

CASE - Center for Social and Economic Research



Marek Dabrowski

**The EU Accession Perspective as an
Incentive for Domestic Reforms:
Experience of the Past and Current
Candidates**

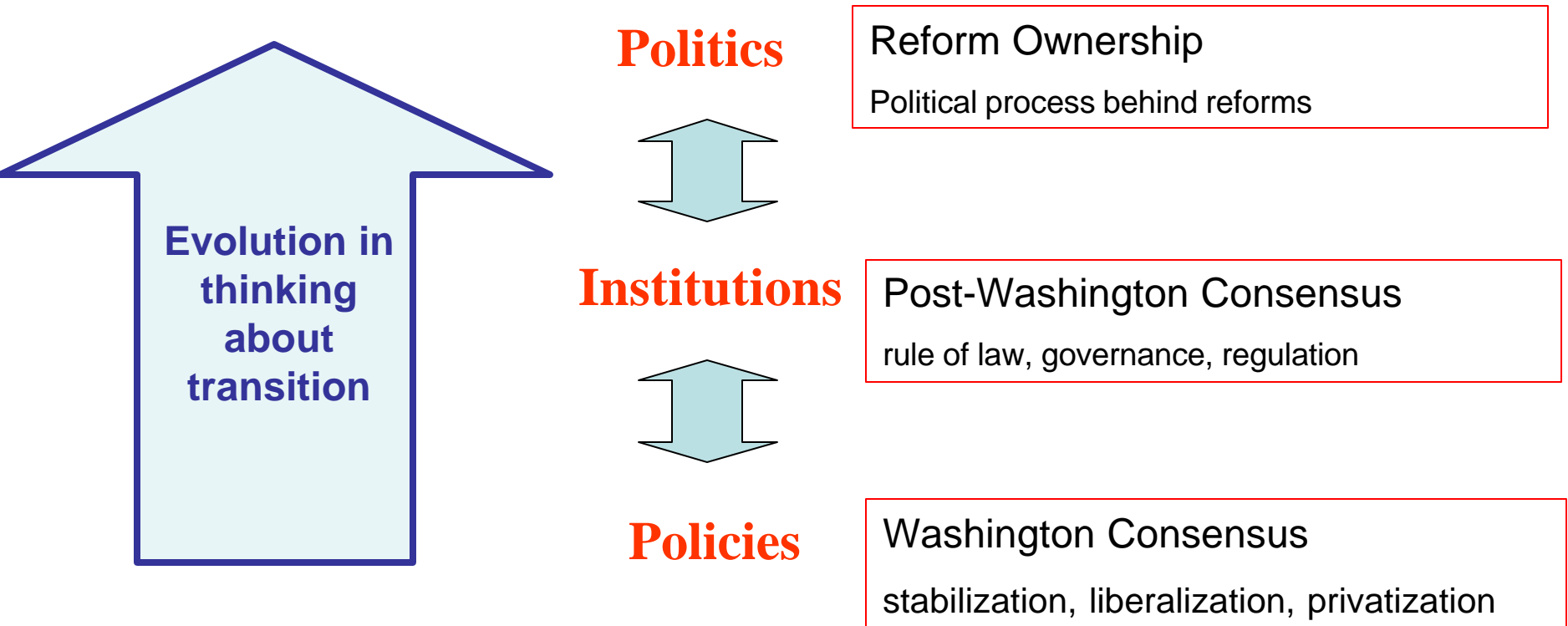
Presentation for the JVI Policy Research Conference 2007 on
“Economic Governance and Sustained Growth in the Balkans”, Vienna,
March 15-16, 2007

