

CHAPTER 2

REGIONAL ECONOMY MANAGEMENT

Some Reflections on Possible Scenarios for EU Enlargement

Andras Inotai*

Abstract. Recently several declarations preferring the scenario of the large-group (big-bang) enlargement of the European Union (EU) have been made both by member-countries and the Commission. Although the latest Commission reports, including the enlargement strategy paper, mention the previously unquestionable performance criteria of membership, according to which only adequately prepared countries fulfilling the fundamental accession criteria can join the EU, they emphasize that in the near future not less than ten countries may be able to reach this goal. This position is clearly supported by the fact that, with the exception of Bulgaria and Romania, all candidate countries can close the accession negotiations in the foreseeable future. Moreover, the French foreign minister announced the possibility of a twelve-country enlargement.

It cannot be excluded that the political decision on the modality of enlargement has already been taken. With this in mind, the question of whether there still is any sense in considering any potential scenario of enlargement is justified. I am convinced, that it is justified for three reasons.

First, at present, there is not yet any clear EU position concerning the enlargement. As long as this position is open, all kinds of discussion are not only justified but also welcome. Second, experts dealing with this topic can hardly abstain themselves from participating in the debate. Professionally and morally, they are (should be) committed to call attention to the potential dangers that, in my view, could seriously damage not only the future position of the candidate countries, but also the future of the EU and of the whole of the continent. Third, some developments seem to indicate that the discussion about the pattern of enlargement just has reached a turning point. This is the last moment, chance to prevent evolution of the processes the consequences of which could condemn Europe to 'damage limitation', instead of strengthening Europe's stability and global competitiveness. The basic idea of this paper was generated by knowing and feeling that 'perhaps, it is not yet too late'.

Key words: EU enlargement; enlargement requirements; enlargement scenarios.

Introduction

All through the 1990s, the EU dealt with 'Eastern enlargement' in a rather ambiguous way. On the one hand, from the beginning of the transformation process it acknowledged the strategic importance of the dramatic political, social and economic changes that were shaping the future of the continent in a decisive way. On the other hand, in the early years after the fall of the Berlin wall no long-term strategy was elaborated on how to strengthen stability and incorporate the Central and Eastern European (CEE) countries into the framework of mainly Western European integration. In fact, the integration of the transforming countries into the EU, based on a gradual and longer term strategy, should have been started at the very beginning of the nineties, simultaneously with the German unification.¹

* Professor of Economics, Director of Institute for World Economy at Hungarian Academy of Sciences, Budapest.

¹ In contrast, and mainly on French pressure, the EU gave clear priority to the creation of common currency, by burdening the EU budget in general, and its main contributor, Germany, in particular. It is not difficult to discover behind this move several

The situation changed with the publication of Agenda 2000 in July 1997. Considering European stability, the obvious success of the first period of transformation and, what is not less important, the internal reform pressure of the Western European integration, this document urged starting the enlargement process without any delay. The principle of differentiation was applied, since negotiations were proposed and initiated only with the countries considered to be prepared for this stage. However, within a short period, political considerations became dominating in the scenario of enlargement. In December 1999, all candidate countries were invited to start accession negotiations. At the same time, all politicians and the Commission remained silent about the form, the timetable and the conditions of an enlargement by at least 12 new countries. In the light of far reaching internal reforms of the Union and the unprecedented task of incorporating as many as one dozen of new countries, such clear strategy would have been essentially necessary. Since this step had not been undertaken at the right moment, it should not surprise anybody that the EU has carefully avoided any mentioning of the potential first date of enlargement (until December 2000, this had been linked to the internal reforms of the EU), and even more, of defining the number or circle of potential first-wave candidates.

The EU has found *three main arguments* to support this 'non-strategic' approach. (1) It has stressed that any firm date, as well as any effort to identify first-wave candidate countries, might dramatically reduce the impetus of membership hopes propelling all the candidate countries. Those that are ineligible for first-wave membership might abandon their hard and sometimes expensive preparations, with clear negative impacts on their transformation process in general. (2) Any premature differentiation among the candidates might cause deep disappointment in the countries not in the first wave. This could produce instability in several CEE countries, with direct consequences for broader regional stability and the longer-term investment plans of international capital as well. (3) At least in the early stages of the negotiations, it would be impossible to give a clear timetable for enlargement, as both the EU and the candidate countries face several pieces of 'homework' before membership can materialize. Furthermore, any fixed commitment could be understood (or misunderstood) by candidates as a clear date for membership irrespective of their level of internal preparation. Another potential purpose behind this EU behaviour cannot be ignored. Lack of firm commitment can always be seen as an effort to delay decisions on the date and composition of the enlargement.

