

**IMPACT OF EU ENLARGEMENT ON ECONOMIC
AND SOCIAL COHESION**

A Master's Thesis

by

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September 2007

To my family

**IMPACT OF EU ENLARGEMENT ON ECONOMIC
AND SOCIAL COHESION**

**The Institute of Economics and Social Sciences
of
Bilkent University**

by

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ABSTRACT

IMPACT OF EU ENLARGEMENT ON ECONOMIC AND SOCIAL COHESION

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The aim of this thesis is to analyze the impact of each phase of enlargement on the regional policy of the EU. It mainly focuses on the socio-economic indices like the economic potential, GDP growth, inflation, euro trends, unemployment, labor market participation and its industrial distribution, education, social protection, technological performance by considering research and development expenditures, infrastructure and patents application. This research shows the general situation in various countries through special data and makes a comparison between the new and previous members. The overall assessment is that the enlargement strategy of the EU makes the regional policy ineffective. In other words, it becomes difficult to overcome regional imbalances with the admission of the new comers. In this context, enlargement is the major cause of the rise of socio-economic disparities.

Keywords: The European Union, economic and social cohesion, enlargement.

ÖZET

AVRUPA BİRLİĞİ GENİŞLEMESİNİN EKONOMİK VE SOSYAL UYUMA ETKİLERİ

Yelkenbiçer, Emel Ahu

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Bu tezin amacı genişlemenin her sahasının Avrupa Birliği bölgesel politikasındaki etkisini analiz etmektir. Tez genellikle ekonomik potansiyel, Gayrisafi Yurtiçi Hasıla büyümesi, enflasyon, euro ile ilgili veriler, işsizlik, işgücü piyasasına katılım ve bunun sektörel dağılımı, eğitim, sosyal koruma, araştırma ve geliştirme harcamaları, altyapı ve patent başvurusu gibi teknolojik performansları da göz önünde bulundurarak üye ülkelerdeki sosyo-ekonomik endekslere odaklanmaktadır. Bu çalışma özel veriler yoluyla farklı ülkelerdeki genel durumu göstermekte ve yeni ve eski üyeler arasında kıyaslama yapmaktadır. Genel değerlendirme olarak Avrupa Birliği genişleme politikası bölgesel politikayı etkisiz hale getirmektedir. Başka bir deyişle, yeni üyelerin AB ye girmesiyle birlikte bölgesel dengesizliklerin üstesinden gelmek zor hale gelmektedir. Bu noktada, genişleme politikası sosyo-ekonomik farklılıkların ana nedenidir.

Anahtar Kelimeler: Avrupa Birliği, ekonomik ve sosyal uyum, genişleme.

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LIST OF ABBREVIATIONS

CAP:	Common Agricultural Policy
CEECs:	Central and Eastern European Countries
CFSP:	Common Foreign and Security Policy
EAGGF:	European Agricultural Guidance and Guarantee Fund
EC:	European Community
EFTA:	European Free Trade Association
EMU:	Economic and Monetary Union
ERDF:	European Regional Development Fund
ESF:	European Social Fund
EU:	European Union
FIFG:	Financial Instrument for Fisheries Guidance
GDP:	Gross Domestic Product
GNP:	Gross National Product
IPA:	Instrument for Pre-Accession Assistance
ISPA:	Instrument for Structural Policies for Pre-accession
JHA:	Justice and Home Affairs
NATO:	North Atlantic Treaty Organization
NUTS:	Nomenclature des Unités Territoriales Statistiques
PHARE:	Poland and Hungary: Assistance for Economic Reconstruction
PPP:	Purchasing Power Parity
R&D:	Research and Development
SAPARD:	Special Accession Programme for Agriculture and Rural Development
SEA:	Single European Act
TACIS:	Technical Assistance for the Commonwealth of Independent States
UK:	United Kingdom

CHAPTER 1

INTRODUCTION

The enlargement policy of the European Union is widely accepted as the most strategic and necessary formula for closer integration, macroeconomic management, welfare, peace, security, prosperity and regional stability. Nowadays, it is claimed that to be an active player in the world and the most competitive economy are the major reasons of the EU in expanding its borders. As there are new developments in the 21st century resulting from globalization of financial markets and technological achievements, the extension of the EU will be helpful in realizing its new goals. When the initial attempt started during the 1950s with six founding members who tried to establish a Community, this integrated zone grew in size and population. In each phase, the entry of the new members into the EU structure brings both pros and cons for its future.

Some argue that when the number of countries is multiplied, the EU succeeds to benefit from an economic success, thanks to the strong trade and investment ties between the member states, an increase in the competitiveness, dynamism in the financial sector and a rise in the foreign direct investment. However, the majority of the EU members have continuing handicaps. In other words, increased socio-economic disparities in terms of economic growth, inflation, unemployment, social exclusion, poverty, R&D, patents application and infrastructure emerge as major

challenges. Hence, regional policy of the European Union is on the agenda which aims to reduce the gap between different countries through structural and cohesion funds. So, increasing regional competitiveness, job creation and harmonious development are the necessities of the regional policy. But, the effectiveness of the regional arrangements remains unclear with 27 countries. As this field of study becomes a topical subject by creating contrasting perspectives between many politicians, academicians as well as EU members, it becomes very important to focus more on the enlargement. The entry of the Central and Eastern European Countries (CEECs) is the main cause of these disagreements because they are relatively poor compared to the other members of the EU, historically different and this is the biggest integration in terms of population and the number of states. Therefore, this thesis is helpful in answering some questions concerning the widening debate.

In this regard, this thesis purports to analyze the impact of the EU enlargement on the regional policy. In order to calculate the real costs and benefits, it tries to make a comparison between different countries and to shed light on the basic socio-economic statistics. It argues that it becomes difficult to promote economic and social cohesion and enlargement causes a threat to the functioning of the regional development activities. That's why the creation of employment opportunities, GDP growth and technological improvements do not seem to be realistic enough when the number of countries grows rapidly. In that point, it is not suitable to determine that there is real convergence in the EU because the regional policy is not successful enough to solve the problems that member states face. In sum, the costs outweigh the benefits, especially with the admission of the Central and Eastern European countries because the marginalized parts of the EU increase, there aren't any effective

technology-oriented businesses in most parts of the EU, economic and social indices prove that the fulfillment of the Lisbon target becomes difficult.

In order to achieve the purpose, various research methods have been used such as the examination of the secondary data from the major publications in the field like the official documents of the European Commission, research on the internet data, academic journals acquired from the Bilkent University Library Center of EU Studies and other related types of articles which are based on enlargement and the regional policy. Many statistics are used to show the socio-economic evolution of the EU from the first to last enlargement.

The thesis contains four chapters. As a first step, it begins with an overview of the key dates of enlargement and then focuses on the membership criteria. As the historical process of enlargement is the main analysis of this chapter, member states from the first to sixth enlargement while taking into consideration the problems that occurred during the negotiations, candidates' economic background and their expectations from the EU are explained deeply.

After presenting the meaning of economic and social cohesion, the second chapter includes an overview of the regional policy. It later gives information about the reasons behind the establishment of the European regional policy. It also focuses on the objectives for the period 2000-2006 such as improving regional competitiveness by allocating financial resources to the problematic regions, increasing employment level via education and training activities and ameliorating the conditions in rural parts. In addition to these priorities other crucial objectives like the Lisbon strategy of growth and employment and other strategies that cover the period 2007-2013 are described. The chapter then continues with five different principles of the EU funds, namely co-ordination, concentration, programming,

additionality and partnership. The task and target of structural funds, the cohesion fund, the community initiatives and the pre-accession funds that are the key mechanisms responsible with budget distribution to the less favored parts are observed. In the final episode, new regulations are emphasized.

The third chapter relies on important socio-economic data in order to prove that there is a noticeable recession in the members due to the enlargement burden, and the EU is far from the Lisbon objective of employment, innovative actions and economic growth. The chapter begins with the partial analysis of the Cohesion Reports that are published by the European Commission. They are really important as the regional facts from 1996 to 2006 are outlined. Especially the Second Report on Economic and Social Cohesion indicates the challenges of the EU-27 such as income handicaps, ineffective labor market participation in the workforce, an increase in the peripheral areas and agricultural disarrays. The second part contains a deeper outlook under various headings to show the influence of the each phase of enlargement. Firstly, the economic potential of the EU-27 is given and the emphasis is on the foreign direct investment, economic growth, GDP per capita in PPP, inflation level and euro zone requirements. Later on, it moves to the social indicators of unemployment of both female and older workers, education, social protection and poverty in the EU as a whole. Finally, technological achievements are analyzed by looking at the past and recent trends in research and development (R&D) expenditures, the orientation towards high-tech industries, patents application and infrastructural investments. The chapter ends with an overall assessment.

The fourth chapter concentrates on the threats and gains of the EU enlargement and points out that the accession of the Central and Eastern European countries are the major reason of the socio-economic downturn. The chapter studies

the CEECs as a case by providing different views before their entry and the facts. It also describes the budgetary, agricultural and employment-related risks by comparing the figures of the EU-15 and EU-10 which is really helpful to understand the real gap between the newcomers and the previous members. The second part of the fourth chapter examines some of the selected countries' indicators to specify that the EU has to be attentive to the countries real needs. These country-specific experiences draw attention to the continuing regional imbalances in Poland and Slovakia. It also shows that even one of the biggest economies of the EU, namely Germany, faces budgetary disorder. Moreover, there is a possibility that one of the marginalized countries like Ireland has a chance to reverse its negative socio-economic situation and becomes a net contributor to the EU budget.

After providing a brief summary of four chapters, the conclusion part covers the main findings of the study and then gives some recommendations. It also outlines some future predictions about the impact of the enlargement on regional policy.

In sum, I hope to make a contribution to the EU studies on the issues of enlargement and the regional policy. The basic indices can be helpful in comparing the socio-economic situation and technological achievements of the newcomers and the previous members and for those who are concerned with the capacity of the EU to absorb new countries.

CHAPTER 2

HISTORICAL PROCESS OF EU ENLARGEMENT

2.1 A Chronological Review

The idea of European integration was first put into practice on 9 May 1950 with the placement of coal and steel resources of France and Germany under a High Authority thanks to the French foreign affairs minister Robert Schuman and Jean Monnet.¹ Robert Schuman, Jean Monnet, Konrad Adenauer as well as Alcide de Gasperi knew that in order to overcome the devastating consequences of the Second World War, they had to consider rebuilding Europe. The promotion of peace and security were their main expectations. It was this idea that led to the establishment of the European Coal and Steel Community. Belgium, West Germany, Luxembourg, France, Italy and the Netherlands created an integrated zone in Europe.² The Community grew with the Treaty of Rome in 1957 which was efficient in creating a common market between the member states. The Treaty also created European Atomic Energy Community (EURATOM) and the European Economic Community (EEC) which was later known as the European Community (EC). The main objective of the EC was to realize the free movement of goods, services, people and capital through customs union between member states.

¹ Emmanuel Apel, *European Monetary Integration, 1958-2002* (London: Routledge, 1998), 4.

² “History of the European Union”, *Wikipedia, The Free Encyclopedia*, (http://en.wikipedia.org/wiki/History_of_EU.)

The next step was the decision to create a common market by the end of 1992 after the removal of non-tariff barriers with the White Paper's 300 measures.³ As a result, Single European Act came into the force on 1 July 1987. Its basic aim was the completion of the single market and closer cooperation on the environment, research and technology.

Although the Single European Act was a key in promoting economic integration within the European Community, there was not any political integration. So, the decision to create a political union was emphasized by French President François Mitterand at the Fontainebleau European Council in 1984.⁴ Following the intergovernmental conference in 1985, the Treaty on European Union which was known as Maastricht Treaty was signed in February 1992. This agreement was very important in the sense that it ensured the creation of the European Union, the Common Foreign and Security Policy and Justice and Home Affairs. It also set the timetable for Economic and Monetary Union.

The Treaty of Amsterdam which was signed in 1997 came into force in 1999. It gave more power to the European Parliament and made some changes in the Maastricht Treaty such as strengthening the Common Foreign and Security Policy and reforming the major institutions of the European Union.⁵

After the introduction of the Euro as an official currency on 1 January 1999, 12 member states, namely Belgium, Germany, Greece (joined on 1 January 2001), Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and

³ Apel, op.cit., 7-8.

⁴ John McCormick, *Understanding The European Union, A Concise Introduction* (New York: Palgrave, 1999), 78-79.

⁵ Ibid.

Finland accepted to use the common currency.⁶ Finally, on 1 January 2002 the Euro entered into circulation.

After drawing a general framework of the enlargement, it is suitable to give some dates of the major enlargements of the Union which will be described in greater detail in this chapter. The first enlargement took place in 1973 with the accession of the United Kingdom, Denmark and Ireland to the European Union.⁷ The second enlargement which was in 1981 brought Greece into the Union and it was followed by the third enlargement in 1986 with Spain and Portugal. The fourth one was in 1995 in which Austria, Sweden and Finland became members. Subsequently, the fifth integration took place in 2004 with the accession of Central and Eastern European and Mediterranean countries namely Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. On 1 January 2007, the European Union welcomed the membership of Romania and Bulgaria.

In particular, each phase of enlargement contributed positively to the development of different kind of reforms. To give an example, with the first enlargement the Union adopted a regional and common fisheries policy and with the second as well as with the third one single market and a stronger social policy were accepted.⁸ Moreover, these enlargements gave more power to the European Parliament. The passage into an Economic and Monetary Union and new policy areas including foreign policy and justice and home affairs were ensured by the fourth enlargement.

⁶ http://en.wikipedia.org/wiki/History_of_EU.

⁷ "Past Enlargements", *Europa*,
(http://ec.europa.eu/enlargement/enlargement_process/past_enlargements/index_en.htm.)

⁸ Fraser Cameron, *The Future of Europe, Integration and Enlargement* (London: Routledge, 2004) , 1.

2.2 Membership Criteria

Article 237 of the Treaty of Rome implies that “Any European state may apply to become a member of the Community.”⁹ Article 49 of the Treaty on European Union underlines that “any European state which respects the principles set out in Article 6 (1) may apply to become a member of the Union.”¹⁰ These principles are democracy, liberty, rule of law, respect for human rights and fundamental freedoms.

There are evidently other kinds of criteria that countries should fulfill in order to become a member state of the European Union. On 22 June 1993, the Copenhagen European Council put three criteria known as the Copenhagen Criteria.¹¹ Politically speaking, the country must have stable institutions guaranteeing democracy, rule of law, human rights and respect for and protection of minorities. In economic terms, candidate countries must have a functioning market economy and they must handle with competitive pressure and market forces within the European Union. The third criterion is based on the adoption of the *acquis communautaire* which is the body of the European law. The European Union’s absorption capacity can be marked as a fourth condition although it was not implicated in the Copenhagen criteria. There are no limits to countries for their membership after adopting the *acquis communautaire* which refers to all regulations, directives and rules of the European Union.

In 1995, during the Madrid European Council it was announced that candidates should revise their administrative and judicial structures in line with the

⁹ Karen E. Smith, “Enlargement and European Order” in Christopher Hill and Michael Smith, *International Relations and the European Union* (Oxford University Press, 2005), 276.

¹⁰ John K. Glenn, “EU Enlargement” in Michelle Cini, *European Union Politics* (Oxford University Press, 2003), 214.

¹¹ Smith, op. cit., 276.

European Union legislation.¹² Moreover, the Helsinki European Council in 1999 adds another criterion for candidate countries to apply the objectives of the European Union which are determined in the treaties. The Treaty of Nice in 2000 accords the final point by underlining the importance of completing the necessary reforms for candidate countries.

The formal procedure for candidate countries especially begins after the delivery of a formal application to the European Council.¹³ Then, the Council requests the European Commission to declare a positive or negative opinion for the membership. An Accession Conference is held if there are not any problems for the membership of the applicant country. In a situation in which a country can not fulfill these obligations, transitional periods can be given in order to complete the criteria of membership. Following this procedural calendar, negotiations are initiated and at the end the European Parliament must approve the membership. Eventually, the ratification process starts in all members of the European Union as well as in candidate countries through referendum or through parliamentary ratification.

2.3 The First Enlargement

The original six founders of the European Union had grown in size and reached nine by the first enlargement with the United Kingdom, Denmark and Ireland in January 1973. The first enlargement can also be called Northern enlargement or the first European Free Trade Association (EFTA) integration in the history of the European Union because all of the candidates except Ireland are members of the EFTA.

¹² European Commission, *The European Union: Still Enlarging* (Luxembourg: Office for Official Publications of the European Communities, 2001) , 8.

¹³ Glenn,op. cit., 215.

2.3.1 The United Kingdom

The United Kingdom's position was very noticeable in the establishment of the European Free Trade Association which was signed in 1960 with the participation of Austria, Denmark, Norway, Portugal, Sweden and Switzerland.¹⁴ Although its objective was to provide free trade between its members, it could not make a big success because participants traded more with the European Community members rather than its own founders. That's why the United Kingdom realized that the membership of the European Community was more beneficial. As a result, the country applied the EC for membership on August 1961 and negotiations started in 1962. Unfortunately, the French President Charles de Gaulle vetoed the British application twice both in 1963 and then in 1967 due to several reasons.¹⁵ For example, de Gaulle believed that the United Kingdom would slowdown the entire integration process because the country had a special relationship with the United States. That's why the British membership meant greater US influence in the European Union policies. In addition, the United Kingdom could cause a challenge for France in the leadership issue. It is evident that the country participated in the accession negotiations after de Gaulle's resignation in 1969.

The European Community membership was an opportunity for the country because its position as a world superpower was no longer attainable.¹⁶ To continue its reputation in the world, the membership was important in the sense that the EC was the major regional bloc. Finally, in 1973 UK was recognized as a member but its membership represented a problem in the structure of the EC because in 1974 the country desired to renegotiate the treaty of Accession. Afterwards, its awkward

¹⁴ McCormick, op. cit., 71.

¹⁵ Glenn, op. cit., 212.

¹⁶ Alasdair Blair, *The European Union Since 1945* (London: Longman, 1999), 186.

position towards greater integration especially in the monetary and social issues continued during the 1980s.

2.3.2 Denmark

As Denmark was an agricultural country, its concern in the application was based on gaining more export markets in Europe and improving its industrial development as it experienced economic problems during the 1950s.¹⁷ When the United Kingdom applied for membership in 1961, as an EFTA member, Denmark's decision was also positive in order to secure its export markets in Europe. Since its application was linked with that of Ireland and Britain, the country was vetoed as well.

The picture in Denmark was very complicated due to some disagreements between different political parties. To give an example, while the agrarians and the majority of the Conservatives supported the membership of the EC, the Social Liberals favored the establishment of the Nordic Economic Union (NORDEK) instead.¹⁸ The Hague Summit in 1969 made the situation better and the door opened for Denmark's membership.

During the negotiations it seems clear that the country did not cause any disturbances in the EC. The membership of Denmark into the European Union took place in January 1973 with a 63 % yes vote in the referendum.¹⁹ The main reason behind this majority vote was agricultural including obtaining a satisfying gain from the Common Agricultural Policy. However, negative votes were related with the expected decline in the national sovereignty.

¹⁷ Johnny Laursen, "A Kingdom Divided:Denmark" in Wolfram Kaiser, Jürgen Elvert, *European Union Enlargement, A comparative History* (London and New York: Routledge, 2004), 35.

¹⁸ Ibid, 39.

¹⁹ Nikolaj Petersen, "In the Strategic Triangle" in Robert Bideleux, Richard Taylor, *European Integration and Disintegration* (London: Routledge, 1996), 94-95.

2.3.3 Ireland

Ireland's decision to join the EC was also based on economic benefits mainly agricultural ones because there was a huge amount of farming population in the country; so Ireland had great expectations from agricultural exports as its economic situation during the 1950's was far from being competitive.²⁰ The other reason was that the country was heavily dependent on the United Kingdom in economic terms. Although its application was also vetoed twice similarly with the United Kingdom and Denmark, it attempted to improve its competitive position in the world by undertaking serious reforms. Following de Gaulle's resignation in 1969, Ireland finally entered the EC in January 1973 by an 83 % majority vote in the referendum.

The membership was beneficial for the country during the 1980s and 1990s because it experienced an effective growth in its agricultural sector and also managed to stand alone without being dependent on the United Kingdom anymore.²¹

Due to its position of neutrality that created a challenge in the construction of a common defense policy, the Irish case was unique and interesting.²² Another explanation behind this was its success in following independent policies and economic growth although the United Kingdom had an important place in its decision making structure in the past. So, this shows that even a small country had an opportunity to reverse its isolation through membership in the EC.

²⁰ Edward Moxon-Browne, "From Isolation to Involvement: Ireland" in Wolfram Kaiser, Jürgen Elvert, *European Union Enlargement, A comparative History* (London and New York: Routledge, 2004), 56-57.

²¹ Blair, op. cit., 178.

²² Moxon-Browne, op. cit., 53.

2.4 The Second Enlargement

In this section, I will examine only Greece but in many cases, Spain and Portugal are also evaluated together under the second enlargement because these three countries have similar economic and political backgrounds. But, Spain and Portugal will be described under the third enlargement as their accession into the EC was in 1986 rather than in 1981 like Greece.

The accession of the United Kingdom, Denmark and Ireland into the EC led to the beginning of the second enlargement when the negotiations were opened in 1976 with Greece. The country became a full member in 1981.

