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CEE Countries – Some Issues of EU Accession

Težište članka je na nekim osnovnim problemima zemalja Srednje i Istočne Europe u vrijeme procesa priključenja Europskoj uniji. Pored toga, autor se u članku bavi i nekim drugim tranzicijskim zemljama, problemima njihovih odnosa i mogućeg priključenja Europskoj uniji.

Članak započinje kratkom teoretskom pozadinom tranzicije i problema konvergencije. Naglašeni su važnost ekonomskog rasta i političkog razvitka i značaj demokratskog političkog razvitka u tranzicijskim ekonomijama, kao potreba za postizanje održivog ekonomskog rasta. To se osobito odnosi na srednjoistočne europske zemlje uoči priključenja Europskoj uniji.

Drugi dio istražuje učinke demokracije na ekonomski rast. Uzmemo li u obzir sve tranzicijske ekonomije, uključujući novonastale tržišne ekonomije, izravan se odnos između demokracije i ekonomskog rasta ne može identificirati. No, kada se istražuju tranzicijske zemlje prema brzini tranzicijskog procesa i razvitka demokratskih društava, postoje neke relevantnosti. U tom se slučaju mora dokazati relevantnost odnosa između demokracije i ekonomskoga rasta.

Sljedeći dio sadrži empirijsku analizu za zemlje Srednje i Istočne Europe. Tu se prikazuju glavni ekonomski indikatori i ističe se brzina ekonomske reforme. Pitanja o kojima je ovdje potrebno raspraviti nisu više brzina i konzistentnost procesa reforme, koje su očite barem za prvu grupu država koje se priključuju, nego je pitanje i sama činjenica blizine i zajedničke političke spremnosti za ulazak u Europsku uniju.

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Četvrti dio ističe prepreke i opasnosti za srednjoistočne i druge tranzicijske ekonomije na njihovome putu. Glavni aspekti procesa priključenja i regionalne integracije prikazani su kao dio još uvijek intenzivne diskusije. Iz teorije konvergencije i preduvjeta za ekonomski rast pod tržišnim uvjetima, u ovom je dijelu razvijena pretpostavka da politička pitanja unutar tranzicijskih ekonomija i u odnosu na priključenje Europskoj uniji, postaju dominantna.

Posljednji dio prikazuje zaključne napomene vezane uz glavne probleme istaknute u članku.

Theoretical background

Countries in transition and notably the countries in the process of EU accession are facing the problems of catching up in terms of the level of economic development with the developed market economies. Economic development is supposed to be accompanied with political development.

Theoretically economic freedoms are interdependent with democratic development. Freedman (1962) underlines that economic freedoms in terms of development of market economies without government intervention and political development in terms of political freedoms are reinforcing. Thus, both freedoms are necessary for economic growth. Economic freedoms are related to two basic notions: *free markets and small governments*. Both focus on maintenance of property rights i.e. on the rule of law, efficient judiciary and government in general. Some theoreticians however point to some controversies between economic and political freedom such as Sirowy and Inkeles (1990) and Przeworski and Limongi (1993), just to mention some.

In terms of international comparisons there are examples where under dictatorship or under autocratic rule countries managed to have reasonable or even high growth rates. Sometimes the international political conditions of a divided and highly polarized world worked in favor and even supported such governments, mostly due to strategic reasons of the major global political players of the world. In some other occasions such regimes had the support of national business elite. In least cases the origins of such "models" had roots in historical backgrounds and social traditions of some countries in some regions of the world. In those cases empirical evidence supports the theoretical foundations that economic development needs over time more economic freedoms on one hand, and that more economic freedom demands more political freedoms. Thus economic pluralism inherent to market conditions goes hand in hand with political pluralism, thus shifting from monolithic societies towards pluralistic ones.

Still there were and are more cases where the lack of democracy opened space to inefficiencies of governments, corruption and after an initial upswing led

to stagnation, followed by negative growth rates in most of such cases. This has mostly been the case of countries in the Sub Saharan region.

Studies presented by international institutions like The World Bank, the IMF and some other underline the relevance of democratic development as a precondition of the transition process for the countries of CEE.

In support of the idea of interrelation of the two freedoms Lipsets hypothesis can be called upon. Lipset (1959) claims according to his research that prosperity stimulates democracy. Does the opposite mean the same is questionable and again to this there is no unique answer, though most of the evidence on a cross-country level would not support it?

The issue that has to be highlighted is the level of welfare, social justice including the elimination of poverty. Here experiences of transition economies of the CEE and CIS countries, over the last ten years, offer varying insights. Countries in transition on their path towards the establishment of market economies have on their agenda economic reforms align with the development of democratic pluralistic societies in political terms. However we are not facing a homogenous set of countries in transition. At the very beginning of the transition process the level of attained economic development varied to a great extent. The pre-transition economic reforms creating an initial stimulus to the transition process varies as well. The creation of political parties and economic policies differed also. Thus, we are speaking of a striking diversity in challenges, circumstances and options at the beginning and during the transition process. Most of them give a great deal of explanations as to the evaluation of the current situation and expectations over the future of the transition process.

