

GLOBAL, EUROPEAN AND NATIONAL CHALLENGES IN THE ENLARGED EUROPEAN UNION WITH EMPHASIS ON THE NEW MEMBER COUNTRIES

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ABSTRACT:

The enlarged and further enlarging EU faces challenges on three levels: global, European and national. The article looks at these challenges in general, and from the point of view of the new member countries, in particular. It identifies some of the basic policy dilemmas of the new members with substantial impact on the future of the European integration as a whole. They include the policy mix in order to sustain the already started catching-up process to more developed EU members, the mixture of competitiveness and social welfare, answers to an increasingly two-way process of industrial relocation and the right timing of membership in the EMU. The last part of the paper deals with key future requirements of a successful EU, such as vision, leadership and new social mentality. In this context, the necessity of an increasing role of the new members in shaping the future of Europe is argued for.

KEY WORDS: European Union, challenges, European Enlargement

DESAFIOS MUNDIALES, EUROPEOS, Y NACIONALES EN LA AMPLIACIÓN DE LA UNIÓN EUROPEA

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SUMARIO:

La reciente Unión Europea ampliada y sus futuros miembros, se enfrentan a desafíos en tres niveles: mundiales, europeos, y nacionales. El artículo examina estos retos en general y también desde el punto de vista de los nuevos miembros. Identifica algunos de los dilemas básicos de la política de los nuevos miembros que tienen un impacto sustancial sobre el futuro de la integración europea. Tales dilemas incluyen la mezcla política que sostenga el proceso para alcanzar a los miembros de la UE más desarrollados, la mezcla de competitividad y de bienestar social, las respuestas a un proceso aumentado de dos caminos de relocalización industrial, y la integración a la UEM al tiempo correcto. La última parte del artículo habla de los requisitos futuros claves de la UE afortunada, como visión, dirección, y nuevo mentalidad social. En este contexto la necesidad de un papel aumentando de los miembros nuevos en el futuro de Europa está discutido.

PALABRAS CLAVES: Unión Europea, desafíos, nuevos miembros

In recent months, following the „Eastern+ enlargement, characterized as a historical success, the European integration faced several setbacks. In this context, the starting period of the enlarged Union cannot be described as a success story, despite the generally smooth incorporation of the new members and the widespread expectation concerning the “fresh blood” coming from the latter. Just the opposite, some countries and political circles tried to blame the enlargement for most of the failures that, definitely, have nothing to do with negative developments, such as the outcome of the French and Dutch referendum on the European constitution, the British (or not only British) blocking of the European budget for the period between 2007 and 2013 in Luxembourg, and the half-hearted progress in the development of the internal market (see, for instance, the rejection of the Bolkestein directive on the free flow of services). More importantly, some countries of the European integration became more inward-looking, narrow-minded and even nationalistic in a crucial period of globalization. This is certainly not the way for building a competitive, future-oriented and cohesive Europe. It is too early to see whether the compromise achieved the last weekend on the EU budget covering the next seven years can be considered as a turnaround in the direction of European integration.

The main goal of this article is not to analyze short-term developments, however often with long-lasting consequences, but to go beyond daily politics and assessments and to put the enlarged and further enlarging European integration into a strategic framework.

1. CHALLENGES AHEAD ON THREE LEVELS

The European integration entered the 21st century with crucial questionmarks on three levels: global, European and national (member state-related). Some of the key global challenges will be described in the next part. Here, one overall consideration has to be formulated. It is a widely shared view that a united and more cohesive Europe is the only adequate answer to face the competition of long-standing and emerging economic giants in other parts of the world (United States, China, India). The enlargement can contribute to this objective in two ways. First, in a positive form, by concentrating European resources in order to enhance the continent's competitive capacity in terms of market size and, more importantly, in focusing on human resource. Second, in a preventive form, by avoiding substantive social tensions resulting from huge differences in economic performance, living standards and income levels. Enhancing competitiveness and narrowing income gaps, both across member countries and among regions of the individual countries, are two and inseparable sides of a success-promising strategy.

