

Coming to Terms with a Larger Europe: Options for Economic Integration

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The contradictory logics of pan-Europe

1. Two contending logics have so far dominated the debate on how the countries of central and eastern Europe (CEECs) might become part of a single European economic space. One is a common sense and incremental logic of economic liberalisation; and the other is the logic of conventional enlargement of the European Union (EU). The first incremental logic starts from the simple proposition that the establishment and sustenance of market economies in the CEECs requires their inclusion in a multilateral regime of trade and payments as quickly as possible, and their coverage by the kinds of market regulation mechanisms that have now been established in western Europe through the single European market (SEM). The second logic of EU enlargement requires the incumbent EU members to accept the accession of the CEECs (or some of them) as full family members. It would mean the application of the whole range of EU policies across pan-Europe.

2. Neither logic is straightforward. Incremental liberalisation implies a form of 'shallow' economic integration. It requires a degree of political engagement, sufficient to enable the EU side to go beyond the terms of the current Europe association arrangements. These latter allow graduated market access in manufactures and some services, but exclude agriculture and free movement of capital and of labour; they also leave the EU side able to impose measures of contingent trade protection. A more generous and certain version of shallow liberalisation would require the EU to draw a line between membership and non-membership in terms of market access and regulatory arrangements in different ways from any that it has done in the past with other external partners. The European Economic Area (EEA) model, devised as a link with the countries of the European Free Trade Area (EFTA), is a kind of precedent, but distinctive in that it was devised for advanced industrial countries with highly sophisticated legal and administrative infrastructures. The EEA model would need considerable adaptation to provide the functional equivalent for the CEECs as the successor partnership to Europe association.

3. The full EU membership formula would be a big bang approach. It implies the leap-frogging of intervening arrangements, so as to include the CEECs within the 'deep' integration model developed in western Europe over the past four and a half decades. It would require the EU side to accept within the fold countries with as yet underdeveloped economic, political and legal infrastructures, and countries with still low levels of economic wealth and significant agricultural sectors. Thus the potential costs and burdens for the current EU are considerable.

Moreover the concept of deep integration goes way beyond the management of the economy in including political and security engagements that are far-reaching. For the CEECs the disciplines associated with accepting the *acquis communautaire* are considerable, though the benefit is that the disciplines are mutual (ie existing EU members are also bound) and the institutional framework is certain. In addition the political corollaries are extensive for countries still in the midst of establishing independent democratic polities. One major concern on the EU side is that the steps involved are so large for both sides that they risk prejudicing the survival of the deep integration model itself.

4. For the moment the theory of current discourse is that it is the second logic that will prevail, in that the CEECs have declared it as their objective and the EU side has acknowledged the eventual goal of eastern enlargement. Accession negotiations are scheduled to open with some of the 10 Europe Associates within six months of the completion of the recent Intergovernmental Conference (IGC) in Amsterdam in June 1997. Behind this formal discourse, however, lies a plethora of uncertainties over the timescale of enlargement, over which of the CEECs might in practice join, over the terms on which accession might actually be agreed (the Spanish and Portuguese were forced to accept long transition periods), and over whether each of the CEECs will hold to the course of EU deep integration.

5. Of the two formulae it is generally argued that full EU enlargement based on deep integration would be the first best outcome for the CEECs. How good a second best the shallow variant might be would depend on how it was constructed. The extent of the adjustments that would be needed by both CEECs and incumbent EU members to achieve an inclusive version of deep integration necessarily cast doubt on its realism. A range of scenarios can be envisaged. The CEECs might be admitted only slowly and in successive waves of 'manageable' small numbers. A sharp and enduring distinction might be made between Carolingian central Europe — Poland, Hungary and the Czech Republic — and the rest. Enlargement as a whole might stall, not least because of the obstacles to policy and institutional reform within the EU. A version of shallow integration might be devised as an alternative, but perhaps not until the conventional enlargement route has been tried and failed. The current and inadequate Europe association formula might have to be stretched and patched to cope with intervening demands for an enhanced policy regime.

