Turkish businesses eager to sell goods or services to Russia. Ankara’s pursuit of policies conflicting with those of Russia, however, have at times led to critical statements beyond diplomatic restraint. For instance, in the Friends of the Syrian People Ministerial Meeting that took place in Paris in July 2012, Turkish foreign minister Ahmet Davutoğlu went so far as to state:

"I don’t think Russia and China believe they are paying any price at all – nothing at all – for standing up on behalf of the Assad regime. The only way that will change

is if every nation represented here directly and urgently makes it clear that Russia and China will pay a price, because they are holding up progress – blockading it – that is no longer tolerable.”

Despite such heated rhetoric, neither party perceived this and similar statements as damaging enough to disrupt cordial relations. Turkey’s eventual toning down of its stance regarding Chechnya is yet another example of Ankara’s prioritising cordial relations with Moscow over other issues in the region.

Chapter 4 – The Middle East and North Africa

Although the prevalent assumption over the last decade has been that Turkey and the EU have similar interests in the Middle East and North Africa (MENA), and therefore compatible policies that could easily converge, recent developments have brought this assumption into question. Two factors, we believe, contributed to the failure, on the part of both parties, to fully cooperate: Turkey’s assertion to become a regional power and the EU’s failure to transform its relations with the MENA countries from a bilateral to a regional context.

The intervention in Libya provides a clear example of differences and convergence of the EU’s and Turkey’s interests. When NATO intervention was sought by France, the United Kingdom (UK) and the US in Libya, prime minister Erdoğan retorted that “[m]ilitary intervention in Libya or in other country would be totally counter-productive,” “unthinkable,” and “absurd.” However, after Turkish workers and businesspeople were evacuated from Libya, Turkey’s position rapidly changed and converged with that of the EU. Turkey became one of the most active supporters of the NATO-led intervention and deployed naval vessels. Similarly, Ankara actively opposed the 2003 Gulf War and prevented the US from opening a second front from the north by means of transporting troops through Turkish territory. Despite this major disagreement, both parties soon realised that Turkey could play a critical role in the stabilisation and reconstruction of Iraq after the war. The EU also welcomed this idea. Turkey’s regional policy at that time had begun emphasising soft-power initiatives, in particular trade and investment in its Middle Eastern neighbourhood. Turkey’s emerging role as a principal peacemaker in the region secured the support of a range of actors, from its NATO allies to countries in the region. For example, many Arab countries as well as Israel encouraged Turkey to play a mediating and stabilising role in the region and supported Turkey’s initiative to mediate between Israel and Syria.

An important source of divergence between Turkey and the EU in MENA relates to the lack of a coherent European policy in the region. The EU has historically taken a backseat in the region, often acting in accordance with its transatlantic ally’s priorities in MENA. The US priorities in the region have revolved around issues of hard politics such as (i) maintaining the stability of oil and natural gas production in the region and their safe transport.

27 “Remarks at the Friends of the Syrian People Ministerial Meeting,” Congressional Quarterly Department and Agency Documents: Regulatory Intelligence Data, 6 July 2012.
29 See William Hale, Turkish Foreign Policy since 1774 (London: Routledge, 2012), 257.
particularly from the Gulf; (ii) protecting Israel’s independence and security; and (iii) containing certain radical regimes such as Iran and Gaddafi’s Libya. Similar to the Israeli-Palestinian conflict, other significant conflicts in the Middle East have also been dominated by the US, such as the Iran-Iraq War and the two Gulf Wars. As US dominance in security-related issues in the MENA region continued after the Cold War, the EU has taken on the role of promoting democracy, development and good governance. The EU’s interaction with the MENA countries, however, has mostly remained at the bilateral level as reflected by the failure of the Barcelona process to develop into a full-fledged regional program. Instead, specific European states have taken the lead in shaping the EU’s relations with specific North African countries, such as Spain with Morocco, France with Algeria and Italy with Libya.

Meanwhile, the Turkish government suggested that it would reach out to the neighbourhood, and thereby increase the transatlantic alliance’s influence in the region. The US and EU welcomed this initiative. The declaration of the country’s ‘zero-problems policy’ formulated by Ahmet Davutoğlu, then advisor to the prime minister, and now minister of foreign affairs, was taken as the crowning achievement in Turkey’s re-assertion of itself in the region. Ironically, this quest for ‘ultimate peace’ in the region marked also the beginning of divergence between Turkey’s policy and that of the West. With Davutoğlu as minister of foreign affairs, Turkey started to pursue its ambition to become a regional power in a more aggressive fashion. Possibly fuelled by an unrealistically high estimation of Turkey’s capabilities in both Ankara and Brussels, the EU’s support for the peaceful and complementary role Turkey could play in the region increased Ankara’s self-confidence.

Turkey’s concern to promote trade and investment abroad also became an important factor that shaped its regional policy. Turkey’s recent rapprochement with the Kurdish Regional Government (KRG) as well as Iraq and its efforts to cooperate more with Iran constitute vivid examples in this respect. Nonetheless, in such a multi-player environment, an initiative-taking Turkey in the region was bound to occasionally be at loggerheads with European countries. The personalised preferences of the Turkish leadership, based on sectarianism, constituted another determinant for the course of Turkish foreign policy. The active support given by Turkey to Sunni regimes in the region, occasionally at odds with Turkey’s geopolitical and economic priorities, has been an important example of how such personalised preferences were reflected in Turkish foreign policy. This value-based reorientation also signalled a shift away from the support given to Iran in 2010. The resulting friction with the Shia-led government in Baghdad, as well as with the post-Morsi government in Cairo made it virtually impossible for Turkey to pursue or implement a ‘zero-problems with neighbours’ policy. Moreover, the Justice and Development Party (AKP) government’s unconditional and enthusiastic support for the Muslim Brotherhood elicited a negative response even from various Sunni countries. Turkey’s continued support of the defunct Morsi regime put it at odds with Saudi Arabia, the United Arab Emirates and Bahrain, which have consistently placed regional stability before any other policy consideration. Indeed, these three powerful oil producers of the Gulf punished Qatar, the only supporter of the Muslim Brotherhood in the Arabian Peninsula, by helping to precipitate a change of guard in Doha. Still not satisfied because of Doha’s continued support for the Muslim Brotherhood, they withdrew their ambassadors from Qatar, and declared the Muslim Brotherhood a terrorist organisation.

Ankara’s militant position against the Assad regime in Syria has become a second important point of divergence between the EU and Turkey. Ankara chose to indiscriminately support all opponents of the Assad regime, including radical Islamists and elements connected to Al-Qaeda. Ankara’s support of the Syrian opposition fell in line with the sectarian tone it had begun emphasising after facing a number of setbacks in its bid for regional leadership, and raised eyebrows in the West. Indeed, Erdoğan’s bid to launch a military offensive against the Assad regime was rejected by Washington during his trip there in May 2013. Despite increasing caution with respect to the role of radical Islamists gaining ground in Syria, Turkey continued its aggressive campaign of arming the opposition groups. In contrast, the storming (once again) of the western-backed Free Syrian Army’s ammunition depot by radical fighters connected to Al-Qaeda in early December 2013 resulted in the decision by the US and the UK to suspend all non-humanitarian aid to Syria. As a result, Turkey’s tacitly acknowledged and official circles in Europe and the US, Turkey’s regional policy had run aground and Ankara had squandered its influence in the region.

Chapter 5 – Conclusion

The relations between the EU and Turkey with regard to foreign policy have portrayed a somewhat contrasting picture. What is ENP for the EU is foreign policy for Turkey. The foreign policy of Europe, however, is more difficult to reconcile with that of Turkey. That said, certain events, such as the intervention in Libya, suggest that cooperation is nonetheless possible between the two parties.

As Turkey’s power in the region has increased, it has sought to change the status quo with certain issues, while aiming to maintain the status quo with others. Being a medium-level power, where Turkey can aspire to be a game-changer has mostly been determined by the international conjuncture. That is, Turkey has mostly adopted a passive and cooperative stance in issues where big powers’ interests clashed. With other issues, Turkey was not so hesitant to assert itself. An interesting point, which derives from our foregoing analysis, suggests Turkish domestic politics has become an increasingly important factor in shaping Turkish foreign policy – to the extent that such domestic pressures have forced Turkey to find itself at odds with its international allies and partners.

The fact that Russia has clearly expressed that it is a Eurasian and not a European power, and that it remains the main energy supplier in the region, has pushed both the EU and Turkey to maintain cordial relations with Russia. Turkey’s historical legacy of having to deal with Russia while remaining committed to its transatlantic alliance seems to continue after the Cold War. The 2008 Russia-Georgia war was an important test for Turkish diplomacy in this respect. While Europe remained relatively silent on this issue until the ceasefire it brokered between Russia and Georgia, Turkey had to walk a very thin line between a resolute Russia and an assertive US. In doing so, Turkey had to accommodate US demands to allow warships through the Straits while not risking the Montreux Convention’s legitimacy in the eyes of the littoral states of the Black Sea, and mainly those of Russia. Turkey’s actions in this case demonstrated recognition of the limits to its power; Turkey allowed a contingency of small US warships to pass.

While following a status quo-oriented stance amongst big powers, Turkey has not refrained from asserting its preferences vis-à-vis more regional issues that did not pose an im-
mediate threat to the global order. A clear example of this has been Turkey’s diplomatic entrepreneurship in the Balkans. Turkey’s ambitions to reassert itself as a player in the Balkan region by and large converged with the EU’s priorities in the region. Its historical ties allowed Turkey to take on a facilitative role in the region. A major success of this ambitious policy was the signing of the Istanbul declaration. The EU in this regard mostly welcomed Turkey’s efforts, especially after its failed mediation attempts in the Balkans. Meanwhile, these successful moves in the Balkans garnered significant support for the AKP at home.

This emerging populist link between domestic politics and foreign policy, however, may also involve significant drawbacks for Turkey in the international arena. Coupled with resource scarcity in the foreign policy establishment facing an ever increasing portfolio of issues on its agenda, Turkey’s domestic-international politics linkage may raise the danger of Turkey losing its anchor in the international community. As Erdoğan’s recent remarks about Kosovo and Davutoğlu’s thinly veiled threats against Russia and China during the Syrian crisis show, in the absence of institutionalised constraints pressure from domestic audiences can force the Turkish government to deprioritise its international commitments. Some of the points of divergence between the EU and Turkey have certainly arisen from this increasingly strong connection between Turkish domestic politics and Turkey’s foreign policy, as recently evinced by Turkey’s strong support for extremist elements in the Syrian rebel forces.

However, not all the risks of divergence between the EU and Turkey emanate from Turkey. In this connection, an interesting observation is that the foreign policy aims of Turkey and the EU have easily converged when the EU operated within the ENP framework. However, in areas where the EU resorts to bilateral relations between its member states and third parties, the national priorities of Turkey and these member states can often clash. An important factor underlying this risk is that, without a unified European voice, Turkey has to deal with multiple – and relatively unpredictable – voices from its European partners, without having effective mechanisms to diffuse potential conflicts emerging in such an environment.

Bibliography

A European Union with 36 Members? Perspectives and Risks


Regional cooperation has been one of the greatest achievements of the Western Balkans. The combination of the shared objectives for the integration into Euro-Atlantic institutions and the relatively high level of regional integration is what makes the Western Balkans different today—in a positive way—from other transition regions such as the Caucasus and Central Asia. Due to the objective needs of the region, and since strengthening of regional cooperation and good neighbourly relations is an explicit requirement for the Western Balkans aspirant countries in their European Union (EU) membership bids, the process of regional cooperation will gain increasing momentum.

The importance of regional cooperation is underlined by two key benefits: it reduces tension and strengthens regional stability, which in turn is a key precondition for sustainable development; and brings various practical benefits. The latter stems from increased intra-regional flows of goods and services, as well as scientific and cultural exchanges, enhanced competitiveness of relatively small national economies and the increased attractiveness of the region as a whole as an investment destination.

This study will look into both of the above-mentioned broad areas of impact of regional cooperation and into the transformative role of the EU in this respect. While providing an account of the achievements so far, it will focus on the existing challenges and bottlenecks of regional cooperation and provide suggestions as to the possible ways of increasing its efficiency.

Chapter 2 – Regional Cooperation and the Role of the EU

2.1 EU and Regional Stability

The main two pillars of stability in the Western Balkans are, on the one hand, Euro-Atlantic institutions and, on the other, regional cooperation. It would not be an exaggeration to say that thanks to these key factors the Western Balkans is currently more stable politically and
in terms of security than ever in the last 20 years. During the past five years in particular the region has experienced two major challenges and on both occasions has demonstrated remarkable resilience. First were the events in and around Kosovo in 2008, when for once a unilateral secession did not lead to military responses and when all regional neighbours adopted differing but mature approaches. The best demonstration of the new level of stability of the region was the fact that an all-inclusive regional institution, the Regional Cooperation Council (RCC), which replaced the Stability Pact for South Eastern Europe, convened for its constitutive meeting on 27 February 2008, just days after the proclamation of independence by Kosovo.

Then came the economic crisis which, even when it hit the region the hardest in 2009, did not cause political destabilisation in any of the Western Balkans countries, nor did it adversely affect relations between them. There has been no evidence of the negative impact of the economic crisis on inter-ethnic relations, which have always been among the key destabilising factors in the Balkans and which may retain in the foreseeable future destabilising potential. Even though the region has not been immune recently to a certain increase in populism, which has taken different forms in individual countries, the nationalist aspect of this new wave of populism has been very subdued.

It has sometimes been argued that regional cooperation in and of itself, without the EU and the North Atlantic Treaty Organization (NATO), would not be sufficient to maintain stability in the Western Balkans. It admittedly failed to achieve it in the past. Although by the time the disintegration of Yugoslavia triggered the wars of the first half of the 1990s regional cooperation already existed, it did not prevent the war. To be sure, during the early phases of the brewing conflict, a clearer vision for the European future of all individual countries of the region, and better coordination and greater consistency of the policies of the key international stakeholders would have definitively made a difference in terms of its prevention. Interestingly, at that time the EU remained largely lukewarm towards the concept of regional cooperation. Many analysts place the beginnings of the ‘regional approach’ by the EU to 1996-1997—with the emergence of the post-Dayton Royaumont process and other initiatives preceding the EU’s own Stabilisation and Association Process (SAP). However, given the specific context and intensity of the armed conflicts of the first half of the 1990s, it is a hypothetical question whether the EU Stabilisation and Association Process, had it been in place then, would have prevented the war. By the same token it can be argued that today’s regional cooperation is fundamentally different from its early forms developed in the 1980s, which with all its right concepts, such as the need to turn ethnic minorities into ‘bridges for cooperation’, remained largely an exercise in political rhetoric. The only meaningful conclusions from the history of the 1990s in this respect are that the processes of Euro-Atlantic integration and regional cooperation are intertwined, and that both are indispensable. The EU’s continuing policy of conditioning the integration of the aspirant countries into the EU in relation to their progress in regional cooperation, as well as its commitment to support


this process effectively, both politically and through economic and financial means, remain crucial.

The role of the EU and NATO as the key guarantors for regional stability has evolved significantly over the years. The international security presence on the ground has been reduced dramatically throughout the region. The membership of Albania and Croatia in NATO and the involvement of the rest of the region in the NATO cooperation process, in different forms, are important sources of stability. More important still is the system of commitments and scrutiny stemming from the EU’s Stabilisation and Association Process that today effectively plays the key stabilising role. All countries of the region participate in the SAP; and all, except for Kosovo, which is currently negotiating it, have signed Stabilisation and Association Agreements (SAAs) with the EU. Croatia’s accession to the EU in July 2013 was rightly hailed by all regional neighbours as something that not only demonstrates the shared prospects for the rest of the region, but also as a direct contribution to strengthening the region’s stability and enhancing its attractiveness as an investment destination.

To be sure, the EU continues to expend effort today, as it did at the time of the beginning of the SAP process and the adoption of the Thessaloniki agenda, to find the right balance between the need to honour strict conditionality and the desire to support stability in the Western Balkans by maintaining momentum in the EU approximation process. What is important is that – despite enlargement fatigue in EU capitals and notwithstanding all the anxieties related to the situation in the Eurozone – there is a clear realisation that it is in the EU’s own strategic interest to continue with the integration of the Western Balkans into the EU, a realisation that underpins all relevant EU documents of recent years. Maintaining the momentum of integration into the EU is not a panacea for all the problems of the Western Balkans, but it is the most efficient tool Brussels has in its hands to keep these countries on track and to support regional stability.

There has been a positive evolution in the approaches of the regional leaders to regional cooperation. In the past they often viewed regional cooperation as something imposed on them by Brussels. Only ten years ago a study on regional cooperation in SEE conducted by the Hellenic Observatory of the London School of Economics concluded that regional elites “do not regard regional cooperation as an important policy tool…support for regional initiatives is often just a token gesture…” The conditionality, the explicit requirement for the candidate countries to contribute to regional cooperation in order to fulfil their membership aspirations, remains an important tool in the hands of the EU. But today the regional leaders are genuinely committed to regional cooperation, because they also see practical benefits and realise that this is a direct contribution to regional stability.

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4 The SAP was launched at the beginning of the 2000s, the first Stabilisation and Association Agreements (SAAs) with the EU being signed by Macedonia and Croatia in 2001. It has since become the key EU strategy towards the Western Balkans, establishing the system of progressive contractual relations with the EU for aspirant countries meeting certain minimum requirements.

5 The Thessaloniki Agenda for the Western Balkans, adopted in 2003 by the Thessaloniki summit, reaffirmed the European future of the region and unveiled an ‘enriched’ Stabilisation and Association Process, stipulating, inter alia, that the principle ‘on own merits’ will be applied in parallel with a regional approach.

6 Othon Anastasakis and Vesna Bojicic-Dzelilovic, Balkan Regional Cooperation and European Integration (London: The Hellenic Observatory, LSE, 2002).
2.2 EU Aspirant Countries and Enlargement Fatigue

In the past few years, the combination of the global economic crisis, enlargement fatigue and the uncertainties in the Eurozone and in wider European affairs, have given rise to a double concern: that the EU may slow down the enlargement process and that it might lose its appeal to the aspirant countries. While neither has materialised, enlargement fatigue among EU capitals is a fact. Another fact is that conditionality in general keeps toughening and the number of additional (to Copenhagen criteria) political conditions keeps increasing. In Serbia’s case, for example, this involves the Kosovo issue, which will haunt the country throughout its EU approximation. In addition, there is always the opportunity for any member state to block or delay the negotiations for any aspirant country over a purely bilateral issue, which has happened in the past. All this means that while there are continuing divisions among the EU capitals with respect to the desirable pace of EU enlargement, it is unlikely that any current or future candidates will be able to enter a fast track towards EU membership. Croatia’s membership in 2013 may be followed by a relatively long pause until the next accession/accessions from the region.

But what about the aspirant countries? Are there signs that on top of a certain enlargement fatigue among EU capitals, enlargement fatigue is increasing among the candidates as well? Croatia’s successful referendum on EU accession in 2012, when more than 60 per cent of citizens voted in favour, was the clearest demonstration that despite the current difficulties in the Eurozone, the appeal of EU membership to the countries of the Western Balkans remains strong. The Croatian example is indicative because in the past this had been the country where the level of popular support for EU membership had been among the lowest in the region, and this remained a very serious concern in Croatia only a few years ago.

But the sudden change of heart is by no means a Croatian miracle. There is a clear pattern in the results of public opinion surveys in the Western Balkans countries over the last ten years. The oscillations of popular support for EU membership directly correlate there with the perceived prospects for progress in EU integration. Support for the EU decreases when this process slows down, for whatever reason; and it goes up when citizens realize that their country can move (will be allowed to move) to the next phase in EU integration.

**Figure 1:** Oscillations of popular support for EU membership in Croatia. While at times decreasing as far as the low forties, popular support for EU membership increased to above 50 per cent by the time the referendum on EU accession became a realistic prospect. In the referendum itself more than 60 per cent of the population voted ‘in favour’. 

![Graph showing oscillations of popular support for EU membership in Croatia](image-url)
Figure 2: Oscillations of public attitudes towards EU membership in Serbia. Serbia is a country with a currently relatively low level of support for the EU, compared with other regional neighbours. Support for the EU went down when the negotiations on the Stabilisation and Association Agreement (SAA) were interrupted in 2006 and went up when Belgrade signed the SAA in 2008; and after an uneven performance during the past few years it increased quite recently, following the entry into force of the SAA and the green light given by the European Council for the opening of EU accession talks, to 50 per cent (July 2013 data of the Office for European Integration of the Government of Serbia) and even 56 per cent (August 2013 data of IPSOS).

Figure 3: Popular support for EU membership in Macedonia. In Macedonia support for EU membership reached its peak after the country acquired EU candidate status in 2005. It has subsequently decreased as the prospects for the next phases of EU integration have been essentially blocked due to the name issue. However, popular support for the EU still remains reasonably high in Macedonia.

Given the tendency of popular support to increase at the decisive moments, as illustrated above, the fate of future referenda on EU membership in the aspirant countries should not be considered a concern not only in Albania and Kosovo, where popular support for EU membership has consistency been above 70 per cent, but also with respect to such countries as Serbia, where today it only slightly exceeds 50 per cent. Interestingly, in Serbia the number of those who think positively about the EU, although it significantly increased after the sign-
ing of the SAA, is today indeed quite low – about 30 per cent. At the same time, the number of those who nevertheless would vote for EU membership at the referendum, if it were held today, is twice higher. Call this pragmatism of the general public or defying Balkan optimism.

What are the reasons behind the continuing strong appeal of EU membership? First, there is objectively no geopolitical alternative for the countries of the Western Balkans. This is today clear both to their political elites and to the wider public. The second reason involves public expectations of practical benefits from future membership, such as employment opportunities – which in various polls across the region is currently mentioned as the number one anticipated benefit – a better future for the next generations, freedom of travel and increased funding for the country.

The third reason is the fact that the Western Balkans nations easily identify themselves with Europe. Results of surveys by Gallup Balkans Monitor in Western Balkans countries demonstrate that the identification with Europe exceeds 50 per cent throughout the region except, ironically, in Croatia. In Kosovo and Albania it exceeds 70 per cent, in Montenegro and Macedonia 60 per cent. In all, without exception countries, it has been increasing in the last few years.

**Figure 4:** Identification with Europe in the Western Balkans.

Admittedly, identification with Europe is tricky. It may be used by political forces for various political strategies. It can be used both by the national elites, but also, more spontaneously, by the general public in order to promote a better image of themselves: that of modernity and progress. The ethnic minorities may see this as a resource to prove their difference from and superiority as compared to the titular nation, and titular nations as a means to demonstrate advantage over neighbouring nations. On balance, however, there is clearly a significant degree of a genuine belief among Western Balkans nations that they belong to Europe.

### Chapter 3 – Good Neighbourly Relations

Good neighbourly relations between the countries of the region support regional cooperation and are a contribution to regional stability in their own right. Recent achievements in developing good neighbourly relations between Western Balkans countries can be divided into three categories. The first includes reconciliatory steps related to the legacy of the armed
conflicts of the previous decades. The measures recently undertaken in this direction have been very important, because until a process of accepting responsibility for what happened in the 1990s is complete, the newly achieved stability in the region will remain incomplete as well. This process is far from being over, but there have been quite a few commendable gestures.

The second category is represented by intensified bilateral exchanges on various practical issues. Besides numerous bilateral agreements signed in recent years concerning various areas of economic cooperation, a new phenomenon in the Western Balkans is the increasing popularity of the joint sessions involving the governments of neighbouring countries.

The third category includes various mechanisms of tri-lateral cooperation. In the previous decade, the Western Balkans witnessed a more intensive cooperation in the triangle Podgorica-Skopje-Tirana. In the second half of the 2000s, the rapprochement became visible in the northern triangle of Serbia-Croatia-Bosnia and Herzegovina. And most recently, two additional tri-lateral mechanisms have emerged, where the leading part in the trios belonged to countries outside the Western Balkans: Slovenia-Serbia-Croatia; and Turkey-Serbia-Bosnia and Herzegovina.

However, the legacy of the wars of the previous decades, remaining unresolved issues, and sensitivities in inter-ethnic relations still complicate bilateral relations. While the potential for conflict has diminished, certain irritants in the relations persist, including, prominently, the unresolved border issues. In the past few years Croatia and Slovenia have given a positive example of how to separate bilateral issues from the issues related to the EU accession process, but have also demonstrated a negative potential when these two tracks are linked. Croatia’s accession to the EU in July 2013 was accompanied by the Croatian authorities’ reaffirmation of their previous clear commitment to provide unconditional support to all their neighbours in EU approximation efforts. However, what causes concern, especially given the above-mentioned abundance of bilateral issues and sensitivities in the Western Balkans, is the fact that there is no mechanism in the EU to prevent a member state using its position in the club, including de facto veto rights enabling blocking or slowing down the approximation process for an aspirant neighbouring country, in order to resolve, on its own terms, certain bilateral issues.

In this context, while the EU approximation process is the strongest anchor for rapprochement and improved cooperation in the region, the fact that the current candidates may in the future be joining the EU individually and at certain intervals objectively creates, at least theoretically, the potential for a possible adverse impact on bilateral relations. The solution is not in adopting an alternative approach involving admitting new candidates to EU as a package. The current principle ‘on its own merits’ appears to be the right approach. But while continuing to put emphasis on the commitments for good neighbourly relations in the process of EU approximation and using all tools at the disposal of the EU to encourage an early resolution of the remaining border issues and other similar sensitive bilateral issues, it is worthwhile reviewing the existing EU mechanisms that in theory allow abuse of the position of membership to the detriment of neighbouring aspirant countries and – importantly – to the impairment of regional stability.
Chapter 4 – The Format of Regional Cooperation – Key Challenges

4.1 Political Format

The three key challenges are the optimal political format, regional ownership and the inclusiveness of regional cooperation. The existing political umbrella bringing together heads of state and government has practically not changed since the early phases of regional cooperation of the 1980s, except that one of the participants – Yugoslavia – has been replaced by its several former republics. The South East Europe Cooperation Process (SEECP) includes a heterogeneous group of countries beyond the geographical boundaries of the Western Balkans.7

At the same time, the experience of other sub-regions, where regional cooperation was similarly intertwined with the process of EU integration (the Visegrad Group and the Baltic countries), also demonstrated some advantages of a more streamlined sub-regional format. A few initiatives have been floated recently in this respect. One of them is based on the format of the Western Balkans Six (WB6), that is, former Yugoslav countries, minus Slovenia and Croatia, plus Albania, which was put forward in the summer of 2013. Although the initial proposal for a WB6 mechanism at the level of prime ministers did not include Croatia, in subsequent discussions Croatia was mentioned frequently. Croatia, as a regional leader in the EU approximation process, has been seen for years as a model by other Western Balkans countries. As the newest EU member from the region, Croatia could become a real bridge between the EU and the Western Balkans. Should the initial WB6 evolve into WB6+1, it would still be limited to the geographic boundaries of the Western Balkans.

Slovenia is a slightly different story, from the geographical perspective. However, given its historical and current links to the region, and its role (not dissimilar to Croatia) as a bridge between EU and Western Balkans, some may argue that inclusion of Slovenia in this informal grouping could also be justified. In fact, Slovenia has been, together with Croatia, one of the key promoters of the so-called Brdo Process and of the meetings in the format ‘6+1+1’ of the presidents of Slovenia, Croatia, and six other Western Balkans countries that took place in the course of 2013.

