

Divide and Conquer: The EU Enlargement's Successful Conclusion?

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David Ellison
Visiting Fellow
Institute for World Economics

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Abstract

The European Union's (EU's) Eastern Enlargement represents a significant step in the history of EU enlargements. Moving from 15 to 25 members in May 2004 (27 in 2007), the EU is likely to become a formidable economic and political world power. Whether all member states are likely to benefit equally from enlargement is more debatable. While the Central and East European countries typically expect significant gains from EU membership, this paper questions the likelihood of such gains. I analyze the conclusions of the Accession negotiations, in particular of the Common Agricultural Policy, the Structural and Cohesion Funds and the basic elements of market integration agreed in the original Association Agreements. I find that EU Member states have crafted an agreement that successfully shifts the principal burden of adjustment onto the shoulders of the Central and East European countries, while garnering most of the benefits for Western states. This analysis fits best with an intergovernmental understanding of European integration, though many of the "benefits" may ultimately reside in the more intangible features of EU membership and less in the direct economic and financial rewards.

What drives enlargement of the European Union is a topic of great debate and is comparatively under-theorized. This fact is surprising given the degree of long-term membership growth in the EU. Beginning in 1957 as a geographically tight-knit group of six countries (France, Germany, Italy, Belgium, the Netherlands and Luxembourg), the EU has now progressively expanded to a group of 25 countries and will likely reach 27 Member States in 2007. Turkey and Croatia began negotiating membership in 2005 and Macedonia was granted candidate status at the 2005 December Summit. Further potential applicants are standing in the wings. Bosnia-Herzegovina, Yugoslavia, Albania, some of the remaining Russian satellite states (the Ukraine, Moldova and Belarus) will likely pursue future membership bids.

A close examination of the final terms of the EU membership agreement toward Central and Eastern Europe (CEE) and the bargaining process by which it was decided helps to illustrate the typically intergovernmental character of the accession process. While some have suggested that Enlargement and the decision of Western states to accept the Central and East European countries (CEEC's) has been effectively driven by the constraints of collective identity and social norms—i.e. by a sense of '*community values*'¹—this paper will argue that a more traditional intergovernmental model is better suited to explaining the Enlargement process and the final terms of the agreement. More recent intergovernmental approaches insisting on the importance of national interests provide a more realistic assessment of the final impact of these agreements.² However, even current intergovernmental accounts underestimate the benefits to Western states and overestimate the benefits to New Member States (NMS's). These accounts likewise underestimate the costs to the NMS's.

The details of the final agreement document an intense struggle to preserve and safeguard the interests of the Old Member States (OMS's) and chronicle a string of dramatic concessions on the part of the NMS's. Propelled by bargaining asymmetries across the Old Member and Applicant states and a bilateral negotiation process, the NMS's have accepted significant costs in return for negligible and symbolic gains. Bluntly put, the ability of the OMS's to design and manage the process of EU enlargement has led to a less than ideal outcome for the NMS's. Given their relative lack of bargaining power, competition with other applicant states and the threat of being excluded from the final agreement, they were compelled to accept a less than optimal agreement. As Central and East European negotiators repeatedly emphasize,³ the threat

¹ See in particular Sedelmeier (2001), Schimmelfennig (2001), and Fierke and Wiener (1999).

² See in particular Moravcsik and Vachudova (2003).

³ This paper is based, in part, on a series of interviews completed in the summer of 2003 in Hungary and to a more limited extent in the Czech Republic. These interviews were with high-level government officials across a range of different government ministries and with direct personal involvement in membership negotiations.

of exclusion and the hope of being able to influence the EU decision-making process from within motivated them to accept an otherwise unsatisfactory agreement.

I proceed as follows. First I discuss the theoretical literature as it relates to the project of Enlargement. Second I discuss the concept of Winners and Losers and how the Association and the final membership agreements have been carefully crafted to protect the interests of the OMS's, placing the burden of economic and political adjustment on the candidate states. Third I describe the nature of the bargaining asymmetries influencing the association and membership negotiations with Central and Eastern Europe (CEE). Fourth, I discuss the final terms of the membership agreement and illustrate how the interests of the CEEC's have been marginalized. Fifth, I discuss the preliminary outcome of the 2007-2013 Financial Perspective and its relevance for understanding CEEC political power in the *New Europe*. The final section concludes.

European Integration, Enlargement and the Missing Counterfactual?

Attempts to fit EU enlargement into the traditional mold of European integration theory are of recent vintage.⁴ *Neo-functionalists* typically point to the role of interest groups, transnational actors and supranational institutions in the development of European policy-making and institutional structure.⁵ In this model, European integration is driven by “*spillover*”. Transnational actors drive integration forward through their recognition of common interests and values that gain optimal expression in a supranational framework. Initial integration in individual policy areas drives actors to pursue integration in additional policy areas due either to linkages across policy areas or to the recognition of the advantages of supranational-level policy making. Supranational institutions facilitate this process through their detachment from state-level interests and their cultural socialization to European ideals. States take a backseat to transnational and supranational actors who hammer out cooperative, community-enhancing solutions. There is little room in this approach for differential gains across states or for states to pursue material interests and exploit relative bargaining power. Where policy integration occurs it is typically thought to be welfare enhancing for all, or to “*upgrade the common interest*”. As such, the neo-functionalist approach is not able to explain the shape of either the initial Association Agreement or the final Accession Treaty.

Social constructivism, premised on “the impact of norms and ideas on the construction of identities and behavior” (Christiansen, Jorgensen and Wiener, 1999: 532), falls prey to the same weakness. Authors writing in this framework argue that European integration or the enlargement itself cannot be understood without reference to the norms and ideas that build identities and guide behavior. Thus, the willingness of some Western states to accept potential losses resulting

⁴ For early attempts to theorize enlargement see Redmond and Rosenthal (1998), Fierke and Wiener (1999), Mattli (1999), Sedelmeier (2001). Recent neo-Gramscian approaches to the enlargement likewise deserve attention (Holman, 2001; Bieler, 2003; Bohle, forthcoming). However, given that these authors seem to ignore the role and importance of states in the EU's institutional structure and decision-making process, they are not discussed herein.

⁵ For recent examples of this approach see Mattli (1999), Stone-Sweet and Sandholtz (1997), Cowles (1995), Tranholm-Mikkelsen (1991), and Sandholtz and Zysman (1989). Mattli (1999), for example, suggests that the process of enlargement is “*demand-driven*” by states that see economic integration as a means of reversing the downward decline in economic performance. The interests of OMS's are less important in this process, suggesting that integration is driven by spillover-like effects that push non-member states to opt for a supranational decision-making framework and a set of supranational institutional arrangements to guarantee potentially greater levels of future economic success.

from the Eastern enlargement is explained by a sense of “*special responsibility*”,⁶ or by a sense of community values, identity and “*rhetorical entrapment*”.⁷ Schimmelfennig (2001) argues that the Old EU Member States were above all persuaded to accept the Eastern enlargement as a result of a sense of *community values*. Having made promises to the CEEC’s and having accepted other European states, these countries were then able to pressure the EU to exercise fair treatment and open its doors to them as well. However, this approach likewise seems unable to explain the shape of the final Accession Treaty.

Intergovernmentalists, on the other hand, point to the role of the state (and potentially to the role of groups within states). European integration occurs when the interests of states *converge* around common policy goals, or when states are able to exploit bargaining power vis-à-vis other states and grant “*side-payments*” (usually in the form of financial concessions) or “*opt-out*” agreements in order to maintain support for controversial or unfavorable policies.⁸ The role of Europe-minded politicians and bureaucrats is seen as secondary to that of state actors and the more intergovernmental, state-dominated European-level institutions (Moravcsik, 1999). State-level actors set the basic institutional and policy-making parameters of European integration. Moreover, states typically will not jeopardize sovereignty and will structure European integration so as not to threaten issues of central importance to individual states. Weaker states, however, may be required to accept some loss of sovereignty in order to achieve other goals. This model predicts differential gains from European integration, based on the ability of states to exploit their relative bargaining power. As such, this approach is better suited to explaining the contours of the final Accession Treaty.

