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Accession to the EU: A Continuation of or a Departure from Transition Reforms?

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Abstract

Since the start of the political and economic transition in Central and Eastern Europe, much of the transformation was embedded in the process of leaving the Eastern alliance and joining the Western part of Europe. This co-evolution of transition and approaching the West showed certain patterns which, as the accession process accelerates, seem necessary to renounce. EU accession needs transformations different from the earlier ones in a way that they will be less autonomous, demand active government control and reliance on bureaucracies, will be centered more on Europe, face more resistance by particular Western countries or constituencies, and need cooperation among candidate countries. These new patterns of introducing accession-related reforms may lead to tensions in the candidate countries that block the accession process. In order to ease these tensions, governments, legislative bodies, and the elites in general in the candidate countries must make themselves and the public understand the specific features of the accession process. In certain fields EU institutions can also smooth this development.

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Accession to the EU: A Continuation of or a Departure from Transition Reforms?¹

János Gács

This essay attempts to analyze two recent experiences of Central and Eastern European countries (CEECs)² in transition with regard to their approaching EU membership. The first experience is that since 1989-1991, the start of the political and economic transition in the region, much of the transformation was embedded in the process of leaving the Eastern alliance and joining the Western part of Europe. The CEECs wanted to stop being satellites of the Soviet empire and prisoners of the rigid Council of Mutual Economic Assistance (CMEA), and aimed at building relations with that part of the world they had been separated from for decades. This tendency meant that establishing closer relations with Western European institutions, business, and culture was enhanced by the transition and vice versa.

The other experience is that, as essential EU membership negotiations approach and the adoption of EU norms and requirements becomes pressing, the candidate countries realize that many patterns of introduction of reforms they had followed in the first phase of transition have to be relinquished. This implies, among others, also the way transition and building relations with the West were intertwined in the early 1980s.

The first two parts of the study deal with these conflicting tendencies, while the third part looks for possible ways of reconciliation. Does this conflict cause tensions? Will it lead to a break in the transition process, and how will it affect the preparations for enlargement? How can Eastern European governments, business, and public put up with the conflict, and how can the EU help steering reforms in the CEECs in harmony with preparations for accession? These are the questions I will try to answer at the end of the essay.

¹ The German, edited version of this paper is to be published in the *Außenwirtschaftsjahrbuch* 1998/1999 of the Austrian Federal Ministry for Economic Affairs in February, 1999.

² CEECs here mean all ten Eastern European candidate countries, if not otherwise indicated.

1. Transition and EU Integration - Processes that Strengthen Each Other

1.1. Leave the East - join the West!

Preparation for accession to the EU in the CEECs can be viewed to a large extent as a continuation of the transition process. Transition in the economic sphere has comprised several interrelated processes such as stabilization, liberalization, marketization and restructuring. Each process has been enhanced by the general turn of the transition countries to the West, and the more specific recent process of targeting EU membership. At the outset of transition, *stabilization* was the most pressing task. In most countries it was a country-specific assignment to be carried out by national leadership, but with much assistance from the West, especially from the international financial institutions (IFIs), and most notably the IMF.

The interrelation between Western influence and transition was the most obvious in the case of *liberalization*. Liberalization of economic activities (entry and exit to the markets), and through this enabling competition, was strongly related to liberalization of foreign trade and subsequently of capital flows. Trade and capital liberalizations (combined with the demise of the CMEA and the disintegration of the Soviet Union) brought about spectacular changes. For example, the share of exports to the EU in total exports of the CEECs was between 6% and 52% in 1990 and increased to 39% to 66% in 1996 (the lowest share was achieved by Bulgaria and the highest by Poland in both years)³. The liberalization of cross-border flows of capital (the furthest progressed in Estonia, the Czech Republic, Hungary and Poland) led to large inflows of foreign direct investments (FDI) and portfolio capital from the West, and to an organic integration of business across the borders.

In the process of *marketization* (including privatization) the CEECs have usually adopted explicit patterns devised and practiced in the West, familiar to them from Western Europe.

Restructuring was induced by many factors, among others by the competition of imports coming from the West. The new opportunities opened in Western export markets also played a role, particularly the markets in Western Europe which were close and were opened faster than the rest of the world. As for the fundamental change in the behavior of grass root business one has to emphasize the role of imitation of the forms of management, organization, products and services coming from the West, and again particularly from neighboring countries of the EU.

