

# Is enlargement doomed?

Towards a more “flexible and fuzzy” Europe



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The EU's decision to start accession talks with Turkey may be historic. But the timing looks a little unfortunate. After four decades of waiting, Turkey is finally moving closer to membership at a time when the EU looks exhausted, leaderless and somewhat unwelcoming. The Union in 2006 bears scant resemblance to the peaceful and prosperous club that the Turks had long been looking forward to joining. Economic growth in the large Eurozone countries remains sluggish, while persistently high unemployment has made many West Europeans fearful of change. Internal disagreements ranging from the Iraq war to the EU budget make the EU appear divided and drifting. The EU's constitutional treaty is in limbo after the French and Dutch voted it down in mid-2005. Even after a year-long 'period of reflection', EU leaders are a long way from agreeing what to do next.

At the same time, the EU is struggling to come to terms with the consequences of its biggest-ever enlargement in 2004. The EU's effectiveness has suffered, as decision-making has become more cumbersome among 25 countries. Some pro-Europeans moan that enlargement has come at too high a price in terms of trust and solidarity within the EU. German and French politicians are calling for a 'core Europe' that would invariably exclude newer and smaller members. Workers in France, Austria and elsewhere worry more about the economic consequences of eastward enlargement. They feel that, in the enlarged

single market, competition has somehow become 'unfair', and think that the Central and East Europeans are luring companies eastwards with the help of low taxes. They accuse the newcomers of 'social dumping' and predict a 'race to the bottom' in wages, taxes and social standards.

Meanwhile, new challenges are piling up at the EU's doorstep. The EU struggles to build a constructive relationship with an increasingly authoritarian and angry Russia. It is searching for ways to promote stability and prosperity in its tumultuous neighbourhood, not only in the former Soviet Union but also in Northern Africa and the wider Middle East. In the Balkans, the EU is hoping to help countries to solve the remaining problems created by the violent break up of Yugoslavia. EU countries are also trying to forge a response to international terrorism, the proliferation of weapons of mass destruction and environmental threats. They are still trying to heal the rifts with the US created by the Iraq war and are seeking to come to terms with the rise of new powers such as India and China.

## A new age of consent

With so much work at hand, it is perhaps not surprising that the EU does not have a great appetite for further enlargements at the moment. Many EU politicians, including from traditionally pro-enlargement countries such as the Netherlands, have called for a halt to enlargement once Bulgaria, Romania and

maybe Croatia have joined. Many of those who support Turkish accession do so more on the basis of *pacta sunt servanda* than out of real conviction. In part, politicians' reluctance to make a positive case for enlargement simply reflects public opinion. The public's hostility to enlargement should not be exaggerated: according to the latest Eurobarometer polls, 55 per cent of the people in the EU-25 say enlargement is something positive, and almost as many would support future accessions, however their numbers are shrinking, while the share of those against enlargement has risen to 39 per cent. In Germany, France and Austria, six out of 10 people are now against any further countries joining the Union. Many already fear that growing 'enlargement fatigue' will spell the end of what has long been one of the EU's most successful policies.

Voter sentiment matters more than ever at a time when the EU has entered a new age of populism. The EU referendums on the Constitutional Treaty (and those on accession held in the new member states) have set an important precedent. In the past, decisions about EU integration and enlargement were often made behind closed doors, by politicians who simply assumed that their voters would agree with their European aspirations. But the days of 'integration by stealth' are over. The same applies to enlargement. In future, the EU will not be able to significantly change the way it works, move into new policy areas or take in more countries without asking the people in a popular vote.

The adoption of a comprehensive new treaty – similar in scope to the EU constitution – would require referendums in at least half of the member states. Enlargement, too, will require popular consent. France has changed its constitution to call for referendums on all new enlargements after Bulgaria, Romania and

Croatia. Similarly, the Austrian government has promised to hold a referendum on Turkish accession (although this promise is not legally binding).