On the level of Community policies, a number of large-scale reforms are urgent and more than timely. They include the future function of institutions, the acceleration of the decision making process, the reshaping of the common agricultural policy, the full and unrestricted implementation of the internal market in all economic areas, the future- and target-oriented designing of the budget, more integration in the area of justice and home affairs and, last but not least, the structuring of a common foreign and security policy. It would lead too far to deal with any of these issues in more detail in this paper. However, some remarks for the successful functioning of the EU

have to be made from the point of view of the new member countries. All of them entered an EU that is characterized by enhanced competitiveness, future-oriented strategy and solidarity. These expectations were so self-evident that they did not appear in the public debate on the referendum on accession at all. Although, almost 20 months after accession I am not convinced that all major political and opinion-shaping factors still insist on this basic evidence, it is obvious that all new members keep on being fundamentally interested not in membership in general but in successful membership. Success can be defined as a combined package of several components. In this context, four important areas can be identified.

First, new members would be full members of the EU in every field of community-level activities, even if transitional measures apply. They are interested in shortening this period in the free circulation of labour (transition periods, according to the current rules, can be maintained until 2011), in becoming equal-footing partners in the direct payment system of the CAP (not before 2013, according to the present schedule), and being the real external border of the enlarged Union by shifting the administrative Schengen border to their non-EU borders and enjoying free movement across intra-EU national borders (hopefully by 2007). There is, however, a more controversial area, namely the timing of joining the Economic and Monetary Union, since it has to consider the fulfillment of the Maastricht criteria on the one hand, but also the creation of sustainable growth and competitive economic structures in the new member countries, on the other. While the time of equal-footing in the three earlier mentioned areas are fully in the hands of the old members and, as a consequence, handle the new members as a „bloc”, progress in the latter depends on the economic situation and the political decision of the new members as well.

Second, for the largest part of the societies, successful membership is reflected in a quick and widely felt catching-up process in economic performance of the new member country and in income levels of its citizens. Fortunately, this process has started well before membership and is expected to keep momentum after accession as well, as a result of the positive impacts of membership, such as larger markets, further inflow of international capital, and, particularly, much larger EU funds for economic and social development.

Third, one of the key elements, unfortunately many times ignored or underestimated, is the extent to which representatives of the new member countries can successfully be involved in the everyday work and the decision-making process of the European integration. This involvement includes not only the portfolio of commissioners, but, more importantly, the recruitment of experts from the new members to different, partly leading, positions in the normal activities of the Commission, their role in the European Parliament and also in a large number of lobby organizations both in Brussels and across Europe. These are the most important fields in which the perception of equal-footing or „second-class membership” emerges and becomes consolidated. Evidently, it is a bilateral process, since acceptance as an equal partner by old members needs also the adequate level of self-assertiveness (and acceptability) of the new members.

Fourth, representatives of the new member countries have good chances to increase their influence in different areas of shaping Europe's future. On the one hand, they can show the European public opinion that they did not enter just in order to get

short-term and financial benefits from the integration, but they are responsible players interested in the future of the continent. On the other hand, new members have less (or any) vested interests generated during decades of the development of the integration. They are deeply rooted in today's political reality and in minds of many politicians represented by the old members, as well as in large parts of the societies infiltrated with subsidy mentality and historically justified or unjustified stereotypes against the external world in general, and against (some of) the new members, in particular. This „clean sheet” could become an important factor of focusing on the future of the continent and get even a leading position in restructuring Europe. Unfortunately, this „cleanness” has already got some negative marks, as, at least in some areas, the new members started to accommodate themselves to old-fashioned community policies. Some of them, not for their own fault but as a consequence of the system, may already be on the way of becoming part of groups representing vested and outdated interests (see for instance the direct payment system of the common agricultural policy or the unholy blackmailing in the last stage of the community budget).

