BOFIT
Online

2002 • No. 13

Antje Hildebrandt

What is Special about Enlarging the European Union towards the East? A Comparison with the Southern Enlargement

Bank of Finland
Institute for Economies in Transition, BOFIT

Bank of Finland
Institute for Economies in Transition (BOFIT)

PO Box 160
FIN-00101 Helsinki
Phone: +358 9 183 2268
Fax: +358 9 183 2294
bofit@bof.fi
www.bof.fi/bofit

BOFIT Online
Editor-in-Chief **Tuomas Komulainen**

ISSN 1456-811X (online)
20.12.2002

Helsinki 2002

The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the Bank of Finland.

What is Special about Enlarging the European Union towards the East? A Comparison with the Southern Enlargement

Antje Hildebrandt*

December 19, 2002

Abstract

The end of state socialism in central and eastern Europe has opened up the opportunity to integrate western European countries with the former centrally planned economies. Besides the historical peculiarity of enlarging the European Union to the east, a comparison with the earlier southern enlargement comprising Greece, Portugal and Spain gives important insights into mechanisms and problems of geographically extending the Union. Aim of this paper is to explore the past experience of enlarging the EU referring to the economic situation of the applicants in comparison to the member countries and to the challenges to enlargement. In the knowledge of differences, lessons can be drawn from the southern enlargement for the upcoming enlargement towards the east.

Keywords: EU enlargement, transition countries

Address for correspondence: Humboldt University Berlin, Department of Economics, Spandauer Strasse 1, D-10178 Berlin, Germany, antje.hildebrandt@wiwi.hu-berlin.de

*This paper was partly written while I stayed as a Visiting Researcher at the Bank of Finland Institute for Economies in Transition from February to May 2002, and I am especially grateful for the outstanding working environment. I would like to thank Charles B. Blankart for comments on an early version of this paper. I am also thankful for comments and suggestions of Iikka Korhonen and participants of the *Bank of Finland Institute for Economies in Transition* seminar held in Helsinki in May 2002.

Contents

1 Introduction **4**

2 Key economic indicators **5**
2.1 Economic development levels 6
2.2 Macroeconomic stabilisation 7
2.3 Microeconomic and institutional reforms 9
2.4 Agriculture in southern and eastern Europe 10
2.5 East-west migration 12
2.6 Decision-making in an enlarged Union 13
2.7 Budgetary costs of enlargement 15

3 Convergence through membership? **17**

4 Conclusions **20**

1 Appendix **26**

List of Tables

1 Macroeconomic indicators for southern European countries and the EU12 26
2 Macroeconomic indicators for CEEC and for the EU15 27
3 Effects of EU enlargement on the Council of Ministers 34

List of Figures

1 Population of southern European countries, CEECs and of the EU 28
2 Economic size of southern European countries, CEECs and of the EU 28
3 GDP per capita in southern European countries in relation to the EU12 in 1987 29
4 GDP per capita in CEECs in relation to the EU15 in 2000 . . 29
5 Unemployment rate in southern European countries and in the EU in 1987 30

6 Unemployment rate in CEECs and in the EU in 2000 30
7 Agriculture in southern European countries and in the EU in 1986 31
8 Agriculture in CEECs and in the EU in 2000 31
9 Total net migration in southern European countries (1970-1998) 32
10 EU spending, 1958-1994 (in ECUm, taken from Baldwin et al., 1997) 32
11 Real GDP growth in CEEC and in the EU (1989-2001) 33
12 Convergence of GDP per capita of southern European countries (1970-1989) 33

1 Introduction

The European Union[1] was founded in 1958 by six relatively homogeneous industrialised states.[2] As it has evolved and expanded, new entrants increased internal disparities, especially in terms of per capita incomes. There was a particularly sharp increase in such disparities with the admission of Greece, Portugal and Spain.

The end of state socialism in central and eastern European countries (CEECs) now allows further political and economic integration of Europe. In 1998, the EU initiated accession negotiations with a "first wave" of CEECs.[3] In early 2000, the EU entered into membership talks with a "second wave"[4] of CEECs. Institutional development and macroeconomic performance of CEECs, particularly Bulgaria and Romania,[5] distantly lag EU members. Thus, eastern enlargement will likely increase regional disparities and income disparities[6] as did southern enlargement earlier.

The record of southern enlargement[7] in the 1980s provides insights into the challenges currently facing the EU with admission of CEEC members. As in eastern Europe under socialism, the state played a dominant role in southern European countries before accession. Also like the CEECs, the three southern entrants embraced democracy only shortly before they joined the EU. In both groups, too, agriculture plays a prominent role in the various national economies and ahead of entry they are somewhere at the low end of the European income hierarchy. Given these similarities, the outcomes of the upcoming enlargement round may well resemble those of southern enlargement.

Nevertheless, in outlining and comparing characteristics of old and new

[1] The European Union or EU, and its predecessor the European Community are used synonymously throughout this paper.

[2] Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

[3] The "first wave" (Luxembourg group) includes the Czech Republic, Estonia, Hungary, Poland and Slovenia.

[4] "Second-wave" (Helsinki group) countries include Bulgaria, Latvia, Lithuania, Romania and Slovakia.

[5] Most second-wave countries are catching up with the first-wave countries. This can be seen, e.g., in progress in accession negotiations with the European Union. The first-wave countries, as well as Latvia, Lithuania and Slovakia had closed between 24 and 28 chapters (out of the *acquis communautaire*'s total of 31) as of the end of June 2002. Bulgaria had closed 20 and Romania only 12 chapters (European Commission, 2002d).

[6] The standard deviation of GDP per capita (measured by purchasing power) would move up from 5.0 (EU15) to 7.4 (EU27) based on 1998 figures (European Commission, 2001a).

[7] Sometimes referred to as the "second" round of EU enlargement.

entrants,[8] and identifying major challenges of enlargement, we should remain aware that much has happened since Portugal and Spain joined the EU in 1986. With the *Single European Act*[9] and the *Maastricht Treaty*,[10] the Union has been transformed from a straightforward customs union to a sophisticated Economic and Monetary Union. The applicant countries must adopt the *acquis communautaire*, i.e. the rules of the EU, which have continuously been extended. Requirements for entry have grown in number and become more demanding.

Section 2 sketches out economic development levels, macroeconomic performances and microeconomic restructuring of the former and future entrants in comparison to EU member states. Section 3 contains a discussion of the major obstacles to EU enlargement, notably agriculture, migration policy, changes in EU decision-making processes and budgetary spending. Section 4 analyses the effects membership may have on accession countries. Conclusions are presented in the last section.

2 Key economic indicators

The two surveyed country groups – the recent southern European entrants (Greece, Portugal and Spain) and CEECs seeking EU membership – are relatively populous (Figure 1). In 1983 some 57 million people lived in the southern European accession candidate countries. Today, about 104 million CEEC citizens could potentially become EU residents. The inclusion of the southern countries increased the EU population by almost 22% when compared to the population of the EU9.[11] Similarly, the EU's current population (EU15)[12] would grow by nearly 20% if the most eligible CEEC aspirants are admitted.[13] If all applicant countries are allowed in, the EU's population

[8]We refer here only to new entrants from central and eastern Europe. The membership candidacies of Malta and Cyprus are not considered.

[9]The aim of the *Single European Act* was the establishment by the end of 1992 of a functioning single market with free movement of capital, labour, services and goods. The economic and social cohesion of the member countries secondary goal.

[10]The treaty provides for a single European currency.

[11]The EU9 comprised Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Ireland, Great Britain and Denmark.

[12]The EU15 includes Greece, Portugal, Spain, Austria, Finland and Sweden.

[13]According to recent information, the most likely aspirants are the first-wave countries as well as Slovakia, Latvia and Lithuania. The European Commission stated Bulgaria and Romania have yet to meet the requirements for membership (European Commission, 2001c).

would grow by 29%.

More striking, perhaps, is the size of entrant economies in comparison to the EU. Measuring economies as GDP at current prices (Figure 2), we see that southern enlargement raised the EU's GDP by nearly 11% while eastern enlargement adds quite little. The inclusion of CEEC aspirants, apart from Bulgaria and Romania, is estimated to increase the EU's total GDP just 4.0%. With Bulgaria and Romania, the increase would be 4.6%. Even recognising that the base is larger in the case of eastern enlargement (15 instead of nine countries), it is clear southern enlargement involved a larger initial economic contribution to the EU economy.

2.1 Economic development levels

The EU aspirants of the 1980s were significantly poorer than EU12 members (Figure 3), with per capita incomes ranging between 30% (Portugal) and 57% (Spain) of the EU12 average.[14] Applicant countries of eastern Europe lag EU member states even further (Figure 4). For example, GDP per capita as a percentage of average GDP per capita of the EU15 countries in 2000 amounted to 44% in the case of the best-performing CEEC (Slovenia), 24% for the Czech Republic and 22% for Hungary. Per capita incomes in Bulgaria and Romania, were just 7% and 8%, respectively, of the EU15 average. When GDP is expressed in terms of purchasing power,[15] however, the differences between aspirants and incumbents in both the southern and eastern groups decrease. In 1987, Portugal reduced the gap to 53%, Greece to 50% and Spain came close to 67% (Eurostat, 1999). The relative position of eastern countries also improves. Slovenia climbs to 69.4%, the other CEECs range between 58.8% (Czech Republic) and 23% (Romania) of the EU15 average (Eurostat, 2002b).[16] Thus, southern enlargement involved admitting countries where the per capita income gap was smaller on average than between the EU and current membership prospects.

[14] Data for EU9 were not available.

