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HUNGARIAN ACADEMY OF SCIENCES

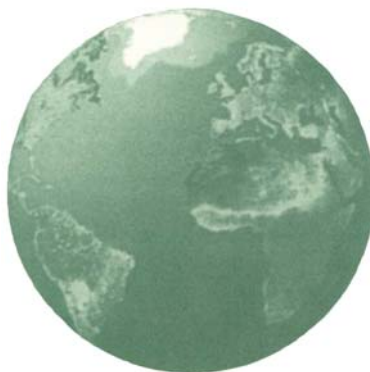
W o r k i n g P a p e r s

No. 161

July 2005

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DIVIDE AND CONQUER:
THE EU ENLARGEMENT'S SUCCESSFUL
CONCLUSION?



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SUMMARY

More conventional analyses of EU accession suggest that the Central and East European countries have successfully completed a lengthy negotiation process and won the ultimate prize – EU membership. The analysis presented in this paper is more critical of this view. It focuses in particular on some of the more problematic features of the final EU membership agreement, as well as the potential for future change from within the New Europe.

Focusing in particular on bargaining outcomes with respect to the CAP and the Structural and Cohesion Funds, the EU accession process has led to an agreement that is fundamentally slanted in favour of the Old Member States. While the New Member States can claim marginal gains from this process – they do receive some CAP and Structural and Cohesion Fund payments – the “discrimination gap” is large and significant. Moreover, the imbalance in the distribution of resources is likely to have a market distorting effect on the fortunes of the New and Old Member States. Weighing these points against the many costs of the accession, this paper questions whether the overall balance for the New Member States is positive or negative.

The final section of the paper asks whether the imbalance in the distribution of EU resources can be overcome now that the New Member States are officially in the EU. Given the relative power of states within the EU decision-making framework, this paper argues that the large member states tend to dominate the decision-making process. Reform proposals made within the context of the new *Constitutional Treaty* do little to resolve this problem. Thus it is unlikely that the New Member States will be able to make substantial progress in resolving this imbalance in the near future (the chances are greater with the Structural and Cohesion Funds, much smaller with the CAP).

This paper provides strong support for more traditional intergovernmentalist arguments about what drives decision making within the European Union. Moreover, it suggests that even with EU membership in the New Europe, the basic contours of the decision made at the December 2002 Copenhagen Summit are likely to continue to shape future EU policy debates.

INTRODUCTION^{*}

What drives enlargement of the European Union is a topic of great debate and is comparatively under-theorized. This fact is surprising given the degree of long-term membership growth in the EU. Beginning in 1957 as a geographically tight-knit group of six countries (France, Germany, Italy, Belgium, the Netherlands and Luxembourg), the EU has now progressively expanded to a group of 25 countries and will likely reach 27 member states in 2007. Further applicant countries are standing in the wings. Turkey, several of the former Yugoslavian states (apart from Slovenia, Croatia, Bosnia-Herzegovina, Yugoslavia and Macedonia), Albania, some of the remaining Russian satellite states (the Ukraine, Moldova and Belarus) will either begin negotiations shortly, have been encouraged to apply or are considering future membership bids.¹

^{*} This is a revised version of a paper presented at the April 2004 meetings of the Midwestern Political Science Association and the September 2004 meetings of the American Political Science Association. I would like to thank the Institute for World Economics (IWE) of the Hungarian Academy of Sciences for graciously assisting me in my research and for allowing me to work at their institute in the summer of 2003 and 2004. The many thoughtful discussions I have had with researchers at the IWE and others in Budapest have profoundly influenced my thoughts on European integration. Significant portions of this paper were written, data collected and interviews conducted during that time. I would also like to thank Kálmán Dezséri, Bill Ferguson, Dóra Husz, András Inotai, Wayne Moyer, Jack Mutti, Miklós Somai, Milada Anna Vachudova and participants at the above mentioned conferences for helpful comments. Finally, I would like to thank Grinnell College for its gracious funding of summer research in Hungary and Lukas Vrba for invaluable research assistance. All errors are of course my own.

¹ Croatia was scheduled to begin EU accession negotiations in March 2005 and Turkey is scheduled to begin in October 2005.

A close examination of the final terms of the EU membership agreement toward Central and Eastern Europe (CEE) and the bargaining process by which it was decided helps to illustrate the typically intergovernmental character of the accession process. While some have suggested that Enlargement and the decision of Western states to accept the Central and East European countries (CEEC's) has been effectively driven by the constraints of collective identity and social norms – *i.e.* by a sense of '*community values*'² – this paper will argue that a more traditional intergovernmental model is better suited to explaining the Enlargement process and the final terms of the agreement. More recent intergovernmental approaches insisting on the importance of national interests provide a more realistic assessment of the final impact of these agreements.³ However, even current intergovernmental accounts underestimate the benefits of EU enlargement to Western states and overestimate the benefits to New Member States (NMS's). These accounts likewise underestimate the costs to the NMS's.

This paper concludes that the details of the final agreement of Enlargement of the European Union document are an intense struggle to preserve and safeguard the interests of the Old Member States (OMS's) and chronicle a string of dramatic concessions on the part of the NMS's. Forced primarily by bargaining asymmetries across the Old Member and Applicant States, by a bilateral negotiation process – and in return for negligible gains – the NMS's have accepted significant costs. Bluntly put, the ability of OMS's to design and manage the process of EU enlargement/membership has led to a less than ideal outcome for the NMS's. Given their relative lack of bargaining power, competition with other applicant states, and

² See in particular Sedelmeier (2001), Schimmelfennig (2001), and Fierke and Wiener (1999).

³ See in particular Moravcsik and Vachudova (2003).

the threat of being excluded from the final agreement, they have accepted a less than optimal agreement. As government negotiators repeatedly emphasize,⁴ the threat of exclusion and the hope of being able to influence the EU decision-making process from within motivated these states to accept an otherwise unsatisfactory agreement.

This paper will proceed in the following manner. *First* I will discuss the theoretical literature on Enlargement. *Second* I will describe the nature of the bargaining asymmetries influencing the association and membership negotiations with Central and Eastern Europe (CEE). *Third*, I will discuss the final terms of the membership agreement and illustrate how the interests of the CEECs have been marginalized. *Fourth*, I will discuss how the Association and the final membership agreements have been carefully crafted to protect the interests of the OMS's, placing the burden of economic and political adjustment on the candidate states. *Fifth*, I will discuss the ensuing problem of the rational pursuit of EU membership for the candidate countries and the potential for the CEECs to right the imbalance. The *final section* concludes.

1) EUROPEAN INTEGRATION, ENLARGEMENT AND THE MISSING COUNTERFACTUAL?

Attempts to fit EU enlargement into the traditional mold of European integration

⁴ This paper is based, in part, on a series of interviews completed in the summer of 2003 in Hungary and to a more limited extent in the Czech Republic. These interviews were with high-level government officials across a range of different government ministries and with direct personal involvement in membership negotiations.

theory are of recent vintage.⁵ Neo-functional, social constructivist and inter-governmental approaches appear to provide the most compelling accounts.⁶ *Neo-functionalists* typically point to the role of interest groups, transnational actors and supranational institutions in the development of European policy-making and institutional structure.⁷ In this model, European integration is driven by *spillover*. Transnational actors drive integration forward through their recognition of common interests and values that gain optimal expression in a supranational framework. Initial integration in individual policy areas drives actors to pursue integration in additional policy areas due either to linkages across policy areas or to the recognition of the advantages of supranational-level policy making. Supranational institutions facilitate this process through their detachment from state-level interests and their cultural socialization to European ideals. States take a back-seat to transnational and supranational actors who hammer out cooperative, community-enhancing solutions. There is little room in this approach for differential gains across states or for states to pursue material interests and exploit relative bargaining power. Where policy integration occurs it is typically thought to be welfare enhancing for all, *i.e.* to

⁵ For early and important attempts to theorize enlargement see Redmond and Rosenthal (1998), Fierke and Wiener (1999), Mattli (1999), Sedelmeier (2001).

⁶ Although recent neo-Gramscian approaches (Holman, 2001; Bieler, 2003; Bohle, 2005) to the enlargement deserve attention, these are not discussed herein.

⁷ For recent examples of this approach see Mattli (1999), Stone-Sweet and Sandholtz (1997), Cowles (1995), Tranholm-Mikkelsen (1991), and Sandholtz and Zysman (1989). Mattli (1999), for example, suggests that the process of enlargement is "*demand-driven*" by states that see economic integration as a means of reversing the downward decline in economic performance. The interests of OMS's are less important in this process, suggesting that integration is driven by spillover-like effects that push non-member states to opt for a supranational decision-making framework and a set of supranational institutional arrangements to guarantee potentially greater levels of future economic success.

upgrade the common interest. As such, the neo-functional approach is not able to explain the shape of either the initial Association Agreement or the final Accession Treaty.

Social constructivism, premised on “the impact of norms and ideas on the construction of identities and behaviour”,⁸ falls prey to the same weakness. Authors writing in this framework argue that European integration or the enlargement itself cannot be understood without reference to the norms and ideas that build identities and guide behaviour. Thus, the willingness of some Western states to accept potential losses resulting from the Eastern enlargement is explained by a sense of *special responsibility*,⁹ or by a sense of community values, identity and *rhetorical entrapment*.¹⁰ Schimmelfennig (2001) argues that the Old EU Member States were above all persuaded to accept the Eastern enlargement as a result of a sense of *community values*. Having made promises to the CEECs and having accepted other European states, these countries were then able to pressure the EU to exercise fair treatment and open its doors to them as well. However, this approach likewise seems unable to explain the shape of the final Accession Treaty.

Intergovernmentalists, on the other hand, point to the role of the state (and potentially to the role of groups within states). European integration occurs when the interests of states *converge* around common policy goals, or when states are able to exploit bargaining power *vis-à-vis* other states and grant *side-payments* (usually in the form of financial concessions) or *opt-out* agreements in order to maintain support for controversial or unfavourable policies.¹¹ The role of

Europe-minded politicians and bureaucrats is seen as secondary to that of state actors and the more intergovernmental, state-dominated European-level institutions (Moravcsik, 1999). State-level actors set the basic institutional and policy-making parameters of European integration. Moreover, states typically will not jeopardize sovereignty and will structure European integration so as not to threaten issues of central importance to individual states. Weaker states, however, may be required to accept some loss of sovereignty in order to achieve other goals. This model predicts differential gains from European integration, based on the ability of states to exploit their relative bargaining power. As such, this approach is better suited to explaining the contours of the final Accession Treaty.

While this analysis is strongly intergovernmental in character and bears strong resemblances to the approach and occasionally structure of Moravcsik and Vachudova (2003), it differs from their and other accounts in important respects. *First*, due to the emphasis on CEE interests in integration, the enlargement interests of the OMSs are frequently undertheorized and poorly understood. Many authors underestimate the gains to the West, while overestimating the potential gains for CEE.¹² Central and East European (CEE) markets are quickly passed off as small and insignificant for Western Europe¹³ – leading to the suggestion that the Eastern Enlargement represents a goodwill gesture from the West and leaving one to conclude that community values remain the sole operative explanation.

Second, authors frequently overemphasize the EU’s positive influence while failing to consider the contours of *Western interests*. Thus, considerable

⁸ Christiansen, Jorgensen and Wiener (1999: p. 532).

⁹ Sedelmeier (2001: p. 33).

¹⁰ Schimmelfennig (2001: pp. 72–76).

¹¹ Moravcsik (1999, 1997, and 1991) provides perhaps the best example of this approach. A more recent paper on the EU enlargement like-

wise adopts this approach (Moravcsik and Vachudova, 2003).

¹² While Moravcsik and Vachudova mention some of these points, this analysis goes further.

¹³ See for example Schimmelfennig (2001: p. 54).

emphasis is placed on the optimal nature of the policy solutions EU institutions and policies provide without analyzing their *content* or their degree of compatibility with CEE interests. Assumptions of optimality regarding the adoption of ‘independent civil services, reformed judiciaries, oversight of financial markets and blocked bailouts of uncompetitive firms’¹⁴ appear to drive the assertion that these changes serve CEE interests. The definition of CEE *interests* in this regard is problematic. The intergovernmental approach typically defines “state interests” in terms of the policy interests of states (or groups within states), not in terms of idealized models of institutional structure or legislative content.¹⁵

EU methods of institutional organization and policy orientation frequently do not provide ideal models and/or are not always in the best interests of CEECs. Not uncommonly, the institutions and policies imposed by the EU result instead in the potential diversion of resources and/or act to constrain the policy-latitude of the NMS’s.¹⁶ In providing such an all-encompassing definition of interests, the intergovernmental literature in particular seemingly spills over into the neo-functional terrain of promoting the welfare effects of belonging to a community based on the elaboration of optimal supranational policy solutions. The more typically intergovernmental terrain of the “interests” of states, lowest common denominator bargaining, power asymmetries, threats of exclusion and side payments gets lost in the confusion of “ideal or optimal institutional structures” with “interests”.

