

Accession Process for countries in Central and Eastern Europe

The current enlargement process undertaken by the EU is one without precedent. The EU has gone through previous enlargements, growing from six to nine to ten to twelve to fifteen member states. But never before has the Union negotiated accession of six countries at the same time, while another six are keen to join the negotiations. If these countries join, the EU will grow in size by 33% and by 28% in population. But in terms of GDP, as measured today, the EU will only grow by 9%.

Successive enlargements have each raised concern about the EU's efficiency and further development. The question "Widening OR deepening?" has always been answered by "Widening AND deepening". There are some in the Union who doubt that this answer remains realistic with the perspective of enlargement from 15 to 25 or more members. The response of the European Commission has been to develop the criteria, so as to assure that most of the convergence effort is undertaken before entry.

For all but two applicants, the acquisition of the "*acquis communautaire*" will deepen a process of dramatic economic transformation that started with the collapse of the communist bloc. Ten years ago these countries suffered from the disruption of an exclusive trading area, a terms of trade deterioration and the abandonment of the command system as a mechanism for resource allocation, leading to deep recession and high inflation rates. The challenge to policymakers was then to adjust their economies to the new economic circumstances, involving three sets of measures, themselves complementary: firstly, **stabilisation**, that is, to stop inflation and exchange rate depreciation, to recover growth, to assure external balance and the solvability of the public sector; secondly, **restructuring** to reduce the share of the state in microeconomic decisions from the legacy of the planned model, and; thirdly, **institutional and legal reforms** to establish the edifice and general framework that enforces the allocative role of the market system, and incorporating the retraining of civil administrations, establishment and implementation of new legal codes and framework, prudential

regulation on the banking system, as well as the substitution of the old safety nets, through reformed social security systems.

To date, transition countries in Central Europe and the Baltics have succeeded in attaining nominal stability and the elimination of the remaining macroeconomic imbalances is well on the way to be won. Although a significant catch up is still required in Bulgaria and Romania, most of these countries are already applying for EU membership, which hence requires further moves towards restructuring and institutional reform.

State of negotiations

On March 25, 1998, the European Commission approved Accession Partnerships for 10 applicant countries of Central and Eastern Europe (CEEC' s). These are a key part of the enhanced pre-accession strategy aimed at guiding the applicants towards European Union (EU) membership. Each Accession Partnership (AP) will support the applicant country in its preparations for membership by setting out both the priority areas for further work identified from the Commission' s Opinions and the financial assistance from the EU available to help tackle these problems. The AP' s focus on preparing the applicant CEEC' s to meet fully the membership criteria set by the Copenhagen European Council. Objectives cover areas such as strengthening democracy and the rule of law, protection of minorities, economic reform, reinforcement of institutional and administrative capacity, preparation for full participation in the internal market, justice and home affairs, agriculture, environment, transport, employment and social affairs, regional policy and cohesion. On joining the EU, the candidates for enlargement have to be ready to take on the rights and obligations of membership. The EU is built around a sophisticated array of rules and regulations. The candidates have to be able to adopt and – more importantly – implement some 80,000 pages of laws.

In compiling the regular reports for the candidate countries in central and eastern Europe, the European Commission set out to analyse whether, in the light of the Copenhagen criteria, reforms which were announced or indicated have in fact been

carried out since July 1997 (Agenda 2000). In the regular reports the progress in the capacity of each candidate to implement the *acquis* has also been assessed. Moreover, reports on Cyprus and Turkey too have been prepared, updating the 1993 Opinion, in particular on the basis of the results of the screening and of replies to questionnaires. At the end of 1999, the Commission will be making its second round of progress report on all the candidates' membership preparations. By then, the screening of their legislation will be finished and the EC should be in a much better position to say exactly what they need to do.

Country developments

On November 10 1998, Ministers of the EU and the six countries negotiating their accession met and addressed the first seven chapters of the *acquis*. These are the relatively straightforward parts of the rules and regulations of the EU, yet even they presented a certain number of points requiring further clarification, awaiting later overall agreement on the 31 chapters. Substantial progress is required therefore before accession states comply fully with the full set of requirements. Progress made thus far is recognised to be ahead of the comparative same stage of the previous enlargement negotiations with the Austrian and Nordic applicants, even accounting for the larger number of states at the negotiation table. However, the latter point hides a simple truth, that the divergence between the *acquis* and existing national systems for these countries was less and therefore the adjustment costs also lower than would be required for any one of the current accession states, with the possible exception of Cyprus. Moreover, to the extent that "reform-fatigue" begins to take effect, electorates in the accession states may themselves become less enthusiastic about becoming EU-citizens, although there are no signs of this at present.

