

Work in Progress

Development by Stealth

The governance of economic integration in European Union's Eastern peripheries

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I. Introduction

Economic integration, the removal of tariff and non-tariff restrictions and the unification of economic regulations and policies between different economies is one of the most contested issues among economists, political economists and students of economic development. It is claimed to produce public goods by some (Baldwin, 2004; Balassa, 1965), increase patterns of economic and social exclusion by others (Bieler 2002, 2006; Bohle 2006, 2009). In these debates a special role is played by students of the *governance* of economic integration who claim that the level of progress in, and the developmental outcomes of market integration are largely shaped by the way integration is governed (Drezner, 2007; Mattli and Woods, 2014; Offe, 2014; Bruszt and McDermott, 2014)

The importance of issues linked to governance is underlined by the fact that differences in regulatory norms are increasingly seen as the key barriers to the growth of regional and global markets, and regulatory disputes make up some of the most contentious issues in world politics (Drezner, 2007). Negotiations among the most developed economies of the world about regulatory synchronization have made little progress in the last decade and nearly all harmonization attempts failed when they have involved economies at lower levels of development (Bruszt and McDermott, 2014)

In a world in which almost all the multilateral efforts at creating common market rules fail, and a regional agreement on common rules in a single policy area is described as a major breakthrough, the experience of the rapid removal of almost all tariffs and the smooth transfer of nearly 80 thousand pages of regulations to the Central and Eastern European countries (CEEC) in 33 different policy areas might offer some interesting lessons.

Explanations for this exceptional success have relied on arguments linked to the particulars of the governance of integration, more specifically on the skillful use of conditionality linked to EU membership (Schimmelfennig and Sedelmeier 2005, Vachudova 2005; Sedelmeier 2011). Citizens in the Eastern peripheries of Europe, the argument runs, were ready to make considerable sacrifices for the promise of membership in the richest club of the globe. Brussels indeed had exceptional leverage, when it has negotiated with countries waiting outside the gates of the EU and it has used this leverage well.

Ten years after the CEEC were invited to join the EU the power of such explanations necessarily declines. If it is about honoring EU regulations, then by now not so new

EU members from Central and Eastern Europe (CEE) perform at least as well as the most developed core economies in Europe, in the absence of even the memories of conditionality (Sedelmeier and Epstein 2008; Sedelmeier 2012). The high sustainability of the common market rules in these countries represents a challenge to explanations relying solely on conditionality and it calls attention to the need to revisit issues linked to the definition of the governance problems that had to be addressed and the mechanisms of governance that were developed to answer those problems.

In this paper we offer a new perspective on the governance problems of economic integration and on the mode of the governance of integration. We draw on the enlargement studies by our focus on the governance of rule transfer and also by taking seriously issues linked to the incentives and capacities of the **rule takers**. We depart from the enlargement studies by calling attention to the governance problems linked the capacities of the **rule makers** (the integrators) to define and advance their interests. We rely on political economy approaches to enlargement that focused on the asymmetrical power relations when discussing the interests and strategies of the rule makers (Bieler 2002, 2006; Bohle 2006, Jacoby 2010). We depart from them by stressing the high level of uncertainty surrounding the issue of what actually was in the interest of the rule takers, how they could define and advance these interests. More specifically, we stress the uncertainty about the level of interdependence between the interests of the integrators and the integrated. Political economists and the enlargement studies both treated the interests of rule takers as exogenous to the interests of the rule makers, as mere subjects to be managed by the integrator (via incentives or capacity building). Instead we argue that the integrator cannot completely disregard the interests of the integrated. If the integrator wants to maximize his gains and minimize his losses he has to consider the interests of the integrated.

To be sure, we accept the claims of both of the above approaches that integration was primarily about the imposition of the EU market rules on the accession countries. We, however, claim that to achieve this goal the EU had to add the goals of anticipating and alleviating potential large-scale negative developmental externalities of rule transfer. The goal of the EU was to defend the interests of the integrator by simultaneously addressing two fears linked to rule transfer. The first of these fears was linked to the potential failure of complete rule transfer; the second fear was linked to its eventual success. As for the previous, the fear in that case was that the new members will not be capable to *play by the EU market rules* and that partial implementation of the EU rules will undermine the integrity of the EU common market and impose high costs on the EU insiders. The latter fear referred to the possibility that that the new members will not be able or ready to *live by the EU market rules*; they will not be able to withstand competitive pressure and/or the imposition of the EU rules might force on the rule takers economic and/or political costs that they will not be able or ready to take. Either way, the potential costs of the integration increases and the gains decline if the integrator does not consider tentative developmental consequences of imposing EU rules on the integrated.