Finally, the national challenges have to be addressed. One critical element of the current and future development of the EU is the slow growth in its key member countries, such as Germany, France or Italy. Sluggish growth can be explained by the several times postponed but more and more urgent domestic reforms not only in economic areas, such as budget, labour market, taxation, etc., but, to a large extent, also in the minds of the people. Concerning the new member states, their transformation record can really be considered as unique and mostly successful. However, the final assessment is still missing, since the time span of transformation in selected areas is still too short. In addition, the sustainability of the positive developments as well as successful adjustment to EU structures, needs, at least in some countries, further evidence. There is no doubt that preparation for and accession to the EU have substantially consolidated the transformation process and also shortened the time of adjustment. The positive results of EU policies are obvious. Nevertheless, setbacks (or even backlashes) cannot be fully ruled out. They may originate from two different, although interrelated sources. First, in each country and society, the transformation takes place on different levels of activities. It is relatively easy to create the surface framework of political democracy. In turn, it is more difficult to create a democracy-minded and democratically behaving society. Macroeconomic stabilization is definitely „easy”, as far as its technical instruments are concerned. However, the real question is twofold: what are the social costs – and mostly longer term consequences – of stabilization, and, whether the imminent results of stabilization are sustainable. Microeconomic transformation definitely requires more time, since successful firms do not start to exist at the wish of policy-makers (even if all necessary legal, institutional and other preconditions are available). Much longer lasts social transformation, while mental transformation may need a change of generation. In addition, as a result of the breaking up of the old post-war system in Europe, a number of new nation-states emerged. The consolidation of new nation-states in the environment of globalization is an unprecedented challenge that, until now, has been successfully faced by not less than six new member countries (three Baltics, Czech Republic, Slovakia and Slovenia).

Beyond the above mentioned considerations related to the new member countries, success or failure also depends on the role the EU is able and ready to play in the global environment. By all members, old and new, the integration is considered to correspond to a double „casting”. On the one hand, it has to enhance Europe’s influence in the world and strengthen the position of the integration, in general, and that of the member countries, in particular, on the international marketplace. In other words, it has to support the political, economic and social incorporation of the member countries into the global process of development. On the other hand, and in some cases probably not less importantly, member countries expect that the integration will be able to protect them against unpleasant, risky, or just plainly negative external impacts, be they connected with globalization or the adverse consequences of regional conflicts. The fortunate but by far not easy mixture of these two factors, obviously changing proportions over time and due to the quality and potential impact of external developments, is essential for successful membership. Nevertheless, at this point, one key observation has to be added. The European integration has to remain fundamentally an open system. Not only its chances of enhanced global influence but also its survival in the 21st century are crucially rooted in openness, And not only in the old-fashioned economic or political term, but also in openness covering social structures and individual attitudes of the citizens of the EU. Temporary protection may not be ruled out against unforeseen and sudden adverse developments or in case of fostering global influence by well-targeted internal preparation. However, the global approach has to keep on dominating the strategy-making and policy implementation of the enlarged and enlarging European Union.

2. SOME REMARKS ON GLOBAL CHALLENGES

It is not the goal of this paper to offer a detailed description of globalization. However, some features of high relevance for European integration and the involvement of the new members into the structures of the EU should be mentioned.

First, there is no alternative to globalization. Therefore, the basic question is not whether globalization is good or bad, but how can the EU and its member countries find the correct answer to the challenges of globalization. How can benefits be used and risks be reduced in order to get a positive-sum game for Europe in the process of globalization.

Second, strategic approaches have to take into account that globalization is a horizontal and a vertical process simultaneously. Horizontally, it means the overcoming of geographic distance and more emphasis on regional cooperation (being the enlarging EU its most outstanding example). Vertically, it creates new and deep forms of interdependence on the entire scale of international business activities. On the one hand, it integrates the key production factors, particularly physical and human capital with labour around the world. On the other hand, different activities of the same business become highly intertwined, such as production, service, research and development, financing and accounting, education and training, sale strategy and marketing, long-term planning, etc.

Third, brief mention has to be made on the key driving forces of globalization, more than sufficiently mentioned in various studies. They include the unprecedented speed

of information and communication technologies, the worldwide activities of transnational companies, and the globalization of capital markets. Simultaneously, individual countries have also contributed to this process by pursuing more liberal policies towards international capital (worldwide, more than 90 per cent of the annual number of measures on the national economy level support capital liberalization and 10 per cent only try to introduce a more restrictive practice). In addition, and despite some doubts or resistance, more liberal economic policies became the rule in the last decade, first of all among the transforming European countries and in several emerging or less developed economies.

