Thoughts about the first decade of membership

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New accession criteria

The enlargement of the EU in 2004 was different in many ways from the previous ones. Ten countries joined the EU, such a large number of countries never accessed together to the Community before. This accession was all the more extraordinary since the candidate countries wanted it much more than the EU-15 countries. In the case of this enlargement not only the ordinary law harmonization, but the Copenhagen criteria were to be implemented by the candidates, so the EU set further conditions for the countries wishing to enter.

The EU10 countries are characterized by their common history in geopolitical sense. They were members of the Council for Mutual Economic Assistance, the Warsaw Pact, they had strong relations with the Soviet Union, and with the Soviet political and economic system for a long time. The three Baltic States were even members of the Soviet Union, their autonomy came into existence after the fall of the Soviet system. After the political changes it was a natural need for these countries to join the European Union. However, the EU-15 states felt certain distrust for the candidates, that was the reason for settling the Copenhagen criteria. The European Council has decided about the five accession criteria in 1993 at the Copenhagen Summit. The European Commission had to take into consideration these points by the time of publishing the provisional opinion about the candidate countries. Four from these criteria is prescribed for the candidates and one for the EU.[1] These criteria express a wish that the new countries will be able to function according to the rule of law and market economy. From today's perspective, it is understandable that the integration maturity of the candidates was tested in this way. At the same time we must emphasize that neither in 1993 nor later has there been any measure taken to clarify the criteria of "rule of law and market economy". At the time of the Barcelona Summit the criteria had been completed with a sixth one, resulting from the fear and suspicion of the "mega enlargement" process. The new rule obliged candidate countries to strengthen their administrative capacity. In June 2000 – as an attempt for homogenization - the Feira Summit of the European Council emphasized that the speed of negotiation processes depends on the effective national adoption and implementation of the legal achievements of the EU, the "acquis communautaire". During the accession negotiations, the candidates were examined by the European Commission regarding the adoption of the rules of the internal market. If the countries have active market economy, than the accession to the common market would have to function properly. After joining the EU, the Chambers of Commerce and Industry of all the new member states were asked to indicate to the Commission if any discrimination happens against a company on the internal market.

During the accession process certain issues came into force that stemmed from the actual situation of the European Union. One of these issues was the free movement of workers, which is a fundamental one of the "four

[1] Copenhagen criteria: 1/ political: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; 2/ economic: existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union. 3/ acceptance of the Community *acquis*: ability to take on the obligations of membership, 4/ ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union 5/ the Union's capacity to absorb new members.

freedoms": here a temporary derogation came into force. The EU-15 countries could decide in a time framework of seven years whether open their employee market or not. A transitive regulation was also that the derogation in agricultural finances, the entitlement for direct payments had been extended during 10 years gradually.

Before the accession, partners signed association agreements resulting in customs unions between the signatories. During the two period of customs reduction, the EU decreased customs earlier than the candidates. In this respect the market accession took place gradually.

Except for the monetary policy, all the other common policies were adopted. The accession to the Economic and Monetary Union is also part of the accession protocol, without precise accession date. The new member states had to respect the convergence criteria of Maastricht Treaty regarding their fiscal policy. Since the 2004 accession, only three countries joined the EU: in 2007 Bulgaria and Romania, that are not part of the Schengen Agreement yet and in 2013 Croatia. There is a widespread debate whether the Community suffers from "enlargement fatigue" after the mega enlargement of 2004. Ten years of membership gives the opportunity to analyze and judge this period from EU-15 and also from EU-10 point of view at the same time.

International economic environment during the first ten years

The new member countries suffered the effects of the world economic crisis since 2008. This has been a sovereign debt crises, it differs from the other crises after World War II in its character and content. Keeping the eurozone together has become a problem, many new rules have come into force. Crisis management is a challenge to the Community, member countries have not managed to reach consensus on how to solve the problems.

Already seven new member states have joined the euro area, the Czech Republic, Poland and Hungary, Romania and Bulgaria are still outside. The crisis of the eurozone did not originate from the new EU10 countries, the real problems that required new forms of finance came from Greece, Ireland, Portugal and Spain. (In 2013, Cyprus had sovereign debt crisis as well, and received support from the EU). Thus, the economic situation in the eurozone's Southern member states gave more reason to worry, than the ones that joined in 2004 and were relatively poor compared to the EU average.

Due to the debt crisis, new regulations were applied, that forced EU member states to carry out a stricter fiscal policy than before. At the same time, the EU had to face serious employment and growth problems and country specific problems emerged. The crisis has increased differences between member state performances.

If we judge the period of the EU10 countries after enlargement, we cannot disregard the fact, that after the first three years, the agenda of the following seven years was determined by the fight against crisis and against problems generated by the crisis. Therefore, the difficult situation of the EU countries was caused by the illiquid international capital market and not by the internal relations of the EU.

The lobby power of the European Union at international level at crisis times depends on how can the EU enforce its supranational rules on the member states. As for this crisis began as a worldwide subprime crisis, the world should have changed the rules of the international capital markets in order to avoid similar crises in the future. But this did not really take place. The new member states had to accommodate in such an EU that was not able to orientate itself properly. This caused further problems, and opened new lobby channels at national levels.

After the crisis, in the core EU15 the unemployment rate jumped high, the growth was low, and this period is characterized by frequent elections and personal changes in financial minister positions. It is evident that the new European institutions managing the EU from 2014 on have to find a way out from this situation.

