

Review paper

ENLARGEMENT OF THE EU FROM THE PERSPECTIVE OF MEMBER STATES

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Abstract. *The European Union is quite clearly a possibility of achieving a high degree of economic integration with the maintenance of the political sovereignty of the member states. Also, membership in the EU certainly leads to reduction of the autonomy of the member states in the conduct of macroeconomic policy and to greater interdependence of economic policies, but the general expectations are that the net effects of integration will be positive. The new EU member states are ready to sacrifice part of their national sovereignty in the area of economic policy, by accepting the logic of realization of the interests in the long term, in order to be involved in the successful project of integration. This will further be made difficult in the conditions of the latest economic and financial crisis.*

Key Words: *enlargement process, acquis communautaire, new democracy.*

INTRODUCTION

The decision on Serbia's accession to the EU will be primarily driven by economic motives. However, this process has its price, as well as some negative effects. Positive and negative consequences of the accession process are very different depending on whether the measures have short-term or long-term effects. Economic science is not called upon to answer the question whether it is necessary to join the European Union or not, but there must be an answer to the question of what the economic benefits and consequences of this process are and how much it costs. This paper will attempt to identify the strengths and weaknesses of the accession of any country to the European Union, the price of the accession process, as well as restrictions that arise along the way. The euphoria that was created in Serbia about the European Union membership is more a result of the media campaign than clear arguments in favor of pompous titles in print and

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electronic media. It is not the duty of the economics to say that the membership of this integration is a necessity, that this option has no alternative, or whether it is desirable or unnecessary. Rather, the responsibility for making such decisions should be taken by the politicians. But the obligation of economics is to say how much this decision will cost and what the benefits of the EU membership are. In addition to direct, there are also indirect, invisible costs and benefits, which can be predicted by a serious economic analysis. What is very important is the timing of the analysis. The benefit cost ratio of EU accession changes the extension of the period within which the process is under consideration. But the question is whether the old EU member states want to receive the remaining Western Balkan countries under their wing.

1. ARGUMENTS AGAINST THE RECEPTION OF NEW MEMBERS

Each expansion is more or less preceded by considering impact of economic and political motives for closer integration. These arguments, due to sensitivity problems, were not often made public but could be found out indirectly. Also, the interests of certain groups within the EU were so diverse, that in some cases, Eurosceptics and federalists could be found on the same side. For purely methodological reasons, two groups of holders of different views were identified regarding the process of enlargement. The first, which contained a series of arguments why the EU could not allow the expansion, and the second, which consisted of arguments in favor of receiving new members. It is interesting to mention that there were a significantly larger number of arguments "against" than "for" the receipt of new member countries.

One of the arguments against receiving new members was political difference. Political instability in the countries of Central and Eastern Europe mirrors the return of the former, reformed communist parties to power in Poland, Hungary, Bulgaria and Slovakia. Proponents of these claims (justifiably) felt it was hard to believe that the pro-Communist government adopted market economy and democracy. It was obvious that their basic economic and political settings were incompatible with the capitalist, democratic system that had existed in Western Europe for quite long. Therefore, these countries were asked to confirm their determination, at any time, to continue the process of the EU integration. It was only possible if in these countries existed a solid consensus of all political actors on the common goal. The goal to be achieved was clearly joining the EU. The unity of all politicians for achieving this goal has led, arguably, to more rapid resolution of individual *acquis*.

There were supporters of the opinion that potential members would not be able to accept the European law and the *acquis communautaire*. Practically, this meant that they would not be able to meet criteria established in Copenhagen and Maastricht (in connection with the acceptance of a single currency). On the other hand, if the member states waited for potential candidates to reach the desired level of development, the progress of the Union would be called into question. Of course, it would still lead to the "if-then" option, where Europe has to decide about the development concept in two speeds, with all the unwanted side effects. Some authors suggest that the countries of Central and Eastern Europe, certainly, were asked to accept and implement a number of provisions of European law, because it was the surest road to their full membership. The application of these rules was more effective. These transitional measures, accepted in principle as an

exception, were time-limited (depending on the area, from two to ten years), with clearly defined modes and fields of application.

