Creating Incentives for Reform:

The EU accession process

By Elizabeth Sidiropoulos and Mareike Meyn

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The EU Accession Process

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About the European Union–Africa Programme

The European Union–Africa programme, funded by the Konrad Adenauer Foundation, started at SAIIA in 2005. The programme aims to conduct research into the evolving relationship between the EU, its member states and Africa. It seeks to inform South African and African debate about the implications for the continent of the EU’s enlargement and how Europe’s Africa policy evolves.
Creating Incentives for Good Governance: Can the APRM Process Have the Same Effect as EU Accession?

Elizabeth Sidiropoulos

As the Berlin Wall came down on the night of 9 November 1989, and as the people's revolutions gathered pace in Eastern Europe that year, the one overriding goal of many of those fleeing the Soviet bloc was to reach a country belonging to the European Community. Following the fall of communism, all the countries of central and eastern Europe aspired to membership of 'The Club', which they believed could lift them out of poverty and put them into the global economy of the late 20th century. During the 1990s many of the former Warsaw Pact countries applied for membership of the European Union (EU), as it became known after 1992.

Large amounts of funding intended for development were transferred to these newly liberated states by the European Commission (EC) and individual EU states, to help them address their socio-economic and political weaknesses. These previously communist states also wished to join the North Atlantic Treaty Organisation (NATO), which they believed would safeguard them against any possible resurgence in Russian expansionism. (At the same time, NATO itself was at pains to deny that its extension eastwards could be regarded as threatening Russia.)

In May 2004, 10 new states acceded to the EU. Of those, eight were from the former Soviet bloc. Three of them had been part of the

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Soviet Union itself. In 1990 the average GDP per capita in Slovakia was $2,947 and in Poland $1,547. By 2003, their GDP per capita had increased to $6,019 and $5,355, respectively, or by 104% and 246%. The eight central and east European states were averaging annual economic growth of 4–5% in 2004. This was largely ascribable to the rigorous political and economic reforms they had had to implement as part of the process towards accession developed by the EC.

The aim of this report is to provide an overview of the EU accession process, and to extract possible guidelines as to the internal and external incentives necessary to generate higher rates of economic growth and development in African states. This examination is opportune, as it comes at a time when African countries have launched an innovative home-grown plan, the African Peer Review Mechanism (APRM), to identify and address governance deficits in their own countries. Mareike Meyn’s article investigates the EU accession process in greater detail. This introductory article will give an overview of the APR process as it has unfolded on the continent since 2004.

What is the APRM?

The APRM emerged out of the New Partnership for Africa’s Development (Nepad), which was designed as a blueprint for the continent’s recovery. The APRM was intended to focus on creating better governance regimes in Africa. It is loosely modelled on the peer review system of the Organisation for Economic Co-operation and Development (OECD), which also sets store by peer learning and peer pressure. It is not a punitive measure; nor are countries

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1 The three Baltic states, Lithuania, Latvia and Estonia.

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compared with each other. Like the OECD process, the APRM is a tool. Its value lies in how it is used: the process is not an end in itself.

Each country undergoing the APRM is expected to examine its governance systems thoroughly in four key areas: democratic and political governance, economic governance and management, corporate governance, and socio-economic development.

The structure of the African Peer Review process comprises a hierarchy of committees. At the top are the heads of state or government of the countries that have acceded to the APRM (who make up the APR Forum). These are the ‘peers’. Then there is the Panel of Eminent Persons (APR Panel), which consists of seven prominent Africans whose task is primarily to ensure the credibility and integrity of the APR process. The work of the Forum and the Panel is assisted by the APR Continental Secretariat, the members of which are appointed by the APR Forum, in consultation with the APR Panel and the Nepad Secretariat.

A Country Review Team is led by a member of the APR Panel, supported by experts in each of the four focus areas of the APRM. These experts are drawn either from the in-house resources of the APR and Nepad Secretariats or from supporting organisations such as the African Development Bank (ADB), and the UN Economic Commission for Africa (Uneca), or from other African Union (AU) organs such as the African Court on Human and Peoples’ Rights.

Each APR country establishes an APR Focal Point at ministerial level or higher, to serve as the liaison mechanism between national

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4 The panel consists of Professor Adebayo Adedeji of Nigeria, Ambassador Bethuel Kiplagat of Kenya, Dr Graça Machel of Mozambique, Mr Mourad Medelci of Algeria, Dr Dorothy Njeuma of Cameroon, Ms Marie-Angelique Savané of Senegal, and Dr Chris Stals of South Africa.
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structures and continental ones, such as the APR Secretariat, the APR Panel and country review team. The country must also establish a separate governing council to manage the process of writing a national self-assessment report, gathering contributions from the public and developing an action plan that explains how the country proposes to solve the problems identified in the review.

The exact form and nature of the APR Focal Point and governing council are left to the discretion of the individual state. However, in order to ensure that the peer review process is inclusive and credible, the APR Memorandum of Understanding explicitly stipulates that there must be broad-based and inclusive participation from representatives of important groups in the public and private sectors, including spokespersons for trade unions and special-interest groups such as women and children. This is done through the establishment of a governing council or national co-ordinating mechanism. Its mandate is to undertake broad-based consultation with all the relevant interested parties, a crucial element in ensuring that the peer review process becomes ‘owned’ at a national level by both government and civil society.

There are five stages in the peer review process. Firstly, the country undergoing review establishes a national APR Focal Point and a national co-ordinating commission. After consultation with the groups described above, it completes a self-assessment questionnaire and prepares a draft national action plan that aims to address the governance gaps revealed in the self-assessment. At the same time, the continental APRM Secretariat compiles a background document, which is then used to identify the major governance challenges facing that country. Partner organisations such as the ADB and Uneca may be called upon to assist the APR Secretariat in this process. Support missions may be sent to the country under review during this phase.

The country review visit is the next step. One of the members of the APR Panel supervises the review process. The team, which has at
least one expert in each of the four focal areas of the peer review, conducts a series of interviews and investigations with influential representatives of various sectors and interest groups, such as government, business, the media, academia and NGOs.

A draft country report is compiled, containing the review team’s analysis and recommendations for improving governance in the period until the next review (usually three to five years). This draft report is shared with the government of the country concerned. The recipient country can attach responses as an appendix to the report, but cannot amend the actual text.

In the fourth stage, the draft report is reviewed by the APR Panel, which makes recommendations to the APR Forum. It is at this stage that the actual ‘peer’ review is carried out, i.e. the head of state of the country being assessed is reviewed by his peers, the other heads of state. The fellow heads of state that make up the Forum will discuss the action plan recommended for the inter-review period, with a view to providing support where feasible to the implementation of that country’s national action plan. This assistance may involve sharing technical expertise and other resources.

The heads of state have latitude to intervene in ways that they see fit. They may call for a special interim review to deal with problems. The APR Forum should receive six-monthly reports on progress made by the country in executing its plan of action. However, the mechanism makes no explicit mention of punitive measures or sanctions against countries that fail to carry out the recommendations of the review report.

Finally, the country report is made public and tabled in an AU structure, such as the Pan African Parliament. While the official APRM documents clearly state that the country report is to be publicly tabled in one of the AU’s organs, no time frame is given. The publication of Ghana’s country report is expected late in 2006.
Differences and similarities

At one level, the processes of accession to the EU and peer review in Africa have very different purposes. Meeting EU criteria allows the successful applicant country membership in an exclusive and wealthy club. This is not the case in the African process. Accession to the APRM is voluntary, and it precedes the implementation of political and economic reforms. As the APRM is a fairly new process, it is also too early to know whether a country that has performed poorly in implementing its plan of action might be compelled to withdraw from the process. However, this is highly unlikely (unless a country has experienced a coup or significant political instability), as the APRM process is not viewed as a punitive tool.

On another level, however, these two processes share the same objectives. These are to identify weaknesses at the economic, political and social levels in countries undergoing the review process; to develop action plans to rectify them; and then to act upon them. Each process has different incentives. In the case of the central and east European states, it is entry into a select and rich club of developed countries with a market of 455 million people. In the case of Africa, it is that improved governance frameworks will create more opportunities for development, investment and poverty eradication.

The EU accession process is far more rigid than the APRM was ever envisaged as being. It provides a scorecard against which candidate countries have to measure themselves. The benchmarks and objectives have been set by the EC and the current member states. The EU accession process is directed by Brussels and implemented by the individual governments. This has often been used as a convenient ‘excuse’ by candidate states when having to adopt politically difficult (and therefore domestically unpopular) reforms.

Candidate members of the EU are assessed in terms of the Copenhagen Criteria, which broadly require democracy and the rule of law; a market economy; and the ability and willingness to adopt,
execute and enforce the *acquis communautaire*. However, it must also be stressed that the decision to accept a candidate state is not based exclusively on technical assessments. On the contrary, it remains ultimately a political decision. Theoretically, refusal of accession is the ultimate sanction. Such a decision would be politically motivated. To date, no such refusal has occurred. It should also be noted, however, that in the case of the accession of Bulgaria and Romania, scheduled for 2007, the Commission has repeatedly expressed concern regarding the transformation of the judiciary and the fight against corruption, and has warned their governments of the possibility that accession could be delayed if these problems are not addressed.