Some analysts, such as Roland (1997) put the geopolitical factor - closeness to the West - to a prominent place, responsible for many, otherwise not easily explainable, features of transition, such as the lack of major policy reversals in the CEECs despite the backlash by voters in the second free elections, the breakdown of the CMEA, and the rapid expectational changes in enterprise budget constraints that led to a shift in the behavior of managers of state-owned enterprises.

³ See WIIW (1997). Here CEECs are all candidate countries without the Baltic countries; EU means the 15 current members of the EU (including the GDR in 1990).

1.2. Assistance

From the very beginning of the reform process the CEECs received foreign assistance. The most generous and most diversified multilateral assistance came from the EU.⁴ In order to perpetuate this assistance and transform it to a cushion that can be used in a systematic way for their still fragile economies, the logical step for the CEECs is the establishment of EU membership. Similar systematization of assistance was achieved by joining such IFIs as the IMF and the World Bank.

According to the Agenda 2000 (1997) document series of the Commission and the subsequent decisions of the Luxembourg meeting of the European Council, there will be a gradual transformation of the EU assistance programs for the candidate countries. First, from March 1998, the previous forms of assistance were merged to a framework of programs called the Accession Partnership, while from the year 2000 the candidate countries will receive aid for their agriculture and structural adjustment similar to transfers that EU member countries get from the Cohesion Fund.

2. Previous Transition Patterns in Conflict with Accession

2.1. From autonomous reforms to changes and policies geared to accession

Since 1989-1991, the beginning of the political and economic transition, the transition process was basically an autonomous one. The establishment of the institutions of political democracy, the institutions of market economy based on private property, and the bulk of new legislation was made at autonomous national initiatives. This explains why we find in the CEECs such a diversity of institutions in the political establishment, the government or, for instance, in the methods and institutions used in the privatization process. The impact of IFIs and Western advisers can not be denied either: much of the Western influence comprised technical assistance aimed at speeding up the establishment of new institutions and policies. Most of this Western impact, however, was kept, for political reasons, *sub rosa*. After all, the CEECs were in the process of redefining themselves as independent, neutral nation states, with much emphasis on self-determination based on their traditional historical and cultural values.

In the most recent years it has become obvious that most of the future reforms and policies would be geared to EU accession. Consequently, they are externally influenced, and influenced only by one, although complex, institution, the EU. This is especially true for those countries that already established both WTO and OECD membership (i.e. the Czech Republic, Hungary and Poland): after fulfilling the membership criteria in those organizations they can concentrate on their coming membership in the EU (and NATO). An important event for starting to link almost all coming reforms to the EU was the Copenhagen meeting of the European Council in 1993 which classified the criteria of EU membership for the Eastern European applicant countries.

⁴ In fact, the fast changes in Eastern Europe urged the West to show guidance and support. This need for support emphasized the EU's role in the region, and the decisions of the 1989 G7 meeting in Paris "catapulted" the EU into leadership (see De Benedictis and Padoan, 1993).

For CEEC decision-making bodies it is not easy to give up the independence in decision making that was regained after so many decades of subordination. One should admit here, however, that the long-term strategies of these countries have already been dominated by the goal of EU membership and the implied requirements. This is clear when one reads the various middle- and long-term strategies and modernization programs devised in Hungary in 1995-1996, or Slovenia's Strategy for International Relations of 1996 (Strategy of..., 1996).

A similar tension arises also in the context of short-term policies. The still fragile economies of the Eastern European region may experience shocks that the normal, automatic working of these economies can not easily adjust to, or at large costs only; consequently these shocks need urgent policy action. A recent experience of this nature has been the sudden and grave deterioration of the trade balance in most of the CEECs in 1996-1997. Beside other policy actions the countries opted for the introduction of import deposits, import quotas, import surcharges, or decided to change their exchange rate regime. Many of these steps were not coherent with their commitments to the existing association with the EU. Certainly, the policy actions in response to such shocks will be even more limited when the CEECs assume EU membership, let alone membership in the EMU.