**This presentation draws from Marek
Dabrowski and Artur Radziwill paper
on**

***‘Regional vs. Global Public Goods: The
Case of Post-communist Transition’,
CASE Studies and Analyzes, No. 336,***

http://www.case.com.pl/upload/publikacja_plik/13493806_sa336.pdf

Main factors of success in transition



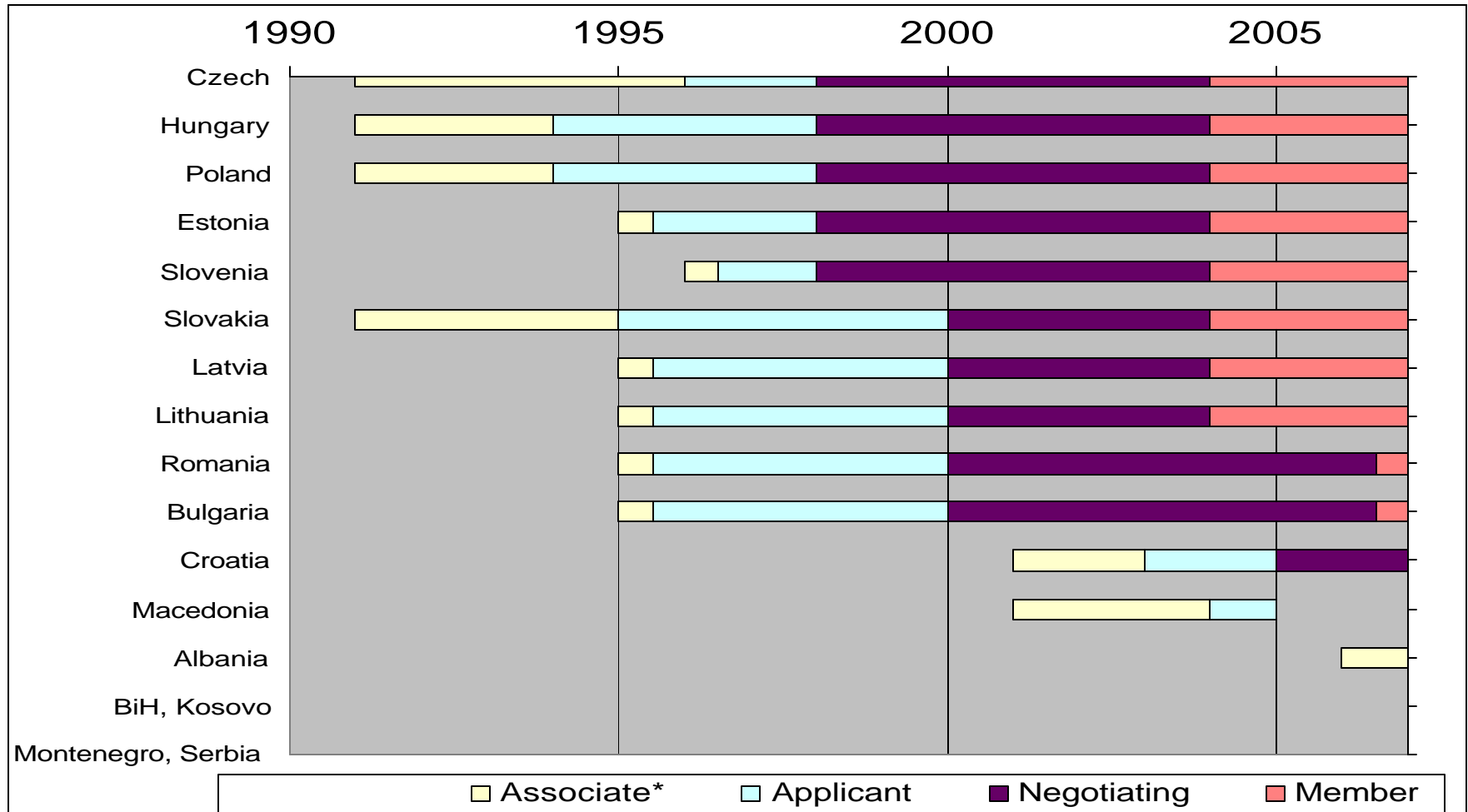
External anchoring of reforms

- Problems with domestic anchors
 - *Ex ante* and *ex post* political constraints of reform
 - Time inconsistency
 - Multiple equilibria (coordination failures)
- External influence
 - Incentives
 - Guidance
 - Monitoring
- Key providers
 - EU NMS and candidates \Rightarrow EU and NATO Enlargement
 - other countries (CIS) \Rightarrow Bretton Woods institutions

