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**COMING TO TERMS WITH A LARGER EUROPE:
OPTIONS FOR ECONOMIC INTEGRATION**

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Coming to Terms with a Larger Europe: Options for Economic Integration

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THE CONTRADICTORY LOGICS OF PAN-EUROPE

Two contending logics have so far dominated the debate on how the countries of central and eastern Europe (CEECs) might become part of a single European economic space. One is a common sense and incremental logic of economic liberalisation; and the other is the logic of conventional enlargement of the European Union (EU). The first incremental logic starts from the simple proposition that the establishment and sustenance of market economies in the CEECs requires their inclusion in a multilateral regime of trade and payments as quickly as possible, and their coverage by the kinds of market regulation mechanisms that have now been established in western Europe through the single European market (SEM). The second logic of EU enlargement requires the incumbent EU members to accept the accession of the CEECs (or some of them) as full family members. It would mean the application of the whole range of EU policies across pan-Europe.

Neither logic is straightforward. Incremental liberalisation implies a form of 'shallow' economic integration. It requires a degree of political engagement, sufficient to enable the EU side to go beyond the terms of the current Europe association arrangements. These latter allow graduated market access in manufactures and some services, but exclude agriculture and free movement of capital and of labour; they also leave the EU side able to impose measures of contingent trade protection. A more generous and certain version of shallow liberalisation would require the EU to draw a line between membership and non-membership in terms of market access and regulatory arrangements in different ways from any that it has done in the past with other external partners. The European Economic Area (EEA) model, devised as a link with the countries of the European Free Trade Area (EFTA), is a kind of precedent, but distinctive in that it was devised for advanced industrial countries with highly sophisticated legal and administrative infrastructures. The EEA model would need considerable adaptation to provide the functional equivalent for the CEECs as the successor partnership to Europe association.

The full EU membership formula would be a big bang approach. It implies the leap-frogging of intervening arrangements, so as to include the CEECs within the 'deep' integration model developed in western Europe over the past four and a half decades. It would require the EU side to accept within the fold countries with as yet underdeveloped economic, political and legal infrastructures, and countries with still low levels of economic wealth and significant agricultural sectors. Thus the potential costs and burdens for the current EU are considerable. Moreover the concept of deep integration goes way beyond the management of the economy in including political and security engagements that are far-reaching. For the CEECs the disciplines associated with accepting the *acquis communautaire* are considerable, though the benefit is that the disciplines are mutual (ie existing EU members are also bound) and the institutional framework is certain. In addition the political corollaries are extensive for countries still

in the midst of establishing independent democratic polities. One major concern on the EU side is that the steps involved are so large for both sides that they risk prejudicing the survival of the deep integration model itself.

For the moment the theory of current discourse is that it is the second logic that will prevail, in that the CEECs have declared it as their objective and the EU side has acknowledged the eventual goal of eastern enlargement. Accession negotiations with some of the 10 Europe Associates (along with Cyprus) were scheduled to follow the recent Intergovernmental Conference (IGC), concluded in Amsterdam in June 1997. Behind this formal discourse, however, lies a plethora of uncertainties over the timescale of enlargement, over which of the CEECs might in practice join, over the terms on which accession might actually be agreed (the Spanish and Portuguese were forced to accept long transition periods), and over whether each of the CEECs will hold to the course of EU deep integration.

Of the two formulae it is generally argued that full EU enlargement based on deep integration would be the first best outcome for the CEECs. How good a second best the shallow variant might be would depend on how it was constructed. The extent of the adjustments that would be needed by both CEECs and incumbent EU members to achieve an inclusive version of deep integration necessarily cast doubt on its realism. A range of scenarios can be envisaged. The CEECs might be admitted only slowly and in successive waves of 'manageable' small numbers. This is the implication of the distinction drawn in July 1997 by the European Commission between a first group of candidates and those less ready. A sharp and enduring distinction might be made between Carolingian central Europe — Poland, Hungary and the Czech Republic — and the rest. Enlargement as a whole might stall, not least because of the obstacles to policy and institutional reform within the EU. A version of shallow integration might be devised as an alternative, but perhaps not until the conventional enlargement route has been tried and failed. The current and inadequate Europe association formula would have to be stretched and patched to cope with intervening demands for an enhanced policy regime. 'Accession partnership' was adopted in autumn 1997 as the label for those in the waiting room for membership.

These various possibilities are essentially dependent on the politics of the debate about pan-Europe. What is more these politics, so far at least, have been driven by the preferences of west Europeans, much more than by the politics of the CEECs, whose asymmetrical relationship with the EU leaves them vulnerable, dependent, and caught in a set of bilateral links that offer only limited political leverage. Yet much of the core of the problem to which a solution is sought is economic, namely about how to provide both certainty and appropriateness to the terms of market access for the CEEC economies and to the forms of market regulation that they will develop. Economic agents — entrepreneurs and investors — in both parts of Europe would prefer a more certain basis from which to make their planning assumptions.