Fourth, liberalization of global economic relations continues to be contradictory, or at least, not simultaneously spreading to all major factor markets. Despite hot disputes, mainly in the framework of the WTO (see Doha round and the Hong Kong summit of WTO) trade liberalization made huge progress in the last two decades, even if obstacles did not disappear completely. Also, international trade became less restricted. Unfortunately, it is just some old member countries of the EU that try to limit the free circulation of services upon enlargement. Obviously, capital movements enjoy the most liberal treatment, since they do not face any major barrier. Just the opposite, there is a global competition for „free” capital looking for the best places for short- or longer-term investments. In sharp contrast to the above areas, free circulation of labour is highly restricted all over the world. In fact, labour would never get the degree of liberalization characteristic of trade, services or capital. This is not only due to strict regulations in the potential host countries, but also to a large number of social, psychological and individual considerations. Still, one cannot ignore the relevant discrepancy between (almost) full liberalization of capital movements and the very restricted movement of labour. Today, about 150 mn people, or less than 2.5 per cent of the world population only is resident of its non-native country. Definitely, this small share cannot be maintained in the next decades of further globalization. It is another question, which kind of people will be migrating, which will be the main target countries and how genuine migration policies will be shaped – not least in Europe.

Fifth, globalization requires the worldwide speeding up of the decision making process. While more and more important factors have to be taken into account before taking a decision, the time available for this process has to be substantially reduced. In this context, the European Union, with a cross-country consensus as its basic democratic rule (let alone veto rights) has a clear disadvantage vis-a-vis other countries essentially influencing the world economy (United States, Japan, China, etc.). Thus, this process has to be speeded up without violating the „sovereignty” of the member states and questioning the principle of democracy and equal footing, in order to enhance Europe’s global role in economic (and other) issues.

Sixth, we have to be aware of the changing nature of competitiveness. Traditionally, competitiveness used to be based on prices, quality and delivery terms. However, in the 21st century, the above factors seem to be insufficient to generate sustainable competitiveness either on the national or on the company levels. There are at least three additional factors that have to be seriously considered: the quality of public administration, the minimum (critical) level of social cohesion in the given country (the smaller the country the more), and the mentality of the society. Different annual comparisons, such as elaborated by the World Economic Forum, the Lausanne-

based International Management institute or the EBRD in London, have developed sophisticated matrixes to measure the static and dynamic elements of competitiveness of a large number of countries. One of the general findings is that members of the European Union behave rather differently, while the Union, on the average, does not belong to the pioneering group. While Scandinavian countries can be found among the first ten countries and the new members are rapidly catching up, the determining countries of the European integration seem to slide back in these lists. Provided that this development proves lasting, both the internal balance within the EU and the external image and activities of the integration could be substantially changed.

Seventh, the human factor became the key component of sustainable development not only in the developed countries but also in the emerging and less developed world as well. Strategies both on the level of European integration and on nation-states, the training and the best utilization of human resources has to be considered not only a key element of global influence, international competitiveness, but also an indispensable factor of successful integration.

3. EUROPEAN HOMEWORK

Facing the global challenges, Europe needs fundamental reforms in various fields. Without entering specific community-level actions, as already mentioned (CAP, budget, institutions, Lisbon strategy), the following points can be highlighted.

First: the balance between widening and deepening has to be maintained. Previous enlargements were not only accompanied but from the very first moment of membership embedded into a process of deepening still decided on and implemented by the „old” members. The first enlargement in 1973 occurred in the framework of creating the common trade policy. The Mediterranean enlargement was incorporated into the implementation of the internal market program. Finally, the enlargement in 1995 happened in the framework of preparing for the monetary union and the introduction of the common currency. The basic contradiction of the latest and „big bang” enlargement consists in the missing of a clear and ongoing program of deepening. If the Union wants to absorb the impacts of enlargement and, at the same time, show itself fit for external challenges, it urgently needs a comprehensive program of deepening (the Constitution, in itself, could not play this role).

Second: substantial efforts are required to accomplish the tasks related to the further liberalization of the internal market. Despite the original program, several crucial areas are not yet opened to community-level competition. Obviously, the liberalization of the energy market, the establishment of the common market for transportation or financial services could substantially enhance the competitiveness of the EU. Not less importantly, market-distorting elements have to be abolished, including the fundamental reforming of the agricultural policy. In addition, a full-fledged internal market does not work without ensuring the free circulation of services and labour among the member countries.

Third: the governance of the integration has to be substantially improved. In this context, top-down approaches have to be complemented by bottom-up processes that could reduce the democratic deficit on the one hand, and delegate decision making competences to lower (regional) levels, on the other.

