

**Political, Economic and Social Arguments
in Favour and Against Enlargement:
A Survey of Influential Pressure Groups**

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Cooperation among two or more actors is always based on mutual benefits, even if these benefits are not evenly distributed in time and across sectors. A positive-sum-game is a major driving force of political agreements also. However, the nature of such business may be different from everyday practice. First, longer-term considerations used to play a more important role, since the desired impacts do not manifest themselves overnight. Second, some of the consequences (or, on the contrary, the avoiding of some consequences) can hardly be expressed in quantitative terms.

The history of European integration provides examples on both levels. On the one hand, it is "business as usual", on the other, over decades it has had a clear and overriding political message of uniting the continent in peace, stability and economic welfare.

This paper deals with some aspects of the real and potential costs and benefits of the next, so-called "Eastern" enlargement² of the European Union. The first chapter gives a short review of different interpretations of costs and benefits, followed by a chapter dedicated to gains and losses as expressed by influential pressure groups in the present member states of the EU. Chapter Three focuses on the emerging interests and fears in the relatively most advanced candidate countries which have started

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² For various reasons, "Eastern" is not the best attribute to the next enlargement. First, some present EU countries (Greece, Finland and partly Austria) are geographically more in the Eastern part of Europe than some candidate countries, notably the Czech Republic and Slovenia.

fundamental negotiations on accession to the EU. Chapter Four concludes and drafts some policy recommendations for the period until enlargement/accession.

I. Interpretations of Costs and Benefits³

Any change in a given system generates a redistribution of previously possessed positions. Although, in a strategic framework, decisions on changes are taken deliberately and in the conviction that the new situation will increase the level of general welfare. However, even the most careful planning is unable to guarantee that all actors involved will immediately gain from the changes. While the exercise is rightly expected to be a positive-sum-game, it is more difficult to create, from the very beginning, a clear win-win-scenario.

Positive-sum-games, in which benefits generated are obviously higher than costs incurred, characterizes overall macroeconomic thinking. A positive macro-balance based on higher growth and increasing welfare, however, cannot hide the fact that the generally positive framework consists of a number of partial imbalances.

First, benefits and losses do not spread evenly in space: some actors (countries, sectors, entrepreneurs) will be beneficiaries of a certain change while others will be worse off. Second, benefits and losses differ in time as well. Some actors may be beneficiaries from the very beginning, while other beneficiaries emerge after a certain time only. Third, direct and indirect impacts have to be distinguished. Some actors are immediately affected, either positively or negatively, by a given change,

³ For a more detailed analysis see: Bertelsmann Foundation Research Group on European Affairs (eds.) (1998), *Costs, Benefits and Chances of Eastern Enlargement for the European Union*. Bertelsmann Foundation Publishers, Gütersloh.

while others will feel the impacts with delay and in other, "indirect" areas of their activities.

Fourth, and more importantly, benefits and losses are never static. They are part and outcome of a constant change. Thus, short-term benefits may easily turn to long-term losses and short-term losses may become the fundament of long-term benefits. Also the map of potential winners and losers needs continuous observation, because, in a dynamic process, even the (relative) position of the strongest pressure groups is subject to modifications.

Fifth, the picture becomes extremely complicated once elements enter into the system that cannot be quantified. In fact, gains and losses in an international community of nation-states as the European Union, cannot be measured by short-term and economic criteria only. Security, political, social, psychological and other considerations may be at least as important as strictly economic factors.

There are two fundamental scenarios in which necessary changes cannot be supported by a direct, convincing and positive argument according to which the larger part of those to be affected will be an immediate winner. The first case is the well-known "negative approach" which argues that some painful changes are necessary in order to avoid an even worse situation. Interestingly, "damage limitation" or the identification of costs of not taking a given decision frequently creates much more support for progress and the implementation of policies than positive arguments used to.⁴ The second case is more the result of a "distorted perception" which, unfortunately, can easily increase the number of losers of a given change. Actors involved in a changing framework generally do not consider their situation

⁴ The arguments in favour of creating the internal market in the European Community in the eighties, did not work. However, substantial support could be generated by the Cecchini Report using the approach of the "costs of non-Europe".

as compared with their previous position but as measured to those with whom they were on the same level before changes started. In such a case, even if they are relative winners of the process, they feel losers.⁵

2. The Approach of the European Union towards Eastern Enlargement: Fears and Interests

The discussion about the costs and benefits of Eastern enlargement has started at the moment when the Copenhagen declaration of the European Council expressed the political will of the Union that "those countries which want so", may become members of the integration at a later, not yet defined time. As new and new steps were made in the last period towards accession/enlargement, also the discussion started to be more and more concrete. Today, with negotiations on accession with five East Central European countries⁶ well in progress, enlargement has been becoming a genuine, intrinsic part of the overall integration strategy.

Nevertheless, until most recently, cost-benefit-approach to Eastern enlargement was characterized by three main factors not or, at least not to this extent, present during previous enlargements.

