

The Economics of European Union Enlargement

Kate Knorr
Advisor: Professor Mireya Solis
University Honors in International Studies
Spring 2008

Part I

Executive Summary.....	2
The Theoretical Path to Integration.....	5
Intergovernmentalism and Rationalism.....	5
Neofunctionalism.....	8
Liberal Intergovernmentalism.....	9
Historical Institutionalism.....	11
Constructivism.....	13
Theoretical Shortfalls.....	15
Why is the Case Study So Prevalent?.....	17
How to Proceed?.....	19

Part II

Past Governance.....	21
Today's Criteria for Inclusion.....	22
A Closer Look at Eastern Europe and Accession.....	24
Turkey's Accession Policy.....	27
Why Economics?.....	29
A Closer Look at Economic Ties.....	31
A Short History of Regional Aid.....	32
The Role of Structural Cohesion Funds Today.....	33
Facts and Figures.....	34
Other Measures.....	39
An Important Caveat.....	41
Conclusions.....	44

Part I

Executive Summary

Most theories of international and institutional integration have some economic component. However, the majority underestimates the role that economics plays in the process of regional integration in the European Union. This importance is underscored by the way the EU has distributed and managed funds and the way that officials have spoken about the need for cultural cohesion and infrastructural parity. This use of economics as a tool and measure of the success of potential members is evident in both past and present policies.

From its beginnings in 1951 with a membership of six countries the EU has grown in the past six decades to encompass twenty seven countries, with countless more ethnic groups and languages, and a diverse population of immigrants and religious adherents. In order to understand the motivations behind this growth, it is instructive to examine political science theories that seek to explain how and why intergovernmental organizations provide a viable way for governments to maximize their economic and political potential. The theories also seek to answer the puzzle of why organizations continue to grow, even when this growth means that some nations are required to cede the sovereignty that normally lies at the base of our understanding of what it means to be a state. These theories are not always clear or unchangeable, and many theorists defy attempts to classify their writings and musings. Because the European Union is such a notable example of what is commonly called integration there is also a small, but growing, body of literature that deals with its specific case of growth. These scholars examine the unique situation of European countries and their leaders more closely, and attempt to predict from the specialized knowledge, the future of continental integration, a particularly challenging example because it continues to grow while simultaneously deepening

its mandate, thereby combining enlargement and traditional institutional growth theories (i.e. deepening).

It is important to understand the scholarly literature and theories behind European integration, but it is also important to examine the history of the EU and the ways in which economic and political conditions affect how the organization grows. The countries of Europe all have long histories and longer held traditions; the EU now has a history of its own. From humble yet ambitious beginnings the European Union has achieved a surprising amount of integration and growth. The road to integration has not been smooth, however, and the organization has needed to adapt and change the way in which it acts. One of the most serious challenges that the EU has faced is the challenge of integrating countries that are increasingly different from the founders and core members. These differences are not only cultural and historical, but also developmental. The majority of members that have joined since the mid 1980's have had, at the time of their accession, GDPs that were only a fraction of the rest of already unified Europe. This is why the West has spent billions of dollars in order to increase what is called "European cohesion," in trying to bring all of Europe to the same level of development.

But why spend 15.9 billion euros in 2004 alone? The European Union was, in large part, created in an attempt to stabilize Europe, which had thrown most of the world into war twice in the first half of the twentieth century. It accomplished this goal by breaking down trade and economic barriers. This led not only to increased trade, but also to increased cultural exchanges and furthered ease of movement and increased communications in an area that grew to include almost all of Western Europe. After a period of stagnation in growth in the late 1980s growth accelerated again, this time to include central and Eastern Europe, moving to the fringes of the

continent. This growth is an important part of what has made the Union dynamic and able to grow and deepen economically and politically, but it naturally creates more discord, as radically different peoples are united under a single flag. In order to ease this, the EU has reallocated significant funds from western European, developed nations farther east in hopes of increasing economic parity and increased acceptance of western ideals. This policy of improved infrastructure and international cohesion has become a cornerstone of enlargement and integration.

Although it is important to understand the political science theories of enlargement and deepening this paper attempts to build upon that analysis. Through examining the criteria for new nations to become members, the emphasis placed on trade and how the EU's officials have distributed funds not only to bring new members to economic convergence but also to assist in politically unstable situations it can be demonstrated that economics continue to play a pivotal role in how the European Union functions. Furthermore, continued enlargement and deepening of the EU mandate means that cohesion that the EU is trying to create through the distribution of these funds is likely to become even more important in the future, especially considering the economic and political conditions in the most likely future members.

The Theoretical Path to Integration

There are numerous theories as to the mechanisms behind the past expansion of the European Union. As a whole, scholars have been less likely to focus on the theoretical underpinnings of enlargement of international organizations than to focus on the theory governing their deepening. They can be untidily grouped into five main groups: intergovernmentalism, neofunctionalism, liberal intergovernmentalism and historical institutionalism and constructivism. These theories have become more complicated over time,

as institutions themselves have become more complicated and more entangling. In general, the theories of intergovernmentalism, neofunctionalism, and historical institutionalism are all tailored to development in the EU, while rationalism (grouped in this paper with intergovernmentalism) and constructivism are designed to be applicable on a broader scale to the increasing number of international organizations with institutionalization.ⁱ

Intergovernmentalism and Rationalism

Intergovernmentalism and rationalism are, in effect, somewhat similar, but intergovernmentalism is a more classical theory, developed decades ago to explain international organizations, whereas rationalism is often a modern day counterpart. Intergovernmentalism focuses on state (national level) actors, as the force behind the emergence of the European Union. Member states created the EU because they are interested in maximizing their self-interests. In order to maximize these interests they must act as rational state actors, which proponents of intergovernmentalism view as unitary actors. As rational actors, they view the creation of institutions a way minimize transaction costs and establish international norms and procedures. Therefore, it is in their self-interest to help the institutions of the EU. A state's self interest indicates joining in the formation of a supranational institution, however, is limited by the preservation of some level of state sovereignty, in order to preserve their ability to act as an individual actor within an institutional governing body or accord. Another central issue in intergovernmentalism is that intergovernmental agreements are the most, or only, agreements that are valid, in the sense that these are the only "bargains" that truly affect the way in which the state level, rational actors perceive the circumstances.ⁱⁱ Intergovernmentalists would see the enlargement of the EU as a way to increase the size of these institutions and thus to lower transaction and interaction costs among a larger pool of nations.

Rationalist approaches seek to explain why pre-existing international institutions and organizations would undertake an enlargement, which is always stressful to the institution regardless of relative ease of integration. It also seeks to explain why these organizations then try to deepen relations, which is also a stressful process. It attempts to portray states as rational actors that analyze the costs and benefits of ceding sovereignty and becoming more entangled in treaties and agreement that will raise the costs of their actions within the Union and internationally. This is due to the unwieldiness of a larger organization and also because the voting pool means that they are theoretically less likely to experience favorable outcomes. This increase in the effort needed to obtain favorable incomes is expressed with terminology such as “increased transaction costs” and “costs to autonomy.”ⁱⁱⁱ This is not always true, however, as in reality larger nations, more wealthy nations and nations already entrenched in an international system are likely to have more influence on event outcomes. This is a fact that is absolutely true, at least to some degree in the case of the European Union, and can be seen in the application of punishments for disobeying EU decisions and rulings that are meted out to nations such as Germany and France in juxtaposition to countries such as Bulgaria or Romania. Therefore, although the west might be losing their absolute majority, they still retain a disproportionate control of EU institutional processes.

Incorporating these arguments, perhaps the easiest way to illustrate why scholars then reach the conclusion that organizations would want to expand or deepen is the “piece of the pie” illustration. Although joining or allowing others to join in international organizations and strong international institutions may mean that every country has a smaller piece of the pie, it should theoretically also “grow” the pie as a whole, meaning that even smaller shares result in larger portions.