In May 2006, the Austrian foreign minister, Ursula Plassnik, remarked that the prospect of EU membership was an 'essential reform motor' in the Balkans. The EU enlargement commissioner, Olli Rehn, added that the promise of eventual membership to Balkan countries had to be honoured; it would 'undermine our own strategic interests if we gave them the impression they are on the road to nowhere'. It would be 'utterly irresponsible to wobble in our commitments and disrupt a valuable process which is helping to build stable and effective partners in the most unstable parts of Europe'. It is the prospect of joining this 'club' that has spurred reforms in countries such as Turkey, and is likely to prompt an even greater effort by Bulgaria and Romania to meet their accession obligations in time to be admitted in 2007.

The reasoning behind the APRM process, in contrast, insists that countries undergoing peer review are not being assessed against an externally determined benchmark, although one can argue that these states are expected to adhere to the principles enshrined in the Constitutive Act of the African Union. Countries are required to state whether they are signatories to international codes and conventions,

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but actual implementation and adherence is not examined. Each state is expected to identify its own priorities and the actions to be undertaken to address weaknesses; and must set about following them through within a time frame it has developed by itself. No sanction is involved. It is left to the individual state to determine the programme and the pace of reforms. This may be a residue of the respect for the sovereignty of states by which the Organisation of African Unity was so heavily influenced.

The most important underlying aim of the APRM is to encourage African states that have lagged behind in terms of economic development to prepare for the opportunities that globalisation can offer. This spur to economic growth would involve attracting investment, improving local levels of technology and skills, and developing more efficient institutions, rather than continuing along the path of dependency.

There are also differences from a practical perspective. The EU has huge resources at its disposal, and has a massive Commission apparatus to undertake regular assessments of the candidate countries. The APR process suffers from limited resources, both financial and human, which has meant that the start-up has been rather slow, with only one country's report, Ghana's, having been discussed at a heads of state meeting.6 There is also an acute lack of the kind of information and education needed to enable governments and civil society organisations to collaborate sufficiently. Also, because of the limited capacity of the APR Secretariat to conduct reviews, there has been very little sharing and comparison of the experiences of the different teams sent to the various countries that have been reviewed.

In the APRM, the provision for substantial participation in the country assessments by representative organs of civil society, and hence their input into the development of a national action plan, is

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6 Ghana's review and action plan were discussed at the AU summit in Khartoum in January 2006.
one of the greatest innovations. Perhaps it will provide better opportunities for reforming African states. It can be argued that civil society’s engagement in, and ownership of, the process is what adds value to what would otherwise be largely government-run. If carried out properly, this collaboration could assist the emergence of a national consensus on what the way forward should entail — something which is not often possible in many African countries. Civil society has been engaged in varying degrees in the peer reviews conducted thus far. The most important challenge faced by states that undergo the APRM process is not to lose the opportunity of building a domestic consensus on which actions should be awarded priority, and how the follow-through should be monitored in the period between the first and subsequent peer reviews.

In Europe, the participation of civil society in the candidacy of countries that applied for accession to the EU was generally limited. There is certainly no provision in the accession process for the kind of engagement supported by the APRM process. In addition, the relatively weak civil society in the central and east European countries after years of Soviet rule has been further disadvantaged in the preparations for accession because the highly complex and technical process makes it difficult for civil organisations to participate meaningfully.

However, notwithstanding the uncertainty felt in western European capitals about the merits of the ‘European project’, the former Warsaw Pact countries see their participation in this powerful economic (but also political) bloc as finally securing for them a place (that they could never have occupied as separate states) among the emerging global powers.
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Challenges facing the APRM

To date, 25 countries have voluntarily signed up to the APRM process (see Appendix A). Theoretically, this implies that these states are, firstly, willing to open themselves up to intense scrutiny from both domestic and external actors, and secondly, that they are committed to reforming dysfunctional systems and institutions. This, of course, may prove not to be the case, as such openness and scrutiny depend on two key elements: the willingness of the state concerned to be frank and to co-operate fully with the process; and the ability of domestic civil society to make a meaningful contribution to the integrity of the process.

The capacity of the APRM process to make a material difference will be tested only when states such as Angola, Gabon or Sudan, which have dubious human rights and governance records, begin to be assessed. Will such countries view the process as a convenient way of creating a favourable impression on the outside world — that they are willing to open themselves to scrutiny, and thus illustrate their good faith with regard to governance? If they circumscribe the process severely by avoiding any discussion of sensitive matters, they will have subverted the process. Alternatively, such states with weak institutions and questionable respect for the rule of law could use the APRM process to develop a national consensus on addressing the failings identified, and show commitment to taking remedial action.

As the EU has demonstrated in its dealings with Bulgaria and Romania in 2005 and 2006, countries have to meet certain basic conditions of 'competence' to be allowed to join the EU club. In the case of the APRM, no similar process exists. The only indictment may be the example of other states, whose improved performance has helped to unlock funds and provide incentives for investment. But if the source of finance is to be the North, and the assessments are seen to skirt the difficult or politically sensitive issues, then the APRM
process runs the real danger of being too ineffective a tool for real reform.

Equally critical is the point that the completion of the self-assessment and APR Team report should not be seen as an end in itself. Instead, serious thought should be given to how the ongoing review of progress made in executing the national action plan is to be effected. The EU has sufficient organisational infrastructure to ensure regular reviews of the progress made by candidate states, up to the point of accession. While clearly such resources are not available in African countries, monitoring each country would not necessarily require an external body. Rather, in the spirit of the APRM, such an instrument could take the form of a reconstituted domestic Governing Council (with representatives from government and civil society), which is charged with conducting annual or bi-annual reviews of progress, based on the nationally agreed priorities and timetable. For example, South Africa is considering establishing a permanent structure to monitor progress on effecting its plan of action.

The long-term objective is for all African countries to accede to the peer review, and submit themselves to repeat reviews once every three to five years. There is no fund to support this process, although in its Africa Strategy the EU makes mention of a Governance Initiative, which could be used to support the APRM process and

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7 The EU's Africa Strategy notes that the EU 'must encourage and support African countries systematically to develop good governance plans within their national PRSP. One powerful tool to boost efforts further is, in particular, the voluntary APRM and the reforms that it will trigger. To this end, the Commission should launch a Governance Initiative that will encourage participation in the APRM process and provide further support to African countries for the implementation of their APRM-driven reforms. This support should be additional to, and fully in line with, poverty reduction strategy papers and should respect African ownership both of the process and of the reforms pursued'. See Commission of the European Communities, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, EU Strategy for
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the action plans drawn up by each state. It must be noted that no new aid, trade, debt relief or investment decisions have yet been made solely on the basis of APRM. But this is not an indicator of failure; rather it illustrates the point that new initiatives and reforms take time to come to fruition. Furthermore, donors have been careful not to make the APRM another conditionality on aid, fearing that this may taint a process whose biggest advantage is that it is a homegrown African initiative.

In terms of raising funding for the ARPM process, it is very important for countries to draw up realistic strategies and devise appropriate plans before embarking on national reviews and requesting additional money.

Already, in some of the countries reviewed, the APRM has provided a platform for serious conversations about democracy, the rule of law, economic policies, the business climate and national development priorities between members of the government and citizens. In doing so, it has laid the foundation for an ongoing national dialogue on governance issues in the countries concerned. Furthermore, civil society groups involved in governance have begun to form networks to share their ideas on, and experiences of, the process. This may be one of the most important ‘side effects’ of the APRM. By stating in the guidelines that civil society in each country should play an important role in the review, the process may unleash a more boisterous and bold debate. This may create its own momentum and incentive for reform in the longer term.

How attractive is the APRM to countries on the continent, and how long can it retain its allure? It is still too early to draw conclusions, as the process is in its infancy. That the process is not prescriptive is a double-edged sword: it allows countries the latitude to incorporate improvements that may be of specific relevance only to a particular state; but it also allows countries the opportunity to exclude issues


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that may be politically sensitive. However, one thing is clear: the benefits of EU membership did not occur overnight, or without pain. The shift in mindset in Africa, of which the APRM and Nepad are a manifestation, marks the beginning of the hard road to political and economic reform. African leaders must be kept on course, despite the difficulties and necessary costs their countries experience along the way. The benefits may not seem clear immediately, but provided a mentality that seeks 'quick-fixes' is avoided, the changes will bear fruit in the medium term. But in order for these benefits to be realised, the pace of review must pick up. Otherwise African countries may lose faith in the process, as may their international partners.
Observations on the Accession Process for Countries joining the European Union

Mareike Meyn

Abstract

The accession into the European Union (EU) of 10 new members, mainly from eastern Europe, brings with it economic, social and institutional challenges for the new member states as well as for the 15 existing EU countries (EU-15) and EU institutions and decision-making processes. Any country that joins the EU must implement economic, political and legislative criteria established by the European Council in 1993. This study shows that the European Council's annual reports, which are its main instrument for supervising the convergence of accession countries, are limited to 'hard' facts because only economic and legislative criteria are 'operational'. 'Soft' criteria, such as guidelines for social policies, are not operational, hence are difficult to control. Aside from the problem of successfully monitoring implementation of the Copenhagen Criteria, it is questionable whether in practice new member countries actually comply with all regulations, or whether and how far non-compliance can be sanctioned once a candidate country has become an EU member state.

Introduction

On 1 May 2004, 10 new member countries acceded to the European Union (EU), thereby enlarging the world's largest trading bloc to 25 member countries. The accession of the eight central and eastern

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European Countries (CEECs) – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia – and two Mediterranean countries, Cyprus and Malta, was the most comprehensive enlargement of the EU since its establishment in 1958. The 10 acceding countries have a combined population of 75 million (one fifth of the EU-15 population), but a combined GDP of only 5% of the EU-15. With the exception of the two Mediterranean countries, all new member states have undergone major processes of transition from planned socialist economies to market economies. Prior to accession, it was necessary for them to establish a solid financial system, tighten macroeconomic management and monetary policies, deal with the increased competition resulting from freer trade in goods and services, and implement comprehensive EU laws. Hence, EU accession has had a considerable impact on their domestic economic transformation process.