While this analysis is strongly intergovernmental in character and bears strong resemblances to the approach of Moravcsik and Vachudova (2003), it differs from their and other accounts in several important respects. *First*, due to the emphasis on CEE interests in integration, the enlargement interests of the OMS’s are frequently under-theorized and poorly understood. Many authors underestimate the gains to the West, while overestimating the potential gains for CEE.⁹ Central and East European (CEE) markets are quickly passed off as small and insignificant for Western Europe¹⁰—leading to the suggestion that the Eastern Enlargement represents a goodwill gesture from the West and leaving one to conclude that community values remain the sole operative explanation.

Second, authors frequently over-emphasize the EU’s positive influence while failing to consider the force and thus explanatory power of *Western interests*. Considerable emphasis is placed on the optimal nature of the policy solutions EU institutions and policies provide without analyzing either their *content* or their degree of *compatibility* with CEE interests. Assumptions of optimality regarding the adoption of ‘independent civil services, reformed judiciaries, oversight of financial markets and blocked bailouts of uncompetitive firms’¹¹ appear to drive the assertion that these changes serve CEE interests. The definition of CEE “*interests*” in this regard is problematic. The intergovernmental approach typically defines “state interests” in terms of the policy interests of states (or groups within states), not in terms of idealized models of

⁶ Sedelmeier (2001: 33).

⁷ Schimmelfennig (2001: 72-6).

⁸ Moravcsik (1999, 1997, and 1991) provides perhaps the best example of this approach. A more recent paper on the EU enlargement likewise adopts this approach (Moravcsik and Vachudova, 2003).

⁹ While Moravcsik and Vachudova mention some of these points, this analysis goes further.

¹⁰ See for example Schimmelfennig (2001: 54).

¹¹ Moravcsik and Vachudova (2003: 47).

institutional structure or legislative content. Recent versions of the intergovernmental view of the Eastern enlargement may conflate these two.¹²

EU methods of institutional organization and policy orientation frequently do not provide ideal models and/or are not always in the best interests of CEEC's. Not uncommonly, the institutions and policies imposed by the EU result instead in the potential diversion of resources and/or act to constrain the policy-latitude of the NMS's.¹³ In providing such an all-encompassing definition of interests, the intergovernmental literature in particular seemingly spills over into the neo-functionalist terrain of promoting the welfare effects of belonging to a community based on the elaboration of optimal supranational policy solutions. The more typically intergovernmental terrain of the "interests" of states, lowest common denominator bargaining, power asymmetries, threats of exclusion and side payments gets lost in the confusion of "ideal or optimal institutional structures" with "interests".

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

Finally, current analyses ignore the ability of Western actors to structure the accession process in ways that shift the principal burden of adjustment from the OMS's to the acceding countries while the OMS's reap most of the benefits. As argued in this paper, the outcome of the final membership agreement successfully achieves this goal. Presumably this was possible due to the unusual degree of bargaining power characterizing the accession process with the NMS's. Admittedly, there is a strong history of enlargement negotiations that involve "tough deals,"¹⁴—significant concessions that derive from power asymmetries across states. However, the case of the Eastern enlargement provides a potentially unique case.

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

¹² This type of problem is present to varying degrees in intergovernmental accounts of the enlargement. See for example Vachudova (2002) and Moravcsik and Vachudova (2003).

¹³ For a discussion of the case of EU environmental policy, see Ellison (2004). For a discussion of economic development strategies, competition policy and state aids, see Ellison (2005). See also Tupy (2003).

¹⁴ The language here is from Ruano (2003), who compares the Spanish experience to that of the CEEC's in negotiations related to the CAP. Moravcsik and Vachudova likewise discuss the role of power asymmetries in previous enlargement negotiations (2003: 44-46).

suggests that Western negotiators were significantly more powerful in these negotiations than in previous rounds of enlargement.

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

Given the potentially negative impact of these asymmetries, the more perplexing question becomes why the CEEC's ultimately agreed to the final outcome. In this context, in addition to “*perceived*” economic gains,¹⁵ one must point to some of the more intangible, abstract and symbolic gains of EU membership and their potential importance for CEE citizens. Rightly or wrongly, membership is frequently seen as a guarantor of democracy, due process¹⁶ and market principles. EU membership likewise guarantees—at least in the more distant future—the free movement of peoples across European space. In this regard, EU membership promises freedom of choice with regard to place of residence and ultimately citizenship. Given the Communist legacy, such future mobility must appear no small reward. In this respect, interests in EU membership are presumably not entirely a function of “economic” interests.

Of Winners and Losers

The enlargement has been structured in such a way as to either enhance the competitiveness of West European market structure or diminish the impact of market opening while virtually ignoring the consequences for economic development in CEE. This is true with regard to Western interests in the establishment of a “*level playing field*” and the protection of “*sensitive sectors*” discussed below, as well as with regard to the distortionary structure of EU CAP and SCF expenditure discussed in the following section. EU Member states and industry had a strong influence both on the requirement that CEEC's adopt all elements of the “*Acquis Communautaire*” and on the creation of a “level playing field” based on the Western status quo.

Many have suggested that the West will gain far less from the enlargement than CEE.¹⁷ One commonly used indicator is the relative gains from trade for each region. Western Europe's trade with CEE comprises a small share of total West European trade. While EU Member State exports to this region have almost tripled since 1992 (from approximately 5.4% of total trade in 1992—the first year in which there are complete trade figures available for all of the CEE

¹⁵ As noted below, Ellison and Hussain (2003) contest the conventional view that economic gains are a likely outcome of EU membership.

¹⁶ Kovách (2000) and Lynch (2000) both imply in different ways that EU membership in fact provides a form of protection against the ability of national governments to successfully exploit domestic power relationships.

¹⁷ Schimmelfennig (2001) and to a lesser degree Moravcsik and Vachudova (2003) clearly suggest that the OMS's have far less to gain from the enlargement than the NMS's.

candidate states—to 14.6% in 2003),¹⁸ this number pales in comparison to the share of CEE trade with EU Member States. The average share of CEEC world trade was 67.1% in 2003.¹⁹ Based on this statistic, the CEEC's are often said to gain the most from membership in the European Union.

There are, however at least two important caveats to this point. First, as Schimmelfennig notes, Member States that share borders with CEE trade far more heavily with this region than other states. Germany for example is responsible for just less than half of EU exports toward CEE, Italy for over 16%, Austria for almost 9%, and France for over 7% (Schimmelfennig, 2001:51). Thus particular Western states have very strong interests in cementing trading relations with CEE and diverting some CEEC trade from other parts of the world.²⁰

Second, a very significant share of CEE exports toward EU Member States originates from *foreign investment enterprises* (FIE's). The FIE share of manufacturing exports in 1996, was 73.9% in Hungary, 42% in the Czech Republic, and 25.8% in Slovenia (Hunya, 2000:114). By 2001, these figures had risen to 87.9% for Hungary, 69.3% for the Czech Republic, and 36.8% for Slovenia (Hunya, 2004:15). The FIE share of 1996 manufacturing production, was 61.4% in Hungary, 22.6% in the Czech Republic, 21.6% in Slovakia and 19.6% in Slovenia (Hunya, 2000:119). By 2001 this had risen to 72.5% for Hungary, 53.3% for the Czech Republic and 29.3% for Slovenia (Hunya, 2004:15). FDI in CEE is likewise associated with an increase in both employment and productivity in Western firms (Ekholm, 2003). Finally, OMS firms export a steadily increasing share to CEE. Eurostat's *Statistics in Focus* (8/2001) designated the candidate states (including Cyprus, Malta and Turkey) as the second largest EU trading partner next to the US in the year 2000. This region likewise represents the fastest growing EU export region next to China. Over the period 1990-2003, export growth to the New Member and Candidate states averaged 13.4% per year (16.9% per year for exports to China), well above average growth in Extra-EU exports (7.4%). Such measures greatly increase the economic and political weight of the region for Western Europe.