Intergovernmentalism and rationalism do relate to the continued enlargement of the European Union. The EU provides reduced transactions costs both politically and economically for the transport of goods, services and capital, including workers and primary materials, all of which are explicitly emphasized in its treaties. This has become even more emphasized as the EU has deepened its mandate to facilitate even more economic exchanges.^{iv}

Intergovernmentalism and rationalism both view the relatively high cost of abstention versus the relatively lower cost of joining the club as central tenets of their arguments. This facet of the two theories applies to the economic facet of the EU's enlargement policy that this paper aims to examine. However, it does not examine complex processes such as preadhesion benefits and actions and development aid to potential member countries. In addition, intergovernmentalism and rationalism have a difficult time accounting for the formation of national preference in the case of the EU, where cultural separateness is undermined through cohesion, both for members and for potential members that have begun the preadhesion process.^v

Neofunctionalism

Neofunctionalists are generally proponents of a form of the "domino theory." This is the idea that once one nation joins it is economically and politically more beneficial for other states to join, especially if the original joiners are of importance in international relations to the other country. This can be used not only for the European Union, but for other multilateral regional trade agreements, such as NAFTA, where fear of exclusion helped bring Mexico to the decision to enter into talks after the conclusion of an agreement between Canada and the US.^{vi} Neofunctionalism includes domino theory, arguing that once integration begins, it is self propagating, a domino effect. It also argues that success in the economic realm means spillover to the political realm, another consequence of the domino mentality. Furthermore, both types of

integration have to be complete in order for this to happen, otherwise their effectiveness, and therefore attractiveness, is diminished.^{vii} As Sweet and Sandholtz define the three elements of neofunctionalism in the EU, they are: “the development of transnational society, the role of supranational organizations with meaningful autonomous capacity to pursue integrative agendas, and the focus on European rule-making to resolve international policy externalities.”^{viii}

This theory is attractive because it does account for expansion as an important force. In fact, it deals almost exclusively with expansion and deepening,^{ix} both important parts of EU enlargement. There is no mechanism, however, for the explanation of individual actions and preferences, other than as a broad trend toward institutionalizing the EU. It instead deals with a bureaucracy that expands and encourages growth. Neofunctionalism was put forward and defended in the 1950s by scholars such as Ernst Haas, but by the 1960s even Haas was skeptical of its ability to fully explain what was occurring in Europe.^x

Again, neofunctionalism does apply to EU enlargement to a certain extent. Much as intergovernmentalism and rationalism examine the lessened transaction costs associated with membership, neofunctionalism does explain that as more countries join it becomes less cumbersome to be a part of the EU and operate from within the institutional structure than it does to negotiate one issue at a time from without. However, neofunctionalist theories have not been able to evolve the nuances that would permit it to closely examine the political and economic processes that affect preadhesion and accession in the modern European Union and broad enough to apply to different situations.

Liberal Intergovernmentalism

Liberal intergovernmentalism was an amendment to intergovernmentalism that focused on a more inclusive examination of important interstate actors. Strongly propounded by authors

such as Andrew Moravcsik, liberal intergovernmentalism viewed the original intergovernmentalist theory as an inadequate way to explain the way that state actors choose to take action. He explains the European Union (then the European Community) as:

an international regime for policy co-ordination, the substantive and institutional development of which may be explained through the sequential analysis of national preference formation and intergovernmental strategic interaction.

There are three important parts of this theory. It incorporates rational state behavior (the same as traditional intergovernmentalism), that national preferences and actions are determined in a liberally prescribed manner and that the process of interstate and institutional negotiation is undertaken in such a way that can be analyzed through the intergovernmentalist lens. While many of the core assumptions of intergovernmentalism remain intact, the addition of a liberal analysis of the way a preference for action is formed means that non-governmental and non-state factors are included in the analysis. This enables liberal intergovernmentalism to assess the impact of nongovernmental organizations and democratic movements within countries (among other factors). Including these types of actors means that the danger of assuming a single preferred action undertaken by a diverse state is avoided or at least mitigated.

Liberal intergovernmentalism also incorporates certain ideas of the domino effect, which is heavily utilized in neofunctionalism. That is that initial policy coordination and economic interdependence create a climate under which it is more beneficial for member states and their subunits to cooperate, in order to escape externalities for those that are excluded from the institution. Because it considers substate actors, liberal intergovernmentalism also considers the interplay that this domino effect can have in domestic affairs, insofar as the fact that taking action becomes less “expensive” than resisting action at a national level. Therefore state level actors can steer domestic policies by claiming pressure from an international movement, without

significantly damaging their own credibility domestically.^{xi}

This is an important part of the way that the European Union operates in reallocating funds within the union, between members and associates.

Of all of the traditional theories governing the workings of international organizations liberal intergovernmentalism may be the best equipped to explain why and how the European Union continues to enlarge. It allows focus on the lowered transaction costs considered paramount in intergovernmentalism and rationalism. However, it also incorporates ideas of nonstate or substate actors and how their preferences can shape or be shaped by international pressures within the organization, especially in the strongly developed civil societies of the EU/western Europe.

Historical Institutionalism

ⁱ Mark A Pollack. "International Relations Theory and European Integration." *Journal of Common Market Studies*. Vol. 39, No 2. June 2001. pp 221-244.

ⁱⁱ Paul Pierson. "A Path to European Integration: A Historical Institutional Analysis." *Comparative Political Studies*. Vol. 29, No. 2. April 1996. Pp 128-131.

ⁱⁱⁱ Frank Schimmelfennig and Ulrich Sedelmeier. "Theorizing EU enlargement: research, focus, hypotheses, and the state of research." *Journal of European Public Policy*. Vol. 9, No. 4. August 2002. Pp 500–528.

^{iv} "Respecting fundamental rights while ensuring security and justice in the European Union" <http://ec.europa.eu/justice_home/fsj/rights/fsj_rights_intro_en.htm> accessed 22 April 2008.

^v Peter A Kraus. "Cultural Pluralism and European Polity-Building." *Journal of Common Market Studies*. Vol. 41, No. 4. 2003. pp 665-686.

^{vi} Maryse Robert. *Negotiating NAFTA*. University of Toronto Press: Buffalo, 2000. Pp. 23.

^{vii} Andrew Moravscik. "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach." *Journal of Common Market Studies*. Vol. 31, No. 4. December 1993. Pp 473-478.

^{viii} Alec Stone Sweet and Wayne Sandholtz. "Supranational Governance." *The European Union*. third edition. Brent F. Nelsen and Alexander Stubb, eds. Lynne Reinner Publishers: Boulder, Colorado, 2003. Pp 221.

^{ix} Leon N. Lindberg. "Political Integration: Definitions and Hypotheses." *The European Union*. third edition. Brent F. Nelsen and Alexander Stubb, eds. Lynne Reinner Publishers: Boulder, Colorado, 2003. pp 151-162.

^x John Gerard Ruggie, Peter J. Katzenstein, Robert O. Keohane and Philippe C. Schmitter. "TRANSFORMATIONS IN WORLD POLITICS: The Intellectual Contributions of Ernst B. Haas." *Annual Review of Political Science*. Vol. 8, No. 271-96. 2005. 271-296.

^{xi} Moravscik, 479-524.

Historical institutionalism is a theory that examines a much different political process as a reason for the continuing evolution and survival of the European Union. Whereas intergovernmentalism and liberal intergovernmentalism examine the relations between states and the persons and organizations that act on their behalf very closely, historical institutionalism examines the role that institutions and their own will to survive and grow plays in these same processes. Proponents such as Mark Pollack argue that it is “too expensive” for nations to retain full control over supranational institutions, and that institutions and their actors have a more perfect level of information than national actors, which makes it more efficient for the institutions to act semi-autonomously.^{xii}

Historical institutionalism is less fully developed than intergovernmentalism, neofunctionalism and liberal intergovernmentalism. While the first three theories discussed were specifically developed in order to explain the EU or regionalism in general, historical institutionalism more broadly examines the way in which the intergovernmental or international institutions acquire a life of their own and act in such a way as to propagate their own self interest instead of strictly the self interest of the nation states from which the institutions originally sprang. Numerous scholars, John Pinder for example, in their examination of institutions as independent or semi-independent actors, explain institutional formation through other theories but view institutional power as becoming increasingly independent over time until they eventually control events.^{xiii} It is also the theory that most specifically and extensively assumes and utilizes the assumption that an essential part of understanding sociological processes is understanding their past and their evolution.

^{xii} Mark A. Pollack. “Delegation and Agency in the European Community.” The European Union. third edition. Brent F. Nelsen and Alexander Stubb, eds. Lynne Rienner Publishers: Boulder, Colorado, 2003. pp 255-279.

^{xiii} John Pinder. The Building of the European Union. third edition. Oxford University Press: New York, 1998. pp. 248-266.