Considering the developmental interests of the rule takers, we stress, did not mean to create positive developmental programs for the integrated economies. The EU insiders were not willing and the Commission never had the mandate to consider and manage the longer-term developmental consequences of integration in the pre-

accession period. Catch up growth or economic cohesion was left to participation in post-accession Structural Funds and Cohesion Funds programs. The word “development” was absent from the vocabulary of the enlargement administration. The key reference to potential developmental externalities in EU documents is the demand, formulated in a negative way, to keep these economies afloat while integrating them in the EU markets. Still, we argue that the EU, and in particular the European Commission, shaped developmental outcomes in the accession countries in a planned way, more as a by-product of its attempt to ensure *acquis* compliance.

Redefining the goals of integration made the EU to reconsider the mode of the governance of integration. If the integrator could only advance his interests if it considered at least partly the interests of the integrated, the governance of integration could not solely rely on positive or negative sanctions or even on milder forms of nudging. The integrator needed capacities to collect, process, integrate and use information efficiently on the potential developmental externalities of rule transfer, on the factors that might prevent the adaptation and the sustainability of EU rules.

In doing so, the Commission did not merely act as a transmission belt aggregating and implementing the preferences of the strongest players, as assumed by liberal intergovernmentalists. Rather, the Commission promoted the creation of transnational multiplex networks between public and private actors from the EU-15 and the applicant countries to a) assist, monitor and sanction institutional change in the rule taking countries (Andonova 2004; Bruszt and McDermott 2012; Andonova and Tuta, 2014) and b), anticipate and alleviate those potential or actual negative developmental consequences of integration that could endanger the sustainability of rule transfer and consequently endanger the integrity of the European market making process. Instead of merely imposing the rules of the EU market on the evolving market economies of the East, the EU had to create domestic and Europe-wide capacities to plan transnational market integration. Rule transfer was embedded in transnational horizontal networks consisted of diverse private and public actors both from the rule taking and the integrator countries engaged in joint problem solving that focused on identifying sources for protracted compliance and – if needed - develop remedial measures (Bruszt and McDermott 2012). Instead of merely imposing uniform rules with uniform means in a big number of dramatically different local contexts, such joint learning allowed adjustments in integration strategies to diverse conditions of institutional backwardness.

All in all, the EU differed from other regions of the world by its encompassing experimentations with strategies to change local conditions and increase the capacity of domestic actors to implement and to live by the common rules of the EU market. To do so, the EU has created regional capacities to anticipate and alleviate the potential negative developmental consequences of transferring to lesser-developed countries the market rules of the most developed European countries.

To demonstrate our argument, we start with a general discussion of the governance problems faced by both the integrator and the integrated when managing economic integration at different levels of interdependence. The third part of the paper zooms into the case of the EU’s Eastern enlargement. We analyze the goals of integration pursued by the EU and then examine the means the EU used to pursue these goals. In doing so, we show how the EU tried to control the costs of integrating countries at

lower levels of development. We end with some concluding remarks about the lessons that can be learned from the Eastern enlargement for regional integration projects beyond the EU.

II. Integration capacities and the governance problems of economic integration

At the most general level, economic integration refers to "measures designed to abolish discrimination between economic units belonging to different national states " (Balassa 1976). Based on Balassa, in this paper we treat economic integration as a process that can have different stages, each requiring specific capacities from public and private economic actors and each representing different governance challenges. The process of economic integration, at the most elementary level, refers to a **free trade agreement** (FTA), where tariffs are eliminated between member countries. The process can continue with a **customs union** (CU), where, in addition, member states establish a common external tariff; a **common market**, where not only trade restrictions but also restrictions on factor movements are eliminated; an **economic union**, where, in addition to the free circulation of products and factors of production, member states undertake "some degree of harmonization of national economic policies, in order to remove discrimination that was due to disparities in these policies"; and **complete economic integration**, which entails "the unification of monetary, fiscal, social, and countercyclical policies" and "the setting-up of a supra-national authority whose decisions are binding for the member states" (Balassa, 1976).

Enlargement of an integration process refers to including a new member state to an already existing integration regime by transferring its rules to the new member(s) (Schimmelfennig and Sedelmeier 2005). The costs and benefits of integration do not flow automatically from rule transfer, both the rule takers (the integrated) and the rule makers (the integrator) have to have capacities to manage the developmental consequences of enlargement, increase the potential gains and reduce the potential costs of integration.

Public and private actors in the rule taking countries might or might not have the capacity to manage the developmental externalities of integration. Taking over the rules of an already existing integration regime might provide opportunities and might also represent various threats for rule taking countries. The removal of tariffs, the joining of a custom union might give access to domestic producers to larger markets, it might expose domestic markets to bigger competition and increase the welfare of consumers. Exposure to competition to much stronger economies might also marginalize, or completely exclude from the integrated markets domestic producers who might have no capacity to withstand competitive pressure.