The initial WB6 proposal contained an excessive (and probably unrealistic) institutionalisation. However, there were a number of reasonable rationales for a streamlined and efficient format in addition to the one provided currently by the SEECP. The new informal grouping would bring together the countries that are all more or less at the same phase in their EU approximation and which, crucially, share the same objective of integration into the EU, face similar challenges in their economic development, could benefit from better mutual coordination, and have many common cultural features. It is much easier for the leaders of this narrower group to meet informally and more frequently than SEECP does. They speak between themselves only four languages and most of them have long-established good personal relations. The new grouping would not require establishing a new secretariat, since the Regional Cooperation Council, which currently serves as a secretariat for SEECP, is able to play that role. Needless to say, the new informal grouping would not mean the end of the SEECP.

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7 The SEECP was launched in 1996 and currently involves Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Greece, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovenia and Turkey.
The downsides of the new format, apart from the fears of ‘recreating Yugoslavia’ (which are clearly unjustified), are related mostly to the fears of ‘ghettoisation’ of the Western Balkans countries, which can be perceived as being isolated in their waiting room for coveted EU accession. Expanding the concept of WB6 to WB6+1 or WB+1+1 in order to include an existing EU member, Croatia, and possibly Slovenia, could perhaps alleviate such fears of ghettoisation. Another concern, expressed by some in the region, is related to the fears that such a format could encourage EU capitals in the future to abandon the current proclaimed principle of ‘on its own merits’ for the accession of individual aspirant countries, and replace it with the ‘package’ approach, which for the more advanced countries would mean waiting even longer because of the ‘laggards’.

The initial list of the main topics for WB6, mentioned in the letter by its main promoter, stretched for a few pages, but among the issues of key interest are those related to the main needs for the development of the region, such as transport and energy corridors; SEE 2020 Strategy, designed to align the region with the objectives of the EU’s strategy Europe 2020 Strategy for smart growth, development of knowledge-based economy and innovation; establishment of the regional centre for the region-wide fight against corruption and organised crime (BALPOL); social cohesion; and exploring possibilities for a joint regional approach to the markets of and cooperation with third countries, particularly non-European ones.

4.2 Regional Ownership

The need for greater regional ownership has been one of the dominant themes of the debates about regional cooperation during the last decade. Developing regional cooperation as a well-informed choice and not under pressure from Brussels, and taking over greater responsibility for regional cooperation, could contribute to the sustainability of the regional cooperation. The main economic and social challenges facing the region – improving infrastructure, energy supplies and energy efficiency; raising competitiveness and developing a knowledge-based economy; increasing exports; reducing the high levels of unemployment and poverty; fostering administrative capacity and human development; addressing environmental problems; fighting corruption and organised crime; and improving the business environment – are not only common for individual Western Balkans countries, but, importantly, can be most efficiently addressed by their joint and coordinated effort at the regional level.

Greater ‘regional ownership’ was one of the rationales for replacing the Stability Pact for South Eastern Europe by the RCC in 2008. The Stability Pact had played an important role in promoting reconciliation and the establishment of good neighbourly relations in the Western Balkans, but its relevance gradually started to diminish – even before it was finally phased out. The expectations were that the RCC would serve as an umbrella and coordinator for regional cooperation in all main areas, and would become a genuine ‘voice of the region’. The IFIs and bilateral donors in particular hoped that, unlike the Stability Pact, which largely generated the rhetoric of regional cooperation, RCC would become a more practical vehicle of such cooperation.

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8 The Stability Pact, led by the EU, the United States and other key stakeholders in the region, was created in 1999 in order to assist in the post-war reconstruction of the Western Balkans and to promote regional cooperation of the wider south-eastern Europe.
Not all hopes were fulfilled in the first few years of the RCC’s existence. The RCC has not bridged the gap between the political will for regional cooperation, demonstrated at regular regional summits and at the level of political rhetoric, and how that is translated into truly regional projects on the ground. It is admittedly not easy to coordinate an extensive, often overlapping network of regional institutions and initiatives (the latest annual report of the RCC mentions more than 40 of them, involving political, parliamentary, economic, cultural and many other dimensions). To be sure, the proliferation of the regional initiatives and institutions is not something one should be concerned about – this network is, in our view, a contribution to regional stability in its own right, because it ensures a constant multidimensional dialogue within the region. Among more than 40 institutions with different purposes and value, there is, however, a group of institutions that generate more concrete economic results. These include CEFTA (Central European Free Trade Agreement), ECT (energy community treaty) and SEETO (South-East Europe Transport Observatory). It is thus not the RCC’s role in coordinating more than 40 institutions and initiatives which could in the future be made more prominent, but specifically its role in the more result-oriented structures of regional economic cooperation.

There are renewed hopes for a more efficient functioning of the RCC now that it has a new leadership. The new Strategy for 2014-2016 is more focused and ‘strategic’ than the RCC’s first Strategy adopted in 2010.9 It rightly puts emphasis on the SEE 2020 Strategy, and claims for the RCC the role of main coordinator for its development. The question, however, is whether it will (will be allowed to) take over more regional ownership in practice in prioritising and coordinating truly regional economic projects. One of the challenges will be to ensure a greater role for the region in the existing mechanisms of coordination between the EC, IFIs and key donors, such as the Western Balkans Investment Framework (WBIF). Making increasing regional ownership a reality may require a more innovative approach on the part of the EC as well. It is not easy to find the right balance for the involvement of beneficiaries when you provide the funds and bear the ultimate responsibility for implementation, particularly given relatively low administrative capacity and the governance issues among the beneficiaries. However, without the EC leaving more responsibilities to the region, ‘regional ownership’ will remain only a phrase. As one of the representatives of the RCC leadership noted: ‘… making regional ownership operational requires the political, technical and financial support…of those external actors who have been involved in the process since the beginning’10

The first experience in the functioning of the WBIF, which was founded in 2009 and brings together the EC, IFIs (including the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank (CoEDB)) and bilateral donors, is very telling. The WBIF has achieved a lot in the first four years of its existence, not only because it disbursed loans in the amount of EUR 2.3 billion, blended with grants, with a total investment value of EUR 13 billion,11 but also because if significantly improved coordination between IFIs and donors in pulling together resources and avoiding overlaps. There has also been a visible improvement in coordination

at the national level, to which the WBIF contributed. What is still lacking is similar progress in regional coordination between the beneficiary countries. The existing lines for ensuring compliance with the wider regional picture are largely vertical – the EC does it through the ECT or SEETO, for example – and not horizontal. This is where regional ownership – and the coordinating role of RCC – could be made stronger.

4.3 Inclusiveness of Regional Cooperation

The streamlining of the format of regional cooperation contradicts the thesis of inclusiveness only at first sight. A streamlined regional cooperation in the Western Balkans can reach the objective of greater efficiency if it is all-inclusive. Regional transport and energy corridors cannot stop at the borders within the region. Today, the only controversy as regards the principle of inclusiveness stems from continuing differences in the positions of the region’s countries regarding the status of Kosovo. Despite the progress made in the EU-facilitated dialogue between Belgrade and Pristina, Kosovo is still not fully integrated into regional cooperation. It is ironic that in the past Kosovo had been more integrated into regional cooperation – through the United Nations Interim Administration Mission in Kosovo (UNMIK) – than today, five years after it proclaimed independence. A deal on the direct participation of Kosovo in regional cooperation, reached in the framework of the Belgrade-Pristina dialogue, paved the way for its participation in the RCC. Kosovo has been included in the meetings of the presidents of the WB6+2, hosted by Croatia and Slovenia in the summer of 2013. However, it is not a member of the SEECP and was not invited to attend the SEECP summit in Ohrid in June 2013. Kosovo still has not been able to sign one of the key regional treaties – SEETO.

In the spirit of continuing dialogue between Belgrade and Pristina, which has already contributed to relaxing the regional atmosphere, further efforts to ensure all-inclusiveness may be needed – in a pragmatic way and without prejudice to the positions of individual countries regarding the status of Kosovo. The IFIs have been showing an example in this respect: Kosovo has become a member of the World Bank, the IMF, the EBRD and, most recently, the CoEDB. In the two latter cases (EBRD and CoEDB) admission to membership was accompanied by a clear qualification in the respective resolutions that it was without prejudice to the position of members regarding the status of Kosovo.

Chapter 5 – Bottlenecks in Economic Cooperation

There is a considerable amount of agreement that a few areas are critical for the new growth agenda for the Western Balkans: improving infrastructure and diversifying energy supplies; strengthening competitiveness and innovation and developing a knowledge-based economy; lowering trade barriers and increasing exports; improving economic governance and the business environment. The latter three areas are currently insufficiently addressed by the existing regional cooperation.

The gap in the knowledge-based economy between the Western Balkans and the EU average is already so wide that, if more focused efforts are not made now, by the time the aspirant countries are ready for membership according to other criteria, this gap might turn out to
be too wide. Among recent positive developments has been the establishment in the WBIF framework of a new facility called Enterprise Development and Innovation Facility – echoing ideas advocated for years by some representatives from the region. The links between the local centres of excellence are mostly vertical, and mostly with respective centres in the EU, but there are few horizontal links – either within individual Western Balkans countries or between them.

When Central European countries and the Baltic countries were going through a similar phase of EU approximation and regional cooperation – in the 1990s – their intra-regional trade doubled with the establishment of CEFTA and the Baltic Free Trade Area (BFTA). By contrast, in the Western Balkans the share of intra-regional trade has increased only slightly since the new CEFTA entered into force. Besides inadequate infrastructure, the reasons include non-tariff barriers and administrative obstacles to trade (including significant number of documents and time required to export/import), as well as overall weaknesses in the business climate.

The best incentive for the region to remove non-tariff barriers is the EU approximation process, because their customs and trade regulations should be harmonised and adapted to European standards. This will not only facilitate intra-regional trade but will help the region on the path to EU accession, and will also make it more attractive to foreign investors. In addition, a multi-speed adoption of EU law by the Western Balkans countries could lead to additional barriers within this region. It is therefore important that the authorities collaborate on these matters.12

At the same time, an increase in the volume of intra-regional trade should not be an aim in itself: it is the quality of the trade that matters. The point is not to increase the export of Macedonian vegetables to Kosovo, which should be able to grow them locally and to substitute the import of other agricultural products as well, but to increase, for example, the export from Macedonia of automotive parts, something which the Macedonian authorities have been working on, including through their innovative free economic zones, and which has already positively changed the structure of Macedonian exports. One can argue even that the objective of increasing the share of intra-regional trade compared to its current 20 per cent on average (it reaches almost 40 per cent in the case of Montenegro) is debatable, especially if it comes at the cost of decreasing the share of trade with EU, which currently remains at more than 50 per cent for all Western Balkans countries.

The state of affairs regarding the rule of law and the fight against organised crime and corruption are among the main weaknesses of the Western Balkans. The EC’s new approach to accession negotiations rightly frontloads these issues in the negotiations process. Montenegro and Serbia, currently the only candidates in the Western Balkans in the process of EU accession negotiations, are the testing ground of the new approach that puts emphasis on chapters 23 and 24 of the accession treaty.

In this light, the fact that few more than 40 regional structures currently deal with corruption issues is striking. It is not coincidental that the proposal for establishing the new format of regional cooperation (WB6) prominently mentioned the idea of establishing a new regional structure that would deal with the fight against corruption and organised crime at the regional level. The idea of merging MARRI (Migration, Asylum, Refugees regional

initiative) with RAI (regional anti-corruption initiative) and forming a regional centre for the fight against corruption and organised crime – BALPOL – was floated quite some time ago. It remains to be seen whether it will be implemented.

Chapter 6 – Conclusion

1. The need for regional cooperation in the Western Balkans stems from the common character of many problems the countries are facing and the fact that they can be most efficiently addressed at the regional level.

2. Regional cooperation is indispensable for supporting stability in the Western Balkans.

3. The link between regional cooperation and the process of EU approximation is crucial. The EU remains the main anchor for the stability of the region and for the process of comprehensive reforms. The approach of setting good neighbourly relations and participation in regional cooperation as an explicit condition for progress regarding integration into the EU should be maintained. This is one of the most efficient tools in the hands of Brussels for supporting stability in the region.

4. The leverage of Brussels on the countries that have joined the EU is, paradoxically, more limited, as regards good neighbourly relations with neighbours that are not yet members of the club. Reaffirming the commitments of aspirant countries, who may all be joining the EU at different paces, to support the EU approximation efforts of all their regional neighbours is important, as is the need to improve the internal EU mechanisms so as to prevent actions detrimental to the stability of the region and its European prospects.

5. Initially driven by the EU, today regional cooperation is a well-informed choice on the part of the regional leaders, who are committed to furthering it. Compared to such remaining obstacles to regional integration and regional cooperation as poor infrastructure, the business environment and various non-tariff barriers, political obstacles should be ranked today as the least significant. Politically, the region is more than ever ready to assume greater ‘ownership’ in relation to regional cooperation, even though existing administrative capacity represents a certain challenge. Regional ownership is an important precondition for the sustainable character of regional cooperation. Regional ownership implies a greater role both in developing the strategies, including SEE 2020, which the RCC has made one of its top priorities, and also in the prioritisation of major regional projects funded with the support of the EC, IFIs and bilateral donors.

6. The idea of increased ‘regional ownership’ was born within the EU. Increasing the role of the region in the coordination mechanisms such as the WBIF is a particular challenge and may become a litmus test for the region’s capacity to take more responsibility.

7. The efficiency of regional cooperation can be increased by streamlining its political format. Recent initiatives for establishing, alongside existing SEECP, a narrower informal group of WB6, or WB6+1/WB6+1+1 (countries of former Yugoslavia and Albania, which belong
to the Western Balkans in the geographical sense or are integrated into it or linked with it historically) have certain rationales, as long as there is no over-institutionalisation. A narrower format could enable more frequent meetings and more focused and practical discussions of the key issues of relevance to the countries and the region. The fears of ‘ghettoisation’ in the EU’s waiting room could be alleviated by the participation of Croatia as the newest EU member from the region, by the involvement of Slovenia and – above all - by consistent support from EU.

8. The intensity and diversity of regional cooperation, whose different dimensions boast more than 40 institutions and initiatives, is – regardless of occasional inevitable overlaps – a contribution to regional stability in its own right. It is important to focus additional efforts on the areas crucial for the sustainable long-term growth of the region, which implies addressing the key current bottlenecks: infrastructure, a knowledge-based economy and innovation, competitiveness, an increase in exports and improving the business environment.

Bibliography


Chapter 1 – Introduction

The commemoration of the 20th anniversary of Visegrad cooperation in 2011 brought an opportunity to assess both positive and negative aspects of the development of the Visegrad Group. In 2014 the Visegrad countries will celebrate 10 years of membership in the European Union (EU), which will provide them with an opportunity to analyse thoroughly their – and the Visegrad Group’s – performance on the EU level. As regards the support for EU enlargement policy, one can see that the positions of individual V4 countries, as well as the Visegrad Group, have always been positive. In the pre-accession period the V4 countries naturally wanted to keep the enlargement policy as one of the key EU priorities, since all four wanted to become EU members. After 2004, the open door policy remained one of their and Visegrad Group’s key foreign policy priorities, also because of the existence of well-established contacts with countries aspiring for membership. It can therefore be argued that the V4 occupies a crucial role regarding the future of EU enlargement policy.

The main aim of this study is to assess the current and future possibilities of cooperation between the Visegrad Group and countries aspiring for EU membership, with a primary focus on the Western Balkans countries and Turkey. Though the study takes into consideration different levels of engagement of V4 countries in south-eastern Europe, the main focus is on the role played by the Visegrad Group as such. Besides focusing on the political level of cooperation, sectoral and procedural dimensions of collaboration with Western Balkans countries and Turkey are also analysed.

Chapter 2 – V4 in the EU

Joint accession to the EU was in the interest of all four countries and it also strengthened the sense of solidarity within the group. The Visegrad Group itself became an instrument for achieving integration into the EU and a strategic platform for discussing issues related to the pre-accession process. Exchanges of information and experience were held on a regular basis within the Group, as well as with non-V4 partners.

The achievement of a primary goal – accession to the EU – can be considered a great success of individual countries, but also a great achievement of the Visegrad Group as a whole. Taking this into account, it did not come as a surprise that the V4 needed some time to redefine its priorities and develop new ones. Though the priorities for the post-accession
phase were embodied in the so-called Kroměříž Declaration,\textsuperscript{1} which was adopted only weeks after EU accession, as well as in the guidelines of Visegrad cooperation,\textsuperscript{2} the V4 itself had to pass through a certain transitional period before it adapted to new circumstances. A very specific ‘enlargement fatigue’ was, however, soon overcome and the V4’s role in the EU started to increase steadily, thanks partly to wisely used coordination and consultation mechanisms.\textsuperscript{3} Perhaps the most important achievement of the Group in the post-accession period was represented by joining the Schengen system, though the list of cooperation areas also included several new issues. Among them, the issue of energy security, the closer coordination of positions on the EU level, as well as the development of relations with the Eastern neighbourhood and Western Balkans countries are particularly worth mentioning.\textsuperscript{4}

As in the pre-accession phase, a certain diversity of views characterised the post-accession period. Examples of different positions from the post-accession period included, for instance, the EU Reform Treaty later known as the Lisbon Treaty, or attitudes towards the independence of Kosovo. While the differences regarding attitudes towards the Lisbon Treaty were successfully overcome, in the case of the independence of Kosovo Slovakia maintains a different position than the other three Visegrad countries. Despite the fact that the Slovak position towards the independence of Kosovo is unlikely to change soon and Slovakia will most probably continue to belong to the group of ‘non-recognisers’, Slovak official representatives speak about the need to integrate the whole region, which implicitly includes Kosovo, and continuously express their support for the continuation of a dialogue between Belgrade and Pristina.

\textbf{Chapter 3 – Relations with the Western Balkans and Turkey}

All in all, though the Western Balkans occupy different positions among foreign policy priorities of the V4 countries, the Visegrad Group expresses its support for the Western Balkans countries unanimously. On the one hand, the Visegrad countries – as EU member states – can actively shape EU policies towards the Western Balkans while, on the other, they can assist Western Balkans countries in meeting EU requirements.

At first glance the Visegrad and Western Balkans countries display a number of differences. The latter are, for instance, far more ethnically heterogeneous than their Visegrad counterparts and one of the consequences of the war from the 1990s is a high number of displaced people. They also differ in the level of socio-economic development and level of approaching the EU (and NATO). The unfinished process of state-building and problematic relations with neighbours are still characteristic traits for some Western Balkans countries.

\textsuperscript{1} “Declaration of Prime Ministers of the Czech Republic, the Republic of Hungary, the Republic of Poland and the Slovak Republic on cooperation of the Visegrad Group countries after their accession to the European Union,” 12 May 2004 http://www.visegradgroup.eu/documents/visegrad-declarations/visegrad-declaration-110412-1.


\textsuperscript{3} The coordination of positions can be demonstrated through the regular meetings of representatives of V4 countries, including prime and foreign ministers, before important meetings held on the EU level.

Despite existing differences, the interest of the V4 in the Western Balkans is underpinned by a number of factors. The Visegrad countries, for instance, consider their experience gained from the processes of transition to democracy and a free-market economy, as well as from the accession process, as unique and easily transferable to Western Balkans countries. Another reason is the complementarity of V4 and EU priorities – both consider the Western Balkans to be an important foreign policy priority. The economic dimension is also worth mentioning – the developing markets of the Western Balkans countries and the ongoing processes of privatisation provide the Visegrad countries with an opportunity to play a more active role in the region. In addition, the Western Balkans has been one of the priority regions of official development assistance for three V4 countries. Furthermore, there exists an assumption that the Visegrad model of regional cooperation as such also serves as an inspiration for the Western Balkans. Last but not least, cultural, historical and to a large extent also linguistic proximity makes the V4 a natural advocate of the Western Balkans countries aspiring for EU membership.

Turkey, however, is perceived to be a ‘different’ rather than ‘similar’ case by the Visegrad countries. The possibilities for know-how transfer from both transition and integration processes are very limited and so are the prospects for the ‘export’ of the Visegrad model of regional cooperation. The support for Turkey’s membership in the EU is stable in the case of all Visegrad countries and Turkey is considered to be an integral part of the EU enlargement process, but in many regards it is perceived as a specific case.

Chapter 4 – Focus On A Group Perspective

Though the support of individual Visegrad countries is important for integration ambitions of the Western Balkans countries, the voice of the Visegrad Group is even more important. The reason is simple – the combined voices of the Visegrad countries in the European Council are currently higher than the voices of Germany and France together. This fact makes the V4 a respected grouping on the EU level and – equally – an important advocate of the open door policy and enlargement process.

In order to assess the current status quo and prospects for cooperation between the Visegrad Group and the Western Balkans, three levels of cooperation are considered. First, achievements and opportunities on the level of political cooperation are discussed. Second, the focus is on possibilities related to procedural know-how sharing. Third, sectoral aspects of cooperation are assessed.

As already mentioned, the Visegrad countries and the Visegrad Group as a whole have for a long time supported the integration of the Western Balkans countries in the European

5 In this regard Poland is an exception – none of the Western Balkans countries is on the list of priority recipients of Polish Development Assistance. See Ministry of Foreign Affairs of the Republic of Poland, “Partner countries,” Undated http://www.polskapomoc.gov.pl/Partner,countries,162.html.

6 The new institutional settings will change this favourable situation and the weight of the V4 measured by the number of votes will decrease. The new status quo, however, might more often bring together the V4 and non-V4 EU members or even groups of countries.

7 See also Tomáš Strážay, “Visegrad Four and the Western Balkans: A Group Perspective,” Polish Quarterly of International Affairs 21, 4 (2012).
Union. Such support is embodied in a number of Visegrad Group documents, including the Kroměříž and Bratislava Declarations, Presidency programmes or ministerial statements.\(^8\) Regular summits of the foreign ministers of the Visegrad countries and their counterparts from Western Balkans countries have been taking place in the autumn since 2009, when the Hungarian V4 presidency introduced this informal procedure. It is also worth mentioning that representatives of the European Commission also attend the summits of V4 foreign ministers and their counterparts from the Western Balkans.\(^9\) Thanks to the support of the Visegrad Group, there were some significant achievements made in the framework of the enlargement process – in 2010 Montenegro achieved candidate status and in June 2012 the country officially started negotiations with the EU. In 2012 Serbia was granted candidate status and in 2013 it was also given a date for beginning accession negotiations. Last but not least, the accession of Croatia to the EU in July 2013 would not have been possible without the political support of the Visegrad countries, both on a regional and a bilateral level.\(^10\) The strong support of the Visegrad Group for the continuation of EU integration and the enlargement process is also embedded in the joint declaration of the V4 and Croatian foreign ministers, which was adopted on the occasion of Croatia’s accession to the EU.\(^11\)

Though the regular meetings of the representatives of the V4 and Western Balkans countries are held primarily at the level of foreign ministers, it is also worth highlighting the importance of the meetings of political directors and heads of analytical departments. Such meetings allow the V4 and Western Balkans countries representatives to discuss political issues from a more detailed perspective. In addition, though the parliamentary dimension of cooperation between the V4 and the Western Balkans has not been very intensive so far, the joint meeting of the committees on public administration and regional policy of the parliaments of the Visegrad countries and Croatia might serve as an inspiration for other initiatives.\(^12\) Another example might be the meeting of European affairs parliamentary committees of V4 countries and Croatia.\(^13\)

Before assessing the possibilities of procedural (or institutional) know-how transfer, the level of institutionalisation of the V4 has to be taken into consideration. The Visegrad

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\(^13\) See Polish Presidency of the Visegrad Group, “Calendar of Events of the Polish V4 Presidency (July 2012-June 2013),” http://www.msz.gov.pl/resource/ca6d9527-3019-4953-9bf4-d52c9ce42ab1:JCR.
Group is characterised by weak institutionalisation, which means that its institutional structures are basically limited to the only existing standing institution – the International Visegrad Fund (IVF). However, during more than 20 years of its existence procedures of cooperation have developed very well in the V4 and encompass both political and sectoral cooperation.

It can be argued that the Visegrad cooperation has already become an inspiration for developing serious regional projects in the Western Balkans. The establishment of the free trade area in the Western Balkans under the name Central European Free Trade Agreement in 2006 (CEFTA 2006) proves that a model that was originally born in V4 countries can also be implemented in the Western Balkans region. CEFTA enabled the Visegrad countries (and other countries of a ‘wider’ central Europe – Bulgaria, Romania and Slovenia) to prepare themselves for entering the EU single market, while the parties of the CEFTA 2006 initiative have exactly the same goal.  

CEFTA itself can therefore be considered as perhaps the most efficient example of know-how export of the Visegrad Group in the Western Balkans.

The ongoing discussion regarding the establishment of the Western Balkans Fund—with a similar focus as the Visegrad Fund – can be used as another example of institutional know-how transfer to the Western Balkans. The idea of establishing such a fund in the Western Balkans was initially developed by the International Centre for Democratic Transition (ICDT) in Budapest. An international group of experts on civil society and regional cooperation developed it in the first half of 2011. Similarly to the IVF, the so-called Western Balkans Fund is expected to be created by the governments of interested Western Balkans countries and should mainly support people-to-people contacts, cooperation among civil society organisations, as well as cross-border cooperation. The contributors are to be the governments of the involved Western Balkans countries, though the feasibility study also calls for the V4 governments and other state and non-state actors to match the Western Balkans countries’ contributions with a similar amount. Though the date for the establishment of the Western Balkans Fund has not yet been announced and the list of participating countries or its budget is still to be made public, official talks of the representatives of the Visegrad Group, International Visegrad Fund and Western Balkans countries show that all sides are taking this intention seriously.

As regards sectoral cooperation, only a few achievements can be highlighted. Though the V4+Western Balkans format has been used regularly on the political level, in terms of sectoral cooperation such collaboration is still quite rare. The analysis of Presidency Programs and Annual Reports (2003–2004 – 2012–2013) provide us with quite a short list of examples of cooperation held in the V4+Western Balkans format.

14 The contracting parties of CEFTA 2006 are Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK (on behalf of Kosovo). The main goal of CEFTA has been to expand trade in goods and services, eliminate barriers to trade among the involved countries, as well as to foster investment. It also aims to harmonise provisions on modern trade policy issues, such as competition rules and state aid. The Agreement provides a framework for the involved countries to prepare for EU accession, and thus CEFTA 2006 continues the tradition of the original CEFTA, whose founding members are already EU members. For more details see www.cefta2006.com.


16 All Presidency Programs and Annual Reports are available on the official website of the Visegrad Group, www.visegradgroup.eu.