The EU arguments can be countered by the following.

It is difficult to understand how a clear timetable could lessen the pace of preparation in any candidate country. On the contrary, it may have favorable impacts. First, it could give a clear indication to the member-countries to initiate partly painful adjustments or to start long-term restructuring. Second, it could urge the EU to embrace fundamental reforms in enlargement-relevant areas well before this process starts. Third, 'early warning' could have been transmitted to candidate countries, which are on different levels of preparedness for EU membership, and more importantly, have different absorption capacities in political, economic, social and institutional terms. Therefore, each country could have been able to choose the most appropriate method and speed for a *sustainable* preparation strategy, according to their specific situations. Finally, and fourth, to a large extent, it is the lack of a clear timetable which can be made responsible for the growing opposition to enlargement in the societies of the member countries. Such development could have been prevented or at least substantially slowed down by a clear, gradual, country-related enlargement strategy. The continuous floating of the date of accession, and even more that of the group to join the EU in the first wave, proved to be an instrument of shaping public opinion with the worst results. No wonder, that such kind of approach generates large-scale uncertainty, which demobi-

centuries old French attitude towards Germany. The idea of common currency could deprive Germany from one of its main 'national identity symbols', the strong DM. In addition, new barriers to the unification of the continent, supposed to serve fundamentally German interests, can be raised. Any attempt at enhancing German influence in Central and Eastern Europe should be blocked. This, however, has already proved to be a short-sighted consideration, if one looks at the Austrian example in the sixties. Artificial barriers and delays generally foster and do not weaken 'unilateral dominance' in the economic activities of a given region or country.

lizes the society and strengthens the status quo mentality - at least until the moment of irresistible, and therefore, much more dramatic, changes.

It is a mistake to see differentiation as a product of stating or not stating something. The whole transformation period of more than one decade is clearly marked by differentiation in a number of key policy areas, from the pattern of economic integration into EU structures to the different policy options and instruments used by individual candidate countries. Here politically motivated non-differentiation, or still more, the artificial approximation of most candidates for none-too-transparent political reasons may prove a dangerous, double-edged tool when the time to decide on the pattern of enlargement arrives. The longer this approach prevails, the higher the costs of a decision will be. If the EU opts for differentiated (small-group) enlargement, all the previously (and artificially) homogenized countries will be utterly disappointed, with unknown political and socio-economic consequences. In its turn, if the decision goes in favour of a 'big-bang' enlargement in future the EU is likely to find itself in a very difficult and risky position with the whole integration process. The dilemma could have been solved by announcing a long-term strategy of enlargement with clear criteria and further EU support at the very beginning of the accession negotiations. Unfortunately, Brussels preferred the opposite, ostensibly smoother and more comfortable way, either out of short-termism, or because enlargement was still not seen as a serious, imminent issue. At the current, fairly advanced stage of negotiations, this dilemma can hardly be solved in the way that satisfies everybody. Nevertheless, a long-term EU strategy has to be announced, at the deadline of when the negotiations are concluded with some candidate countries. In the following pages this paper attempts to deal with this issue in more detail.

Looking back over the past decades of the integration process, it becomes clear that all major EU projects of strategic importance have had a clear timetable for the several years between the launch of the project and its expected completion. This was the case with the common commercial policy (1969-74), implementation of the Single Market (1985-92) and the preparations for the Economic and Monetary Union (EMU, 1993-9). It is therefore hard to understand why Eastern enlargement, several times quoted as the EU's 'project of the century', should not receive a schedule as well.