¹⁴ Moravcsik and Vachudova (2003: p. 47).

¹⁵ This type of problem is present to varying degrees in intergovernmental accounts of the enlargement. See for example Vachudova (2002) and Moravcsik and Vachudova (2003).

¹⁶ For a discussion of the case of EU environmental policy, see Ellison (2004). For a discussion of economic development strategies, competition policy and state aids, see Ellison (2005). See also Tupy (2003).

Such assumptions amount to something like a *missing counterfactual* in discussions of the Eastern enlargement. The broad assertion that significant benefits will emerge from EU membership or that the institutions adopted indeed represent optimal solutions is rarely put to the test. My approach herein attempts to illuminate the “interests” that lie behind the transplantation (or imposition) of EU institutions, policies and practices in CEE. EU environmental policy provides a simple example. While many argue that EU environmental policy will radically improve the quality of the environment in CEE, Western interests are clearly supported by the creation of a “level playing field” and the ability to sell environmental technology to CEE. Moreover, western firms were strong proponents of the requirement to adopt EU environmental policies and to create a “level playing field” (Ellison, 2000). In this sense, seemingly “ideal” policies are suffused with Western interests in discrete but important ways.

Finally, current analyses ignore the ability of Western actors to structure the accession process in ways that shift the principal burden of adjustment from the OMS’s to the acceding countries while the OMS’s reap most of the benefits. As argued in this paper, the outcome of the final membership agreement successfully achieves this goal. Presumably this was possible due to the unusual degree of bargaining power characterizing the accession process with the NMS’s. Admittedly, there is a strong history of enlargement negotiations that involve “tough deals,”¹⁷ – significant concessions that derive from power asymmetries across states. However, the case of the Eastern enlargement provides a potentially unique case.

¹⁷ The language here is from Ruano (2003), who compares the Spanish experience to that of the CEECs in negotiations related to the CAP. Moravcsik and Vachudova likewise discuss previous enlargement negotiations and the role of power asymmetries (2003: pp. 44–46).

As suggested by the core intergovernmentalist concept of *asymmetrical interdependence*, the interest of the CEEC's in EU membership should exceed the willingness of the Old Members to grant it. In order to explain this willingness to accept concessions, *asymmetrical interdependence* requires that CEEC's at least *perceive* greater tangible benefits to membership than to remaining outside the European Club. Both of these arguments appear to be true of the Eastern enlargement. Yet, the degree to which Western negotiators have been able to whittle down the terms of the final membership agreement and to lock-in gains for Western Member states suggests that Western negotiators were significantly more powerful in these negotiations than in previous rounds of enlargement.

The ability of the Western states to extract such significant concessions is due to several basic features of the enlargement process. On the one hand, significantly lower levels of economic development in CEE placed these states at a much higher level of asymmetrical interdependence than previous accession states. On the other hand, the negotiation process was characterized by significant asymmetries in bargaining power further reinforced by the degree of competition between candidate countries and their inability to establish a more cooperative strategy to bargaining with the EU. Threats of exclusion likewise played a role. Finally – and despite the fact that there are significant problems with this view discussed below – CEE negotiators frequently perceived an advantage to being inside the EU and influencing the policy-making process from within (where they will have voting power and where the bargaining power asymmetries will not be as great), than to remaining outside and virtually unable to influence policy-making in their largest export market.

Given the potentially negative impact of these asymmetries, the more per-

plexing question then becomes why the CEEC's ultimately agreed to the final outcome. In this context, in addition to *perceived* economic gains,¹⁸ it is difficult not to point to some of the more intangible, abstract and symbolic gains of EU membership and their potential importance for citizens. Rightly or wrongly, membership is frequently seen as a guarantor of democracy and due process¹⁹ and of market principles. EU membership likewise guarantees – at least in the more distant future – the free movement of peoples across European space. In this regard, EU membership also promises freedom of choice with regard to place of residence and ultimately citizenship. Given the Communist legacy, such future mobility must appear as no small reward. In this respect, interests in EU membership are presumably not entirely a function of “economic” interests.

2) BARGAINING ASYMMETRIES

Bargaining over EU membership has been dominated by power asymmetries across the negotiating countries. The most obvious bargaining asymmetry is based on the lack of real voting power over the final terms of the EU membership agreement. The CEE right to make proposals (or raise objections), and to reject the final terms of the agreement, define the parameters of their bargaining power. However, one possible outcome of rejecting the final agreement might have

¹⁸ As will be discussed below, the evidence provided by Ellison and Hussain (2003) does not support the more conventional view that economic gains are a likely outcome of EU membership.

¹⁹ Kováč (2000) and Lynch (2000) both imply in different ways that EU membership provides a form of protection against the ability of national governments to successfully exploit domestic power relationships.

been to indefinitely postpone or even be excluded from EU membership. The CEEC's had no power to vote along with EU member states on the actual terms of the agreement. Second, each of the CEEC's bargained bilaterally with the European Commission, further weakening these states and placing them in the awkward position of competing against each other to be included in the first round of NMS's.

On the EU side, there were several voting hurdles that the decision-making process had to overcome. The European Council and thus each of the member state heads of government exercised a veto over the enlargement process. The CoM (Council of Ministers) likewise had to approve the final decision (but given initial approval by the European Council, rejection from the CoM was unlikely). After the decision by the European Council and the CoM, however, since the EP and the parliament of each individual member state likewise had the right to veto the final enlargement decision, the approval process involved another 16 potential veto points (Grabbe, 2002: p. 4). Moreover, the failure of any one state to approve the final agreement could potentially have placed the entire enlargement process in jeopardy.

As a consequence, the positions of individual member states mattered significantly with respect to the terms of the final agreement. The interests of France, for example, weighed heavily on the final terms of the agreement on the Common Agricultural Policy (CAP), while the interests of Spain, Portugal, Greece and Ireland weighed heavily on the reform of Structural and Cohesion Funds (SCF's). The interests of Germany and Austria, on the other hand, had a strong influence on positions related to the free movement of labour. And finally, EU member states, industry and labour had a strong influence both on the requirement of adopting all elements of the *acquis communautaires* (the existing body of EU legislation), and in particular on

the creation of a "level playing field" reflecting the Western status quo.

Although bargaining occurred on a bilateral basis, the CEEC's would presumably have been far more powerful negotiating partners had they been successful at coordinating their bargaining strategies. The candidate states did at various times attempt to work together and place more pressure on the European Union, but such efforts typically collapsed. Once one candidate state had signed an agreement on a specific point, all other states were inclined to follow. The often cited *regatta principle*²⁰ of EU membership negotiation weakened the ability of the CEEC's to exercise leverage. Faced with opposition to individual bargaining points from the EU-side, the candidate states were unable to rely on the support of fellow candidate states. The pressure of competition between the applicant states thus weakened them further *vis-à-vis* the EU.

Finally, while any of the candidate states could have rejected the final agreement, this most likely would have jeopardized membership. Any country unwilling to accept the terms of the enlargement would have had to forgo EU membership for the current round and hope the EU would permit a second round. While certainly possible, there was no guarantee the EU would consider a second round of negotiation. Thus the candidate states were under significant pressure to accept the terms of the agreement concluded at the December 2002 Copenhagen Summit. This had the effect of pressuring candidate states to accept the terms as they were and to

²⁰ The "regatta principle" was chosen at the EU's Helsinki Summit in December 1999, in part at the behest of the European Parliament. This method essentially made it possible for any state to complete the negotiations for EU membership ahead of – and without being held back by – other states. The logical consequence of this procedure was that all candidate states competed with each other to be the first states to become EU members.

hope for better terms once they had achieved membership.

Concepts of a “war of attrition”, “conditionality”, or “hierarchical steering”²¹ suggest the CEEC’s were strongly pressured into accepting institutional and regulatory arrangements for which a stable domestic consensus was not always present. Moreover, while the CEEC’s had significant leeway to structure domestic arrangements in areas where the EU *acquis* have little impact such as in the case of health care reform (see Jacoby, forthcoming), or the structuring of privatization programs, for the most part, they were required to adopt the EU legislative framework *lock, stock and barrel*, without significant adaptation to domestic needs and interests. The most negotiators were able to gain from the negotiation process were transitional periods to ease the cost and potentially the social impact of adopting EU law. While the greatest amount of bargaining leeway may have been present in negotiations over the EU’s Common Agricultural and Regional Policy frameworks – to be discussed in greater detail below – the real beneficiaries of this leeway appear to be the OMS’s.

Negotiators frequently noted the lack of bargaining leeway, suggesting there was little margin for manoeuvre. Moreover, as negotiators frequently noted, attempts to coordinate bargaining with other candidate states largely failed. In practice, once the Commission had succeeded in gaining agreement on a particular chapter of the *acquis*, this agreement tended to fix the terms for other states, leaving little bargaining room. Despite attempts to coordinate

common positions among the candidate states, all of these attempts broke down or were undercut by individual states concluding separate deals on specific chapters. Moreover, the EU was not inclined to reach different agreements with each candidate state. If the EU had concluded different agreements with each of the candidate states, this ultimately would have led to repeated attempts on the part of some states to re-open and re-negotiate these agreements (and this did occur in some cases). All in all, Eastern negotiators frequently lamented the inability of the candidate states to successfully coordinate their bargaining strategies.

On the EU side of the negotiating table, the range of choices available to the OMS’s appears like an unlimited smorgasbord from which they could indiscriminately pick and choose protective and cost-reducing measures, from the agreement on CAP funding, the retention of SCF’s for the OMS’s, restrictions on the free movement of labour, and limitations on the use of state aids in CEE even during the accession process. As the number of items chosen increases, the enlargement becomes progressively more palatable to the old EU member states and less and less so to the candidate states. Moreover, many of these choices deviate from existing EU practice, not to mention from the legal and regulatory framework of the *acquis communautaire*. The remainder of this paper will address these points in some detail.

3) THE TERMS OF THE AGREEMENT

²¹ Brücker *et al.* view the negotiation process as a “war of attrition” (Brücker, Schröder and Weise, 2004). Börzel *et al.*, on the other hand, emphasize the role of *conditionality* and note that the European Commission imposed this conditionality in a large number of bargaining venues, explicitly linking progress on institutional and legal reform to future membership. Thus these authors emphasize the importance of what they call “hierarchical steering” (see for example Börzel, Guttenbrunner and Seper, 2005).

The EU membership contract exhibits many concessions made to individual countries and interest groups in the European Union and few concessions made to individual countries in CEE. This

overview of the terms of the agreement illustrates the degree to which Central and East European negotiators were hindered by bargaining asymmetries and unable to achieve important goals. Among the most important terms of the agreement include decisions relating to the EU's Common Agricultural Policy (CAP), the EU's SCF's, the decision relating to the EU's Environmental regulations (due to the great cost this implies for NMS's), and issues related to access to EU markets and the overall potential for Central and East European competitiveness. The following discussion will address each of these points in turn.

EU expenditures on the NMS's in 2004 totalled 11.8 billion Euros, out of a total budgetary expenditure of 112.2 billion Euros.²² In other terms, approximately 10.5% of the EU budget was spent on that 16.8% of the EU population most in need of financial support. Moreover, the EU receives half of this sum back from the NMS's in the form of membership contributions (approx. 5 billion Euros). As Grabbe (2002) notes, over the period 2004–2006, the EU will spend approximately 40.8 billion Euros on the NMS's, but receives 15 billion Euros back in membership contributions.

For 2004, the CAP and the SCF's comprised approximately 70% of the total EU budget. Of this sum, the Enlargement countries (including Cyprus and Malta) received about 4.4% of CAP payments (compared to 95.6% for Old EU Member States) and 21.8% of the SCF's payments (compared to 78.2% for the Old EU Member States). In 2005, the NMS's will receive

7.5% of EU CAP expenditures – reflecting the inclusion of direct payments to farmers as of 2005 – and will receive 16.3% of total EU SCF expenditures. However, the NMS's – due to the EU's co-financing requirements and the budgetary constraints currently facing the CEEC's – may only be able to make use of a smaller share than they are eligible for. Thus, net EU expenditures may be significantly lower.²³ Again, these sums represent a small share of overall EU expenditure. Moreover, the share of agricultural production in the overall economy in the CEEC's is far more significant than in Western Europe.