17 See also Stražay, “Visegrad Four.”
One of the examples of sectoral cooperation involves defence. The meeting of the V4 ministers of defence and their counterparts from Bosnia and Herzegovina, Macedonia, Montenegro and Serbia took place during the Hungarian V4 presidency in October 2009. The main purpose of this meeting was to discuss in detail the NATO and EU integration process of the Western Balkans countries, as well as a possible V4 contribution.\textsuperscript{18}

V4-Western Balkans cooperation was perhaps most visible in the energy sector. Though in 2006 the extended V4 meeting of executives responsible for energy sector included only a representative of Croatia (representatives of Austria, Romania and Slovenia were also present),\textsuperscript{19} the V4+ Energy Summit held in Budapest in January 2010 counted on the participation of representatives of several Western Balkans countries. Bosnia and Herzegovina, Croatia and Serbia were also co-signatories of the Summit Declaration, together with the Visegrad countries, Austria, Bulgaria and Romania.\textsuperscript{20} The Summit initiated the creation of several working groups, including a V4 working group on the north-south interconnection. The extended meeting of this working group plus Croatia was held during the Slovak V4 presidency in September 2010.\textsuperscript{21} The more intensive inclusion of Croatia in the meetings on energy security results from its importance in the north-south interconnection. It is also worth mentioning that the Czech V4 presidency (2011-2012) succeeded in the preparation of a Memorandum of Understanding on North-South Interconnections in Central-Eastern Europe, which was signed by the V4 countries, Austria, Bulgaria, Croatia, Germany, Romania, Slovenia and the European Commission.\textsuperscript{22}

Other cooperation initiatives in the V4+ Western Balkans format included the justice and home affairs sectors. The discussed issues included the fight against corruption\textsuperscript{23} and judicial training.\textsuperscript{24} A meeting of V4 justice ministers + Croatia and Slovenia was held under the Czech presidency.\textsuperscript{25} The Czech presidency also managed to organise the 2\textsuperscript{nd} Ministerial conference of the Prague Process,\textsuperscript{26} which focused primarily on issues related to asylum and
migration. The joint declaration was signed by the ministers from EU countries, the Commonwealth of Independent States, the Western Balkans and Turkey.27

Transport seems to be a promising area for the development of cooperation, though so far only Croatia has taken part in the extended summit of V4 transport ministers.28 Croatia also took part in the extended meeting of V4 economy ministers.29

In contrast with the V4 engagement in the Western Balkans, the Visegrad Group’s policy towards Turkey practically does not exist. The aforementioned declaration on asylum and migration can therefore be considered rather an exception than a rule. Turkey is perceived as an integral part of the enlargement process, but is not mentioned expressis verbis in any of the joint V4 declarations. Sectoral cooperation between the Visegrad Group and Turkey also does not exist, with the exception of very few examples. Then on-existing policy of the Group is in contradiction with the quite intensive development of bilateral relations between Turkey and all four Visegrad countries. The recent official visit of Turkey’s prime minister Erdogan to Hungary, Slovakia and the Czech Republic, as well as the warm welcome he received from the three V4 prime ministers are a clear sign that Turkey is perceived as an important bilateral partner.30 In this case Poland does not differ from its V4 partners – Turkey is perceived as a strategic partner by the Polish authorities. Therefore, the decision of the Hungarian V4 presidency (2013-2014) to invite the Turkish foreign minister to the annual V4 plus the Western Balkans ministerial summit scheduled in 2013 can be appreciated. The summit can hopefully be considered as the beginning of a more intensive cooperation in the Visegrad Group-Turkey format, not just on the political, but also the sectoral level.

Chapter 5 – Specific Role of the International Visegrad Fund

The International Visegrad Fund remains the only V4 standing institution. The purpose of the Fund was (and still is) to facilitate and promote the development of closer cooperation among the Visegrad countries and its establishment in 2000 can be considered to be the real milestone in Visegrad cooperation. Since its creation it has attracted a growing number of

28 The topic of the meeting was “At the beginning of the new financial framework: exchange of experience in the implementation of infrastructure projects using EU funds,” so the participation of Croatia – as a soon-to-be EU member – can be considered as a natural step. Other participants were the three Baltic countries, Bulgaria, Romania and Slovenia. See “Calendar of Events.”
29 Ibid.
applicants with every deadline. Initially offering a single grant programme, the Fund currently operates several grant programmes, a curriculum-building university studies grant, multiple student scholarships and research fellowships, as well as artist residencies.

The Fund started with the modest budget of EUR 500,000, but already in 2012 it reached EUR 7 million. Equal contribution to the budget also means that funding is equally distributed among applicants from all four Visegrad countries. Taking into account obvious differences in the size and population of particular countries, this might serve as another argument that equality and solidarity are leading principles of the Visegrad cooperation. Besides regular contributions of the V4 governments, other donors are also encouraged to contribute to the financing of project activities. The Ministry of Foreign Affairs of the Netherlands, for instance, contributes significantly to the Visegrad 4 Eastern Partnership Program (V4EaP) focusing on the Eastern Partnership countries.

Regarding the Fund’s activities in the Western Balkans, it is important to mention that the Fund began opening towards non-V4 applicants in 2004, after the adoption of the Kroměříž Declaration and Guidelines on the Future Areas of Visegrad Cooperation by the V4 governments. The Western Balkans soon became one of the long-term priority regions. Despite the fact that the Fund’s funding has gone mostly to the countries of the Eastern Neighbourhood, the importance of the Western Balkans is gradually increasing (Serbia, Albania and Macedonia being the major recipients). Though applicants from Turkey might submit their application within some of the existing grant schemes, a specific grant scheme for Turkey has not yet been developed. From this point of view, the participation of Turkey’s foreign minister in the Visegrad+ Western Balkans ministerial summit might also serve as a stimulus for the creation of a separate programme or grant scheme for Turkish applicants.

Chapter 6 – Main findings

EU enlargement policy ranks high among foreign policy priorities of the Visegrad countries, as well as the Visegrad Group as a whole. Nevertheless, as regards concrete Group initiatives, cooperation with the Western Balkans is much more intensive than with Turkey. Though Turkey is considered to be an integral part of the enlargement process, on the V4 level the Czech Republic, Hungary, Poland and Slovakia give priority to the Western Balkans. While cooperation with Western Balkans countries is intensifying in all three examined levels of cooperation – political, procedural and sectoral – the position of Turkey is negligible. In addition, none of the programmes initiated by the International Visegrad Fund focus on Turkey. This finding is in contradiction with the intensification of bilateral relations between the V4 countries and Turkey, both in terms of political and economic cooperation. It can therefore be concluded that the Visegrad Group has not yet discovered the potential of Turkey— and vice versa.

As regards the Western Balkans, with the exception of the political level, cooperation between the Visegrad Group and the Western Balkans has not been very dynamic. On the political level the Visegrad Group has proved to be a committed advocate of the region in the EU and a supporter of the integration ambitions of Western Balkans countries. Main-

taining the tradition of organising one Visegrad+ Western Balkans ministerial meeting per year serves as evidence that the Western Balkans countries can count on the support of the V4 in the future. The involvement of other stakeholders in different forms of political cooperation, including political directors or heads of departments, also plays an important role. However, coordination of official development assistance and its targeting still remain a challenge.

Regarding the procedural level of cooperation, one can see that the Visegrad Group already serves as a source of inspiration for the Western Balkans region. The example of CEFTA 2006 shows that sharing of know-how not only concerns individual Visegrad countries, but can be applied to the Group level as well. Another example could be the so-called Western Balkans Fund, which is based on the experience – and example – of the International Visegrad Fund.

The analysis of Presidency Programmes and Annual Reports (2003-2004 – 2012-2013) shows that sectoral cooperation between the Visegrad Group and Western Balkans countries is still not very intensive. In fact, there are a number of partners from regions other than the Western Balkans whose cooperation with the Visegrad Group is more regular and intensive. In addition to other countries (or groupings), Bulgaria and Romania in particular have played an increasingly important role as regards the V4+ format. It is worth mentioning that cooperation with Bulgaria and Romania developed significantly after the accession of the two countries to the EU – from this point of view, Croatia also seems to be a strong candidate for enhanced cooperation with the V4. In fact, among all Western Balkans countries Croatia has played the role of the most frequent partner of the Visegrad Group in the V4+ format. Nevertheless, areas like energy, justice and internal affairs might also continue to be in the interest of other Western Balkans countries that remain – for the time being – beyond the EU borders.

Chapter 7 – Conclusion

The possibilities of cooperation between the Visegrad Group and the Western Balkans – and especially with Turkey – are far from exhausted. Cooperation can further develop on the level of sectoral cooperation. With the accession of Croatia to the EU, the group of Western Balkans countries ‘lost’ an important member that was chosen most frequently by the Visegrad partners. Nevertheless, the V4+ format enables the Visegrad Group to deepen sectoral cooperation with all interested Western Balkans countries, as well as Turkey.

Besides taking the International Visegrad Fund as an inspiration for establishing a similar institution in the region, Western Balkans countries could learn more from the Visegrad model of regional cooperation. V4 experience is valuable especially when taking into account the fact that the Western Balkans is still looking for an efficient and viable form of regional cooperation that would encompass all relevant stakeholders in the region. On the other hand, the experience of the Visegrad Group in this particular area has practically no relevance for Turkey.

As mentioned above, cooperation with the Western Balkans has been most intensive on the political level. However, more emphasis should be placed on the development of political cooperation between the Visegrad Group and Turkey. The annual V4+ the Western Balkans ministerial summit, with the participation of Turkey’s foreign minister, may be considered as
A European Union with 36 Members? Perspectives and Risks

a move in the right direction – though it is just the first step. Joint political initiatives could be, for instance, transformed into concrete projects realised under the umbrella of the International Visegrad Fund. All in all, the Visegrad Group is expected to remain a convinced supporter of the EU enlargement process.

In fact, there is another common aspect linking the Visegrad Group, Western Balkans countries and Turkey – interest in the future of the process of European integration. The issue of differentiated integration in the EU and accompanying challenges might affect not only the Visegrad Group’s future relations with the Western Balkans and Turkey, but also the future development of the Visegrad Group itself.

Bibliography


PART 5.

INSTITUTIONS, DEMOCRACY AND IDENTITY WITH 36 MEMBER STATES
EU36: THE IMPACT OF EU ENLARGEMENTS ON INSTITUTIONS

PÉTER BALÁZS

Chapter 1 – EU Enlargements and Institutions

1.1 Institutional Problems of Enlargements

The last, ‘big’ enlargement (2004-2007) has changed the size and nature of European Union (EU) institutions, and put some of them to a hard test. Of all the institutions, the European Court of Justice (ECJ) was the one which gained a net advantage by extending its capacities: the increased number of European judges at both levels permitted a better distribution of the workload. For the crowd of Members of the European Parliament (MEPs), the recent expansion added further participants to the various committees, but did not produce any qualitative change at plenary meetings. Concerning the European Commission, the ‘one Commissioner per member state’ principle, introduced after the 2004 enlargement, has sharpened the tensions between the growing number of Commissioners and the limited scope of reasonable portfolios. As to the European Commission officials, motivated experts from the new member states got rank and file jobs, but they could rarely qualify for higher appointments (general directors and deputies). Finally, in the Council – including all working levels from expert groups up to the newly institutionalised European Council – the jump in the number of players from 15 to 25, and later to 27, has resulted in new internal dynamics and brought to the surface latent problems.

The impact of the following enlargements on EU institutions can be forecast along the same lines. The next size of the enlarging EU could be a 36 member organisation in accordance with the regular Enlargement Reports issued by the European Commission.1 This hypothetical model would include all Western Balkans states,2 Turkey3 and Iceland.4 Progress will depend on two main conditions: the unanimous willingness of EU member states to carry out the enlargement process with individual candidates (or with groups of countries), on the

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2 The Western Balkans states with the political promise of EU membership formulated at the Thessaloniki European Council of June 2003: Serbia, Montenegro, Bosnia and Herzegovina, Macedonia, Albania, Kosovo.
3 Turkey started accession negotiations with the EU on 5 October 2005.
4 Iceland started accession negotiations with the EU on 27 July 2010, put them on hold on 13 June 2013 and formally withdraw the membership application on 22 February 2014.
one hand, and the ability and political will of the applicant countries to maintain their applications and to comply with the demanding norms of the EU, on the other. Consequently the EU36 model, which is a logical projection of the EU Enlargement Reports, is highly conditional on both sides, and no concrete date or timetable can be attached to it. In spite of the controversial feelings of certain segments of the population in EU member states and negative attitudes of some of the frequently changing national governments, the general political openness of the Union for future enlargements has been upheld. This openness is expressed by starting accession negotiations with some of the candidates and based on firm promises concerning future EU membership for the rest of them.

Institutions belong to the most rigid elements of European integration. Member states, as main stakeholders, keep the institutions under strong control. Any institutional change is considered by them, first of all, from the point of view of the political aspects of formal equality and real influence of EU countries. Fundamental institutional reforms are possible only by treaty modifications and require unanimity, but technical adjustments improving the functioning of EU institutions can be introduced without major political clashes. Such interventions were due already before the last, ‘big’ enlargement, they seem to be unavoidable in the present situation, and should definitely precede any further accession. The increased number of EU member states and the growing complexity of the multi-functional integration organisation demand bold and innovative institutional changes, including treaty modifications as well, if necessary.

1.2 Growing Size and Changing Nature of the EU

The steadily growing size of the EU, resulting from subsequent enlargements, contributes to the deepening of institutional problems. Since its foundation in 1951, in the form of the European Coal and Steel Community (ECSC), the organisation has continuously extended its functions and, later on, grown in size. As to its scope, in a long first period of about three decades, from the beginnings until the southern enlargement in the 1980s, the European Community (EC) belonged to the category of international organisations with six to nine members (such as the European Free Trade Association (EFTA), the Central European Free Trade Agreement (CEFTA) or the Association of Southeast Asian Nations (ASEAN) in their early phase etc.). In a second period of more than two decades, from the southern to the eastern enlargement (1981-2004), the EC/EU was an organisation of 10 to 15 member states, roughly double its original extent. (To this category belonged, in their initial form, before the ‘big’ enlargements, the North Atlantic Treaty Organization (NATO) and the Organisation for Economic Co-operation and Development (OECD)).


6 After the formal withdrawal of Iceland’s application (see footnote 4) the next size of the EU could be a 35 member organisation. However, the eligibility of Iceland for EU membership did not change with this political step, for this reason we maintain the ‘EU36’ hypothetical framework, in accordance with the last Enlargement Reports of the European Commission and the title of the book.

7 EU accession negotiations started with Montenegro on 29 June 2012 and with Serbia on 20 January 2014.
Since the ‘big enlargement’ (2004 and 2007), the EU finds itself in a new, third size category of international organisations of about 30 members (such as the Organization for Security and Co-operation in Europe (OSCE) in its original form or the enlarged NATO and OECD today). Such organisations are fundamentally different from the above two smaller categories, as they need strong executive bodies which dominate and guide the activities and report back to the member states. For organisations reaching this size by growth, the most striking new phenomenon is the emergence of internal grouping and segmentation among previously more homogeneous members. After the ‘big’ enlargement, in the process of harmonisation of interests, new and spontaneous internal dynamics occurred. The members also began to distinguish among themselves: ‘old-new’, ‘big-small’, ‘rich-poor’, ‘North-South’ etc. Such categories, and their combinations, have gained a strong role in coalition building during decision making and the selection of top officials.

Our projection of the future size and quality of institutions of an enlarging EU sheds more light on those latent or open contradictions, which hold back EU action today, and would become unbearable with an increased number of member states in the future. The basic hypothesis is the following: as regards the functioning of EU institutions, the next potential enlargements, bringing the number of member states in the above manner from 28 to a maximum of 36, would not add any new sources of institutional problems to the existing ones: they would just broaden the ongoing crisis of EU institutions. First of all, the foreseeable expansion of the organisation would bring another sharp increase in the number of ‘players’, and would thereby deepen some actual, well-known or hidden problems and produce new tensions. Let us take a closer look at these aspects one by one.

The ‘well-known’ problems are connected, first of all, with the dominant role of the member states. The far-reaching direct presence of the EU countries in all main EU institutions, and their formal equality – in many respects – in the decision-making process, are at the origin of several dysfunctions of the organisation. By adding new member states to the EU, there would be a further upsurge of such problems. The ‘hidden’ problems are mostly the consequences of limited – or missing – transparency and accountability of some of the EU institutions as well as the insufficient representation of citizens. Such phenomena are often defined under the headline of “democratic deficit.” New EU members coming from the outer peripheries of Europe, with considerable deficiencies in implementing democratic norms and rules, would certainly sharpen such problems. And finally, ‘new tensions’ may arise from the high number of relatively small states with backward economies in the Western Balkans, on the one hand, and the huge size of Turkey alone, on the other. Both aspects of size are familiar within the framework of the EU28, too, but have seemed tolerable so far. However, they would surely overload the institutional structure of the EU, once all the candidates on the waiting list join the organisation. New tensions may be generated also by non-compliance with EU norms and rules of the new members, which would necessitate a well-defined set of norms and procedures of ‘post-accession conditionality’.

In this chapter we concentrate on the most important institutional aspects of further EU enlargements to up to 36 potential members. First of all, we analyse the problems attached

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to the direct representation of the member states in EU institutions, leading to a kind of ‘executive type’ European governance. Furthermore, we take a sectorial view to the two-level European governance in order to highlight some shortcomings of the institutions’ efficiency and a few special aspects of the ‘democratic deficit’. And finally, we try to shed some more light on potential new institutional problems caused by further enlargements widening — among others — the ‘stability gap’ between and among EU institutions, which also includes a ‘representation gap’ along the vertical axis of governance connecting the member states and EU institutions.

Chapter 2 – Problems of ‘Executive Type’ Governance

2.1 The Symbolic Role of the European Commission

Direct representation of member states in EU institutions is, within some reasonable limits, a legitimate political objective, because of their permanent fear of “authority migration.”

Before the Lisbon Treaty, the Council assured the main forum for the permanent presence of the members, even if their representatives changed frequently, because of government fluctuations in home politics. The rotating six-month Presidency ensured a regular and equal opportunity for the member states to test their leadership qualities at the highest European level. During the half-year period, the prime minister and the foreign minister of the country of the Presidency played an eminent role in managing European governance issues. In parallel with this practice (before November 2004), the European Commission included two members from the ‘big’ and one member from the other member states each.

Furthermore, a few top jobs assured a spectacular symbolic presence of the member states at the highest level of EU institutions, like the Speaker of the European Parliament (EP), the Presidents of the ECJ, of the Court of Auditors, of the European Central Bank (ECB), of the European Investment Bank (EIB), of the Statistical Office.

The Lisbon Treaty modified the picture of the member states’ representation at the top of EU institutions by introducing some important changes. The new positions — the permanent president of the European Council and the High Representative (HR) for the Common Foreign and Security Policy (CFSP) — added two more, highly visible functions, but only the latter is counted as a ‘member state position’ (the HR being one of the vice-presidents of the European Commission). At the same time, the role of the rotating Council Presidency has sharply declined, and the two former leading figures, the prime minister and the foreign minister in the chair of the Council, lost their traditional influence on EU governance matters. In this perspective, member states attached an increased — even exaggerated — importance to their symbolic position in the European Commission.


Germany, France, Italy, United Kingdom (UK), Spain.

Within the European Commission other influential positions were also assigned with an eye on the proportional representation of the member states: Director Generals, Secretary General, Cabinet Chief of the President etc.

In particular, during the European Convention, the candidate countries insisted on maintaining the
state’ principle pushed to the background all attempts to apply more positive selection criteria for the future Commissioners and diminish the threat of national counter-selections of candidates guided by internal political considerations. Endeavours to proceed in a more demanding manner for ‘finding the person for the job’ failed, and the Commission President had to pursue the well-known ex-post optimisation method of ‘finding the job for the person’.

The Lisbon Treaty prescribed the reduction of the number of Commissioners to two thirds of the number of member states by 2014, but the European Council postponed the implementation of this disposition in an almost unnoticed action. With that, the credibility gap of the European Commission did not diminish: there are obviously more Commissioners than reasonable portfolios connected with EU integration activities. This situation leads to highly uneven workloads and huge differences in the political visibility of Commissioners. The greatest concern from the angle of democracy is the institutionalised breach between the selection of the Commissioners attributed to the member states and their accountability which is located – in principle – at the top EU level, but is in practice non-existent. Trust could be re-established if selection and accountability are closely linked with each other, be it in the member states or at EU instances.

After the Lisbon Treaty, the number of top-level EU institutions composed directly from member states’ representatives and involved in decision making has practically doubled. An additional forum emerged following the separation of the General Affairs Council (GAC) from the Foreign Affairs Council (FAC). The GAC, which is functionally attached to the newly institutionalised European Council, created one more high-level instance for direct interference of the member states into the preparations of top EU decision making. However, from a political and technical viewpoint, the GAC has some overlapping functions with the higher – ambassadorial – level of the Committee of Permanent Representatives (Coreper II). At the same time, the newly institutionalised European Council has some parallel governance functions with the European Commission, with obvious legal and political differences between the two, but with some discernible collisions in the field of initiatives and representation. Observers also found that the European Commission and the Coreper structure of the Council awake doubts about mutual parallelism as far as their composition is concerned. Some critical voices claimed that the Commission in its new setup, based on the ‘one Commissioner per member state’ principle, may appear as a kind of ‘Coreper III’. On the basis of experience obtained from the implementation of the Lisbon Treaty, the question of member states’ direct representation, leading – among others – to an overlapping of functions, should be reconsidered before any future enlargement, which could further deepen all existing tensions and contradictions.

\(^{14}\) Article 17 (5) Treaty of the European Union (TEU).

\(^{15}\) Two years before the deadline set by the Lisbon Treaty, the European Council decided that the review of the number of Commissioner should take place “in sufficient time in advance of either the appointment of the first Commission following the date of accession of the thirtieth Member State or the appointment of the Commission succeeding that due to take up its duties on 1 November 2014, whichever is earlier”. European Council, European Council decision concerning the number of members of the European Commission, EUCO 176/12 (Brussels: European Council, 2012), 4.

Undoubtedly, all major EU institutions bear some intergovernmental character, because the representation of the member states is visible in their construction to various degrees. This characteristic also determines the quality of their performance by guiding, and often limiting, the choice of top leaders and further increasing the element of compromise in decision making. In the whole of the EU’s institutions, national presence and influence are more intensive than is necessary or justified. Community objectives are often subordinated to the short-sighted bargains and compromises of the member countries, and the well-balanced ‘community method’ is weakened by the interference of member states’ interests at various phases. Mistrust and the need for permanent control on behalf of national governments are also expressed in the implementation phase by assisting the European Commission in the framework of ‘comitology’.

2.2 More Actors than Sectors

There is strong evidence proving that organisations where the number of actors is higher than that of functions try to simplify the actor side of the management matrix. International organisations with about 30 actors usually belong to that category and, for the above-mentioned reason, tend to build core executive bodies which are elected by, and responsible to, the plenary meeting of the participants. In most international organisations of this size, such organs are in charge of the main activities, whereas general assemblies of the members hold regular, but not too frequent meetings for defining the political objectives and controlling the activities of the executives. In the EU, the rotating Presidency, and later on the Troika, followed by the Trio, tried to play this executive role, sharing the tasks of preparation and implementation with the European Commission. However, after the institutionalisation of the European Council President’s permanent seat, introduced by the Lisbon Treaty, the role and importance of the rotating Council Presidency is fading away. Today the most powerful institution of the EU is, without any doubt, the Council uniting representatives of all the member states. The plenary meetings of the various formations of the Council of Ministers and the several technical working levels are running at the high frequency of an executive body. The actual characteristics of this huge policy making and managerial head of the EU are at the origin of three main problems, each of them being rather complex in itself:

First, the ‘big’ enlargement has brought about a qualitative jump in the number of member states’ representatives. Today, 28 primary decision-makers sit around the table of the Council with equal speaking opportunities. The large number of participants results in time-consuming discussions or, in order to make them shorter, informal decision making, or decision-shaping by the most powerful member states behind closed doors. In the EU15, with five minutes of speaking time for all participants, one round took – in theory – 1 hour and 15 minutes; in the enlarged EU of today it would take 2 hours and 10 minutes, which is

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18 The Troika consisted of the previous, present and following sixth-month Presidencies in a rotating system. The Trio is the interconnection and joint activities of three subsequent Presidencies embracing an 18-month period (see the composition of the Presidency Trios between 2007 and 2020 in Appendix 2).
beyond the limits of patience and concentration of most of them. The number of potential bilateral relations between and among the member states increased from 105 to 378.

The multitude of participants renders coalition building more difficult and increases the chances of veto. The number of potential six-member coalitions (the size of the original EC and an appropriate ‘critical mass’ of member states for launching any initiative) grew from 715 to 14,950. These are only the figures for the ‘realistic’ six-member groupings including at least two big member states; the overall number of coalitions composed by any selection of six countries grew from 5,005 to 376,740. The simultaneous physical presence of high-ranking government politicians strengthens also the feeling of equality of member states in many respects, including illusions about contributions and burden sharing.

Second, EU Council meetings necessitate the frequent presence of governing politicians, officials and experts diverting them from their original and main task of national governance. Participation in European-level governance is obviously part of their job, but national inputs into joint EU Council decision making seem to be higher than the added value of such decisions to national governance. The growing number of EU member states has rendered EU internal coordination more complex. Without contesting the usefulness of the two-level European governance model in the EU framework and the necessity of the division of competences between the national and Union levels, we have to state that the workload of the EU Council on national governments is over-proportional. Future enlargements would further extend these weaknesses from the centre to the periphery; European governance would occupy more national governments and take more time.

Third, the European governance model is predominantly actor-centric with reduced representation of government functions and an almost total lack of trans-sectorial considerations. As a result of this unbalanced structure, the policy cycle is shrunken to short-term and mainly actor-based compromises, missing reasonable longer-term objectives and compromises concluded between policy options. These distortions have deepened since the 2004 ‘big enlargement’, when the number of actors (member states) exceeded, for the first time in the history of EC/EU, that of more or less integrated government functions. Any further enlargement would make the situation more complicated, if no fundamental changes happen.

No organisation with 28 and more players can function smoothly, if all the participants (member states) are present at all major decision-making meetings. This kind of ‘permanent general assembly’, or ‘executive type functioning’ may paralyse the whole organisation. That happened with the EU after the ‘big enlargement’ of 2004. At this stage, international organisations often subdivide the structure into constituencies (International Monetary Fund (IMF)), caucuses (United Nations (UN)) or other sub-groups of member states. The EU finds itself already at the lower edge of this critical size, and warning signals are well detectable, but the member countries still insist on their direct presence at all levels of Council decision making. Next enlargements would further increase the number of participants and render cooperation and decision making even more complicated.
Chapter 3 – European Governance by Sectors

3.1 Various Degrees of Competences

As we have already pointed out above, with the ‘big’ eastern enlargement the number of players (member states) in the EU has surpassed that of the functions (sectors). Such a turn would have provoked fundamental modifications in the institutional structure in any market-based organisation, but in the EU no steps forward could be taken from the original pattern of member state-based thinking. The direct representation of the EU countries as well as the faith in an ideal functioning of the ‘four pillar’ system – consisting of the Parliament, Council, Commission and Court – constitute the cornerstones of the EU institutional structure. The emerging internal tensions and contradictions of this structure have already been manifested by the refusal of the draft Constitutional Treaty in France and the Netherlands (2005) followed by an almost two-year-long political crisis (until 2007), and more recently by slowness in taking action in response to the international economic crisis (2008-2011).

EU integration started with the objective of transferring competences from the member states to their community. The idealistic spill-over concept would result – in principle and in the remote future – in an almighty European federal state. This concept was based on two mutually exclusive categories of competences: member state and community powers. The relatively easy beginnings of closer community cooperation have fed high expectations concerning the effects of centralisation. At the EU level, the number of more or less integrated sectorial government functions, embracing exclusive EU competences and those shared with the member states, increased gradually to about 20. Today this list includes the sectors mentioned by the Treaty in connection with the distribution of competences (Appendix 1). Integration developments have added ‘coordinating’ activities, too. The Lisbon Treaty created also the new category of “supportive” competence, being the descendant and the fruit of the “open method of coordination.”

Currently, the number of sectors under any form of EU governance corresponds to the division of functions within a well-structured national executive. However, the form and degree of common competences is diverse, embracing several categories. Articles 3 to 6 TFEU distinguish altogether four types: exclusive, shared, coordinated and supportive competences. Adding the intergovernmental cooperation in foreign and security policy and the competences remaining in national hands (defence etc.), the simultaneous presence of six different levels of integration (or non-integration) can be stated in the EU, including nearly 30 government functions. In this situation, it is understandable that the ‘common denominator’ of those various common, harmonised, coordinated or framed activities done

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20 From a legal point of view, the coordinating functions, according to Article 5 Treaty on the Functioning of the European Union (TFEU), are not considered as a category of EU competence. However, from governance and political aspects of this activity, policy coordination is a similar integrative function like the supportive competence in Article 6.

