

The Transition Economies, the Intergovernmental Conference, and the European Union *

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The Intergovernmental Conference (IGC) that opened in Turin (Italy) on 29 March 1996 is expected to last about a year, but possibly until late 1997. Progress with the deliberations to date has been very sluggish. Indeed, the negotiators are not expected to tackle the real work involved in revising the Treaty on European Union (TEU), better known as the Maastricht Treaty, until after the special European Council (at first tentatively set for Dublin, 19-20 October 1996 but now set for just one day, 5 October 1996), with hard bargaining on a final version due sometime in 1997. Nevertheless, I still consider the ongoing IGC a momentous event, if only because it has the potential of preparing decisions that will be truly historical. To contribute to the remaking of Europe, however, it must clarify a daunting array of integration matters in the European Union (EU). This cannot simply be confined to streamlining institutions and decision-making governance, in other words. Even more salient will be the way in which the IGC will prepare the ground for "deepening" the integration movement and indeed for "widening" the EU's geographical remit.

This paper¹ examines the crucial factors determining the back-drop of the IGC and its central focus on governance issues seen against the perceived need to enlarge the EU by up to twelve candidates.² I first detail why the present IGC could be of historical importance. Then I look at the central policy dilemmas deriving from the conflicts inherent in "deepening" integration while pursuing

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* The opinions expressed here do not necessarily reflect my employer's.

¹ This summarizes the main arguments and findings of Brabant (1996).

² Cyprus, Malta, and ten transition economies (TEs) – Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

"widening" that provide its backdrop. Thereafter I examine the particular dilemmas that arise with an eventual eastern enlargement. The state of play in the negotiations on the eve of the special Council is next. In the fifth section, I question whether the EU can afford another geographical expansion and indeed whether the TEs³ can afford to join the EU in the near term. Before concluding, I formulate core elements of what the EU could undertake at this juncture to facilitate and expedite the eventual eastern enlargement.

1. The potential importance of the IGC

This derives from four features: 1) the nature of an IGC, 2) the prevailing policy dilemmas, 3) the expectations by many EU members as well as the candidates, and 4) the implications of its outcome for depth and breadth of the EU's future.

First, an IGC is crucial because it is rarely convened and all previous ones set major markers for the course of integration pursued. This is only the sixth in the history of the postwar integration movement in western Europe, but the fourth in the past eleven years, thus underscoring the interest in forging ahead with integration. But the increased pace of activity also reflects the serious difficulties faced in realizing the fundamental ambitions of the Treaty of Rome, as reemphasized in the TEU. It is as a rule held only when policy decisions on fundamental constitutional and governance aspects of the EU's integration process are at stake. Such is the case with the present IGC as well. Indeed, it is expected to proceed with refining the core ambitions of the quasi-constitutional treaties that delineate the arena for EU integration and the rules to be observed. In particular, it is expected to improve the institutional and decision-making mechanisms that facilitate realization of these paramount goals of "deepening" integration. And indeed it will be of central importance in permitting another enlargement, particularly toward the EU's eastern neighbors. It should be crystal clear, however, that such widening can be realized only once the deepening process has been successfully embarked upon.

³ In what follows, they are the twenty-seven countries in 'Europe' that used to be ruled, possibly in a now-defunct federal structure, by a single party and managed through some form of administrative central planning.

Second, though the main focus of the discussion here is on the IGC's implications for the TEs seeking entry and on how the accession process might be smoothed, these topics cannot be understood without a thorough grasp of the prevailing policy dilemmas. The issues that crop up here are complex and the views of participants varied. I can only impart a flavor of the prevailing policy dilemmas. Better governance, efficiency, transparency, subsidiarity, cooperation in foreign policy and in home affairs; moving toward a common understanding on features of social policy; and improving other aspects of working together in the EU are the topics that the IGC will necessarily have to grapple with. Absent such progress, the implications for TEs would be ominous.

Moreover, although some contributions to the policy discussion separate the issues of deepening integration among the present EU members from those pertaining to widening, the latter is not possible without at least some "deepening" if the EU's basic ambitions are not to be abandoned. Some discussion of the issues pertaining to the primordial need to forge ahead with consolidating achievements and further integration among the Fifteen will be necessary in order to identify the principal parameters that will inevitably shape the debate on widening. The options at stake cannot simply be reduced to accession or not. Rather, the central focus is on how to make accession feasible and easier to achieve in the years ahead both for the EU and the applicants, and how to improve the cooperative relationship between the EU and eastern Europe to enhance stability and governability of Europe.

Third, expectations about the salience of the Conference run very high, given its intrinsic significance, but arguably also because the EU has been confronted in recent years with a panoply of daunting problems around its integration process. Especially since the TEU was signed, the range and scope of these difficulties have expanded in directions that have surprised policy makers as well as many EU observers. Furthermore, a wide range of diverging views on the EU's desired future have recently come to the fore once again, almost with a vengeance. "Deepening" integration in the years to come, both in finalizing what has been under way for decades, by consolidating its achievements to date, and in extending the compass of EU integration to related endeavors belonging to its so-called *finalité politique*, is thus a high priority.

Finally, whether successful or not, the IGC's outcome is bound to have major implications for the chances of the ten cited TEs to accede to the EU in the foreseeable future. Failure to deal effectively with the major problems that the EU faces, in the first instance regarding decision making and institutional efficiency, could very well block accession altogether and eventually fracture the integration policies and ambitions that have been at the EU's roots. A successful outcome would permit the EU to move ahead with deepening its integration format. At the same time, it would facilitate enlargement to the eastern part of the continent. And indeed it might provide the spark for strengthening the cooperation programs with other TEs as well as other countries with privileged access to the EU markets or that are of strategic interest to the EU, owing to a variety of economic, environmental, foreign policy, health, security, and other matters.