Experience of EU accession of less developed countries

- Mediterranean Enlargement of 1980s (Greece, Portugal and Spain);
- Eastern Enlargement 2004 and 2007 (Bulgaria, Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia);
- Negotiating candidates (Croatia, Turkey)
- Candidates waiting for negotiations (Macedonia)
- Forthcoming candidates (other Western Balkans)

Figure 3. Timetable of EU integration process of post-communist countries



* *Europe Association Agreement (CEECs and Baltic States, Bulgaria and Romania), Stabilization and Association Agreement (Croatia, Macedonia and Albania). EAA was first signed by Czechoslovakia and then by Czech and Slovak Republics.*

Source: http://europa.eu.int/comm/enlargement/index_en.html

Copenhagen Criteria for EU Accession

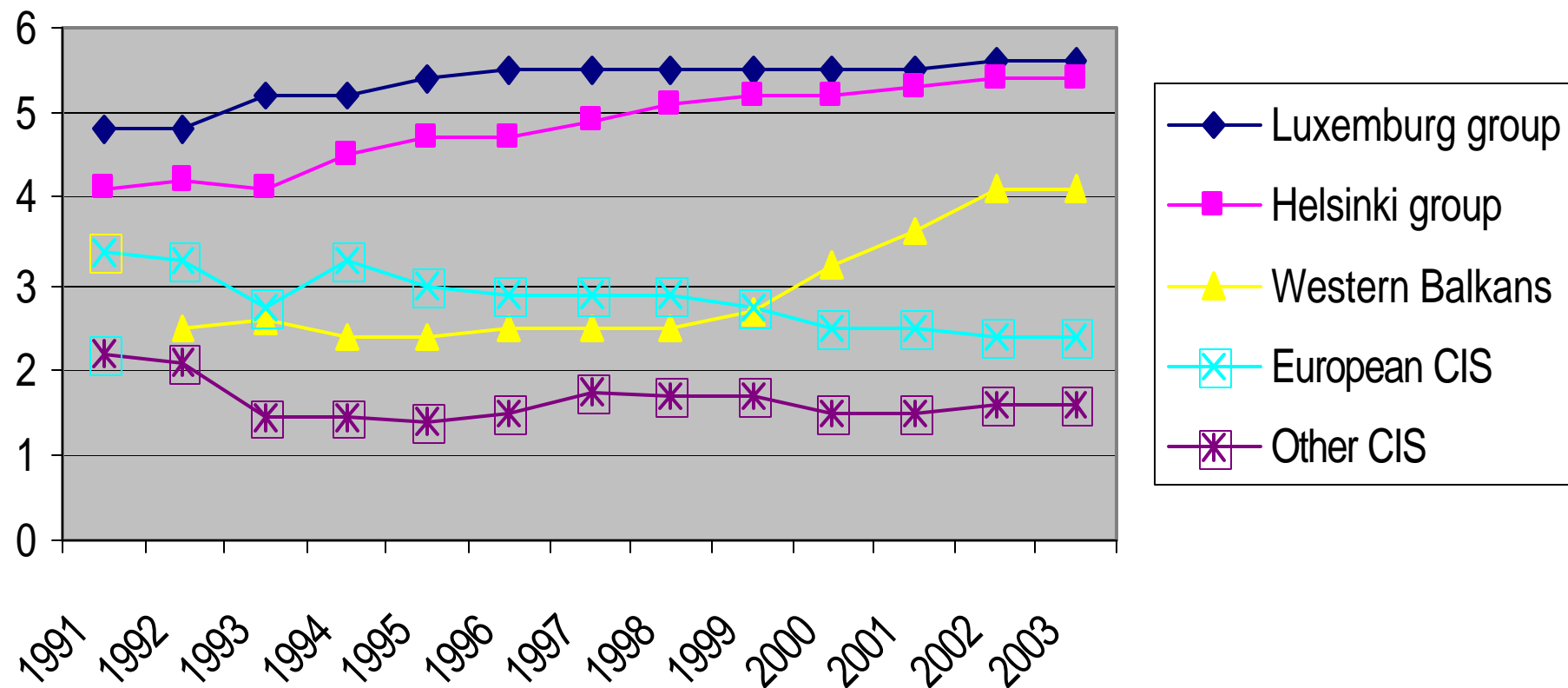
June 1993

The associated countries in Central and Eastern Europe that so desire shall become members of the European Union upon satisfying following criteria:

1. stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities,
2. the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union,
3. ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

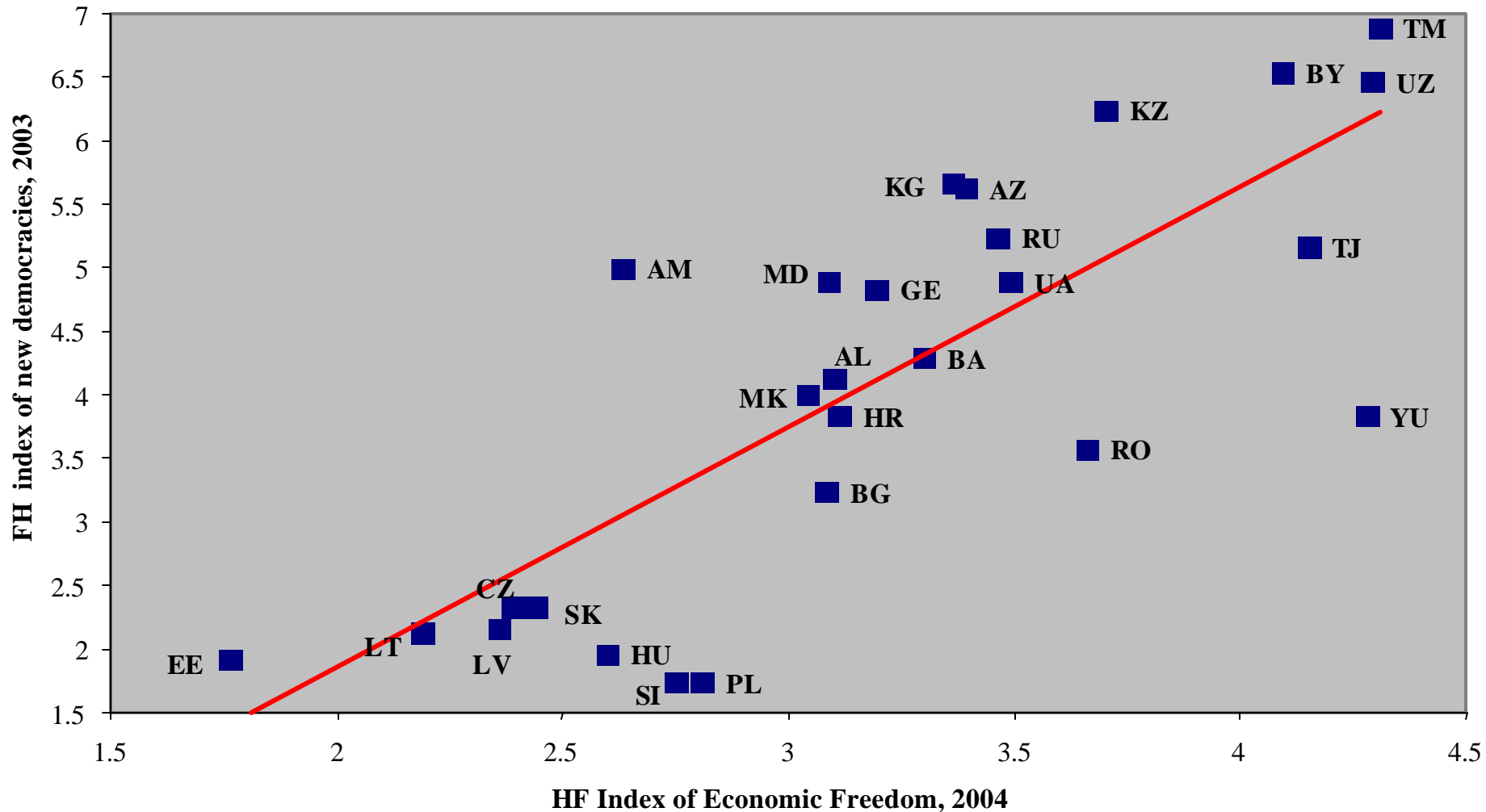
**Empirical analysis of the
importance of EU
accession as the external
anchor: comparing
performance of EU
NMS/candidates with CIS
countries**

