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Bulgaria's Accession in the Context of the European Union Enlargement

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ABSTRACT

The thesis discusses the accession of the country of Bulgaria into the European Union (EU) in the context of the EU's enlargement from year 2007. The focus is on the costs and benefits arising from this accession for both the European Union and Bulgaria. A special attention is given to the economic aspects of these costs and benefits. The research is conducted according to the flexible (qualitative) research design. It is a single case study, which investigates the case of Bulgaria, in the context of the EU enlargement. The methodology which we use within the flexible research design is the collection of relevant literature on the research topic, analysis and conclusion on the findings. We explore also the costs and benefits of the 10 Central and Eastern European countries accepted in the EU in 2004, in terms of trade, foreign direct investments, Single market and Immigration issues, Common agricultural policy. The same aspects are used in the investigation of Bulgaria. In this way, we see why the case of Bulgaria is different from the other Central and Eastern European countries. Bulgaria is good example of peaceful country on the Balkans with great tolerance and rights for its ethnic minority groups. The membership of Bulgaria in the EU aimed at stabilization in the whole Southeastern Europe. If Bulgaria was not accepted in the Union, the Balkan conflicts might have affected it as well. Then this would have indirect negative consequence for the whole EU. Its geographical position in the middle of the Balkan Peninsula is also crucial for the stability of the Union's external border on the East. That is why Bulgaria's accession turned out to be of great importance for the European Union. Bulgaria also benefit from the membership in the EU, because its economy stabilizes and develops in a better way. This leads to decrease of unemployment and increase of the standard of living in the country. Finally, Bulgaria's accession turned out to be of great importance for both the European Union and the country itself.

Key-words: *European Union; enlargement; Bulgaria; accession; CEECs; costs; benefits*

CONTENT

LIST OF ACRONYMS

AQG - Atomic Questions Group

CAP – Common Agricultural Policy

CCP - Common Commercial Policy

CEEC – Central and Eastern European Countries

CEE - Central Eastern European

CPI - Corruption Perception Indices

COMECON - Council for Mutual Economic Assistance, in the Russian Federation

CBC - Cross Border Co-operation

EBRD - European Bank for Reconstruction and Development

EU – European Union

EP - European Parliament

ECJ - European Court of Justice

EEC - European Economic Community

ECSC - European of Coal and Steel Community

EC - European Community

EMU - European Monetary Union

FDI – Foreign Direct Investments

GATT - General Agreement on Tariffs on Trade

GDP - Gross Domestic Product

GNI - Gross National Income

IAEA - International Atomic Energy Agency

IMF - International Monetary Fund

MS – Member States

NATO – North Atlantic Treaty Organization

NEK - National Electricity Company

NPP - Nuclear Power Plant

OEF - Oxford Economic Forecasting

PHARE - Poland and Hungary: Assistance for Restructuring Their Economies

QMV - Qualified Majority Vote

SEM - Single European Market

SMEs - Small and Medium Sized companies

UK - United Kingdom

USA - United States of America

Visegard Group - Czech Republic, Hungary, Poland and Slovakia

WANO - World Association of Nuclear Operators

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INTRODUCTION

The end of the Cold War, the sudden and dramatic collapse of communism throughout Eastern Europe in 1990, brought the beginning of completely new era. It was new era not only in Europe, but also in the world politics. This fundamental historical event created many new challenges for Europe, especially in terms of the European integration and European process of enlargement. Freed up of the communism and the political influence of the Soviet Union, Central and Eastern European countries (CEEC) wanted to "return to Europe", which they viewed as a membership in the European Union (EU) and the North Atlantic Treaty Organization (NATO), *(Smith, 2005).* At this time, 12 CEECs were applying for a membership in the EU, which posed unprecedented problems for the European project. The countries that were accepted for membership in 2004 included Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania, Estonia, Malta, and Cyprus. Bulgaria and Romania, however, were refused membership until 2007. Finally, from the original 6 founding members, the EU gradually increased in size, reaching the number of 27 constituent units *(Wiener & Diez, 2009).*

The admission of so many CEECs, with so many different national goals and policy priorities was a great challenge for the EU. The 12 new CEECs, most of which had been undergoing processes of transformation from planned to fully functioning market economies was something that EU had never done before. (*Cini & Borragan, 2010).* The membership of the post-socialist countries challenged the EU with issues such as: illegal migration, minority problems, security problems, economic, political and institutional instability, and environmental degradation.

Having in mind the number of problems which the new member states (MS) bring toward the EU, it seems reasonable to ask, why EU wants to accept more MS? What are the reasons behind the CEEC enlargement of the EU? These questions lead us to the main research question of the thesis. In a single case study, we would like to concentrate, on one of <u>the latest MS that joined the EU in 2007 – Bulgaria</u>.

Then, we would like to give an answer to the following **research question**:

Why the EU was in favour of Bulgaria's membership to the Union?

We will focus on the cost/benefits for both - Bulgaria and the EU.
First of all, we will make an overview of the literature on the topic and the views of different scholars about the EU enlargement. We will present different theories and viewpoints about the reasons of the EU enlargement after 1990. Then, on the basis of the available literature on the topic of research, we will formulate four sub questions, which will help us answering the main research question, stated in the beginning. Then, we will explain what would be the Research Design and Methodology. Finally, we will make a brief summary of thesis.

LITERATURE OVERVIEW

According to *Smith (2005)* the main reason for the EU enlargement was the need for stability and prosperity across Europe after the Cold War. It is interesting that the EU decided to accept more member states instead of helping of the creation of another strong regional grouping with which the EU could engage in inter-regional cooperation. The accession of CEEC was thought of a reasonable strategy for stability and prosperity across Europe. However, the former communist states were much poorer and more agricultural than the old Western members of the EU. This had important implication for EU spending and the internal process of integration.
The EU was prepared for the risks of enlargement, but it also sought a lot of benefits like security, stability and economical development. The case was not different also for Bulgaria. As a country on the cross road of the Balkans it offered opportunities for improvements of the stability and security on the outer border of the Union.

Another view about the EU enlargement is given by *Moravcsik & Vachudova (2009)* who say that the EU enlargement process is not very mysterious from the perspective of national interests and state power. They say that the leaders of the current MS are promoting accession because they consider enlargement to be in their long-term economic and geopolitical interest. However, some interest groups oppose to the enlargement because of the disproportionate share of the short-term costs. For the new countries, the membership in the EU brings tremendous economic and geopolitical benefits. However, the candidates have to comply with EU's requirements and conditionality to certain unfavorable terms. For example, by becoming part of the EU, the Eastern states have to face high costs and budgetary competition *(Schimmelfenning, 2001).* This problem can be seen now as well, where the national market is struggling to compete with the developed European markets.

The leaders of the old EU members' claim that they want to accept states, which share their liberal values. On the other hand, the Eastern European states would serve quite well to the EU's interests. The national interests of the old members seem to be further more than just an idealistic view about the enlargement as a way for peaceful cooperation.

While the direction which each CEEC takes depend mainly on the daily actions of its own government and citizens, the promise or denial of EU membership could influence long run expectation *(Baldwin, 1995).* If the Eastern enlargement did not happen, this would have stopped these states to participate in the wealth and security of united Europe. As for the EU, the denial of eastern enlargement may have discouraged western companies to make investments in these states and to enlarge their market share and economic development. In addition, the eastern enlargement has a large impact on the EU's global position. With more countries, it has more "weight" and expands its international interests *(Smith, 2005).*

The main benefit of enlargement for the old EU members is peace, security and opportunities for economic development. The inclusion of 10, later 12 CEEC will also increase the number of consumers that are in the European market by 75 million to more than 450 million, making the EU economically comparable with the United States. The business companies can bring their products and services with fewer obstacles. UK businesses have invested a lot in these countries and after the official accession to the EU, it was expected that UK will add up to £ 2 billion to the UK's gross domestic product (GDP), through the business there.

As for the costs that EU has to pay for the integration of the new members, it is said that they are one tenth of the costs of the German reunification (€ 67 billion euro). Here we talk about spending not only for one country, but for 10, even though they are much smaller than Germany. Furthermore, after the collapse of the communism and the fall of the Berlin wall, the spending of the EU for security and informal military competition against the Soviet Union, are ready to be spent for enlargement and integration of new members to the Union.

The new member states have also great advantage and benefits of the membership in the EU. Once in the Union, they can reach the development of their Western neighbors. With the help of the EU, both their economies and political infrastructures would become in line with Western democracies. Their citizens would be able to live, study and work wherever they want in the EU. Of course, the new members have to fulfill the hard task of transforming their economies from state-run to democratic capitalist economies. They have to overcome the inflation, which is one of the major economic problems in the post socialist countries (like in Hungary and Slovakia). The high level of unemployment is another major issue. Few years before the accession in the EU, the unemployment in Lithuania, was around 16 %. Although, these countries get help from the EU for the economical reforms, they are obliged also to contribute to the EU budget. They got many benefits from their membership, but they also need to pay the required costs for it. Shortly after the accession, some states were feeling as if they were paying more into the EU than they were getting out of it.

In the first round of the CEEC enlargement in 2004, ten countries were accepted in the EU and the accession of two others was postponed – Bulgaria and Romania - 2007. Some say that with this delay of three years, the EU wanted to hold out the "carrot" in the guise of more aid to help their economies get up to speed and so reassure them that membership in 2007 will become reality. This statement will be examined further in the following chapters.

We may say that in the process of enlargement, there are certain costs and benefits for both the EU and for the new member states. There are also many different reasons behind the decision of the expansion of the Union. However, as we have already mentioned in the beginning, we would like to focus our attention particularly on the reasons for Bulgaria's accession in the European Union.

SUB-QUESTIONS

In order to start our research from the fundaments of the EU enlargement, we will have a look at the history of the EU enlargement and the theoretical explanation of this process. In this respect our **first sub-question** is: *Why EU decided to enlarge and to accept more states in the Union?* This sub-question is important, because it will help to understand the fundaments of the EU enlargement and follow its development along the years.

The first enlargement of the EU started in 1973, with the accession of United Kingdom, Ireland, and Denmark. Then in 2004, ten member states from Central and Eastern Europe were accepted. Then, came the last enlargement in 2007 with the accession of Bulgaria and Romania. In order to understand the process and reasons for enlargement in a better way, we will answer the **second sub-question**: *What are the general costs and benefits of enlargement for both - the EU and the new MS?* The answer of this question will help us to see what are the real costs and benefits of the EU enlargement - for the EU and the 10 CEECs. Then we will be able to compare if these costs and benefits are applicable or similar to the single case study of Bulgaria's accession in the EU.

The second sub-question will form the basis of our third sub-question. Since, our research is focused particularly on the accession of Bulgaria, we will examine how the theories and the experience of previous enlargement in terms of cost/benefit analysis, apply to Bulgaria and its membership to the Union. This leads us to the **third sub-question**: *What are the most important costs and benefits for the EU and for Bulgaria, after the new member entered into the Union? Who benefits more from enlargement: the EU or Bulgaria?*

We will try to present all the possible costs and benefits, such as economic, political, security, etc., but we will focus mainly on the most important of them. We will explain why we focus on certain costs and benefits instead of on others.

Our forth sub-question focuses on the issue of postponing Bulgaria's accession, during the big enlargement in 2004. It was excluded from the accession along with the ten new post-socialist member states from Central and Eastern Europe. The **forth sub-question** will be: *Why Bulgaria was not accepted with the big EU enlargement in CEEC in 2004? Why in 2007? What kind of difference does it make the accession three years later?*

RESEARCH DESIGN AND METHODOLOGY

The accession of Bulgaria is largely unresearched area, because the country was accepted recently in the EU. That is why, in general, information and study of this is lacking and with our research we try to fill this gap. The main contribution that our work aims to make is to provide an analysis of the costs and benefits of Bulgaria's accession.

That is why, we may say that the research question stated in the Master thesis would be of significance for enriching the investigation of EU preference for accession of Bulgaria. Our research findings will contribute to the better understanding of the Union's process of enlargement on the East, with special focus to one single country - Bulgaria.

The research design, which we will use in order to give answer to the research question, will be a flexible (qualitative) research design. More specifically, it will be a case study, which will investigate one single unit at country level, - Bulgaria, in the context of the EU enlargement. The issue will be studied in depth in the period – 1993-2007. We will examine this period concerning the treaties of the EU and the decision for enlargement. Chronologically, we will do this by looking at the Copenhagen criteria for membership (1993); the treaties which prepared the EU for enlargement: Treaty of Amsterdam (1997) and the Treaty of Nice (2000). Then, we will study the "Agenda 2000", which contains opinions on the membership applicants and recommendations on which countries the Union should start negotiations with, in 1997. Next, we will study the big enlargement of 10 new member states from CEEC in 2004 ; and, the accession of the last two Eastern member states, – Bulgaria and Romania, in 2007.

Through the collection of literature, data, analyses of information, result reports and scientific articles *(Baldwin, Francois & Portes, (1997), ; Hill & Smith, (2005), ; Moravcsik & Vachudova, (2003); Preston, (1997); Kandogan, (1999); Elvert, (2006); Keohane & Nye, (1977)*, we will provide a sharp look to the EU enlargement with respect to the study case Bulgaria. The case study will be based on analysis of different viewpoints and conclusions with concerns to the main research question.

The single case study approach will be situated between specific data taking techniques and methodological paradigms *(Lamnek, 2005).*

The methodology within the flexible research design will be the collection of relevant literature on the research topic. We will collect reports, researches, articles dealing with the topic of EU enlargement in Central and Eastern Europe. We will examine official documents of the EU – journals, directives, white papers, propositions, and decisions. The sub-questions will help for the data collection. The use of flexible design will give us more freedom during the data collection than for example fixed (quantitative design), because the variable of interest is not quantitatively measurable. *Bell (1999)* says that: *"The single case study approach is appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in some depth within a limited time scale".* That is why the single case study in flexible research design is well applicable in the examined case selection of Bulgaria's accession to the EU.

With regards to the method we would like to use – the flexible research design, we may say that it might not be as efficient as we hope to be. It will be a single case study where no comparison with other cases is available. Even though the method makes the study a little limited and incomplete, a positive aspect of this method is that one case will be examined and analyzed in depth.

After the information is collected, the next step in the research is the data analysis. The collected information on the topic will be presented and analyzed. All will be with concerns of the main research question and will try to answer it. Finally, we will make a conclusion regarding the results of the investigation.

OUTLINE OF THE THESIS

In order to make it clearer and better understandable, we will make a brief outline of the structure of the thesis. In Chapter 1, we will start with a brief historical overview of the EU enlargement. Then, we are going to examine the explanations of the different European Integration theories about the process of enlargement. We are going to present the viewpoints of the theory of Federalism *(Burgess in (Eds.) Wiener & Dietz, 2009),* the Neo-Functionalism *(Haas & Lindberg, 1960);* Liberal Intergovernmentalism *(Moravcsik, 1998; Schimmelfennig, 2001);* Neo-Institutionalism *(Jupille & Caporaso, 1999); (Baldwin et al. 2001; Brauninger & Konig, 2001; Felsenthal and Machover 2001);* Social Constructivism *(Risse, in (Eds.) Wiener & Dietz, 2009; Schimmelfennig, 2003)*.

In Chapter 2, we are going to examine the issue about the costs and benefits of the Central and Eastern European enlargement for both the EU and CEECs. Due to the available literature and the research findings, we are going to focus mainly on the economic aspects of the issue (*Neueder, 2003); (Breuss, 2002).* They will be examined in terms of trade effects, single market, free movement - Foreign Direct Investments (FDI), migration. We will draw our attention also to the workers flow, immigration, crime, Common Agricultural Policy (CAP) *(Breuss, 1999)* and budget costs of enlargement for the EU.

In Chapter 3, we will focus on the costs and benefits particularly for the accession of Bulgaria in the EU. First, we will explain why Bulgaria wanted to join the EU. Second, we will talk why EU wanted to accept Bulgaria in the Union. We will concentrate on several economic costs and benefits similar to those of the CEECs accession. The stress will be on Foreign DIrect Investments (FDI) *(Jordanova, 1999); (Kalotay, 2008); (Bozhilova, 2010),* Common Agricultural Policy (CAP*) (C. Hubbard & L. Hubbard, 2008)* and Financial assistance *(European Commission, 2007).*

Chapter 4 will be dedicated again to Bulgaria's accession, with more detailed focus on the delayed entrance in the EU in 2007 instead of 2004, with the other CEECs. We will try to explain the causes of this delay of three years and its effect on both sides – Bulgaria and the EU *(Noutcheva & Bechev, 2008).*

After the detailed analysis in the four chapters, presenting answers to the four sub-questions, we will make a final Conclusion by answering the main research question of the thesis. Then, we will explain what should be done in a future work on the topic.

CHAPTER 1

THEORETICAL BASIS OF THE EUROPEAN UNION ENLARGEMENT PROCESS

This chapter presents an answer to the **first sub question**: *Why EU decided to enlarge and to accept more states in the Union? Why did the European Union decided in 1990s to enter into enlargement negotiations with as many as 12 new members, even though the obvious budgetary and institutional challenges, for the members of the EU?*

1.1. Historical overview of the European Union Enlargement

On 9 May, 1950, the famous Luxembourgish-born German-French statesmen Robert Schuman proposed the idea of the European of Coal and Steel Community (ECSC). By that time no one had ever thought about what this community would look like after 50 years. In 1958, six founding members created the European of Coal and Steel Community and the European Economic Community. The six states are: *Belgium, France, West Germany, Italy, Luxembourg, and Netherlands.* Along the years the Community has grown in size by the accession of new member states. The first enlargement of the European Community was in 1973 with the accession of the United Kingdom, Ireland, and Denmark. The second enlargement was in 1981 with the accession of Greece. In the third, in 1986 Spain and Portugal were accepted in the European family[1].

When the Berlin Wall fall in 1989, which marked the end of the Cold War and the beginning of the breakdown of the Communism, many countries from Central and Eastern Europe became eager to join the European Community (EC). At the Strasbourg summit on December 1989, the leaders of the European Community stated that *"overcoming the divisions of Europe"*[2] was their main goal. Shortly after, in

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[1] Europa. Gateway to the European Union. "The History of the European Union" - http://europa.eu/about-eu/eu-history/index_en.htm, visited on 08.06.2011

[2] Schimmelfennig, F. (2001). The Community Trap: Liberal Norms, Rhetorical Action, and the Eastern Enlargement of the European Union. *International Organization*, 55 (1), pp.47-80; see p.67

1991, the first association agreements – the so called Europe agreements – were signed by the EC and countries from Central and Eastern Europe. *"Europe agreements provided for the gradual establishment of a free trade area, and for political dialogue on foreign policy matters"*[3]. In 1993, with the Maastricht treaty the name European Coal and Steel Community was replaced by the name European Union. In 1995, the fourth enlargement took place, with the accession of Sweden, Finland and Austria.

The fifth enlargement was about to come. The CEEC's wanted more and persistently kept demanding membership of the Union. When the pressure became too high, EU members declared at their June 1993 Copenhagen summit that they were willing to admit CEEC's as new members of the Union, if the new countries fulfill certain conditions – the so called Copenhagen criteria. In order to prepare the EU itself for enlargements, the Member States agreed first on the Treaty of Amsterdam in 1997 and later on the Treaty of Nice in 2000. In order to help the new countries to prepare for their upcoming membership, the Commission published "Agenda 2000", containing opinions on the membership applicants and recommendations on which countries the Union should start accession negotiations with, in 1997. Already in March 1998, the first negotiations officially began with Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia. In December 1999 the Union decided to open accession negotiations also with the remaining applicants – Latvia, Estonia, Lithuania, Bulgaria, Romania, and Malta. Negotiations with them were formally started in early 2000. At the Union's December 2002 Copenhagen summit, the negotiations were closed and concluded that all applicants except for Bulgaria and Romania could join the European Union as new Member States on 1 May 2004. Bulgaria and Romania officially joined the Union on 1 January 2007. Meanwhile also Croatia and the Former Yugoslav Republic of Macedonia have applied for membership. At the moment the European Union has negotiations for membership with Albania, Croatia, Iceland and Turkey. Official candidates for negotiations are Macedonia, Montenegro and Serbia[4].

[3] Hill & Smith. (2005). *International Relations and the European Union*. (N/A): (N/A), see p.273
[4] European Commission. Enlargement. "From 6 to 27 members and beyond" - http://ec.europa.eu/enlargement/the-policy/from-6-to-27-members/index_en.htm, visited on 08.06.2011

1.2. Theoretical Explanation of the Enlargement. European Integration Theories

In order to understand in a deeper and better way the Central and Eastern enlargement of the European Union, we are going to have a look at how different integration theories explain this process. We are going to focus mainly on the following theories: *Federalism, Neo-Functionalism, Liberal Intergovernmentalism Institutionalism and Social Constructivism*. We evaluate each of those theories in the light of the research problem, namely the accession of Bulgaria.

1.2.1. Federalism

The federalist theory is a political concept where group or members are connected by a contract and have a governing representative head. Federalism also means a system of the government in which sovereignty is constitutionally divided between a central governing authority and constituent political units (such as states or provinces). In such system, the power of governing is shared between national and provincial/state governments, creating the so called federation.

For the first time, the federation concept of European states was proposed in 1923, in the Pan-Europe manifesto[5]. Later on, in 1930, was presented a "Memorandum on the Organization of a Regime of European Federal Union". In the end of the Second World War, the unity in Western Europe was seen as a way of escaping from the extreme forms of nationalism, which had destroyed the continent. In a speech in 1946, in Zurich, Winston Churchill said that *"we must build a kind of United States of Europe"*[6].

In 1948, on the Congress of Europe in the Hague, were adopted several resolutions calling for a European Union or federation with its own institutions, a common market, monetary union and Charter of human rights linked to the European court. This

[5] Ben Rosamond, (2000) "Theories of European Integration", Palgrave Macmillan, pp. 21-22.
[6] Churchill, Winston. "Speech to the Academic Youth". Zürich, Switzerland (1946).

congress was the beginning of the European Movement, a broad-based national federation of groups dedicated to the idea of the European integration[7].

For many Europeans, the federal idea is a result of the threat of war and the practical experience of the Second World War[8]. For the anti-fascist European Resistance the federal idea was the answer to Europe's post-war destiny.