The EU10: similar initial conditions, diverging performances

The lack of market economy and rule of law, and their creation sustainability resulted in different development paths. The EU10 do not form a homogeneous group. (Of course this homogeneity did not exist before joining the EU either.) The differences of starting conditions reflected the extent of dictatorship in the given country before the collapse of the political system. There were notable differences for example in the degree of private ownership. After the changes, a significant private ownership developed in these countries.

Evaluation of the post accession years is difficult, because the crisis breaks the period from 2008. All similarities and differences have a role in the success of a country that is defined by the degree of economic recovery and convergence.

Table 1: Variation of GDP per capita,
EU10, percent

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014	2015
European Union	-	1.9	0.5	1.7	1.5	-0.7	-0.1	1.3	1.7
Euro area	2.2	1.4	0.2	1.7	1.3	-0.9	-0.6	1.0	1.5
Estonia	7.1	7.8	1.3	2.6	9.5	4.0	0.8	2.3	3.4
Latvia	5.3	8.4	2.6	0.8	7.3	6.5	5.1	4.6	4.9
Lithuania	5.4	7.9	3.6	3.7	8.5	5.1	4.3	4.1	3.9
Slovenia	4.4	3.5	1.9	0.9	0.5	-2.7	-1.2	0.6	1.2
Slovakia	4.1	3.9	5.0	4.2	3.6	1.6	0.8	1.9	2.7
Czech Republic	2.3	3.7	3.0	2.2	2.0	-1.1	-1.0	2.0	2.3
Hungary	2.6	4.5	0.5	1.3	1.9	-1.2	1.4	2.4	2.3
Poland	5.9	3.3	4.7	2.9	4.5	2.0	1.6	3.3	3.5
Bulgaria	0.2	6.5	4.4	1.1	4.4	1.2	1.4	5.4	5.7
Romania	0.7	6.3	4.8	-0.6	2.8	0.8	3.8	2.7	2.9

Source: European Economic Forecast, 2014/3.

If we compare the EU10 on the basis of a five years average, we discover that only the three Baltic countries and Poland reached data above 5% between 1995 and 1999 (Table 1). If we analyze the next five years, only Baltic countries, and the two newcomer countries from 2007 reached that level. If we consider the 2005-2009 period, Slovakia was the only country reaching 5%. However, some countries realized unbroken economic development. Between 2011 and 2013 the GDP in the EU and in the euro area was shrinking. On the other hand, among the EU10 there were also countries having slowing growth. In Slovenia and the Czech Republic, GDP shrank in the last two years of the period. Compared to the EU or to the eurozone average, EU10 had better performance. It is noteworthy that GDP has not decreased in the Baltic States, Poland and Bulgaria.

The first ten years and the catch-up

The development of the European integration so far did not create such a long-term successful catch-up model, upon which the EU10 countries can build. The results of the crisis can still be seen in 2014: in the Southern member states that joined in the 1980s, there had been no sustainable growth model, which could have provided stabile catching up process. Probably the crisis effects will influence the regional division of labour model, which was the result of globalization. In 2014, the EU has to face several types of growth challenges, without universally accepted solutions.

During the European Parliament's hearing, Bienkowska, the new Polish Commissioner in charge of the internal market pointed out that there will not be growth without stabile industrial basis. She named one of her priorities to improve the industrial competitiveness of the EU. If Europe wants to be a prosperous, competitive and environmentally sustainable, the share of industry has to increase to 20% in the EU's GDP until 2020. She also stated that internationally the energy prices are the highest in the EU. Regarding industrial production, she declared that the biggest problem is the dramatic fall of investments. She would like to take special care of leading European industries like the car industry, chemical industry and also defense industry.[2] The Commission creates an EUR 300 billion growth package to boost growth, investment and employment.[3] If growth and employment problems are not treated, that could cause even a new recession period from 2015.

The IMF is also concerned about sustainable growth. However, their proposed solutions to these problems are totally different from those of the Commission. Christine Lagarde, the chief executive of IMF highlighted three main areas, where IMF has to react. The first is growth and employment: for example the properly prepared and implemented infrastructural investments could help. The second is the analysis of financial stability and risk – the task of the organization is to draw attention to the global dangers. The third is the area of labor market and social security reforms. Capital should be reallocated for infrastructure and employment creation investment to launch economic growth. This could negatively effect on the financial balances of the countries, however, in short-term, the creation of demand is so important, that the IMF itself considers the balance of national public finances secondary in the short run.[4]

Catching up is a long-term task. In the short run, countries must always face current challenges. It cannot be judged whether the short-term solutions could lead to stable convergence in the long run. Still, the EU10 countries do not seem to have a strategy for a middle class-based market economy that is stable and competitive. It might be that such strategy cannot even be created. In any case, the European Union should recognize that the cohesion policy solutions established so far might not decrease economic heterogeneity. A good example for that is the crisis in the Southern EU member states, its adequate and deep analysis could contribute to recognize similar problems EU10 countries might face decades later.

[2] http://ec.europa.eu/about/juncker-commission/docs/2014-ep-hearings-reply-bienkowska_en.pdf
[3] http://ec.europa.eu/about/juncker-commission/priorities/01/index_en.htm
[4] http://www.imf.org/external/np/speeches/2014/101014.htm