



**Organization for Security and Co-operation in Europe  
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## **Conference Services**

Please find attached a presentation by Mr. Marek Dąbrowski, Chairman of the Council of the CASE Foundation, Center for Social and Economic Research, Poland, made at the Opening Plenary of the 12<sup>th</sup> OSCE Economic Forum.



Center for Social and Economic Research

Marek Dąbrowski

# Europe after the EU Enlargement: Chances and Challenges

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## For EU (OMS and NMS)

- completing an integration process (transitory arrangements, EMU, Schengen);
- institutional reform of the enlarged EU (Constitutional Treaty, economic governance)
- continuing the enlargement process (waiting candidates: Bulgaria, Romania, Turkey, Croatia)
- setting the policy towards the non-EU and non-EU-candidate European neighbors (Western Balkans and CIS)

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**What can be economic  
and political consequences  
of the EU Enlargement for  
other transition countries?**

**Two hypothetical  
scenarios**

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## **Optimistic scenario:**

- **Close neighborhood with NMS will increase other transition countries' interest in domestic economic and political reforms and European integration (positive demonstration effect)**
- **EU enlargement and moving its borders to the East and South East will increase its interests in at least deeper economic integration of the remaining transition countries with the Single European Market**

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## **Optimistic scenario (potential outcomes):**

- EU enlargement continued smoothly
- WTO accession of Russia, Ukraine and Kazakhstan completed soon followed by free trade agreement between the enlarged EU and CIS countries
- More open and active EU approach to CIS, including EU membership/ close association option for Western CIS/ Caucasus
- Economic and institutional reforms in Western Balkans and CIS continued
- Authoritarian trend in CIS stopped/ reversed

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## **Pessimistic scenario:**

- **'enlargement fatigue' on the EU side (both in OMS and NMS);**
- **political and economic fears (immigration, fiscal burden of further enlargement, desire to limit a number of beneficiaries of financial transfers);**
- **feeling of geopolitical and economic isolation in transition countries not having clear EU membership prospects**

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### **Pessimistic scenario (potential outcomes):**

- slow reform trap (distorted capitalism and democracy)
- slow growth/ stagnation, income inequalities and social apathy
- increasing income/ welfare gap with the EU
- continuing authoritarian trend in CIS
- another round of political destabilization in Balkan region
- economic and political marginalization in relation to the rest of world and Europe (looking for second-best solutions)
- the new Berlin Wall in Eastern Europe

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### **How to avoid the pessimistic scenario?**

- Intensification of economic and political reforms in non-EU transition countries
- External leverage (EU, OSCE, Council of Europe, NATO, IMF, World Bank, EBRD, bilateral assistance)
- Developing human capital (education, training, exchange of experience)

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### **Major reform issues in less advanced transition economies**

- Bad entrepreneurial and investment climate (weak SME and FDI sector)
- Weak state / corruption
- Deficit of democracy (mostly CIS)
- CIS: insufficient integration with the world and European economy (problems with WTO accession, EU trade protectionism)

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## Key determinants of business climate

- Barriers of entry (registration and licensing regime)
- Legal system, its stability and transparency
- Law and contract enforcement, protection of property rights
- Quality of state institutions, including civil service and judiciary, role of law enforcement agencies
- Tax system and administration
- Underdevelopment of financial sector and low quality of financial services
- Underdevelopment and monopolization of infrastructure

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## Political determinants of bad business climate

- Lack of political organization of a middle class
- Weakness of civil society and independent media
- Symbiosis between the business and politics and government (rent-seeking, strength of oligarchs, political corruption)
- Parasite behavior of government officials in relation to business

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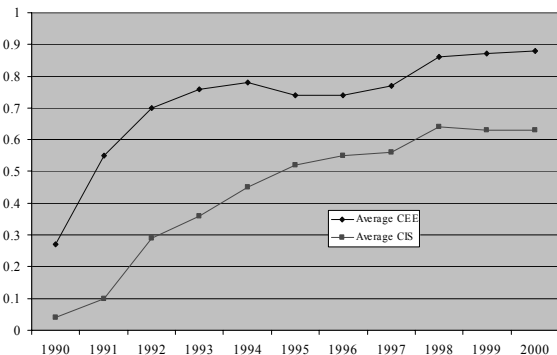
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Structural Reform Index for CEE and CIS Countries (normal economy=1)\*



\*Source: Adlund, A. and Warner, A. 2003. The Enlargement of the European Union: Consequences for the CIS Countries. CEIP Working paper.