The differences between the CEE countries, Russia and the CIS states are being explained by the differences mentioned above. More precisely by the pace and policies with respect to the reforms during the transitions process until now. It comes to the matter of the interest groups and their power of pressure on the government. The crucial terms that could be used here are: transparency, protection, encouragement and discipline, as recent analysis explains (The World Bank, 2002).

Thus, the convergence process in the case of transition economies can be seen as economic, political, institutional and social. Catching up the level of economic development, creating corresponding and competitive economic structures with the EU has to be targeted. However, the transition process has brought a reverse effect in terms of economic development from the very beginning. A deep and by most analysts unexpected transition recession occurred. This recession brought a depression that surpassed the effects of Great depression by all relevant indicators. For the advanced countries in transition (the first group in the process of accession) on the average eight years were needed to recover to the 1990 level.

For Russia and the CIS countries this could be a decade and a half. The price and sacrifice is evident. Will the expected benefits exceed the costs has yet to be seen. Building similar political frameworks for the development of democracy and institutions that should reinforce the stability of transition countries is needed as one of crucial criteria for accession to the EU. Building a new and efficient social network within the scope of a declining government is on the agenda as well. The whole set of criteria and measures that should stimulate the process of conversion is important, but convergence as a long-term process demands sacrifices. For the stability of EU and Europe in general the process of accession must be seen primarily as a political one, provided that there is a continuation of economic reforms and political will for the overall changes of newly emerging societies.

For the process of economic growth convergence is valid under the condition that reform is uninterrupted, thus bringing about structural adjustments and higher growth rates. Economic stability is seen as another precondition for growth of economic activity. Sound macroeconomic policies, continuous reforms, structural adjustments, the rule of law and creation of business friendly environment are essential for economic growth.

Economic growth that is an outcome of a growing market environment definitively needs supportive market institutions. Empirical analyses indicate that the convergence process is stronger in cases where a higher level of institutional development has been attained. Or, in other words economic growth tends to be stronger in countries where market-strengthening institutions are more articulate (Havrylyshyn and van Roden 1999).

On the other hand hesitancy with reforms, poor economic policy and problems with implementation of economic policy measures explain that in a large number of countries in transition the convergence process is a long run one. Instead of reallocating the resources towards increasing macro and micro economic efficiencies in the case of such countries a slowdown of economic growth, problems of unemployment, social differentiation, poverty and loss of human capital is on the agenda.

Unlike such countries, the majority of CEE accession countries show positive results in economic, social and legal spheres. As measured by the transition indicators of the EBRD they have gone the furthest with respect to the objectives and expectations of the transition process.

Effects of Democracy on Economic Growth and Transition

Economic growth has been during the history of the last century related to different models of government. Ideologies defined political systems and differ-

ent interpretations of democracy. Under different socio-political models and governments as their representatives, economic growth occurred. Different governments do not necessarily mean different economic growth outcomes.

The interrelationship between democracy and economic growth may not be a directly correlated one. Evidence on economic growth of countries around the globe give puzzling results. Dictatorships had high growth rates, but some others had a negative growth rate. Similar statistics are valid for authoritarian governments. Socialist countries had high rates of growth over a considerable period of time, while at the same time some of the leading market economies had recessions. Here we could examine the issue of business cycles and how the level of openness and internationalization of national economies is affected by them. The same could be stated on the type of government.

The cross-country studies on the interrelationship between democracy and growth indicate a progression (Gastil, 1982-1983 and subsequent issues) and as interpreted by other authors (Barro, 1999) do not offer a unique answer. Many analysts and social scientists came with conclusions that there might be a trade-off between freedom and economic growth, since socialist economies and authoritarian state economies were growing faster than market economies. In another context, the Asian miracle – the rapid growth of Asian tigers – has the interpretation that government played a crucial role in ‘governing the market’ and in securing ‘specific’ policies for faster growth. Democracy and freedom can be considered as a costly endeavor for the individuals and the society. These even the more if the loss of freedom is not taken into account. An explanation to a hazy answer to the question of interdependence between economic growth and democracy can be given is levels of economic development, social conditions, the distribution of wealth and power, traditions and the like are taken into account.

Stiglitz (1997) puts the question on the choice of the social and economic model in this way: “Are there ‘theorems’ that tell us that market economies will necessarily do better than socialist economies, or that privatization will improve the efficiency of the state enterprise? Are there analytical results that tell us something about the appropriate balance and role of government and the private sector – for virtually all of the success stories involve mixed economies with large governments”. On those lines we can argue that an entire theoretical explanation on the empirical evidence does not exist. With respect to previous socialist countries the explanation would be in the problems that occurred as soon as property rights were abolished, the robustness and low and slow flexibility for needed adjustments especially with respect to technological change and innovation. The repressive political system that accompanied the socialist experiment reduced economic freedoms. The economic reforms over the last phase of socialist economies have not brought about democratic market socialism due to their partiality and obstruc-

tion of the possible losers. Even where the reforms went well ahead they did not bring in the final end the evidence of the socialist economic system being superior to the capitalist one. The problem is with the neoclassical model on which socialist economic concepts started relying increasingly and which did not give the proper answers to the economic phenomena and growth.