6. These various possibilities are essentially dependent on the politics of the debate about pan-Europe. What is more these politics, so far at least, have been driven by the preferences of west Europeans, much more than by the politics of the CEECs, whose asymmetrical relationship with the EU leaves them vulnerable, dependent, and caught in a set of bilateral links that offer only limited political leverage. Yet much of the core of the problem to which a solution is sought is economic, namely about how to provide both certainty and appropriateness to the terms of market access for the CEEC economies and to the forms of market regulation that they will develop. Economic agents — entrepreneurs and investors — in both parts of Europe would prefer a more certain basis from which to make their planning assumptions.

7. Two economic elements in this debate remain under specified. One is whether we should assume that economic development in the CEECs is likely to consist of retarded imitation of the post-world-war-two west European economic model or instead expect other variants to emerge — a 'third way'. Competition from lower cost CEEC products would impact in different ways depending on how their economies develop. Hence the second missing element is how we might expect economic agents in western Europe to treat the emerging CEEC economies — as a lower cost production platform? as dynamic new markets? as a source of destabilising additional competition? There are opportunities for some west European entrepreneurs and threats for others, as well as knock-on impacts on labour market and social adjustment in western Europe.

8. More particularly in the context of how broad policy will be shaped, we need some understanding of how preferences are likely to be formulated on the EU side. The conventional wisdom is that an array of protection-minded veto groups in western Europe stand between the CEECs and a liberal form of partnership with or accession to the EU. But here we have contradictory historical precedents. There is certainly much evidence to suggest that EU trade and market regulating relationships with clearly 'third countries' have been much influenced by the voices of vested and often protectionist interests within the EU. Similarly the EU has been prone to displace the costs of intra-EU economic and social adjustment on to third countries — in this respect EU behaviour is similar to that of other powerful trading blocs or big countries. On the other hand, the devising of relationships within the family have over the history of the EU, and previously the European Community (EC), has been influenced by politics as much as, perhaps more than, economics. In bargaining within the family broader considerations of collective interests, national political goals and governing ideas have been powerful influences

on policy outcomes. There is substantial evidence of political preferences leading economic preferences on some issues, and at least of an iteration between political and economic preferences, a process accentuated by the particular character of the EU bargaining processes and structures.

9. The crucial question which then follows is whether the CEECs are likely to be treated as potential family members or rather as a special category of third countries, albeit in a position of peculiarly vulnerable dependency. It is on precisely this question that the jury is still out. The willingness to take EU enlargement as the presumed model for the relationship with the CEECs implies a readiness to talk in terms of family membership. On the other hand, the obstacles to achieving such an outcome are such as to cast doubt on its achievability. What remains then to be clarified is what the default relationship would be. The more benign default would be a designed and deliberately fashioned version of shallow integration. The less benign default would be protracted uncertainty, in which political design was absent and economic relations were left dependent on the behaviour of economic agents operating as best they could with unstable and unpredictable rules for market access and a plurality of regulatory arrangements.

Deep integration on trial

10. Shallow integration in western Europe, for example in EFTA and between the EC and its neighbours, has consisted of progressive liberalisation in payments and trade in manufactures and services (though not fully extended to agriculture), with freed capital movements added in the late 1980s, and without free movement of labour. It has been supplemented by some policy cooperation and common market regulation and a form of dispute arbitration (in the EEA), but voluntaristic, conditional, and without direct enforcement and adjudication mechanisms. Deep integration, as exemplified by the EU, has tighter policy regimes, stronger disciplines, an autonomous jurisdiction, some directly exercised financial instruments, and a common agricultural policy. Currently EU economic integration is set to deepen further by including a single currency regime for at least some members.

11. It is not only the intensity and scope of economic integration that is deeper, but that it is set in an envelope of political integration in two senses: distinctive common institutions, legislation and jurisdiction; and complementary political and security agreements. Enlargement of the membership of this deep integration circle has in the past been conditional on the

willingness and capacity of candidates to accept the disciplines and political engagements in the terms set by the incumbents. The fall-back position for applicants has been a semi-detached option, softened by market access arrangements with the EU, and, since the creation of the EEA, asymmetrical participation in the single market regulatory regimes (the same market rules without much voice in their framing). Each enlargement has provoked vigorous arguments among the existing membership about the merits and consequences of each candidate. Deep integration has been deliberately discriminatory between candidates.