21 Rik de Rutter, The Open Method of Coordination: On third ways in EU-governance (Florence: European University Institute, 2010), p. 2-7.
directly by the representatives of the member states. The level of EU competences is different from one area to the other, but it is homogeneous within the same sector. As a result, the sectorial Council formations have become the most appropriate fora of interest harmonisation and, with that, the most powerful institutional axis of cooperation and common decision making. In spite of some serious institutional deficiencies, mentioned above, the actual structure of the Council is rather stable, for two main reasons. First, the political willingness of the member states has reached its limits in most areas of common governance concerning the depth of integration. Second, no further evolution of EU competences can be expected in the foreseeable future, apart from the stabilisation of the Eurozone.

3.2 The Problems of Trans-sectorial Governance

National governments subdivide the tasks of governance by sectors, in line with long-lasting traditions. The usual dimensions of sectorial subdivision deliver 15 to 20 portfolios, but there are examples for smaller or larger governments as well. The primary sphere of interaction within national executives is inter-sectorial. Policy objectives, as the core elements of the policy cycle, are determined by the political programme of the government. Government programmes, in accordance with their mandates, embrace medium-term legislative periods; they are accompanied eventually by longer-term plans and programmes on a wider political basis. At the national level, governance focuses on the identification of conflicting sectorial interests, their prioritisation and optimal solution, in harmony with the government programme. Interest groups (regions, civil movements etc.) are not directly represented at this level; their wishes are taken into consideration in the preparatory or implementing phase.

At the EU level, the Council’s decision making and legislative activities are a priori subdivided into sectorial formations, separated from each other. From the viewpoint of the sectors, the various Ministerial Councils are homogeneous bodies, as only finance ministers, transport ministers etc. sit around the table. The individual participants, coming from the same sector of all the member states, represent particular ‘regional’ interests. Consequently, the primary sphere of conflicts is region (member state) based, and policy solutions take the form of compromises between and among member states’ government representatives. The constitutive elements of compromises forged at the EU Council level are the national delegates’ mandates defined by their governments and based on national policy objectives or interests. EU-level policy targets, if any, are determined and described mainly by longer-term EU programmes. Such programmes are also shaped by sectors, representing the strongest cohesive dimension between and among national policies at the EU level. This phenomenon is a logical consequence of the sector-based structure of the EU Council of Ministers.

In fact, the most important policy programmes of the EU are framed by sectors, as some well-known examples illustrate. In the financial sector the Report of the ‘four Presidents’ approved by the European Council in June 2012 sets the objectives and gives a detailed ac-

22 During the discussions of the European Convention (2002-2003) new community competences were hardly touched upon; and further initiatives have not showed up since either.

23 In the EU the largest governments are, for the time being, in France with 23 ministers, competing with Sweden where 25 ministers are framed by 15 ministries; the smallest governments are in Hungary and Malta with eight ministers each.
A European Union with 36 Members? Perspectives and Risks

Another well-elaborated, long term sectorial policy programme is the Connecting Europe Facility project on the complex and multimodal development of transport, on energy and telecommunication. The Europe 2020 Strategy targeted ‘smart, sustainable and inclusive growth’ increasing employment on a longer term basis. In a recent initiative, the European Commission interconnected again the long-term improvement of energy efficiency and energy saving with environmental objectives. The fruit of intensive relations within the same government area was the informal proposal of 11 foreign ministers concerning a more engaged consolidation of the Eurozone as well as more efficient common foreign policy and implementation of EU norms and values.

If strong cohesion in individual sectors permits long-term planning at the EU level, the weakest dimension of policy integration is the interconnection and joint handling of different sectors. As we have stated above, regular interaction between and among the representatives of the different sectors is one of the main assets of governance at the national level. This approach, including the multi-angle examination of problems and proposed solutions, is the guarantee for safeguarding the complex interests of the society. At the national level, the traditional, multi-sectorial way of governance constitutes the primary field of conflicts where solutions and compromises can be found within the same political set of objectives represented by the government programme. At the next, parliamentary level of national politics, the proposal, forged within the government on a unique political and multi-faceted sectorial basis, is confronted with the political opposition. In the third, larger circle interest groups, regions, NGOs and public opinion add their comments and wishes. In a ‘good governance’ system, this outer dimension of politics is switched into the policy cycle already in the preparatory phase and maintained until the implementation period.

In the EU Council, the initial situation is just the opposite of that of national governments: while at the national level the ministers embody different sectors within the same government programme, in the EU Council ministers of the member states represent different national policy options within the same sector. This means that at the national level different sectorial interests are handled on a homogeneous political basis, whereas in the EU Council formations different political options are confronted with each other on a homogeneous sectorial basis. As seen above, the EU-wide intra-sectorial cohesion is definitely stronger than the trans-sectorial consistency of the Union’s policy. The lack of trans-sectorial, or multi-sectorial, considerations constitutes a serious obstacle to the efficiency of EU governance. This disadvantage is produced and maintained by the sector-based institutional structure of the Ministerial Council. The enlargement of the circle of actors (member states) would only deepen this problem.

24 European Council, Towards a Genuine Economic and Monetary Union, Report by President of the European Council Herman Van Rompuy, EUCO 120/12 (Brussels: European Council, 2012).
Chapter 4 – The Policy Cycle of EU Governance

4.1 The Incomplete Character of the EU Policy Cycle

A complete and well-balanced policy cycle consisting of clear policy objectives, adequate tools of implementation and strong public support is the basis of good governance. One of the main shortcomings of EU policy making is the incomplete and unbalanced character of the policy cycle.28 The starting point of the policy cycle is the setting of policy objectives. However, in the EU Council such objectives are not directly bound to the mandate and legitimacy of the participants, which are also different owing to their national origins. In EU governance the policy objective is a by-product of the strong, homogeneous, and basically short-term oriented, sectorial cooperation of the member states. For that reason, policy programmes of the EU tend to be of longer term and necessarily idealistic. One of the extreme examples was the first version of the Lisbon Strategy targeting world-wide competitiveness.29

Uneven or one-sided relationships between policy objectives and implementing mechanisms can also be observed. The extent of this disproportionality is different from one EU governance area to the other. In some sectors (e.g. agriculture, trade) the political objectives are based on a set of compromises without any clear definition of the goals; and the implementing instruments dominate the policy cycle. Such mechanisms function smoothly like well-kept machinery: all actors at the EU and national levels do their daily jobs, while longer-term policy intentions are hardly visible. In other sectors (environment, energy, employment, competitiveness etc.), well defined long-term objectives dominate, but implementing tools do not make part of the strategic concepts and financing is not sufficiently elaborated either. An appropriate intermediate framework for better harmonising policy objectives with implementation tools is the seven-year EU budget, the Multiannual Financial Framework.30 However, this financial device, assuring the overall functioning of the EU and the transfers to poorer members, is a ‘minimalist budget’ limited by the extent of the net contributing states’ political willingness. The EU budget, representing a mere 1 per cent of the EU gross domestic product (GDP), gives only the main orientations for EU spending, but does not include the national contributions generated by EU programmes, because of its ‘core’ nature.

Besides clear policy objectives and adequate tools of implementation, the third pillar of the policy cycle is public support. In the case of EU policy making, the first two elements are expected primarily from the upper, Union level of governance, whereas public support is to be obtained from the population of the EU segmented in member states, regions and localities. Public acceptance is obviously the weakest elements of the EU policy cycle.31 The fundamental reason of low popularity of the EU is certainly not the lack of self-praising

publicity, nor even the doubts awoken by various manifestations of the ‘democratic deficit’, but the weak cohesion of the whole EU policy cycle. It is extremely hard, indeed, to generate public support for idealistic, long-term objectives, or for short-term compromises fashioned by the representatives of 28 European states behind closed doors, not to speak about highly technical EU implementing mechanisms.

In the new member states, the most visible part of EU policies is the use of EU transfers: the important but rather silent cash of agricultural subsidies and co-financing of investments from the structural and the cohesion funds. EU sources financed by the taxpayers of the wealthier countries are valuable contributions to the development of poorer members, including the majority of new EU countries, and create additional possibilities for them. However, seen from the recipients’ angle – and permitting some forecasts for further enlargements – the contribution of EU money to their development has had limited effects so far. The agricultural subsidies did not stimulate the modernisation of farming, but created social tensions and generated a political race for acquiring farmland that ensures stable revenues without much input. Cohesion and structural funds, except for big transport and environment infrastructure, are dispersed for small and unimportant investments (the paving of the main square of little towns, the building of spring fountains, etc).32

Together with aid money, the new member states would have expected strong policy guidance towards their modernisation, helping to catch up with more developed old EU neighbours. Nevertheless, they had to realise that EU policy programmes are directed by and for the developed hard core, as the main deals are concluded between and among the most influential countries. Other member states usually get secondary benefits in the form of ‘side payments’. In addition, the effects of EU policy objectives have required from the new member states, from the very beginning of their rapprochement to the EU, the change of some of their priorities or the sequence of measures. In both respects, overlapping of objectives and sources could occur as well as ‘black holes’ not covered either by national, or by EU programmes.33 EU policies reflect overall targets and a lot of compromises with respect to policy objectives and implementing measures. Member states, with special regard to the 2004 and 2007 accessions, should define their own policy objectives and priorities and calculate with EU policy elements as externalities, which may help – but also set back – the attainment of their national targets. Such lessons, learned by the new members, are meaningful for the potential next accessions, too.

4.2 The Added Value of Joint Governance

Comparing the political cost-benefit balance of the national and EU-level policy cycles, we admit that national inputs into EU governance are disproportionately high and the reasons

33 Such phenomena – overlapping and ‘black holes’ in parallel – can be observed also in the direct neighbourhood of the EU that is in the pre-accession phase, for example in Bosnia and Herzegovina or in Kosovo. Iordan Gheorghe Barbulescu and Miruna Troncota, “The Ambivalent Role of the EU in the Western Balkans – “Limited Europeanisation” between Formal Promises and Practical Constrains. The Case of Bosnia-Herzegovina,” Romanian Journal of European Affairs 12, 1 (2012).
are mainly of institutional origin. In the multi-level structure of European governance the Council embodies three different dimensions. The primary, regional (intergovernmental) character is expressed by the composition of this institution, including one representative per member state at all levels, from the smallest expert group up to the European Council. The secondary structure of the Ministerial Council is centred on a sectorial subdivision of the tasks comprising, for the time being, 10 formations. The third, hierarchical sectioning subordinates hundreds of working groups to the sector-based ministerial level. Some of the working groups, composed of senior representatives of the member states, have higher responsibilities and tend to take over the real decisions from the ministerial level.

The basic structure of the Council’s organisation is a matrix resulting from the first two dimensions: member states and sector-based formations give – in a first approach – a 28x10=280 size, which is considerable in itself. Adding the third, working group dimension, the structure includes furthermore at least 28x300=8,400 actors. However, in reality, the 10 Council formations meet in 21 sectorial variations. Additional sectorial government functions are included in FAC (defence) and in ECOFIN (Eurogroup). JHA consists of two separate pillars (justice, home affairs); TTE has three components (transport, telecommunication, energy); and EPSCO handles two separate subjects (health, employment). Four further subdivisions belong usually to the same ministerial portfolio in the member states, namely trade and development within the FAC, just like budget and cohesion policy within ECOFIN. If we do not count the latter four separately, and regard defence and the Eurogroup as additional functions to EU integration, the remaining 15 sectors cover the core structure of an ordinary European government (with obvious national specificities and differences). Consequently, EU Council activities occupy in reality at least 15x28=420 national ministers.

The usual frequency of meetings gives an average of 3.3 sessions per semester, which is equal to about seven working days per year and per person. Thus, in the EU28, Council meetings require altogether 420x7=2,940 working days of government-level politicians. Occupying a minimum of seven working days per year of members of government being in charge of 15 various sectors means that the EU Council decimates national governments on 105 days a year. Counting 230 active working days of a national government per year, this signifies that almost half of active government time goes along with the absence of at least one minister because of Council meetings in Brussels, Luxembourg or in the country of the rotating Presidency. In an EU36 the increased number of ministers involved in 15 sectorial EU Council meetings would give a matrix of 36x15=540. Projecting the actual average session time of seven days a year, the EU Council would consume 540x7=3,780 government level working days in Europe, representing more than 10 full calendar year time every year.

34 Benz and Zimmer, “The EU’s competences.”
36 See Appendix 3, which explains also the abbreviations used to the sectorial council formations.
37 The sectorial subdivisions of the Council of Ministers as well as the frequency of meetings is presented on the basis of the current practice of EU Presidencies, in particular the programmes of the Lithuanian Presidency (July-December 2013) and the Hellenic Presidency (January-June 2014).
38 Calculating with 46 active weeks, each of five working days.
As EU governance in the Council is done by the same ministers and government experts who are engaged in national government activities, the distribution of the workload should be more proportional between the two spheres. In a first approach, the frequency of EU-level meetings could be reduced. For example, instead of monthly sessions of some Ministerial Councils (FAC, Ecofin, Agrifish), part of the work could be done by senior expert groups. Some control functions could be transferred to the national parliaments, without mobilising government persons for all tasks. In a more general political approach, the vertical connections between the national and EU levels are too intensive in the government section, but not sufficient in the parliamentary segment, while EU Ministerial Councils perform legislative activities accomplished by national executive representatives. A more balanced distribution of roles would ease the tensions rooted in the ‘democratic deficit’ and bridge-over the growing ‘representation gap’: whereas the Council is based on the regular shuttling of national government representatives to Brussels and other meeting places, permitting first hand (and not always flattering) comments on the EU’s activities in the capitals, Members of the European Parliament are physically and politically dislocated from the citizens. This ‘representation gap’ is closely connected to the ‘democratic deficit’ and has a strong impact on the weak acceptance and popularity of the EU in the member states.

Chapter 5 – Institutional Aspects of the Democratic Deficit

5.1 Accountability of the European Commission

In the light of next enlargements and a future EU36, the ‘hidden problems’ of EU institutions, referred to in the introduction, are to be searched for in the area of the “democratic deficit”.

The lack of transparency and accountability, being the main components of the deficit, are seen from a different angle in the ‘old’ and ‘new’ member states. One of the first contacts of the new members with EU institutions by early 2004 was the nomination of their candidates to four positions: one member to the European Commission, one member to the Court of Justice and the General Court each, and one member to the European Court of Auditors. As the year of 2004 was a turning point in the renewal of EU institutions (it marked, among others, the end of the European Parliament and the European Commission’s mandates), they had to repeat this exercise concerning these two institutions by the middle of the same year.

For the three Courts, the selection of the candidates was based mainly on competence criteria, but the choice of the future Commissioners proved to be a political decision accompanied by great public interest. Through the selection and appointment of the Commissioners, the new members could draw several lessons about EU democracy in action. First, it could be stated that national governments had a fully free hand in finding the candidates, as no EU rule obliged them to proceed to the selection in an open and transparent way. In some cases, the national parliaments or the larger public were not informed and included into the choice of the future Commissioner, if the government did not want it to

be so. Second, the public hearing of the candidates at the European Parliament was rather formal, and even an unsuccessful test did not prevent the government in question from maintaining its nomination. The President of the European Commission also accepted some contested persons and proposed them to the EP and the European Council on a comprehensive list containing all the members of the future Commission. Third, after this rather mechanical procedure, the appointment of the Commissioners and the surveillance of their work is exclusively in the hands of the President of the Commission. The remuneration of a Commissioner – seen from the new member states, starting in the range of 30 to 60 per cent of the average per capita GDP of the EU – is unusually high. Such salaries are customary in multinational corporations where managers are selected on special criteria and bear a permanent job risk. The position of a Commissioner is, however, without any serious menace, as the government of the member state cannot recall the person, and the President of the Commission can only “request” him or her to resign,40 which happens very rarely in practice. Finally, the five-year mandate of a Commissioner goes beyond the office time of any national government, further increasing the gap between nomination and accountability. Several democratic deficiencies around the Commissioners, being the most emblematic national figure of the EU, did not strengthen the faith in European governance in the new member states.

5.2 The Role of Parliaments

Another early contact with EU institutions was the election of delegates to the European Parliament, for the first time in May 2004. When voting for the members to this remote and mostly unknown Parliament, new EU citizens understood that the choice of the candidates and the definition of their place on the party lists is the privilege of national political parties. Voters play a reduced role in selecting just one or another political party list according to their general sympathy. Also in the follow-up, it became evident that the same party headquarters which established the original lists can recall members of the European Parliament and choose their successors without any approval from the citizens, including their own voters. In strongly centralised and anti-democratic political parties, which are not unusual in the new member states, EP deputies were selected and changed by a few or even one single political leader.41 In other cases, political parties were not able to change their MEPs, if the persons in question did not want to obey, and stayed in Strasbourg in spite of the contrary will of their home party headquarters.42 There were other concrete signs of the ‘democratic deficit’ in connection with MEPs, such as the case of a delegate whose political party disap-

40 Article 17 (6) TEU.
41 In Hungary, prime minister Viktor Orbán, president of the ruling Fidesz party, supported by a two-third majority in the Parliament, found two subsequent presidents of the republic among his MEPs: Pál Schmitt (2010) and, after his resignation because of proven earlier plagiarism in his PhD, the successor, János Áder (2012). Their replacements in the EP were chosen by Mr Orbán as well.
42 One of the MEPs of “Jobbik”, an extreme right and openly anti-Semitic political party in Hungary, Csanád Szegedi, himself a belligerent anti-Semite, discovered his own Jewish origins in 2013 and changed his political views. The “Jobbik” Party tried in vain to recall him from the EP; he stayed there until the end of his mandate.
peared from the home political scene shortly after the elections, but who kept his mandate in the EP until the end of the legislative period.  

The European Parliament has clear competences about holding the EU institutions – first of all the European Commission – to account. However, in the specific case of the Council, accountability is a more complex question. The members of the European Council are the real ‘stake-holders’ of the organisation, rendering this body the most powerful European institution, but the European Council does not bear any formal responsibility towards the EP. Governing national politicians by any name (heads of state or government, including also the chancellors), who take the major decisions of the EU, are elected by undoubtedly democratic procedures in their countries and kept under strict parliamentary control according to the rules and traditions of pluralistic European democracies. However, the European Council as such is not responsible to any elected body; its relations with the EP are regulated by the rules of codecision. Consequently, the two main institutions of the EU, expressing the legitimacy by direct elections of the citizens (EP) and through national governments (Council), bear a kind of shared or composed co-responsibility without clear delimitation of their individual fields of accountability. This somewhat foggy situation at the highest summits of the EU opens the way to critics on the ‘democratic deficit’.

Even if the individual members of the European Council possess clear and undoubted legitimacy, accountability is missing at the collective, institutional level. Decision making at summit meetings, last minute compromises and personal choices for top EU jobs happen without the necessary transparency. Very few people are included, for instance, in the selection of a new Commission President. All that the outside world could know for sure was that ‘he’ (so far all Commission Presidents were men) was ‘found’ by the most influential governing politicians, and the others accepted their suggestion. For the same reason, Commission Presidents were usually ‘club members’: ex or acting prime ministers. The other permanent seat institutionalised by the Lisbon Treaty, the HR for CFSP, holds limited responsibility towards the EP.

National parliaments are definitely closer to the citizens, their election and daily activities are also more transparent. Parliamentarians of member states have a keen interest to be regularly informed about the activities of their government in the EU and to know more about the upper, European level of governance in general. However, they are influenced by the one-sided presentation of EU affairs of their governments, without the presence of representatives of EU institutions controlling the declarations of members of the national governments. For example, EU Commissioners or MEPs originating from other member states hardly ever appear in the discussions of national parliaments about EU related matters. The monopoly of EU information by national governments in their home parliaments opens a large way for the well-known ‘blame game’: ‘all the benefits come from our government, and all the boring, bureaucratic measures are imposed by the EU’. It is no wonder that the EU’s popularity declines and turnout at EP elections decreases.

43 In Hungary, the Democratic Forum (MDF) obtained one seat in the EP at the 2009 elections. Afterwards this party disappeared from the home political scene, but its MEP stayed in Strasbourg without any home-based political structure.
Chapter 6 – Institutional Problems of Future Enlargements

6.1 Many Small, One Big

The rapprochement of Turkey, the Western Balkan region and potentially Iceland to the European Union encompasses various institutional dimensions. First of all, compared to past (and potential future) EU enlargements, the Western Balkans area contains relatively the highest number of independent states, coupled with the smallest number of inhabitants. The six countries with the political perspective of EU membership have a total population of about 18.3 million. One of them (Serbia) is a ‘smaller’ state fitting into the category of 4 to 8 million inhabitants, the other five fall into the group of ‘very small’ countries of less than 4 million (see Table 6.1). This special characteristic of the region could have a strong impact on the internal institutional structure and the functioning of the Union, once all the countries of this region join the EU.

In the hypothetical case of a next enlargement, including all the Western Balkans countries, Iceland and Turkey, the number of EU member states would grow from 28 to 36 and the distribution of the member states by size would change in the following manner (see Table 6.1).

Table 6.1: Composition of the EU by size of member states (MSs) before and after a hypothetical next enlargement.

<table>
<thead>
<tr>
<th>Size of MSs by population, in millions</th>
<th>EU15</th>
<th>EU28</th>
<th>EU8^1</th>
<th>EU36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big (38-82)</td>
<td>5</td>
<td>6</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Medium (8-22)</td>
<td>4</td>
<td>9</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Small (4-8)</td>
<td>5</td>
<td>6</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Very small (...-4)</td>
<td>1</td>
<td>7</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>28</td>
<td>8</td>
<td>36</td>
</tr>
</tbody>
</table>

Turkey, six Western Balkans countries and Iceland

Before the ‘big enlargement’, in the EU15, the distribution of the countries by size showed a well-balanced picture: big, medium and smaller members were in symmetry. With the 2004-2007 double enlargement, and the accession of Croatia in 2013, in the EU28 the number of the ‘very small’ countries (under 4 million people) grew the most, from one to seven. Before, this category was represented by Luxembourg alone. In parallel, the number of medium-sized countries (8-22 million) has more than doubled, increasing from four to nine. Today this category constitutes the relatively biggest group, but the distribution of sizes is still balanced. Compared to the actual situation, the next hypothetical enlargement – including the Western Balkans, Turkey and Iceland – would bring the category of smaller states into a strong bargaining position as far as the number of players is concerned: 20 out of the 36 members. Of course, the introduction of the double majority voting system (in 2014) would attenuate and counterbalance the sharp increase in the number of relatively smaller countries. Nevertheless, we have to admit that formal votes rarely take place in the Council and, according to informal group dynamics, the action and position-taking of the biggest member states are decisive.

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46 See footnote 2.
The accession of Turkey would modify the relative bargaining power of the ‘big’ EU member countries and could change the routine of their informal interplays in preparing formal decision making.\textsuperscript{47} On other occasions, where formal equality of states is the rule, the simple majority of seats and speakers can be of importance. For example, at the meetings of the various Ministerial Councils, as well as in the European Council, all participants have the same opportunities to take the floor and present their positions. Furthermore, in important matters where unanimity is required, such as the modification of the treaties or accession of new members, any EU country can use its veto right with equal chances.

As to the EU budget, the Western Balkans states will obviously be net beneficiaries, but their minor share of the various EU funds or agricultural subsidies would represent only a minimal load on the Multiannual Financial Framework. These countries’ populations and the real size of their economies are practically irrelevant in comparison to the overall dimensions of the EU. Turkey will be a net beneficiary of the EU budget, too, but its potential share would modify the distribution patterns of EU financial resources. The most significant change of a hypothetical next enlargement would be its overall impact on EU institutions. The numerous Western Balkans states with their relatively small sizes and Turkey as a single major player would deepen the existing tensions and dysfunctions of the EU institutional system and add new problems to it as well.

\textbf{6.2 The Increasing ‘Stability Gap’ of EU Institutions}

Smooth cooperation between and among EU institutions can ensure good and effective governance of the Union. The Lisbon Treaty added new dimensions to inter-institutional relations by strengthening the role of the European Parliament and institutionalising the European Council. However, swift connections between the three main institutional pillars – EP, Council and Commission – are hindered by sectorial inadequacies, the unbalanced structure of the policy cycle and democratic deficiencies, as we have shown above. Apart from these important problems, the diverging time horizons of national politics and EU institutions\textsuperscript{48} produce a ‘stability gap’, which can lead to political tensions and erode the efficiency of EU action. This kind of problem has become more visible after the ‘big enlargement’. With a growing number of member states such tensions may further increase.

At first sight, the EU shows high institutional stability, because its major institutions – European Parliament, European Court of Justice, European Commission – are elected or nominated for a period of five years.\textsuperscript{49} Seen from the frequently changing political scenes of the member states – where parliaments and governments are in place, in the best of cases, for four years – the stability of remote EU institutions is the ‘Sea of Tranquility’ on the surface of the Moon. But one of the sources of growing political tensions is exactly the huge ‘stability gap’ between EU level and national political institutions. The five-year man-


\textsuperscript{49} The Judges and Advocates-General of the ECJ are appointed for six years, but a partial replacement takes place every three years (Article 235 TFEU).
date of the EU institutions should be evaluated in relation to all the political changes in the member states during that period.

In the member countries, the usual four-year national legislative periods are in full synchronisation with the executive institutions, as governments are based on parliamentary majorities. At the upper, European level of governance the legislative function connects with each other the Council and the EP in the codecision procedure, whereas the executive function, including implementation, is shared between the Commission and national governments. The EP and the European Commission with their five-year mandates constitute the most solid cornerstones of the system, whereas the composition of the Council changes continuously as a result of regular – and often irregular, anticipated etc. – parliamentary elections, as well as government reshufflings for various reasons. (Hardly any EU Ministerial Council meeting takes place without welcoming at least one new ‘member of the club’.) The five-year stability of the EU institutions and the monthly frequency of changes in national politics show a sharp contrast at the EU level, a kind of a ‘stability gap’. In principle, this polarised situation could exert a balancing effect on the functioning of the EU, but in reality, with the continuous growth of the number of member states, national politics represent an increasingly destabilising factor in EU politics. Table 6.2 shows the average frequency of government changes in the EU member states and its increase in parallel with the past – and potential future – growth of the number of member states.

Table 6.2: Frequency of government changes in EU member states.

<table>
<thead>
<tr>
<th>Number of EU member states</th>
<th>Government changes per year (average)</th>
<th>Government changes per five years (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>1-2</td>
<td>7-8</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>28</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>9</td>
<td>45</td>
</tr>
</tbody>
</table>

The formal stability of the European Parliament adds a political dimension to the ‘stability gap’ problem: the uneven relationship between its long-lasting party composition fixed for five years, and the changing political configurations of the respective national parliaments. Calculating with the EP’s five-year mandate and the usual four-year periods of national elections, there are at least one, and maximum two, regular national elections within a five-year time frame. The larger the distance in time between the two kinds of elections, the bigger the difference in the political preferences of the citizens can be. With time, the political composition of the MEPs from a given member state, elected for five years, will unavoidably differ from the changing political mood in that country.

In any member state, the political composition of the national parliament is directly connected with the government based on the given parliamentary majority. The situation of the European Parliament is different: it has to co-exist and cooperate, in parallel, with one and

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the same European Commission across the whole five-year period (apart from minor personal changes), and a European Council (and various Ministerial Councils) of frequently changing political compositions. The basis of any agreement forged between and among them can alter because of the modification of the participant’s political background, programme and mandate on the Council side. The frequency of such changes in the Council has sharply increased with the continuous growth in the number of member states. With six members, the number of government changes in one year was 1 or 2 (average: 1.5), with 12 members – 3, actually with 28 – 7, and in an EU36 it would be 9 per year. Projecting the number of governments changes to the whole period of the EP’s five-year mandate, in the original EC6 there were 7-8 potential government changes within that time frame (average: 7.5), in the EU12 – 15, in the EU28 – 35, and in an EU36 there would be 45.