Other countries are likely to follow suit – if past experience with the 'spread' of accession and constitutional referendums is anything to go by. Clearly, Turkey, the Balkan countries and other EU aspirants stand little chance of joining unless the current trend of waning support for enlargement is reversed. For this, EU leaders and officials need to look more closely at what is behind growing opposition to enlargement, and here there seem to be two key factors. Many European policymakers are concerned that an ever-larger EU would come at the expense of the Union's ability to function and integrate further. Most voters, however, appear to be more concerned about the economic impact of low-cost countries joining the EU.

### The EU's implicit bargain

In the past, widening and deepening have always proceeded in parallel: In the early 1970s, the accession of the Denmark, Ireland and the UK roughly coincided with the start of 'political co-operation' (the precursor of the EU's common foreign and security policy), as well as the Community's first attempt to build a monetary union, based on the Werner report. During the 1980s, when Greece, Portugal and Spain joined, the member states started building the single European market. In the 1990s, the Union adopted a single currency and strengthened its co-operation in internal and external security while taking in another group of countries, namely Austria, Finland and Sweden. The east- and southward enlargement of 2004 was accompanied by attempts to work out a new EU constitution to adapt the Union's

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institutions and decision-making procedures to its larger membership.

This parallel process has been driven by what Charles Grant, Director of the UK's Centre for European Reform (CER), calls 'the implicit bargain between deepeners and wideners': between those who seek continued political integration and those who want the EU to continue spreading stability and prosperity across the continent. However, the visions of the deepeners and wideners ultimately clash. The first want a federal Europe; the second see the EU as little more than a large, and growing, single market.

A qualitative survey conducted in 25 EU countries in 2005 found that enlargement fatigue is much more prevalent in the six founding members than in more recent joiners. There appears to be a certain nostalgia for the days when the EU was a cosy club of relatively homogenous countries. Today this has turned into denial of the fact that successive rounds of enlargement have already firmly relegated that cosy club to history.

Ardent pro-Europeans, such as Valerie Giscard D'Estaing, who headed the convention that drew up the EU constitutions, are adamantly opposed to Turkish membership, arguing that it would spell the end of the federal European dream. The vast majority of Germans (84 per cent) say that they prefer deeper co-operation among existing members to further enlargement (only six per cent opt for enlargement). And the share of those prioritising deepening over widening has risen by almost 10 percentage points since before the 2004 enlargement. On the other hand, Denmark, Sweden and the UK – all rather reluctant when it comes European integration – have been among the staunch supporters of enlargement. Eurosceptics, such as Czech President Vaclav Klaus, want the EU to

continue taking in new members, including former Soviet countries like Kazakhstan.

It was perhaps inevitable that at one point these conflicting visions would halt, or at least slow down, the parallel process of widening and deepening. The EU now appears to have reached this point. The two sides are blocking each other, with neither the deepeners nor the wideners being able to declare victory.

While enlargement is becoming more difficult, so is further political and economic integration; the stalemate already became apparent during the negotiations on the draft EU constitution. Notwithstanding its grand-sounding title, the new treaty would not have taken the EU into many new areas. In terms of policies, it was much less ambitious than previous EU treaties, in particular Maastricht and Nice. In terms of decision-making, the constitution cemented the predominance of the member states over the EU's federal bodies, notably the European Commission and the European Parliament.

What the new treaty would have done is to facilitate decision-making in the enlarged EU. But, with the constitution in limbo, the EU is now stuck with the Nice Treaty's ludicrously complicated 'triple majority' voting procedures. When it comes to adjusting EU institutions such as the European Commission, the Nice Treaty only provides for a rise in membership to 27. This means that, once Croatia joins, the EU will have to start improvising.

Pro-Europeans in Germany and elsewhere now argue that enlargement must stop until the EU's 'implicit bargain' can be restored: only when progress with deepening becomes possible again should new countries be allowed to join. Even those less enthusiastic about further integration argue that the EU should stop taking in more countries until it has agreed a more thorough reform of its

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budget, institutions and decision-making procedures. Surely, a weak, paralysed or ineffective Union will not be able to continue spreading prosperity and stability across the continent.