4. SOME DILEMMAS OF THE NEW MEMBERS

In spite of the critical situation of the integration in selected areas, the first 20 months of membership can be described as a success story. Certainly, membership did not create a spectacular and imminent change to the better in the new members, neither caused it a catastrophe for the old ones. If some countries happened to experience special problems, they cannot be attributed to enlargement but, much more, to domestic policy failures. Notwithstanding the generally successful transformation and accommodation to the EU, the new member countries have to solve a number of problems from within the integration. In this respect, membership may have a twofold effect, by offering better framework for facing challenges and, at the same time, forcing the new members to undertake further reforms.

One crucial issue is how to secure the sustainability of high growth and of the catching-up process. In fact, high growth rates in the last years and also in medium-term perspective, are an encouraging trend. However, growth is not everywhere rooted in export- and investment-driven policies. Particularly in small countries (practically all new members excepting Poland), sustainable development can hardly be based on expanding domestic consumption. This pattern has characterized in the last years some of the new members, and is a major feature of Bulgaria and Romania expected to enter the EU in 2007. Moreover, sustainability has to be combined with the obligation to become member of the monetary union and, as a precondition, develop and implement a convergence plan before being adopted as a candidate (ERM-2). The Maastricht criteria have been developed for mature, developed market economies, that have implemented fundamental investments into physical infrastructure, environment and public administration before starting to prepare for the monetary union. In turn, the new member countries have a sizeable deficit in the above-mentioned areas and should eliminate these shortcomings in the process of converging with the criteria of the monetary union. It is not surprising that some of them (not because they are large, but because they were longstanding nation states with external debt and budget deficit from the very first moment of transformation) are rather cautious in defining the year of membership in the EMU. They have to create a delicate balance between gradual convergence on the one hand, and sustainable growth, structural change, increased competitiveness and lower levels of unemployment, on the other. Thus, their budget deficit, in the medium term, may remain higher than 3 per cent of the GDP, as determined in the Maastricht criteria, while other criteria seem to be fulfilled easier. One has to mention that Spain, Portugal, Greece were also struggling with high budget deficit in the first years of preparing for the EMU. In addition, some „EMU-mature” countries (particularly the Baltics) may produce unpleasant surprises, since their structural changes are far from finished and the future price of Russian energy imports can easily skyrocket domestic inflation.

Another challenge is connected with the geographic orientation of trade relations of the new members. Evidently, they have benefited from free trade with the EU years before membership as well as following accession. Particular dynamism can be observed in the trade among the new members, as well as the growing share of trade in services with the „old” members. Also, small- and medium-sized companies started to discover the „new” markets. At present, all new members belong to those countries that have the highest export concentration on the EU. For instance, the Czech Republic, Slovakia and Hungary sell more than 80 per cent of their total exports in intra-EU trade. None of the old members reveals such a high geographic concentration. Thus, in order to use the demand generated by rapidly growing non-European countries, all have to pay more attention to the geographic diversification of their exports. It may seem paradoxical to deal with this issue not before but just after membership. Of course, we are fully aware of the distorting information provided by national trade statistics. Part of the exports by some of the new members that are highly integrated into the global production network of multinational companies, does not have its final destination in the importing country, but becomes an integral part of the exports of another EU member both within and outside the geographic boundaries of the integration. Therefore, the correlation between the business climate in the main trading partners and growth prospects of the exporting new member are somewhat less relevant than it used to be a decade ago and as some experts still believe.

In their sustainable catching up process, new member countries need a large amount of capital, both in the form of direct investments and EU resources from the common budget. However, some new members, maybe too early, have become remarkable capital exporters in the last years. As a result, capital flows became a two-way street, even if still with much more inflow than outflow. Globalization, new investment opportunities in the neighbouring countries, mainly linked to privatization deals, former close business contacts (particularly between the Czech and Slovak Republic or Slovenia and other ex-Yugoslav countries), as well as the more developed microeconomic environment and mentality (mainly in Hungary) have fuelled this development.

Beside the balance of capital flows, the changing structure of foreign direct investments deserves special attention. This pattern is rather different across the new member countries, as demonstrated by the highly different commodity structure and unit export price indicators. In some Central European countries, notably in Hungary, foreign investments are increasingly concentrated on research and development-related activities, as well as regional logistical services. In addition, the main source of investments is not necessarily fresh inflow of capital (and even less incomes from privatization), but the reinvestment of profits in the local (and regional) business. This attitude is a clear proof of business confidence and longer-term commitments.