Table 1
EU Expenditures on the New Member States as a Share of EU and German GDP and National Government Expenditures, 2004–2006 (%)

Total EU Expenditures on the New Member States			
	2004	2005	2006
As Share of EU GDP	0.12	0.14	0.15
As Share of German GDP	0.51	0.62	0.69
As Share of EU 15 National Government Expenditures	0.23	0.28	0.30
As Share of German Govt Expd.	1.04	1.23	1.36
Net EU Expenditures on the New Member States			
	2004	2005	2006
As Share of EU GDP	0.05	0.09	0.10
As Share of German GDP	0.23	0.42	0.47
As Share of EU 15 National Government Expenditures	0.10	0.19	0.21
As Share of German Govt Expd.	0.46	0.83	0.93

Source: Based on own calculations from GDP and Government Expenditure data from the online New Cronos Eurostat data

(http://europa.eu.int/comm/eurostat/newcronos/reference/display.do?screen=welcomeref&open=/&product=EU_general_statistic&depth=1&language=en). GDP figures for 2004–2006 were estimated by Eurostat. Estimates of national government expenditure figures for 2004–2006 are based on own calculations of average growth in total government spending based on the available New Cronos Eurostat data. Data on EU expenditure on the New Member States is taken from the European Commission's Financial Framework statement: http://europa.eu.int/comm/budget/pdf/financialfrwk/-copenhagen_package/webtablesEN.pdf.

Given the uproar over the size of potential EU expenditures on CEE, one would expect the final amounts to be

²² These figures that follow are based on the European Commission's budgetary statements for 2004 and 2005 and the Financial Framework for enlargement, 2004–2006.

²³ See for example Grabbe (2001: p. 1).

large. *Table 1* provides a perspective from which to judge the magnitude of the total sums the EU will spend on CEE over the period 2004–2006. Seen as a share of EU or German GDP, or as a share of total EU member state or German government expenditure, the sums ultimately seem small, rising above 1% only as a share of total German government expenditures. Net EU expenditures (accounting for NMS contributions to the EU budget) all remain well below 1% of these comparative benchmark figures.

3.1. The CAP

The terms of the final CAP decision represent perhaps the most egregious case of East-West discrimination and the most obvious case of bargaining asymmetries. In the first year, the CEECs will only be eligible to receive 25% of the direct CAP payments other EU member state farmers receive under the same plan. The amount is to be increased on an annual basis by 5% after entry into the EU – bringing the CEECs up to 100% by 2013. While this amount is certainly better than the initial 0% payments offered by the EU, the final CAP agreement ultimately reflects a tremendous imbalance between Western and Central and East European interests.

Several countries immediately lobbied for the right to both “top-up” their direct payments by 30% annually,²⁴ as well as for the right to use 20% of the

²⁴ CEEC governments are permitted to independently *top-up* direct payments, but within specific limits (on average by an additional 30% of the total direct CAP payments made to western farmers). In cases where CEEC subsidies have previously been higher than this amount, CEEC governments have retained the right to make larger direct payments. But direct payments cannot exceed 100% of the EU-15 level. Cyprus, the Czech Republic, Lithuania and Slovenia have all received the right to make higher payments (European Commission, 2002?).

agricultural regional development funds for additional direct payments to farmers. As Grabbe points out – in the case of Poland – Polish farmers might well have attempted to scuttle the deal without this package (Grabbe, 2002: p. 3). Hungary likewise rapidly passed a parliamentary resolution guaranteeing direct payments would be topped up by an additional 30%. In effect, this clause functions as a “co-financing” arrangement, even though no West European countries are required to engage in co-financing arrangements in agriculture.²⁵ Second, as Grabbe (2002) notes, some of the funds transferred to direct payments might be better spent on economic restructuring or Regional policy co-financing requirements.

While the enlargement countries will receive more than twice the amount of support in SCFs as CAP support, some authors have expressed concern that some of these monies will be diverted back into agricultural support and away from the potentially more important element of economic restructuring. Grabbe, for example, notes that Poland was able to gain a lump-sum payment from the final negotiations, a part of which could be used for increasing Poland’s direct payments to farmers. At the same time, however, of the 9.8 billion Euros designated for CAP payments for the Enlargement countries over the period 2004–2006, 5.1 billion Euros will be used for “rural development” associated with the farming sector. Thus a larger share of the EU CAP funds will be directed to regional development (approximately 52%). This share is much larger than the customary distribution of funds in the OMS’s (approximately 10.5%).²⁶ This approach is congruous

²⁵ Beyond CAP payments, the OMS’s typically have significant national-level agricultural subsidies (see for example European Commission, 2005: Table 3.4.10). However no national-level direct payments to farmers are permitted.

²⁶ These calculations are based on the “Financial Framework for Enlargement 2004–2006” (<http://->

with the concept of *Modulation*, the gradual shifting of EU CAP expenditure from direct payments to rural development undertaken with the June 2003 agricultural reform and to some extent may be seen as a compensation for lower direct payments in the case of the CEECs.²⁷

The direct payments portion of the CAP plan remains significantly larger than the regional development segment only for the Czech Republic and Hungary. Explaining this disparity raises some interesting questions. While the direct payments portion of the CAP plan does not require any co-financing, co-financing requirements are attached to CAP rural development measures. The average co-financing rate in the area of rural development is approximately 25% for the recipient state, 75% from the EU. Thus ultimately the greater emphasis on rural development measures in the NMS's involves greater NMS budgetary responsibilities beyond the commitments of OMS's. In this sense, Hungary and the Czech Republic have presumably gained more out of this section of the membership agreement than some of the other NMS's.²⁸

Far more impressive is the way in which the EU has successfully *locked-in* the CAP agreement over the next reform period 2007–2013. Given that the phasing in agreement is already written into the Accession Treaty for the entire period 2004–2013 (and until 2015 in the case of Milk quotas), despite the fact of

europa.eu.int/comm/budget/pdf/financialfrwk/-copenhagen_package/webtablesEN.pdf.

²⁷ I am indebted here to discussions with Wayne Moyer.

²⁸ As Hungarian negotiators pointed out, they do not wish to see any shifting of transfers from the category of direct payments to rural development. Rural development funds require co-financing and farmers bear a greater share of the financial burden. The rural development funds also require an application process. Direct payments, on the other hand, do not require co-financing, are not subject to an application process, and are received directly by individual farmers for immediate use.

membership political leaders from the NMS's are not likely to have a significant impact on the Common Agricultural Policy for the next 8-10 years. This does not rule out marginal changes in the CAP. All of the CEECs now have full voting rights in the *Agricultural Council*. But it greatly limits the ability of these states to influence the larger contours of the CAP for a decade to come. Hungarian negotiators, for example, noted that future efforts are focused on maintaining what they had already gained from the EU in the face of the June 2003 CAP reform and – perhaps more importantly – future rounds of WTO negotiations. Pushing for greater concessions on direct payments or the rural development share of this agreement was not typically perceived as an option.²⁹

Justifications for the reduction of direct payments to 25% of Western payments reflect fears that 100% payments to CEEC farmers would bankrupt the EU.³⁰ However, while CAP reform was necessary and budget cuts were difficult to achieve in the West, why CEE farmers should bear the burden of EU budget-cutting is not clear. Fears that price supports in CEE could lead to inflation and public discontent was a second justification. Given however that prices in CEE have largely been *westernized*, this point carries little weight. And farmers like other citizens in CEE face rapidly rising costs. Fears that excessive CAP payments in CEE would lead to “market distortions” constitute a third argument. However, it is difficult to argue that the reverse logic is not true. It is *not* likely the case that higher CAP payments in the Western part of Europe and lower CAP payments in the Eastern

²⁹ With respect to the sugar agreement in the Accession Treaty, the terms are being reduced by international disputes. The WTO ruled against the EU sugar regime in August 2004 in response to a dispute filed by Brazil, Australia and Thailand triggering further reforms of the accession agreement.

³⁰ Multiple EU documents are relevant here. See e.g. European Commission (2002b and 2002c).

part of Europe will have a market “neutral” effect. Finally, the EU’s approval of national topping-up measures casts a rude irony over any of the arguments against additional payments to CEE farmers.³¹

Fears that high levels of direct payments could ultimately lead to a slowing down in the rate of restructuring and to the creation of income disparities in rural communities constitutes a fourth argument.³² Here again, however, there are considerable costs attached to the adoption of the *acquis* in the agricultural sector, in particular related to veterinary care, hygiene, animal-welfare, environmental protection and phytosanitary conditions. Moreover, there were no clear estimates of the compliance costs imposed on individual farmers and very few transitional periods were awarded in the agricultural sector. Farmers were expected to be EU *compliant* by May, 2004. Without accurate estimates of the costs farmers face in the NMS’s, the relative impact of direct payments on regional income disparities remains unclear. Moreover, the costs of restructuring agricultural production remain considerable and would be facilitated by higher CAP payments.

That direct payments will lead to a slowing down in the rate of restructuring is a dubious claim. For one, the entire CAP regime has presumably led to a slowing down of the rate of economic restructuring in the EU, in particular to higher levels of agricultural production and lower levels of industrial production than are presumably optimal. More compellingly, the regime of price supports – in particular – has led to slower rates of economic restructuring in the EU and less so the gradual shift to direct payments adopted with the 1992 MacSharry reforms. By beginning to divorce farm subsidies from the regime of

price supports, these reforms mitigate overproduction and market inefficiencies. In the long run, while direct payments may reduce the impact of market incentives and reduce the need for market restructuring, direct payments also provide financial resources that can facilitate restructuring.

The distribution of direct payment ceilings (e.g. for beef and cereals) and quotas (e.g. for milk production and sugar), however, is potentially the most troubling element of the final CAP agreement. For one, the reference periods used to define the direct payment ceilings and quotas for the NMS’s presented obvious complications. The EU insisted on using 1995–1999 during which the economies of CEE were recovering from the economic crisis of 1991–1994.³³ The candidate countries argued that direct payment ceilings and quotas based on these years underestimated potential or normal domestic production levels. The final direct payment ceilings and quotas, however, were not much higher than those based on the reference years preferred by the EU.

For another, although the direct payment ceilings and quotas received by the NMS’s were often favourably reviewed – in particular those for milk, beef and cereals, since they were typically higher than production levels in the NMS’s – this analysis ignores a number of important factors. For one, NMS direct payment ceilings and quotas are frequently much below those of the OMS’s. Per capita direct payment ceilings and quotas provide a very rough basis for comparison³⁴ (see *Table 2*). On average, OMS’s have milk quotas that are

³¹ I am indebted here to discussions with Miklós Somai.

³² European Commission (2003: p. 3).

³³ Some argue that the depth of this crisis equaled the Great Depression. In some cases, CEEC output declined by as much as 30-40%.

³⁴ This methodology is flawed in that it ignores the concept of comparative advantage. Different geographic locations yield climates that are better suited to growing different types of agricultural products. The calculations here cannot correct for this fact. The law of averages may provide a marginal though insufficient correction.