It is necessary, however, to point out the fact that not even all the member states have accepted the *acquis communautaire* in full. The United Kingdom, Denmark and Italy are, as is known, located outside the process that regulated the introduction of the common currency. Moreover, Britain did not accept the Social Charter of the Union, and Austria and Sweden were excluded from certain provisions of the single market, with the permitted ten-year transition period. It seems that the information about the (im)possibility of acceptance criteria presented to potential candidates, was not justified. Namely, the principle of flexibility as the latest extension, later proved to the greatest extent possible that these countries meet the large majority of these criteria. The amendment of certain parts of the *acquis* was left for the so-called transitional period, in which the new member states had to round up and complete the national *acquis communautaire*. One gets the impression that in the future Serbia should, after gaining full membership, take maximum advantage of the flexibility provided by the principle. There would probably be those related to defining the long transition period, and less drastic in the precedents that have been used (and are used) in the case of other EU countries.

On the other hand, the EU had to ensure compliance with legislation and regulations, as well as their control, using the same means and in the same manner as in the member countries. At the request of the Governments of the most concerned fifteen states, the Commission has been assigned very strong weapons in order to prevent any irregularities. First of all, treaties of accession were contained in the economic field, as well as a general safeguard clause used during the previous enlargement. It is applied in situations where big problems that could hit all sectors of the economy or create a serious risk of economic damage occur in a particular zone. This clause can be invoked against any member, "old" as well as "new".

With every next EU enlargement, the delay in the main task of development of the Union, is deepening. The Treaty on European Union was open to a range of issues related to the establishment of the monetary union, by changing the structural funds, reform of the Common Agricultural Policy and others. Advocates against further expansion emphasize that the admission of new members will not only prevent their solution but it would also multiply them. However, it is necessary to say that current practice showed that it was not easy to reconcile the reception of new members and implement changes to the internal structure of the Union. The most obvious example of the problems is the adoption of the Constitution of the EU. But also, we should underline that these two processes were not necessarily opposed. The experience of the last enlargement is in favor of this claim, so that the "package" should contain extensions agreed to certain changes in the field. Thus, for example, because of the importance that agriculture has in the countries of Central and Eastern Europe, there have been appropriate changes and adjustments in the Common agricultural policy of the Union (Marković, I., 2009).

The reception of the candidate countries to the membership in NATO is one of the most sensitive issues, without which the solution that the European Union will expand its membership is inconceivable. This is supported by speeches and Treaty on the European Union, which in part related to the common foreign and security policy and common defense policy in the future, realized within the Union. For the previous level of development of relations, NATO has chosen the strategy "Partnership for Peace" which is certainly not a secured basis for achieving security, but they are confident that the positive

signals are seen on the receipt of potential candidates. The growth and development of both these organizations, for these reasons, had to be parallel and complementary. This approach is a condition that the Member States, while seeking solutions to this problem, were obliged to take into account not only their own interests, but also the reactions of Russia, America, Canada, Ukraine and other NATO members on the issue of enlargement towards the East. There was an obvious need to respond to the "security vacuum", which emerged in Eastern Europe after the collapse of Warsaw Pact, and to create a climate of trust and understanding as the necessary basis for further economic and democratic development. On the other hand, the countries of Central and Eastern Europe in the events of the past had strong motives for wanting membership in the military alliance. The reason was more related to the future of the Western European Union (WEU). Since the role of this organization has not been clear, an option that EU membership was seen by connecting with the WEU has become less attractive. A solution in the form of separation of economic and political aspects on one hand and military on the other hand, as the membership of these countries would not be followed by inclusion in NATO, did not come to life in practice.

Another reason for the restraint in receiving new members was the fear of German domination. After its unification, Germany was strengthened significantly and began to exert great influence on the further development of the Union, and one of their main pre-occupations was the expansion to the East. In this way, the countries of Central and Eastern Europe fell completely under German influence, which in the past was very strong, and Germany gained complete control over most of the activities of the Union. Such arguments were very present in British circles of Euro skeptics and to some extent in France. In order to maintain the balance of power, these countries have always kept a certain dose of reserves when the issue of Eastern enlargement was put on the agenda. It seems that this opinion is not sustainable from the very fact that the balance of forces within the member states changed in favor of Germany, whose economy has become the main pillar of the EU economy. Economic forces, in this case, were used entirely to increase the political influence of time on potential candidates, in terms of fulfilling the criteria set. However, this impact is in large part expressed by authority over the Union, and reflects European fifteen interests, and not just Germany. The goal that is intended to be achieved by eliminating exclusive national interests was the preservation of European identity. It is in that light that one should evaluate the political weight of the significant decisions of the European Union towards the process of further integration of Serbia into European structures.