Two economic elements in this debate remain under specified. One is whether we should assume that economic development in the CEECs is likely to consist of

retarded imitation of the post-world-war-two west European economic model or instead expect other variants to emerge — a 'third way'. Competition from lower cost CEEC products would impact in different ways depending on how their economies develop. Hence the second missing element is how we might expect economic agents in western Europe to treat the emerging CEEC economies — as a lower cost production platform? as dynamic new markets? as a source of destabilising additional competition? There are opportunities for some west European entrepreneurs and threats for others, as well as knock-on impacts on labour market and social adjustment in western Europe.

More particularly in the context of how broad policy will be shaped, we need some understanding of how preferences are likely to be formulated on the EU side. The conventional wisdom is that an array of protection-minded veto groups in western Europe stand between the CEECs and a liberal form of partnership with or accession to the EU. But here we have contradictory historical precedents. There is certainly much evidence to suggest that EU trade and market regulating relationships with clearly 'third countries' have been much influenced by the voices of vested and often protectionist interests within the EU. Similarly the EU has been prone to displace the costs of intra-EU economic and social adjustment on to third countries — in this respect EU behaviour is similar to that of other powerful trading blocs or big countries. On the other hand, the devising of relationships within the family has over the history of the EU, and previously the European Community (EC), been influenced by politics as much as, perhaps more than, economics. In bargaining within the family broader considerations of collective interests, national political goals and governing ideas have been powerful influences on policy outcomes. There is substantial evidence of political preferences leading economic preferences on some issues, and at least of an iteration between political and economic preferences, a process accentuated by the particular character of the EU bargaining processes and structures.

The crucial question which then follows is whether the CEECs are likely to be treated as potential family members or rather as a special category of third countries, albeit in a position of peculiarly vulnerable dependency. It is on precisely this question that the jury is still out, in spite of the formal decision of December 1997 (by the European Council) to open negotiations with some of the CEECs. The willingness to take EU enlargement as the presumed model for the relationship with the CEECs implies a readiness to talk in terms of family membership. On the other hand, the obstacles to achieving such an outcome are such as to cast doubt on its achievability. What remains then to be clarified is what the default relationship would be. The more benign default would be a designed and deliberately fashioned version of shallow integration. The less benign default would be protracted uncertainty, in which political design was absent and economic relations were left dependent on the behaviour of economic agents operating as best they could with unstable and unpredictable rules for market access and a plurality of regulatory arrangements.

DEEP INTEGRATION ON TRIAL

Shallow integration in western Europe, for example in EFTA and between the EC and its neighbours, has consisted of progressive liberalisation in payments and trade in manufactures and services (though not fully extended to agriculture), with freed capital movements added in the late 1980s, and without free movement of labour. It has been supplemented by some policy cooperation and common market regulation and a form of dispute arbitration (in the EEA), but voluntaristic, conditional, and without direct enforcement and adjudication mechanisms. Deep integration, as exemplified by the EU, has tighter policy regimes, stronger disciplines, an autonomous jurisdiction, some directly exercised financial instruments, and a common agricultural policy. Currently EU economic integration is set to deepen further by including a single currency regime for at least some members.

It is not only the intensity and scope of economic integration that is deeper, but that it is set in an envelope of political integration in two senses: distinctive common institutions, legislation and jurisdiction; and complementary political and security agreements. Enlargement of the membership of this deep integration circle has in the past been conditional on the willingness and capacity of candidates to accept the disciplines and political engagements in the terms set by the incumbents. The fall-back position for applicants has been a semi-detached option, softened by market access arrangements with the EU, and, since the creation of the EEA, asymmetrical participation in the single market regulatory regimes (the same market rules without much voice in their framing). Each enlargement has provoked vigorous arguments among the existing membership about the merits and consequences of each candidate. Deep integration has been deliberately discriminatory between candidates.

In extrapolating from previous west European history, we can observe two different cases. On the one hand some advanced and industrialised countries, essentially the UK and the Nordics, chose in the early fifties not to follow the deep integration model and instead relied on the opportunities for shallow economic integration (partly steered through international institutions other than the EC). The main reservation was to do with the extent of political engagement required by deep integration and a preference either for keeping defence cooperation separate (the Nato members' view) or for neutrality. Over time, however, most of the abstainers decided that the economic costs of exclusion from deep integration were greater than acceptance of the political engagements, hence their progressive accession into the deep integration circle, although not always happily (and with a few persistent abstainers — notably Norway and Switzerland).