### Economic worries

German politicians, Brussels officials and former French presidents may be concerned about the fate of an overstretched Union. But most European citizens worry more about prosperity and jobs. When asked what they consider helpful for strengthening the Union and their own sense of attachment to it, many more people mentioned 'comparable living standards' and a 'European welfare system' than a European constitution. More than 40 per cent of Europeans say unemployment is their prime concern, with most of them being rather pessimistic about job market trends in their country. More than half of EU citizens want the EU to do more to create and protect jobs, and to safeguard social security.

Economic concerns were also behind much of the opposition to the EU constitutional treaty. Surveys conducted after the French and Dutch referendums showed that voters were not opposed to EU integration or enlargement per se. Only a small number cited the loss of national sovereignty or the prospect of future accession as their main reason for voting No. But many French and Dutch voters were concerned about the nature of the integration process, which they perceived as too liberal. They thought that the parallel process of market opening and accepting new, low-cost countries was causing job losses and eroding social protection in their countries.

In 2003, 43 per cent of the people in the EU-15 feared that enlargement would push up unemployment in their country. In 2006, the share had risen to 63 per cent. In Germany, the

country that had received by far the biggest inflow of East European workers before enlargement, the share rose from 56 per cent in 2003 to 80 per cent in 2006. In France and Austria, around three-quarters of the people fear that enlargement threatens their jobs. People in these two countries are also much less convinced about other potential benefits of enlargement, such as cheaper goods for consumers or an increase in the EU's influence in the world.

### Per cent of people who agree that enlargement ...

- A. is a positive thing.
- B. increases problems in the job market.
- C. has made many products cheaper.
- D. improves the EU's influence in the world.

EU-25	55	63	34	61
Poland	73	45	37	76
Slovakia	68	50	36	71
Sweden	66	59	69	70
Czech Rep	64	49	43	73
Ireland	62	66	44	63
Netherlands	61	62	20	63
Denmark	60	51	53	61
Hungary	59	54	47	54
Italy	59	58	37	63
Spain	55	46	38	56
Germany	52	80	30	60
UK	49	64	36	55
France	42	72	21	50
Austria	40	75	32	43

Source: Eurobarometer, 'The future of Europe', May 2006

For many Europeans, enlargement looks like a 'mini-globalisation' because it has added 40-odd million low-cost workers to a deeply integrated single market. So opposition to

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enlargement often goes hand in hand with fears about globalisation. The share of people in the EU-15 who consider globalisation as an opportunity rather than a threat has fallen by 20 percentage points since 2003. More than 70 per cent of all French people consider globalisation a threat. In pro-enlargement countries, such as the UK, Denmark and Sweden, the share is much lower (20-40 per cent).

Fearing a big influx of low-cost workers, most of the 'old' EU countries insisted on the right to keep jobseekers from Central and Eastern Europe out of their labour markets for up to seven years after enlargement. However, they cannot prevent their companies from relocating to parts of Europe where labour is cheaper. Since the early 1990s, West European companies have invested well over €150 billion in the Central and East European countries. These investment flows – alongside rapid trade integration between west and east – has created a new European division of labour. West European companies have moved labour-intensive (and increasingly also skill-intensive) production processes to Hungary, the Czech Republic and Poland. This may have cost some jobs in their home countries. But, by helping West European companies to stay competitive on a global scale, it has also helped to preserve and even create jobs in countries such as Germany, Italy or France.

For West European companies, enlargement has come as a blessing at a time when the rise of China and India has vastly increased competitive pressures. But for the workers in Western Europe, the beneficial side of these restructuring processes is difficult to see. In Germany, many company bosses asked their employees to work longer hours for less money, or face the relocation of their factory to

Hungary or Slovakia. French workers fear that the ongoing *delocalisation* will destroy their industrial sector.

### A more fuzzy and flexible Union

With the constitution in limbo and growing public hostility towards further enlargement, it appears that both widening and deepening have come to a halt for the foreseeable future. However, this impression is wrong. The EU is still moving forward. But it is doing so in new, untraditional ways. In the past, deepening happened through successive treaties that enshrined the consensus among all EU members about how far and how fast the Union should move forward.