12. In extrapolating from previous west European history, we can observe two different cases. On the one hand some advanced and industrialised countries, essentially the UK and the Nordics, chose in the early fifties not to follow the deep integration model and instead relied on the opportunities for shallow economic integration (partly steered through international institutions other than the EC). The main reservation was to do with the extent of political engagement required by deep integration and a preference either for keeping defence cooperation separate (the Nato members' view) or for neutrality. Over time, however, most of the abstainers decided that the economic costs of exclusion from deep integration were greater than acceptance of the political engagements, hence their progressive accession into the deep integration circle, although not always happily (and with a few persistent abstainers — notably Norway and Switzerland).

13. The second west European group comprised those (Ireland and the southern Europeans) where governments decided that participation in the deep integration circle would be the route to economic modernisation and political stabilisation as functioning democracies. This group has provided the more successful group of late-joiners. The CEECs are closer to the southern European case, so far at least, in terms of the policy targets that they have set for themselves. Much of the formal policy debate in the EC/EU since 1989 has extrapolated from this southern European precedent, albeit with questioning of how many of the CEEC candidates can be envisaged as potential successes. EU members have also shown considerable prudence about what the financial and economic costs would be of changing the numerical balance within the EU between wealthier and less wealthy members.

14. However, the deep integration circle bounded by the current EU membership is not a stable arrangement. There are major differences among the 15 members about what further policy and political commitments should be undertaken, hence the succession of IGCs to

negotiate reforms to the EC/EU. There is an inherent contradiction between EMU and eastern enlargement. There are serious concerns that a massive extension of EU membership to pan-Europe would put paid to the deep integration experiment. In addition the pressures of global competition are making it increasingly hard to sustain the socio-political compacts that developed in individual west European countries around their economic policies in the post-world-war-two period. Moreover the changes of 1989 have exposed a vulnerability of the deep integration model, without active American sponsorship as an ingredient, and without the cement of a vigorous military alliance.

15. Thus the configuration of pan-Europe remains uncertain. For an economic liberalisation logic to prevail requires a willingness explicitly to separate economic integration from the political and security bargains of the past, so as to engage the CEECs in economic multilateralism. For the deep integration logic to prevail requires the existing EU membership both to retain a commitment to the model and to accept its extension to CEECs, along with an attendant range of new financial, political and security responsibilities. The default is prolonged uncertainty as regards the overall institutional setting, as regards both market access and market regulation arrangements east of the current EU borders, and, most likely, variations in the treatment of individual CEECs. And in the case of the CEECs the fall-back options are much less clear than for the abstaining west Europeans, which at least had a guaranteed position in the broader arrangements for shallow economic integration.

Challenges of transition across the continent

16. Both western and eastern Europe are thus going through experiences of sharp transition, at the macro formal level of restructuring of the political economy and at the micro level of adjustment. One key issue is whether these differently derived processes of transition in the two parts of Europe are complementary or in tension. For a version of pan-European deep integration to occur presupposes a high degree of complementarity (some would argue convergence), while tension between the two versions of transition would suggest that a more fragmented Europe is likely to persist. In the former case the usual premise is that integration would be shaped by the west European inheritance, which would more or less rapidly be extrapolated across the continent eastwards. Two different variants of this could be envisaged: one would be a mutually determined (ie with CEEC participation in its definition) alignment of

the east European political economy to the west European *acquis*; the other might be described a form of colonisation (ie the imposition on the CEECs of the pre-existing west European policy regimes). In the case of a fragmented alternative two broad variants can also be envisaged. One might be the continuation of the familiar west European integration process, with a range of hub-and-spoke links to individual east European countries, some spokes being stronger than others. A second variant might be a wider rearrangement in which the consequences of changes in the eastern part of the continent would impact on relationships within western Europe, thus altering, some would argue eroding, the established west European integration model.

17. Western Europe has changed a great deal over the past decade. Much progress has been made with consolidating the SEM and considerable industrial restructuring has taken place, though important parts of this agenda for both public policy-makers and private entrepreneurs remain to be completed. The SEM has been extended partly through the EEA and partly by the full inclusion of Austria, Finland and Sweden within the EU. Member governments of the EU have since become much preoccupied with plans for EMU, both a successor project to the SEM and a response to German unification. Political union, a much less clear, yet also more controversial, aim is another testing preoccupation. There would have been more than enough to keep west Europeans busy without the additional challenge of the larger Europe.

