DOI: 10.1007/s10272-006-0187-2

# The Fifth EU Enlargement Round: Two Years On

Since the political and economic changes in central and eastern Europe at the beginning of the 1990s the transformation of the system has been inseparably linked to the eastward enlargement of the European Union. Following the successful transition from a planned economy to a market economy in central and eastern Europe, the EU was enlarged in a historical act by Estonia, Latvia, Lithuania, Poland, the Slovak Republic, Slovenia, the Czech Republic and Hungary. With the fifth, and largest, enlargement round (eight central and eastern European countries – plus Malta and Cyprus, which will be ignored in the following), which was inaugurated on 1 May 2004, the number of EU member states has risen to 25. The eight new EU members, with a total area of almost a quarter of the area of the EU15, in which approx. one fifth of the "old" EU population lives and one sixth of its labour force works, produced a gross domestic product in 2005 which (at purchasing power parities) made up only one tenth of the GDP of the EU15.

Two years on, the eastern enlargement is judged a success for both sides: the economies of the eight new members show rapid growth and for the "old" EU countries the internal market has expanded by 73 million citizens to a present figure of almost 460 million, which is advantageous for trade and investment. Real GDP growth in 2005 in the eight new member states was 4.5% on average and 3 percentage points higher than in the EU15. The expansion of the economy remained extremely high in 2005 in the Baltic states which, as previous Soviet Republics, had a particularly great need to catch up. Most of the new EU member states require above-average growth rates because of the structural problems which they have still to overcome and for the establishment of solid systems of social security. The more the growth of GDP per capita in the new EU member states exceeds that of the EU15, the more quickly can the gap which still separates them from their better-off neighbours be closed. A continually high rate of economic growth can also help to accelerate regional convergence within the EU. Of the 37 well-off regions in the EU25 in which the GDP per resident lies above the 125% mark, only one is a region from the group of new member states and that is the region of Prague in the Czech Republic.

While obvious successes have already been achieved in the combating of inflation, the situation on the labour market in the new member states remains strained. The average unemployment rate of 13.5% (2005) is still 5.6 percentage points above that of the EU15. And the medium-term forecasts predict only a very moderate decrease. This indicates that the negative labour market effects resulting from the structural changes, particularly the laying off of workers in the agricultural sector, are far from being overcome and that there will be a time-lag before they can be compensated for by the positive effects of investments, e.g. in human capital and in the infrastructure sector.

During the course of the transformation the European Union has already become the most important trading partner for the central and eastern European accession countries; in 2004 the eight new EU member states traded on average 80% of their exports and approx. 75% of their imports with the EU. These countries showed trade deficits, some of which were considerable, which is also typical for economies which are in the process of catching up. During the two-year membership of the central and eastern European countries there has been only a limited expansion of their trade with the EU15 as the positive trade effects were largely already realised in the years before accession.

With accession the common internal market was generally extended to include the new members. Since then all the approx. 460 million EU citizens enjoy personal freedom of movement and the free trade in goods has been completed. Nevertheless there are areas in which the freedoms of the internal market have been temporarily restricted for an agreed period. For example, the eight central and eastern European countries were largely barred access to the common labour market following their accession to the EU. According to the accession treaty and the formula 2+3+2, the freedom of movement of labour was restricted for two years. Only the United Kingdom, Ireland and Sweden refrained from the beginning from applying access restrictions. Finland, Greece, Portugal and Spain have now followed those three. On 1 May 2006 they lifted all restrictions on access to their labour markets. France, Italy, Belgium and other countries at first extended the period of restriction but intend to relax the tough regulations on their labour markets either step-by-step or for certain sectors and jobs. Only Germany and Austria continue to insist on maintaining their restriction of the freedom of movement of labour until 30 April 2009. Particularly for these two countries, however, migration would have been an important source of gains from the enlargement. Before the full integration of the new and old EU member states is achieved, further restrictions must also be removed, e.g. concerning cross-border freedom for services or the free movement of capital.

Already with their application for EU membership the central and eastern European countries have committed themselves, among other things, to adopting the objectives of the economic and monetary union. The introduction of the euro in the new EU member states is therefore no longer subject to negotiation, but depends exclusively on the fulfilment of the convergence criteria (Maastricht criteria) in relation to price stability, budget deficit, public debt and long-term interest rates. In addition, they are committed to participating in the Exchange Rate Mechanism II for two years previous to the monitoring of their fulfilment of the convergence criteria, and to maintaining the normal band width of (+/-) 15%. Estonia, Lithuania and Slovenia (since June 2004), Latvia (since May 2005) and Slovakia (since November 2005) are already participants in the Exchange Rate Mechanism II. Poland, the Czech Republic and Hungary will participate in 2007 or 2008 at the earliest. Following the monitoring of the convergence criteria by the European Commission in May 2006 only Slovenia fulfilled the necessary conditions and will become the 13th member of the euro zone on 1 January 2007. The exchange rate was set at 239.64 tolar per euro. Estonia and Lithuania have postponed the introduction of the euro to January 2008 because their rate of inflation was too high. Of the others, probably only Latvia and Slovakia will be able to enter the Monetary Union before 2010. In the remaining new EU member states – Poland, the Czech Republic and Hungary – the introduction of the euro will not be possible until the state's finances have been consolidated.

The fifth enlargement round will be closed with the accession of Bulgaria and Romania. The conditions for their membership were laid down in April 2004. The treaty provides for the accession of Bulgaria and Romania, if the conditions named are fulfilled, on 1 January 2007. Otherwise accession is to be postponed to 1 January 2008. In the latest monitoring report by the European Commission it is stated that both countries have made progress in the establishment of democracy and a market economy, but at the same time a number of measures were notified as necessary (e.g. the combating of fraud, corruption and money laundering). Whether these deficiencies can be removed by October 2006 is rather doubtful. And yet it is still assumed that on 1 January 2007 the fifth and largest round of enlargement of the EU will be completed. If this is in fact the case, the protection clauses contained in the accession treaties will have to come into force, which de facto means second-class EU membership for Bulgaria and Romania. With Bulgaria and Romania, the EU will reach the maximum number of members foreseen in the Treaty of Nice. Accession for possible future candidates will be correspondingly harder to achieve.

*Andreas Polkowski*
*Senior Economist, HWWA Research Programme "Integration Area Europe"*