In recent years the uncertainty about the date and pattern of enlargement has brought about further detrimental developments. It has already been mentioned briefly that the present member-countries have not sent out sufficiently forceful messages indicating that they want to speed up their adjustment process to the new situation evolving in Europe and the EU. Unsurprisingly, there is mounting opposition in several member-countries to enlarging the Union. On the other hand, impatience and even disenchantment are starting to appear in some of the best-prepared candidate countries. These derive, among other factors, from the uncertainty about the accession date, the fear of having to wait for less prepared countries, and lack of information about the potential volume of transfers expected to become available upon membership. Hitherto, these candidates have displayed fundamentally pro-European behaviour and held sincere hopes of exerting a positive impact on the reform process within the enlarging Union. Such stances may be questioned or cease if the EU proves unable to absorb the shocks of the first wave of enlargement quickly. Finally, it can hardly be denied that the position taken by Brussels has contributed substantially to misinforming the public in the member-countries and increased public reluctance to see new countries admitted into the EU. In the absence of a clear enlargement scenario, the Western European media have been full of speculation about the appearance of a 25-member Union overnight. It is quite understandable that such a vast change should be hard for EU citizens to accept after living for decades under conditions of artificially high incomes (supported not least by net flows of resources from the current candidate countries). At the turn of the century, the intensity of European developments and the new quality of accession negotiations made the continuation of the 'strategy' of 'no timetable - no group' unsustainable. As a result, at least one of these two elements had to be abandoned. No wonder, that it was the timetable, the potential date of ac-

cession. Thus, the European Council declared at the Nice summit that the EU had fulfilled its tasks connected with enlargement and was ready to receive new members from 2004 onwards.¹

Nevertheless, this is not a fixed commitment to enlarge in that year. The date of the first enlargement depends on the speed of the accession negotiations and ratification process, and on the still unknown composition of the first acceding group of countries.²

Although the announcement of the first possible year of enlargement is a welcome event, *it is likely to heighten the problem of conflicts over the date and the pattern of enlargement*. Since there has been no guidance at all on the second, enunciation of the date 2004 may generate difficulties in several areas. (1) The absence of a clear strategy for the 'years after' the first-wave accessions has set all the candidate countries (except Bulgaria and Romania) off on a headlong race for membership at the earliest moment. Obviously, they all see the opening of the EU to new members as a unique opportunity that has to be seized. Candidates are convinced that if they miss this chance, the EU may close the doors again and offer no further enlargements in the foreseeable future. (2) As a direct result of (1), all candidate countries are concentrating hard on concluding their negotiations before the end of 2002, as the latest possible date for a candidate acceding in 2004. They are even prepared to sacrifice some or many of their basic interests, rather than be left out of the first wave.³ There is hardly any bigger danger for a widening Europe than the significant and further increasing time lag between the conclusion of negotiations and the real maturity or convergence of candidate countries, as domestic preparations cannot always keep up with the pace of the negotiations. Although it has concluded its negotiations, a country may be unprepared when it joins the Union in 2004, unless the Commission decides not to propose its succession to the European Council, or the Council rejects a positive avis from the Commission.⁴ This may be methodologically difficult to implement and politically risky, since the candidates see the conclusion of negotiations as the signal for an immediate start to the ratification process. (3) The unknown composition of the first group increases the uncertainties in key areas of EU internal reforms and policies. A number of major projects that will shape the future of the Union substantially are due to begin in the coming years. These include the institutional debate in 2004, reform of the Common Agricultural Policy (partly WTO-related) around the same time, negotiations on the 2007–2013 EU budget, due to start early in 2005. There are others already in the pipeline, such as Justice and Home Affairs and the Common Foreign and Security Policy. The conditions and possible outcomes of these negotiations will certainly be influenced by the countries involved (and by those not involved) in the first wave of enlargement. It is urgent for the EU to construct a *clear, literally strategic plan* that extends well beyond the first wave of enlargement, covering at least a decade. The later such strategy is launched, the worse the initial conditions that can be expected are. The negative consequences of neglecting to do so will be felt by the EU and by the candidate countries (whether they can expect to be in the first wave or not). Not less important is the fact that they will adversely affect the future of Europe.

The basic approach: how to sustain and strengthen stability in Europe

Regrettably, all examinations of the pattern of enlargement (or rather enlargements) in recent years have started out from a set of specific interests. Some have been based on rigorous economic arguments, some on political aspirations. Some have cited moral responsibilities on the EU side. Some have noted the competitive approach among candidate countries, which is otherwise quite understandable for historical reasons. What steadily enlarging Europe really needs, however, is a strategic plan of enlargement based on the most critical issue facing the continent: its *stability*. The priority considera-

¹ However, it has to be said that the breakthrough did not originate with the European Council. It was forced upon the Council by the European Parliament, from which it could hardly take a very different position.

² Although in principle the appearance of other global and intra-EU barriers still cannot be ruled out, the EU has made a clear commitment at the highest political level, stating that from its side, it will not create any further obstacles to opening the enlargement process.