In other words, the IGC is not simply of importance to the present membership. The EU's political and economic weight in world affairs will alone guarantee much wider significance for it. However, it will be especially critical in the first instance for the TEs that have applied for EU membership and desire that their requests be acted upon soonest. The results of the Conference will unavoidably exert a major influence on whether the process of negotiation and accession proceeds smoothly, and in a way that reinforces both the transformation of the TEs and the general security of Europe as a whole, or whether accession has become more difficult and uncertain. If the latter, negative effects on the construction of vibrant market economies and stable democratic institutions in eastern Europe will be unavoidable. For one thing, a firm anchor in Europe's single market will enable these TEs eventually to catch up with levels of development and technology in western Europe and in and of itself sustain growth for some time, thus affording these countries some of the means by which they can prolong and strengthen their present economic recovery and embark upon a veritable growth dynamic.

2. Backdrop to the IGC

The IGC's importance can be understood in the light of five major policy challenges that the EU has been facing for some time. First, the EU has grown to Fifteen members through four enlargements. But by and large it is still trying to function effectively with institutions and governance mechanisms laid down in the Treaty of Rome by the six founder members. To expedite decision making through appropriate majority voting and representation, and to improve the EU's efficiency and transparency, it is widely accepted that new rules need to be agreed upon. The IGC will therefore at least have to lay the groundwork for streamlining the management of the integration process in a number of directions, including in decision making, in enhanced institutional efficiency and transparency, in budgetary matters, and in formulating and implementing common policy stances. As a result, some members will lose in stature or decision-making power while others will correspondingly gain. This naturally creates tensions, frictions, and apprehensions that need to be removed in a constructive manner before it is possible to forge ahead with integration and expansion.

Although such a review of institutional and decision-making arrangements was one of the original purposes in calling for the 1996 Review Conference already in the TEU, there is at present no unanimity of views on how best to proceed with these matters. And to a large extent this discord derives from fundamental disagreement about the goals of integration and the means to advance toward that state. In other words, the EU will need to find modalities to overcome the lethargy about moving ahead with deepening integration that set in soon after the endorsement of the Maastricht Treaty. This can only be accomplished by specifying more clearly Europe's *finalité politique* to which all members can commit themselves so that it can serve as a solid point of reference also for would-be members. Further drift in this respect risks not only undermining relations among the present members but also hampering further accessions possibly for years to come. But deepening cannot be pursued at the explicit expense of widening. A suitable balance must be struck soon.

Second, the EU's ambitions have moved from economic integration in a single market to monetary integration, now scheduled for 1999, and a common currency, now scheduled for 2002; and in-

creasingly to elements of common policies in foreign relations, security, defense, juridical matters, and home affairs. In addition to consolidating those achievements, some of which remain highly fragile, some members favor transferring already at this stage new tasks to the EU, such as on issues pertaining to the environment, energy, civil protection, and social affairs. There are sharp differences of views among the members not only on this expansion of responsibilities but also on how effectively to proceed with the common policy stances on other than economic affairs narrowly interpreted. All of these bear on the issue of further deepening integration.

Second, these divergent outlooks have been preventing integration from moving beyond economic and monetary union (EMU) for some time now. Even on the latter's second component – monetary union and a common currency – considerable differences among the members have come to the fore in recent years, and the task of keeping to the calendar agreed to in 1991 for monetary union is creating strains in a wide range of “communitarian” activities and of policy stances held by the members. These stem in part from the pressures to meet the criteria of economic convergence at a time when economic activity is cyclically weak. There are, however, also more fundamental objections to monetary union at play for some EU members, Denmark and the United Kingdom in particular.

Progress needs to be made with monetary integration in spite of the variations in policy commitment to achieving that stage. Monetary union is essentially a logical extension of the single European market. Its merits cannot be decided by reference to whether the EU as a whole, or any meaningful subgroup – the core – of members forms an optimum currency area (OCA), meaning a group of countries with maximum flexibility in resource allocation, particularly in markets for the factors of production, so that the effects of asymmetric external shocks in particular can be worked off without provoking serious economic, political, or social tensions among various regional groups.

The EU is obviously not an OCA, among other reasons because the flexibility of prices, notably of production factors, is limited particularly in the downward direction. This holds especially for the mobility of labor, which has remained quite confined for various cultural, historical, political, religious, and other reasons. Labor mobility is likely to stay at this low level for decades to come, though some relaxation of prevailing institutional rigidities may yield an important degree of flexibility, notably in mobility within countries;

that would strengthen the stability features of the monetary union. Until such price flexibility will be arranged, however, problems both in moving toward monetary union, given the diverse monetary situations in the members, and in sustaining the union in the event of asymmetric shocks disturbing the regional balance need to be tackled constructively. Barring flexible wages and prices some room for greater fiscal federalism among the participants in the monetary union will need to be created in order to ensure the latter's stability. This requires coordination of stances on macroeconomic policy among the participants, but not necessarily tight centralization.