First, all approaches after the opening up of Central and Eastern Europe were based on short term business considerations. The fall of the Berlin wall was understood as the defeat of the old and hostile system in the Eastern part of Europe, and obviously a

⁵ This has been a widespread consequence of transformation in Central and Eastern Europe. If all those who felt losers would have been **genuine** losers (in comparison with their previous position), social peace and political stability could have hardly been sustained in the region.

⁶ Czech Republic, Estonia, Hungary, Poland, Slovenia plus Cyprus (5+1 group).

victory of Western Europe (including democracy, market economy and European integration). While a collapse made transformation unavoidable, the (short-term?) winners got an extremely good argument while not to change their status quo. The rapid and partially unprepared liberalization of markets (trade, capital, privatization) offered unexpected and quick benefits to Western European companies, without making any effort to extend the integration umbrella to this region.⁷ If, rarely, a strategic idea emerged, it wanted to enhance even more the unilateral benefits of Western Europe. The French proposal to create a political and security community in Europe without any support to the economic modernization and catching up of the transforming countries, is the most telling example in this context.

Second, and partly following from the lack of strategic considerations, Eastern enlargement was perceived by large part of the Western European community (both business, politics and civil societies) as a threat and not as an opportunity. Certainly, if change is unavoidable, it is always easier to define the threats and eventual losses because they can be quantified without difficulty. In turn, benefits from changes are expected to mature in the longer term only and they remain potential until they materialize.

Threats and fears can be identified in four main areas:

- (a) security,
- (b) competitiveness,
- (c) redistribution of resources,
- (d) institutional changes in the EU decision-making process.

⁷ It has to be noted that Ireland, Greece, Portugal and Spain, all less developed members of the EU, liberalized their domestic markets at the moment of entering the EU, and in many cases with temporary exceptions. In turn, the associated countries have to open up their markets not only before membership but without any linkage between liberalization and membership.

To begin with, we have to stress that these threats and fears, although associated to the enlargement process, have more than one, and rather different roots, and, in some cases, have nothing to do with the proper enlargement.

(a) Security is understood in the widest sense, excluding the only decisive security threat of previous decades, the military one. Security considerations include migration, growing criminality, the stability of social contracts and values, and, not unimportantly, security of employment. There is no doubt that the elimination of bipolarity in Europe has created a completely new situation and borders became less divisive for international flow of persons, but more difficult to be controlled efficiently. However, it is mainly not citizens of the associated countries that can be blamed for the declining level of security (otherwise, the same process can be observed in the associated countries themselves). International migration, a not always wanted result of globalization is one element. In this context, the associated countries neighbouring the Schengen border of the EU are mostly transit states. It should not be overlooked that a large part of the growing perception of instability stems from the intrinsic (instinctive) fear of EU citizens of the consequences of their delayed social and economic modernization and of the lack of strategic thinking at the moment when transformation started in the historically less fortunate part of the continent. The more the "modernization pressure" is being accumulated, the higher this fear may be. The best example is perhaps the two-digit-level of EU unemployment (on the average). It has definitely nothing to do with Eastern enlargement, since the high level of unemployment is a reality, while Eastern enlargement is still a possibility. Even more, as we will argue with statistical data later, until now the enlargement (liberalization) process has made a substantive and net positive contribution to the Western European labour market (job creation and job keeping).

(b) Fear of growing competitiveness from Central (and to a lesser extent from Eastern) Europe is absolutely justified. Only there is nothing to be done against it, excepting the establishment of more competitive production in the EU itself. First, free trade with the associated countries has been decoupled from membership. Even if membership for some countries does not materialize in the foreseeable future or the whole process would be tried to be delayed (with extremely negative consequences for the entire continent), free trade can hardly be abolished. Second, competitiveness is not a par excellence Central/Eastern European issue but a global challenge. Third, rapidly growing competitiveness of some Central European countries and their quickly enhancing market shares in some EU markets are the direct consequence of transformation, privatization, social flexibility and, to a large extent, of the investment activities of EU companies that have discovered the region as a globally competitive place for international, and mainly European production.

(c) As a consequence of enlargement, the EU will integrate countries whose level of development, as measured in GDP per capita terms, is clearly below the present EU average.⁸ Therefore, a redistribution of EU resources is inevitable. But it fits very well into the double character of EU integration of being a market integration and a developmental integration at the

⁸ Although the difference between the EU average, and more importantly, between the less developed regions of the EU and the first-wave candidate countries is much less alarming than calculated some years ago. While in 1995 the first EU report on this issue stated that the ten applicant countries' average GDP per capita was about 25 per cent of that of the EU average, the latest report from November 1998 puts this figure to almost 40 per cent. Definitely, this difference cannot be explained by higher growth in Central and Eastern Europe only. Not even the gradual appreciation of the national currencies provides sufficient explanation. The new figures are based on a different and more correct methodology used by the Commission. According to the most recent figures, GDP per head in Slovenia is 68 per cent of EU average (Greece is at 69, the least developed Austrian state of Burgenland at 72 per cent). The average GDP per capita figure of the most advanced Central European countries is well above 50 per cent of the EU average.

same time. The example of Ireland, Spain and Portugal shows that their rapid catching-up process, based, among others, on EU transfers, has facilitated stability in the continent, it contributed to economic harmonization (all three countries are members of the EMU), and generated substantial business opportunities for richer member countries that used to be net contributors to the EU budget. As a result, costs and benefits, even in sheer economic terms, differ from those revealed by net benefits from and net contributions to the EU budget.