Historical institutionalism also develops a critique, especially of intergovernmentalism and liberal intergovernmentalism, which questions the credibility of assuming that states within the institutions are solitary rational actors. The flaw in this assumption, which is a rather large one, is that the representatives within the institutions often act in a way that is not self-serving for their home nation. They do have some degree of autonomy. In his article, Pierson develops three additional critiques of the “intergovernmentalisms.” First, there is a restricted timeframe in which state level actors are interested. Politicians are most interested in short term consequences that will help them be re-elected and increase their popularity, which is not always the timeframe with which large, supranational institutions want to, or even have the ability to, act. Also, unintended consequences, which the institution is then forced to deal with, often occur. And finally, institutions are charged with maintaining some level of continuity at the international level while state and substate preferences gradually, and sometimes drastically, change over time. This last criticism is also an important way in which historical institutionalists take into account the influence of substate actors, attributing these preference shifts to such social forces.^{xiv}

The EU does have a history of relatively strong institutions, and so it would seem to fit that EU enlargement could be viewed through this lens. However, if historical institutionalism were really the prevailing political mechanism in the EU, the EU might be more concerned with strengthening and consolidating institutions for deepening the union rather than enlarging it. Why would the institutions of the EU choose to enlarge instead of concentrating on the passage of a common European Constitution? There must be some underlying factor beyond institutional will, such as economics.

Constructivism

Constructivist theories of EU enlargement, much like constructivist theories in political

^{xiv} Pierson, 131-159.

science in general, see enlargement and further integration as products of a shared or increasingly shared identity of base of ideas. Through this lens, nations are not necessarily comprised of one consolidated actor, nor do they act because they have analyzed the situation and found a specific course of action be most favorable. Nations choose to pursue integration because they feel as though they share a general cultural affinity with the existing organizational culture. In cases where no cultural affinity naturally exists, it is created through progressive steps of tying the candidate nations to the older organization. This creates a bridge between the organization and the state, through which cultural and economic values can be transmitted. Also, there is no guarantee that norms can expand to the degree that states can become completely associated with an organization. If it is clear that a nation cannot achieve a complete identification with the community norms and rules then the organization will self regulate in some way, integrating outside nations only to the degree that they have shown themselves adaptable to the organizations way of operation and beliefs.^{xv}

The problem that these types of theories come across is that European integration has now entered a stage when there is less and less traditional and historical cultural affinity between existing members, new members and hopeful candidates. Current candidate countries have been connected to the Union for decades in some cases, and yet it is not clear that they are now or will ever be close enough to the Union culturally to join as full members. For instance, Turkey has held the status of a special economic associate state since the 1980's, and has applied for membership multiple times but there are many that debate whether the EU is really an appropriate forum for Turkey, with ninety five percent of its landmass and almost ninety percent of its population technically residing in Asia and practicing some form of Islam. Furthermore, a long economic association has not led to a sufficiently significant increase in political freedoms

^{xv} Schimmelfennig and Sedelmeier, pp 515-517.

or personal freedoms.^{xvi}

Constructivism falls very closely to an idea that the EU seems to subscribe to of a collective identity. However, its focus is overwhelmingly social or political in most cases, not taking into account the emphasis that the EU puts on economics to smooth over differences of ideology.

Theoretical Shortfalls

There are flaws in each of the above theories that their critics do not hesitate to point out in propounding their own theories. Intergovernmentalism and neofunctionalism, as the original theories used to explain the actions and existence of the European Union are generally seen as the simplest explanations and perhaps lacking the nuance to explain in detail the current developments and complexities of the growing union. Since intergovernmentalism was initially proposed the nonstate sector has grown in power and influence, changing the way that power dynamics can be analyzed. An earlier analysis, conducted sometime close to the end of World War II, would have likely concluded that state power and charismatic national leaders were the most powerful actors and the most likely to make contributions to the international decision making process. Since then, however, nongovernmental, international and institutional groups have grown, grown more informed and have grown in power and influence.

An important flaw in neofunctionalism is that it never truly developed a theory that was able to predict the way in which the dominos would fall. That is, although neofunctionalists predict that as institutions grow it becomes less costly for governments to join the group rather than be excluded, they do not provide a way to predict how this process will occur. The idea that it is cost of exclusion that provides an incentive for countries to join the EU incorporates the

^{xvi} Joseph S. Joseph, ed. "Introduction: Turkey at the Threshold of the EU." Turkey and the European Union. Palgrave Macmillan: New York, 2006. Pp 1-16.

business community, but does not as neatly incorporate the role of civil society and nonstate actors in the formation of national preference. There is, however, an interesting current of thought, that argues that intergovernmentalism and neofunctionalism complement each other in the governance of international institutions. In this case, intergovernmentalism accounts for nations' preferences in joining into institutional arrangements and agreements, while neofunctionalism accounts for the overall process in institution members actively joining and participating in institutional arrangements.^{xvii} This sort of synthesis of multiple theories may result in a more complicated final product, but it is more instructive and relevant when examining the conditions and processes that actually exist.

Liberal intergovernmentalism and historical institutionalism are more nuanced in their understanding of how the forces that are involved in the European Union interact. Liberal intergovernmentalism is perhaps the most complex of the theories, in the respect that it tries to account for the largest number of variables in its analysis. This complexity, however can lead, in a round about way to the inability to make predictions and assumptions. A model is most viable if it significantly simplifies the problem. Also, as historical institutionalism draws attention to, the force that liberal intergovernmentalism does not take into account is that of history.

Meanwhile, historical institutionalism puts the majority of its weight into the analysis of the institutions that form the EU, and the way that they act in order to grow and gain strength in their own self interest, rather than in the self interest of the member states that originally formed them. One difficulty in applying historical institutionalism to the continued expansion of the EU is that the areas that are now joining the EU, along with those that wish to join in the near future, do not share as clear of a historical evolution with the rest of the European area. They have, in

^{xvii} John Peterson and Elizabeth Bomberg. "Making Sense of EU Decision-Making." The European Union. third edition. Brent F. Nelsen and Alexander Stubb, eds. Lynne Rienner Publishers: Boulder, Colorado, 2003. pp 313-333.

fact, spent a great deal of the last century as areas closely involved with the Soviet Union. Also, it does not adequately account for individuals and even state governments. It is a theory that assumes that institutions are interested in the long term and that state and substate actors are interested in the short and maybe medium term. Making these types of assumptions limits the theory's ability to account for strong national figures and governments that sometimes tend to steer developments, at least for a period of time.

Along with these theories, which all have their own flaws, there is another major body of work that has been completed in relation to the European Union. This is comprised of case studies of the individual experiences of member nations and rounds of enlargement. Although these studies may not be applicable to a broad base of different scenarios, they have nonetheless become increasingly important and thus merit attention.

Why is the Case Study So Prevalent?

The most prevalent theories of Eastern enlargement are really applications of existing international institution theories to the specific circumstances that are applicable to Europe. Scholars apply existing theories to individual circumstances, not to EU enlargement as a whole. By far the largest body of research done on the EU is comprised of these individual case studies examining European Union policies and the negotiations and policies of the countries wishing to join the union. This may be because different groups of prospective member nations have had very different criteria and experience different processes. It is worthwhile examining these case studies because although they examine mainly individual circumstances they do a thorough job of this as well as informally (and occasionally formally) proposing under riding theories of enlargement and deepening integration. In fact, Swedish scholar Markus Jachtenfuchs even goes so far as to argue that in studying the contemporary EU it is more useful to view it as an

institutional experiment rather than a chance to apply and develop broad international relations theories.^{xviii}

Even those that question the effectiveness of enlargement as a theory in improving the new and old member countries admit that it has always been a policy. Its popularity has varied overtime, but it has always been a goal in the end. Author Christopher Preston has this to say:

Enlargement has always been part of the EC/EU's 'historic mission'.... Despite the strains imposed on both the Union and its new members, the queue of applicants, stretching from the Southern Mediterranean, through Central and Eastern Europe, into the former Soviet Union is proof of its attractiveness. Despite its arcane rule book, opaque procedures and high membership fee, the EU is still considered to be the 'best club in Europe', worth making sacrifices to join.^{xix}

This certainly does not paint the EU in a flattering light, but it acknowledges that membership is an important concern that has to be addressed. In general, the case studies examine how the concessions that are demanded have changed and evolved over time. They also compare this to the countries that are on the short list for full membership and the preconditions that countries go through in order to make it to these short lists, such as the preceding agreements made between the Union and the countries. These case studies are usually broken down by time period. Earlier ones examine rounds of enlargement such as the Mediterranean round including Spain, Portugal and Greece in 1986, the former Soviet associate states in the 1990s and early 2000s and the continuing negotiations with important contemporary candidates such as Turkey and Serbia. Quantitatively and qualitatively, the largest and most relevant body of research involves the latest rounds, with the earlier cases being used for comparative studies. There is also research done on special cases, such as the highly selective agreement that the United Kingdom signed, but in the context of examining eastward enlargement these cases are most useful in comparing

^{xviii} Markus Jachtenfuchs. "The Governance Approach to European Integration." The European Union. third edition. Brent F. Nelsen and Alexander Stubb, eds. Lynne Reinner Publishers: Boulder, Colorado, 2003. pp 335-349.