The second west European group comprised those (Ireland and the southern Europeans) where governments decided that participation in the deep integration circle would be the route to economic modernisation and political stabilisation as functioning democracies. This group has provided the more successful group of late-joiners. The CEECs are closer to the southern European case, so far at least, in terms of the policy targets that they have set for themselves. Much of the formal policy debate in the EC/EU since 1989 has extrapolated from this southern European precedent, albeit with

questioning of how many of the CEEC candidates can be envisaged as potential successes. EU members have also shown considerable prudence about what the financial and economic costs would be of changing the numerical balance within the EU between wealthier and less wealthy members.

However, the deep integration circle bounded by the current EU membership is not a stable arrangement. There are major differences among the 15 members about what further policy and political commitments should be undertaken, hence the succession of IGCs to negotiate reforms to the EC/EU. There is an inherent contradiction between EMU and eastern enlargement. There are serious concerns that a massive extension of EU membership to pan-Europe would put paid to the deep integration experiment. In addition the pressures of global competition are making it increasingly hard to sustain the socio-political compacts that developed in individual west European countries around their economic policies in the post-world-war-two period. Moreover the changes of 1989 have exposed a vulnerability of the deep integration model, without active American sponsorship as an ingredient, and without the cement of a vigorous military alliance.

Thus the configuration of pan-Europe remains uncertain. For an economic liberalisation logic to prevail requires a willingness explicitly to separate economic integration from the political and security bargains of the past, so as to engage the CEECs in economic multilateralism. For the deep integration logic to prevail requires the existing EU membership both to retain a commitment to the model and to accept its extension to CEECs, along with an attendant range of new financial, political and security responsibilities. The default is prolonged uncertainty as regards the overall institutional setting, as regards both market access and market regulation arrangements east of the current EU borders, and, most likely, variations in the treatment of individual CEECs. And in the case of the CEECs the fall-back options are much less clear than for the abstaining west Europeans, which at least had a guaranteed position in the broader arrangements for shallow economic integration.

CHALLENGES OF TRANSITION ACROSS THE CONTINENT

Both western and eastern Europe are thus going through experiences of sharp transition, at the macro formal level of restructuring of the political economy and at the micro level of adjustment. One key issue is whether these differently derived processes of transition in the two parts of Europe are complementary or in tension. For a version of pan-European deep integration to occur presupposes a high degree of complementarity (some would argue convergence), while tension between the two versions of transition would suggest that a more fragmented Europe is likely to persist (see Figure 1). In the former case the usual premise is that integration would be shaped by the west European inheritance, which would more or less rapidly be extrapolated across the continent eastwards. Two different variants of this could be envisaged: one would be a mutually

determined (ie with CEEC participation in its definition) alignment of the east European political economy to the west European *acquis*; the other might be described a form of colonisation (ie the imposition on the CEECs of the pre-existing west European policy regimes). In the case of a fragmented alternative two broad variants can also be envisaged. One might be the continuation of the familiar west European integration process, with a range of hub-and-spoke links to individual east European countries, some spokes being stronger than others. A second variant might be a wider rearrangement in which the consequences of changes in the eastern part of the continent would impact on relationships within western Europe, thus altering, some would argue eroding, the established west European integration model.

Western Europe has changed a great deal over the past decade. Much progress has been made with consolidating the SEM and considerable industrial restructuring has taken place, though important parts of this agenda for both public policy-makers and private entrepreneurs remain to be completed. The SEM has been extended partly through the EEA and partly by the full inclusion of Austria, Finland and Sweden within the EU. Member governments of the EU have since become much preoccupied with plans for EMU, both a successor project to the SEM and a response to German unification. Political union, a much less clear, yet also more controversial, aim is another testing preoccupation. There would have been more than enough to keep west Europeans busy without the additional challenge of the larger Europe.

It is not only developments at the transnational or multilateral level that are relevant. Individual west European countries are not in stable equilibrium, but are subject to powerful adjustment pressures at the country level. In particular the social and societal dimension of adjustment to international competition is most evident as a pressure on national governments and the national political fabric, as well as being reflected in high levels of unemployment. It is not only that the social dimension of the EU has failed to develop, but that individual country responses to the challenges of adapting the labour market and welfare system are very varied. Thus, for example, the Netherlands is going through a period of positive adjustment, while Belgium is suffering from both a huge public deficit and an internal reformation of the domestic polity. Germany is marked by accentuating tensions, both between different regions (especially east/west) and between different sections of society and economy. Versions of social and political adjustment tensions are evident in most EU member states. The exigencies of the criteria for establishing EMU are combined with both global influences and specific country features to produce new policy and political dilemmas.