Reform progress: Index of democratization

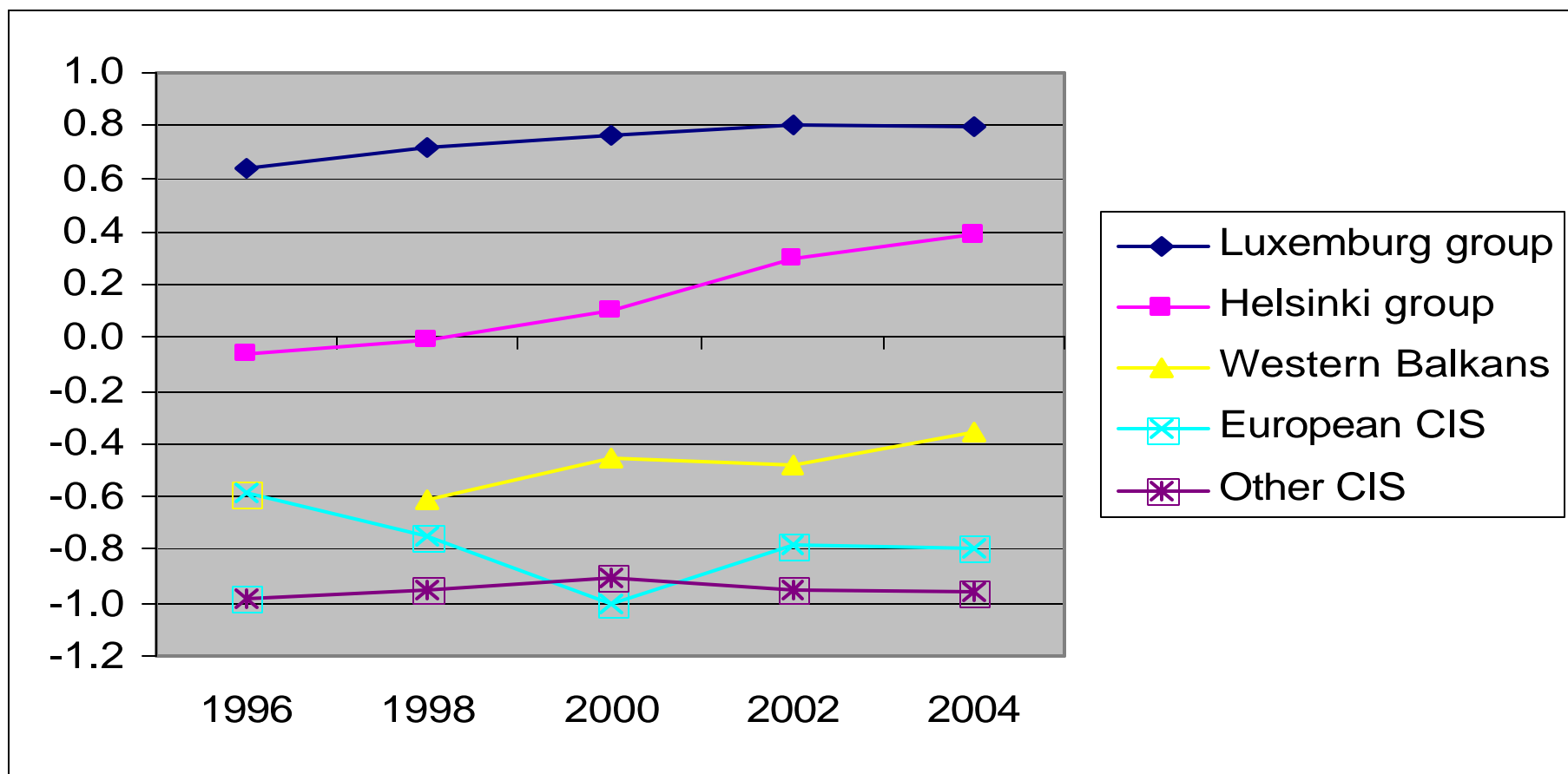


Composite index: civil liberties and political rights. Source: Freedom House

Correlation between indexes of political and economic freedom in post-communist countries