[15] This enables a correct comparison of volume of goods and services produced by different countries.

[16] In 1998, GDP per capita measured in terms of purchasing power for all CEECs amounted to 38% of the EU average (European Commission, 2001a).

2.2 Macroeconomic stabilisation

Accession to the EU is contingent on an applicant's ability to meet requirements defined in the *Copenhagen Summit Criteria* approved in 1993. It provides guiding principles for CEEC accession to the EU. Membership requires that candidate countries demonstrate three things: stable political institutions,[17] a functioning market economy and capacity to cope with the competitive pressures and market forces within the EU. The last two requirements imply the attainment of macroeconomic stability sufficient to give economic agents an environment of predictability in which to make decisions (European Commission, 2001c). Such an environment is seen as the result of price stability, sound public finances and external balance. In the following discussion, we appraise the overall macroeconomic conditions in the candidate countries vis-à-vis the southern countries.[18] More figures also are given in Tables 1 and 2 in the appendix.

In the lead-up to accession, inflation was relatively high in Greece and Portugal compared to the EU and Spain. At the start of transition in the early 1990s, inflation rates jumped drastically in all CEECs. Although inflation eventually slowed, the rate of price increase today in most accession countries still exceeds the EU15 average. The price jump in transition countries initially reflected the abolition of administered prices and the opening up of foreign trade. Later inflation has typically been driven by monetarily financed fiscal deficits,[19] soft lending of banks and excessive wage hikes. Thus, high inflation in a transition country today is likely to signal loose monetary policy or structural inertia.[20]

Budgetary discipline in pre-entry Greece and Portugal was quite lax compared to the EU9. Most CEEC candidates, in contrast, are characterised by moderate government deficits. CEEC governments have managed to hold down public debt and public deficits even in the face of severe strain. However, tight fiscal policy may become more problematic in the future as pressure for public spending builds along with social security reforms, restructur-

[17] Currently, all applicant countries except Turkey meet the Copenhagen political criteria (European Commission, 2001c).

[18] Our discussion here is deliberately kept to basics. For detailed information, please refer to the EBRD's Transition Report (2001) and the European Commission's report (2001c). We also refer extensively to OECD (1986a-c) studies of southern European countries.

[19] In Greece and Portugal, inflationary surges in the 1980s were caused by public sector financing through strong money supply growth.

[20] Of course, it may also reflect external shifts. Some of the inflation inreases of 2001 in some CEECs were driven by higher oil prices (European Commission, 2001c).

ing of state-owned enterprises, structural and institutional adjustments (e.g. implementing the *acquis*). Higher spending in any of these areas could unbalance public budgets.[21] Difficulties also arise on the revenue side, particularly in less advanced transition countries that must cope with tax shortfalls due to poor collection[22] and large shadow economies.

Greece's internal imbalances were mirrored by a deterioration of its external position. Decisive factors in Greece's case were its reduced competitiveness after 1982 and a strong demand for imported goods. These factors are likely to be relevant contributors to current account deficits of CEECs as well. Indeed, CEECs currently have large external imbalances with high current account deficits. Moreover, the relative high marginal productivity of capital in accession countries may be attributed to external imbalances; the counterpart of large capital inflow is often a large current account deficit.

Unemployment is another important indicator of a country's overall economic situation. In Greece and Portugal, unemployment rates have fluctuated near the EU average (see Figure 5), while Spain has long been dogged by persistent high unemployment.[23] Unemployment rates of transition countries need to be interpreted at two levels. Superficially, they reflect the economy's ability to create new jobs, but they may also indicate failure at reform, especially in restructuring state-owned enterprises (which typically means laying off workers). The picture for CEECs is mixed (see Figure 6). Some countries, e.g. Slovenia and the Czech Republic, outperform the EU15 average. Others, e.g. Poland, suffer from high unemployment rates. Increases in unemployment can still be ahead as traditional industries undergo structural adjustment and agricultural reform proceeds. The large agricultural sectors of some CEEC may well be major reservoirs of hidden unemployment.

In summary, Greece and Portugal were characterised by large macroeconomic imbalances in the mid-1980s. In recent years, enormous policy efforts have been undertaken in all three Mediterranean countries to bring their macroeconomic fundamentals into line with *Maastricht criteria*.[24] Evidence

[21]On the other hand, EU transfers to CEECs could also be substantial. Under the *Financial Framework for Enlargement*, tranfers to new members states could reach 40 billion for 2004 to 2006 (European Commission, 2002c).

[22]On average, around 20-30% of firms in CEECs failed to pay all of their taxes (EBRD, 1999).

[23]Spain's high unemployment rate has never been fully explained. It may partly be the result of high unemployment benefits and low wage flexibility (Blanchard, O. and J.F. Jimeno, 1995; Bover, O., García-Perea, P. and P. Portugal, 2000).

[24]The *Maastricht Treaty* spells out five criteria:

- Successful countries must have inflation rates no more than 1.5% above the average of

that their efforts at macroeconomic stabilisation have succeeded can be seen in their participation in the euro. This development could lead the way for new EU members as the prospect of joining the euro may positively influence the macroeconomic policies of candidate countries.

2.3 Microeconomic and institutional reforms

In addition to macroeconomic stability, candidate countries must also implement change at the microeconomic level. Such changes include the establishment of free interplay of market forces, the elimination of barriers to market entry and exit, and enforcement of property rights. They also have to comply with the obligations of membership and adopt the *acquis* [25] (European Commission, 2001c). Microeconomic reforms and institution building are key in making the transition from a centrally planned economy to a market economy. They largely overlap with more multi-dimensional reform requirements for EU membership,[26] so they more difficult to quantify and compare than macroeconomic indicators.[27]

The legacy of authoritarian regimes in pre-accession Greece, Portugal and Spain was characterised by excessive state interventions, inefficient industries with low productivity, structural deficiencies (i.e. rigid labour markets, administered prices, underdeveloped financial sectors) and little exposure to international competition. These countries lacked the institutions (such as effective competition law) necessary for a functioning market economy.

---

the three countries with the lowest inflation rate in the Community.

- Long-term interest rates should be no more than 2% of above the average of the three lowest inflation countries. This is to ensure that inflation convergence is lasting because otherwise higher expected future inflation in a country would be reflected in higher long-term interest rates.

- The exchange rate of a country should remain within the “normal” band of the exchange rate mechanism without tension and without initiating depreciation for two years.

- The public debt of the country must be less than 60% of GDP.

- The national budget deficit must be less than 3% of GDP (European Commission, 2002a).

[25] “This requires the administrative capacity to transpose European Community legislation into national legislation, to implement it and to effectively enforce it through appropriate administrative and judicial structures.” (European Commission, 2001c, p.5)

[26] The EBRD categorises the core aspects of reform which are essential for a market economy. They comprise privatisation, governance and enterprise restructuring, price liberalisation, trade and foreign exchange systems, as well as the liberalisation and reforms of financial institutions (EBRD, 2001).

[27] For in-depth discussion of the southern European countries refer to Katseli (1990), Macedo (1990), Viñals et al. (1990) and to the OECD (1986a-c). The EBRD (2001) and the European Commission (2001c) provide detailed background information on CEECs. We refer here to these publications.

The CEECs faced similar problems after the breakdown of the communist system. They implemented reforms to redirect their centrally planned economies to market-based economies. After twelve years of transition, it has become clear that structural adjustments and changes in economic institutions take time and must be underpinned with strong government commitment to reform. Although the European Commission now classifies all CEECs except Bulgaria and Romania as functioning market economies capable of coping with the competitive pressures of the EU, CEECs still face structural and institutional problems (e.g. low levels of financial intermediation and problems in implementing and enforcing bankruptcy laws). In the laggard transition countries, soft budget constraints of firms persist and governments are still largely influenced by interest groups.

The prospect of EU membership can strongly leverage reform efforts in the candidate countries that seek to meet the criteria for entering the EU and can act as an "outside anchor" in the transition process (Berglöf and Roland, 1997). EU membership was a driving force for economic reforms and institution-building in Portugal and Spain.[28] The prospect of membership can thus support a binding commitment to economic reforms and make economic changes more acceptable. An overall political consensus on advancing reforms helps to resist vested interests[29] and reduces the danger of policy reversals.

2.4 Agriculture in southern and eastern Europe

Baldwin (1994) describes agriculture as a "political land mine" in any EU enlargement discussion. "Mine field" might be a better term. To understand why agriculture remains one of the thorniest issues in EU enlargement, one only needs to look at the dominant role the agrarian sector plays in accession countries and the central importance of agricultural spending in the EU budget.

In fact, agriculture's contribution to EU GDP has been declining. It had

[28] Greece was reluctant to implement economic changes for its first decade of membership (see section 4).

[29] Large groups opposing EU membership and reforms that accompany membership have emerged in applicant countries. Influential agricultural lobbies, especially in Poland, reject membership (Inotai, 1999). On average, 59% of people in the candidate countries think that membership would be a "good thing." Support varies considerably countries. In Estonia and Latvia, only 33% of the population think their nation shoul join the EU, while in Romania 80% of people favour membership (European Commission, 2001e).

a gross value added of 3.4% of EU GDP in 1986 (EU12[30]) and just 2.1% in 2000 (EU15). The gross value added of the agricultural sectors in the southern Europe group was much higher before accession, ranging between 5.6% in Spain and 16.2% in Greece. Similarly, the agricultural sector plays a far greater role in the economies of today's aspirants than in those of current member countries. Furthermore, the share of people employed in the agricultural sector is larger in both country groups than in the EU. In 1986, between 18% (Spain) and nearly 29% (Greece) of all employed people worked in the agricultural sector, while in the EU12 only 8.5% were employed in agriculture (Figure 7). Among CEECs, except for the Czech Republic, more people are employed in agriculture compared to the EU15 (only 5% in the EU15 in 2000). In 2000, 43% of workers in Romania were employed in agriculture, 25% in Bulgaria and 19% in Poland (Figure 8).