The removal of non-tariff barriers, the imposition of common standards and regulations might liberate domestic markets from powerful rent-seeking groups, and it might increase the capacity of domestic economies to lure foreign direct investment. However, in economies that have weak state capacity to implement transnational regulations, manage the developmental externalities of rule taking, and where private

economic actors have weak organization and lack resources, regulatory integration might be the means to exclude domestic actors from the integrated markets and, integration might increase the peripheral status of the integrated economy (Bruszt and McDermott, 2014). All in all, the developmental outcomes of enlargement are strongly linked to the capacities of public and private actors in the rule taking countries.

The integrator, at the most elementary level, has to have the capacity to impose and sanction the implementation of its rules. Mere rule transfer however is in most of the cases not enough to guarantee for the integrator to maximize the gains and minimize the potential costs of integration. The size of the costs and benefits of the integrating countries might depend on the evolution of the capacities of public and private actors in the integrated economies (Bruszt and McDermott, 2014). Economic actors in the integrating countries might lose potential gains and might have to take extra costs if economic actors in the rule taking countries have no capacity to implement the transferred rules in a sustainable way or, if the transferred rules are imposed successfully, but they result in economic and/or political crises in the rule taking countries. The previous problem might endanger the integrity of the common market; the second problem might generate political and economic costs that the integrators might not be able to externalize. The higher is the mismatch between uniform rules and the developmental faculties of actors in the rule taking countries, the bigger could become the pressure on the integrator to develop capacities to manage the developmental externalities of integration.

The pressure exerted by such mismatch can depend both on the amount of rules transferred and on the opportunities of the integrators to externalize the developmental consequences of rule transfer. The bigger is the amount of transferred institutions and the larger the number of organizational fields affected, the higher is the probability of the emergence of complex social, economic and political problems and recurring crises in case of transferring uniform rules to a large number of dramatically diverse local contexts. On the other hand, the deeper are economic ties and the stronger are geopolitical linkages, the harder it will be for the integrator to externalize the developmental costs of integration and prevent the spillover of the negative developmental externalities to the integrating countries. At the extreme, if the integrating countries have no capacity to manage the developmental externalities of integration, and they cannot externalize their developmental costs, the enlargement might become a factor pushing the common market created by the rule making countries towards disintegration.

All in all, the mode of governing integration largely shapes distributive outcomes also for the integrator. The key governance challenge of this mode of governing economic integration consequently is not how to perfect hierarchy that could impose the rules of the regional market. At least as important are the challenges of creating integration capacities for the rule makers to anticipate and manage the potential negative externalities of rule transfer: to collect, process, aggregate and use information in a host of diverse contexts, and, simultaneously create and develop the capacities of rule takers to plan and implement policies to alleviate the identified problems.

The key governance challenges of rule transfer under conditions of “asymmetric interdependence” (Keohane and Victor, 2011) are linked to problems of gathering

information that could help to define and specify what range of the interests of the integrated have to be taken into account and in what ways, in order to more efficiently advance the interests of the rule makers. Hierarchical governance of rule transfer, on its own, would not be able to cope with such challenges as the two most elementary conditions for using hierarchy are absent: the presence of clearly defined goals and the knowledge of the way to reach them.

Defining general developmental goals, like ‘functioning market economy’ or ‘capacity to withstand competitive pressure’, as it has been done by the EU in preparation of the fifth enlargement, is one thing. Operationalizing and applying them in manifold diverse local contexts while defending the integrity of the EU market and advancing the interests of the EU member state is another.

As for the transfer of EU market rules, the integrator could not possess clear and universally applicable guidelines about the right way to implement in a sustainable way the uniform EU rules in a big variety of dramatically diverse local institutional conditions (Héritier et al. 2001, Featherstone and Radaelli, 2003, Bulmer and Lequesne, 2012).

In the case of the economic goals of integration, the EU either had to take as granted that these are policy areas in which the benchmarks of success are contested (e.g. “functioning market economy”), or it had to act on the assumption that there are no universally applicable methods to reach these goals. The information on what method works and what are the problems of implementation is dispersed, and, collecting and processing them required the mobilization of the intelligence of a big variety of private and public actors from the member states. In the rule taking countries, on the other hand, it required investing in the capacities of domestic actors who might have had stakes in gathering and using this information but who did not have the capacity to do so (Bruszt and McDermott, 2012).