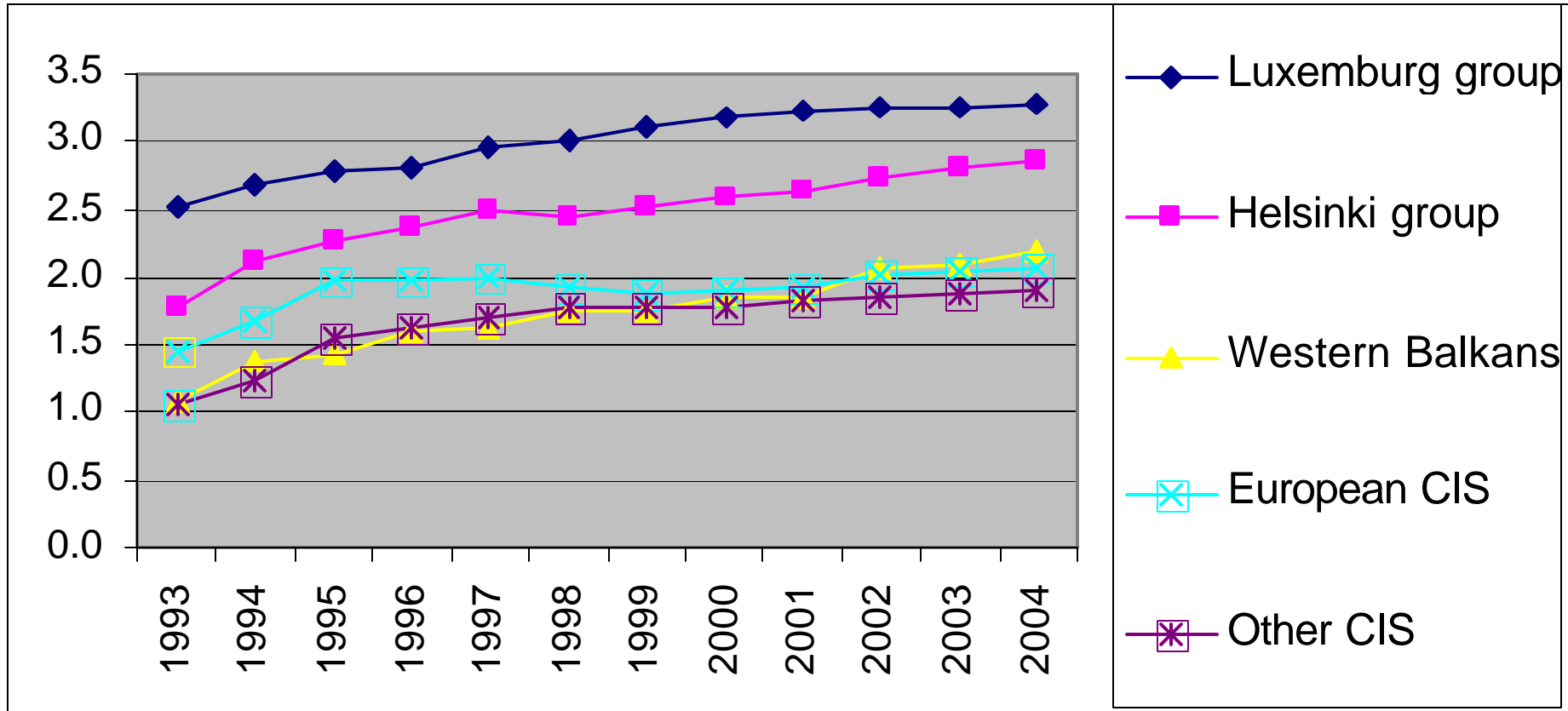


Reform progress: Index of institutional quality



Composite index: rule of law, government effectiveness, control of corruption and quality of regulation. Source: World Bank

Reform progress: Index of structural reforms



Composite index: competition policy, enterprise reform, banking and non-banking financial sector reform. Source: World Bank

Why is the EU conditionality more effective?

EU (and NATO) accession criteria

IMF program conditionality

Incentives

- strong carrot/stick mechanism
- (EU membership/exclusion)
- important to public at large
- weak carrot/stick mechanism
- (loan disbursement/ non-disbursement)
- irrelevant to broader public

Conditions

- broadly defined (democracy, free market, European law)
- strong public understanding and support of the ultimate goal
- narrowly defined (abstract macroeconomic, technical or specific structural benchmarks)
- scant public understanding and support, opposing interest groups

Monitoring

- high credibility of enforcement (strong interest of incumbents to keep non-performers outside EU)
- full compliance required – ‘nothing is agreed until everything is agreed’ (prevents paper reforms and policy reversals)
- long term horizon (‘it will take as much time as needed’)
- low credibility of enforcement (IMF/WB interested in loan disbursements)
- frequent non-implementation - waivers, new programs following program failures (allows for paper reforms and policy reversals)
- short term horizon (short-term, e.g. quarterly point deadlines)

Direction of causality?

- Membership perspective anchors reforms or progress in reforms makes membership possible, or fundamental factors (geography, culture etc.) drive both?
- Virtuous circle very likely: better accession prospects \Rightarrow more reforms \Rightarrow better prospects reinforced by trade and FDI flows
- Some confirmation of direction of causality