This paper gives an overview of the changes that accession countries underwent in joining the EU, how they implemented reforms, how these reforms are supervised by EU institutions and what impact accession has had on the economies of candidate countries and the cohesion of their societies.

Motivations for EU enlargement

The initial goal of the original European Economic Community (EEC) was to create a common internal market with a free flow of goods, services, capital and labour. Theoretically, this should offer member countries benefits by way of static and dynamic gains from

2 The European Economic Community (which through the Maastricht Treaty of 1992 became the European Union) was established under the 1957 Treaty of Rome by Belgium, Germany, France, Italy and Luxembourg. In 1973 Denmark, the UK and Ireland joined, in 1981 Greece and in 1986 Spain and Portugal. In 1995 Austria, Finland and Sweden joined the post-Maastricht EU.

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regional integration, such as trade creation, and economies of scale and their spillover effects, for example technical co-operation. It was assumed that the poorer EEC countries would grow faster than the richer ones as they became capable of importing capital and modern technology from the more advanced economies. It was assumed that this would stimulate the innovations and new technologies through which labour and capital productivity would be increased and economies of scale achieved. Finally, over time the income gap between poor and rich economies would close and economic convergence would be achieved. Legal and institutional convergence within the EU would be reached by new members meeting their obligations to implement the total body of accumulated EU legislation that might broadly be described as 'Community membership stipulations' and is known as the Acquis Communautaire (the acquis). Furthermore, political gains were expected to flow from enhanced stability and prosperity for all members, in addition to strengthening the EU's influence in conducting international affairs.

Though EU membership was attractive for CEECs because of its expected economic benefits and improved welfare structures, their main motivation for joining was political, in particular the opportunity it offered to reduce Russia's influence over their affairs. This was also the major motivation for existing EU members, which were fearful of the possible establishment of autocratic regimes in CEEC after the breakdown of the previous socialist structures. There

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Sachs, Jeffrey D and Andrew Warner, Economic Reform and the Process of Global Integration. Development Discussion Paper. No 552, Reprint Series, 1996. The theory of economic convergence assumes that member countries benefit from their different factor endowment: poorer countries have comparative advantages in labour-intensive industries that accordingly attract investment, while richer countries can supply capital-intensive production to an enlarged market. In addition to open markets, convergence within the EU should be reached by financial assistance and subsidies, e.g. money directed to infrastructure programmes or the restructuring of the agricultural sector and major industries.
was also a degree of self-interest for the EU-15, insofar as incorporation would protect EU-15 economic prosperity in the face of economic migration from relatively poor eastern European countries. Moreover, enlargement would help meet EU-15 economic goals such as the generation of new consumer markets and outsourcing of labour-intensive industries.⁵

Accession criteria and the monitoring process

Accession criteria

With the signing of the Treaty of Maastricht in 1992, the EU moved from a common market to an economic union. This shift required member countries to harmonise their economic policies, including policy co-ordination on monetary and fiscal issues, transportation and competition.⁶ The Maastricht Treaty obliges new member states to fulfil certain convergence criteria, binding them to a fiscal policy that aims to attain the levels of stability already met by the EU-15.⁷ Additionally, economic policies are co-ordinated according to ‘broad economic policy guidelines’ prepared by the EC and the European Council. Furthermore, member states must bring their fiscal policy in line with the Stability and Growth Pact (SGP), even if they are not part of the European Monetary Union (EMU).⁸

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⁷ The convergence criteria of the Maastricht Treaty are (a) a high degree of price stability; (b) a sound fiscal household; (c) stable exchange rates; and (d) converged long-term interest rates.

⁸ The Stability and Growth Pact (SGP) is a binding agreement and foresees that members of the European Monetary Union (EMU) run a public deficit of not more than 3% of GDP and show public debts of less than 60% of GDP or approaching this value. If member states do not perform accordingly, they might be subject to
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To ensure that EU policies are fully implemented in all member states, candidate countries must fulfil the following political economical and legislative preconditions, fixed by the European Council in Copenhagen in 1993 (the ‘Copenhagen Criteria’):

• **Democracy, rule of law, respect for human rights and for minorities**
  As of 1999 this political criterion has to be met by all candidates. Indicators for successful compliance with political criteria include the conducting of free and fair elections, the implementation of major human rights conventions, the protection of national minorities according to a framework drafted by the European Council, and a clear distinction between political and administrative responsibilities at the national level.

• **Functioning market economy and the capacity to cope with competitive pressures**
  This broad economic criterion is defined by various sub-criteria such as liberalised prices, free trade within the EU, a stabilised macroeconomic environment, effective competition policy, protection of intellectual property rights and a well-developed financial market open to foreign investment.

• **Ability and willingness to effectively apply the EU’s rules and policies, including economic and monetary union**
  This legislative criterion foresees that acceding countries have to adopt, implement and enforce EU rules and legislations. The EC also assesses the extent to which individual candidate states have fines. Though new member states are not yet part of the EMU they are obliged to install the Euro once convergence criteria are fulfilled. ECB (European Central Bank), *The Accessing Countries’ Economies on the Threshold of the European Union. Monthly Bulletin February, ECB: Frankfurt/Main, 2004*, p.45. As can be seen from Table 1 there are major differences among member states with respect to average account deficit and public debts. With the exception of Cyprus and Malta all new members have debts of less than 60% of GDP but most states have higher account deficits than 3% of GDP. In 2004 only Lithuania, Slovakia and Slovenia, would have met the two criteria of the SGP.
established administrative structures and capacities allowing successful implementation of the *acquis*. The *acquis* must be applied by candidate countries from their first day of EU membership, except for those areas where transitional arrangements are agreed.

Since every accession country must comply with them, the Copenhagen Criteria may be regarded as important conditionality instruments, exporting the European view of democracy, human rights, the market economy, legislation and administration to neighbouring countries.

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The monitoring process

The EC, specifically the Directorates-General (DG) Internal Market and Enlargement, is the driving force of the EU integration process. The EC proposes directions to be taken and evaluates economic and political developments in the new member states, reporting these developments to the European Council. The European Council, in turn, observes the economic and political developments in member states on the basis of the Commission's information and reports to the Council of Ministers, which is the central decision-making body and legislative authority within the EU. The Council of Ministers, which consists of the ministers of member states, decides which measures proposed by the EC must be undertaken by candidate countries in order to fully comply with the Copenhagen Criteria. The EC supervises the proper implementation of these directives.

In accordance with the principles established in earlier enlargements, CEEC countries had to undergo a screening process to prepare them for EU membership. The first phase of this screening, the didactic phase, started in 1998 when the countries applied for EU membership. Aspirant member countries were informed of EU legislation, regulations and the economic, legal and political preconditions that would have to be fulfilled. In 1999 the second phase started, in the form of a dialogue whereby candidate countries began to implement the Copenhagen Criteria and identified

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11 The European Commission is the executive authority of the EU. It is organised in different Directorates-General, which can imply the coexistence of different positions within the Commission. See http://europa.eu.int/comm/dgs_en.htm for an overview of all Directorates-General and Services.

12 The European Council is the legislative authority of the EU. The Economics and Financial Affairs Council (Ecofin) is the main instrument in matters of financial market integration and the economics of enlargement.

13 In 1998 the EU started negotiations with Cyprus, Czech Republic, Estonia, Hungary, Poland and Slovenia. Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia followed in 2000. Except for Bulgaria and Romania, all the others became EU members by 1 May 2004.
problems of implementation. Each applicant country had to appoint a chief negotiator and an expert team and had to draw up its position on each of the 31 chapters of the *acquis*. Each country drew up a National Programme for the Adoption of the Acquis (NPAA) in which it set out in detail how it planned to adopt the *acquis* and the human and financial resources required to do it. Taking into account each accession country’s NPAA, the Commission prepared a draft common position and submitted it to the Council, which generally adopted the position and opened the negotiation on the respective chapter of the *acquis*. It is important to note that negotiations between the candidate country and the Commission determine only the conditions under which each applicant country joins the EU (such as transitional arrangements). Adoption, implementation and enforcement of the *acquis* are not negotiable, but are a precondition for EU membership. Candidate countries are permitted to participate as ‘active observers’ in Council bodies and have the right to express their views on proposals, but not to vote.

To provide an assessment of those areas in which accession candidates needed to progress in order to join the EU, the

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14 See Markova, op. cit., for an overview of Bulgaria’s experiences since the country applied for EU membership.


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Commission drafted, in co-operation with each country, an 'Accession Partnership'. The Partnership formulated commitments on the part of the accession countries, inter alia in areas of macroeconomic stability, industrial restructuring and adoption of the acquis. The Commission assessed candidates' needs for additional institutional and human resources, for example in implementing the Common Agricultural Policy (CAP) and structural policies. For the successful implementation of the Copenhagen Criteria, additional funds were set up (see Box 1) and so-called twinning programmes were created, which assume that accession countries will implement the goals formulated in specific programmes in order to become fully integrated into the EU. To implement these programmes, they receive technical support from EU-15 experts, who advise candidate countries on a long-term basis with respect to institution building and the implementation of priority areas.