But if it is not possible to clearly interrelate democracy and economic growth, then an alternative should be taken. What the unprecedented experiment of transition is eager to bring about is a new quality of human and social life. Hence we could think of the interrelationship of democracy and development. Measures that are entailed in the UNDP Human development reports¹ or indexes of the EBRD and the like tell about the quality of the development process and the effects of democratization. When comparing political systems of transition countries and economic reform outcomes the result is that on the average competitive democracies rank better as compared to other political systems (concentrated political regimes, war-torn regimes, noncompetitive political regimes) as analyzed by the EBRD (2000).

Transition is about development, it is about political (democratic) and economic freedoms and for the promise of those and the conviction of the reformers, the majority of citizens in transition countries is still ready to bear the very high costs of this process. Continuous and higher rates of growth as compared to the EU aggregate is therefore relevant. Such a growth enables sooner structural adjustment, increasing employment and construction of such a social network that would reduce social differentiation and in the final end the level of poverty that is threatening in some of the CEE and CIS transition economies.

When the strategic option of a transition country is to apply for membership in the EU, then the issue is of building a very similar system. In that case the political issue is dominant over the economic one, to the final expected benefit to the economy. In such a case democracy has an effect on economic growth over the long run.

Empirical Evidence on CEE Transition Economies

After ten years of transition the countries that started moving along this path have demonstrated varying results by the major indicators of transition. Their starting positions differed, as did their achievements of the pre transition reform process. Empirical evidence shows that initial conditions mattered. They entail mostly

¹ As presented by the Human Development Report for most of the countries within the UN system and undertaken by UNDP.

in an aggregated manner indicators of structure, distortions and institutions. They explain the level of initial output collapse and a part of the process of the onset of transition. Table 1 illustrates the basics of the transition process.

Table 1.

SELECTED CHARACTERISTICS OF TRANSITION COUNTRIES

Transition country/Group ¹	Year Transition Began ²	Starting Date of Stabilization Program ²	Real Output Real Ratio 1999/1989	Average Inflation 1989-99	1999 EBRD Average Transition Indicators ³	PPP GDP per Capita 1999
EU accession countries						
(excluding Baltics)						
Bulgaria	1991	Mar-91	0.67	68.4	2.9	4,812
Czech Republic	1991	Jan-91	0.94	7.8	3.4	13,408
Hungary	1990	Mar-90	0.99	19.7	3.7	11,273
Poland	1990	Jan-90	1.28	49.2	3.5	8,832
Romania	1991	Jan-93	0.74	76.1	2.8	5,798
Slovak Republic	1991	Jan-91	1.01	14.3	3.3	10,255
Slovenia	1990	Feb-92	1.05	12.9	3.3	15,685
Baltic countries						
Estonia	1992	Jun-92	0.68	33.5	3.2	6,850
Latvia	1992	Jun-92	0.78	24.3	3.5	7,909
Lithuania	1992	Jun-92	0.56	35.1	3.1	5,893
Other southeastern European countries						
Albania	1990	Jun-93	0.77	3,331.8	2.5	3,651
Bosnia and Herzegovina ⁴	1991	Aug-92	0.93	33.4	2.5	2,897
Croatia	0.93	13,118.0	1.8	1,014
Macedonia, FYR	1990	Oct-93	0.80	100.0	3.0	6,793
	1990	Jan-94	0.59	75.6	2.8	3,903

Source: European Bank for Reconstruction and Development, *Transition Report 1999*; IMF staff estimates unless otherwise noted.

¹ Data for country groups are simple averages of group member data.

² From Fischer and Sahay, "The Transition Economies After Ten Years," IMF Working Paper 00/30 (Washington: International Monetary Fund, 2000).

³ Indicator of progress in structural reforms; see the Appendix.

⁴ For Bosnia and Herzegovina, inflation over the period 1991-99 for the Federations is used for "Average Inflation 1989-99," and 1999 GDP per capita in U.S. dollars is used for "PPP GDP per Capita 1999."

All countries went through the transitional recession, which caused the real GDP to drop from its 1990 levels by nearly 15 percent in the CEE and Baltics group and by more than 40 percent on the average in the CIS group of countries. Initial conditions are more important factors in explaining the differences across

countries during the initial period of output decline (1990-94) than over the second part of transition. The aggregate indicators of initial conditions explain 51 percent of the variation in the average rate of growth across countries during 1990-94, but only 41 percent of the variance in average growth during the decade (Melo and others, 1997).

Growth outcomes have varied significantly even among the CEE and accession group of countries. On a purchasing-power-parity basis, the average per capita income remains less than half of that of the EU (\$22,300). However, the accession group of countries has evidently been more persistent with reforms and has soon been able to establish a longer period of uninterrupted growth. Table 2. presents the distinction with respect to the speed of reforms among the transition countries. This gives a part of the answer to the question why has the growth of some transition economies been varying so much.

Table 2.