The more international organizations the CEECs become members of, the narrower is the array of discretionary policy actions their governments can autonomously and without due consultation with these organizations choose from. After becoming (active) members of the IMF, the World Bank, the WTO (membership of the Baltic countries still pending) and the OECD (the three countries listed above), EU membership confines further the room for action (especially in its post-Maastricht form, complemented by the Schengen agreement). Even if various transfers from the EU will support the member countries in their medium-term adjustments, there is a high chance that these new independent nations will live through the changes as losing their long awaited autonomy.

2.2. Cutback in state bureaucracy versus a growing need for effective, professional administration

State administration in transition countries used to be oversized. Its activity was based on the logic of mandatory planning in a hierarchy of state administration with subordinated state-owned enterprises, rather than on legal rules guiding the behavior of legal entities, whether state or local government owned, non-profit organizations or private business.

Restructuring of state administration in these countries has been a formidable task which went on with delay, hesitation, and in some countries in an improvised way. In many successor countries of the Soviet Union the implosion of the old hierarchy (including the control by the Communist Party) left a regulatory void that contributed greatly to the decline in output and the general feeling of lawlessness. In the smaller CEECs the process was not so dramatic. The reduction of state administration was necessary and it was enhanced by the growth of private business activities that offered attractive opportunities for the more experienced, well informed and well connected state officials and experts. Despite numerous institutional changes in the CEECs, state administration in most of the countries is currently characterized by the survival of remnants of the old structures and overemployment on the one hand, and by a lack of good quality and reasonably

remunerated experts, on the other.⁵ In all the countries civil service is in principle free of political influence. The changes of governments as a consequence of democratic elections, however, led in many countries to the regular replacement of senior or even middle-level civil servants, which made the operation of the administrations uncertain. The Commission Opinion (Agenda 2000, 1997) on the ten applicant countries found that in most of these countries civil servants are badly paid, their salaries and working conditions are well below those in the private sector (in Hungary and the Czech Republic salaries are about one third of the salaries paid for comparable efforts in the private sector) and officials are frequently dependent on secondary incomes.⁶

Preparations for EU accession negotiations, the negotiations themselves, and the management of relations with EU institutions following accession requires substantial addition to and improvement of the administrative capacity of state bureaucracies. This will be a development diametric to the developments that occurred in this field in recent years. Especially immense will be the task for small countries because many of the tasks related to EU accession are not size dependent, i.e. the burden is the same on large and on small countries.⁷

When emphasizing the need of building an efficient and professional administration, one has to recall that the lion's share of the changes in the transition period was related to the dismantling of administrations and regulations. The approximation to the European Union, necessary for membership (expressed in parameters such as the share of exports/imports with the EU, the increase of intra-industry trade, the emergence of cross-border trade flows and joint companies) was made possible basically by revoking zillions of earlier regulations and not by guiding the enterprises by administrations toward approaching a desirable structure of their activities. Most of the developments in the transition period required reduction and even minimization of state intervention.

2.3. Unleashing spontaneous processes versus building active government policies

Here we continue our arguments presented above, but by emphasizing the philosophy of the management of transition rather than the scale and quality of state bureaucracy.

The core of economic transformation has been liberalization: removing the stumbling blocks from the way of private initiatives, free entry and exit to the market, free trade, free flow of labor and capital, free formation of prices, etc. According to János Kornai the systemic changes started so that "as soon as [the new political structures] took over the power, they removed the stumbling blocks from the way of the spontaneous forces of capitalist economy" (Kornai, 1997). No doubt, this included active policies such as putting the protection of private property into the constitution, making privatization a government program, the legalization of distribution of capitalist ideologies, etc., but it was still the

⁵ The new countries are in a special position since they have to build up parts of their administration from scratch.

⁶ Exceptions are Slovakia, Slovenia and certain regions of Poland.

⁷ It is not by chance that Slovenia's official Strategy of International Economic Relations (1996) devotes its full last chapter (entitled Prepared for the European Union) to the improvement of administrative capacities.

creation of the necessary conditions, rather than the implementation of a grand plan. The next steps in the transformation process were not always well planned either: there were many improvised moves responding to emerging needs and pressures.

Contrary to these developments, preparations for EU membership need careful planning and scheduling, coordination, institution building, as well as the adoption of ready-made institutions, norms and rules.