19 De la Porte C, The Manner in which the EU Shapes Social Policy in the CEEC Through Sub-Contracted Actors Implementing the External Aid Programme PHARE, 1999, p.3. Online at http://www.ose.befiks/ EUsocCDLP.pdf; Schneider F & C Burger, 'Formal and informal labour markets: challenges and policy in the Central and Eastern European new EU member and candidate countries', in CESif Economic Studies, 51, 1, 2005, p.108. Twinning as a tool for pre-accession assistance was introduced in 1998 and is not designed for general co-operation but for specific results formulated by the parties prior to project start (such as the implementation of EU veterinary standards or border controls). For further information, the experience of CEEC with twinning projects and conditions for success of twinning, see http://europa.eu.int/comm/enlargement/pas/ twinning/ index.htm.
Box 1: The financial dimension of enlargement

For the period 2000–06, the EU’s total budget is about €106.5 billion a year. Table 1 illustrates that most of the money goes to the CAP, rural development and structural reforms for lesser-developed EU regions. Funds for the pre-accession strategy account for about 3% of financial means, which are on average €3.4 billion a year.

<table>
<thead>
<tr>
<th></th>
<th>Current prices</th>
<th>2004 prices</th>
<th>Total expenditure in 2006 in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>1. Agriculture</td>
<td>41.73</td>
<td>44.53</td>
<td>46.58</td>
</tr>
<tr>
<td>2. Structural</td>
<td>32.67</td>
<td>32.72</td>
<td>33.63</td>
</tr>
<tr>
<td>3. Internal</td>
<td>6.03</td>
<td>3.27</td>
<td>6.56</td>
</tr>
<tr>
<td>4. External</td>
<td>4.63</td>
<td>4.74</td>
<td>4.87</td>
</tr>
<tr>
<td>5. Administration</td>
<td>4.64</td>
<td>4.78</td>
<td>5.01</td>
</tr>
<tr>
<td>6. Reserves</td>
<td>0.91</td>
<td>0.92</td>
<td>0.68</td>
</tr>
<tr>
<td>7. Pre-accession:</td>
<td>3.17</td>
<td>3.24</td>
<td>3.33</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.53</td>
<td>0.54</td>
<td>0.56</td>
</tr>
<tr>
<td>Structural</td>
<td>1.06</td>
<td>1.08</td>
<td>1.11</td>
</tr>
<tr>
<td>PHARE</td>
<td>1.59</td>
<td>1.62</td>
<td>1.66</td>
</tr>
<tr>
<td>8. Compensation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Commitments</td>
<td>93.79</td>
<td>97.18</td>
<td>100.67</td>
</tr>
</tbody>
</table>


As shown in Table 2, the 10 new member states receive much more financial support than the accession countries, namely €40.85 billion for the period 2004–06, which is 11.6% of the EU–25 budget. More than half of the money is spent on structural adjustment programmes and 24% on agriculture and rural development.
Table 2: Financial framework for enlargement, 2004–06 in billion € (1999 prices)

<table>
<thead>
<tr>
<th></th>
<th>Cyprus</th>
<th>Czech Rep.</th>
<th>Estonia</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture CAP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Rural development</td>
<td>66</td>
<td>482</td>
<td>124</td>
<td>534</td>
<td>2,543</td>
<td>250</td>
</tr>
<tr>
<td>3. Structural actions</td>
<td>101</td>
<td>2,328</td>
<td>2,847</td>
<td>11,369</td>
<td>405</td>
<td>1,366</td>
</tr>
<tr>
<td>4. Internal policies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institute building</td>
<td>0</td>
<td>0</td>
<td>69</td>
<td>148</td>
<td>280</td>
<td>107</td>
</tr>
<tr>
<td>Schengen/nuclear safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Special cash flow facility</td>
<td>38</td>
<td>358</td>
<td>22</td>
<td>211</td>
<td>1,443</td>
<td>101</td>
</tr>
<tr>
<td>7. Temporary budgetary compensation</td>
<td>300</td>
<td>389</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>131</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>505</td>
<td>3,557</td>
<td>843</td>
<td>3,749</td>
<td>15,635</td>
<td>994</td>
</tr>
</tbody>
</table>

Financial framework for enlargement (continued)

<table>
<thead>
<tr>
<th></th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Slovakia</th>
<th>Malta</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture CAP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,682</td>
</tr>
<tr>
<td>2. Rural development</td>
<td>434</td>
<td>291</td>
<td>352</td>
<td>24</td>
<td>5,110</td>
</tr>
<tr>
<td>3. Structural actions</td>
<td>1,366</td>
<td>1,036</td>
<td>1,560</td>
<td>79</td>
<td>*21,746</td>
</tr>
<tr>
<td>4. Internal policies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,023</td>
</tr>
<tr>
<td>Institute building</td>
<td>421</td>
<td>71</td>
<td>138</td>
<td>0</td>
<td>1,234</td>
</tr>
<tr>
<td>Schengen/nuclear safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,673</td>
</tr>
<tr>
<td>6. Special cash flow facility</td>
<td>47</td>
<td>26</td>
<td>86</td>
<td>68</td>
<td>2,398</td>
</tr>
<tr>
<td>7. Temporary budgetary compensation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>166</td>
<td>987</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,268</td>
<td>1,424</td>
<td>2,136</td>
<td>335</td>
<td>40,852</td>
</tr>
</tbody>
</table>

* includes €38 million of non-allocated technical assistance
Box 1: The financial dimension of enlargement (continued)

Assistance programmes for candidate countries

Three programmes were established to help accession countries fulfil the Copenhagen Criteria.\(^{20}\) For the 10 new member countries, the programmes had come to an end by December 2003 though implementation was continued after accession.

*Phare* (for ‘headlight’) is the most important accession programme, covering about 50% of the total financial framework. Phare assists accession countries to fulfil the political criteria by funding national government programmes, for instance on anti-corruption or judicial reform, and by financing activities for NGOs and civil society projects (accounting for about 1% of the total Phare budget). About 70% of the Phare budget is spent on ‘acquis-related investment’, such as progressing a candidate country’s regulatory framework to ensure proper operation of the internal market (for example, in the fields of external border security or consumer protection), and investment on social or regional projects. The remaining 30% goes towards institution building to assist accession countries to strengthen their administrative and human-capital capacities. Here, the twinning programme is the main instrument.\(^{21}\)

*ISPA* (Instrument for Structural Policies for Pre-Accession) supports infrastructure projects such as large-scale transport or environment projects.

*Sapard* (Special Accession Programme for Agriculture and Rural Development) assists the countries to implement the *acquis* in the areas of agriculture and rural development, including the adoption of the CAP, and helps candidate countries to deal with structural adjustments in their agricultural sectors.

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\(^{20}\) All programmes are fully decentralised. The Commission transfers the financial means and the responsibility to the accession countries. The national contracting authority (for example, the Ministry of Labour) is responsible for the tendering and contracting of the programmes (if it does not want to implement the programme itself) as well as for financial and administrative management. The national contracting authority has to report to the Commission concerning the contracting and implementation of the programmes. See European Commission, 2002c, *op. cit.*, pp.19–21.

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No specific criteria on social policy were set. Although a high level of employment and social protection are part of the *acquis*, the evaluation of what is regarded as adequate was not made operational. Thus, only 'soft' legislation exists in the form of the many guidelines and directives with regard to European social policy, social protection and employment policies. These guidelines are based on the policies of EU-15 and were developed in cooperation between old and new members.

To monitor the progress of candidates with respect to the Copenhagen Criteria, the EC developed a detailed checklist for each criterion. The list was agreed between the acceding country and the EC. Two main methods were employed to monitor compliance: first, domestic progress in the adoption of EU laws was evaluated and secondly, member countries' political capacity and administrative capability in guaranteeing enforcement of the *acquis* were monitored. The outcome was published in annual country reports (*Regular Reports on Progress towards Accession*) and crosschecked against information from member states and the work of international organisations. The *Regular Reports* included action

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22 See De la Porte, *op. cit.*, pp.3–5 for an overview of EC social programmes. This so-called 'soft *acquis*’ of social programmes makes up the core of EU social policy, focusing on (a) a balance between economic and social policy; (b) a high level of social protection, social inclusion and equal opportunity; (c) an active role of social partners; and (d) active employment policies. Candidate countries need to outline in their NPAA how they intend to promote social cohesion. Phare funds compliant projects.


24 The European Commission has outsourced its monitoring activities and also channels funding through these institutions. Thus, candidate countries' compliance with the protection of minority rights, corruption and independence of the judiciary is supervised by The Open Society Institute (OSI) in Budapest, which draws up reports on expertise in the field for inclusion in the Commission's
plans identifying areas where further reforms were needed.\textsuperscript{25} By 2002 all 12 candidate countries had undergone 205 peer reviews for a total of 17 sectors, such as financial control, nuclear safety and environmental standards.\textsuperscript{26} A key component of the peer reviews was the exchange of information between EU experts and the candidate country. This information was incorporated into the Regular Reports and considered when mobilising financial assistance in support of strengthened administrative and judicial capacities.

In 2003, nine months before enlargement, the Commission prepared a comprehensive report for the Council and the

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\textsuperscript{25} European Commission, 2002b, \textit{op. cit.}, p.3; EC, 2002b, \textit{op. cit.} Comprehensive monitoring reports for each accession country and strategy papers can be obtained from http://europa.eu/int/comm/enlargement/. The Action Plans are drafted by the EC, which reports on measures that must be undertaken by the respective countries to comply with the \textit{acquis}. Generally, directives set a concrete goal (for example, the implementation of specific health and safety standards within a certain time frame) and leave it to the candidate country to choose the form and means to achieve this goal (subsidiarity principle). The EU’s subsidiarity principle, which stipulates that policy issues should be dealt with at the lowest governmental level, also implies challenges for the administrative capacities of accession countries’ regional authorities. Ilner M, ‘Czech regions facing European integration’ in Srubar I (ed.), \textit{Problems and Chances of the East Enlargement of the EU}, Hamburg: Reinhold Krämer Verlag, 2003, pp.112–30.