The candidacy of Greece caused some problems within the Community institutions because the European Commission was not sure whether it was ready or not. That's why before the accession, the Commission proposed a period of preparation for the country which was rejected later by the European Council's president Giscard d'Estaing.²³ In reality, Greece was poorer than current members, an agriculturally dependent country which was under the rule of a dictatorship for many years like Spain and Portugal. Therefore, it was not surprising that existing member states had some doubts whether Greece could fulfill the obligations of the Community membership.

An analysis of Greek objectives denotes that the country's main consideration relating to the membership concern was security. It faced external threats and the membership was a chance to be safe.²⁴ In addition, raising the living standards of its citizens, making reforms with respect to the modernization process of the country were other reasons. As Greece was an underdeveloped, poor, trade-dependent

²³ Cameron, op. cit., 4.

²⁴ Kostas Ifantis, "State Interests, External Dependency Trajectories and "Europe":Greece" in Wolfram Kaiser, Jürgen Elvert, *European Union Enlargement, A comparative History* (London and New York: Routledge, 2004), 71.

country which experienced foreign interferences by Great Powers in the world, the European Community was a favorable option for the country in order to reverse its weak status. Furthermore, its problems with North Atlantic Treaty Organization (NATO) and the US on the Turkish invasion of Northern Cyprus affected the country's reputation in the world.²⁵ Gaining the full support of the EC against Turkey was another important motivation of the Greeks in the gateway to the EC.

The first application of the country for associate membership was in June 1959. The Treaty of Association in 1962 which was frozen later during the Greek military regime ensured an equal commitment to Greek products in the EC market.²⁶ When the military rule was over, the country applied for full membership in 1975 in order to restore its democracy and to win political support from the Community. Later, in May 1979 a Treaty of Accession was signed and the country obtained full member status in January 1981.

During the 1980s another question was raised after the electoral victory of Andreas Papandreou's Pan-Hellenic Socialist Movement (PASOK).²⁷ Papandreou campaigned against the Community membership by offering a renegotiation and many concessions. It is a fact that the Greeks posed serious problems after their entry rather than during the negotiations. In 1982, Greece prepared a memorandum and desired to obtain more funds from the EC in order to improve its poor infrastructure and weak industries. As a response the Community offered some Integrated Mediterranean Programmes with the aim of providing regional development.

²⁵ Robert Bideleux, "The Southern Enlargement of the EC" in Robert Bideleux, Richard Taylor, *European Integration and Disintegration* (London: Routledge, 1996), 133.

²⁶ Ibid, 132-133.

²⁷ Ibid, 134.

The success of Papandreou continued at the end of the 1980s in influencing the EC to support the poorest regions and raise its expenditures on regional as well as social projects.

2.5 The Third Enlargement

Spain and Portugal were in fact poorer than the current members of the EC like Greece and there were some worries related to the fishery sector and immigration issue in both countries. Despite these anxieties, the Community saw their memberships in a positive sense to diffuse democracy into these continents and to promote effective relationship of these countries with NATO as well as with the Western Europe.²⁸ After the opening of negotiations in 1978-79, Spain and Portugal entered the EC in 1986.

The significance of this enlargement could be specified with the incorporation of new treaties into the EC namely the Single European Act in 1986 which was followed by the Maastricht Treaty in 1993. The SEA was worthy because it enhanced a basis for the single market and European Political Cooperation (EPC). New policy areas on the economic-social cohesion, environment, research and technology were also accepted. The Maastricht Treaty gave a timetable for the acceptance of the single currency, established the second pillar of the EC which was Common Foreign and Security Policy (CFSP) and provided closer cooperation on Justice and Home Affairs (JHA).²⁹ But the most effective event was the decision to replace the name of the European Community with the European Union.

²⁸ McCormick, op. cit., 72.

²⁹ Cameron, op. cit., 5.

2.5.1 Spain

Spain was controlled by authoritarian rule for many years and it established close links with the EC only after the death of Francisco Franco in 1975.³⁰

There were some problems like fisheries and agriculture that it had to confront before being a member because the EC feared its agriculturally oriented position. The country's enormous fishing fleet posed a challenge for the Community and as an agricultural country, its situation was considered dangerous in Italy and France.³¹ Despite this reluctance, Spain applied for membership in 1962 which was turned later to a preferential trade agreement in 1970. The death of Francisco Franco enabled Adolfo Suarez to be a prime minister in 1977. When the country submitted its application for full membership, Italy and France opposed it due to agricultural concerns; so formal negotiations did not begin until 1979.

The Community undoubtedly had its own problems including budgetary provisions that led to continuing disagreements over the membership of Spain during this time period. Also, turbulences continued on the issues of agriculture, fisheries and on the reduction of trade barriers for Spain's industrial products.³² Consequently, the membership of the country had to wait until the resolution of the Community's internal problems.

Spain's membership meant an increase in the Community's territory by one third, cultivated land by 30 %, agricultural population by 25 % and fishing fleet by 70 %.³³ As the country's olive oil production, citrus-fruit export and vineyards captured a big pie in the European market, it was not surprising that the current members defined its accession as a potential hazard to the future of their industries.

³⁰ Derek W. Urwin, *The Community of Europe: A History of European Integration Since 1945* (England: Longman, 1995), 206.

³¹ Ibid, 208.

³² Ibid, 210.

³³ Bideleux, op. cit., 144.

Due to these disturbances, the EC made a decision to employ a transitional period for Spain. “At the beginning of 1985, a transitional period of seven years was established for the integration of Spanish agriculture in the CAP, along with an additional extension between four and seven years for the more competitive fruit and olive oil, among other produce.”³⁴ Ultimately, the country was able to be a member in January 1986.

2.5.2 Portugal

Like Spain, Portugal was under the influence of an authoritarian rule for many years trying to return to democracy. The collapse of this regime in 1974 provided an important step for the country in order to be closer with the EC; so it submitted its application for full membership in 1977.³⁵

Although Portugal wanted to become a member in the 1960s when the United Kingdom made its first application to the EC, there were numerous factors which prevented the country from submitting its membership application like the negative economic conditions, the colonial problem and its authoritarian regime.³⁶ De Gaulle’s veto also negatively affected Portugal and it was not until the 1969 Hague Summit that the EC decided to talk with the non-applicant EFTA states in which Portugal was included. It concluded a trade agreement with the EC in 1972. The overthrow of the Portuguese dictatorship in 1974 designated the movement into the democracy that made the overall thinking towards membership positive in the EC.

³⁴ Ricardo Martin de la Guardia, “In Search of Lost Europe: Spain” in Wolfram Kaiser, Jürgen Elvert, *European Union Enlargement, A Comparative History* (London and New York: Routledge, 2004), 105.

³⁵ Urwin, op. cit., 210.

³⁶ Antonio Costa Pinto and Nuno Severiano Teixeira, “From Atlantic Past to European Destiny:Portugal” in Wolfram Kaiser, Jürgen Elvert, *European Union Enlargement, A Comparative History* (London and New York: Routledge, 2004), 118.

After its formal application for full membership in 1977, the negotiations lasted until 1985. While Portugal was relatively small in size, far from causing any threat for the current member's industries and production, the long story for the accession was based on the remaining difficulties of the EC in the case of Spain for a long time.³⁷

The EC was finally satisfied after necessary adjustments in the new Portuguese Constitution and stated that the democratization process was now completed in the country. The Treaty of Accession was signed in 1985 and Portugal's accession was completed on 1 January 1986.³⁸

2.6 The Fourth Enlargement

The end of the Cold War was proof for many European countries that being a member of the EC was necessary not only in terms of economic benefits like being a part of the free trade agreement between members but also in terms of obtaining a voice in European policy formulation.³⁹ With these considerations in mind, Austria, Sweden and Denmark submitted their membership.

During the negotiations, these countries did not pose any significant challenge but in terms of the CFSP which was accepted in the Maastricht Treaty in 1993, some disagreements occurred. To take an example, Austria was afraid of opening its borders because it was not satisfied with the transit issue.⁴⁰ Sweden and Finland did not want to lower their environmental standards into the EU level. These problems were resolved and they became members in 1995; so the EU now had 15 countries within its framework.

³⁷Urwin, op. cit., 211.

³⁸Antonio Costa Pinto and Nuno Severiano Teixeira, op. cit., 122.

³⁹Glenn, op. cit., 214.

⁴⁰Ibid.

The importance of this fourth enlargement could be described as follows: It was the last enlargement in which all of the members were attached to the existing European policies and institutions.⁴¹ Additionally, Maastricht Treaty which was an efficient turning point in the EU's history was concluded during this enlargement. It was evident that the relationship between the EU and EFTA became much closer with the accession of three more members of EFTA into the EU. By 1995 all members of the EFTA except Norway, Iceland, Switzerland and Liechtenstein were under the label of the EU.

2.6.1 Austria

Historically speaking, Austria's policy was always based on creating strong ties with the EU. With this consideration in mind, it tried to be a member of the EU during the 1960s along with its hope to participate in the free trade agreement in the 1970s.⁴² Its position was especially important because the country committed itself to improve the EFTA relations with the EU during the 1970s and 1980s.

On 17 July 1989, Austria applied for membership but it declared that the country tried to protect its neutrality position by the words: "internationally recognized status as a neutral country."⁴³ There were many factors behind its application such as the possible loss by being excluded from the internal market due to its trade dependence on the EU, the necessity of economic reforms within the country and raising good relations with Eastern European countries.

⁴¹ John Redmond, *The 1995 Enlargement of the European Union* (England: Ashgate Publishing, 1997), 1.

⁴² David Phinnemore, "Austria, Transit and the Environment" in John Redmond, *The 1995 Enlargement of the European Union* (England: Ashgate Publishing, 1997), 65.

⁴³ Thomas Pedersen, *European Union and the EFTA Countries, Enlargement and Integration* (London: Pinter Publishers, 1994), 81.

In 1991, the Commission declared that the country was eligible for membership in economic terms. However negotiations were not totally problematic. The entry of Austria posed serious problems within the EU in terms of transport and the environment. As Austria was one of the environmentally sensitive countries, the EU must increase its environmental standards and was obliged to follow more environment friendly policies.⁴⁴ Actually, Alpine transit also posed some disturbances. In relation, the country did not want to change its law which restricts foreign ownership of property.⁴⁵ There were also other concerns in terms of agriculture.

Despite these problems, Austria held a referendum and its accession was accepted by almost 67 % which brought the country into the membership on 1 January 1995 together with Finland and Sweden.

2.6.2 Sweden

Sweden was also a neutral country that feared from international changes after the Cold War such as contestations between many countries as well as the bipolar climate of the world. There was an ambiguous picture in the entire world. That's why security thought was the main item on the road towards membership.

In fact, the Swedish case was similar to that of Austria during the 1960s. Its application was also vetoed during that time period but in 1970 it managed to open the negotiations with the EU and signed a free trade agreement in 1972.⁴⁶ Although there were some improvements in their relationship, during the 1970s and early 80s, Sweden realized that the membership was not an intelligent option by stating that the

⁴⁴ Phinnemore, op. cit., 64.

⁴⁵ Ibid, 66.

⁴⁶ Lee Miles, "Sweden and Security" in John Redmond, *The 1995 Enlargement of the European Union* (England: Ashgate Publishing, 1997), 93-94.

common foreign policy formulation of the EU was not very active in protecting its members and the establishment of an Economic and Monetary Union would hurt the neutrality situation of the country.⁴⁷ Hence, it was not until the end of the Cold War that rapprochement towards the accession occurred.

The Swedish government submitted its application on 1 July 1991 but there were still some problems such as harmonization of the agricultural sector in line with the EU, regional as well as neutrality policy of the country and finally CFSP.⁴⁸ Sweden replied that it would contribute positively to the CFSP. As a result, negotiations started in 1993 and it was followed by the referendum that gave 52.3 % yes vote. At the end, Sweden joined the EU on 1 January 1995.

2.6.3 Finland

European integration was never considered as vital issue for Finland during the 1950s and 1960s as it tried to be closer with the Soviet Union instead of the members of the EU. It participated in the formation of Nordic economic cooperation for political reasons. Its foreign policy welcomed new changes in the 1980s because Finland's trade relations with the Soviet Union declined. The collapse of the Soviet Union also constituted an important step which made the country more dependent on the EU in terms of trade. Its export and import volume declined sharply, unemployment level rose; so the country was faced with a deep economic recession.

In 1992, the Finnish government submitted a report to the Parliament specifying that the accession would create new jobs, would stabilize interest rates and the country would gain an opportunity to attract more investors.⁴⁹ Furthermore, this would give a chance for Finland to obtain a voice in the European policies

⁴⁷ Pedersen, op. cit., 86.

⁴⁸ Ibid, 90.

⁴⁹ Pedersen, op. cit., 97.

concerning environmental reforms and the forest industry. However, the country was aware of the negative consequences of membership in the agricultural area.

After its application for membership on 18 March 1992, Finland's membership was accepted by a 57 % vote in 1994. It managed to be a member of the EU on 1 January 1995.

2.7 The Fifth Enlargement in General

Historically speaking, the collapse of communism along with the dissolution of Soviet Union were turning points that forced the Central and Eastern European Countries (CEEC) to join the EU under the label of "return to Europe".⁵⁰ These countries were under Soviet influence for a long time and they were separated from Europe; so the post-communist countries tried to transform their economies. However, there were many resisters who refused to accept their membership because they were militarily unstable, economically poor compared to existing members of the EU and agriculturally dependent states. This showed that they would create some disturbances in the budgetary issues. In contrast, there were others who welcomed their candidacy by stating that it would enhance peace, democracy, prosperity and would contribute positively to security.

To this end, the fifth enlargement was surely the most challenging and geographically largest integration within the EU. That's why it is crucial to follow a step by step approach in order to understand the relationship between the CEECs and the EU much more clearly.

"In June 1988, the Community and the Council for Mutual Economic Assistance (CMEA), the organization for economic cooperation among communist

⁵⁰ Glenn, op. cit., 216.

countries, established official relations.”⁵¹ Then these relations were extended through the PHARE program, Europe Agreements and TACIS during the 1989 and early 1990’s. Poland and Hungary: Assistance for Economic Reconstruction (PHARE) which was designed to give financial support to Poland as well as Hungary was extended to other Central and Eastern European countries later. Technical Assistance for the Commonwealth of Independent States (TACIS) also provided assistance to these countries. By looking at the Europe Agreements, it was seen that it enhanced association agreements between the CEECs and the EU.

In 1993 the decision of the Copenhagen European Council was important because it made clear that “the associated countries in Central and Eastern Europe that so desire shall become members of the European Union.”⁵² Accession would take place if the candidates could ensure the obligations of the membership. In addition to the three criteria that were described early, the absorption capacity of the EU was added as a fourth one.

In 1994, a pre-accession strategy was adopted at the Essen European Council to prepare the CEECs for membership. This strategy was based on Europe Agreements, Accession Partnership and National Programmes for the Adoption of the Acquis, opening of European Community programmes and agencies.⁵³ Moreover, the EU decided to help these countries under the PHARE programme, with environment and transport investment support (ISPA), agricultural and rural development support (SAPARD), co-financing with the international financial institutions (IFIs). From 1994 to 1996 Central and Eastern European countries applied for membership. Consequently, The European Commission published a

⁵¹ Smith, op. cit., 272.

⁵² Graham Avery, “The Enlargement Negotiations” in Fraser Cameron, *The Future of Europe, Integration and Enlargement* (London: Routledge, 2004) , 36.

⁵³ European Commission, *Enlargement of the European Union, An Historic Opportunity* (Brussels: European Commission, Enlargement Directorate-General, 2003), 11.

report in 1997 to evaluate their application which was Agenda 2000.⁵⁴ In this document, it was underlined that candidate countries must accept the Copenhagen criteria in order to be eligible.⁵⁵ Also, it specified the difficulties that the EU faced in the Common Agricultural Policy and in the structural funds. Hence, it made some budgetary arrangements.

At the Luxembourg European Council in 1997, an enhanced pre-accession strategy was launched and the Council decided to open the negotiations with six CEECs namely Hungary, Poland, Estonia, Czech Republic, Slovenia and Cyprus. These countries were called the Luxembourg Group. In 1999, The European Council at Helsinki determined to initiate the negotiations with remaining countries such as Latvia, Lithuania, Malta and Slovakia. These countries were known as the Helsinki Group.⁵⁶

In September 2001, the Commission made it clear that all of the applicant countries except Bulgaria and Romania could participate in the next round. Eventually, at the Copenhagen European Council in 2002 the Commission announced that these ten countries would be able to take on the obligations of membership and would become members of the EU on 1 May 2004.⁵⁷

After this historical background, it is useful to explain the negotiation process in order to see the strategy of the EU for the CEECs in general.

⁵⁴ The preparation of this report was actually proposed at the Madrid European Council in 1995 for the European Commission to see overall trends in the applicant countries whether they were ready or not. For a stronger and wider union is the title of the European Commission's analysis.

⁵⁵ Glenn, op. cit., 218.

⁵⁶ Avery, op. cit., 36-37.

⁵⁷ Smith, op. cit., 284.

2.7.1 Negotiations

In fact, the EU pursued different principles during the negotiation process. For example, while candidate countries must accept and apply the *acquis communautaire*, some transitional periods could be given to some candidates in order to catch up and negotiations would be conducted one by one because the EU already knew that each country's situation was not similar.⁵⁸

The accession negotiations began on 31 March 1998 with the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus. The principle of differentiation was conducted during the negotiations. This meant that each country would be judged according to its own degree of preparation to be a member. Candidate countries should fulfill the whole *acquis* and the EU divided it into 31 chapters.

Actually the key features of the negotiations could be analyzed under different phases like the screening⁵⁹ of the *acquis* in 1998, the opening of easy chapters from 1998 to 2000, the beginning of negotiations with other countries such as Latvia, Lithuania, Malta and Slovakia in 2000, the introduction of the roadmap which gave a timetable for completing the negotiations in 2001 and finally the discussion of budgetary chapters and agreement in 2002.⁶⁰

In December 2002, at the Copenhagen European Council, the accession negotiations were finalized with these ten countries and finally Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia became members of the EU on 1 May 2004.

⁵⁸ European Commission, *Enlargement of the European Union*, op. cit., 26.

⁵⁹ The main goal of the screening process was to give an overview of the EU's main policies and to assist candidates in order to make necessary adjustments in their countries.

⁶⁰ Avery, op. cit., 41-42.

2.8 The Last Enlargement in General

The last integration strategy of the EU consists of Bulgaria and Romania together.

Romania has built up strong ties with the EU since the early 1970's by signing special agreements which ensured the country to participate in the Community's Generalised System of Preferences.⁶¹ During the 1990s it continued to evolve better contact with the EU. This led to the first application of Romania on 22 June 1995. At the Helsinki Summit in 1999 the EU decided to open the negotiations and ultimately the accession talks formally began in 2000.

By turning our attention to Bulgaria, it could be understandable that the real connections began during the 1990s because the country signed various kinds of trade related agreements in this period.⁶² The first step towards membership commenced in 1995 with its application of the EU membership. Like Romania, 1999 Helsinki Summit was a fateful step because it ensured the opening of the negotiations in 2000.

In 2002, the European Council declared that Bulgaria and Romania would become members of the EU in 2007.⁶³ Accession negotiations were over in 2004 and in 2005 the Accession Treaty was concluded. Then, the European Commission launched a report in 2006 to explain that both of the countries made considerable improvements and there was not any obstacle for the accession. However, there were still some anxieties over the issues of judicial reform and the fight against organized crime as well as corruption. By November 2006, the ratification process was

⁶¹ "Romania: EU-Romania Relations", *Europa*,
(http://ec.europa.eu/enlargement/archives/romania/eu_romania_relations_en.htm.)

⁶² "Bulgaria: EU-Bulgaria Relations", *Europa*,
(http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm.)

⁶³ European Commission, *Monitoring Report on the State Preparedness for EU Membership of Bulgaria and Romania* (Brussels: European Commission, 26.9.2006), 3.

completed for Romania and Bulgaria and they became members of the EU on 1 January 2007.

To conclude, it is evident that the EU's enlargement policy consists of several factors. Towards the full economic, political as well as social integration process, a united Europe is vitally crucial and that's why to promote peace, freedom, political stability, prosperity, human rights, cultural and ideological diversity, better quality of life through its members, democracy and security the European Union enlarges. There are also economic reasons to realize enlargement. In order to improve trade and investment flows between its members and in order to be competitive in the world after the globalization resulting from being a global player, the number of the member states has increased. Hence, enlargement strategy's main goal is to ensure a more integrated Europe and to create an ever closer union.

In summary, the original six members like Belgium, West Germany, Luxembourg, France, Italy and the Netherlands reached nine with the accession of the United Kingdom, Denmark and Ireland in 1973. The second enlargement made the EU ten with Greece in 1981. 1986 was also important with the entry of Spain and Portugal together. The fourth enlargement was in 1995 which brought Austria, Sweden and Finland into the EU. The most challenging and interesting integration was surely on 1 May 2004 because ten new countries were able to become members, namely Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia. The most recent integration was on 1 January 2007 which made Romania and Bulgaria members of the EU. There are also some candidate countries like Croatia, Turkey, the Former Yugoslav Republic of

Macedonia and some potential candidate states such as Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo.⁶⁴

Although each stage of integration contributed positively to the EU's reforms, institutions and policies, it also causes some negative effects; so the EU tries to cope with those disturbances because at the end it wants to promote cohesion. There are still many unanswered questions whether it succeeds to solve these turbulences or what are the impacts of these enlargements in economic and social terms on its members.