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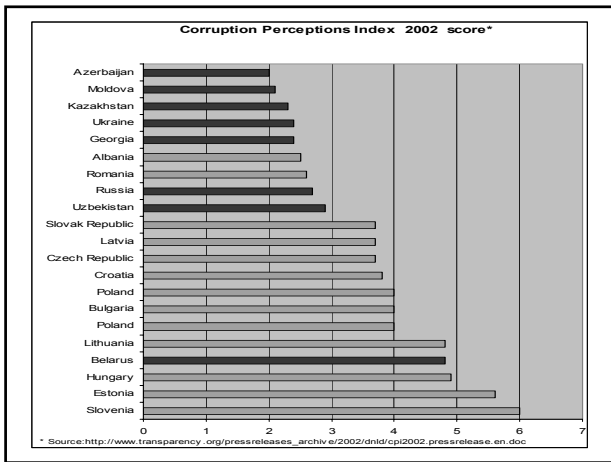
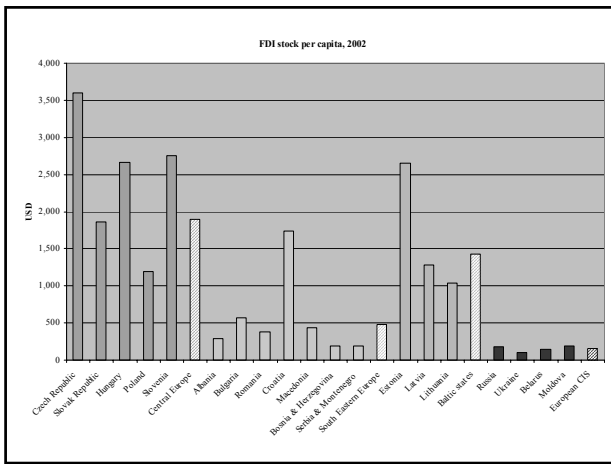
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**Figure 5.1: Rule of law and corruption rating in post-communist countries**

Country	1997	1998	1999-2000	2001	Corruption Rating 2001
<b>High Levels</b>					
Czech Republic	1.50	1.50	2.25	2.50	3.75
Estonia	2.25	2.25	2.00	2.00	2.75
Hungary	1.75	1.75	1.75	2.00	3.00
Latvia	2.25	2.25	2.00	2.00	3.50
Lithuania	2.25	2.00	2.00	1.75	3.75
Poland	1.50	1.50	1.50	1.50	2.25
Slovakia	4.00	4.00	2.50	2.25	3.75
Slovenia	1.75	1.50	1.50	1.50	2.00
<b>Middle Levels</b>					
Albania	4.75	5.25	5.00	4.50	5.50
Armenia	4.75	5.00	5.00	5.00	5.75
Azerbaijan	5.50	5.50	5.50	5.25	6.25
Bulgaria	4.25	3.75	3.50	3.50	4.75
Croatia	4.00	4.00	4.00	3.50	4.50
Georgia	5.00	4.75	4.00	4.00	5.25
Kyrgyzstan	4.50	4.50	5.00	5.25	6.00
Macedonia	4.25	4.50	4.25	4.25	5.00
Moldova	4.25	4.00	4.00	4.00	6.00
Romania	4.25	4.25	4.25	4.25	4.50
Russia	4.00	4.25	4.25	4.50	6.25
Ukraine	3.75	4.00	4.50	4.50	6.00
<b>Low Levels</b>					
Belarus	6.00	6.25	6.50	6.75	5.25
Bosnia & Herzegovina	Na	6.00	6.00	5.50	5.75
Kazakhstan	5.00	5.25	5.50	5.75	6.25
Tadikistan	6.25	6.00	5.75	5.75	6.00
Turkmenistan	6.75	6.75	6.75	7.00	6.25
Uzbekistan	6.50	6.50	6.50	6.50	6.00
Yugoslavia	Na	5.00	5.75	5.50	6.25

Source: Karatnicky et al. [2001].