This kind of treaty-based integration will be much more difficult in the future. First, because it is harder to achieve consensus about the EU's desired direction among 25 (soon 27 or 28) countries. Second, because any major new treaty would have to pass referendums in 10 or more EU countries, a highly unlikely prospect since there will always be one country in which voters are inclined to give their government a bloody nose.

For the foreseeable future, further integration will have to take place without any major new treaties. This can happen in several ways: on the ground, as EU countries continue to grow together through trade, investment and the movement of people; through new pieces of legislation, such as the services directive or the European arrest warrant; through issue-based co-operation, be it in research or energy; and through 'variable geometry' as smaller groups of EU countries agree to move forward on their own. These integration processes will result in a more fuzzy and flexible European Union.

More flexible ways of integration will also change the nature of enlargement. In the past, accession meant that a candidate had to take

over the entire EU rulebook (the *acquis*) and be prepared to take part in all EU policies at the time of EU entry. The EU has always tried to keep exemptions, opt-outs and transition periods to a minimum. However, even though the Central and East European countries were not granted any permanent opt-outs, their accession terms looked like a partial or delayed membership in several respects. They have yet to join the euro or the Schengen area of borderless travel, their workers will not be allowed to settle in some of the old EU countries for another five years or so, and they will have to wait until 2013 to get full access to the EU's farm subsidies.

#### **Variable geometry as a way to save enlargement**

Charles Grant, in a forthcoming CER essay, argues that 'variable geometry' is the way to allow widening and deepening to continue in parallel in the future. Variable geometry means that sub-groups of EU countries agree to work together in a certain policy area without having to bring all 25 member states on board. This kind of flexible integration is different from the idea of building a 'core Europe', in which a number of member states would work together across many different areas while leaving the other countries behind permanently.

Although the EU treaties' very strict provisions on 'enhanced co-operation' have never been used, the EU is increasingly moving towards variable geometry in practice. Not all EU countries are part of the euro or the Schengen area. It is the EU-3 (France, Germany, the UK, plus the EU's foreign policy chief Javier Solana), not the EU-25, that negotiate with Iran on its nuclear programme. The interior ministers of Britain, France, Germany, Italy, Poland and Spain – the 'G-6' – collaborate more closely in fighting terrorism. In May 2005, seven member states (Austria, the Benelux three, France, Germany and

Spain) signed the Treaty of Prüm, a kind of super-Schengen agreement that, among other things, enables the signatories to share information on fingerprints and DNA, and to co-operate on aircraft security.

The move towards variable geometry overlaps with the EU's new focus on issue-based integration, or what the French like to refer to as *l'Europe des projets*. At their informal summit in October 2005, EU leaders decided to move away from fiddling with laws and institutions, and instead focus on co-operation in a number of defined areas, such as energy, higher education, research and development, and helping those that lose out from globalisation. At the moment, the 25 EU countries are still trying to move together in all of these areas. But it is not inconceivable that one or more of them will become subject to some kind of 'enhanced co-operation', as some countries are willing to proceed further and faster than others.

Flexible integration, alongside the focus on issue-based integration, will help to facilitate future enlargements in at least three ways. First, it will show the federalists that the EU can still move towards political and economic integration despite its large, and growing, membership. It can thus form the basis of a new 'implicit bargain'. Second, it helps the EU to focus on delivering tangible results to its citizens, for example through improved education or more energy security. If the EU itself manages to become more popular again, public opposition to enlargement may also wane. Third, it allows the EU to work more closely with countries that are not (yet) members in certain areas.

#### **Neighbours, privileged partners and quasi-members**

The countries outside the EU have always been afraid of a 'fortress Europe', of a new 'iron

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curtain', or a new 'Yalta' that would neatly divide the continent into the privileged members of the EU club and those languishing outside. However, the trend has been in the opposite direction. The EU has been looking at various ways of working with and integrating non-member countries.

