EEI POLICY PAPERS 2009-2

In Defence of EU enlargement

Fredrik Segerfeldt

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European Enterprise Institute

About EEI Policy Papers

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The European Enterprise Institute is a non-profit, non-party affiliated organization, registered in Belgium. It aims to promote entrepreneurship in the EU policy community and to provide a platform for the ideas and philosophy of entrepreneurship throughout Europe.

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A Word from the Publisher

This is the fourth publication in the new series launched by the European Enterprise Institute during the autumn of 2008. The series is devoted to the values of free enterprise, free competition and innovation.

The aim is to inspire policymakers in Europe, as well as public opinion, by presenting well-founded facts and arguments. The concepts of free enterprise, free competition and free enhanced innovation are important for all members of society.

This publication supports the enlargement process of the European Union and shows the benefits for Europe as a whole, not least economic, and argues for further enlargements. This message is important, not least since politicians have so far been unsuccessful in explaining the great benefits arrived from EU enlargement.

In fact, the enlargement process has been a tremendous success story, which has benefited both old and new EU members. By spreading incentives for economic reform and stabilizing democratic institutions, it has contributed to increased prosperity and stability in Europe.

Comments and viewpoints regarding the publications are very welcome.

Peter Jungen

President, European Enterprise Institute

Foreword

European enlargement is about our belief in European ideas and values. And the process of enlargement proves that the belief in our ideas and values are right, not only from a moral and idealistic point of view but indeed also as seen from practical perspectives and the development of European reality. The idealists have been proven to be right and to be the real realists.

First of all of course the change of European paradigm making the reconciliation of France and Germany possible and thereby creating a new momentum in European history. It is today easy to underestimate those steps that were taken, the courage and idealism they required and the hindrances that had to be passed. And it is easy to take it for granted.

But in reality it was one of the biggest steps taken in history transforming what was seen as nearly an eternal confrontation between peoples into stable integration less than a decade after a war that ruined Europe – and European values. Political difficulties meeting us in the enlargement process today should be seen in the perspective of those calling for a union between enemies in a time when hate was easier than reconciliation.

But then of course the integration of the United Kingdom, Denmark and Ireland meant that other countries and economies than the continentals were added with a different political culture and economic tradition. That was another step bridging European differences and creating strength by unification.

And then the reaching out to former European dictatorships, that had divided Western Europe between its democracies and its suppressed peoples, making their modernization a part of European democracy and future.

The memberships of Sweden, Finland and Austria were in this perspective a less dramatic enlargement and more a historical change – but it was a part in the long term change of the European map.

By the enlargements of 2004 and 2007, not only the cold war was ended but in a historic perspective you can say that the tragic European history that started with the outbreak of WWI was ended when many countries once behind the Iron Curtain became members of EU and thereby also resolving old national and ethnical conflicts between them.

Seen in this perspective, it is a tremendous achievement for European values. The enlargement is not about making EU bigger but about making European values, democracy, freedom and the rule of law larger and stronger. The enlargement has turned new and unstable societies into stable democracies, the rule of law has extended its reach in Europe and freedom has become a granted privilege for millions of people.

But adding to that, the economic integration has worked just as it should. Trade increases growth and investments and binds people together. It is only in mercantilist perspectives the emergence of new vital economies is a threat. The import of one country increases the export of another; thereby it can afford to import more. That is also deeply rooted in the idea of European integration. And it has worked and made Europe not only more secure but also more prosperous.

The same applies for the future. The question is if we want to enlarge democracy and freedom as stable institutions for new millions of Europeans and make European values stronger. Economic integration with new member states will contribute to democracy, peace and prosperity. The enlargement of political integration will strengthen European values, in Europe as well as in the world.

This report describes and analyses the success in a fact-filled and thorough manner. In the future we must prove our own belief in European values with this in our minds. A western Balkan united with each other and with other European nations will contribute to stability and a better future for millions of people and will together with a future accession of Turkey bridge another rift in

European history.

And in Ukraine together with and a number of Caucasian countries, as Georgia, we do see the need for a framework of democracy and freedom serving as templates for future development. A future process of enlargement will make European values stronger because enlargement is about enlarging those values.

The European Enterprise Institute is happy to publish this convincing defense of enlargement, by Fredrik Segerfeldt, who is an author, analyst and commentator.

Gunnar Hökmark
Member of European Parliament and vice chairman of the EPP-ED group
Co-chairman of EEI

Introduction

Europe will not be made all at once, or according to a single plan.

Former French Foreign Minister Robert Schuman, in a 1950 declaration that lay the foundation of the Coal and Steel Union, that was to become the European Community.

I fought for our country to recover everything it lost under communism and the Soviets...and now my struggle is over. My ship has come to port.

Former Polish president and Solidarity trade union leader Lech Walesa, on the day of Poland's accession to the EU.

The European Union is a process. Since the establishment of the European Community in 1957, the original six member states - Germany, France, Italy, the Netherlands, Belgium and Luxembourg - have been joined by 21 more countries. This enlargement has taken place in separate waves.

In 1973, the EC was expanded for the first time, to include not only the UK but also Ireland and Denmark. Norway failed to join the other three, following a no vote by the Norwegian people in a referendum. In the 1970s, three south European dictatorships were democratized, and accordingly Greece joined the Community in 1981 followed by Spain and Portugal in 1986.

In the end of the 1980s, communism in Central and Eastern Europe collapsed and the Cold War ended. It was possible for neutral Austria, Finland and Sweden to accede to what had become the European Union. The EU-15 came about.

A lengthy and technically as well as politically complicated process led to ten new member states joining the Union in 2004. These were the three Baltic States - Estonia, Latvia and Lithuania – and the four Central European countries - Poland, the Czech Republic, Slovakia, Hungary and the former Yugoslav republic Slovenia. The two small Mediterranean island states Cyprus and Malta also acceded simultaneously. Two other candidate countries from South-Eastern Europe, namely Romania and Bulgaria, had to wait three more years and joined the EU in 2007.

Despite the fact that this development has taken place in separate waves, the growth of the European Union can be seen as a constant process. Growing bigger to extend an area of democracy, peace and prosperity has ever since its creation been an inherent part of the idea of the EU (EC). The only break in this process was in the 1960s when the United Kingdom's efforts to join the Community were vetoed by French President Général de Gaulle. There are now very few established democracies on the European continent that are not members (Iceland, Norway, Liechtenstein and Switzerland, that, to different degrees are associated with the EU) or striving to accede to the Union.[1]

Currently, three countries are *official candidates;* Croatia, Turkey and (the former Yugoslav Republic of) Macedonia. The western Balkan countries of Albania, Bosnia and Herzegovina, Montenegro, and Serbia are officially recognized as *potential candidates*.[2] Kosovo has not been recognized as an independent state by all EU Member States. Ukraine is not a candidate country. In this report, the term *possible future members* will be used for all the countries that are likely to be considered for future membership, including Ukraine.