³ This haste can hardly be equated with the higher degree of flexibility that Brussels has requested several times from certain candidate countries.

⁴ Consequently, the procedure before the start of the negotiation process will be repeated before the start of the ratification process (similarly to the decisions taken on the starting of the negotiation process in Luxembourg, in 1997 and in Helsinki, in 1999).

tion, to which the enlargement strategy should be 'subordinated', or by which it should be directed, is this: "What kind of an enlargement strategy can guarantee (as far as anything can be guaranteed) the sustainability of stability in Europe, even in the most critical years of the gradual enlargement process". This needs to become and remain the cornerstone when considering various enlargement scenarios. All efforts that neglect this factor may reap short-term benefits for certain countries (members and candidates), but will end as a negative-sum game for the continent as a whole.

There are three basic criteria, from the point of view of European stability:

The enlargement process must remain open to all countries that are candidates at present or are likely to become candidate countries in the foreseeable future. Any closure of the enlargement process, even temporarily, may produce insurmountable problems and generate extremely dangerous developments in the outsider countries. There must be no repetition of the story of NATO enlargement.¹

The stability pillar on the EU side is that no enlargement should overburden the internal cohesion of the integration framework. Any enlargement that seriously questions or even blocks normal functioning of the EU may be detrimental to its progress and to the stability of Europe. It is difficult to understand why the EU, always making reference to the consequences of any enlargement threatening the internal cohesion of the Community, suddenly seems to opt for a 'big-bang enlargement', which would contain countries with substantial difference concerning their GDP per capita level² and competitive structures.

Only well-prepared countries should join. Any other pattern of enlargement, whatever its strategic, political or other motives are, is extremely risky and self-destructive. On the one hand, it may easily produce 'second-class membership' not only because these countries could become members of the EU without participating in the shaping of some community policy areas where their immaturity would destroy vital mechanisms of normal EU functioning.

Furthermore, and more importantly, unprepared new member countries would enter such an environment, in which many of their shortcomings would become immediately manifested. The consequences of not being able to cope with the rules of the game of the Union would result in the request for additional exceptions and special treatments which could or could not be accepted by the EU. If not, serious financial consequences, including the judgements of the Court in Luxembourg should be faced. In general, the insupportable burden of adjusting to the rules will produce a strong domestic backlash, because of the relatively limited absorption and adjustment capacity of such country (in economic, institutional, legal, social, human and other terms). However, if most of this becomes manifested only after accession, there will practically be no instrument to treat such situation adequately.

So the performance and maturity of each candidate country has to be assessed carefully before it joins. In terms of European stability, it is better to have countries wait rather than to admit them unprepared and face a process of 'self-disqualification' *within* the integration system. It is a fundamental and qualitative difference that, in this case, it is not the EU that assesses the integration maturity (or immaturity, i.e. the 'second-class' character) of the given country, but proper experience of the unprepared new member that produces this judgement.

To sum it up, the enlargement project has to be considered as a *bridge-building* exercise. The bridge requires two solid pillars, and from the outset, it has to be clear to everybody that the bridge will be built. All countries that contribute to strengthening these pillars are welcome to pass under the bridge. The bridge is not built for an exclusive group of countries, but for the widest European community that is in a position to strengthen, not question its pillars.

¹ Nato decided to admit three new countries in 1999 (the Czech Republic, Hungary and Poland). Although the decision itself was not necessarily wrong, the impact was negative because the enlargement was not accompanied by a strategic plan to continue the enlargement process. On the contrary, the process has halted for some years, with clear consequences for the 'stability perception' of CEE countries left out. The problem was not that some countries did not become members at the same time as the three CEE countries admitted. It arose from the impression that others might never become members, since the enlargement process might be over and the historic opportunity irrevocably lost.

² According to official statistics, per capita GDP at purchasing power parity (PPP) among the candidate countries reveals a gap of three to one. This is larger than the difference among the present member-countries of the EU. The GDP per capita indicator of some candidate countries are closer to the EU average, let alone to the indicator of the less developed member-countries, than to the level of the least developed candidates.

What follows is an attempt to evaluate two basic approaches to enlargement in the context of the three criteria mentioned above.