The original Association (or Europe) Agreements signed by each of the candidate states in the early 1990's set the future terms of trade between the EU and the CEEC's and were one of the first tools used to structure the Accession process in the EU's favor.²¹ While occasionally seen as beneficial to the candidate states—these agreements did open up EU markets to some degree—they fell shy of being “*liberal*” trading arrangements. They provided for the protection of EU “sensitive sectors” (coal, steel, textiles and clothing) over a transition period of approximately 5 years (this time period varied from sector to sector and from country to country). A somewhat longer transition period in these same economic sectors was granted to the CEE economies.²² EU agricultural and food-processing sectors were granted full protection. The

¹⁸ Data for 2003 has been calculated on the basis of figures from the online Eurostat Comext database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>). Data for 1992 was calculated on the basis of data from the Eurostat Comext Trade database (Eurostat, 2003). The figures reported here exclude intra-EU exports from the total of world trade. Including intra-EU exports reduces the share of exports to the CEEC10 from 14.6% to 5.6% in 2003 and from 5.4% to 2.1% in 1992.

¹⁹ This figure is again calculated on the basis of data from the online Eurostat Comext database.

²⁰ In fact, the disruption of traditional trading ties between countries like Poland and the Ukraine has been a source of conflict and has led to significant losses on both sides of the border.

²¹ For much of what follows in this section, I draw upon previous published work (Ellison, 1999).

²² For an interesting discussion of these negotiations from a Central and East European perspective, see Meisel (1995).

CEEC's had however pursued immediate liberalization in all economic sectors, including textiles, steel, and agricultural goods (Meisel, 1995: p. 60).

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

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

Where the CEE governments did impose protective barriers in more advanced sectors, this frequently protected EU producers in CEE. In this regard, CEE producers were poorly organized—producer or employer organizations were quite new due to the legacy of state ownership and the command economy and were typically unsuccessful at gaining representation of their interests from CEE governments. Western producers, on the other hand, were well organized and accustomed to dealing with both EU officials and foreign governments. They were reportedly better prepared for specific negotiations and were able to provide CEE governments with arguments that withstood the objections of EU authorities. Moreover, Western firms possessed what the CEEC's desperately wanted, capital and technology. The result was that additional forms of market protection beyond the transitional periods noted above tended to benefit Western producers who had undertaken substantial investments in these countries.²³

Additional clauses in the Association Agreements likewise promoted Western at the expense of CEE interests. For one, protection of the EU's sensitive sectors was porous in ways that benefited Western producers. “Outward processing trade” (OPT) agreements were permitted when Western firms submitted formal applications to the European Commission. Thus trade in the *sensitive sectors* was permitted when beneficial to Western producers and was otherwise restricted (Ellison, 1999:267-8). For another, the Association Agreements included clauses that restricted the use of state aids and granted the EU oversight rights to determine when such expenditures should be allowed (Cremona, 2003). The impact of this agreement was that attempts by CEEC's to impose trade restrictions for competitive reasons were repeatedly rejected by EU authorities (Ellison, 1999:266). Further, Western producers and trade unions actively promoted the creation of a “level playing field”. These organizations strongly advocated the elimination of potentially “*market distorting*” policies (such as state aids, competition policy,

²³ See for example Nagy (1994).

differences in environmental regulation, or potential differences in health and safety in the workplace and labor market protections).²⁴

Restrictions on the free movement of labor are further likely to benefit western labor. Economic analyses employing either conventional models or the tenets of the more recent endogenous growth and economic geography schools see the free movement of labor as one of the cornerstones of cross-country economic convergence.²⁵ In this regard, the 2+3+2 regulation on the free movement of labor permitting states to restrict labor market access for up to 7 years is likely to have a significant impact both on the CEE rate of increase in the standard of living, as well as on their degree of public satisfaction with EU membership. Again, in this context as well, the principal players were western trade union organizations—in particular in Germany and Austria.²⁶

Seen in the larger context of globalization, economic competition and economic restructuring—in particular as this relates to the interests of the Western Member States—the role and importance of Western interests in the enlargement and the terms of the final membership agreement are more fully comprehensible. The Eastern enlargement fits neatly not only into a strategy of market expansion, but also into a strategy of controlling the evolution of markets and promoting OMS global competitiveness. CEE trade with Western Europe has expanded and some of the rewards of this trade will accrue to CEE citizens as well. Still, two points are worth considering. First, it is not clear that EU membership is necessary in order to benefit from trade and economic growth.²⁷ And second, as suggested by the above analysis, the structure of the trade agreements favored Western interests. These agreements and the Accession Treaty itself defended Western interests in establishing a “level playing field” based on the Western status quo and shifted the burden of adjustment onto CEE. The Association Agreements ultimately left industry, manufacturing and even the agricultural sector completely exposed to Western competition and technological know-how. In the long run, it is difficult to reconcile the market distorting features of the CAP and SCF arrangements with the impact accession and EU membership has had on CEE economic development and competitiveness.

Budgetary constraints on the NMS’s arising from EU membership are likely to be significant. Over the period 1997-2003, the average annual budget deficit in these states was -3.7% of GDP. In June 2004, the European Commission noted that 6 of the 10 NMS’s (Cyprus, the Czech Republic, Hungary, Malta, Poland and Slovakia) had “*excessive budget deficits*” and urged them to bring their budgets into compliance with the EU Stability Pact (Euractiv.com, June 25, 2004). Apart from Cyprus and Malta, the states with the highest budget deficits in were the Czech Republic, Hungary and Poland (-12.9%, -5.9% and -4.1% respectively). While the level of public debt in the NMS’s is substantially higher, the total sums remain well in line with the Economic and Monetary Union’s (EMU) 60% of GDP convergence criterion. The EU average in 2001 was twice as high as that in the NMS’s. The average public debt position of OMS’s at the time of their entry into EMU was significantly higher.

²⁴ On EU social policy and environmental regulations, see Ellison, 2001: Ch. 5. On state aids and competition policy, see Ellison (2005).

²⁵ On more conventional models, see in particular Williamson (1997, 1996). On models that rely on economic geography and economies of scale, see Martin (2003).

²⁶ See for example Ellison (2001: Ch. 5), and Bohle and Husz (2003).

²⁷ Based on an analysis of a panel dataset covering the period 1960-2000, Ellison and Hussain (2003) suggest that the rate of economic growth in the old cohesion countries might have been higher—to the tune of some 2% per annum—had they remained outside the EU.

Further, many features of *Acquis* adaptation involve high costs. In the Transport sector, for example, one EU regulation requires that NMS roads have a weight-bearing capacity of 11.5 tons, compared to the slightly lower limit in some CEEC's. Hungarian roads—apart from those built since 1989—typically have a weight-bearing capacity of 10 tons.²⁸ Additional expenditures will result from the continued building of highways for the Trans-European Networks program (TENS). The railway systems in all countries likewise require significant investments to make them conform to EU standards. While most NMS's have received transition periods in sectors where the expected costs of compliance are high, the NMS's must still finance the lion's share of these costs out of state budgets. The environmental chapter of the EU membership agreement represents one of the most costly agreements. As Ellison (2004) illustrates, given the favorable environmental improvements in CEE since 1989, the degree of urgency here is questionable.

Most of the CEEC's likewise envision EMU membership in the not too distant future. Estonia, Lithuania and Slovenia, for example, envision EMU membership in January, 2007. Poland hopes to join by 2009, and Hungary and the Czech Republic are currently pursuing EMU membership by 2010.²⁹ The EU Accession Treaty obligates the NMS's to become members of the EMU, though no specific dates are set. Thus, this requirement represents a "soft" constraint. Nonetheless, it is clearly in the interest of the OMS's to see that the CEEC's are firmly integrated into the EMU framework as rapidly as possible, thereby removing any potential for them to use devaluations as a means of promoting exports and reducing the flow of imports.³⁰ Moreover, it is clearly in the interest of Old Member State firms to eliminate currency fluctuations that disrupt vertical integration (or "international production") networks with CEE.