^{xix} Christopher Preston. *Enlargement and Integration in the European Union*. Routledge: New York, 1997. Pp 3.

the advantages of wealth and power. Examining these case studies not only portrays how enlargement has evolved, but conveys the history of the Union as a whole. It is also worthwhile to examine the eastern and central European countries and the Mediterranean countries such as Turkey and Cyprus separately, since they have had dramatically different experiences and are more at the heart of the issue of continued and future European integration.

How to Proceed?

Therefore, in order to proceed with analysis in this paper the next step to be taken is an examination of the treaties that have governed the EU and how they have grown and changed. It is also important to understand the criteria that the EU has set out for potential member states to fulfill before their applications are considered. This can then be used as a platform for the investigation of how Eastern Europe and Turkey have experienced the process of preaccession and accession. By understanding the theory, examined in the first part of the paper, and combining it with the circumstances and history of the EU a framework can be developed with which to understand how the EU uses economics as a way to create cohesion and prepare candidates for full membership and equal competition within the Union.

Part II

Past Governance

In order to build upon the body of theoretical literature that is now available, an important first step is to examine how the European Union has grown and changed as different treaties have governed it. The first years of the European Union were marked with some confusion, due to a general disagreement about what the main aim of the EU was. In the very beginning of its existence the aims were relatively small, but the goals were ambitious: containing and preventing future hostility between Germany and France by linking their steel and coal industries. But, as this initial association grew, there was a general lack of agreement as to the direction that this development should take, both in the form of the institutions and the content of the agreements

that would bind the members together.^{xx} Nevertheless, it became accepted that membership was a positive opportunity for a country's economic development, and thus it became important for a semi-formal mechanism for joining the Union to be established.

The European Coal and Steel Community was established in 1951 in a Treaty of Paris. This treaty was the basic foundation for the community until its expiration in 2002. Although it was maintained as a base, the treaty was amended every time that the Union was enlarged. It was adapted in 1973 with the accession of Ireland, the UK and Denmark, in 1981 with Greece, in 1986 in the Spain and Portugal round of enlargement and in 1995 when Austria, Finland and Sweden joined the EU. At this point, the ECSC was able to adopt legislation at the institutional level, which the individual member states would then adopt individually.

In 1957, the Treaty of Rome established the EEC, the European Economic Community. This consolidated the ECSC into the EEC, which reflects the growth in complexity in economic accordance, although the community itself had not yet grown. The next large change in the form of association was in 1993 with the adoption of the Treaty of Maastricht, which morphed the EEC into the European Community or the European Union, the EU. Although the community had been growing in complexity over the years, the Treaty of Maastricht for the first time made the principles threefold. Whereas the community had rested on the single column of economic beforehand, politics and foreign relations were now added. While the first forty-six years of the community were not solely governed by economics, economics were the basis for the members' interaction, and it was the sole codified basis for interaction.

Finally, in 1999 the Treaty of Amsterdam, which had been negotiated and signed in 1997 entered into force. Its purpose was to consolidate the earlier treaty of Maastricht, and it is

^{xx} Craig Parsons. "The Triumph of Community Europe." *Origins and Evolution of the European Union*. Desmond Dinan, ed. New York: Oxford University Press, 2006. Pg. 107-125.

noteworthy to consider the fact that it was negotiated in 1997, at the same time as the first negotiations for the first eastern and central European candidacies. In 2003 the Treaty of Nice, the latest major amendment to foundation treaties, entered into force. The Treaty of Nice consolidated operations and streamlined institutions so that the upcoming enlargement to 25 nations would be able to function efficiently and not hamper further development.^{xxi}

Today's Criteria for Inclusion

The addition of the Eastern European, former Soviet Bloc nations was directly addressed in Copenhagen in June of 1993, stating these preconditions for membership:

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

When the EU considered the countries of central and eastern Europe for membership in 1997, they considered not only their current position economically and politically, but also the progress that they were expected to make in the short and medium term.^{xxii} There was incredible diversity in the economic conditions that existed at that time. The average gross domestic product per capita of the soon-to-be candidate countries was around one third that of citizens of the European Union. The most actively growing economies were growing at between five and seven percent annually. There was also great diversity in the amount of economic stability and market reforms that had taken place, and there was an almost universal lack of banking and financial infrastructure that still existed. Nevertheless, negotiations continued because it was believed that

^{xxi} "European Treaties." <http://www.europa.eu/abc/treaties/index_en.htm> accessed 8 December 2007.

^{xxii} European Commission. "The Challenge of Enlargement- The European Commission's Opinion, 1997" *Europe Beyond 2000: The Enlargement of the European Union towards the East*. Sir William Nicoll and Richard Schoenberg, eds. London: Whurr Publishers, 1998. Pg 30.

there had been significant progress made and that five of the applicants were already functioning market economies, while the rest of the applicants would become so before their accession would take place, early in the upcoming new century.^{xxiii} Judging by these assessments the most instrumental part of the criteria set for becoming a member of the Union is not that the criteria have been met before any further steps are taken, but that the candidate or prospective countries are making progress in the direction that the EU would like to see and which provide for a greater level of economic and cultural cohesion once membership has occurred.

A Closer Look at Eastern Europe and Accession

Eastern Europe actually began the process of accession to the European Union long after the lagging Mediterranean states such as Malta, Cyprus and Turkey. Eastern accession became an issue rather suddenly, after the collapse of the Soviet Union and the disassociation of the former COMECON or CEEC economies. Because it came suddenly after the collapse of the Soviet Union, the inclusion of these countries may seem to have political motivations rather than economic ones, but the opening of these new candidates also meant an increased number of trading partners, consumers, workers and raw materials to add vitality to the EU economy. Furthermore, the EU used economic means of cohesion, whenever possible, to promote both economic *and* political development.

The first official document dealing with the criteria for these eastern and central European countries joining the EU was announced at the Copenhagen European Council of 1993. The “Copenhagen Criteria” that were released there were confirmed in Madrid two years later. They included three specific criteria for accession; stability of democratic institutions,

^{xxiii} European Commission. 34-35.

rule of law, human rights and protection of minorities, the existence of a functioning market economy and the ability to take on the responsibilities of full membership over a period of time. These goals became the measurement by which a country's readiness to submit a serious application for full membership was judged.

Also at the Madrid Conference, the European Council asked the European Commission to prepare a statement more clearly defining the process of accession, owing to the onslaught of new candidates. This was what came to be known as *Agenda 2000*, the document that delineated the redefined process of negotiations, accession and the preaccession strategies that became more and more important as more diverse countries began to move toward membership. It was in 1997 at the Luxemburg meeting of the European Council that the first six former CEEC countries expected to be fit for joining the Union were announced. The idea that all of the eastern and central European nations would eventually be considered valid members was also reinforced, but Turkey was not included in this group of potential full members.^{xxiv} These included: Estonia, Hungary, Poland, Slovenia, the Czech Republic and Cyprus. The second group of potential members, those that had completed preliminary conditions and could now move on in the process, were listed two years later at the Helsinki European Council. These states were: Latvia, Lithuania, Malta, Bulgaria, Romania and the Slovak Republic. Even so, negotiations for actually joining the Union were not begun until February of 2000, concluded in 2002, was signed in April of 2003, and ten of the twelve countries became full members in 2004. Bulgaria and Romania lagged behind. Their negotiations were not completed until 2004, and they became members of the Union in 2007.^{xxv}

^{xxiv} Leopold Maurer. "The Process of the fifth Enlargement of the European Union." *The Eastern Enlargement of the European Union*. Anselm Skuhra, ed. Studienverlag: Innsbruck, 2005.

^{xxv} "Documents concerning the Enlargement Process with the fifth Enlargement countries:" <http://ec.europa.eu/enlargement/key_documents/index_archive_en.htm> accessed 14 March 2008.