III. The governance of economic integration during the Eastern enlargement - Building integration capacity of the integrator

Defining the goals of integration: Minimizing negative externalities of enlargement

While compliance with the *acquis* has always been an accession criterion in previous enlargements, the definition of the political and particularly the two added economic Copenhagen criteria in 1993 signaled the EU’s new awareness for the potential developmental consequences of enlargement. As interviews with EU officials revealed, key EU-15 member states and the Commission learned from the collapse of the East German economy caused by the unexpected consequences of the fast liberalization, the badly designed currency unification and the unplanned market integration after the German reunification.¹ The unfolding economic and political turmoil, and the need for massive fiscal transfers between the two parts of Germany played a major role in convincing key players within the EU that future member states

¹ Authors’ interviews with Commission officials participating in the operationalization and early phase implementation of the economic aspects of the Copenhagen criteria made in DG ECFIN and DG ELARGE, Brussels, October 2012 and April 2013.

must not only be democracies (political criteria) but also functioning market economies that are capable of withstanding competitive pressures within the integrated EU market (economic criteria).

The added accession criteria were meant primarily to control the costs of enlargement. The core EU15 countries were not ready to increase considerably their contributions to social and economic cohesion within the enlarged union. They were not willing to do the same for the CEE economies what West Germany had done for East Germany in terms of transfer payments. The Southern members of the EU, the major recipients of the cohesion funds within the EU had made it clear that they want to keep their shares.

The other fear of the EU core countries was that problems with the functioning of market economies and low capacity to withstand competitive pressures might not only present pressure for fiscal transfers but problems with the capacity in the accession countries to implement the *acquis* might also endanger the integrity of the internal market and distort competition. As one EU official recalls the discussion at that time:

“Before we started accession negotiations with the EU-10 and even still during the negotiations many within the Commission feared that enlargement would risk deepening. Jacques Delors believed that deepening and widening of the EU don’t go together. There was a strong fear that enlargement would destabilize the EU including the functioning of the EU Internal Market. In fact, Agenda 2000 was written in that spirit and puts a lot of emphasis on this fear.”

Indeed, throughout the 1990s, the officers of the Commission had to face the problem of Potemkin harmonization (Jacoby, 1999) in the accession countries, meaning simply that the transposed EU regulations were not implemented on the ground. Between 1993 and 1997 the EU had signed Europe Agreements with ten Central and East European Countries (CEEC) which did not only regulate the reduction of tariff barriers in order to facilitate free trade but also foresaw gradual regulatory integration. In some cases EU rules remained solely on the books because public and/or private actors did not have the skills and resources to implement them. More often than not, however, these laws were left on the books also because the imposed institutional changes would have harmed incumbents and/or relevant constituencies. In view of these problems the EU-15 decided to add an accession criterion at the European Council in Madrid in 1995, namely that EU candidate countries must have the “administrative and institutional capacity to effectively implement the *acquis*” to become an EU member. Moreover, the EU-15 governments at the Madrid Council mandated the European Commission with the preparation of Agenda 2000. In this document, which got published in 1997, the Commission undertook an assessment of the challenges of enlargement and developed a strategy on how to integrate the then ten candidate countries into the Union. Interestingly, the document talks several times about the necessity to avoid partial *acquis* implementation being portrayed as a major threat to integration:

“Market distortion and prejudice to EU consumers could result from possible inadequate implementation of the internal market *acquis*. Sensitive areas in this respect include implementation of the *acquis* regulating free movement of goods, the protection of health, environment and consumers, indirect taxation, adequate management of the external borders, implementation of safety requirements and state aids. The capacity of acceding countries’

administrations to manage the Community acquis will be a key element. The more this capacity is achieved before accession, the fewer problems will arise after it. If important problems were to remain after accession, protectionist political pressure could develop in both present and acceding Member States and could endanger the functioning of the internal market as a whole.” (European Commission 1997, p. 99)

The introduction of the economic Copenhagen criteria did hence not imply that the EU formulated concrete developmental goals in a positive way or began to develop social or industrial policies that the accession countries have to reach in order to “withstand competitive pressures on the Internal Market”. The Commission did not have plans on such issues as how to position the economies of the CEE countries in the European value chains and has never set benchmarks for controlling social or economic exclusion. Instead, the introduction of the two economic Copenhagen criteria and the third criterion on administrative capacities aimed at ensuring that the new entrants would not threaten the integrity of the Internal Market and enlargement would not generate negative developmental consequences that could spill over to the EU15 and generate need for increased fiscal transfers.

Having said that, Commission officials, who were involved in the pre-accession negotiations during the fifth enlargement, stressed during interviews that *acquis* implementation and related institution building in the CEEC was also considered as a tool to improve the countries’ business climate and investment conditions.