Through its new European neighbourhood policy (ENP) the EU is offering countries from Algeria to Ukraine better access to the single European market and participation in EU programmes such as research, provided they adopt certain parts of the EU single market *acquis* and agree to reform their economies and political systems in line with EU standards. Gradual trade integration and EU aid is also on offer for the Western Balkans.

Moreover, the EU is in the process of building an 'energy community' with the Balkan countries (and possibly Turkey). The aim is to create a region-wide common energy market. Already, the Balkan countries have started to apply the *acquis* in the energy sector (including rules for competition and environmental protection) and in turn are being connected to the West European electricity grid. EU leaders are now thinking about extending the concept of energy market integration to countries such as Ukraine and Moldova. For those countries that are struggling to apply the EU's economic *acquis*, Grant suggests closer co-operation in foreign policy. Countries such as Georgia could move closer to Europe by aligning themselves with the EU's common foreign and security policy (CFSP). They would be allowed to take part in CFSP discussions, without, however, having a vote or a veto.

With Russia, the EU is planning to build 'four common spaces', EU jargon for deep integration in trade and economics; foreign policy and security; internal security and

justice; and culture and education. Many Russians and some Europeans may be cynical or pessimistic about the concept, given current strains in EU-Russia relations. But EU diplomats claim that if the plan were implemented, the EU would have a more comprehensive and integrated relationship with Russia than it has ever enjoyed with any other non-member country.

Turkey is already linked to the EU in many ways, be it through the customs union, the adoption of parts of the *acquis*, for example in competition policy and product standards, the participation in EU security missions or student exchange programmes. As ties with the EU are already so strong, Turks are understandably upset when German, French or Dutch politicians call for a 'privileged partnership' instead of full membership. In many ways, Turkey has a privileged partnership with the EU already.

With the EU moving towards variable geometry internally and towards ever-closer co-operation with non-member countries, the distinction between 'in' and 'out' may become increasingly blurred. Already, Norway – a non-member country – is taking part in Schengen, while EU members such as the UK and Ireland are not. Some parts of the Western Balkans are using the euro, and Icelanders have mooted adopting the single currency, although they have no immediately plans or prospects to join the EU. In future, some non-member countries may take part in initiatives that not all EU members have signed up to.

This blurring of in and out could make it easier to negotiate accession terms that are acceptable for both existing members and candidate countries. Since there will be various forms of EU membership, future candidates will no longer be able to complain that the EU is offering 'second class' membership by not

admitting them to all policies or spending programmes from the outset. The EU will find it easier to negotiate accession terms that are tailored for the country in question and take into account the EU's own requirements at the time of accession.

### **The future of the European economy**

As explained above, much of the public opposition towards enlargement is caused by fears of immigration and low-cost competition from the new member states. Although some of these fears are exaggerated, there is no doubt that the accession of the eight Central and East European countries (and soon Bulgaria and Romania) is forcing the 'old' EU countries to accelerate the process of reform and restructuring. They are moving out of labour-intensive production and into higher-value-added manufacturing and services. Some EU countries, such as the Nordic countries or Ireland, seem to be making this transition rather smoothly. In the big Eurozone countries, with their inflexible labour markets, the adjustment costs are higher. Nevertheless, these

countries are changing in a way that should eventually make it easier for them to cope with low-cost competition.

It will not be so much Germany or France that will fear more economic integration with Turkey or Ukraine. It will be the new member states in Central and Eastern Europe, because they are competing more directly with these countries in sectors ranging from steel to textiles and consumer electronics. The new members have already gone through a remarkable process of change over the last decade, and they are continuing the economic upgrading at a rapid pace.

By the time Turkey and the Western Balkan countries are ready to join the EU, the EU will hopefully have overcome its current economic difficulties. Higher growth and lower unemployment should bring economic optimism and reduce opposition to further enlargement. If the EU fails to address its economic malaise, it will be slow-growing, inward-looking and protectionist. And Turkey, Serbia and others may well have second thoughts about joining such a club.