It is less obvious why the NMS's would rapidly pursue membership in EMU. For one, the 3% budget deficit threshold established by the convergence criteria and the Stability and Growth Pact represents a significant barrier given the high adjustment costs of EU membership. This goal is likely to generate considerable conflict between the compliance costs of EU directives on the one hand and demands that the CEEC governments provide financial support for economic restructuring on the other. As noted above, the EMU Stability Pact requirement already enables the European Commission to place pressure on the CEEC's to reduce expenditures, further heightening the degree of financial tension. On the other hand, economic competitiveness goals might suggest that a postponement of this date along with the ability to pursue a more export-friendly exchange rate regime is more clearly in their interest.³¹

²⁸ New highways built in Hungary since the beginning of the transition process have all incorporated the higher European standard and do not require reconstruction. The Czech Republic, on the other hand, does not have the same problem with its roads, though it faces other problems connecting existing highways to Trans European Networks (TENS).

²⁹ All data has been taken from www.Euractiv.com ("Adopting the Euro in the NMS's", Feb. 11, 2005). However, future revisions of these dates are not unlikely. Hungary, for example, previously announced 2008 as its deadline for EMU membership. Due to Hungary's current budget deficit problems, 2010 now appears a more likely date of entry.

³⁰ Granted, the ability of states to take advantage of this option may be constrained by the free mobility of capital, the potential for currency speculation and the relative dependence on imports. But Member State exporters expressed concerns that Central and East European governments could use this tool to boost exports and disadvantage the import prospects of Member State goods. Currently China is perhaps most well known for its pursuit of such an export-promoting strategy through its peg to the US dollar. Judging by the degree of US frustration with this policy and Chinese resistance to change, China has benefited from this arrangement.

³¹ This point is controversial. Others suggest that EMU membership would strengthen weak capital markets, reduce interest rates and reinforce the already high degree of trade integration (see for example De Grauwe and Schnabl, 2004).

Bargaining Asymmetries

Bargaining over EU membership has been dominated by power asymmetries across the negotiating countries. The most obvious bargaining asymmetry is based on the lack of real voting power over the final terms of the EU membership agreement. The CEE right to make proposals (or raise objections), and to reject the final terms of the agreement, define the parameters of their bargaining power. However, one possible outcome of rejecting the final agreement might have been to indefinitely postpone or even be excluded from EU membership. The CEECs had no power to vote along with EU Member States on the actual terms of the agreement. Second, each of the CEECs bargained bilaterally with the European Commission, further weakening these states and placing them in the awkward position of competing against each other to be included in the first round of NMS's.

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

As a consequence, the positions of individual Member States mattered significantly with respect to the terms of the final agreement. The interests of France, for example, weighed heavily on the final terms of the agreement on the Common Agricultural Policy (CAP), while the interests of Spain, Portugal, Greece and Ireland weighed heavily on the reform of Structural and Cohesion Funds (SCF's). The interests of Germany and Austria, on the other hand had a strong influence on positions related to the free movement of labor. And finally, EU Members states, industry and labor had a strong influence both on the requirement of adopting all elements of the "*Acquis Communautaire*" (the existing body of EU legislation), and in particular on the creation of a "level playing field" reflecting the Western status quo.

Although bargaining occurred on a bilateral basis, the CEECs would presumably have been far more powerful negotiating partners had they been successful at coordinating their bargaining strategies. The candidate states did at various times attempt to work together and place more pressure on the European Union, but such efforts typically collapsed. Once one candidate state had signed an agreement on a specific point, all other states were inclined to follow. The often cited "*regatta principle*"³² of EU membership negotiation weakened the ability of the CEECs to exercise leverage. Faced with opposition to individual bargaining points from the EU-side, the candidate states were unable to rely on the support of fellow candidate states. The pressure of competition between the applicant states thus weakened them further vis-à-vis the EU.

³² The "regatta principle" was chosen at the EU's Helsinki Summit in December 1999, in part at the behest of the European Parliament. This method essentially made it possible for any state to complete the negotiations for EU membership ahead of—and without being held back by—other states. The logical consequence of this procedure was that all candidate states competed with each other to be the first states to become EU members.

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

Concepts of a “war of attrition”, “conditionality”, or “hierarchical steering”³³ suggest the CEEC’s were strongly pressured into accepting institutional and regulatory arrangements for which a stable domestic consensus was not always present. Moreover, while the CEEC’s had significant leeway to structure domestic arrangements in areas where the EU *acquis* have little impact such as in the case of health care reform (see Jacoby, 2005), or the structuring of privatization programs, for the most part, they were required to adopt the EU legislative framework *lock, stock and barrel*, without significant adaptation to domestic needs and interests. The most negotiators were able to gain from the negotiation process were transitional periods to ease the cost and potentially the social impact of adopting EU law. While the greatest amount of bargaining leeway may have been present in negotiations over the EU’s Common Agricultural and Regional Policy frameworks—to be discussed in greater detail below—the real beneficiaries of this leeway appear to be the OMS’s.

Negotiators frequently noted the lack of bargaining leeway, suggesting there was little margin for maneuver. Moreover, as negotiators frequently noted, attempts to coordinate bargaining with other candidate states largely failed. In practice, once the Commission had succeeded in gaining agreement on a particular chapter of the *Acquis*, this agreement tended to fix the terms for other states, leaving little bargaining room. Despite attempts to coordinate common positions among the candidate states, all of these attempts broke down or were undercut by individual states concluding separate deals on specific chapters. Moreover, the EU was not inclined to reach different agreements with each candidate state. If the EU had concluded different agreements with each of the candidate states, this ultimately would have led to repeated attempts on the part of some states to re-open and re-negotiate these agreements (and this did in fact occur in some cases). All in all, Eastern negotiators frequently lamented the inability of the candidate states to successfully coordinate their bargaining strategies.

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

³³ Brücker et al view the negotiation process as a “war of attrition” (Brücker, Schröder and Weise, 2004). Börzel et al, on the other hand, emphasize the role of *conditionality* and note that the European Commission imposed this conditionality in a large number of bargaining venues, explicitly linking progress on institutional and legal reform to future membership. Thus these authors emphasize the importance of what they call “hierarchical steering” (see for example Börzel, Guttenbrunner and Seper, 2005).

The Terms of the Agreement

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

EU expenditures on the NMS's in 2004 totaled 11.8 billion Euros, out of a total budgetary expenditure of 112.2 billion Euros.³⁴ In other terms, approximately 10.5% of the EU budget was spent on that 16.8% of the EU population most in need of financial support. Moreover, the EU receives half of this sum back from the NMS's in the form of membership contributions (approx. 5 billion Euros). As Grabbe (2002) notes, over the period 2004-2006, the EU will spend approximately 40.8 billion Euros on the NMS's, but receives 15 billion Euros back in membership contributions.

For 2004, the CAP and the SCF's comprised approximately 70% of the total EU budget. Of this sum, the Enlargement countries (including Cyprus and Malta) received about 4.4% of CAP payments (compared to 95.6% for Old EU Member States) and 21.8% of the SCF's payments (compared to 78.2% for the Old EU Member States). In 2005, the NMS's will receive 7.5% of EU CAP expenditures—reflecting the inclusion of direct payments to farmers as of 2005—and will receive 16.3% of total EU SCF expenditures. However, the NMS's—due to the EU's co-financing requirements and the budgetary constraints currently facing the CEEC's—may only be able to make use of a smaller share than they are eligible for. Thus, net EU expenditures may be significantly lower.³⁵ Again, these sums represent a small share of overall EU expenditure. Moreover, the share of agricultural production in the overall economy in the CEEC's is far more significant than in Western Europe.

Given the uproar over the size of potential EU expenditures on CEE, one would expect the final amounts to be large. Table I provides a perspective from which to judge the magnitude of the total sums the EU will have spent on CEE over the period 2004-2006. Seen as a share of EU or German GDP, or as a share of total EU Member State or German government expenditure, the sums ultimately seem small, rising above 1% only as a share of total German government expenditures. Net EU expenditures (accounting for NMS contributions to the EU budget) all remain well below 1% of these comparative benchmark figures.