Despite its minor contribution to EU GDP, agricultural spending dominates the EU budget.[31] The combination of a huge agrarian sector in post-communist countries and the importance of agricultural spending in EU raises the question of how to integrate applicant countries into the EU's Common Agricultural Policy (CAP). Agriculture was a central issue in Greek accession negotiations as it set the precedent for Spain and Portugal (Preston, 1997). Greece, Portugal and Spain all aspired to inject their interests into EU agricultural policy. Since their full integration into the CAP, they have continued their efforts at influencing agricultural spending for their own benefit.[32] At the time of this writing, the agriculture chapter of the *acquis* had been opened with all accession countries except Romania, but no country had managed to complete the initial negotiations. At the beginning of 2002, the European Commission (European Commission, 2002b) made its first proposal on integrating prospective members into the CAP, suggesting a ceiling on direct payments to farmers of 25% of the level paid out to EU farmers. This ceiling would then be raised gradually to 100% over ten years. The Commission's proposal displeased applicants, who felt betrayed by a policy that would give farmers in incumbent EU states four times as much financial help as them. Given the hard feeling on both sides, follow-up negotiations on agricultural subsidies and quotas will likely be quarrelsome.[33]

[30]Figures for the EU9 were unavailable.

[31]About 56% of EU budget expenditures are related to agriculture (Eurostat, 2001).

[32]See section 3.4.

[33]The largest contributors to the EU budget, and notably Germany, have indicated that they consider the Commission's proposal overly generous (The Economist, Feb. 9, 2002).

The fundamental problem, however, is the costly, inefficient CAP itself. The Commission knows CAP reform is needed, but the political clout of EU15 farm lobbies essentially dooms efforts to amend the CAP.[34] The prospects of enlargement and higher cost within a decade could, however, provide incentives to initiate reforms of the CAP before new members enter the Union.

2.5 East-west migration

The treaty establishing the European Community grants free movement of workers and their dependents, as well as freedom of establishment in other member states. The treaty also abolishes discrimination based on nationality and administrative practices that might interfere with migration of workers (European Commission, 2002a). From this part of the treaty follows that many people in current member states are anxious about massive labour flows from the east to the west. They fear tougher competition for jobs and increased unemployment.[35] Concerns about the east-west movement of labour, which are mainly based on large income gaps, labour market opportunities and geographic proximity, play a dominant role in the public debate about enlargement. The current discussion largely parallels the one that occurred before southern countries joined the EU, i.e. people feared massive inflows from the poorer southern European countries (see e.g. Preston, 1997).

Figure 9 depicts the difference between immigration and emigration for the years 1970-1998 for Greece, Portugal and Spain. The data here imply that unmanageable migration flows did not result after the entrance of the new members or the introduction of unrestricted mobility.[36] In fact, net emigration declined in all three countries.

One possible explanation for the moderate labour movements could be improvements of the domestic economic situation. The expectation of closing

[34] After the first eastern enlargement round, reforms of the CAP probably will likely be even more difficult because of voting power of the new members and their interests in agricultural support (see below).

[35] Fears about labour flows from the east vary largely within the Union. They depend on both place of residence and education of people polled. Rather than spread evenly over Europe, migrants will most likely concentrate in certain regions, especially those which are close to the border where they compete predominantly with low-paid and unskilled jobs. Today, most CEEC nationals reside in Austria or Germany (European Commission, 2001d).

[36] Completely unrestricted labour mobility within the EU was only granted to the Greeks, Portuguese and Spaniards after a transition period of six years.

the income gap, along with social and cultural ties, likely influence the decision to stay home. While it is impossible to make exact predictions about migration flows from eastern Europe to incumbent EU member states, there is evidence such flows may be quite modest.[37,38]

On the other hand, the motivation to migrate may be stronger in CEECs, as they are relatively poorer than their southern European counterparts were when they joined. Furthermore CEECs and the EU15 are marked by stronger geographical proximity with long common borders. With respect to cross-border commuting, southern EU enlargement provides no relevant precedent for the next enlargement round.

2.6 Decision-making in an enlarged Union

The entrance of new countries will cause a shift in the voting power among members in the decision-making institutions of the EU. The need for institutional change – and, in particular, decision-making in the *Council of Ministers* – was acknowledged before southern enlargement took place.[39] The need for change is even more urgent ahead of accession that could produce a Union with as many as 27 members. Decisions by the *Council of Ministers*, which largely set the EU's legislative agenda, provide a good overall indicator of the influence of member states on EU politics. They are made by the rule of unanimity or qualified majority. With a larger number of member states, decision-making costs will increase (Buchanan and Tullock, 1962, Ch. 6) and stalemates will be more likely. To keep the EU functional even with 27 members, an intergovernmental conference was called in Nice in December 2000 to decide on changes in voting rules and vote distribution.[40]

One target was the reduction of decisions which have to be taken by unan-

[37] Most studies (see e.g., European Commission, 2001a; Straubhaar, 2001) suggest inflows of migrants will be rather moderate and pose no serious problems to labour markets. These studies take into considerations various factors that might influence labour flows, e.g. differences in per capita income, labour market opportunities and geographical proximity.

[38] Sinn (1999) suggests people from the east might only temporarily move westward. Eventually, they will return home because of permanent higher costs abroad, such as visits home, high rents and the disadvantages of living in a foreign country.

[39] New members also send representatives to the European Commission, the European Parliament, and perhaps in the not-too-distant future to the Governing Council of the European Central Bank which influences the distribution of political power within the EU. See Baldwin et al. (2001).

[40] See Table 5 for changes of the distribution of votes after each enlargement round and for the planned distribution of votes after new members have been admitted.

imous agreement of all members.[41,42] Granting veto power to a single country in a 27-member EU could deadlock decision-making. Qualified-majority rules have been extended to about two dozen articles of the treaty, but critical areas have not been shifted to qualified majority rules.[43] In the case of qualified majority voting, the number of votes for each member country are roughly based on population with more populous countries having more votes. Currently, 71.26% of all votes (62 out of 87 votes) are necessary for obtaining a qualified majority. In Nice, member states agreed on changes of the qualified majority rule to integrate the future members in the decision-making body. Under the new rule, a qualified majority would be obtained when a decision receives a certain threshold of votes.[44] A majority of member states must also approve the proposal. In addition, decisions have to be supported by at least 62% of the total population of the EU. With these two additional criteria, decision-making seems set to become even more convoluted than before.

The range of issues which have to be taken by qualified majority have widened with the *Single European Act*, the *Maastricht Treaty* and the *Treaty of Nice*. In these decision-making procedures, blocking coalitions allow groups to pool their interests. The second enlargement increased heterogeneity of the EU. Ever since poor, agricultural countries gained representation on the *Council* (see Table 5), they have worked to promote their common interests, particularly in pushing through structural fund spending and support for certain agricultural products.[45] An alliance of new member states from the east might also arise[46] due to similar interests they share, in particular

[41] Decision-making in the European Union was already complicate with just six member states. Under the *Treaty of Rome,* most decisions required a qualified majority after 1965. However, France refused to give up its veto power and boycotted meetings of the *Council of Ministers* for six months. In the beginning of 1966, the members agreed to a compromise (so-called Luxembourg compromise) giving veto power to each member state if "very important interests" for a certain country were concerned (Leonard, 1998).

[42] The *Single European Act* (signed 1986), which inaugurated the programme to complete the Union's internal market, already extended the number of issues for which qualified majority voting instead of unanimity is required, especially on measures necessary to complete the common market in 1992 (European Commission, 2002a).

[43] Provisions on taxation, e.g., continue to be subject to unanimity. In the area of cohesion policy, there will be a move to qualified majority only in 2007 after the adoption of a "multi-annual financial perspective" plan (European Commission, 2002a).

[44] The threshold will be successively increased to a maximum of 73.4%.

[45] For example, the Mediterranean countries (Italy, Portugal and Spain) became a blocking minority after the second enlargement.

[46] With the inclusion of twelve new member states, the eastern European countries would have blocking power with 101 votes.

because of their lower income levels and dominant agrarian sectors.[47]

In summary, there are doubts about the successes in preparing the Union for the accession of up to 12 new countries. The decision-making process probably becomes more complicated after the *Treaty of Nice* has been implemented. Overall, there is a danger that the EU will lose functionality with 27 members.

2.7 Budgetary costs of enlargement

Budgetary implications are another key issue in the enlargement process. As noted, EU spending policy is dominated by agriculture and structural spending (Eurostat, 2001) and applicant countries are underdeveloped and heavily reliant on agriculture.[48] Thus, providing the new member states with equal eligibility to receive transfers would either require redistribution of resources from today's recipients or a large increase of the EU budget.

At the European Council meeting in Berlin in 1999, the member states agreed on the EU financial framework for 2000-2006 with the objectives of maintaining budgetary discipline[49] and preparing for EU enlargement. Adjusting the financial framework to the latest developments,[50] the European Commission presented a proposal on integrating new members into the CAP[51] and the structural fund (European Commission, 2002c). Almost all CEEC regions would qualify for structural funds if the current criteria on regional aid are applied.[52] To avoid huge transfers, the Commission proposed partial integration of the new states and limiting total annual structural transfers to 4% of national GDP until 2006.[53] Even then, eastern enlarge-

[47] Baldwin et al. (2001) introduce a more sophisticated measure that shows that the "passage probability" (likelihood that a randomly selected issue would pass the *Council of Ministers*) dropped from 14.7% (EU9) to 9.8% (EU12). It would decrease from 7.8% (EU15) to just 2.1% in a 27-member EU.