18. It is not only developments at the transnational or multilateral level that are relevant. Individual west European countries are not in stable equilibrium, but are subject to powerful adjustment pressures at the country level. In particular the social and societal dimension of adjustment to international competition is most evident as a pressure on national governments and the national political fabric, as well as being reflected in high levels of unemployment. It is not only that the social dimension of the EU has failed to develop, but that individual country responses to the challenges of adapting the labour market and welfare system are very varied. Thus, for example, the Netherlands is going through a period of positive adjustment, while Belgium is suffering from both a huge public deficit and an internal reformation of the domestic polity. Germany is marked by accentuating tensions, both between different regions (especially east/west) and between different sections of society and economy. Versions of social and political adjustment tensions are evident in most EU member states. The exigencies of the criteria for establishing EMU are combined with both global influences and specific country features to produce new policy and political dilemmas.

Activism without strategy

19. Under such conditions it is not surprising that there are wide differences of view in western Europe about where collective European policy regimes should be encouraged and where a protected political space should be retained for country-level policy. The IGC convened in 1996 found itself locked into the details of procedural not substantive reforms partly as a consequence of not having developed a critical pathway to achieving policy reforms or a clear approach to the larger Europe. The responses of west Europeans to both eastern enlargement and the implosion of Yugoslavia (and more recently Albania) have been ambiguous and ambivalent. In the latter case west Europeans were torn between activism, in the event expensive activism, and strategic policy. (Nb. it should be noted that money spent on efforts to rescue something in these countries is money not available for transfers to the peaceful CEECs.) Activism has in practice led to considerable involvement; yet strategic policy has been elusive, reflecting the absence of clarity on the west European side about the goals and cornerstones of a new European policy and about the definition of new security interests.

20. As regards the peaceful CEECs the activism has been considerable at both the multilateral and the bilateral levels. Individual west European countries have developed an array of assistance programmes. At the multilateral level the security organisations — Nato, Western European Union (WEU) and the Organisation for Security and Cooperation in Europe (OSCE) — have each been partially adapted to take account of the new reform democracies. Nato has gone furthest in promising membership to some of the CEECs, although without redefining its own central purposes. In the political sphere the Council of Europe has attempted to develop a process of inclusion for reforming democracies as each has established basic democratic features, though it has not been consistent in the application of its own criteria.

21. The EU has had a two-pronged policy of technical and financial assistance through Phare and Tacis, and of association for the inner ring of CEECs and partnership with the other parts of what was the Soviet Union. For the CEEC associates (now ten in number) the promise was made in 1993 that full EU membership would eventually replace association. These ten Europe Associates have often been divided by west Europeans into distinct groups: the more 'advanced' Visegrad countries — Poland, Hungary, the Czech Republic, and, up to a point, Slovakia; Bulgaria and Romania, with much less vigorous transformation processes as yet; the

small Baltic states of Estonia, Latvia and Lithuania, with their problem-posing proximity to Russia; and Slovenia, by a margin the richest of the ten. There is a further penumbra of other European countries in the Balkans, as well as the boundary countries of Ukraine, Moldova, and some would add the Caucasian republics. Then there is the extra complication of the complex EU relationships with Turkey, long an applicant for full membership, and with a divided Cyprus, already, though conditionally, promised early accession negotiations.

22. EU activism *vis-à-vis* this range of countries still falls well short of coherent and overarching policy. Yes, Nato will be enlarged, in the first instance to include Poland, Hungary and the Czech Republic. Similarly, the EU will be enlarged, but when, on which terms, and with which countries, remains to be specified. The issue of EU enlargement is the one with most obvious direct significance for economic adjustment and reform in central and eastern Europe. A clear set of decisions on EU enlargement would have direct consequences for the day-to-day operations of public policy and private entrepreneurship in the CEECs. Persistent exclusion would make clear to both public and private actors in the CEECs that they would have to develop alternative policy regimes, whether unilaterally or multilaterally. Uncertainty about timing and conditions makes the calculations extremely difficult for the CEECs and also for those from outside who already do or might in the future invest in their economic development.