In 1951, appeared a successful proposal for European cooperation under the name the European Coal and Steel Community (ECSC). Since then, the European Community had gradually evolved to Union of common policies and rules, where all member states benefited from working together. Although, along the years, the European Union got more and more integrated in its internal organization and politics, in reality it cannot be accepted as real federalist state. The success of the EU – the Single European Market (SEM), the European Monetary Union, enlargement, political and constitutional evolution had made it a rival model of federal practice and evolution.

The enlargement of the EU challenges very much the federalist theory, mainly in terms of the maintenance of the unity and diversity in both institutions and policies.
The institutional reform concentrates on the strengthening of the central supranational institutions – the Commission, the European Parliament (EP), and the European Court of Justice (ECJ) – in the emergence of the intergovernmental conference method (1985-2007) of union-building. In the same time the policy matters are essentially about enhancing the EU's policy capacity and implementation.

The promotion of federalist values and principles – reciprocity, mutual respect, recognition, tolerance, and consent – can still be pursued if they are conducted through the existing institutional channels of the EU that represent the member state governments, such as the Council of Ministers and the European Council that constitute the confederal dimension of the European project. Finally, the EU remains

[7] *"Federalism",* Michael Burgess in Eds. Antje Wiener, Thomas Dietz (2009) *"European integration theory",* Second edition, Oxford University press, pg. 31
[8] Burgess, M. (1989) Federalism and European Union: Political Ideas, Influences and Strategies in the European Community, 1972-1987 (London:Routledge)

a political, economic, social and legal hybrid that is characterized by a combination of federal, confederal, supranational, and intergovernmental features.

The larger the Union becomes, the more the federal and confederal principles and values will act as the operative means to achieve the goal of "an ever closer union among European states and people"[9].

In the light of the Federalist theory the enlargement of the EU is seen as the foundation of a single centralized state. The European countries within this envisioned state will have the functions of provinces with their own local governance. With the enlargement of this state its international influence and stability will increase. In this sense, the accession of Bulgaria in the EU will contribute for the development and the stability of the later.

1.2.2. Neo-Functionalism

The theory of Functionalism becomes popular during the inter-War period derived from the strong concern about the obsolescence of the State as a form of social organization. Instead on the self-interest of nation-states that realists see as a motivating factor, functionalists focus on common interests and needs shared by states (and non-state actors) in a process of global integration provoked by the erosion of state sovereignty and the increasing importance of knowledge and therefore of scientists and experts in the process of policy-making[10].

The federalist ideas combined with the theory of Functionalist mechanisms, lead us to the theory of Neo-functionalism. Like functionalism, the Neo-functionalism emphasizes the mechanisms of technocratic decision-making, incremental change, and learning process. One of the founding fathers of the European Union - Jean Monnet, first viewed the European community as an organization aimed at integrating individual sectors, hoping to achieve the spill-over effect which will move further the

[9] "Federalism", Michael Burgess, in Eds. Antje Wiener, Thomas Dietz (2009) *"European integration theory",* Second edition, Oxford University press
[10] Rosamond, B. (2000) Theories of European integration, Macmillan ; New York : St. Martin's Press, Basingstoke.

process of integration. Monnet recognized the importance of the spillover effect before it was given an explicit academic label. So, Neo-functionalism was not only an analytical framework, but it was also a normative guide for action[11].

Finally, the theory of Neo-functionalism connected mainly with the European integration, was officially formulated in the late 1950s and the early 1960s by Erns Haas and Leon Lindberg. It was a response to the practical view of Jean Monnet's idea of the establishment of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC).

Neo-functionalism describes the process of regional integration by showing how three causal factors interact with one another:

1) Growing economic interdependence between nations
2) Organizational capacity to resolve disputes and build international legal regimes
3) Supranational market rules that replace national regulatory regimes[12]

Haas (1958) defines integration as: *"the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones"*[13].

Early Neo-functionalist theory declined the importance of nationalism and the nation-state. It predicted that, gradually, elected officials, interest groups, and large commercial interests within states would see it in their interests to pursue welfarist objectives well satisfied by the political and market integration at a higher,

[11] "Neofunctionalism", Arne Niemann and Philippe C. Schmitter, in Eds. Antje Wiener, Thomas Dietz (2009) *"European integration theory",* Second edition, Oxford University press

[12] Ernst Haas, "International Integration: The European and the Universal Process," *International Organization* 15 (1961), 366-92, and Wayne Sandholtz and Alec Stone Sweet, "European Integration and Supranational Governance" *Journal of European Public Policy* 4 (1997), 297-317.

[13] Ernst Haas (1958) *"The Uniting of Europe: Political, Social, and Economic Forces"* 1950-57 (Stanford, CA: Stanford University Press)

supranational level. Haas presents three theoretical mechanisms that would drive the integration forward: positive spillover, the transfer of domestic allegiances and technocratic automaticity[14].

The Neo-functionalist theory viewed the process of enlargement in the EU as a *"geographical spillover" (Haas, 1958).* After the end of the Cold war many countries wanted to join the European family. The attractiveness of the EU is understandable, because the Union's high level of integration, economic and political success made the accession desirable and the exclusion costly[15]. The Community begun to play proactive and constructive role in the relations with the Central and Eastern European Countries, first with bilateral trade agreements in the late 1980; later through its coordination of aid for the G-24[16], the PHARE programme, and the negotiations of the European Agreements.

The EU enlargement can be explained through Neo-functionalism's basic principle, which says that the integration leads to tensions, contradictions, and demands, which can only be resolved by taking further integrative action. Through enlargement, the EU aims to expand and integrate the economies on the whole continent. The accession of Bulgaria in the EU can be seen as a fulfillment of the Neo-functionalist main objective: expansion of the territorial scope of the EU integration project. Haas's positive spillover effect will result in mutual development of both the EU and the newly accepted country.

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[14] Ernst Haas, "*The Uniting of Europe: Political, Social, and Economic Forces", 1950-1957* (republished by University of Notre Dame Press, 2004)

[15] Vachudova, M.A. (2007) "Historical institutiotnalism and the EU's Eastward Enlargement", in Meunier, S. and McNamara, K. (eds.) "The state of the European Union", vol. 8 (Oxford: Oxford University Press) 105-22

[16] **The Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24)** was established in 1971. The purpose of the group is to coordinate the position of developing countries on monetary and development issues, particularly issues on the agendas of the International Monetary and Financial Committee (IMFC) and the Development Committee (DC), and to ensure increased representation and participation of developing countries in negotiations on the reform of the international monetary system. http://www.g24.org/about.html, visited on 25.06.2011

1.2.3. Liberal Intergovernmentalism

In contrast to the Neo-functionalism is the theory of the Liberal Intergovernmentalism. It says that the European integration is largely motivated by rational thinking and economic and political concerns. This political theory was developed in 1993, by Andrew Moravcsik and aimed to explain the European integration. The theory argues that:

- States will only cooperate if they have similar interests.
- Institutions, once created, do not take on a life of their own, but are in fact always subservient to the state.
- European integration must be explained in the context of the Cold War.

The Liberal Intergovernmentalism rests on two basic rationalist assumptions about politics. The first one is that states are actors; the second one is that states are rational actors. The European Union, like other international institutions, can be studied by treating states as the critical actors in a context of anarchy. This means that states achieve their goals through intergovernmental negotiations and bargaining, rather than through a centralized authority making and enforcing political decisions. Because, the states are national actors, they calculate the utility of alternative course of action and choose this course which maximizes their utility under the certain circumstances. Collective outcomes are explained as the result of aggregated individual actions based on efficient pursuit of these preferences[17].

Decisions to cooperate internationally can be explained in three-stage framework: 1) first defining the preferences, 2) then bargain to substantive arguments, and 3) finally create (or adjust) institutions to secure those outcomes in the face of future uncertainty.

The theory of the Liberal intergovernmentalism explains the process of enlargement of the EU through the patterns of interdependence, geographical position, and economic structure *(Schimmelfennig, 2001).* The enlargement preferences of the

[17] *"Liberal Intergovernmentalism",* Andrew Moravcsik and Frank Schimmelfennig, in Eds. Antje Wiener, Thomas Dietz (2009) *"European integration theory",* Second edition, Oxford University press

member states are connected very much to their geographical position. Except for Greece and Italy, the countries bordering with Central and Eastern Europe were the main drivers of enlargement. On the other hand, the most geographically remote countries were against the process of enlargement, except United Kingdom. The member states which are near to the new candidate countries will benefit more from cross border trade and capital movements *(Moravcsik, 1998).* Since they will benefit from enlargement, they are also concerned about managing the negative externalities like unwanted immigration, social problems, crime, and pollution. These issues might cross borders in the lack of integration. The unwillingness of enlargement of Italy and Greece, despite their border position, can be explained with the potential losses that the enlargement may impose via trade and budgetary competition on the poorer, less developed and more agricultural among existing member states. Less-developed member-states were likely to be more adversely affected by competition over the EU agricultural and structural fund budget, as well as by the trade integration with the East, since they specialized in the same traditional and resource-intensive industries (like agriculture, textile, and leather as well as metalworking) as the CEE economies *(Hagen, 1996:6-7)*[18].

On the other hand, Central and Eastern Europe is neither geographically close nor economically important to Britain, but UK pushed a lot for enlargement. Some say that the British commitment to enlargement to the Europhobia of the Conservative governments, which calculated that widening the EU, would prevent its further deepening and even dilute the achieved level of integration *(Grabbe & Hughes, 1998: 5)*. Others say that Britain favored enlargement because of the need of stabilization of Europe from tragedies such as Yugoslavia *(Wall, 2008).*

Moravcsik and Vachudova say that the *asymmetrical interdependence* had decisive implications for bargaining over enlargement. *"Applicant countries…consistently found themselves in a weak negotiating position vis-a-vis their EU partners, and accordingly have conceded much in exchange for membership" (Haggard & Moravcsik, 1993; Moravcsik & Vachudova, 2002).* Given their inevitably strong

[18] Hagen, J. von (1996), "The political economy of Eastern enlargement of the EU", in Ambrus-Lakatos, L. and Schaffer, M. (eds.) "Coming to Terms with Accession" (London: CEPR, Institute for East-West Studies)

dependency on the EU market and EU capital, the candidates preferred accepting the EU's conditions of accession to being excluded from EU membership. This include not only the adoption of *acquis communautaire*[19] but also initially lower subsidies from the EU budget than current members and transition periods on some rights such as the free movement of labor. These transitional restrictions by EU excluded the new member states temporarily from benefits that are likely to affect old member states negatively.

The theory of Liberal Intergovernmentalism explains the European enlargement as process that is profitable for both members and non-member states. Often, non-member states benefit more, due to their enormous one-sided dependence on the EU markets. This is especially true for the accession of countries from Eastern Europe such as Bulgaria. The inflow of Western capital is critical for the developing economies of such countries whereas the impact of the Eastern economies is far smaller. Therefore the theory of Liberal intergovernmentalism explains the acceptance of Bulgaria into the EU as being a practical decision taken by rational actors in order to maximize their utility.

1.2.4. Neo-Institutionalism

The European Union is the most closely institutionalized international organization with a lot of intergovernmental and supranational institutions and a quickly growing body of primary and secondary legislation. Exactly in this new institutional organization like the EU is applied very well the theory of the New- or Neo-institutionalism. It describes social theory that focuses on the sociological view of the institutions – the way they interact and the way they affect society. *Moravcsik (1998)*

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[19] ***Acquis communautaire*** is a French term referring to the cumulative body of European Community laws, comprising the EC's objectives, substantive rules, policies and, in particular, the primary and secondary legislation and case law – all of which form part of the legal order of the European Union (EU). This includes all the treaties, regulations and directives passed by the European institutions, as well as judgements laid down by the European Court of Justice. The *acquis* is dynamic, constantly developing as the Community evolves, and fundamental. All Member States are bound to comply with the *acquis communautaire*. The term is most often used in connection with preparations by candidate countries to join the Union.
http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/acquiscommunautaire.htm, visited on 25.06.2011

explains the institutional choices in three-step process. First, domestic societal actors form preferences for cooperation or policy coordination at the EU level, as a result of their position in the international political economy. States calculate the societal interests and therefore demand some level of European cooperation. Second, armed with these preferences, state executives bargain in the EU arena, attempting to supply their constituents with the desired outcomes. Third, states choose institutional arrangements that maximize the credibility of their commitment to cooperate[20]. The outcomes according to Moravcsik, result from interaction of preferences and bargaining power.

The New Institutionalism including the Sociological Institutionalism and Constructivism as well as the rational choice, become one of the dominant approaches toward the European integration.

The enlargement of the EU to 27 member states raises significant questions about the operation of the EU institutions and policies. Rational choice institutionalist analysts have active influence in theorizing the effects of enlargement and of the 2001 Treaty of Nice on the distribution of voting power among member states, as well as the member states' collective ability to reach agreement on new policies. After the enlargement, the likelihood of reaching an agreement between the member states decreases. It happens mainly because of the raising of the Qualified Majority Vote (QMV) threshold from 71.2 % of all weighted votes to 73.9%. In the same time, the relative voting weight of each of the individual members will also decrease as their number increases.

On the other hand, larger member states would benefit disproportionately from the Nice reforms in an enlarged EU *(Baldwin et al. 2001; Brauninger & Konig, 2001; Felsenthal & Machover, 2001)*. However, the EU aims at more and more integration on the internal level, which means more fields where the unanimity voting rule will be used instead of the QMV (as it is in the EP). This means that the enlarged EU with

[20] *J. Jupille and J. A. Caporaso (1999)* Institutionalism and the European Union: Beyond International Relations and Comparative Politics Department of Political Science, University of Washington, Seattle, Washington 98195; *Annu. Rev. Polit. Sci. 1999. 2:429.44 by Annual Reviews.*

the 12 central and eastern member states will not make significant difference to the internal function of the EU institutions. Furthermore, a study shows that in an enlarged EU the core institutions (Commission, Council, EP and ECJ) have continued to function effectively even though the big enlargement in 2004. Also the EU legislative output continued to grow undistracted after as well as before enlargement *(Dehousee et al. 2007; Thomson, 2007; Wallace, 2007).*

The theory of Neo-institutionalism does not fully explain why the enlargement of the EU is necessarily a good idea. Nevertheless, it provides assurance that it is certainly not harmful (e.g. the proposed scheme of QMV). The EU institutions will continue normal operation even after new members are accepted. In particular, the accession of Bulgaria will not have negative consequences for the EU.

1.2.5. Social Constructivism

Social constructivism entered the field of EU studies as a "spillover" from discipline of international relations, but also because of the fundamental concerns amongst scientists about the rather narrow focus of the debates between Neo-functionalism and Liberal Intergovernmentalism. Constructivism emphasizes on the social construction of the reality. Human relations, including international relations, consist of thoughts and ideas, but not essentially of material conditions or forces. The theory of social constructivism says that one group established in certain social settings, construct knowledge and create a small culture of shared artifacts with shared meanings. When one wants to become part of that culture, one is learning all the time what is the right way in order to be part of that culture[21]. It is clearly applicable to the group and culture of the members of the European Union to which the candidate member states want to belong. Schimmelfennig says that the EU constitutes a liberal community of states committed to the rule of law, human rights, democracy, and social market economy. Since the values of the community constitute its members, the members undertake a normative obligation toward *"states that share the collective identity of an international community and stick to its constitutive values*

[21] Robert Jackson and Georg Sørensen (2007), *"Introduction to International Relations. Theories and approaches"*, Oxford University Press, Third edition

and norms" (Schimmelfennig, 2001, p. 58-9). Therefore, these states are meant to join the community.

The theory of Social Constructivism explains the Eastern enlargement with the collective identity of the EU as a liberal community and the sharing of common democratic and social values. The CEECs share the same value and identity as the old western European member states, therefore the Eastern ones have the right to apply and join in the European Union. This is also stated in the EU Treaty, which says that any European country that respects the values of democracy, human rights and the rule of law may apply for EU membership.

Rhetorical commitment to community values caught the EU member states into offering accession negotiations to the CEE and other Eastern European countries despite the initial preferences against enlargement.

It has to be noted, however, that the EU collective identity, through which the social constructivism explains the EU Eastern enlargement, turns out to be largely decoupled from the EU's behavior in the actual negotiations[22]. When the old member states have to pay the price of one's collective identity in terms of offering beneficial conditions to new member states, the EU looks more like an exclusive club dictating the terms of accession to new members.

Although, the Constructivist theory and the idea of the collective identity explain the decision about enlargement, it cannot explain the problems and arguments among the old member states during the negotiation period with the candidate countries. A rationalist account such as Liberal intergovernmentalism can better explain the EU's behavior and the outcome of the actual enlargement negotiations *(Schimmelfennig, 2003a).*

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[22] *"Social Constructivism and European Integration",* Thomas Risse, in (Eds.) Antje Wiener, Thomas Dietz (2009) *"European integration theory",* Second edition, Oxford University Press

1.3. Conclusion of Chapter 1

The accession of new member states in the EU, similarly to any complex process, can not be explained by a single theory or motive. Therefore, in our view the accession of Bulgaria into the EU can be best analyzed through a combination of several theories.

By representing the countries as rational entities, making rational choices, the theory of Liberal Intergovernmentalism provides a good basis for explaining the mutual benefits from Bulgaria's accession for the EU and Bulgaria. Indeed, according to *Frank Schimmelfennig (2001),* the Liberal Intergovernmentalism provides the most promising rationalist explanation for the enlargement preferences of the member states. However, in our view, this theory neglects a basic objective of the EU, namely the unification of the member states under common governance. Bulgaria's accession is naturally explained in the view of the latter by the theory of Federalism.

Similarly, the Constructivist theory, based on the idea of the collective identity, explains only to some extent Bulgaria's accession to the EU. It fails to consider an important factor in this process namely the economic benefits from such an accession. The latter is naturally explained by the theory of Liberal Intergovernmentalism.

Finally, the theory of Neo-functionalism that views the enlargement as a geographical spillover, best describes the motives of the accession of Bulgaria, as a post Cold war country with a long communist past.

In the following chapters, we are going to examine the issue of the costs and benefits of the Central and Eastern European enlargement through the perspective of several of the described theories. In particular, we shall focus on the case of Bulgaria's negotiations and accession to the EU.

CHAPTER 2

COSTS AND BENEFITS FOR THE EU AND THE NEW CEECS, AFTER THE ENLARGEMENT

In this Chapter, we give answer to the **second sub question**: *What are the general costs and benefits of enlargement for both - the EU and the new member states from Central and Eastern Europe – economic, trade effects, budgetary effects, immigration, etc?*

In this chapter, we are going to examine the different costs and benefits after the EU enlargement for both the EU and for the new Central and Eastern European (CEE) member states. We wanted to conduct our survey by examining the different costs/benefits aspects. However, our research through the available literature on the topic showed that the main costs and benefits aspects of the Central and Eastern enlargement of the EU are the economic ones. There is little investigation about the political and social effects of enlargement. That is why, since the economic effects turned out to be the most important ones, we decided to focus our Master thesis research especially on these aspects.

In ***the first part of the chapter*** we will focus on the economic costs and benefits for the EU as a result of the Central and Eastern European enlargement. In Point 2.1., we will present a general view of the willingness of the EU to start enlargement. Then, in point 2.2., we will show the main challenges for the EU of the CEE enlargement.

Point 2.3., will be dedicated to the main costs and benefits for the EU of the enlargement. We will focus mainly on the economic aspect divided in three categories: 1) trade effects, single market, free movement - FDI, migration; 2) Workers flow, immigration and crime; 3) Budget Costs of enlargement for the EU. In point 2.4., we will explain why the enlargement process is important for the EU. Point 2.5., will be focused on the economic costs and benefits for the EU.

The second part of the chapter will be dedicated to the costs and benefits for the CEECs after their accession in the EU in 2004. In point 2.6., we will focus on the costs and benefits for the CEECs after their accession in the EU. We will use the same division of the economic aspects as the one for the EU. We will focus mainly on trade, the Single market and Common agricultural policy (CAP).

In Point 2.7., we will concentrate on the main costs of the CEECs membership in the EU. In Point 2.8., we will make final overview on the results of the Central and Eastern European enlargement. We will summarize the costs and benefits effect of the enlargement for both sides – the old and the new member state. Then we will make final conclusion of the chapter, in Point 2.9.

In the end of the chapter, in order to summarize the final results, we will present a table with the most important costs and benefits for the both sides – EU and the CEECs.

2.1. EU willingness for Enlargement. The accession of the CEEC

The enlargement in 2004 is very important historical process for the European Union. It increases the size of the European common market from 370 million to almost 470 million people. Furthermore, it helps for the stabilization of the new European political order in the post-cold war period. With the expanding of its boundaries, the EU strengthens its respect as a political entity, in the international world order. The EU do this in three steps: 1) first expand its territory with a stable political structure; 2) second, form around it a ring of friends; 3) third – build up its own security and defense capability[23].

Professor Dai Binran (2004) says that the accession of more countries stabilizes Europe's political order and creates profitable long-term economic interests. That's

[23] Prof. Dr. Dai Binran (2004),*"The Political Implications of the EU's Enlargement"*, Centre for European Studies, Fudan University

why; according to his view, the enlargement of the EU will continue in the future, reaching the Western border of Russia[24].

In a speech in 2002, Romano Prodi, President of the European Commission by that time, said*: "I want to see a "ring of friends" surrounding the Union and its closest European neighbours, from Morocco to Russia and the Black Sea."*[25] With this "ring of friends", EU aims to acquire wide political buffer zone and economic space covering the Mediterranean Sea and the Black Sea. Europe is in favor of the enlargement, because in the new political order, it can no longer rely on the USA' nuclear forces to preserve its security. That is why in the future it can be expected that along with the accession of new member states, the EU will develop also better security strategy and defense capabilities, so that it will be more independent from NATO and USA.

On the other hand, there are also many benefits for the new member states from Central and Eastern Europe, as a result of the enlargement of the EU. After their accession in the EU, the barriers to trade, investment, and movement of labor will be opened. Exchange of knowledge, technology, and new ideas will become much easier. Foreign competition will improve business transparency and corporate accountability. The access to the common market will improve the attractiveness of the CEECs for foreign investments. As a result, the economies will drive down prices and transaction costs. Productivity of capital and labor will increase. Consumer goods will become cheaper, better in quality, and more diverse.These are some of the many advantages of joining the European common market[26].