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[1] However, it seems like popular mood in Iceland is changing after the financial crisis, and that a majority of the island's voters now favor joining the EU. Also in Norway, there is more and more talk about another referendum on EU accession.

[2] In September 2008, following the arrest and delivery to the Hague Tribunal of the former Bosnian Serb leader Radovan Karadzic, the EU and Serbia signed a deal to start negotiations on a Stabilization and Association Agreement, a step before membership talks. Montenegro officially applied for membership in December 2008.

The Copenhagen criteria and the accession process

We have passed all the tests, we have met all the requirements, we have achieved what many, including ourselves, did not believe we would be able to attain.

Latvian President Vaira Vike-Freiberga, on May 1st 2004, the day of her country's accession to the EU.

In order to join the European Union a country must meet the so-called Copenhagen criteria, three sets of conditions defined by the European Council (EU summit) in Copenhagen in 1993.[3] Even though the EU had more than doubled the number of members since the 1950s, no formal rules were set up for new applicants to be allowed to accede to the Union (Community). True, the Mediterranean former dictatorships that joined in the 1980s had some structural changes to go through, but it was not a total transformation. However, after the fall of the Berlin Wall and the collapse of communism, the countries striving to join were states in a process of transforming themselves from command-economy dictatorships into western-style market-economic democracies. A new strategy was necessary in order to make sure that the countries joining had actually become states that were ready, capable and willing to fully assume the responsibilities of an EU member.

Therefore, it was decided that in order to start accession negotiations the candidate is required to have

- *stable institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities.*

[3] http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/93/3&format=HTML&aged=1&languag e=EN&guiLanguage=en

This is sometimes incorrectly referred to as *the* Copenhagen criteria, but in reality these are the basic political conditions for joining, the political Copenhagen criteria. Countries can start negotiate the terms of accession once these conditions are met. But, that is just the start. There is actually much more to it.

In fact, a candidate must fulfil also the economic and administrative criteria. The economic criteria require a candidate to have

- *a functioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union.*

These two requirements are confusing. The definition of a functioning market economy can be nothing but arbitrary. Of course, in 1993, most experts deemed it necessary to make sure that the former communist countries had left their command economies behind. It was difficult to foresee the free-market revolution that was to take place in Central and Eastern Europe. And most "old" member states are to various degrees mixed economies with different levels of government involvement.

The second part, to be able to withstand the competitive pressure from the internal market, makes limited economic sense. The idea behind the free flow of goods, services, capital and people is to enhance specialization and competition, leading to economic growth and higher living standards. The more diverse the economies, the greater are the benefits of exchange. Implying that countries are more or less able to withstand this competitive pressure is equal to disqualifying the main argument behind the internal market. All countries benefit from free flows, no matter their economic structure. A country is always relatively competitive. The difference is where its comparative advantage lies, in which sort of business it is more competitive than other countries. A firm can be absolutely competitive, a country not so.

It also has a certain paternalistic touch to it, with the European Commission and the current

Member States deciding whether aspiring members can deal with the market forces, as if they could not decide that by themselves.

The third set of criteria is usually called the administrative one, saying that countries must have

- *the ability to assume the obligations of membership, in particular adherence to the objectives of political, economic and monetary union.*

The first part means that a country not only needs to formally subscribe to the rules of the EU in general and the internal market in particular, but that it also needs to be able to implement and enforce them. In countries with weak states and rampant corruption, this is of particular importance.

The accession process is often described as negotiations. But in fact it is mostly a procedure in which candidates show that they have changed their laws and regulations so that they are in line with what in EU jargon is called *the acquis communautaire,* the set of treaties, rules, standards, principles, and policies that the EU requires acceding countries to adopt. The *acquis* is divided into (currently 33) chapters, each of which is closed when the EU negotiators judge that the candidate country in question has sufficiently adapted its laws. The sessions are therefore rather to be viewed as oral and written exams, where students prove to the professor that they have done their homework.

There is however, certain room for transition periods, and in more limited cases, for permanent derogations. This is where there are actual negotiations. For example, when Sweden joined in 1995, it got a permanent derogation for the EU-wide ban of the sale of wet tobacco (snuff). And when the eight former communist countries joined in 2004, there was an optional transition period for "old" member states to limit the free movement of workers from "new" member states for as long as seven years after accession.

Consolidating a continent

We never want to wage war again against each other. We want to honour the dead and tend to the graves but we never again want to have soldiers' tombs in Europe. That is the most important reason for a united Europe.

Former German Chancellor Helmuth Kohl.

Apart from the previously mentioned resistance from de Gaulle to accept the UK into the Union, the growth of the Union from the original six to the EU-15 of the 1990s was seen as something logical and uncontroversial. Embracing Greece, Portugal and Spain was not only a duty but a way of ensuring that democracy and the market economy would fully permeate Western Europe.[4] The democratic and economic success of these countries, in particular of Spain, since joining the EU has been striking. Today, nobody would question any of these countries' status as established western market-economic democracies. And when Sweden, Finland and Austria joined in 1995, nobody took much notice. Three more small and prosperous states would not make much of a difference, and they did not.

However, when it came to the large expansion in 2004 (and the belated one in 2007), it was an entirely different business. Ten countries that for four decades (or more) were part of a power block that defined itself in opposition to the West that the EU was an important part of, that were undemocratic and that had a totally different economic system than the one the EU was based on, were to accede to the Union. Cyprus and Malta also joined, but apart from the division of the

[4] True, there were concerns about such issues as the backwardness of the Portuguese economy, the size of the Spanish agricultural sector, the impact on EC trade with other non-EC Mediterranean countries as well as about the future capacity of the Community to make decisions, but nobody, except for one gaffe by French President Giscard D'Estaing, really questioned the accession of these countries as such. The focus was on adaptation, not obstruction. Preston C. (1997) *Enlargement and Integration in the European Union*. Routledge 1997.

former, their accession played little role, either economically or politically.[5]

Apart from the absence of war in Western Europe, the successful embracement of ten former communist countries, from Estonia in the north to Bulgaria in the south, must be seen as the most striking success of the Union since its establishment. The western democratic and market-oriented sphere was widened.

Much has been said about the role of the EU as an origin of and a facilitator for reforms in Central Europe. Many scholars have highlighted, in the words of Heather Grabbe, the EU's "transformative power".[6] In *Europe Undivided* M. Vachudova made the distinction between the 'active' and 'passive' leverage of the European Union. The former refers to the "deliberate conditionality exercised in the EU's pre-accession process" whereas the latter refers to the attraction of EU accession.[7] The EU did thus not only help transforming these countries formally, but also informally.