23. The formal position at present is that 'Opinions' on each CEEC candidate's readiness for EU membership were issued by the European Commission in July 1997, following the conclusion of the IGC in Amsterdam in June, with negotiations for membership to follow. No decision has yet been taken on whether the first round of negotiations will take place only with those of the CEECs that have progressed furthest towards a presumed EU norm or whether there will be a 'regatta', in which boats from each of the 10 CEECs would row towards the finishing line, but at different speeds. The Commission has indicated its preference for opening negotiations with only five; Estonia, the Czech Republic, Hungary, Poland and Slovenia. EU governments have yet to respond.

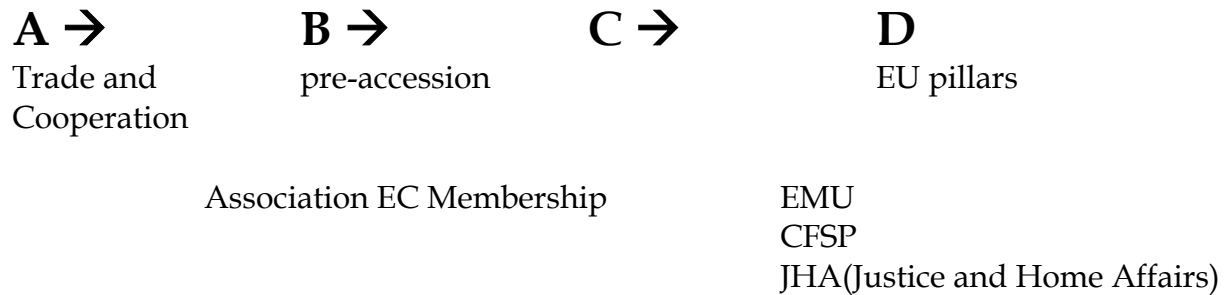
24. In the CEECs a series of individual country efforts is under way to take forward political and economic transformations, with very varied patterns and sequences of reform. The individual trajectories of reform are hugely constrained, not only by the domestic circumstances of each country but also by the assumed impact of west European policy regimes. The absolute precondition for each of the CEECs, in order to have a real chance of joining the EU, is that

domestic practices, rules and laws governing the operations of the market imitate those of the EU. This was already a requirement under the Europe Association agreements signed with each country since the early 1990s. The requirement has been tightened by the pre-accession strategy (PAS) of the EU, adopted at the Essen European Council of December 1994. It would be further embedded by accession to the EU, even though some of the rigours of the *acquis communautaire* might be softened or deferred by derogations won in the accession negotiations. For the moment the governing elites in each of the Europe Associates remain committed to the goal of achieving early accession to the EU, a goal which pushes them into a form of rule-dependency as regards the regulation of their markets and of their exchanges with the economies of western Europe. It cannot, however, be taken for granted that government policies or public support in the CEECs will remain committed to this one-way adaptation process. Signs are already emerging of 'Europe' as a potential cleavage in the still unsettled politics of the CEECs.

The route from association towards eastern enlargement

25. In one sense EU policy towards the CEECs can be straightforwardly stated as charting a conventional pathway from trade and cooperation arrangements to 'normal' enlargement. The current version of Europe Association falls part way along this pathway, quite how far along is a matter of debate (see Figure 1). Experience suggests that the distance from **A** to **B** is relatively short and easily travelled, while the distance from **B** to **C** is rather long, in spite of the PAS, designed to facilitate the journey at least as regards market integration. From the point of view of market access into the west European market and market consolidation in the CEECs this has been seen as the key journey to travel, with formal accession to the EU then marking certainty about CEEC inclusion in the single market and also binding the existing EU members to guarantee their side of the bargain. However, the fact that the EC has changed into the EU means that full membership of the system presumes the ability and capacity to move from **C** to **D** — at some stage. It is around this part of the integration process that the discussion occurs of deepening and widening as antitheses.

Figure 1



26. Four complications should be noted. One is that market integration in theory ought to include all four factors of production, but in reality the PAS covers goods (not agricultural) and services, but not capital or labour. In earlier enlargements labour movement has typically been a controversial issue, richer countries fearing (often misguidedly) influxes of economic migrants from poorer countries. Thus in the case of EC enlargement to include Portugal and Spain full labour movement was deferred until many years after their formal accession, because of the fears of the incumbent member states. It should be noted that the fears proved largely groundless; before the end of the transitional arrangements Spain had become a 'net importer' of Europeans, ie nationals of other EC countries. This shows the importance of both economic improvement and societal optimism in Spain generating a disinclination to migrate elsewhere, albeit with persistent internal migration from south to north.