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[24] Prof. Dr. Dai Binran (2004),*"The Political Implications of the EU's Enlargement"*, Centre for European Studies, Fudan University

[25] "*A Wider Europe – A Proximity Policy as the Key to Stability",* speech at the 6th ECSA-World Conference "Peace, Security and Stability: International Dialogue and the Role of the EU", Brussels, 5-6 December 2002.

[26] *"EU Enlargement. Costs, Benefits, and Strategies for Central and Eastern European Countries"* by Marian L. Tupy, assistant director of the Project on Global Economic Liberty at the Cato Institute. Executive summary. Policy analysis, No. 489, 18 September, 2003

2.2. Challenges of the Central and Eastern European Enlargement

According to Professor Binran (2004) the enlargement challenges the EU in three main ways:

First of all, a big challenge is the adjustment between the old and new member states. Their different development in all aspects will require some time until their standards equalize. They also have different national interests and different policy objectives. The hardest adjustment between the new and the old member states is in the economy and the socio-political and psychological adaptation.

On a second place, they may have practical difficulties in connection to the financial transfers among the member states through the budget. The EU has the hard task to decide if it is going to satisfy everybody by keeping the present schemes as they are or to double or triple the budget, which is quite impossible, having in mind that most of the rich member states are in economic and fiscal difficulties. The problem about the budget in an enlarged EU will become more complicated, especially with the "north-south" and "west-east" conflicts.

Thirdly, Professor Binran says that the gaping differences and interests cause also changes of the foundations of the European integration. He says that in an enlarged EU of 27 member states, it will be much more difficult to go and develop in the same pace as in the EU of 15 member states[27].

2.3. Costs and Benefits for the EU of the Central and Eastern European Enlargement

Since there are many differences between the old and the new member states, concerning their economic, political and social development, the EU has to do something in order to equalize the standards. However, this equalization requires

[27] Prof. Dr. Dai Binran (2004), "*The Political Implications of the EU's Enlargement"* Centre for European Studies, Fudan University

financial investments from the old to the new members which may be costly. Is it really as costly as it looks like?

The applicant countries from Central and Eastern Europe are relatively poor with a GDP per capita below EU average. As a result the average GDP per capita in the enlarged EU-27 will be lowered compared to the EU-15. According to the *Acquis Communautaire*, poor member states cost much more structural transfers than the rich candidates (like those of the fourth enlargement 1995, Austria, Finland and Sweden). Furthermore, while the previous EU entrants were market economies, the new applicant countries switched from plan to market economy since 1989, which make their accession more costly and difficult for the EU. However, it was estimated that a postponed accession of the CEECs may lead to higher costs for the EU and lower integration and development effect *(Martin, 1996).*

In the EC Treaty, Article 2, it is said that the Union's target is *"to promote… economic and social cohesion and solidarity among Member States".* This includes financial transfers for less developed countries and regions in order to catch-up with the wealthier ones. The highest priorities for transfers were targeted to the regions of the so-called "Objective 1". These are regions or countries with a GDP per capita of less than 75% of EU average. All of the new applicants from Central and Eastern Europe are regarded as such regions[28].

The costs for the Central and Eastern European enlargement were analyzed for the first time in 1993 *(Baldwin, 1994; Breuss, 1995).* More recent analysis *(Baldwin-Francois-Portes, 1997)* coincides with the estimation of the expenditures made by the European Commission in Agenda 2000. The final results show that the costs of enlargement for the EU, are relatively low.

In Olli Rehn's paper *"Good to know about EU enlargement",* it is said that *"the financial assistance to the new member states represents approximately 0.2 % of the*

[28] Fritz Breuss (1999), *"Costs and Benefits of EU Enlargement in Model Simulations",* Research institute for European Affaris, University of economics and business administration, Vienna, IEF Working paper Nr. 33

gross domestic product (GDP) of the old members, rising to 0.3 % by 2013"[29]*.* This is significantly small percent compared to the overall economic benefits for the EU as a whole[30].

It is estimated that during the period 2000 to 2006 the cost of eastern enlargement (pre-accession plus entry aid) amount roughly 80 billion euro (at 1999 prices). In comparison, since the reunification, Western Germany has made transfer payments to Eastern Germany estimated approximately to 70 billion euro. This corresponds to 4% of Western Germany's GDP. It means that in terms of economic performance the accession of the 10 Central and Eastern European member states costs nearly the same money as the costs for the reunification of the Eastern part of Germany with the Western one.

2.4. The Enlargement is Important for the EU

Since 1989 and the end of the Cold War, the enlargement was an important political goal with priority. The Commission referred to enlargement as the *"Union's most successful foreign policy instrument"*[31]. There are arguments that the main driving force behind the enlargement process is exactly EU's foreign policy. From macroeconomic point of view, enlargement is an absolute worth and positive investment. There is no institute which expects that the enlargement would have lead to negative economic effects. When there is a common basis for values and rules, it becomes much easier to create open borders for more successful trade negotiations. For the EU as a whole, a *one-off* GDP growth effect between zero and 0.8% was expected. Austria expected the highest benefit, as much as 1.5%. While for Germany this benefit was estimated at approximately 0.5% for the period to 2010.[32]

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[29] EU Enlargement: challenges and opportunities. Keynote speech by Jean-Claude Trichet, President of the ECB held at the conference "Europe's frontiers: EU enlargement - its implications and consequences", organised by the Calouste Gulbenkian Foundation Lisbon, 27 October 2004, page 8

[30] *"Good to know about EU enlargement",* March 2009, European Commission – Directorate General for Enlargement. Unit A2: Information and Communication, Brussels

[31] Communication from the Commission to the Council and the European Parliament; "Wider Europe-Neighbourhood: New framework for relations with the Eastern and Southern Neighbours", Doc. COM (2003) 104, March 11, 2003, p.4.

[32] Osterreichische Nationalbank: Osterweiterung der EU: Auswirkungen auf die EU 15 und insbesondere auf Osterreich, in: Berichte und Studien 2/2002 et al. Franz Neueder (2003), "*Costs and*

The better growth with the acceding states together with the rising purchasing power will stimulate import demands and consequently, the export prospects of the present Member States. The need for capital goods will rise as well, mainly due to the adoption of the *Acquis communautaire* (environmental standards) and the modernization of industrial plants. Furthermore, the abolition of goods controls at the border, dynamic economic development in the candidate countries and the adoption of the EU's tried and tested framework will stimulate future trade.

In addition, the exports toward the acceding states may secure and create employment in the old member states. On the other hand, in those areas, in which the exports stagnate and domestic products are substituted by imports, there can be negative consequences and costs for employment, income and growth. That's why; in order to realize the beneficial effects of the enlargement to the full extend there should be structural reforms *(Neueder, 2003).* In the wage-intensive sectors of the industry, the pressure for structural adjustments will be very strong. The more flexible and competitive EU old members are, the greater will be their opportunities for the expansion on the East. The same rule is valid also for the new members. However, we may say that the real costs and benefits of the eastern enlargement can be identified better in the future, when reality shows who wins and who loses in practice. For example, with the accession of the new members from CEE, old members such as Germany may lose jobs, because the business will move in the new members, because of the new opportunities and the cheaper manpower. On the other hand, if investment leads to additional capacity created in German companies, this may strengthen German competitiveness as a whole.

There are facts and statistics which prove that the trade between the old member states with the acceding ones is growing at really fast rate. After the accession of the new members, Germany's exports have doubled, those from Portugal and Spain have quadrupled and Irish exports have trebled *(Neueder, 2003, cf. Figure 1,).* This

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Benefits of EU Enlargement", Intereconomics, July/August 2003, Franz Neueder Head of Section "EU Enlargement", Federal Ministry of Finance, Berlin, Germany shows that not only the Members States close to the Eastern border such as Germany and Austria benefit from enlargement, but all of the EU Member States[33].

2.5. Economic costs and benefits

In order to analyze in details the costs and benefits for the old Member States from the CEE enlargement, we are going to have a look at the **Economic** aspects. We are going to divide them into three categories[34]:

- **Trade effects, Single market effects, Factor movement;**
- **Workers flow, immigration and crime**, as a possible threat of the enlargement;
- **Budget costs for the EU** for the Central and Eastern European enlargement.

A macroeconomic evaluation of EU enlargement is undertaken with a world macroeconomic model taking into account all possible integration cost/benefits effects: trade effects, Single Market effects, factor movements (Foreign Direct Investments (FDI), migration) and the costs of enlargement. There are several standard effects of regional integration *(Baldwin-Venables, 1995)* which we are going to examine as follows:

• *Trade effects* – Cost savings via abolition of existing import tariffs and of trade costs;
• *Single market effects* – Improvement in efficiency and more price competition;
• *Factor movements* – Foreign direct investment (FDI) from the West to the East; labour migration in the other direction;
• *Costs of enlargement for the old EU members, transfers to the new EU members (CEEC)*[35].

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[33] Franz Neueder (2003), "*Costs and Benefits of EU Enlargement*", Intereconomics, July/August 2003, Franz Neueder is Head of Section "EU Enlargement", Federal Ministry of Finance, Berlin, Germany
[34] **Note:** Further in this chapter, in point 4, we are going to use the same division of the Economic aspects for the costs and benefits for the CEECs after their accession in the EU in 2004.
[35] Fritz Breuss (2002), *"Benefits and Dangers of EU Enlargement",* Research Institute for European Affairs at the Vienna University of Economics and Business Administration (WU) and Austrian Institute of Economic Research (Wifo), Vienna, Austria

2.5.1. Trade

The integration into the single market of the EU is categorized in two types *1) allocation* and *2) accumulation effects*. In other words this means distinction between static and dynamic or growth effects *(Baldwin-Francois-Portes, 1997, pp. 133-135; Keuschnigg-Kohler, 1998b).*

a) Allocation costs and benefits effects with perfect competition represent the way in which the integration stimulates changes in economic efficiency through resource and expenditure reallocation between sectors. There are three allocation cost/benefits effects:

a.1. The first benefit of these perfect-competition effects comes from trade volume changes: when the prices for imported goods decrease due to the elimination of import tariffs, increasing imports lowers the cost of consuming goods and thus raises national welfare. This is the so called *trade creation*.

a.2. The second benefit comes from changes in trade prices. When a country is a net importer of a good, a drop in the border price is beneficial (domestic production lose less than domestic consumers gain), while the opposite holds when the country is a net exporter. This corresponds to *trade diversion*.

a.3. The third beneficial effect deals with *trade rents. The "trade diversion"* may be welfare improving. Trade rents are the income that may arise from selling across the gap between low border prices and high domestic prices. If there is a tariff the rent is paid by the domestic government. If there is price-fixing arrangements (import quotas or voluntary export restrains) the rent goes to foreigners. However, in Western Europe around 80% of intra-European trade is duty-free (due to EU membership, to European Economic Area (EEA) participation). Even including applied dumping duties, the EU's trade weighted tariff is only 3%. Before the creation of the Single Market, the European trade was not free and there were many "fictional" barriers between domestic and border prices. In this way the real cost of trade rises because of the unharmonized product standards or border controls. This kind of barriers does not create trade rents, but waste resources. The elimination of such non-tariff barriers, through the creation of the four freedoms of the single market, lowers border prices. Even though, some may observe trade diversion, lowering the costs of imports leads to an increase of national welfare. Exactly this is one crucial benefit for the EU of the Central and Eastern European enlargement – reduced trade costs which bring more trade opportunities.

b) Allocation costs and benefits effects with imperfect competition best explain the modern foreign trade *(Baldwin-Francois-Portes, 1997, p. 135)* identify three "new" allocation effects.

b.1. *Producer profit effects* - In sectors where the local price exceeds the average cost of production, an expansion of output raises welfare, since the marginal value of extra output (the price) exceeds the extra cost. A fall in production yields the opposite result. This effect is sometimes called the *pure profit* effect.

b.2. Scale effects: Average cost falls with the scale of production in most industries, where scale may refer to the size of firms or the size of sectors. Because lower average costs mean more output with the same inputs, positive scale effects tend to improve national welfare (*economies of scale effect* = EOS).

b.3. *Varieties* available to consumers (variety effects): More choice makes consumers happier. On the production side, a broader variety of input choices can stimulate industrial productivity.

c) Allocation effect of full market integration is based on the theory of monopolistic competition by *Dixit-Stiglitz (1977), Smith-Venables (1988)* who were one of the first who created the new integration theory. The main characteristic of their theory is that the creation of the Single Market (abolition of border controls and a common competition policy) makes it no longer possible for multinational firms to follow a segmented price strategy. Before the single market they have behaved as monopolist or oligopolist in their home market with high prices. In the same time on the foreign market they behaved like a firm in a perfect competition. The transformation toward full competition in the single market created better welfare for the consumers. However, this leads to higher concentration and serious drop-out of firms which are unable to sustain increased competition (*pro-competitive effect).* This integration effect is called “full market integration” (FMI).

After the conclusion of the European Agreements with the 10 CEEC, an asymmetric tariff reduction was introduced between the EU and the CEEC. From 1997, the EU has eliminated all tariffs (except those for agriculture and sensitive products) on imports from CEEC. The exact cost savings of the elimination of border controls were never exactly recorded, in the literature the size is said to be between 5% *(Kohler, 2000)* and 10% *(Baldwin et al., 1997).*

Nearly 70 % of the CEEC exports are sent to the EU, but only 4 % of total trade of the EU is transacted with the CEEC. This means that here we observe asymmetric trade effects *(Breuss 2002, Table I).* They are larger for the CEEC than for the EU. The partial trade effect leads to an increase of the real GDP in the EU to roughly 0.05 % cumulative over the period 2005 to 2010. Austria and the Netherlands gain the most (cumulative of around 0.25 of a percentage points of real GDP; France, Ireland and Italy around 0.1 to 0.2 percent), some countries (Spain, the United Kingdom) would lose. On the other hands, the trade-induced GDP effect in the CEEC is nearly 10 times larger. In Hungary, real GDP was stimulated by around 4.5 % (cumulated over the period 2001 to 2010), in Poland and the Czech Republic almost half of that. The elimination of the remaining import tariffs will result in lost budget revenues of about 1 to 1.5 percent of GDP. The reduction of trade costs (Single Market entrance) leads to trade creation in the EU and the CEECs without directly deteriorating the budget. The trade effects do not imply major disturbances in other macroeconomic variables: generally, prices and employment increase, unemployment rates decrease. Only in the CEECs the budget and the external positions deteriorate, both the trade and the current balance *(Breuss, 2002, Table II).*

2.5.2. Single Market Effects

A significant benefit for the EU from the CEE enlargement is the widening of the European Single Market. However, this will cause more competitive pressures for the accession countries, but to smaller degree for the present members of the EU. The experience from previous enlargements shows that the Single Market program result in an increase of productivity (exploiting economies of scale) and decrease of the price level (via decrease in mark-ups). As a result this should increase the growth potential in the CEEC as well as in the EU. In macroeconomic models Single Market effects are captured by shocks to productivity and/or decrease in mark-ups (or an immediate decrease in the price levels). The productivity shock and the price competition when entering the EU will be similar or even stronger for the CEEC than it were when the old members created the Single Market in 1993.

In the old member states, it is observed the productivity shock is much smaller than in the CEECs, especially in the implementation of the so-called "Casella effect". *Casella (1996, p. 389)* says that *"if economies of scale imply that firms located in large countries enjoy lower costs, then the gains from enlarging the bloc will fall disproportionally on small countries, because the entrance of new members diminishes the importance of the domestic market and improves the small countries' relative competitiveness".*

Due to the assumed asymmetry in the productivity shocks, real GDP develops better in small EU countries: Belgium, Austria, Finland and Ireland. They will see an increase of 0.5 %, cumulated until 2010, although with a decreasing speed. Large EU countries will show a GDP increase of only half of that size.

On the other hand, increased labour productivity has a trade off on the labour market: employment decreases, unemployment increases. Competitiveness, measured by the real exchange rate (relative unit labour costs) improve. Prices decrease and therefore also nominal GDP declines somewhat with negative consequences for the budget. Improved labour productivity suggests also a redistribution of income from labour to capital. The increase in price competition in an enlarged Single Market will be more serious in the new member states than in the old ones. More price competition results in more demand and in an increase of real GDP from around 0.5 % in the EU countries with higher trade intensity with the CEEC, and around half of that effect in the other EU countries.

2.5.3. Factor movements – Foreign Direct Investments and Migration- Labor

The four freedoms of the Single Market – free movement of goods, services, capital and labour are very much connected with the EU enlargement process. There are two particular factors which are very important in this process, especially in terms of the cost/benefit effect. They are 1) the capital movements from the West to the East and 2) labour migration from East to the West. These two factors are analyzed in details by the Oxford Economic Forecasting (OEF) World Macroeconomic Model.

a) Foreign Direct Investment flows from the West to the East

After the end of the Cold War in 1989, trade and the foreign direct investments (FDI) were the two most important factors for integration. Until the year of 2000, CEECs attracted many FDI. Hungary, for example, attracted most of the FDI flows per capita (1764 US$), followed by the Czech Republic (1447 US$) and Estonia (1115 US$). Although Poland attracted most of the FDIs, it gained less than other countries CEE-518 US$. When these countries entered the Single Market, the FDIs' levels increased. The foreign investments are good for the CEECs, but they reduce the investment potential in the EU (or in the rest of the world). It may also indirectly cause a dampening effect through higher interest rates. In short term the interest rates in Europe will increase by 0.05 percentage points in the FDI process in 2003. Then in 2010 it will increase further to 0.2 percentage points. The reason for this is that capital demands in the EU will increase interest rates. In the end this will make investors to do investments outside of the old EU member states. This will result in a slight decline of the real GDP in the old member states of around 0.1%, going up to 0.2%. This decrease hits stronger the smaller countries, such as Belgium, Netherlands, etc. On the other hand, with the help of the the GDP, the CEEC will increase. In Hungary, it was the highest – up to 1%, followed by Poland – 0.75% and the Czech Republic – 0.5%. The increased capital movement after EU accession results so that CEEC gain a FDI welfare surplus, while the sender countries in the EU are confronted with a FDI welfare loss *(Breuss, 2002, Table II).*

b) Migration from the East to the West

One of the most crucial issues connected with the enlargement process is the issue about migration. Many of the old member states feared that migration from the East will disturb seriously their labour markets. They believed that after the accession of CEECs and the granting of the right of free movement of persons and labour, there will be a big migration flow toward the West. This is due to the large differences in wage levels.

The migration analysis implemented into the Oxford model is based on the most recent estimations for the European Commission by Boeri & Brücker *(2000; see also DIW, 2000).* They assume that if all CEEC-10 join the EU in 2002, around 336 thousand of people would migrate from CEEC-10 to EU-15 in the same year. It was estimated that most of the people goes to Germany (65 percent or 218.430 persons) and to Austria (12.1percent or 40.547 persons). However, over time the inflow of migrating people will decrease, in 2010 to 146.926 persons and in 2030 to 2.366 additional persons.

The migration leads to the immigration surplus in the recipient countries (EU) and to migration losses in the sender countries (CEEC). It turns out that firms in the EU can produce more with more labour at lower wages. As a result real GDP increases – most strongly in Germany (+0.25 % in 2010) and Austria (+0.15 percent). On the other hand, it declines in the CEEC. Measured by GDP per capita, in 2010 the immigration surplus is a little positive in Germany (+0.2%) and Austria (+0.06%). This is because the immigrants amount only to 0.1% of total population in Germany and 0.2% in Austria. These numbers will decrease along the years.

As a result of the increase (decrease) of labor supply the unemployment rate goes up in the EU and down in CEEC. As the years pass, the migration flow will be reduced, which will lead to the removal of the disequilibria on the labor market[36].

Nevertheless, most of the old member states feared that the Eastern enlargement may have negative effect on the employment due to immigration and the cheap labour force coming from the East. That is why the seven years transition period was introduced, in order to prevent a possible sudden immigration flow. On the other hand, economic experts have advised against this restrictive transition period, because according to them it may be more costly than it was expected. Well, the rate of unemployment in Poland was almost twice that in Germany. If qualified immigrants, for example, take posts in Germany that otherwise will remain vacant, income and employment will rise. Also the welfare will increase and higher tax revenues will be produced. However, it is not excluded that the unemployment may tend to rise as a result of immigration, which finally will have quite negative effect for the old members[37].

Before the big central and eastern European enlargement in 2004, many western European states feared that after the accession of the 10 new members, there will be a big workers and immigration flow. Contrary to the widespread opinion, of the massive inflow of workers from Central and Eastern Europe, after the entrance of the new members, these predictions did not come true. In most of the old member states, nationals from the new members represented less than one percent of the working age population. The only exceptions of this were Ireland (around 5%) and the UK (1.2%), for which mobility flows peaked in 2006[38]. However, these are only official statistics. The illegal immigrants are not registered anywhere, because of their illegal

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[36] Fritz Breuss (2002), *"Benefits and Dangers of EU Enlargement",* Research Institute for European Affairs at the Vienna University of Economics and Business Administration (WU) and Austrian Institute of Economic Research (Wifo), Vienna, Austria

[37] Franz Neueder (2003), "*Costs and Benefi ts of EU Enlargement*", Intereconomics, July/August 2003, Franz Neueder is Head of Section "EU Enlargement", Federal Ministry of Finance, Berlin, Germany

[38] EU Enlargement: challenges and opportunities. Keynote speech by Jean-Claude Trichet, President of the ECB held at the conference "Europe's frontiers: EU enlargement - its implications and consequences", organised by the Calouste Gulbenkian Foundation Lisbon, 27 October 2004, page 9

status, so it is hard to say the real percent of the eastern European workers in the EU.

As for the crime issues, the widespread opinion that after the enlargement the level of crime in EU will raise, did not come true, as well. On the contrary, the enlargement enabled the Union to extend its police and justice cooperation to the new member states. Cooperation can happen through joint investigation teams, EU – wide exchange of information and the implementation of the European Arrest Warrant. Furthermore, border security improved since the new members adopted the EU standards on border control. In the period 2003 – 2006, it is said that the total crime rates had decreased by almost 4%. In the first six months after the lifting of the internal Schengen border controls between Germany and Poland in December 2007, a decrease in the crime rate was registered.