A merit-based approach

This strategy, based on clear performance criteria, states that EU membership can be given only to the countries that at a given moment comply with all the basic accession criteria. These were laid down at the Copenhagen summit and have served as a yardstick in successive annual reports on candidate countries. If acceptance is confined to well-prepared countries, *three positive developments* can be expected. (1) The EU will continue to function properly in all its basic areas (institutions, decision-making processes, budget, agriculture, labour market, *etc.*). (2) Well-prepared countries can rightly expect to adjust themselves smoothly to the established EU structures. Their political, economic, institutional and social inclusion will not therefore pose any great problem to the EU or the new members. (3) Probably most important, smooth adjustment will be perceived as a success for the enlargement process, so that politicians and the public remained open-minded about further enlargement or enlargements.

The advantages of a gradual enlargement testing and also the 'absorption capacity' of the EU have been clearly recognized by the Commission and the member-countries in the process of negotiating on the free flow of labour. Based on the argument that the potential impacts on the labour flow from East to West, mainly on the German and Austrian labour markets, have to be experienced and measured in the framework of a gradual approach covering a seven-year period and consisting of 2 plus 3 plus 2 years, the EU, in fact, opted for a gradual scheme. Since the overall impact of any enlargement can hardly be compared with the partial impact in any of the areas covered by a particular accession chapter, the basic contradiction in the EU's position is obvious. It is, of course, difficult to understand, why specific fears immediately produce a gradual approach, while most probable negative impacts on the overall cohesion of the integration process do not lead to any 'early warning' considerations. Nevertheless, the great difficulty of creating absolutely unanimous and distinctive selection criteria has to be conceded. While the Copenhagen political criteria are clear,¹ it is far harder to set the economic requirements, to say nothing of the administrative and institutional ones.² This dilemma is most apparent in the Commission's annual country reports. On the one hand, they 'homogenize' the economic performance of several candidates, despite clearly differentiated trends in their macro policies, and more importantly, on a micro level. On the other hand, the extremely delicate language used in differentiating candidate countries provides some evidence that the EU is aware of these differences. However, very slight differences pose a challenge to linguists and offer an easy target for any medium-level or short-term political endeavours. This situation is certainly not comfortable for the countries that have taken a merit-based approach to their accession strategy.

A politically driven approach

This is the one opposite to the merit-based approach. The consequences for the stability of Europe can be evaluated in terms of *two basic scenarios*. (1) There is no threat of early enlargement, but political compromise is likely to mean that less-prepared countries join concurrently with well-prepared countries. (2) Less-prepared countries gain more time to adjust themselves, but at the expense of delaying the entry of well-prepared countries. Both scenarios will have serious negative impacts on future European stability.

Premature enlargement with a large group of countries at different levels of preparation, generally referred to as '*big-bang enlargement*', jeopardizes all three priorities for sustainable stability and 'bridge-building' for Europe's future.

¹ These were already applied in 1997, when Slovakia was prevented from starting accession negotiations by a perceived 'democratic deficit'.

² It is harder still to assess the level of social flexibility of candidate countries, particularly in the framework of sometimes rapidly changing domestic relationship between the government and interest groups. More importantly, the basic negotiating-strategy priorities may be changed (or will be forced to change) as well, with obvious consequences for fundamental (or alleged) 'national interests'. The potential repercussions can produce serious conflicts if any compromise has not been substantively discussed with various lobbies, local or international.

The open-endedness of the enlargement process is immediately jeopardized, whereas the future stability of Europe definitely depends on continuity of the enlargement process. The larger and (necessarily) more heterogeneous the first group becomes, the greater the danger that the first enlargement will block the way for any further enlargements appears to be. Such situation will greatly undermine stability in Europe, by drawing a new dividing line across the continent. At the same time, some powers may imagine that the leftover countries are free prey, which will further destabilize Europe. Any 'big-bang' scenario will further increase reluctance to contemplate further enlargement among many politicians, the media and the public and probably in the enlarged EU, or cause outright rejection of the idea. Such approach certainly does not enhance stability in Europe. On the contrary, it will weaken stability by definitely excluding from the EU some of the present, and which is not less important, several future candidate countries (for instance, ex-Yugoslavia).