(d) Finally, institutional reforms within the EU are unavoidable even without enlargement. The decision-making process was not designed for 15 member countries, and particularly not for a changing relative weight between larger and smaller nation-states. Evidently, enlargement makes the present situation even more complicated but it also exerts a big pressure on further institutional reforms.⁹ Moreover, a new sharing of votes may be necessary, as four of the five first-wave applicant countries are small states by any EU standard (similarly to the remaining applicants). Therefore a new community-level balance has to be created between large, medium-size, small and smallest countries.

Third, a major difference in comparison with previous enlargements consists in the reaction of public opinion to the process of Eastern enlargement. While the entry of Greece, Spain or Portugal did not become a meaningful issue for public discussion, and remained in the realm of diplomacy, foreign policy and big business, Eastern enlargement has already filled all communication media.¹⁰ The problem is not the fact that the

⁹ However, according to the Amsterdam Treaty, the present institutional structure could survive until having not more than 20 countries. In this case, the five larger member countries have to give up a second position of commissioners, and all member countries would have one commissioner only. As a compensation, larger countries could get higher weight in other areas.

¹⁰ The last enlargement including Austria, Finland and Sweden did not emphasize the cost-benefit issue, because all three countries proved to be net contributors to the EU budget.

next enlargement is discussed in an unprecedentedly wide scope. To some extent, it could even be a welcome development, because it could identify benefits and costs at the right time, and thus, make more conscious use of benefits and avoid part of the potential costs. The problem is that the discussion has become, practically from the first moment on, dominated by a very distorted, short-sighted and unilateral approach. First, the whole issue was presented as if enlargement only brought costs for the EU and benefits for the newcomers. Second, it ignored that the process of enlargement unevenly distributes costs and benefits in time. A large part of benefits has already been enjoyed by the EU countries, while the most important benefits, linked to accession, are still expected by the candidate countries (at the same time, preparation for membership has already generated substantial costs). Third, the most vociferous critics against enlargement were registered in those EU member countries which have undoubtedly gained most from the ongoing process of liberalization and preparing for membership in the East Central European states (Austria, partly Germany). Fourth, the shaping of public opinion followed the outdated pattern of Western European shortsightedness. It did not place the Eastern enlargement into the context of overall European modernization and no argument was used how the next enlargement(s) of the Union could enhance the position of Europe in world politics and in the global marketplace. Fifth, overall communication provided bad service to the idea of enlargement by blaming this process for all the malaise, uncertainties, threats and losses in the present member countries. The fact that the mainly potential impacts of enlargement have not been differentiated from other and very real impacts generated either by global challenges or by EU- and national-level policy mistakes and domestic structural rigidities, may have already created a situation which has to be essentially changed, in order to reduce public resistance to the politically (and economically) inevitable enlargement of the European Union.

Turning to concrete fields of interests and counterinterests, it has to be underlined that, in case of a detailed analysis, the superficial view of classifying EU member countries in favour of or against enlargement cannot be accepted. Certainly, declarations on the highest political level are not irrelevant, but it is difficult and sometimes misleading to draw policy-relevant conclusions from such documents. In principle, all member countries agree that Eastern enlargement is both necessary and beneficial for the Union and also for the member states. Behind the curtain, all national opinions consist of and are based on a set of well-defined interests and counterinterests. Even the most evident supporters of the enlargement have to face internal resistance from various pressure groups. In turn, there are relevant pressure groups in favour of enlargement in those countries, as well, that were thought to get little benefit from the enlargement. Therefore, credible surveys should start from the bottom-line and look at concrete sectorial and regional interests and concerns, and only as a rather vague summary, try to come to nation-level conclusions, if necessary.

There are two main driving forces of enlargement: political considerations and economic gains. They cannot be separated from each other, because stability is necessary for good business prospects, while the latter is indispensable to sustain stability. However, political considerations are mainly formulated by governments, while longer-term business interests are represented by large, mainly transnational companies (both located in the EU or in other major economic centres of the world). Therefore, a profound cooperation between these two levels is necessary to overcome potential opposition to enlargement. In fact, the "big business" has already become the most powerful supporter of enlargement. We are unlike to be mistaken by stating that without this support negotiations on accession could have hardly been started. Even more, it is increasingly clear that it will be this factor that, on the

external side, will set the pace of enlargement and partly also the conditions of it.¹¹

In general, the EU economy was an evident beneficiary of the liberalization and adjustment process made by the candidate countries in the last years. Between 1992 and 1997 the EU generated an accumulated surplus of ECU 64 bn in trade with the ten associated countries of Central and Eastern Europe (within it ECU 60 bn with CEFTA countries¹² only). While, on the average, this region had a share of less than 10 per cent in the EU's total external exports, it generated 83 per cent of the EU's global trade surplus.¹³ Unfortunately and incorrectly, this gain has not been considered as part of the cost-benefit approach to Eastern enlargement. It is considered to be an automatic gain, a sustainable situation also for the future. If, however, the importing Central and Eastern European countries will not be able to keep financing this deficit, Western Europe's exports may decline.¹⁴ Unlike in the eighties and the early nineties, economic growth in the European Union is increasingly dependent on its export performance in Central and Eastern Europe. In the last years, this region proved to be by far the most dynamic

¹¹ Of course, the not yet known consequences of the Kosovo crisis may give a major role to political considerations. As a result, the enlargement process may be speeded up towards those applicant countries that are the relatively best prepared for early membership.