Table 2
CAP Direct Payments Ceilings and Quotas for Milk, Sugar, Cereals and Beef

Country	Milk Quota 2004-6	Sugar Quota (A+B)	Total Cereals DP Ceiling	Beef National Envelope DP Ceiling (€)	Per Capita Milk Quota (tons)	Per Capita Sugar Quota (tons)	Per Capita Cereals DP Ceiling (tons)	Per Capita Beef National Envelope DP Ceiling (€)
Cyprus	145,200		181709.2	308,900	0.22		0.27	0.46
Czech Republic	2,682,143	454,862	9465111.6	8,776,017	0.26	0.04	0.92	0.85
Estonia	624,483		870784.8	1,134,510	0.43		0.61	0.79
Hungary	1,947,280	401,684	16497256.2	2,936,076	0.19	0.04	1.65	0.29
Latvia	695,395	66,505	1108950	1,330,680	0.29	0.03	0.46	0.55
Lithuania	1,646,939	103,010	3095909.1	4,942,267	0.45	0.03	0.84	1.34
Malta	48,698		9221.3	63,700	0.12	0.00	0.02	0.16
Poland	8,964,017	1,671,927	28364013	27,300,000	0.23	0.04	0.73	0.71
Slovakia	1,013,316	207,432	4074019.18	4,500,535	0.19	0.04	0.75	0.83
Slovenia	560,424	52,973	659651.17	2,964,780	0.28	0.03	0.33	1.49
Average					0.27	0.03	0.66	0.75
	average 2004-2006							
Greece	700,513	306,000	4733457	3,800,000	0.07	0.03	0.45	0.36
Ireland	5,395,764	192,000	2100640	31,400,000	1.43	0.05	0.56	8.31
Portugal	1,884,504	77,000	2962959	6,200,000	0.19	0.01	0.30	0.62
Spain	6,116,950	974,000	3976190	33,100,000	0.16	0.02	0.10	0.84
Austria	2,770,022	364,000	6339810	12,000,000	0.34	0.04	0.78	1.48
Belgium	3,335,259	774,000	2986464	39,400,000	0.33	0.08	0.29	3.84
Denmark	4,488,764	392,000	10533960	11,800,000	0.84	0.07	1.97	2.21
Finland	2,425,038	141,000	4486620	6,200,000	0.47	0.03	0.87	1.20
France	24,417,567	3,523,000	81426520	93,400,000	0.41	0.06	1.37	1.57
Germany	28,073,802	3,174,000	57480696	88,400,000	0.34	0.04	0.70	1.08
Italy	10,530,060	1,468,000	22624680	65,600,000	0.18	0.03	0.39	1.13
Luxembourg	271,067		182328	3,400,000	0.61		0.41	7.71
Netherlands	11,157,752	809,000	2907090	25,300,000	0.70	0.05	0.18	1.58
Sweden	3,327,773	355,000	6982740	9,200,000	0.37	0.04	0.79	1.04
UK	14,719,172	1,098,000	26004715	63,800,000	0.25	0.02	0.43	1.07
Average					0.42	0.04	0.69	2.06

Sources: Quotas taken from the EU Accession Treaty, Commission Regulation No. 2316/1999, AGRA-Food East Europe (1/21/03), DG Agriculture data and population data from the Eurostat Yearbook (2002).

about 1.7 times those in the NMS's (0.45 tons per person in the OMS's compared to 0.27 tons per person in the NMS's). Moreover, these quotas are fixed for the period 2004-2006 (and possibly through 2015). While per capita sugar quotas and per capita direct payment ceilings for cereal production compare more favourably to those in Western Europe, this is not the case for the "beef envelope". Here, Western producers receive direct payments 2.75 times greater than those in CEE.³⁵

Setting direct payment ceilings and production quotas is significant for at least three reasons. First, they represent a second mechanism by which the OMS's could reduce CAP payments to CEE (and preserve higher subsidies for Western states). Though CEE production and consumption of agricultural goods is likely to increase as they become more developed and incomes rise, current direct payment ceilings and quotas set a ceiling above which it is politically difficult to rise in the future. This is especially true given the context of the June 2003 reform of the CAP.³⁶ This reform sets out a procedure by which direct payments are annually reduced for the OMS's. Thus, even if the NMS's raise overall productivity, this is unlikely to precipitate adjustments in direct payment ceilings comparable to those obtained over time by the OMS's. Current quota increases envisaged in the milk sector, for example, amount to 1% per year for all states in 2007–2008 (European Commission, 2003). Second, this further reduces the share of financial support that might

otherwise be used for CEE agricultural restructuring.

Third, these ceilings and quotas impose serious constraints on the restructuring of European economic space. While market integration ordinarily results in economic specialization, the CAP in general and the system of direct payment ceilings, quotas and fixed prices in particular, will likely prevent this from happening. Moreover, the enlargement CAP regime will have a differential impact on Old and New Member States. OMS's will be able to retain their current production levels in the agricultural sector, despite potential comparative advantages in some products in the NMS's. Intervention prices have the advantage of both guaranteeing payment and higher subsidies for agricultural goods produced in the OMS's and of reducing the potential competitiveness of CEE agricultural goods in the wider EU marketplace. Thus while market integration ordinarily promotes comparative advantage, the fixing of direct payment ceilings, quotas and intervention prices for the NMS's and OMS's *distorts market incentives* and imposes market preserving features on the enlargement outcome in agriculture. Thus the NMS's will likely face a limited market for agricultural goods in Western Europe.

Finally, the June 2003 reform's complete decoupling of direct payments and production may ultimately have the effect of *locking-in* higher direct payments to OMS's for the duration of the survival of the CAP. Since direct payments no longer depend on production, *decoupling* and *modulation* may ultimately scuttle any mechanism for increasing support to the NMS's. The direct payment ceilings and quota system – in combination with fixed intervention prices – potentially preserve Western agricultural market shares and provide fewer incentives for productivity improvements in the NMS's. Increased production is not likely to raise direct payments and fixed prices diminish the po-

³⁵ Even with increases received by a few countries between the initial suggested beef envelope and the final figures noted above (the Czech Republic, Cyprus, Lithuania, Slovenia and Estonia – Hungary saw their initial allotment decline by approximately 17%), Central and East European allotments never came close to OMS direct payments.

³⁶ The January 2003 legislative proposal (COM(2003) 23 final) was finalized for the OMS's in June 2003. This document does not finalize the terms of this reform for the NMS's.

tential to engage in real competition with Western agricultural goods (at least for those goods that are regulated by the CAP). Thus *locking-in* the NMS's at lower direct payment ceilings and quotas than those in effect for the Old EU Member States is likely to have a long-term market distorting impact on the ability of the more agricultural NMS's to benefit from market access in agriculture.

3.2. The SCF's

The December 1999 Berlin Summit established 0.45% of EU GDP would be available for structural and cohesion measures. This sets an upper limit on what share of the EU budget can be spent on the overall package for the SCF's and on the total amount available. In addition, since the Berlin Summit, the SCF allocations now include a ceiling of 4% of the GDP of the recipient country. The principle is the so-called *absorption capacity* of the candidate states. Given the budgetary constraints on the NMS's and their lack of experience in administering the SCF's, the European Commission has long assumed that the CEEC's will only be able to engage in the required co-financing margins for SCF projects within specific limits. This ceiling thus limits the total amount of funds that countries can receive from the EU.

The final amounts made available to the CEEC's for the period 2004–2006, are well below the 4% of GDP limit set by the Berlin Summit (See *Table 3*). Only Latvia, Lithuania and Estonia were allocated amounts close to or above the 4% limit. Most of the CEEC's received allocations far below the 4% level.

Comparing the allocations of the NMS's to those of the OMS's, strong discrepancies emerge in the distributional logic across these two groups. The old "cohesion" countries (Greece, Ireland, Portugal and Spain) will receive much higher per capita allocations for the period 2004–2006. Portugal and Greece will receive more than 3 times as much funding as the average NMS (see *Table 3*). All of the old cohesion states will receive higher per capita allocations than any of the CEEC's. The Baltic States seem to have fared better than any of the other NMS's. However, Ireland – rapidly losing eligibility due to high rates of economic growth and convergence on the EU average per capita GDP – will receive far more funding per capita than the highest NMS recipient Latvia.

Table 3
Structural and Cohesion Funds
(Per Capita and as Share of GDP)

Country	Structural and Cohesion Funds (Mill Euros) (2004-2006)	Structural and Cohesion Funds as Share of GDP	Per Capita Structural and Cohesion Funds
Cyprus	101	0.4%	150.52
Czech Republic	2328	1.4%	226.64
Estonia	618	3.7%	430.36
Hungary	2847	1.9%	284.02
Poland	11369	2.2%	294.16
Slovenia	405	0.7%	203.62
Latvia	1036	4.5%	428.63
Lithuania	1366	3.7%	369.59
Slovakia	1560	2.5%	288.84
Malta	79	0.7%	202.56
Averages:	2170.90	0.02	287.89
Spain	23,163	1.3%	587.27
Portugal	9,570	2.8%	957.15
Greece	10,295	2.8%	976.45
Ireland	1,632	0.5%	432.09
Averages:	11164.82	0.02	738.24

Source: European Commission, Eurostat Yearbook and Bruxinfo.hu.

According to CEEC government negotiators, the EU was not forthcoming about the formula used to arrive at the final distribution of SCF's among the CEEC's. Negotiators were only able to

indicate that the formula used by the EU depended on three primary factors: the level of per capita GDP, population, and the level of unemployment. Thumbnail regressions of the total SCF's received by the NMS's using these three variables and including the level of support for EU membership,³⁷ suggest that these variables do a pretty good job of predicting the total amount of funding received by each NMS. The model explains 99% of the variance (see *Table 4*).³⁸ While such a high value may seem surprising, recall the political difficulties

Table 4
Structural and Cohesion Funding

	Model I Candidate Country Model	Model II Member State Model
Per Capita GDP	-14.1 (-1.46)	-105 (-2.10)
Population	0.0003 (28.4)	.0001 (2.43)
Unemployment	5.99 (0.22)	770 (1.49)
Support for EU	0.561 (0.06)	212 (2.41)
n	10	15
Adj. r ²	0.99	0.67

Sources: SCF's data for the OMS's was taken from the Regional Policy DG's website (http://europa.eu.int/comm/regional_policy/intro/regi_ons5_en.htm). For the NMS's, SCF's data was taken from the "Financial Framework for Enlargement 2004-2006" (http://europa.eu.int/comm/budget/pdf/financialfrwk/copenhagen_package/webtablesEN.pdf). Data on population GDP in current prices were taken from the *Eurostat Yearbook* (2001). Data on support for EU membership were taken from the *Eurobarometer* (3/2003) and unemployment data was taken from the Eurostat Structural Indicators website. Finally, data on per capita GDP relative to the average of the European Union was taken from Bruxinfo (www.bruxinfo.hu).

³⁷ Carrubba (1997), suggests that the distribution of EU funds is influenced by the level of public support for the EU (where EU support is low, there are incentives to increase expenditure in order to maintain support). The statistical results generated above only support this thesis in Model II.

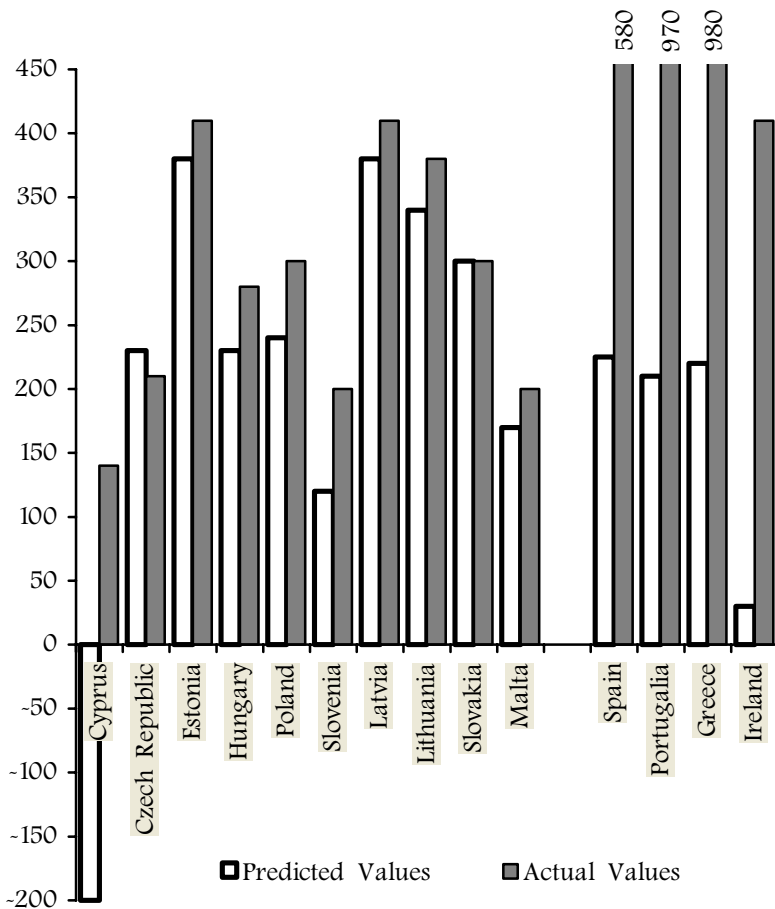
likely to emerge from the differential treatment of applicant states. Population is the strongest predictor of total funding and is highly significant. Apart from population, per capita GDP begins to approach significance, suggesting that more developed countries receive lower levels of funding. While levels of unemployment appear to have a strong positive impact on total funding, this variable does not begin to approach adequate levels of significance. Finally, total funding exhibits a positive but statistically insignificant relationship to support for EU membership.