2.4. Orientation toward Europe or toward the world

For numerous economic, social, and political reasons, for the CEECs an integration with the EU is highly preferred to joining (or remaining in) other integrations, let alone creating new ones. Many CEECs realize, however, that Europe does not present the only pattern they should pay attention to: in the past decade Europe has not been the growth pole of the world economy, has not been the source region of major innovations in technology, has not made progress in improving flexibility in its labor market arrangements and social security systems, and - except for some countries - seems to be unable to tackle the unemployment problem.

In their relations to foreign countries many CEECs have, in recent years, made efforts to attract non-European business to their countries. Evidence for this is the prominence of US capital in joint ventures and foreign-owned firms in many CEECs, or the recent increase of Asian interest in some industries, especially car manufacturing in the CEECs. Non-European business interest in the CEECs is, in fact, consistent with future EU membership, and is even encouraged by it (see, for example, Economic Evaluation, 1996). Special bilateral deals between CEECs and non-EU partners, such as specific trade concessions or the instigation of foreign investments by specific benefits are, however, bound to be limited in the future.

While labor market rules and social benefits are not strictly regulated in the EU, there is a tendency toward such regulation, especially if, following the establishment of the EMU, the creation of a political union will gain momentum. Comparative unemployment statistics at the end of 1997 (an average 10.5% unemployment in the EU, versus four CEECs above this level and six below) indicate that the CEECs, which are just recovering from the worst peace-time recession of the century, have no more problems with unemployment than their thriving Western European counterparts. At their income level, however, the CEECs can not afford the generous social security provisions and rigid labor market regulations that the Western European countries apply. In fact, flexibility in various respects has become the major advantage of the CEECs, which they do not want to sacrifice. But after becoming EU members, would they not be blamed for "social dumping" if they stick to their current labor market patterns and do not adjust to what many see by now as outworn regulations followed in Western Europe?

2.5. Reforms, preparations and negotiations: individually or in a country group

In recent years, countries in transition planned and managed their transformation on their own with very little coordination among themselves. No doubt, IFIs often made attempts to deal with them in a group, researchers do this routinely due to the benefit of comparisons, and certain intellectual groups in transition countries frequently call for

regionally coordinated policy actions. The political leaders of these countries, however, keep resisting such calls, and this for various reasons. First, because they got tired of working together in such forced companies as the Warsaw Pact and the CMEA. Second, because these politicians have often been attached to different political lines: for instance, in 1996-1997 the government coalitions in Hungary and Poland were dominated by socialist (or ex-communist) parties, while the Czech government was dominated by right wing civic parties with no intention to collaborate with any kind of ex-communists. And third, because due to historical, ethnic or other reasons, the cooperation of these countries was hindered by prejudices.

The field where most cooperation was achieved was trade, but even the formation of the Central European Free Trade Agreement (CEFTA), the trade association currently grouping seven CEECs, was a bit belated and came under some pressure from the European Union.

Since EU membership negotiations are to be carried out with individual candidate countries, the cooperation among the candidates is not obligatory. The bulk of the earlier negotiations were also arranged bilaterally with the EU, except for the recent so-called Structural Dialogue which, with EU organization, gave an opportunity to senior officials of the applicant countries for multinational consultations.

EU membership negotiations make it more evident than ever before that transition countries, pursuing their common goals, could carry out consultations for their mutual benefit. Exchange of views, coordination of their strategies and tactics before and during negotiations would be advantageous, since in many issues they may have common interests, and their weight is greater if they stand up jointly. This way the use of the tactics of *divide et impera* against the applicants could be prevented.

2.6. Changing Western attitudes: benevolent versus mixed

Since the beginning of the transition the CEECs were welcomed with sympathy and support by Western governments in their efforts to change their old political and economic systems. The support was expressed in many forms and at many levels.

Since EU membership has become a realistic goal for some of the candidate countries this overwhelmingly supportive choir, however, has become spoiled by more and more dissonant sounds. Interest groups, local governments and even national governments express doubts about the advantages of the enlargement of the Union and agitate against a hasty accession. They demand delays in some features of integration, such as the free flow of labor, and request compensation for the losses they will incur as a consequence of Eastern enlargement. More prominent in showing an unfriendly attitude are countries adjacent to the transition economies (especially in view of the alleged threat of labor migration, environmental dumping, and worsening security), and the current beneficiaries of the union's transfers from the structural and cohesion funds.