ACTIVISM WITHOUT STRATEGY

Under such conditions it is not surprising that there are wide differences of view in western Europe about where collective European policy regimes should be encouraged and where a protected political space should be retained for country-level policy. The IGC convened in 1996 found itself locked into the details of procedural not substantive reforms partly as a consequence of not having developed a critical pathway to achieving policy reforms or a clear approach to the larger Europe. The responses of west Europeans to both eastern enlargement and the implosion of Yugoslavia (and more recently Albania) have been ambiguous and ambivalent. In the latter case west Europeans were torn between activism, in the event expensive activism, and strategic policy. (Nb. it should be noted that money spent on efforts to rescue something in these countries is money not available for transfers to the peaceful CEECs.) Activism has in practice led to considerable involvement; yet strategic policy has been elusive, reflecting the absence of clarity on the west European side about the goals and cornerstones of a new European policy and about the definition of new security interests.

As regards the peaceful CEECs the activism has been considerable at both the multilateral and the bilateral levels. Individual west European countries have developed an array of assistance programmes. At the multilateral level the security organisations — Nato, Western European Union (WEU) and the Organisation for Security and Cooperation in Europe (OSCE) — have each been partially adapted to take account of the new reform democracies. Nato has gone furthest in promising membership to some of the CEECs, although without redefining its own central purposes. In the political sphere the Council of Europe has attempted to develop a process of inclusion for reforming democracies as each has established basic democratic features, though it has not been consistent in the application of its own criteria. It is from this that flows the irritation in parts of central and eastern Europe about the relaxation of the democracy criteria to admit Russia and Croatia.

The EU has had a two-pronged policy of technical and financial assistance through Phare and Tacis, and of association for the inner ring of CEECs and partnership with the other parts of what was the Soviet Union. For the CEEC associates (now ten in number) the promise was made in 1993 that full EU membership would eventually replace association. These ten Europe Associates have often been divided by west Europeans into distinct groups: the more 'advanced' Visegrad countries — Poland, Hungary, the Czech Republic, and, up to a point, Slovakia; Bulgaria and Romania, with much less vigorous transformation processes as yet; the small Baltic states of Estonia, Latvia and Lithuania, with their problem-posing proximity to Russia; and Slovenia, by a margin the richest of the ten. There is a further penumbra of other European countries in the Balkans, as well as the boundary countries of Ukraine, Moldova, and some would add the Caucasian republics. Then there is the extra complication of the complex EU relationships with Turkey, long an applicant for full membership, and with a divided Cyprus, already, though conditionally, promised early accession negotiations.

EU activism *vis-à-vis* this range of countries still falls well short of coherent and overarching policy. Yes, Nato will be enlarged, in the first instance to include Poland, Hungary and the Czech republic. Similarly, the EU will be enlarged, but when, on which terms, and with which countries, remains to be specified. The issue of EU enlargement is the one with most obvious direct significance for economic adjustment and reform in central and eastern Europe. A clear set of decisions on EU enlargement would have direct consequences for the day-to-day operations of public policy and private entrepreneurship in the CEECs. Persistent exclusion would make clear to both public and private actors in the CEECs that they would have to develop alternative policy regimes, whether unilaterally or multilaterally. Uncertainty about timing and conditions makes the calculations extremely difficult for the CEECs and also for those from outside who already do or might in the future invest in their economic development.

'Opinions' on each CEEC candidate's readiness for EU membership were issued by the European Commission in July 1997, following conclusion of the IGC in Amsterdam in June, with negotiations for membership to follow. For some time it was unclear whether the first round of negotiations would take place only with those of the CEECs that had progressed furthest towards a presumed EU norm or whether there would be a 'regatta', in which boats from each of the 10 CEECs would row towards the finishing line, but at different speeds. The Commission indicated a firm preference for 'differentiation' by opening negotiations with only five (as well as Cyprus): Estonia, the Czech Republic, Hungary Poland and Slovenia. In December 1997 the European Council endorsed this proposition, but, under pressure from especially the Danish and Swedish governments, accepted that annually a 'critical analysis' would be made of the preparedness for accession of all ten CEEC candidate. In addition a 'European Conference' would be held annually with all the candidates, an invitation also extended to Turkey. This last point was contested by the Turkish government, irritated by not being allowed to start negotiations for accession and by continuing issues about the divided status of Cyprus.