The complexity of this situation can also be explained by the need of each new government to take up bilateral contacts with the other players in the EU Council. Table 6.3 shows the number of potential bilateral relations between and among EU member states. The third and fourth columns display the number of new bilateral contacts multiplied by the average frequency of government changes in a one-year period as well as during the five-year mandate of the EP and the Commission respectively.

Table 6.3: Frequency of new bilateral relations within the EU resulting from government changes in the member states.

<table>
<thead>
<tr>
<th>Number of EU member states</th>
<th>Number of potential bilateral relations</th>
<th>New bilateral relations in a one-year period</th>
<th>New bilateral relations in a five-year period</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>15</td>
<td>7-8</td>
<td>35-40</td>
</tr>
<tr>
<td>12</td>
<td>66</td>
<td>33</td>
<td>165</td>
</tr>
<tr>
<td>28</td>
<td>378</td>
<td>189</td>
<td>945</td>
</tr>
<tr>
<td>36</td>
<td>630</td>
<td>2,735</td>
<td>13,675</td>
</tr>
</tbody>
</table>

The intensity of new bilateral relations within an EU of up to 12 member states did not overload the internal dynamism of the organisation; on the contrary, it helped and supported the good functioning of EC/EU institutions. National diplomatic services could smoothly insert the new contacts into their routine activities. After the ‘big enlargement’ two factors grew in parallel: the number of member states, on the one hand, and the potentiality of government changes, on the other. As a combined result of the two, the need for taking new bilateral ties within the EU increased more than five times, from 165 to 945 in a five-year period. That workload is beyond the grasp of intensive, intra-EU diplomacy and pushes the relations between and among the member states towards classical diplomatic practice. In the absence of narrow and confidential relations with all fellow-members, plenary Council meetings serve for interest harmonisation and decision-shaping. Since the ‘big enlargement’ a kind of ‘UN-isation’ is to be observed within the EU characterised by plenary deliberations and positions based on the formal equality of the members. Experience also shows a clear polarisation of inter-state contacts within the EU: the ‘big’ prefer more and more anticipated decision-shaping

52 The record, so far, has been the Polish Council Presidency (July-December 2011), when nine governments changed in the EU within the six-month period.
in a narrow circle and behind closed doors, whereas the ‘rest’ uses plenary deliberations for position-taking and tries to build coalitions in that framework. However, no coalition can count on success without the participation of at least two ‘big’ countries. This aspect means the ‘rest’ of the member states becomes hostage to the positions of the ‘big’, further strengthening their decisive role in the Union. All this speaks for a reduction of the number of players within the Council and/or for a reduction of the frequency of sessions.

6.3 Post-accession Conditionality

With regard to more frequent breaches of EU norms and obligations in the new member states, EU institutions should adapt an additional and efficient function in surveying and – depending on new EU legislation – sanctioning non-compliance. Pro-European circles in the new member states believed that the EU not only proclaims its values and demands to observe them in general terms, but is able to enforce their implementation by solid mechanisms. Acedding countries engaged themselves in that spirit to take over, adapt and implement the rules and norms of the EU. However, not all new member states like to comply with the acquis communautaire. Their resistance is definitely more politically motivated than caused by technical or financial difficulties of implementation. One of the important lessons of the last, ‘big’ enlargement is that EU institutions are not sufficiently prepared and authorised to survey and sanction non-compliance with the rules, norms and fundamental values of the organisation in an efficient way, once a member state does not keep its voluntary obligations.

When the transitory periods were near to expire, some political actors of the new member states began to test the endurance of EU norms. In reality, they tried to separate the benefits of EU membership (various freedoms, EU funds etc.) from obedience to its obligations. New members could understand, and partly also experience in practice, that the EU has only three main enforcement devices: the excessive deficit procedure, infringements procedures and Article 7 sanctions. The first one is applicable in the concrete case of a budgetary deficit going beyond the 3 per cent limit of the GDP. This is a dangerous tool, because the Union can temporarily suspend the cohesion fund, even if it never did so in the past. As to the second, infringement cases are of a rather technical nature, the procedure is long, partial compliance is often accepted, and in case of controversial positions between the Commission and the member state, the process goes over to the European Court starting a new and lengthy phase. This gives the chance to the member state to gamble with EU rules:

53 See Chapter 2 – Problems of ‘Executive Type’ Governance, above.
54 In parallel with their increasing role within the EU, the G8 and more recently the G20 groups exert an growing external attraction on the biggest EU member states, too. Arne Niemann and Judith Huigens, “The European Union’s role in the G8: a principal – agent perspective,” Journal of European Public Policy 18, 3 (2011).
56 For example, the right-populist Hungarian government led by the Fidesz party, enjoying a strong majority in the national parliament, went beyond all expectations and previous precedents in this respect, see the Report on the situation of fundamental rights: standards and practices in Hungary, Rapporteur: Rui Tavares, European Parliament, A7-0229/1013, 24.6.2013. Vote at the plenary session on 3 July 2013: 370 yes, 249 no, 82 abstentions.
to counteract according to its short-term interests, to manoeuvre afterwards with tactical step-backs gaining time and, finally, despite of all criticism, to attain most of its objectives at the price of smaller concessions. The third device, i.e. Article 7 sanctions suspending the voting right of a member state in case of non-compliance with the requirements of Article 2 TEU, has never been applied so far. The EP report on Hungary, accepted with an important majority, raised the possibility of such retaliation measures, but no concrete action has been taken so far. This EP report suggested “the establishment of a new mechanism to ensure compliance by all Member States with the common values enshrined in Article 2 TEU, and the continuity of the ‘Copenhagen criteria’…” Other international organisations such as the Council of Europe, the World Trade Organization (WTO), OECD, OSCE and others could be of help to the EU, too and exert technical, legal and moral pressure from the outside on EU members in order to comply with the rules and norms of the trans-Atlantic cultural and political community.

Chapter 7 – Suggestions

7.1 The Need for Changes

The fundamental renewal of EU institutions was due already before the last, eastern enlargement in two steps (2004, 2007), but the European Convention drafting the Constitutional Treaty (2002-2003) could not concentrate on the future, because it was occupied by the ‘left-overs’ of previous Treaty modifications. The most important change, caused by the eastern enlargement, was the sharp increase in the number of member states. However, this evident consequence of the ‘big’ enlargement (resulting – among others – in more players in the Council) was not taken into consideration by the EU in due time. As a result of the 2004 and 2007 double enlargement, the economic output of the EU grew by ca. 6 per cent, its population by 25 per cent, and the number of its member states by 80 per cent. The circle of the main stake-holders and decision-makers – representatives of the member states – expanded to nearly double its previous size. All this was clearly foreseeable. The EU passed, for the second time in its history, from one size category of international organisations to another. The previous, first move of that kind – in subsequent, slow steps in the 1970s and 1980s –

57 There were 54 infringement procedures ongoing against Hungary by the middle of 2013. This figure was lower than the procedures against Italy, Greece or Belgium at the same time, but their political weight was unusually big. Several Commissioners and Commission president Barroso expressed their criticisms about the various issues targeted by the said procedures.

58 Point 86 of the Tavares Report (see footnote 56): “Asks the Conference of the Presidents to assess the opportuneness of resorting to mechanisms foreseen by the Treaty, including Article 7(1) TEU, in case the replies from the Hungarian authorities appear not to comply with the requirements of Article 2 TEU”.

59 Point 78 of the Tavares Report (see footnote 56) and Points 79 to 83 concerning the implementation of the proposal.

60 For example, the Council of Europe analysed the Fourth Amendment of the new Hungarian Constitution and its Venice Commission published its critical assessment on the situation of fundamental rights in that country: Venice Commission, Opinion on the Fourth Amendment to the Fundamental Law of Hungary, 720/2013 (Strasbourg: Venice Commission, 2013).
brought the EC from the ‘family size’ of six to nine states to the ‘executive board’ category of 12 to 15 participants. In the 2000s the EU jumped over to the next level of about 30 member states, which is at the lower limit of the ‘assembly’ type organisations.61

This last change had two important consequences, as we have demonstrated above. First, in the new, larger size of the organisation the permanent direct presence of the members in the institutions creates various technical and political difficulties. Second, with the 2004 jump in size from 15 to 25, the number of EU member states surpassed that of the functions of the organisation. Any of those two developments would have justified preventive actions in order to avoid the spontaneous consequences which followed afterwards and have caused more and more dysfunctions in the Union. The main field of institutional tensions is the Council, the primary arena of the direct representation of member states, but negative impacts of the new and partly uncontrolled internal dynamics can be stated within the European Commission and, to a lower extent, in the European Parliament as well. Delaying institutional reforms maintains the disturbances and prevents the efficient engagement of the Union in solving problems of its member states, Europe and the world. Visible dysfunctions also undermine the credibility of the EU within the member states and among its external partners.

The reform of EU institutions is not only a precondition of future enlargements, but a constraint to adapt the internal structures to the actual size of the organisation. We present below a few, but fundamental suggestions with the aim of improving the functioning of EU institutions and adapting them to post-big-enlargement realities as well as preparing for further enlargements. The suggestions will be focused on the three main institutions: the European Parliament, the Council and the European Commission. Some of the proposed measures can be taken within the limits and dispositions of the existing treaties, some others would require treaty reform. The concrete suggestions are structured in three points each: first, the objective of the change; second, measures to be taken without treaty modification and third, changes which would require the revision of the treaties.

The real chances for any change in the EU’s institutional order are minimal. The ‘catch 22’ situation is rooted in the decisive role of the member states, which are supposed to accept reforms limiting their own presence and, by that, their influence and control on the whole organisation. However, without fundamental renovation of the institutional system, the EU will gradually loose its importance within the member states and in the outside world as well. A slow actor, being the hostage of its own components – member states and institutions – will not be able to respond to the internal challenges and the external pressures of security and competitiveness. Any further enlargement would only deepen the already existing institutional deficiencies of the two-level EU governance and shed more light on them. In this situation only bold and unusual reforms can help.

61 In this larger category, the next sizes are: the ‘norm setter’ international organisations with about 50 members (Council of Europe, OSCE etc.) and global organisations with over 100 states (WTO, IMF, UN).
7.2 European Parliament

Political objectives
✓ More connection between the EU and the citizens through their elected representatives;
✓ More awareness of EU legislation and political problems in the member states;
✓ More involvement of the citizens in EU affairs through national Parliaments.

Short term changes based on political decisions
➢ Governments should report more frequently and objectively to national Parliaments about their positions and activities in the Council;
➢ EU representatives (MEPs, Commissioners etc.) should regularly attend national parliamentary meetings (other than in their own countries of origin), take part in discussions and explain the background of EU decisions.

 Longer term changes based on treaty modifications
➢ The mandate of the EP should be shorter than that of national Parliaments (reduced to three years) in order to approximate their political composition.
➢ The number of directly elected MEPs should be halved and the other half selected from among members of the national parliament, who
   a) should join the EP as members (similarly to the ‘visiting’ observers of new member states in the period between the signing of the Accession Treaty and the next EP elections); or
   b) should form a ‘House of Commons’, while the directly elected MEPs would form the EU’s ‘Upper House’ (or ‘Senate’).

7.3 European Council and the Council of Ministers

Political objectives
✓ The negative effects of the ‘executive type’ management of the EU based on the direct representation of the member states should be reduced;
✓ Decision making should be more efficient on a balanced basis of national and Union interests.

Short-term changes based on political decisions
➢ The frequency of Ministerial Council meetings should be halved, and the falling-out sessions substituted – in case of necessity – by meetings of senior expert groups;
➢ In territorially-based questions (transport, environment, energy etc.) decision-shaping should start in natural regional units (macro-regional strategies, transport, corridors etc.);
➢ At least one Ministerial Council meeting per year should take place with the participation of Ministers of ‘all European states’ eligible for EU membership discussing European issues of common interest.

Longer term changes based on treaty modifications
➢ In political questions decision-shaping should be done, in a first approach, by Presidency Trios (Appendix 2); and decision-making made possible by the (rotating) representatives of the Trios.
7.4 European Commission

Political objectives

✔ Transparency and accountability should be increased in the selection of Commissioners and their activities.

Short-term changes based on political decisions

➢ National governments should increase the transparency of their nominees’ selection to the post of Commissioner; public hearings should take place in national parliaments before the nomination;

➢ The number of Commissioners should be reduced to two-thirds of the number of member states (in accordance with the original dispositions of Article 17 (5) TEU);

➢ When considering the representation of individual member states at top-level EU institutions, other positions should be taken into consideration and added to the number of Commissioners in order to assure at least one top position to each and every member state (EP President, ECJ President, ECB President, Secretary General of the Council etc.).

Longer term changes based on Treaty modifications

➢ The mandate of the European Commission should be shorter than that of national governments (reduced to three years); members of the Commission could be re-elected only once for another three-year period;

➢ If the nomination of the Commissioner remains with national governments, they should be empowered to call back the Commissioner any time and propose another person;

➢ If the EP and the European Council are confirmed in their competence of approving the members of the European Commission, they should get more chances to select the Commissioners from a wider choice, in order to find the appropriate persons for the individual portfolios: member states should propose three candidates (representing both genders).

Appendices

Appendix 1: Categories and Areas of Union Competence
According to Title I of the TFEU

Exclusive competence (Art. 3 TFEU)
customs union
competition rules
monetary policy (for the Eurozone)
conservation of marine biological resources
common commercial policy

Shared competence (Art. 4 TFEU)
internal market
social policy
economic, social and territorial cohesion
agriculture and fisheries
environment
  consumer protection
  transport
  trans-European networks
energy
freedom, security and justice
common safety in public health
research, technological development
development cooperation and humanitarian aid

Coordination (Art. 5 TFEU)
economic policy
employment policy
social policy

Supportive competence (Art. 6 TFEU)
human health
industry
culture
tourism
education, vocational training, youth and sport
civil protection
administrative cooperation

### Appendix 2: EU Council Presidency Trios 2007-2020

<table>
<thead>
<tr>
<th>Period</th>
<th>Members of the Trio</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2007 – June 2008</td>
<td>Germany, Portugal, Slovenia</td>
</tr>
<tr>
<td>July 2008 – December 2009</td>
<td>France, Czech Republic, Sweden</td>
</tr>
<tr>
<td>January 2010 – June 2011</td>
<td>Spain, Belgium, Hungary</td>
</tr>
<tr>
<td>July 2011 – December 2012</td>
<td>Poland, Denmark, Cyprus</td>
</tr>
<tr>
<td>January 2013 – June 2014</td>
<td>Ireland, Lithuania, Greece</td>
</tr>
<tr>
<td>July 2014 – December 2015</td>
<td>Italy, Latvia, Luxembourg</td>
</tr>
<tr>
<td>January 2016 – June 2017</td>
<td>Netherlands, Slovakia, Malta</td>
</tr>
<tr>
<td>July 2017 – December 2018</td>
<td>UK, Estonia, Bulgaria</td>
</tr>
<tr>
<td>January 2019 – June 2020</td>
<td>Austria, Romania, Finland</td>
</tr>
</tbody>
</table>

**bold**: big member states (above 38 million)

**italicized**: new member states (accession in 2004 and 2007)
Appendix 3: EU Ministerial Council Formations

<table>
<thead>
<tr>
<th>Council Formations</th>
<th>Abbreviation</th>
<th>Core Functions</th>
<th>Additional Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Affairs</td>
<td>GAC</td>
<td>European affairs</td>
<td></td>
</tr>
<tr>
<td>Foreign Affairs</td>
<td>FAC</td>
<td>foreign affairs, trade</td>
<td>defence, development</td>
</tr>
<tr>
<td>Economic and Financial Affairs</td>
<td>Ecofin</td>
<td>economic and financial affairs</td>
<td>Eurogroup, budget, cohesion policy</td>
</tr>
<tr>
<td>Agriculture and Fisheries</td>
<td>Agrifish</td>
<td>agriculture, fisheries</td>
<td></td>
</tr>
<tr>
<td>Justice and Home Affairs</td>
<td>JHO</td>
<td>justice</td>
<td>home affairs</td>
</tr>
<tr>
<td>Employment, Social Policy, Health and Consumer Affairs</td>
<td>EPSCO</td>
<td>employment</td>
<td></td>
</tr>
<tr>
<td>Competitiveness</td>
<td>COCOM</td>
<td>competitiveness</td>
<td></td>
</tr>
<tr>
<td>Transport, Telecommunication and Energy</td>
<td>TTE</td>
<td>transport</td>
<td>telecommunication, energy</td>
</tr>
<tr>
<td>Environment</td>
<td>ENVI</td>
<td>environment</td>
<td></td>
</tr>
<tr>
<td>Education, Youth, Culture and Sport</td>
<td>EYC</td>
<td>education-youth</td>
<td>culture-sport</td>
</tr>
</tbody>
</table>

Bibliography

7. Chryssochoou, Dimitris N. “Europe’s Contested Democracy.” In *European Union*


CHAPTER 1 – INTRODUCTION

Referendums are playing an increasingly influential role in the process of European integration. From 1957 to 2012, 36 referendums (binding and non-binding) were held on European integration. This number increases to 51 if we take into account Liechtenstein (three), Norway (two) and Switzerland (10) and if we consider a broader definition of what is a European vote, such as the Swiss popular initiative “Yes to Europe” (2001). In other words, referendums on European integration are not at the margins anymore. The forthcoming European Union (EU) enlargement should increase the potentiality of new referendums on European matters and impact European governance as such.

The aim of this chapter is first to underline the growing role of the referendum in European politics and second to evaluate the opportunity to introduce a European consultative referendum at the EU level based on an analysis of the direct democratic institutions and the referendum experiences in the European countries.

CHAPTER 2 – REFERENDUM EXPERIENCE IN THE EU

The referendum experience on the European continent shows that direct democracy instruments are rich and particularly heterogeneous. The diversity of national constitutional provisions relating to referendums and initiatives reflects, where they exist, different conceptions of democracy, as illustrated for example with the United Kingdom (UK), Switzerland and Lithuania. The British tradition of representative democracy results in a parliament with extensive legislative powers, which enable it to decide on the nature of the issue put to a vote and the timing of a referendum vote. The British parliamentary tradition is also reflected in the very limited use of referendums, since only one ballot was held, in 1975, about the United Kingdom’s withdrawal from the European Union. The issue of maintaining the UK in the EU also returns repeatedly in the English debate when the socio-economic environment becomes more difficult at the national level and the desire to stigmatise the EU becomes stronger, as the words of prime minister David Cameron illustrate (23 January 2013): “We will give the British people a referendum with a very simple in or out choice.”

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In contrast to the British case, although Switzerland is not a member of the EU, it is a paradigmatic case with its long tradition of direct democracy dating back to the 13th century in the cantons of the primitive Switzerland and its area and in Leventina. At the federal level, this practice was institutionalised in 1848 and until today, Switzerland has organised 574 votes. Moreover, the institutionalisation of the vote in Switzerland takes on particular significance since the federal government plans the ballots up to 2032. This practice, which is unique in Europe, demonstrates the consistency with which the debate is registered on the agenda driving the Swiss authorities to a political engagement with its citizens.

The impact of this institutional factor also explains the differences in practice in Central and Eastern Europe. Thus, Lithuania is characterised by a surprisingly participatory political culture, resulting in the organisation of competitive elections and especially by many referendums. Although it is difficult to make the link between this political culture and what was practised before the annexation of Lithuania by the Soviets (1940), nevertheless it can be said that the heterogeneity of democratic regimes in central and eastern countries is comparable to that existing in the other European countries.

With the exception of Germany, Belgium, Cyprus, Malta and the Czech Republic, the majority of the 28 EU member states have constitutional provisions or laws on referendum. This fact does not, however, change the perspective of a future enlargement of the EU to 36 states, since the eight candidate countries have the potential to hold referendums. This means that the referendum potential in Europe will be strengthened by the arrival of these states, as shown in the vote on Croatian accession to the EU and accepted by 66 per cent (22 January 2012). However, this potential to initiate a referendum does not mean an automatic increase in the number of ballots, but merely the theoretical possibility of holding a referendum. With rare exceptions, such as Ireland and France, it was a decision by political authorities, more than a constitutional requirement, that led to the organisation of European votes in most countries.

The first enlargement of the EU was also the result of a referendum, organised by President Georges Pompidou in April 1972 and accepted by 68.3 per cent of the French. This vote paved the way for the accession of the United Kingdom to the European Community in 1973, nearly ten years after the veto of Charles de Gaulle. The referendum function varies considerably from one country to another, as shown in these early experiences in Europe. In France, the purpose of the referendum is marked by its plebiscitary nature, since it is a vote of confidence or distrust towards the authorities. In the UK the referendum has a function of clarifying the debate when no clear majority emerges about a European issue, as illustrated by Cameron’s proposal in February 2013. The first and only vote about Europe fits precisely in this sense. Indeed, the Conservative prime minister Edward Heath, who wanted to secure accession of the UK to the European Economic Community (EEC), once signed the Treaty of Rome using a parliamentary ratification,

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2 Uri, Schwyz (13th century), Obwald, Zoug and Glarus (14th century), Appenzell (both Ausser and Innerhoden) (14th century).
3 Bellinzona, Brienio and Riviera.
rather than popular vote. This procedure was considered to be more consistent with the parliamentary nature of the regime, but also less perilous than turning to the polls.

Historically, we should also acknowledge that the prospect of a referendum was mentioned—without success—within the Labour Party by Tony Benn in 1970. But it was not until the ratification of the Treaty of Accession to the EEC that the proposal benefited from renewed interest for two reasons. First, ratification of the Treaty of Accession to the EEC in 1972 was achieved with a slim parliamentary majority: 309 votes against 301, illustrating the difficulties for the government to gain the support of Labour MPs. The use of a referendum has been seen as a way to solve a serious crisis within the Labour Party. Indeed, the electoral victory of 1974 only amplified this crisis because the members of the party and government were deeply divided on the merits of a referendum procedure. Second, the lack of domestic consensus that reflected the parliamentary vote and debate on EU membership during the 1974 election shows that the European commitment of the United Kingdom could suffer from any hesitation. The referendum was then imposed as part of clarifying the debate. It is interesting to note that despite the vote of the chambers, parliamentary ratification has to some extent suffered from a lack of legitimacy in a system where Parliament is still the heart of the process of legitimising decisions. Thus, the referendum that followed the Treaty ratification has facilitated anchoring the UK in the process of European integration.

The referendum experience in Europe first emerged timidly in the 1970s before becoming much more widespread from the 1990s during the debate on the Maastricht Treaty. The latter has focused critics via public opinion, together with the progressive use of referendums in the member states. The formal requirement for unanimous ratification of each new treaty by every state led to ad hoc solutions in the case of refusal, as was the situation with Denmark (rejection of the Maastricht Treaty) and Ireland (rejection of the Nice Treaty and the Lisbon Treaty). The referendum experience in Europe precisely reflects some heterogeneity in the exercise of direct democracy. My institutional and thematic analyses in western and eastern Europe reveal some diffusion and intensity vis-à-vis the referendum phenomenon, especially regarding referendums on sovereignty and European issues. On this point, I could see the destabilising nature of the process of European integration on the ratification procedures for the EU member states, forcing some states to change the parliamentary procedure in favour of a referendum to gain more direct legitimacy. Indeed, the need for legitimacy of European political systems seems to find a satisfactory solution in a referendum.

Since 1972 European citizens have voted on 31 European matters: accession treaties (12), treaties in general (10), the euro (two), the European Constitution (four) and other topics (three). European votes became more important as illustrated by the percentage of states using the referendum on the European Treaties (excluding membership). They were 20 per cent for the Maastricht Treaty (Denmark, France, Ireland), 13 per cent for the Amsterdam Treaty and Nice Treaty (Denmark, Ireland), and 16 per cent for the European Constitution (France, Luxembourg, Netherlands, Spain) for example.

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The assumption that the referendum experience is dependent on the history of each state and rooted in individual national traditions must be reconsidered. Indeed, there are national referendum subcultures that do not necessarily correspond to the main national ones. Thus the opportunity to organise a vote on European issues such as the euro, enlargement and ratification of a new treaty was raised in Austria, Denmark, Ireland, Sweden and the United Kingdom. Even though they have not always led to the organisation of a vote, the debates were conducted with such a perspective. Will this referendum subculture become more important in the coming years, to the point of changing the national cultural matrix?

Chapter 3 – A European Referendum Subculture

Each EU enlargement contributes to the development of European democracy for two main reasons. First, being a democratic state is a formal condition for joining the EU and second, each new state brings its own democratic culture to the EU. This national democratic culture is not airtight vis-à-vis the governance of the EU and its requirements, including the requirement of legitimacy. Indeed, European integration involves a transfer of sovereignty in relation to economic, political and judicial matters, producing a conflict of internal-external legitimacy that may lead directly (mandatory referendum) or indirectly (optional referendum and/or advisory) to a referendum. This also concerns non EU members who voted on economic agreements with the EU (Switzerland and Liechtenstein), but also on EU membership (Norway). Since the 1970s the fact that a majority of votes are precisely optional (72.2 per cent) reinforces the hypothesis that EU members turn to a referendum to legitimise different stages of their integration process.

Compulsory voting on a treaty (conventional referendum) or resulting from a change in the constitution (constitutional referendum) was used in relation to European issues by Ireland and Switzerland. Although France (Maastricht and the European Constitution) and Austria (accession) have also been required to amend their constitution prior to the organisation of their European votes, these procedures were subject respectively to the President’s decision the Republic and a majority vote of the members of the Lower House. The organisation of a vote on the European Union is primarily the result of a political decision, rather than the result of an institutional procedure.

The referendum route taken by states since the early 1990s has since been confirmed with votes on enlargement, the European Constitution and the Lisbon Treaty. Moreover, this seems to indicate a political will to reinforce the direct link between citizens and political authorities.

The EU enlargement towards Central and Eastern Europe, as well as Croatia, has been qualified as a “referendum wave”, since 10 of the 13 candidates organised a referendum.

Table 3.1: Votes on EU Membership (2003-2013)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Date</th>
<th>Yes %</th>
<th>No %</th>
<th>Participation %</th>
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<tbody>
<tr>
<td>Croatia</td>
<td>22.01.2012</td>
<td>66.30</td>
<td>33.10</td>
<td>43.50</td>
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<tr>
<td>Czech Republic</td>
<td>13/14.6.2003</td>
<td>77.33</td>
<td>23.77</td>
<td>55.21</td>
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<tr>
<td>Estonia</td>
<td>14.9.2003</td>
<td>66.90</td>
<td>33.10</td>
<td>63.00</td>
</tr>
<tr>
<td>Hungary</td>
<td>12.4.2003</td>
<td>88.76</td>
<td>16.24</td>
<td>46.62</td>
</tr>
<tr>
<td>Latvia</td>
<td>20.9.2003</td>
<td>67.00</td>
<td>32.30</td>
<td>72.50</td>
</tr>
<tr>
<td>Lithuania</td>
<td>11.5.2003</td>
<td>91.97</td>
<td>8.93</td>
<td>63.37</td>
</tr>
</tbody>
</table>

The case of Central and Eastern Europe is unique in the history of European integration since the accession strategy was considered as a group strategy. Consequently, the European Commission has always considered the two phases of the enlargement – 2004 and 2007 – as a single process. This wave is not only impressive because of the number of states involved, but also due to the fact that two states voted for the first time in their history: the Czech Republic and Malta. During the partition of Czechoslovakia into two sovereign states – Slovakia and the Czech Republic (1993) – no vote was held, despite the importance of the issue. Thus, this example reveals, as for Malta, the catalytic role played by the European issue on the development of national referendum procedures.8

European votes raise a fundamental problem, because they demonstrate the inability of the EU to propose a single institutional solution in the case of negative votes. Solutions are negotiated on a case-by-case basis, driven primarily by the political weight of the state concerned. For instance, the French ‘No’ to the European Constitution illustrates this situation by excluding the perspective of a new vote. The context of the European Constitution reveals at the same time the lack of guidance within the EU members, because other members were supporting the idea of continuing the ratification of the Constitutional Treaty. This paradoxical situation was illustrated by Luxembourg’s prime minister, Jean-Claude Junker: “(...) The ratification process continues on its way. There will be no renegotiation because there was never a plan B, but there is a plan D, ‘dialogue’ and ‘debate’.”9

The lessons from the Maastricht debate may not have been learned. Indeed, France’s foreign minister Roland Dumas sought to mitigate the effect on the French ratification procedure of the rejection by the Danes of the Maastricht Treaty by stating: “The French law shall not proceed from Copenhagen but from Paris.”10 Today, the opportunity to have a referendum in relation to every revision of a European treaty is an obvious concern for the EU members. Politically, the European votes are listed on the European agenda and their impact on European governance can no longer be ignored.