⁶⁴“The Stabilisation and Association Process”, *Europa*,
(http://ec.europa.eu/enlargement/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/index_en.htm.)

CHAPTER 3

REGIONAL POLICY OF THE EUROPEAN UNION

3.1 What Is Economic And Social Cohesion?

“Cohesion” which is an element of the regional policy “refers to a set of activities designed to reduce disparities and promote a more even pattern of economic development across the EU.”⁶⁵ Actually, it covers projects including assistance to countries which are facing difficulties like low per capita income, high level of unemployment, industrial difficulties and social imbalances through structural and cohesion funds. This means that the EU tries to provide money to its members with weak socio-economic conditions.

Economic and social cohesion includes improving the regional competitiveness of the countries whose developments are lagging behind, helping the modernization process, promoting economic growth as well as social equity.

Since the earlier steps of the European Union cohesion was on the agenda. The Treaty of Rome pointed out that economic and social cohesion covered accommodation of harmonious development, better standards of living, good working conditions, solution to worker’s problems in education, employment,

⁶⁵ John Peterson and Elizabeth Bomberg, *Decision-Making In the European Union*, Chapter 6, Cohesion Policy (New York: St. Martin’s Press, 1999), 146.

discrimination and social security.⁶⁶ This showed that reducing regional disparities was the main focus. As economic integration policies of the EU including the competition of the internal market and monetary union became the major reform process during the 1970s and 1980s, economic and social cohesion gained much more importance due to severe economic problems in the weaker regions. The Single European Act, particularly Articles 158 to 162 of the EC Treaty (Title 17), made it clear that cohesion was required for balanced development and to decline the backwardness of the least favored regions.⁶⁷ The achievement was based on coordination of economic policies, implementation of the single market and allocation of the structural and cohesion funds. It incorporated the policy into the EC Treaty. Through this act, regional policy was accepted as an objective to achieve economic and social cohesion.

To conclude, economic and social cohesion employs the reduction of regional problems within the European outlook in order to promote solidarity, convergence and competitiveness.

3.2 A Chronological Review of The Regional Policy⁶⁸

Regional considerations have been important since the creation of the European Community. The Treaty of Rome in 1957 implied that there was a need to promote a unified development in Europe to eliminate the differences between various regions. As a result, in 1958 the Community established two funds, namely the European Social Fund (ESF) and the European Agricultural Guidance and

⁶⁶ Ash Amin and John Tomaney, *Behind the Myth of European Union, Prospects for Cohesion* (London: Routledge, 1995), 12.

⁶⁷ European Parliament, *Fact Sheets On The European Union*, Part 4, Regional Policy (Luxembourg: Office for Official Publications of the European Communities, 2004), 167.

⁶⁸ This section gives key dates for the regional policy. Structural and Cohesion Funds that are described in this part will be explained later more detailly.

Guarantee Fund (EAGGF).⁶⁹ They allocated resources to the least developed regions. But it was not until the mid-1970s that specific measures of the regional policy were introduced. This decision was in fact related with the first enlargement. Historically speaking, when the former six countries created an integrated zone in the Europe, regional policy was not one of the major policies as these countries did not have any regional problems. However, this atmosphere changed with the first enlargement in 1973 when the UK, Denmark and Ireland were included in the European integration process. Although Denmark and UK did not pose any instability for the European economies, Ireland had some underdeveloped regions.⁷⁰ Oil crises during the 1970s have triggered international stagflation. Consequently, the European Regional Development Fund (ERDF) was established in 1975. This was worthy in the sense that the EU started to give much more emphasis to the problems of its members.

The second and the third enlargement showed that an efficient regional adjustment was necessary in order to build a united Union. Greece, Spain and Portugal were poorer than existing members, causing budgetary problems.⁷¹ So, the Single European Act in 1986 “lays the basis for a genuine cohesion policy designed to offset the burden of the single market for the southern countries and other less-favored regions.”⁷² Afterwards, in the Maastricht Treaty which established the cohesion fund, it was decided that cohesion was one of the main objectives of the EU. Through the financial package, the least developed regions were assisted in solving their environmental and transportation problems. More specifically, Greece, Spain, Ireland and Portugal were given financial help in order to prepare their entry

⁶⁹ European Commission, *Working For the Regions* (Luxembourg: Office for Official Publications of the European Communities, 2004), 5.

⁷⁰ Sergey S. Artobolevskiy, *Regional Policy in Europe* (London: Regional Policy and Development Series, 1997), 87.

⁷¹ Ibid.

⁷² European Commission, *Working For the Regions*, op. cit., 5.

into the Economic and Monetary Union (EMU) because these countries could not meet the convergence criteria without support.⁷³ As there were some disturbances in the fisheries industry during the 1990s, the Financial Instrument for Fisheries Guidance (FIFG) was established in 1993.

Amsterdam Treaty in 1995 included specific measures to combat unemployment in the regions. A new financial framework for 2000-2006 was accepted in the Berlin European Council in 1999, thanks to Agenda 2000 that put new objectives for the cohesion and structural Funds.⁷⁴ Actually, this new reform process relied on budgetary burdens that would come with the accession of ten new members in the EU. Central and Eastern European Countries' GDP per capita were lower than the current members and it was one half of the poorest countries like Spain, Portugal, Greece and Ireland.⁷⁵ In reality, they were faced with structural difficulties. To be more specific, 22 % of their labor was employed in the agricultural sectors. This implied that they would receive more funds and agricultural subsidies from the EU. Due to these facts, the new financial framework was accepted although some member states such as Germany, the Netherlands, Austria and Sweden who were the contributors into the budget were dissatisfied.

The Lisbon Strategy was adopted in 2000 with the idea of making the EU “the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment” by 2010.⁷⁶ Economic challenges coming from Asia and the improvements in the information and communication technology headed by

⁷³ “Regional Policy: Introduction”, *Europa*, (<http://europa.eu/scadplus/leg/en/lvb/g24000.htm>.)

⁷⁴ New objectives under Agenda 2000 and new financial package will be also described later in this chapter.

⁷⁵ Angela K. Bourne, “Regional Europe” in Michelle Cini, *European Union Politics* (Oxford University Press, 2003), 286.

⁷⁶ Report from the High Level Group Chaired by Wim Kok, *Facing the Challenge, The Lisbon Strategy For Growth And Employment* (Luxembourg: Office For Official Publications Of The European Communities, November 2004), 8.

the US were the reasons for Lisbon. The major goals were the diffusion of technology, promotion of economic growth in trade by completing the single market, ameliorating qualifications of the employees through training and education along with implementing new policies in labor market participation and carrying out necessary reforms for businesses.

New financial regulations for the period 2007-2013 were proposed by the Commission in 2004. All these regulations are important to enhance convergence, regional competitiveness, employment as well as territorial cooperation. The Commission detailed its objectives for the regional policy until 2013.

3.3 The Necessity And Principles of The European Regional Policy

This section provides an analysis of the European regional policy by covering its goals and objectives on a wider scale.

3.3.1 Why Regional Policy Is Needed?

It is appropriate to start this section with a question. If all of the member states have their own regional regulations, why it is necessary for the EU to construct special measures under the European regional policy? In reality, there are many grounds. To introduce a modern market economy, national and political stability and to eliminate negative disturbances like socio-economic problems mainly in the peripheral regions, intervention is necessary.⁷⁷ It is not only economic assistance to backward areas but also a helping system targeting people like the unemployed and the workers. With the idea of efficiency and equity, social and economic inclusion in

⁷⁷ Artobolevskiy, op. cit., 28.

mind, regional policy is a very helpful precaution for the continuity of welfare within the EU.

After drawing a general formula, it is now convenient to determine the specific reasons of the regional policy. As it was described in the overview part, the enlargement strategy of the EU was one of the reasons for the need of a European regional policy. During the first and second enlargement, economic imbalances in the member states caused budgetary burdens. The Northern enlargement was less problematic compared to the other ones. While examining the fifth enlargement strategy, it was visible that a majority of ten members caused agricultural, economic turbulences and they were seen as potential dangers for the future of the EU because budgetary expenditures increased automatically due to their structural problems.

As the EU is far from being a homogeneous structure, the enlargement strategy negatively affects the decision to promote integrity and stability between its members. Its heterogeneity along with the economic and social turbulences that some countries experienced is the most important point behind the establishment of an effective regional policy.

Three major challenges that the EU faced with can be implied as other reasons to implement regional policy.⁷⁸ The Union should focus more on reducing regional disparities because there are new candidate countries who's GDP per capita are lower than many of the current members. The growing competition with the liberalization attempts of the twenty first century is another danger for the future of the regional policy. Problematic regions will lose their attractiveness. As a response, the EU helps disadvantaged regions in improving their modernization process. The third danger is the technological and information revolution. Many of the regions do

⁷⁸“Why is Regional Policy Necessary?”, *Regional Policy- Info regio*, (http://ec.europa.eu/regional_policy/intro/regions3_en.htm.)

not have enough research and development facilities and they are not able to adapt to new technological changes. That's why the responsibility of the EU is to create an innovative society.

To be more specific, it is useful to give some examples to understand the first challenge. Today the EU has more than 450 million citizens. With the accession of ten new members, regional problems become more serious. The GDP per capita in ten members are approximately less than half of the average of EU-15.⁷⁹ Additionally, unemployment rates vary while examining different countries. It is only 2 % in Tyrol (Austria), 29 % in Réunion Island (France) and 26.3 % in Lubuskie (Poland). These illustrations give a clear impression about the unequal income distribution between different areas.

Some theoretical approaches also explain the intentions behind the regional policy. The solidarity argument states that poor member states of the EU are not capable of solving their regional problems; so the EU provides necessary resources to these countries. There are some inequalities between different regions. There are not only economic disturbances in the marginalized regions but also a huge gap between the centre and the periphery. The vested interest argument underlines that any reduction of regional disparities in one country can affect the other's situation positively.⁸⁰ This is related with the spillover thesis which gives emphasis to integration by pointing out that success in one sector leads to cooperation in other industries. As a result, there will be a win-win type of situation. Additionally, the effects of other EU policies argument denotes that benefits of enlargement and other policies do not seem profitable for every country. In response, the EU establishes a

⁷⁹ European Commission, *Working For the Regions*, op. cit., 6.

⁸⁰ Reiner Martin, *The Regional Dimension in European Public Policy, Convergence or Divergence?*, Part 2, *The Regional Policy of the European Union* (New York and London: St. Martin's Press, Inc., Macmillan Press Ltd., 1999), 74.

redistribution mechanism to assist poorer countries. The compensation of the losses is the main argument.

In sum, the European regional policy is a significant attempt in preparing its members to the pressures coming from globalization. It is basically an efficient strategy for the EU to be a global player in the world.

3.3.2 Objectives of The Regional Policy

EU regional policy aims to reduce economic and social cliffs. In order to promote territorial cohesion, it should pick up peripheral areas. EUROSTAT (the Statistical Office of the European Commission) is responsible in the definition of the marginalized regions. This classification is made through the Nomenclature des Unités Territoriales Statistiques (NUTS).⁸¹ There are three levels of desegregation such as NUTS-1 which consists of the EU regions, NUTS-2 which is comprised of the provinces and finally NUTS-3 which includes arrondissements. The EU allocates funds to the selected regions through this system.

Regional policy is based on solidarity with the aim of financial support through different funds available for the backward regions. Between 2000 and 2006 the EU spent one third of its budget, 213 billion euros for the selected regions. The Commission guidelines until 2006 can be summarized under three headings.⁸² The first objective is to improve regional competitiveness. The achievement is based on several factors. Firms need modern infrastructure, renewable source of energy, good telecommunication services and technological adaptation to operate in overseas markets and to become more profitable. Along with the Objective 1 and 2 of the

⁸¹ Colin Mellors and Nigel Copperthwaite, *Regional Policy* (London: Routledge in association with the university of Bradford and Spicers Centre for Europe Ltd, 1990), 27.

⁸² "What Does It Do?", *Regional Policy-Inforegio*, (http://ec.europa.eu/regional_policy/intro/regions9_en.htm.)

Agenda 2000, the EU provides financial assistance to the less favored areas. The second objective of this strategy is to increase the employment level. Combating any discrimination based on sex or religion, creating new job opportunities for the citizens and training are the basic goals. The EU provides help under Objective 3 which includes:

- “-basic and life-long training, apprenticeships
- support for employment and unwaged work
- the social economy
- improved structures of education, training and aid for employment
- the creation of partnerships between training institutions and firms
- helping workers to become flexible and adaptable
- equal opportunities”⁸³

The third objective is to ameliorate the conditions in rural and urban areas. A clean and cheap transport system and a renewable source of energy are the necessities in big cities because they have some problems such as wastes. Urban areas are faced difficulties. Some of them are the lack of infrastructure, services, new technology to implement mainly in the agricultural industries and fisheries. Due to this fact, new strategies in producing high quality products as well as production techniques to modernize urban and rural areas are tried to be enhanced by the EU.

The Lisbon strategy adopted in 2000 was revised in 2005 because it could not meet its priorities fully. The economic growth of the European countries was not successful, there were still environmental problems and the EU was involved in some trade disputes with the US.⁸⁴ Moreover, there were external challenges related with the US and Asian economies. China’s goods with cheaper prices, its rapid industrialization process together with the US leadership in Information and Communication Technologies were the reasons of this revision.⁸⁵ There were also some internal dangers like low birth rates and an aging population. The enlargement

⁸³ Ibid.

⁸⁴ Report from the High Level Group Chaired by Wim Kok, op. cit., 10.

⁸⁵ Ibid, 12.

strategy of the EU makes the Lisbon targets more difficult. As these threats were inevitable, in the European Council in 2005 the EU revised the Lisbon strategy. It was certainly crucial in realizing economic growth, employment, competitiveness, scientific development, increasing European attractiveness, creation of better business standards and environmental sustainability. It was also fateful for the EU in meeting its objectives under the regional policy because Lisbon targeted economic and social cohesion. As growth, productivity, employment, research and development level were lower than the expectations, the renewed Lisbon strategy focused on two priorities; growth and employment that are the important objectives in achieving cohesion. For a more Lisbon oriented regional policy, the Commission adopted new priorities for the regional policy in its Third Report on Economic and Social Cohesion that was based on convergence, competitiveness and employment and territorial cooperation from 2007 to 2013.⁸⁶ Convergence is based on employment and job creation both in the member states and in the less favored regions whose GDP is less than 75 % of the average. Regional competitiveness and employment refers to the achievement of economic growth, full employment and social cohesion in assisting the depressed areas and people together. Territorial cooperation targets transnational balanced development. If there is any problem in cross-border activities of the member states, some important solutions should be undertaken by the EU.

In line with these new strategies, the Council adopts Community strategic guidelines on cohesion for the period 2007-2013 that focus on different factors:

- “-improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and

⁸⁶ European Commission, *Working For the Regions*, op. cit., 28.

communication technologies;
-creating more and better jobs by attracting more people into employment
entrepreneurial activity, improving adaptability of workers and enterprises and
increasing investment in human capital.”⁸⁷

These are the basic principles of the EU regional policy aiming to solve the negative imbalances, social and economic exclusion to create a more integrated Europe.

3.4 Funds of The European Regional Policy

EU allocates structural and cohesion funds to its member countries. They act like basic mechanisms to eliminate the problems of various regions. They have a considerable place in the regional policy because resource allocation is promoted through these funds. Structural funds consist of the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG). From 2000 to 2006 the total money granted reached 213 billion euros.⁸⁸ 18 billion euros was delivered through the cohesion fund. When looking at the period of 2007-2013 the resource allocation for the structural and cohesion funds is about 308 billion euros which is almost 36 % of overall EU spending. With the 2004 enlargement, the EU desired to absorb its new members by creating new funds in helping the underdeveloped regions such as the Instrument for Structural Policies for Pre-accession (ISPA) and Special Accession Programme for Agriculture and Rural Development (SAPARD). There are also special programmes in implementing the regional policy. The first one is Interreg III that enhances cross-border, transnational

⁸⁷ “The Community Strategic Guidelines on Cohesion 2007-2013”, *Regional Policy-Inforegio*, (http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm.)

⁸⁸ “Overviews of the European Union Activities: Regional Policy”, *Europa*, (http://europa.eu/pol/reg/overview_en.htm.)

cooperation which is financed by the ERDF.⁸⁹ Urban II is also financed by the ERDF and it focuses on innovation. Leader+ financed by the EAGGF tries to obtain new local strategies for rural areas and undertakes agricultural measures. The final initiative is Equal that emphasizes the elimination of discrimination and negative conditions in the labor market. The ESF finances this project.

3.4.1 Principles of The Funds

Principles of the funds are associated with the implementation of the regional policy which passes beyond several stages. Three rounds of reform package were issued. The first one took place in 1988, the second reform was made in 1993 and Agenda 2000 architected the final framework to coordinate the financial instruments in 1999.⁹⁰

There are actually five different types of principles like co-ordination, concentration, programming, additionality and partnership. The co-ordination principle combines all of the EU instruments within a single framework. During the 1988 reforms there were six conditions for the regions in obtaining funds but Agenda 2000 made them only three. Principles under 1988 structural fund reforms were:

- Objective 1: Development and structural adjustment of least-developed regions
- Objective 2: Conversion of regions facing industrial decline
- Objective 3: Combating long term unemployment
- Objective 4: Combating youth unemployment
- Objective 5a: Adjustment of agricultural structures
- Objective 5b: Development of rural areas
- Objective 6: Help low population density regions”⁹¹

1988 reforms were related with the enlargement package of the EU that welcomed Greece, Spain and Portugal as new members. Their entry created some danger for the implementation of the single market as they suffered economically.

⁸⁹ “How Does It Work?”, *Regional Policy-Inforegio*
(http://ec.europa.eu/regional_policy/intro/regions5_en.htm.)

⁹⁰ Bourne, op. cit., 287.

⁹¹ Ibid, 288.

So, the main objective was to reduce the difficulties of the member states and the Delors 1 budget package was adopted in February 1988 with the desire of making a new formulation in the cohesion policy.⁹² It was also doubled the budget allocated to structural funds. In 1992, the Commission proposed the Delors 2 budget package that was accepted in July 1993. This raised the funds allocated to both Objective 1 and 3 regions and increased the proportion of the structural funds coming from the budget.⁹³

The third reform was issued with Agenda 2000 by enhancing member states' role in the administrative process and by simplifying the monitoring procedure. However, it did not increase the overall spending for the structural funds. This reform decision created confusions between member states, especially in Germany, the Netherlands, the UK, Sweden, Austria.⁹⁴ They stated that they did not want to increase their budgetary contribution. They were opposed to this decision by denoting that this would lead to injustice because with the accession of new countries current member's share from the budget would dramatically decrease. Germany decided to decrease its own contribution to the budget. Finally, new principles under Agenda 2000 were accepted and they could be summarized as follows:

- Objective 1: Promoting the development and structural adjustment of regions whose development is lagging behind (for regions below the 75% threshold of the EU GDP per capita)
- Objective 2: Supporting the economic and social conversion of areas facing structural difficulties (industrial and rural areas with high long term unemployment and or high poverty levels)
- Objective 3: Adapting and modernizing policies and systems of education, training and employment"⁹⁵

⁹² Peterson and Bomberg, op. cit., 150.

⁹³ John Bachtler, "Reforming the Structural Funds: Challenges for EU regional Policy", *European Planning Studies*, Vol: 6, Issue: 6, 1998, 3.

⁹⁴ Ibid, 8.

⁹⁵ Charalampos Koutalakis, "EU Regional Development and Cohesion Policy" in Ana Maria Dobre, Myriam Martins-Gistelinck, Richard Polacek and Rolf Hunink, *Handbook on EU Affairs* (European Institute of Romania, 2005), 180.

Objective 1 combines former principles 1 and 6, Objective 2 includes old principles 2 and 5b and Objective 3 brings together principles 3, 4 and 5b of the 1988 reform.

After giving a summary of the different packages under the coordination principle, it is convenient to move into the other principles of the structural funds. The concentration principle's basic aim is to assist priority areas, namely regions facing huge difficulties containing the poorest regions in general terms.⁹⁶ This shows that financial help covers the underdeveloped regions of the EU. This objective can be also classified as a sub-heading of the co-ordination principle.

Programming refers to a set of arrangements in the distribution of structural funds through multi-annual programs and planned activities. This reflects especially a departure from financing on a project-by-project basis. In the 1988 regulations, the Commission was responsible to establish Community Support Framework (CSF) and Operational Programmes (Ops) after examining regional development plans which were conducted by the regional authorities. The expenditures under CSF were mainly dominated by Productive Investment Support, Human Capital Formation and Infrastructural activities.⁹⁷ However, new directives reduce the role of the Commission because member states are given the possibility to submit their single programming document. So, countries have greater voice in the implementation of the programming principle now by identifying their own needs.

The additionality principle is a kind of complementary assistance project which takes into consideration that funds should not substitute the countries' expenditures for their own national development efforts. It is an additional help

⁹⁶ Bourne, op. cit., 287.

⁹⁷ Productive Investment Support includes industry and services, rural development, tourism and agricultural expenses. Human Capital Formation is based on education, research and development. Infrastructural expenses go to projects for transport, energy, environment, health and communication. See Reiner Martin, op.cit., 85-86.

system for member states. The EU is still facing some problems in implementing this principle due to the disputes during the negotiation process.