This is very important to be mentioned, because since the beginning of this year – 2011, there are a lot of discussions about the abolition of borders for Bulgaria and Romania. Even though they meet all the technical criteria for the accession in the Schengen area, some member states like France, Germany, Finland, Sweden, the Netherlands and Belgium opposed to the accession of these two eastern countries in the EU passport-free zone[39]. They worry again about crime and illegal traffic issues. However, the biggest obstacle for these two countries to join the Schengen area is an inter-institutional conflict. They are blamed for the lack of progress in fighting corruption and organized crime[40].

2.5.4. Budget Costs of enlargement for the EU

As we have seen there are different economic costs and benefits for the EU after the CEE enlargement. The Old member states had to face both the positive and the negative effects of the accession of the new members. On one hand, in economic terms, the opening of the Single market increases the trade and investments

[39] EuroActive, *"Bulgaria, Romania denied Schengen entry",* http://www.euractiv.com/en/future-eu/bulgaria-romania-denied-schengen-entry-news-505471, visited on 09.06.2011
[40] EU Enlargement: challenges and opportunities. Keynote speech by Jean-Claude Trichet, President of the ECB held at the conference "Europe's frontiers: EU enlargement - its implications and consequences", organised by the Calouste Gulbenkian Foundation Lisbon, 27 October 2004

opportunities. On the other, it brings the threat of workers flow from the East, immigration and crime.

Another important aspect in terms of economic costs for the old EU member states is the budget expenditures. For example, the program Agenda 2000, aimed at improvement and reforms of the Common Agricultural Policy (CAP) and Regional policy, excludes an increase of the own resources. This means that the costs of enlargement have to be brought up by the present EU member states by saving transfers in the CAP and structural funds area. The reform of these two policy areas already implies that those countries which were net receivers out of the EU budget will have to bear a higher burden as the so-called net payers. The Agenda 2000 had cut the transfers for structural policies much stronger than those for the CAP.

This means that the cohesion countries like Greece, Ireland, Portugal and Spain will bear the highest burden. The calculation (adding to the costs for the CAP 80 percent due to direct support payments after 2006) results in cumulative net costs (already deducting the own resources of the CEEC) for enlarging by CEEC-10, cumulated for the period 2000 to 2010 of around 190 billion Euro (or 0.15 percent of EU GDP; in the year 2010 they would be around 40 billion Euro or 0.3 percent of EU GDP).

The analysis shows that the burden of the costs of enlargement of the majority of the EU member states is below EU average (average 2005 to 2010, 0.17 percent of GDP), the cohesion countries have a higher cost burden: Portugal 1.5 % of GDP, Greece 1 %, Ireland 0.75 % and Spain around 0.4 % of GDP. Hungary and the Czech Republic get transfers totalling to around 5.25 % of GDP in 2010, Poland around 4 %. This implies the ceiling of 4 % of GDP in case of structural funds, agreed upon in the Agenda 2000[41].

The costs and transfers are implemented into the Oxford model into three macro variables: in the current account balance with the full amount (deterioration in the EU countries, improvement in the CEEC), half of the amount in the national budgets

[41] Fritz Breuss (2002), *"Benefits and Dangers of EU Enlargement",* Research Institute for European Affairs at the Vienna University of Economics and Business Administration (WU) and Austrian Institute of Economic Research (Wifo), Vienna, Austria

(deteriorating in the EU, improving in the CEEC) and as a stimulus to infrastructure investment (dampening demand in the EU, stimulating demand in the CEEC)[42].

A deterioration in the budget balances and current account balances in the EU is accompanied with small decreases in real GDP in EU countries. In Czech Republic, Hungary and Poland, on the other hand, not only the budget and current account balances improve, but also the stimulus for infrastructure investment leads to higher real GDP. Real GDP would increase by around 3 % in Poland, over 2 % in Hungary and the Czech Republic, cumulated over the period 2001 to 2010[43].

2.6. Costs and Benefits for the CEECs after their accession in the EU in 2004

In order to make a reasonable comparison between the costs and benefits for the EU and the CEEC after the enlargement, we are going to use the same division of the Economic aspects for the new member states as for the old EU members - trade, Single market and CAP.

The accession in the EU of the 10 Central and Eastern European Countries will imply many changes – in the policy regimes, in the economic development and the standard of living. The changes in the policy regimes are the following:

2.6.1. Trade

First of all, these countries have to join the ***Customs Union*** of the EU. For the foreign trade policy is responsible the Common Commercial Policy (CCP) of the EU. This means that the external tariffs have to be adapted to the Common external tariff (CET) rates of the EU. In the CEECs, the Most Favored Nation (MFN) tariffs are higher than in the EU *(Table 3, Fritz Breuss, 1999).* On the other hand, the non-tariff

[42] Breuss et al. (2001, 2002) have shown theoretically and empirically that Agenda 2000's structural policy reform will lead to a redirection of FDI from the old EU cohesion countries to the new member states of the CEEC by a considerable amount

[43] Fritz Breuss (2002), *"Benefits and Dangers of EU Enlargement",* Research Institute for European Affairs at the Vienna University of Economics and Business Administration (WU) and Austrian Institute of Economic Research (Wifo), Vienna, Austria

barriers (NTBs) are higher in the EU than in the CEECs *(Brown-Deardorff-Djankov-Stern, 1997, p. 40).* The EU had eliminated its tariffs for most products imported from the CEECs in 1997, with the exceptions of agricultural products and annexes goods, e.g. ECSC products (steel, coal etc.), vehicles and textile products. The CEECs cut their tariffs gradually until the year 2001. This asymmetry of protection rates had implications for the welfare costs of enlargement *(Baldwin-Francois-Portes, 1997, p. 133).* The reduction of external tariffs to the EU's CET level improves the welfare of the CEECs. Before the accession in 2004, many scientists believed that the East-West trade potential is very big *(Baldwin, 1994).* The liberalization of the European Agreement had stimulated the success of the bilateral trade. For example, Austria's exports to the Eastern Europe for the period 1989 - 1997 had increased by 14.6% imports from Eastern Europe increased by 12.2%. After the opening of the trade with the East, EU member states had profited much more than the CEECs (*Breuss, 1999,* table 4). On the other hand, it is estimated that in the long term a full membership of the CEECs in the EU will increase the bilateral trade perspective by 40% to 50% *(Breuss & Egger, 1997),* where both sides will benefit relatively equally.

2.6.2. Single Market and immigration issue

The EU membership requires also participation in the Single Market of the EU. Although the European Agreement had introduced some of the features of the single market, the realization of the four freedoms - free movement of goods, services, capital and people, can be completed only if there is a full membership. However, even though a state has a full EU membership, it is introduced a transitional arrangement for several years for the free movement of people. This aims at mitigation of the possible shock of immigration from East to West, due to the huge wage gap. It is regarded that both sides may benefit from this measure. The old EU member states can prevent their labour markets from cheap labour from the East. On the other hand, the CEEC will prevent leaving of the better educated and skilled labor force. Usually these people are more mobile than unskilled ones.

This transition period will not be valid for the free movement of capital, because this free movement will increase the foreign direct investment (FDI) flow from the EU incumbents. This could improve significantly the faster catching up of wage income in the CEECs (accumulation effect). FDI from the EU to the CEECs are representing 12.5% of EU's total external FDI. Inflows of FDI from the CEECs are almost inexistent.

Soon after their accession in the EU, the CEECs would not join immediately the European Monetary Union (EMU), *(Breuss, 1998b).* Due to the economical differences and the relatively poor status of the CEECs, their EMU participation will be postponed.

Furhtermore, the participation in EU's Single Market implies also adoption of the remaining *Acquis communautaire*. One of the most important areas is the common competition policy of the EU. The participation in the structural policy is crucial for the CEECs. Because of their low GDP per capita, all of the CEECs are put in the Objective 1 region, which means that they are eligible for the highest transfer in this field. In turn, structural policy implies the highest cost component for the EU incumbents *(Breuss, 1999, table 2*).

2.6.3. Common Agricultural Policy (CAP)

When the CEECs enter the EU, they are supposed to participate in the Common Agricultural Policy (CAP) of the EU. This again implies more costs for the old member states and more benefits for the new ones. In general, the CEECs have higher share of agriculture in total GDP than the EU countries (*Breuss, 1999,* table 1). The integration of the CEECs in the CAP has different aspects. First of all, the level of subsidization (measured by Producer Subsidy Equivalent - PSE - measures) is lower in the CEECs than in the EU. In 1997 the PSE as % of value of production amounted to 42% in the EU, and only to 11% in Czech Republic, 16% in Hungary, 22% in Poland *(OECD, 1998b).* In Estonia and Latvia the PSE ratio was around 6%, in Lithuania 18%, in Slovakia 22% *(OECD, 1998c).* The participation in the CAP implies also an adjustment of the price level to the higher EU level. This means more income for the farmers, but also welfare loss for the consumers in the CEECs.

There existed the fear that after the accession in the EU, the new member states may belong to the periphery, while the economic activity is concentrated in the core of the old EU member states *(Tichy, 1997).* On the other hand, firms which produce in markets with a relatively large number of firms face stronger competition in product and labour markets. That is why firms are stimulated to disperse their activities in space and to locate close to large markets. Exactly the new CEECs are a new large market where there are many new opportunities for investments and they will not remain in the periphery, but on the contrary.

The effect of integration result with more benefits for the small countries – CEECs, while the incumbents of the large customs union win less from the marginal increase of its markets. However, the benefit of the old member states from enlargement is that the membership in the EU, makes the CEECs a less risky location for foreign investors (also for domestic ones). On micro side, the membership in the EU introduces tax changes, regulate competition policy and state-aid policy. The membership in the EU assures investors that they can put in and take out money without restrictions. For the CEECs, the membership in the EU guarantees access to the market of the old member states – EU-15, which is great benefit. On the macro side the membership will lead the CEECs also into EMU, which will provide serious hedge against inflation stimulus. These arguments show that the EU membership leads to a substantial decrease in risk premia – by 15% for investment in the CEECs. This results in a rise in the CEEC capital stock by 68%. In this scenario the biggest winners of enlargement will be CEECs-10, whose income will increase by 30.1 billion euros, which is 18.8%. In the old members – EU-15, the real income increases by 11.2 billion euro or by 0.2%[44].

2.7. Costs for the CEECs of the membership in the EU

[44] Fritz Breuss (1999), *"Costs and Benefits of EU Enlargement in Model Simulations",* Research institute for European Affaris, University of economics and business administration, Vienna, IEF Working paper Nr. 33

While there are many benefits for the Central and Eastern European States after the EU enlargement, there are also lots of costs which these states have to pay in order to integrate successfully in the Union.

For example, instead of concluding free-trade agreements with the EU, the CEECs were put into a centralized super state, in which most of their comparative advantages will be legislated out of existence. As a result, the economic growth in Central and Eastern Europe (CEE) will continue to be questionable. The loss of eventual economic growth is only partly offset by the CEEC's access to the European single market. The compliance with centralized EU regulations in three areas – labor, agriculture, and the environment – present the most significant costs on the CEECs. The EU regulations, for example, will make many workers in the less productive CEECs less competitive. The EU harmonization of taxes will reduce further their competitiveness. In addition, the agricultural subsidies will favor current EU members over future ones. Also the environmental regulations will impose a cost of up to 120 billion euros on CEECs[45].

It is clear that the full membership to the EU comes with considerable costs for the CEECs. The membership of those countries becomes subject of 97 000 pages of EU rules and regulations, which deprive them of many of their comparative advantages. Although, some of the regulations are very important and will have good effect on the development of the new member states, there are also regulations, which are quite ridiculous. Regulation 2257/94, for example, specifies the size and shape of bananas that can be sold in the EU. The regulation limits the size of bananas to at least 14 cm and insists that they should be free of "abnormal curvature." The EU also suffered from this regulation, but did not change it[46].

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[45] *"EU Enlargement. Costs, Benefits, and Strategies for Central and Eastern European Countries"* by Marian L. Tupy, assistant director of the Project on Global Economic Liberty at the Cato Institute. Executive summary. Policy analysis, No. 489, 18 September, 2003

[46] Commission Regulation (EC) No 2257/94 of 16 September 1994 laying down quality standards for bananas (Text with EEA relevance) http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31994R2257:EN:HTML, visited on 14 June, 2011

Another legislation, which is even more economically damaging, is the one, signed after the negotiations for enlargement with Estonia. As a result of this legislation, the country was forced to introduce 10 794 new tariffs against imports from outside of the EU. It was also forced to adopt several nontariff barriers, such as quotas, subsidies and anti-dumping duties. This protectionism increases food prices and somehow lowers the standard of living of the Estonians[47].

Another important cost, which the new member states have to pay, after the accession in the EU, is the increased taxes. The government in these states will increase taxes in order to have money to implement the EU regulations in the national law. For example, only the EU environmental legislation will cost between 2 and 3 percent of the CEEC's annual GDP during the transition period of five to seven years[48].

Of course, the benefits of the common market may alleviate many of the negative consequences of accession in the long term. However, the economic growth of the CEECs will be suboptimal. Although being a part of the EU may result in suboptimal growth, remaining outside the EU seems to be much worse scenario for the CEECs.

British commentator John O'Sullivan described the disappointing nature of the accession by saying that the ten new members will receive almost four times less money after accession than the promised amount in the beginning of the negotiations ($10.6 billion for four years 2003–2006, instead of $41 billion adjustment subsidies). He says that the poor, but rising economies of the CEECs will have to absorb job-killing regulations designed for much richer societies. Moreover, their citizens will not be allowed to migrate to existing EU members until seven years after enlargement in May 2004. Finally, it turns out that the net economic benefits to the new members may vary from small to non-existent[49].

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[47] Razeen Sally, *"Free Trade in Practice, Estonia in the 1990's,"* Central Europe Review, July 10, 2000
[48] "Billions of Euro Needed for Candidates to Implement EU Laws," *EUobserver*, January 22, 2003
[49] John O'Sullivan, "Burdensome Regulation Will Strain New EU States," *Chicago Sun-Times*, December 17, 2002.

O'Sullivan says that for more than a decade, the governing elites in CEE have been selling EU accession as absolutely beneficial. However, when the terms of accession that the CEECs negotiated have become public, the citizens felt disillusionment toward EU accession. They did not like that the taxes will be increased and their economic freedom will be restrained by the complicated EU regulations.

Also the workers from CEE will be prevented from looking for jobs in the EU. The labor immigration from CEE will be "protected" for seven years[50]. This ban means that one of the most fundamental EU's principles will be compromised – freedom of movement of labor. Therefore, this puts the CEECs to a second class membership status for the coming future. A more practical view on this issue is that the CEECs will not be able to benefit from the economic impact of EU accession by exporting competitive labor force.

2.8. Final overview on the results of EU's CEE enlargement

On the whole, it seems that the enlargement is of greater benefit to the acceding states than to the existing EU Member States. They will experience the trade-related cost savings more strongly. The efficiency increases and the improvements in competitiveness will be greater for the new member states. Furthermore, they will also profit from the adoption of a functioning EU economic and legal framework as well as from net transfers. The 10 CEECs are going to receive 4% per annum of their GDP (starting after the phasing-in period in 2006) from the EU's structural and cohesion funds for projects aimed at improving their economic structures. The right economic conditions will facilitate the successful use of the funds and will accelerate economic growth. In the long term, the acceding states could enjoy a rate of growth around 2% higher than that of the existing EU Member States[51].

Because of the difference in the size of the economies involved in the enlargement process, the CEEC on average will gain around 10 times more from enlargement

[50] "Enlargement Dispute Solved," *EUobserver*, 1 June, 2001
[51] Franz Neueder (2003), "*Costs and Benefits of EU Enlargement*", Intereconomics, July/August 2003, Franz Neueder Head of Section "EU Enlargement", Federal Ministry of Finance, Berlin, Germany

than the old EU members. All possible integration effects were evaluated through the Oxford World Macroeconomic Model. This model shows that Hungary and Poland will increase their real GDP by around 8 % to 9 % over a 10-year period (inclusive the pre-accession period – 2001-2004). It means nearly 1% higher yearly growth. The Czech Republic gains a little bit less (5 to 6 percent, or 0.5 to 0.75 % higher yearly growth).

The EU on average would gain around 0.5 % more real GDP over a 6 years period – from 2005 to 2010, or less than 1/10 of a percentage point higher yearly growth. Those countries with close relations (geographical proximity) to the CEEC, like Austria, Germany and Italy will gain more than EU average.

Austria's real GDP could be increased by 0.75 % of GDP, or around 0.15 % higher yearly growth. As a whole both sides – the EU and even more the CEEC – will benefit from enlargement. Even though, for some countries in the EU, the costs surpass the benefits. This is valid for Spain, Portugal and Denmark.

The enlargement of 10 or 12 countries lead to slightly higher integration effects. However, not all of the partial effect is easily quantifiable. On one hand, the quantification of EU transfers, FDI inflows and migration flows is relatively strong. On the other hand, Single Market effects – productivity and price competition – can be evaluated with a wide margin of errors. The components of full integration effects have different weights in the East and in the West. In Austria for example, the country which is regarded as the biggest enlargement winner, the Single Market effects account for 3/4 of the total GDP effects. The trade effects and immigration are less important. However, the FDI outflows and costs of enlargement have negative impact on GDP. In Hungary, for instance, trade effects and EU budget transfers are more important than the Single Market effect and FDI inflows.

The final result of the analysis of *Fritz Breuss (2002)* which is similar to the one of *Brown (1997)* shows that the long-run real income gains for Czechoslovakia is 7.3%, for Hungary – 6.8 % and for Poland – 5.6 %. The spill-over effect for the EU amounts to 0.2 %. Other analysis *(Neck, 1999),* through world macro model shows that the GDP effect for Eastern Europe will increase with 1.6% and there will be no special effect for the EU. *Breuss (2000b)* says that the biggest growth impulse comes from the increase of the total factor productivity (TFP) growth, the FDI effects, migration and budgetary effects (costs of enlargement). As a result, after 18 years of membership in the EU real GDP on CEEC-10 increases by 17%. In the old member states - EU-15, the GDP will increase by 2.8%. Fast integration of CEEC-10 would lead to more GDP and welfare in both regions.

In 2020, the real GDP in the EU-15 will be higher by 0.26 %. In Germany it will increase by 1.6 %; in France 0.0 %, United Kingdom 0.1%, Netherlands 0.2 % percent; Sout Europe 0.2 %; Rest EU 1.0 %.

By 2020 the real GDP in the CEEC will be considerably higher: in Hungary it will increase by 9.6 %; in Poland 8.7 %; CEEC-7 - Estonia, Latvia, Lithuania, Slovakia, Slovenia, Malta and Cyprus - 6.0 %).

If the integration effects will be realized in the future, depends on the political ability and the successful use of the integration process. If we look back to the history of the EU enlargement, we may see that some countries were more successful in realizing the growth potential than others. From the EU's first enlargement in 1973, only Ireland performed successfully. Its real GDP per capita increased by 2.4 % points faster annually than those of EU over the period 1973 to 2000 – United Kingdom - 0.01%, Denmark - 0.4 %. The accession of Greece in the EU in 1981 was not successful, because its real GDP per capita grew by 0.8 % points less annually than those of the EU between 1981 to 2000. Better performance was observed in the second South enlargement in 1986. Portugal's real GDP per capita increased by 1.0 % points, while Spain's GDP by 1.6 %; much faster than those of the EU since 1986. The growth performance of the new EU members after the last EU enlargement in 1995 was mixed: Finland's real GDP per capita increased by 2.3 % points, while Sweden's increased by 0.6 % points; much faster annually than those of the EU since 1995 (Austria – 0.04 % points)[52].

[52] Fritz Breuss (2002), *"Benefits and Dangers of EU Enlargement",* Research Institute for European Affairs at the Vienna University of Economics and Business Administration (WU) and Austrian Institute of Economic Research (Wifo), Vienna, Austria

Econometric tests of integration effects with focus to the new growth theory show that European integration in the post Second World War period led to an increase of real GDP per capita in the EU by 0.4 % annually (0.27% points of which are due to General Agreement on Tariffs on trade (GATT) liberalisation and only 0.12 % points are due to EU integration proper) *(Badinger, 2001)*[53].

2.9. Conclusion of Chapter 2

In conclusion, we may say that even though the costs that the new members have to pay after joining the EU, they will develop in a much better way than if they did not join the Union. For example, other post socialist countries such as Russia, Ukraine, Moldova, Belarus, etc. did not make any significant developments and reforms during the whole post communist period. They do not pay any costs for joining the EU like the other 10-12 central and eastern European countries, but in the same time they develop much slower than them. Finally, it means that no matter how high are the costs for the new member states, they are not as higher as the costs of not joining the European Union. On the other hand, the EU has also great benefits of the accession of the CEECs. The pre-accession and accession costs that EU pays to the new member states should not be underestimated. However, they have calculated that after the accession of these countries the benefits will overcome the costs. So, in the end both sides – EU and the new member states – benefit from the CEE enlargement.

TABLE 1

Table 1 on the next three pages presents summary of the most important economic costs and benefits for the EU and for the CEECs after the enlargement of the Union in 2004, examined in Chapter 2. The costs and benefits are presented in the investigated economic aspects: Trade, Single Market, Foreign Direct Investments and Migration Labour, Budget Costs, Common Agricultural Policy (CAP).

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[53] Crespo-Cuaresma, J., M.A. Dimitz, and D. Ritzberger-Grünwald (2002), "*Growth, Convergence and EU Membership"*. Oesterreichische Nationalbank (OeNB)Working Papers, No. 62, April, Vienna.

