EU Enlargement–An Overview

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The EU is expected to undergo the largest expansion of its borders ever. Up to 10 countries could join the EU in 2004, although some difficult areas for negotiations remain, including agriculture. The candidate countries, and to a lesser extent the EU, will likely benefit from enlargement.

The European Union (EU) is about to undertake the biggest enlargement of its borders ever. Established in 1957 with 6 member countries,[2] the EU now has 15 member states after undergoing four separate enlargements. However, none reached the scope of the current enlargement. Thirteen countries have applied to join the EU and twelve countries (all but Turkey) are actively negotiating accession at present. The European Commission estimates that both the EU and the candidate countries will benefit from enlargement.

The U.S. Government supports EU enlargement as a means to build stability and cooperation across the European continent. U.S. companies are likely to benefit from reduced transactions costs resulting from the harmonization of standards and other regulations for doing business; for example, a single tariff schedule and one set of trade rules across Europe. U.S. exports to the candidate countries should face lower tariffs on accession, since the EU's common external tariff is generally lower than the tariffs currently applied by the candidates. In addition, opportunities for U.S. investment will expand as the candidates undertake economic reforms, create attractive financial markets, strive to improve firms' competitiveness, and adopt the EU's open and transparent investment regime.[3]

[1] The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

[2] Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, and Turkey.

[3] U.S. Department of Commerce, various publications including *Trade and Investment Opportunities from Accession*, found at Internet address *http://www.mac.doc.gov/EEB-IC/euAccession/f7.htm*, retrieved Sept. 27, 2001; and David Fulton, "EU Expansion," *Export America*, U.S. Department of Commerce, June 2001, pp. 6-7.

Progress of the Negotiations

In June, at the semiannual summit of EU heads of state and government in Goteborg, Sweden, EU leaders took an important step in the enlargement process by making an official commitment to conclude enlargement negotiations by the end of 2002 and to accept the first wave of new members in 2004. The establishment of concrete target dates for both sides to meet should help remove some of the uncertainties in the enlargement process that have concerned the applicants and should encourage their parliaments to pass needed reforms more rapidly.[4]

To join the EU, each applicant must satisfy certain economic and political conditions (the so-called Copenhagen criteria):

1. Stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
2. The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; and
3. The ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

Each candidate country must adopt the EU's *acquis communautaire*, the entire body of EU laws and policies. To complete the accession process, each applicant must negotiate 31 sectoral chapters of the *acquis* covering such topics as free movement of goods, competition policy, and the environment. In addition, the candidate country must continue domestic reforms, in particular the strengthening of their administrative and judicial structures, so that they can effectively implement and enforce the *acquis*.

None of the candidate countries will have the option to opt-out of economic and monetary union and to remain outside the euro zone. However, each will first need to meet the so-called Maastricht criteria before

[4] Agra Europe, Ltd., *Agra Food East Europe*, June 2001, cover page.

they can join the currency union. Fulfilling the Maastricht economic convergence criteria will only become a priority after the Copenhagen criteria for accession have been met.[5]

At the Goteborg summit, EU leaders did not set target accession dates for individual countries or groups of countries as accession will depend on each candidate's progress in meeting the membership requirements. Thus, it is unclear which countries will join first. Six countries–Czech Republic, Estonia, Hungary, Poland, Slovenia, and Cyprus–began accession negotiations in March 1998. The remaining six launched negotiations in February 2000. However, up to 10 countries (all but Bulgaria and Romania) could join in the first wave of accessions as 4 countries in the second group have actually caught up to the first group in terms of progress in negotiations; these 10 countries also agreed to a negotiating timetable set forth at the Goteborg summit.[6] As of the most recent negotiating session on December 12, 2001, all of the negotiating chapters had been opened with these 10 candidates except the chapter on institutional issues. Many of the chapters have already been provisionally closed: with Slovenia, 25 chapters have been concluded; with Cyprus and the Czech Republic, 24; with Hungary, 23; with Latvia, 22; with Lithuania and Slovakia, 21; with Estonia, 20; and with Malta and Poland, 19.[7] More formal progress reports for 2001 on each candidate's progress in meeting the economic and political conditions necessary to join were approved in November. These reports concluded that all candidate countries have made steady progress in meeting the accession conditions and in adopting EU legislation. However, to ensure that the candidates improve their ability to implement and apply the EU's *acquis*, the European Commission will prepare an action plan to help them reinforce their administrative and judicial capacity.

Many controversial chapters still need to be negotiated, including agriculture, competition policy, transport policy, taxation, regional policy and structural funds, cooperation on justice and home affairs, and financial and budgetary provisions. With respect to agriculture, veterinary, phytosanitary and other technical issues relating to agriculture are currently being addressed during the second half of 2001, whereas market support issues in agriculture, including direct aids and production quotas, will be undertaken in 2002.[8] Possibly complicating agriculture negotiations is the European Commission's plan to conduct a mid-term review of its Common Agriculture Policy (CAP) in the summer of 2002, which could include proposals for fundamental reforms.[9] Although some EU officials argued that agriculture should not be negotiated with the candidate countries until any such reforms are undertaken, to preserve the negotiating timetable it was agreed to negotiate the agriculture *acquis* as it stands now.[10] Any reforms to EU agriculture policy that may take place while accession negotiations are ongoing shall be taken into account in the accession negotiations.[11]

The Candidates vis-a-vis the EU: Selected Statistics

On accession, the 12 candidate countries will account for almost one-quarter of the EU population. The EU's population will increase by 28 percent, from 376.4 million to 482.1 million,[12] a population amounting to 1.76 times that of the United States (274 million). Poland is by far the largest accession candidate, with 37 percent of the candidates' population, followed by Romania, with 21 percent.