The perspective of the EU36 could potentially increase this ‘risk’ of referendum, and even more that all candidates have legal provisions to initiate a vote on European issues. The counter-strategy could be to Europeanise the problem by promoting the idea of a European consultation.

8 Romania did not vote on the Treaty of Accession to the EU, but held a vote to change the constitution to allow EU and NATO membership (10/19/2003).
Chapter 4 – EU36 Perspective: An Opportunity to Introduce a European Referendum?

The referendum experience on EU matters concerns 23 European countries. The frequency of these national votes is still very far from that of Swiss direct democracy, but a major change has taken place since the Constitutional Treaty of 2004: European referendum impact both national and European political agenda. However, the majority of European votes held so far have been the result of a voluntary procedure rather than being mandatory, and have mostly been initiated by the authorities as a result of a combination of domestic politics (partisan rivalries; conflict between several bodies; legitimising a political decision) and external pressure (informal, from another state). They also mean that the states in theory remain masters of their political agenda. In practice, however, it can be observed that the consequences of European votes are not without impact on the policy arena, especially when the outcome is negative.

Although the prospect of a vote on accession or ratification of a new treaty contributes to strengthening social and political legitimacy of the European Union, these votes appear as a serious obstacle to the process of European integration. That is because the problem is complex; the EU allows the practice of the referendum on the periphery –in the member states –but does not allow it at the heart of the system. However, the consequences of these national votes directly affect the process of European integration as a whole. In other words, the EU must find a solution to the risk of blocking, as was the case with the French and Dutch ‘No’ to the European Constitution and the negative reaction of Ireland to the Lisbon Treaty. In a Europe of 36 member states, the potential risk may appear high.

Research shows that European votes are more focused on national issues. In addition, the opportunity of a European consultation has rarely been addressed. The originality of a European consultation is precisely its aim of providing a bridge for transnational democracy and combining it with concrete policy requirements.

The prospect of a European consultation feeds from recent debate on the democratisation of the European Union. But most of the proposals about the opportunity to introduce a European referendum come from the 1990s. Indeed, among the 50 proposals so far, only nine are older than 1990, the first dating back to 1948.11 It should be noted that a significant number of models suggest the referendum without further details, recalling the highly theoretical and complex nature of the object of study and the difficulty of the project in the EU. The developed model in this chapter is that of a non-decision-making or advisory referendum. Its uniqueness in comparison to other types of referendum is that its outcome is not binding – legally binding –for the authorities. While the result of a formal consultative referendum is not to change the existing law, materially the impact of an advisory vote on the political system is left to the discretion of the authorities. Indeed, it is rare that the popular will is not respected.

Thus the organisation of a European consultation in all EU36 members at the initiative of the European Union is an ambitious project. Our model will explore first the issue of the initiator of the vote, then the referendum campaigns. Finally, and this is a key issue, how should this be organised? By citizen consultation, either in the electorate, the majority type (single or double) or media voting (voting ballot, e-voting)?

11 Esposito, Vers un nouveau pouvoir citoyen, 238-243.
4.1 The Initiator of the Vote

The prospect of organising a referendum should be a matter of public interest. The origin of this proposal is to be found among the provisions and the referendum practice of the new member countries of the EU. Indeed, five of the nine states that have held a vote on the Treaty of Accession to the EU justified it as a matter of national importance (Estonia, Hungary, Poland, Slovenia and Slovakia). There is also a similar reference in the European Parliament (EP) Resolution 1988\textsuperscript{12}, which refers to the organisation of a referendum as a fundamental political choice. Thus, we can imagine that the European consultative vote should be on a matter of European importance. The question is how to define what is a topic of European importance: human rights, transport policy, migrants issues, etc? I suggest to let the President of the European Commission first defining the issue subject to the vote and second to initiate the procedure of the vote.

I consider this consultation as complementary and not in competition with European national votes and it would act as an instrument of political control to enable European and national authorities to evaluate the opinion of European citizens on crucial policy choices: EU enlargement, foreign policy, financial crisis or election of the Commission President by universal suffrage according to the following formulations:

1) Are you in favour of a popular election of the President of the European Commission?
2) Should we elect MEPs on the same day in all the member states of the European Union?
3) Should the European Union appoint a permanent President of the Eurogroup?
4) Do you support the introduction of European citizenship education in the national curriculum?
5) Do you support the introduction of an ‘EU Blue Card’ to better control economic migration?

The number of questions put to the vote is not neutral because it will make this consultation a survey or a referendum. By including several questions in a consultation, the aim is similar to that of a Eurobarometer survey, but with a much stronger democratic foundation, because responses would be given by several million citizens. In contrast, in the case where only one question is asked, we are facing a referendum situation. The question then is whether the European citizen consultation is actually a ‘European super vote’ complementary to the citizens’ initiative or, on the contrary, a political assessment of the European authorities and European policies.

4.2 The Organisation of the Vote

A European consultation must rely on the support of national and regional bodies. The main difficulty is that this consultation takes place in all EU member states under the same conditions.

4.2.1 Cooperation between the European Parliament and National Parliaments
The involvement of national parliaments in the project of citizen consultation is essential; first, by giving a symbolic transnational dimension to this procedure and, second, by establishing the terms of reference. In this respect, several platforms for discussion are possible: the Committee on Constitutional Affairs (receiving a delegation of national parliaments), the COSAC or an ad hoc European interparliamentary conference attended by the presidents of the national parliaments and the EP.

4.2.2 The Empowerment of European Regions
The local level must be associated rather in the practical organisation of the vote, such as the provision of voting equipment or the dissemination of information on the subject of the vote. The creation of a committee composed of representatives of the European Parliament, national parliaments and the Committee of the Regions would ensure coordination between all actors involved in the organisation of a European consultation.

4.3 Validation of the Results: the Type of Majority
How to determine the outcome of the vote is a major issue. Absolute majority voting for instance, can lead to imbalances—demographic (large states ‘against’ small states), geographical (north ‘against’ south) and national (France ‘against’ Spain). It would then be possible to introduce a double majority—population and state—that could be weighted to mitigate these effects. At the same time, the introduction of a participation quorum (threshold below which the result is invalid) or result (the majority representing a certain percentage of the electorate) would also limit the excesses of such a system. The risk, however, lies in giving blocking power to a minority. These measures relating to the introduction of an advisory vote and a non-binding result are politically too costly; thus the use of a simple majority vote can be called sufficient.

4.4 Multimodal Vote: Ballot and E-voting
The prospects for enhancing citizen participation in the EU have grown in importance with the development of new information and communication technologies (ICT). Indeed, the combination of these tools with the instruments of direct democracy (popular initiative and referendum) allow us to consider the organisation of public consultations on the transnational level through electronic voting, whether via the Internet or public electronic terminals. In addition, and with the development of e-democracy, access to documents online on the websites of national authorities would provide European citizens with comprehensive information on the subject of the vote, along with more traditional media which would be developed by the European Commission. It would even be possible to develop specific tools related to the project of a European consultation as an example of a smart vote. Thus the use of electronic voting (internet voting, voting via electronic terminals as well as GSM (Global System for Mobile communications)) alongside more conventional procedures such as voting at the ballot box and the postal vote, offers a choice of multimodal voting and facilitates the introduction of elements of transnational democracy.
But the multimodal voting rise the question of the vote management. Indeed, offering many opportunities for citizens to express their opinions, the results will be gathered into different appropriate databases. Therefore, it is necessary to develop a database on the European level, bringing together all the results of the voting, in order to facilitate the management of the entire voting process. And more symbolically, the development of a unique European database collecting all the results would further strengthen the principle of a European transnational consultation.

Chapter 5 – Conclusion

The perspective of the EU36 should be an opportunity to create a new channel for citizen participation by initiating a European consultative referendum. Indeed, the introduction of such a European process will necessarily create debate within civil society, because it will involve explanation and discussion of the items to be voted on. For European and national authorities, the obligation to clarify the issues can only promote the democratic governance of the EU. To repeat, the debates on the occasion of elections or référenda on the European Constitution confirmed this, recalling the importance of public debate to establish a political Europe. In comparison with the European elections, where debates are primarily national, the referendum campaign could serve as a catalyst to create this public space, as has been the case for European votes so far. But the referendum experience also shows its limits. At the EU level, this could result in the highlighting of existing divisions between nations, states or geographic areas. Similarly, minority actors could threaten to exploit this consultative process. In this case, the same advisory vote would be like a sword of Damocles over the European political system. This could lead to modifying the institutional balance, forcing European leaders to assess the potential referendum on certain issues, but also to strengthen the dialogue between the various political partners. However, this projection describes a reality where the establishment of a consultation is already well integrated into the European political system, and its routine use. But the process of democratisation of the EU has not reached this stage and is still very far from it. Nevertheless, a European citizen consultation could revitalise the national democracies and ultimately promote the construction of European democracy with 28 and 36 members. As such, the EU36 perspective could impact positively European democracy, first by enhancing the European democratic culture and second by fostering debate about new channels for citizen participation such as the European consultation.

Bibliography

Chapter 1 – Introduction

Since 2008 the European Union (EU) has been severely hit by the financial crisis, which has revealed major weaknesses in the Eurozone. Simultaneously, Euroscepticism seems to have developed significantly among the populations. The future of European integration looks uncertain and pessimism is now widely shared.

Nevertheless, the European Union is continuing, and paradoxically remains attractive if we consider the number of countries – candidate countries, potential candidate and ‘potentially potential’ candidates such as Ukraine or Moldova – which aspire, after the accession of Croatia in July 2013, to join the family. Viewed from the enlargement perspective, the European dream, considerably eroded by the effects of the crisis, seems to be still vivid.

In less than ten years (January 2004 – July 2013) the European Union almost doubled the number of its members (15 in 2003, 28 in 2013) and by 2020, the perspective is a EU with 36 member states (if we count Kosovo). Then will come the turn of the six countries now considered as ‘eastern partners’ which (with the exception of Belarus) have currently more or less explicitly the objective of joining one day. Of course, this raises some basic questions that will not be addressed in this contribution, such as: will an EU with so many countries representing so many different situations be still manageable without changing profoundly the nature of its institutions and procedures, initially conceived for 6 (then 12 and 15) much more homogenous countries?

Our main target here will be to assess the perspectives of the next enlargements – let us say, at the ‘horizon 2020’ – by making a comparison with the previous ones, that is to say the ‘big bang’ of 2004 and its direct successor of 2007. Our main focus will be the kind of strategy (or absence of strategy) shown by these different phases of the EU enlargement process and what kind of global vision of Europe, of its ‘identity’, this strategy reveals or not. Our hypothesis is that such a global vision still exists, but the share of pure mechanisms, identical to some other sectoral policies managed by the European Commission, has gradually become a significant part of the landscape.1 Has enlargement become consecutively some sort of ‘routine’? This is what we are going to explore. We will also try to examine to what extent the enlargement process can be seen as a mirror of the way the EU envisages European integration as such.

Chapter 2 – Enlargement 1990-2020: From Political Decision to Institutional Routine

The nature of EU enlargement changed completely with the collapse of the communist bloc and the subsequent perspective of a reunification of Europe, following the example of the reunification of Germany. But of course, it had to take longer, because the scale was not the same and the European Union was not organised, and is still not organised as a Federal State where political decisions (as in Germany) could be taken without a long process of preliminary negotiations. Nevertheless, the early 1990s, coinciding with the adoption of the Maastricht Treaty, was a period during which the newly born European Union affirmed in an explicit way, for the first time since the aborted projects of the European Defence Community and European Political Community in the early 1950s, its political dimension. The ‘wider Europe’ challenge, by its undeniable political nature, was contributing to reinforce this evolution.

Of course, the EU was not the only actor in this turmoil. The Council of Europe, under the leadership of its secretary general Catherine Lalumière, made the accession of the former eastern countries a priority and managed to extent its membership to most of them in only five or six years (Hungary in 1990, Poland in 1991, Bulgaria in 1992, Czech Republic, Slovakia, Estonia, Lithuania, Slovenia, Romania, in 1993 … then Ukraine in 1995, Russia in 1996… then the Caucasus and Western Balkans countries). The Conference on Security and Co-operation in Europe (CSCE) transformed itself into the current Organization for Security and Co-operation in Europe (OSCE), which became a significant intergovernmental actor of the wider Europe extended to North America, while the North Atlantic Treaty Organization (NATO) had to redefine its role together with an extension of its membership.

But if NATO was attractive for security reasons, and – to a certain extent – the Council of Europe was a proof of the return to the rule of law and democracy, the EU was the main focus in terms of economic relations and transition to the market economy, precisely because of the considerable amount of structural funds that were available in Brussels for that purpose.

2.1 The ‘Copenhagen Criteria’ (1993): Self-Portrait of the EU?

In November 1993, practically at the moment when the Maastricht Treaty entered into force, the European Council defined a strategy for accession by settling certain criteria, known as the Copenhagen criteria. It was clearly a political decision, with a double objective: (1) to respond positively to the new situation by envisaging new membership coming from the former Eastern bloc; (2) to calm down the eagerness of some of these countries to join the EU very quickly by pushing forward some standards which were relatively hard to meet. In fact, probably even more than criteria for transition countries (the wave of accession involving former neutral countries – Austria, Finland and Sweden – being already decided at that time, and Norway having already refused by referendum), the so-called Copenhagen criteria – that some authors describe as a factor of “europeanisation”2 – can be viewed as a self-portrait of the EU made by the heads of states or governments of the twelve countries.

The Copenhagen criteria are threefold: political, economic and technical. The most self-evident component is the technical one, that is to say the capacity to introduce the so-called *acquis communautaire* into the national legal frameworks of the candidate countries. Here, the EU is describing itself by its *acquis*. The economic criteria, stipulating that the candidates should have a functioning market economy, are clearly targeting the countries coming from the former Eastern bloc. This is telling about the way the EU sees itself as a working integrated market. The political criteria are the most innovative part of the decision adopted in 1993. Targeting not only former communist countries but virtually all potential candidates, they depict explicitly the EU as defending the values of the Council of Europe: the rule of law, democracy and human rights. Of course, this dimension had been part of the reasons for accepting Greece, Portugal and Spain in the 1980s, but at that time it was more an implicit and somewhat ‘moral’ recognition of shared values than the basis for operational accession procedures.

2.2 The European Commission Has a Commissioner for Enlargement (1998)

As we have just seen, the first significant strategy for future enlargement came from the highest political body of the EU, the European Council, in 1993 with the Copenhagen criteria – a mixture of political, technical (the *acquis*) and ideological market economy considerations with the secret hope of containing the enthusiasm of the transition countries for joining the club quickly.

It took some more years for the European Commission to adapt itself completely to the new situation and to make the enlargement part of its daily business, with of course some major consequences. In fact, there had not been any EU commissioner responsible for enlargement until the appointment of the Prodi Commission in autumn 1999. Günter Verheugen took up this responsibility until 2004, then Olli Rehn under Barroso I (2004-2009), and now Stefan Füle under Barroso II. They all come from the central part of the European continent (Germany, Finland, Czech Republic), which is probably not a coincidence.

It probably corresponded to a real necessity to upgrade the administrative capacity of the EU to deal with enlargement issues. The first ‘Europe agreements’ with some central European countries, the initial step of the accession process, had already been operating since 1991 (with Poland in 1991, Hungary in 1994, Czech Republic and Slovakia in 1995, etc.). Moreover, consecutively to the political decision taken by the Copenhagen Summit, the ‘Phare’ programme had been redesigned between 1993 and 1997 (Luxembourg Summit) to prepare the future accession of central European countries with sophisticated mechanisms, ‘road maps’ and funds. The whole framework had then become more complex, technically and being full of difficult issues, and surely required implementation and monitoring on a permanent basis by ‘professionals’. Albeit necessary, it was nevertheless a considerable move from high politics (where the decision for enlargement had been initially taken) to administration, division of tasks and finally, in terms of decision making, to incrementalism.

Concretely, with the appointment of a member of the European Commission specifically dedicated to this topic, one can say that enlargement was becoming a sectoral policy, subject to the type of EU machinery characterising such policies, led and monitored by a permanent administrative body taking care of all details.
Ten countries entering in 2004, two in 2007, one in 2013 ... and tomorrow, how many and when? As a result of the aforesaid, the ‘big bang’ of 2004 was a mixture of political decision and policy management. It is clear that the choice of a unique date (1 January 2004) transcending the various situations of all the applicants was a symbolic and, of course, political decision.

Fourteen years after the collapse of the Berlin Wall, ‘wider Europe’ became a reality. The integration was no more confined to the western part of the continent and its dynamic spanned henceforth the two former rival blocs. On 1 January 2004 the emotion was shared in all parts of Europe, but was more intense in the central European countries. The accession of Romania and Bulgaria in 2007 was also largely a political decision, but with the difference that on this occasion more stress was put on conditionality, that is to say on the differentiation between countries according to their ‘own merits’. Then came the lessons learnt from that experience, pointing to the necessity of being even more careful in the future. Then arrived the crisis, with the same consequence of being more cautious on the part of the EU, while the support of public opinion in the member states for enlargement was rapidly declining.

Today, after the accession of Croatia, it is obvious that the remaining candidate or potential candidate countries do not form a bloc coming from a different political and economic system, as it was the case in 2004 and 2007 with the exception of Malta and Cyprus. There are clearly three different groups:

- Iceland, which recently expressed the will to join the EU mainly as a result of the financial crisis, which severely damaged its economy;
- Turkey, a long lasting candidate (1987), which is now under an ‘Accession Partnership’ since 2008 and has been in a Customs Union with the EU since 1995. Like Iceland, but for very different reasons, it is a specific case because of the size of the country (almost 80 million inhabitants), its geopolitical location, its cultural and historical background, etc., all elements among many others which are studied in more detail elsewhere in this book;
- The remaining part of former Yugoslavia (Montenegro, Macedonia, Serbia, Bosnia and Herzegovina, Kosovo) and Albania in the Western Balkans, all former communist countries which are under a so-called Stabilisation and Association Process with currently different status (official candidates, potential candidates).

Even in the case of the Western Balkans countries, which were for years under communist regimes, the situation is quite different from the countries which entered in 2004. For the latter, the predominant perception was a justified ‘return to Europe’ after decades of ideological separation. It was then logical for these countries to join the EU at the same time, with no major differentiation between them. In contrast, the conflicts, civil wars and ethnic

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cleansings which accompanied the painful disintegration of Yugoslavia in the 1990s – in Krajina, in Bosnia and Herzegovina, between Serbia and Kosovo, etc. – have reinforced the traditional and negative image attached to the ‘Balkans’, an image of countries profoundly divided, not trusting each other. This is why a scholar used to describe them as the “Eastern Europe’s losers.” So, the natural tendency was to emphasise their differences and then to take them not as a bloc (as with the central European countries in the 1990s) but separately, one by one. Of course, this situation does not facilitate a global political vision of the issue, as used to be the case twenty years ago. Between 1993 and 2014 the nature of enlargement has thus significantly changed, at least from this perspective.

Chapter 3 – Horizon 2020: Is There a Strategy for South-East Europe?

Most of the candidates or potential candidates are from south-east Europe, with the exception of Iceland and to a lesser extent Turkey, which is nevertheless closely linked to this region for many reasons (historical, cultural, geographical, economic). We will see the main elements of what can be called a Strategy for South-East Europe on the part of the EU and from the region itself. We will then examine other elements which contribute to limit the impact of this strategy, leaving each country isolated in its bilateral relations with the EU, and, inside the EU, providing more and more room for an administrative management of the issue, which is sometimes convenient because it tends to de-politicise the matter.

3.1 The ‘South-East Europe 2020 Strategy’ (SEE 2020)

The European Union has long been involved in the Balkans, taking major responsibilities for stabilising the region after the collapse of the former Yugoslavia. This has been the case, for instance, in Kosovo since 2008 with EULEX. In 1999 the European Commission took the initiative to create a ‘Stability Pact for South-Eastern Europe’, associating various countries and international organisations. Its objectives were pursued through three so-called ‘working tables’: I (Democratisation and Human Rights), II (Economic Reconstruction, Development and Cooperation), III (Security). In 2008 it was succeeded by the Regional Cooperation Council based in Sarajevo, in which the role of the countries of the region is significantly higher than was the case during the first phase under the Stability Pact. Nevertheless, the EU – as well as some western countries and international organisations – is still part of the process. All the countries of the region (as well as Greece, Turkey and Moldova) participate in the Regional Cooperation Council and in the political dialogue which is developing under the South-East Europe Cooperation Process. These are valuable instruments for better cooperation and cohesion in the region. They complete the biannual strategy for South-East Europe launched by the EU on various subjects such as the rule of law, democratic governance, economic growth, stability and the fight against organised crime, which are some of the top priorities on the agenda for the years to come in this part of the continent.

The main instrument which is currently developed under the auspices of the Regional

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Cooperation Council is an ambitious South-East Europe 2020 Strategy (‘SEE 2020 Strategy’), which will start to be implemented in 2014 and last seven years. It is no coincidence that this period corresponds to the EU’s new 2014-2020 financial framework.

In June 2010 the EU designed its new ‘Europe 2020’ Strategy for promoting growth and employment. It was based on three pillars: smart growth (education, research, new technologies); sustainable growth (referring closely to sustainable development with the promotion of a low-carbon economy); and inclusive growth (social cohesion, job creation, reduction of poverty). In the same year in the Balkans, the Regional Cooperation Council started its first meetings aiming at adopting a regional approach for development and job creation. The work gradually developed into the concept of an ‘SEE 2020 Strategy’ explicitly inspired by the ‘Europe 2020’ Strategy of the EU, with some adaptations due to the context. Another objective of this SEE Strategy is to influence the second generation of Instrument of Pre-accession Assistance (IPA II), which will function under the 2014-2020 new pluriannual financial framework of the EU, IPA constituting the main operational arm of the EU in the candidate and potential candidate countries since its creation in 2007.

On 9 November 2012 in Tirana, the ministers of the economy of the south-eastern European countries adopted, as SEE Strategy, five headline targets to be met by 2020, using 2010 as the base year:

- **Smart Growth**: an increase of 33 per cent in gross domestic product (GDP) per employed person (in comparison with 2010);
- **Sustainable Growth**: an increase of 20 per cent in the rate of enterprise creation; an increase of 130 per cent in the exports of goods and services per capita from the region;
- **Inclusive Growth**: an increase of 12 per cent in the overall employment rate; the addition of 300,000 highly educated people to the region’s workforce;
- **Integrated Growth**: an increase of more than 230 per cent in the intra-regional trade in goods; an increase of at least 120 per cent in overall foreign direct investment (FDI) inflows to the region;
- **Governance for Growth**: an increase of 20 per cent in government effectiveness (measured by a World Bank Institute index).

The overall targets of the SEE Strategy 2020 are three:

- **Convergence with the EU**: regional GDP per capita to increase from 38 per cent to 46 per cent of the EU27 average;
- **Trade openness**: a growth of more than 130 per cent in the region’s total value of trade in goods and services;
- **Sustainability**: a reduction of the region’s trade deficit from 14.1 per cent to 11.6 per cent of regional GDP.

What is interesting to note is that if we compare this with ‘Europe 2020’, the EU Strategy for employment, two pillars are added: integrated growth and governance for growth. The first one highlights the necessity for regional economic integration. Until the early 1990s, former Yugoslavia was an integrated economy, of course with some flaws. Economic disintegration rapidly went together with political disintegration, creating countries too small to
be economically sustainable (or even viable). The current effort of reconstruction can be facilitated by the still existing economic ties inherited from the past, and also by the Central European Free Trade Area (CEFTA), originally an initiative of the Visegrad Group (Poland, Hungary, the Czech Republic and Slovakia in the early 1990s), which lost its initial members when they joined the EU in 2004 and became in 2006 an institution covering the southeastern part of Europe exclusively. Its aim is to promote free trade in the region and to facilitate the accession of the SEE countries to the EU.

The other pillar which is typical of the South-East Europe Strategy, compared to the EU ‘Europe 2020’, is called ‘Governance for Growth’. It has two major dimensions: public administration with the objective of ‘effective’ public services, and transparency and anti-corruption. In the sector of public administration, it is interesting to note a stress on decentralised cooperation and multilevel governance.

3.2 Treating Western Balkans Countries One by One: A Temptation

To have a regional strategy for south-eastern Europe proceeds certainly from the desire to develop a more global vision of the enlargement perspectives. Nevertheless, it remains very clear that according to the EU there is a country by country differentiation in the accession process. Basically, each country is judged according to its ‘own merit’, which is certainly, at the end of the day, the only reasonable thing to do. It can be easily asserted that more conditionality leads automatically to more bilateral relations.6 We have seen previously that enlargement is, broadly speaking, a mixture of political decision and sectoral machinery. One can say the same of the next enlargement vis-à-vis the Western Balkans, which is a mixture – or even an entanglement – of regional perspective at the level of the EU (political) and of a ‘country by country approach’ at the level of the enlargement sectoral policy (administrative). It is not always transparent in which proportion these two respective ingredients go into the recipe. Logically, a regional vision should be predominant in the definition of the key objectives and the ‘one by one country’ in the implementation. But this kind of cartesianism does not fully apply to the EU, and surely not to the Balkans.

A pure regional vision of the enlargement would have favoured an accession of all countries of former Yugoslavia (apart from Slovenia, already a member) at the same time, maybe with the exceptions of Kosovo and Bosnia and Herzegovina, which are specific cases. It would have then replicated – on a smaller scale and some ten or fifteen years later – the logic of the 2004 ‘big bang’ for central Europe. But, as was noted above, the context is different and the prevalent image today regarding these countries is less the ‘return to Europe’, a reunification of Europe already accomplished now, than the conflicts, jealousies and in some cases massacres that have accompanied the dismantling of former Yugoslavia. The tendency of the European Commission is thus to assess the individual merits of each country separately. This has the consequence of significantly increasing the “fundamental asymmetry”7.

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between the powerful EU and the countries applying for membership. In a context of growing enlargement fatigue in the member states, made cautious by the difficulties still to be overcome in Romania and Bulgaria for instance, the Brussels administration has decided to stick to a strict application of the Copenhagen criteria and is even more demanding on specific issues such as independence of the judiciary, the rule of law or anti-corruption, to mention only a few examples.

The costs of a ‘one by one’ country approach, especially when it is put into practice in the context of the Balkans, should be more emphasised than has been the case so far. Who created difficulties for the entry of Croatia? Its immediate neighbour, already a member of the EU and having for that reason a veto power: Slovenia. Who are still contributing, maybe to a certain extent for good reasons, to complicate the accession of Macedonia? Its two EU neighbours, Bulgaria and Greece. One day, supposing that Serbia is in the position to join the EU, it is highly predictable that at least one of its four EU neighbours (maybe six if we count Montenegro and Macedonia) would have some objections for this or that reason. And so on and so forth, the top imaginable nightmare being probably the situation of Bosnia and Herzegovina, with Croatia and Serbia already EU members! In the case of Albania, the question of the Greek, Macedonian and Montenegrin minorities will probably be raised. These are types of difficulties which were never experienced during the accession process of the central European countries in the 1990s and early 2000s. It is also important to realise that more problems of this kind means more delays, more negotiation and more bargaining, excluding any global vision of the future of Europe.