Some would argue that the expansion of NATO was so important for the security of the Central and Eastern European (CEE) countries, with membership in the security organization as a protection against Russia's possibilities to exert influence over its former satellite states, that the EU played little or no role in consolidating democracy and a Western orientation in these countries. Others have made the point that free markets were enthusiastically embraced in Central and Eastern Europe without the interference of the EU and that joining the Union actually hampered and in some cases reversed free-market reforms (such as Estonia having to raise its zero tariffs on imports).

[5] True, the division of Cyprus, its relations to Turkey and Greece and the Greek Cypriotes' rejection of a reunification plan in a referendum had important political implications. The political implications were however limited to EU-Turkey relations.

[6] Grabbe, H. (2006) *The EU's Transformative Power: Europeanization through Conditionality in Central and Eastern Europe*. Basingstoke and New York: Palgrave MacMillan.

[7] Vachudova, M. (2005) *Europe Undivided: Democracy, Leverage, & Integration After Communism*, Oxford: Oxford University Press, p 63.

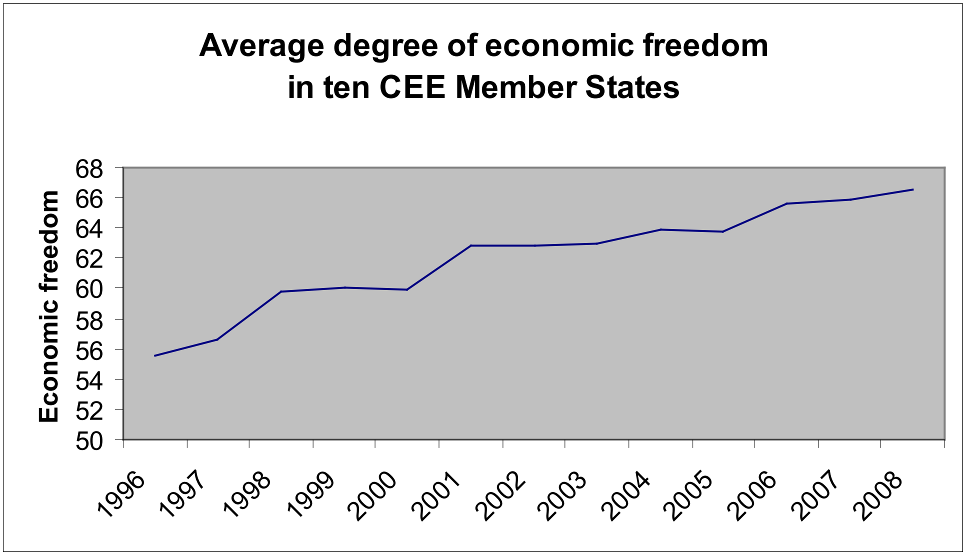
However, there is little evidence to support either claim. First, most CEE Member States viewed accession to the EU as a recognition of their European, if not Western, identity that they had been denied for 40 years or more. The East was a political identity, forced upon the Central Europeans by the communists and the Soviet Union. As Milan Kundera had pointed out, Prague is 300 kilometres (about 190 miles) west of Vienna and yet the former was seen as east and the latter as west. Each of the candidate countries strived to be seen as equals with the west. Accession to the EU was the ultimate proof of their transformation being completed, having come home to join the European family they had always felt they belong to.

Second, in some cases the goal of EU accession actually played a decisive role in the transformation process. The development of Slovakia in the mid-1990s is a case in point. The slightly anti-western and autocratic politician Vladimir Meciar ruled the country for most of the time between 1993 and 1998. It was a period of populism, nationalism and clientelism. In 1997, the EU decided not to include Slovakia in the invitation to the CEE frontrunners (Czech Republic, Hungary, Poland, Estonia and Slovenia) to open accession negotiations. It was deemed as insufficiently democratically mature. And in the 1998 elections, the Slovak people wisely chose to oust Meciar from office. Slovakia then joined the EU at the same time as the other eight CEE frontrunners. The EU was an important factor in the political direction the country chose to take.[8] The fact that the frontrunner countries later were also joined by Latvia and Lithuania (and of course by Cyprus and Malta) in the grand 2004 accession illustrates the competitive reform-stimulating role that the EU membership played.

Third, there are no indications that the accession to the EU, either during the negotiations process or during membership, had any overall negative effects on CEE countries economic reforms. In fact, the average economic freedom of the ten Central and Eastern European Member States has steadily increased since 1996, the first year for which there is data available for all 10 countries, according to the Index of Economic Freedom.

[8] Lord, C. and Harris, E. (2006), Democracy in the New Europe, Basingstoke and New York: Palgrave.

Graph 1: Accession to the EU has not hampered economic reform



Source: Index of Economic Freedom

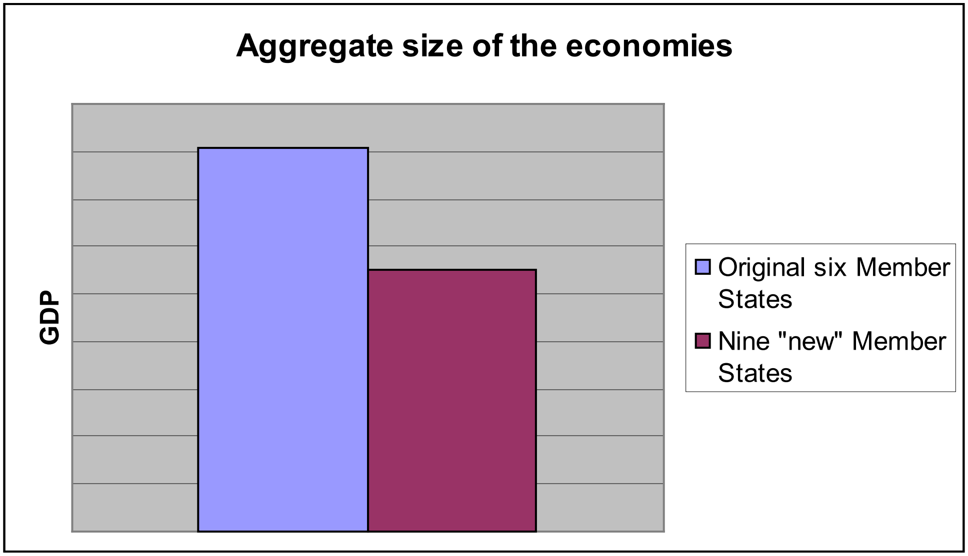
The size of the economies

Enlargement will not make us poorer, but richer in the future.

Former German Chancellor Gerhard Schröder.

It should be conceded that EU enlargement first and foremost is a political project. True, the expansion from the original six countries to EU-15 in the mid-1990s added about 68 percent to the size of the EU economy.