[48] Regions with GDP per capita below 75% of the EU average receive transfers (*Objective 1* regions). Such spending accounts for two-thirds of all structural expenditures. Agricultural spending is related to the percentage of people working in agriculture (European Commission, 2000).

[49] Financial discipline is mirrored in a fixed resource ceiling of 1.27% of EU GDP.

[50] The Berlin framework envisaged the possibility of six new members in 2002, but saw as more likely the addition of up to ten new members in 2004.

[51] Discussed above in section 3.1.

[52] GDP per capita in almost all CEE regions is below 75% of the EU average.

[53] Per capita transfers for structural expenditure for new members would be 137 Euro per capita (about 2.5% of total GDP of the new members) in comparison to an average of 231 Euro for the four cohesion countries (Greece, Ireland, Portugal and Spain). This represents 1.6% of total GDP of the four cohesion countries (European Commission, 2002c).

ment poses a separate problem. Some current member states will lose their *Objective 1* status simply because the average EU per capita income will be lower once poor CEECs are included, so up to the end of 2006, at least, all current *Objective 1* regions will be allowed to keep their status.

We can only speculate on how new members might try to influence the EU budget. The experience of southern enlargement teaches that new entrants quickly learn to use EU transfer mechanisms for their own benefit. Indeed, CAP and structural spending considerably increased after the second enlargement (Figure 10).[54] We can therefore assume new member states will use their voting power to affect financial transfers and, as noted, poor countries will seek to enforce their interests and influence budgetary decisions.[55]

Like their southern European predecessors, the new entrants will presumably be net recipients of EU transfers. Analogies can be made with their likely efforts at influencing structural and agricultural spending, as well as transitional arrangements concerning their financial obligations[56] to the EU budget. However, spending for agricultural purposes and for structurally lagging regions were much lower at the time the southern countries joined the Union.[57] It is therefore questionable whether the new members will be able to significantly increase the EU budget after 2006. In any case, the entry of the new countries from eastern Europe will sharply increase competition for EU transfers.

[54]Kandogan (2000) shows that voting power of a country and its share of EU members' receipts are significantly and positively correlated.

[55]Decisions on cohesion policy are subject to unanimity until the adoption of a new financial framework in 2007. Thus, all new members will have *de facto* veto power immediately after their accessions (probably in 2004 or 2005).

[56]Greece, Portugal and Spain were granted a reduction in their VAT payments (Leonard, 1998).

[57]Budgetary problems emerged in the early 1980s when the UK had to make disproportionately large contributions to the EU budget and high CAP spending threatened the EU budget. The problems were settled by granting allowances to the UK, which in return agreed on increasing the VAT contributions from 1% to 1.4%. Another budgetary crisis arose with the entrance of Portugal and Spain because the EU faced a budget deficit for 1987. Under the "Delors package," the budget limit was set to 1.2% of GDP, VAT contributions increased to 1.9-2.0% and structural funds were set to double by 1993 (Leonard, 1998).

3 Convergence through membership?

All countries in central and eastern Europe suffered dramatic declines in economic activity at the start of transition (see Figure 11).[58] As of 2000, only Hungary, Poland, Slovakia and Slovenia had surpassed their 1989 GDP levels in real terms. Nevertheless, in both 2000 and 2001, CEECs had an average growth rate that exceeded the EU15 average.[59]

Will CEEC growth rates be high enough to eventually catch up with EU member states? What can be expected from their integration into a large single market which has the potential to open new trade opportunities and improve investment conditions? Figure 11 reveals Portugal and Spain have been successful in moving to the EU average, while Greece only recently began to catch up.

The reasons for Greece's poor performance in relation to Iberian countries are multifaceted,[60,61] but the variation in economic growth rates can be linked to the extent to which market economic reforms and market-supporting institutions were implemented. Greece was reluctant to implement economic reforms and liberalise its economy. It even abandoned some reforms. Greece's state-owned sector grew in the aftermath of accession, its weak industries were heavily subsidised and the economic structure remained unchanged. Instead, Greece rather shifted back to old industries (Preston, 1997) and competitiveness of Greek industry declined after 1981 (Arghyrou, 2000). The two Iberian countries, in contrast, promoted development of market mechanisms on a large scale, for instance, by reducing subsidies to loss-making firms. They eventually succeeded in redeploying production to industries with comparative advantages (Larre and Torres, 1991).[62]

[58] This development is called a "transformation recession". A multitude of explanations have been put forward focusing on demand-side factors such as the collapse of the Soviet Union and the breakdown of trade within the Council of Mutual Economic Assistance (CMEA), as well as supply-side arguments relating to disorganisation effects (see e.g. Roland, 2000).

[59] The average growth rates of real GDP in CEECs were 4.0% in 2000 and 2.2% in 2001 (not including Bulgaria and Romania) (EBRD, 2001) compared to an average growth rate in the EU15 of 3.3% in 2000 (Eurostat, 2002a) and 1.5% in 2001 (Eurostat, 2002c).

[60] Generally, theoretical explanations for economic growth are numerous. Neoclassical growth models ascribe growth to the expansion of capital and labour, augmented by technological progress. Endogenous growth theory adds factors such as R&D and imperfect competition to explain growth. Olson (1996) argues that institutions and economic policies are essential for economic performance.

[61] For a thorough discussion, see e.g. Larre and Torres (1991).

[62] Despite achievements in economic reform, Portugal and Spain still face major challenges, e.g. relaxing labour market rigidities (see OECD, 1999 and OECD, 2001b).

Economic development is also shaped by EU transfers to new member states, especially through structural fund spending intended to help poorer regions catch up with the rest of the EU. All southern European countries are still net recipients of EU structural funds.[63] Spain and Portugal have used their money to promote productivity and infrastructure improvements, while Greece has spent most of its money on supporting public enterprises and other rent-seeking industries (Bosworth and Kollintzas, 2001). Thus, EU transfers to Greece have only modestly encouraged economic growth,[64] and possibly provided perverse incentives by e.g. sheltering subsidised firms from competitive pressure.

According to neoclassical theory, the integration of poorer transition countries into the EU implies that foreign direct investment (FDI) will flow from rich to poor countries.[65] Greece has not attracted significant inflows since joining the Union, while FDI inflows have increased for Portugal and Spain.[66] To date, overall investment inflows to CEEC have been relatively low[67] with large regional differences.[68] Accession may help attract FDI through positive expectations about future economic performance and as a guarantee of economic and political stability, but will not necessarily lead to higher FDI and will be directed to countries with a greater commitment to reform.[69]

The opening up of borders between the EU and the acceding countries

[63] In 1988, these amounted to 0.5-2% of GDP for the respective southern countries (Larre and Torres, 1991).

[64] The inefficient use of those transfers is one reason infrastructure is still poorly developed in Greece (Bosworth and Kollintzas, 2001).

[65] This can be explained with diminishing returns, i.e. marginal returns should be higher in the transition countries.

[66] Bosworth and Kollintzas (2001) compare pre- and post-accession inflows of FDI into Greece, Portugal and Spain. Greece experienced a decline of FDI inflows falling from an average level of about 1.5% of GDP p.a. (during the five years before accession) to an average of around 1.0% of GDP p.a. (the average for the years after accession). In Portugal and Spain, FDI increased from an average of about 1% of GDP p.a. during the five years before accession to over 2% of GDP p.a. in the first five years after accession.

[67] At the end of 1997, EU direct investors had only about 5% of their total FDI assets in accession countries (Eurostat, 2000b).

[68] For instance, Hungary received FDI inflows of $163 per capita, while Bulgaria received just $60 per capita (EBRD, 1999).

[69] As Lucas (1990) points out, institutions and political risks of a country are important for attracting capital inflows.

also offers new trade opportunities.[70,71] Indeed, during the period 1988-1995, exports increased strongly in Portugal and Spain, but not in Greece. Moreover, the export dynamics of Iberian countries were larger in the manufacturing sector than in the primary goods sectors. Greek exports, in contrast, grew stronger for primary products (Nagy, 1999). Trade between the EU and CEEC has increased strongly after the conclusion of association agreements[72] and the degree of integration is already high.[73] Therefore, the beneficial effects from integration might already be largely realised for industrial products. However, CEECs predominantly export low quality, low skill, labour-intensive products (European Commission, 2001b).

The experiences of Portugal and Spain suggest that membership in the EU can have growth-accelerating effects. In its first decade of Greece's membership, however, the country saw no performance gains.[74] Closing the gap with incumbents seems to depend most on progress in structural reform and institutional change. In Portugal and Spain, and now belatedly in Greece, reform has paid off. Basically, the possibility of EU membership acts incentive to make reforms, but convergence does not occur automatically.[75]

---

[70] Krugman and Venables (1990) show that for a small, peripheral economy, integration with a large, efficient economy (which implies mutual and equal reduction of trade barriers) can lead to large welfare gains.

[71] Trade liberalisation has been gradual in southern countries. Greece, in particular, was reluctant to open up its economy and only began to dismantle its tariff barriers in 1986. A tax on imported goods remained in place until 1989 (Larre and Torres, 1991).

[72] Also called *Europe Agreements,* these were signed by all candidate countries during 1991-1996 to establish a framework for bilateral relations between the EU and CEECs. The central agreements are the establishment of a free trade area for industrial goods, liberalisation of capital movements and approximation of laws relevant for the EU's internal market (European Commission, 2001b).