\textsuperscript{26} The areas monitored were (1) free movement of goods, services, persons and capital; (2) agriculture; (3) fisheries; (4) transport policy; (5) taxation, customs and the correct contribution to the EU’s budget; (6) social and employment policies; (7) competition policy; (8) company law; (9) environment policy including nuclear safety and radiation protection; (10) justice and home affairs; (11) economic and monetary union; (12) statistics and data protection; (13) industrial policy and promotion of Small and Medium Enterprises (SMEs); (14) science and research programmes; (15) education and training; (16) external relations and the common foreign and security policy; and (17) culture. EC, 2003a, \textit{op. cit.}, p.9–10.
Parliament, assessing the preparedness of candidate countries for each of the 29 chapters of the *acquis*. The Commission distinguished between those areas in which candidate countries were ready, those in which enhanced efforts were required and those from which serious concern arose regarding readiness for compliance with the *acquis*. All acceding countries showed 'a limited number of issues of serious concern' and the Commission in its Report proposed specific immediate action in those particular areas.

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27 See European Commission, *ibid.* Once negotiations between the Commission and the accession country have been completed, the European Parliament (EP) has to give its assent before any country joins the EU. The EP also is involved directly in the enlargement process through co-operation with national parliaments, monitoring of the negotiation process and exchanges of views with the Commission and the Chief Negotiators of the candidate countries. EP, 2003, *op. cit.*, p.4. Online at [http://www.europarl.eu.int/workingpapers/soci/pdf/100_en.pdf](http://www.europarl.eu.int/workingpapers/soci/pdf/100_en.pdf).

28 European Commission, 2003a: *Comprehensive monitoring report of the European Commission on the state of preparedness for EU membership of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.* Online at [http://europa.eu.int/comm/enlargement/report_2003/pdf/summary_paper2003, p.23.](http://europa.eu.int/comm/enlargement/report_2003/pdf/summary_paper2003) Issues where the Commission identified enhanced efforts were among others (a) the current account deficit, which was too high in accession countries; (b) the public administrative capacity and judiciary, which generally would be ineffective and unreliable, in turn affecting the proper implementation of the *acquis*; (c) the high level of corruption; and (d) the enforcement of intellectual property rights and the fight against piracy. Areas of serious concern where the European Commission, 2003, *op. cit.*, p.14, warned that '…unless immediate and decisive action is taken the country in question will not be in a position to implement the *acquis* by the date of accession…' were identified in 39 issues affecting the internal market and the delivery of EU funds. For example, Lithuania and Poland did not inspect and control their fisheries fleet according to the provisions of the common fisheries policy, many countries did not fully comply with the veterinary and phytosanitary controls in place, and some candidate countries had problems in implementing EU development programmes; among them was Hungary, which consequently was unable to start an EU rural development programme. European Commission, 2003a: *Comprehensive monitoring report of the European Commission on the state of preparedness for EU membership of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.* See
It should be emphasised that both private and public parties can take legal action against any EU member state in order to enforce EU law. Additionally, the Commission itself can refer matters to the Court of Justice if a member state fails to fulfil its commitment. Furthermore, safeguard clauses in the Accession Treaty allow the Commission to temporarily exclude new member states from the ‘benefits of certain internal market legislation and from the benefits of membership in specific areas’ until 2007. Last, the Commission can refuse to release funds from the Community budget if any new member state does not comply with the acquis.

The question has to be raised, however, of whether these sanctions are really applied in the event of non-fulfilment of EU directives. With respect to the adoption of minority rights, where EU law is virtually non-existent and EU practice very divergent, it is reported that some acceding countries responded to the pressure of the Commission while some did not. Since the protection of minority rights is not a priority area of EU policy, it might be argued that candidate countries lack the external incentives and hard sanctions needed to ensure implementation of minority rights policies. Clearly, acceptance of a candidate EU member is ultimately a political decision.

Moreover, although the EC has continued to monitor the fulfilment of new countries’ obligations after accession, the issue of whether sanctions that do exist are actually applied remains. One can argue that the EU hardly has the remedies in place to sanction non-compliance by new member states. Due to the difficult socio-economic conditions in CEEC, it would not be politically acceptable to impose fines or to take negligent countries to the European Court,


29 EC, 2003, ibid., p.18.

30 Hughes J & G Sasse, Monitoring the Monitors: EU Enlargement Conditionality and Minority Protection in the CEECs. Flensburg: European Centre for Minority Issues (ECMI), 2003, pp.21, 28.
especially when sanctions against wealthy EU members (for example, those failing to meet budget deficit stipulations) have been muted at best.\(^{31}\) On the other hand, increased pressure from the EC can be expected if member countries continually flout any of the Copenhagen Criteria, as the recent example of Greece’s fraud with respect to its public deficits shows.\(^{32}\)

When monitoring new member states’ compliance with the Copenhagen Criteria, the EC also faces the problem that *de jure* implementation of the criteria does not necessarily mean *de facto* compliance. Thus, political will and domestic resistance to new norms and regulations must also be considered. Taking labour laws as an example, high unemployment rates in CEEC mean that neither labour union nor state is, at present, in a position to push employers to observe EU standards.\(^{33}\) It is probable that proper implementation

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\(^{31}\) Flam H, ‘A colossus on clay feet: The EU and its implementation problems’ in Srubar I (ed), *Problems and Chances of the East Enlargement of the EU*. Hamburg: Reinhold Krämer Verlag, 2003, pp.36–38. Germany, France and Greece have not complied with the SPG since 2002 because their public deficits have exceeded 3% of GDP. Moreover, in some years the Netherlands (2003), Italy (2003, 2004) and Portugal (2005) were unable to reduce their public deficits according to the SPG.

\(^{32}\) From 1997 to 2003 the Greek authorities did not report their real public deficit to the Commission but reduced the figures by an average 2.1% of GDP. When the Commission discovered the truth it strengthened its controls and the right to claim billions of repayments in the event that the Greek authorities would not cooperate. However, this threat has never been realised though in 2004, Greece showed a public deficit of 6.1% of GDP. DW-World.de Torsten Gellner: *Club der zehn Defizitsünder*, 16/06/2005. Online at http://www.dw-world.de/dw/article/0,1564,1609296,00.html.

\(^{33}\) These relate for instance to health and safety at work, working conditions, under-reporting of wages, unpaid overtime, working hours, and excessive recourse to self-employed status. Vaughan-Whitehead D, ‘The world of work in the new EU member states: Diversity and convergence’, in Vaughan-Whitehead D (ed.), *Working and Employment Conditions in New Member States. Convergence or Diversity?* Geneva: ILO, 2005, p.42. In the Czech Republic for instance, trade unions receive financial support from the government to supervise the proper implementation of EU working standards. These funds are, however, inadequate. Moreover, most
of EU policies could be ensured only through financial support and strengthening of the national interest groups involved in the implementation of labour policies.\textsuperscript{34}

It is the 'hard' facts of the Copenhagen Criteria such as economic indicators or compliance with EU–15 standards and laws that can be controlled. Compliance with 'soft' indicators, such as the application of EU social policies, is much more difficult to enforce. CEECs were, moreover, greatly influenced by international organisations in formulating their social policy,\textsuperscript{35} which might in turn help shape EU–15 policies, as the section below shows.

\footnotesize

companies in the country are SMEs, which employ few trade union members, and the unions constantly lose members. Flam, \textit{op. cit.}, pp.34–35.

\textsuperscript{34} Hughes & Sasse, \textit{op. cit.}, p.21; Flam, \textit{ibid.} Flam argues that the EC and internal actors (such as Czech trade unions) would have more chance of pushing the national government if they worked together. She recommends that the EC strengthens domestic interest groups, e.g. by financial support, to ensure the enforcement of the \textit{acquis}. One must however consider that EU support might also prompt domestic suspicions of which 'real interests' trade unions represent.

\textsuperscript{35} World Bank, IMF and OECD helped CEEC to implement the Anglo-American social welfare model. According to Esping-Andersen G, \textit{Welfare States in Transition. National Adaptations in Global Economies}. London: Sage Publications, 1996, there is an assumed trade-off between social equality and full employment. Thus, the US would be able to achieve a lower unemployment rate than EU–15 countries because it accepts flexible labour markets and social inequality. Bearing in mind the Scandinavian countries, however, it can also be argued that concurrent high employment and social equality is possible. Moreover, it should not be overlooked that an equal income distribution has positive effects on domestic demand.
Creating Incentives for Reform

Challenges and performance among central and eastern European countries (CEECs)

Economic perspective

Apart from the gains from regional integration that arise through free intra-regional trade, new member states have faced major challenges when deciding to join the EU and thereby meet the Copenhagen Criteria. After their centrally planned economies collapsed in the late 1980s, CEECs had to move from a seller’s to a buyer’s market, liberalising their prices and foreign exchange, privatising formerly state-owned companies, eliminating most subsidies, reducing public and private demand to create macro-economic stability and opening their economies to external markets. These internal and external reforms were supposed to result in optimal allocation of factors of production and to promote the integration of CEECs into the world economy. The complexity of transforming CEECs and integrating them into EU–15 was, however, underestimated. The change from a socialist to a market-based economy implied the need to re-design public institutions and services, but the (internationally imposed) reforms did not differentiate sufficiently between systemic and non-systemic changes. Since systemic changes (that is, the co-ordination of markets, for instance by implementation of an effective competition policy) are preconditions for the effective implementation of non-systemic reforms such as the privatisation of state enterprises, many reforms of a non-systemic nature did not have their expected results, owing to dysfunctional institutions.\(^{37}\)

\(^{36}\) It must be noted that free trade was not fully implemented before CEECs became EU members. Thus, EU–15 excluded sensitive sectors in which CEECs have comparative advantages such as textiles, coal, steel, and agriculture. Belke, op. cit., p.79.