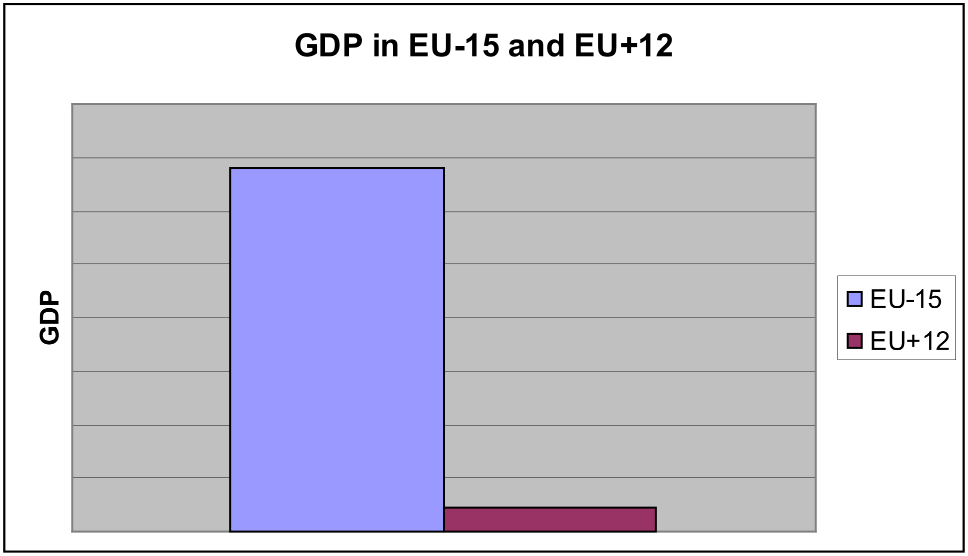
Graph 2: The economy of the original six member states and the nine that joined until 1995, 2006



Source: WDI Online

In contrast, the ten new member states that joined in 2004 and 2007 respectively added only 6.8 percent of the economy of the EU-15.

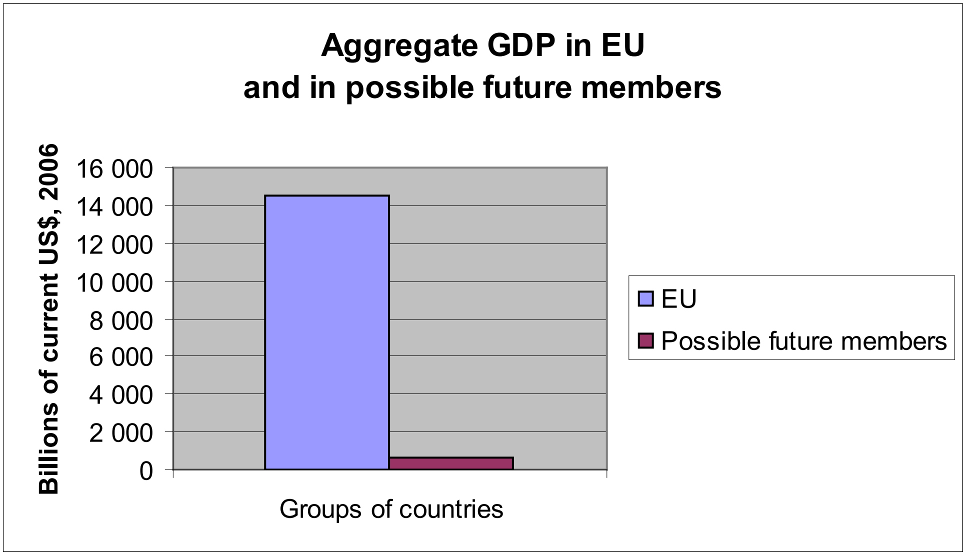
Graph 3: The economy of the EU-15 and of the 12 new member states, 2006



Source: WDI Online

And the aggregate GDP of possible future members (including Ukraine) is a mere 4.2 percent of the GDP of the EU-27.

Graph 4: The economy of EU-27 (and potential) possible future members, 2006



Source: WDI Online

The main economic benefit of enlargement is thus not the growth in aggregate GDP. Instead the gains come from enhanced economic integration, with more trade, competition, specialization and structural change (static gains), as well as scale effects and enhanced technology transfers and accelerated capital formation (dynamic gains).

It is yet too early to evaluate the growth effects of the 2004 and 2007 enlargements. However, in view of these accessions, much scholarly work was devoted to predicting the economic effects of enlargement, for both sides. Most economists foresaw that the welfare benefits of the CEE countries would be larger than for the "old" Member states, estimations for the former ranging from 1 to 10 percent of increased GDP and from 0.1 to 1 percent for the latter.[9] The asymmetry in the gains is explained by both the differences in size between the respective parties - small economies' joining a large internal market is more important for the acceding countries than for those already in the market - and the fact that the newest members' economies were more distorted than the incumbents'.[10]

However, these studies did not take into account the enhanced institutional competition that comes about after allowing countries with slightly different social models into the EU. This we will take a look later in the study. First we will see what has happened in the ten CEE countries the last decades.

[9] See Brown, D., A.V. Deardorff, S. Djankov and R.M. Stern, 1997, "An economic assessment of the integration of Czechoslovakia, Hungary and Poland into the European Union", in: *S.W. Black (ed.), Europe's Economy looks East: Implications for Germany and the European Union*, Baldwin, R. E., J.F. Francois, and R. Portes, 1997, "Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe", *Economic Policy 24*, pp. 127-176.
Cambridge University Press. Breuss, F., 2001, Macroeconomic effects of EU enlargement for old and new members, WIFO working paper no. 143/2001, WIFO, Vienna. Arjan M. Lejour, Ruud A. de Mooij & Richard Nahuis, *EU Enlargement: Economic Implications for Countries and Industries*, CESIfo Working Paper 585, October 2001. For the 2007 enlargement, the effects were estimated at an additional average annual growth of 0.02 percent for the incumbent members and as much as 0,5 percent for Romania and Bulgaria respectively. Fritz Breuss, *A Prototype Model of EU's 2007 Enlargement*, FIW Working Paper N°7, July 2007

[10] Baldwin et al. 1997.