***Crespo-Cuaresma et al. (2002)** estimates with growth equations and a Dummy variable that the growth effect of EU membership is increasing with the length of membership (value of the coefficient is 0.04). Additionally, they demonstrate that poor EU countries (cohesion countries) exhibit a higher EU membership coefficient with a higher value (0.09) than EU average (0.04).This might justify our estimations according to which the poor CEEC will gain more from EU enlargement than the rich old EU member states.*

Economic effects	**EU Costs**	**EU Benefits**	**CEECs Costs**	**CEECs Benefits**
		Increase of the GDP with 0.05% (2005-2010)		Increase of the GDP 10 times more than the EU-15. (2001-2010)
		Income increases by 11.2 billion euro (0.2%) in EU-15		Income increases by 30.1 billion euros (18.8%).
		Cost savings of the elimination of border controls – between 5%-10%	Elimination of the import tariffs = lost budget revenues between 1% -1.5% of GDP	Opportunity for free trade in the European Single Market
TRADE		4 % of total trade of the EU is transacted with the CEEC. Higher trade intensity with the CEEC.		70 % of the CEEC exports are sent to the EU
				EU membership (EMU) – prevents from inflation
				Decrease in risk premia for investment in the CEECs – by 15%
				Rise in the CEEC capital stock by 68%.
SINGLE MARKET EFFECT	Labor migration flow from East to the West	Widening of the European Common Market with more than 100 million people	Competitive pressure; Increase price competition	Increase the growth potential in the CEEC
		Increase of productivity; Decrease of the price level	CEECs are put into a centralized super state, where most of their comparative advantages will be legislated out of existence	CEECs membership in the EU guarantees access to the market of the old member states – EU-15

Economic effects	**EU Costs**	**EU Benefits**	**CEECs Costs**	**CEECs Benefits**
FOREIGN DIRECT INVESTMENTS AND MIGRATION-LABOR	Labor migration flow from East to the West. Decreasing over time: **2002** – 336 000 people (65% goes to Germany) **2010** – 146 926 people **2030** – 2 366 people	Capital movements from the West to the East	Restrictive transition period - Not allowed to work in the EU – 7 years after accession	Better labor opportunities
	FDI increase (capital demands in the EU increase interest rates by 0.05% in 2003.			FDI increase, developing the economy and the GDP income
	This result in decline of GDP – 0.1% (affecting small countries – BE, NL)			
	Unemployment rate goes up in the EU			Unemployment rate goes down in CEECs
BUDGET COSTS	2000 – 2006 – costs for eastern enlargement (pre-accession plus entry aid) are around 80 billion euro		The governments in CEECs will increase taxes in order to have money to implement the EU regulations in the national law.	Financial aid from the EU budget for reforms and development.
	Net costs for enlarging by CEEC-10 – for the period 2000-2010 are apprx. 190 billion euro (0.15% of EU GDP)			Increasing the standard of living
	The cohesion countries like Greece, Ireland, Portugal and Spain will bear the highest burden			

COMMON AGRICULTURAL POLICY (CAP)		CEECs are a new large market where there are many new opportunities for investments	Participation in the CAP requires adjustment of the price level to the higher EU levels.	Structural funds and programmes – PHARE, SAPARD, ISPA
			Level of subsidization is lower in the CEECs than in the EU.	
			The new member states may belong to the periphery, while the economic activity is concentrated in the core of the old EU member states	
			The agricultural subsidies will favor current EU members over future ones.	

CHAPTER 3

BULGARIA'S MEMBERSHIP IN THE EUROPEAN UNION

In this Chapter we give answer to the **third sub question**: *What are the most important costs and benefits for the EU and for Bulgaria, after the new member entered into the Union? Who benefits more from enlargement - EU or the new member state - Bulgaria?*

3.1. Bulgaria toward EU accession

As, we have already seen, from the previous chapters, the accession in the EU of countries from Central and Eastern Europe, helps a lot for their successful reforms and development after 1990s. Until now, we have talked mainly about the EU enlargement with the 10 new CEECs members in 2004. We made an overview of the economic costs and benefits of this enlargement, for both sides – the old and the new member states. In the current Chapter 3, we would like to focus on the last enlargement of the EU – in 2007, with the accession of the two Eastern European countries – Bulgaria and Romania. Since, the main goal of the thesis research is to investigate particularly Bulgaria's accession in the EU, we will concentrate mainly on this country. More specifically, we will draw your attention on the main economic costs and benefits for both – Bulgaria and the EU, of Bulgaria's membership in the Union.

When the EU, decided to start negotiations of Central and Eastern European enlargement in 1990s, the state of Bulgaria was considered as very unlikely case for deepening the relations with the EU. There were a lot of doubts if the political elites of the ex-socialist state of Bulgaria will be able to handle the challenges of the democracy, the free market economy and the rules of the capitalism. Although, EU was very skeptical toward this Balkan country, they decided at least to give it a chance to try. In 1995, Bulgaria submitted its application for EU membership[54].

Bulgaria's relations with the EU developed in the context of the EU general policy toward the former communist bloc countries after the fall of the Berlin wall. For the

[54] European Commission, European Union and Bulgaria, History of Relations, http://ec.europa.eu/bulgaria/abc/pre_accession/history_relations/index_en.htm, visited on 20.06.2011

CEECs the Western model of democracy and capitalism looked very attractive. The citizens of these countries were quite eager to “return to Europe” and to get away from the restricted communist way of life. In contrast, right after 1990s, in Bulgaria, there were some political elites who did not want to make liberal reforms. On the contrary, they pursued policies that contradicted the official objective of fostering political pluralism and a market economy[55].

In the late 1989 – early 1990, Bulgarian elites presented their desire to be included in the European integration project. In December 1990, the Grand National Assembly of Bulgaria passed a resolution expressing the will to become a member of the European Community. However, when it came to the issue about deep and fast reforms, Bulgaria’s leaders, who were still from the communist *Nomenklatura,* did not show much readiness. Bulgaria’s ex-communists, who remained in power after the parliamentary vote in June 1990, were much more in favor to preserve the strong relations with the Soviet Union. Serious support of the communist regime among the leaders of Bulgaria was most obvious in August 1991 when a big group of opponents were against Gorbachev’s reforms.

Nevertheless, from 1990s, Bulgaria was included in all programmes made by the European institutions in order to encourage the transition to democracy and market economy in Central and Eastern Europe. In May 1990, Bulgaria and the European Community signed the Trade and Cooperation Agreement. In the same year Bulgaria was included to the PHARE programme (Poland and Hungary: Assistance for Restructuring Their Economies), made for EC aid toward the transition countries of Eastern Europe. By 1995, Bulgaria had received 476.5 million European currency units[56].

In 1992, EU negotiated more comprehensive Association Agreement with Bulgaria, also known as the European Agreement. It was similar agreement to those adopted for Poland, Hungary, and Czechoslovakia. This agreement was officially signed in 1993 and led to the liberalization of trade over a period of ten years and provisions of

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55 Milada Anna Vachudova, (2005) *“Europe Undivided: Democracy, Leverage, and Integration after Communism”*, Oxford University Press, USA (April 1, 2005)

56 European Commission, *The PHARE Programme Annual Report 1995*, COM(96) 360 final, 23 July (Brussels: European Commission, 1996).

technical and financial help for the reform process[57]. **The economic clauses were very significant, because by the mid-1990s**, **the EU became Bulgaria's main trading partner,** accounting for more than half of both imports and exports. This was a really important step of Bulgaria's economic development, because before it was exclusively oriented toward the Soviet market.

However, the economic performance of Bulgaria was very slow and undeveloped. The year 1997 was a very important year for the country, when the government failed to carry out crucial structural reforms in regard to launching privatization, cutting subsidies to loss-making enterprises, consolidating the banking sector and stabilizing the national currency. Bulgaria paid high price when in early 1997, the inflation jumped to 547 %, pushing the country into the economic downfall. In order to restore the macroeconomic stability, Bulgaria had to agree to implement strict measures proposed by the International Monetary Fund (IMF) in 1997. These measures included currency board intended to "tie the hands" of politicians in the area of monetary policy in an attempt to regain market credibility[58].

After this serious economic crisis in 1997, Bulgaria was regarded as completely unprepared to integrate into the European Single Market. The delayed economic transition was very crucial for country's membership in the EU. Unlike most of the other CEECs, Bulgaria was far below the 1989 levels. The country reached its respective 1989 levels in the mid-2000s. Finally, the Commission concluded that the country do not have functioning market economy or fit to the competitive pressure within the EU market[59].

Right after 1990s, the country had to face the consequences of the communism in the post-communist reality. By that time, Bulgaria suffered weak administration, poor judiciary capabilities, slowly performing economies. From 1990s to 2000, Bulgaria

[57] Karen Smith, *The Making of EU Foreign Policy: The Case of Eastern Europe* (Basingstoke, UK: Palgrave Macmillan, 2004), 91-98; and Dimitris Papadimitriou, *Negotiating the New Europe: The European Union and Eastern Europe* (Aldershot, UK: Ashgate, 2002).

[58] Vesselin Dimitrov, "*Bulgaria: The Uneven Transition"* (London: Routledge, 2001); and Krassen Stanchev et al., *Anatomiya na prehoda: stopanskata politika na Balgariya ot 1989 do 2004* (Anatomy of transition: Bulgaria's economic policy from 1989 to 2004) (Sofia, Bulgaria: Ciela, 2004).

[59] European Commission, Commission Opinion on Romania's Application for Membership of the EU, DOC 97/18, 15 July (Brussels: European Commission, 1997); and European Commission, Commission Opinion on Bulgaria's Application

suffered a period of political instability. Finally, in 2001 (with the entrance into office of the new Prime Minister Simeon Borisov of Saxe-Coburg and Gotha, Tsar Simeon II), the country started to stabilize a little. For the first time after the fall of the Communism, a majority managed to stay a full term in Parliament and its government served a full term in office. The positive changes included strengthening of the institutions, consolidating the party system, separating the power, decentralizing certain aspects of governance had co-existed with negative aspects such as political clientelism, criminalization of the economy and society, partisan control of the administration and the judiciary system *(Kolarova, 1999, p. 151–160).* However, it is regarded that a serious obstacle toward real reforms was the continuation of former communists in political power in the first years of transition, which put into question the issues of democratization and liberalization *(Ganev, 2001).*

The delayed accession of the Balkan country aimed to send strong signal to Sofia about its work on meeting the Copenhagen criteria. At the Helsinki European Council in December 1999, the Commission was reluctant to propose the opening of accession negotiations with Bulgaria. However, the pressure by key member states like United Kingdom stimulated the good attitude toward the country and the opening of negotiations. Bulgaria were invited to begin accession talks together with the other CEECs in 2000.

3.2. Reasons for Bulgaria's will for EU accession

It is interesting to see what makes the EU so attractive for many countries, including Bulgaria. Why more and more states want to give up much of their national sovereignty in order to join the EU? The answer is hidden in two important areas – economic and political. These are the two characteristics valid for the first wave of joining states – Great Britain, Ireland and Denmark *(Laurent, 1994, p. 125–6).* Spain and Portugal desired membership in order to root democracy in their political systems and escape communism *(Wallace, 1989).* Together with Greece they gained significant economic benefits of membership. For example, their GDP raised sharply in the 1980s from level much below the EU average in the mid-1970s. This is conceptualized by the liberal theory of international relations *(Moravcsik, 1997; see* *also Chapter 1 of the thesis*), which sees states as agents representing all of the preferences of domestic societal groups.

In the case of Bulgaria, the EU helps for its economic development. This is done by making the country attractive for foreign investments and binding it to system of politics that awards domestic democratic practices by avoiding illiberal political sentiments[60].

Initially, Bulgaria was accepted as country with highly unfavorable conditions which do not match the requirements for an EU membership. Bulgaria's preparation for a future accession in the Union includes two processes: 1) the process of Europeanization where the EU politics and economic dynamics become part of the national politics and policy-making *(Ladrech, 1994);* The process of Europeanization coincide with the second process of 2) modernizing the political, economic and social systems, together with the transition to liberal democracy and market economy.

As a result of all of the political and economic problems that the country faced in its post-communist era, membership in the EU (as well as in NATO) was seen as a possible solution of its problems. People hoped that the integration into a framework of consistent liberal democratic practices and international cooperation will foster country's democratic development.

The accession into the EU was seen as the only successful option. This statement can be proved by the many issues from the EU agenda that Bulgaria let into its domestic politics. The country agreed not only to fulfill the Copenhagen membership criteria and the incorporation of the *Acquis communautaire* in their legislation, but also to improve the respect for minority and disabled people's rights, to cope with environmental issues; expanding administration and research centres dealing with European integration; higher education courses in European studies; anticorruption legislation; constitutional reform, energy production adjustment, etc. All of these requirements transform the domestic politics of Bulgaria with an exclusive priority

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[60] Victor D. Bojkov (2004), *"Neither here, not there: Bulgaria and Romania in current European politics",* Communist and Post-Communist Studies 37 (2004) 509–522, London School of Economics and Political Science, Department of International Relations

toward EU integration. However, it cannot be different because EU membership brings crucial economic and geopolitical benefits, especially compared to the uncertain and possible catastrophic costs of being left behind as others move forward *(Moravcsik & Vachudova, 2003, p. 43).*

Furthermore, the new member states such as Bulgaria receive financial support for reforms and improvement which brings also big long-term gains. That is why it is logical for a post-socialist country like Bulgaria to be eager to join the Union and ready to do all the required steps toward this goal[61].

Finally, it can be said that Bulgaria's pro-Euro-Atlantic political stance aimed also to avoid negative connotations of the country's position. With its policy within wider EU and NATO, the country tried to show that in the South East Europe *"it is not a losing card"*[62]*.*

3.3. Reasons for EU's will to accept Bulgaria

There are different views and explanations of EU willingness to give Bulgaria the opportunity of joining the Union. It seems like EU's interest of Bulgaria's membership is more beneficial than its exclusion from the Union.

The Eastern enlargement of the EU is a strategic undertaking, aiming at economic, social and political wellbeing for all European countries and their people. Even in the most thoroughly designed social projects, however there is no guarantee that everybody will get equal gains at the same time. The final outcome may not be equally beneficial for all participants in the integration process.

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[61] Victor D. Bojkov (2004), *"Neither here, not there: Bulgaria and Romania in current European politics",* Communist and Post-Communist Studies 37 (2004) 509–522, London School of Economics and Political Science, Department of International Relations

[62] Editorial "Romania and Bulgaria: between EU and NATO" by Alina Mungui-Pippidi, Romanian Academic Society, http://www.sar.org.ro/

3.3.1. Bulgaria's mediating role on the Balkans

The fifth round of enlargement in 2007 with the accession of Bulgaria and Romania was regarded as a significant success for the EU. The accession of these two countries brings stability and prosperity to the Union's Eastern borders[63]. Bulgaria has an important role and responsibility in blocking any spillover of danger and instability from the Balkans to the rest of Europe. It was believed that the country will contribute to the relation with Russia. Sofia, similarly to other national capitals, considers Moscow as a big power that deserves attention and a strategic partnership with the Union. This shows the importance for the EU to go global and develop a strategic vision. Otherwise, it will remain little more than a trading bloc and a tourist attraction, geo-politically insignificant for Russia, China and other (emerging) powers.

Furthermore, one of Bulgaria's competitive advantages is the size of the country. It may realize its potential without facing the constant military or economic threats that confront world powers[64]. This applies in different ways to small countries such as Luxembourg, Denmark, Norway, Switzerland and Ireland (in the latter case until the financial crisis struck).

Smallness has many advantages: Bulgaria, unlike Russia, can play a very constructive role in trans-regional and cross-European affairs. It can be seen as Luxembourg which played a key role in the creation of the original EU of 6 countries and later the monetary union. When, we compare Bulgaria with Poland or Hungary in its stance toward Ukraine and Belarus, Sofia is much more cautious than these two and has punched below its weight.

On several occasions, Bulgaria has missed chances to intervene and recalibrate national strategy or shape European policy. Paradoxically, Serbia is absolutely crucial to Bulgaria's economic development, because it stays in Bulgaria's key trade routes, yet the Bulgarian political leadership chose to follow the "pro-European" path

[63] M. Humphreys, Executive summary, **Conference on Bulgaria and the EU: Before and After Accession,** 27 April 2009, Maison de l'Europe, Luxembourg, Luxembourg Institute for European and International Studies

[64] Alfred Steinherr, Executive summary, **Conference on Bulgaria and the EU: Before and After Accession,** 27 April 2009, Maison de l'Europe, Luxembourg, Luxembourg Institute for European and International Studies

and recognised Kosovo's independence. Similarly, on Moldova, Sofia played a moderating role in the 1990s and could have projected more influence. The same lesson applies to Macedonian issues, where Bulgaria fails to communicate to other EU members that "Macedonian" describes a well-established regional identity in Bulgaria, alongside a more recent national one in the Republic of Macedonia. In relations to other states in the region with ethnic or territorial problems, Bulgaria could play a far greater mediating role than it has done so far, rather than simply opt for the prevailing mood in Brussels[65].

On the other hand, there are several weaknesses of Bulgaria. First of all is its transition from being an object to being a subject of international relations; Secondly, the lack of any cost evaluation of getting involved in coalitions or alliances; which leads to the third weakness: the lack of identifying Bulgaria's "comparative advantage" and of defining the country's priorities[66].

Another important issue concerning Bulgaria weak sides is raised by *Gergana Noutcheva (2008)* who asks the question why the EU's soft power is not working in the Western Balkans? According to her, the Union should not forget that the carrot of EU membership is trying to achieve more than in the case of Bulgaria and Romania. In the case of the Western Balkans, the process of accession is not just about meeting the standards of the common market but also involves complying with the criteria for state building and security. The EU interventions in the name of democracy and higher economic standards are legitimate goals and they are accepted as such by the societies in the Western Balkans. This is not the case with the EU's interventions in statehood matters in the region which are viewed as lacking legitimacy and therefore can provoke large-scale popular alienation and resentment against the EU. Serbia and Bosnia and Herzegovina are such examples.

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[65] Executive summary, **Conference on Bulgaria and the EU: Before and After Accession,** 27 April 2009, Maison de l'Europe, Luxembourg, Luxembourg Institute for European and International Studies

[66] V. Shopov, Executive summary, **Conference on Bulgaria and the EU: Before and After Accession,** 27 April 2009, Maison de l'Europe, Luxembourg, Luxembourg Institute for European and International Studies

Even though the EU had to pay some costs for Bulgaria's adjustment of legislation and establishing of functioning democracy and market economy, its membership has an important impact in the Western Balkans within the EU context[67].

3.3.2. Bulgaria – one good example on the politically unstable Balkan Peninsula

United Kingdom had an important role in stimulating the accession negotiations with Bulgaria. Western policy makers decided that it is reasonable to reward the country's reformist center-right governments for their firm support during the Kosovo war in April-June 1999. This was result also of their fear that the EU's "no" to Bulgaria and Romania might destabilize further Southeastern Europe. Bulgaria looked like a positive example in front of the politically unstable and conflict region of the Western Balkans. These geopolitical factors helped for the favorable attitude toward the two countries and the opening of accession negotiations. Through this act, the EU wanted to send a signal to the rest of the region that choosing the path of reform paid off. As a result, Bulgaria and Romania were invited to begin accession talks in February 2000, together with Latvia, Lithuania, Malta, and Slovakia[68].

3.3.3. Bulgaria – the best example for ethnic peace on the Balkans

In contrast to Romania and its problems with the minority group of Hungarians, Bulgaria dealt successfully with the challenge of ethnic conflict. To its largest minority – the Turkish, Bulgaria gave many rights – such as political channels of representation, and Television news in Turksih, on the Bulgarian National Television. Many say that the ethnic stability in Bulgaria, in the post socialist period was due to the ethnic based party – Movement for Rights and Freedom (DPS). It was an important coalition partner in every government since the start of the transition. The ethnic peace in the country was an important positive point for facilitating country's accession in the EU.

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[67] Executive summary, **Conference on Bulgaria and the EU: Before and After Accession,** 27 April 2009, Maison de l'Europe, Luxembourg, Luxembourg Institute for European and International Studies
[68] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114

Another reason for EU willingness to accept Bulgaria, was because its membership would have had great benefits for the Union's companies. This would happen through the liberalization of trade and capital flows. After accession, the companies increased exports to Bulgaria. It turned out that the trade liberalisation was more beneficial for the EU countries as they were better prepared than Bulgaria or the others CEECs.

3.4. EU conditionality or how EU stimulated the real reforms in Bulgaria

The most important tool for the integration of CEECs, Bulgaria and Romania in the EU was the conditionality principle. It meant that the countries will receive full membership only if they fulfill the Copenhagen criteria. In other words, it means that in order to be accepted as successful candidate, a country must show that it supports the principles of democracy and its economy functions according to the market rules. This condition stated by the EU, stimulates these countries to initiate reforms in order to benefit from Europeanisation[69].

However, the passive attitude of Bulgaria and the decline of reforms have advantages for certain elites in the country, which do not want to show the sources of their domestic power. They are not in favor of the democratic reforms and the establishment of accountability and transparency. Researchers on the topic say that the initial stages of post-communist transition toward democracy and EU integration often create groups of winners – who have interest in delaying reforms[70]. They do this by selectively introducing EU-compatible norms or by prolonging the transition period during which the rules of the new system are rewritten, previous elites can profit from their stay in office to divert public resources toward favored interest groups

[69] Heather Grabbe, "Europeanisation Goes East: Power and Uncertainty in the EU Accession Process," in *The Politics of Europeanisation*, ed. Kevin Featherstone and Claudio Radaelli (Oxford: Oxford University Press, 2002); and Frank Schimmelfennig and Ulrich Sedelmeier, eds., *The Politics of European Union Enlargement: Theoretical Approaches* (London: Routledge, 2005).

[70] Joel Hellman, "Winners Take All: The Politics of Partial Reform in Post-Communist Transitions," *World Politics* 50, no. 2 (1998): 203-34; and Venelin Ganev, "The Dorian Gray Effect: Winners as State Breakers in Post-Communism," *Communist and Post-Communist Studies* 34, no. 1 (2001): 1-25.

and political clientele[71]. Finally, this partially reformed polities result in corrupted state institutions and mismanagement of the economy.

In the pre-accession period, the standards and norms demanded by the EU were applied in Bulgaria only like an imitation of reforms, just for the EU's eyes only. In reality, the reforms remained on the surface and not much has changed. However, EU has its special techniques which silently force Bulgaria to comply to full extend with the Union's criteria. EU pre-accession conditions made it quite costly for the governing elites to deviate in policy terms from the reform track[72]. For example, for non compliance, EU makes market sanctions in the form of low foreign direct investment (FDI) flows and high costs of external borrowing. This, together with negative Commission assessments and exclusion of the group of the good performance toward EU accession, tried to persuade the illiberal elites in Bulgaria for compliance. In the same time these elites were tempted to privilege personal patronage networks to adopt transparent rules-based governance. The most criticized sectors for reforms in Bulgaria were the judiciary system, the public administration, and the corruption on the high levels of governance[73].

Exactly the EU conditionality helped to stimulate a consensus on pro-EU reforms in Bulgaria. The most important motivation for reforms is the condition that if Bulgaria shows successful reforms, it will be granted with a full membership in the EU.