Taken together, the 12 candidates are relatively small compared to the EU in terms of Gross Domestic Product (GDP). In 2000, the GDP of the 12 candidates accounted for 4.8 percent of the EU's GDP, roughly the size of the Netherlands' economy. This portion has been rising gradually over the past 5 years, from 4.1 percent of EU GDP in 1996. Again, Poland is the largest accession candidate, accounting for 42 percent of the candidates' GDP in 2000, followed by the Czech Republic (13 percent) and Hungary (12 percent).

The comparison can also be expressed using an artificial currency unit called PPS (Purchasing Power Standard), which takes into account the different price levels in countries. By using this standard, the candidates' GDP represented about 11 percent of EU GDP in 2000, the same portion recorded in each year since 1996.[13] In addition, Romania moved into second place

[5] European Commission, *Strategy Paper, Regular Reports from the Commission on Progress Towards Accession by Each of the Candidate Countries*, Nov. 8, 2000, found at Internet address *http://europa.eu.int/comm/enlargement/*, retrieved Oct. 3, 2001.

[6] Gunter Verheugen, member of the European Commission responsible for Enlargement, "Debate on EU Enlargement in the European Parliament," Strasbourg, Sept. 4, 2001.

[7] EurActiv Brussels Project, "Slovenia in the Lead in EU Enlargement Negotiations," found at Internet address *http://EurActiv.com*, retrieved Dec. 14, 2001.

[8] Agra Europe, Ltd., *Agra Food East Europe*, July 2001, p. 1.

[9] Agra Europe, Ltd., *Agra Food East Europe*, June 2001, pp. 4 and 6.

[10] Gunter Verheugen, member of the European Commission responsible for Enlargement, "Debate on EU Enlargement in the European Parliament," Strasbourg, Sept. 4, 2001.

[11] Ibid.

[12] Eurostat, "Demographic Consequences for the EU of the Accession of Twelve Candidate Countries," *Statistics in Focus*, Population and Social Conditions, No. 12/2001.

[13] Eurostat, "The GDP of the Candidate Countries," *Statistics in Focus*, Economy and Finance, No. 28/2001.

behind Poland in terms of size of GDP (in PPS). In the enlarged EU, eight out of the nine smallest economies would be those of the candidate countries.

The income gap between the candidates and current EU members is larger than in any previous enlargement. Table 1 shows the GDP per capita in PPS of the 12 candidates as a share (percent) of the EU average. In 2000, four EU member states registered a per capita GDP less than the EU average: Finland (99 percent of the EU average), Spain (81 percent), Portugal (74 percent), and Greece (68 percent). Only two of the twelve candidates recorded a GDP per head greater than Greece: Cyprus, with 82 percent of the EU average, and Slovenia, with 71 percent of the EU average. Four candidates recorded per capita GDP less than one–third of the EU average: Bulgaria, Romania, Latvia, and Lithuania. The Czech Republic and Romania showed the largest declines in per capita GDP in relation to the EU average over the 1996–2000 period; however, most candidate countries registered improvement.[14]

Most of the 12 candidates are small, open economies heavily dependent on trade. In 1999, exports accounted for greater than 50 percent of GDP in four of the candidate countries–Estonia, Malta, Slovakia, and Hungary. In just two countries–Poland and Cyprus–exports accounted for less than 20 percent of GDP.[15] The EU is by far the candidates' largest trading partner, accounting for 65 percent of their exports and 62 percent of their imports in 2000. This portion has been rising gradually over the past 5 years (see Table 2) and is now higher than intra–EU trade (62 percent). Poland, the Czech Republic, and Hungary are the EU's top trading partners among the 12 candidates, and ranked within the EU's top ten trading partners in 2000.[16] These three countries are also the largest trading partners of the United States among the 12 candidates. However, in 1999 the United States accounted for under 3 percent of exports from Poland and the Czech Republic, and just over 5 percent of Hungary's exports.[17] However, in each of these countries, the U.S. share of total exports has been climbing gradually over the period 1995–99.[18]

Economic Benefits of Enlargement

In June, the European Commission released a report estimating the economic impact of enlargement on both the EU and the candidate countries.[19] According to the study, many of the benefits of enlargement have already taken place through the deepening of integration that resulted after the fall of communism, and through the so–called trade–related Europe Agreements, which were concluded in the 1990s between the EU and each of the Central and Eastern European countries. Actual accession is expected to further boost economic growth. According to the study, EU growth

[14] Ibid.
[15] European Parliament, Task Force Enlargement, *Statistical Annex*, July 2001, p. 3.
[16] Eurostat, "The 13 Candidate Countries' Trade with the EU in 2000," *Statistics in Focus*, External Trade, No. 8/2001.
[17] IMF, *Direction of Trade Statistics Yearbook*, 2000 (the latest edition available).
[18] Ibid.
[19] European Commission, Directorate General for Economic and Financial Affairs, *The Economic Impact of Enlargement*, June 2001, found at Internet address *http://europa.eu.int/economy_finance*, retrieved Sept. 7, 2001.