Apart from the East German lesson, which sharpened the understanding for potential negative externalities of fast and uncontrolled economic integration, the Commission also learned a Russian lesson in the early 1990s: The ignorance of Western advisors towards institution building had fuelled the emergence of predatory capitalism in Russia.²

All in all, the dominant fears of the EU member states and of the European Commission were twofold: that enlargement will increase the pressure for fiscal transfers within the union, and that the eventual partial implementation of the *acquis* by the incoming members would destabilize the Internal Market and distort competition. The EU could not focus solely on compliance with existing EU regulations as such but had to detect the sources for non-compliance and help the introduction of remedial measures to mitigate social costs. The next section will discuss how the need to deal with potential negative externalities of enlargement has forced the EU, and the Commission in particular, to build its own capacity to manage interdependency.

Governance problems of economic integration from the integrator’s perspective

a) The limited size of the hierarchy

Part of the governance problems was linked to the human resource needs of the integration in pure quantitative terms. The EU, and in particular the European Commission as the main executor of the EU’s enlargement policy, simply lacked the

² Authors’ interviews with officials who were working at DG ELARGE and were involved in planning the fifth enlargement, Brussels, February 2015.

operational capacity to manage the political and economic transformation of the post-communist or post-War candidate countries on its own. Imagine, for example, the number of EU officials one can realistically expect to be needed for dealing effectively with the economic transformation in the candidate countries (i.e. ensuring that first ten and then another nine candidate countries fulfill the two economic criteria and comply with more than thirty various policy areas detailed in the related *acquis* chapters while also helping these economies to learn to swim in the volatile waters of the EU common market). Controlling the regulation and development of a liberal market economy of a comparable size, the US Federal bureaucracy is monstrous in comparison to the European one. Whereas, for example solely the US Department of Agriculture employs 105 thousand full time employees, or the US Department of Trade works with 44 thousands full time employees, the whole Commission has less than 24 thousand employees on its payroll. The EU bureaucracy can only be compared in its size to the antebellum US Federal state. The size of the EU bureaucracy dealing with the management of all the above-described integration goals in one candidate country hardly reaches the size of a football team, professional, administrative and infrastructural helpers included. Around 11 full-time officials and at best 31 part-time officials on EU payrolls work on monitoring and furthering the building up of a functioning market economy in an accession country, the implementation on the ground of the tens of thousands of pages EU market regulations, taking also care of governing the build up of the capacity of that national economy to withstand competitive pressure.³

b) Operationalizing uncertain goals of integration

The governance problems are, however much deeper than the extremely limited size of the hierarchy. A more challenging governance dilemma comes from the fact that in the case of two of the economic criteria of membership, there are no clear and unambiguous guidelines on what actually the rule makers should impose on the rule takers. In the case of the third economic Copenhagen criteria, the implementation of the *acquis*, there are no universally applicable means to implement the benchmarks that otherwise could be defined clearly and unambiguously. These governance dilemmas have in common that the way the EU dealt with them could have had direct effects both on the amount of the costs and gains of integration and also their distribution between the two parts of Europe. Hence, the EU faced the challenge to identify the right way to manage interdependence rather than finding the right way to impose EU rules unilaterally reflecting the preferences of the EU15 insiders. Mismanagement in defining the goals for the accession countries could also have imposed costs on the EU member states and failure in finding the right way to enforce the EU rules in the accession countries could also have diminished the gains of the EU15 countries from the Eastern enlargement.

³ Authors' interview with an official at DG ELARGE, March 2014: The 11 full time officials working on the economic transformation of one country are composed of 1 person on the economic accession criteria, 2-3 persons on economic part of the EU *acquis*, 1 person in the horizontal unit (all DG ELARGE), 1 person in DG ECFIN, 5 persons in EU Delegation. The 31 part-time officials working on the economic transformation of one country are composed of 3 members in the enlargement cabinet, 2 members in ECFIN cabinet. Other Cabinets work on these issues only once to twice per year and are negligible. In addition, on average 26 persons work on these issues at other DGs relevant to economic transformation (ENTR, COMP, EMPL, AGRI, ENER, ENV, CLIMA, RTD, CNECT, MARKT, REGIO, TAXUD, EAC, SANCO, JUST, TRADE, EUROSTAT).