[Table I about here: EU Expenditures on the NMS's, 2004-2006]

The CAP

³⁴ These figures that follow are based on the European Commissions budgetary statements for 2004 and 2005 and the Financial Framework for enlargement, 2004-2006.

³⁵ See for example Grabbe (2002: p. 1).

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

Several countries immediately lobbied for the right to both “top-up” their direct payments by 30% annually,³⁶ as well as for the right to use 20% of the agricultural regional development funds for additional direct payments to farmers. As Grabbe points out—in the case of Poland—polish farmers might well have attempted to scuttle the deal without this package (Grabbe, 2002:3). Hungary likewise rapidly passed a parliamentary resolution guaranteeing direct payments would be topped up by an additional 30%. In effect, this clause functions as a “co-financing” arrangement, even though no West European countries are required to engage in co-financing arrangements in agriculture.³⁷ Second, as Grabbe (2002) notes, some of the funds transferred to direct payments might be better spent on economic restructuring or Regional policy co-financing requirements.

While the enlargement countries will receive more than twice the amount of support in SCF's as CAP support, some authors have expressed concern that some of these monies will be diverted back into agricultural support and away from the potentially more important element of economic restructuring. Grabbe, for example, notes that Poland was able to gain a lump-sum payment from the final negotiations, a part of which could be used for increasing Poland's direct payments to farmers. At the same time, however, of the 9.8 billion Euros designated for CAP payments for the Enlargement countries over the period 2004-2006, 5.1 billion Euros will be used for “rural development” associated with the farming sector. Thus a larger share of the EU CAP funds will be directed to regional development (approximately 52%). This share is much larger than the customary distribution of funds in the OMS's (approximately 10.5%).³⁸ This approach is congruous with the concept of “*Modulation*”, the gradual shifting of EU CAP expenditure from direct payments to rural development undertaken with the June 2003 agricultural reform and to some extent may be seen as a compensation for lower direct payments in the case of the CEEC's.³⁹

The direct payments portion of the CAP plan remains significantly larger than the regional development segment only for the Czech Republic and Hungary. Explaining this disparity raises some interesting questions. While the direct payments portion of the CAP plan does not require any co-financing, co-financing requirements are attached to CAP rural development measures. The average co-financing rate in the area of rural development is

³⁶ CEEC governments are permitted to independently “top-up” direct payments, but within specific limits (on average by an additional 30% of the total direct CAP payments made to western farmers). In cases where CEEC subsidies have previously been higher than this amount, CEEC governments have retained the right to make larger direct payments. But direct payments cannot exceed 100% of the EU-15 level. Cyprus, the Czech Republic, Lithuania and Slovenia have all received the right to make higher payments (European Commission, 2002?).

³⁷ On top of CAP payments however, the OMS's, typically have significant national agricultural subsidies.

³⁸ These calculations are based on the “Financial Framework for Enlargement 2004-2006” (http://europa.eu.int/comm/budget/pdf/financialfrwk/copenhagen_package/webtablesEN.pdf).

³⁹ I am indebted here to discussions with Wayne Moyer.

approximately 25% for the recipient state, 75% from the EU. Thus ultimately the greater emphasis on rural development measures in the NMS's involves greater NMS budgetary responsibilities beyond the commitments of OMS's. In this sense, Hungary and the Czech Republic have presumably gained more out of this section of the membership agreement than some of the other NMS's.⁴⁰

Far more impressive is the way in which the EU has successfully “locked-in” the CAP agreement over the next reform period 2007-2013. Given that the phasing in agreement is already written into the Accession Treaty for the entire period 2004-2013 (and until 2015 in the case of Milk quotas), despite the fact of membership political leaders from the NMS's are not likely to have a significant impact on the Common Agricultural Policy for the next 8-10 years. This does not rule out marginal changes in the CAP. All of the CEEC's now have full voting rights in the *Agricultural Council*. But it greatly limits the ability of these states to influence the larger contours of the CAP for a decade to come. Hungarian negotiators, for example, noted that future efforts are focused on maintaining what they had already gained from the EU in the face of the June 2003 CAP reform and—perhaps more importantly—future rounds of WTO negotiations. Pushing for greater concessions on direct payments or the rural development share of this agreement was not typically perceived as an option.⁴¹

Justifications for the reduction of direct payments to 25% of Western payments reflect fears that 100% payments to CEEC farmers would bankrupt the EU.⁴² However, while CAP reform was necessary and budget cuts were difficult to achieve in the West, why CEE farmers should bear the burden of EU budget-cutting is not clear. Fears that price supports in CEE could lead to inflation and public discontent was a second justification. Given however that prices in CEE have largely been “westernized”, this point carries little weight. And farmers like other citizens in CEE face rapidly rising costs. Fears that excessive CAP payments in CEE would lead to “market distortions” constitute a third argument. However, it is difficult to argue that the reverse logic is not true. It is *not* likely the case that higher CAP payments in the Western part of Europe and lower CAP payments in the Eastern part of Europe will have a market “neutral” effect. Finally, the EU's approval of national topping-up measures casts a rude irony over any of the arguments against additional payments to CEE farmers.⁴³

Fears that high levels of direct payments could ultimately lead to a slowing down in the rate of restructuring and to the creation of income disparities in rural communities constitutes a fourth argument.⁴⁴ Here again, however, there are considerable costs attached to the adoption of the *Acquis* in the agricultural sector, in particular related to veterinary care, hygiene, animal-welfare, environmental protection, and phytosanitary conditions. Moreover, there were no clear estimates of the compliance costs imposed on individual farmers and very few transitional periods were awarded in the agricultural sector. Farmers were expected to be EU “compliant” by

⁴⁰ As Hungarian negotiators pointed out, they do not wish to see any shifting of transfers from the category of direct payments to rural development. Rural development funds require co-financing and farmers bear a greater share of the financial burden. The rural development funds also require an application process. Direct payments, on the other hand, do not require co-financing, are not subject to an application process, and are received directly by individual farmers for immediate use.

⁴¹ In fact, with respect to the sugar agreement in the Accession Treaty, the terms are being reduced by international disputes. The WTO ruled against the EU sugar regime in August 2004 in response to a dispute filed by Brazil, Australia and Thailand triggering further reforms of the Accession agreement.

⁴² Multiple EU documents are relevant here. See e.g. European Commission (2002a and 2002b).

⁴³ I am indebted here to discussions with Miklos Somai.

⁴⁴ European Commission (2003: 3).

May, 2004. Without accurate estimates of the costs farmers face in the NMS's, the relative impact of direct payments on regional income disparities remains unclear. Moreover, the costs of restructuring agricultural production remain considerable and would be facilitated by higher CAP payments.

That direct payments will lead to a slowing down in the rate of restructuring is a dubious claim. For one, the entire CAP regime has presumably led to a slowing down of the rate of economic restructuring in the EU, in particular to higher levels of agricultural production and lower than optimal levels of industrial production. More compellingly, the regime of price supports—in particular—has led to slower rates of economic restructuring in the EU and less so the gradual shift to direct payments adopted with the 1992 MacSharry reforms. By beginning to divorce farm subsidies from the regime of price supports, these reforms mitigate overproduction and market inefficiencies. In the long run, while direct payments may reduce the impact of market incentives and reduce the need for market restructuring, direct payments also provide financial resources that can facilitate restructuring.

The distribution of direct payment ceilings (e.g. for beef and cereals) and quotas (e.g. for milk production and sugar), however, is potentially the most troubling element of the final CAP agreement. For one, the reference periods used to define the direct payment ceilings and quotas for the NMS's presented obvious complications. The EU insisted on using 1995-1999 during which the economies of CEE were recovering from the economic crisis of 1991-1994.⁴⁵ The candidate countries argued that direct payment ceilings and quotas based on these years underestimated potential or normal domestic production levels. The final direct payment ceilings and quotas however were not much higher than those based on the reference years preferred by the EU.