The TEU and the decisions of the European Council since 1991 envisage moving toward monetary union in early 1999 on the basis of the so-called convergence criteria (on inflation, interest rates, budgetary imbalances, debt levels, and exchange-rate stability⁴), and introducing the ‘euro’ as a common currency by 2002. As matters stand, eligibility for admission to the monetary union will be determined on the basis of a relatively inflexible interpretation of the five convergence criteria. That poses the danger of creating monetary union as a formality or of provoking undesirable setbacks to policy credibility, particularly for market agents. This danger may be very real for members that do not join the monetary union, but whose policy flexibility could pose problems for participants: competitive devaluations are simply not compatible with the functioning of a single market. In any case, the subsumed “small country” assumption in many of the arguments that favor retaining the exchange rate as a policy instrument is misplaced, given the preponderant share of intra-EU trade for all members.

This episode of moving toward monetary union, not by setting a coherent strategy for harmonizing macroeconomic policy, but rather by rigid adherence to the chosen convergence criteria independent of the business cycle or country-specific conditions, has given rise to strains. In particular, the economic, let alone the political and social, circumstances for vigorously pursuing the policies required to secure compliance in time with the convergence targets are far from congenial at present. In particular, the fiscal criteria (levels of debt and budget imbalances in relation to GDP) require tight fiscal policies, which is painful when economic performance in a number of key

⁴ It should be clear that the justification of these admission criteria for ensuring stability in the monetary union is not at all obvious.

economies is weakening. However, policy makers do have options, even when reading the TEU's stipulations in a narrow but constructive manner.⁵ This suggests a number of lessons to be heeded when setting future integration deadlines, such as for TE accessions: from an economic point of view, a deadline in and of itself is much less important than formulating a credible strategy on how to meet such a deadline.

Although monetary union is not on the IGC's formal agenda, it lurks behind just about every single move affecting the deliberations. It might therefore be useful to exploit the TEU's flexibility in a constructive manner. This would permit monetary union to be inaugurated in 1999 with a larger membership without violating the spirit of the specific convergence criteria. It would also make the union more viable, and in many respects even more stable, and it would help to forestall problems of exchange-rate instability in countries that do not or cannot join the union. The rhetoric about rigidly adhering to the convergence criteria could then be relaxed in favor of stressing the genuine progress in policies made in the spirit of the Treaty's specifications in the light of unanticipated cyclical circumstances. After all, a number of countries *are* in a position to meet the commitments on inflation, exchange rates, and interest rates. Some even comply with the debt-to-GDP target. And marked progress toward reducing budget deficits has been recorded by several countries, although the situation in some has been aggravated by the slowdown in economic growth since late 1995. However, most have made significant progress with reducing the structural, as distinct from the conjunctural, component of the fiscal imbalance. Moreover, even the strict convergence criteria of the protocol will need to be interpreted anyway.⁶

Third, a further EU enlargement toward the eastern part of Europe, as well as Cyprus and Malta, has been accepted in principle since 1993. This will probably occur in several waves spread out over a number of years. In the case of the TEs, a rapid accession is not possible for three reasons. Without fundamental changes in the EU's constitutional arrangements, a further widening would probably para-

⁵ These derive from the flexibility embedded in the TEU's stipulations as distinct from those of the Protocol (European Commission 1993, pp. 236-38 and 581-83, respectively).

⁶ Two examples thereof may suffice: are the present wider exchange-rate bands regular or not? Must the comparison with the three best-performing members be in terms of the average, the best, or the worst?

lyze the EU's decision-making capabilities. Also, the TEs are not yet sufficiently far advanced in their economic and political transformations to be able to live up to, and thus fully benefit from, the essential rules and regulations of the *acquis communautaire*, and increasingly the *acquis communautaire et politique* (henceforth simply *acquis*), that govern competition in the EU's single market. But even if these countries were able to abide fully by the *acquis*, with the EU's present transfer programs in place their accession would probably be too costly for the current members. Moreover, the burden of increased budgetary costs and of the reallocation of benefits would be distributed asymmetrically within the EU. Arranging for suitable compensation of the losers will thus be one of the critical policy tasks ahead.

The fourth range of concerns for the Conference is with finding a satisfactory solution to the EU's multiple governance issues other than those cited earlier. These have become particularly acute since late 1991. They include concerns about democracy, efficiency, subsidiarity, openness, transparency, and accountability. Engineering major improvements in these areas has become an urgent priority in order to regain and sustain popular as well as political support for the integration process. In particular, solutions to questions about representation in the European Parliament, the Commission, and the Council and about the system of voting strengths on different categories of issues will have to be found through political compromise before another enlargement can realistically be entertained. Various formulae for resolving the multiple issues have recently been suggested at the highest levels of policy making. Compromise solutions on electoral representation and on membership of the Commission would appear to be within reach. More difficult will be reaching agreement on the division of powers among the major institutions (the Commission, the Council, the Parliament, and the Court) and the cutoff for 'qualified majority' voting (possibly organized in several tiers) on all but a very few constitutional issues.

Finally, the Union would seem to be in need of demarcating its own priorities more sharply and more explicitly, and of ensuring that all members share them, not just with respect to the more credible applicants for membership among the TEs but also to other countries with which the EU maintains some privileged commercial or other relationship. This is particularly important for countries that will not be able to lodge a viable application for some decades to come.

Others will not join at all, either because they are not European or for their own reasons. But they cannot be ignored if the EU wants to be an effective player in areas reaching beyond commercial diplomacy narrowly defined.

It is against this broad EU canvas that the IGC's salience needs to be discussed. This is especially important for the eastward extension of the EU's remit. However, I am fully aware that the IGC's principal preoccupation will not formally be the further EU enlargement, nor has this topic figured prominently among the policy issues raised by individual participants around the IGC; the same holds for other areas of concern outside the narrow governance arena touched upon here. Nevertheless, what happens at the IGC will play a major role in shaping the modalities by which the TEs, among other credible candidates, will be enabled to accede in the not too remote future. The same holds for the other problem areas. But without hammering together satisfactory solutions to the many institutional and decision-making tasks, the chances that the TEs will join the EU with its main policy ambitions intact within the next decade or so would seem to be fairly remote.