The larger and (necessarily) more heterogeneous the first-wave group becomes, the greater challenge it presents to the internal cohesion of the EU. For one thing, various transitory exemptions will be required by the new, variously prepared member-countries. This will increase opaqueness, unequal 'legal competition' and 'special treatments', and multiply the cases taken to the European Court in Luxembourg. For the other thing, the financial implications have to be considered. Although all estimates suggest that no pattern of Eastern enlargement seriously endangers EU budgetary principles (1.27 per cent of GNP or a maximum 4 per cent of the GNP of any member country), the redistributive effects differ greatly between large and small-group enlargement. It is evident that the (re)distributive impacts of a large-scale enlargement substantially differ from those of a small-scale enlargement not only in the amount of financial transfers but (and more important) in their impact on the present beneficiary member-countries. The more and the poorer countries join the EU, the lower the 75 per cent average GDP per head level will be. Consequently, more regions of the present EU countries benefiting from the financial transfers, will be on the 'phasing-out' list. Finally, the more countries join concurrently, the harder it becomes to maintain the normal functioning of the EU decision-making mechanism. The argument that if some heavyweight countries join, the additional financial burden of accession by several smaller countries will be modest is a weak one. The dominant factor for Europe's future is not the financial capacity of the EU, but smooth functioning of its decision-making. Each new country, whatever its financial needs are, may seriously influence the decision-making mechanism of the enlarged Union. So the *vital* issue is smooth integration into the EU structures.

The second pillar of the bridge to Europe's future may suffer major negative impacts. The adjustment capability, institutional-absorption capacity and social flexibility of candidate countries will continue to vary for a long time.¹ This will lead either to requests for further exceptions, violating the general rules of Community policies (including above all the Single Market) or to non-fulfilment of obligations linked to membership. Nevertheless, this could be the lesser of the two evils, compared with internal destabilization of the country concerned, after the imposition of harsh EU rules.

The other version of a politically driven enlargement will postpone the process for several years, even for the best-prepared countries, with unpredictable, clearly negative consequences for the future stability of Europe.

Even the best-prepared candidates could be left out of the discussions on fundamental EU reforms that start in the coming months and years (institutions, constitution, WTO negotiations on the Common Agricultural Policy, ongoing talks on the EU budget for 2007–13). They will then join the EU that has not been shaped with their active participation. Involvement in discussions of the future of Europe is no substitute for voting membership of the changing Community.

The best-prepared countries will be bitterly disappointed, because their better initial position will not be recognized by the EU and their serious and socially painful efforts to absorb EU rules and standards will be unacknowledged. This will have two main consequences. First, the Europhile section of society in the most advanced candidate countries may obviously lose ground to nationalistic or even extremist anti-European parties, which may gain great influence over domestic and foreign policy-

¹ Flexibility and adjustment capacity are not direct functions of relative economic development. Countries at a lower level of economic performance may be more successful and cooperative in adjusting to the EU and cooperating with it than 'more developed' candidates. The EU maturity of countries has to be assessed in much more comprehensive terms.

making. Although such groups are weak in some candidate countries, they have been rapidly gaining ground in others. Secondly, delayed accession of the best-prepared countries may weaken the overall stability of Europe. Since most of these countries are direct neighbours of the EU-15, the instability zone within Europe may shift towards the present EU borders. Instead of gradually extending the EU area of stability eastwards and southwards, which is a priority task for the Union and the candidate countries, the EU may encourage the opposite development.

Postponed enlargement will not strengthen the internal cohesion of the present EU. Further insistence on retaining the present situation and delaying crucial EU reforms can hardly be taken as proof of internal cohesion. On the contrary, it will undermine the future of integration, as it proves less and less able to respond adequately to the external and internal challenges. In this respect, simply admitting the best-prepared candidates may contribute to building up a 'critical mass' for starting fundamental reforms. The latter will not prevent the enlarged EU from launching new important policies. On the contrary, these will emanate from the most reformist members of the Community.

Here, one more consideration should be mentioned - the one which tries to support the advantages of a large-scale enlargement by emphasizing the impact of 'critical mass'. However, it ignores the fact that this 'critical mass' can represent very different volumes and produce rather different impacts. There is a critical mass which accelerates the reformation process within the (enlarging) community. On the contrary, there is another critical mass which would slow down or bloc such processes, to say nothing of the fact that it may even question the existence of a given community.¹ So the need to consider the 'critical mass', the difference between the possible consequences of a small- and large-group enlargement becomes evident.