The final principle of the structural funds is partnership. It is actually a consultation between the Commission, member states as well as local, national and regional authorities in the context of regional development plans. Many of the public and private actors are involved in the decision making process. The 1999 regulations gave clear division of competence between different partners. The Commission's position can be described as a supervisory role because it controls those relevant funds which should be spent to reduce regional disparities between various regions of the EU.⁹⁸

The partnership principle is related with the idea of "Europe of the Regions" because there are not only states but different regional authorities are also dominant for regional development activities and measures. Furthermore, it puts enhanced participation of the regional and social representatives in the implementation process to improve transparency and effectiveness. Europe of the Regions basically means that the subnational substances have a greater to say in the socio-economic events. It also suggests that the regions rather than the nation states can be more powerful in the decision making mechanism.⁹⁹

3.4.2 Structural Funds

There are regional socio-economic differences between the core and periphery areas of the EU that makes it inevitable to intervene through financial assistance. There should be more solidarity, equal distribution of opportunities and similar

⁹⁸ Koutalakis, op. cit., 181.

⁹⁹ Susana Borrás-Alomar, Thomas Christiansen and Andrés Rodríguez-Pose, "Towards A 'Europe of The Regions?' Visions and Reality From A Critical Perspective", *Regional Politics and Policy*, 4, 2, 1994, 27, 43.

welfare gains. Hence, structural funds are created in order to narrow economic and social gaps. There are four different funds.

The first one is the European Regional Development Fund (ERDF) which was established in 1975. Its goal is to ensure economic and social cohesion by reducing regional problems through investments for job creation, infrastructure, education and health for Objective 1 regions. Assistance is allocated to small and medium sized enterprises along with the technological transfer, investment measures, local and employment development activities.¹⁰⁰ For the period 2000-2006 it supports new Objective 1 and 2 regions, Interreg III and Urban II activities. For urban and rural regions dependent on fisheries under Objective 1, the ERDF helps their modernization process with investments for transport, telecommunication and energy. Equality between men and women, increasing competitiveness and innovative activities are also supported by the ERDF.

The European Social Fund (ESF) was established in 1957 and its major policy is to diffuse employment opportunities within the Union. It undertakes some various measures in increasing the employment level such as policies towards avoiding long-term unemployment. So, it encourages workers returning to work and young persons. It focuses on social integration with equal job opportunities, reinforcing education and training activities, creating high quality employees by encouraging human involvement in science and technology, increasing women's role in enterprises along with eliminating exclusion in the labor market.¹⁰¹ Through 2000-2006, the European Employment Strategy which is included in Agenda 2000 is supported with this fund. It allocates funds to Objective 1, 2 and 3 zones and Equal program.

¹⁰⁰“ERDF: European Regional Development Fund”, *Europa*,
(<http://europa.eu/scadplus/leg/en/lvb/l60015.htm>.)

¹⁰¹ Koutalakis, op. cit., 178.

The European Agricultural Guidance and Guarantee Fund (EAGGF) constitutes almost 40 % of the EU budget and it is one of the most important funds which emerged in 1962.¹⁰² It is divided into two ranges namely the Guarantee and Guidance. The Guarantee section is based on the activities involved in the Common Agricultural Policy areas. It supports this crucial policy of the EU. The Guidance deals with the reform packages in the least developed regions in rural areas. It promotes agricultural measures namely modernization techniques and product-oriented activities like marketing, reduction of spending, launching high quality products and forests-supported policies. In fact, the fund is responsible for the enhanced opportunities in depressed zones. It allocates funds to Objective 1 regions and supports the Leader program.

The Financial Instrument for Fisheries Guidance (FIFG) tries to advance the competitiveness of the fisheries industries, works for sustainable development for the areas dependent on fisheries and aquaculture.¹⁰³ In other words, it works for the Common Fisheries Policy. Between 2000 and 2006 the fund provides some structural measures like innovative precautions for coastal areas, fleets, fishing vessels and ports. It also operates for the improvement of product quality, promotion and revitalization techniques. Objective 1 regions are financed by this fund.

Under the objectives of Agenda 2000, 70 % of the regional spending goes to Objective 1 regions which include 22 % of the EU population.¹⁰⁴ 11.5 % of the structural funds are given to Objective 2 zones refer 18 % of the member states. For Objective 3 regions 12.3 % of financial provisions are provided.

¹⁰² Ibid.

¹⁰³ “FIFG: Financial Instrument for Fisheries Guidance”, *Europa*, (<http://europa.eu/scadplus/leg/en/lvb/l60017.htm>.)

¹⁰⁴ http://europa.eu/pol/reg/overview_en.htm.

3.4.3 The Cohesion Fund

Since 1994 the Cohesion Fund makes arrangements in environment and transport infrastructure through financing eligible projects. Environment oriented eligibility depends on projects of reforestation, erosion control, drinking-water supply and the treatment of wastewater. Member states should have to fulfill two types of criteria in order to be assisted. First of all, member states' GNP per capita should be less than 90 % of the EU average. If their GNP reaches more than 90 % of the average financial provisions are suspended. Secondly, member states that "have a programme leading to the fulfillment of the conditions of economic convergence as set out in Article 104c of the Treaty establishing the European Community (avoidance of excessive government deficits)"¹⁰⁵ are eligible for assistance. Until 2004 Greece, Ireland, Spain and Portugal were countries that benefited from the financial assistance. But in 2003, Ireland was described as ineligible. With the accession of the ten new member states in the EU, all of these countries namely Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia are involved in these two criteria.

3.4.4 The Community Initiatives

The Community initiatives are special programs that cover specific policy areas since 1988 reforms of the structural funds and 5.35 % of the structural funds go to these funds.

¹⁰⁵ "The Cohesion Fund at a Glance", *Regional Policy-Inforegio*
(http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm.)

Interreg III is one of the basic mechanisms in stimulating balanced development through cross-border, transnational and interregional cooperation.¹⁰⁶ For cross-border cooperation, the EU uses common development strategies. In order to vitalize transnational cooperation there should be more close links between the national, regional and local officials. Interregional integration depends on the establishment of regional networks to exchange information and expertise.

Leader +'s position in the development of rural measures as a second pillar of the Common Agricultural Policy is important because it seeks to ameliorate integrated rural development activities through sharing of information and experience via different networks.¹⁰⁷ It also supports transnational and regional cooperation.

Urban initiative which is one of the element to diffuse innovation within the EU, focus on the restructuring of urban areas with the purpose of economic and social welfare and sustainable development for declining areas.¹⁰⁸

Equal's actions are related with the social aspects of the European regional policy with the aim of eliminating non-discrimination and inequality. New policy measures, methods to improve employment facilities are all supported by Equal.

3.4.5 The Pre-Accession Funds

The pre-accession funds were dedicated to Central and Eastern European countries in order to prepare them to membership. Later, it diffused to other states. There are three funds namely the PHARE, SAPARD and ISPA.

¹⁰⁶ European Commission, *Structural Policies And European Territories, Competitiveness, Sustainable Development And Cohesion In Europe: From Lisbon to Gothenbourg* (Luxembourg: Office For Official Publications Of The European Community, 2003), 56.

¹⁰⁷ "LEADER+", *Europa*, (<http://europa.eu/scadplus/leg/en/lvb/g24208.htm>.)

¹⁰⁸ Jens Blom-Hansen, "Principals, Agents, and the Implementation of EU Cohesion Policy", *Journal of European Public Policy*, 12:4, August 2005, p: 627.

Poland and Hungary: Assistance for Restructuring their Economies (PHARE) programme focuses on institution building for all industries and investment support for regional development.¹⁰⁹ Institution building refers to the achievement of promoting democratic institutions, strengthening administrative and management systems and training public officials with the aim of efficient implementation of the *acquis communautaire*. PHARE's role is very important because it is linked to the structural funds and it guides countries in resource allocation.

The Special Accession Programme for Agriculture and Rural Development (SAPARD) is created for the implementation of the *acquis* in the agricultural industries with a prospect of solving difficulties in rural and agricultural areas.¹¹⁰ For the Common Agricultural Policy purposes, this fund increases the amount of investment, health control of food quality, environmental protection for agricultural products. In rural areas the responsibility is to improve the rural infrastructure and forestry with the aim of protecting the rural areas. It also covers some other methods to apply better rural and agricultural strategies.

As a part of the pre-accession strategy, Instrument for Structural Policy for Pre-accession (ISPA) is influential in environment and transport policies of the EU because it checks that the EU environmental law and accession partnership strategy are being properly managed by the candidate countries.¹¹¹ Environmental and transport infrastructure projects of the candidates are supported. It also upgrades the ties between the national and trans-European transport connections.

¹⁰⁹ European Commission, *Enlargement of the European Union, An Historic Opportunity* (Brussels: European Commission, Enlargement Directorate-General, 2003), 16.

¹¹⁰ "Pre-Accession Agricultural Instrument (Sapard)", *Europa*, (<http://www.europa.eu/scadplus/leg/en/lvb/l60023.htm>.)

¹¹¹ "Instrument for Structural Policy for Pre-Accession", *Europa*, (<http://www.europa.eu/scadplus/leg/en/lvb/l60022.htm>.)

3.5 New Regulations for 2007-2013

“As to the future, the task is not to foresee it, but to enable it.”

Antoine de Saint-Exupéry

This quotation points out that with the European regional policy, the EU tries to promote balanced development. For this purpose, the most important strategy is to develop new opportunities because there are many internal and external challenges. To enhance common solutions to negative socio-economic imbalances, the Union makes some regulations in the regional policy.

In 2004, The European Commission adopted a new financial framework for the period 2007-2013. The major goal is to achieve growth and competitiveness which are parts of the Lisbon and Gothenburg decisions.¹¹² Financial assistance will be provided for territorial development activities including modernization of local and rural areas. The EU will work also for institutional development. At this point, policy-making directives are noticeable in boosting regional cohesion.

Three new priorities are added to the objectives of the EU regional policy and the total money granted is EUR 308.041 billion. The first objective is convergence that includes the Objective 1 regions whose development is lagging behind. Convergence aims to promote growth and job creation and “the total resources allocated to this objective are EUR 251.163 billion, equivalent to 81.54 % of the total.”¹¹³

Regional competitiveness and employment is the second priority. It covers the richer member states rather than the peripheral regions in promoting

¹¹² Koutalakis, op. cit.,184.

¹¹³“General provisions ERDF - ESF - Cohesion Fund (2007-2013)”, *Europa*, (<http://www.europa.eu/scadplus/leg/en/lvb/g24231.htm>.)

entrepreneurship, innovation and major labor market measures.¹¹⁴ Employment initiatives are based on the implementation of the European Employment Strategy aiming at adaptability and access to work places and social inclusion. The financial resources for this regional competitiveness and employment objective are EUR 49.13 billion in total, that corresponds to 15.95 %.

The final provision is territorial cooperation which comprises Interreg regions. This will be accomplished through effective problem solving techniques in neighboring countries. In fact, the establishment of small and medium size enterprises is important. The EU will work for cross-border and transnational cooperation. EUR 7.75 billion, that is 2.52 % of the total will be provided for this objective.¹¹⁵

Under convergence, the structural funds are designed to give support to depressed areas whose GDP per capita is less than 75 % of the EU average while the cohesion fund will provide resources to the areas whose GNP per capita is lower than 90 % of the average. For regional competitiveness and employment criteria, the structural and cohesion funds will be allocated for the regions that can not be placed under the convergence objective. With the purpose of territorial cooperation, the EU will help the regions “which are situated along internal land borders, certain external land borders and certain regions situated along maritime borders separated by a maximum of 150 km.”¹¹⁶

After examining the structural and cohesion funds, it is necessary to give information about the new regulations for the pre-accession funds. These funds, thanks to the new financial structure for the period 2007-2013, are replaced with the

¹¹⁴ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

Instrument for Pre-Accession Assistance (IPA).¹¹⁷ It helps both the candidates and potential candidate countries together. It is designed to facilitate the regional cooperation, economic and social cohesion, institution building with respect to the fundamental freedoms, rule of law and non-discrimination. It is divided into five main principles like the support for transition and institution-building, the cross-border cooperation, the regional development, the human resources improvement and the rural development.

All of these adjustments are required because with the accession of new member states, the EU has 27 members causing challenges for the future of economic and social cohesion. The income gap between the richest and poorest members are more than doubled and since 2001 there is an economic recession in many of the European countries.¹¹⁸ Furthermore, technological revolution, globalization and innovative actions make financial support inevitable. As the EU wants to be a global player as well as the most competitive, dynamic knowledge-based society by 2010, there should be a new reform.

In sum, economic and social cohesion which is a part of the EU regional policy targeting to reduce disparities between its members by providing modernization activities in marginalized regions, job creation, harmonious development, education facilities, better standards of living, economic stability, social inclusion and other necessary strategies to combat with unemployment and discrimination is vital in eliminating the negative pressures coming from the

¹¹⁷“Instrument for Pre-Accession Assistance (IPA)”, *Europa*,
(<http://www.europa.eu/scadplus/leg/en/lvb/e50020.htm>.)

¹¹⁸“Questions and Answers on the Reform of Cohesion Policy and the Structural Funds 2007-2013”,
Europa,
(<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/04/182&format=HTML&aged=1&language=EN&guiLanguage=fr>.)

enlargement. As regional solidarity constitutes a worthy part of the regional policy, in order to vitalize convergence and competitiveness the EU puts some measures like structural policies, macroeconomic coordination and budgetary transfers. It provides structural, cohesion, pre-accession funds and Community initiatives. Put differently, funds are dedicated to member states which experience income or other type of economic and social imbalances.

Although the regional policy is a beneficial tool in decreasing the disturbances of the member states, the socio-economic trends should be analyzed in order to see the results of this cohesion policy. A detailed outlook is required to understand what is being achieved. The next chapter will show the past and recent trends.

CHAPTER 4

STATISTICAL ANALYSIS OF SOCIO-ECONOMIC TRENDS IN AN ENLARGED EU

4.1 Partial Analysis of the Cohesion Reports

This section is a brief analysis of the four reports on economic and social cohesion which gives a clear impression about the negative effects of the EU enlargement strategy on regional policy because the basic trends from 1996 to 2006 show that there is not only a lack of solidarity but also regional disparities increase with the accession of new members to the EU.

4.1.1 First Cohesion Report

This report which was published in 1996 examines the statistics in the EU-15 by finding answers to questions like what the impact of the structural measures is and whether there is balanced development that leads to lower the gap between different countries.

While examining the economic figures, it was evident that there was a growth by 2 % per year and employment levels increased by 0.5 % a year since 1983.¹¹⁹ This was related with the rapid recovery of the poorest member states namely Spain,

¹¹⁹ European Commission, *First Cohesion Report*, Executive Summary, 5.

Portugal, Greece and Ireland. Although economic growth had been achieved, the employment rates underlined that there was a problem because in Finland, Sweden, Spain and Greece the job creation and employment opportunities were below than expected. Women's participation in the workforce was lower than men and this implied that women were employed in the low skilled jobs and they were excluded.

To be more specific, some employment figures should be given to show the gap between different countries. Unemployment rates on average became 11 % in the EU in 1995 while it was only 6 % in the US and 3 % in Japan.¹²⁰ Both in Luxembourg and Austria, the unemployment rate was less than 5 % but in Spain and Finland the level was almost 15 %. In my opinion, the EU was far from being a global player during the 1990s without solving its regional disturbances because there was a cliff between various countries in terms of economic and social development.

Although the general outlook for job opportunities was negative, regional regulations to promote cohesion were satisfying as the inflation level and the interest rates diminished. Research and development expenditures were increased, especially by the richest member states.¹²¹ These achievements promoted a sustainable environment to attract foreign investors. In reality, country specific measures could not improve the quality of life due to the small distribution of budgetary means for regional development in the member states.

According to the European officials, the contribution of the EU structural policies in economic and social cohesion via providing financial assistance to the least developed regions and depressed areas were estimated to narrow the gaps between the richest and poorest members. The modernization incentives, the job

¹²⁰ Ibid, Chapter 2, The Convergence Process and Cohesion: Recent Trends, 19.

¹²¹ Executive Summary, op. cit, 6.

creation facilities and the innovative-based activities which were encouraged through the distribution of the structural funds would solve the regional problems.¹²² Although they knew that there were some challenges that the EU should cope with like the enlargement, the report did not give any solutions to the common problems or in other words there were no specific measures that was designed to tackle the regional difficulties. Only the report pointed out that the focus was on job creation, non-discrimination between sexes, environmental protection and competitiveness.¹²³ For better employment opportunities, the EU supported the establishment of Small and Medium Sized Enterprises and to increase member states' competitiveness; infrastructure, investment and innovation support were enhanced by the EU. Environmental protection was tried to be realized via following environment-friendly policies. Equal opportunities for men and women were supported with the creation of the NOW (New Opportunities for Women) initiative in 1991.¹²⁴

To conclude, from the first to the third enlargement, the objectives of the regional policy could not be fulfilled because there was not any sufficient increase in the employment level and territorial development could not be achieved. "The main challenges were how to target scarce resources better on the most serious problems, optimize the use of grants and loans and public and private funding, and simplify procedures and strengthen subsidiarity."¹²⁵ So, there was a gradual economic recovery but social cohesion could not be achieved.

¹²² Ibid, 10 .

¹²³ Ibid, Chapter 6, Ways Forward, 121.

¹²⁴ Ibid, 124.

¹²⁵ John Bachtler, "Reforming the Structural Funds: Challenges for EU Regional Policy", *European Planning Studies*, Vol:6, Issue 6, 1998, 5.

4.1.2 Second Report on Economic and Social Cohesion

Before examining this report, it is more suitable to focus on the Sixth Periodic Report on the Social and Economic Situation and Development of Regions in the European Union in order to show that the accession of the Central and Eastern European countries constituted an obstacle in the functioning mechanism of the regional policy. Although they did not participate in the EU when this report was published in 1999, it was evident that they would cause dangers. The transformative actions in these countries were reflected positively in their economic potential but in terms of regional imbalances and unemployment, more specific arrangements were necessary. They were below the EU average in terms of GDP and employment. There was also a lack of investment in transport infrastructure and environmental protection.¹²⁶

The second report which was published on 31 January 2001 examined the economic and social cohesion within the members and drew a picture of the EU-27. The report implied that the income disparities between members narrowed in recent years and in the least developed countries, namely Greece, Spain and Portugal, income per head increased from 68 % of the EU average in 1988 to 79 % in 1999.¹²⁷ Territorial imbalances and poverty remained as problems. However, with a Union of 27 members, the regional disparities would automatically rise because the candidate countries (CEECs) were dependent on agriculture, labor productivity was lower than the EU-15 and the rural population was higher. That's why the enlargement would cause challenges in two ways. First of all, it would augment the population of

¹²⁶ "Sixth Periodic Report On The Social and Economic Situation and Development of the Regions of the European Union", Executive Summary, *Regional Policy-Inforegio*, (http://ec.europa.eu/regional_policy/document/pdf/document/radi/en/01_sum-en.pdf), 12.

¹²⁷ European Commission, "Second Report on Economic and Social Cohesion", Unity, Solidarity and Diversity for Europe, Part 1, Situation and Trends, 31 January 2001, *Regional Policy-Inforegio*, see: (http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/contentpdf_en.htm), 1.

Objective 1 regions (whose GDP per capita was less than 75 % of the EU average) from 71 million to 174 million. Secondly, it would create economic difficulties by decreasing the income of the members. In 1998, the GDP per head of the less favored regions was 66% of the EU average but with the entry of new members the GDP of the marginalized regions would become 48 % of the EU average.¹²⁸

The report gave a brief outlook to the EU-25 by stating that:

“-The eight candidate countries with the lowest per capita income (Poland, Hungary, the Czech Republic, Slovakia, Lithuania, Latvia, Estonia and Malta) will have one fifth of the EU population but only 42 per cent of the per capita GDP;
-Spain, Portugal, Greece, Slovenia and Cyprus will have 13 per cent of the total EU population and an average 71 per cent of GDP per capita;
-The remaining 12 current Member States will account for 66 per cent of the total EU population and 115 per cent of the EU average GDP per capita.”¹²⁹

Socially speaking, the unemployment rate had “fallen from 10.7 % in 1997 to 8.3 % in August 2000 and is set to fall below 8 % in 2001.”¹³⁰ Although there was a progress, the statistics emphasized that the labor shortages were still a challenge for the socio-economic welfare. The labor market participation in the services sector grew and the jobs in agriculture and industry declined. The accession of the CEECs would automatically increase the agricultural population and employment. However, there were not any huge differences between the CEECs and the EU-15 in terms of employment statistics. While the unemployment level was 10.2 % in candidate countries, it was 9.3 % in the EU-15 in 1999.¹³¹

Poverty also was a problem that affected negatively the solidarity of the EU members. While in Denmark, Luxembourg, the Netherlands and Austria the poverty was below the EU average, Portugal and Greece faced serious problems as almost 22

¹²⁸ Ibid.

¹²⁹ “EU Regional Policy After Enlargement”, *Euractiv*, (<http://www.euractiv.com/en/enlargement/eu-regional-policy-enlargement/article-117535>.)

¹³⁰ European Commission, Second Report on Economic and Social Cohesion, op. cit, 13.

¹³¹ Ibid, 23.

% of their population suffered.¹³² In fact, the EU should increase the amount of the social transfers to the unemployed, the retired and families with many children to solve this uncertainty.