For another, although the direct payment ceilings and quotas received by the NMS's were often favorably reviewed—in particular those for milk, beef and cereals, since they were typically higher than production levels in the NMS's—this analysis ignores a number of important factors. For one, NMS direct payment ceilings and quotas are frequently much below those of the OMS's. Per capita direct payment ceilings and quotas provide a very rough basis for comparison⁴⁶ (see Table II). On average, OMS's have milk quotas that are about 1.7 times those in the NMS's (0.45 tons per person in the OMS's compared to 0.27 tons per person in the NMS's). Moreover, these quotas are fixed for the period 2004-2006 (and possibly through 2015). While per capita sugar quotas and per capita direct payment ceilings for cereal production compare more favorably to those in Western Europe, this is not the case for the “beef envelope”. Here, Western producers receive direct payments 2.75 times greater than those in CEE.⁴⁷

Setting direct payment ceilings and production quotas is significant for at least three reasons. First, they represent a second mechanism by which the OMS's could reduce CAP payments to CEE (and preserve higher subsidies for Western states). Though CEE production

⁴⁵ Some argue that the depth of this crisis equaled the Great Depression. In some cases, CEEC output declined by as much as 30-40%.

⁴⁶ This methodology is flawed in that it ignores the concept of comparative advantage. Different geographic locations yield climates that are better suited to growing different types of agricultural products. The calculations here cannot correct for this fact. The law of averages may provide a marginal though insufficient correction.

⁴⁷ Even with increases received by a few countries between the initial suggested beef envelope and the final figures noted above (the Czech Republic, Cyprus, Lithuania, Slovenia and Estonia—Hungary in fact saw their initial allotment decline by approximately 17%), Central and East European allotments never came close to OMS direct payments.

and consumption of agricultural goods is likely to increase as they become more developed and incomes rise, current direct payment ceilings and quotas set a ceiling above which it is politically difficult to rise in the future. This is especially true given the context of the June 2003 reform of the CAP.⁴⁸ This reform sets out a procedure by which direct payments are annually reduced for the OMS's. Thus, even if the NMS's raise overall productivity, this is unlikely to precipitate adjustments in direct payment ceilings comparable to those obtained over time by the OMS's. Current quota increases envisaged in the milk sector, for example, amount to 1% per year for all states in 2007-2008 (European Commission, 2003). Second, this further reduces the share of financial support that might otherwise be used for CEE agricultural restructuring.

[Table II about here: Per Capita CAP Direct Payment Ceilings and Quotas]

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

Finally, the June 2003 reform's complete decoupling of direct payments and production may ultimately have the effect of *locking-in* higher direct payments to OMS's for the duration of the survival of the CAP. Since direct payments no longer depend on production, *decoupling* and *modulation* may ultimately scuttle any mechanism for increasing support to the NMS's. The direct payment ceilings and quota system—in combination with fixed intervention prices—potentially preserve Western agricultural market shares and provide few incentives for productivity improvements in the NMS's. Increased production is not likely to raise direct payments and fixed prices diminish the potential to engage in free competition with Western agricultural goods (at least for those goods that are regulated by the CAP). Thus *locking-in* the NMS's at lower direct payment ceilings and quotas than those in effect for the Old EU Member States is likely to have a long-term market distorting impact on the ability of the more agricultural NMS's to benefit from market access in agriculture.

The SCF's

The December 1999 Berlin Summit established 0.45% of EU Gross National Income (GNI) would be available for structural and cohesion measures. This sets an upper limit on what

⁴⁸ The January 2003 legislative proposal (COM(2003) 23 final) was finalized for the OMS's in June 2003. This document does not finalize the terms of this reform for the NMS's.

share of the EU budget can be spent on the overall package for the SCF's and on the total amount available. In addition, since the Berlin Summit, the SCF allocations now include a ceiling of 4% of the GDP of the recipient country. The principle is the so-called "*absorption capacity*" of the candidate states. Given the budgetary constraints on the NMS's and their lack of experience in administrating the SCF's, the European Commission has long assumed that the CEEC's will only be able to engage in the required co-financing margins for SCF projects within specific limits. This ceiling thus limits the total amount of funds that countries can receive from the EU.⁴⁹

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

[Table III about here: SCF's (per capita and % of GDP)]

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

According to CEEC government negotiators, the EU was not forthcoming about the exact formula used to arrive at the final distribution of SCF's among the CEEC's.⁵⁰ Negotiators were only able to indicate that the formula used by the EU depended on three primary factors: the level of per capita GDP, population, and the level of unemployment. Thumbnail regressions of the total SCF's received by the NMS's using these three variables and including the level of support for EU membership,⁵¹ suggest that these variables do a pretty good job of predicting the total amount of funding received by each NMS. The model explains 99% of the variance (see Table IV).⁵² While such a high value may seem surprising, recall the political difficulties likely to emerge from the differential treatment of applicant states. Population is the strongest predictor of total funding and is highly significant. Apart from population, per capita GDP begins to approach significance, suggesting that more developed countries receive lower levels of funding.

⁴⁹ The adoption of this 4% marker ignores the degree of success with which some NMS's have successfully absorbed far greater sums of foreign direct investment. I thank András Inotai for making this observation.

⁵⁰ Other researchers have noted similar difficulties in attempting to replicate Commission calculations of structural and cohesion fund distributions. Bachtler and Wislade, for example, in more recent calculations of possible SCF distributions over the period 2007-2013 note that the Commission does not release its calculations, making exact replication impossible (2005: ix).

⁵¹ Carrubba (1997), suggests that the distribution of EU funds is influenced by the level of public support for the EU (where EU support is low, there are incentives to increase expenditure in order to maintain support). The statistical results generated above only support this thesis in Model II.

⁵² The unit of analysis here is the individual country. Data permitting, the regional level would be more appropriate.

While levels of unemployment appear to have a strong positive impact on total funding, this variable does not begin to approach adequate levels of significance. Finally, total funding exhibits a positive but statistically insignificant relationship to support for EU membership.

[Table IV about here: Regression results for SCF's]

Comparing the logic for the distribution of funds among the NMS's to the allocation across the Old "cohesion" countries (Greece, Ireland, Portugal and Spain) yields surprising results. This is accomplished by taking the parameters from the regression equation estimated for the NMS's and using these to predict the total value of SCF's that the Old cohesion countries would receive. For purposes of cross-country comparison, both predicted and actual values are expressed in per capita terms in the figure below (see Figure Ia). According to this calculation, Greece, Ireland, Portugal and Spain receive far more funding than they should have received using the logic applied to the NMS's. Observing the ratio of actual to predicted funding for the cohesion countries, Spain receives about twice as much funding as one would expect, Portugal and Greece about 4 times as much, and Ireland approximately 11 times as much funding. The ratio of actual to predicted funding for the NMS's however is very close to 1 in all cases except Cyprus.⁵³

[Figure Ia about here: Predicted and Actual Funding (Candidate State Model)]

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

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

[Figure Ib about here: Predicted and Actual Funding (Member State Model)]

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

⁵³ Of all the NMS's, Cyprus seems to have fared the best where the SCF's are concerned. They received far more funding than the amount predicted by the logic applied to the remaining NMS's.

NMS's were allocated within these limits. Although part of the budgetary period had essentially passed (states were expecting a possible membership in 2002 and thus would have been eligible for financial transfers from 2002-2006), the total amount of funding had to be divided across 10 states (instead of 4-6 states) over a shorter time period (2004-2006). Thus, while the NMS's received levels of funding only slightly lower than expected based on the conclusions of the Berlin Summit, the timing of the enlargement may have set additional limits on the bargaining power of individual states.⁵⁴

The 2007-2013 Financial Perspective

The December 2005 European Council Summit set limits on the total distributions for the 2007-2013 Financial Perspective. This Financial Perspective generally determines both total and country level distributions of CAP and SCF's across Member States. At this writing, the country level distributions have not been finalized. Thus the data that would allow us to provide a measure of the relative influence of the NMS's from within the European Union are incomplete. However, we can nonetheless come to a few general conclusions based on the currently available data.