One reason that Eastern Europe was able to join the Union so expediently, when countries such as Turkey had been trying for years, was that contemporary members saw the dissolution of the Soviet Union as an opportunity to consolidate European power and resources (both politically and economically), although in the minds of some member states this did not include full integration in the short and medium terms, if ever. As early as December of 1989, before countries of Eastern and Central Europe actually began to gain full independence from the USSR, the European Council of Ministers approved PHARE (*Pologne et Hongrie: Actions pour la Reconversion Économique*), which was initially aimed at Hungary and Poland. Poland and Hungary were singled out because they showed the most promise in breaking away; Poland had the Solidarity Movement and Hungary had already begun talks with the Soviet backed government and opposition parties to form a new government. The object of PHARE was to encourage private enterprise, laying the cornerstones of market-oriented economies and technical assistance funded by the European Community (the EC had not yet deepened enough to become the EU). Not all nations facing independence were immediately included in PHARE assistance programs. Countries were required to substantially demonstrate that they wanted to move toward a western European style state of democracy and social freedoms. In July of 1990 PHARE was extended to East Germany, Yugoslavia, Czechoslovakia and Bulgaria. Romania became eligible in 1991 after the repression of student opposition was ended. After the official break-up of the USSR assistance was also extended to Estonia, Lithuania and Latvia.^{xxvi}

Although such programs were set up quickly to assist Eastern and Central Europe, a timeline for actual integration into the EU/EC was not generally agreed upon. The Member states were going through a period of trying to codify and agree upon a timeline for the

^{xxvi} John Van Oudenaren. Uniting Europe: An Introduction to the European Union. 2nd ed. Rowman & Littlefield Publishers, Inc: New York, 2005. Pp 337-339.

deepening of the EU (which had been enumerated for the hopeful nations in the provisions of the Copenhagen Criteria, including the trade area, the economic stability and the expectation that they would eventually be able to healthily join the circulation of the EMU, which would become the euro), not the enlargement. Meanwhile, the new batch of candidate countries envisioned an extremely rapid accession to the Union. It became clear that further policy needed to be clarified, and between 1990 and 1996 the EU concluded a series of Europe Agreements, which were intended to begin economic integration by creating free-trade areas and creating an opportunity to expand social and economic contacts between the countries.^{xxvii} As the integration of Eastern and Central Europe became more imminent the EU expanded PHARE to ISPA and SAPARD. ISPA dedicated EU funds to improving the infrastructure of these countries before they actually became full members, particularly in transport infrastructure and environmental protection programs. SAPARD was the pre-accession counterpart to the common agricultural policy that governs agricultural policy between member states. Its stated purpose was the facilitation of “the long-term adjustment of agriculture and the rural areas of the applicant countries.”^{xxviii} In addition to extending the programs of PHARE to associates that were clearly on the road toward becoming members of the Union, these programs also mirror many that the same under-developed countries have been able to take advantage of after gaining full membership.

Turkey’s Accession Policy

Turkey has been trying to gain entry into the EU almost since the Union’s initial formation, but this history has been more tumultuous and Turkish advances have received a rather less warm reception from current members. The initial step was taken in 1963 when the

^{xxvii} Van Oudenaren. Pp 339-342.

^{xxviii} “Strengthening the Union and Preparing the 2004 Enlargement.”

<http://ec.europa.eu/agenda2000/index_en.htm> accessed 16 March 2008.

EC and Turkey signed the Ankara agreement. This was an agreement of association, granting Turkey the status of an associate nation and thus one with preferential treatment in economic matters. It was an assumption, especially on the part of Turkey, that this economic arrangement was an early attempt to bring about economic parity and ready Turkey for inclusion in the small but growing organization. However, Turkey was excluded from the next five rounds of European Union enlargement, spanning in time from 1971 until 1995.

Turkey itself formally submitted its first application for full membership in 1987, after twenty-four years of associate membership, but was rejected in 1989. The reasons given were a lack of political pluralism, a human rights deficit and problems with their claim on Cyprus, which is also an applicant for EU membership and has been a large source of dispute between Turkey and Greece (already a member) for decades. Although these are political criteria they are of the type that the EU might commonly attempt to ameliorate through promoting economic openness and success, hoping that this would lead to spillover of openness to the political arena. No discernable progress was made until 1996, when Turkey achieved a customs union, a status that has only ever been granted in this case. Although this was a step toward further incorporation there were and are still significant roadblocks on the way to integration, especially since the EU has deepened its mission since Turkey first applied for association.

Contemporary concerns include not only questions about Turkey's human rights record and quarrels with its neighbors, but also questions as to how a society that is fundamentally different in structure (different language origin, different religion and different societal base) can integrate into a European Union whose foci are the free movement of *capital, money and people*. Several EU members, such as Germany, already had sizeable Turkish populations and were and are worried that they will increase if further steps toward Turkish inclusion are taken. Although

these steps were taken in 1996, Turkey was not included in the 1997 Luxembourg European Council proceedings as one of the 12 listed prospective countries. This effectively signaled that Turkey's progress was halted at "custom's union member," and nothing has really changed since then. The EU continues to make recommendations on how to improve the Turkish handling of human rights, religious freedom, democracy and economic development, but Turkey does not appear to be any closer to being a full EU member than in 1996 and the longer that the process extends the more disillusioned the players become.^{xxix}

Why Economics?

There are many and varied theories as to why the European Union has been able to achieve such a stable union and why this union has been able to grow, even in the face of adverse social and economic conditions. Beyond these theories however, it is important to consider what has really occurred on the ground in Europe and how the people who are involved in the Union view what has and is occurring. Even though the EU has outgrown its status as a purely economic union of countries and now includes social, political and foreign policy concerns at its heart it still functions because it has been able to achieve economic success and stability. EU officials show a fair amount of preoccupation with how the Union is progressing economically and how this progress is affected by neighbors outside of the Union and new members in the Union. In interviews, these officials talk about the importance of economic programs to create cohesion between the countries and citizens of the EU and about bringing disparate nations closer to the EU averages of earnings so that Union prosperity can help them too. Citizens of countries that are full members of the Union as well as citizens in countries that have been applying for membership for decades debate how the Union will affect them economically. In

^{xxix} Barry Buzan and Thomas Diez. "The European Union and Turkey." *Survival*. Vol. 41, no. 1. Spring 1999. Pp 41-57.

these forums economics is also seen as a precursor to or supporter of other EU-favorable conditions such as education, democracy and social stability.

It is, no doubt, important to examine the theories that scholars and experts believe lay behind the motivations of EU enlargement but in the end, in the eyes of the EU public and officials, economics has played an extremely important part as motivation for enlargement behind both the east and the west, and the EU's economic successes have allowed it to spend the capital necessary to create cohesion through economic means. There are four ways in which economics is intertwined with the EU enlargement and cohesion process. First of all, countries that are serious candidates for joining the EU receive special economic treaties that help to begin to integrate their economies with those of the EU. This improves their economic situation and is therefore almost always desirable. Second, new member states that are below a certain GDP receive funds to promote improved infrastructure, improved economic conditions and practices and improved social services. As a corollary to this, European Union expansion, having made economic assistance an integral and central part of the accession process, must grow only at the rate allowed by its economic power to assist possible new members. Finally, new members and potential new members are limited by the EU's attempts to control how their economies can affect those of previous EU countries. For instance: new member economic stability, possible immigration concerns and availability of working populations are all factors that can help to boost old member state economies. In fact, without immigration from associates and other countries the total populations of Italy, Greece and Germany would have fallen in 2003.^{xxx} The first three criteria will be discussed in this paper, as the intent is to show how the EU attempts to impact the economies of new and potential members, as well as those old members that are

^{xxx} "Size and Population: Population Growth."

<http://europa.eu/abc/keyfigures/sizeandpopulation/home/index_en.htm#chart7> accessed 2 April 2008.

economically lagging. The fourth criteria involves an another sizeable body of literature and so will not be attempted here.

A Closer Look at Economic Ties

Beyond the criteria for inclusion that are enumerated in European Union agreements, the candidate countries for inclusion typically follow a preadhesion pattern in their own internal economic and international economic development. The central and eastern European countries that just began to join the European Union in 2004 began the application process in the early 1990's. Poland and Hungary applied for membership in 1994. Romania, Latvia, Estonia, Lithuania applied in 1995. The Czech Republic and Slovenia applied in 1996. Ascension negotiations for the most probable candidates for membership began in 1998.^{xxx} But during this period of time all of these countries had economic treaties with the EU, so that at the point of ascension their economies were already at least partially integrated into the whole. This is portrayed in the statistics of the central and eastern European countries (CEECs). During this period the CEECs transferred a considerable amount of their trade from the countries that had become the Commonwealth of Independent States (CIS) after the fall of the Soviet Union. At the start of this period of adaptation around twenty seven percent of CEEC trade was with the CIS, which has fallen to 4.6 percent now. By the same token, thirty six percent of CEEC trade was with European Union economies initially. That percentage grew to 73 percent at their time of ascension.^{xxx} The relationship between economic growth in market reform and foreign direct investment from European countries grew in a cyclical manner, with growth preceding FDI,

^{xxx} Desmond Dinan. "Appendix: Chronology of European Integration, 1945-2005." *Origins and Evolution of the European Union*. New York City: Oxford University Press, 2006. Pg. 325-336.

