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*The eastward enlargement of the European
Union: which cost and benefits for economic
integration?*

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The eastward enlargement of the European Union: which costs and benefits for economic integration?

by Leonardo Piccinetti

“Enlargement is both a historical opportunity and an obligation for the European Union and therefore one of its highest priorities. It is my ambition to see first accessions becoming a reality as soon as possible during my mandate as Enlargement Commissioner am confident that this can be done.”

Günter Verheugen, Member of the European Commission responsible for Enlargement.

Which scenario?

The academic and political debate on the expected advantages and disadvantages of enlarging the European Union (EU) to the East, through the accession of various Central and Eastern European Countries (CEECs) formerly conforming to a Soviet-style centralised economic system, has given rise in recent years to a vast and rapidly expanding number of contributions.

The number of applicants (inclusive Cyprus and possibly also Malta), the next enlargement will comprise 13 countries¹. This will increase the EU area by 34%, the number of population by 29% and absolute GDP (Gross National Product) by 11%. The average GDP per head in the EU would fall by 16% in Purchasing Power Terms. By contrast the admission of Spain, Portugal and Greece in the 1980s reduced the EU's average income by just 6% (See table 1).

Table 1: IMPACT OF SUCCESSIVE ENLARGEMENT ON THE EU*

Enlargement	Increase in area %	Increase in population %	Increase in GDP (at PPT) %	GDP (EU6 = 100)
EU 6 to EU 9 1973	31	32	29	97
EU 9 to EU 12 1986	48	22	15	91
EU 12 to EU 15 1995	43	11	8	89
EU 15 to EU 26 Year ?	34	29	9	75

*Font: EUROPEAN COMMISSION

Although, the exact time pattern of accession is not yet clear, the European Commission in its Agenda 2000 (1997), proposed to start with a group of 5+1 and to prepare the second group of CEECs in a pre-accession strategy. With the Europe Conference End of March 1998. After an acquis screening, the concrete negotiations started in November 10, 1998 on seven out of 31 topics of the *acquis communautaire*. Whether the Kosovo crisis and its implied costs for rebuilding the area of South-East-Europe will influence the time schedule for enlargement is an open question.

The applicant countries are relatively poor countries with a GDP per capita below EU average and also below the ceiling for objective 1 status (less than

¹ Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia and Turkey.

75% of average EU GDP per capita). The average GDP per capita in the enlarged EU-26 will be lower by 16% compared to EU-15 (see Agenda 2000 (1997), p. 119). According to the *acquis communautaire*, poor members cost more structural transfers than rich candidates (like those of the fourth enlargement). Similarly to the third EU enlargement, the next enlargement will be a new challenge for convergence as the integration of poor with rich countries increases heterogeneity.

In order to be prepared for the eastern enlargement, the Commission in Agenda 2000 (1997, pp. 21 ff.) – agreed upon with some revisions by the European Council at its meeting in Berlin, March 24-25, 1999 - proposes reforms of the CAP and the structural policy (in both cases resulting in a cut in appropriations for the EU incumbents, in order to finance enlargement).

Whereas the last EU entrants were market economies, the new applicant countries switched from plan to market economy only in 1989 and are still in a transformation process.

The recommendations of the Commission are based on the three criteria for accession of the CEECs, adopted by the European Council on its meeting in Copenhagen in June 1993 (Agenda 2000 (1997), p. 43):

a) **political criteria** ("... has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities"),

b) **economic criteria** ("the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union"), c) **acquis criteria** ("...(has) the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union"). The CEECs will enter in the EU on the basis of the Amsterdam Treaty. This implies not only the adherence to the target of the EMU, but also the duty to take over the Schengen *acquis*.