While looking through the European Union's main activities associated with the regional policy in the second report, it was clear that the amount of the structural funds dedicated to the member states doubled in recent years and the income gap of the Objective 1 regions decreased automatically. Moreover, in Objective 2 areas, unemployment rates diminished.¹³³ The competitiveness of the current members were tried to be enhanced with careful measures for the development of SME's, education and training, research and development, transport infrastructure. The creation of the European Spatial Development Perspective was important because the EU began to give emphasis to the urban development, cultural heritage of the EU regions, more infrastructure and know-how oriented concerns with the aim of harmonious development.¹³⁴ The European Employment Strategy was also accepted in 1997. Its objectives were based on promoting employability, entrepreneurship, adaptability and equal opportunities.¹³⁵ Unfortunately, due to the continuity of the unemployment problems, this strategy was not successful enough to combat with the long-term unemployment and to integrate the youth population into the labor market.

To conclude, it is not suitable to talk about real convergence when this report was launched because of the poverty problem and the negative effect of the possible accession of the CEECs. Furthermore, the young population under 15 fell and there was a growth in the number of the elderly people who are older than 65.¹³⁶ This signifies that the social protection and the health-care systems would cause a

¹³² Ibid, 24.

¹³³ Ibid, 15.

¹³⁴ Ibid, 29.

¹³⁵ Ibid, Part 2, Contribution of Community Policies to Cohesion, 90.

¹³⁶ Ibid, Part 1, Situation and Trends, 42.

budgetary burden in the near future. So, the system of early retirement should be eliminated, the training opportunities for the older and the young people should be enhanced. The budgetary allocation for education should be improved to increase the number of the qualified people. Without finding any immediate solutions to the income and labor market related difficulties, it is impossible to create an ever closer union and to become a knowledge-based economy.

4.1.3 Third Report on Economic and Social Cohesion

The third report which was published on February 2004 recorded that “the economic growth in the EU has slowed appreciably over the three years since the publication of the second Cohesion Report.”¹³⁷ This was related with the structural problems such as the lack of physical, environmental and human capital, inefficiencies in the innovative actions.

The accession of the new members in the EU did not put an end to the regional imbalances. The number of people living in Objective 1 regions increased sharply and 55 million people was at the risk of poverty in 2000.¹³⁸ This was a real danger as the budget distribution to social services, housing, health care and education would be less if these income problems continue. As a result, the social cohesion can not be achieved in most of the EU regions. The ageing of the population was still a problem and 64 % of the EU-15 citizens were employed. In the new accession countries this rate was only 56 %. 2003 statistics specified that unemployment rates were high in the CEECs especially in Poland with a share of 20 % and it reached 16 % in Slovakia. In both Latvia and Lithuania it was more than 10

¹³⁷ European Commission, *Third Report on Economic and Social Cohesion*, A New Partnership For Cohesion: Convergence-Competitiveness-Cooperation (Luxembourg: Office for Official Publications of the European Communities, February 2004), Executive Summary, 7.

¹³⁸ Ibid, 9-10.

%. Only in Cyprus, unemployment did not pose any economic instability because it was only 4 %.¹³⁹ The women's participation in the economic activity also varied between countries. For example, working women in the Netherlands, Austria, UK and the Nordic countries were more than 60 % while in Spain, Greece and Italy this rate was below than the EU average.¹⁴⁰

The factors that accelerate competitiveness which were especially based on qualified workers with an effective educational background, infrastructure endowment and innovation were not successfully implemented. Both in the rail network and in telecommunications, the modernization process should be enhanced because mainly in the new member states, there was a need to develop an effective formula. Other infrastructures like health facilities and social support systems were also needed to be revised. As the innovative reforms of a country increased its credibility and access to the new technologies was vital to be a global player in world markets, important steps should be conducted in order to decrease the gap between different regions.¹⁴¹ Due to these inefficiencies, the investment rate was not satisfactory. Although foreign direct investment contributed positively to the areas where economies were poor and it created jobs and higher level of incomes for the citizens, the amount of capital inflows was not sufficient in the member states.¹⁴² For example, in the period of 1999-2001, investment flows in Ireland were 21 % of its GDP but in Portugal it was only 4 % and in many other countries including Spain, Italy as well as Greece capital inflows were even lower. There were regional inequalities in terms of economic growth and all the member states could not benefit

¹³⁹ Ibid, Part 1, Cohesion, Competitiveness, Employment and Growth: Situation and Trends, 23.

¹⁴⁰ Ibid, 49.

¹⁴¹ Ibid, Executive Summary, 11-12.

¹⁴² Ibid, 14.

from the foreign direct investment. Therefore the decision makers should adopt new policies to solve the economic difficulties of the EU members.

The report stated that a reformed cohesion policy was essential in solving the uncertainties coming from the enlargement. When the new countries joined into the Union, socio-economic disparities became a serious handicap and the GDP of the EU decreased by 12.5 %.¹⁴³ Most of the good performers were also negatively affected by the economic slowdown. To be specific, Germany and Italy were faced economic troubles. In France and the Netherlands where the growth rates were high in the past, the economic recession caused damages in terms of GDP growth.¹⁴⁴ However, the successful point was that there was an economic recovery in the four cohesion countries namely Greece, Spain, Ireland and Portugal. The employment level was also augmented and there was a growth in productivity. Hence, the structural interventions in these countries were reflected positively in their economic growth.

In this context, it is useful to explain the challenges that the EU regional policy will face with the entry of the Central and Eastern European Countries. The structural deficiencies will grow automatically in the near future. It will be difficult to conduct a long-term development strategy due to the rise in the regional disturbances. As the depressed areas will be multiplied, it will become difficult to help the less favored regions. As a result, this will cause a burden to the EU budget.

To sum up, there is not a strong possibility that the new priorities of convergence, regional competitiveness and employment as well as territorial cooperation can accelerate the job creation, cross-bordered problem-solving, access to work places, stability and fair competition, higher standard of living and economic growth although there was an economic achievement in the cohesion countries. It is

¹⁴³ Ibid, 25.

¹⁴⁴ Ibid, Part 1, Cohesion, Competitiveness, Employment and Growth: Situation and Trends, 4.

estimated that the CEECs will put an obstacle to the regional development activities and integration process.

4.1.4 Fourth Progress Report on Economic and Social Cohesion

On 12 June 2006, the Commission published its fourth progress report emphasizing the importance of the convergence between member states and showing the disparities along with the new socio-economic developments.

While observing the growth rates, it was evident that in 2005 even in the developed member states the level of economic growth was less than 1 % per year.¹⁴⁵ In the EU-25, the rate was only 1,5 % a year. However, the new member states almost completed their economic recovery and the thirteen cohesion countries' GDP was in a rising trend.

When analyzing the third and fourth progress reports on economic and social cohesion the employment statistics specified that that the EU made successful arrangements because in 2003, the employment rate in the EU-25 was 62.9 % and in 2004 it reached 63.3 %. From 1998 to 2004, the EU created 10 million additional jobs but it was still away from the Lisbon target of employment which was 70 %. This meant that it should create 24 million more jobs.¹⁴⁶

For research and development which is a key element of technological improvement and innovative actions only 35 regions had an expenditure fulfilling the Lisbon goals and “these 35 regions account for 46 % of total R&D expenditure in the EU27 – which is twice their share in GDP.”¹⁴⁷ Conversely, in 47 regions, the total

¹⁴⁵ Communication from the Commission, “*Fourth Progress Report On Cohesion*”, The Growth and Jobs Strategy and the Reform of European Cohesion Policy (Brussels: Commission of the European Communities, 12.6.2006),

(http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/interim4/4inter_en.pdf), 3.

¹⁴⁶ Ibid, 4.

¹⁴⁷ Ibid, 6.

spending covering research and development was below 0.5 % of GDP. There was also a huge gap in ICT expenditures between countries. The internet access was at a satisfactory target in the Netherlands, Denmark and Sweden but it was 20 % in Lithuania, the Czech Republic, Hungary, Slovakia and Greece in 2005.¹⁴⁸

The optimistic point was that the EU began to extend its measures through new programmes such as JASPERS (Joint Assistance in Supporting Projects in European Regions), JEREMIE (Joint European Resources for Micro to Medium Enterprises) and JESSICA (Joint European Support for Sustainable Investment in City Areas) in order to create long term sustainability in the regions by providing grants, loans and technical expertise.¹⁴⁹

4.2 A More Detailed Outlook

The first section makes a general assessment of the socio-economic trends by emphasizing the new regulations that are undertaken by the EU officials and the challenges of the fifth enlargement. A deeper outlook is necessary in order to see the influence of the each phase of enlargement. So, this section provides an analysis of the socio-economic trends under different headings from the 1970s to 2007. The main focus is on basic indices such as GDP, technological adaptation, employment, income, social inclusion, growth, education, job opportunities and labor market participation.

¹⁴⁸ Ibid.

¹⁴⁹ Ibid, 10-11.

4.2.1 Economic Performance

Regional economic development from the 1970s to the early 1990s was negative especially in terms of GDP. There were huge gaps between the members of the EU. In Greece the productivity level was 49 % of the EU average in 1991 whereas Luxembourg's productivity was 131 %.¹⁵⁰ In general terms, Objective 1 regions whose GDP per capita was below 75 % of the EU constituted more than 20 % of regions but only 10 % of the total EU areas were recorded as good performers.

The four cohesion countries namely Portugal, Spain, Greece and Ireland which were the most problematic countries until the fourth enlargement succeeded to catch up with the other countries by decreasing their regional imbalances from 1960 to 1996. However, they were still problematic regions. The level of investment in Greece was 22 % from 1956 to 1973 but it decreased to 18 % in the period of 1975-1992. The picture in Spain and Portugal was more positive than that of Greece due to the necessary adjustments in the public sector and labor market. Ireland was the most fascinating country compared to other three in attracting the FDI in the late 1980s. This was based on its educated labor force, good infrastructural basis and efficient macroeconomic conditions since its participation to the European Monetary System although it experienced tough difficulties in the early 1980s. However, these were not the case for Greece.¹⁵¹

When analyzing the growth rates, it was evident that these four cohesion countries grew more than the rest of the EU between 1965 and 1975. Although this process slowed down in the early 1980s, rapid recovery was seen in Spain, Ireland

¹⁵⁰ Ash Amin and John Tomaney, *Behind the Myth of European Union, Prospects for Cohesion*, Part 1, The Challenge of Cohesion (London: Routledge, 1995), 13.

¹⁵¹ Reiner Martin, *The Regional Dimension in European Public Policy, Convergence or Divergence?*, Part 4, Regional Convergence within the EU: An Empirical Analysis (New York and London: St. Martin's Press, Inc., Macmillan Press Ltd., 1999), 41-46.

and Portugal for the period 1985-1990.¹⁵² The structural funds succeeded to shorten the regional imbalances for the Objective 1 areas of Greece, Ireland, Portugal, the Mezzogiorno of Italy and Spain.

The recent trends were different. The GDP rose by 1.5 % in 2001 compared to the 3.5 % in 2000 and even the four biggest economies such as the United Kingdom, France, Italy and Germany experienced low growth rates.¹⁵³ The per capita GDP changes from 1999 to 2003 showed that the economic progress was dynamic in Greece and Spain but Poland, Cyprus, Malta, the Czech Republic and Bulgaria could not be efficient in the catching-up.¹⁵⁴ However, in the period of 2000-2006 the GDP growth rates were similar between the EU-15 and EU-27 and among different countries the most noticeable progress was seen in the CEECs, mainly in Latvia with a share of 11.9 % and Estonia with 11.4 % in 2006. Slovakia and Romania were the followers but the forecasts underlined that this ascendant trend will terminate in 2007 and 2008.¹⁵⁵ Greece and Spain were higher than the average in 2006.

The most disappointing point was that although the CEECs' growth was successful, their share remained ineffective and there were still huge disparities between the EU members in terms of GDP per capita in PPS. The worst performers were Romania (34 %), Bulgaria (34 %), Latvia (49 %), Poland (50 %), Lithuania (52 %) and Slovakia (57 %) in 2005. It should be equal to 100 and economically

¹⁵² John Morley and Terry Ward, "Cohesion, Real Incomes and Employment Opportunities" in Jorgen Mortensen, *Improving Economic and Social Cohesion In the European Community* (New York: St. Martin's Press, 1994), 74-75.

¹⁵³ European Commission, *The Social Situation in the European Union*, Section 3, Economic Situation, (Luxembourg: Office for Official Publications of the European Communities, 2003), 110.

¹⁵⁴ European Commission, Eurostat and THEME, *Regions: Statistical Yearbook 2006: Data 2000-2004*, Chapter 2 (Luxembourg: Office for Official Publications of the European Communities, 2006), 31.

¹⁵⁵ "Real GDP Growth Rate", *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_economy&root=Yearlies_new_economy/B1/B11/eb012.)

speaking the CEECs were the losers. The winners were Luxembourg (251 %), Ireland (139 %), Netherlands (125 %), Austria (123 %) and Denmark (122 %).¹⁵⁶

Inflation rates ranged from 7.4 % in Bulgaria to 6.6 % in both Latvia and Romania to 3.3 % in Greece to 2.6 % in Malta to 1.3 % in Poland and Finland in 2006. In the EU average the inflation rate was 1.9 % in 2000 and it increased to 2.2 % in 2006 with little variations between these periods.¹⁵⁷ There were not any uncertainties affecting negatively the harmonious development. These indicators of growth, GDP and inflation emphasize that the former communist countries achieve to integrate with the EU-15 in terms of economic growth but this transformation process has still some costs because there is not any economic stability in the EU-27 and the economic gap is still a concern, distorting the effectiveness of the regional policy.

In the autumn economic forecasts of 2006, the European Commission had optimistic expectations considering the economic growth by pointing out that it will be 2.8 % in 2006 and 2.4 % in 2007 but it was only 1.7 % in 2005 for the EU-25.¹⁵⁸ Headline inflation was above 2 % in the first quarter of 2006 and this was based on the rise in energy prices and unprocessed food prices. As the Commission puts it, it will be 2.1 % in 2007 and 1.9 % in 2008. The highest inflation rate among the euro-zone members will be seen in Greece and Spain. Outside the euro area, the highest rates will be in Latvia, Estonia and Lithuania. But in general, inflation does not seem to pose a challenge for the EU as a whole. There will be a little improvement in the

¹⁵⁶“GDP Per Capita in PPS”, *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=sdi_ed&root=sdi_ed/sdi_ed/sdi_ed_inv/sdi_ed1120.)

¹⁵⁷ “Inflation Rate”, *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_economy&root=Yearlies_new_economy/B1/B13/eb040.)

¹⁵⁸ European Commission, *European Economy*, Chapter 2, The Economies of the Euro Area and the EU (Brussels: Directorate-General for Economic and Financial Affairs, No: 5, 2006), 31.

investment level of Germany, Italy and Portugal. Ireland will be the most favored member in terms of productivity growth but in general this rate will be low in 2007. The budget balance data are quite interesting, illustrating that there are surpluses in Germany, Belgium, Luxembourg, Netherlands whereas Spain and the majority of the CEECs experience high deficits.¹⁵⁹

There is a possibility that the majority of the ten CEECs would not participate in the euro zone area because of their economic instability. Member states should follow common economic criteria in order to be eligible. Countries should have price stability with low inflation which shouldn't exceed 1.5 % of the best three performers, their public deficit should be below 3 % of the GDP and the value of the government debt should be around 60 % of the GDP. Moreover, they should have low interest rates (not more than 2 % points above the three leading countries).¹⁶⁰ The data prove that they are not ready to adopt the single currency because their current account deficits accelerated from 4.3 % of GDP in 2001 to 4.6 % in 2005. The high rates of unemployment, the low contribution to pensions and the need to rearrange the public financing system make these countries inefficient.¹⁶¹ Their isolation will affect the functioning of the regional policy negatively, causing a handicap for the harmonious development and regional competitiveness because the single currency allows free movement of goods, capital, labor and services by removing trade barriers in the euro zone. Member states benefit from market transparency and it becomes easier to compare business conditions as well as price comparisons in different countries which enable them to choose cheaper and well-

¹⁵⁹ Iain Begg, "Lisbon Relunched: What Has Changed? Is It Working Better?", *Special CEPS Report*, December 2006, 4-6.

¹⁶⁰ Frédéric Allemand, "The Impact of the EU Enlargement on Economic and Monetary Union: What Lessons Can Be Learnt From the Differentiated Integration Mechanisms in an Enlarged Europe?", *European Law Journal*, Vol: 11, No: 5, September 2005, 590.

¹⁶¹ *Ibid*, 597.

produced goods. The reduction in the transaction and information costs allow firms to obtain higher profits as exchanging costs of one currency to another is eliminated.¹⁶² As a result, uncertain future movements of exchange rates disappear and the lower interest rates increase demand which lead to effective investment opportunities. Thanks to the one-size-fits-all interest rates strategy of the European Central Bank, the price stability is achieved simply by controlling the money supply and by monitoring prices that reduce inflation rates which reflect positively to economic efficiency.¹⁶³ In this context, the possible delay of the CEECs to join in the euro zone area will be harmful for the regional competitiveness of the EU, deteriorating the gap between member states.

4.2.2 Social Cohesion

The 1960s and 1970s could be pointed out as the full employment period but these positive developments began to deteriorate in the 1980s and 1990s. Unemployment reached 10.9 % in 1996 whereas it was 9.8 % in 1987.¹⁶⁴ The unemployment challenge was based on the balance of payments crisis, restrictive monetary policy, low investments and productivity. The regions that were mostly affected from the high unemployment were situated in Spain and southern Italy and the level was almost 22 %.¹⁶⁵ “Whereas the proportion of people of working age in work reached 75 % in Denmark and south-east England and 70 % in southern

¹⁶² Paul de Grauwe, *The Economics of Monetary Integration* (Oxford University Press, 1992), 61-71.

¹⁶³ Ibid, 161.

¹⁶⁴ Martin, Part 2, *European Economic Integration and the Growth of Regional Heterogeneity*, op. cit., 14.

¹⁶⁵ Ronnie Hall, “Regional Disparities and Community Policy” in Jorgen Mortensen, *Improving Economic and Social Cohesion In the European Community* (New York: St. Martin’s Press, 1994), 61.

Germany in 1989, it was below 50 % in all of Spain, in Ireland and in much of southern Italy.”¹⁶⁶

In this context, the industrial distribution of employment was crucial because the EU should give enough emphasis to industrialization in order to promote balanced development and to increase regional competitiveness. In 1990, agriculture played more noticeable role compared to industry in Ireland, Greece, Spain, Portugal and Italy. In the UK, the Netherlands, Belgium and Germany less than 5 % of the employment was in agriculture.¹⁶⁷ As a result, the social integration of the four cohesion countries could not be accomplished and the major reason was the lack of industrialization.

Women’s participation in the labor force was another issue which caused a danger for social cohesion. Generally, it was high in the developed northern regions and low in the less favored southern areas but female employment increased also in some parts of the periphery. For example, Ireland, Spain, the south of France, Greece and southern Italy succeeded to raise the women’s share in the work places from 1985 to 1989.¹⁶⁸ However, the levels were not sufficient to prevent social isolation.

After the period of 1990s, it is now necessary to examine the new figures for the workforce. “The Lisbon strategy of 2000 sets the ambitious goal of achieving an employment rate of 70 % overall, 60 % for women and 50 % of older workers within the EU-25 by 2010.”¹⁶⁹ In reality, there were many variations between the EU members. In Denmark, the Netherlands, Sweden and the UK the labor market participation was above the Lisbon target in 2003. In Luxembourg, Netherlands,

¹⁶⁶ John Morley and Terry Ward, op. cit., 74-75.

¹⁶⁷ Ibid, 84.

¹⁶⁸ Ibid, 83.

¹⁶⁹ Anna Turmann, “ Getting Europe To Work, The Role of Flexibility in Tapping the Unused Potential in European Labour Markets”, *CEPS Working Document*, No: 250, September 2006, Abstract.

Austria and Ireland unemployment was less than 5 %. Spain, Greece, Italy, Slovakia, Hungary and Poland were far from the Lisbon target. In Germany, France and Italy employment growths were in decreasing trends, especially in Germany long-term unemployment was a major challenge. In general terms, unemployment rates reached 9 % in the EU in 2003.¹⁷⁰

Before moving into the next topic, it is necessary to give some statistics in order to see the variations between different periods easily. The table below is an illustration that in 2006 the gap between the CEECs and the EU-15 diminished. This could be considered as a success but the main problem was that in both Poland and Slovakia unemployment remained a danger, distorting the social cohesion although there was a decrease compared to last years. In Poland, unemployment rate was 17.7 % in 2005 and it became 13.8 % in 2006. Slovakia was also succeeding to reduce its unemployment level from 16.3 % in 2005 to 13.4 % in 2006. When comparing these data with other countries, there were not any members whose unemployment rates were more than 10 % in 2006 and the lowest values were seen in the Netherlands (3.9 %), Denmark (3.9 %), Ireland (4.4 %), Cyprus (4.7 %), Luxembourg (4.7 %) and Austria (4.8 %). Unemployment never became a danger for these several countries from 2000 to 2006. Latvia, Bulgaria, Estonia and Lithuania faced with severe labor market crisis in the past but they could lessen their unemployment figures in recent years.¹⁷¹ These imbalances proved that the special assistance programmes dedicated to the CEECs like PHARE, SAPARD and TACIS was not successful enough because while examining the data it was visible that the southern and eastern parts were the most affected regions.