Outlining a viable strategy

The stability of Europe calls for a clear, long-term strategy. A basic component of this is for the integration process to remain open after the first wave of enlargement (and after the second or third waves as well, since nobody knows where the Eastern borders of Europe can be drawn). It is therefore urgent and imperative to prepare an accession plan consisting of various stages of enlargement. The EU should clearly commit itself to a strategy of gradual enlargement and indicate that it will be ready to take in new countries in 2004, in the second half of the decade (perhaps around 2007), and in the first half of the next decade (perhaps around 2012). Such commitment cannot be interpreted as a *blank cheque*, since the preconditions for membership will remain valid (or change for better or worse, become ever more rigorous over time). Furthermore, no country need to be classified under a specific future date of accession. Flexibility of the process, through open-endedness, has to remain a basic feature of enlargement. Each country will join once it is ready for accession. On the other hand, the EU will only commit itself to accepting new members once they are ready.

However, sustained and enhanced stability can only be guaranteed if the enlarging EU does not allow any division of the continent to appear, even temporarily. The successive waves of enlargement will certainly perpetuate the 'institutional division' within Europe, between member and non-member-countries of the EU, but this has to be offset by well-designed policies directed at prospective member-countries. Such policies, however, will only work if *sustained open-endedness*² will never be questioned and will be accompanied by selected and well-targeted instruments. The policy package has to be announced and launched at the moment when the EU publishes its overall strategy of enlargement, and preferably, well before the composition of the first wave becomes clear. Let us look briefly at its main contents. Candidate countries need access to additional financial resources, partly to cover the costs of rapid adjustment to EU rules. The remaining money in the pre-accession fund, not used by the new member-countries, should be redistributed among those not included in the first wave of enlargement (as part of the Euro 3 billion annual budget). In addition, the enlarged Union should seriously consider raising this allocation for the period 2007–13. This needs raising in the budget discus-

¹ Similar to the therapeutical or the 'killing' impact of pharmaceuticals and other medical treatments in hospitals.

² Sustained open-endedness is understood to be an integral part of an institutionalized strategic plan, as opposed to an 'open-door' approach, which constitutes a vague political declaration without any commitment.

sions due to start early in 2005. Above all, the new member-countries should be prominent in urging the EU in this direction. Large infrastructural and environmental projects should from the outset cover the whole area of the new member-countries and remaining candidate countries, and not only be based on specific and sometimes narrow-minded efforts of first-wave members. Just because of its geographic location, 'Eastern' enlargement is significantly different from any previous enlargement of the EU,¹ since it covers the geographic core of the continent and does not incorporate geographic peripheries into the integration process.

As a result, the new members will become transit countries of the enlarging Union in the East-West and North-South directions.² Gradual enlargement must not create any temporary 'infrastructural and environmental division'. Business can only explore the economic potential of Central and Eastern Europe if potential growth areas become easily accessible. What is even more important, large infrastructural developments will send more positive messages to the societies of candidate countries than any further high-level political declarations (of which they have already experienced a surfeit).

All fields of Community policy where prospective member-countries are partly or fully involved have to be investigated and identified. This requirement derives not only from an 'upgraded pre-accession strategy', but from the various paces of development in different policy areas. For instance, the increasing importance of security in the EU calls for the policy approach extending far beyond its present borders. Non-member and prospective member-countries have to be included in common foreign policy, research and development strategy, and education and environmental policies.

While the institutional, legal and economic conditions for full EU membership can only be fulfilled gradually, the gap must not prevent present and future candidates from actively participating in selected Community policies. This involvement in the everyday practice of the EU will bring mutual benefits, helping the enlarging EU to shape truly European policies, while supporting the adjustment process of the candidates by introducing them into the functioning of EU policies and sending positive messages to society that no candidate has been forgotten. Other important elements include incorporating candidate countries into general discussion (rather than decision-making and implementation processes) in selected areas of reform, and into the ongoing exchange of views about the future of Europe. However, such moves cannot substitute for becoming an integral part of specific areas of Community policy-making. The enlargement process will shift the EU's external borders eastward and southward, bringing new requirements for cross-border cooperation. Any enlargement scenario will create a number of new external borders, most of which have features different from the present border areas. Furthermore, the new border regions will vanish in turn as the enlargement process advances. So a qualitatively new approach is needed to supporting cross-border cooperation, as a major instrument of enhanced regional stability.³ This issue should also become part of the negotiations on the 2007–13 EU budget.