Social and economic development in Central and Eastern European Member States

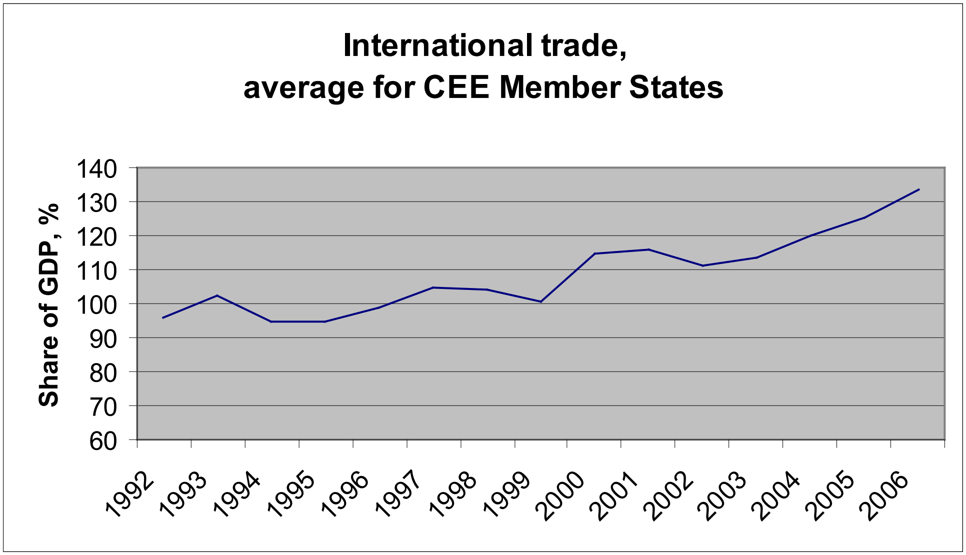
"After the collapse of communism, Central and Eastern Europe and the Baltic countries launched several radical reforms and achieved remarkable economic growth."

Former Estonian Prime Minister Mart Laar.

Summarizing 15-20 years of social and economic development of ten countries in transition from command-economy dictatorship to free-market democracy is not an easy task. Suffice it to point at some overall data to paint a broad picture, with a few brush strokes.

One of the most striking features of the economies of the ten CEE EU member States has been their integration into the world economy. In 1992, they traded internationally for about 96 percent of GDP on average (and their GDP was not very impressive in those days), a figure that has now reached 133 percent.

Graph 5: CEE Member States' International Trade

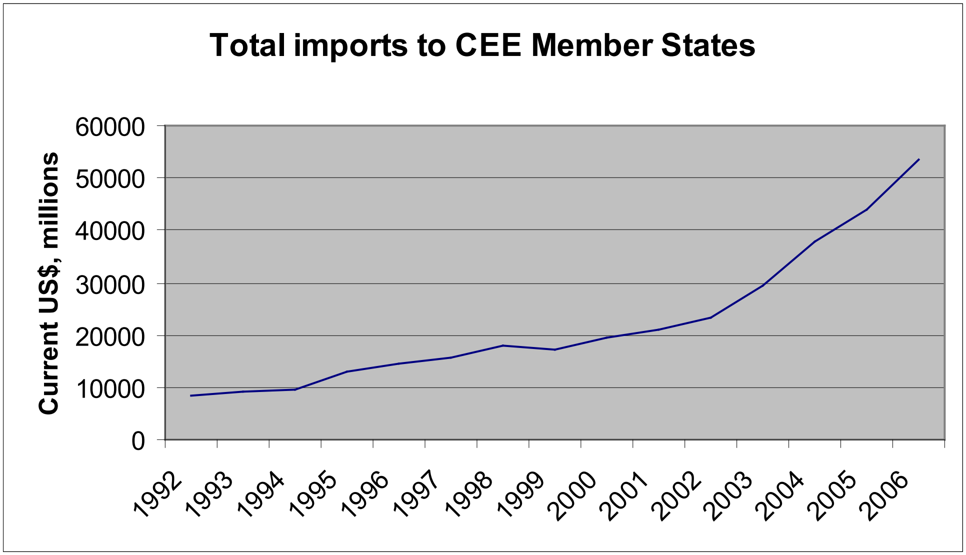


Source: WDI Online

The exports from CEE Member States have been impressive. Between 1996 and 2006 they grew by 190 percent.[11] But they don't only sell goods and services to other countries; they also buy things from abroad. In fact, import growth has been very high.

[11] Source: WDI online

Graph 6: Imports into CEE Member States

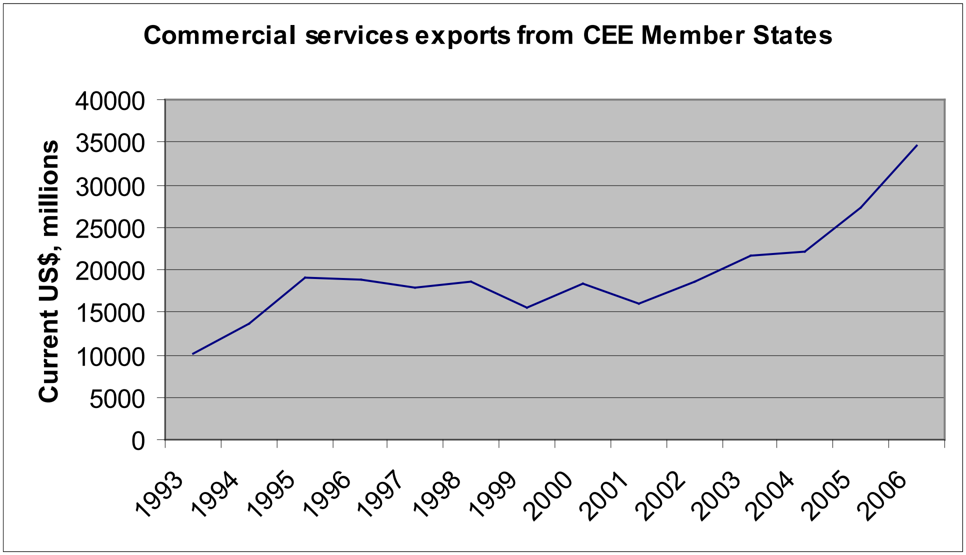


Source: WDI Online

Imports into CEE Member States have more than quintupled since 1992.

One surprising fact, given that the first thing that comes to mind when one thinks of exports from Central and Eastern Europe is manufacturing goods, is that recently, exports of commercial services have risen sharply.

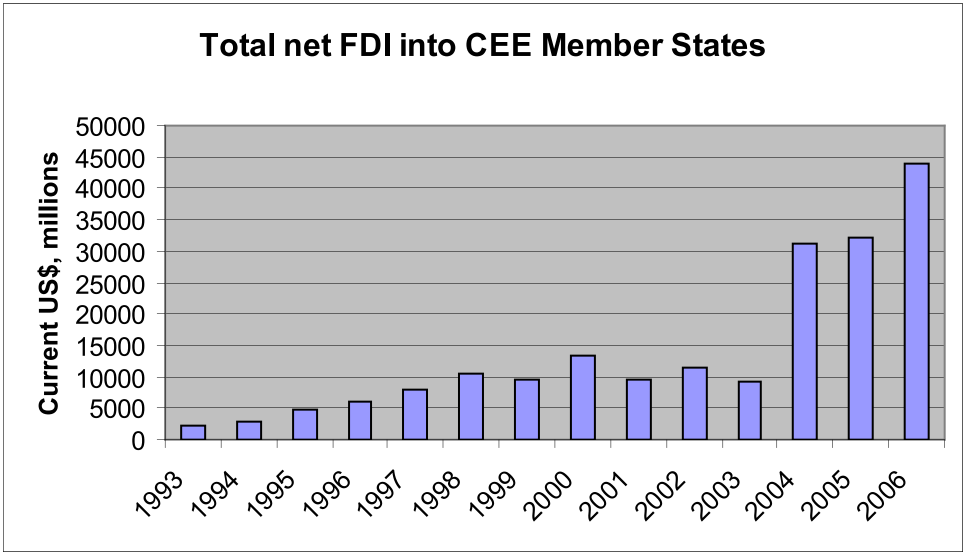
Graph 7: Exports of commercial services from CEE Member States



Source: WDI Online

Also, investments keep flowing into the CEE Member States.