To start with the governance dilemma related to defining and the operationalizing a ‘functioning market economy’: This was anything but a non-trivial task for the Commission in a regional integration regime in which at least three competing varieties of capitalism co-exist (Hall and Soskice, 2001; Hancké, Rhodes and Thatcher 2007). The concept of the functioning market economy used by International Finance Institutions (IFIs) changed at least four times during the 1990s (Bruszt, 2012) and there were no two IFIs during that decade that could agree about a shared definition. Except for some very general principles, the Commission has never published clear and unambiguous benchmarks that could guide progress in this area. The same was true for the second economic criteria, the existence of the capacity to “withstand competitive pressure within the enlarged EU”. Interviews with Commission officials, who dealt with the fifth enlargement, show that DG ECFIN does not base its assessment on specific thresholds that could signal a country’s capacity to withstand competitive pressures in the internal market.⁴ Thresholds to determine the ideal structure of the economy, the share of SMEs, the concentration of market power or the diversification of export commodities do simply not exist. In contrast to the fulfillment of the third Copenhagen criteria, *acquis* compliance, the Commission, and DG ECFIN in particular, had to interpret the meaning of competitiveness both in the assessments of the Pre-Accession Economic Programmes (PEPs) as well as in the regular progress reports that evaluate a candidate country’s progress as regards the fulfillment of all three Copenhagen criteria. To give an example: Obviously, a country that has successfully managed to diversify its export structure (e.g. by increasing the share of high-value added commodities) or has invested in human resources (e.g. by improving the education of skilled workers) received a positive assessment by DC ECFIN, while a country that was still stuck with 25% of unemployment or is mainly exporting low-value added goods with the consequence of having a trade deficit has certainly not.⁵ According to one Commission official working for DG ECFIN during the fifth enlargement there were lots of discussions going on whether DG officials should promote a particular economic model in the various countries or whether this is the responsibility of the market:

“We were not really sure. We could not come up with five-year plans on how to restructure certain economies, of course we had an idea about whether it would be wise to shift the focus from heavy manufacturing to textile industry. But what we did was to come up with analyses to study factor endowments of countries, e.g. when we prepared the Commission’s Opinions on these countries before the opening of accession negotiations. This helped us to actually assess whether a certain proposal by an accession country, e.g. to introduce safeguard clauses for the shipbuilding industry, whether this would be really the right way to go about it or whether this is not really helpful. Further, we had lots of consultations with experts in the World Bank and the IMF, both headquarters and local offices in the various countries, on these issues. I spoke to my colleagues at the IFIs almost every day. Moreover, our EC delegations gained a lot of expertise over time through project experience. They knew which administrations to trust and whom not, where economic deficits are. We also talked to the private sector, to chambers of commerce. In the mid-1990s, DG ECFIN was the only DG with economic expertise about these countries but then gradually other line DGs also developed quite some expertise, like DG Enterprise, DG Agriculture and so on. These DGs had experts on specific countries or horizontal issues, like staid aid and they also provided very useful

⁴ Interviews with officials working at DG ECFIN, Brussels, March 2014.

⁵ Interviews with officials working at DG ECFIN, Brussels, March 2014.

input for the PEPs, the progress reports, for our assessments of how these economies should develop.”

The previous account suggests that DG ECFIN, which was in charge of managing the meeting of these two economic criteria, did not pretend to know what was the ultimate definition of a functioning market economy and it never even tried to use conditionality for the imposition of a single model on the accession countries. It did not define *ex ante* precise benchmarks for a functioning market economy or competitive capacities. Instead, it enrolled a set of global and regional International Organizations (IOs) and think tanks with partly conflicting definitions for the above goals to come up with alternative opinions how accession countries could converge to these goals⁶. These organizations provided the Commission with their sometimes conflicting assessments of what should be the necessary steps for the particular country under scrutiny in order to receive the status of a functioning market economy or to improve its competitiveness. State bureaucrats from the candidate countries or business representatives could reply to these models and economic ministries from the member states could also contest both these models and the reply of candidate countries to the suggestions derived from these models. The DG desk officers were aware of the fallibility of their own models⁷ and they behaved like traders in highly volatile and uncertain financial markets: they deployed models to check their own estimates against those of their rivals (Beunza and Stark, 2010).

Of course, what matters from a governance perspective is not such a conceptual uncertainty. IFIs, like the World Bank or the IMF could impose benchmarks for market reforms even in the middle of the loudest contestation of their meaningfulness. The more serious governance problem for the Commission was that, in the shadow of the ruins of what was before the former GDR economy and the fear to endanger the integrity of the EU internal market by extending the Union to the periphery (in economic terms), the EU had very little room to fail. Knowing that it can not as easily externalize the costs of governance failure as the IFIs could, the Commission had strong incentives to take uncertainty about the goals and benchmarks of progressing towards achieving these goals seriously.

In the case of the two economic accession criteria conditionality served as a mechanism to guarantee cooperation with the Commission in a policy dialogue that involved a big diversity of transnational actors and public bureaucrats from the member states to discuss continuously the goals and means of economic transformation and, to create a credible track record of economic change.⁸

⁶ These included, for example, the IFC, the IMF, the World Bank, the EBRD, the OECD and the KfW (being the only national development bank which serves as an intermediary).

⁷ As one of the interviewed desk officer at DG ECFIN told us, they have informally operationalized their benchmarks prepared strictly for internal use only to monitor progress in these two areas and they were very happy when they saw their models working and yielding the expected economic outcomes. Authors' interview with officials at DG ECFIN, Brussels, May 2013.