\(^{37}\) Wohlmuth K, Eine Dekade der Transformation in Mittel- und Osteuropa — Systeminvestitionen in Politik, Wirtschaft und Gesellschaft, in Sell A & T Schauf (eds), The South African Institute of International Affairs
The immediate economic effects of CEEC transformation (1990–93) were discouraging: regional GDP decreased, inflation rates reached double-digit figures and consumer prices, largely driven by import prices, rose sharply, leaving economies vulnerable to external shocks. Additionally, inflation was stimulated by monetary financing of fiscal deficits as CEEC governments increased their debt to compensate for an erosion of their tax base caused by increased unemployment and inadequate tax payments by privatised firms.

Since the mid-1990s, however, economic performance in CEEC has improved (see Figure 1). The average real growth rate of new member countries was 3.6% during 1996–2002 and 4.5% in 2003–2004, well above the EU–15 average of 2.2%.\textsuperscript{38} Although such comparatively high growth rates can be seen as indicating a catching-up process, it should also be noted that CEECs lag much further behind in development than did previous new member states and receive less financial assistance.\textsuperscript{39}

\textsuperscript{38} European Central Bank, 2004, \textit{op. cit.}, p.51.

\textsuperscript{39} According to calculations from Mencinger the net inflow amount to CEECs in 2003 was on average only 1.1% of GDP compared to an average support of 1.5% of GDP for Greece, Portugal and Spain. Since the average per capita GDP for those southern European countries was 77% of EU–15 GDP in 2003, while that of CEEC was only 56.2% in 2004, it is clear that CEECs are in a relatively worse position. Mencinger, J. \textit{Perspectives for the European Social Model in the New Member Countries}. Paper presented at the Workshop ‘The State of the Union’, 23–25 September 2004, Brussels.
Creating Incentives for Reform

Figure 1: Real economic growth rates in CEEC (% changes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Czech Republic</th>
<th>Estonia</th>
<th>Hungary</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Slovakia</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Thus, their average per capita GDP measured in purchasing power parity (PPP) was only 49% of EU-15 in 2002 (compared to 42% in 1993). Moreover, there are considerable differences between the countries (see Table 3). For instance, Slovenia’s per capita GDP was more than double that of Latvia in 2002, while the average per capita GDP in EU-15 was about 1.3 times that of Slovenia. Considering that all 10 new member countries of the EU are poorer than the EU-15 average and that the EU seeks to include further poor economies into its territory, the enlargement process also has significant implications for the EU’s total expenditure policy, structure of expenditures and expenditure distribution among member countries.40

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Hopes of increased foreign direct investment (FDI) inflows to support the catching-up process have been only partly fulfilled. Although stock market prices in CEEC rose dramatically in the period 2001–04 as investors re-valued firms according to decreased risks following accession to the EU, FDI inflows decreased from 4.5% to 3% of GDP in the same period. Reasons for this included the completion of privatisation processes and rising fiscal deficits; the latter have led to issues of government bonds, which again were bought by foreign investors. Thus, the composition of capital inflows has changed in the direction of debt-creating instruments.\textsuperscript{42}


\textsuperscript{42} ECB, 2004, op. cit., p.49.
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Table 3: Basic economic indicators of new EU member states (continued)

<table>
<thead>
<tr>
<th></th>
<th>Current account balance (% of GDP)</th>
<th>Debt level (as % of GDP)</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>-5.4</td>
<td>-5.2</td>
<td>30.7</td>
</tr>
<tr>
<td>Estonia</td>
<td>-6.0</td>
<td>-14.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>-3.4</td>
<td>-8.6</td>
<td>57.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>-9.6</td>
<td>-9.6</td>
<td>16.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>-4.8</td>
<td>-4.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Poland</td>
<td>-2.9</td>
<td>-2.9</td>
<td>45.1</td>
</tr>
<tr>
<td>Slovak</td>
<td>-8.4</td>
<td>-8.4</td>
<td>45.1</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.2</td>
<td>0.2</td>
<td>27.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>-4.3</td>
<td>-4.4</td>
<td>60.3</td>
</tr>
<tr>
<td>Cyprus</td>
<td>-4.4</td>
<td>6.6</td>
<td>66.4</td>
</tr>
<tr>
<td>Malta</td>
<td>0.3</td>
<td>0.5</td>
<td>64.1</td>
</tr>
<tr>
<td>EU-15</td>
<td>36</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: n/a = no data available

Despite higher economic growth, the unemployment rate in most new member states is higher than in EU-15, mirroring the substantial transformation process of economies moving from a 'full employment' (that is, overstaffed) socialist economy to a market economy. Previously, economic activities in CEEC were concentrated on heavy industries, agriculture, mining and the public sector. As can be seen from Figure 2, sectoral distribution and employment in the single sectors in the new member countries still differ from those in the EU-15, though structures have moved towards EU-15 patterns in the past 15 years.\textsuperscript{43} In all the new member states, the agricultural sector draws more from and adds less to GDP than in EU-15 and is more significant in employment creation than in EU-15.\textsuperscript{44} Coping

\textsuperscript{43} Ibid., p.49.
\textsuperscript{44} This is most of all the case in Latvia, Lithuania and Poland, where 15, 17 and 26\% respectively of the work force is in the agricultural sector (compared to about 4\% in EU-15). Considering that Poland accounts for around half of the total population of the 10 new member countries, this figure has considerable implications for EU policies such as farmers’ support under the CAP.

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with the challenges of agricultural reform and reducing the workforce in agriculture in a socially acceptable manner is therefore an important issue in CEEC national social policies and indeed also for the EU’s social and structural policies.

With economic transformation, the sectoral structure and, thus, the employment structure in CEEC has changed and labour has moved into the service sector, light industries and construction.\(^45\) The emerging private sector, however, only partially absorbed job losses, with temporary lags. The average employment rate of CEEC was 59.5% in 2002, 5% below the EU–15 average and far from the 2010

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goal of 70% labour participation rate as formulated by the European Council in Lisbon in 2000.\textsuperscript{46}

To reduce the high unemployment rates CEECs resorted to the wide application of early retirement schemes as an instrument of labour market policy. This has led to a decline in total employment and increased the cost of public pension funds, putting strains on government's fiscal performance.\textsuperscript{47} Increased unemployment and underemployment have also resulted in emerging informal sector activities\textsuperscript{48} that have limited government's tax revenues, hence its ability to perform its function.\textsuperscript{49}

\textbf{Social perspective}

While there are important differences with respect to the progress of CEEC welfare state reforms, which are highly dependent on the functioning of domestic institutions, the political will of leaders and

\textsuperscript{46} Schneider & Burger, \textit{op. cit.}, pp.78–80. The co-ordination of EU employment policy is part of the \textit{acquis} and has to be included in national employment strategies. For this purpose National Action Plans were developed for each member country (see \url{http://europa.eu.int/comm/employment_social/employment_strategy/national_en.htm}.

\textsuperscript{47} CEEC average labour participation rate declined by 8% to 68.7% in the period 1990–99. Cazes S & A Nesporova, \textit{Labour Markets in Transition. Balancing Flexibility and Security in Central and Eastern Europe}. Geneva: ILO, 2003, p.12. Though this decline is mainly a result of economic transformation, early retirement schemes contributed to it. With exception of Slovakia, all CEEC countries applied early retirement systems to release jobs for young people. In Poland, 12% of registered unemployed received pre-retirement benefits in 2003. The low employment rate of older people and the ageing of society are causes for concern in all EU-25 countries. Schneider & Burger, \textit{op. cit.}, pp.97, 107.

\textsuperscript{48} Activities in the shadow economy are estimated to account for around one third of CEEC GDP and employ around 27% of the labour force. The largest informal economies exist in the poorest countries, namely Latvia, Bulgaria, and Romania Schneider & Burger, \textit{ibid.}, pp.82–84.