TRANSITION ECONOMIES: ALTERNATIVE GEOGRAPHIC, POLITICAL,
AND REFORM-EFFORT GROUPINGS¹

(Boldface denotes radical reformers; italics denotes moderate reformers; all others are slow reformers)

Southeastern Europe	Countries on the European Union		Commonwealth of Independent States (CIS)	East Asia
	Accession Track	Others		
<i>Albania</i>	Estonia	<i>Bulgaria</i>	<i>Armenia</i>	<i>Cambodia</i>
Bosnia and Herzegovina	Latvia	Czech Republic	<i>Azerbaijan</i>	<i>China</i>
Croatia	Lithuania	Hungary	Belarus	Lao P.D.R.
<i>Macedonia, FYR</i>		Poland	<i>Georgia</i>	<i>Mongolia</i>
Yugoslavia, Fed. Rep. of		<i>Romania</i>	<i>Kazakhstan</i>	Vietnam
		Slovak Republic	<i>Kyrgyz Republic</i>	
		Slovenia	<i>Moldova</i>	
			<i>Russia</i>	
			Tajikistan	
			Turkmenistan	
			<i>Ukraine</i>	
			<i>Uzbekistan</i>	

¹ The reform-effort classification takes as criterion the average level of EBRD transition indicator in 1999, choosing the following thresholds radical reformers (in bold) with an indicator above 3; intermediate reformers (in italics) with an indicator between 2 and 3; and slow reformers (in plain type) with an indicator below 2. See the Appendix to this chapter for further description of the transition indicator.

On the basic policies, time sequencing, and implementation in spite of a lasting debate, there is by now sufficient evidence that the broad consensus on reform agenda was well defined. This consensus includes:

- Macroeconomic stabilization
- Structural adjustments
- Fiscal reforms
- Price and trade liberalization
- Imposition of hard budget constraints
- Creation of a business friendly environment
- Legal and judicial reform
- Reform of public sector institutions

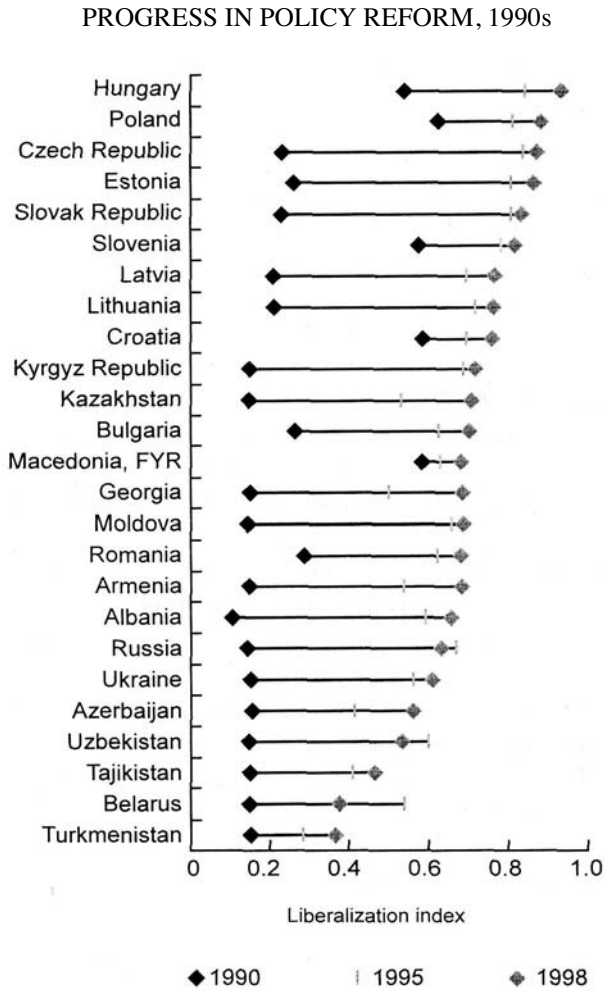
How the reform policies have been implemented is explained by the liberalization index developed by the World Bank and is shown in figure 1. According to this indicator on the progress and attained level of policy reform the accession countries have taken the lead. They are now considered as countries with established market economies. However the next group of countries are catching up so that by this criteria and less by the criteria of the convergence of their economies towards the developed market economies, the issue of accession is becoming a very realistic one. However policies of the EU countries and political issues will be relevant even more. The differentiation can be taken conditionally by the criteria of degree of radicality of the reformers (Table 2). Here some questions can be posed if the accession is judged by the reform accomplishment. This is evident in the case of Croatia as well as for Bulgaria and Romania. Thus, social and political issues as well as the rule of law are most likely the reasons for such a differentiation.

Economic growth had a high impact on the positioning the accession countries. With sustained growth, structural adjustments and inherited disparities could be solved easier. The encouraging climate and constantly improving overall economic conditions stimulated domestic and foreign investors. New investment brought about a new structure in the economies. It is evident that policy reformers have been significant factors in speeding up economic recovery by disciplining the old sector and encouraging the new.