¹² Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

¹³ András Inotai (1998), *The Main Features and Current Trends in the European Union's Trade Relations with Hungary and the Ten Associated Countries, 1989-1997*. Institute for World Economics and National Committee for Technological Development, Budapest.

¹⁴ Big deficits for less developed countries arose also following the Spanish and Portuguese accession. However, in this case, trade liberalization was organically linked to access to EU transfers. Consequently, transfers covered part of the emerging trade deficit. This linkage, unfortunately, has not been created by the association agreements between the EU and the Central and Eastern European countries.

market for EU products (and services), and the only one keeping pace with the expansion of world trade. Between 1993 and 1998, total extraregional exports of the EU grew by 57 per cent or, on an average, about 10 per cent a year, while exports to the candidate countries experienced a growth of 157 per cent (or over 20 per cent a year). In 1998, 13.5 per cent of the EU's total external exports were marketed in Central and Eastern Europe. If we consider that about 10 per cent of the EU's GDP is exported to third countries, exports to the associated countries amount to 1.35 per cent of the EU's GDP. Based on a yearly growth of 20 per cent, 0.27 percentage points of EU growth can be attributed to the dynamism of the Central and Eastern European markets. Provided the EU had a high growth rate of 4 to 5 per cent, the contribution of export growth to Central and Eastern Europe would be small. At present, however, with 1.5 per cent of EU growth, this region provides nearly 20 per cent of the increment of the EU's GDP. Evidently, Central and Eastern Europe is much more "dependent" on Western Europe. However, as a result of growing integration between the two parts of the continent, the EU has been reaching a "sensitivity threshold", where any setback in its exports to the region would have serious repercussions not only on some sectors or regions, but on the overall EU growth rate as well.¹⁵

Business interests in enlargement are, however, not limited to exports. Increasingly, large EU (and US) companies use some EU candidate countries as international production sites offering substantial cost advantages in the international competition. Such investors have already benefitted from the opening up of EU markets for the associated countries, and can export their products produced in Hungary, Poland and other countries of the region free of duties, customs and quotas. Most of them made and are making heavy investments anticipating the Eastern extension of the EU in the next few years. Without quick enlargement their

¹⁵ For countries with heavier reliance on Central and Eastern European markets, as Germany or Austria, the "sensitivity threshold" is even more manifest.

business forecasts would become uncertain and their global (and European) competitiveness may be threatened. Therefore, they are the most powerful supporters of rapid enlargement.¹⁶

Contradictory interests can be observed in the following areas:

- (a) agriculture,
- (b) capital vs. labour,
- (c) consumer vs. employee,
- (d) future of EU transfers
- (e) present EU regions bordering first-wave applicant countries.

(a) Agriculture, as several times proved in the history of European integration, has a very well organized and politically influential lobby. Although agriculture only contributes about 2 per cent to the EU's GDP and employs less than 4 per cent of the active labour force, on average, its importance as a relevant pressure group cannot be denied.¹⁷ In principle, EU farmers are in all member countries against enlargement because of a double fear: growing competition from low-cost new members and redistribution of generous (and market-distorting) subsidies among more players. The first fear did not materialize in the last years. Just the opposite happened: the EU has achieved a sizeable surplus in agricultural trade with Central and Eastern Europe (being Hungary the only exception), both due to the demise of agriculture in the transforming countries and to the export subsidies granted to EU products.¹⁸ Regarding the second, the

¹⁶ There are only a handsome of foreign companies opposing enlargement. In general, they fear higher environmental, safety and health standards resulting from legal harmonization (e.g. the tobacco industry).

¹⁷ As a result of social democratic governments in most EU member countries, the political leverage of farmers' lobbies may be reduced. Also, global challenges and the forthcoming WTO negotiation may weaken but not eliminate their influence.

¹⁸ In the last years, EU agricultural exports to Central and Eastern Europe were almost twice as high as agricultural imports from this region. In the first ten months of 1998, exports amounted to ECU 4.4 bn, while imports were only ECU 2.5 bn.

main guiding principles of financing the common agricultural policy (CAP) have been reinforced in the financial framework covering the period between 2000 and 2006. Access to the CAP of new member countries remains uncertain. In addition, it is very probable, that enlargement will enhance the uneven distribution of benefits in agricultural trade, as trade liberalization will open up better opportunities for better organized, financially strong and/or highly subsidized EU producers than to low-cost but financially weak and internationally inexperienced farmers in the applicant countries.