Graph 8: Investments in CEE Member States



Source: WDI Online

This fact is closely related to the EU-15 FDI stock in CEE member States. In fact, in 2005, the overwhelming majority, 73 percent, of the investments from EU-15 to new member States were in services.[12] The popular view of manufacturing plants moving eastwards from old member states as the dominating trend in intra-EU investment is thus not correct.

This integration into the world economy has had a strong impact on the growth levels of CEE Member States. The average income level has risen steadily since 1993. And by 1997, the GDP per capita-level of 1990 had been reached. Today it is more than twice as high as in the beginning of the 1990s.

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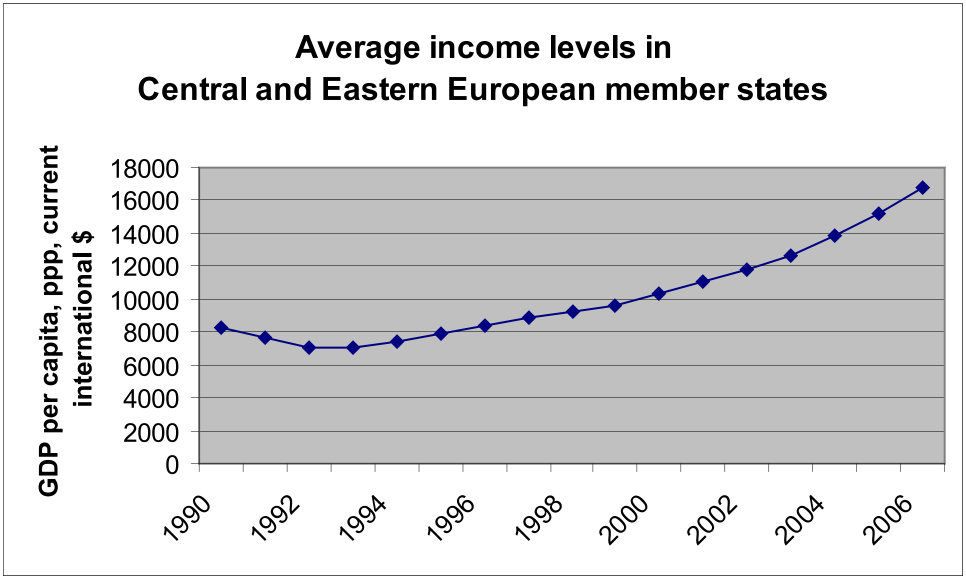
[12] Source: Eurostat.

Graph 9: Growth in Central and Eastern Europe



Source: WDI Online

In 2005, the average income in the new member states was 50 percent of the average of the old member states, up from 44 percent in 1997.[13]

For some countries, the growth rates have been astonishingly high. In fact, as the Confederation of Swedish Enterprise has shown, if the 2007 growth rate of Estonia had continued, it would have reached Sweden's income level in a mere ten years.[14]

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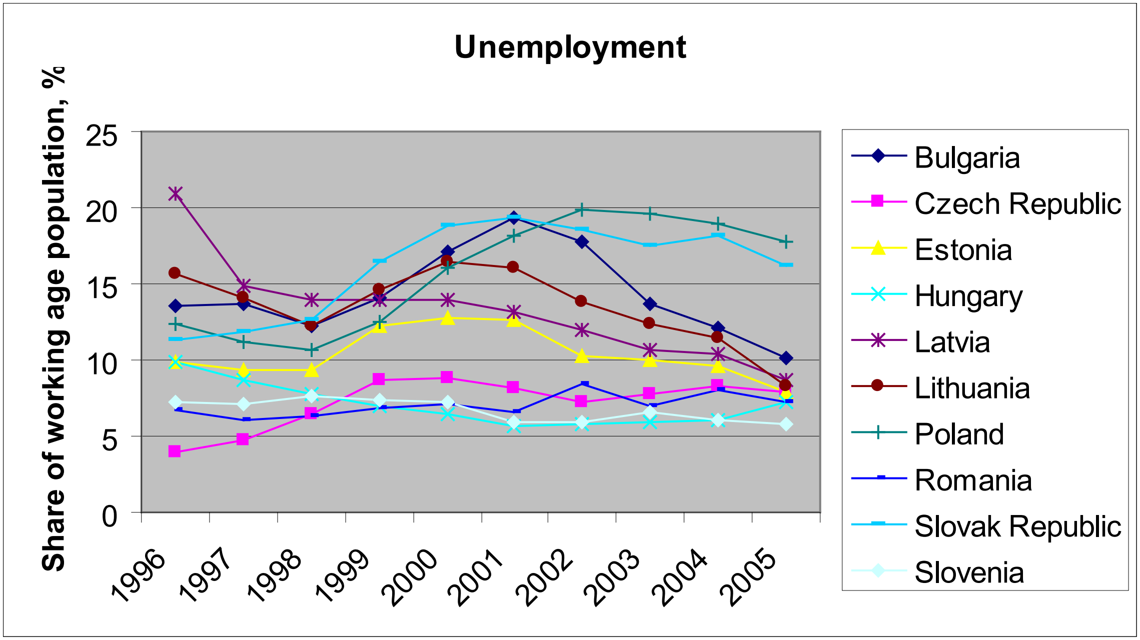
13 Reuters, 3 May 2006.

14 Confederation of Swedish Enterprise (2007), *Nu byggs landet*. This was before the financial crisis hit the Baltic States. There are no new reliable figures available, taking into account the latest developments.

Unemployment has gone down and there seems to be a converging point at somewhere between five and ten percent, with the exception of Poland and Slovakia.

Graph 10: Unemployment in CEE countries



Source: WDI Online

Some would argue that this development has little to do with EU enlargement, that it would have taken place without enlargement. The argument misses a few points. True, trade between CEE countries and the EU was almost free already before accession (free trade not being the same thing as being part of an internal market). But this integration was integrally a part of the pre-accession process. That actual accession took place later does not really matter that much in this regard.