^{xxx} Constantine A. Stephanou, ed. "Adjusting to EU Enlargement: Recurring Issues in a New Setting." Northampton, Massachusetts: Edward Elgar, 2006. Pg. 5.

which in turn became a precursor for continued or enhanced economic growth and development. This development was important before ascension to membership because it is a potential economic shock to suddenly have the remaining economic barriers that had protected the country be removed (although there are certain restrictions on migration, etc that remain intact until a country has more completely acclimatized to life in the EU).^{xxxiii}

In contrast, Turkey began the process of applying for EU membership in 1987, when the EU was still the EEC, and formally became a candidate country in 1999.^{xxxiv} Meanwhile, Turkey has possessed the status of having a full customs union since 1995, and its dependence on the EU's economy has not shown appreciable growth during that period. In fact, the percentage of the Turkish economy that is intrinsically linked to the EU has actually been in a slight decline since 1993.^{xxxv}

This may show that that Turkey is not an optimal candidate for full membership, due to some sort of economic disconnect. It is probably more likely to show, however, that customs union status and EU candidacy is not enough to ensure that EU member nations are willing to throw large amounts of foreign direct investment into an economy that is governed by different cultural and political rules.^{xxxvi} This fact means that in order for the EU to absorb new economies it is necessary for them to actually absorb them into the Union itself, it is not enough to grant them economically special status as trading partners. Therefore, the institutions and/or members of the EU must have a strategy in mind for incorporating diverse groups of peoples and

^{xxxiii} Helena Tang, ed. *Winners and Losers of EU Integration: Policy Issues for Central and Eastern Europe*. USA: International Bank for Reconstruction and Development/The World Bank, 2000.

^{xxxiv} Dinan, 331-335.

^{xxxv} Stephanou, 8.

^{xxxvi} Stephanou, 16.

circumstances into the European Union and making them economically and therefore politically viable and prosperous in this new setting.

A Short History of Regional Aid

Regional aid really became a factor in the late 1980s and 1990s. Earlier rounds of enlargement were either completed during a period when the EU was still a purely economics concentrated organization or included states that were not significantly behind the majority of Western Europe in terms of economic development. But through the 1990s there were seven main objectives for structural funds, many of which would be drawn upon when crafting objectives for the new millennium. These were:

- 1- to economically assist regions whose GDP was below 75 percent of the EU average
- 2- in order to encourage “redevelopment” in areas hard hit by shifts in industrial production
- 3- to fight long-term and youth unemployment
- 4- to assist in workforce retraining
- 5- a) help modernize agriculture and fishing and b) encourage the economic diversification of rural areas
- 6- specifically for the benefit of Finland and Sweden— to assist sparsely populated Arctic regions

During this stage of 51 percent of funds went to assist in objectives one and two. CAP (the EU’s Common Agricultural Policy) provided additional aid for the latter objectives involving agriculture and rural regions. These policies are reflected in the fact that during this time period most aid went to the eastern regions of Germany, Scotland and some parts of Northern England, northern areas of the Netherlands, as well as Southern Italy. ^{xxxvii}

The Role of Structural Cohesion Funds Today

^{xxxvii} Oudenaren, pp 179-180.

The criteria for consideration of EU membership, although admittedly selectively enforced in some cases, have governed expansion, and they sound impressive. But the fact is that many of the states that have recently gained membership have been less prepared to meet these challenges than those who have gained entrance in the past.

The European Union defines structural and cohesion funds as:
a structural instrument that helps Member States to reduce economic and social disparities and to stabilise their economies since 1994. The Cohesion Fund finances up to 85% of eligible expenditure of major projects involving the environment and transport infrastructure. This strengthens cohesion and solidarity within the EU.^{xxxviii}

Structural and Cohesion Funds have sought to help erase the lines that demarcate rich Europe from the less successful parts of Europe. The way in which these funds and projects are managed was reformed in 2006, and cohesion funds (those meant to encourage cross cultural acceptance) were combined with structural funds (for improving infrastructure). Before this they had not been associated and were managed separately. The stated goals of the restructuring were: a more strategic approach, greater rationalization in the size of projects and increased coordination with other EU programs. These proposed objectives are in concert with the general attitude that many Europeans have that, whether the EU is overall good or not, it is overly bureaucratic and absorbed in bureaucracy and minutia and divorced from the concerns of everyday citizens. The European Commission also wants to strive toward application of the “polluter-pays” principle, greater attention to opportunities for mixed financing (public and private) and better definition of priorities and strategy of assistance for each area and project. It helps improve not only traditional infrastructure, but can also be applied to areas such as the environment, which is defined by: the supply of drinking water, sewage and water treatment and

^{xxxviii} “The Cohesion Fund at a Glance.”

<http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm> accessed 12 November 2007.

the management of urban, industrial and dangerous solid waste. They can be applied to plans for “trans-European transport networks.”^{xxxix}

Facts and Figures

When the EU began in its current form in 1992, the area, although certainly diverse, was much more homogenous than it is today, especially in terms of statistics. In 2000, the only four countries, EU membership was then 15, which were eligible for structural assistance were Ireland, Spain, Greece and Portugal. With the addition of new members in 2004 and then 2007, however, that list grew by leaps and bounds.

Every single new nation that was added to the roster was a potential candidate for EU structural adjustment funds.^{xl} Since the end of the Cold War and socialist economies many of these countries had actually been experiencing faster growth in income and productivity rates than most of the EU-15 countries, but they still lagged far behind and experienced problems particularly in the area of competitiveness. In fact, Slovenia had only 55 percent of the labor productivity of the EU-15 in 2002.^{xli}

The outflow of funds from Western Europe and older member states was predicted in a 1998 report released by the European Commission. This report projected that when enlargement occurred and aid was shifted to the south and east of the new geographic Union that “the whole of Ireland; two regions each in France and the UK; and one region each in Germany, Spain, Italy, Portugal, Belgium and the Netherlands,” would lose economic and structural assistance provided under objective 1. Along with this fear was the fear that the addition of the low-income states of Eastern and Central Europe would lower the GDP of the EU overall. Because EU average GDP

^{xxxix} “European Commission Guide to the Cohesion Fund 2000-2006.”

^{xl} “The Cohesion Fund at a Glance.”

^{xli} Peter Holmes et al. “Can EU Policy Intervention Help Productivity Catch-Up?” *Closing the EU east-west productivity gap*. David A. Dyker, ed. Imperial College Press: London, 2006. Pp 153-196.

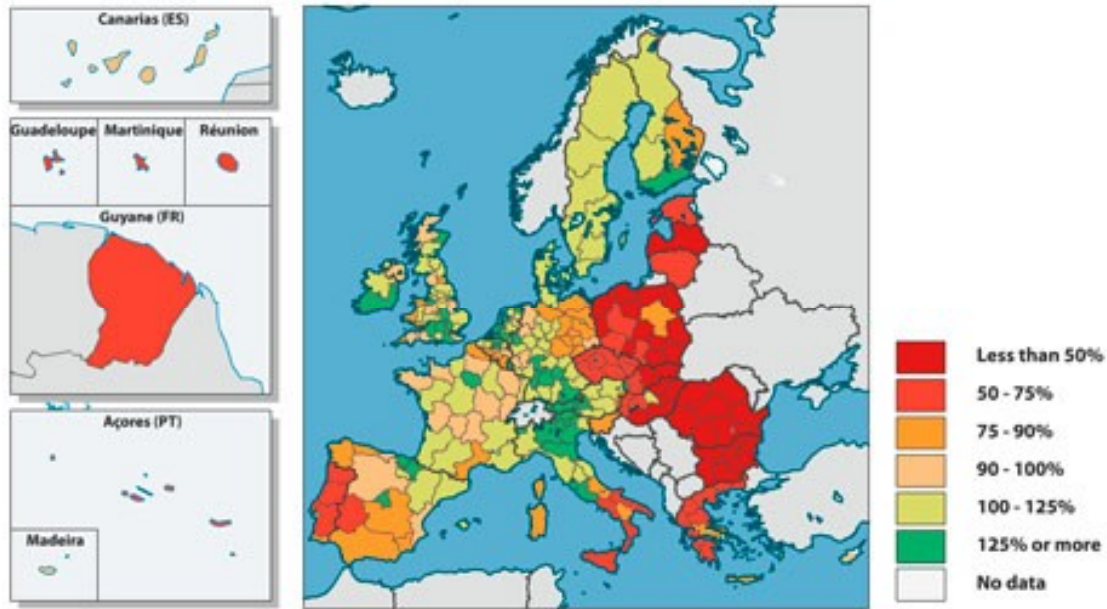
is the measure by which regions are made eligible if the average were lowered economies that were lagging far behind would still be eligible, but economies that were on the precipice and were currently receiving aid, would not.^{xlii} This proved to be a legitimate concern, at least as far as falling per capita GDP is concerned. The EU-15 countries had an average per capita GDP of 24,010 euros, while the ten nations that joined in the 2005 round of enlargement had an average per capita GDP of 11,150 euros (all numbers are in PPS). When this was factored in, EU-25 per capita GDP came only to 21,920 euros, an instantaneous drop of almost 9 percent drop in EU average per capita GDP.^{xliii}