Here seems to be the greatest difference of the group of countries in the accession process as compared with the other countries in transition. The transition process in economic terms means reallocation of resources. From less efficient enterprises towards more productive ones. With transition countries a combination of old and new enterprises emerged. Such a structure depended greatly on the initial model of privatization. Derived from that a repositioning of power and influence on the governments emerged. In this fact the answer to differing speeds and even standstills of the reform process are found. (Figure 1). An additional

group of factors that contributed to such a differentiation can be mentioned such as the level and profoundness of the pre transition reforms, previous exposition to international markets, proximity to the EU market and similar ones.

Figure 1.



Source: de Melo, Denzier, and Gelb (1996); EBRD (2000).

The accession countries have the highest share of the private sector in terms of the ownership structure of the economy and some of them have reached the levels of the EU average in this respect (Table 3). Private sector share in GDP is illustrated by Figure 2. Initial models of privatizations were relevant, as are the

measures that contributed to a business and investment friendly environment. This in principle has lessened the pressures for government interventions and the least for the maintenance of the status quo situation. Unlike the privatizations in other transition countries that were not transparent which enabled the imposition of the 'nomenclatura', the "new barons" and the like.

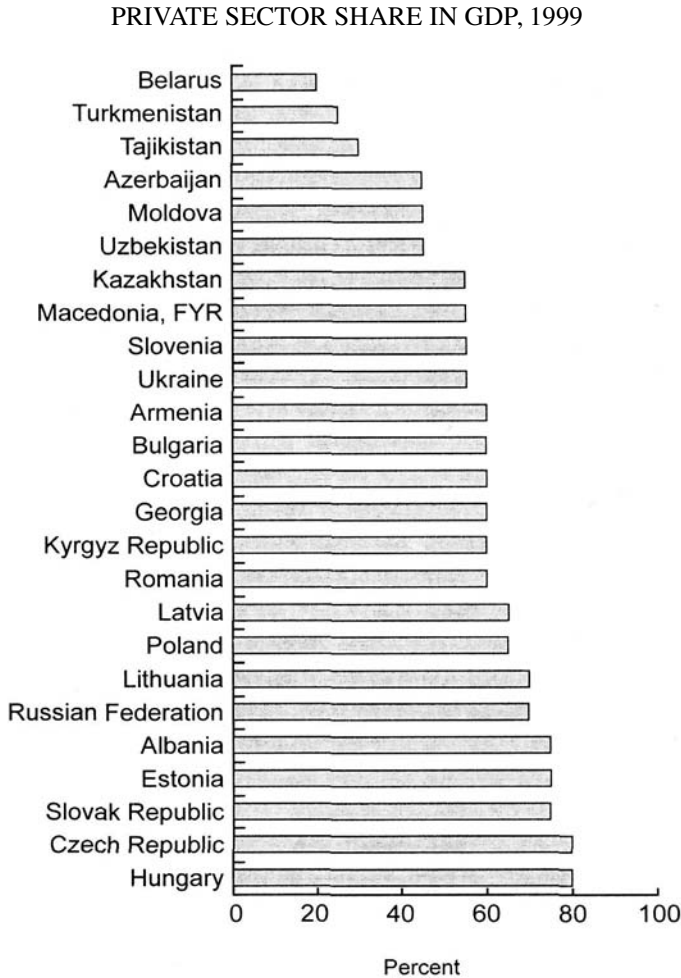
Table 3.

PRIVATE SECTOR GROWTH, 1990s

Countries	Percentage of GDP		
	1990	1994	1999
CSB	11	50	68
Czech Republic	12	65	80
Estonia	10	55	75
Hungary	18	55	80
Romania	17	40	60
CIS	10	20	50
Armenia	12	40	60
Belarus	5	15	20
Russian Federation	5	50	70

Source: EBRD (2000).

Figure 2.



Source: EBRD (1999).

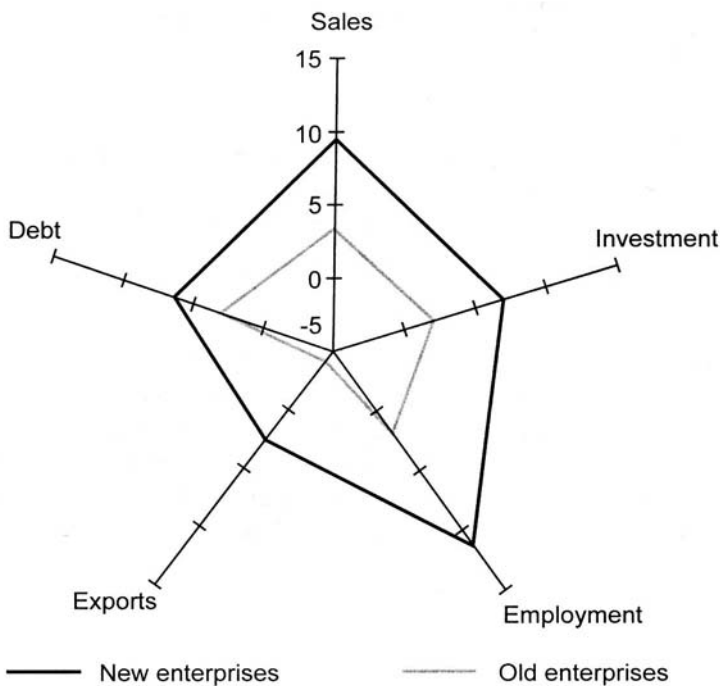
With successful reformers the new enterprises started prevailing increasingly contributing to growth and the solution of social and other problems. The new enterprises outperform the old ones considerably in all the managerial aspects of their performance, in market success, exports, investment, and debt management and in employment (Figure 3). In terms of productivity distribution (Figure 4) the distinction is with respect to the old enterprises, the restructured ones and the new ones. Again new enterprises fare the best, followed by the ones that have been restructured. Thus, structure in which new enterprises prevail stimulates the re-