In the CEECs a series of individual country efforts is under way to take forward political and economic transformations, with very varied patterns and sequences of reform. The individual trajectories of reform are hugely constrained, not only by the domestic circumstances of each country but also by the assumed impact of west European policy regimes. The absolute precondition for each of the CEECs, in order to have a real chance of joining the EU, is that domestic practices, rules and laws governing the operations of the market imitate those of the EU. This was already a requirement under the Europe Association agreements signed with each country since the early 1990s. The requirement has been tightened by the pre-accession strategy (PAS) of the EU, adopted at the Essen European Council of December 1994. It would be further embedded by accession to the EU, even though some of the rigours of the *acquis communautaire* might be softened or deferred by derogations won in the accession negotiations. For the moment the governing elites in each of the Europe Associates remain committed to the goal of achieving early accession to the EU, a goal which pushes them into a form of rule-dependency as regards the regulation of their markets

and of their exchanges with the the economies of western Europe. It cannot, however, be taken for granted that government policies or public support in the CEECs will remain committed to this one-way adaptation process. Signs are already emerging of 'Europe' as a potential cleavage in the still unsettled politics of the CEECs.

THE ROUTE FROM ASSOCIATION TOWARDS EASTERN ENLARGEMENT

In one sense EU policy towards the CEECs can be straightforwardly stated as charting a conventional pathway from trade and cooperation arrangements to 'normal' enlargement. The current version of Europe Association falls part way along this pathway, quite how far along is a matter of debate (see Figure 2). Experience suggests that the distance from **A** to **B** is relatively short and easily travelled, while the distance from **B** to **C** is rather long, in spite of the PAS, designed to facilitate the journey at least as regards market integration. From the point of view of market access into the west European market and market consolidation in the CEECs this has been seen as the key journey to travel, with formal accession to the EU then marking certainty about CEEC inclusion in the single market and also binding the existing EU members to guarantee their side of the bargain. However, the fact that the EC has changed into the EU means that full membership of the system presumes the ability and capacity to move from **C** to **D** — at some stage. It is around this part of the integration process that the discussion occurs of deepening and widening as antitheses.

Four complications should be noted. One is that market integration in theory ought to include all four factors of production, but in reality the PAS covers goods (not agricultural) and services, but not capital or labour. In earlier enlargements labour movement has typically been a controversial issue, richer countries fearing (often misguidedly) influxes of economic migrants from poorer countries. Thus in the case of EC enlargement to include Portugal and Spain full labour movement was deferred until many years after their formal accession, because of the fears of the incumbent member states. It should be noted that the fears proved largely groundless; before the end of the transitional arrangements Spain had become a 'net importer' of Europeans, ie nationals of other EC countries. This shows the importance of both economic improvement and societal optimism in Spain generating a disinclination to migrate elsewhere, albeit with persistent internal migration from south to north.

A second complication is that a base policy of the original EC was the common agricultural policy, not easily extendable to the CEECs for reasons of both substance and costs. This is one of the subjects of greatest difficulty as regards enlargement. We should note that most discussion on this issue is narrowly focused on the primary agricultural sector, although that this remains so important is a significant factor for the

economic prospects of CEEC economies. The relevance of the food processing and retail industries should also be taken into account, as these too are substantial parts of the economies of the CEECs. Some of the early evidence on west European investment in the food distribution and retailing sector reveals this investment being used to boost west European food exports to the CEECs (sometimes through tied distribution arrangements) rather than to invest in or to facilitate local sourcing.

The third complication is that market integration rules in the EU are not a stand-alone policy regime, but embedded in, and perhaps dependent on, associated or 'flanking' policies. These include the measures and funding programmes agreed to promote economic and social cohesion, which have political and social elements, as well as economic aims and financial costs. Flanking policies also include a variety of rules to promote similar process conditions for the production of goods and services, especially as regards environmental and workplace standards. A difficult policy conundrum arises here. It is self-evidently difficult for the CEECs at this stage of transformation and with current income levels to apply environmental and workplace standards comparable to those in EU member states. Nor are such high standards necessary for products to be made that meet EU product standards. However, west European producers and publics are nervous about accepting goods that can thence compete from a lower cost base. And some west European producers are themselves investing in the CEECs to take advantage of such lower costs.

Lastly, the end point of what is included in full EU membership has changed from that which was relevant in any previous enlargement discussion. The additions made at Maastricht in 1991 to the *acquis* by plans for EMU, by the second pillar for a common foreign and security policy (CFSP) and by the third pillar for justice and home affairs (JHA) have raised the threshold of what EU, as distinct from EC, membership includes. Each of these elements raises distinct issues about what would be implied for eastern enlargement. EMU as such is generally regarded as a very distant prospect for the CEECs, or at least most of them, although it should be noted that some, for example the Poles, have the Maastricht criteria within their policy frame, and even entry into the single currency as a stated and foreseeable objective (2006?). CFSP in some respects looks easier, not least since a key objective of EU enlargement would be to contribute to the political and security stabilisation of the eastern part of the continent. None the less the simultaneous discussion of creating a hard-core defence group in the EU is in tension with the objective of widening the membership of CFSP. In some ways most important, but least addressed, is the third JHA pillar of the EU. The growing emphasis on this as a core objective for deepening integration in the EU tends in the direction of raising barriers and controls on the movement of individuals between the EU and the CEECs. This partly relates to problems of criminalisation to the east, but also to migration, both economic and political, thus feeding on the nervousness about free movement of labour noted above. The emphasis of the Treaty of Amsterdam on consolidating EU policy on these issues has made these also relevant to the terms and conditions of accession for the CEECs.