Nevertheless, the challenge of relocation of selected activities has reached not only the more developed and „old” members but some of the new ones as well. Even more, EU future members and candidates nourish high expectations that they may become the location of large part of international capital either directly or through the new members. Such hopes are founded by arguments of higher costs, both derived from EU membership (environment, safety, consumer protection, more costly

institutions and controls) and from rapidly rising wages (not only in terms of national currency but, even more, as expressed in euro). However, it is by far not evident that the new member countries would stop to remain favourite locations for European and other companies. To be sure, some labour-intensive activities have already left Central Europe several years ago. Others may look for larger markets outside Europe (concerning such a company decision, no European country is „protected“). In turn, technology-intensive industries and services are unlikely to leave well-established Central European locations. Confidence in the business, reliability of the legal, economic and institutional framework, geographic proximity, better infrastructure, higher level of human resources and, last but not least, the already established subcontracting network seem to provide sufficient arguments for not moving to new and prospective members of Southeastern Europe, or only relocating parts of their activities and replace them by upgraded activities in Central European countries.

One of the biggest challenges can be identified in the labour market. It has several aspects. First, the official unemployment rate is rather different from country to country (from less than 7 per cent in Hungary to almost 20 per cent in Poland). Second, the activity rate of the population is lower than in the old EU members. It seems to be very difficult to bring back people to the (primary) labour market after several years of staying outside and having developed specific attitudes to work (from one-person firms through subsistence farming to large-scale tax evasion). Moreover, similar to the old EU members, most new members (excepting Poland) face the challenge of rapidly ageing population, low birth rates and deteriorating proportions between working (and tax-paying) and not-working (benefit-using) citizens. No wonder that some countries in general, and some sectors in several countries in particular, started to struggle with labour shortage and look for workers coming from other countries. Although the migration to Central Europe did not reach the volume experienced in many old member countries, it did appear and has its first impact not only on the labour market but in social relations as well. In sum, the new members have started to recognize the two-way flow of labour. While part of their population is working or would like to work in more developed EU countries, they started to host relatively large groups of workers from their (poorer) Eastern and Southern neighbours. According to official statistics and unofficial estimates, there are more foreigners working in Hungary than Hungarians in the EU.

The transitional measures aimed at protecting the national labour market in several old EU members against the supposed or feared massive inflow of workers coming from the new member countries have several disputable consequences. First, they support the decision of Western European firms to relocate production and service activities to the new members. If labour is restricted to come to the capital, in our globalizing economy, capital will be flowing to the labour. This is a healthier pattern of sustainable modernization than exporting generally well-trained, young and flexible labour from the less developed to the more developed countries. At the same time, this is the way how the new members may get substantially higher amounts of capital and technology than in case of exporting workers. Second, transitional measures have controversial impact on Europe's global competitiveness. On the one hand, the chances of utilizing cheaper, but in all aspects more flexible, labour in order to enhance competitiveness cannot be realized. On the other hand, this labour

increases competitiveness in cooperation with European (and other) capital in the activities developed in the new member countries.

Third, differences in international competitiveness among the old EU members may be rising over time, since transitional measures are differently used (or not used, at all). In principle, member countries that have liberalized their labour market from the very beginning of enlargement or just earlier than others, may register competitive advantages (of course, provided that all other factors of competitiveness remain unchanged).

5. KEY QUESTIONS OF FUTURE POLICY-MAKING IN THE ENLARGED/ENLARGING INTEGRATION

In the past one and a half decade, Europe's answer to global challenges and the breakup of the old divided system of the continent was twofold: deepening in some fields and unprecedented widening. At first glance, both were necessary steps into the right direction, but not without serious shortcomings with backlash capacity for the future. Deepening, mainly represented by the monetary union, the common currency and the development of the internal market, remained fragmented, insufficiently prepared (common currency without more coordination of national budgets and economic policies) or sluggish (internal market). Similarly, as a consequence of missing strategic view and political courage, widening did not follow a gradual strategy that more or less would have resulted in the same new map of integration by 2005, but with less problems, unjustified social attitudes and smooth and more efficient functioning of everyday policies.

It is increasingly obvious that the construction of Europe needs a new vision, clear leadership establishing a new structure of integration and a new mentality.