A special field is represented by the food industry. Contrary to the often mistaken perception of EU farmers, large EU companies dominating the food industry have very strong interests in enlargement, both by creating new markets and by stabilizing their access to low-cost and in many cases higher-quality foodstuff.

Finally, Western European farmers are increasingly interested in buying farmland in fertile regions of Central and Eastern Europe. For the extremely intensive cultivation of farms in several EU member countries faces higher environmental standards and produces lower yields (because of the biological exhaustion of the land), the importance of new farmland is growing. However, access to agricultural land in the candidate countries will only be possible as a result of membership (and most probably, even in that case, after several years of transitory protection).

(b) High level unemployment in Western Europe and strong fear of mass migration following accession are today probably the most powerful and also politically used arguments against enlargement. We have already mentioned that the present level of EU unemployment has nothing to do with enlargement. On the contrary, the accumulated trade surplus of the EU vis-à-vis Central and Eastern Europe has helped keep or create new employment in the

last years.¹⁹ Exports to the candidate countries are responsible for a substantial portion of employment in the EU.

To be sure, labour costs are still much lower in the candidate countries than in the EU. However, wages are just a relatively small fraction of total production costs, and always have to be taken into account together with competitiveness and other cost factors. Moreover, the slow (or not so slow) approximation of wages (and even more that of labour costs) to EU levels has already started. Still, in the foreseeable future, wage differences will remain important and will be extensively used by EU business.²⁰ While EU countries may protect (and do protect) their labour markets, no EU decision is able to restrict capital flows. Therefore, and to the fortune of the potential new member countries, more foreign capital can be expected to start competitive production here and create also jobs.

Mass migration could only happen in case of a political or natural catastrophe. During a decade of harsh and sometimes extremely painful transformation, migration remained on a rather low level, despite the fact that the citizens of first-round candidate countries can enter all EU countries without any restriction. It is not quick enlargement that may generate intensive flow of labour from the East to the West of the continent, but the opposite development. On the one hand, accession to the EU will not be immediately followed by the complete implementation of the "fourth freedom" (that of labour). The EU will ask for and enforce temporary derogation in this field. On the other hand, just a delayed or postponed enlargement could accumulate pressure for migration, since such a situation would have a negative impact on growth, investments, employment,

¹⁹ In a rough calculation, if one job in the EU costs ECU 40,000, the EU's accumulated trade surplus of ECU 64 bn has created or kept employment for about 1.6 mn people.

²⁰ After almost 15 years of integration, Portuguese wages are still about half of those of Germany, and both countries are members of the EMU.

welfare and, finally on longer-term perspectives at home. Such developments could increase the disappointment of a larger part of the society and lead to undesired consequences both from the point of view of the present and future member countries.

Despite the rather evident arguments, this issue cannot be granted to be exempted from potential misuse by politicians. The danger may come from two angles. First, growing populism in Western Europe, as a reaction not just to Eastern enlargement but to the growing incapability of the system to efficiently answer global challenges and have the political courage to start overall social and institutional modernization, can easily play this card. Secondly, social democratic governments, traditionally linked to trade unions, may find it politically difficult to be decisively engaged in enlargement and at the same time not to lose part of their political support. A new social democracy, facing the challenges of the 21st century should provide the right answer. However, at the moment, there is no clear position in this context.

(c) Similar to the well-known and widely used argument to back economic reforms, the dilemma of redistributing benefits between consumers and employees/employers is characteristic of the enlargement process as well. On the one hand, consumers are expected to gain from enlargement for many reasons: larger internal market, more competition, new competitors, economies-of-scale gains, easier access to production factors (mainly capital and labour). On the other hand, most of the consumers are at the same time also employees or employers. As employees they may be affected in two ways: either directly by seeing threatened their present job (even if the threat is not coming from but perceived as a result of enlargement), or indirectly, by threatening the job opportunities of their relatives, including those of their children (intergenerational threat). In most cases, the loss of the job is considered to be a major negative impact than the potential advantage offered by lower prices. Also, jobs can be lost suddenly, while price adjustments take place through a

longer period. For employers, the impact is less negative, if they are able to adjust their entrepreneurial activities accordingly. Successful restructuring either at home or by relocating some activities to the candidate countries can not only add to the benefits they would be able to enjoy as consumers, but also contribute to the generation of such benefits.

(d) One of the most heated discussions developed around the future of EU transfers. While it was clear from the very beginning of opening up the EU for membership of the transforming countries that the EU budget has to be restructured, the ways and means of doing it remained a subject for discussion until most recently. In principle, there were three options to be chosen from: an increase of national contributions to the budget in order to finance enlargement from additional resources; freezing of the budget and financing enlargement by redistribution of the present volume; or a combination of both elements. While net beneficiaries (not only countries, but also regions within relatively rich countries) were for the first option, net contributors insisted on the second one. The third option has not been seriously considered at all. Finally, the second option was adopted, and net beneficiaries could be convinced without much open conflict, by introducing the principle of phasing-in and phasing-out.²¹ Even the opening of a new heading for new members in the EU budget has been accepted, which seems to guarantee that the money available for enlargement will in fact be used for this purpose exclusively. In sum, the breaking of the resistance to enlargement by net beneficiary countries, mainly Spain, but also Portugal and Greece, can be considered as a major step towards effective enlargement by 2002.