¹⁷⁰ Ibid, 3-5.

¹⁷¹ "Unemployment Rate-Total %", *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em071.)

Total Unemployment Rate (%)	2000	2001	2002	2003	2004	2005	2006
EU-27	8.6	8.4	8.7	9.0	9.0	8.7	7.9
EU-15	7.6	7.2	7.5	7.9	8.0	7.9	7.4

Source:http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em071.

There were no any effective achievements in terms of female unemployment because in the EU-27 it was 10 % in 2000 and reached 8.8 % in 2006. Moreover, the level was unchanged from 2000 to 2004. Greece, Spain, Poland and Slovakia were the losers and Ireland and the UK were the winners.¹⁷² There was a sharp increase in the older workers' (aged 55-64) participation in the workforce. Although it was only 36.9 % in 2000, it amounted to 43.5 % in 2006. The 50 % target of the Lisbon goals was not achieved yet and only 8 countries namely Sweden, Denmark, Estonia, Ireland, Cyprus, Latvia, the UK and Finland exceeded the limit.¹⁷³ As a result, older workers caused a problem in the EU because of the ageing population and low birth density. Therefore, they should participate more on the labor market.

The key policy to contribute positively to the employment growth laid down on qualified workers by investing on education. When looking at the EU, Europeans aged 25-34 who completed their upper secondary education were 77 % and this ratio dropped to 54% when looking at the elderly in 2004. However, there was not any

¹⁷²“Unemployment Rate-Females %”, *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em072.)

¹⁷³“Employment Rate of Older Workers- Total %”, *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em014.)

effective rise in the number of tertiary students from 1998 (14.4 million) to 2003 (16.9 million).¹⁷⁴ Lifelong learning remained a challenge because only 10 % of the EU members aged 24-64 was included in this process. In this context the government contribution of almost 5 % on education and training should be enhanced. If no country invests in education, it will be unrealistic to talk about better labor market performance, contributing positively to the economic improvement. Due to this reason, the EU should focus more on Objective 3 of Agenda 2000 which contains modernizing policies and the process of education, training and employment.

As regards social protection and health care services, the EU countries use diverse formulas for financing such as social security contributions via employers and protected persons as well as general government contributions. The protection system includes unemployment, disability, old age, social exclusion, health care and family benefits. Old-age, sickness and health care have the major share in the budget distribution because of the rise in the proportion of the older people and the lack of births that affect negatively the health benefit and pension systems.¹⁷⁵

There was always a fluctuation in the social protection expenditures between 1990 and 1999. From 1996 to 2000 the reduction continued in spending and it amounted to 27.3 % of GDP in 2000 in the EU-15 with the most apparent decline in Finland and Ireland.¹⁷⁶ In 2003, the social protection expenditure amounted to 28.3 % of GDP in the EU-15 and 28 % in the EU-25, thanks to the dominant contribution

¹⁷⁴ European Commission, Eurostat and THEME, *EU Integration Seen Through Statistics, Key Facts of 18 Policy Areas*, Part 8, Education and Lifelong Learning (Luxembourg: Office for Official Publications of the European Communities, 2006), 46.

¹⁷⁵ European Commission and Eurostat, *Statistical Portrait of the European Union: 2007*, Chapter 3 (Luxembourg: Office for Official Publications of the European Communities, 2006), 34-36.

¹⁷⁶ European Commission, *The Social Situation in the European Union*, Part 12, Social Protection Expenditure and Receipts (Luxembourg: Office for Official Publications of the European Communities, 2003), 140.

of Sweden, France, Germany and Denmark. Unfortunately, the proportion was not that high in Ireland, Estonia and Spain.¹⁷⁷

The poverty indices show that it is not suitable to talk about real social convergence in the EU-25. In reality, 16 % of the EU-25 population was at the risk of poverty in 2003 and the most affected part of the population was the women, older people and children.¹⁷⁸ In most of the CEECs except Hungary, the Czech Republic and Slovenia, poverty remained a problem. Greece, Ireland, Spain and Italy also were problematic areas.

To conclude, there is an improvement in the labor market strategies but there is a need to implement more active policies in investing the human capital, providing effective ageing policies, implementing better social protection systems.

4.2.3 Technological Adaptation

It is an accepted issue that technological progress depends on key factors such as qualified workers, research and development capacity of a country, innovative actions and outstanding infrastructural investments. By looking at the general framework in the 1990s, it was suitable to note that in the four cohesion countries the share of the Research and Development personnel was low compared to the most advanced regions. It was in fact connected to the insufficient level of large enterprises. Only in Ireland there was a progress because the country began to follow the Science and Technology Development Programme in 1987.¹⁷⁹

The heterogeneity was also seen in the patents and publications area as well as R&D expenditures. While the share of the UK, France and Germany for the total

¹⁷⁷ European Commission, Statistical Portrait of the European Union, op. cit., 37.

¹⁷⁸ European Commission, *EU Integration Seen Through Statistics*, Part 10, Social Protection and Social Inclusion, op. cit., 58.

¹⁷⁹ Martin, Part 7, Human Capital Investments and Cohesion: The Case of R&D Policy, op. cit., 124-125.

number of patents reached 80 %, there was not any adequate level of R&D facilities in the cohesion countries.

The conclusion which could be drawn from these realities was that for the Small and Medium Size Enterprises it was really hard to integrate into the R&D activities and as the number of these enterprises was high in the peripheral areas; many regions could not adapt the new technologic advancements. Additionally, the budget share of the R&D support is low, constituting only 5.5 % of the EU budget for Objective 1 areas from 1989 to 1993.¹⁸⁰

The technological gap between the member states was evident in the 1990s. At this point, some suggestions can be given in order to improve the technological adaptation and to ensure regional competitiveness. The declining regions should be encouraged more and there should be more emphasis on the concentration and coordination principles of the European regional policy.¹⁸¹

Countries need modern infrastructure and investments because at the end it will promote productivity and convergence between the EU countries. The transport infrastructure statistics specified that the four cohesion countries were faced with hard conditions. Their national funding was not enough and this was the major cause of their transport infrastructure handicaps.¹⁸²

As regards the recent years, the downturn continued. It is appropriate to compare some inputs in terms of R&D spending from 1995 to 2004 in order to understand whether or not the EU will be the most competitive and dynamic knowledge-based society in the future. R&D expenditure relative to GDP was 1.81 % in 1995 and there was a minor change in 2004 and it amounted to 1.86 % in the

¹⁸⁰ Ibid, 133.

¹⁸¹ Ibid, 139.

¹⁸² Ibid, Part 8, Transport Infrastructure Policies, 160-161.

EU-25.¹⁸³ As the Lisbon target was 3 % of GDP, there were still some deficiencies in technological capacities, especially in most of the CEECs like Malta, Cyprus, Lithuania, Latvia, Poland and Slovakia with a share of less than 1 % in general. The most developed countries were Sweden and Finland with above the target rate. In terms of R&D personnel in 2004, it was visible that they were situated in the capital regions, industrialized regions and the most developed countries. Bulgaria's and Romania's share were lower than the other countries and they were followed by Poland.¹⁸⁴ The number of professionals or knowledge workers who are helpful for technological catch-up captured the highest levels in Sweden (Stockholm), the Czech Republic (Praha) and Germany (Utrecht) with a share of almost 50 %.

High-tech industries such as aerospace, computers, electronics, pharmaceuticals, chemicals and scientific instruments are vital for the technological progress by increasing the economic potential of the EU. According to 2004 statistics, the share of employment in the high of medium-tech manufacturing was 6.9 % in the EU-25 and Germany's regions were the leaders with a share of 7.5 % in total employment.¹⁸⁵

The patents application level was also low in the CEECs compared to other members. The EU-15 average was 160.65 million but in the EU-27 this rate was 127.95 in 2003.¹⁸⁶ Finland and Germany were the winners with an amount of 305.603 million and 311.714 million respectively. They were followed by Denmark, Luxembourg, Sweden and the Netherlands. However, there were huge discrepancies

¹⁸³ European Commission, *Statistical Portrait of the European Union: 2007*, Chapter 2, op. cit., 31.

¹⁸⁴ European Commission, *Regions: Statistical Yearbook 2006*, Chapter 7, Science, Technology and Innovation, op. cit., 94-95.

¹⁸⁵ Ibid, 101.

¹⁸⁶ "Patent Applications to the European Patent Office (EPO), Number of Applicants Per Million Inhabitants", *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_science_technology&root=Yearlies_new_science_technology/I/I3/ir051.)

between the top and the bottom. To take an example, Romania's share was only 1.172 million and Bulgaria's share was 4.306 million. Half of the CEECs patents application was also lower than 10 million.

Economic imbalances and industrial difficulties can be eliminated by investing more on infrastructure because this will promote easy access to the cities and will deepen the attractiveness of the EU countries. Transport is crucial in promoting safe standards and high quality services to the citizens. The liberalization of the air transport was successfully achieved in the 1990s; the number of air passengers between 2001 and 2003 was in an upward trend by 4.9 %. Road transport was also in a rising trend but there was a drop in the inland waterways and rail transport from 1995 to 2002. That's why there should be some modernization procedures in order to revitalize these two industries.¹⁸⁷

In telecommunications, the EU tries to build an information society by closing the gaps between its members. 51 % of the EU-25 members had access to the internet at home in 2005 and this ratio was 54 % in the EU-15. The spectacular point was that less than 20 % of the households in Romania and Bulgaria had internet access. Among the other members, the share of the Netherlands was 80 %, Denmark was 79 % and Sweden was 77 %.¹⁸⁸

The final point was that there was a lack of physical and human capital in the EU and the capacity to invent was not that high. The position of the CEECs was not dynamic enough and the EU-25 was not efficient in creating a global knowledge-based society because the total R&D expenditure ratio to GDP was almost 1.90 % in

¹⁸⁷ European Commission, *EU Integration Seen Through Statistics*, Part 14, Transport, op. cit., 81.

¹⁸⁸ "Level of Internet Access-Households", *Eurostat*,
(http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_industry&root=Yearlies_new_industry/D/D7/ir031.)

2004 while it was 2.59 % in the US and 3.15 % in Japan.¹⁸⁹ The number of qualified workers employed in technology-based enterprises constituted 0.85 % of total employment in 2004. Hence, the EU should give more priority to its technological investments.

4.3 An Overall Assessment

According to me, regional planning activities of the EU seem to be effective in terms of economic development for the four cohesion countries during the 1990s. This meant that from the first to the third enlargement economically poor countries were included in the integration process. However, this did not mean that they had stable economies without fluctuations. It was true that there was a recovery, but not in remarkable levels. Social integration can not be accomplished and the employment crisis began to ameliorate in the EU regions. The R&D potential was in a growing trend only in the core and infrastructure remained a handicap for the cohesion countries.

The lessons that could be drawn from 1990s were as follows: Spatial and thematic concentration could not create effectiveness, there was chaos in the concentration and coordination principle of the structural funds, emphasis on small-scale projects was low and regional authorities did not have a great power in the decision-making.¹⁹⁰

The recent news designate that the growth capacity of the EU has stayed far behind the expectations and even the most advanced countries experience low growth potential. Although there is a GDP growth in the CEECs, the basic indices

¹⁸⁹ EU Integration Seen Through Statistics, Part 17, Science, Technology and Innovation , op. cit, 97.

¹⁹⁰ Martin, Part 9, Conclusions and Policy Recommendations, op. cit., 164.

show that their GDP per capita in PPS is low. Budget deficits are alarming but the EU-25 would not face inflationary pressures in the near future.

Socially speaking, the most remarkable progress is seen in diminishing the unemployment level in recent years. Also, the gap between the CEECs and the EU-15 is in a shrinking trend but Poland and Slovakia are still the most suffering countries. But, there should be arrangements to increase the employment rate of the older and female workers. The social protection systems should be rearranged because social exclusion becomes a challenge, distorting the cohesion and welfare of the EU by increasing the poverty and hurting the living standards. This is in fact related with the volatile and negative employment opportunities. If there is not any turbulence in the creation of new jobs, education-training strategies and in the participation of the workforce in the labor market, then social exclusion would not disrupt social stability.

As decreasing the number of the problematic regions and assisting the regions whose development are lagging behind are the strategies of the regional policy, ameliorating the conditions in technologically marginalized regions is necessary. The Cohesion Fund, the ERDF and the Urban Initiative should focus more on creating technological progress. The EU can be undertaken some initiatives to increase the R&D spending and there should be more infrastructural investments.

CHAPTER 5

COST AND BENEFIT ANALYSIS OF THE EU-27 WITH REGARD TO REGIONAL POLICY

5.1 Central and Eastern European Countries as a Case Study

This section will serve to show various perspectives about the accession of the CEECs while providing a comparative study to find out whether the costs of enlargement outweigh its benefits.

5.1.1 Different Views for the Central and Eastern European Countries¹⁹¹

The fifth enlargement strategy, in general, is one of the most crucial paradigms to examine because it was different from the previous ones and it was seen as the most challenging integration due to the number of participants that raised questions about the absorption capacity as well as socio-economic disparities within these countries. There were also other reasons.

First of all, the CEECs were relatively poor compared to the current members which would cause budgetary turbulences. There was an economic downturn in some of the previous members and a result; they did not want to accept these countries as

¹⁹¹ The socio-economic costs and benefits will be examined in this chapter but other issues such as security considerations, peace, human rights, migration and democracy are excluded because the major focus of this thesis is on economic and social cohesion. The Central and Eastern European countries represent the members from the fifth and last enlargement. This means that Cyprus and Malta are also included.

new members because ultimately new countries would receive more assistance from the regional funds.

Secondly, they were historically different and among them there were newly independent countries such as Estonia, Latvia, Lithuania, the Czech Republic, Slovakia and Slovenia. All of these countries were under Soviet control and with the end of the Cold War these communist countries tried to transform their economies.¹⁹² In return, the Union provided financial assistance to these countries through specific programmes like PHARE, ISPA, SAPARD and Interreg. The purpose was to help their transformation process and to ameliorate the conditions in the agriculture and rural development sector, education, economic development, infrastructure and employment. Moreover, balanced development was tried to be enhanced through special funds.

The shock therapy or in other words big bang that included economic measures such as macroeconomic stabilization, privatization, price and trade liberalization facilitated their economic transition because the basic target of these programmes was to reduce inflation rates, to promote financial stability and to remove trade restrictions. As a result, they began to make an economic recovery at the end of the 1990s. For example, “economic growth in most of the countries has averaged 3 per cent per annum, exceeding that recorded in the EU-15.”¹⁹³ However, unemployment and inflation rates were higher than the EU-15 and there was a GDP problem in the CEECs. This environment continued during the 2000s. Although some current members of the EU such as Germany suffered economic difficulties, the growth rate of the CEECs on average was 2,9 % in 2002 and it was expected to

¹⁹² Heather Grabbe, “The Newcomers” in Fraser Cameron, *The Future of Europe, Integration and Enlargement* (London: Routledge, 2004), 64-65.

¹⁹³ Andrew Scott, “The Political Economy of Enlargement” in Fraser Cameron, *The Future of Europe, Integration and Enlargement* (London: Routledge, 2004), 84.

exceed 3 % in the following years. However, some problems like inflation and unemployment remained unsolved. Although there was a decline in the inflation rate, it was below the EU average. In addition, fiscal deficits of the newcomers were high compared to the old members of the EU.¹⁹⁴ This implied that their accession would bring both challenges and advantages for the EU as a whole.

It is suitable to begin with benefits. Economically speaking, the enlarged customs union would enhance trade creation which would lower the production costs as member states would increase their product capacity. In this context, with an enhanced competition, there would be a decline in the prices which would contribute positively to the standards of living. Nonetheless, the trade creation was also based on the removal of all protectionist measures and on the adoption of common internal and external tariffs, thanks to the single market programme and common competition policy of the EU.¹⁹⁵ Although there was a danger of trade diversion, it was only expected in the agricultural sector and generally, the EU members would gain from increased export and import inflows between the EU-15 and the CEECs. This positive picture would promote economic growth in the long term.

The second opportunity is the ascendant trend in the FDI flows. There was an effective growth in the inward investments and the most interesting point was the Slovakia's potential. The inflows were only 270 million dollar in 1994 and it reached 4,012 million dollar in 2002. Other countries also benefited from this positive trend and it pointed out that the credibility of these countries would increase more after their entry.¹⁹⁶ It is possible to give some examples to prove this thesis. When Spain joined the EU its average investment flows increased by 1 % immediately as the

¹⁹⁴ Ibid, 93-94.

¹⁹⁵ Jim Rollo, "Economic Aspects of EU Enlargement to the East" in Marc Maresceau, *Enlarging the European Union, Relations Between the EU and Central and Eastern Europe* (London and New York: Longman, 1997), 257-258.

¹⁹⁶ Scott, op. cit., 86-87.

confidence grew more. “A similar boost to cross-border investment took place in the late 1980s within the EU-12 as a result of expectations driven by the single market process.”¹⁹⁷ In general terms, it was expected that the CEECs would augment their investment capacity because the risk premium would fall after their accession and they would attract more investors. Estonia, Poland, the Czech Republic, Hungary and Slovenia’s cumulative FDI per capita was higher in the past and their entry would create a more stable environment.¹⁹⁸

By turning our attention to the science, with an enlarged EU the overall spending dedicated to R&D activities would rise automatically and this meant that the EU would focus more on innovation and technological expansion. Although the EU-15 was already involved in high-tech industries, the CEECs position was not satisfying and they specialized in lower skilled products. However, thanks to the trade creation that would increase their share in the technology-oriented businesses.¹⁹⁹

It is now necessary to move on to the possible costs of the accession of the CEECs. The Common Agricultural Policy (CAP) is one of the most important and expensive policies of the EU as it constitutes almost half of the EU budget. It is evident that some of the CEECs were heavily dependent on agriculture and they had ineffective farm industries. In Poland, 25 % of the workforce was employed in agricultural industries. The EU-15 had some concerns about the new budgetary allocations to these countries and the net beneficiaries’ share would decline after their entry. For example, they would get 25 % of the previous members CAP

¹⁹⁷ Rollo, op. cit., 260.

¹⁹⁸ David A. Dyker, “ The Dynamic Impact on the Central-Eastern European Economies of Accession to the European Union: Social Capability and Technology Absorption”, *Europe-Asia Studies*, Vol. 53, No.7, 2001, 1014-1015.

¹⁹⁹ Scott, op. cit., 86-87.

support. This problem caused uncertainties about the future of the EU's agricultural expenditures.²⁰⁰

The Structural and Cohesion funds were another handicap because the majority of the CEECs' GDP was less than 50 % of the EU average and they had declining areas. Hence, they would receive more assistance from the ERDF, the European Social Fund and Cohesion Fund as they would be eligible for Objective 1 of the Agenda 2000.²⁰¹ The entry of the EU-10 would increase the number of the EU citizens who live in Objective 1 regions from 25.3 % to 41.9 %. Also, the old member states would lose their eligibility. According to this negative scenario, the income levels of the EU would decrease and the number of the peripheral regions would rise automatically. Ultimately, this would cause budgetary turbulences.²⁰² Additionally, as it was noted in the second chapter, EU provides financial assistance to the areas whose GNP per capita are less than 90 % of the EU average and who have excessive budget deficits through the Cohesion Fund. The new members would be involved in these two criteria like Spain, Portugal and Greece. As a result, this would affect the functioning of the regional policy in negative terms.

The fifth enlargement would pose a danger in fulfilling the Lisbon target of employment and the creation of a knowledge-based society. To be more specific, it would become more difficult to obtain an employment level of 70 % in the EU, 60 % for women and 50 % for older workers and to reach the rate of 3 % of GDP for R&D expenditures by 2010.²⁰³ Technological insufficiencies made them isolated although these countries were already industrialized. They were efficient in basic sciences like

²⁰⁰ Ibid, 90-91.

²⁰¹ Ibid, 91-92.

²⁰² Martin Brusis, "Internal Problems of the European Union That Might Obstruct an Enlargement Toward the East" in Helena Tang, *Winners and Losers of EU Integration, Policy Issues for Central and Eastern Europe* (Washington, D.C: The World Bank, March 2000), 268-269.

²⁰³ Scott, op. cit., 95.

physics, chemistry, mathematics and in some sectors of engineering but there was a considerable gap in the focus on high-tech industries or innovative actions.²⁰⁴ The number of R&D personnel was in a downward trend and the overall R&D spending was lower with an exception of Poland and Hungary. Accordingly, their accession would deteriorate the scientific progress.

5.1.2 A Comparative Analysis

The expansion of the European Union with its 27 member states and candidate countries cause some challenges to the integrity of the Union. In 2004, with the accession of Central and Eastern European Countries, the loss of enthusiasm was seen between various EU officials and countries due to the enlargement fatigue and possible disadvantages. That's why it is suitable to observe the relevant statistics in order to understand the challenges.

The fifth enlargement process was economically helpful for the newcomers due to the variety of reasons which can be underlined as follows: Before their entry, thanks to the Europe Agreements that eliminated the tariff quotas for industrial goods put these countries in a better position to duplicate their export markets. In 2000, 60-75 % of their exports went to other EU countries. After their admission, they adopted the same principles and mechanisms that were commonly accepted and this increased the confidence to these countries as they became Western.²⁰⁵ There were also some changes in their product line. In the 1990s, the CEECs' export capacity was limited to labor and capital intensive products but they managed to export cars, car parts, electronics and pharmaceuticals to the EU. In Slovakia and in the Czech Republic the

²⁰⁴ Dyker, op. cit., 1008.