The first official assessment of the state of democracy and market economy in Bulgaria measured by the broadly defined Copenhagen criteria was released in July 1997. The development of democracy was not in question. However, the quality of governance and the rule of law were judged unsatisfactory. There were a lot of criticism toward the structure of Bulgaria's institutions and policies. The European Commission made regular reports that criticize the most important problems in Bulgaria: the judiciary system, the public administration, corruption in the state

[71] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114

[72] Richard Bronk, "Commitment and Credibility: EU Conditionality and Interim Gains," European Institute Working Paper 2002-02 (London: London School of Economics and Political Science, 2002).

[73] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114

structure, and the treatment of minorities and marginalized social groups (the Roma, children in orphanages, and patients in mental health institutions).

3.5. Economic Costs and Benefits for Bulgaria of its membership in the EU

By joining the EU, Bulgaria entered into region of peace, stability and security. Its membership there helps for country's improvement of the health, social and environmental policy. It gives better trade opportunities by opening the market for foreign direct investments (FDI) and increasing domestic demand. The free movement of labor force, goods, services and capital is also an important benefit of the membership in the EU.

Judging by the available literature on the topic, we may say that the most significant benefits for the new member state of Bulgaria in the EU are economic. Although, Bulgaria is regarded as the poorest in the EU-27 member states, the low GDP has allowed for significant GDP growth rates between 2000 and 2008. This coincided with the EU accession negotiations and the EU membership.

3.5.1. Foreign Direct Investments (FDI)

One of the most important benefits for Bulgaria from the pre-accession process as well as of the accession in the EU was the FDI inflows. In the period 1992 – 1997, the total FDI in Bulgaria amounted to $1089 million while in the three years period 1997 – 1999 only financial involvement exceeded $2 billion[74]. Along the years the FDI increase significantly.

In 1997, Germany was the largest investor-nation in Bulgaria with 21.20%. It was followed by 45 other countries, some of which are Belgium, Netherlands, Great Britain, USA, Austria, etc. Even though the FDI increased the GDP of Bulgaria, it was the lowest – 13.6%, compared to the average contribution of foreign investments to

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[74] See Table 1 at Tzveta Zafirova Jordanova (1999), *"Foreign direct investment (FDI) in Bulgaria – the basis for the formation of strategic alliances of the type "East – West" in the process of preparation for joining the EU",* University of Economics, Varna, Bulgaria, Facta Universitatis, Series: Economics and Organization Vol. 1, No 7, 1999, pp. 57 – 62

the gross national product in the EU – 19.8%. Nevertheless, these foreign investments were significant for the market economic development of the Balkan country.

In terms of economic branches, largest FDI was directed to industry, trade and finances. Less amount of capital invested in telecommunications, agriculture and buildings. Of a total of $2.7778 billion, by the end of 1999, $1.506 billion FDI (15.21%) was invested in industry. In the second place was trade - $543 million or 9.55%. Technologies and finances were in the third place with $324 million or 11.66%. Tourism ranked fourth with $143 million or 5.15%[75]. The reason for this distribution of FDI was the attractiveness of the mentioned sectors of economy by that time in Bulgaria.

In industry, the leader was “Sodi - Devnya”, where the Belgium company “Solvey” has invested $160 million. In transport the leader is "Willi Betz" - a German firm, which has bought SOMAT. The largest investor in tourism is also a German company – “Ivan Zografski”, which has bought hotel "Vitosha" in Sofia.

According to the Foreign Investment Agency (FIA), for the period 1992 to 1999 – Germany $426 million and Belgium $323 million were the dominant investors in Bulgaria. After them come the Netherlands, United Kingdom, Russia and USA. The amount of their investments varied between $100 and $240 million for each country.
More than 1/3rd of the investors choose to take part in privatization; 23% preferred to choose building of new production capacities. The third mode of FDI was the acquiring private firms – 22% of all transactions. Large FDI entered into Bulgaria via small number of deals with large companies. Along the years, especially after 1997 and 2000 the FDI increase significantly. The main reason was the stabilization of the political situation in Bulgaria. The legislation started to become more liberal and new laws allowing foreign participation were accepted. The FDI flows helped for the stabilization of the banking system, the decrease of the unemployment, by offering jobs and overall development of the country. Furthermore, the FDIs in the pre-

[75] Ibid, Table 2

accession years increase the economic development of Bulgaria and made it better prepared for its future accession in the EU and its Single Market.

Along the years the type of foreign investments in the country has changed. In the beginning, large share of FDI was attracted by the privatization of state-owned enterprises. When the privatization program came to an end, capital flows aimed at acquiring local companies were replaced by investments focused on making profitableness of privatized structures and developing ecological projects. Around 1999 the FDI were directed to large Bulgarian enterprises. However, after 2000 they reoriented toward small and medium sized companies (SMEs) which functions as suppliers of multinational companies. It is because the SMEs are more adaptable and their production expenditures are lower.

By the end of 2005, the inward FDI stock of Bulgaria exceeded $9 billion while in Romania were close to $24 billion *(UNCTAD, 2006: 306).* The share of inward FDI stock in GDP reached 34 and 24%, respectively, exceeding the world average. In Bulgaria, a substantial part of capital investments comes from FDI inflows. This reliance on big FDI inflows is not a new phenomenon in neither in Bulgaria nor in Romania. Almost 70 years before, in 1936, foreign participation in 1936, foreign participation in the paid-up capital of Bulgarian joint-stock companies represented almost 43% of the national total *(League of Nations, 1937, p. 74)*[76].

During the pre-accession recession of FDI in the EU-10 in 2003, the ratio of FDI in the two latecomers countries against the other 10 new members of 2004, jumped over 30%. Unlike the other 10 CEECs, Bulgaria and Romania did not suffered from no FDI in pre-accession year (2006). On the contrary, inflows made a record of $5 billion in Bulgaria and $10 billion in Romania.

The sustained growth of inward FDI in 2006 reflected not only the continuation of privatization, but also the effect of announcements about accession. This turned out

[76] Kálmán Kalotay (2008): *FDI in Bulgaria and Romania in the Wake of EU Accession*, Journal of East-West Business, 14:1, 5-40

to have statistically significant effect on FDI inflows *(Clausing and Dorobantu, 2005)*[77].

After 2000, Bulgarian economy was seriously reliant on FDI capital-inflows than other CEECs. These inflows comprise approximately 9.9% of GDP per annum and it is rising[78]. In comparison, the average share of FDI in GDP in the other CEECs is 3.7% (Poland: 2.2%; Romania: 5.6%; Slovakia: 4.1%; Slovenia: 1.2%; Hungary: 3.1%; Czech Republic: 4.4%). This significant difference shows the smaller GDP of Bulgaria than that of the other countries from that region. It also shows that the country may experience serious difficulties if there is a sudden withdrawal of FDI inflows. This is expected to happen under circumstances of restricted bank lending. According to the Ministry of the Economy of Bulgaria it was expected that FDI in 2009 would contract to 7% of GDP, compared to 16% of GDP in 2008[79].

3.5.2. Common Agricultural Policy (CAP)

In comparison with other applicants for membership Bulgaria has one substantial potential disadvantage, mainly the lack of macroeconomic stability. In the field of agricultural policies the combination of policy instruments implemented in Bulgaria has been inconsistent with the instruments used by the CAP; and to a certain extent with the instruments used by the Visegrad group.

a) Rural areas

In Bulgaria the rural areas are much more than those in the old members in the EU. OECD defines “Predominantly rural areas” as areas where more than 50% of the population in the given territory living in rural units with less than 150 inhabitants per km^2 .Over three-quarters of Bulgaria and over 60% of Romania are classified as

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[77] Ibid

[78] Ministry of the Economy and Energy of the Republic of Bulgaria, Investment Policy Directorate, 2005. FDI in 2007 was 22.6% of GDP and in 2008, 16% of GDP according to data of the Bulgarian National Bank.

[79] Diana Bozhilova (2010), *“When Foreign Direct Investment is Good for Development: Bulgaria’s accession, industrial restructuring and regional FDI”,* GreeSE Paper No. 33, Hellenic Observatory Papers on Greece and Southeast Europe

predominantly rural. It is higher than in the EU where it is close to half. In Bulgaria 58% of the population live in such areas, while in Romania they are 47%. In the EU-15, the share is 16%.

The differences in farm and rural structure are a result of the socialist legacy. During the Socialist era, Bulgaria and Romania were characterized by a farm structure of large co-operative and state farms (the "collectivized sector"), supplemented by subsidiary household plots. The average size of the collectivized farms was between 2 000 and 3 000 hectares, which exceeds the size of the typical family farm in the EU-15. At the moment Bulgaria (and Romania) has very fragmented farm structure which is the result of radical decollectivisation and restitution of land to previous owners. Consequently, over 90% of farms are less than 5 hectares in size, poorly capitalized, providing low returns to family labor[80].

In the rural areas of Bulgaria, GDP per capita is around one quarter of that in EU-15 *(C. Hubbard & L. Hubbard, 2008, table 7).* Long term unemployment is much higher in Bulgaria, however similar to CEECs-10. There are significant differences also in the service sector, which is poorly developed in Bulgaria and Romania. This is partly because of the difference in GDP and purchasing power.

The socio-economic indicators for rural areas in Bulgaria show the difficulties of structural change in the post-socialist years. The European Commission reported that this remains a serious challenge for the country.

b) <u>The Importance of Agriculture in Bulgaria</u>

One of the most debated "chapters" during the EU accession negotiations of Bulgaria's membership was the agriculture. The reasons for this are that this sector was very important for the new member state and therefore caused some issues for the old members in terms of financial support. Almost half of the EU budget was allocated to agriculture (43% or nearly 50 billion euro in 2005). The budgetary costs

[80] Table 6, Carmen Hubbard and Lionel Hubbard (2008), *"Bulgaria and Romania: Paths to EU Accession and the Agricultural Sector"*, Centre for Rural Economy Discussion Paper Series No. 17, Centre for Rural Economy, University of Newcastle Upon Tyne

also extended the CAP, which result in higher prices for agriculture commodities and food products than it would be under the free market conditions. Since the farm price support is gradually reduced and replaced by direct payments to farmers, agricultural prices should fall, but the costs for the taxpayers will increase. At the Copenhagen Summit in 2003 it was negotiated to grant full direct payments to the new member states and adopt a graduated approach – 25% of the EU level in the first year of accession, 30% in the second year, etc. However, the CAP has significant effect on farmers' incomes, the agricultural sector and the overall economy.

Romania has 15 million hectares of agricultural land, which represents 62% of its total area. This ranks the country as the second largest agricultural producer among the CEEC (after Poland) and the sixth within the EU-27. Although, Bulgaria is half the size of Romania, over 50% of its territory is agricultural land (CEC, 2002). Before 1990, agriculture was regarded as a result of the poor economy related with the communist regime which focused mainly on industrialization. However, the transition to a market economy had enhanced the role of the agricultural sector. In the first ten years of accession this sector turned out to be very important for the country with its contribution to the total GDP with 11%. Furthermore, the agriculture sector provided social safety-net against increasing unemployment *(CEC, 1998; Trzeciak-Duval, 1999; Pouliquen, 2001)*. In Bulgaria, the share of the agriculture labor force in total employment has stabilized in the last years at approximately 10% [81].

c) Common Agricultural Policy (CAP)

The main goal of the Common agricultural policy (CAP) is to provide farmers with a reasonable standard of living, consumers with quality food at fair prices and to preserve rural heritage. The CAP combines a direct subsidy payment for crops and land which may be cultivated with price support mechanisms, including guaranteed minimum prices, import tariffs and quotas on certain goods[82].

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[81] Carmen Hubbard and Lionel Hubbard (2008), *"Bulgaria and Romania: Paths to EU Accession and the Agricultural Sector"*, Centre for Rural Economy Discussion Paper Series No. 17, Centre for Rural Economy, University of Newcastle Upon Tyne

[82] Europa, EU Budget – facts and myths, Press release 2007, http://europa.eu/ , visited on 23.08.2011

In 1990s, in comparison with the EU, Bulgaria was characterized by significantly lower levels of protection to farmers (OECD, 2001). In the livestock sector the agriculture production fell significantly due to the collapse of the COMECON market (Council for Mutual Economic Assistance, in the Russian Federation). This affected also consumer purchasing power which decreased and instabilities resulted from privatization in food supply chains *(Swinnen & Rozelle, 2006).* Thanks to the EU, the government intervention in the agricultural sector had been strengthened, due to the adoption of the CAP.

In Western Europe, the EU agricultural policy reinforced the rule that, farming is mainly a family business. Both Agenda 2000 reforms and the Mid Term Review of the CAP aimed at safeguarding family farms and medium sized family farms. In contrast, as a result of their socialist legacy – Bulgaria, as well as some other CEEC, has been characterized by historical absence of such “medium sized family farms”. It has different actors engaged in agriculture and farm sizes.

Exactly the different farming structure in Bulgaria and other CEE countries resulted in many difficulties concerning the adoption of the CAP. Implementation of the CAP required from the countries to have well developed system of paying direct payments, an instrument of agricultural policy which had not been used during the socialist and post-socialist era, as well as complete land register on which to make payments. In the beginning, the direct payments under CAP were introduced as temporary measures for compensating farmers in EU-15 for price cuts. Along the years, they have become an established support mechanism. It aimed to play “a central role in ensuring a fair standard of living and stability income for the agriculture community” (CEC, 2002, p.7). However, it is questionable whether this type of assistance for family model of agriculture will deliver the same welfare benefit for Bulgaria[83].

[83] Carmen Hubbard and Lionel Hubbard (2008), *“Bulgaria and Romania: Paths to EU Accession and the Agricultural Sector”*, Centre for Rural Economy Discussion Paper Series No. 17, Centre for Rural Economy, University of Newcastle Upon Tyne

The EU agriculture subsidies for Bulgaria and CAP are one of the main driving forces for cultivation of land in the country. With the help of the EU, the farmers will be eligible to apply for subsidies. Farmers may receive aids depending on the size of the arable land and the number of the bred animals. After Bulgaria's membership in the EU around 100 000 farmers were eligible to apply for EU's agriculture subsidies. The main obstacles for the sector's preparation before accession came from the registration of land in sizes appropriate for funding under the EU schemes. The National Rural Development Plan covers the period from 2007-2013. The amount of the resources in the program are approximately 3 242 billion euro[84].

3.5.3. Financial assistance – PHARE, ISPA, SAPARD

Another important benefit for Bulgaria of its membership in the EU is the financial assistance. For the period 2004-2006 the EU financial assistance for Bulgaria raised by 30%. The country received around € 500 million per year reaching 2% of its GDP. The EU's pre-accession aid to Bulgaria was provided by three main instruments: the **PHARE** programme, **ISPA** and **SAPARD.**

a) PHARE programme

The PHARE programme – established in 1989 and re-oriented in 1998 towards preparation for accession – finance projects linked to the transposition of the *Acquis communautaire* and institutional building across all sectors. Many of these projects are delivered by twinning. The twinning provides framework for administrations and semi-public organization in the candidate countries to work with their colleagues in Member States in order to implement the *acquis communautaire.*

PHARE also finances investment projects in the areas of cross-border co-operation; from 2000 also the economic and social cohesion that are not covered by the ISPA

[84] Agricultural Land, Practical Advice. "EU subsidies For Bulgaria", http://www.agricultural land.com/article/eu_subsidies.html, visited on 18.08.2011

and SAPARD instruments. PHARE helps to meet the cost of participation in EC programmes and agencies.

In the period 1992 – 2002 the PHARE programme committed a total of € 1.35 billion to Bulgaria. In 2003, it allocated € 94.9 million for the National Programme, complemented by € 28 million for Cross Border Co-operation (CBC). In 2004 the PHARE national programme spent € 172.5 million.

In 2004, the Cross Border Co-operation (CBC) programme for Bulgaria totals € 36 million. They are allocated as follows: € 20 million for the CBC Bulgaria-Greece, € 8 million for the CBC Bulgaria-Romania, € 3 million with Turkey, € 2 million with the Former Yugoslav Republic of Macedonia and €3 million with Serbia and Montenegro. Most of the projects under the PHARE budget 2004 covered a multi-annual period with indicative budgets and actions for 2005 and 2006.

The PHARE 2005 national programme allocated a total commitment of € 174.9 million In the same year, the CBC programme totals € 40 million, where € 20 million for the CBC Bulgaria-Greece, € 8 million for the CBC Bulgaria-Romania, € 5 million with Turkey, € 3 million with the former Yugoslav Republic of Macedonia and €4 million with Serbia and Montenegro. Furthermore, Bulgaria benefits from PHARE-supported horizontal and multi-country programmes, including TAIEX (Technical assistance office) and the SME (Small Medium sized Enterprises) Finance Facility[85].

Except the annual PHARE support, Bulgaria received additional funding in relation of Bulgaria's commitment to close units 1-4 of the the Kozloduy nuclear power plant.

b) ISPA programme

The ISPA programme (started in 2000) supports environmental and transport infrastructure projects. In 2000, from this programme, Bulgaria was allocated € 104.0 million. In 2001 they were € 106.8 million, and in 2002 - € 10.6 million. For 2003, they

[85] European Commission, Enlargement, Bulgaria, "EU-Bulgaria relations" (2007).. http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm, *visited on 18.08.2011*

were €112.6 million. In 2004, the sum was €134.8 million. The framework of ISPA programme is governed by environment and transport strategies prepared by the Bulgarian authorities and agreed with the European Commission. In the transport sector, important projects were approved for ISPA funding in 2000 to 2003. They concerned especially the transit roads rehabilitation and the Sofia airport extension and reconstruction.

In the environmental sector, ISPA was focused on projects located especially in the field of urban wastewater treatment plants and the rehabilitation of wastewater treatment facilities for a set of towns on the sensitive Black Sea Basin. In 2005, the allocation from the ISPA programme was € 134.8 million[86].

c) SAPARD programme

The SAPARD programme (started in 2000) supports agricultural and rural development measures. For 2000 Bulgaria's allocation from SAPARD was € 53 million, for 2001 - € 54.1 million, and for 2002 - € 55.6 million. The allocation for 2003 was € 56.5 million and the indicative allocation for 2004 was € 68.0 million. In contrast to PHARE and ISPA, SAPARD is a decentralised programme under which the Bulgarian authorities themselves select projects consistent with the agreed programming framework.

The SAPARD programming framework is governed by a multi-annual Rural Development Plan, which includes investments in agricultural holdings (30.4% of total allocation of EU finds), improvement of processing and marketing of agricultural and fishery products and construction of wholesale markets (23.2%), forestry, investments in improvement of the processing and marketing of forestry products (8.1%) and renovation and development of villages, protection and conservation of rural heritage and cultural traditions (7.7%). In 2005, the SAPARD programme allocated € 68 million.

[86] European Commission, Enlargement, Bulgaria, "EU-Bulgaria relations" (2007). http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm, *visited on 18.08.2011*

The other EU institution which is actively involved in Bulgaria is the European Investment Bank (EIB), which provides large scale loans to projects aimed at helping the transition to a market-based economy and meeting the acquis. EIB co-ordinate its actions with the PHARE programme, as well as with EU Member States' financing institutions and with the European Bank for Reconstruction and Development (EBRD). The activities of the European Investment Bank in Bulgaria started in 1991. Since then the EIB has granted over € 1 billion to priority projects in the country. Around 65% of this amount went to the transport sector. The rest financed key infrastructure and industrial projects with a European dimension. The EIB investments in Bulgaria from 2000 to 2005 are the following: € 160 million (2000), € 130 million (2001), € 87 million (2002), € 60 million (2003), € 40 million (2004) and € 30 million (2005).

In addition, the Accession Treaty has foreseen for the first year of accession a Transition Facility, a temporary financial assistance of € 82 million (together with Romania), to develop and strengthen their administrative and judicial capacity to implement and enforce EU law and to foster exchange of best practices among peers (Article 31). It was also planned for the period between the date of accession and the end of 2009 a Cash-flow and Schengen Facility of € 239 million (in total) to help Bulgaria to finance actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control and to help improve cash-flow in national budgets (Article 32).

The Accession Treaty has also foreseen, without prejudice to future policy decisions, an overall commitment appropriation for structural actions over the three-year period 2007-2009 of € 2300 million (in total) (Article 33); together with budgetary allocations in the field of rural development over the period 2007-2013 of € 1552 million (in total) (Article 34)[87].

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[87] European Commission, Enlargement, Bulgaria, "EU-Bulgaria relations" (2007). http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm, *visited on 18.08.2011*

3.5.4. Costs for Bulgaria of the Contractual Relations with the EU

Even though the financial assistance through the EU programmes is very important and useful for Bulgaria, there are some costs for the country as a result of the new relations with the EU.

The Europe Agreement between the EU Member States and the Republic of Bulgaria was signed in March 1993 and entered into force on 1 February 1995 (Europe Agreement on trade and trade-related matters). This Agreement provided a framework for the political dialogue and aimed at establishing a free trade area between the Community and Bulgaria, to provide a basis for economic, financial, cultural and social co-operation, to support Bulgaria's efforts to develop its economy, to complete the transition into a market economy and to provide a framework for the gradual integration of Bulgaria into the Community.

However, even though the new bilateral trade relations between EU and Bulgaria, since 2003 the relative share of the Bulgarian exports to the EU decreased from 60.1 % (€ 4010 million) to 58.3% (€ 4654 million) in 2004. It went further down to 57.7 % in the first 10 months of 2005.

Bulgaria's main industrial exports to the EU in 2004 were textiles and clothing, and iron and steel. Bulgaria's main agricultural exports to the EU were cereals, oil seeds and oleaginous fruits and meat. In 2004, imports from the EU accounted for 54.1 % (€ 6284 million) of Bulgaria's total imports down from 55.3 % (€ 5319 million) in 2003. Bulgaria's main industrial imports from the EU in 2004, were machinery, mechanical appliances and electrical equipment. Its main agricultural imports were meat, fats and oils, and fruits and nuts. The EU's surplus in EU-Bulgaria trade relations has increased every year since 1999 and in 2004 the surplus reached € 1,627 billion, which meant an increase of 24.5 % compared to 2003. However, in the first ten months of 2005, for the first time since 1999, the surplus fell back to € 1388 million[88].