It also worth mentioning that, paradoxically, while favouring this ‘one by one’ approach, the context of the Balkans in some cases, that is to say when the situation is in itself inextricable, clearly shows the limits of the approach. The most obvious example is Serbia-Kosovo, when it became as clear as crystal that the EU perspectives of the two protagonists were irremediably interconnected and that a certain degree of normalisation of their relations was a precondition for continuing the process. Could this example serve, of course under different procedures, for the whole region? Would it be, for instance, possible to envisage that the neighbouring countries, already EU members, of an officially recognised candidate, could one day renounce to exert their veto to its admission, either by collective decision or by ‘gentleman’s agreement’? It would be surely a good thing if EU accession could favour a peaceful climate in the region instead of exacerbating tensions, bitterness and resentment.

3.3 When the Budgets Show that Multilateral Support Is Weak

The main fund aimed at facilitating accession to the EU is the Instrument for Pre-accession Assistance (IPA), which finances a lot of programmes in the candidate and potentially candidate countries. If we look at the figures, we see that bilateral support (EU to Montenegro, EU to Serbia, EU to Macedonia, EU to Turkey, etc.) represents 91 per cent of the total, while the remaining 9 per cent – called ‘multi-beneficiary’ support – goes to regional and multilateral programmes. The proportion will probably stay the same under IPA II during the 2014-2020 period.

In fact, this corresponds to the philosophy of the EU, which says that, under IPA, regional support is subsidiary and is to “complement the national programmes”, as is written
in the IPA indicative financial framework 2012-2013. In other words, these ‘National Programmes’ (country by country programmes) come first, and regional cooperation comes afterwards and with a small share (less than 10 per cent) of the total (regional projects being generally focused on some particular sectors such as infrastructure and communication networks, for instance). This means that each country defines its priorities together with the experts of the European Commission, which is managing the IPA funds. There is a relatively marginal attempt to coordinate these ‘National Programmes’ in certain sectors where it is obvious that a pure national vision is not enough. It is thus difficult to consider this effort of coordination as a real strategy, even though there is certainly a part of strategy in it. That is probably the case, but if we read carefully the proposal made by the European Commission to the European Parliament and the Council for a Regulation on the future IPA II (7 December 2011), we see that what is called “strategy” in this document corresponds to a focus on streamlining (‘streamlining’ was already one of the keywords of Ehrard Busek, head of the Stability Pact for SEE between 2002 and 2008) and pluriannual planning, much more than on regional perspectives. One thing thus remains, which is by far the most important: this way of doing things does not stress any noticeable message of unity in the region, something that the EU considers as being a significant part of its mission.

Chapter 4 – Fatigue, Differentiation, End of a Cycle: The Enlargement, Mirror of the EU?

It is a commonplace to say that the big enlargement involving central European countries was realised in an enthusiastic climate, while the current one – though certainly strongly supported in the applicant countries, proving that the EU remains attractive in spite of the crisis – is generating fears and reluctance in the member states (at least in several of them). Nevertheless, this picture does not correspond exactly to reality. If there was some happiness on both sides in stating that the division of Europe between East and West was definitely over with the big enlargement of 2004, EU enthusiasm in the new countries did not prove to be long-lasting, considering the turnout in the European elections of June 2004. All the new countries were below the EU average of 45.5 per cent except three of them (Malta, Cyprus and – by a tiny margin – Lithuania), with only 17 per cent participation in Slovakia, 21 per cent in Poland, 27 per cent in Estonia, and 28.5 per cent in the Czech Republic and Slovenia. In 2009, it was 27.5 per cent in Romania and 37.5 per cent in Bulgaria. In April 2013, it was 20.8 per cent in Croatia. Of course, all political scientists know that going to the polling stations is not the only indicator of adhesion to a democratic system. Certainly – but as Vladimir Illyich Ulyanov used to say: “this is a fact and facts are stubborn things.” Minimising them does not help. On the contrary, it should be a good reason for starting a

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comprehensive reflection on the EU institutions, their legitimacy and the role of the European Parliament (participation in the elections has gradually dropped, from 62 per cent in 1979 to 42.9 per cent in 2009), which is one of our major concerns but is not the subject of this contribution. Let us only suggest that, while the new countries are generally considered as being ‘backward’, here it seems to be the contrary and their low turnout in the European elections can be viewed as prefiguring an overall tendency which is gradually becoming general across the Union (the May 2014 elections will certainly provide food for thought in this regard).

4.1 Differentiated Processes of Accession, Same Model of Membership

Something which is not highlighted enough is that enlargement is a mutual learning process. It is obviously not only a one-way process, with the applicants learning from the EU, its values, its functioning, its procedures, etc. The lessons from the big enlargement and from the following one have certainly given the EU an experience that was lacking in the first negotiations with the central European countries in the 1990s. Meanwhile, the EU has lost its ingenuity. The same could be said of the applicant countries, which are now very aware that the road to EU accession is hard, long and demanding. Some of them (Turkey and, to a lesser extent, Macedonia) have even learnt to remain several years in the ‘waiting room’ – they got used to remaining in an intermediary situation, between candidate and membership.

In fact, the evolution of enlargement reflects the evolution of the EU itself. As we have seen, the matter has become more and more technical and demanding, leaving an increasing amount of room to some disenchanted machinery scrutinising and monitoring the situation of each applicant country one by one, sector by sector. Of course, in this process, any global vision tends to fade away. It opens the way to an era of differentiation in enlargement, which also reflects an evolution inside the EU itself. With the Eurozone for instance, or the Schengen agreement, ‘multi-speed’ Europe is already a reality. And it is clear that, in a European Union with 28 members or more, the integration process cannot be uniform any longer. The past enlargements have gradually pushed the EU towards more internal differentiation – with countries like the UK and Denmark, for instance. Between the ‘big bang’ of 2004 and the current situation of the enlargement policy, the same tendency towards differentiation is noticeable. But until now, the framework has remained the same: inside the EU, opting outs are still considered as exceptions (even if they are becoming more numerous), ‘multi-speed’ Europe is encouraged and even institutionalised (through the possibility of launching ‘enhanced cooperation’ experiences with at least nine member states, for instance), but on the condition that the direction remains identical for all. This means no Europe ‘à la carte’ and by the same token no differentiated membership, only full membership equal for all.

As far as the next enlargements are concerned, things would probably be simpler if different types of membership could be offered by the EU to the various candidate countries. But that will remain impossible as long as it is not the case inside the EU itself. Moreover, the European Commission and its machinery is probably the most efficient defender of the uniformity of the system. One can therefore conclude that, if what we have tried to demonstrate in this contribution is true (i.e. the European Commission machinery is playing a growing role in the enlargement process), the model of membership offered to applicant
countries is not likely to evolve. But it does not mean that differentiation cannot be higher in the negotiation process itself. On the contrary, we think that, consecutively to the evolution previously described, with the level of requirements from the EU becoming higher, the pre-accession phase, led and monitored by the Directorate General (DG) Enlargement of the European Commission, will be increasingly technical, sectoral and focused on the specificities of each candidate taken separately. This is an example of what Helen Wallace, Mark Pollack and Alasdair Young called “adaptability and resilience of the EU policy process.”

4.2 End of a Cycle: The Absence of Connections with the Eastern Partnership

To a certain extent, one can say that the current wave of accession, starting in the 1990s, will come to an end by around 2020. As we saw, this wave can be divided into two major phases: the first one (2004 and its sequel of 2007), more global and more political; the second one, which is currently still running, more fragmented and more technical. Nothing is foreseen for afterwards.

Of course, six European countries – all from the former Soviet Union – are officially ‘Eastern Partners’ of the EU under its neighbourhood policy (Armenia, Georgia, Azerbaijan, Ukraine, Moldova, Belarus). Theoretically, they could aspire to join the EU one day – but is that realistic? Jacques Rupnik calls them “the suburbs of Europe.” We will highlight only one telling example. In the South-East Europe 2020 Strategy that we have presented above, some ‘best practice sharing’ (i.e. the minimum level of relations) are envisaged with four neighbouring countries: Turkey, Romania, Bulgaria, Moldova. The case of the latter is particularly interesting, since this exchange of experience between a group of candidates and potential candidates with an eastern partner is envisaged without any reference to the EU’s neighbourhood policy. It confirms that there is a strict separation between the neighbourhood and the enlargement policies, that is to say that the finality of the former is not enlargement. It also implies that the candidate countries which will not be in the position to join will stay somewhere between members and neighbours. This consideration adds to the ones exposed before and underlines the necessity of offering different status, not only full membership – the case of Turkey being the most telling one in this respect.

Chapter 5 – Conclusion

Some years ago, Olli Rehn, who was at the time Commissioner for Enlargement, wrote that the EU was gradually transforming itself into a “network Europe based on democratic functionalism,” in his view more “effective in squaring the circle between deepening and widening.” He was certainly right in the sense that the debate on ‘wider Europe – stronger
or weaker Europe? which prevailed over the 1990s and early 2000s seems today largely outdated. One of the main reasons is that over the years enlargement has become a sectoral and de-dramatised policy. The political debates about the limits of Europe, about its identity, even the one about the absorption capacity of the Union (which briefly replaced the philosophical interrogations about the limits of Europe) have gradually faded away. The most important thing to note is that this seems to be less the result of any deliberate decision (inevitably of a political nature) than the output of a self-evolving process: the enlargement policy. Of course, the framework remains formally unchanged and the Council, together with the Parliament, has the final word. But they intervene less and less except at the beginning and the end of an accession process, which for the rest of the time involving the essentials of the procedure is in the hands of the Commission (sometimes acting together with the External Action Service in specific cases like Serbia-Kosovo relations).

In this sense, the enlargement policy is a mirror both of “network Europe” and functionalism, to quote Olli Rehn. This network makes the notion of external boundaries less important. It is not like living on an island where the sea is never far away. Here, the shore becomes a bank and the sea, one day, happens to look like a river or a lake. This process is based on technical negotiations and on a growing differentiation country by country on ‘national programmes’. We can consider it as a major evolution if we compare the situation of the 1990s with the early 2000s regarding the central European countries. Like the EU itself, enlargement – as a clear sectoral policy now – has become growingly ‘multi-speed’. But it is not ‘à la carte’, since there is still a single type of membership, full membership, in a framework which has so far protected its uniformity.

New shores, new boundaries are now to be found with the so-called ‘eastern partners’ because the neighbourhood policy seems to have a finality which remains unclear, except regarding one point: this finality is distinct from the one of enlargement. So, on one side – the enlargement policy – we register more and more differentiation, while on the other – the neighbourhood policy – there will be, in the years to come, a growing need to propose satisfying flexible answers (association, special status, etc.) with a horizon disconnected from full membership purposes. This corresponds to what Jean-Dominique Giuliani called a “scale of the European integration” where countries occupy various positions, some at the core, others at the periphery. In the middle will probably be Turkey, which is occupying a pivotal position at the crossroads of the new dynamics affecting both enlargement and European neighbourhood policies, respectively. We do think that Turkey represents the strategic case from which could emerge new solutions, applicable in the future both to some countries at the margins of the enlargement process like Kosovo (or to a lesser extent Bosnia and Herzegovina), and to countries like Ukraine or Moldova (because of its special relation with Romania) in the European neighbourhood.

Differentiation and flexibility will thus be keywords for the future, and we have tried to show that this evolution has already started. As we have also pointed out, this evolution would ultimately be concomitant with the trend towards more differentiation inside the European Union itself (core group structured around a reinforced Eurozone, enhanced cooperation, opting outs on some policies, bargaining position of the UK to obtain a ‘made to measure’ status, etc.). These evolutions are perfectly conceivable in the original and sui
generis framework of the EU, which is not a state and is not moving in the direction of one day becoming a state, even a federal one.

**Bibliography**

EU36 AND THE NEED TO REVISE
THE EUROPEAN FEDERALIST AGENDA

NICOLAS LEVRAT

Chapter 1 – Introduction

Since 2008 the world has been undergoing the worst economic crisis of the last 80 years. The crisis was even more grave for Europe, and more specifically for the Eurozone. The situation is in fact extremely serious, and I feel the reactions to citizens’ dismay and anger are far too feeble – even misguided when they come from European Federalists.

Federalists are mostly discussing the institutional political fine-tuning of European Union (EU) institutions,1 instead of addressing the societal crisis Europe is undergoing. It is striking to realise the gap between the feeling of emergency in seeking solutions to a perceived developing societal crisis in the federalist literature of the 1950s and 1960s – a period that with distance we consider as a golden age of Europe – and the weakness of current proposals as regards the violence of the current crisis.

Chapter 2 – Europe Is Stalling

Maybe the problem has its source in a wrong perception of the real situation. Efforts to accelerate European integration or to reinforce EU institutions that the Federalists are staging are presently inefficient; they may even appear counterproductive. Why? Because European integration is stalling. A stall in aviation is a very dangerous situation. Usually, flying an airplane is quite simple; you pull or push the stick to go up or down, and you add or reduce engine power as needed. So if you want to go up, as the Federalists want with the European integration process, you pull the stick back and add engine power. It always works except if you are in a stall, when the airplane situation makes such a manoeuvre inefficient (it usually ends up with a crash). European economy, finance and integration are all stalling. The reaction – it is counter-intuitive, but the only way to get out of a stall – is to push the stick (yes, it will make you go down) and reduce the engine power. Only when you are out of the stall situation is it possible to start climbing again. Europe is stalling and efforts to help the European integration process first require a reduction in the speed of integration and putting the nose down. Then and only then will it be possible to envisage other longer-

1 See, for example, Daniel Cohn-Bendit and Guy Verhofstadt, FOR Europe! Manifesto for a postnational Revolution in Europe (Munich: Carl Hansen Verlag, 2012), 9-74, or all the 2013 public interventions by Jacques Delors.
term measures. The present contribution only concentrates on a proposal to get the European integration out of its deadly stall. What does it mean and how does it fit with a Federalist agenda? This is what we will try to explore.

Chapter 3 – The Federal Agenda Must Be More Ambitious than Just Reforming EU Institutions

As an observer and a genuine federalist, I am struck by the lack of consideration given by the European Federalists to the depth of the current economic, social and democratic crisis. An answer to urgent calls for action from angry citizens will not spring from a modification of the mode of designation of the President of the Commission, the number of full members of the European Commission, or an increase of the competencies of the European Parliament. During the 1970s – when the first elements leading to today’s serious societal crisis were emerging – the so-called European Federalists became obsessed with the reinforcement of the European Communities’ supranational institutions (initially the Commission and now the European Parliament), to the detriment of a balance with national and sub-national institutions, an issue which historically constitutes the DNA of Federalist principles.2

Furthermore, only concentrating on efforts to reinforce the Federal (EU) level institutions will definitely not get the EU out of its deadly stall. Let us remember in such a context the ‘federalist principles’, as set out in the Federalist Charter adopted by the Montreux Congress of April 1964:3 Pluralism, Autonomy, Subsidiarity, Rule of Law, Social Justice, Participation.

The obsession with the reinforcement and institutional engineering of EU supranational institutions is far from achieving these principles, which clearly not only point to the reinforcement of European supranational institutions, but also to national and sub-national institutions, and their central role in promoting and protecting identities and the participatory rights of citizens. Actually, no matter how much conviction and effort are being put towards democratising EU institutions, EU legitimacy will not spring from EU institutions. Beyond empirical observations unfortunately supporting this conclusion, there is also a theoretical reason for that.

As was brilliantly demonstrated by Olivier Beaud, the EU is a genuine federation; and as he pointed out in a 1998 article: “A Federation is not necessarily incompatible with the concept of democracy, but it implies a democratic form different from national democracy, a democracy that would accept a dual citizenship.”4 The main reason supporting his argument

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2 This is one of the main issues developed in the famous Federalist Papers (Alexander Hamilton, John Jay and James Madison, New York, 1788).


4 Olivier Beaud, “Fédéralisme et souveraineté. Notes pour une théorie constitutionnelle de la Fédération,” Revue du Droit Public 1, 1998: 122 (our own translation). The original wording reads as follows: “Il ressort de ce qui précède que la Fédération n’est certes pas incompatible avec l’idée démocratique, mais qu’elle suppose une forme de démocratie autre que la démocratie nationale, c’est-à-dire une démocratie qui accepterait l’idée d’une double citoyenneté.”
is not the now classical lament of the absence of a European demos – the thesis abundantly developed by the German Constitutional Court in its Maastricht (1993) and Lisbon (2009) decisions, which is not such a serious obstacle as the Karlsruhe judges affirm – but the lack of any single sovereign power in a genuine federation, making it impossible for the kratos (or sovereign power) element to be present to form a democracy. It is not for a lack of demos, but due to the inconsistency of its kratos that European legitimacy is so weak.

Furthermore, observation of citizens’ behaviour within the EU does not point to the appropriation by European citizens of a genuine European democracy. More worrying, the European integration process and the constraints imposed by the European institutions (the European Central Bank (ECB) and the European Commission) vis-à-vis national parliaments (i.e. the European Semester) are even dangerously weakening national democratic legitimacy. It is thus time for a ground-breaking initiative by European Federalists to revive both the EU and the national – or even in many case sub-national – democratic adhesion to the European integration project.

In addition, the problem of size always was a concern for democratic legitimacy. Enlargement to 36 member states will in that respect only make things worse. The designation of the principle condition for representative democracy by Rousseau in his famous Du Contrat social (1762) allowed the emergence of national democracies, extending beyond the city a model of government that was considered as non-applicable to a polity larger than a city. Federalists, for the reasons indicated by Olivier Beaud as quoted above, should propose a new democratic form of legitimation of public institutions within the EU, different from national democracy, which is and will remain inappropriate to legitimise the EU as a federation in a crisis situation.

In 2001, heads of government and state, gathered in the royal property of Laeken in the suburbs of Brussels, adopted a famous declaration, re-launching the integration process considered – already – as being weakened by the very insufficient Nice Treaty. In that ‘Laeken declaration’ it is stated: “The European Union’s one boundary is democracy and human rights.” What was meant by this sentence concerned the potentialities for enlargement (this sentence appears under the subheading “Europe’s new role in a globalized world”) of the EU, indicating that it should not a priori be limited by the geographical or cultural peculiarities of candidate countries. Only the assessment of the degree of democratic legitimacy and the respect for human rights should govern EU extension. However, this “European Union’s one boundary” may today limit the future of the European Union, not as regards the situation of new potential member states, but as regards its own state of affairs. A grave loss of democratic legitimacy within the EU, and even in some cases an encroachment on the respect for human rights due to austerity measures, may constitute an insurmountable barrier to the pursuit of the European integration project. Thus a bold proposal follows below.

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5 For a detailed and argued presentation of the case, see Nicolas Levrat, La construction européenne est-elle démocratique? Paris: La Documentation française, 2012).

Chapter 4 – The European Legitimacy Crisis Requires a Re-enforced Matrix-Type Identity to Regain Momentum and Legitimacy

According to Olivier Beaud, the reason why a national-type democratic legitimacy is impracticable in a genuine federation such as the EU is based on the following argument: the concept of people’s sovereignty is intimately linked to the idea of the nation-state, and even more precisely to a national unity concept. In fact, it is the link with the sovereignty of the people, which cannot exist in a federation, that is problematic. Why? Because in a genuine federation, the ‘federal people’ represents only one branch of the federation (the other branch being represented by the constitutive units (member states) and their respective peoples. Thus, if the federal people were to be sovereign (a sine qua non condition for the EU to be a democratic polity of a national-type and the solution pushed by most so-called European Federalists), then the EU would not be a federation anymore, the EU level imposing its sovereign will on the constitutive units, thus transforming the EU into a state-like polity, and not a genuine federation anymore. In such a case, that would mean that the member states, losing their sovereignty, would not themselves remain genuine democracies; this would violate a founding principle of the union, as stated in Article Two of the Treaty on the European Union.

Thus, for a federation to be democratically legitimate, it would need to confer the sovereign power of the federation to “a kind of third party, that is a power that would neither be the federation, nor the member states, but the Federation latosensu, including both the Federal Union and its member states.” In my view, the only way to surpass such contradictions and to achieve such a complex multi-layered polity is through a matrix-type identity, which would then advantageously replace the oxymoron of the “dual citizenship” mentioned by Olivier Beaud.

Chapter 5 – Such a Proposal Constitutes a Genuine Federalist Project for the EU

Such a project comprehensively addresses the difficulties identified above. First, taking into account the fact that the European integration process is in a stall, it would not try to push for more EU-level institutionalisation, but would, on the contrary, push the ‘integration stick’ down, emphasising the role of national and sub-national institutions in the European integration process. It is only by recognising and developing national and sub-national (local and/or regional) identities within the EU that the integration process may regain democratic momentum.

Second, this clearly constitutes a genuine federalist agenda. As explained earlier, the strengthening of the federal-level institutions is only a tiny part of federal principles; Pluralism, Autonomy, Subsidiarity, Rule of Law, Social Justice and Participation are not cur-

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7 Olivier Beaud, “Fédéralisme et souveraineté” (loc. cit.): 120. Historically, the sovereign power was held by the monarch. In the national version of democracy, the powers of the monarch have been attributed to the people.
8 Ibid. 111-114.
9 Ibid. 121.
rently fully developed by the institutional setting of the Union and would benefit from better care at national or sub-national level. This would thus definitely be a relevant and original federalist agenda.

Third, let us be clear about the fact that the reconstruction of genuine national and sub-national identities – as they are expressly mentioned since the entry into force of the Lisbon treaty at Article Four of the Treaty of the European Union – as the soil in which to ground EU democracy, is not about reviving classical national, local or regional identities. It is about reshaping these identities as fundamental bricks of an enhanced European democratic identity. Local, regional and national identities, as vectors of democratic legitimacy, are to be consolidated as part of the whole European Federation. I understand that, as in a stall recovery manoeuvre, this proposal sounds counter-intuitive. It is – that is precisely why it may work to get the EU out of its stall.

Chapter 6 – So How to Proceed?

We propose to the European Federalists to convene as soon as possible an ‘Estates-General of Europe’, during four full days, all across Europe, with all Europeans. The first day would be devoted to Local European Identity (6 May). The second (7 May) would be for Regional European Identity. The third day (8 May) would deal with National European Identity. And on the fourth day only (9 May) would genuine, complex and comprehensive European Identity be discussed. All Europeans (including Members of the European Parliament, European Commissioners, European civil servants, diplomats from all member states and the European external Action Service, but also all private actors and simple citizens (retirees, students, …) should participate in the whole four days process. That would mean, for example, that regarding European civil servants, they may not all participate at the local level in Brussels (where they live), but could do so where they feel their European local identity belongs. Let us remember that local or regional identity may not ‘coincide’ with national identity, as recognised since 1993 with European citizenship, which allows for local citizenship in a country in which you do not have national citizenship. Fine. This is what European identity is all about and it concerns how a new genuine legitimacy of the European polity may finally emerge, which will allow support for them, and only then, to relaunch further European integration.

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10 We borrow the concept from Kalypso Nicolaïdis.


European integration does not start with formal membership of the European Union (EU). The “four freedoms” constituting the fundamentals of European unification offer abundant opportunities to include the candidates in the earliest pre-accession period. Trade, investments, visa facilitations as well as the extension of transport, telecommunication, and energy networks and infrastructure protecting the environment, do not necessitate EU membership, but can be handled and regulated between candidates and the EU in the framework of association agreements or other devices of neighbourhood relations. At this level, the achievements and techniques of European integration are easily extendable to the neighbours without membership. EU accession perspectives can support and motivate this inclusion, but do not constitute a formal precondition to it. For that reason, no sharp dividing lines appear between the “European neighbours” eligible for EU membership and the closest “neighbours of Europe”. The new, mostly continental neighbourhood of the EU in Eastern Europe is an appropriate area for the implementation of such expansive pre-accession strategies.

This book has offered abundant new evidence to enlargement aspects on a larger scale of EU36 in the specific fields of the internal market, the EU budget, the infrastructure networks, the single currency, neighbourhood relations and EU institutions. Some findings can serve as a basis for further research in the theoretical and practical domains of EU enlargement. In a general approach, enlargement can be seen as a mirror of the EU, and the evolution of enlargement reflects the evolution of the EU itself (see chapter by Saint-Ouen).

In the next phase of EU enlargement, pre-accession periods tend to be longer than before, on the outer peripheries of Europe the radiation of EU norms becomes weaker, and the reverse effects coming from new members and candidates beyond the frontiers of European culture determined by the Enlightenment and Reformation may also influence the structure and the functioning of the original integration model. In this context, the main questions concerning the future investigation of the EU’s next size are threefold:

- What is the real content of the pre-accession period, apart from regular formal criticism and assessment from the European Commission and, from the start of official negotiations, the chapter-by-chapter adaptation process of the acquis communautaire?
- What is the effective impact of EU membership on the political, economic and social development of countries situated on the outer peripheries of Europe with a heritage differing, to a growing extent, from the traditions of the founding core members of European integration?
- What reverse effects reach the centre of Europe from the peripheries including the new member states and their east and south-east European neighbours eligible, in principle, for EU membership?
The perspective of EU membership is a source of long-term political inspiration, but shorter-term advantages play an important role in parallel with it as well. In the pre-accession period, free trade (and beyond that, customs union with the EU, as in the specific case of Turkey) offer a real and immediate gain for the neighbours. As the EU is the first and dominant trading partner for all these countries, the abolition of classical barriers opens the way for an increased exchange of goods. Naturally, the EU side, with its stronger competitiveness, makes more benefit from free trade channels, but if the candidates manage well their economic policy under the conditions of internal EU competition, they can obtain advantages, too. The parallel opening of regional trade, following the successful example of the Central European Free Trade Agreement (CEFTA) founded originally by the Visegrad countries (see chapter by Strážay), can contribute to the stabilisation of transition economies.

Together with trade, visa facilitations are of great importance for EU neighbours. Expanding business, growing tourism and, first of all, access to the vast EU labour market need easy regulations for travelling. The bigger the distance from the industrialised centre of Europe, the greater the revenue gap attracting labour force from candidate and other east European neighbouring countries to the EU will be. The increased flow of cheap labour is one of the supposed main threats inspiring core EU members to keep potential EU candidates at a distance. However, experience proves that the centripetal movement of labour in Europe is not directly attached to formal EU membership, not even to visa abolition or visa facilitation measures. Economic motivation (revenue gap, unemployment etc.) is stronger than any administrative liberalisation (see chapter by Fóti). For this reason, the flow of labour force from the periphery (internal or external) usually precedes EU accession.

Another important phenomenon of European integration is the increased capital flow into candidate countries. Here again, experience of the last two decades proves that foreign investments in the newly opening markets, either in the form of greenfield factories or using privatisation opportunities, do not wait for the opening of official accession negotiations. The political perspective of EU membership alone can encourage long-term decisions. In fact, the flow of capital was the first of the "four freedoms" that preceded largely formal diplomatic steps (and has not been limited to EU members or candidates only). Investment can serve as a tool of economic convergence with "old" member states. The extent and efficiency of foreign direct investments in an EU candidate country has direct consequences on the availability and – later on – mobility of workforce. If sufficient employment opportunities are created by foreign capital, then workforce is needed on the home labour market and is not motivated to emigrate. Investment leads not only to improvement of the trade balance, but can bring about positive effects on the labour market, too (see chapter by Babin-Erić).