The fear of receiving the small countries, too, was emphasized as an argument against further enlargement. The purpose of this opposition proceeded from the organizational structure of the European Union. Namely, it was thought that the organizational structure of the EU would not be able to respond to future extensions, and the inevitable reform would swing the balance crucial for the functioning of the integration itself. In order to "aggravate" the accession of the countries in Central and Eastern Europe, France was the initiator of the proposal to one of the conditions for receiving a national income per capita, which would have a delayed expansion in the long term. In the initial period, Britain supported the EU enlargement to the East, but also showed changes in irreconcilable opposition to the decision making process. All that was supposed to support the conclusion that the expansion was verbal rather than real. Additional members would, therefore, mean new Commissioners, members of Parliament, Chairman, languages, etc. A received

state, in size similar to the Benelux countries, would contribute to decrease, and a fragile compromise. These arguments are able to refute the claim that the EU had, in any case, to reform regardless of the possible expansion. These are best demonstrated by the Intergovernmental Conference in Amsterdam in 1997 and Nice in 2001, determining the framework for future changes.

Finally, often stated arguments are those related to the costs of enlargement, both for Western manufacturers, and for the European Union budget. Opening the European market for products from the associated countries (for which this country had a competitive advantage due to lower costs, primarily of labor), would affect Western manufacturers to reduce their competitiveness. That would result in a series of negative effects on their national economies, ranging from reducing profits at companies, to the new wave of unemployment, particularly in member countries that have already had a lower level of economic development. It is necessary to emphasize that the arguments related to these costs had a significant impact on the formulation of policy in countries whose industries would not resist the competition from Eastern European manufacturers and their low cost production. However, research in this area has shown that the losses incurred after the opening of the market were relatively small and could be compensated in relation to overall profit. It should also be noted that in practice this problem was almost solely superseded by signing the European Agreement on the gradual opening of the market.

The problem of public revenues and the use of EU budget funds was one of the key issues which represent a prerequisite for solving the enlargement of the European Union. Fiscal effects of expansion would mirror the increase in the budget of the Union, and in the field of structural and cohesion funds, but also increase appropriations in the budget of the common agricultural policy. Receiving "new democracy" would cause fewer subsidies for current member states, or the introduction of new tax rates in Western countries, such as in the previous case, which is very difficult to implement. This practically means that member countries had either to set aside significantly more assets in the EU budget, in order to satisfy the requirements of the new member, or to reduce the amount that went inside the existing budget. The problem certainly was not unsolvable, because the receiving countries of EFTA in 1995 confirmed that certain solutions can be found. But the fact remains that Serbia as a potential candidate can not expect the same level of subsidies as enjoyed by the "old" members.

2. ARGUMENTS "FOR" ADMISSION OF NEW MEMBER COUNTRIES

The arguments which speak in favor of EU enlargement can be divided into several groups. The arguments such as: securing democratic development, strengthening the market economy, regional stability, are just some of the frequently mentioned in the literature and practice. Membership in the EU would certainly contribute to the development of democracy, since it is defined as the necessary condition for the receipt. Stable democracies are, therefore, a prerequisite for the admission into the European Union, attracting great economic investments, and the creation of a safe political environment was the primary goal of emerging countries after the collapse of the communist regime. Stability in the region enabled the EU to focus its resources on the global political-economic processes and to decisively continue with the construction of political images. It seems that the Euro skepticism additionally burdens the countries in transition. Present belief is that

with the accession to the European Union, national identity would be lost and that the new country will not be equal. For these reasons, candidate governments have had great responsibility in explaining the transition process and the necessity of joining the European Union. Of course, the responsibility was on the European Union, which is primarily reflected in the understanding of the needs and interests of potential members.

Indisputably, the reasons for the EU enlargement to the East are economic in nature. The second, but not less important argument "for" is related to developing and promoting a market economy. This practically means an increase of GDP for less than 5% in receiving 12 new countries. New countries represent potentially cheaper labor market, so on that basis companies could make extra profits. Closely linked to market are: the goods, people, services and capital. Laws concerning investment in the new member states are more liberal, so the "old" members met with the problem of leaving jobs and capital in the new country. These facts demanding restrictions required social support in "old" member states, which would be adversely affected by social peace in them. This is further confirmation that the Eastern European countries broke with planned and accepted full market orientation (Marković, I., 2009).