Comparing the logic for the distribution of funds among the NMS's to the allocation across the old "cohesion" countries (Greece, Ireland, Portugal and Spain) yields surprising results. This is accomplished by taking the parameters from the regression equation estimated for the NMS's and using these to predict the total value of SCF's that the old cohesion countries would receive. For purposes of cross-country comparison, both predicted and actual values are expressed in per capita terms in the figure below (see *Figure 1a*). According to this calculation, Greece, Ireland, Portugal and Spain receive far more funding than they should have received using the logic applied to the NMS's. Observing the ratio of actual to predicted funding for the cohesion countries, Spain receives about twice as much funding as one would expect, Portugal and Greece about 4 times as much, and Ireland approximately 11 times as much funding. The ratio of actual to predicted funding for the NMS's, however, is very close to 1 in all cases except Cyprus.³⁹

³⁸ The unit of analysis here is the individual country. Data permitting, the regional level would be more appropriate.

³⁹ Of all the NMS's, Cyprus seems to have fared the best where the SCF's are concerned. They received far more funding than the amount predicted by the logic applied to the remaining NMS's.

Figure 1a
Actual and Predicted Per Capita Structural
and Cohesion Funds
(Based on Candidate Country Model)



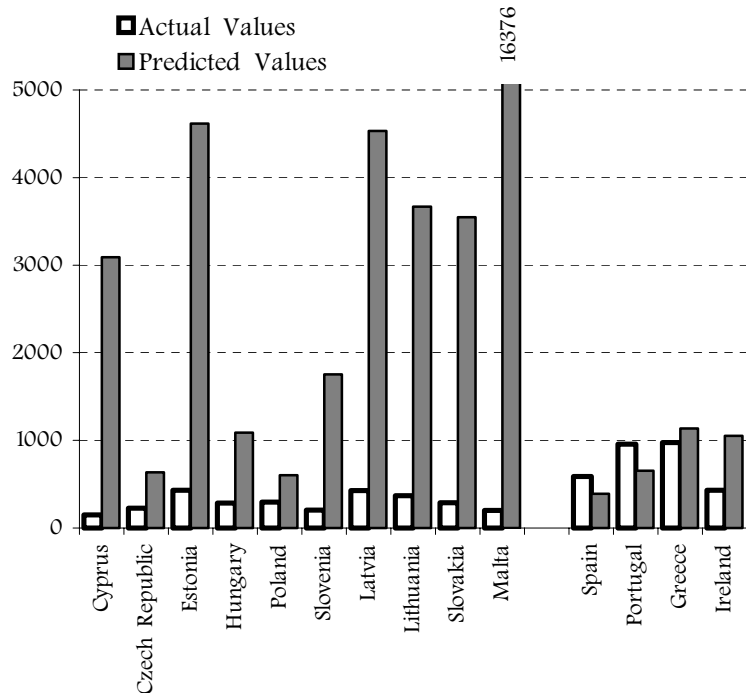
currently the case (see *Figure 1b*). Expressed in ratios, the NMS's would have received between 2 and 80 times as much support. In this context, it is easier to understand the logic of the 4% of GDP threshold. This limit had a very decisive impact on the degree to which the NMS's could benefit from the SCF's and guaranteed significant and continued payments to the OMS's.

The fact that the NMS's jumped into the middle of a budgetary period may likewise have created an artificial but effective way of limiting expenditures. Since the overall amounts available for SCF measures were set with the Berlin Summit, the amounts distributed to the 10 NMS's were allocated within these limits. Although part of

Inverting this analysis one can estimate the total SCF allocation the NMS's should have received based on the distributional logic applied in the EU. The same set of independent variables is used and a regression equation is estimated only on the OMS's. The derived equation estimates a smaller share of the variance than above – only 67% compared to 99% in the equation above (see Table 4 above). However, this is plausible due to the degree to which politics has presumably filtered into the allocation of structural and cohesion funding over time, presumably contributing to the larger share of the residual.

Based on these parameters, the NMS's would have received far more financial support than is

Figure 1b
Actual and Predicted Per Capita Structural
and Cohesion Funds
(Based on EU Member State Model)



the budgetary period had essentially passed (states were expecting a possible membership in 2002 and thus would have been eligible for financial transfers from 2002–2006), the total amount of funding had to be divided across 10 states (instead of 4–6 states) over a shorter time period (2004–2006). Thus, while the NMS's received levels of funding only slightly lower than expected based on the conclusions of the Berlin Summit, the timing of the enlargement may have set additional limits on the bargaining power of individual states.⁴⁰

Whether the NMS's will be able to influence bargaining on the next Financial Perspective that will decide the SCF allocations for the period 2007–2013 depends not only on the relative bargaining power of these states (discussed below) but also on the timeframe within which the EU is likely to move toward completion of the actual proposal. A significant struggle is likely to ensue. As Richter (2003) points out, given that 0.45% of the EU budget will be allocated to the SCF's, and given that the CEEC's cannot receive monies above 4% of GDP, one can calculate how far these funds are likely to stretch across the NMS's. Richter assumes that each of the NMS's will receive the full 4% for which they are eligible and comes to the conclusion that 80% of the funds will be exhausted with 10 NMS's. With 12 NMS's (including Romania and Bulgaria) 97% of the funds will be exhausted.

These figures – as Richter points out – do not include future distributions to the old “cohesion” countries, or to any of the other OMS's. Those states and regions that will no longer be eligible for SCF's as a result of the drop in

the average EU per capita GDP – the so-called *statistical effect* – are likely to push for compensation for lost funding. There is already some precedent for this. Regions no longer eligible to receive SCF's during the period 2000–2006 were allocated “transitional support” payments at the 1999 Berlin Summit to the tune of 11.142 billion Euros (Allen, 2000: p. 258).

Negotiators from the CEEC's have insisted upon the principal of “equal treatment”. Whether or not they will be able to achieve this goal remains unclear. The EU is moving as rapidly as possible toward the completion of its proposal for the next Framework Agreement for the period 2007–2013. The total proposed budgetary allocation for the SCF's was published on February 10th, 2004 at least 3 months prior to the official date of entry into the European Union. While this agreement does not set the distributions for individual countries, it fixes the overall share of EU funding devoted to the SCF's prior to the date of actual membership.⁴¹ The allocations represent only minor increases over previous amounts (see *Table 5*). A 10% increase as of 2007 (the year in which Bulgaria and Romania are scheduled to join), and by much smaller amounts in following years (presumably about equal to the rate of inflation). Expressed in per-capita terms however, the amounts remain almost constant, 0.26 Euros per person in 2006, and 0.27 Euros per person in 2007. From 2007 to 2013 per capita expenditures slowly rise to 0.32 Euros per person, though again inflation is likely to wipe out these gains. However, these amounts should be placed in the context of the European Commission's *Third Report on Economic and Social Cohesion*. According to this report, with the accession of Bulgaria and Romania the size of the EU population living below 75% of the EU average will more

⁴⁰ All summits can potentially lead to new arrangements or to the amending of old arrangements. And this did happen at the December 2002 Copenhagen Summit. All of the candidate countries were able to bargain additional lump-sum payments to ensure they would not be net contributors to the EU budget. However, these sums do not resolve any of the inequities noted above.

⁴¹ See “Building our Common Future: Financial and Political Outlook for the Enlarged Union 2007–2013”, (COM(2004) 101 final).

Table 5
Proposed EU Expenditures on Structural and Cohesion
Funds 2006-2013

	Total Appropriations	Percent Increase	Estimated Population	Per Capita Appropriations
2006	120,688,000		459,069,367	0.26
2007	133,560,000	10.7	489,194,290	0.27
2008	138,700,000	3.8	490,157,736	0.28
2009	143,140,000	3.2	491,125,055	0.29
2010	146,670,000	2.5	492,096,247	0.30
2011	150,200,000	2.4	493,071,313	0.30
2012	154,315,000	2.7	494,050,251	0.31
2013	158,450,000	2.7	495,033,061	0.32

Source: Own calculations based on Appropriations data from "Building Our Common Future" (COM(2004) 101 final: p. 29) and population data from Eurostat Online NewCronos data (http://europa.eu.int/comm/eurostat/newcronos/reference/display.do?screen=welcomeref&open=/&product=EU_general_statistics&depth=1&language=en).

than double from 73 to over 153 million (European Commission, 2004: pp. ix-x).

Again the CEEC's may be left with little bargaining room for almost the next decade (or until work begins on the following Framework Agreement). However, the final version of the Framework Agreement will most likely be decided at the December 2006 Summit. At this summit, the NMS's will have full voting rights and may potentially have more significant voting powers. Given that multi-annual Framework Agreements are approved by unanimity – likewise the rule under the new *Constitutional Treaty* – this would give each of the NMS's the right to veto unsatisfactory outcomes. However, each of the OMS's likewise has a veto. This may ultimately mean that the NMS's would not have significant voting power on this agreement.

3.3. The Direct Costs of EU Membership

The direct costs of EU membership are still being calculated. Many of the CEEC's did not have a very good idea of the total costs of full compliance with the *aquis communautaires*. Even though the actual membership negotiations were completed and the time for negotiating transitional periods had passed, in some areas general cost assessments were still being completed in 2003.⁴² While this is not true for all EU policy areas – several esti-

mates exist for environmental policy – even completed assessments may still yield surprises and unexpected costs further down the line.

Budgetary constraints on the NMS's arising from EU membership are likely to be significant. Over the period 1997–2003, the average annual budget deficit in these states was -3.7% of GDP (see *Table 6*). In June 2004, the European Commission noted that 6 of the 10 NMS's (Cyprus, the Czech Republic, Hungary, Malta, Poland and Slovakia) had *excessive budget deficits* and urged them to bring their budgets into compliance with the EU Stability Pact (Euractiv.com, June 25, 2004). Apart from Cyprus and Malta, the states with the

⁴² For example, in Hungary, work was being completed on cost assessments for the adoption of EU health and work safety regulations in the summer of 2003 with an expected completion date of fall, 2003. On the other hand, in the agricultural sector, according to officials at the Ministry of Agriculture, little was known about the potential costs of directives relating to veterinary and phytosanitary conditions and animal welfare in the summer of 2003. Likewise, despite the fact that Hungary expected to complete the introduction of EU compatible legislation in fall 2003, at that time very little had been done to estimate the full cost of liberalization in the telecommunications sector.

Table 6
Budget Deficit as Share of GDP
(1997–2003)

	1997	1998	1999	2000	2001	2002	2003
Bulgaria	-0.3	1.7	0.4	-0.5	0.2	-0.8	-0.1
Cyprus		-4.9	-4.5	-2.4	-2.4	-4.6	-6.3
Czech Republic	-2.6	-4.5	-3.7	-4.5	-6.4	-6.4	-12.9
Estonia	2	-0.4	-4	-0.3	0.3	1.8	2.6
Hungary	-6.8	-8	-5.6	-3	-4.4	-9.3	-5.9
Lithuania	-1.1	-3	-5.7	-2.6	-2.1	-1.4	-1.7
Latvia		-0.7	-5.3	-2.7	-1.6	-2.7	-1.8
Malta	-10.7	-10.8	-7.6	-6.5	-6.4	-5.7	-9.7
Poland	-4	-2.1	-1.4	-1.8	-3.5	-3.6	-4.1
Romania	-4.5	-3.2	-4.5	-4.4	-3.5	-2	-2
Slovenia		-2.2	-2.1	-3	-2.7	-1.9	-1.8
Slovakia	-5.5	-4.7	-6.4	-12.3	-6	-5.7	-3.6

Source: Eurostat Structural Indicators

highest budget deficits in were the Czech Republic, Hungary and Poland (-12.9%, -5.9% and -4.1% respectively). While the level of public debt in the NMS's is substantially higher, the total sums remain well in line with the Economic and Monetary Union's (EMU) 60% of GDP convergence criterion. The EU average in 2001 was twice as high as that in the NMS's. The average public debt position of OMS's at the time of their entry into EMU was significantly higher.

The range of costs that the NMS's are likely to face in the coming years is considerable. Of these, environmental compliance costs are likely to be among the most exorbitant. Continued costs result also from the ongoing process of legal harmonization, implementation and enforcement, as well as from the costs of complying with EU regulatory requirements. Additional costs will arise in the agricultural sector – in particular with respect to veterinary matters, hygiene, animal-welfare, environmental factors, and phytosanitary conditions, as well as from “topping-up” EU direct payments.