The CEECs will enter the EU at the highest level of economic integration, namely at a time when the EMU should already function in practice. A certain *asymmetry* characterises the negotiations for accession of the CEECs. The rich countries of the EU decide when to invite the poor countries to join the club under their conditions (*acquis communautaire*). The poor applicants can only accept or refuse to enter. As the enlargement of the CEECs is a future project, studies on the impact of this integration step are rare at the moment. The European Commission in its Agenda 2000 (1997, pp. 97 ff.) made an attempt to describe the possible impact of the accession of the CEECs on the policy areas of the EU, and also discussed the possible overall economic impact on the EU. It only praises the advantage of a larger single market (from 370 million consumers to nearly 500 million).

More Costs or Benefits?

The three countries of the last EU enlargement (Austria, Finland, Sweden) were highly welcome in the EU club because they belong to the richest countries in the EU, and hence did not only cost nothing, but contributed to a considerable amount to the EU budget (Austria is a net payer of 0,4% of GDP, Sweden of 0,6%, Finland is a slight net receiver of 0,04% of GDP, in 1997). In case of the eastern enlargement, the EU incumbents are firstly concerned about the costs, and only secondly on the possible benefits (1997, Baldwin, R.E., Francois, J.F., Portes, R.). The highest priorities for transfers out of the structural funds are targeted to so-called objective 1 regions. These are regions or countries with a GDP per capita of less than 75% of EU average; which under current rules would automatically qualify for Regional Aid.

Reforms of the Common Agricultural Policy (CAP) and Structural Funds (reduction of seven to three main objectives) have already been given consideration in the various estimates. Based on appropriations for commitments, during the period 2000 to 2006 the cost of eastern enlargement (entry plus pre-accession aid) will amount to roughly 80 billion euro. The Commission plans to finance eastern enlargement of the EU as follows: First, the new members also have to make their contribution to the EU's budget (just as the current 15 member countries, the own resources ceiling of the 5 CEECs will be 1.27% of GDP as well). During the period between 2002 and 2006 this would amount to approximately 20 billion euro. In addition, there is a difference of 20 billion euro between own resources ceiling and total appropriations for payments to fall back on. The remaining 40 bill.EUR for eastern enlargement to include the 5 CEECs (including pre-accession aid) can be raised by reducing current payments especially in the area of structural policy. This has been achieved at the Berlin summit on March 1999. The reductions of total appropriations for commitments (or for payments) could be reduced by around 80 bill.EUR cumulative over the period 2000-2006. The appropriations for the CAP were reduced by 40 bill.EUR, those for structural operations by 24 bill.EUR. The remaining reductions concern the internal and external actions as well as administrative costs.

Public discussion has tended to focus on the costs of EU enlargement or the possible distortions to EU labour markets due to immigration (see Münz, 1998). In order to come up with a fair estimate of the economic impact of eastern enlargement it is, however, necessary to assess its economic benefits. But there are far more studies dealing with the costs rather than the benefits of enlargement. The Agenda 2000 (1997) which makes no quantitative reference to the benefits is a case in point. It describes, however, the possible economic impact on the EU incumbents in

a rather comprehensive way (see the third part of the Agenda 2000, the impact study“).

The eastward enlargement of the European Union will be the most challenging integration since establishing the European Community in 1957. It is the most challenging one for several points:

First, it implies an integration of relatively poor countries into a rich man's club;

Second, the CEECs have only started to become market economies a decade ago;

Third, the huge wage-gap between East and West could induce a wave of immigration into the EU;

Fourth, the CE-ECs, relatively less experienced with the market forces, have to join the EU on the basis of the Amsterdam Treaty. This implies the highest integration stage ever (Single Market, EMU);

Fifth, balancing the costs and benefits, it is not clear which EU incumbent will be a winner and which a loser.

Overall in own view we believe that the process of enlargement will progress more quickly and more smoothly if the EU puts in place special arrangements that aim not only to strengthen the implementing capacity of the applicants.

Enlargement of the EU will unify some parts of Europe, but it will also open up new division further East. It should create stability by expanding the network of European Countries committed to democracy and co-operation but it may also introduce new instabilities and political strain both among the current members and among the applicant countries.

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