Concerning the vision: apparently, both pillars of the traditional European vision and strategy have been lost in the last years. The enemy, namely the Soviet empire with its military threats and ideology, that to a large extent shaped the structure of integration over decades, disappeared. Simultaneously, personal experience with the Second World War became less and less „vivid” or vanished completely, as new generations have been growing up in the peaceful, prosperous and solidarian part of Europe. Nevertheless, looking more in detail to current and future developments, new threats are developing on the horizon. Evidently, they do not appear in the old-fashioned form of organized military danger, but they may be not less dangerous for Europe's future. Beyond terrorist actions, they include global competition, migration and demographic changes and environmental problems.

Without a clear and newly structured leadership no adequate answer can be given to the above issues. The old French-German tandem that used to play a pivotal role in the integration process over decades, remains important but by far not unique and predominant. On the one hand, the accumulated reform pressure in both countries and the growing social resistance against bold but inevitable reforms has already led to slow growth, survival of outdated industries and other activities (see the common agricultural policy) and a return to or strengthening of 19th century attitudes particularly in broad strata of the French society. On the other hand, the new

geography of Europe with a large (and growing) number of Central, Eastern and Southeastern new and would-be members has already shifted the geographic, but increasingly also the economic and political balance of the continent towards its center represented by Germany. Moreover, the fact that almost all new members are small or (in new terms some of them medium-sized) countries, requires the rethinking and reshaping of the current organizational pattern of integration based on partly federal (supranational) elements, but mainly and in key questions on intergovernmental consultations and decisions. A successful Europe definitely needs more federalism, most probably the vital interest of small and smaller countries and an efficient protection against decisions made by some large countries and imposed on the whole community. In this context, also the limits to the geographic enlargement of the EU have to be reconsidered and clearly announced to the countries forming an ever longer waiting list for future and potential membership.

Finally, Europe needs a renewed and future-oriented mentality. One of the biggest problems that characterizes (almost) all European countries consists in being ill-prepared (if to any extent) for the challenges of the 21st century. Once such challenges reach the politicians and the societies, automatically, old-fashioned answers and attitudes appear, mainly based on past reactions and experience. It can easily be understood that such answers are not only inadequate but may become extremely dangerous in some parts of Europe with still strong affinity to different forms of nationalism and national egoism.

6. WHAT ABOUT THE NEW MEMBERS IN THIS CONTEXT?

First: the biggest challenge for them remains sustainable growth and growing competitiveness in the framework of the enlarged Union. This task implies at least three basic questions.

- (a) How should competitiveness be related to social (welfare) models?
- (b) What is the role of the State in the development strategy of the individual countries?
- (c) What is the right sequencing in the convergence process towards the monetary union?

Obviously, Europe has different social patterns than the United States, Japan or the emerging countries of Asia. However, there is no uniform „European model”, since the British is different from the continental pattern (the so-called Rheinland-model), and the Mediterranean model substantially differs from the Scandinavian one. Moreover, the new member countries have had already to restructure large part of their previous social models built on a different economic system but impossible to be financed in the future. Each country is still in the process of creating the new social pattern and there is no „one size fits all” design available. The only common consideration is that a sustainable balance has to be found between competitiveness and social cohesion, being the latter an important element of sustainable growth and competitiveness. Also, it has to be taken into account that the social models of the old members of the EU are also constantly changing and looking for the best (or just viable) solutions.

The discussion about the future role of the State became largely ideologized in the last one and a half decades. It is understandable that the idea of dramatic withdrawal of the State from economic activities got a large number of supporters after the long

experience with (different types of) socialism. Nevertheless, successful modernization in less developed (emerging) economies requires a supportive State and a high-quality public administration. The fundamental question is not whether we want more or less State, but what should be the basic character of the role of the State. Central redistribution of the GDP is high in Scandinavia, still just this region of Europe became the most successful in last years' information technology revolution. Therefore, the real issue is not so much the level (share) but the targets of financing from the State budget. Definitely, successful modernization needs a clear reorientation of the State's tasks from income redistribution to income generation, directly (through research, development, education and guaranteeing the critical mass of social cohesion) and indirectly (efficient administration, clear rules of the game, physical infrastructure, etc.) alike.

The dilemma of competitiveness and convergence has already been shortly dealt with at an earlier part of this paper. The key issue is not the date of introducing the common currency but the reliability of the economic policy and the convergence program. Small steps and gradual approach are acceptable if they are based on a credible policy. To be sure, remaining outside the monetary union for a longer time (longer than other countries of the region) may entail the risk of financial speculation against the national currency. This risk cannot be fully avoided, although reliable economic policies can do a lot in this direction. It is not less risky to rush into the monetary union with a half-prepared economy (as it is the case for some candidates at present). The negative consequences of too early membership seem to be much larger than the costs of a slightly delayed accession due to enhancing competitiveness and creating healthy and sustainable structures.