It follows from all these complications that it has become very hard to envisage the eastern enlargement as simply a series of graduated steps along a familiar route. It might be tempting to separate out the absorption of the CEECs in the market integration parts of the EU from the associated political, societal and security dimensions. It is exceedingly difficult to do this in practice. The economic parts of the integration package do not stand on their own for the current EU membership and there is little reason to suppose that this would be possible for the CEECs. The agricultural and financial transfers are tied into the market integration package, as a mix of demonstrated solidarity (however hard to define this notion of cohesion) and off-setting side-payments for acceptance by the poorer of the policy agenda of the richer.

One crucial question is therefore what steps would have to precede accession, the place where so far the discussion has been concentrated, and which steps of alignment and convergence would be part of post-accession adjustment. In all previous enlargements there have been substantial post-accession adjustments, albeit on a lesser scale than would be required for the CEECs, given their lower income levels and still uncertain reform capabilities. The current case is, however, more complicated by the number of candidates, the large differences between them, and the lack of clarity about how much of the post-Maastricht version of the EU constitutes the basic reference points for accession. The social protocol, agreed in 1991 to take account of British singularity, is an additional problem in that it explicitly separated some labour market legislation from the total EU integration *acquis*, although the 'new' Labour government in the UK intends to remove this exceptionalism.

But the question is yet further complicated by the fact that the EU is not defined only by Maastricht. The implementation of EMU is already generating additional policy demands and policy rules. The 1996/7 IGC, though mainly caught up with procedural issues, debated some further policy goals, in particular as regards common defence, employment and immigration issues. Running through the IGC debate was also the question of so-called flexibility, significantly called in French 'reinforced cooperation'. The difficult discussion about flexibility had two quite different objectives. One was to find ways of enabling the more integration-minded among the current member governments to proceed with some policy commitments, even if these are not shared by all of the current west European members. The second was to alter the decision rules in such a way as to prevent additional new members from the CEECs from dictating the pace, scope and character of future integration. However one reads the immediate outcome from the recent IGC there is a real possibility that in the future the EU will be less homogeneous in terms of its policy regimes and less inclusive in terms of its decision rules (de La Serre and Wallace, 1997). There might thus be a hierarchy of power and participation quite different from that which has characterised the old EU.

OPTIONS FOR VARIEGATED MEMBERSHIP

Full inclusion of the CEECs into the EU, with a range of transitional arrangements and derogations, would be, we have already suggested, the tidiest solution to the pan-Europe challenge. It would have the great merit of providing base-line certainty about the underlying policy regimes to be implemented, the status of new CEEC member states would be relatively clear, and there would be legally constraining mechanisms to induce compliance by both west and east European member states.

In the absence of early and comprehensive eastern enlargement we can envisage several possible alternatives. These move across the spectrum between deep and shallow integration and include:

- (i) serial enlargement for successive waves of CEEC members, for example, earlier membership for the 'advanced' Visegrad group (+/- Slovakia) and Slovenia, or for those CEECs, such as Estonia, with the most determined EU patrons, leaving others until later, their links in the interim being defined by the current EU version of association;
- (ii) tiered membership, or a 'two Europes' variant (the Delors version), with a division emerging among the existing EU western members between the more and the less integrationist, which would perhaps make it easier for the slower and more distanced west European group to be joined by a larger number of the CEECs, though some of these, the Poles have been most explicit on this, might be keen to aim for the inner core;
- (iii) partial membership, in which the integration package was broken apart into a series of more or less parallel regimes, perhaps along the lines of the Maastricht pillars, and perhaps with EMU designated as a quasi-separate pillar, with different patterns of participation for individual CEECs, even conceivably with some included in, for the sake of the argument, the second CFSP pillar, but not necessarily within the single market regime;
- (iv) extended association, in which difficulties about proceeding to a form of regular enlargement might lead to a redesign of the association formula into a new pattern of association; this would be to entrench a new form of shallow integration, somewhat comparable in conception to the EEA for the EFTA countries, albeit with different content; such a formula might be designed for all of the CEECs, or only for those whose full accession to the EU might be delayed for some years (or might be 'inappropriate' - parts of the former Yugoslavia come into play here); important issues arise here about how multilateral any such formula might be and about what the strength of the discipline might be over compliance on the EU side (NB in this context the EU use of anti-dumping measures against Turkey in spite of the customs union agreement and against Norway in spite of the EEA).