27. A second complication is that a base policy of the original EC was the common agricultural policy, not easily extendable to the CEECs for reasons of both substance and costs. This is one of the subjects of greatest difficulty as regards enlargement. We should note that most discussion on this issue is narrowly focused on the primary agricultural sector, although that this remains so important is a significant factor for the economic prospects of CEEC economies. The relevance of the food processing and retail industries should also be taken into account, as these too are substantial parts of the economies of the CEECs. Some of the early evidence on west European investment in the food distribution and retailing sector reveals this investment being used to boost west European food exports to the CEECs (sometimes through tied distribution arrangements) rather than to invest in or facilitate local sourcing.

28. The third complication is that market integration rules in the EU are not a stand-alone policy regime, but embedded in, and perhaps dependent on, associated or 'flanking' policies. These include the measures and funding programmes agreed to promote economic and social

cohesion, which have political and social elements, as well as economic aims and financial costs. Flanking policies also include a variety of rules to promote similar process conditions for the production of goods and services, especially as regards environmental and workplace standards. A difficult policy conundrum arises here. It is self-evidently difficult for the CEECs at this stage of transformation and with current income levels to apply environmental and workplace standards comparable to those in EU member states. Nor are such high standards necessary for products to be made that meet EU product standards. However, west European producers and publics are nervous about accepting goods that can thence compete from a lower cost base. And some west European producers are themselves investing in the CEECs to take advantage of such lower costs.

29. Lastly, the end point of what is included in full EU membership has changed from that which was relevant in any previous enlargement discussion. The additions made at Maastricht in 1991 to the *acquis* by plans for EMU, by the second pillar for a common foreign and security policy (CFSP) and by the third pillar for justice and home affairs (JHA) have raised the threshold of what EU, as distinct from EC, membership includes. Each of these elements raises distinct issues about what would be implied for eastern enlargement. EMU as such is generally regarded as a very distant prospect for the CEECs, or at least most of them, although it should be noted that some, for example the Poles, have the Maastricht criteria within their policy frame, and even entry into the single currency as a stated and foreseeable objective (2006?). CFSP in some respects looks easier, not least since a key objective of EU enlargement would be to contribute to the political and security stabilisation of the eastern part of the continent. None the less the simultaneous discussion of creating a hard-core defence group in the EU is in tension with the objective of widening the membership of CFSP. In some ways most important, but least addressed, is the third JHA pillar of the EU. The growing emphasis on this as a core objective for deepening integration in the EU tends in the direction of raising barriers and controls on the movement of individuals between the EU and the CEECs. This partly relates to problems of criminalisation to the east, but also to migration, both economic and political, thus feeding on the nervousness about free movement of labour noted above. The emphasis of the Treaty of Amsterdam on these issues makes them even more relevant as parameters of eastern enlargement.

30. It follows from all these complications that it has become very hard to envisage the eastern enlargement as simply a series of graduated steps along a familiar route. It might be tempting to separate out the absorption of the CEECs in the market integration parts of the EU from the associated political, societal and security dimensions. It is exceedingly difficult to do this in practice. The economic parts of the integration package do not stand on their own for the current EU membership and there is little reason to suppose that this would be possible for the CEECs. The agricultural and financial transfers are tied into the market integration package, as a mix of demonstrated solidarity (however hard to define this notion of cohesion) and off-setting side-payments for acceptance by the poorer of the policy agenda of the richer.

31. One crucial question is therefore what steps would have to precede accession, the place where so far the discussion has been concentrated, and which steps of alignment and convergence would be part of post-accession adjustment. In all previous enlargements there have been substantial post-accession adjustments, albeit on a lesser scale than would be required for the CEECs, given their lower income levels and still uncertain reform capabilities. The current case is, however, more complicated by the number of candidates, the large differences between them, and the lack of clarity about how much of the post-Maastricht version of the EU constitutes the basic reference points for accession. The social protocol agreed in 1991 to take account of British singularity was an additional problem in that it explicitly separated some labour market legislation from the total EU integration *acquis*, although the new Labor government plans to end this exceptionalism.