Early speculation about the future outcome of the Financial Perspective negotiations already announced a difficult struggle. Richter (2003), for example, notes that 0.45% of the EU budget will be allocated to the SCF's. Noting that the CEEC's cannot receive monies above 4% of GDP, he then calculated how far these funds were likely to stretch across the NMS's. Assuming that each of the NMS's receive the full 4%, Richter comes to the conclusion that 80% of the funds will be exhausted with 10 NMS's. With 12 NMS's (including Romania and Bulgaria) 97% of the funds will be exhausted. Of course, these figures—as Richter points out—do not include future distributions to the Old “cohesion” countries, or to any of the other OMS's. Given the so-called statistical effect—the drop in average EU per capita GDP triggered by the membership of 10 less developed economies—one could easily expect a significant resource struggle to emerge in the New Europe. There was already some precedent for this. Regions no longer eligible to receive SCF's during the period 2000-2006 were allocated just over 11 billion Euros in “transitional support” payments at the 1999 Berlin Summit (Allen, 2000:258).

While voting on the Financial Perspective is governed by unanimity, the relative voting power of individual states is not necessarily one-to-one. Nor do the CEEC's as a potential voting block constitute a force that could stop policy proposals in other areas of EU policy regulated by qualified majority voting (QMV).⁵⁵ While it is beyond the parameters of this essay to discuss the issue of voting weights and relative power in more detail, a brief look at the concluded elements of the 2007-2013 Financial Perspective provides an indication of the relative ability of the CEEC's to pursue their interests in the New Europe.

⁵⁴ All Summits can potentially lead to new arrangements or to the amending of old arrangements. And this did happen at the December 2002 Copenhagen Summit. All of the candidate countries were able to bargain additional lump-sum payments to ensure they would not be net contributors to the EU budget. However, these sums do not resolve any of the inequities noted above.

⁵⁵ While the CEEC's will be able to constitute a “blocking minority” in an EU of 27 members, in an EU of 25 members, they are 13 votes shy of a blocking minority. Moreover, the proposed but seemingly moribund *Constitutional Treaty* ensures that even in an EU of 27, the CEEC's would remain many votes shy of a blocking minority.

The initial Commission proposal for SCF expenditure published in February 2004 was reasonably generous and went some way toward meeting the demands of the Central and East European countries for *equal treatment*. A far greater share of spending was to be concentrated on the less developed economies and the Commission had proposed a 31% increase in overall SCF spending over the entire period (see Table V below and Bachtler and Wislade, 2005: 6). By the conclusion of the December 2005 Summit under the UK presidency, this total increase had almost been cut in half (see Table V below). One of the principal factors in this outcome was insistence from the net contributor states on restricting the total level of EU expenditure to approximately 1% of EU GNI.⁵⁶ Given the unwillingness, in particular of France, to allow further significant reductions in the CAP expenditure, a good share of the cuts have come out of the Structural and Cohesion Fund category.⁵⁷ Set in the context of the European Commission's Third Report on Economic and Social Cohesion, these total allocations must appear discouraging. As the report notes, with the accession of Bulgaria and Romania the size of the EU population living below 75% of the EU average will more than double from 73 to over 153 million (European Commission, 2004:ix-x). Given that Bulgaria and Romania are likewise set to become EU members in 2007, total SCF expenditure in fact remains constant, or with inflation will even decline over the period 2007-2013.

[Table V about here: SCF Financial Perspective 2007-2013]

When the country level distributions are finalized (presumably in early 2006), one can expect a significant rise in CEEC SCF funding for 2007-2013 compared to the levels over the period 2004-2006. At the same time however, along with the overall downward push in total expenditure, there has likewise been a progressive upward creep in the number and size of individual allocations (*special provisions* and *transitional arrangements*) made to a broad range of Member States. The previous 4% of GDP threshold has been lowered still further (however slightly) and quite a number of countries have been able to wrangle *additional envelopes* or supplementary expenditures not present in previous drafts of the agreement.

More telling perhaps is the juxtaposition of the final 2007-2013 Financial Perspective with its historical antecedents—in particular Delors Packages I and II.⁵⁸ The old Cohesion countries (Spain, Portugal, Greece and Ireland) were able to achieve significant increases in EU SCF expenditure at that time—in particular due to the simultaneous pursuit of the Single Market and ultimately the planning stages of Economic and Monetary Union.⁵⁹ The EU's simultaneous pursuit of important economic integration projects made it possible to leverage significant concessions on the SCF's. A similar politically opportune context is lacking for the CEEC's. Moreover, several years of slow economic growth in Western Europe along with a greater concentration of Regional Development funds on Central and East European countries appears to

⁵⁶ See in particular the Joint Letter signed by the UK, France, Germany, Austria, the Netherlands and Sweden that proposed the imposition of this 1% ceiling on EU expenditure (December 15th, 2003).

⁵⁷ Though not surprising given both the relative political power of France in the European Union and historical precedent, significant French concessions on CAP reform would have gone a long way to satisfying many of the demands from developing countries at the Doha Round of talks in the WTO. More thoroughgoing WTO and EU reforms have now been postponed until 2008 or later.

⁵⁸ I draw here liberally from Szemlér (2005).

⁵⁹ See in particular Lange (1993).

have diminished Western Europe's appetite for greater SCF expenditure. Thus, the CEEC's have been left with little bargaining room. While the NMS's now enjoy full voting rights within the EU, they have so far not been able to achieve noteworthy concessions.

Conclusion

The interests of states—and groups within those states—clearly drive the negotiation process and find clear expression in the final terms of the EU membership agreement and the 2007-2013 Financial Perspective. In addition, the relative bargaining power of states, their overall weight in the decision-making process, as well as the relative importance of the final outcomes and the potential costs of exclusion—all contribute to the ability of states to pursue particularist agendas and to guarantee economic gains from participation in the EU. Bluntly put, the ability of the OMS's to design and manage the process of EU enlargement/membership has led to a less than ideal outcome for the NMS's. Given their relative lack of bargaining power, the degree of competition among them, their general fear of being excluded from the final agreement and the hope of being able to influence decision-making from within rather than without, they have accepted the final agreement.

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

The impact of SCF's policy in CEE is likely to be similar. An analysis of the distribution of EU SCF's for the period 2004-2006 reveals a significant *discrimination gap* between Eastern and Western Europe. Western states (in particular Greece, Ireland, Portugal and Spain) receive far more and the CEEC's far less than they should. While pouring large amounts of funding into CEE might overburden existing administrative institutions (that do have difficulties distributing such funding), lead to higher rates of inflation, or overburden CEE budgets with EU co-financing requirements, such arguments neglect the distortionary effects of higher per capita SCF expenditures in Western Europe. Little mention is made in this context of the massive investments EU environmental legislation will require, or the potential benefits to economic restructuring that higher CEE transfers could bring.

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

the introduction of the population rule and its likely strengthening and revision in the *Constitutional Treaty* is likely to *lock in* a powerful status quo bias for years to come.

Important theoretical and policy implications can be drawn from the above analysis. In theoretical terms, this analysis weakens claims that EU enlargement has been propelled forward by a sense of “community values” or the logic of pareto-optimality noted above. Second this analysis begins to resolve current deficiencies in intergovernmental interpretations of the enlargement. With respect to policy implications, this analysis is focused on issues likely to dominate EU politics for the next decade and beyond. Where there are considerable inequalities in the treatment of NMS’s and where these are driven by divergent interests in the policies and expected benefits of European integration, one can expect important debates for years to come.