²¹ In contrast to the Marshall plan of the late 40ies, the EU budget, as of 2002, will offer gradually increasing transfers to the new members and finance them from gradually decreasing transfers to some of the previously beneficiary regions.

(e) Important pressure groups have been emerging in the border zones to applicant countries, particularly in Austria which has common border with three first-wave East Central European countries (Czech Republic, Hungary and Slovenia) plus Slovakia.²² Five out of the altogether 8 provinces of Austria have declared their special position and asked for special treatment in case of enlargement. Excepting Burgenland which may lose its status as an Objective One region (GDP per head below 75 per cent of EU average, and entitled to automatic EU support for the whole territory), and as such belonging to the problem treated in paragraph (d), all provinces have formulated similar concerns. They include relocation of business to less costly zones just a few miles away but at the other side of the border, increasing inflow of labour (mainly as commuters), growing social instability and declining welfare. Therefore, all of them have asked for temporary protection by the EU and higher financial support to face the new situation. While it is unlikely that they will be able to negotiate, even temporarily, special terms, the impact on Austrian attitude to enlargement may be relevant.²³ In this context, as in many other fields, it would be convenient and urgent to start with a more active and offensive approach by stressing the advantages instead of getting prisoner of an unsustainable status quo mentality.

²² The eastern border of Germany and the short border between Slovenia and Italy fall into the same category. However, as of yet, there are no pressure groups similar to Austria.

²³ Austrian public opinion polls demonstrate that the general level of support for Eastern enlargement is lower than in many other EU member countries that did not benefit as much from the transformation process as Austria did. Moreover, the Austrian attitude is split regarding the individual applicants. Hungary's accession only enjoys the support of the majority of Austrian population, while serious fears have been expressed particularly concerning the joining of Poland.

3. Main areas and fears of the pressure groups in the candidate countries²⁴

In the last years, interests in favour of and against membership in the EU have been far less articulated in the candidate countries. One of the reasons has been the widespread support to accession by all influential political groups. Another motive was the straightforward attitude of the business community. National entrepreneurs did not have any other viable alternative to membership in the EU, while foreign, mainly multinational companies have started their investments in the light of quick accession. In addition, costs of preparing for and those of future membership were overshadowed by heavier and more transparent costs of transformation. Finally, it was all the time difficult if not impossible to quantify negative impacts (both in comparison with the painful experience of transformation and in the context of a "no-alternative strategy" dominating the communication policy of governments).

With a certain time gap, however, the assessment of costs and benefits is becoming increasingly necessary and, at the same time, also possible. At least in the most advanced East Central European countries, the tasks of transformation are gradually replaced by the tasks of preparing for full membership, even if the two processes cannot be separated. Moreover, the starting of official negotiations forces the governments to start thinking in concrete terms and look at the real costs of adjustment. Temporary derogation requests need careful examination both from the point of costs and of time schedule. As the chance of membership draws nearer, interest articulation is becoming more transparent. Thus, the general conclusions provided by previous opinion polls, that potential opponents consist of the losers of the transformation, mainly rural population, less educated

²⁴ As of yet, there has not been produced any detailed comparative analysis on the fears perceived by different groups in the candidate countries. Here, we only summarize some of the visible and potential interests for and against accession by concentrating on the first-wave East Central European states.

people, inflexible social strata, elderly and lonely persons, etc., may need a more careful reexamination within a short time.

Conflictive issues may emerge in the following areas:

- (a) agriculture and rural areas,
- (b) growing regional inequalities,
- (c) still remaining state-owned and newly created private enterprises or foreign companies seeking for (temporary) protection,
- (d) dilemma between competitiveness and the implementation of environmental and social standards of the EU;
- (e) political independence vs. sharing of sovereignty,
- (f) Schengen acquis, visa policies and contacts to national minorities at the other side of the new external border of the EU.

Before starting a more detailed survey, it has to be underlined that the individual applicant countries do not share all dilemmas, or, at least, they are differently sensitive to the above questions. Therefore, the drawing of any general conclusion would be a fundamental mistake with long-term adverse impacts not only on the enlargement process but also on the future stability of the continent.

(a) Similar to the EU, agriculture has an influential lobby also in the candidate countries. On the one hand, agriculture is generally more important than in the EU. Although the level of organization of agricultural pressure groups is still lower than in the EU, it is largely compensated by its higher contribution to generating GDP and to providing employment. Low performance, mainly due to the mistaken and often ideology-driven transformation, urgent needs of modernization and capitalization, as well as rapidly growing (and highly subsidized) competition from EU countries add to a special and not always future-oriented articulation of agricultural interests. Fear from imports, and more importantly, from foreign ownership are important motives of resistance. While opposition is fundamentally explained by

(short-term?) economic concerns in the Czech Republic, Hungary and Slovenia, and may be reduced by successful transformation and free access to EU markets, Polish agriculture represents a special case. Here, the future of agriculture is a first-priority social and political issue, as 26 per cent of the active (and largely young) population is employed in this sector, in contrast to 8 per cent (and elderly people) in Hungary, and even less in the Czech Republic and Slovenia.