The same goes for business investment. Much of the FDI that took place in CEE countries before accession anticipated enlargement. Business invested in these countries because firms expected the countries to become fully-fledged members of the Union at a later stage. However, it is clear that foreign direct investment into CEE countries is strongly related to their accession to the EU. As we could see in Graph 8 above, the amount of FDI flowing into CEE countries actually tripled from 2003 to 2004. Thus, many of the benefits of enlargement were dependent on the accession process even though they were materialized prior the countries' actually joining.

The case of Turkey

Turkey's accession will be a good thing for us all.

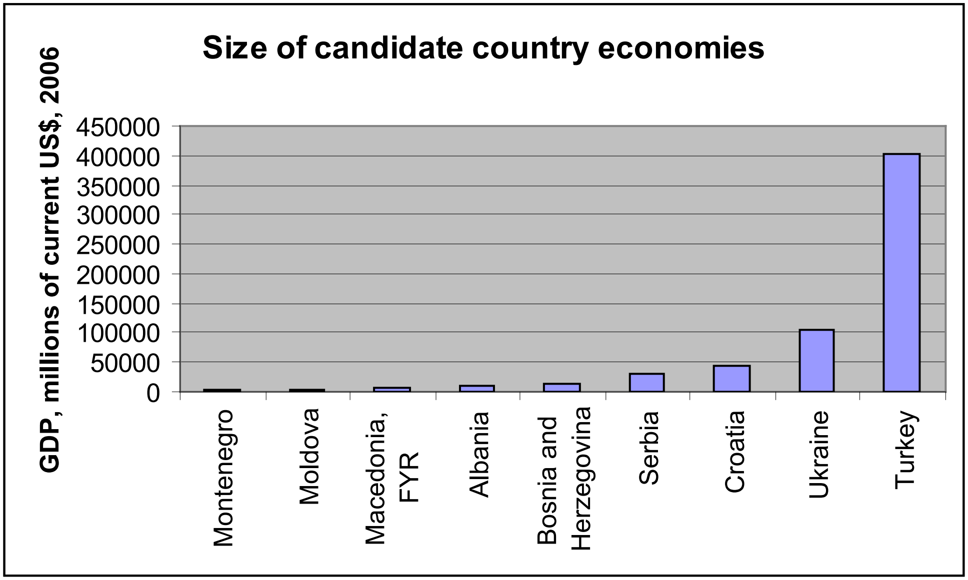
Former British Prime minister Tony Blair.

The largest of the present, potential and possible candidate countries by far is Turkey.[15] Not only does the country have more people than the other countries together, its economy is also much larger.[16]

[15] As noted earlier, the EU uses the words "recognised candidate" and "potential candidate". In this paper I also use the word "possible candidate" for European countries that have expressed a desire to join the EU, but that have not been officially recognised by the EU as either candidates or potential candidates.

[16] In 2015 Turkey is expected to have a population of 82.1 million, compared to Germany's 82.4 million. By 2025 Turkey will be the largest EU member state and account for 15.5% of the population. Kirsty Hughes, TURKEY AND THE EUROPEAN UNION: JUST ANOTHER ENLARGEMENT?, A Friends of Europe working paper, On the occasion of the "Turkey's EU end-game?" European Policy Summit of 17 June 2004.

Graph 11: Turkey the largest economy



Source: WDI Online. There is no data on Kosovo, which in 2006, was still formally part of Serbia.

Also, its geographic location, religion and history, make it stand out from the other candidates. Furthermore, Turkey is not a country in transition with a command-economy past and is already in a customs union with the EU.

Turkey applied for membership already in the 1970s, and in 1996, a customs union entered into force. Turkey was accepted as a candidate country in 2001, and accession negotiations started in 2005. As with all other countries, EU enlargement to include Turkey will take place when each of the member states has ratified the accession treaty, either by a decision in parliament or after a referendum.

The potential economic benefits for the EU of allowing Turkey to join are small, but significant, not least in the long run, and taking into account the dynamic effects. Most of models used to predict the economic advantages of enlargement are static ones, so-called general equilibrium models, adding the input of the new countries. But widening the internal market is more than likely also to have dynamic effects. However, these are difficult to quantify.

One paper, for example, studying the effects caused by a widening of the internal market, the impact of domestic reforms in Turkey necessary for the country to join the EU and the free movement of people, found the long-term (20 years) economic benefits to be huge for Turkey and important for the EU (0.8 percent increase in GDP). The main benefits for the EU are cheaper imports and trade creation.[17]

Let us take a closer look at the different economic aspects of a Turkish membership to the EU, one at a time.

6.1 EU-Turkey trade

Most commentators and experts predict that an accession of Turkey to the EU will lead to an important growth in trade, with all the welfare gains this implies. Estimates of trade growth range from about 10 percent to 46 percent.[18]

There are those who argue that, not least since Turkey is already in a customs union with the EU, there is no important trade gains to harvest from a full accession of Turkey. This standpoint ignores the difference between a customs union and an internal market. The latter offers important reductions of both administrative and technical trade barriers as well as of risk and uncertainty.[19]

[17] A.M. Lejour, R.A. de Mooij and C.H. Capel, Assessing the economic implications of Turkish accession to the EU, Netherlands Bureau for Economic Policy Analysis, CPB Paper no 56, 2004.

[18] Lejour et al, 2004 and Flam H. (2003), Turkey and the EU: Politcs and Economics of Accession, CESifo Working Paper 893, Munich, CESifo GmbH.

[19] Lejour et al, 2004.

Furthermore, the customs union covers only industrial goods and processed agricultural goods. And there are important gains from trade in both traditional agricultural goods and services. Turkey also has a public procurement market worth 30 billion euros.[20]

Somewhat contradicting the first counterargument, there are those who fear that Turkey's accession would produce trade diversion rather than trade growth, hurting firms and countries in the CIS and around the Mediterranean (non-EU). The argument goes like this: Turkey is already in a customs union with the EU, meaning that the trade creation potential has already been fulfilled. Therefore, according to this theory, the increased EU-Turkey trade that is likely to take place after Turkey's accession would only replace EU trade with countries similar to Turkey. Thus, in the scenario, the only winner would be Turkey with the CIS and Mediterranean countries losing and the effects for EU-27 being neutral.

Also this argument has important flaws. Again, it ignores the difference between a customs union and an internal market. It also fails to take into account that Turkey already has a lot of trade with the CIS and Mediterranean countries, implying that their trade with the EU will increase after Turkey's accession, with Turkey acting as a connecting platform between the EU and these countries.[21]

6.2 Migration

One of the issues discussed when it comes to EU-Turkey relations is migration. Just as for earlier Mediterranean and CEE accessions, fears are raised that a Turkish accession would bring about a flood of cheap labour into the present EU. Disregarding the fact that under most circumstances labour immigration is a welfare gain for the recipient country, let us take a look at the issue.