⁸ Authors' interviews with officials working at DG ELARGE and DG ECFIN, Brussels, March 2014.

c) Overcoming information asymmetries to detect and alleviate negative externalities of rule transfer

As for the implementation of the rules of the common market, the governance dilemma in this policy area was different than in the above cases. The Commission could prepare more or less clear benchmarks for the administrative and behavioral requirements of rule compliance. On the other hand, the Commission did not possess and never even pretended to have clear and universally applicable guidelines about the right way to reach these goals in a big variety of dramatically diverse institutional conditions in 11 accession countries and more than thirty policy areas.

Hence, the Commission had to develop its own capacity to anticipate and detect the sources for non-compliance, which would in turn produce negative externalities. One strategy was to rely on the Commission's in-house knowledge. The line DGs basically circulated around the negotiating team from DG ELARGE like satellites and when a particular applicant country suggested certain transition periods or derogations or asked for financial assistance to cushion social costs of compliance with a particular Directive, the line DGs were always consulted to make an assessment of whether a derogation or an assistance project was really needed.⁹ In a similar vein, the line DGs were in permanent contact with the negotiation team to help understand why a candidate country would delay the process of implementation. It was the task of all line DGs to understand the weaknesses of candidate countries and why some of them would have difficulties to implement the *acquis*: DG AGRI would, for example, alert the Commission's negotiating team for a particular candidate country of the problems local producers/processors face when asked to implement EU food safety regulations. DG ELARGE would then - in cooperation with the applicant country and DG AGRI - make sure that business operators receive financial support either through EU funds or other sources of investment, including from the IFIs. DG ENTERPRISE or COMP would highlight problems with state aid and - depending on the size of the problem - DG ELARGE in cooperation with DGs ENTERPRISE, COMP and ECFIN would ask countries to write plans on how to restructure the sectors (see the work by Sznajder-Lee 2010; Trappmann 2013 for the EU's effect on restructuring the steel sector in various CEECs) and initiate certain co-financing measures with IFIs.

But how did the Commission officials from the various line DGs gathered the information that would have been necessary to define to understand why attempts to comply with the *acquis* have failed and what to do about it? In the management of such interdependences the field officers of the Commission had to deal with economies at dramatically different levels of development, endowed with very diverse institutional and organizational resources and helped or hindered by states with widely diverging capabilities (Bruszt and Langbein, 2014). The information was not only dispersed among a big variety of private and public actors. The problem in many cases was that the actors that could have collected, processed and used such information did not have the capacity to do so.

Hence, another part of the strategy used by the Commission to cope with these governance problems was to create and nurture decentered intelligence in the

⁹ Authors' interviews with officials who were in charge of pre-accession negotiations during the fifth enlargement, Brussels, February 2015.

accession countries. As previously discussed the Commission asked candidate countries to come up with a big variety of various plans on how, when and with what kinds of resources they want to meet the accession criteria. During the screening process, for example, candidates had to come up with National Programmes for the Adoption of the Acquis (NPAA). In relation to the various pre-assistance programmes during the 2004/07 enlargements, such as SAPARD¹⁰, the candidates were asked to prepare National Agricultural and Rural Development Plans. The development of national economic strategies has been important for candidate countries to receive a positive assessment from the EU Commission as regards access to pre-accession assistance such as IPA.¹¹ Further, DG ECFIN asked candidate countries to prepare the previously mentioned PEPs, i.e. annual economic plans on how to achieve macroeconomic and financial stability and to deal with structural problems in order to meet the economic Copenhagen criteria upon accession. State bureaucrats from the candidate countries working in the various areas were trained to come up with complex plans following the Commission's methodology (Bruszt and McDermott 2012).

The Commission orchestrated this planning exercise by sending thousands of experts, private consultants or bureaucrats from EU member states, to the candidate countries who advised the local state bureaucracies how to write their first plans in the various areas. While in many cases these consultants have produced a cacophony of advices and they could have represented widely diverging models for public policy making, they have helped to convey the key message to public actors in the accession countries: while planning is a key aspect of doing business in the common market, there are no universal models for doing so.¹²

The Commission relied on various formats in order to monitor progress of a (potential) candidate with meeting the accession criteria. This aspect of governance, again, used methods that allowed collecting and contrasting a big variety of dispersed information enlisting the mobilization of resources of diverse private and public actors. Just to give the example of the process of the preparation of a progress report, desk officers in the country units of DG ELARGE and at various DGs approached a big variety of actors to receive much-needed input. They enlisted a variety of private and public intermediaries, such as local business associations, NGOs, the Central Bank or the Chamber of Commerce, that were asked to share their knowledge about the progress achieved in the various areas and key problems as regards the meeting of the political and economic criteria as well as achieving *acquis* compliance. Rather than engaging in pure “checklist monitoring” the Commission asked these intermediaries to suggest solutions to overcome a candidate's problems with meeting the accession criteria. Experts coming either from the member state governments or from the private sector of the member states to work in twinning or other technical

¹⁰ SAPARD: Special Accession Programme for Agriculture and Rural Development. In June 1999, the EU passed Council Regulation (EC) No. 1268/99 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe to prepare the candidate to take on EU *acquis* for agriculture and food safety.