(b) Another fear linked to agriculture is the growing backwardness of rural areas. Although everybody counts with net resource transfers from the EU, investments to be financed by this money may, at least in the short term, widen instead of narrow regional development and income gaps. A decade of experience from transformation and the work of market forces, including the allocation of foreign direct investments, as well as lessons from the economic history of many countries indicate that higher and more promising growth does not necessarily remedy development gaps immediately. On the contrary, such a process can only start after a certain time, when spillover effects will already be produced by the more advanced regions, and the less advanced region will be able to absorb them efficiently. Although less developed regions will certainly be progressing more rapidly than before and they will be better off than earlier, but the difference between them and other parts of the new member state can be increasing.

(c) The industrial structure of the first-wave candidate countries is highly differentiated. There are still large and outdated state-owned (or only apparently privatized) companies in Poland and the Czech Republic (coal mining, metal, steel and petrochemical industries), and special "legal creations" in Slovenia, as a result of semi-socialist legacy from the 1980s, Hungary mainly lacks this pressure group. Once again, the situation is most complicated in Poland, where state-owned companies play an essential political role, since they are controlled by influential trade unions, once the pioneers of

overthrowing the communist system, and today part of the political elite governing the country.

Another, although less powerful pressure group may be organized around the newly created private enterprises. All of them started a few years ago, with a weak financial background and had to grow up in an increasingly competitive (liberal) environment. Further opening of the domestic markets, as stipulated in the association agreements until 2001, additional liberalization of financial and other services may create a situation in which they will call for more protection in order to develop competitive edge. This pressure can be stronger in Poland, the Czech Republic and Slovenia, based on the larger domestic market and the support given to small- and medium-sized companies (Poland), on the dubious results of quasi-privatization (in the Czech Republic) and on quasi-opening of the market (in Slovenia). Again, the impact of this pressure group may remain limited in Hungary, since economic transformation here was dominated by multinational firms that have just started to organize SMEs into their worldwide network of subcontractors. Finally, also part of the foreign companies may press governments (and the EU) for temporary derogations. This can be the case with those firms oriented towards the (still) protected domestic markets. In turn, foreign capital producing for international markets, will become a pressure group in Brussels for quick enlargement.

(d) Most companies, domestic and foreign-owned alike, are expected to face a substantial dilemma of how to sustain and increase competitiveness on the one hand, and make the necessary legal harmonization mainly in the fields of social and environmental policies, on the other hand. It is clear, that none of the candidate countries will be able to cope with these EU standards before accession. (It will be the accession itself that will enable them to accommodate to the EU rules in the medium term.) The definition of concrete temporary exceptions has to be the result of two basic considerations: how much of the EU standards has to be taken over as a precondition for membership,

and how much of their present level of competitiveness can be kept after adjustment. In this context, all candidate countries face serious dilemmas. However, the governments' negotiation positions may be rather strengthened than weakened by these pressure groups.

(e) It is often argued that East Central European candidate countries may find themselves in a serious dilemma when choosing between national independence and sharing sovereignty in a larger community. Indeed, they have regained their national independence a few years ago and, now, they are already about to give it up for one or more international organizations. Without ignoring the difficulty of choice, one has to remember that the European Union is a community of states and not a monolithic great power. Therefore, the articulation of national interests is not impossible if the potential member countries learn how to create strategic and temporary alliances with other members of this community. In addition, it has to be stressed that part of the national sovereignty will not be "sacrificed" or "given up", but shared with other countries in the same legal category.

Similarly to other areas, differences across countries can be observed here, too. However, differences in political statements are more dependent on the individual character of leading personalities and their short-term domestic political objectives than on the different situation and manoeuvring room of the East Central European countries.²⁵ There might be two exceptions, however. One is Poland, a medium-sized country expecting a more influential role within the Union (and, not least, in East Central Europe) and with strong pressure groups emphasizing special Polish values (catholicism, heroism, national assets rooted in history). The other are those newly born small countries of the region that have not been able to create a

²⁵ For example, Vaclav Klaus the former Czech prime minister has always stressed the "independent" way of the Czech Republic. Most recently, some representatives of the new Hungarian government made similar statements as well.

genuine nation-state in the past. In their case, the simultaneous task of nation-building, transformation, EU-integration and global adjustment may easily create political and social trends against (the obligatory rules of the game of) membership.

Another and fairly common resistance may originate from the behaviour of the public administration, for, as a result of membership, part of it will, in fact, be forced to waive large part of its power and vested interests developed over decades (or centuries).