3. The policy dilemmas of new accessions

Another enlargement without changing the fundamental tenor and direction of the movement toward deeper integration, as first laid down in the Treaty of Rome, was in principle agreed to by the EU in mid-1993. This decision was arrived at only after long hesitation and strong political pleas from the leadership of a number of TEs. Also many commentators, academics and others, had been urging the EU leaders to reconsider their earlier standoffish views. For the fifth and subsequent EU enlargements to become feasible, however, many conditions will have to be met. This holds as much for the criteria that the candidates will have to comply with as for the EU's ability to accommodate new entrants, with the prospect of an eventual doubling of the present membership.

Expectations held by leaders of the TEs, and indeed advocated by German leaders in particular, that the more advanced TEs, particularly the central European ones, could be admitted by the year

2000 seem to be extraordinarily optimistic, however. Even if the IGC were to be a full success by mid-1997 and further deepening of the EU's integration to proceed smoothly, accession of the candidates could not possibly be a *pro forma* matter. The basic reason is twofold. The gaps in institutional capabilities and in levels of development, technology, and trade participation of the TEs relative to those of EU members remain considerable and adjusting to the *acquis* is by no means a mean feat, even under the most propitious circumstances. These realities will continue to pose palpable obstacles for smoothly merging the TEs into the single market and Europe-wide competition along established rules for years to come.

But even if further EU deepening were to be achieved smoothly in the near term, something that cannot simply be taken for granted, and the TEs forged ahead with their transformation agenda at full speed, none of them are likely to achieve membership before, at best, the middle, but possibly not before the end, of the next decade. This follows even when one only contemplates the sheer mechanics of the accession negotiations and the ratification process, relying upon the experiences gathered in earlier enlargement exercises (see Preston 1995). The politics and economics of new accessions may call for even more time to make enlargement feasible.

Deepening EU integration requires in the first place fundamental changes in the institutional and governance structures within which the Fifteen pursue their common policies. These changes are required to ensure progress with integration, even without contemplating another enlargement, and to avoid increasing tension in relations among the membership as well as with its external partners. But it should be clear also that failure to deepen integration, in line with the ambitions specified in its quasi-constitutional treaties and the subsequent decisions of the Council, would effectively block the entry of the TEs. EU decision making would be severely hampered, and in a number of important respects paralyzed. There are few, if any, members that favor such an outcome for the sake of accommodating another round of accessions.

But even if the EU does progress soon with its own deepening, the accession of some of the TEs is unlikely to be easy unless these countries move ahead quickly with their own transformations and establish market economies that are able to function effectively within the single market. Despite the considerable achievements with economic transformation and restructuring of many of the TEs since 1989,

much indeed remains to be accomplished before these countries can reasonably reach this stage. This applies especially to institution building, rounding off the process of privatization, and enacting further incisive structural change, especially in the micro sphere, so that economic agents will be able to participate effectively in intra-industry competition.

Most TEs are still in need of strengthening policy credibility and of obtaining a greater degree of security to sustain their policies of socioeconomic transformation with at least a minimal degree of popular support. They are also looking forward to reaping the benefits of joining the single market, in part to facilitate and ease the burden of painful adjustments at home. It is possible, however, to attain many of these objectives to a considerable degree, but admittedly not to the full extent, without rushing hastily into a premature EU membership. Indeed, a good part of the expected economic benefits can be mobilized by actively facilitating the general transformation processes in the applicants, as has already to some extent been achieved through the EU's various assistance programs, as well as by helping the TEs to prepare specifically for constructive competition in the single market. A first step in that direction was set in the White Paper released in mid-1995 (European Commission 1995a), which clarifies priorities on assimilating essential parts of the *acquis*. This was meant to be only one episode in putting together a pre-accession strategy by the Commission. Another was involving policy makers from the more advanced TEs in the EU's policy debates in selected areas. Other elements are now being subsumed under this heading as well.

Whatever the intentions of the Essen Council (December 1994), which recommended the elaboration of such a strategy, what is presently in place (European Commission 1995b, 1996a⁷) does not by a far shot constitute a comprehensive and coherent pre-accession strategy. Indeed, a strategy worthy of that name must be more encompassing than, for example, simply informing the EU candidates about the complexity of the *acquis* and the order in which these rules and regulations could usefully be introduced and applied. Likewise, allowing policy makers to be more closely in touch with EU affairs

⁷ Successive issues of the bi-weekly *Together in Europe* (such as European Commission 1996d, 1996e, 1996f, 1996g) are also revealing in this respect.

should not be confined to yet another photo opportunity. Much more is involved if effective assistance with a view to accelerating the preparedness of the TEs for accession is to be rendered in as constructive a manner as the EU's facilities truly allow and the clamor for safeguarding their just-recently won sovereignty permits, after considerable agony.