Many features of *acquis* adaptation involve high costs. In the transport sector, for example, one EU regulation requires that NMS roads have a weight-

bearing capacity of 11.5 tons, compared to the slightly lower limit in some CEEC's. Hungarian roads – apart from those built since 1989 – typically have a weight-bearing capacity of 10 tons.⁴³ Additional expenditures will result from the continued building of highways for the Trans-European Networks program (TENS). The railway systems in all countries likewise require significant investments to make them conform to EU standards. While most NMS's have received transition periods

in sectors where the expected costs of compliance are high, the NMS's must still finance the lion's share of these costs out of state budgets.

The environmental chapter of the EU membership agreement represents one of the most costly agreements. Estimates of the total cost of environmental protection have varied significantly. More recent estimates have dropped by some 50%, though many of the actual costs are still unknown. *Table 7* provides data on the total estimated costs of compliance as a share of GDP. Estonia is the most serious case, where cost estimates attain some 70.4% of 2001 GDP. This estimate is followed by Bulgaria with 56.5%, and Romania with 49% of 2001 GDP. Figures for a number of countries, in particular Slovenia, Lithuania and the Czech Republic, are less daunting.

Based on an estimate of annual government expenditure (1% of GDP) and on annual growth rates of 3%, it would still take the Czech Republic some

⁴³ New highways built in Hungary since the beginning of the transition process have all incorporated the higher European standard and do not require reconstruction. The Czech Republic, on the other hand, does not have the same problem with its roads, though it still faces other problems connecting highways to the system of Trans-European Networks (TENS).

Table 7
Total Costs of Compliance as a Share of GDP and
Total Number Years to Achieve Compliance

	GDP Billions of Euros (2001)	Environmental Compliance Cost Estimates Billions of Euros	Cost as Share of 2001 GDP	Number Years Required for Compliance
Czech Republic	68.189	6.6-9.4	9.7-13.8%	9-12
Estonia	6.257	4.406	70.4%	39
Cyprus	10.205	1.086	10.6%	10
Latvia	8.593	1.48-2.36	17.2-27.5%	15-21
Lithuania	13.259	1.600	12.1%	11
Hungary	57.873	4.12-10	7.1-17.3%	7-15
Malta	4.349	0.130	3.0%	3
Poland	207.126	22.1-42.8	10.7-20.7%	10-17
Slovenia	21.746	2.430	11.2%	10
Slovakia	23.322	4.809	20.6%	17
Bulgaria	15.250	8.610	56.5%	34
Romania	44.887	22.000	49.0%	31

Source: The GDP data are from Eurostat's website, compliance costs estimates from DANCEE (2001). I have based the calculations of the number of years required for compliance on the following assumptions: annual environmental expenditures of 1% of GDP and an average annual growth rate of 3%.

9-12 years to cover these estimated costs of compliance. For Estonia, Bulgaria and Romania, on the other hand, it will obviously take much longer. Finally, little attention has been paid to the significant diversion of resources that will occur as a result of the requirement to fulfil these regulations. As Ellison (2004) illustrates, given the favourable environmental improvements in CEE since 1989, the degree of urgency is questionable.

Given the above estimates and the amount of time needed to cover these costs, the rate at which the CEECs are expected to achieve compliance with EU environmental regulations is quite rapid. As illustrated in *Table 8*, the *latest* point in time at which any of the NMS's are expected to have successfully complied with individual regulations is in 2017 (for Poland and the large combustion plant directive). Most transitional periods end quite early. A few transitional periods end in 2015 for isolated countries, in particular for compliance with air pollution from large combustion plants and with the treatment of urban wastewater. All NMS's requested more and longer transitional periods than the EU was willing to grant (see *Table 8*). Latvia

(with 23 requests for transitional periods and 8 granted) and Poland (14 and 10 respectively) made the largest number of requests. While presumably not all of transitional requests were justified, compliance requirements will weigh heavily on both public and private expenditures and ultimately competitiveness.⁴⁴

Most of the CEECs likewise envision EMU membership in the not too distant future. Estonia, Lithuania and Slovenia, for example, envision EMU membership in January, 2007. Poland hopes to join by 2009, and Hungary and the Czech Republic are currently pursuing EMU membership by 2010.⁴⁵ The EU Accession Treaty obligates the NMS's to become members of the EMU, though no specific dates are set. Thus,

⁴⁴ For a more detailed analysis of the costs and complications likely to arise as a result of EU accession, see Ellison (2004).

⁴⁵ All data has been taken from www.Euractiv.com ("Adopting the Euro in the NMS's", Feb. 11, 2005). However, future revisions of these dates are not unlikely. Hungary, for example, previously announced 2008 as its deadline for EMU membership. Due to Hungary's current budget deficit problems, 2010 now appears a more likely date of entry.

Table 8
Transitional Periods for Compliance with EU Environmental Regulations

Sector/Directive	Bulgaria		Cyprus		Czech Republic		Estonia		Hungary		Latvia		Lithuania		Malta		Poland		Romania		Slovakia		Slovenia		
	Jul-01	Open	Dec-99	Dec-02	Dec-99	Dec-02	Dec-99	Dec-02	Dec-99	Dec-02	Mar-01	Dec-02	Nov-00	Dec-02	Jun-01	Dec-02	Dec-99	Dec-02	Mar-02	Open	Mar-01	Dec-02	Dec-99	Dec-02	
	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested	Granted	Re-quested
Emissions of VOC from storage of petrol	2010		2004				2007	2006			2009	2008	2010	2007	2005	2004	2009	2005	2010		2010	2007			
Sulphur content of certain liquid fuels	2010		2004	1 year derogation							2004			2006			2009	2006					2004		
Limitation of Emissions of AIR QUALITY VOC	2012										to be specified								2015		2010				
Incineration of hazardous waste									2005	2005	2004										2006	2006			
PCB/PCT			2010								2004														
Waste																	2012								
Hazardous waste											2004						2012								
Packaging and packaging waste	2012		2005	2005	2005	2005			2005	2005	2015	2007	2010	2006	2006 + special provision	2007	2007	2007	2010			2007	2007	2007	
Shipment of waste																	2012	2007							
Disposal of oil waste											2004						2005								
End-of life vehicles											to be specified														
Incineration of waste																			2010						
Landfill of oil shale							2009																		
WASTE MANAGEMENT Landfill of waste	2015										2015	2004	2015					2012	2017						
Treatment of urban waste water	2015		to be specified	2012	2010	2010	2010	2010	2015	2015	2015	2015	2015	2009	2009	2007	2015	2015	2022		2015	2015	2015	2015	
Protection of waters against pollution caused by nitrates from agricultural resources					2005			2008			2010		2011				2010		2014		2008				

Sector/Directive	Bulgaria		Cyprus		Czech Republic		Estonia		Hungary		Latvia		Lithuania		Malta		Poland		Romania		Slovakia		Slovenia	
	Jul-01	Open	Dec-99	Dec-02	Dec-99	Dec-02	Dec-99	Dec-02	Dec-99	Dec-02	Mar-01	Dec-02	Nov-00	Dec-02	Jun-01	Dec-02	Dec-99	Dec-02	Mar-02	Open	Mar-01	Dec-02	Dec-99	Dec-02
	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted	Re- requested	Granted
Discharges of dangerous substances into aquatic environment	2011				to be specified by 1999		2006		2009		2010				2009	2007	to be specified	2007	2015		to be specified	2006		
Quality of bathing water											2008													
Quality of water intended for human consumption					2006		2013	2013			2015	2015	2015		2006	2005			2022		2008			
Quality of surface water intended for the abstraction of drinking water																	2010							
Ground water directive							2006		2007		2010													
WATER QUALITY											2005													
Quality of fresh waters											2005													
Conservation of natural habitats and of wild fauna and flora					2005						2010		2010											
Conservation of wild birds					2005		2010				2010		2010		special provision	2008								
Integrated pollution prevention and control	2012		2004		2012				2007		2015	2010			2004		2010	2010	2015		2011	2011	2011	2011
Air pollution from large combustion plants				special provisions		2007		2015	2004	2004	2008			2015	2006	2005		2017	2012		2010	2007		
Substances that deplete the ozone layer														Special provision		2006								
Storage of asbestos waste											2004	2004												
Health protect. of individuals against ionising radiation in OTHER relation to medic. exposure											2005	2005					2006	2006						
Total # Derogations:	8	n.a.	6	4	8	3	7	5	7	4	23	8	8	4	10	7	14	10	11	n.a.	9	7	4	3

this requirement represents a “soft” constraint. Nonetheless, it is clearly in the interest of the OMS’s to see that the CEEC’s are firmly integrated into the EMU framework as rapidly as possible. This would remove any potential for the NMS’s to use devaluations as a means of promoting exports and reducing the flow of imports.⁴⁶ Moreover, it is clearly in the interest of Old Member State firms to eliminate currency fluctuations that disrupt vertical integration (or “international production”) networks with CEE.

It is less obvious why the NMS’s would rapidly pursue membership in EMU. For one, the 3% budget deficit threshold established by the convergence criteria and the Stability and Growth Pact represents a significant barrier given the high costs of compliance of EU membership. This goal is likely to generate considerable conflict between the compliance costs of EU directives on the one hand and demands that the CEEC governments provide financial support for economic restructuring on the other. As noted above, the EMU Stability Pact requirement already enables the European Commission to place pressure on the CEEC’s to reduce expenditures, further heightening the degree of financial tension. On the other hand, economic competitiveness goals might suggest that a postponement of this date along with the ability to pursue more export-friendly exchange rates is more clearly in their interest.⁴⁷

⁴⁶ Granted, the ability of states to take advantage of this option may be constrained by the free mobility of capital, the potential for currency speculation and the relative dependence on imports. But member state exporters expressed concerns that Central and East European governments could use this tool to boost exports and disadvantage the import prospects of member state goods. Currently China is perhaps most well known for its pursuit of such an export-promoting strategy through its peg to the US dollar. Judging by the degree of US frustration with this policy and Chinese resistance to change, China has benefited from this arrangement.

⁴⁷ This point is controversial. Others suggest that EMU membership would strengthen weak capital markets, reduce interest rates and reinforce the

Doubts persist about whether the NMS’s will be able to meet the transitional deadlines specified in the Accession Treaty. Several government officials expressed doubts about this. For one, the costs are quite formidable and for another CEE negotiators faced strong incentives due to competition with other applicant states to keep requested deadlines as short as possible. Interviewees suggested that compliance in the area of urban wastewater treatment and waste disposal, for example, is not likely even by the rather late transitional deadline of 2015.

4) WHO WINS AND WHO LOSES?

The above evidence suggests the enlargement has been structured in such a way as to either enhance the competitiveness of West European market structure or diminish the impact of market opening while virtually ignoring the consequences for economic development in CEE. This is not only true with regard to the distortionary structure of EU CAP and SCF expenditure discussed above, but also with regard to Western interests in the establishment of a *level playing field* and the protection of *sensitive sectors* discussed below. EU Member states and industry had a strong influence both on the requirement that CEEC’s adopt all elements of the *acquis communautaires* and on the creation of a “level playing field” based on the Western status quo.

Many have suggested that the West will gain far less from the enlargement than CEE.⁴⁸ One commonly used indica-

already high degree of trade integration (see for example De Grauwe and Schnabl, 2004).

⁴⁸ Schimmelfennig (2001) and to a lesser degree Moravcsik and Vachudova (2003) clearly suggest that the OMS’s have far less to gain from the enlargement than the NMS’s.

tor is the relative gains from trade for each region. Western Europe's trade with CEE comprises a small share of total West European trade. While EU member state exports to this region have almost tripled since 1992 (from approximately 5.4% of total trade in 1992 – the first year in which there are complete trade figures available for all of the CEE candidate states – to 14.6% in 2003),⁴⁹ this number pales in comparison to the share of CEE trade with EU member states. The average share of CEEC world trade was 67.1% in 2003.⁵⁰ Based on this statistic, the CEEC's are often said to gain the most from membership in the European Union.