Variations such as those outlined schematically above might emerge as deliberate policy or emerge as the product of non-decision. The big bang concept of early and inclusive full membership for ten CEECs demands a high measure of consensus among the existing EU members across the full range of relevant policies and the institutional consequences of enlargement. Such consensus is currently far from evident, as is clear from the decision to open negotiations with only some of the CEEC candidates. The various alternatives indicated above would be the result of dissensus or conflicting priorities within the existing EU being projected on to the relationship with the CEECs. They all assume that the main terms of the relationship would be the result of west European policy pressures, that the CEECs will be regime-takers rather than regime-makers.

EASTERN ENLARGEMENT IN WHOSE INTEREST?

It is conventionally assumed that full accession to the EU would maximise the interests of the CEECs and of their economic development. Similarly it is usually argued that on the EU side of the equation interests are dispersed between some favouring eastern enlargement, those at risk from enlargement, and some agnostics, with the question being whether or not the first group can capture the direction of policy. The discussion tends to muddle up political, security, social and economic definitions of interest and preference. Thus it is common on the EU side for economic analysis to downplay or to misunderstand the other dimensions, as it is for those who are primarily concerned with security considerations to underestimate the economic complications and so forth. Very little systematic attention has so far been given to the social variables that are relevant to the establishment of a deep integration framework for pan-Europe. This section examines some of these elements and their potential impact on how policy might develop.

Policy leadership

Generally speaking there was from 1989 onwards, and has so remained, broad political support on the EU side for developing the relationship with the CEECs. At the macro level of discourse and long term objectives it has been fairly easily agreed that in the short-to-medium term policy should be active and encouraging, and (since Copenhagen European Council of 1993) that, over time, it should lead towards EU enlargement. This language has come from Spanish (vide Westendorp's insistence in Reflection Group Report) and French (vide Chirac's round of visits in 1996/7 to the CEECs) politicians and policy-makers, as well as from German and British. Indeed the predisposition to promote the goal of eventual enlargement should not be underestimated and has much resonance of the political responses in the EC to Spanish and Portuguese enlargement.

There is, however, a gap between broad support or shared symbolic preferences on the one hand and strategic policy definition on the other hand. The problems arise when it comes to the detail, timing, and small print, when in all member states one finds enthusiasm tempered by points of resistance. It is important to be aware that such resistance is present across the EU, ie it is found in Germany as well as in Spain. The obvious assumption that the push for eastern enlargement will come mainly from Germany should not be taken at face value. Thus symbolic commitment is diluted when it comes to the substance and to the choice of acceptable candidates from among the CEECs, particularly, as will be argued below, when there is no clear security imperative to reinforce the symbolic preference, and when the economic balance sheet for EU incumbents is mixed.

In addition the value preference for extending the European family of democratic countries, while repeatedly articulated by political leaders, is weakly supported by societal engagement, in that the transactions between western and eastern Europe remain concentrated among rather small groups of policy-makers, politicians, and entrepreneurs. Also to be noted is a feature that distinguishes post-cold-war Europe from post-second-world-war Europe, namely that in the latter case many of the elite transactions were through people directly involved in the public sphere, while in the current case the use of consultants on contract as intermediaries produces limited accumulation of elite engagement. Hence in the terms identified by Karl Deutsch and his colleagues as relevant to supporting policy development the elements of security community have been so far fragmentary.

It is interesting to note that in the early period following the end of the cold war the European Commission was able to take an active role in defining preliminary forms of assistance and association. It did so within the permissive consensus of EU member governments, rather than according to a tightly defined negotiating mandate from them. Member governments legitimated the opening up of relationships at the level of discourse and symbolism, but intervened with precautionary reservations on individual policy issues and economic implications for their domestic clients. Thus the symbolism was in favour of expanding the relationship, while the client-led policy was often in favour of specific reservations or retained protection. It was often the Commission which had to intervene to mitigate such reservations.

There have, however, been limits to the capacity of the Commission to develop further the relationship with the CEECs. The Commission is not a monolith; different commissioners and services have had varying interests and preferences. It perforce has to deal with the technical sides of the relationship, necessarily therefore having to confront the details — and the problems — of potential CEEC alignment to EU regimes. Its capacity to act as the agenda-setter on this set of issues has been restricted by the wider context of competition between itself and the member states. Its function as agent of the member states has been reduced by the absence of a firm steer from the purported principals of policy (even to the extent that the Commission has on occasions had to remind the German government, for example, that it was in danger of forgetting its role as the assumed leading principal). The weight of precedence and previous experience for

the Commission as guardian of the *acquis communautaire* has not made it easy for the Commission to develop convincing alternative policy designs to the 'normal' enlargement process, although the pre-accession strategy (sic) was devised as in part offering this at the micro level of regulation.