[73] In 1999, CEECs exported about 64.8% of their total exports to the EU. They imported, on average, 58% of their total imports from the EU (European Commission, 2001b).

[74] Greece eventually got with the program. In the early 1990s, Greece modified its economic policy to meet *Maastricht criteria.* Macroeconomic balance, culminating in admission to the euro, and progress in economic reforms were eventually achieved. During 1996-2000, Greece's GDP growth exceeded the euro-area average (Bosworth and Kollintzas, 2001; OECD, 2001a).

[75] Several studies evaluate welfare and macroeconomic effects of EU enlargement (e.g. Breuss (2001), Baldwin et al. (1997), European Commission (2001a)). All of these studies reach the conclusion that both CEECs and the European Union gain from enlargement. However, gains for CEECs will be much larger than for the Union.

4 Conclusions

Geopolitical considerations and support for emerging democracies were the driving forces for admitting Greece, Portugal and Spain to the European Union in the 1980s. The EU's upcoming eastern enlargement will be largely motivated by similar political reasons. The countries in the southern group entered the EU far poorer than the EU average and CEECs will do the same. Both groups are relatively populous and agrarian.

The EU is qualitatively a different supernational structure from what it was 20 years ago. The southern countries entered a community of rich member states. CEECs will join a heterogenous EU with large income disparities. The EU is no longer merely a customs union, but a sophisticated economic and monetary union, and the requirements for entrance have changed. The accessions of southern countries were subject to few rules; indeed, Greece's EU entry did not even involve adoption of the *Single European Act* as was mandated for Portugal and Spain. All new entrants must meet the vastly tougher *Copenhagen criteria* and implement the entire *acquis communautaire*.

Countries in both groups had to wait a long time before obtaining full membership. For the southern EU countries, the preparation of the opinion of the EU about an applicant country, the decision to open negotiations and the negotiation took almost six years (Preston, 1997). For the CEECs, the end of negotiations and the date for accession have yet to be announced by the European Commission. First-wave countries could join as early as 2004, but overall, eastern enlargement will take six or seven years as well.

Parallels between southern countries and CEECs can be drawn from the EU's own efforts at dealing with enlargement. The thornier issues in enlargement negotiations are typically unresolved until the very end of negotiations – or even put off until after countries have become members. As in the second enlargement round, long transition periods in the integration process seem likely in eastern enlargement to allow time for e.g. closing the price gap of certain agrarian products and to absorb migration flows. Southern EU enlargement transition periods lasted as long as ten years.[76]

Overall, both southern and eastern enlargement highlight the weaknesses of the Union's functioning. Although the EU strongly needed to make reforms

[76] In Spain's case, the limitations on fishing rights were still in place in 1994 (Richter, 1995).

to cope with the second enlargement,[77] major reforms were not undertaken until after Greece, Portugal and Spain entered the Union. Today, we can already foresee that the larger number of countries in the decision-making institutions will make reform more difficult. Instead of postponing reforms, EU leaders should recall the lessons of the second enlargement and use the upcoming enlargement as an opportunity to move ahead with reforms before the accession of new members.

References

[1] Arghyrou, M.G. (2000), EU Participation and the External Trade of Greece: An Appraisal of the Evidence, *Applied Economics*, 32, 151-159.

[2] Baldwin, R.E. (1994), *Towards an Integrated Europe*, CEPR, London.

[3] Baldwin, R.E., Berglöf, E., Giavazzi, R. and M. Widgrén (2001), Nice Try: Should the Treaty of Nice be Ratified?, *Monitoring European Integration*, 11, CEPR, London.

[4] Baldwin, R.E., Francois, J.F. and R. Portes (1997), The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe, *Economic Policy*, 24, 127-176.

[5] Berglöf, E. and G. Roland (1997), The EU as an "Outside Anchor" for Transition Reforms, SITE Working Paper, 132, Stockholm School of Economics, Stockholm.

[6] Blanchard, O. and J.F. Jimeno (1995), Structural Unemployment: Spain versus Portugal, *American Economic Review Papers and Proceedings*, 85(2), 212-218.

[7] Bosworth, B. and T. Kollintzas (2001), Economic Growth in Greece: Past Performance and Future Prospects, CEPR Discussion Paper, 2852, CEPR, London.

[8] Bover, O., García-Perea, P. and P. Portugal (2000), Labour Market Outliers: Lessons from Portugal and Spain, *Economic Policy,* 31, 381-428.

[77] Duchêne (1982, p. 40) remarks, "The crisis of the Community is likely to become the central issue of the southern enlargement and not, ..., the other way around."

[9] Breuss, F. (2001), Macroeconomic Effects of EU Enlargement for Old and New Members, WIFO Working Paper, 143/2001, Austrian Institute for Economic Research, Wien.

[10] Buchanan J.M. and G. Tullock (1962), *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press, Ann Arbor.

[11] Duchêne, F. (1982), Community Attitudes, in: Seers, D. and C. Vaitsos (eds.), *The Second Enlargement of the EEC: The Integration of Unequal Partners*, Macmillan Press Ltd., London, 25-42.

[12] EBRD (1999), *Transition Report: 1999*, European Bank for Reconstruction and Development, London.

[13] EBRD (2001), *Transition Report: 2001*, European Bank for Reconstruction and Development, London.

[14] The Economist (2002), *The Angry Farmers: Poland and the European Union*, February, 9th 2002, 25-26.

[15] European Commission (2000), Agenda 2000: For a Stronger and Wider Europe, European Commission, Brussels.

[16] European Commission (2001a), The Economic Impact of Enlargement, Enlargement Paper, 4, European Commission, Brussels.

[17] European Commission (2001b), Enlargement Argumentaire, Enlargement Paper, 5, European Commission, Brussels.

[18] European Commission (2001c), Progress towards Meeting Economic Criteria for Accession: The Assessment from the 2001 Regular Report, Enlargement Paper, 6, European Commission, Brussels.

[19] European Commission (2001d), The Free Movement of Workers in the Context of Enlargement, Information Note, European Commission, Brussels.

[20] European Commission (2001e), Applicant Countries Eurobarometer 2001, Results Summary December 2001, European Commission, Brussels.

[21] European Commission (2002a), *European Treaties*: Treaty establishing the European Economic Community, Treaty on European Union (Maastricht Treaty), Single European Act, Treaty of Amsterdam and Treaty of Nice, http://europa.eu.int/abc/treaties_en.htm.

[22] European Commission (2002b), Enlargement and Agriculture: Successfully Integrating the New Members into the CAP, European Commission, Brussels.

[23] European Commission (2002c), Common Financial Framework 2004-2006 for the Accession Negotiations, Information Note, Communication from the Commission, European Commission, Brussels.

[24] European Commission (2002d), Accession Negotiations: State of Play, 28 June 2002, European Commission, Brussels.

[25] Eurostat (1995), *Eurostat Yearbook: A Statistical Eye on Europe 1983-1993*, Eurostat, Luxembourg.

[26] Eurostat (1999), *National Accounts ESA, Aggregates 1970-1997*, Eurostat, Luxembourg.

[27] Eurostat (2000a), *European Social Statistics: Migration*, Eurostat, Luxembourg.

[28] Eurostat (2000b), Statistics in Focus: European Union FDI with Candidate Countries, Eurostat, Luxembourg.

[29] Eurostat (2001), *Eurostat Yearbook: The Statistical Guide to Europe Data 1989-1999*, Eurostat, Luxembourg.

[30] Eurostat (2002a), *Eurostat Yearbook: The Statistical Guide to Europe Data 1990-2000*, Eurostat, Luxembourg.

[31] Eurostat (2002b), *Statistical Yearbook on Candidate and South-East European Countries Data 1996-2000*, Eurostat, Luxembourg.

[32] Eurostat (2002c), Statistics in Focus: Economy and Finance, Theme 2, Eurostat, Luxembourg.

[33] Inotai, A. (1999), Political, Economic and Social Arguments for and against EU Enlargement: A Survey of the Influence of Pressure Groups,

Institute for World Economics, Working Paper, 101, Hungarian Academy of Sciences, Budapest.

[34] Katseli, L.T. (1990), Economic Integration in the Enlarged European Community: Structural Adjustment of the Greek Economy, in Bliss, C. and J.B. Macedo (eds.), *Unity with Diversity in the European Economy: The Community's Southern Frontier*, Cambridge University Press, Cambridge, 235-309.

[35] Kandogan, Y. (2000), Political Economy of Eastern Enlargement of the European Union: Budgetary Costs and Reforms in Voting Rules, *European Journal of Political Economy*, 16, 685-705.

[36] Krugman, P.R. and A.J. Venables (1990), Integration and Competitiveness of Peripheral Industry, in Bliss, C. and J.B. Macedo (eds.), *Unity with Diversity in the European Economy: The Community's Southern Frontier*, Cambridge University Press, Cambridge, 56-75.

[37] Larre, B. and R. Torres (1991), Is Convergence a Spontaneous Process? The Experience of Spain, Portugal and Greece, *OECD Economic Studies*, 16, 169-198.

[38] Leonard, D. (1998), *Guide to the European Union*, The Economist in Association with Profile Books Ltd, London.

[39] Lucas, R.E. (1990), Why doesn't Capital Flow from Rich to Poor Countries?, *American Economic Review Papers and Proceedings*, 80(2), 92-96.

[40] Macedo, J.B. (1990), External Liberalization, with Ambiguous Public Response: the Experience of Portugal, in: Bliss, C. and J.B. Macedo (eds.), *Unity with Diversity in the European Economy: The Community's Southern Frontier*, Cambridge University Press, Cambridge, 310-354.