There are, however at least two important caveats to this point. First, as Schimmelfennig notes, member states that share borders with CEE trade far more heavily with this region than other states. Germany for example is responsible for just less than half of EU exports toward CEE, Italy for over 16%, Austria for almost 9%, and France for over 7% (Schimmelfennig, 2001: p. 51). Thus particular Western states have very strong interests in cementing trading relations with CEE and diverting some CEEC trade from other parts of the world.⁵¹

Second, a very significant share of CEE exports toward EU member states originates from *foreign investment enterprises* (FIE's). The FIE share of manufacturing exports in 1996, was 73.9% in Hungary, 42% in the Czech Republic,

and 25.8% in Slovenia (Hunya, 2000: p. 114). By 2001, these figures rose to 87.9% for Hungary, 69.3% for the Czech Republic, and 36.8% for Slovenia (Hunya, 2004: p. 15). The FIE share of 1996 manufacturing production, was 61.4% in Hungary, 22.6% in the Czech Republic, 21.6% in Slovakia and 19.6% in Slovenia (Hunya, 2000: p. 119). By 2001 this rose to 72.5% for Hungary, 53.3% for the Czech Republic and 29.3% for Slovenia (Hunya, 2004: p. 15). FDI in CEE is likewise associated with an increase in both employment and productivity in Western firms (Ekholm, 2003). Finally, OMS firms export a steadily increasing share to CEE. Eurostat's *Statistics in Focus* (8/2001) designated the candidate states (including Cyprus, Malta and Turkey) as the second largest EU trading partner next to the US in the year 2000. This region likewise represents the fastest growing EU export region next to China. Over the period 1990-2003, export growth to the new member and candidate states averaged 13.4% per year (16.9% per year for exports to China), well above average growth in extra-EU exports (7.4%). Such measures greatly increase the economic and political weight of the region for Western Europe.

The original Association (or Europe) Agreements signed by each of the candidate states in the early 1990's set the future terms of trade between the EU and the CEEC's and were one of the first tools used to structure the accession process in the EU's favour.⁵² While occasionally seen as beneficial to the candidate states – these agreements did open up EU markets to some degree – they fell shy of being *liberal* trading arrangements. They provided for the protection of EU “sensitive sectors” (coal, steel, textiles and clothing) over a transition period of approximately 5 years (this time period varied from sector to

⁴⁹ Data for 2003 has been calculated on the basis of figures from the online Eurostat Comext database

(<http://fd.comext.eurostat.cec.eu.int/xtweb/>). Data for 1992 was calculated on the basis of data from the Eurostat Comext Trade database (Eurostat, 2003). The figures reported here exclude intra-EU exports from the total of world trade. Including intra-EU exports reduces the share of exports to the CEEC10 from 14.6% to 5.6% in 2003 and from 5.4% to 2.1% in 1992.

⁵⁰ This figure is again calculated on the basis of data from the online Eurostat Comext database.

⁵¹ The disruption of traditional trading ties between countries like Poland and the Ukraine has been a source of conflict and has led to significant losses on both sides of the border.

⁵² For much of what follows in this section, I draw upon previous published work (Ellison, 1999).

sector and from country to country). A somewhat longer transition period in these same economic sectors was granted to the CEE economies.⁵³ EU agricultural and food-processing sectors were granted full protection. The CEECs had, however, pursued immediate liberalization in all economic sectors, including textiles, steel, and agricultural goods (Meisel, 1995: p. 60).

On the other hand, agricultural markets were opened up almost immediately by the Association Agreement on the CEE side. Thus EU agricultural exports to CEE greatly increased, while EU imports of CEE agricultural goods remained more or less constant. This remains one of the most uneven exchanges to date and is difficult to explain in the context of improving market access for CEE goods. Moreover, this was problematic for the agricultural sectors of CEE. With the crash of the ruble in 1991, many of these countries lost their ability to export to Russian markets. Though CEE agricultural producers were searching for new markets, they were unable to find them in Western Europe.

The choice of strategies for the removal of trade barriers was likewise problematic. CEE negotiators reportedly copied some of the requests of the EU states and attempted to protect the same economic sectors. From a traditional comparative advantage approach to international trade, this strategy is difficult to understand. One would have expected the CEECs to protect those sectors that were most threatened by trade with the EU – in particular capital and skill-intensive sectors – and to pursue open trade in sectors where they likely had a comparative advantage. Thus, one might have expected to see demands for greater protection in more “technologically advanced” sectors where EU producers presumably had a strong advantage.

Where the CEE governments did impose protective barriers in more advanced sectors, this frequently protected EU producers in CEE. In this regard, CEE producers were poorly organized – producer or employer organizations were quite new due to the legacy of state ownership and the command economy and were typically unsuccessful at gaining representation of their interests from CEE governments. Western producers, on the other hand, were well organized and accustomed to dealing with both EU officials and foreign governments. They were reportedly better prepared for specific negotiations and were able to provide CEE governments with arguments that withstood the objections of EU authorities. Moreover, Western firms possessed what the CEECs desperately wanted, capital and technology. The result was that additional forms of market protection beyond the transitional periods noted above tended to benefit Western producers who had undertaken substantial investments in these countries.⁵⁴

Additional clauses in the Association Agreements likewise promoted Western firms at the expense of CEE interests. For one, protection of the EU’s sensitive sectors was porous in ways that benefited Western producers. Outward processing trade (OPT) agreements were permitted when Western firms submitted formal applications to the European Commission. Thus trade in the *sensitive sectors* was permitted when beneficial to Western producers and was otherwise restricted (Ellison, 1999: pp. 267–8). For another, the Association Agreements included clauses that restricted the use of state aids and granted the EU oversight rights to determine when such expenditures should be allowed (Cremona, 2003). The impact of this agreement was that attempts by CEECs to impose trade restrictions for competitive reasons were repeatedly rejected by EU authorities (Ellison, 1999: p. 266). Further, Western

⁵³ For an interesting discussion of these negotiations from a Central and East European perspective, see Meisel (1995).

⁵⁴ See for example Nagy (1994).

producers and trade unions actively promoted the creation of a “level playing field”. These organizations strongly advocated the elimination of potentially *market distorting* policies (such as state aids, competition policy, differences in environmental regulation, or potential differences in health and safety in the workplace and labour market protections).⁵⁵

Restrictions on the free movement of labour are further likely to benefit western labour. Economic analyses employing either conventional models or the tenets of the more recent endogenous growth and economic geography schools see the free movement of labour as one of the cornerstones of cross-country economic convergence.⁵⁶ In this regard, the 2+3+2 regulation on the free movement of labour permitting states to restrict labour market access for up to 7 years is likely to have a significant impact both on the CEE rate of increase in the standard of living, as well as on their degree of public satisfaction with EU membership. Again, in this context as well, the principal players were western trade union organizations – in particular in Germany and Austria.⁵⁷

Seen in the larger context of globalization, economic competition and economic restructuring – in particular as this relates to the interests of the Western member states – the role and importance of Western interests in the enlargement and the terms of the final membership agreement are more fully comprehensible. The Eastern enlargement fits neatly not only into a strategy of market expansion, but also into a strategy of controlling the evolution of markets and promoting OMS global competitiveness. CEE trade with Western Europe

has expanded and some of the rewards of this trade will accrue to CEE citizens as well. Still, two points are worth considering. First, it is not clear that EU membership is necessary in order to benefit from trade and economic growth.⁵⁸ And second, as suggested by the above analysis, the structure of the trade agreements favoured Western interests. These agreements and the Accession Treaty itself defended Western interests in establishing a “level playing field” based on the Western status quo and shifted the burden of adjustment onto CEE. The Association Agreements ultimately left industry, manufacturing and even the agricultural sector completely exposed to Western competition and technological know-how. In the long run, it is difficult to reconcile the market distorting features of the CAP and SCF arrangements with the impact accession and EU membership has had on CEE economic development and competitiveness.

4.1. Resolving the Imbalance

Many politicians and analysts suggest it is better to be inside and members of the European Union where states have voting rights and can influence the political process than to be outside and unable to impact the decision-making process. There is possibly some merit to this argument. Non-tariff barriers can easily be raised to discriminate against CEE trade, for example, through the creation of standards and regulations.⁵⁹ On the other hand, the costs of EU membership are so high and the poten-

⁵⁵ On EU social policy and environmental regulations, see Ellison, 2001b: Ch. 5. On state aids and competition policy, see Ellison (2005).

⁵⁶ On more conventional models, see in particular Williamson (1997, 1996). On models that rely on economic geography and economies of scale, see Martin (2003).

⁵⁷ See for example Ellison (2001b: Ch. 5) and Bohle and Husz (2003).

⁵⁸ Based on an analysis of a panel dataset covering the period 1960–2000, Ellison and Hussain (2003) suggest that the rate of economic growth in the old cohesion countries might have been higher – to the tune of some 2% per annum – had they remained outside the EU.

⁵⁹ I am indebted here to discussions with Dan Marek.

tial gains so uncertain that membership may involve greater tradeoffs than these countries intend to make. Though these points are controversial, a complete accounting of the potential benefits of EU membership must consider the potential for CEE politicians to resolve the discrimination gap from within.

Three components of the revised decision-making procedures in the Council of Ministers (CoM) introduced with the *Nice* and the new *Constitutional Treaty*⁶⁰ are important here. For one, as commonly noted, the 2000 Nice Summit – intended to complete the institutional reforms necessary for the enlargement – shifted the decision-making balance toward the larger states. Amid concerns that a large number of new small member states (Poland, with a population similar to that of Spain, and Romania are the only exceptions) would shift the balance toward the small states, the larger states pushed for a re-weighting of votes to ensure the center of gravity of the large state vote. The result – opposed by many of the smaller EU states – reduced the voting shares of smaller states.

The second component of the revised decision-making procedure is potentially far more devastating to the interests of the CEEC's. The Nice *triple majority* rule requires that countries encompassing more than 62% of the EU population support any given decision placed before the CoM.⁶¹ Though this voting rule must be *invoked*, any group of states encompassing 39% or more of the EU's population can effectively form a blocking minority. This clause permits 3 large states, or 2 large states and one

medium-sized state (for example Germany, France and a country the size of Spain or Poland) to act as a *centre of gravity* in the New Europe (see *Table 9*). This new wrinkle in CoM voting effectively preserves the blocking minority under the old QMV (qualified majority of votes) system. Under the rules established with the Single European Act (1987), 3 large states, or 2 large states and one medium-sized state (for example Germany, France and a country the size of Spain or larger) could likewise block any decision before the CoM.

The *Constitutional Treaty*⁶² hardly changes this fact. While QMV – in its current form – has been dispensed with, it has been replaced by a population rule requiring support from countries representing 65% of the EU population. The wording in the *Constitutional Treaty* requires at least 4 member states in order to form a blocking minority.⁶³ Thus 2 large states, 1 large or medium-sized state (Poland or Spain would both qualify) and any 4th state have the power to block decisions in the CoM – an important victory for Poland and Spain.⁶⁴ At the same time, this decision preserves the veto power of the large member states, requiring only two additional states (including at least one large or medium-

⁶⁰ While the Constitutional Treaty has so far been rejected by France and the Netherlands and may be rejected by other states as well, it still provides a relevant framework for analysis on the possible future shape of EU institutional reform.

⁶¹ The *triple majority rule* requires a qualified majority of states (QMV), a simple majority of voting states, and states representing 62% of the EU population.

⁶² *Provisional Consolidated Version of the Draft Treaty Establishing a Constitution for Europe* (June, 2004: p. 61)

⁶³ The Draft Constitution defines a blocking minority as including either 4 states (in most general cases) or as including: “at least the minimum number of Council members representing more than 35% of the population of the participating member states, *plus one member...*”, (my emphasis) *Provisional Consolidated Version of the Draft Treaty Establishing a Constitution for Europe* (June, 2004: pp. 31, 50, 61, 127, 131, 132, 141, etc.).

⁶⁴ Neither Spain nor Poland would have been able to play the same role under the first draft proposal of the *Constitutional Treaty*. While 3 large states could have formed a blocking minority, it would not have been possible for 2 large states and either Poland or Spain to form a block minority. This, however, was possible for Spain and Poland under the terms of the Nice Treaty. Both of these states complained bitterly about their potential loss of voting power under the first draft of the *Constitutional Treaty*.