When enlargement actually occurred the list of receptor nations swelled to that of: Spain, Portugal, Greece, Slovakia, Slovenia, Poland, Malta, Cyprus, the Czech Republic, Estonia, Latvia, and Lithuania, and later added Romania and Bulgaria too. Ireland, having become the “Celtic tiger,” a position somewhat analogous to the NIEs (newly industrialized economies) of Asia, was taken off the list after becoming too wealthy. Its GNP as of mid-2003 was 101% that of average of the rest of the community.^{xliv}

^{xlii} Oudenaren, pp 180-181.

^{xliii} Anselm Skuhra, ed. *The Eastern Enlargement of the European Union*. StudienVerlag: Innsbruck, 2005. Annex 2.

^{xliv} “The Cohesion Fund at a Glance.”



~Percentages are per region % of GDP per capita, in PPS, of EU-27 average, as of 2005^{xlv}

Eligibility for Cohesion Funds is, as it was in the past, judged by economic strength relative to the rest of the Union. The per capita GNP of the country has to be equal to less than 90% of the community average, as measured with purchasing power parity,^{xlvi} which is in essence an index of the affordability of living. The above figure illustrates the distribution of GDP per capita in countries that were EU members as of January 2007. As you can see, the great majority of EU member states that joined in or before 1986 have been brought to near economic parity, with the exceptions of Portugal, and some regions of Spain, Greece and Italy, as well as a few outliers in other parts of the continent. However, members that have joined since then are almost all still at or below 75% of average EU-25 GDP, with the vast majority earning less than 50% per year than their more prosperous old EU counterparts. In fact, roughly 17 percent of EU countries have an average annual GDP per capita that is 125 percent above the EU-27 average, while 25 percent earn less than 75 percent. The contrast in wealth can be

^{xlv} “Quality of Life: How Wealthy Are Europeans?”

<http://europa.eu/abc/keyfigures/qualityoflife/wealthy/index_en.htm> accessed 9 November 2007

^{xlvi} “Cohesion Fund at a Glance.”

illustrated as such: In 2005 in Nord-Est Romania the average GDP was 24 percent of the EU-27 average while GDP for those living in inner London was 303 percent the EU-27 average.^{xlvi} Eastern and central European countries cannot receive all of the EU's aid, but they do stand to benefit the most from investment simply because they are the most behind. Additionally, these countries may benefit from the expertise that accompanies EU membership and involvement, as most of them were on the less prosperous side of the Cold War, languishing under dictators and communism while Western Europe became largely successful using a socialist-democratic-capitalist method.

After the next to the last round of enlargement in 2004, the Cohesion Funds had an annual budget of 15.9 billion Euros, and of that, over half was reserved for use by the twelve countries that had just joined. That was equivalent, in 2004 terms to 8.49 billion Euros per year.^{xlvi} Agenda 2000 called for the prevention of the massive shifting of these funds from old receptors to new member states, a phenomenon which old member states had been fearful of during throughout the steps of the enlargement process. These new, low-income countries would be joining the Union, that all cohesion funds should not be immediately shifted to their regions. This is good for regions that previously received funds, as otherwise their needs would likely be undercut by new regions that are further behind in economic development. However members do need to have a plan to avoid serious or excessive governmental deficits, a requirement that also needs to be met before candidates are seriously slated for entrance, which can help prepare nations for receiving funds without wasting them. The Berlin Framework of 1998 was the

^{xlvi} "GDP per inhabitant in 2005 ranged from 24% of the EU27 average in Nord-Est in Romania to 303% in Inner London" **Eurostat**. <http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136162,0_45572073&_dad=portal&_schema=PORTAL> accessed 4 April 2008.

legislation that specifically dealt with setting limits for the shifting of resources, providing for an extremely gradual shift of funds away from the EU-15 and to the newer member nations.^{xlix}

Of current candidate countries, Macedonia's GNP is 28%, Hungary's is 50%, and Turkey's is 32% of the community average GNP.¹ Apart from this, Hungary and Turkey still have significant progress to make in other economic indicators. In 2002 Hungary was one of only two countries with a trade deficit, exporting more to the EU than it imports from it. Also in 2002 (before the last two rounds of enlargement), Turkey had the highest rates of government deficit, with a negative 10 percent balance in GDP and an annual inflation rate of 45 percent, which is twice that of the country with the next highest rate (Romania, which joined the Union in 2007).^{li} Turkey, by far the largest current applicant, has a population of 72.5 million and an area of 775,000 square kilometers.^{lii} If Turkey was to join the Union, both population and physical area would rise by almost a quarter of what they currently are. In addition, even though most current applicants, especially Turkey, have had a long economic association with the EU already, their economies remain very different. 12 percent of the Turkish GDP is earned through agricultural enterprise, and a full 33 percent of the labor force is employed in agriculture.^{liii} Sheer size, along with the fact that Turkey remains far less integrated and developed than most EU countries, would place almost unheard of demands on the Structural Funds and Cohesion Funds of the Union, both of which are disproportionately distributed to new members and low-

^{xlviii} "Cohesion Fund at a Glance."

^{xlix} Oudenaren, pp 181-182.

¹ "The Candidate Countries: How Wealthy Are They?"

<http://europa.eu/abc/keyfigures/index_en.htm> accessed 9 November 2007.

^{li} Anselm Skuhra, Annex 2 (pg 276).

^{lii} "The Candidate Countries: How Big Are They and How Many People Live There?"

<http://europa.eu/abc/keyfigures/index_en.htm> accessed 9 November 2007.

^{liii} Mehmet Ugur. "The Economic Dimension of Turkey's EU Membership." *Turkey and the European Union*. Joseph S. Joseph, ed. Palgrave Macmillan: New York, 2006.

income areas of the Union, although every nation in the Union would undoubtedly still receive some small portion of the funds.

Other Measures

These structural and cohesion funds are not the only ways that the EU has tried to ease the transition to a larger and more encompassing organization. It has also set about restrictions on newly added nations in order to smooth their integration into the Union, not only on the side of the new countries, but also in the minds of the older members. For one, new member states are not automatically included in the monetary union. Romania, for instance, joined the union formally in January of 2007, but will not even be considered possibly eligible to be added to the currency circulation area until 2011. This helps to maintain currency stability in the areas that it is being circulated already. It also means that areas such as Romania, where the annual per capita GNP is only around 35% that of the EU-25 average, inflation is contained, and prices do not rise uncontrollably in a short measure of time by artificially placing the entire country on the Euro system.^{liv}

Regardless of where the impetus for these actions comes from Regional Policy Commissioner Danuta Hübner recently stated that:

Cohesion policy has demonstrated its capacity to adjust to changing circumstances. It has supported much-needed investment in infrastructure, human resources and the modernization and diversification of regional economies... Cohesion policy is all about providing opportunities to each EU citizen wherever they live.^{lv}

This policy aim clearly demonstrates a commitment at the institutional level to maintain cohesion throughout the Union. Although individual member states have the ability to choose

^{liv} “The Euro: Our Currency. Frequently Asked Questions.”

<http://ec.europa.eu/economy_finance/euro/faqs/faqs_19_en.htm> accessed 13 November 2007.