[41] Nagy, A. (1999), Lessons drawn from the EU accession of three South European States and its effect on their foreign trade, *Acta Oeconomica*, 50(3-4), 385-415.

[42] OECD (1986a), *Greece: Economic Surveys 1985-1986*, OECD, Paris.

[43] OECD (1986b), *Portugal: Economic Surveys 1985-1986*, OECD, Paris.

[44] OECD (1986c), *Spain: Economic Surveys 1985-1986*, OECD, Paris.

[45] OECD (1991), *Historical Statistics, 1960-1989*, OECD, Paris.

[46] OECD (1992), *Labour Force Statistics: 1970-1990*, OECD, Paris.

[47] OECD (1998), *Labour Force Statistics 1978-98*, OECD, Paris.

[48] OECD (1999), *Portugal: Economic Surveys 1998-1999*, OECD, Paris.

[49] OECD (2001a), *Greece: Economic Surveys 2000-2001*, OECD, Paris.

[50] OECD (2001b), *Spain: Economic Surveys 2000-2001*, OECD, Paris.

[51] OECD (2001c), *Labour Force Statistics: 1980-2000*, OECD, Paris.

[52] Olson, M. (1996), Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor, *Journal of Economic Perspectives*, 10(2), 3-24.

[53] Preston, C. (1997), *Enlargement and Integration in the European Union*, Routledge, London.

[54] Richter, S. (1995), Advantages, Disadvantages and Dilemmas. Considerations on the Accession of the Central and Eastern European Countries to the European Union, *Acta Oeconomica*, 47(3-4), 343-356.

[55] Roland, G. (2000), *Transition and Economics: Politics, Markets, and Firms*, MIT Press, Cambridge, Mass.

[56] Sinn, H.-W. (1999), EU Enlargement, Migration and Lessons from German Unification, CEPR Discussion Paper, 2174, CEPR, London.

[57] Straubhaar, T. (2001), Ost-West-Migrationspotential: Wie gross ist es?, HWWA Discussion Paper, 137, HWWA, Hamburg.

[58] Viñals J. et al. (1990), Spain and the "EC cum 1992" Shock, in Bliss, C. and J.B. Macedo (eds.), *Unity with Diversity in the European Economy: the Community's Southern Frontier*, Cambridge University Press, Cambridge, 145-233.

[59] Winkler, G.M. (1998), Coalition-Sensitive Voting Power in the Council of Ministers: The Case of Eastern Enlargement, *Journal of Common Market Studies*, 36(3), 391-404.

1 Appendix

		1983	1984	1985	1986	1987	1988	1989
Inflation rate	Greece	20.2	18.4	19.3	23.0	16.4	13.5	13.7
(% change of the	Portugal	25.5	28.8	19.6	11.8	9.4	9.7	12.6
previous year)	Spain	12.2	11.3	8.8	8.8	5.2	4.8	6.8
	EC12	8.6	7.3	6.2	3.8	3.4	3.7	5.3
Government	Greece	-9.2	-9.2	-12.7	-9.4	-11.2	-16.6	-20.7
deficit/surplus	Portugal	-9.5	-11.3	-13.9	-12.0	-10.5	-12.0	-9.7
(in % of GDP)	Spain	-5.1	-5.4	-5.8	-4.6	-3.7	-3.4	-2.4
	EU12	-5.2	-5.5	-5.3	-4.5	-4.4	-3.8	-2.9
Government debt	Greece	36.2	40.7	57.9	58.6	64.5	71.1	76.0
(in % of GDP)	Portugal	.	53.7	53.3	59.9	62.8	64.5	62.4
	Spain	29.8	36.7	41.5	42.2	42.6	38.4	37.6
	EU12	.	43.3	46.0	47.5	48.9	49.8	49.7
Current account	Greece	-4.4	-4.3	-7.8	-4.3	-3.0	-0.7	-4.6
(in % of GDP)	Portugal	-6.3	-2.6	1.5	3.4	1.1	-2.0	0.3
	Spain	-1.5	1.4	1.6	1.6	0.1	-1.0	-2.9
	EU12	0.0	0.2	0.6	1.2	0.7	0.1	0.0

.: Data not available;

Sources: Eurostat (1995), OECD (1991)

Table 1: Macroeconomic indicators for southern European countries and the EU12

		1996	1997	1998	1999	2000*
Inflation rate	Czech Republic	9.1	8.0	9.7	1.8	3.9
(% change of the	Estonia	19.8	9.3	8.8	3.1	3.9
previous year)	Hungary	23.5	18.5	14.2	10.0	10.0
	Latvia	17.6	8.4	4.3	2.1	2.6
	Lithuania	24.7	8.8	5.0	0.7	0.9
	Poland	19.9	14.9	11.8	7.2	10.1
	Slovakia	5.8	6.1	6.7	10.5	12.1
	Slovenia	9.9	8.3	7.9	6.1	8.9
	Bulgaria	123.0	1044	18.7	2.6	10.3
	Romania	38.8	154.8	59.1	45.8	45.7
	EC15	2.5	2.0	1.3	1.2	.
Government	Czech Republic	-0.9	-1.7	-2.0	-3.3	-4.9
deficit/ surplus	Estonia	-1.9	2.2	-0.3	-4.6	-0.7
(in % of GDP)	Hungary	-5.0	-6.6	-5.6	-5.7	-3.5
	Latvia	-1.8	0.3	-0.8	-3.9	-3.3
	Lithuania	-4.5	-1.8	-5.9	-8.5	-2.8
	Poland	-3.3	-3.1	-3.2	-3.7	-3.2
	Slovakia	-1.3	-5.2	-5.0	-3.6	-3.6
	Slovenia	-0.2	-1.7	-1.4	-0.9	-1.3
	Bulgaria	-10.4	-2.1	0.9	-0.9	-1.1
	Romania	-3.9	-4.6	-5.0	-3.5	-3.7
	EU15	-5.0	-4.1	-2.3	-1.5	.
Government debt	Czech Republic	13.1	13.0	13.4	15.0	17.5
(in % of GDP)	Estonia	.	7.6	5.8	6.5	5.9
	Hungary	72.8	63.9	62.3	60.7	57.6
	Latvia	14.4	12.0	10.5	13.0	13.2
	Lithuania	.	.	22.8	29.0	28.8
	Poland	51.2	49.8	43.2	44.5	42.5
	Slovakia	24.5	23.7	26.0	28.4	30.4
	Slovenia	22.7	23.2	23.7	24.5	25.1
	Bulgaria	152.5	116.6	100.7	96.6	94.1
	Romania	28.1	27.9	30.6	34.7	31.6
	EU15	73.2	73.1	71.4	69.3	.
Current account	CEE and the Baltics	-5.8	-6.8	-6.8	-6.3	-4.7
(in % of GDP)	South-eastern Europe	-10.0	-9.3	-7.8	-8.2	-9.1
	EU15	1.0	1.5	1.0	0.3	.

.: Data not available, *: Estimates

Sources: EBRD (2001), European Commission (2001b), Eurostat (2001),

Table 2: Macroeconomic indicators for CEEC and for the EU15

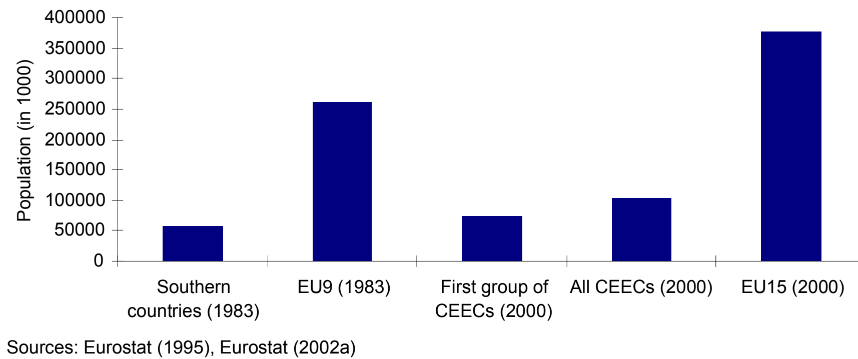


Figure 1: Population of southern European countries, CEECs and of the EU

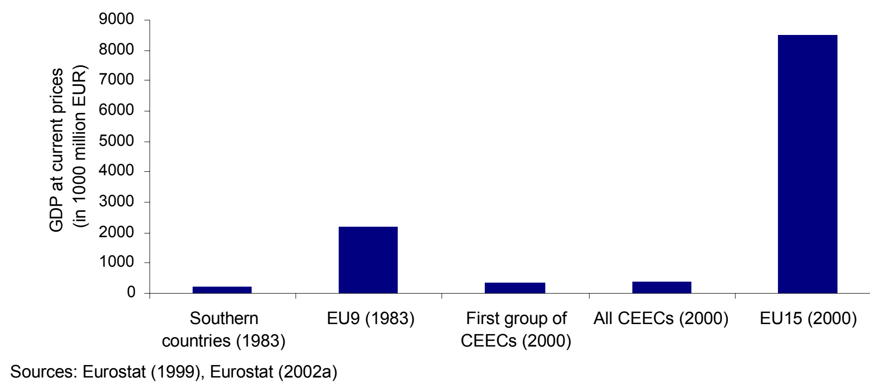


Figure 2: Economic size of southern European countries, CEECs and of the EU

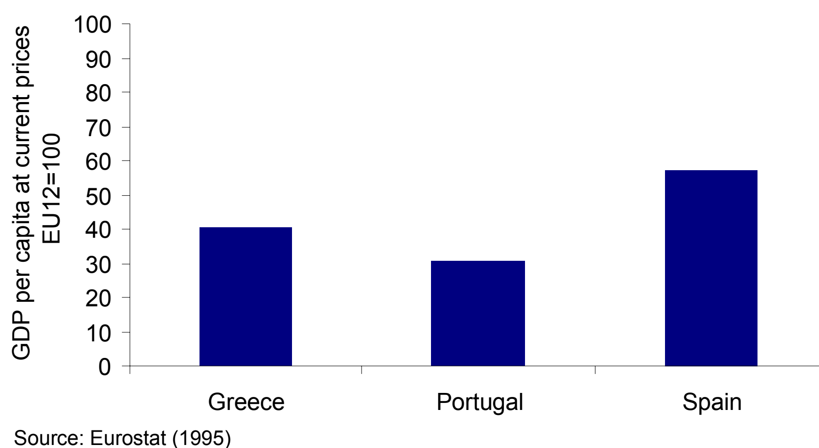


Figure 3: GDP per capita in southern European countries in relation to the EU12 in 1987