²⁰⁵ Katinka Barysch, "East Versus West? The EU Economy After Enlargement", *Centre For European Reform Essays*, January 2006, 2.

automotive sector became an important element in their trade volume.²⁰⁶ Besides, with the help of the EU as an external anchor, an economic stability was achieved in some industries. Due to these reasons, the FDI level that comes from the EU reaches 5-10 % of their GDP and it contributes positively to the establishment of new enterprises that operates in the automotive, electronics, furniture and pharmaceuticals industries.²⁰⁷ “Nevertheless, FDI levels from the old to the new member states amounted to 13.8 bn euros in 2004, almost double the 2003 number of 7 bn euros, according to Eurostat.”²⁰⁸

As regards the EU-10, the eastward integration forced them to implement new policies in order to compete with the lower costs. To take an example, Germany is undertaking a strict policy by shrinking its unit labor costs and this leads to some disturbances in the old member states like Italy and France. Nowadays, there is a fear that the eastern market with its lower taxes, ineffective social protection policy and with a fall in real wages can become much more competitive than the others and many believe that the investment boom is based on their economic policy. That’s why many other countries have also changed their strategy. Austria and Germany diminished their corporate tax rates in 2005.²⁰⁹ This means that there are many EU countries that enter the low-cost competition with the newcomers because they want to protect their economic stability and do not want to lose their markets. However, these will be very dangerous in the future, affecting the social cohesion sharply.

According to the recent statistics, the early members of the EU consider that the fifth enlargement wouldn’t create any efficient economic gain and it would bring

²⁰⁶ Katinka Barysch, “Enlargement Two Years On: Economic Success Or Political Failure?”, *Briefing Paper For the Confederation of Danish Industries and the Central Organization of Industrial Employees in Denmark*, April 2006, 14-15.

²⁰⁷ Barysch, “East Versus West? The EU Economy After Enlargement”, op. cit., 2.

²⁰⁸ Barysch, “Enlargement Two Years On: Economic Success Or Political Failure?”, op. cit., 7.

²⁰⁹ Barysch, “East Versus West? The EU Economy After Enlargement”, op. cit., 5-6.

an average rate of only 0.4 % growth in trade, single market and FDI until 2010. Despite this fact, Poland, Hungary and the Czech Republic denoted that their membership would enhance an economic growth of 5.3 % for Poland, 7.3 % for Hungary and 4 % for the Czech Republic from 2005 to 2007.²¹⁰ Ultimately, only France, the Netherlands, Germany and Austria could obtain higher trade and investment profits from their accession because other countries did not have any strong links with the CEECs that could accelerate their economic success. In this respect, Greece, Spain and Portugal would be the losers as they would not benefit as such from the structural funds and the increased competition would affect their economies negatively.

Actually, the previous member states' concerns are economically legitimate. Although the real GDP growth between 2000 and 2004 was 2 % in the EU-15, it amounted to 3.6 % in the CEECs.²¹¹ Moreover, except Malta, all of the CEECs' GDP growth was higher than the EU-25 average and the most noticeable progress was recorded both in Latvia and Estonia with a share of 9.8 % and 9.1 % respectively in 2005.²¹² The economic growth was important in the catching-up process and this was in fact related with the elimination of trade barriers which brought a soaring level of export potential as well as better investment potential for these countries. But the disappointing point was that while analyzing the GDP per head in PPP it was evident that a majority were below 60 % in 2005. Nonetheless, there was a severe current account deficit problem.

Although the decrease in the number of the backward regions who's GDP per head is below 75 % of the EU-27 average can be considered as a success, it is evident that the CEECs' marginalized parts are greater than the rest. In 1995, 78

²¹⁰ Barysch, "Enlargement Two Years On: Economic Success Or Political Failure?", op. cit., 12-13.

²¹¹ Barysch, "East Versus West? The EU Economy After Enlargement", op. cit., 3.

²¹² Barysch, "Enlargement Two Years On: Economic Success Or Political Failure?", op. cit., 6.

regions were labeled under the least developed regions. The CEECs had 51 regions and EU-15 had 27 regions. In 2004, the EU managed to decrease the problematic areas to 70 regions in which 49 belonged to the EU-12. When we assume that the EU-15 has 213 regions and the new members have 55 regions, most of the newcomers' regions are problematic and their GDP growth does not seem to be a huge recovery. The unpleasant news is that the lower or negative growth rates in the areas whose GDP per head are more than 75 % of the EU as a whole which is mainly dominated by France, Italy and Germany's regions.²¹³ Perhaps, it is the impact of the additional regions that cause this unexpected development because through the funds, these new countries become the net beneficiaries. The former cohesion countries namely Spain, Greece and Ireland record a progress and Ireland becomes the second highest performer for GDP per head in PPP. Although Portugal's growth was above the average until 1999, later on there was a slowdown in its economic capacity.²¹⁴ So, with the accession of the new members, it becomes more difficult for the EU to reduce regional disparities because of the increased economic disorder that is caused by the CEECs.

By turning the attention to the budgetary resource allocation, the new member states were given financial assistance before their accession through special programmes like Phare, Ispa and Sapard with the aim of stimulating balanced development, better transport and environment infrastructure as well as rural welfare. For the period 1990-2003 approximately 10 billion euros were granted to the CEECs as a pre-accession strategy. Their entry did not put an end to the financial burdens

²¹³ Communication From the Commission, "Fourth Report on Economic and Social Cohesion, Growing Regions, Growing Europe", Chapter 1, Economic, Social and Territorial Situation and Trends in Member States and Regions of the EU-27, May 2007, *Europa*, (http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/pdf/4cr_en.pdf), 11-13.

²¹⁴ Ibid, 9.

and 40 million euros were dedicated to these countries between 2004 and 2006. A majority of these payments were reserved for the regional, social and agricultural policy. Although the GDP level for the EU-10 was 4.7 %, the total expenditures allocated to the new countries reached 6.9 % of the EU budget in 2004 and their financial contributions to the budget remained limited (3.4 % in total) with 0.1 % of their GDP.²¹⁵ So, they were the net beneficiaries and the core countries were the largest contributors. The pre-accession aid for Romania and Bulgaria referred to 1.4 billion euros in 2006 due to their economic imbalances and lower GDP potential which was below 50 % of the EU average. All of the new members will receive more in the current programming period of 2007-2013.²¹⁶

The fierce competition between the former cohesion countries and the CEECs was seen in the new budgetary talks because the new members asked for additional support from the EU and despite the resistance of Spain, Greece and Portugal due to the decrease in their structural support, they achieved to receive more financial assistance. The core countries were really curious about their net contribution to the budget. Germany will be the largest contributor and the share of France, Sweden, Austria, the Netherlands and the UK will be duplicated.²¹⁷ Farmers and the backward regions will be the beneficiaries. The total flow for R&D, innovation and infrastructure was decreased and constituted 8.4 % in the total budgetary expenditures; but the largest share was disbursed to the structural funds and agriculture. As many of the developed countries are not agriculturally-dependent and do not have larger rural areas, the new budget will be the chance of the lagging

²¹⁵ European Commission Directorate-General for Economic and Financial Affairs and the Bureau of European Policy Advisers, "Enlargement, Two Years After: An Economic Evaluation", *Occasional Papers*, No. 24, May 2006, Part 3, Preparing for Enlargement, (http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf), 29-31.

²¹⁶ Ibid, 33-34.

²¹⁷ Iain Begg and Friedrich Heinemann, "New Budget, Old Dilemmas", *Centre for European Reform, Briefing Note*, 22 February 2006, (http://www.cer.org.uk/pdf/briefing_new_budget_22Feb06.pdf.), 1-2.

regions. There will be a Budget Review for 2008-2009 and there is a possibility that this will change the budget framework but not in wider terms.²¹⁸ Therefore, the limited resources for the regional competitiveness will have a detrimental effect for the regional policy because the most serious problem that the new member states have is the lack of scientific development, infrastructure and R&D. This technological gap will continue in the future but the CEECs will benefit more from the structural and cohesion funds which means that the core countries will be the net contributors. So, enlargement will create a potential gain for the newcomers while decreasing the share of the developed countries. There is no win-win type of situation then and as the CEECs have scientific insufficiencies, it seems that the EU continues to be far from the Lisbon target of a technology-oriented giant.

Under the three new priorities for the period 2007-2013 that are included to the old objectives of the regional policy namely convergence, regional competitiveness and employment as well as territorial cooperation; the EU gives financial assistance to its member states. When analyzing the total money granted to various parts, Poland receives and continues to get more money compared to other countries with a share of EUR 67,284. The Czech Republic, Germany, Italy, Spain, Portugal, Hungary and Romania will be the net beneficiaries. Luxembourg will be the country that receives less from the financial provisions and it will be followed by Denmark, Cyprus, Ireland, Malta, Austria, Finland and Belgium.²¹⁹ The budgetary flows to other CEECs are quite high. These indices prove that these countries cause budgetary concerns. There are also other previous member states that are not well-functioning but it becomes more difficult to solve the regional imbalances when the CEECs are included in the EU framework.

²¹⁸ Ibid, 3-5.

²¹⁹“Cohesion Policy 2007-2013: Indicative Financial Allocations” (Million EUR, Current Prices), http://ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-recto.pdf

Now, it is suitable to move on to another threat. The entry of the new member states engenders tensions from an agricultural perspective between different members. As most of them are agricultural-oriented countries “the EU’s utilized agricultural area increased by 25 %, agricultural production expanded by 10 % for most products, and the number of farmers increased by more than 50 %.”²²⁰ The lower productivity in farming and the higher level of agricultural employment which referred to 12.5 % in 2004 compared to 3.8 % in the EU-15 caused disorder about the future of the CAP. Poland, Latvia and Lithuania were above the average of the EU-10 whereas Slovakia and the Czech Republic were close to the EU-15.

This negative performance can be attributable to the industrial division of the labor force because the regions whose GDP per head are below 50 % of the EU average employed mostly in agriculture and industry. The areas that pass beyond the GDP per head of 115 % and the other developed countries focus more on basic market, financial and public services. The 2003 data specified that the agricultural employment ranged from 17.1 % for the countries whose GDP was below 50 % to 4.8 % for the areas whose GDP was between 75 % and 100 % to 2.1 % for the member states that had a GDP per head of 115 %.²²¹ This is a kind of proof that the CEECs specialized in low value added activities rather than high value added ones because in most of them namely Romania, Poland, Lithuania and Latvia the share of agricultural employment was high.²²²

So, it is necessary to examine the recent developments in order to assess the impact of the CEECs on agriculture and rural development. Between 2000 and 2006, the Special Accession Programme for Agriculture and Rural Development

²²⁰ European Commission, “Enlargement, Two Years After: An Economic Evaluation”, Part 3, Agriculture, op.cit., 100.

²²¹ Communication From the Commission, op. cit., 36.

²²² Ibid, 61.

(SAPARD) was helpful for the newcomers in modernizing their farm structure, food sector and in promoting rural development. The EU provided other types of assistance that were not applied to the EU-15 in the past and the important thing was the progressive increase of direct payments from 2004 to 2013. Although the agricultural support was in an upward trend, the new members were required to adopt CAP directives such as the introduction of quotas for milk and sugar as well as specific measures to prevent overproduction. So, it is not suitable to talk about any discrimination between members for agriculture in that point.²²³ Food processing is another significant issue like direct payments. The CEECs' FDI level in their GDP for the food processing and manufacturing was more than the EU-15 because of the low labor costs and cheap material. However, it is evident that the new members should focus more on the food industries to increase their competitiveness because their import level from the EU-15 was 31 % whereas the export rate was limited by 25 % in 2004 for processed products. Nonetheless, in other agricultural industries also the share of their export capacity did not exceed their imports coming from the EU-15. Despite this negative formula, their agricultural trade ameliorated compared to previous years, reflecting positively to their income levels.²²⁴ In sum, the accession of the CEECs poses agricultural challenges in terms of direct payments and funds distribution. The major handicap is their insufficient growth potential despite the EU assistance. If this continues in the future, then they will remain a budget burden. Consequently, budgetary implications for the agriculture are quite complex and there is a possibility that they will get an outstanding amount from the CAP support in the near future. This can be based on the new decisions which will be

²²³ European Commission, "Enlargement, Two Years After: An Economic Evaluation", Part 3, Agriculture, op. cit., 103-104.

²²⁴ Ibid, 105-106.

taken in the EU budget review for 2008-2009.²²⁵ That's why the net challenges are uncertain for the time period but it is a well-known issue that the CEECs' agricultural dependencies and deficiencies continue to affect both the EU budget and the regional policy negatively.

Socially speaking, the fulfillment of the Lisbon policy is an obligation for the EU to stimulate cohesion. There is an upward trend in the share of female and older workers' participation in the workforce by 2.7 % for the former and by 5.9 % for the latter since 2000. The female employment reached 56.3 % and the older workers' employment amounted to 43.5 % in 2006. Unfortunately, Greece, Italy, Poland and Malta were below the EU average for female workers.²²⁶ As regards to older workforce, there were not enough countries that surpass the limit of 50 %. The trend in the total employment was similar. While for the EU-15 there was a gradual growth from 63.4 % in 2000 to 66 % in 2006, the level changed in the EU-27 from 62.2 % in 2000 to 64.3 % in 2006. Almost a majority of the member states' share was below 60 % and the losers were Poland, Malta, Hungary, Romania, Italy, Bulgaria and Slovakia. Denmark, the UK, Netherlands and Sweden were the leaders with a share above 70 %.²²⁷ All of these statistics emphasize that the EU is far away from its orientation due to its moderate and insufficient progress in the labor market. The CEECs cause a danger for the social cohesion.

To be more specific, a comparison is required to understand the gap between the previous members and the CEECs. According to the 2004 statistics, the total employment in the EU-15 was 64.7 % and for the EU-10 this level was only 56 %

²²⁵ Barysch, "Enlargement Two Years On: Economic Success Or Political Failure?", op. cit., 24.

²²⁶ Communication From the Commission, op. cit., 24.

²²⁷ "Employment Rate-Total %", *Eurostat*, (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em011)

because of employment turbulences in Poland, Malta and Slovakia. Only Slovenia and Cyprus surpassed the EU-15 average. Furthermore, Poland and Slovakia faced severe labor market crisis because in 2005 unemployment stood at 17.7 % in the former and 16.4 % in the latter. When we considered that the average was 7.9 % in the EU-15 in 2004, it was seen that the economic amelioration of the CEECs was not reflected in the welfare of their citizens because unemployment stood at 13.4 % in the EU-10. With respect to other countries, the unemployment level in Denmark, Ireland, Luxembourg, the Netherlands, Austria and the UK varied between 4 % and 5 %. The total level in Greece, Spain, Germany and France was approximately 9-10 %. There were huge variations between the two groups. Nonetheless, the gap continued in the female, older and youth employment. Poland's and Malta's deterioration lasted for the female employment with a share of 46.2 % for the former and 32.7 % for the latter. The EU-15 average was 56.8 % in 2004 and the EU-10 did not manage to catch-up (the level was 50.2 %). The older workers' participation was one of the biggest confusions that caused uncertainties about the future. It was 42.5 % in the EU-15 and there was a huge gap because the level in the EU-10 was 32.3 % in 2004.²²⁸

Overall, the future of the EU regional policy seems uncertain with the entry of new members into the EU and the integration process for regional competitiveness, employment and economic growth together is in jeopardy because the new members can not stimulate their socio-economic growth effectively. There are still wide disparities between the EU countries and the fourth and fifth enlargement packages emphasize that these countries will create a budgetary chaos for the funds and agricultural imbalances. Although there is an economic growth in the new members,

²²⁸ European Commission, "Enlargement, Two Years After: An Economic Evaluation", Part 4, Macroeconomic Aspects of an Enlarged European Union, op. cit., 54.

unemployment remains a future challenge. So, the EU still needs more time and money to enhance socio-economic cohesion. In some of the countries, there is a possibility that the last two enlargements will be their loss. For example, Ireland, which was one of the cohesion countries in the past, succeeds to be one of the less problematic areas. Unfortunately, with its changing status it will be one of the biggest contributors to the EU budget. This means that Ireland will get less from the structural and cohesion funds. Its balanced development can be negatively affected in the future. It is similar for the other cohesion countries like Greece, Spain and Portugal. Hence, the EU should make careful decisions for the regional policy by taking into consideration not only its new 12 countries but also its previous members.

5.2 Country-Specific Examples

In this section, some of the selected countries' socio-economic developments, mainly the problematic ones, will be examined. The main reason is to outline the real cause of the deficiencies and achievements and to specify future expectations.

5.2.1 Poland

Poland which was one of the poorer in income per capita and the largest Central and Eastern European state in terms of population with its 38.6 million citizens in the 1990s began its transformation process in 1989. It was an agricultural-oriented country and the agricultural share of employment was 22.1 %. According to the Polish experts, the accession to the EU would improve the country's ineffective farming structure and the assistance that it would receive would be beneficial for Poland to modernize its agricultural industries. Before its entry, the country benefited from trade opportunities, thanks to the trade liberalization that contributed positively

to its export capacity and the EU became one of its trading partners by capturing almost 65 % of its exports and imports in 1997. Germany was an important export market for Poland. However, when comparing the country with other CEECs, its trade volume was not sufficient to be competitive in international markets during the 1990s because the country emphasized clothes, furniture, coal and steel. Furthermore, it was not easy to talk about a trade boost after its accession because the previous EU members had already specialized in high-skilled products.²²⁹

After drawing a general framework, it is necessary to move on to the economic potential of Poland. The GDP growth was impressive compared to other CEECs and it managed to reduce its inflation level from 27.8 % in 1995 to 15.5 % in 1997. In fact, inflation was still one of the serious problems that the country faced and there was a current account as well as a trade deficit that posed fluctuations in the real value of its currency.²³⁰

Unemployment trends were quite interesting. They ranged from 16.4 % in 1993 to 13.2 % in 1996 to 10.3 % in 1997 to 10.4 % in 1998. Despite this shrinkage the regional disparities in terms of employment were wide. Its most developed region namely Warsaw succeeded to narrow its unemployment level but the gap continued in the periphery.²³¹

Before its accession, Poland undertook serious regional development measures. The most important one was “the introduction of the voivodeship as an administrative region being the highest-level territorial unit of a mixed central government/self-government character, the basic one endowed with the task of

²²⁹ George Blazycha, “ Polish Socio-Economic Development in the 1990s and Scenarios for EU Accession”, *Europe-Asia Studies*, Vol.51, No.5, 1999, 800-802.

²³⁰ Ibid, 804.

²³¹ Ibid, 805.

implementing regional policy.”²³² The old territorial division of 49 regions was replaced by 16 new voivodeships. The major features of these 16 units were their bigger size, higher population and narrowed regional differences. In the previous system the favored regions could be described as the metropolitan areas such as Warsaw and Poznan.²³³

These changes did not have a strong impact in boosting its socio-economic development. After its entry, Poland continued to receive financial aid from the EU and all of its regions were eligible for objective 1 areas whose GDP was less than 75 % of the EU average. Under the objective 2 parts that faced industrial uncertainties, 18 areas were selected as lagging parts due to their unemployment problems. For the rural leg of this objective, the number was higher because of Poland’s agricultural inadequacies. The share of its agricultural population was higher than the EU and possessed a high unemployment rate. This meant that almost its entire regions were agriculturally problematic areas that jeopardize the economic and social cohesion of the EU.²³⁴

To conclude, it is useful to give some statistics. Poland recorded a GDP growth of 5.5 % in 2006 compared to 3.8 % in 2003. However, this level is expected to diminish to 4.7 % in 2007. Due to the minor fluctuations in the exchange rate, investment boom and effective external demand, its export capacity was augmented and contributed positively to the GDP growth. According to the European Commission forecasts its imports will exceed its exports in the near future. Unemployment that was a severe inconvenience decreased. For example, it was 19.6 % in 2003, 19 % in 2004, 17.7 % in 2005 and 13.9 % in 2006. It will be 12.2 % in

²³² Pawel Churski, “ Problem Areas in Poland In Terms of the Objectives of the European Union’s Regional Policy”, *European Planning Studies*, Carfax Publishing, Vol.13, No.1, January 2005, 51.

²³³ Ibid, 53-54.

²³⁴ Ibid, 62, 65-66.

2007 and 11.6 % in 2008. Although there was a sharp decrease in 2006, this can be attributable to the rise in early retirements that reduce the number of the workforce. Poland can not be able to reach any single-digit numbers; so employment continues to be a trouble. Annual HICP inflation was 1.5 % in mid-2006 and it will be 2.5 % in 2007 because of the insufficient production that will increase food prices. Its trade and current account balance will continue to be negative and expected to mount up for the following two years.²³⁵

In sum, the transformation process is helpful for Poland in promoting recovery compared to the 1990s but there are still huge budgetary and employment problems that should be taken into consideration in order to augment the attractiveness and credibility of the country. If not, Poland will continue to be one of the future costs of enlargement.

5.2.2 Slovakia

The beginning of economic transformation in 1990 and the dissolution of the Czechoslovak Federation which made Slovakia independent in 1993 were equally important in changing the country's macroeconomic status during the 1990s. Actually, Slovakia was dependent on the Czech Republic in trade because the Czech Republic was its major trading partner due to the accepted customs union agreement and captured 27 % of its total exports and 23 % of total imports in 1997.