[20] http://www.tisk.org.tr/yayinlar.asp?sbj=ic&id=1505

[21] Daniele Antonucci and Stefano Manzocchi, WILL ACCESSION TO THE EU MAKE A DIFFERENCE? AN EMPIRICAL ASSESSMENT OF TURKEY'S TRADE PATTERNS, Paper presented at the First Annual Joint Workshop LLEE – CEPS: “La Turchia e l'Unione Europea: quali prospettive?” LUISS Guido Carli University, Rome (Italy), September 29 2004

First of all, it should be made clear that Turkish migration to the EU is already a fact. In fact, despite that the guest workers programmes have been disqualified for decades, there is still an annual net Turkish migration to the EU-15 of some 35,000 people.[22]

Second, it is probable that any delay in the accession process will inhibit reforms in Turkey, thereby increasing the already existing migration pressure. Assuming zero immigration from Turkey is no realistic alternative, with or without Turkish accession.

Third, most estimates of Turkish migration are small, in the vicinities of 1 million net migrants in the first 15 years after accession (or after the abolition of transition periods for the free movement of labour). For an EU population of around 440 million people at the time, this net migration will thus only represent an addition to the population of 0.2 percent. As the experience with former enlargements has shown, the reforms of newly acceding countries make it more likely for people in these states to stay in their countries.

6.3 Other effects

There are those who argue that including Turkey into the EU would make it impossible for the EU to achieve the Lisbon agenda of becoming the most competitive economy in the world. Never mind that the Lisbon deadline is but two years away, or that politicians never had the courage to match the aim with the policy changes required to reach it. Yet there is a worry that since there are many farmers and poor people in Turkey, an accession of that country would mean in increase in EU budget spending for agricultural support and regional aid, which would allow for less spending for education, research and development and enterprise support, thereby undermining the competitiveness of the EU.[23]

[22] Refik Erzan, Umut Kuzubas and Nilufer Yildiz, *Growth and Immigration Scenarios for Turkey and the EU*, Centre for European Policy Studies, EU-Turkey Working Papers, No13/December 2004

[23] Arie Oskam, Natascha Longworth and Irene Molina Vilchez, "Consequences for the EU-27 of Enlargement to Turkey", in A.M Burell and A.J. Oskam (eds), *Turkey in the European Union – Implications for Agricultural, Food and Structural Policy*, Wallingsford, UK, CABI Publishing 2005.

This perspective has several flaws to it. First, there is little evidence that the economic success of regions is due to government spending. If any, the evidence points in the other direction, less government spending producing a more successful the economy. Second, if people are concerned with the wasteful or even harmful character of the EU budget, then they should discuss the EU budget rather than Turkey. Third, the accession of a large rural and poor country to the Union creates a window of opportunity to reform the EU budget fundamentally.

Enlargement, institutions and institutional competition

Planning, or central direction of economic activity, presupposes the existence of common ideals and common values; and the degree to which planning can be carried is limited to the extent to which agreement on such a common scale of values can be obtained or enforced. It is clear that such agreement will be limited in inverse proportion to the homogeneity and similarity of outlook and traditions of the inhabitants of an area. Although, in the national state, the submission of the will of the majority will be facilitated by the myth of nationality, it must be clear that people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions.

Nobel Laureate in Economics, F.A. Hayek.

There is growing body of scholarly work showing that the most important conditions for long-term growth are *institutions*.[24] Nobel laureate in economics, Douglass North, argues that ”[i]nstitutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation or decline”.[25]

How do these institutions evolve, adapt and change? One important factor is the competition between economic systems, or institutions.

Countries pursue different policies, and countries develop differently, according to the policies. Information about the successes and failures of different countries, as regards e.g. living standards, flows between countries, teaching people in general as well as experts and policy

[24] Dani Rodrik, Arvind Subramanian & Francesco Trebbi, *Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development*, Journal of Economic Growth Volume 9, Number 2 / June, 2004, pp 131-165.

[25] Douglass C. North, *Institutions*, Journal of Economic Perspectives, vol. 5(1), 1991 s 97-112

makers about what works and what does not. And policy makers that tend to copy the policies of the countries that have had the success they strive reach, for example when it comes to growth and job creation, for them to be re-elected.

Keeping this process of active and well functioning is of the utmost importance for a successful region of the world.

This perspective has important implications for the EU in general and for enlargement more specifically. There are several reasons as well as opportunities for experts and the informed public to gather information about other member states, to see them as relevant points of comparison. There are numerous publications and conferences and plenty of media coverage dedicated to looking at individual cases such as the Celtic Tiger or the Danish model. There is an abundance of harmonized statistics making comparisons more easy and accessible and the increased flow of people across borders make first-hand experiences of alternative systems more common. The euro strengthens these perspectives for many people.

There are many aspects of the European Union that strive to eliminate differences between member states. Not only is there legislation and regulation that harmonize standards and other aspects of economic life, but the free flow of production factors automatically leads to convergence between member states. With time, therefore, when countries become ever more similar, there is less room for institutional competition. Enlargement gives new air to these processes, in at least two ways:

First, the fact that they are not as similar to the old member states as the old member states are among themselves, by definition enhances institutional competition. There are more versions of institutional set-ups to choose from.

Second, new entrants are less likely to accept legal and or regular limitations to their possibility to utilize their comparative advantages, thereby undercutting the positions of special interests aiming at inhibiting institutional competition and wealth creation by political means.

From this perspective, thus, a continuous enlargement process bodes well for the long-term prosperity of the European Union. As Hayek points out in the quote above, the more diversity in the EU, the less room for central planning; and the less central planning, the more economic growth and prosperity. From an economic perspective, this is perhaps the most important case for a continued enlargement.

Conclusion

Continuing to widen the European space, the area of free movement of goods, services, capital and people, with more and more countries is not only a way to enlarge the European family, to embrace a growing number countries into a clear democratic, Western identity based on free markets and respect for human rights.

It is also a way of enhancing the prosperity of our continent. The win-win character of previous enlargements, despite all the worries that were voiced, is unquestionable. Stopping now, when there is chance for even more countries to contribute to growth and peace in Europe, would be a bad decision.

The Polish plumber has become a symbol of the criticism against EU enlargement. But EU enlargements have produced great benefits for all of Europe. The enlargement with twelve countries in Eastern and Central Europe has been of particular importance.

The new member states have been economically dynamic and their reform efforts have provided valuable institutional competition in Europe. European economic freedom has increased, and enlargement has boosted growth throughout the EU.

The enlargement process has contributed to stability, the rule of law, democratic institutions and market economy in several former European dictatorships. This process must be given full support and a high priority as it continues with the Balkans and Turkey.

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