\textsuperscript{49} In order to raise tax revenues and to make participation in the formal sector attractive, CEEC countries offer a low corporate tax and regulatory environment. Schneider & Burger, \textit{ibid.}, pp.87–88.
political majorities,\textsuperscript{50} the EC has stated that CEEC countries administer their social security benefits inadequately and that the quality of public sector administration needs to improve.\textsuperscript{51}

The EU does not seek to harmonise the social policy systems of member states but gives each member the right to determine its own social legislation, according to the principle of subsidiarity. There is, however, an underlying intent to ensure the co-ordination and convergence of member states' social systems.\textsuperscript{52} A certain degree of harmonisation of social and fiscal policies must be regarded as necessary if existing levels of social security and labour market standards in EU–15 are to be maintained in the face of pressure from new member countries. CEEC's new institutions and socio-economic policies have not, however, been copied from the EU–15: they have rather been shaped under the influence of the IMF, the OECD and the World Bank. CEECs have therefore tended to adopt the Anglo-American market model, which is indicated inter alia by flat taxes, liberalised labour markets and the privatisation of pension funds.\textsuperscript{53}

\begin{itemize}
\item The Czech Republic is classified as the most advanced reformer, Hungary and Slovakia as intermediate reformers that have already undertaken comprehensive reforms in the field of pensions, health care and local social services, and Poland as a slow reformer that has only implemented institutional reforms since 1997. Bruis M, Residual or European Welfare Model? The European Union and the social policy reforms in Central and Eastern Europe, 2002, pp.6–8. Online at http://www.euintegration.net/data/doc_publications/35/welfare.pdf.
\end{itemize}
Some authors contend that a more flexible approach to new member countries (for example, with respect to wage bargaining and social security) would assist in their economic adjustment and help the catching-up process, while the strict implementation of EU regulations and social legislation would decrease their international competitiveness. Thus, social flexibility would be a precondition for the division of labour, promoting intra-industrial trade.\textsuperscript{54} Others, however, argue that neglect of the social dimension bears relevant risks, such as the struggle between social groups within new member countries and the polarisation of poor and rich EU members; these in turn could undermine social cohesion and impede political acceptance and deeper integration in the EU.\textsuperscript{55} On this reading, an active social policy would be needed to soften the socio-economic impacts of the CEEC transformation process. Due to fiscal constraints, however, the social security nets in CEEC have become more porous and social structures have become more unequal.\textsuperscript{56} As a

\textsuperscript{54} Quaisser, \textit{op. cit.}; Belke, \textit{op. cit.}; Bruis, \textit{ibid.}, p.17. Thus, low wages, low taxes and a low level of labour and environmental regulation would give them competitive advantages in attracting FDI. Such an approach could, however, also result in a 'race to the bottom' where countries 'pay more than they get'. There is a risk that countries compete against each other by offering the most generous incentives to foreign investors, including tax holidays, duty free imports, no exchange rate restrictions, subsidised wages, low social standards, no environmental restrictions and even free water and electricity. There have been a few examples of a 'race to the bottom' in a number of African countries, which attracted FDI by generous investment incentives. The investments were not sustainable and ultimately left the economies more vulnerable than before. Meyn M, \textit{The Impact of EU Free Trade Agreements on Economic Development and Regional Integration in Southern Africa. The Example of EU–SACU Trade Relations}. PhD Thesis, Universität Bremen, pp.178–80.


\textsuperscript{56} Bruis, \textit{op. cit.}, pp.8–9. Nevertheless, in 2003, against the GINI coefficient measure of income equality in a country whereby 0 is total income equality and 100 is total income inequality, all CEEC countries except Estonia were lower than in UK (36.0). The GINI coefficient of the Czech Republic and Slovakia was even lower.

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result, poverty has increased and has become more overt, with people in peripheral regions, those with large families, young people, ethnic minorities and the elderly being most affected.  

**Political and legislative perspectives**

Progress by accession countries in consolidating and deepening democracy and respect for the rule of law and human rights is regarded as substantial. Most countries have reformed and strengthened their judicial systems, have set in place anti-corruption bodies, increased the transparency and efficiency of public administrations, and established institutional frameworks to ensure gender equality and non-discrimination against minorities.  


57 Schneider & Burger, *op. cit.*, pp.81–2, 106; Wisniewski, *op. cit.*, p.127; EP, 1998, *op. cit.*, p.9. Most CEEC have not applied a national poverty line. In the period 1996–n1999 the share of people living on less than US$4 per day was 28% in Latvia, 22% in Bulgaria, 18% in Estonia, 17% in Lithuania, 10% in Poland and less than 1% in the Czech Republic and Slovenia. UNDP, *ibid.* p.230.  

58 European Commission, 2002b, *op. cit.* All new member countries have ethnic minorities. In Bulgaria, Czech Republic, Hungary, Romania, and Slovakia the Roma group is the largest minority. The Roma population has a much lower level of education than the average citizen, poverty is widespread and many live in ghettos characterised by unemployment, poverty and high crime rates Project on Ethnic Relations, *State Policies Toward Romani Communities in Candidate Countries to the EU: Government and Romani Participation in Policy-Making*. Report 26 July 1999. Online at http://www.per-usa.org/reports/statepolicies99.pdf. Though it is important to avoid discrimination against ethnic minorities and to promote their inclusion (and not their assimilation) into CEEC societies (Riedel S, *Minderheitenpolitik in der EU-Erweiterungsperspektive. Neue Konflikte durch Maßnahmen der positiven Diskriminierung*. SWP-Studie 2001/S24, Stiftung für Wissenschaft und Politik: Berlin, 2001), argues that the introduction of collective protection of ethnic minorities promotes a parallel education system instead of promoting the coexistence of pluralistic systems. Such segregation could exacerbate ethnic
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Commission stresses, however, that there is still room for improvement in new member states' general administrative capacity and for fighting corruption more effectively.\(^{59}\)

When discussing implementation of the *acquis*, it must be remembered that the regulations of EU-15 member states were established over decades, mirroring the complexity and demands of a modern market economy, while CEEC countries have had to adopt these rules within a much shorter time period. It is argued that application of the *acquis* is not necessarily appropriate for economies in transition, since it carries the risk of excessive or inadequate regulation for particular areas.\(^{60}\) New member states, however, had to accept the 'package of accession'; that is, they had to comply with the Copenhagen Criteria and were unable to help shape the future of the EU institutions they sought to join.\(^{61}\)

Individual governments and the Commission together undertook bilateral negotiations for accession, the implementation of EU policies and monitoring processes. Accession countries had to establish comprehensive information campaigns to inform their citizens about enlargement.\(^{62}\) Most CEEC citizens were, however, very naive concerning EU accession and had little idea about its real meaning. It has been reported, for example, that '70% of the
tensions and even endanger the unity of the state in some societies (for example, the Western Balkans). Hughes & Sasse, *op. cit.*, criticise further that the EU focuses on Roma and Russian minorities but neglects other ethnical minorities in CEEC, such as Turks in Bulgaria or Hungarians in Romania, Slovakia and Serbia.


\(^{62}\) The Commission provided up to €30 million a year and technical support for information campaigns in accession countries. The citizens in accession countries were informed via internet, TV, newspapers, and in seminars. EC, 2003b, *op. cit.*, p.6.
Romanian population wants to enter the EU, while the same proportion [imagines] manna from heaven at the moment of accession'. 63 In the meantime, CEEC citizens have come to realise that the accession process is hard work and the pace of progress much slower than expected. There is growing awareness that national and European interests are not necessarily identical (for example with respect to infant industry protection) and that EU membership does not automatically lead to prosperity. Nevertheless, the majority of the CEEC population has opted for EU membership as the only way to improve living conditions in the long run. 64

The interests of CEEC businesses during the accession process were twofold. While small and medium enterprises (SMEs) and large companies operating in their domestic market focused on defensive strategies, export-orientated businesses emphasised offensive interests, such as unrestricted access to the EU single market and options to enter into strategic partnerships. 65 Employers' organisations exist in all CEECs but are often small and poorly

63 Trofin L, We Have to Show the EU that we are Doing our Homework — The Romanian Process of Integration in the EU In a Larger Context. Bucharest: Babes-Bolyai University, 2001, p.59.
organised; it was therefore mainly large, internationally uncompetitive businesses that lobbied directly at government level.  

Apart from their indirect influence through private sector lobbying, civil society groups were not involved in the accession process. Generally, civil society in CEECs is still in the initial stage of formation and is prima facie relatively weak. Social movements such as labour unions, churches and other groupings that in many CEECs were driving forces in the breakdown of the socialist systems, have lost appeal and influence. Many people are unaware of avenues for influencing politics other than through the ballot box, few have a recent tradition of social activism and democracy to call on and most are too concerned about daily life to become involved politically or

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67 Important differences exist, however, between CEEC countries with respect to the influence of trade unions and churches. Schneider & Burger, op. cit., p.100; Gawrich A, Zivilgesellschaft, katholische Kirche und organisierte Interessen, in Franzke J (ed.), Das moderne Polen. Staat und Gesellschaft im Wandel. Berliner Debatte Wirtschaftsverlag: Berlin, 2003, pp.46–67. In Poland and the Czech Republic, neither trade unions nor representatives of other social groups, such as the unemployed, pensioners or ecological groups, were strong enough to influence government policy. In the meantime, however, trade unions and employers associations in both countries have organised at the EU level to lobby for their interests. Pleines, op. cit., pp.32–34, 48–49.
socially. Low confidence in state institutions arising from the difficulties associated with economic, political and social reform and the tensions within society that these reforms have brought to the surface, might also have contributed to the under-development of civil society and its institutions. It must be borne in mind that those institutions now in place are 'imported' and not traditional or domestically 'owned' ones. When imported into new socio-economic environments and cultures, and especially into societies under transformation, such institutions might not function as their proponents envisaged.

Challenges for the EU and the way forward

Given that the transformation process in CEEC has been considerably accelerated by the prospect of enlargement after 1998, the EU hopes that a similar process will work for future member states. Bulgaria and Romania have been negotiating with the EU since 2000 but were not ready to join in 2005, due to economic and

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69 In Bulgaria a national survey comprising 1,189 face-to-face interviews revealed that only 21% of respondents were satisfied with the way democracy is working in Bulgaria. The main reasons were put forward in the light of unsuccessful reforms, which have led to social exclusion, and of corruption scandals. Survey data from the Central and Eastern Euro-Barometer (1998) confirmed this negative trend for other countries. Thus, Poland was the only CEEC where more than 50% of respondents were satisfied with the democratic system then in place. Genov, *op. cit.*, pp.71–76.