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

One potential weakness herein is the difficulty in explaining the final decision to join the European Union. The inherent logic of the above argument—that potential CEEC gains have been whittled down by the ability of OMS’s to structure the EU membership agreement in their favor—suggests there are few rewards for the NMS’s. The degree of OMS success should give pause even to the casual reader of studies on European integration. But ultimately one is left to wonder why the NMS’s were willing to accept the final agreement. There is a strong suggestion here in that the perception of gain may in fact exceed the direct financial rewards of membership. Ultimately, in addition to the perception of economic gain, some of the more intangible benefits of EU membership—increased mobility and democratic stabilization—may mean more to individuals than losses resulting from CEE incorporation into the EU marketplace and legislative framework. On balance, however, the degree of whittling down resolutely predicts these issues will return to vex the EU of 25, 27 and beyond.

Table I: EU Expenditures on the New Member States as a Share of EU and German GDP and National Government Expenditures, 2004-2006

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

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

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

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

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

**Table III: Structural and Cohesion Funds
(Totals, Per Capita and as Share of GDP)**

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

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

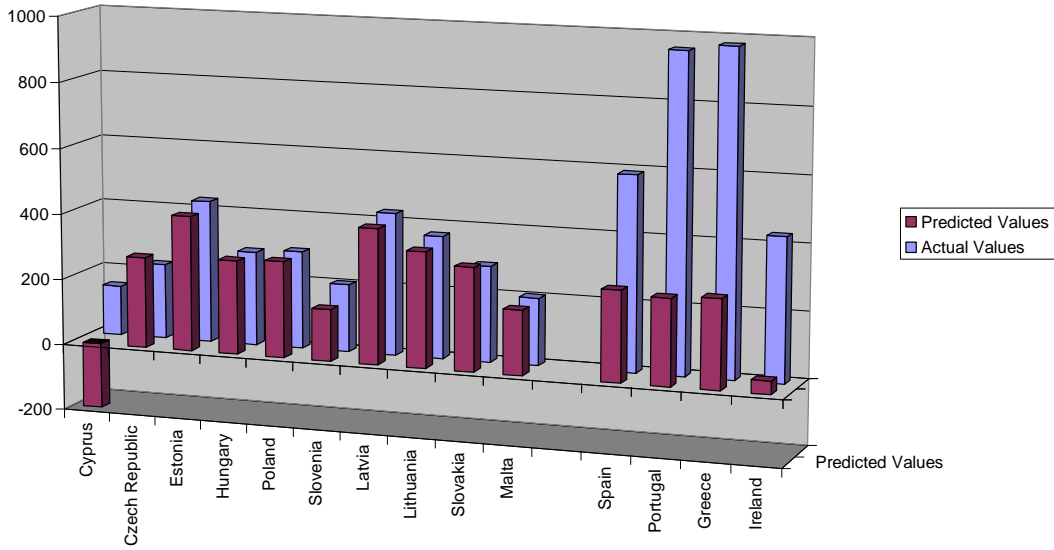
Table IV: Structural and Cohesion Funding

	<i>Model I</i>	<i>Model II</i>
	<i>Candidate</i>	<i>Member</i>
	<i>Country</i>	<i>State</i>
	<i>Model</i>	<i>Model</i>
<i>Per Capita GDP</i>	-14.1 (-1.46)	-105 (-2.10)
<i>Population</i>	0.0003 (28.4)	.0001 (2.43)
<i>Unemployment</i>	5.99 (0.22)	770 (1.49)
<i>Support for EU</i>	0.561 (0.06)	212 (2.41)
<i>n</i>	10	15
<i>Adj. r²</i>	0.99	0.67

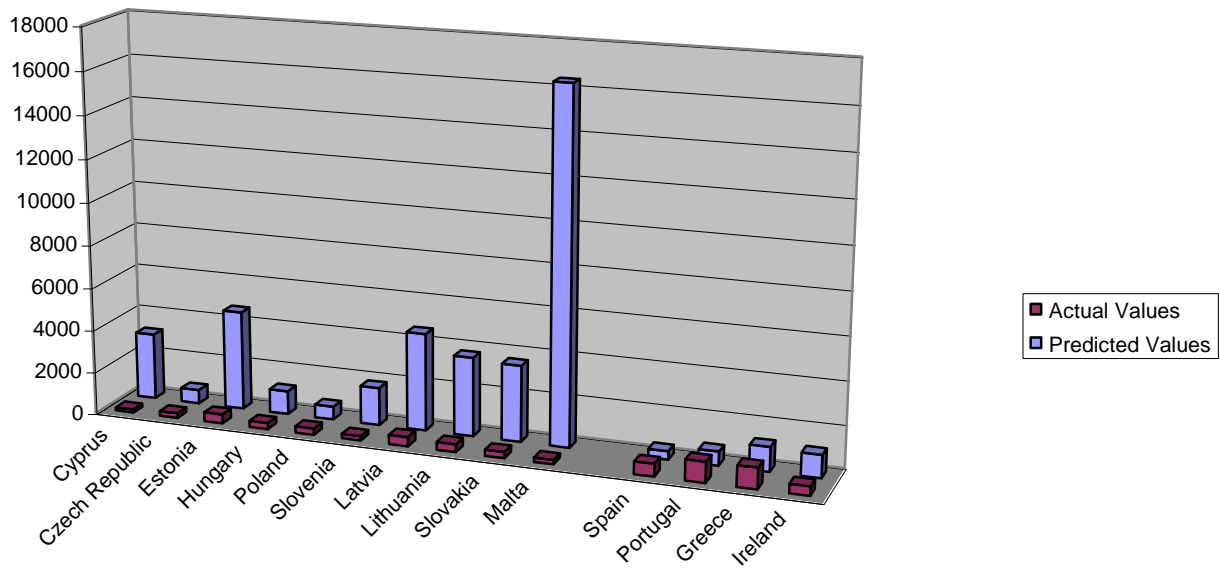
Sources: SCF data for the OMS's came from the Regional Policy DG's website (http://europa.eu.int/comm/regional_policy/intro/regions5_en.htm). For the NMS's, SCF data came from the "Financial Framework for Enlargement 2004-2006" (http://europa.eu.int/comm/budget/pdf/financialfrwk/copenhagen_package/webtablesEN.pdf). Data on population GDP in current prices taken from the Eurostat Yearbook (2001). Data on support for EU membership came from the Eurobarometer (3/2003) and unemployment data from the Eurostat Structural Indicators website. Finally, data on per capita GDP relative to the average of the European Union came from Bruxinfo (www.bruxinfo.hu).

Figures Ia and Ib: The Discrimination Gap Structural and Cohesion Funding across Old and New Member States

**Actual and Predicted Per Capita Structural and Cohesion Funds
(Based on Candidate Country Model)**



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



**Table V: EU Budgetary Expenditures for 2006 and Financial Perspective 2007-2013
February 2004 Proposal and Final Expenditure Totals**

Structural and Cohesion Fund Expenditures

	2006	2007	2008	2009	2010	2011	2012	2013
SCF's (February 2004)	38,791,000	47,570,000	48,405,000	49,120,000	49,270,000	49,410,000	50,175,000	50,960,000
Percent Change		22.6%	1.8%	1.5%	0.3%	0.3%	1.5%	1.6%
SCF's (December 2005)	38,791,000	42,840,000	43,288,000	43,820,000	43,801,000	43,995,000	44,634,000	45,241,000
Percent Change		10.4%	1.0%	1.2%	0.0%	0.4%	1.5%	1.4%

Common Agricultural Policy Expenditure

	2006	2007	2008	2009	2010	2011	2012	2013
CAP (February 2004)	56,015,000	57,180,000	57,900,000	58,115,000	57,980,000	57,850,000	57,825,000	57,805,000
Percent Change		2.1%	1.3%	0.4%	-0.2%	-0.2%	0.0%	0.0%
CAP (December 2005)	56,015,000	54,972,000	54,308,000	53,652,000	53,021,000	52,386,000	51,761,000	51,145,000
Percent Change		-1.9%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%

Sources: Own calculations based on appropriations data from “Building Our Common Future” (COM(2004) 101 final: p. 29), the UK Presidency Conclusions on the Financial Perspective 2007-2013 (Doc 15915/05, CADREFIN 268, Dec. 19. 2005: Annex 1, p. 33) and population data from Eurostat Online NewCronos data.

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