form process additionally. Such structures have additionally contributed to the increasing competitiveness of economies.

Means of discipline and encouragement had to be used simultaneously. This is being done by abiding to budget constraints, tackling the problem of macroeconomic instability, introduction of competition in the markets, removing entry barriers, providing exist mechanisms, generating incentives for production and innovation, increasing security for property and contract rights, supporting the development of SMEs and better public infrastructure.

Figure 3.

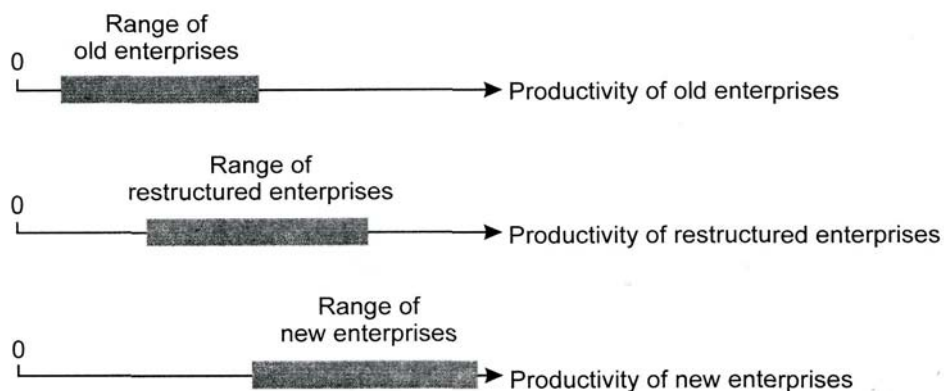
PERFORMANCE OF OLD AND NEW ENTERPRISES, 1969-99
(Percentage change)



Source: Hellman, Jones, and Kaufmann (2000).

Figure 4.

PRODUCTIVITY DISTRIBUTION OF OLD, RESTRUCTURED,
AND NEW ENTERPRISES



Note: The figure allows for outliers in both directions, as there is no reason why single old enterprises, everything else being equal, might not occasionally produce higher value added per employee than new enterprises, or why new enterprises might not occasionally have disappointing results.

Source: World Bank data.

Continuous economic growth and changing structures as mentioned above have contributed more to the decline of initial levels of income inequality (Table 4). This problem however, is far from being solved. Supplementary set of reforms and their imposition are expected to handle better this problem. Reestablishing of an efficient social network consistent with the attained economic and political freedoms is essential and could be a final test of the transition process.

Table 4.

CHANGES IN INEQUALITY DURING THE TRANSITION, VARIOUS YEARS

Countries	Gini coefficient of income per capita		
	1987-90	1993-94	1996-98
Czech Republic	0.19	0.23	0.25
Estonia	0.24	0.35	0.37
Hungary	0.21	0.23	0.25
Latvia	0.24	0.31	0.32
Lithuania	0.23	0.37	0.34
Poland	0.28	0.28	0.33
Slovenia	0.22	0.25	0.30

Source: World Bank (2000)

Closely related to the social problems are issues of unemployment and gray economy. Resource reallocation under the process of restructuring has intensified the issues of efficiency and productivity. Bringing the problem of unemployment in the forefront. On the average the level of unemployment is by far higher in the accession countries as compared with the EU. Within the group of accession countries the differentiation is high. Flexible labor laws and a better functioning labor market combined with programs of retraining and permanent education should be the answers.

The Major Issues of EU Accession and Controversies Along that Path

The process of EU accession is a demanding one. Countries that have opted for integration with the EU and especially those that have submitted the request for association have to follow the preparatory process of harmonization of their laws, implement the laws passed and prepare the laws concerning the rules of market competition. The criteria for the candidacy for accession have been defined by the Maastricht criteria of 1991. On the economic and political conditions to be fulfilled by countries that apply for the candidacy for accession the Copenhagen criteria are being referred to (criteria have been defined by the European Council held in Copenhagen in July 1993). They can be defined as:

1. The candidate countries have to establish institutional stability that guaranty for democratic conditions meaning the state of law, adherence to the principles of human rights and minority rights.

2. Their economies have to be based on market principles and prepared for the competitive market conditions of the Union.
3. The candidate countries have to accept the political, economic and monetary objectives of the Union.

For gradual integration a complex process of harmonization has to be implemented along the following lines:

- a) developing of the market economy;
- b) aligning the administrative structures with the ones of the Union;
- c) establishing of an economic and monetary stable environment.