Second: the requirement and widely shared expectation of accelerated catching-up has to be met. In this context, the substantially larger EU budget and easier access to such resources offers new opportunities. Each country had to prepare its National Development Plan, as a basis for having access to EU funds starting in 2007. The best way of allocating money (and other resources) seems to be a double and simultaneous approach. On the one hand, as a result of quick and efficient use of the resources, multiplier (spillover) effects have to be generated. On the other hand, regions unable to produce such impacts in a short time, have to be prepared for absorbing the generated spillover effects. Lacking this interface, money will be used less efficiently or its spillover results will enrich other regions and actors of the market (either by exporting achievements or „exporting” the human resources that have generated this impact). It is crucial for the continental European new and future members to include into the national programming large-scale regional considerations. Excepting the Czech Republic (and of course, Malta and Cyprus), all new members have common borders with countries outside the EU and long continental borders among themselves (including the Czech Republic). Thus, common planning and implementation of large-scale infrastructural projects is one of the key requirements of sustainable regional competitiveness. Transeuropean corridors should not only serve the interests of old members (mainly the extension of the West-East channels), but increasingly take into account the rapid development of North-South or Northwestern-Southeastern transportation systems. It is several times demonstrated that investment decisions are, among others, substantially dependent on the quality of physical infrastructure. Therefore, sustainable and high growth in the new countries of the EU can be fostered by efficient infrastructure.

Third: the new member countries have generated and become an active part in the process of shifting balance of the integration. This is not only clear by looking at the map of Europe, but has been corroborated by economic trends of the last years as well. Today, the five Central European members' exports to Germany are more than 10 per cent higher than French exports to this country, and considering final manufactured products only, this difference grows to 50 per cent. Also, clear shifts in the geographic destination of international capital flows can be observed. In 2004, foreign direct capital flows to the new members increased by almost 70 per cent, while low-growth Western Europe registered a reduction by 40 per cent. Of course, Western Europe is still getting much more capital than the new members (USD 196 and 20 bn, respectively), but the catching up process cannot be denied. The role of foreign investments in the economies of the new members is already higher than in the EU-15 (39 vs. 31 % of GDP).

Beyond the economic field, the next years are expected to generate more influence of the new members in the everyday functioning and strategic planning of the integration. The balance shifted to the new members in general, and towards small(er) countries, in particular, offers a large margin for strategic and tactical alliances with other EU countries, large and small(er) ones alike. In addition, the issue of regional cooperation has to be raised. Although, based on current experience and differences in „national” interests, it is unlikely that the new continental European members form a strong new „bloc” within the EU. However, temporary and partial alliances may emerge in specific policy areas (e.g. common foreign policy, neighbourhood issues, EU budget, enlargement or some issues related to the internal market).

Fourth: successful incorporation into the EU structures requires a longer period following the date of official membership. One of the key elements of success is a clear integration strategy that determines the basic interests of the given country and the instruments how these interests can be implemented or, if necessary, protected. In a community of 25 (and soon more) countries, a new culture of compromises and alliances has to be learnt and practiced. With membership, the new countries got a larger maneuvering room as compared to the strict rules of the *acquis* as negotiated on in the pre-accession period. From within the EU, it is easier to explain and let understand specific problems of the individual countries and find special ways of solving them, without threatening the normal functioning of the integration mechanisms. Active participation in the decision-making processes may also be helpful in this respect. Further efforts are needed to achieve equal-footing in all community areas as soon as possible and, not less importantly, prevent any kind of further artificial differentiation among „old” and „new” members. This task is more complex than just playing an active role in various EU institutions, for deeply-rooted stereotypes and vested interests have to be gradually eliminated. One of the most useful instrument in this struggle may be the straightforward attitude of the new members in favour of a future-oriented, competitive and cohesive Europe. By representing and implementing this message, they will not only be able to contribute to the restructuring and rejuvenation of the EU. Even more importantly, in the next years, they are likely to have a more influential representation in the highest decision-making bodies of the integration and substantially shape the new face of Europe.

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