Since the market economy is one of the prerequisites for admission to the EU, the governments of these countries had a great excuse for all the negative side effects that occurred in the transition process. Impetus for economic restructuring came to the fact that entering the single market economy experienced its revival. Expansion of single market would be stimulating to intensification of mutual trade. Reception of the associated countries in this direction would consolidate the position of the investors from all fifteen member countries - particularly Germany - which would finally lead to greater capital inflows in the region. On achieving regional stability, after expansion, the last obstacle to faster and bigger inflow of foreign capital would be eliminated. The conflict would be very difficult; bearing in mind that the international border disputes between these countries was not negligible.

3. WESTERN BALKAN COUNTRIES AND THE ECONOMIC CRISIS

From the perspective of economic growth and development, it can be observed that Balkan economies generally lag, not only in comparison to the developed countries of Europe, but also to those in Central Europe, and even to the countries in transition that joined the European Union in 2004 and 2007. Although levels of development are not easily comparable, some general conclusions are possible even if you do not know the exact details. For example, most of the Balkan countries have a per capita GDP, measured in purchasing power, 30 percent below the average of the European Union (with 27 members). Also, most countries still produce significantly less than twenty years ago. Finally, the entire area was observed under high rate of industrial production, which is reduced by half and recovers relatively slowly. In order to avoid drawing the wrong conclusions that this is natural for the transition, it should be noted that industrial production in most new EU member states has already recovered, while some are still at a much higher level than before the EU accession. This is a result of improved access to markets in the region, particularly in the European Union. Also, some authors suggest that the higher growth is the result of privatization and improved management of companies. But it is not certain that the recovery in industrial production will continue,

especially if the crisis continues. High growth rates are a consequence of the low starting base, and the structure of industrial production that develops does not guarantee that it will continue to industrialize. Exports have also started to recover in most countries, although one can not yet speak of growth based on exports.

However, to the extent that the increased investment and exports tend to rise, we can talk about the positive side of the restructuring of the overall demand. Contagion to other countries from financial to real flows went through the channels of international trade and private capital. Same TNCs in most cases accepted strategy for slowing foreign direct investment, and withdrawal of capital in the country of origin, reflecting the decline in foreign direct investment in the world in year 2008 by 29%. In this way, foreign investments have dropped and the delay also affects capital importing countries that recorded a drastic reduction in the growth rate at the end of 2008 and the beginning of 2009. But the long-term nature of FDI does not allow for the complete withdrawal of capital from the Western Balkans. However, many investors have reduced or completely stopped production of their branches abroad, which increased unemployment, reduced the volume of economic activity and directly led to the recession. Most affected were those industries that are prone to cyclical movements such as the automotive and construction industry, electrical and electronic equipment, etc. Far less damage was suffered by the sectors with a standard demand such as oil and petroleum products, beverage, food, tobacco, etc. The projected balance of foreign trade and the current account show a gradual reduction of the deficit in relation to GDP. It is not clear how realistic these estimates are. In some countries, where exports of services plays an important role, for example tourism in Croatia and Bulgaria, the foreign trade deficit in goods and services is reduced, which increases the chances of sustainability of deficits in their current account. However, in economies where services exports are relatively less developed, growing trade deficit certainly points to the difficulties that they may face in the recovery of the export of goods. The recovery in exports is associated with recoverable industrial production and the influx of foreign export-oriented investment.

Some economists quite reasonably point out that the economic problems faced by the countries of the Western Balkans are largely "external nature" and beyond their control. They are not the ones who started the crisis in the Eurozone and activities that must now be taken are mostly defensive in nature. That basically means far tighter control of national fiscal deficit and public and external debt, with Serbia, Montenegro and Bosnia and Herzegovina so close to the "red line" when it comes to the state's fiscal deficit. On the other hand, in terms of integration, the region will, in the situation when the EU is facing reform itself, have to undergo "more difficult conditions" in order to get to the door of the Union which, at that point, probably will not look like today. And while there are those who see the EU expansion potential as the "new burden", there are those who do not see the extension as part of the risk for the EU, but as a part of the solution to the current crisis, explaining that each new wave of European enlargement brought a new impetus to economic growth. They recommend the Western Balkans, through reform, to become the preferred partner and make the EU the reason that they say "no".