The transformation process was in fact thorny at the beginning with a drop in GDP by 2.5 % in 1990 and 14.6 % in 1991. Fortunately, there was an amelioration in 1994, thanks to the export boom and trade restrictions. In order to continue this growth potential, the government followed strict policies which resulted in current

²³⁵ European Commission, *European Economy*, op. cit., 90-92.

account deficits and fiscal imbalances. Therefore, the economic performance became malignant at the end of the 1990s due to its huge budget deficit, insufficient level of privatization activities and low productivity.²³⁶

The labor market was also affected from this transition. In 1991, the total unemployment was 12 %. There were wide fluctuations and the level peaked at 15.6 % in 1998, followed by 16.7 % in 1999.²³⁷ There were wide disparities between Slovakia's regions. The Bratislava region was the most prosperous part with its higher productivity, employment and GDP per capita in PPS. None of the other regions were close to the average of Bratislava. In 1999, the total employment was 48.5 % while it was 60.2 % in Bratislava. Its success was based on the growing number of SMEs, FDI and a service-based economy with high-skilled employees.²³⁸ In 2001, the total unemployment rate was 18.6 % compared to 17.9 % in 2000. In Bratislava this level was only 5.8 % and in many of the Slovak regions the unemployment level was higher than 20 % both in 2000 and 2001.²³⁹

The economic position of Slovakia will be positive in the following two years due to the growing domestic demand and new export production facilities. There was a sharp increase in GDP growth from 4.2 % in 2003 to 6.7 % in 2006. This will be 7.2 % in 2007. The trade imbalance will be minor in the future and the general government deficit is expected to be 3 % of GDP in 2007 which is one of the preconditions for joining the single currency area. The strong economic activity will be reflected positively in the employment trends. Slovakia managed to reduce its unemployment from 17.6 % in 2003 to 14.3 % in 2006 and it will be 13.3 % in 2007

²³⁶ Jan Fidrmuc and Jarko Fidrmuc, "The Slovak Republic" in Helena Tang, *Winners and Losers of EU Integration, Policy Issues for Central and Eastern Europe* (Washington, D.C: The World Bank, March 2000), 191-193.

²³⁷ Ibid, 199.

²³⁸ Martin Bruncko, "Real Convergence in the Slovak Republic and European Union Regional Funds" in Bernard Funck and Lodovico Pizzati, *European Integration, Regional Policy, And Growth* (Washington, D.C: The World Bank, 2003), 184-185.

²³⁹ Ibid, 189.

as well as 12.9 % in 2008. Despite the progress, the country will not be able to overcome its unemployment problem.²⁴⁰

To sum up, like Poland, Slovakia causes a disorder for the Lisbon target of employment with its insufficiencies in active labor market participation. As it was described in the third chapter there is not any effective scientific progress in the majority of the CEECs and this will increase the gap between various members in terms of technological capacity. The share of Poland and Slovakia is less than 1 % of their GDP for R&D spending and they have infrastructural problems. This endangers the EU from being the most dynamic knowledge-based economy. Nonetheless, both Poland and Slovakia will be net recipients of the EU budget.

5.2.3 Germany

Germany was one of the most successful EU countries that benefited from macroeconomic stability during the 1970s and 1980s. It was able to cope with market pressures and competitive forces. During the 1990s, the willingness to participate in the euro zone area forced the country to follow restrictive fiscal policies which were conducted by Bundesbank in order to fulfill the convergence criteria. After the launch of the single currency, the slowdown in the employment figures and economic growth was evident. Germany was confronted with budgetary turbulences and recession. As a result, nowadays many called the country “Europe’s sick man.”²⁴¹ Germany’s GDP growth rates diminished since the end of the 1990s and it was 1.6 % from 1992 to 2002 and amounted to -0.2 % in 2003. After that period

²⁴⁰ European Commission, *European Economy*, op. cit., 97-98.

²⁴¹ Eckhard Hein and Achim Truger, “What Ever Happened to Germany? Is the Decline of the Former European Key Currency Country Caused by Structural Sclerosis or by Macroeconomic Mismanagement?”, *International Review of Applied Economics*, Routledge, Vol.19, No.1, January 2005, 3-4.

there was always volatility in the growth volume. The unemployment rate was 8 % from 1992 to 2002. However, it increased to 9.5 % in 2005.²⁴²

What were the main reasons behind this fall? In reality, the growth rates and employment trends were below the European Monetary Union (EMU) average since the late 1990s. For the budget deficit, the results were even worse. The major reason for this recession was the descending degree of growth capacity.²⁴³ The macroeconomic mismanagement which is related with wrong monetary, fiscal and wage policies can explain the socio-economic downturn in Germany.

After the introduction of the euro as an official currency, the European Central Bank and Bundesbank were responsible for the policy on inflation and interest rates. With the independent monetary policy of the ECB, the German government could not behave in accordance with its national priorities and could not adjust the exchange rates in favor of its national interests. That's why changes in interest rates affected the investor's decision negatively by deteriorating the economic progress. Wage policies had an impact on the price level and inflation because when wages augment more rapidly than the productivity, then inflation will rise and growth will fall automatically. As a result, the Central Bank tries to mount up its interest rates. In return, there is a possibility that a regression can occur.²⁴⁴ As Germany's interest rates were high and investment level was not effective, these combined factors were the cause of this backwardness.

The common monetary policy of the ECB did not function in favor of Germany because its inflation rate was below the average that increased the interest rates, it had a higher output gap and its wage policies were not successful compared to other EMU countries. These made the internal and external demand to fall. As the

²⁴² European Commission, *European Economy*, op. cit., 58.

²⁴³ Eckhard Hein and Achim Truger, op. cit., 6-7.

²⁴⁴ Ibid, 17-18.

sovereignty was given to the ECB, Germany could not make necessary adjustments to ameliorate its economic position. With regard to fiscal policies, Germany should adjust its budget deficit levels in order to fulfill the requirements of the Stability and Growth Pact which meant that the budget deficit should be 3 % of GDP. So, the restrictive fiscal policy hurt the German economy.²⁴⁵

In my point of view, without adjusting the interest rates to encourage large consumer purchases, Germany could not devalue its currency which could help its economy to be alive and powerful. Moreover, one country's growth rate can be superior to the others. That's why the independent monetary policy of the ECB can have both benefits and costs for the EU countries. For example, in the case of an economic slowdown, a country can not adjust its exchange rate regime and this can be dangerous by increasing its unemployment rate which brings a distrustful environment for the future of a county that reduces or stops the investment inflows. The competitiveness of a state will decline and this will have harmful effects for its trade potential. This shows that economic shocks can not be absorbed easily and stability can not be promoted with the independent monetary policy of the ECB. I think that Germany is one of the countries that are most severely affected after joining the euro zone area. "In order to improve its macroeconomic performance, the German economy needs a more expansive monetary policy at the Euro area level, less moderate wage setting exhausting the scope for distribution and more active and expansive fiscal policies at the national level."²⁴⁶

²⁴⁵ Ibid, 21-22.

²⁴⁶ Ibid, 24.

5.2.4 Ireland

Ireland is the most successful former cohesion country that achieves to reduce its disparities and obtain a worthy progress. Its economy has been transformed since the 1990s by recording a GDP growth of 7.6 % from 1990 to 2001 and employment augmented by 4.7 % in the period of 1993-2001. There was a sharp reduction in unemployment rates. It was 15.9 % in 1993 and reached 4.3 % in 2000. The trade volume of the country became 17.6 % of its GDP in 2002.²⁴⁷ Because of these reasons, the country benefited from an economic boom although it was one of the underdeveloped countries in the past. It managed to become a contributor to the EU budget in recent years.

When we examine the Irish case, it is evident that the country's good performance is based on the investment inflows after the end of its financial crisis during the 1980s. Thanks to the single market, industrial-led plan and structural funds assistance Ireland succeeded to overcome the unemployment problem and its income growth surpassed the EU average.²⁴⁸ In addition, the Social Partnership Agreements that involved the "wage moderation via the promise of future reductions in income taxes" helped to solve its fiscal chaos as well as to make a progress in the labor market.²⁴⁹ Institutional arrangements dealt with social inclusion. Structural funds that were mainly dedicated to improve physical infrastructure, human capital, production-investment aid as well as income support increased the competitiveness and educational activities of the country. The reduction in corporation tax made Ireland attractive for foreign investments because in the past the high taxation system

²⁴⁷ Peadar Kirby, "Globalization, the Celtic Tiger and Social Outcomes: Is Ireland a Model or a Mirage?", *Globalizations*, Vol. 1, No.2, December 2004, 206-207.

²⁴⁸ Frank Barry, "European Union Regional Aid and Irish Economic Development" in Bernard Funck and Lodovico Pizzati, *European Integration, Regional Policy, And Growth* (Washington, D.C: The World Bank, 2003), 135-136.

²⁴⁹ Ibid, 140.

was one of the reasons for its economic imbalances.²⁵⁰ The free market policy and active industrial strategy allowed multinational companies to enter into the Irish market and augmented the export capacity of the country. The Industrial Development Authority (IDA) promoted tax incentives and as a result electronics, pharmaceuticals as well as financial service sectors grew rapidly with the contribution of foreign companies.²⁵¹

How does this economic progress have an effect on social outcomes such as poverty? Although there was a decline in consistent poverty, the relative poverty level mounted up. Also, there was a growing inequality in Ireland. At this point, the growth in employment did not result in ameliorating the living standards, solving the poverty problem and raising the wage levels.²⁵² Moreover, the government spending on social protection decreased from 20.2 % of GDP to 14.1 % from 1993 to 2000. However, the EU average was 27.3 % in 2000. This downward trend continued also in education expenditures.²⁵³ So, the economic boost does not favor socially-vulnerable groups but in general, Ireland's progress is convincing enough and in the near future the country will be more powerful.

According to recent statistics, GDP growth will continue to be strong in both 2007 and 2008 due to the high level of domestic demand, investment flows and export growth and the unemployment level will be less than 5 %.²⁵⁴ Despite the malignant potential in some social statistics, Ireland is one of the good performers in the EU with its effective macroeconomic management, industrial strategy and social partnership policy. Compared to other former cohesion countries, it is the leader in terms of economic growth and employment opportunities.

²⁵⁰ Ibid, 139-140.

²⁵¹ Kirby, op. cit., 208-209.

²⁵² Ibid, 211-213.

²⁵³ Ibid, 216.

²⁵⁴ European Commission, *European Economy*, op. cit., 69-70.

It is worth noting that Ireland's history can be considered a success story but it does not mean that the other former cohesion countries achieved to promote real convergence. Mezzogiorno in Italy, Greece and Spain are still the lagging areas. When we compare these countries with the CEECs it is seen that their socio-economic performance is better. So, the CEECs still need time to ameliorate their current status. Hence, after creating welfare development, the EU can consider adding new countries in its chain. Otherwise, the budgetary and agricultural challenges will be doubled, causing a real divergence between the EU countries by decreasing the share that they receive from the structural assistance. In this context, it is possible to indicate that enlargement causes socio-economic turbulences for the regional policy because it can not function effectively when the number of countries is multiplied. It becomes hard to absorb new members and it is an indication that the structural funds do not promote effective development. As a result, the challenges outweigh the benefits after the entry of the newcomers especially for the previous members because when comparing the CEECs statistics with the other members, they can be labeled as the marginalized parts despite their respectable share of the EU assistance. In reality, the basic principles of the regional policy such as enhancement of regional competitiveness, education and training facilities, social inclusion and economic stability can not be appropriately put into practice because of the increase in the number of backward countries in the EU.

CHAPTER 6

CONCLUSION

In this thesis, the enlargement process of the EU with respect to its reflection on the regional policy has been studied. The major emphasis is on socio-economic picture of the EU-27 and selected statistics are underlined in order to show the winners and losers of integration.

The real motive behind the establishment of the EU was the promotion of peace and security in Europe to overcome the negative consequences of the Second World War. When the Community reached nine, the new member countries of 1973 namely, the UK, Denmark and Ireland were interested in economic gains that would come from the membership. The newcomers from the second and third enlargement that made Greece, Spain and Portugal as part of the EU caused budgetary challenges because they were economically poor countries. The main reason behind the fourth integration for new joiners that welcomed Austria, Sweden and Finland in 1995 was to be a part of the free trade agreement as well as decision-making. The significant point was that these countries did not create any socio-economic turbulence for the EU. The fifth enlargement allowed 10 countries to join the EU framework in 2004. However, some of these countries were the former communist states that were divided from Europe for many years and they were economically unstable which meant that they would create tensions between the member states. Their orientation

towards the EU was related with the aim of economic progress and stability. The last enlargement was finalized with the entry of Romania and Bulgaria together in 2007.

As the number of participants is in a rising trend and the EU imports both the gains and problems of the member countries at each time, it becomes important to enhance economic and social cohesion. It can only be achieved by giving financial assistance to the countries which face industrial decline, scientific gap, territorial imbalances, economic downturn due to the high level of inflation, current account deficit, low level of GDP growth, social problems like unemployment, poverty and social exclusion. That's why the regional policy targeting strong dynamism, regional stability, better education, scientific development, economic sustainability, competitiveness, equal opportunities in the workplace, creation of additional job opportunities, an increase in the social standards, a more Lisbon-oriented policy of growth, employment and technological amelioration as well as innovative society by capturing a noticeable share in the world markets provides structural and cohesion funds to the EU states. These special funds are the basic financial instruments that have a vital role in resource distribution. Although each is dedicated to boost regional solidarity, they have different responsibilities.

In this context, the major question is: Considering the EU-27, is regional policy successful enough to solve regional disparities in an enlarged EU? The answer is evidently no because when one examines four different reports on economic and social cohesion, it is clear that there are huge differences between the EU countries and it becomes really difficult to sustain socio-economic unity. Economic capacity of the member states during the 1990s was a good illustration to show that the four cohesion countries such as Portugal, Greece, Spain and Ireland achieved to minimize their regional disparities but they had continuing disturbances. The entry of the

CEECs changes the economic capacity of the EU as a whole. The recent trends show that although there is a GDP growth in these countries their GDP per capita in PPP is lower than the EU-15. They are generally described as the losers of enlargement in terms of economic efficiency. The negative performance of the newcomers puts their participation in the single market in danger. Their current account deficit is in an accelerating trend; their inflation level is greater than expected. Any possible delay to join in the euro zone area will hurt regional competitiveness. Turning our attention to social trends, the unemployment is a permanent question mark, distorting the welfare and social solidarity of the EU. The most suffering countries are the CEECs mainly Poland and Slovakia. Furthermore, due to the insufficient increase in the participation of the female and older workers in the workplace, it becomes harder to reach the Lisbon target of employment. This trouble is in fact related with the balance of payments crisis, low productivity and investment as well as the lack of education facilities that decrease the number of the qualified employees. There is a lack in implementing more active policies in investing the human capital, creating better social protection systems and solving the problem of poverty. The need to enhance regional solidarity continues in technological industries because the heterogeneity lasts in R&D expenditures, patents application and infrastructure. It is an obligation for the EU countries to specialize in high-tech industries, to create employment opportunities in scientific sectors in an attempt to catch-up with the global leaders and to become a knowledge-based Union. However, R&D spending is below the Lisbon rate of 3 % of GDP and transport infrastructure and telecommunications need more financial resources in some of the EU members.²⁵⁵

²⁵⁵ European Commission, *Statistical Portrait of the European Union: 2007*, Chapter 2, op. cit., 31.

Once again, the major reason behind this scientific gap is the CEECs who are not able to compete effectively with previous members.

Before their admission, there were different attitudes towards the CEECs because their economic backgrounds were not recorded with huge successes. Previous members had some concerns because trade creation, strong investment and economic ties would not be achieved if they became members. The CEECs can be labeled as the main threat behind the regional policy because they have more regions that are lagging behind, they have serious social problems and they receive more from the financial provisions that place them as the beneficiaries. For example, in the current financial programming period that will last between 2007 and 2013 the budgetary disputes make their mark on negotiations and the former cohesion countries protest to the unequal resource allocation which are mainly granted to these newcomers. However, it seems that the CEECs will continue to get more from the funds and the EU budget compared to other members because they have serious uncertainties regarding the R&D, infrastructure and scientific development. Their entry also equals to a recession in agricultural future of the EU because the number of farmers and agricultural land increase greatly. The most important point is their low productivity in agriculture-oriented industries despite their high level of agricultural employment. Employment-related troubles are equally important with other challenges. When comparing the basic data, it is evident that the CEECs are not able to catch-up with the previous members in the female, older and total employment rates. All of these realities denote that the entry of the CEECs cause handicaps for the regional policy.

To this end, the main finding of this thesis is that the costs of enlargement outweigh the benefits and when the number of countries is doubled, it is tough to

create economic and social cohesion. The EU does not absorb the CEECs yet and there are still wide deficiencies between its members. However, the less favored countries of the 1990s have made some progress. Ireland, Portugal and Spain benefit from an economic recovery, they succeed to increase their credibility and Ireland becomes one of the richest countries of the EU. There is a fact that the CEECs' socio-economic problems are more serious than the least developed regions of the 1990s and it is harder to govern the EU-27 than the EU-15. Therefore, there is a socio-economic divergence rather than convergence in the EU because it does not become the most competitive and dynamic economy by reaching its target level in the R&D expenditures that is 3 % of GDP and by promoting an employment rate of 70 % in general, 60 % for women and 50 % for older workers. It is difficult now to boost competitiveness, job opportunities, social unity and economic amelioration. So, the enlargement policy of the EU has negative effects on the regional policy due to the unequal financial transfers, agricultural uncertainties, budgetary challenges as well as severe socio-economic gaps that prevent the EU to achieve its objectives. This chaos leads to unconformity between countries that brings many unanswered questions like how the EU can function with its 27 members and beyond; or will it be possible for the previous members to defend that the benefits are more than the challenges?

In this context, it is suitable to give some recommendations. The EU is not ready to deal with the new enlargement that will multiply the socio-economic disorder and that will constitute an obstacle to its basic goals of unity, solidarity and convergence. When it grows in size and population, the share of the old members that they receive from the funds and the budget decreases automatically. This does not only cause tensions between the members which creates loss of enthusiasm about

the uniqueness and benefits of the enlargement but also leads to the unequal budget distribution to the isolated regions because it is difficult to minimize the regional troubles and to enhance harmonious development if the funds are inappropriately distributed to the problematic areas. Therefore, without creating sensible solutions to the enlargement burden, it is not reasonable to add new members. Secondly, in order to respond rapidly to the new technological changes which are based on globalization of international markets the EU can focus more on the establishment of an innovative-based economy by augmenting the share of the technological expenditures from the EU budget. It can support more the creation of the innovative centers that facilitate operation in overseas markets. Socially speaking, education and training activities can be enhanced to ameliorate the skills and qualifications of the EU citizens who are the participants of the labor force. By investing more on education, the creation of additional jobs can be enhanced and social exclusion can be overcome because one of the biggest reasons of the employment-related problems and poverty is the low skilled personnel. It is worth noting that the attractiveness of part-time works or flexible working can be advanced via better working conditions and new arrangements in the work places. This will increase the employability of the women and older people. As social protection puts an obstacle to the budget, the system of early retirement can be eliminated because the EU has demographic problems with its aging population and the lack of baby boom. The European Social Fund and the European Employment Strategy can be given more emphasis because the newcomers have unemployment problems that harm their quality of life. That's why in order to promote social welfare investing in human capital by educational facilities, modernization in the work places and rearrangement in the social protection should be the main focus. These measures can reflect positively to the

economic growth of the EU members because there is a strong link between the social and economic amelioration. It can be legitimate to adopt new economic policies because even the biggest economies of the EU like Germany have economic problems. This is in fact related with the strict monetary policy to fulfill the euro requirements. The common economic policy of the European Central Bank needs to be reorganized as economic shocks can not be absorbed easily. Country-oriented measures are necessary to stimulate convergence. There is heterogeneity rather than homogeneity in economic growth. So, the EU can give more importance to its assistance package to Objective 1 areas that are below 75 % of the EU GDP per capita average. Furthermore, the EU can give more incentives to the members who try to increase their countries' attractiveness by strengthening their investment and trade links with other countries. With these formulas in mind, it will be easier to promote sustainable development.

Special reports, working documents, theses and articles can focus more on the EU candidates' socio-economic performance, their pros and cons for the regional policy because it is possible that they will become new members. As the main argument of this thesis is that the enlargement affects negatively the regional development activities of the EU new reports can emphasize also specific measures to increase the competitiveness of the countries, to ameliorate the conditions in the peripheral regions and to create balanced development. This can be helpful for academicians, politicians and EU officials to design a roadmap in dealing with regional disparities.

To sum up, in the near future it seems that the enlargement may pose more challenges rather than opportunities for the member states by increasing the isolated areas. The gaps may continue in labor, social standards, economic growth and

technology because of including more countries into the EU. The ageing problem may be more harmful compared to the past because of the lack of employment creative measures. There may be a rise in the number of the older workers and retired people which means that health care systems may pose budgetary chaos. Due to this, the net contribution of the members may increase sharply. It is also possible that the euro zone problems may accelerate more because some of the member countries face economic decline and they can not meet the economic criteria of the single market with their huge budget deficits, insufficient FDI flows and inflationary pressures. It may be difficult for the CEECs to ameliorate their socio-economic position within a short time because the lessons that are learned from the past integrations are that the former cohesion countries are still the problematic parts except Ireland. So, there may not be an optimistic future for the regional policy without finding immediate solutions to the enlargement dilemma.

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