32. But the question is yet further complicated by the fact that the EU is not defined only by Maastricht. The implementation of EMU is already generating additional policy demands and policy rules. The IGC, though mainly caught up with procedural issues, is debating some further policy goals, in particular as regards common defence and immigration issues. Running through the IGC debate is the question of so-called flexibility, significantly called in French 'reinforced cooperation'. The difficult discussion about flexibility has two quite different objectives. One is to find ways of enabling the more integration-minded among the current member governments to proceed with some policy commitments, even if these are not shared by all of the current west European members. The second is to alter the decision rules in such a way as to prevent additional new members from the CEECs from dictating the pace, scope and character of future integration. Whatever the immediate outcome from the recent IGC there is a real possibility that

in the future the EU will be less homogeneous in terms of its policy regimes and less inclusive in terms of its decision rules. There might thus be a hierarchy of power and participation quite different from that which has characterised the old EU.

Options for variegated membership

33. Full inclusion of the CEECs into the EU, with a range of transitional arrangements and derogations, would be, we have already suggested, the tidiest solution to the pan-Europe challenge. It would have the great merit of providing base-line certainty about the underlying policy regimes to be implemented, the status of new CEEC member states would be relatively clear, and there would be legally constraining mechanisms to induce compliance by both west and east European member states.

34. In the absence of early and comprehensive eastern enlargement we can envisage several possible alternatives. These move across the spectrum between deep and shallow integration and include:

- i. serial enlargement for successive waves of CEEC members, for example, earlier membership for the 'advanced' Visegrad group (+/- Slovakia) and Slovenia, or for those CEECs (such as Estonia) with the most determined EU patrons, leaving others until later, their links in the interim being defined by the current EU version of association;
- ii. tiered membership, or a 'two Europes' variant (the Delors version), with a division emerging among the existing EU western members between the more and the less integrationist, which would perhaps make it easier for the slower and more distanced west European group to be joined by a larger number of the CEECs, though some of these, the Poles have been most explicit on this, might be keen to aim for the inner core;
- iii. partial membership, in which the integration package was broken apart into a series of more or less parallel regimes, perhaps along the lines of the current pillars, and perhaps with EMU designated as a quasi-separate pillar, with different patterns of participation for individual CEECs, even conceivably with some included in, for the sake of the argument, the second CFSP pillar, but not necessarily within the single market regime;
- iv. extended association, in which difficulties about proceeding to a form of regular enlargement might lead to a redesign of the association formula into a new pattern of association; this would be to entrench a new form of shallow integration, somewhat comparable in conception to the EEA for the EFTA countries, albeit with different content; such a formula might be designed for all of the CEECs, or only for those whose full accession to the EU might be delayed for some years (or might be 'inappropriate' - parts of the former Yugoslavia come into play here); important issues arise here about how multilateral any such formula might be and about what the strength of the discipline might be over compliance on the EU side (NB in this context the EU use of anti-dumping measures against Turkey in spite of the customs union and against Norway in spite of the EEA).

35. Variations such as those outlined schematically above might emerge as deliberate policy or emerge as the product of non-decision. The big bang concept of early and inclusive full membership for ten CEECs demands a high measure of consensus among the existing EU members across the full range of relevant policies and the institutional consequences of enlargement. Such consensus is currently far from evident. The various alternatives indicated above would be the result of dissensus or conflicting priorities within the existing EU being projected on to the relationship with the CEECs. They all assume that the main terms of the relationship would be the result of west European policy pressures, that the CEECs will be regime-takers rather than regime-makers.

Eastern enlargement in whose interest?

36. It is conventionally assumed that full accession to the EU would maximise the interests of the CEECs and of their economic development. Similarly it is usually argued that on the EU side of the equation interests are dispersed between some favouring eastern enlargement, those at risk from enlargement, and some agnostics, with the question being whether or not the first group can capture the direction of policy. The discussion tends to muddle up political, security, social and economic definitions of interest and preference. Thus it is common on the EU side for economic analysis to downplay or misunderstand the other dimensions, as it is for those who are primarily concerned with security considerations to underestimate the economic complications and so forth. Very little systematic attention has so far been given to the social variables that are relevant to the establishment of a deep integration framework for pan-Europe. This section examines some of these elements and their potential impact on how policy might develop.