Table 1
GDP per capita at current prices in PPS, share of EU-15 average, 1996-2000

Country	1996	1997	1998	1999	2000
			Percent		
Cyprus	79	79	80	82	82
Slovenia	66	68	69	71	71
Czech Rep.	65	63	60	58	58
Malta	51	52	52	52	53
Hungary	46	48	49	51	52
Slovakia	46	48	49	48	48
Poland	36	37	38	39	39
Estonia	33	36	37	36	37
Lithuania	29	30	31	29	29
Latvia	25	27	28	28	29
Romania	33	31	28	27	27
Bulgaria	25	23	23	23	24
EU-15	100	100	100	100	100

Source: European Commission.

Table 2
Share of EU in total exports and imports of the candidate countries 1996-2000

	1996	1997	1998	1999	2000
			Percent		
EU share of exports . . .	57	59	64	68	65
EU share of imports . . .	57	57	62	62	62

Source: European Parliament, Task Force Enlargement, *Statistical Annex*, July 2001, based on IMF, *Direction of Trade Statistics* and data compiled by the European Commission (COMEXT, EUROSTAT).

could increase by 0.7 of a percentage point, on a cumulative basis, over the period 2000–2009, with half of the potential gains resulting from the boost to growth from migration flows and the remainder due to mark–up and trade integration effects. Such benefits are predicted to be greatest for Germany and Austria, which retain the closest ties with the candidate countries. The study estimates that the effect of enlargement on agriculture, at least in the first few years after enlargement, will be small for two primary reasons: lagging quality and health–related product standards in Eastern Europe and declining price differentials between the EU and candidates' farm products. According to the study, in the agriculture sector "It appears, therefore, that future production and trade developments in the candidate countries will be more influenced by productivity changes in these countries than by the extension of the CAP except probably in a narrow range of products."[20]

The study also points out that the effects of the Southern enlargement of the EU in the 1980s (the accession of Greece, Spain, and Portugal to the then EU–9), can be a useful benchmark for estimating the effects of the future enlargement on the EU, since some important similarities exist between these enlargements; in particular, the size in terms of population and GDP of the candidates vis–a–vis the EU. Indeed, the simulation results from the current study largely mirror the results of previous analyses showing a relatively small effect of the Southern enlargement on the EU, primarily reflecting the large size of the EU in relation to the candidates.

The study also concluded that "The candidate countries should greatly benefit from enlargement thanks to a more efficient allocation of resources, greater investment and higher productivity growth."[21] The study estimates that "accession could increase the average annual growth rate of the [accession countries][22] during the period 2000–2009 by between 1.3 and 2.1 percentage points," depending on whether additional reforms are undertaken.[23]

Other studies have reached similar conclusions. For example, the Austrian Institute of Economic Research (WIFO) concluded that both the candidate countries, and to a lesser extent, the EU, will benefit from enlargement. Some candidate countries could benefit from an additional 8–9 percentage point growth in real GDP over a 10–year period. The study estimates a small, positive effect on the EU, but significant differences in the effects among the member states. For example, those countries with strong ties to the candidates, including Germany, Austria, and Italy, will experience the largest benefits. Other member states, such as Spain and Portugal, stand to lose the most because they currently are large recipients of regional and agricultural funds from the EU budget.[24]

Like the Southern enlargement and current studies suggest, both the EU and the candidate countries are likely to benefit from enlargement. Since the fall of communism, deeper integration between the EU and those countries have generated economic growth. Enlargement is likely to further enhance trade and capital flows and accelerate growth, particularly for the developing country candidates. In other arrangements between developed and developing countries, such as the North American Free Trade Agreement, economic growth of the developing country partner (in this case, Mexico) accelerated following implementation of the agreement. Greece, Portugal, Spain, and particularly Ireland experienced a further acceleration of economic growth after joining the EU. Although it takes time, previous enlargements have shown that the income gap between EU members and poorer candidate countries tended to narrow. Such examples portend a favorable economic future for the European continent.

[20] Ibid., pp. 10–11.
[21] Ibid., p. 9.
[22] All Eastern European countries except Bulgaria and Romania.
[23] *The Economic Impact of Enlargement*, June 2001, p. 10.
[24] Fritz Breuss, Austrian Institute of Economic Research, "Makroökonomische Auswirkungen der EU–Erweiterung auf alte und neue Mitglieder," June 2001, found at Internet address http://wifo2000.wifo.ac.at/presse/2001/p010619_2.html, retrieved on Dec. 13, 2001.