^{lv} “Developing Together in a Changing World.”

<http://ec.europa.eu/news/regions/070530_1_en.htm> accessed 10 November 2007.

the level to which they are involved in the EU and its workings, it is seen as of the utmost importance that EU citizens and member governments alike are happy and secure. And as the EU continues to grow and diversify, it only become more important to open further avenues to promote regional integration and equality in order to maintain the peace within the club. There is a great deal of debate within the scholarly community, as well as in the European community itself, in regards to how far the EU can be expanded without causing cohesiveness issues, as well as if cultural affinity and factors such as religion and geography are the most important ways to judge a country's ability to easily join the EU. The EU itself, through Union spokespersons, has demonstrated that a very important determining factor is actually economic: the prosperity of the Union and its ability to grow cohesiveness through investment in new members. Another quote, directly from the EU:

The money is primarily spent, therefore, on reducing income and social disparities across the EU, promoting the mobility which open internal borders make possible, on freedom, security and justice within the EU's external borders, and on reinforcing the EU's cultural diversity.^{lvi}

This quote suggests that members of the European Union view the creation of relative economic parity as an important force in creating other types of cohesion. There is a clear conception, at least within the institutions of the EU itself, that regional cohesion, the possibility of economic convergence and the extension of the norms and policies of the EU through growth are all important goals of the community. In fact, some scholars, after examining the theoretical foundations of the cohesion policy and the wording of the actual public policies, have concluded that the European Commission has shown itself willing to sacrifice overall economic growth and productivity in exchange for creating a greater level of convergence with their new and possible future members. They have further concluded that Commission members place a high level of

^{lvi} "The Budget of the European Union: How Is Your Money Spent."
<http://europa.eu/abc/budget/index_en.htm> accessed 11 November 2007.

importance on this aid, even while acknowledging that total convergence may be an impossibility.^{lvii}

An Important Caveat

Although economics plays a pivotal role in enlarging the European Union it is really one of three broad conditions that need to be exist before enlargement can occur. The second condition that must be satisfied is that the applicant countries need to have suitable political records in elections, human rights and relations with their neighbors before their membership will be considered. This can be seen in cases such as Serbia and Turkey. Even though political and societal issues are considered extremely important in these cases, the EU has taken visible economic steps in attempts to rectify these situations.

Although Turkey has had a long economic association with the EU and its predecessors it still has not gained acceptance. It remains one of the serious candidates, but very few scholars or observers believe that Turkey is really on the fast track for admission. There are several reasons for this. Turkey does remain a challenge economically, they have modernized, but they still have a large amount of progress to make before they are truly compatible with western European economic ideas. However, there are perhaps larger problems to consider in Turkey's case. Turkey's political situation is a troubled mix of European and Middle Eastern problems. It is nominally a democracy, but the military has ousted any democratically elected religious civilian since the early 1900s. It has political problems with some of its neighbors, not to mention long standing problems with Greece and Cyprus, relating to political control of the island. Both Greece and Cyprus are already EU members.^{lviii} In addition, although Turkey has been recognized as an actual candidate, meaning that the EU has recognized that the Turkish

^{lvii} Holmes et al, pp 157.

^{lviii} Alexander Kazamias. "The Greek Variable in EU-Turkish Relations." *Turkey and the European Union*. Joseph S. Joseph, ed. Palgrave Macmillan: New York, 2006.

government has completed the most basic political reforms requested. But the European Commission also voiced several concerns over the relationship between the state and civil society, including political and human rights concerns.^{lix} The EU has been setting political goals, as well as utilizing economic reforms and assistance as an inducement to reform political institutions, but ultimately until the cycle of political-economic reform has progressed to a more significant degree Turkey will not be admitted. The political and social aspects of this process are equally important as the economic.

Another case where the political has the potential to outweigh the economic is in the case of Serbia. Apart from the expected political and economic development issues Serbia opposes the independence of Kosovo, which is recognized as a state by the EU and is also part of the euro circulation area. The latest European Commission assessment of candidate readiness, which was completed in November of 2007, still saw the process of integration as moving forward. Officials characterized negotiations and reforms necessary to complete a Stabilization and Association Agreement (a pre-pre-accession document) as moving forward, with fair progress toward the development of a market economy and democratic governing strategy. However, they also criticized the sharp and sometimes violent political differences in the democratic system, a lack of judicial reform in relation to the rate of reform in other political processes and the way in which the issue of Kosovo and Kosovar independence has been dealt with. It also criticized relatively weak law enforcement in economic-political areas such as money laundering and financial controls.^{lx} Despite these political and societal concerns, however, the European

^{lix} Wendy Weber. "Relations Between the State and Civil Society in Turkey: Does the EU Make a Difference?" *Turkey and the European Union*. Joseph S. Joseph, ed. Palgrave Macmillan: New York, 2006.

^{lx} "Key findings of the progress reports on Kosovo and the potential candidate countries: Albania, Bosnia and Herzegovina, Montenegro, Serbia"
<[#uage=EN&guiLanguage=en](http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/446&format=HTML&aged=0)> accessed 6 April 2008.

Union is still advancing a significant amount of financial assistance to Serbia on the premises of economic and infrastructure development. In fact, the European Commission and the newly elected Serbian government have recently signed an agreement in which the EU will give Serbia 165 million euros over the period in 2008 for infrastructure improvements such as making power plants more environmentally friendly, monitoring and directing traffic on the Danube River, improving emergency medical services, local and regional administrative reform, support for refugees from the recent civil wars in that area of Europe and funds to improve the capabilities of Serbian government to develop a cogent and coherent nationwide development strategy. These funds are just a small part of the two billion euros in funds and credit that the European Commission has already provided to Serbia, starting in 1991, and the estimated one billion euros that it plans to provide in the period from 2007 to 2011.^{lxi}

Another condition that has to be satisfied before enlargement can occur is that the EU as it stands must be satisfied with the control that it has over its mission of deepening the union. The EU is not a purely economic union anymore. When new nations join the EU they do have the choice of how much or how little of the common policy they would like to adopt, but nonetheless policy must at least be somewhat compatible. EU nations must still coordinate economic policies, but they must also now coordinate financial policies (since the advent of the euro), and are developing common social and foreign policy politics and are undergoing the process of composing and attempting to approve a constitution. Members must decide whether it is more urgent to enlarge the union by adding new states, or grow the union by adding more depth of policy. This is the dialectic between the widening and deepening of the EU, which vie for resources and public support.^{lxii}

^{lxi} “European Commission and Serbia to sign Agreement worth €165 million.”
<<http://www.europa.org.yu/code/navigate.php?Id=451>> accessed 6 April 2008.

^{lxii} Oudenaren, pp 8-15.

Conclusions

Intergovernmentalism and neofunctionalism were two of the original theories developed to describe the formation and evolution of the European Union, but as time passed and membership and depth grew, they became too simplistic to accurately describe and predict how governments and other important actors would respond. Liberal intergovernmentalism and historical institutionalism were developed in response to earlier criticism of existing theories. Each describes a different facet of EU evolution which their respective adherents and proponents deem most influential in European interactions. Although their analysis is more nuanced, each of these theories has its own problems. Importantly, the EU has recently begun to extend into regions of the continent that are less noticeably or traditionally European, so the rules that govern interaction and enlargement are more questionable than they were in the past. In addition to differences in culture and history, the economies and societies of the current candidates and most recent members are relatively less prosperous than those of the old EU members, which necessarily alters the process through which they adhere to the community.

In light of the way that the EU has changed in the past five or ten years, it is important to seek a new way in which to view integration. The EU and its precursors have all been based heavily on economic union. In addition to simply combining disparate economies the institutions and leaders of the EU have shown that it is an important priority to ensure that economic disparities are reduced, believing that this leads to overall more economic, political and cultural welfare and stability. Toward this end, the European Commission has developed commissions and chairpersons, regulations and procedures to ensure that integration is accomplished beginning before a candidate formally joins the union and accelerating afterwards. The economic well-being that these institutions strive for is beneficial for both the nations that

have recently joined the EU and the “old Western European” nations that have traditionally been more stable and prosperous, but which might stagnate without inputs of materials and workers from the east.

Economic potential and potential application of structural and cohesion funds are obviously not the only way to explain European Union growth and continued expansion, but because the EU is fundamentally an economic organization they remain essential to the process of enlargement. Although it has also deepened to include cultural and political dimensions, it still needs to remain economically beneficial in order to remain a viable and attractive alternative.