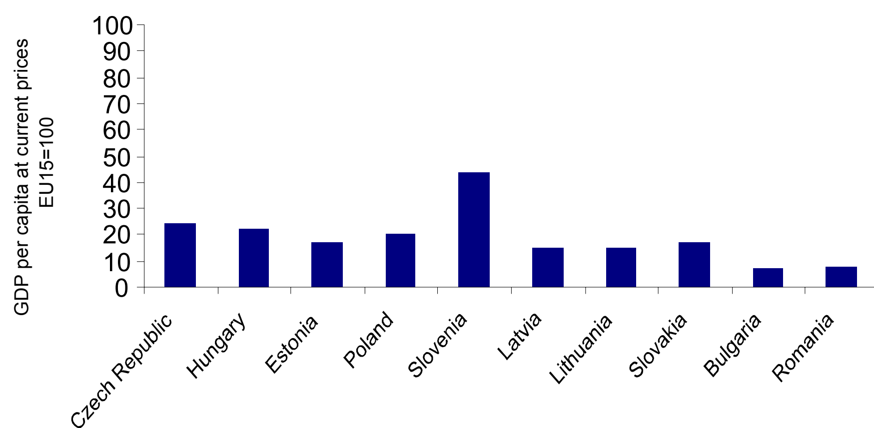


Figure 4: GDP per capita in CEECs in relation to the EU15 in 2000

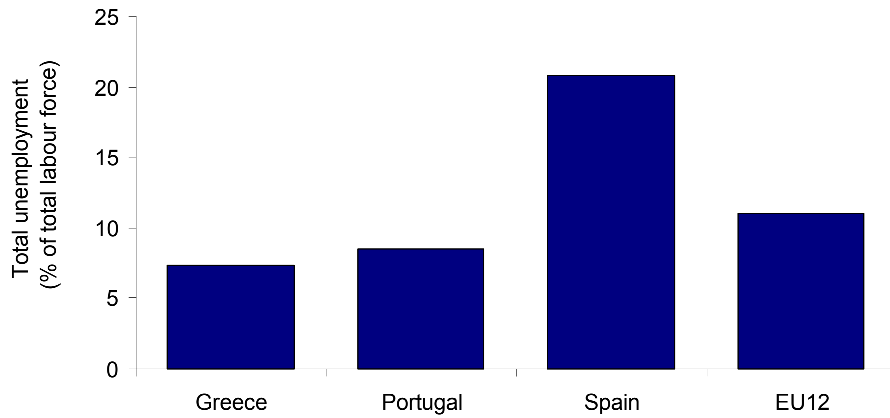


Figure 5: Unemployment rate in southern European countries and in the EU in 1987

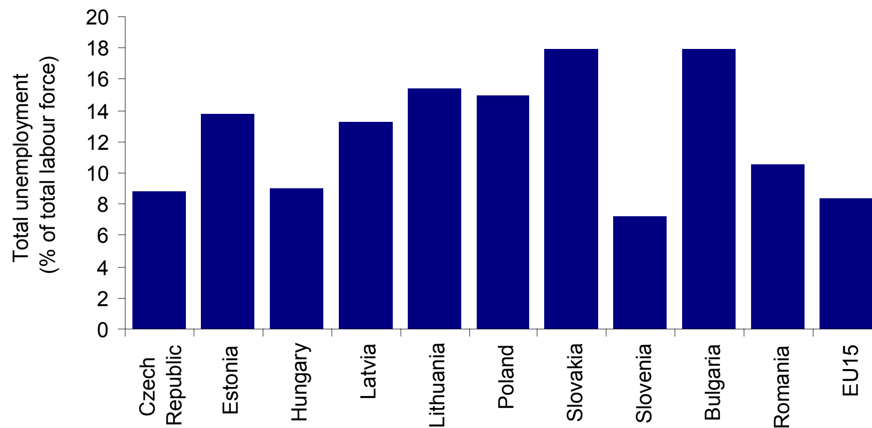
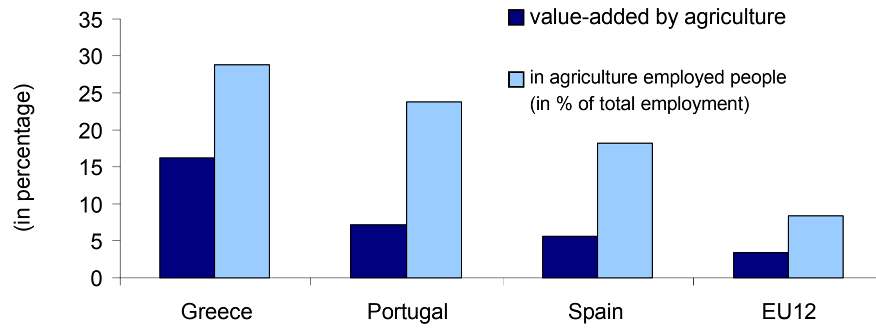
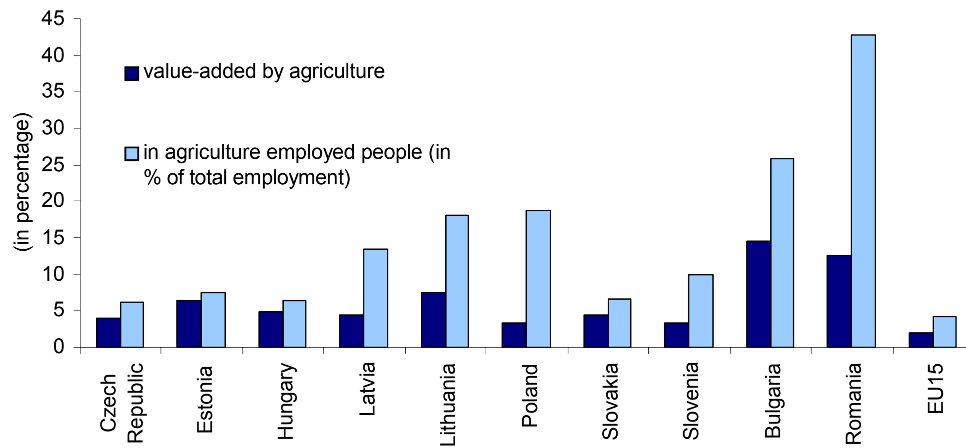


Figure 6: Unemployment rate in CEECs and in the EU in 2000



Sources: Eurostat (1995), OECD (1992)

Figure 7: Agriculture in southern European countries and in the EU in 1986



Sources: EBRD (2001), European Commisson (2001c), Eurostat (2001), OECD (2001c)

Figure 8: Agriculture in CEECs and in the EU in 2000

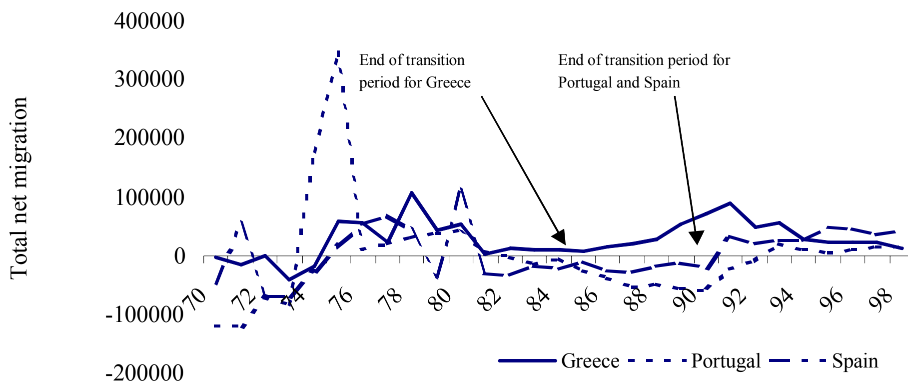


Figure 9: Total net migration in southern European countries (1970-1998)