¹¹ The Instrument for Pre-Accession Assistance (IPA) offers assistance to accession countries in the period 2007-2013. IPA funds aim at strengthening institutional capacities, social, economic and rural development and cross-border cooperation (European Council 2006). Interviews with Polish officials who participated in Poland's accession negotiations with the EU, Warsaw, July 2014.

¹² Author's interviews with officials at DG ELARGE and ECFIN, Brussels, March 2012 and March 2014; Interview with former Polish accession negotiators, Warsaw, July 2014.

assistance projects with the candidate countries were also used as sources for the reports. This circumstance hints towards the fact that intermediaries were multifunctional: On the one hand, twinning experts helped building much needed state capacity in the candidates, thus they contribute not only rule enforcement but also to strengthening the capacity of state administration to anticipate positive and negative externalities of enlargement (Bruszt and Langbein 2014). On the other hand twinning experts served as informal monitors for the Commission as they had up-to-date knowledge of the progress achieved in their areas of expertise and/or of the vested interests preventing it.¹³

IV. Tentative conclusions

Our primary goal in this paper was to contribute to the creation of a more solid basis for the assessment of how the EU governed economic integration during the Eastern enlargement. Before judging with what results these strategies helped to manage interdependence between European core and periphery, whether there are any lessons from the Eastern enlargement that could be used in other parts of the world, we have to understand what actually were the goals of the European integration regime and what were the means it used to further them.

Our key argument in this paper was that the EU had to cope with the governance problems of asymmetric interdependence while extending the rules of the regional market to the lesser-developed parts of Europe. The dilemmas it has faced are similar to the dilemmas any other integration regime has to face that involve countries at different levels of development into transnational market making, be it regional, inter-regional or global. From the perspective of the governance of interdependence, the EU had to deal with two types of potential negative developmental externalities:

First, the implementation of EU rules could have imposed prohibitive costs on some categories on economic actors in the rule taking countries and it could have diminished or undermined their competitiveness within the regional markets. Not planning transnational market making and merely leaving developmental outcomes of integration to the market could have marginalized and destabilize weaker economies. While the stronger economies of the regional market retained their control over the rules of the integration, they had stakes in controlling the developmental externalities of integration as not doing so would have diminished the potential gains and increased the potential costs of enlargement. Second, partial or non-implementation of the rules of the regional market could have endangered the functioning of the Internal Market and distort competition: It could have given competitive advantage to economic actors in the accession countries and could have appeared in the old member states in the form of lost workplaces and diminished tax revenues. Hence the Commission, in particular, did not only care about the CEEC's capacity to play by the EU rules. The Commission also had to care about the CEEC's capacity to live by them in order to avoid large scale backsliding with regard to *acquis* compliance in the post-accession period.

¹³ Interview with EU official, DG ELARGE, Brussels, March 2014.

In transferring the EU rules, conditionality definitely played an important role in shaping the speed and the scope of cooperation in the governance of interdependence. Without experimenting with non-hierarchical methods, however, the rule makers would have flown blind: could not have controlled the externalities of rule transfer and could even have undermined the conditions of the success of rule transfer.

The limitations of this mode of governing rule transfer have to do with the selectivity of the management of interdependence. Negative developmental consequences of rule transfer in the rule taking countries mattered to the extent they could endanger the interests of the integrating countries. The highly asymmetrical distribution of decision-making rights during integration did not allow for considering longer-term developmental interests of the rule taking countries. This mode of governing integration might have helped to bring eleven fledgling market economies afloat into the strongest regional market in the globe. However, for the post-accession period the EU does not have either the administrative or the infrastructural powers to further pursue the tasks of managing interdependences among member states at different levels of development. Leaving this task primarily to the regional market might still prove that the EU needs more activist policies both for its Eastern and Southern peripheries. In developing the administrative and infrastructural powers to do so, the EU might rely on the experiences and lessons of the mode of governance invented for the pre-accession integration of the CEE economies. Orchestrated by DG Enlargement, the transnational network of private and public actors displayed functions that a Federal Ministry of Economy would be doing in any ordinary federal state: anticipate and manage developmental problems of interdependent economies at the level of local economies, sectors, territorial units and diverse categories of economic actors. Such a governance mode might increase the capacity of the evolving EU state to see and manage diversity within the regional market and increase the probability of mutually beneficial outcomes while decreasing the probability of the mutually destructive ones.

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