70 Srubar, *op. cit.*, pp.180. This is because ownership is not guaranteed and the perspectives of foreign experts who implement these policies might differ from those of domestic experts. After German reunification West German managers in East German companies often failed because they did not understand the 'everyday culture' of their East German employees, including their mentality, local collective attitudes, values, social structure, networks, and environment.

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legal shortcomings;\textsuperscript{72} they are expected to become members by January 2007. The other candidate countries are Croatia and Turkey where accession negotiations started in October 2005. Macedonia handed in an application for membership, which is still being examined, in 2004. In the longer term, the EU also seeks to include the other western Balkan states (Albania, Bosnia and Herzegovina, Serbia and Montenegro) into its territory to improve the political and economic stability of the region.\textsuperscript{73}

Accession of the 10 new member states, mainly from poor eastern European countries, has, however, raised fears among the EU-15 population about immigration and the erosion of labour standards and environmental regulations. Although attempts were made to

\textsuperscript{72} Shortcomings against the Political Criteria: Bulgaria still has to develop sufficient administrative and judicial capacity to implement and enforce the \textit{acquis}, improve the qualifications and efficiency of its civil services, fight corruption, improve living conditions for children and mentally disabled people in institutions, combat degrading treatment by the police, and fight discriminatory behaviour against ethnical minorities. Romania needs to focus on effective implementation of public administration and judiciary reforms, improve the quality of transposing the \textit{acquis} into national legislations, improve the transparency and capacity of civil service and administrative procedures and strengthen the enforcement of the anti-discrimination strategy, particularly with respect to its Roma minority. \textit{Shortcomings against the Economic Criteria:} Bulgaria still has to improve the flexibility of product and labour markets, complete privatisation programmes and provide a more stable, predictable and efficient framework for the private sector. Administrative capacities need to be strengthened to ensure transparent and efficient management of EU funds. Romania was not fully considered a functioning market economy in 2003. It has to improve its implementation of structural reforms, progress towards macroeconomic stability, and promote privatisation and the restructuring of public enterprises. It also needs to advance its expenditure reforms and its tax compliance. In October 2003, when accession negotiations were closed for the 10 new member states, there were still five Chapters of the \textit{acquis} to be negotiated for Bulgaria and 11 for Romania. See European Commission, 2003b, \textit{op. cit.}, pp.9–10, 41.

\textsuperscript{73} Negotiations for EU membership under this so-called Stabilisation and Association Process will start in 2010 at the earliest. European Commission, 2005, \textit{op. cit.}
address these concerns in negotiations, (for example, with the application of transitional measures for free movement of labour\textsuperscript{74}) the majority of the EU–15 population is sceptical about the (continuing) enlargement process. As the 2005 rejection of the European constitution in the Netherlands and France showed, the EU–15 governments so far have failed to convey to their citizens the need to expand the EU and to reform its institutions.

It has become apparent that EU institutions and decision-making processes need to be reformed to become more efficient, effective and productive so as to cope with the internal and external challenges the enlarged EU–25 membership will face.\textsuperscript{75} The Treaty of Amsterdam, concluded in 1999, failed to settle the question of power sharing between single member states and between EU institutions and member states, or to reform the structural and cohesion policy and the agricultural policy. Nor would the European constitution, while it would have improved the functions of the EU, have

\textsuperscript{74} For new EU members the free movement of workers is suspended until 2007 and can, if single EU–15 members so request, be extended for another three years. This regulation addresses mainly the concerns of Germany and Austria, the main host countries for emigrants from Poland and the Czech Republic. World Bank, \textit{Enhancing Job Opportunities in Eastern Europe and the former Soviet Union}, 2005, p. 72. Online at \url{http://www.worldbank.org/eca/laborstudy}; Wisniewski, \textit{op. cit.}, p. 131; Belke, \textit{op. cit.} Exemptions are, however, possible: If for instance a British company wants to employ a specific CEEC worker with extraordinary skills or if German farmers require foreign support for their harvest, CEEC workers are allowed to work in EU–15. Hence the interpretation of the suspension of free movement of labour depends on the labour laws in particular EU–15 countries.

\textsuperscript{75} This is most of all true for the European Council, the legislative body of the EU. For a more effective operation it is proposed to extend the principle of the qualified majority, to abolish the principle of unanimous vote, to concentrate purely on legislative tasks and to act as political ‘driver’ for the Commission. Furthermore, it is proposed to strengthen the position of the European Parliament to establish it as an equal institution to the Council. Maurer A, Kietz D & C Völkel, \textit{Interinstitutional Agreements in CFSP: Parliamentarisation through the Backdoor}. EIF Working Paper Series No. 5. Vienna: Institute for European Integration Research, 2004.
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satisfactorily settled the question of competencies.\textsuperscript{76} In fact, the decision-making process of 25 (very) different countries, with respect to their economic development, size, population, policy and legislative traditions, history and culture, has proved very difficult. Small member countries fear that their voice is not sufficiently heard\textsuperscript{77} and insist on retaining their voting power, which is, however, not very efficient. The Commission is still searching for an acceptable ‘sub-optimal’ decision-making process that is an improvement on the status quo.\textsuperscript{78} A compromise acceptable to all EU-25 countries has not yet been found and the future for an initiative that meets all members’ concerns looks bleak, given the failure to ratify the constitution in two key EU countries.

Conclusions and policy recommendations

The abrupt liberalisation of prices and trade with no functioning legal arrangements, market institutions or social protection schemes, as well as the lack of knowledge of the market mechanism, resulted in a worsening of economic and social conditions in the CEEC after the breakdown of socialist economies. Though the transformation process is still bumpy, it can nonetheless be argued that EU membership or the option to join the EU has accelerated economic and political reforms in CEEC. All CEECs have established democratic institutions that can form the basis for political pluralism, and macroeconomic stability, which is seen as a prerequisite for economic growth and prosperity. The adoption of EU legislation and

\textsuperscript{76} Quaisser, op. cit., p.9.

\textsuperscript{77} The Portuguese head of the EC, José MD Barroso, has therefore increased the number of vice presidents in the Commission to improve the co-ordination strategy among member states and inter-institutional relations within the EU. Reichel S, Jonas A & A Maurer, Die zukünftige EU-kommission, in SWP-Aktuell, 42, Stiftung für Wissenschaft und Politik: Berlin, 2004, p.3.

\textsuperscript{78} Since each compromise between 25 countries has advantages and disadvantages, it would be a ‘sub-optimal’ solution in terms of an efficient decision process.

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final accession to the EU together have acted as an ‘agency of restraint’, locking in economic and political reforms. The reversal of these reforms is unlikely, since it would spark political pressure and isolation within the EU. It is also clear, however, that de facto implementation of EU rules and legislations is not always guaranteed and that fines and sanctions against new member states may not be politically acceptable.

CEECs have realised that EU membership is not the panacea for their economic and political problems, serving automatically to attract foreign direct investment and to bring with it fiscal transfers and well-paid jobs. There are still major differences between new member countries with respect to income, unemployment rates, reform levels and institutional resilience and the ability to cope with challenges. Amelioration of this situation requires increased financial support and technical expertise from EU–15 and thus, the redistribution of EU funds towards new member countries.

The EU can only be as strong as its member states and the inclusion of economies in transition at a time of weak economic growth, high unemployment rates and increasing global pressures and international competition, implies challenges for all EU member countries. It is very hard for the EU–15 to integrate new members economically, politically, legally and socially into its system. Though the EU–15 is aware of the risk implied by the creation of a peripheral group within its boundaries, its inability to reform itself is a stumbling block for successful enlargement. The integration of new members will be a major test for the EU, its success dependent not only on the EU’s own economic prosperity but also on its political will to redistribute financial means and power towards new member states. Successful regional integration can only work if all member countries believe they are better off within, rather than outside, the

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EU. But if the idea of a united Europe is no longer supported by the majority of people in Europe, any projected EU–25 plus will not work.
## Appendix A

### Countries which have signed the APRM’s Memorandum of Understanding as at May 2006

| 1. Algeria    | 13. Mali       |
| 5. Cameroon   | 17. Republic of the Congo |
| 6. Egypt      | 18. Rwanda     |
| 7. Ethiopia   | 19. Senegal    |
| 8. Gabon      | 20. Sierra Leone |
| 10. Kenya     | 22. Sudan      |
| 11. Lesotho   | 23. Tanzania   |
| 12. Malawi    | 24. Uganda     |
|              | 25. Zambia     |

### Countries expressing interest in signing the APRM’s Memorandum of Understanding

| 1. São Tomé and Príncipe | 4. Cape Verde |
| 2. Botswana             | 5. Djibouti   |
|                         | 7. Madagascar |
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### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>APRM</td>
<td>African Peer Review Mechanism</td>
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<tr>
<td>AU</td>
<td>African Union</td>
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<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
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<tr>
<td>CEEC</td>
<td>Central and Eastern European Countries</td>
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<tr>
<td>CET</td>
<td>Common External Tariff</td>
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<tr>
<td>CU</td>
<td>Customs Union</td>
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<td>DG</td>
<td>Directorate-General</td>
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<td>EC</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>European Economic Community</td>
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<td>EMU</td>
<td>European Monetary Union</td>
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<tr>
<td>FDI</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-Accession</td>
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<tr>
<td>Nepad</td>
<td>New Partnership for Africa’s Development</td>
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<td>NPAA</td>
<td>National Programme for the Adoption of the Acquis</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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</table>
SAPARD  Special Accession Programme for Agriculture and Rural Development
SMEs  Small and Medium Enterprises
SGP  Stability and Growth Pact
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