The extension of EU infrastructure networks to the neighbourhood is not bound to formal membership either. However, this segment of integration follows formal membership with a considerable delay. The main reason is that transport and telecommunication networks within the EU are still in progress, including the connections between and among the "old" member states. Better results have been achieved in the field of electric energy interconnections, but from a general point of view, the EU energy network is deeply segmented with special regard to the pipeline systems. The inclusion of late-comer "new" member states into EU infrastructure networks is largely behind that schedule, not to speak about the attachment of new land neighbours in Eastern Europe to core EU regions.
The pre-accession period is obviously the very phase where the “soft power” of the EU exerts the strongest influence on its partners, first of all on the direct neighbourhood (see chapter by Levitin). The process of adaptation to EU norms and regulation gets strong political back-wind in this phase as the acceptance and implementation of EU rules and discipline are motivated by the near perspectives of EU membership. This statement is naturally focused on “European” states eligible for EU membership according to the dispositions of the EU Treaty. Neighbours beyond the strict geographical eligibility line, without any political perspective of becoming one day an EU member, cannot base their modernisation drive on formal membership. Those “neighbours of Europe” are exposed, to an increasing extent, to the influence of other poles of attraction. Post-Soviet Central Asia is squeezed between four different poles, being under the multiple pressures of Russia, Turkey, Iran and China. In the Mediterranean basin the contagious “Arab Spring” has opened an apparently long-lasting struggle between westernisation and various forms of Islamic tradition, with the perspective of immediate conflict situations in the Near East. Europe’s long-term aim is to domesticate its neighbouring areas within concentric circles (see chapter by Evin-Hatipoglu), but past certain limits the attractiveness of the European model is fading away. EU enlargement is already manoeuvring in this critical area.

In spite of the clear distinction of the EU Treaty in favour of “European” states eligible for EU membership, the situation of the “European neighbours” on the outskirts of the European peripheries is not very different from that of the closest “neighbours of Europe”. The EU’s Eastern Partnership project proved that the remote and uncertain perspective of EU membership combined with cautious rapprochement steps and limited aid were not sufficient to gain the sympathy of Belarus, Armenia or Azerbaijan. All these countries are “European states” and close neighbours of the EU but Russia (and in some cases Turkey) can offer them a valuable alternative with less conditionality than the EU – at least at first sight. In this respect, their situation and integration perspectives are not very different from that of their further, “non-European” neighbours.

After a decisive turn in the Russian foreign policy doctrine, the controversial events in Ukraine by the end of 2013 and the annexation of the Crimea in March 2014 showed clearly that Moscow is ready to apply more aggressive methods for keeping the “near abroad” under its influence. At the same time, in the Balkans region Russia has lost its former strategic authority for two main reasons: geographical isolation by the North Atlantic Treaty Organization (NATO) and EU accession of Romania and Bulgaria, on the one hand, and concrete EU membership perspectives for its two traditional friends, Serbia and Montenegro, on the other. Simultaneously, the economic and cultural influence of Turkey is steadily growing in other countries of the region with strong Ottoman memories, such as Bosnia and Herzegovina, Macedonia, Albania and Kosovo.

Central and east European members expected from EU accession the consolidation of market economy, the stabilisation of pluralistic democracy and a notable welfare leap forward. The “hidden dimension” of such expectations is the achievement of a century-long dream about European modernisation. On the eastern peripheries of Europe, this strategic objective was coupled with frequent freedom fights for national independence in the 19th and 20th centuries. All those nations, squeezed between expansive empires during their history (German, Russian, Habsburg, Ottoman), believed that national sovereignty was the key to their modernisation upswing, following the examples of the British, French, German, Italian
and other modernisation drives. By the end of the 20th century this strategic objective was attained through the collapse of the Soviet empire and, together with it, the historical decline of the party-state (“Socialist”) modernisation model. In parallel with the systemic changes and the transfiguration of Europe’s political map inherited from the First and Second World Wars, the Soviet model was replaced in a sudden historical turn by the archetype of European integration. The new, western modernisation tool was adequate and efficient, but in the expanding structures of European governance the flavour of freshly regained national sovereignty was rapidly lost for the new EU members.

EU accession has brought about a strong and sometimes brutal modernisation effect in the legal-institutional system of the new members. The cultural and legal heritage of the historical Hansa area around the Baltic Sea or the Habsburg Empire in central Europe proved to be adaptable to the *aquis communautaire*: here the impact of Soviet times was almost negligible. However, beyond those – today mostly invisible, but strongly dividing – frontiers the applicability of EU law and the implantation of western institutions are faced with increasing difficulties. Future members of the EU from this region would pay a higher price for their membership in adaptation costs than their predecessors from central and eastern Europe. The question is whether the overall gains of European integration will compensate them for the unavoidable decrease in national self-determination in economic policy and legislation as well as for excluding other alliance alternatives situated closer to their culture and traditions.

The example of the last “big” enlargement shows that new members have progressed in their state administrations with the help of the EU model. Collective action of joint EU governance contributes to the expansion of experience and “best practice” from the European centre to the peripheries. New member states are also net beneficiaries of the EU budget through agricultural subsidies and EU funds thanks to the solidarity of wealthier EU countries. However, the obvious advantages do not prevent them from using the EU in crisis times as a cheap target of populist attacks. Remote and sophisticated EU institutions are not prepared to give reactions to daily verbal aggressions in the political battles of all the member states. Behind the façade of political rhetoric some real problems can also be detected. Low performance of EU integration in some areas has become more visible under the extreme pressure of the world economic crisis. The question is whether political parties in the member states opt for a constructive critical analysis and continuous strengthening of the EU by reforms or choose a different strategic approach in contesting the usefulness of the European integration model.

Central and east European EU candidates in the pre-accession phase are usually “convinced Europeans”. This is a rational choice on their part as EU accession is obviously the last chance for them to catch up with the historical delay in the modernisation process. The EU – together with its central member states – represents the modernisation model for Europe and the large periphery. EU members of the 2004 enlargement (and after) followed the same path in the pre-accession period and praised the benefits of EU law and institutions as well as the helpful effects of EU funds. However, a few years after EU accession, most of them took a U-turn and have elected anti-EU political parties to govern over the years. The general attitude to European integration in the new member states will certainly influence the speed and scope of further enlargements.

Negative opinions about the EU in states joining the organisation by 2004 and 2007 may be explained by three main reasons. The first is their disappointment in realising that the
various benefits of EU membership could not essentially reduce the inherited East-West gap, even if some of their regions got closer to the average development level of the Union. Joining the EU did not lead to a substantial increase in living standards (see chapter by Horváth). The second element is the impact of the world-wide economic crisis, intervening a few years after the EU’s “big enlargement”, which partly eroded the advantages of the Single Market that was supposed to deliver higher growth rates in order to keep the pace with other fast-growing regions (see chapter by Novák). The third source of criticism is the accumulated internal problems of the EU: the failure of the first competitiveness plan from the year 2000, the refusal of the draft Constitutional Treaty in 2007 and the difficult birth of the Lisbon Treaty with an important delay, the weaknesses of the single currency and the slowness in agreeing on a common rescue plan after 2008, various acute deficiencies of the democratic, transparent and accountable functioning of EU institutions etc.

Emerging anti-EU rhetoric takes on different accents in old and new member states. In core EU countries’ anti-EU speech is not against Europe as such, it is usually directed against immigrants, i.e. “non-Europeans”, or not “real” Europeans. In new member states political parties positioning themselves against the EU (mainly the radical right) combine criticisms about the EU with claims of the “decline of the West”. Anti-EU parties in old member states want to dominate Europe (among others by targeting strong positions in the European Parliament), contesters of the EU in new member countries suggest their country step out of the Union in order to regain “national sovereignty”. At the same time, some new member states try to approach alternative regional allies (first of all Russia).

Short and medium-term problems of integration may lead to a questioning of longer-term objectives, too, raising doubts about the validity and attractiveness of the European model. The attempt at mastering globalisation with the help of regional integration is based on the values and achievements of European modernisation. From the outset, European integration projected the concept of a liberal market economy, pluralistic democracy, human rights and the rule of law from national to the expanding regional dimensions. In contrast with this picture, political parties infected with extreme right ideologies, which occasionally occupy government positions in the new member states, have taken an increasingly anti-EU course. Behind their short-term populist calculations, a deeper anti-modernisation reflex is also detectable which is well-known on the peripheries of the industrialised centre of Europe. From this angle, any form of “imperial” unification dominated by core European states is contrary and detrimental to the national sovereignty of others.

Under the pressure of the recent economic crisis, nationalism has gained momentum in several European countries in both the political and the economic sense. In the new member states, this tendency may contest the advantages of EU integration and the necessity to comply with its rules. The governments of Poland, Hungary and the Czech Republic expressed deep scepticism concerning their decision to join the single European currency and may stay permanently outside the Eurozone. In fact, the recent sovereign debt crisis sent a signal to these countries that being a member of the Eurozone is not a guarantee for avoiding deep domestic crisis (see chapter by Horváth). The external effects of this attitude might push potential EU candidates towards other poles of attraction, in particular if the EU gives slow and uncertain reactions to new challenges. Considering the actual political tendencies in Russia and Turkey, their increasing attraction on the European peripheries could contribute to the erosion of classical values of European modernisation, first of all pluralism and equal chances in politics and on the market.
The impact of future enlargements on the EU, increasing the number of member states from the actual 28 to a maximum of 36, would bring mixed results. In theory, the growing size would favour the effects of “economies of scale” and strengthen the advantages of the bigger market, larger networks etc. However, conclusions drawn from previous enlargements can have only a limited relevance in predicting the impact of future enlargement rounds on trade, investment and other processes (see chapter by Novák). The extension of the field of applicability of EU norms and rules could contribute to the stability of the enlarging region. Supposedly, with more member states Europe will get more chances for managing the effects of globalisation on a larger scale. However, on the Western Balkans the strong and vast European centre will be completed with a relatively small and weak periphery with limited purchasing power. In this sub-region the pattern of the 2004-2007 “big enlargement” will continue: a modest increase of the gross domestic product (GDP) (see chapter by Orbán) combined with a more important growth of population (see chapter by Fóti) and a sharp escalation of the number of states (see chapter by Balázs).

Turkey’s accession would represent a fundamentally different model: one single new player in the EU with a huge economy and abundant population. Turkey’s rapid growth and development over the last decade can be interpreted as one of the success stories of the global economy, but the country faces significant economic risks (low domestic savings, dependence on external financing) (see chapter by Málnássy). In the case of Turkey the scale of potential migration flows cannot be compared with previous enlargements either (see chapter by Fóti). However, in both cases, the Western Balkans and Turkey, the EU could handle the new situation in the areas of the internal market, networks and other segments of integration without major difficulties.

The problems encountered during the intra-institutional negotiations about the EU’s long-term budget showed that the Multiannual Financial Framework needs to be restructured (see chapter by Schnellbach). This is not a special requirement of future enlargements, but a precondition for the smooth functioning of the EU, including rural development (see chapter by Fieldsend). The Western Balkans countries would have only a slight impact on the EU’s average per capita GDP, but Turkey would change some basic patterns of regional policy, perturbing the interest coalitions, and re-enforce the division between net contributors and net recipients. However, regarding its growth rates, Turkey is probably the most promising candidate country (see chapter by Orbán).

The precarious point is the strength and cohesion of the political community. Already the actual, pre-accession size of the EU has reached a critical mass with the high number of state players of very different size and economic development level accompanied by increased motivations for equality and sovereignty. Under such circumstances EU institutions are exposed to growing political pressure for more transparency, accountability and, first of all, efficiency. A fundamental revision of the integration model is due in the medium term. The objective is not solely of pushing for stronger EU institutions, but of strengthening local, regional and national identities (see chapter by Levrat). Institutions inside the EU should be capable of handling financial, economic and social crises, opening the way for creating a dynamic federative core based on a political union (see chapter by Sidjanski). A consultative referendum introduced at the EU level would be of great political use, too (see chapter by Esposito). The role of national parliaments in EU affairs should be increased in parallel with shortening the mandate of members of the European Parliament (MEPs) and of Commissioners, in order to bring them closer to the pulse of domestic political life (see chapter by Balázs).
The perspectives of the next EU enlargements are partly predictable. Serbia and Montenegro are well prepared for achieving the ongoing accession negotiations within the duration of the current Multiannual Financial Framework (2014-2020), probably during the mandate of the next European Parliament and European Commission (2014-2019). Political preconditions are given on both sides, in the two applicant countries and the EU member states, to ensure the unanimity of all governments concerned and the necessary public support. The increase in the number of EU member states from 28 to 30 would not result in major changes compared to the actual structure, objectives, problems and financing of the Union.

The direct consequence of the enlargement of the EU to Serbia and Montenegro would be the substantial shrinking of the Western Balkans region. If the majority of the successor states of ex-Yugoslavia join the EU (Slovenia, Croatia, Serbia, Montenegro), the remaining countries (Bosnia and Herzegovina, Macedonia, Kosovo) will have better chances for finding solutions to their specific – and in each case different – problems which are all connected with the concept of their “statehood”. Albania also belongs to this narrowing EU enclave. The four countries will need more collective or coordinated action in implementing EU rules, in parallel with individually complying with the EU entry conditions, if they want to speed up the integration process (see chapter by Levitin). This would be a rational choice in view of their geopolitical situation, but let us not forget the strong presence of Turkey in this region.

The future scenario of Turkey’s European integration is definitely less predictable than that of the neighbouring Western Balkans region. In the case of a strong and united political will on the EU side, Turkey would not refuse the speeding up and conclusion of accession talks before 2020 as EU accession is still a main priority for the country (see chapter Málnássy). The remaining technical aspects – discussing all the negotiation chapters, proceeding to the necessary referenda and, finally, to the ratification process – seem to be feasible. Turkey’s EU accession would need powerful support from the renewing EU institutions mandated for the 2014-2019 period, but above all from the member states. Building the necessary unanimity for accepting Turkey’s membership in the EU should begin with a turn in the foreign policy attitude of Germany, France, the Netherlands, Austria and several other influential EU governments backed by strong majorities in their national parliaments.

Turkey is not only a candidate, but a pole of attraction competing with the EU on its outer peripheries: on the Balkans, the Southern Caucasus and post-Soviet Central Asia (see chapter by Evin-Hatipoglu). An important and unique aspect of the accession talks should be the harmonisation of strategies concerning the “joint neighbourhood” of the EU and Turkey. Expansionist ambitions on the part of Russia create a similarly polarised situation with the EU, mainly in post-Soviet areas. However, the chances for a strategic alliance are definitely more promising with Turkey than with Russia. The reasons are multiple, just to mention a few of them: Turkey is a candidate for EU accession, Russia is not; Turkey is a NATO member, Russia perceives NATO as a threat; Turkey is a full-fledged market economy, Russia is at the lower edge of this category etc. Bearing all that in mind, the EU should also consider initiatives to examine questions of common interest in the EU-Turkey-Russia triangle. There are abundant issues in this category, but the motivations for a tripartite approach are very weak from any side, including the striking lack of unity and imagination within the EU. However, new and alarming tendencies in both Russian and Turkish foreign policies should
inspire the EU to insert its traditional and self-confident enlargement strategy into a wider regional context, taking into consideration the interests and influence of other regional players with special regard to G20 members such as Turkey and Russia. The declining idea of regional integration originating from Europe in the 20th century has a slight chance to survive in the 21st century and to master the challenges of globalisation if it is also harmonised with the emerging multipolar power structures in the world.
NOTES ON CONTRIBUTORS

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Dusan SIDJANSKI, PhD. is a founder of the Department of Political Science at the University of Geneva and Professor emeritus at the Faculty of Economic and Social Sciences and at the European Institute in Geneva. From 1956, he worked in close collaboration with Denis de Rougemont at the European Cultural Centre (ECC). He is Honorary Chairman of the European Cultural Centre and special adviser to the President of the European Commission. He is the author of works on federalism and European integration, such as L’Avenir fédéraliste de l’Europe. La Communauté européenne des origines au traité de Maastricht, Paris, PUF, Coll. IUEE, 1992, 1993, and the revised English translation, The Federal Future of Europe, University of Michigan Press, Ann Arbor, 2000.

Tomáš STRÁŽAY, PhD. works as a senior research fellow at the Research Centre of the Slovak Foreign Policy Association (RC SFPA), where he heads the Central and South-Eastern Europe program. He is also an editor of the International Issues & Slovak Foreign Policy Affairs quarterly. He received his PhD from the Institute of Political Studies of the Polish Academy of Sciences in Warsaw, Poland.
NOTES ON INSTITUTIONS

The Andrássy University Budapest, AUB (Budapest, Hungary) is a Hungarian and international university. AUB holds the title of “University of National Excellence” in Hungary. The main teaching areas are history, law and politics of the Eastern and Central European states. The focus of all disciplines at AUB lies on interdisciplinary research relating to Central Europe and European integration. These research activities are coordinated by the Danube Institute for Interdisciplinary Research.

The Centre for EU Enlargement Studies, CENS (Budapest, Hungary) is an independent Centre of the Central European University (CEU), founded in 2005 as an institution of advanced research into the EU enlargement process. The goal of CENS is to promote a dialogue between EU member states and partners in Eastern and Southern Europe, academics and decision makers in the EU and in national governments so that they may have a more informed understanding of factors that influence Europe’s common future. Research carried out encompasses not only the enlargement process, but also a wider range of political, economic and social effects of European integration.

The Centre for European Legal Studies, CEJE (Geneva, Switzerland) of the University of Geneva is one of the first Swiss research Centres in the field of European integration. Founded in 1963, CEJE has become a reference in the field of teaching and research on issues related to EU law and its impact on Swiss law. Directed by Prof. Christine Kaddous, Jean Monnet Chair ad personam, CEJE pursues many teaching, research and publication activities, organizes numerous conferences and holds a European Documentation Centre. It is also very active in disseminating information on EU law and EU policies.

The European Bank for Reconstruction and Development, EBRD (London, UK) was established to help build a new, post-Cold War era in Central and Eastern Europe. It has since played a historic role and gained unique expertise in fostering change in the region and beyond. It is currently active in more than 30 countries from Central Europe to Central Asia and the Southern and Eastern Mediterranean. The EBRD is committed to furthering progress towards, in the words of its founding articles, “market-oriented economies and the promotion of private and entrepreneurial initiative.” Uniquely for a development bank, the EBRD has a political mandate in that it assists only those countries “committed to and applying the principles of multi-party democracy and pluralism.” The EBRD is owned by its shareholders - 64 countries plus the European Union and the European Investment Bank.

The European Cultural Centre (Geneva, Switzerland) was founded in 1950 by the philosopher Denis de Rougemont (1906-1985) in accordance with the cultural resolution of the Hague Congress (May 1948). Its main objectives are to work for peace and solidarity in Europe through the promotion of an active citizenship and through the idea that all Europeans share a common cultural heritage. The Centre organises talks and workshops, publishes
collective works, and is active as a think-tank on federalism and the creation of a European Federation, as well as on the role of towns and regions in the process of building a more united Europe.

**The European Foundation for the Improvement of Living and Working Conditions, Eurofound** (Dublin, Ireland) is a tripartite EU agency whose role is to provide knowledge in the area of social and work-related policies. Its focus is on living and working conditions, industrial relations and managing change in Europe. Eurofound provides information, advice and expertise on these topics for key actors in the field of EU social policy on the basis of comparative information, research and analysis.

**The Faculty of Economics, Finance and Administration, FEFA** (Belgrade, Serbia) was founded in 2003 in Belgrade to provide high quality studies as an attractive alternative for young generations in Serbia. As the European integration curriculum represents one of the core modules that FEFA offers to its prospective graduates, the institution has always sought people who have substantial knowledge in the field, including professional experience. Key teaching staff have all held a high-level government administration post relating directly to European integration, and some have significant NGO expertise. The very same team was responsible for introducing and heading the first EU-related governmental body in Serbia which evolved into the Office for European Integration. FEFA now engages in applied research projects. In 2009 a team of 50 researchers led by FEFA completed an economic impact analysis of Serbia’s EU accession, which was supported by both the government and the private sector. In addition to researching EU issues, FEFA specialises in the study of competitiveness, maintaining an affiliate relationship with the Institute for Competitiveness at the Harvard Business School. FEFA also focuses on development and transition economics, corporate governance and finance, and education reform.

**The German Institute for International and Security Affairs, SWP** (Berlin, Germany) has provided analysis on foreign policy issues not only to the Bundestag and the German Federal Government, but also to economic actors and the general public for more than 50 years. While the SWP initially dealt primarily with issues of disarmament, today there is a broad spectrum of analysis ranging from classic security policy issues to aspects of climate protection and the political challenges associated with resource scarcity. The SWP not only acts as a service provider through its procurement of up-to-date information and its needs-based advising, but also provides a venue for the execution of thorough analytical work.

**The Global Studies Institute** (Geneva, Switzerland) is a teaching and research structure of the University of Geneva. It cooperates with the Faculties of Arts and Humanities, Economy and Management, Law, Medicine and Sciences of Society. This Institute provides formations in international relations (most notably a Bachelor in International relations with more than 1,000 registered students), global issues (a Master in Global Health and a Master on the governance of plural societies) and area studies (European studies, Middle East studies, Russia and Central European studies). There are about 80 full-time research assistants, 56 professors and some 1,200 students in the Global Studies Institute. It publishes two internationally recognised academic journals, *Revue Connexe* on the post-communist area, and *EU-topías*. 
The Institute of World Economics (Budapest, Hungary) of the Research Centre for Economic and Regional Studies of the Hungarian Academy of Sciences focuses on global economic trends and their effects on Hungary. It is the oldest and most experienced institute in this field in Hungary. As the successor to the Institute for World Economics founded in 1973, the Institute adopted its current name and structure on 1 January 2012. The Institute is committed to conducting economic analysis in a historical context, to understanding and explaining the effects of global economic trends, and to analysing the successful and unsuccessful responses of individual countries to global economic challenges.

The Istanbul Policy Centre at Sabanci University (Istanbul, Turkey) is devoted to promoting applied research capacity on Turkey-EU-US relations, education, climate change, current trends of political and social transformation in Turkey, as well as on the impact of civil society and local governance on this transformation. As an independent think-tank hosted and supported by Sabanci University, the Centre draws on the intellectual resources of the university as well as on its wide network of cooperating institutions in Europe and the US.

The Research Centre of the Slovak Foreign Policy Association, RC SFPA (Bratislava, Slovakia) is a non-profit organisation based in Bratislava, Slovakia, specialising in international relations and foreign policy research. In accordance with its status, the RC SFPA provides independent expert analyses on crucial issues of international relations and the foreign policy of the Slovak Republic; publishes periodical and non-periodical expert publications to increase awareness in the field of international relations and the foreign policy of the Slovak Republic and as a source of qualified information for both the expert as well as the general public; organises expert events and participates in international scientific cooperation in the field of international relations and security; contributes to fostering expert discourse on international relations and the foreign policy of the Slovak Republic; creates a favourable environment for the growth of the new generation of Slovak experts in the field of international relations; and stimulates the interest of a wider Slovak public in global events as well as a deeper understanding of the significance of foreign policy and its links to domestic policy.

The Research Institute of Agricultural Economics, AKI (Budapest, Hungary) is the most significant centre of agricultural economics research in Hungary. It bridges the gap between decision-makers and farmers, processors, distributors and universities, but also connects Hungary with the rest of the world and theory with practice. The two pillars of AKI are the Directorate of Economic Analysis and the Directorate of Agricultural and Rural Development Policy. In recent years AKI has taken part in research, consultancy, expert assistance and capacity building projects in partnership with the OECD, the World Bank, the EU and FAO, as well as other public and private sector organisations.
APPENDIX

Declaration of Intention
among
Center for EU Enlargement Studies (CENS), Faculty of Economics, Finance and Administration (FEFA), Istanbul Policy Center at Sabancı University, Stiftung Wissenschaft und Politik (SWP) and individual member(s)

Center for EU Enlargement Studies (CENS), Faculty of Economics, Finance and Administration (FEFA), Istanbul Policy Center at Sabancı University, Stiftung Wissenschaft und Politik (SWP) (hereinafter referred to as: Committee members), and individual member(s) hereby agree to co-operate and coordinate their available academic resources within the joint "EU-36" project.

The main idea of the “EU-36” project is to support the issue of EU enlargement and to discuss the future political, economic, socio-cultural and security aspects of a greater EU. The project will be carried out by involving key policy makers and by organizing workshops on thematic issues in close collaboration with the Committee members:

- “Extending the Single Market from 27 to 36” - Faculty of Economics, Finance and Administration (FEFA) Belgrade, Mihaílo Crnobrnja (20 April 2012, Belgrade)
- “Budget and Common Policies” - Central European University / Centre for EU Enlargement Studies (CENS) Budapest, Péter Balázs (20 September 2012, Budapest)
- “Institutions, democracy and identity with 36 Member States” - Stiftung Wissenschaft und Politik (SWP) Berlin, Kai-Olaf Lang (date to be decided, Berlin)
- “Political consequences of further enlargements” - Sabancı University Istanbul, Ahmet Evin (date to be decided, Istanbul)

This co-operation, confirmed at the kick-off meeting in Budapest on 10 October 2011, is envisaged – subject to needs and possibilities – to cover the following areas in particular:

1. Joint or coordinated papers on the above mentioned topics resulting in a publication at the end of the project. The length and format of the final publication in 2014 and the place of publication shall be coordinated among the Committee members and individual member(s).

2. Joint or coordinated efforts in research and organization of workshops. The exact dates for the upcoming workshops shall be mutually decided. The coordination of the “EU-36” project and the specific tasks shall be distributed between the Committee members and individual member(s) according to their expertise.
3. Additional joint events within the "EU-36" project. The theme, length and format of the hosting site and organizing partner shall be decided mutually, on a case by case basis.


5. Making use of intellectual capacity of the Committee members.

The Committee members will keep in contact with a view to informing one another about the progress, potential extension and financial possibilities for the continuation and broadening of the "EU-36" project.

London, 27 June 2012

Péter Balázs on behalf of CENS

Mihailo Crnobraj on behalf of FEFA

Ahmet Evin on behalf of IPC at Sabanci University

Kai-Olaf Lang on behalf of SWP

Michael Emerson, individual member
Annex 1 to the Declaration of Intention

The University of Geneva and the Slovak Foreign Policy Association (SFPa) agree to co-operate and coordinate their available academic resources within the joint “EU-36” project.

The main idea of the “EU-36” project is to support the issue of EU enlargement and to discuss the future political, economic, socio-cultural and security aspects of a greater EU. The project will be carried out by involving key policy makers and by organizing workshops on thematic issues in close collaboration with the Committee members.

The University of Geneva and the Slovak Foreign Policy Association (SFPa) agree to host one workshop each in Geneva and Bratislava respectively, as indicated below:

- “Democracy, Institutions and Identity” – The University of Geneva, Dušan Sidaski, Nicolas Levrat, Christine Kaddous (26 April 2013, Geneva)
- “Regional Cooperation and Neighborly Relations” – the Slovak Foreign Policy Association (SFPa) Bratislava, Tomáš Strážky (30 May 2013, Bratislava)

The two institutions fully agree with all the provisions from the Declaration of Intention signed by Péter Balázs on behalf of CENS, Miháilo Črnobraj on behalf of PEPA, Ahmet Evin on behalf of IPC at Sabanci University, Kai-Olaf Lang on behalf of SWP and Michael Emerson, individual member, signed in London on 27 June 2012.

The Committee members representing the above institutions will keep in contact with a view to informing one another about the progress, potential extension and financial possibilities for the continuation and broadening of the “EU-36” project.

Budapest, 20 March 2013

Dušan Sidaski on behalf of the European Cultural Centre

Nicolas Levrat on behalf of the European Institute of the University of Geneva

Christine Kaddous on behalf of the Centre for European Legal Studies

Tomáš Strážky on behalf of SFPa