Participating effectively in the single market necessarily requires the capacities to take an active part in intra-industry trade and specialization, something that so far has not been high on the TEs' policy agenda. It would be useful to serve these objectives at least by turning the myriad of assistance programs in place into a well-targeted, more comprehensive, and consistent assistance strategy, which for the EU candidates would amount to a streamlined pre-accession strategy, as discussed below. The rationale for such a strategy falls squarely within a coherent and comprehensive analysis of the transition process and the implications for western assistance for the TEs (among others, Brabant 1990, 1993, 1995). In these analyses, positioned within a political-economy framework, I have placed considerable emphasis on the importance – and difficulties – of creating the new institutional infrastructure required so that a market economy can function effectively, a task which has been further complicated by the simultaneous need to build the political institutions of pluralistic democracy. They have also underlined that the reasonable time required to achieve these objectives is by no means a short period. For many TEs it will take decades before sound delivery on some promises of '1989' can be assured.

4. State of play with the IGC

For an outsider it is difficult to evaluate the state of play with the IGC. For one thing there is not yet an agreed agenda or a draft text for the negotiations, the recommendations issued at the start of the IGC are extremely vague, and communications from the deliberations held so far have been turgid at best. I have found it confusing when participants in the debates now intimate that real progress will be made only after the special Council in October, which should provide a new impetus to the negotiations, and the regular Dublin

Council, 13-14 December 1996 (European Commission 1996e, 1996f, 1996g). Does this signal that the Heads of State and Government have not yet committed themselves in good faith to negotiating the TEU's revision?

As per the agreement reached by the Heads of State and Government in Turin (European Commission 1996c), the Ministers of Foreign Affairs and their personal assistants were to start immediately the work on the core issues in a series of meetings scheduled up to late June 1996. These should have led up to a first assessment of what can and cannot be accomplished in time for the next European Council (held in Florence, 21-22 June 1996), which should have issued more concrete recommendations for the IGC under way. This has not proved possible, however, in part because of the absence of an agreed agenda.⁸ Instead, the assistants and the Council of Ministers since Turin succeeded only in 'reviewing' the issues. As a result, only some impressions of the chairman of the IGC negotiations were presented to the Florence Council in his own name (European Commission 1996d, 1996e). Current expectations are that under the Irish Council Presidency in the second half of 1996 the Council of Ministers of Foreign Affairs will set its own working agenda on substantive matters, relying in part on the preparatory consultations of the personal assistants and the European Commission. At this stage it is premature to speculate on what will eventually be tabled for intensive negotiations, beginning hopefully during the last quarter of 1996 with the impetus of the October 1996 Extraordinary Council. At the least, institutional streamlining and more operational decision-making modalities should be negotiated.

Some members and the European Commission have been trying to confine the IGC's deliberations chiefly to institutional reform and to the governance of the core European institutions – the original purposes of the Review Conference – augmented with some elements of the popular dissatisfaction expressed since then. This is understandable given the IGC's original purposes as stated in the TEU and the entrenched positions of some members, the United Kingdom in particular. Moreover, these matters alone are sufficiently daunting, given

⁸ Niels Ersbøll, who has been at the center of EU deliberations like the IGC's either as representative or a highly placed EU official (he was for years Secretary General of the Council of Ministers and a key member of the Reflection Group that first prepared the IGC), has underlined the importance of an agreed agenda as ranking "amongst the most important and most difficult tasks of the presidencies concerned" (Ludlow and Ersbøll 1996, p. 11).

the continuing lack of agreement among the Fifteen on the direction of future integration with its consequences for institutional underpinnings and decision making.

As argued earlier, however, it is unlikely to be possible to adhere to this narrowly defined governance agenda, owing to the range and complexity of the problems that the EU faces, as suggested earlier. Whether the deliberations can be successfully completed by mid-1997 as some members hope (European Commission 1996d) remains to be seen. This is important for two reasons. One is that the Council has recommended that negotiations be started soon, perhaps after six months once the IGC will have been "successfully" concluded. The meaning of "success" has been left undefined, but it probably calls for at least meaningful governance reforms. It bears to recall, however, that seminal decisions on the EU's compass, notably in the fields of foreign policy, defense, juridical matters, and home and social affairs, are expected by some members. The other is that the outcome of the IGC will be critical to smooth negotiations with TEs, and hence the arrangement of accessions sometime in the next decade.

5. Widening the EU toward eastern Europe

It is not at all obvious at this stage whether the interests of the EU and of the TEs coincide sufficiently so that the two parties can afford each other. Bringing the TEs into the EU as full members, will take time and will involve substantial costs to be borne both by the present members and the TEs. It is pertinent to be clear about the expected gains for both sides. And it is particularly germane to bear in mind as coherently as possible the time path of distributional asymmetries in the benefits and costs not – solely confined to budgetary effects – among and between EU members and applicants. Political will is one factor, practical implementation in this case is quite another.

Let me first look at the interests of EU members. Budgetary matters have figured most prominently in current debates. This is a question of who pays what in order to apply the existing EU transfer programs to the ten TEs. These are certainly important considerations, particularly at times of fiscal austerity in the EU. Even so, the obstacles arising from other aspects of engineering EU integration, also in terms of benefits and costs, both those that can be quantified

and others that can be assessed only more qualitatively, are arguably more daunting.