The enlarging EU has to be prepared not only to hold accession negotiations with current candidates that will not be part of the first wave, but also to start negotiations with several future applicants (notably ex-Yugoslav states). Such talks are likely to start around the date of the first enlargement, so that new candidates would soon become part of the decade-long EU enlargement strategy.

Finally, Europe needs a common education policy, extending well beyond the geographical frontiers of institutional enlargement. This needs to include Russia, Belarus and Ukraine into the evolving European network, and to some extent compensate them for long-term non-membership of the EU. It is similarly important to enrich the enlarging EU with a manifold input of European countries, for the

¹ The TEN and TINA projects have to be reconsidered in the new strategy context.

² One of the main transport problems of the present EU is limitation of North-South traffic (both road and railway). This feature characterizes the candidate countries as well. While most of them have an already established physical infrastructure in East-West direction, the same can hardly be said concerning the North-South transportation network. The construction of the third main North-South 'channel', (following the London–Paris–Barcelona and the Hamburg–Stuttgart/Munich–Italy channels) can be considered one of the most relevant infrastructural projects, with substantive impact on long-term European growth and stability.

³ The various new external border regions of the enlarging EU will involve ethnic and minority issues, which will increase the relevance of this topic. However, enhanced regional stability has to be driven by more intensive economic cooperation, better infrastructures, and common project implementation. In other words, there have to be proactive, offensive cross-border policies, not just damage limitation.

Western half of Europe to understand CEE interests, fears and behaviour better, and above all, to create a two-way flow of information and cultural linkage across Europe in the widest sense.

A transparent, long-term enlargement strategy will have an impact far beyond the internal stability of Europe. There will be several positive consequences for the future of Europe and its place in global politics and economic competition.

A clear, committed enlargement scenario will be able to release unused economic (and innovative) potential in Europe. This will generate higher sustainable growth, the volume of which will clearly outpace the generally calculated impact of 'more than 100 million new consumers'. It means that the dynamic impacts of enlargement, which are several times greater than the static ones, can be adequately used.

The enlargement strategy outlined will have a positive impact on the future position of the Euro in international financial markets. To achieve the second key goal in introducing the euro - to create an international reserve currency similar to the US dollar - the EU has to convince global investors to change their mind and start considering the Euro as a better (or at least equivalent) reserve currency. It is hard to imagine any other, better European project to attract attention and financial resources of potential investors. A well-designed enlargement strategy, with its large-scale positive economic consequences, can increase the euro's international position.

A credible enlargement strategy will greatly improve the EU's image in Europe and probably beyond. It will show that the EU is a reliable partner, a strategic ally and the unquestioned anchor of modernization and development in the continent. This message is badly needed.

Confidence in the EU has been shrinking recently in more than one candidate country. Clearly, any loss of confidence within Europe will lead automatically to lower confidence and reliance on the EU in other parts of the world. Only enlarging and strengthening Europe on the basis of a strategic plan can envisage it playing a greater role in global politics and economics. This is how European values (still not always clearly defined) can successfully take on the competition evolving on a global scale.

Municipal Bonds on Capital Market in Poland

Maria Jastrzębska*

Abstract

There exists rather high level of centralisation of public finance in Poland. The territorial self-government units are financially very dependant on the central level. So exercising the current statutory tasks of TSU, as well as their investments requires the usage of replaceable sources such as loans, credits, issuing municipal bonds and bills. It can be noted that within the period of 1999-2001 the index of share of an average debt of territorial self – government units in their total revenues rose from 9,5% in 1999 up to 15,4% in 2001 and the most remarkable increase took place in cities with powiat status. The territorial self-government units are dependant on capital market in collecting funds for municipal investments and keeping financial liquidity and financial solvency (budgetary solvency). Both Polish capital market and the way use its financial instruments local and regional self-government units are variable according to the changes in our economy. Furthermore the purposes of borrowing money for the needs of TSU and the law regulations in the domain of local finance have also changed. The role of non-commercial loans and credits has decreased, so we can assume that municipal bond market in Poland should expand. The confirmation of this presumption is seen in increasing number of municipal bonds issuers and increasing value of issue of municipal bonds but we still may not say that there exists a real municipal bond market in Poland.

* Ph.D., Chair of Finance, Department of Management, University of Gdańsk, Poland, address: ul. Armii Krajowej 101, 81-824 Sopot, Poland. phone 48 58 55 09 492, fax 48 58 55 09 108; e-mail: maryla66@zr.univ.gda.pl