

Brussels Economic Forum

Session 4 “Enlargement: Will the Magic Work Again?”

The session explored the scope for Enlargement to foster security, stability and growth in candidate countries. It focused in particular on possible risks to this process in South Eastern Europe and Turkey – whether due to “Enlargement fatigue” on the EU side or to implementation hazards among the current and potential candidates.

Javier Solana, EU High Representative for the Common Foreign and Security Policy, opened the discussion by underscoring the words “magic” and “again.” Going beyond the gains from Franco-German reconciliation, the Eastern Enlargement had embedded security and stability in a broad area of Europe. Indeed, Lisbon-style reform examples shone in Bratislava and Tallin. His commitment to Enlargement was strong; but it was crucial to communicate to citizens the scope of recent achievements. The EU must also develop institutions allowing it to act efficiently in the world, with a growing membership. Above all, it was crucial not to repeat the mistakes of the 1990s by lack of engagement in the West Balkans: here, the key role of Serbia must be recognized.

Carl Bildt, in his Chairman’s address, described the Eastern Enlargement as the EU’s finest hour. He highlighted the risks of a loss of momentum and commitment, asking whether the Thessaloniki door was still open – or whether the earlier commitment had been changed to mean “you can join as soon as *we* are ready.” He worried also about an autumn crisis in relations with Turkey, against the background of an unfulfilled commitment to end the isolation of northern Cyprus: this could jeopardize the entire EU strategy in the Eastern Mediterranean. Regarding the limits of Europe, he urged revitalizing the European Neighbourhood Policy – flagged also a danger of forcing countries into the embrace of Moscow by prematurely locking the EU door.

Boris Vujcic, Deputy Governor of the Croatian National Bank, explained the features of the recent economic renaissance in South Eastern Europe. In a majority of cases, investment had been a main driver of growth – though in a few countries very high levels of unemployment remained a key challenge. Inevitably, there were risks on the road ahead. These included constraints on macroeconomic policies, and a need for vigilance how well financial resources would be allocated. He stressed the importance of stimulating trade between the region and advanced economies. He also suggested that hazards relating to Enlargement seemed to increase proportionately with distance.

The Turkish Minister of State for Economy, Ali Babacan, described key aspects of Turkey’s recent reform accomplishments – including the momentum in privatization, a renewed move forward in social security reform, and the commitment to steadily enhance human rights toward EU standards. He hoped to open two chapters of the Accession negotiation in June. But he warned that progress on north Cyprus was most important. It was necessary also to communicate to the EU public the realities of Turkey. Turkish integration was a key to future EU relations with the Near East.

Mark Leonard, of the UK Centre for European Reform, highlighted a “Catch 27” as Member States struggled to combine widening with deepening of the EU. Recent

referenda had underscored that citizens could not be left out of the equation, and future Enlargement must be rooted in a policy of democratic functionalism. To secure popular accord for further Enlargement, it was crucial to address the delivery deficit of the EU, and also to emphasize the functional need to embed security in the West Balkans. Meanwhile, recent vetoes must not arrest progress: the key was to advance through overlapping (but not concentric) pioneer clubs of EU Members.

Klaus Liebscher, Governor of the Austrian National Bank, highlighted the value of the *acquis communautaire* as an instrument of regional integration. In line with recent economic thinking, the crucial contribution of the *acquis* had been to strengthen institutions, which was indeed the key to sustainable growth. The EBRD Transition Indicators and the BEEPS surveys confirmed the importance of EU influence in catalysing structural reforms. As a result, even in the West Balkans – where progress had lagged – inflows of EU-15 capital and indicators of economic catching-up had accelerated strikingly since 2000. In this context, a recent tightening of conditionality was strongly in the interest of actual and potential candidates – who needed to stay the course with reforms and make them irreversible. Priorities ahead included further privatization in some cases, and a strengthening of non-bank financial institutions.

Questions from the floor ranged widely. Was the euro area a natural core Europe? Mark Leonard thought not, advocating flexible clubs of Member States and instancing defence in this regard. Otherwise, a two speed-Europe would proceed at the speed of the slowest in the euro area. And what about Turkey and Armenia? Minister Babacan stressed a need for objective assessment by historians, not parliamentary votes.

Commissioner for Enlargement Olli Rehn drew the threads together in conclusion. He shared Mark Leonard's advocacy of democratic functionalism, and thought the magic could work again if the EU got the politics right in the future. There was no magic wand, on the other hand. One could neither ignore nor capitulate before popular restlessness with enlargement, which had many domestic roots. He urged continuing engagement through approaches of Consolidation, Conditionality, Communication. In actual and potential candidates, he highlighted issues of corruption and rule of law in some cases, and human rights elsewhere. The challenge, in the spirit of Copenhagen, was to concentrate on the process of integration – and within the EU-15 to address key issues such as growth, competitiveness and job creation. In good time, moreover, the EU must safeguard its institutional capacity to function efficiently in the future.