Those basic points are elaborated in the *Acquis* of the European Union in which the process of legal adjustments are given in 31 chapters. Those chapters are being implemented and monitored in cooperation with relevant bodies of the Union.

The strategy of accession entails:

- agreements on the procedures of association
- periodic relations with the EU during the process
- national program of accession based on the principles/criteria of the *Acquis*
- assistance during the pre accession period
- accession negotiations
- European conference on admission
- financial assistance from the EU

And the like.

According to the level of transition process i.e. the attained level of the reform process and based on those results, the submission proposals that were accepted by the EU of the Baltic states and CEE countries the following ones are in the first round of the process of accession: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovak Republic, Hungary and Slovenia. It is expected that by the end of 2002 the EU will make a final decision of their membership starting by year 2004. Provided that the results of the forthcoming referendum in Ireland have a positive outcome.

CEE countries that entered the first round of the accession process the actual level of attainment of the criteria are presented in Table 5.

Table 5.

ACTUAL SITUATION ON THE CHAPTER OF ACCESSION PROCESS BY COUNTRIES OF THE FIRST GROUP - THE STATE OF CURRENT NEGOTIATIONS

ESTONIA	Closed chapters 24 Open chapters 6	Agriculture Fiscal system Energy Disposable resources in the balance (Regional policies) (Institutions)
LATVIA	Closed chapters 24 Open chapters 6	Agriculture Fiscal system Regional policies Judiciary and internal affairs Disposable resources in the balance (Institutions)
LITHUANIA	Closed chapters 26 Open chapters 4	Agriculture Energy Disposable resources in the balance (Regional policies)
POLAND	Closed chapters 23 Open chapters 7	Competitiveness Agriculture Fishing Transportation Regional policies Judiciary and internal affairs Disposable resources in the balance
CZECH REPUBLIC	Closed chapters 25 Open chapters 5	Competitiveness Agriculture Disposable resources in the balance (Transportation) (Institutions)
SLOVAK REPUBLIC	Closed chapters 24 Open chapters 6	Competitiveness Agriculture Regional policies Judiciary and internal affairs Disposable resources in the balance (Institutions)
HUNGARY	Closed chapters 24 Open chapters 6	Competitiveness Agriculture Culture and audio visual means Regional policies Disposable resources in the balance (Institutions)
SLOVENIA	Closed chapters 26 Open chapters 4	Agriculture Regional policies Disposable resources in the balance (Institutions)

Source: Podesta, Guido. 2002. "Abc del cantiere Europa. Cosa costruiramo e perche".
Dike Eurispes, 4: 112-113.

As can be noted, the majority of the chapters have been solved. However, there remains work on issues relating to: competitiveness, adjustments in agriculture, energy sector, fiscal issues, subsidies and transfers as well as in the domain of internal legal aspects of countries considered. Those issues are by the way in most cases under discussion and adjustment within the EU as such.²

The entire process of accession has a time component and the EU has estimated the level of financial transfers for further adjustments after their membership in the Union. Total costs of enlargement of the EU for the ten countries in accession including Malta and Cyprus are estimated at 28 billion Euro over the period 2004-06. Over the period exceeding year 2004 estimated 40 billion Euro should be allocated for the agricultural sector, structural funds for structural adjustments, for internal political measures and administrative adjustments in the candidate countries. The payments are expected to proceed in a progression and include as well amelioration of transport facilities and support of less developed regions within each country according to the established criteria of the EU. The adjustment of the agricultural sector is expected to last until the year 2013 by when it is expected that the level of other European producers would be reached. In terms of the total budget of EU the costs of enlargement are not the major issue. They expect to be counterbalanced by the considerable market expansion and economic growth. Therefore, in lines with the implementation of harmonization procedures the political issues of the EU are in the forefront. The relevant issue for transition countries is political and economic freedoms understood as socio-political stability in those countries.

On the part of the EU in intergovernmental levels and in coordination with the European parliament the agenda that is ahead should trace the outlines of a new Europe of ameliorated institutional functioning, smaller bureaucracies, improved effectiveness and speed of decisions. Thus a higher level of competitiveness in global relations is targeted not neglecting the specifics of nation and taking in consideration the expectations of European citizens of a Europe of citizens, regions and nations.

The issue therefore is of further reforms and adjustments of the EU as well. It has to identify its position with respect to the other global economic integration's and economic powers if it is eager to reach the major objective of becoming one of the leaders in global competition.

² As an illustrative example is the agricultural policy of the EU with respect to the current common agricultural policy program. The European Commission has on the agenda a reform of this policy aimed mainly to rearrange the sums that the EU requires its taxpayers to hand over to farmers. This program is facing very serious opposition from some of the leading countries from within the EU. (The Economist. October 5th-11th 2002, p. 13).