A striking example is Austria. From the very beginning of the transition process this country understood the political and economic importance of transformations well, and generously supported almost all the countries in the Central European region. Government agencies and the Austrian National Bank provided technical assistance, Vienna hosted many new initiatives and institutions, including the Joint Vienna Institute which provides highly needed training for government officials in the region. The Austrian business

community, due to its traditional historical ties to the countries in the region, boldly started doing business from the first moment when new opportunities emerged, and has become a prominent trade partner, a source of FDI, banking and other financial services in the CEECs. Many studies verified that, as a consequence of this early and ambitious start, Austrian business benefited much from the opening of Eastern Europe.

The overwhelmingly supportive attitude started to change from the end of 1996⁸. Especially the leadership of the regional state of Burgenland has protested regularly against the enlargement as such, or against a too early enlargement, with vague reference to the alleged threats to business and employment in Burgenland. This growing hysteria with respect to the alleged dangers of enlargement started to characterize the positions taken by the Austrian trade unions, employer associations, and occasionally the remarks of senior officials in highest executive positions. And all these came despite the overwhelming evidence (both in the form of statistics and scholarly analysis) that Austria enjoyed great benefits (probably the greatest among the Western countries) from the transformation and opening up of Eastern Europe. (One has to admit: Austria's approach has become considerably more constructive following July 1998, the start of Austria's presidency in the EU.)

One can not deny that incumbents (including countries, regions, industries or employee groups) can lose from enlargement, especially in the short run. The major issues have been discussed in the literature openly and widely (see, for instance, Baldwin, 1994 and von Hagen, 1996), particularly with regard to such topics as the budget burden, the strains on structural funds and the Common Agricultural policy, and the challenges to existing voting rules. What is disturbing is that after the acknowledgment of the problems by EU institutions and the start of an enlargement process that would certainly try to take care of the problems (c.f. the planned cap of 4% of GDP on EU transfers to new members) the member countries have started to work on their own against a centrally coordinated enlargement process.

The CEECs are obviously not completely lost when they face such unfriendly attitudes: there are ways to dispute unfounded claims, they can negotiate at different levels to disperse fears of the East. However, the hostile attitude in some EU countries toward building stronger relations with the East is a completely new phenomenon. Eastern European governments will have more than enough tasks to manage their countries' convergence to the EU, as well as persuade their own public of the benefits of EU membership. Starting a new front against hostile Western European views would put an additional burden on the limited capacities of CEEC administrations.

3. Possibilities for Reconciliation

In the sections above I showed that the changes in the CEECs associated with the accession process are in many ways in conflict with the pattern of the transformations these countries went through in the early 1990s. Accession needs transformations different from the earlier ones in a way that they will be less autonomous, need active government

⁸ The supportive behavior was not unambiguous even before that date, though. Back in 1994 Jim Rollo, a prominent British scholar and civil servant noted that "...Austrian attitudes to CEE imports are not more and perhaps less liberal than the sum of current EU members." (Rollo, 1995).

control and reliance on bureaucracies, they will be centered more on Europe, would face more resistance by particular Western countries or constituencies, and would need cooperation with CEEC partners.

How much of a problem is this change in the pattern of transformation? First, we have to see that, while the transition that started in 1989-1991 is a long and almost perpetual process, it does have distinct phases. In 1997 several scholars have already emphasized that the first phase of transformation, i.e. the period of systemic changes, is over or close to being over (see, for instance, Andreff, 1997 and Kornai, 1997).⁹ There are new issues on the transition agenda, such as the conditions and sources of growth, improvements in technology and catching-up, the reform of the welfare system, and the enlargement of the EU. The management of the next phase of transition does not necessarily have to be similar to that applied in the previous phase.

Unless the countries have to face economic hardships for a protracted period of time, the elites of the CEECs would probably understand and let the public accept that the next reforms are less autonomous and more externally guided than the previous ones. Although this is not easy to understand only a few years after regaining independence and self-determination, these nations will probably learn the lesson that in the modern world, for small nation states, there is only limited room of maneuver: the increasing interdependence and the importance of economies of scale in research and development, distribution, and marketing necessitates focusing on benefits of cooperation and integration, rather than insisting on pursuing specific national strategies.¹⁰ It is also the tasks of the elites in the CEECs to understand and propagate that EU membership does not mean only obedience, but also new opportunities for co-decision in the Union. In addition, many of the future reforms, including strictly EU-related ones, still leave a certain autonomy for the candidate countries: let us hope that their governments will have sufficient imagination, expertise and realism to find the fields where specific policies are possible, and solutions which fit best to the needs of their countries.