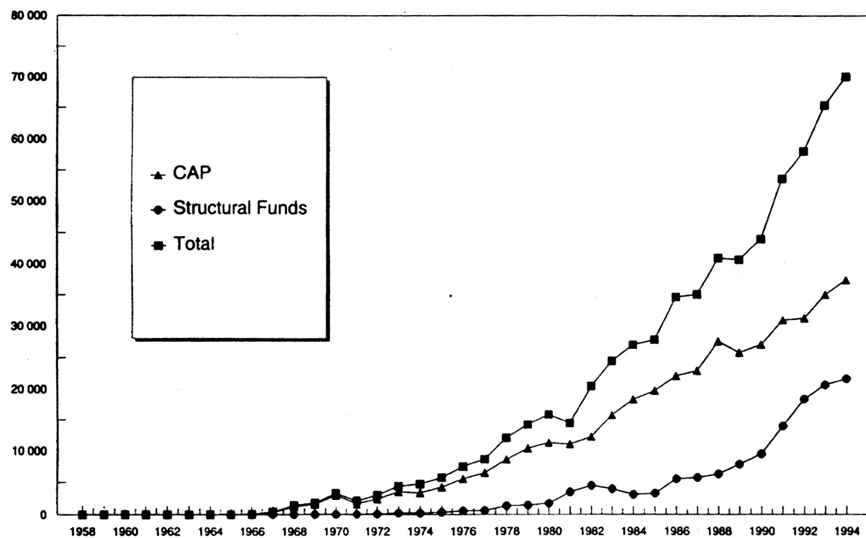


Figure 10: EU spending, 1958-1994 (in ECUm, taken from Baldwin et al., 1997)

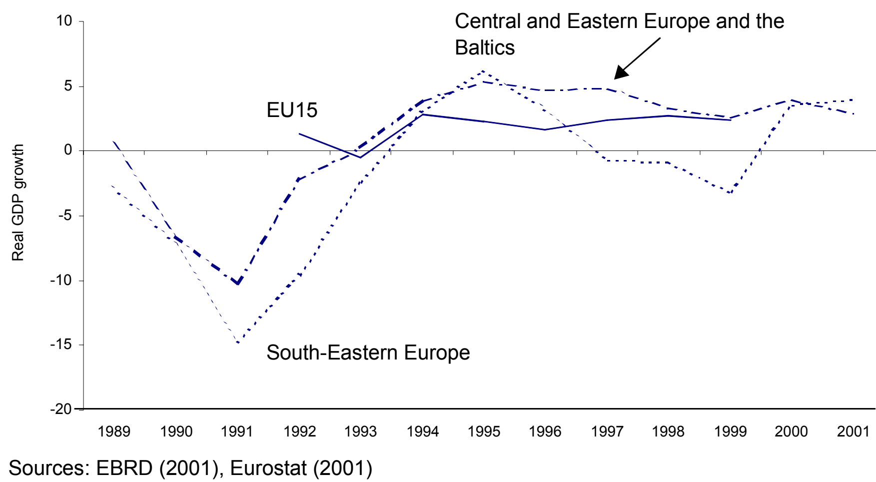


Figure 11: Real GDP growth in CEEC and in the EU (1989-2001)

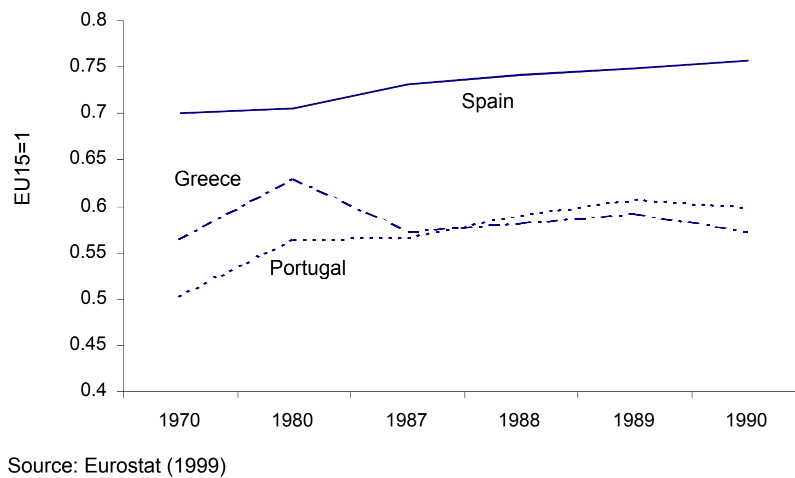


Figure 12: Convergence of GDP per capita of southern European countries (1970-1989)

	1957 -72	1973 -80	1981 -85	1986 -94	since 1995	after enlarge-ment
Germany	4	10	10	10	10	29
Italy	4	10	10	10	10	29
France	4	10	10	10	10	29
Netherlands	2	5	5	5	5	13
Belgium	2	5	5	5	5	12
Luxembourg	1	2	2	2	2	4
United Kingdom	-	10	10	10	10	29
Denmark	-	3	3	3	3	7
Ireland	-	3	3	3	3	7
Greece	-	-	5	5	5	12
Portugal	-	-	-	5	5	12
Spain	-	-	-	8	8	27
Austria	-	-	-	-	4	10
Finland	-	-	-	-	3	7
Sweden	-	-	-	-	4	10
Czech Republic	-	-	-	-	-	12
Estonia	-	-	-	-	-	4
Hungary	-	-	-	-	-	12
Latvia	-	-	-	-	-	4
Lithuania	-	-	-	-	-	7
Poland	-	-	-	-	-	27
Slovakia	-	-	-	-	-	7
Slovenia	-	-	-	-	-	4
Cyprus	-	-	-	-	-	4
Malta	-	-	-	-	-	3
Bulgaria						10
Romania						14
Total votes	17	58	63	76	87	345
Qualified majority	12	41	45	54	62	258
Blocking minority	6	18	19	23	26	91

Sources: partly taken from Winkler (1998), European Commission (2002a)

Table 3: Effects of EU enlargement on the Council of Ministers

2000

No 1 Iikka Korhonen, Mare Randveer: Assessment of the euro's implications for economic development in the Central and Eastern Europe
No 2 Rupinder Singh: Political Stability and Consensus: Keys to Sustainable Transition
No 3 Tuomas Komulainen: Siirtyikö Venäjä vuonna 1999 kriisistä vakauteen?
No 4 Pekka Sutela: Venäjä vaalien jälkeen
No 5 Iikka Korhonen, Toivo Kuus, Villu Zirnask: Baltic Securities Markets
No 6 Seija Lainela: Lamasta kasvuun – Baltia vuosituhannen vaihteessa
No 7 Elmar Koch and Iikka Korhonen: The Aftermath of the Russian Debt Crisis
No 8 Richard E. Ericson: The Post-Soviet Russian Economic System: An Industrial Feudalism?
No 9 Peter Backé and Jarko Fidrmuc: The Impact of the Russian Crisis on Selected Central and Eastern European Countries
No 10 Rasmus Pikkani: The Monetary Sector under a Currency Board Arrangement: Specification and Estimation of a Model with Estonian Data
No 11 Magnus Feldmann: Understanding the Baltic and Estonian Puzzles: The Political Economy of Rapid External Liberalization in Estonia and Latvia
No 12 Vladimir Tikhomirov: Is Russian Economic Crisis Really Over?
No 13 Thomas E. Graham, Jr.: The State of U.S.-Russian Relations and the New Bush Administration

2001

No 1 Magnus Feldmann and Razeen Sally: From the Soviet Union to the European Union: the political economy of Estonian trade policy reforms, 1991-2000
No 2 Tuuli Koivu ja Iikka Korhonen: Talouskasvu ripeää Baltiassa vuonna 2000
No 3 Jouko Rautava: Suomen Venäjän-kauppa 2000 - Epävakaa toimintaympäristö rajoittaa kauppaa
No 4 Iikka Korhonen: EU-kandidaatit ja rahaliitto
No 5 Pekka Sutela: Venäjän talouden kasvunäkymät
No 6 János Gács, Iikka Korhonen and Mare Randveer: The Impact of EMU's Third Stage on Estonian Economic Development, 1999-2000
No 7 Jouko Rautava: Venäjän reformistrategia: rakenneuudistukset vs. liberalisointi
No 8 Tuuli Koivu: Current issues in pension reform in the Baltics
No 9 Jaana Rantama: Baltian pankkijärjestelmät
No 10 Pekka Sutela: Venäjän talouspolitiikka ja talouden näköalat lokakuussa 2001
No 11 Pekka Sutela: Finnish relations with Russia 1991-2001: Better than ever?
No 12 Tarja Kauppila: Puolan talouskasvu hidastuu
No 13 Katja-Leea Klemola: Siirtymätalouksien tutkimuslaitoksen lukijatutkimus
No 14 Katja-Leea Klemola: Survey of readers of BOFIT publications, spring-summer 2001
No 15 Michael Funke: Determining the taxation and investment impacts of Estonia's 2000 income tax reform
No 16 Merja Tekoniemi: Venäjän maatalouden kehitys ja uudistaminen 1990-luvulla
No 17 Jian-Guang Shen: China's Exchange Rate System after WTO Accession: Some Considerations

2002

No 1 Juhani Laurila: Determinants of transit transports between the European Union and Russia
No 2 Tarja Kauppila: Polish Economic Review 1/2002
No 3 Tuomas Komulainen: Elokuun 1998 talouskriisi
No 4 Laura Solanko - Merja Tekoniemi: Fiskaalifederalismi Venäjällä
No 5 Jian-Guang Shen: China's Macroeconomic Development in 2001
No 6 Tuuli Koivu: Vuosi 2001 Baltiassa
No 7 BOFIT: Näkökulmia Venäjän talouteen - BOFIT-seminaari 13.5.2002
No 8 Pekka Sutela: Combining the incompatibles: fixed exchange rate, liberalisation and financial development in Estonia
No 9 Tarja Kauppila: Polish Economic Review 2/2002
No 10 Iikka Korhonen: Selected Aspects of Monetary Integration
No 11 Tuuli Koivu: Banking and Finance in the Baltic Countries
No 12 Filippo Ippolito: The Banking Sector Rescue in Russia
No 13 Antje Hildebrandt: What is Special about Enlarging theEuropean Union towards the East? A Comparison with the Southern Enlargement