CONCLUSION

European integration in the form of the creation of the European Communities and the European Union process is without precedent in modern history and modern times. States and nations of this continent are free to make decisions regarding forms of cooperation and networking, which resolves life issues of citizens more effectively and safely. This commitment, which originally included six countries of Western Europe, eventually became a commitment of almost all European countries. The EU now has twenty-seven member states, with the perspective of enlargement. Why has this form of integration become so attractive for European countries and peoples, and why Serbia sees its future in this solid alliance supranational state? The answer to this question includes the following elements: the European Union is a primarily peaceful development and integration process, which starts from the state as a "master contract", but essentially involves a large number of participants and beneficiaries, such as economic entities, professional associations, political organizations, regions, civil society, the public, as well as individual citizens and others. This form of integration is not violent and imposed, but voluntarily from the standpoint of democratic legitimacy within each current and potential EU member state. Also, it is a process that successfully meets the demands of globalization, giving a rational, efficient and legitimate response to this historic challenge. Such a response is contained in a developed legal system, the institutionalization of democratic procedures and generally accepted decision-making and implementation of European decisions.

It is important at this point to mention that the integration is performed gradually, based on well surveyed and deeply elaborate steps that take into account the interests of all participants. It is a method that has enabled continuous deepening and extending of the integration process. The ultimate goal of integration is to satisfy the interests of citizens of member states, which gradually become citizens of Europe. On that basis, Europe gradually gets its historic new internal and external identity. It is feasible that the process is done within the framework of legal rules, procedures and institutions that promote the idea of supranational legal order and well-regulated political community. Entering into a transnational political community such as the EU reduces the possibility of political instability that may be caused by external factors, because the member states are in a position to influence the decisions that affect it. The future structure of the Serbian economy, it is the major opinion of the author, will in part be formed just under the direct influence of Serbia's integration with the EU. While that moment may not be any time soon, it is certain that much of earlier domestic legislation must be changed, and that business will have to be to the greatest extent consistent with what is applicable in the EU. And just to determine operating conditions and overall economic activity, bearing in mind that legal and political system does not determine the specific business and investment decisions, but they do provide the framework, it can be expected that the new business environment will establish stimulating effect on the decisions of domestic and foreign investors.

Secondly, a very important segment of these effects would be related to the harmonization of the structure of the economy with the EU member states. This practically means a direct consequence of the adoption of the legal heritage of the EU and its acceptance of common strategies and policies. This would mean that potential member economies should be almost fully harmonized with the economic structure of the EU and its policies,

or prepared to become part of it without major problems. Obviously this is huge work and effort, but in any case, their economies will have to go in the direction of significant changes to their structure, even if EU membership was highly uncertain. Finally, the third but not least important part of these effects is related to the period after the receipt of the full membership of the EU. It is, as is known, the so-called covered costs of adjustment, and no country avoided them. These costs will be lower, and the country will sooner be able to draw benefits from EU membership, if the previous adjustment was successful. However, it is reasonable to expect that, regardless of the successfully overcome previous phase, some changes in the structure of the economy will inevitably occur due to collisions with competitors on such large and developed markets. In any case, these changes will, according to most authors, mean a better and more adequate adaptation of the much larger internal market. It should be noted that the membership of the EU entails all obligations under it and all the (favorable) arrangements that the country had until then independently, cease to exist.

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PROŠIRENJE EU SA ASPEKTA ZEMALJA ČLANICA

Evropska Unija vrlo jasno predstavlja mogućnost ostvarivanja visokog stepena ekonomske integracije uz održavanje političkog suvereniteta zemalja članica. Članstvo u EU sigurno da dovodi do smanjenja autonomije zemalja u vođenju makroekonomske politike, do veće međuzavisnosti ekonomskih politika, ali su očekivanja da će neto efekti integracije na dugi rok biti pozitivni. Novopridružene zemlje članice EU su spremne da žrtvuju deo svog nacionalnog suvereniteta u domenu ekonomske politike da bi se, prihvatajući logiku ostvarenja interesa na dugi rok, uključile u dokazano uspešan projekat integracije. Ovo će dodatno biti otežano u uslovima najnovije ekonomsko-finansijske krize.

Ključne reči: *proces pristupanja, acquis communautaire, nove demokratije.*