It is important that the external guidance to the reforms in the CEECs is split among different international institutions, and is not left solely to the EU. It is a benefit for the three CEECs that have recently become OECD members that the introduction of full convertibility of their currencies (including convertibility on the capital account), and much of the liberalization of their banking regulations were carried out according to OECD requirements, and have not been left to further stages of EU accession. For similar considerations, the other candidates should aim at becoming OECD members as well as WTO members before EU accession negotiations come to a decisive phase.

The transformation of the reform agenda into a planned and scheduled process in the candidate countries is unavoidable, and the strict program of the institutionalized pre-

⁹ This statement is qualitatively different from the claim of Vaclav Klaus, long time prime minister of the Czech Republic and chief manager of the Czech transformation, according to which by 1994-1995 in his country the transition was over and there was no reason why in the future his country should be viewed differently from other market economies of the West. His claim was tentatively rejected by many Czech scholars, and the developments in 1997 in the Czech Republic showed that in this country, in fact, a great part of the reforms had not even been started.

¹⁰ See Luif (1995) for the discussion of a similar learning process in Austria, Finland and Sweden, the three countries that joined the EU most recently.

accession negotiations and evaluations provide a good base for such a process. A special problem in the candidate countries is how to keep EU-related reforms undisturbed by the electoral cycle; this is an issue despite the fact that in most candidate countries all meaningful political parties endorse EU membership. An example characterizing this problem is the following: in 1996-1997, within essentially one year period, Poland had three different persons (with different political lines) replacing each other in the position of the state secretary coordinating EU-related policies, due to consecutive national elections. These changes could have contributed to the disturbance between Brussels and Warsaw in 1998 which led to the loss of a Phare support fund of ECU 34 million.

One of the most difficult tasks of accession will be the establishment of reliable, professional bureaucracies (in the Weberian sense) to perform the tasks associated with negotiations and EU-related administration. Given the immense ignorance concerning EU-related issues in the CEECs, these bureaucracies will also have the task to educate politicians, business, and the population. The success of this enterprise hinges not only on sufficient financing and training (in which EU support will play a role), but also on the ability of the nations to prevent the build-up of administrations that do not meet the professional requirements, and/or misuse their power and are vulnerable to corruption. We can only hope that the Accession Partnership will provide sufficient incentives and checks to use efficiently the support of the EU earmarked for this purpose.

As for avoiding too much orientation toward Europe, the candidate countries have to utilize all the vehicles of pending EU membership to establish close relations to the rest of the world (if this looks beneficial), and also actively press for more openness of the Union to developments outside the EU. If the CEECs value their existing special relations to those countries that are left out of the Union for the time being (for example, Slovakia for the Czech Republic, or neighboring countries with a high population of ethnic Hungarians for Hungary), they have to negotiate about specific concessions from the EU to avoid spoiling those relations with the accession.

While cooperation among candidate countries is not a must, it could be beneficial for them. There is not much hope, however, that such cooperation will emerge, because in recent years the accession process has developed more into a contest than into collaboration among the applicants. Still, recently there have been some modest initiatives into the direction of cooperation, both in official politics and in non-official circles.¹¹

As for controlling the emerging hostile opinions and delaying maneuvers in certain EU countries, different EU institutions would probably have a role: they should distribute the necessary information and provide fora for discussions for those nations or constituencies that feel threatened by the enlargement process.

¹¹ Initiatives for such cooperation were discussed in Budapest by the prime ministers of the Czech Republic, Hungary and Poland in October 1998. As for lower-level, less official cooperation, it is worth mentioning that, with the coordination of the author, since 1996 IIASA has sponsored a seminar series dealing with EU accession, with the aim of enhancing the exchange of views and discussion among scholars and government officials of candidate countries. The seminars were welcomed by many experts and senior government officials responsible for the coordination of accession, both in the candidate countries and in Western Europe (see the Fidrmuc (1997) and the Gács and Wyzan (1998) reports on the first two seminars in the series).

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