The overall impact of accessions on the EU's budget cannot be ignored, however imprecise the estimates. Entry of the ten TEs with a Europe Agreement, many observers fear, calls for a substantial expansion of the EU's budget. Estimates are difficult to prepare because the key parameters for assessing the impact of accession on the budget are simply not yet available. Some will be determined only after the EU's deepening efforts take shape over the next several years, after the next round of budgetary guidelines will be agreed upon by the end of 1999, and after the round of negotiations promised by the Uruguay Round agreement will have been completed. Even so, the magnitudes emerging from some of the more credible estimates of the strict budget implications of applying present common policies, notably in agriculture and cohesion, to the ten TEs with a Europe Agreement usually lie between roughly 20 and 100% of the budget forecast for the Fifteen around 2000; in absolute value this would amount, very roughly, to between \$36 and \$130 billion at early 1996 exchange rates. For the four central European economies, if they were to enter soon, say, by the year 2000, with present transfer programs still in effect, some estimates (see Gros and Steinherr 1995, pp. 503ff.) put the budgetary transfers from the EU at between 12 and 20% of their GDP as compared to less than 5% for the present four beneficiaries (Greece, Ireland, Portugal, and Spain); others (Hughes 1996, Rollo 1996) have placed the estimates much higher. This inevitably raises the question of whether such large transfers, if accommodated by the EU, can be absorbed and productively invested in these countries.

One is well advised to take these and other estimates, however, with a very large grain of salt. Even so, they all suggest substantial increases in the magnitude of transfers. On present policy stances, any such rise in the EU's budget is simply not realistic, given the fiscal stances of the main net contributors to the budget. Furthermore, the main present beneficiaries will see their benefits being eroded both by the budget stringency and the fact that new entrants have a level of GDP per capita that is "very low" compared to the present distribution of incomes in the EU. That in and of itself will necessitate painful political negotiations in the years ahead, at the latest by 1999, when a new budget strategy will have to be worked out, as determined in 1992 at the Edinburgh Council. It cannot be taken for granted that the losing beneficiary countries will automatically concur

on the issue of another enlargement on favorable entry terms. The various transfer programs and associated common policies (notably to serve agricultural and cohesion objectives) will almost certainly have to be refashioned to permit the accession of new members. But such change is also imperative in the medium to long run for internal reasons. If the EU is to be sustained in spite of fiscal stringency in most members, and indeed be entrusted with new tasks, a reallocation of expenditure categories will be unavoidable. It is true that concrete measures in this direction are not due until 1999. However, whatever the choices made at the IGC, they are bound to affect future transfer options.

In addition to budgetary considerations, further enlargement, however managed, will require a range of adjustments in both the applicants and the present EU members. The magnitude of the costs of these changes cannot be estimated in value terms, not even approximately. For example, a failure to live up to the *acquis*, possibly for institutional reasons, may disadvantage other members in a variety of ways. Possessing the capacity to abide by and compete constructively within the single market must be a precondition of membership. For the TEs, it is not at all self-evident that they can, or even that they can afford to, narrow the gap sufficiently between what is demanded by the EU's rules and what they are able to deliver in the foreseeable future unless strenuous efforts are made to accelerate the transformation process.

As regards the candidates for entry, the balance of costs and benefits of EU membership is too often partially viewed in terms of transfer benefits for them and budgetary costs for the present EU members. Given the asymmetries between costs and benefits across countries and over time, it is not self-evident that, in the short to medium run, the TEs individually or as a group would in fact benefit on balance (in a broader sense than just budgetary transfers, which do promise to be substantial). One can be reasonably certain, however, that in the longer run, with constructive accession and, later, cohesion policies to boost the potential for catching up with levels of EU development, the longer-term benefits of being fully integrated into the large single market will be considerable.

It is useful to distinguish between the admission criteria that are primarily qualitative in their formulation and adjudication, and those that focus essentially on the narrower budgetary implications. Among the former, EU officials as a rule refer to democracy and human

rights, being European, and having a functioning market economy, as set forth in the Treaty of Rome. These have been variously interpreted, and it may be useful (as argued in Brabant 1995, pp. 452-68) to refine them into eight criteria – namely, domestic political pluralism; democratic maturity and political stability; good neighborly relations or peaceful coexistence; introduction and effective application of the rule of law; ability to comply with the EU's *acquis*; acceptance of the overall ambitions of EU integration; having a European identity; and reasonably effective market-based resource allocation. Some of these may not be so easily met by some of the candidates for membership, however. This is especially the case for the rules and regulations circumscribing competition in the single market.

Before the benefits of EU membership materialize, however, a range of costs will have to be borne, largely by the candidate in its preparation for entry and adjusting to the *acquis*. There still exists a daunting array of institutional and policy problems, referred to above, that remain to be solved in all TEs before any one can hope to be a properly functioning market economy capable of facing competition in intra-industry trade, while conforming to, and applying in practice, the EU's rules and regulations. Standards on safety, health, the environment, financial intermediation, and so on are but one example.⁹ Having the institutions in place to effectively engage in constructive competition is another. But there are many other areas, depending on the individual candidate, that need further restructuring and strengthening. Attempting to do so rapidly will entail considerable costs in the first instance for the entrants; but it will at least indirectly affect also the existing membership. In all of these respects, all TEs have some way to go before they can reasonably claim to have reached the position of, say, Portugal or Spain at the time of their accession in the mid-1980s. The Commission is rightly concerned about engineering a premature expansion of the membership. As recent experience has amply demonstrated, such as in the case of Greece, inability or reluctance on the part of a new entrant to abide by the *acquis* causes considerable tensions among members, because of the potential for free riding, and is divisive of EU policies.

⁹ Part of TEs' export push into the EU has been based on the advantages derived from not observing such standards. Carving out dynamic gains in effective intra-industry trade in particular will be required to catch up to EU levels of income and wealth. These need to be well entrenched before yielding to demanding EU standards.