[88] European Commission, Enlargement, Bulgaria, "EU-Bulgaria relations". http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm, *visited on 18.08.2011*

3.5.5. Financial Assistance for Nuclear Safety

The European Union has repeatedly emphasized the importance of a high level of nuclear safety in candidate countries. In the field of nuclear energy, Bulgaria operates the Kozloduy nuclear power plant (NPP) with two units of the VVER 440/230 design type (Units 3 and 4), and two units of the VVER 1000/320 design type (Units 5 and 6). Reactors 1 and 2 were shut down in 2004. Reactors 3 and 4 were closed down in 2006, in line with the Accession Treaty.

The EU has provided assistance for decommissioning of these four units by Bulgaria. The financial distribution for this is shown in a table below, made by the European Commission.

TABLE 2 – EU financial distribution for nuclear safety in Bulgaria

Pre-accession (2000-2003)	€ 155 million	Understanding of 1999. Phare Special Programme	€ 155 million already committed.
Additional pre-accession (2004-2006):	€ 185 million	Phare programme	€ 135 million committed
Post-accession	€ 210 million	Included in the financial package 2007-2013	2007: € 70 million 2008: € 70 million 2009: € 70 million

The funds are managed by the European Bank of Reconstruction and Development (EBRD) through the Kozloduy International Decommissioning Support Fund (KIDSF), to which other donors also contributed. Bulgaria also participated in and benefited from PHARE-funded multi-country and horizontal programmes, such as the nuclear safety programme.

The KIDSF is composed of two windows: the “nuclear window” focused on dismantling activities and the “non-nuclear window” aiming at improving Energy Efficiency and developing the use of Renewable Energy in Bulgaria. The Bulgarian

Government approved of the construction of a new nuclear power plant in Belene (Northwestern Bulgaria) in April 2005[89].

3.5.6. Costs for Bulgaria of the closure of AEZ Kozloduy 3 & 4 units

The shutting down of AEZ Kozloduy nuclear units have significant consequences for Bulgaria. Of course, it is understandable that the EU is concerned about the nuclear safety and pushes for closure of the 1-4 units of AEZ Kozloduy. If we admit that the unit 1 and 2 were old and dangerous, and their dismantling was crucial, the case with units 3 and 4 is quite arguable. First of all, we are going to stress on the importance of these two units for the country, then I will present facts which prove their safety functioning guaranteed by experts from International Atomic Energy Agency (IAEA).

In 2006 – the last year of operation of the two 402 MWe Kozloduy reactors (units 3 and 4) – Bulgaria's National Electricity Company (NEK) produced 45.8 billion kilowatt hours gross and exported 7.8 of these (net) to Greece, Turkey, Serbia and Macedonia. (Bulgaria was vital in supplying power for the 2004 Athens Olympic games.)

In 2007 – the year after the closure of Kozloduy 3 & 4 – gross electricity production was 43.3 billion kWh. Net exports in 2007 were about 4.5 billion kWh (10%) – down from the 14% average of the preceding years.

Between 1991 and 1997, over 900 modifications to systems and equipment were carried out on Kozloduy units 1-4 in close consultation with the International Atomic Energy Agency (IAEA), the World Association of Nuclear Operators (WANO) and several other organizations to improve safety and bring them closer to international norms, especially for units 3 & 4. This short-term safety upgrading program cost some €130 million.

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[89] European Commission, Enlargement, Bulgaria, "EU-Bulgaria relations" http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm, *visited on 18.08.2011*

An IAEA mission in 2002 reported very favorably on units 3 & 4[90]. The IAEA 2002 Annual Report concludes that "the operational and design safety at Kozloduy now corresponds to the level of improvements seen at plants of similar vintage elsewhere. Many of the safety measures adopted for these plants in the design, operation and seismic areas exceeded those that were foreseen"[91].

Later, in 2003, after a two-week scrutiny by 18 international inspectors, the World Association of Nuclear Operators (WANO) reported that units 3 & 4 met all necessary international standards for safe operation. Then, in November 2003, a review by 11 experts from the European Council's Atomic Questions Group (AQG) found that issues arising in the previous AQG review of 2001 had been addressed.

In the meantime, the Bulgarian government tried to renegotiate the agreed 2006 shutdown and gain a reprieve until the licences expire (2011 & 2013), giving a 30-year operating life. However, despite a 2005 opinion poll showing 75% support for keeping the two reactors running, the government finally ordered them to be shut down at the end of December 2006. This helped Bulgaria to join the EU on 1 January 2007. It seems like it was forced to pay this cost for being granted with membership.

Electricity shortages in the Balkan area have become acute since early in 2007. Apparently the two reactors could be brought back into operation in six months. Bulgaria's EU accession agreement says that in a national crisis the country has the right to resume power generation at Kozloduy 3 and 4.

In October 2009, the European Commission granted Bulgaria an extra €300 million decommissioning, clean-up and waste treatment, bringing the overall compensation package to some €850 million[92].

An upgrade and modernisation program for the V-320 units 5 & 6 extended to 2006, but there is no great concern about the safety of these units, which conform well to

[90] IAEA Experts Review Safety of Kozloduy Units 3 and 4, International Atomic Energy Agency press release (9 July 2002), http://www.iaea.org/newscenter/pressreleases/2002/prn0210.shtml, visited on 18.08.2011

[91] IAEA Annual Report for 2002, International Atomic Energy Agency (July 2003), http://www.iaea.org/Publications/Reports/Anrep2002/safety_nuclear.pdf, visited on 18.08.2011

[92] Nuclear compensation victory for Bulgaria, World Nuclear News (27 October 2009)

international standards. The units are currently licensed to 2017 and 2019, and there are plans to extend their operating lifetimes beyond the current 30 years to 50 years[93].

3.6. Economic Costs and Benefits for the EU of Bulgaria's membership

There are different macroeconomic effects for EU of Bulgaria's membership. I will present them as bullet points below:

- Growing inflow of FDI due to increased business confidence;
- Regional hub role as Bulgaria's geopolitical situation equips it as an interface between the Balkans and Black Sea regions and as a bridge for relations between the European Union and Turkey ;
- Improvement in a long-term aspect of the transport infrastructure;
- Stronger competition and drive for innovation;
- State subsidy system in line with EU regulations;
- Easier access to financial institutions and funds within the enlarged European Union.

Some of the benefits for the companies in EU are the following:

- Increasing EU funds for environmental protection, education, and supporting Small and Medium Enterprises (SMEs);
- Transparency of taxation and business accounting rules;
- No customs or quantitative limitations within the EU;
- Simplified procedure in business administration when exporting to other EU member states[94].

Benefits of economic integration

Accession to the EU allows the member countries to participate in the European Single Economic Market with its free and unhindered movement of commodities,

[93] World Nuclear Association, Nuclear Power in Bulgaria, http://www.world-nuclear.org/info/inf87.html, visited in 18.08.2011
[94] European Commission, Positive aspects of Bulgaria's membership in the EU http://ec.europa.eu/bulgaria/abc/eu_glance/positive_membership/index_en.htm, visited on 18.08.2011

capital and labor. This opens up new opportunities in the areas of trade, investment and employment for firms and individuals from the new members[95].

3.6.1. The benefits of FDI from EU to Bulgaria

There are many benefits for the old EU member states from the FDI toward Bulgaria. We may start first with the significant geographical advantages of the country. For the first times countries like Bulgaria and Romania offer a land link between the old EU members on the West with Greece. The extension of the of EU territory into South-East Europe, a region with a long history of conflicts, also has a stabilizing effect in the immediate neighbourhood. The core competitive advantages of Bulgaria together with Romania come from the economic and social characteristics. First of all, their membership increased the population of the EU from 430 to 460 million people (8 millions in Bulgaria, 22 millions in Romania). In Europe the negative population growth remains important consideration of many business enterprises. Bulgaria also offer well-trained labor force, at very low competitive wages. In 2005, skilled worker in the two Balkan countries, earned as a gross salary approximately $6,000 per year, compared to more than $10,000 in the EU-10 and close to $39,000 in the EU-15 *(Mercer Human Resource, 2005).* This was almost the same level as in China and India, but lower than in Moscow city city ($13,000), Turkey ($17,000) and especially the four Asian Tigers (Hong Kong (China), Republic of Korea, Singapore and Taiwan Province of China) whose average ($24,000) was approaching the level of some of the EU-15 countries (such as France, Italy and Portugal) [96].

On the other hand, after the accession in the EU, Bulgaria’s gross domestic product (GDP) increases. As a result the country’s wages will increase reaching the EU level. This may raise the question of the amount of FDI in Bulgaria after its accession in the Union. The country should find different ways to make the country attractive for

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[95] Orla Doyle and Jan Fidrmuc (2005) *“Who favors enlargement?: Determinants of support for EU membership in the candidate countries' referenda”,* Geary Institute, University College Dublin, Ireland; Economics and Finance, Brunel Business School, Brunel University, Uxbridge, UK, CEPR, London, WDI, University of Michigan, United States,18 February 2005

[96] Kálmán Kalotay (2008): *FDI in Bulgaria and Romania in the Wake of EU Accession*, Journal of East-West Business, 14:1, 5-40

foreign investments. Otherwise, probably the FDI will go to other non-EU regions with lower level of development.

In this aspect Bulgaria is compared to China again, because China similar to the Balkan country have to adapt its economy to its success and has to leave the low-skilled activities to the next generation of locations like Vietnam, Bangladesh.
The FDI are very important and good for both sides – the EU investors and Bulgaria as receiver. However, along with the benefits of enlarging their markets, the western investors face also many problems connected with the investment environment in Bulgaria. In a survey in 2000, conducted by KPMG[97], foreign companies presented their main motives of investing in Bulgaria together with the main obstacles.

3.6.2. Main motives for investing in Bulgaria

There are several important motives which stimulate the old member states to invest in Bulgaria:

- the existence of established relations with regular customers from the region (28%);
- market potential;
- favorable geographical location of the country;
- the existence of a skilled labor force (47%) and low labor costs which are a part of the production costs (35%).

The political stability and the integration in the EU is of great significance for investors' choice. The membership of the country in the EU guarantees participation of the country in the European Single market, single currency – Euro, compliance with the rules of democracy and free market economy.

3.6.3. Main obstacles for foreign investors in Bulgaria

The main obstacles for foreign investors are the following:

[97] KPMG International is a global network of professional firms providing Audit, Tax and Advisory services. They operate in 150 countries and have 138,000 people working in member firms around the world - http://www.kpmg.com/

• long bureaucratic procedures;
• high level of legal instability and uncertainty;
• limited purchasing power of population;
• Corruption[98].

3.6.4. FDI and immigration - costs

According to Eurostat statistics for the period 1994 – 2005 the net cumulative balance of migration was 666 thousand persons from Romania and 212 thousand persons for Bulgaria. This represents about 3% of the total population. In comparison, in the 10 CEECs, the net balance of 459 thousand persons represents less than 1% of the population. However, it cannot be said that the immigration in Bulgaria and Romania is higher than in the CEECs-10. The statistics show that in the Baltic countries the emigration is much higher than in the two Balkan countries.

The importance of the emigration on the FDI is significant. This deprives the country of part of its labor force. As a result the labor storage may affect negatively investments. On the other hand, in a long term, the prospect of return labor may help add for attractiveness. Furthermore, the workers' remittances can help for the better life and investment conditions at home. Also the expatriates may play a crucial role in selecting their country of origin for new projects *(World Bank, 2003).*

Having in mind all the uncertainties and the ambiguous impact of emigration on FDI, it is hard to say whether the investors would benefit or not from Bulgaria's international labor movement. To a limited degree, the country has some natural resources to explore and exploit. Bulgaria has important refining capacities, based on imported oil (mainly from the Russian Federation). Concerning the general business environment, investors can benefit from the competitive advantages of the country in the context of a hard-won macroeconomic stability *(Andrei, 2005, Jamal et al., 2006, Economist, 2007).*

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[98] Kálmán Kalotay (2008): *FDI in Bulgaria and Romania in the Wake of EU Accession*, Journal of East-West Business, 14:1, 5-40

Finally, an important benefit for foreign investors from EU in Bulgaria can be the competitive taxation. In 2006 the flat tax in Bulgaria was 15% (KPMG, 2006). In comparison in Poland it is 19%, in Czech Republic – 24% and in Germany – 38%.

Last but not least, both Bulgaria and Romania offer competitive corporate taxation to investors. In 2006, the former applied a flat tax of 15%, the latter 16% (KPMG, 2006). That compared favourably with 19% in Poland, 24% in the Czech Republic and 38% in Germany[99]. In Bulgaria, that tax rate was further decreased to 10% on 1 January 2007 *(Kostadinova & Stanchev, 2006).*

3.6.5. FDI – competitive disadvantages - costs

Despite the competitive advantages, Bulgaria does not have easy business environment. It is regarded as very poor country compared to the other EU members. The income levels of Bulgaria are low. Together with Romania it adds to the population of EU with 7%, but the contribution to additional national income is less than 1%. In 2005 the Gross National Income (GNI) per capita of Bulgaria was $3 500, which is approximately one-tenth of that of the EU-15 - $33 000. What is more interesting is that the GNI levels were less than half than the average of the new CEECs member states of 2004 - $ 8 900. However, they are much lower than that of the Russian Federation - $ 5200. The low income levels, however, are not such a big problem for EU integration.

The three Baltic States that became EU members in 2004 also joined the integration grouping with relatively low income levels. However, the difference between them and Bulgaria is their fast improving institutional and business environment which facilitates the integration into the Union. On the other hand, the low GNI in Bulgaria cannot be pointed as a big obstacle for the development of the country. In China for example, the GNI per capita is around $ 1 700, much smaller than that of Bulgaria. However, its dynamism and institutional capabilities it is perceived as one of the most competitive economies in the world.

[99] Kálmán Kalotay (2008): *FDI in Bulgaria and Romania in the Wake of EU Accession*, Journal of East-West Business, 14:1, 5-40

A serious problem in Bulgaria is the weakness of its institutions. This is measured with the Corruption Perception Indices (CPI) of the country. According to the evaluation made in 2006 (Transparency International, 2006), of the 163 countries sampled, Bulgaria was 57th, while Romania was 84th in terms of transparency. For Bulgaria it was not so bad, but much lower than the rest of EU.

On a scale of 0 (total opacity) to 10 (full transparency), the EU-15 average was as high as 7.7 and the EU-10 average 5.3. In the same time, the values for Bulgaria and Romania remained at 4.0 and 3.1. However, the Baltic States, which also used to have very low GNI per capita, showed very good evaluation of transparency. Estonia turned out to be the "cleanest" country of the EU-10 that joined in 2004. This is significant for a country that gained independence and broke away from the Soviet system only in 1991[100].

3.6.6. CAP – costs & benefits for EU for integrating Bulgaria in CAP

Before addressing the main problem of this section, I would like to mention that the available literature is much more focused on the costs and benefits effects of CAP for the CEECs than for the EU. The stress is on the EU spending for adjusting the new member states to the CAP. This also has some benefits for the EU, such as more agricultural land, which brings more crops, etc. Also with the invested money of EU to these new members, the old member states will benefit from the harmonization of the standards with the EU Community. However, there are little investigations which examines in deeper details the costs and benefits of CAP for the EU, after the accession of Bulgaria. That is why now we are going to examine this issue summarizing the main points and findings.

Until 1992 the agriculture expenditure of the European Union represented around 48% of the EU's budget. In 2006 the CAP accounted for 45.4% of the EU's budget. By 2013, the share of traditional CAP spending is going to decrease significantly to 32%, following a decrease in real terms in the current financing period. In contrast,

[100] Kálmán Kalotay (2008): FDI in Bulgaria and Romania in the Wake of EU Accession, Journal of East-West Business, 14:1, 5-40

the amounts for the EU's Regional Policy represented 17% of the EU budget in 1988. They will increase by reaching almost 36% in 2013[101].

The main goal of CAP is to organize the farming, the production and the level of prices for goods. Some member states, like France, and many farming professional organizations wanted to maintain strong state intervention in agriculture. However, this could be achieved only if the policies were harmonized and transferred to the European Community level. In 1962, three major principles had been established to guide the CAP: market unity, community preference and financial solidarity. Since then, the CAP became central part in the European institutional system.

The core objectives of CAP were set in Article 39 of the Treaty of Rome. The idea was the Community to intervene and buy farmers output when the market price fell below an agreed target level. This helped to reduce Europe's reliance on imported food, but also led to overproduction and a lot of surplus food and drink. The Community also taxed imports and (from the 1970s onward) subsidised agricultural exports. These policies have been damaging for foreign farmers, and made the food prices in Europe some of the highest in the world.

Radical reform of CAP began in the 1990s. The aim was to break the link between subsidies and production, to diversify the rural economy and to respond to consumer demands for safe food, and high standards of animal welfare and environmental protection[102].

Despite the admission of the 10 new Member States in 2004, EU agreed in 2002 that expenditure on agriculture (not rural development) should be held steady in real terms in the period 2006 – 2013. This meant that the money paid to farmers in older member states is beginning to decline. Overall, they will suffer a 5% cut in the 2007-2013 period.

The accession of 10 new member states in 2004 plus Bulgaria and Romania in 2007 added seven million more farmers to the existing six million in the old 15-nation EU.

[101] Europa, EU Budget – facts and myths, Press release 2007, http://europa.eu/ , visited on 23.08.2011
[102] BBC News, Europe. Q&A: Common Agricultural Policy, 20 November 2008, http://news.bbc.co.uk/2/hi/4407792.stm#whatis , visited on 23.08.2011

The enlargement impact on EU's agriculture is really important also because the 12 Member States added about 55 million hectares of agricultural land to the 130 million hectares in the old EU-15. However, the production in the EU-27 will only expand by about 10-20% for most products. Some of the reasons may be the slow integration of the new members into CAP. In this aspect, the old member states of the EU have to pay some costs until they feel the benefit of the membership of the new states.

The differences in prosperity between EU-15 and the new Member States are very significant. In 2001, it was 45% of the EU-15 level (GDP per person adjusted to Purchasing Power Parity). This difference is even more valid for the rural areas, because of the combination of lower income and higher unemployment levels compared to the urban regions (these disparities are greater in the new Member States than in the EU-15).

This is an important challenge for the EU, which will cost a creation of new rural development measures addressed to the specific situation of the new member states, Bulgaria in particular. On the other hand, EU's benefit for establishing this changes and help for integration of Bulgaria, will be opportunity for more production in the Union and guarantees for food safety, price stability and high standards at community level, concerning the consumers[103].

An important concern for EU when enlarging the CEECs-10 and Bulgaria and Romania is the amount of CAP spending it can afford. The Union is dependent on the Berlin agreement which covers the period 2000 – 2006. There are three types of payments. 1) Rural Development payments; 2) Price support payments. Because price support alters price levels, it has to be extended to the new members to avoid different prices within the Single European Market. 3) Third – direct payments. The direct payments are the core part of CAP support since 1992. They were designed as specific compensation for a specific price cut. However, in 1999 reform changed this role. The rise in direct payments was less than the cut in price. The new policy further reduced the link between payments and previous price levels. Direct payments

[103] European Commission, Agricultural and Rural Development, "The Common Agricultural Policy – Explained", http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf, visited on 23.08.2011

represented a shift in the basis of CAP support. This is crucial to the enlargement debate, because the issues are not compensation for price cuts that the farmers in Eastern Europe did not face, but about basic issues of support under CAP.

Given the importance of rural development and the characteristics of price support, the EU will be granting these policies and transfers. Applicants have sought parity with the EU-15, whilst the EU has shifted from opposing the granting of any payments to phasing-in payments over 10 years, starting at 25 per cent of EU15 levels. Direct payments can be offered at differentiated rates to different farmers and trade distortion can be avoided if payments are decoupled[104]. As a whole no matter the costs that the EU has to pay for the new member states integration, Bulgaria in particular, in a long term the whole EU will benefit from it.

3.7. Conclusion of Chapter 3

In conclusion, I may say that both sides the EU and Bulgaria have significant benefits of Bulgaria's integration in the Union. Of course, there are some costs as well, which are inevitable for both of them. However, if we look at the big picture and the results of this last enlargement of the Union, we may say that it was a good and successful step. The membership of Bulgaria gives EU the opportunity for more FDI, which expands its economy in new territories, with more population. Where, in the same time, the legislation is harmonized with the one of the old Member states. This is good for Bulgaria as well because with the FDI from the EU, its economy will be able to stabilize, develop and improve. This will lead to decrease of unemployment and increasing of the standard of living in the country. The integration of Bulgaria in the CAP is also of great benefit for both sides – the EU and the new member state. On one hand, EU's agricultural land is increasing in size, which leads to increase production within the Union. On the other, the EU can apply its legislation in this sector and can control the quality of production which has to be in accordance with consumers rights for fresh and environmentally friendly products. Of course, for the

[104] Robert W. Ackrill, (2002) *"EU Enlargement, the CAP and the Cost of Direct Payments: A Note", Journal of Agricultural Economics ¾ Volume 54, Number 1 ¾ March 2003 ¾ Pages 73-78*, *Agricultural Economics Society*

appliance of this legislation and for the successful integration into CAP, the Union gives a lot of financial help for Bulgaria. In order to prepare the country for successful adjustments to the new rules, the EU gives structural funding through programmes like ISPA, PHARE, SAPARD. However, the old member states hoped that this investment will return in double size when the country adjust and integrate in CAP, and start to produce according to the EU standards.

Finally, we may say that the accession of Bulgaria in the EU in 2007 was a successful step for both sides. Furthermore, we may hope that the beneficial effects of this integration will be even more tangible in the future years.

CHAPTER 4

BULGARIA'S DELAYED ACCESSION – FROM 2004 TO 2007

This chapter is going to give an answer to the fourth sub question: *Why Bulgaria was not accepted with the big EU enlargement in Central and Eastern Europe in 2004? Why in 2007? What kind of difference does it make the accession three years later?*

In December 1995 Bulgaria submitted its application for EU membership. The Commission presented its first Regular Report on Bulgaria's progress towards accession in November 1998. In 1999 was released the second report, which recommended that formal negotiations are opened. Accession negotiations between Bulgaria and the EU started in 2000. Accession talks concluded on 15 June 2004, six months ahead of schedule. On 17 December the Brussels European Council of 2004 confirmed the conclusion of accession negotiations with Bulgaria and agreed on country's accession in 2007. It was not accepted in 2004 together with the other 10 CEECs. This chapter will try to answer the question what was the reason for Bulgaria's accession delay.