 - Enlargement driven by exogenous political decisions (for example, the ‘Helsinki’ group in 1999, the Stability Pact for South and Eastern Europe, 1999)
 - Geographical and cultural explanations sometimes doubtful (Lithuania not so different from Belarus at the beginning of transition)
 - Slovakia U-turned on her policies, clearly due to external pressures
 - But all reformist governments tend to declare EU and NATO as strategic goals (recent examples of Georgia and Ukraine)

Magnetism of EU integration

- Political ('club') membership
- Geopolitics and security
- Four basic freedoms (goods, services, capital, labor)
- Prospects of prosperity
- Structural funds

Conditions of effective external anchoring

- Carrots (stick=no carrot) must be realistic, understandable and widely desirable
- Commitment on part of club members must be credible
- Conditionality must be very demanding but fair
- Actual implementation can take decades, what matters is the process itself

More difficult conditions of next EU enlargements

- Post-enlargement fatigue (in OMS and NMS)
- Unclear prospects of adopting EU Constitutional Treaty/ EU institutional reforms
- Unreformed EU budget mechanism
- Most candidates represent low GDP per capita level
- Post-conflict situation in Western Balkans
- No chance for “wholesale” enlargements (like 2004 one)
- Weaker carrot & stronger stick: little chance for waivers
- Danger of anti-accession backlash (example of Turkey)

Lessons for national EU accession strategies

- Do reform quickly: time works against you
- Do not leave difficult decisions for “future”
- Do not miss political window of opportunity when is open
- Accession negotiations should be closely coordinated with the national reform strategy
- Reforms serve your own benefit: do not treat them as the bargaining chip in accession negotiations
- Adopting legislation is easier than its implementation