Policy leadership

37. Generally speaking there was from 1989 onwards, and has so remained, broad political support on the EU side for developing the relationship with the CEECs. At the macro level of discourse and long term objectives it has been fairly easily agreed that in the short-to-medium term policy should be active and encouraging, and (since Copenhagen European Council of 1993) that, over time, it should lead towards EU enlargement. This language has come from Spanish (vide Westendorp's insistence in Reflection Group Report) and French (vide

Chirac's round of visits in 1996/7 to the CEECs) politicians and policy-makers, as well as from German and British. Indeed the predisposition to promote the goal of eventual enlargement should not be underestimated and has much resonance of the political responses in the EC to Spanish and Portuguese enlargement.

38. There is, however, a gap between broad support or shared symbolic preferences on the one hand and strategic policy definition on the other hand. The problems arise when it comes to the detail, timing, and small print, when in all member states one finds enthusiasm tempered by points of resistance. It is important to be aware that such resistance is present across the EU, ie it is found in Germany as well as in Spain. The obvious assumption that the push for eastern enlargement will come mainly from Germany should not be taken at face value. Thus symbolic commitment is diluted when it comes to the substance and to the choice of acceptable candidates from among the CEECs, particularly, as will be argued below, when there is no clear security imperative to reinforce the symbolic preference, and when the economic balance sheet for EU incumbents is mixed.

39. In addition the value preference for extending the European family of democratic countries, while repeatedly articulated by political leaders, is weakly supported by societal engagement, in that the transactions between western and eastern Europe remain concentrated among rather small groups of policy-makers, politicians, and entrepreneurs. Also to be noted is a feature that distinguishes post-cold-war Europe from post-second-world-war Europe, namely that in the latter case many of the elite transactions were through people directly involved in the public sphere, while in the current case the use of consultants on contract as intermediaries produces limited accumulation of elite engagement. Hence in the terms identified by Karl Deutsch and his colleagues as relevant to supporting policy development the elements of security community have been so far fragmentary.

40. It is interesting to note that in the early period following the end of the cold war the European Commission was able to take an active role in defining preliminary forms of assistance and association. It did so within the permissive consensus of EU member governments, rather than according to a tightly defined negotiating mandate from them. Member governments legitimated the opening up of relationships at the level of discourse and symbolism, but intervened with precautionary reservations on individual policy issues and economic implications for their domestic clients. Thus the symbolism was in favour of expanding the

relationship, while the client-led policy was often in favour of specific reservations or retained protection. It was often the Commission which had to intervene to mitigate such reservations.

41. There have, however, been limits to the capacity of the Commission to develop further the relationship with the CEECs. The Commission is not a monolith; different commissioners and services have had varying interests and preferences. It perforce has to deal with the technical sides of the relationship, necessarily therefore having to confront the details — and the problems — of potential CEEC alignment to EU regimes. Its capacity to act as the agenda-setter on this set of issues has been restricted by the wider context of competition between itself and the member states. Its function as agent of the member states has been reduced by the absence of a firm steer from the purported principals of policy (even to the extent that the Commission has on occasions had to remind the German government, for example, that it was in danger of forgetting its role as the assumed leading principal). The weight of precedence and previous experience for the Commission as guardian of the *acquis communautaire* has not made it easy for the Commission to develop convincing alternative policy designs to the 'normal' enlargement process, although the pre-accession strategy (sic) was devised as in part offering this at the micro level of regulation.

42. Much of the debate about the costs of eastern enlargement (both through agricultural support and structural funds) suggests that the coalition opposing (rapid) enlargement is easier to identify than the supporting coalition. The sources of opposition come from those who fear that their own current benefits and embedded interests would necessarily be reduced, or who argue that it would be only if these benefits could be retained that enlargement would be acceptable. Pressures on public budgets, reinforced by the Maastricht criteria for EMU, and complicated by the looming reconsideration of EU budget contributions (the British abatement included) make the politics here very tricky. All in all therefore the evidence for overt policy leadership in favour of enlargement is sketchy.

Economic engagement

43. Yet to leave the discussion there is to focus too much on the static costs and benefits of enlargement. Indeed the early diagnoses by policy-makers of the static consequences of trade competition from the CEECs overestimated the volume of low cost competition and underestimated the openings for EU exports to the CEECs. The restrictions to trade liberalisation

included in the Europe Association agreements at the behest of nervous EU-based producers closed windows of opportunity for phasing gradually the impact of thus enlarging the EU market.