4.1. Slow transition toward democracy and market economy

First of all, Bulgaria and Romania turned out to be the two countries from Eastern Europe with the most difficult transition to democracy and market economy. In the case of Bulgaria, in the mid 1990s, this led to a severe economic crisis together with hyperinflation. This, together with the economic crisis in 1997 when the inflation jumped to approximately 1000%, was one of the reasons for Bulgaria's delayed accession in the EU.

Second issue, which presented great concern for the EU was the quality of governance and the rule of law in the country. In the period 1997 – 2004, the European Commission specified and tightened its conditions and was not satisfied with adoption of new laws and commitments for success of Bulgaria. It criticized the institutional practices and demanded improvements. The first official assessment of the state of democracy and market economy in Bulgaria measured according to the

Copenhagen criteria was released in 1997. By that time democracy was not in question, but the quality of governance and the rule of law were judged unsatisfactory. The Commission also saw many deficiencies in the institutional structure and legal basis. The Commission used its regular reports to criticize the problems identified in the judiciary system, the public administration, the treatment of minorities and marginalized social groups, as well as reducing the level of corruption in the state structures[105].

4.2. Inflation, low GDP – not ready to join in 2004

By the year of 1997 Bulgaria was not prepared economically to fully integrate into the single market. By that time the country had to cope with inflation. It manage to overcome this issue with the introduction of a currency board, which return the growth of the state in 1998. The economic problems in the country resulted in shrinking of the GDP with 2.3%. This slow economic transition was important factor for the delay of Bulgaria's accession in the EU. In comparison with the others CEECs – Bulgaria was far below the 1989 levels. It reached its 1989 levels in 2000. The Commission concluded that the country could not be considered as functioning market economy. Also it would not be able to fit in the competitive pressures within the EU market. As a result, Bulgaria was not included in the group invited to start accession negotiations at the Luxembourg European Council in December 1997.

On the other hand, the Helsinki Council opened the negotiations for all candidates and affirms the principle of differentiation by saying that each country would be judged on its own merits. In this way they make it possible for the latecomers to catch up with the frontrunners[106]. This was very good opportunity for Bulgaria. However, there was a lot of skepticism if the country will manage to finish the line with the first group, for which a target date for closing accession talks was 2002. The government tried to make many reforms in order to make it for this date. The European Commission admitted that there are improvements of the economic situation in

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[105] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114

[106] Helsinki European Council, *Presidency Conclusions, 10 and 11 December 1999* (Helsinki, Finland: Helsinki European Council, 1999

Bulgaria after 1998. In order to encourage further efforts, the 2001 *Regular Report* announced that "Bulgaria is *close to* being a functioning market economy"[107]. A year later, in 2002, the Commission provided even more firm statement that "Bulgaria is a functioning market economy"[108]. In comparison, structural reforms in Romania proceeded at a slower pace. In Romania, the Social Democratic Party (PSD) government was less willing to cut state aid and close loss-making enterprises. This had been done in Bulgaria under the strict programme introduced by the currency board after 1997. Romania was recognized as functioning market economy in 2004; Several weeks before the closure of its accession negotiations[109].

4.3. The Delayed Accession – a Stimulus for More Serious Reforms

In the end of 2002 the Copenhagen European Council defined what the "big bang" enlargement would be the admission of ten new member states at once. Bulgaria and Romania were left out of this enlargement. The targeted date for them was 2007. This exclusion of Bulgaria (and Romania) was aimed to embarrass them in public and to motivate them for more serious reforms. On the other hand, the two countries started to fear if they will be ever accepted in the Union. Their main concern was about EU's "enlargement fatigue". However, in order to reassure them for their future accession, the Commission said that its aim is *"to support the two countries' efforts to meet the remaining criteria for membership by identifying the tasks ahead and providing increased financial assistance*"[110].

After 2004, another important issue for Bulgaria was the widening gap with Romania and their preparations for membership. Policy makers in Sofia worried that the country's accession may be put on hold while Romania was still negotiating

[107] European Commission, *2001 Regular Report* (Brussels: European Commission, 2001), on Bulgaria's progress towards accession
[108] European Commission, *2002 Regular Report* (Brussels: European Commission, 2002), on Bulgaria's progress towards accession
[109] European Commission *2004 Regular Report* (Brussels: European Commission, 2004), on Romania's progress towards accession
[110] European Commission, Communication from the Commission to the Council and the European Parliament: Roadmaps for Bulgaria and Romania, COM(2002) 624 final, 13 November (Brussels: European Commission, 2002)

accession. That's why Sofia insisted that the EU will support the principle of differentiation and assess its candidature on its own merits[111]. It is true that Bulgaria started to develop in a very successful manner. For example, in 2000 Bulgaria was removed from the Schengen "black" visa list, while Romania had to wait until 2002. However, it is also true that decisive steps in Bulgaria's reforms were taken mainly under external pressure and after sanctioning of the EU, by delaying the accession.

Bulgaria (as well as Romania) was doing reforms only when it felt the "stick" of the EU conditionality. Every time the EU penalized the country, its government responded very quickly by presenting revised reform strategies and making promises for additional measures. The governing elites took seriously EU criticism and tried to reduce those practices that were the most unpopular with Brussels. They did not start real reforms before they were sanctioned by the market or by the exclusion effects of the EU's conditionality mechanism. Finally, on 15 June 2004, Bulgaria completed the accession negotiations of the thirty-one chapters of the *acquis.* The Accession Treaty with Bulgaria (and Romania) was signed on 25 April 2005[112].

4.4. Accession in 2007 or Further Delay

Even though everything was going well and smoothly after 2004, Bulgaria had another reasons to fear its future membership in the Union. In 2005, French and Dutch voters rejected the EU Constitutional Treaty. This led to political crisis in the Union and the possibility of further delay of Bulgaria's accession. The issues about enlargement and the final borders of the EU were very vivid in the public debates. The "no" of France and the Netherlands (two of the founding members of the Union) to the Constitutional Treaty were interpreted also as a signal to pause the enlargement process or even to stop it. The public opinion in the old EU member states showed growing reluctance and opposition to further enlargement. This contrasted with the favorable politic attitudes in the two new members. Because of these problems the EU invented a special postponement clause in the accession

[111] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114
[112] Gergana Noutcheva and Dimitar Bechev (2008), *"The Successful Laggards: Bulgaria and Romania's Accession to the EU"*, East European Politics and Societies 2008, 22: 114

treaty. The accession date remained 2007. However, in case of Bulgaria's failure to implement the prescription and conduct reforms a delay of one year can be made. The EU had legal instruments for sanctioning Bulgaria if it did not put into practice their commitments. Furthermore, the EU showed political readiness to use these instruments if needed.

4.5. Criticism as Encouragement for Reforms

In June 2005, Commissioner for Enlargement Olli Rehn has sent the first warning letter (which referred to as "yellow card") to the governments indicating the areas in which they were still falling to demonstrate results. In October 2005, the *Comprehensive Monitoring Report* clearly stated that *"the Commission would not hesitate to apply the mechanisms if there were serious concerns that either of the two countries would not be ready by January 2007"*[113].

It also underlined the deficiencies in critical sectors such as judicial reform, agriculture, and regional policy, free movement of goods and service, and anticorruption. The Commission tried to present its criticisms as encouragement rather than as a signal for delayed accession. However, by the end of 2005, the EU's warning of a possible one-year postponement of Bulgaria and Romania's membership had become quite credible.

In 2006, the Commission's evaluation of the reform progress in the two countries went in favor of Romania. In the *Monitoring Report* from May 2006, Romania was praised for the progress already made, stimulating it *"to continue its efforts and show further results in the fight against corruption".* In the same time Bulgaria was strongly recommended to *"seriously intensify its efforts to crack down on organised crime and corruption"*.[114]

[113] European Commission, Comprehensive Monitoring Report on the State of Preparedness for Membership of Bulgaria and Romania, COM (2005) 534 (Brussels: European Commission, 2005).
[114] Olli Rehn, member of the European Commission, "May 2006 Monitoring Report on Bulgaria's and Romania's Progress towards Accession: Speaking Points," presentation in the European Parliament, Strasbourg, France, 16 May 2006, SPEECH/06/306, http://www.europa.eu

In September 2006, the Commission recommended accession on 1 January 2007 for both candidates. However, it preserved the right to continue its monitoring of the judicial systems and the fight against corruption in the two countries after acession. These were unprecedented measures which made Bulgaria look like it was joining the Union on different terms than the rest[115].

The “magnetic” power of the EU and its membership conditionality managed to mobilise political and public support for reforms in the candidate countries like Bulgaria. However, the influence of EU institutions on member and candidate states’ politics and policies depends on domestic configurations, dynamics and willingness. The case of Bulgaria shows both the power and the limits of external influences[116].

4.6. Why CEECs-10 were better prepared for EU integration than Bulgaria

The 10 CEECs - Czech Republic, Hungary, Poland and Slovakia, Slovenia, Estonia, Latvia, Lithuania (Baltic states), Malta and Cyprus, better adjusted to the application of the open market rules than Bulgaria. The different economic development between CEECs-10 and the latecomer from the Balkans is another reason for a delayed accession of the last. Furthermore, the relative success of the CEECs let also to better progress with development and economic prosperity since transition began[117].

It is true that the transition of Bulgaria to the market economy has been much slower and painful than for the CEECs-10. We may say that part of these difficulties is result of the very unfavorable historical burden that its society was bearing, which makes the building of market institutions very hard.

[115] European Commission, *Monitoring Report on the Preparedness for EU Membership of Bulgaria and Romania*, COM(2006) 549 final, 26 September (Brussels: European Commission, 2006).
[116] Featherstone and Radaelli (2002), *“The Politics of Europeanisation”,* Oxford: Oxford University Press. and Frank Schimmelfennig and Ulrich Sedelmeier (2002).
[117] Diana Bozhilova (2010), *“When Foreign Direct Investment is Good for Development: Bulgaria’s accession, industrial restructuring and regional FDI”,* GreeSE Paper No. 33, Hellenic Observatory Papers on Greece and Southeast Europe

4.7. Three regions – Western, Middle, Eastern

Europe's political tradition consists of three historical regions: Western one – with deep democratic institution building, therefore easily amenable to EU rules; Middle one, which shares the Western region's tradition in the successive ideological revolutions leading to modern Europe such as the Renaissance, the rise of Protestantism and Reform, and Enlightment, but was often occupied by despotic empires, interrupting its shift toward modern institutions *(Szücs, 1983);* and Eastern one – dominated by series of despotic empires, with very weak institution building[118].

In this political space, Bulgaria fell in the third Eastern region – characterized by despotic traditions which not only conserved backwardness but made the breaking of its vicious cycle very difficult *(Bitzenis, 2003).*

This contrasts with the Middle group where are the CEECs-10. The historical heritage of these transition economies used their geographical position and traditions to make their communist period less devastating and their transition to market economy more rapid and more successful. In Bulgaria, the effect of communism on society was more negative than in the Visegard Group (Czech Republic, Hungary, Poland and Slovakia) or even the Baltic States (Estonia, Latvia, Lithuania) *(Cernat, 2006).* Although there may be some debate about the impact of socialist industrialization on later-on manufacturing FDI *(Andrei, 2005).*

While the forced creation of heavy industries meant more waste and more human suffering in Romania than in Bulgaria, and had probably a negative impact of the preparedness of the population for transition, some of these industries (especially automotive) had established certain technical and engineering skills, which could be partly transformed into skills used in efficiency seeking FDI projects.

[118] Kálmán Kalotay (2008): FDI in Bulgaria and Romania in the Wake of EU Accession, Journal of East-West Business, 14:1, 5-40

However, transition was slow and very difficult in both countries. This was reflected in particular, in the delayed nature of privatization and in a very high degree of contention about its design and content. Indeed, large privatization open to foreign investors is a very new phenomenon in these countries. It is taking place at least half a decade later than in the Czech Republic or Poland, and almost a decade later than in Hungary *(Kalotay and Hunya, 2000).* Moreover, some deals such as the ones in the Romanian energy industry are still under scrutiny (*Saceanu, 2006; Hunya, 2007a).* This is why these privatizations could be interpreted as symptoms of a “cocktail capitalism” *(Cernat, 2006),* under which insider methods were tried, avoiding sales to strategic investors for a long time. Although large privatizations took off in 2003-2004, it was partly done under the pressure of meeting the requirements of EU accession. In Romania for example, large-scale privatization was seen as a prerequisite for obtaining the status of a functioning market economy from the European Commission *(Hunya, 2007a).* One also has to consider that these deals often took place in sensitive industries. With the rise of commodity prices, some of them gained renewed importance in national strategies. This is the case of the oil and gas industry, which became the focal point of energy security issues[119].

Against the background of the cumulative difficulties of Bulgaria in the pre-communist, centrally planned and transition periods, the qualification of its society for EU membership, even if with a delay compared to the rest of the fifth enlargement, is regarded as a major success. It shows the determination and flexibility of these countries to overcome their shortcomings. It also confirms that separation between the three historical regions of Europe is not insurmountable.

We have to remember the successful cases of Finland and Greece in the past in order to move to a higher level group. If EU membership and institution building succeed in Bulgaria (and Romania), these will be additional societies to move up the ladder. All this requires a very careful follow up of the accession and of the various safeguards. The issues highlighted by the Commission in its decisions on the two countries namely judicial reform, fight against corruption and, in the case of Bulgaria,

[119] Kálmán Kalotay (2008): FDI in Bulgaria and Romania in the Wake of EU Accession, Journal of East-West Business, 14:1, 5-40

fight against organized crime are directly relevant for the improvement of the business environment and hence for the attraction of FDI[120].

4.8. Conclusion of Chapter 4

In conclusion, we may say that Bulgaria's delayed accession did not appear as big surprise due to the state's unpreparedness for joining in 2004. Until 2000, Bulgaria's economic development was very poor. It was at much lower level than the one of the CEECs-10. Problems of high inflation, low GDP, unemployment, unreformed judiciary system, corruption, mafia and slow transition toward democracy and market economy are some of the main reasons for country's delayed accession for 2007. However, we have asked if the delay of three years made any significant difference in the problematic sectors of the country? Did it improve those sectors completely? Of course, the answer is "no", because three years period is not much time. As we have seen, this method of delay was used by the EU as an instrument of the Union's conditionality. It tried to force the country for more serious reforms and better development in the criticized sectors. It seems that the condition of later accession and even the thread of no accession at all, made Bulgaria's political elites to work harder and to show some more improvements and real reforms in accordance with the Brussels' recommendations. The EU admitted Bulgaria's efforts and in order to encourage the state it wrote positive reports for coping with some of the problems.

In reality, there was much more to be done for the complete compliance with EU's conditions of accession and the Copenhagen criteria. It is sure that, the three years of delay for Bulgaria's accession was not enough period for full reform and improvements. However, a further delay might have discouraged the state and making it losing hope of accession at all. It could have made the state more unwilling for reforms. That is why, the delayed accession from 2004 to 2007 fulfilled its main goal as instrument of EU conditionality. It managed to force and stimulate reforms in the Balkan country. On the other hand, the EU itself was completely aware that even

[120] Commission of the European Communities (2006b). Commission Decision of 13/XII/ 2006 establishing a mechanism for cooperation and verification of progress in Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organised crime. Report C (2006) 6570 final. Brussels: Commission of the European Communities, 13 December.

after the country’s accession in 2007, there was going to be a lot more to be done for the successful integration of Bulgaria in the Union. That is why, in order to keep Bulgaria’s tension that the “stick” can be used at any time, the EU introduce the clause of a possible exclusion from the Union. It meant that one year after accession, if the state do not comply with the requirements and rules of the EU, it can be “expelled” from the EU. This condition further stimulated Bulgaria to continue to work hard on the problematic sectors and to complete to full extend EU’s conditions and recommendation.

CONCLUSION

The Central and Eastern European Enlargement in 2004 and 2007 of the EU is very big and important step in the history of the Union. The EU decided to accept 12 new member states with significant differences between them and the old members. There were a lot of work to be done for the harmonization of the economic, political and social development of those countries in accordance with the EU standards and legislation. However, no matter the difficulties and costs on the way to accession, it turned out that both sides – the old EU member states and the new ones have significant benefits of this process.

If we look to the different theories of European Integration, we are most inclined to support the theory of Liberal Intergovernmentalism *(Andrew Moravcsik, 1993)* as the most reasonable explanation of the EU enlargement. This theory stresses the rational thinking of states and claims that their national interests motivate their actions in the international politics. If we look at the EU enlargement process through the perspective of this theory, it seems that the reality confirms the statement that: *"States cooperate if they have similar interests and European integration can be explained in the context of the Cold War".* However, even though some aspects of the EU coincide partly with the theory of Liberal Intergovernmentalism, it is hard to examine this process only through this theoretical perspective. The reality shows that the accession of new member states in the Union has many different explanations and motives. In practice, this process is a mixture of different theoretical explanations.

The European Union decided to enlarge in Central and Eastern Europe (CEE) first because this would help for the stabilization of the new European political order in the post-Cold War period. Secondly, the geographic territory of the Union increases together with additional population of more than 100 million people. This is of great importance for the European common market, which gives the opportunity for more Foreign Direct Investments (FDI), with cheaper labor force and more consumption. Furthermore, with the expanding of its boundaries, the EU becomes stronger political entity with more influence in the international politics. Thirdly, the accession of the new member states from CEECs helps also for the improvement of security and defense capability on the outer Eastern border of the Union.

Although there are significant benefits of this CEE enlargement, the EU faces also serious costs. One of the main challenges, for example, is the need for adjustments between the old and the new member states. The different developments of the two groups, combined with the socialist past of the new members, require time and money until the standards equalize. The EU has to give financial assistance to the new member states for the harmonization and compliance with the EU legislation. Also it has to cope with the workers flow, immigration and crime from the East. In an EU of 27 member states, it becomes much more difficult to develop in the same way than in the EU of 15 member states.

Nevertheless, having in mind the theory of Liberal Intergovernmentalism, we can be sure that the EU would not have started the CEE enlargement, if it had not calculated its main costs and benefits. In the end it turns out that the benefits overcome the costs, so this action ends up with success for the Union. It is also successful for the CEECs, although the different costs that they have to face as well.

We have seen, why the EU decided to enlarge in Central and Eastern Europe. However, what is most important of this thesis research is the question *why EU was in favor of Bulgaria's membership in the Union?* Some of the reasons for the accession of CEECs are valid also for Bulgaria. However, there are additional aspects, which are important as well. Bulgaria was different from the other CEECs. First of all, because geographically it was situated on the Balkan Peninsula. Exactly this position was of great benefit for the EU, because it was thought that the state will be able to bloc danger and instability from the Balkans to the rest of Europe. Secondly, the country was one of the best examples for peaceful country in the conflict Balkan region. The membership in the EU aimed at stabilization in the whole Southeastern Europe. If Bulgaria was not accepted in the Union, the Balkan conflicts might have affected the country as well. Furthermore, Bulgaria was good example of ethnic peace. In Eastern Europe the ethnic problems were very crucial issue. However, Bulgaria managed to establish ethnic peace with its biggest minority group

– Turks. This helped for compliance with the Copenhagen criteria and facilitated the accession in the Union.

Although the above factors are important, as we have seen through the chapters and the analysis, we may say that the most important reason for EU willingness to accept Bulgaria in the EU was economic. First of all, the accession of the country in the Union increased the FDI inflow from the old member states. This helped for the development of trade, the common market and the whole economy both in the Union and in Bulgaria. Along the years they increased significantly. This helped for the reduction of unemployment in Bulgaria and increasing the standard of living.

However, in the field of agricultural policies the combination of policy instruments used in Bulgaria was inconsistent with the instruments used by the EU in CAP. That is why the EU had to pay some costs in the form of financial assistance through programmes like PHARE, ISPA, SAPARD which were planned to help for Bulgaria's successful integration in CAP. Even though, the EU had to pay for this, in long term the money will be reimbursed by agricultural production of the country which would be in accordance with the CAP. So, it will even increase the profit for the EU. Finally, we may say that although the EU has to pay some important costs for Bulgaria's accession, it is estimated that later on these costs would turn into benefits for the Union. That is why it has decided to accept this Balkan country no matter of its different economic status compared with the old member states and the other CEECs. It was believed, that in the future this step of enlargement would show effects that are even more beneficial for the EU.

Well, if Bulgaria's membership in the EU was so beneficial for the Union, why the country's accession was delayed with 3 years? This question was examined in the Chapter 4 of the thesis. The answer is that by 2004 when the big CEE enlargement happened, the country was not well prepared for membership. In economic terms, it presented slow transition toward democracy and market economy. By 2000, it had high level of inflation and low GDP. After 2000, the country started to improve its development. Also, the delay for 2007 was used as an instrument of the EU conditionality. It aimed at more serious reforms in crucial sectors such as –

agriculture, regional policy, free movement of goods and services, judicial reform, fight against corruption. The goal of this delay was to stimulate the country for more reforms so that it will be better prepared for membership. In the end, this method worked well for both sides – Bulgaria and the EU – that felt the beneficial effect of this delay.

Finally, we may say that Bulgaria's membership in the EU was important for the EU and the country itself. It resulted in successful cooperation bringing significant benefits for the EU and for Bulgaria. In the end, it seems that the benefits have overcome the costs of the process of enlargement. So, we may conclude that in the long run Bulgaria's membership in the European Union was important and successful step for both sides.

LIMITATION AND FUTURE WORK

We have based our research on a single case study methodology. Although this methodology allows studying a single case, in a greater depth, it neglects comparisons to other cases.

In our research we analyze the recent accession of Bulgaria into the EU, in view of the five theories, briefly described in Chapter 1. May be these theories do not present an exhaustive picture of the factors influencing the enlargement of the EU. In this sense, the results from our research are limited to the mentioned theories.

One possibility of future work is to further extend the presented single case study of Bulgaria. So far, we have examined the costs and benefits of Bulgaria's accession with respect to economic terms. There are other aspects such as political, social, etc. which are also very important for measuring the costs and benefits. That is why in a future work on the topic, these aspects could be examined further in depth.

Another possibility for future work could be to apply multiple case study analyses in which to compare Bulgaria to other recently accepted countries, such as Romania or as some possible future members, like Turkey.

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