Beyond the first seven chapters, for four other chapters: education and training, science and research, small and medium-sized enterprises, foreign and security policy, the applicant countries have flagged no problems. They declared themselves willing and able to apply the EU "*acquis*" fully at the date of accession. Their positions are now being assessed by the member states and the Commission. By the end of the year,

examination of some 20 of the total of 31 chapters will have been completed. By July 1999 all chapters will have been examined. In parallel, applicant countries will decide on which chapters they wish to present further negotiating positions – and the EU will establish the contents and the timing of its replies. Therefore a clearer stance on the individual situation for each accession country and state of negotiations will become clearer by 2000.

Two divisions have been created. In the first are Estonia, Slovenia, the Czech Republic, Poland, Hungary and Cyprus and in the second Latvia, Lithuania, Slovakia, Bulgaria and Romania. The current thinking is that Latvia may be granted promotion to the first division by next year, given the rate of progress over the previous 12 months.

The economic criteria echo the three criteria of economic transformation described above and focus on two particular issues: first, the existence of a functioning market economy and, second, the capacity to withstand competitive pressure and market forces within the Union. For a candidate to pass the economic test, it needs to be a well functioning market economy and to be able to cope with competitive pressures in the medium term. Overall, the candidate countries continue to make considerable progress in implementing economic reforms. Elements, such as privatisation, restructuring and liberalisation, are clearly moving ahead in most cases. The Czech Republic, Estonia, Hungary, Poland and Slovenia are already regarded as functioning market economies, and they should be able to fulfil the second criterion in the next two or three years. Hungary and Poland continue to be somewhat ahead of the others in this respect. Bulgaria and Romania do not meet either economic criterion. Bulgaria has recently made some significant improvements and it is showing determination in its commitment to reforms, but started at a very low level. The situation in Romania has deteriorated compared with last year.

And what about the institutional conditions for membership? This is indeed an area of great concern for all the member states and the European Commission. A well functioning market economy requires the existence of a general framework to fully exploit the advantages of the market system. A modern, well functioning public

administration, a well trained judiciary versed in Community law and able to apply and interpret it effectively are necessary to enforce the *acquis*.

The Copenhagen political criterion focuses on the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The EU would not have started negotiations with the six applicants if they were not functioning. The Commission concluded that all the candidate countries, except Slovakia, broadly met the political criterion for membership, although the recent change in political regime in Slovakia is expected to lead to thawing on this point. An issue of concern has been the issue of non-citizens and protection of minorities. In Latvia, the situation of non-citizens was given an important boost with the positive result in the referendum on the citizenship law. It will ease the way for the naturalisation of (mostly Russian-speaking) non-citizens and stateless children, and in early December, Estonia adopted its draft citizenship legislation to clarify the status of (approximately 10,000) stateless children. Shortcomings still exist. In most of the candidate countries, for example, the judiciary still needs to be strengthened significantly and, in some cases, its independence needs to be reinforced. Regarding respect for minority rights, the situation of the Roma in the candidate countries continues to be a cause for concern.

Prospects for the future

When will the first entrants join? The political landscape of EU is changing, with 11 of the 15-member states having left-of-centre political parties in power. Greater concerns over the levels of structural issues such as unemployment, particularly in France and Germany and the potential impact on the agricultural sectors if countries such as Poland become member-states is now given greater weight in EU capitals. The competition provided by cheaper labour has raised concerns job security within member states and of migration of large numbers of people from the relatively lower-paid countries and of the incentive for firms within the EU to relocate operations which may reduce employment within the EU. These fears may prove overdone. Potential enlargement is also an issue of concern for the southern European countries: Greece, Portugal and Spain which may lose access to net transfers within the EU as scarce funds

are redirected to the newer members. These concerns have led EU public opinion support for widening and deepening of the Union to wane and this is reflected by elected representatives within the EU itself. In particular, Germany's position appears to be more pragmatic with the change in leadership and the less-than-enthusiastic Mr. Schroeder at the helm, who has recently stated that no specific date for entry should be given to the entrants.

Nevertheless, if the accession countries themselves continue to move towards compliance with EU norms, the costs of adjustment and of absorption into the Union decline and the potential date of accession nears. The first group of countries each have relatively small populations, and which therefore means that they can be relatively easily absorbed. The division 1 leaders have set themselves a target of 2002 or 2003 as a guideline for themselves, although we do not expect any entry before 2006 at the earliest.

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