Table 9
Change in Veto Powers in Council of Ministers

Country	Pop vote shares in EU Constitution (EU27)	Pop vote shares in EU Constitution (EU25)	Pop vote shares in Nice Treaty (EU25)	Pop vote shares in Nice Treaty (EU15)	Weighted Council Votes EU15	Weighted Council Votes EU12
Veto Point	35%+1 State	35%+1 State	39%	39%	26/87	23/76
Germany	17.0%	18.1%	18.2%	21.8%	10	10
UK	12.3%	13.1%	13.2%	15.8%	10	10
France	12.2%	12.9%	13.0%	15.6%	10	10
Italy	11.9%	12.7%	12.8%	15.3%	10	10
Spain	8.2%	8.8%	8.8%	10.6%	8	8
Netherlands	3.3%	3.5%	3.5%	4.2%	5	5
Greece	2.2%	2.3%	2.3%	2.8%	5	5
Belgium	2.1%	2.3%	2.3%	2.7%	5	5
Portugal	2.1%	2.2%	2.3%	2.7%	5	5
Sweden	1.8%	2.0%	2.0%	2.4%	4	
Austria	1.7%	1.8%	1.8%	2.2%	4	
Denmark	1.1%	1.2%	1.2%	1.4%	3	3
Finland	1.1%	1.1%	1.1%	1.4%	3	
Ireland	0.8%	0.8%	0.8%	1.0%	3	3
Luxembourg	0.1%	0.1%	0.1%	0.1%	2	2
Poland	8.0%	8.5%	8.6%			
Romania	4.6%					
Czech Republic	2.1%	2.3%	2.3%			
Hungary	2.1%	2.3%	2.3%			
Bulgaria	1.7%					
Slovakia	1.1%	1.2%	1.2%			
Lithuania	0.8%	0.8%	0.8%			
Latvia	0.5%	0.5%	0.5%			
Slovenia	0.4%	0.4%	0.4%			
Estonia	0.3%	0.3%	0.3%			
Cyprus	0.1%	0.2%	0.2%			
Malta	0.1%	0.1%	0.1%			

Source: Calculated on basis of 2000 population data for the Nice and previous Treaties, and 2003 population data for EU Constitution. Population data taken from Eurostat Long-Term Indicators website.

sized state) in order to act as a blocking minority.

Any potential veto powers the CEEC's might have had as a group under the current system of weighted QMV will be eliminated with the introduction of the *Constitutional Treaty*. Under the Nice system, a blocking minority can be put together with states representing 90 out of 321 votes. In an EU of 27 members, the required number of votes changes to 88 out of 345. In an EU of 25 members, the CEEC's can form a coalition of 77 votes. In an EU of 27

members, they will be able to put together a coalition of 101 votes. Thus, the CEEC's will only constitute an effective blocking majority once Romania and Bulgaria have joined (in 2007). Should the *Constitutional Treaty* go into effect, the principal tool for forming a blocking minority will become the population rule. Under the population rule and the 35% + 1 state threshold, the CEEC's will only make up 16% (EU25) or 22% (EU27) of the EU population, effectively removing any veto power they might have had.

The third component of the revised decision-making rules is the introduction of “enhanced cooperation”, a part of the Treaty since Amsterdam and modified with the Nice and *Constitutional Treaties*. The principal change has been the reduction in the share of states required to undertake “enhanced cooperation”. The Amsterdam Treaty required that 50% or more of the Member States would have to agree. The Nice Treaty made it possible for a group of 8 or more states to engage in further policy integration without the participation of other EU Member states. While this represented one more than half of the Member States at the time of its introduction, the entry of 10 NMS’s (for which the Nice Treaty was meant to prepare the way) 8 or more Member States would have been considerably less than half. With the advent of the *Constitutional Treaty*, only 1/3rd of Member states are required (Art. III-325), making it possible for as few as 9 or more states to move forward with further policy deepening. The CoM, however, retains the right to approve enhanced cooperation by unanimity, making it possible for other Member States to slow down or stop this process.

The ability of individual or less powerful states to get specific agendas through the CoM has traditionally depended either on national vetoes and/or on the *linkage* of individual objectives with larger Treaty-related projects where unanimity voting was required. Thus, significant increases, for example, in the SCF’s were achieved along with the introduction the Single European Act in 1987 and the Maastricht Treaty in 1992. And France or Spain’s ability to control adjustments of the CAP or the SCF’s (respectively) in the enlargement process has been strengthened by their insistence on the right to veto decisions that diverge from their interests.

The *Constitutional Treaty* contains important features likely to affect the future decision-making power of these states. First, few national vetoes are in-

cluded and unanimity voting has been reduced. However, this is not true for the quintessential multi-annual Framework Agreements on the CAP and the SCF’s, for which unanimity has been preserved. Second, all future voting in the CoM is likely to be done on the basis of the new Double Majority rule (a 55% majority of states – a minimum of 15 Member states – and the 65% population rule noted above). Third, enhanced cooperation may free states interested in further policy deepening from the attempts of politically weaker states to extract *side-payments* or other concessions.

At least three important conclusions can be drawn from this analysis. First, the *center of gravity* established with previous Treaties may permit states such as Germany, France and the UK – given agreement on any single issue – to retain control over attempts to modify the EU policy mix. Second, Poland and Spain may both have gained a place of prominence in the New Europe. Both Spain and Poland can individually play the role of potential allies of the larger states and vote along with them on issues in exchange for concessions on points dear to either country.⁶⁵ Third, the unanimity voting rule on multi-annual Framework Agreements potentially strengthens the CEEC’s. But the may be outweighed by the weakening of *linkage* and the relative power of the large OMS’s.

As a consequence, once inside the EU, the CEEC’s may have little opportunity to resolve the imbalance written into the membership contract. The *center of gravity* preserved by the population clause may effectively limit the power of the CEEC’s to pursue changes to the EU

⁶⁵ There are already prominent examples of this occurring. For one, in the context of negotiations over the *Constitutional Treaty*, Poland allied with Spain and delayed the final agreement. For another, Poland exercised its influence during the 2000 Intergovernmental Conference in Nice (Baun and Marek, 2001). Spain, on the other hand, has long attempted to exercise considerable power over the distribution of SCF’s and has resisted giving up its “national veto” in this area.

policy mix not supported by the old large Member States. The CEEC's are likely to be most effective only on issues that divide the larger states. The two policy areas that are presumably the most important to the CEEC's are the CAP and the SCF's. These two policy areas make up the lion's share of the EU budgetary expenditures and the CEEC's hope to be among the principal beneficiaries of these policies.

On the CAP, France and Germany have frequently sided with each other, though more recently this consensus has occasionally broken down. In the long run, France's interest in the CAP may ultimately be more in line with many Southern states (in particular Spain, Portugal and Greece), as well as some of the new CEEC's (Hungary, like France is an important producer of cereals). German farmers have typically not supported reforms of the CAP, but the confluence of World Trade Organization (WTO) negotiations and CAP excesses may well have encouraged German industry to lobby for CAP reform. This constellation is likely to leave Germany and the UK looking for allies, but building blocking minorities may be difficult. The other two large countries (France and Italy) and the two medium-sized countries (Spain and Poland) will presumably favour CAP policies. Leveraging significant reversals of CAP policy may thus prove difficult.

On the SCF's, Germany and France have more traditionally been on the side of limiting increases in expenditure. Germany, as the major net contributor to the EU budget (along with the UK, the Netherlands, Austria and Sweden), has typically resisted increased SCF spending. France, not being a major recipient of EU SCF's, is more likely to side with Germany than with Ireland, Greece, Spain and Portugal. However, the reunification of East and West Germany in 1991 altered this power configuration, leading Germany to favour reductions in CAP and increases in SCF funding. In

this regard, there are potential points of contact between Germany, current SCF recipients and the NMS's. However, if the old cohesion countries lose previous levels of funding, they may begin to side with countries favouring reduced expenditure. In this case, the balance may tend to favour continued reductions. Failure to reach an agreement on the SCF's will lead to a continuation of the existing regime. This greatly strengthens the bargaining position of the Old cohesion countries.⁶⁶

Thus, unanimity voting over the multi-annual Framework Agreements and possibly the modification of the population rule in the second draft of the *Constitutional Treaty* may potentially favour the CEEC's. But unanimity likewise enables states such as Germany or Spain to veto decisions that do not reflect their interests on the SCF's. The same is true with France and the CAP. Thus the OMS's – and in particular the large and possibly the medium-sized Member States – may still be well positioned to act as a *center of gravity* in a Europe of 25 (or 27) Member States. With *enhanced cooperation* and the potential loss of *linkage*, the core states may be well positioned to promote policy deepening without pressures from the NMS's. This may suggest that the CEEC's will be unable to initiate significant change in the near future.

CONCLUSION

The interests of states – and groups within those states – clearly drive the negotiation process and find clear expression in the final terms of the EU membership agreement. In addition, the

⁶⁶ Article 273 of the Nice Treaty establishes that expenditures may be made based on the old expenditure regime when no decision has been reached.

relative bargaining power of states, their overall weight in the decision-making process, as well as the relative importance of the final outcomes and the potential costs of exclusion – all contribute to the ability of states to pursue particularist agendas and to guarantee economic gains from participation in the EU. Bluntly put, the ability of the OMS's to design and manage the process of EU enlargement/membership has led to a less than ideal outcome for the NMS's. They have been obliged to accept given their relative lack of bargaining power, the degree of competition among them, their general fear of being excluded from the final agreement and the hope of being able to influence decision-making from within rather than without.

With respect to both the CAP and the SCF's, at best the CEEC's have emerged as marginal net winners. By imposing direct payments ceilings and quotas likely to be forced downward in coming years, the enlargement CAP regime may effectively protect EU producers from CEE competition – at least in those agricultural goods *regulated* by the CAP – for the next decade. Moreover, while the EU generally opposes market distortions, it goes unnoticed that East-West differentials in agricultural support *lock in* market distortions favouring the West until 2013 and possibly beyond. The EU Accession Treaty *locks in* direct payment ceilings and quotas for the next decade that are frequently well below Western averages. While at one point CEE farmers may have relished the opportunity to compete in Western markets and expand market shares, such hopes will likely be dashed against the firm protectionist rock that is the CAP.

The impact of SCF's policy in CEE is likely to be similar. An analysis of the distribution of EU SCF's for the period 2004–2006 reveals a significant *discrimination gap* between Eastern and Western Europe. Western states (in particular Greece, Ireland, Portugal and Spain) receive far more and the CEEC's far less

than they should. While pouring large amounts of funding into CEE might overburden existing administrative institutions (that do have difficulties distributing such funding), lead to higher rates of inflation, or overburden CEE budgets with EU co-financing requirements, such arguments neglect the distortionary effects of higher per capita SCF expenditures in Western Europe. And little mention is made in this context of the massive investments EU environmental legislation will require, or the potential benefits to economic restructuring that higher CEE transfers could bring.

The accession process has effectively been structured in a way that favours Western interests over those of CEE. Frequently, these interests are couched in terms that suggest the CEEC's, by adopting Western institutions, market practices and engaging in trade with the West, will be the clear winners from the enlargement. Such terms disguise however ways in which Western interests are suffused with EU policy requirements. In this regard, the Association Agreements and the EU Accession Treaty have *locked in* an arrangement that reflects Western status quo interests and virtually ignores CEE interests. Whether this arrangement will generate the positive externalities predicted by some analysts remains uncertain. Voting procedures in the European Union will likely make significant change favouring CEE exceedingly difficult. The introduction of the population rule and its likely strengthening and revision in the *Constitutional Treaty* is likely to *lock in* a powerful status quo bias for years to come.

Important theoretical and policy implications can be drawn from the above analysis. In theoretical terms, this analysis weakens claims that EU enlargement has been propelled forward by a sense of “community values” or the logic of pareto-optimality noted above. Second this analysis begins to resolve current deficiencies in intergovernmental interpretations of the enlargement. With

respect to policy implications, this analysis is focused on issues likely to dominate EU politics for the next decade and beyond. Where there are considerable inequalities in the treatment of NMS's and where these are driven by divergent interests in the policies and expected benefits of European integration, one can expect important debates for years to come.

The potential for the New and Old EU Member States to build a viable and stable economic and political framework for the 21st century will – in the long run – depend on their ability to manage the diverse interests of these many different states. If the EU political and economic framework is unable to do this successfully, it is even possible that some states will withdraw from the Union – Article I-59 of the *Provisional Consolidated Version of the Draft Treaty Establishing a Constitution for Europe* (June, 2004: p. 61) for the first time establishes this right and lays out the procedure states are required to follow. In this respect, studies detailing factors that propel a potential divergence of interests within the EU framework and suggest a potential roadmap for a more meaningful reconciliation are greatly needed.

One potential weakness herein is the difficulty in explaining the final decision to join the European Union. The inherent logic of the above argument – that potential CEEC gains have been whittled down by the ability of OMS's to structure the EU membership agreement in their favour – suggests there are few rewards for the NMS's. The degree of OMS success in this regard should give pause even to the casual reader of studies on European integration. But ultimately one is left to wonder why the NMS's were willing to accept the final agreement. There is a strong suggestion here in that the perception of gain may exceed the direct financial rewards of membership. Ultimately, in addition to the perception of economic gain, some of the more intangible benefits of EU mem-

bership may mean more to individuals than losses resulting from CEE incorporation into the EU marketplace and legislative framework. On balance, however, the degree of whittling down resolutely predicts these issues will return to vex the EU of 25, 27 and beyond.

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