(f) A particular and critical area of renouncing sovereignty and adopting compulsory EU rules will be the implementation of the new external borders of the EU and its impact on relations with non-member neighbouring countries. Polish minorities are living in Lithuania, Belarus and the Ukraine, but the EU's visa policy has already been implemented by Poland. The Czech Republic may feel uneasy to control its border to Slovakia as a Schengen border, not so much because of the nationality issue, but due to the customs union between the two countries. There is no special problem, in this respect, in Slovenia. The most critical case is that of Hungary, with large minorities in the neighbouring countries that are unlikely to become members of the Union either at the time of Hungary's accession or at all. Pressure groups may be formed on both sides of the border: in Hungary by those who would consider Hungary's accession to the EU as a betrayal to fellow Hungarians living in the neighbourhood, and by Hungarian minorities disappointed by such a move and feeling abandoned and "sold out" to other countries. The managing of this problem requires steady and high-level attention.

Despite some pressure groups and more pronounced opposition to be expected in the next period, it is unlikely that the current tide in favour of accession to the EU would be turned back. Nevertheless, those arguing against enlargement or just emphasizing the losses will be in a more comfortable position than those stressing the advantages. First, it is always easier

to identify costs than benefits. Second, most benefits are expected to be enjoyed after membership, while preparing for membership involves a number of adjustment burdens (both in financial, social, institutional and psychological terms). Third, obvious gains in macroeconomic terms may not be very convincing for people seeking their fortune in the next day(s). Fourth, further adjustment costs are likely to appear well before membership. Although they have very little to do with accession, and if yes, not necessarily in negative terms, those people (and sectors) affected by the changes may easily attribute the impacts to preparing for membership. In this context, the ongoing concentration wave of business affecting almost all sectors, but fundamentally special services, banking and insurance has to be mentioned. In fact, this development is a necessary step to foster competitiveness of the candidate countries within the EU. Still, not all participants in this process will consider it in this light.

In order to influence pressure groups, governments of the applicant countries have to play a crucial role. They must be aware of the fact that the distribution of benefits and losses over a given period, to some extent at least, depends on the economic, social and other policies outlined and implemented by the governments. Constant dialogue with all influential groups, including those sectors the interests of which may be hurt by adjustment to the EU rules, has to be institutionalized. Only in this way can "cheap but attractive nationalism" be counteracted, real costs of adjustment separated from demands stemming from unwillingness to adjust²⁶, and a longer-term vision of costs and benefits be established in and recognized by the broader public opinion.

²⁶ This may be a major issue during screening the derogation needs of different sectors and interest groups in the candidate countries. While some requests are vitally important and have to be considered, represented and defended at the negotiation table in Brussels accordingly, some others may reflect the lack of adjustment will (as long as an "easier" way seems to be available).

4. Concluding remarks and some policy recommendations

In the next period prior to membership, pressure groups for and against enlargement will come more to the limelight than it was the case until recently. At the same time, there is an asynchrony between pressure groups in the EU and in the candidate countries. In the first case, distorted and one-sided views have to be corrected and Western public opinion has to be "educated" not only to accept enlargement but to look at it as a historic chance for the present member countries as well. In the second, costs and benefits to be derived from accession to the EU will be seen in a more differentiated way that requires constant dialogue with all interest groups involved in the process.

Eastern enlargement/accession will define Europe's internal situation and global position for a longer period. Therefore, a number of actions are needed. First, the global dimension of the undertaking has to be made clear not only for policy makers but also for broad strata of the European society. Second, already achieved gains should not be considered automatic and for ever, but part of a sustainable win-win scenario. Third, candidate countries have to develop a multiple approach to groups concerned about membership and treat their derogation demand in a rather differentiated way. Fourth, traditional beneficiaries of EU funds have to be included into joint projects with future members in order to participate in the changing flow of transfers in a business-like manner.²⁷

There are several areas in which joint actions carried out by present and future member countries seem to be necessary. First, unjustified concerns in the EU member states have to be dispelled

²⁷ It is a commonsense that about half of the EU transfers flow back to net contributors as they finance imports of goods, services and technology from the more developed countries of the European Union.

partly in a joint undertaking and by pointing out the undisputable benefits of enlargement. Second, convincing communication has to be maintained and prolonged over the first years of an enlarged community, as some important costs and benefits will be defined more precisely and felt more directly after membership on both sides only. Third, a joint communication strategy has to be developed towards those associated (and not yet associated) countries which, for the time being, will remain outside the Union. Pressure groups on both sides of the new external borders of the EU have to be in a constant dialogue in order to impede the building up of new and dangerous fears, misunderstandings and even conflicts.

Time is a powerful actor in the creation of a higher level of stability (or instability) in Europe. The balance of costs and benefits, on a continental scale, is, to a large extent, time- and policy-dependent. Any delay or (temporary) blocking of the enlargement process may reduce the willingness and ability of the candidate countries to join, strengthen anti-EU pressure groups and enhance popular disappointment with European integration. At present, despite an increasingly differentiated picture of costs and benefits, there is still a fundamental support to accession, at least a much higher one than the willingness to enlarge in the EU member countries. However, this setting is subject to substantial change as time advances.

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