The hopes of core TE policy makers, notably those in central Europe, supported by some western leaders, that their countries can enter the EU by the year 2000 are not very realistic. This can be assessed in terms of the sheer mechanics of the negotiation and ratification process. If, as expected, negotiations will commence in early 1998, accession by the year 2000 would leave, in effect, only two years for negotiation and ratification. No previous enlargement relevant to the case of the TEs has ever been completed in such a short period of time; five to ten years has been a more typical time span. Furthermore, several well-placed Commission officials have intimated that accession by the year 2005 even of the most advanced TE would be a very optimistic target (Cameron 1996a, 1996b; Pearce 1995). Leading members of the European Parliament have recently argued for the year 2010 as a more plausible target, even for the most advanced TE (NZZ 1996).

Based on what can reasonably be conjectured about the criteria for membership; the likely date for starting accession negotiations; the length, purposes, and major hurdles of the negotiations; the likely date of accession; and the transition regime leading to full membership, the TEs will have to mount considerable efforts for accession to be feasible even by the most likely earliest date – sometime toward the second half of the next decade. The effort required may well exceed the capacity or political will of some of the potential entrants. Rather than insisting upon the requirement that these economies wait with their accession until they will be able to comply with all the entry criteria on their own strengths, which would require much time and effort either of which the TEs can ill afford now or in the foreseeable future, it might be more fruitful to think about the formulation and implementation of a strategy to facilitate the preparations for meeting this deadline for entry and for doing so at the least cost for both the present Fifteen and the potential entrants. With such an interim strategy the EU could then hope to meet the TEs' expectations not only of economic benefits, largely those emanating from market access and some budgetary transfers, but also of gaining credibility for their transformation policies and of strengthening their general security. Such a strategy would also help to reconfigure the TE assistance formats that have been applied with varying degrees of success since 1990. Of course, also this topic is not formally on the IGC's plate. But along with many observers I believe that these matters at hand cannot be completely ignored there.

6. Toward a more fruitful relationship between the EU and eastern Europe

Several channels are available to ensure that the expectations of the TEs, notably as regards strengthening policy credibility and their overall security through a streamlined relationship with the EU, can be reaped without pushing for membership in an overhasty manner. Many of the economic benefits can be secured and some of the costs forestalled by working in a more strategic manner to smooth the path leading toward membership. Compliance with such a strategy, which needs to be carefully crafted, and thus closely assessed, monitored, and occasionally fine-tuned to ensure its continuing relevance, would be tantamount to near-automatic admittance.

Though any such program would have to be the outcome of political negotiations and carefully tailored to concrete circumstances, it could usefully be conceived around six principles for which concrete measures would then be formulated for individual countries.

First, the EU could play a much more active role as a strong partner in the economic and societal transformation of the ten potential entrants. It is not enough to stress the need for further stabilization, privatization, and liberalization policies in these TEs: the EU could help in actually designing effective strategies to accomplish them. It could also play a useful role in economic restructuring, particularly of the most 'sensitive' sectors, and in consolidating the 'institutions' that together actually constitute a 'market' and determine how well it functions. A pragmatic and close involvement by the EU in the formulation and implementation of transformation policies could be very constructive. Thus it would be useful to remove the contingent protectionism presently enshrined in the Europe Agreement and to work through close negotiations to avoid exacerbation of the 'sensitivity.' Similarly, the EU could constructively take into account the peculiar decision making in many firms in TEs and foster progress, among others, with corporate governance, particularly in sensitive sectors such as iron and steel. The EU could also help to mobilize financial resources, especially from official institutions, with a view to supporting so-called 'crowding-in' investments, including extension of various European communication and transportation networks. Finally, it could helpfully widen TE access to its markets beyond the provisions of the Europe Agreements.

Second, it could earmark considerable technical assistance to the TEs, especially to help implement the detailed requirements of membership and of the transition period, and also to strengthen the delivery capacities of public institutions (including the civil service) in meeting those requirements. For example, the cited White Paper contains very useful details of the *acquis* to be put in place prior to accession. This now deserves to be acted upon by *both* sides, rather than, as presently, simply leaving it up to the individual TE to move ahead with assimilating and applying these rules and regulations. For a number of them, given the TEs' postwar institutions and policies, and the comparatively short experience with building a market economy, the candidates will encounter problems of a different order of magnitude than those experienced by earlier entrants.

Third, the EU might consider reshaping its own assistance programs with a view to strengthening the economic recovery under way in some of the TEs and helping others to quickly reach such a stage. This would contribute to underpinning robust and sustainable growth throughout the eastern part of Europe. An objective should be to encourage economic agents in the TEs to move toward active participation in intra-industry trade. This would be a critical channel to jump onto a sustainable growth trajectory, one that would enable these countries eventually to catch up with average EU levels of income per head. Gains in the real economy will reinforce the capacity of the TEs to compete effectively in the single market and to sustain popular support for restructuring despite considerable short-run costs. It would also reduce the income gap between the candidate and the EU's average, thereby facilitating access if only because the budgetary implications would be easier to deal with.

Fourth, other gaps between the TEs and the EU need to be bridged. These are perhaps largest in terms of the institutions and the ability to compete effectively in the single market. It is important to ensure that these gaps, and thus the hurdles to be overcome upon eventual accession, do not widen, especially if the current IGC were to provide a major impetus to monetary union and deepening integration. Otherwise the point at which the TEs could conceivably enter the EU would be further postponed.

Fifth, the EU could encourage and give practical support to economic cooperation among the TEs themselves as a means of strengthening the foundations of sustainable growth. Robust economic links among these countries, rooted in market-based criteria of

success, would strengthen their patterns of specialization and facilitate, as well as accelerate, EU accession. Several TEs have recently recorded rapid growth in their intraregional trade. Opportunities for further expansion of such commerce, certainly now that the recovery under way is broadening and, in some countries, strengthening, are available. Some may need further institutional support, such as in effective payment, insurance, export-credit, and related arrangements. Sustaining this expansion would be particularly important at a time of the slowdown in aggregate EU demand, which is bound to have adverse repercussions for the TEs that have considerably bolstered their EU trade ties.