The criteria set in some cases towards the transition countries are harsher in terms of rules and the time frame as compared to the history of evolution of the EU. Some of the rules of the EU are not even always and entirely followed by some country members and the European Commission, i.e. other bodies of the EU and even individuals are bringing cases to the court each year. The complexity of the laws and occasional political difficulties give some explanations to those cases. However, for the countries in transition there are advantages, since in many aspects they are starting from the scrap. The issue therefore is the credibility of the government and the willingness to pursue the agenda ahead of them.

The enlargement towards the east, by opening up the procedures of accession of the CIS countries is seen as a stimulus to mutual economic development thus offering a unique opportunity to all. Strengthening of cooperation, partnership and exchanges on all levels should stimulate this process of enlargement. The crucial issues for some of the Balkan states and most of the CIS countries are not only the attitudes of the EU, but their individual strategies with respect to the EU. As elaborated already, persistence of economic and political reforms, ensuring the rule of law, credibility of governments on those issues are the crucial issues. In terms of economic convergence this can be a process lasting a longer period of time, but in terms of political issues the process of enlargement can be view within a reasonable time span. What will prevail will depend to a large extent on what strategy the EU will take and this might soon be clarified.

During the process of accession one issue is bringing a large set of new laws and bylaws, but the other one is how they are carried out. Success in this respect depends on good judiciary and other institutions that participate in this endeavor. Experience tells us that institutions as such often need more time for obtaining credibility of their successful activities. It is essential that the countries eager to join the EU do understand those problems early enough. It is not only the problem of credibility but the issue is of changing to a great extent the existing institutions and creating new ones at the same time. Parallel to this process a new model and programs of education are needed in order that the whole process is feasible and first of all to the benefit of the candidate country.

Conclusions

The transition process which marked the last decade of the previous century meant fundamental social and economic change. This process was unprecedented in terms of previous theoretical approaches, social and economic models and experiences. A proper theory has still to be developed. The objective was to establish democratic pluralistic societies the fundamentals of which are: political freedom and economic freedom. In some aspects it has been considered that the transition

countries embarking on an entirely new path of development should in terms of establishing a market economic environment even surpass the countries of the EU (less of government interventionism, high flexibility in labor laws and the like). All of the transition countries started therefore very fundamental social and economic reforms. Over years the outcomes differed.

Differentiation among transition countries is explained by the degree of pre transition reforms, by the initial political and economic conditions, by geographical proximity to the developed market economies and finally by the speed and quality of implementation of reform. Measured by the basic indicators of transition (competition policy, non-bank financial institutions, governance and enterprise restructuring, price liberalization, banking reform, large-scale enterprise privatization, small-scale enterprise privatization, liberalization of trade and foreign exchange system) and adding to it the issues of institution building and the rule of law transition countries are being divided into three groups.

The first group of countries is the ones that have fulfilled the preconditions for accession and have entered into the procedure of accession. Whatever the final number of countries will become members of the EU during the year 2004 there are some interesting questions that emerged. As compared to the previous large enlargements of the EU, the forthcoming one has not fulfilled the previous criteria by almost any of the relevant factors. The issue of convergence, especially economic convergence is a problematic one. It can only be seen as a long-term process that might gain momentum for the countries that will become members of the EU. In this sense there is a correlation with the previous group of countries that have joined the EU. Thus the process of accession and final enlargement of the EU is dominantly a political one. On one side there has to be a political will and interest of a country to join the EU. This might seem to be self evident, but the distribution of interests and power within a country will influence this process. On the other side even more relevant is the political will and readiness of the EU for its enlargement.

What can be expected is further and faster reforms of the EU as such if a united and stable, highly competitive and prosperous Europe is the objective. The alternative could be new divisions.

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CEE COUNTRIES – SOME ISSUES OF EU ACCESSION

Summary

The paper concentrates on some of the basic issues of the Central and Eastern European Countries (CEE) during the process of EU accession. In addition it deals with some other transition countries and the issues related to their relations and possible accession to the EU.

The paper starts with a brief theoretical background on transition and problems of convergence. Here the relevance of economic growth and political developments are underlined. The importance of democratic political developments in transition economies as a need for attaining sustainable economic growth is being underlined. This is especially relevant for the CEE countries on the eve of EU accession.

The second section of the paper examines the effects of democracy on economic growth. If all the transition economies, including the newly emerging market economies are taken into account than a direct relationship between democracy and economic growth can not be identified. However, when transition countries are examined with respect to the speed of transition process and development of democratic societies, some relevance can be found. In that case there is a point to be made on the relevance of the relationship between democracy and economic growth.

The next section analysis the empirical evidence on CEE transition economies. Main economic indicators are being presented and the pace of economic reform highlighted. Here the issue to be discussed is not any more the speed and consistency of the reform process which is at least evident for the first group of accession economies, but the mere fact of the proximity and mutual political willingness for the EU entry.

The fourth part highlights the obstacles and dangers for the CEE and other transition economies on the road to go. Cardinal aspects of the accession process and of regional integration are being presented as an issue that is still under intensive discussion. Derived from the convergence theory and the preconditions for economic growth under market conditions the hypothesis developed in this part is that the political issues within the transition economies and in relation to the accession to the EU are becoming dominant.

The last section of the paper presents concluding remarks highlighting the main points presented in the paper.