Finally, the EU can influence the psychological climate for 'Europe' in a number of ways, including the collection and dissemination of appropriate information, in the various national languages, with a view to informing EU and TE citizens about each other. Such citizen-friendly openness would be entirely in line with the ongoing search for transparency, subsidiarity, democracy, accountability, and efficiency that marked the IGC's preparations. Acting upon these commitments has, however, lagged far behind the expressed ambitions aired on those scores in particular since the early 1990s.

Examples of the particular components of such a program can be easily identified, and the merits of some applicable to all TEs I have discussed at length in Brabant (1996, pp. 219-47). But many others need to be fashioned into a coherent whole. Any such program should be closely monitored, periodically reviewed, and fine-tuned as experience is gained. This calls for a more practical and deeper EU involvement than the 'structured political dialogue' fashioned since the Essen Council in 1994. That dialogue undoubtedly provides useful contacts at the highest political level. As a strategy to facilitate EU entry, however, it leaves too much uncertainty. Most of the admission criteria are still far too vague for the credible applicant to be able to map out a clear path toward compliance, which in the end will still involve a large measure of judgment, hence political good or ill will, on the part of policy makers whose concerns may not be completely focused on the EU's expansion. The approach suggested here is a more structured one with a much larger EU involvement, the European Commission first of all, in the policy steps to be undertaken by the applicants than has been evident to date. Such a program could usefully replace the present, dispersed assistance programs, some of which appear to be in disarray or not particularly effective.

The proposal is not, of course, prescriptive. Nor is it aimed at bringing all western and international assistance under the EU's umbrella. There is no need for that. Quite the contrary: what is required is an articulated strategy that is comprehensive, well coordinated, and credible. The mere existence of such a program, leading up to the accession of the ten TEs with a Europe Agreement, but not necessarily at the same date, will, in and of itself, act as a coordinating mechanism. Other partners in global cooperation are unlikely to ignore it; and since they support the basic objectives of the transformation process anyway, they should see the advantage of orienting their own efforts to its basic structure. As a result, rather than aggravating bureaucratic turf battles, wasting assistance, or creating overlap in different approaches, a coherently formulated strategic program would in all likelihood provide the basis for a more spontaneous coordination among the various actors assisting the TEs.

The more strategic approach suggested here should not of course be confined to the TEs that are likely to be the first to join the EU. It should apply *a fortiori* to those countries (such as Albania, Croatia, Bosnia and Herzegovina, Macedonia, and rump Yugoslavia) that can be expected eventually to apply for membership. On current expectations, however, the transition process in these countries has much farther to go than in the present candidates, given that they are by and large still early in their development or transformation phase.

But the EU also has many interests (such as economic, political, strategic, and environmental) that argue for developing a well thought-out, strategic cooperation and assistance program for countries that will never become EU members, either because they are not European or because they may not wish to join for their own political reasons. For them the EU's involvement would be much less intense than in the case of potential members. But the general approach could be justified as a way of responding to the dissatisfaction with the manner in which much international assistance, notably from within the EU, has been extended to the TEs since 1990. If western Europe is serious about its own architecture, it cannot disregard its eastern half, regardless of which countries qualify for membership. Likewise, if the TEs are firmly bent on joining the 'Europe' that the EU embodies, they have to formulate new approaches toward building the necessary institutions and other foundations that are a requirement for full membership. If both sides accept these viewpoints, a realistic compromise on an approach to enlargement may then be in the offing.

7. Conclusions

Whatever may transpire at this IGC, the decisions taken, if only by default, by the time it ends in mid or late 1997 should be of strategic interest not only to western Europe and its immediate neighbors, but also to the global community as a whole. This will certainly be the case if the IGC is successful in laying the basis for further integration. But even failure to reach some consensus on the most critical challenges the EU faces would have palpable consequences for its integration process and for its relations with non-member countries, especially those benefiting from preferential arrangements. It would also hamper the EU's negotiating strength in international negotiations scheduled for the next several years.

Arguably, the outcome of the Conference will be nowhere of greater significance than for the TEs individually and as a group, and regardless of whether they will be able or want to join the EU in the foreseeable future. Any EU enlargement without coming to a *modus vivendi* on its deepening can only exacerbate the already marked deterioration over the past five years or so in the degree of commitment to integration. Failure at the IGC cannot but affect to a considerable extent the emerging framework for relations on the continent in the medium to long run, including the trading opportunities for the EU's eastern and southern neighbors. Precisely because the EU's commercial relations with the TEs in the vast majority of traded goods is not yet far advanced when it comes to intra-industry trade, tensions and bickering within the EU because of lack of progress with deepening is, then, likely to affect negatively the chances of the TEs to prop up their recovery and catch-up efforts through vibrant competition.

The international community at large can only hope that western Europe at this critical juncture in the evolution of its own affairs as well as with respect to its historical role in refashioning the continent as a major component of the global framework, will rise to the task at hand in depth and in breadth, and seize the opportunity this juncture in its history provides with magnanimity. It would be unwise, though, to bank on this IGC's reaching once-and-for-all solutions applicable for decades to come. But at least the decisions hammered out there will exert a determining influence on the evolving long-term nature of union formation in Europe and presumably on matters reaching beyond that specific horizon.

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