Much of the debate about the costs of eastern enlargement (both through agricultural support and structural funds) suggests that the coalition opposing (rapid) enlargement is easier to identify than the supporting coalition. The sources of opposition come from those who fear that their own current benefits and embedded interests would necessarily be reduced, or who argue that it would be only if these benefits could be retained that enlargement would be acceptable. Pressures on public budgets, reinforced by the Maastricht criteria for EMU, and complicated by the looming reconsideration of EU budget contributions (the British abatement included) make the politics here very tricky. All in all therefore the evidence for overt policy leadership in favour of enlargement is sketchy.

Economic engagement

Yet to leave the discussion there is to focus too much on the static costs and benefits of enlargement. Indeed the early diagnoses by policy-makers of the static consequences of trade competition from the CEECs overestimated the volume of low cost competition and underestimated the openings for EU exports to the CEECs. The restrictions to trade liberalisation included in the Europe Association agreements at the behest of nervous EU-based producers closed windows of opportunity for phasing gradually the impact of thus enlarging the EU market.

A picture is beginning to emerge of patterns of EU trade with and investment in the CEECs which show rising volumes of economic engagement (Baldwin, François and Portes 1997). This reflects both the recovery from the immediate economic collapse of the early 1990s and greater optimism about trajectories of further economic improvement. There has been something like a threefold increase in trade since 1989. However, there are big variations on both sides, with much larger engagement from some EU countries than others and some of the CEECs much more involved in trade extension than others (Grabbe and Hughes 1997). To summarise (mostly from 1994 figures), Germany is by far the largest trade partner of the CEECs as a group, and is the first trade partner of all except the Baltic states (Russia leading in Latvia and Lithuania, and Finland, followed by Russia, in the case of Estonia). Austria, Finland and Italy, along with Germany, are the most active traders, all with significant net trade balances. The preponderance of trade is with Poland, Hungary and the Czech Republic, the main destinations also of direct investment. Hungary by a considerable margin has been the favoured location for investment, though the figures are increasing for Poland and latterly Romania. Estonia is some way ahead of Latvia and Lithuania in attracting investment, though mainly from Finland.

The point here is that, whatever the detailed analysis of the commodity structure to trade and investment flows, only a minority of EU member states have so far acquired

a significant economic stake in the recovery of the CEECs. This is not to deny the increasing levels of economic involvement from exporters or investors from other EU countries (for example, the Netherlands or France), but volumes remain quite low, and some EU countries have been scarcely engaged at all. Even in the case of the more actively engaged it is not entirely clear how far engagement will predispose EU-based entrepreneurs to press governments and the Commission to force the pace of liberalisation and inclusion in the single market. We are still left to speculate about, rather than to project, patterns of economic expectations in the EU about potential dynamic opportunities from intensified engagement in the CEECs.

Regulatory competition

The single market regime in the EU rests on a mixture of rule-alignment and mutual recognition. The rule-alignment part of the regime is what generates the toughest definitions of the *acquis*, which CEEC candidates are expected to adopt in their domestic arrangements. The SEM remains incomplete in that further details remain to be filled in and the evenness of implementation needs to be improved. We should note that there are consequential pressures to define rules more stringently rather than more loosely so as to prevent back-sliding within the EU.

The recent EFTA enlargement has added to the inclination to improve transparency of implementation and to tighten the application of the SEM rules, not just on product standards, but on process standards. The new members have strong doctrinal and societal preferences in favour of high and enforced standards. Indeed both social and environmental standards were key issues in the EFTA enlargement negotiations, to the point of their reappraisal being crucial to the whole negotiating package. The EFTA candidates secured an unprecedented commitment from the EU-12 to reconsider the environmental *acquis* within the 4 years following their accession, with a view to a further raising of standards. The effect has been to tilt the balance further within the EU-15 towards favouring higher standards. To be noted here also is the 'Danish decision' from the Edinburgh European Council of 1992, which reiterated the Danish determination to resort to national measures to protect high standard preferences. This was reasserted in the Treaty of Amsterdam.

It was, of course, a crucial feature of the 1992 single market programme to complement rule-alignment by mutual recognition, thus favouring a form of regulatory competition. It had been expected by some that this competition would lead to a race to the bottom, assuming that the market would tend to lead to minimum standards. In practice this has not been the outcome (Woolcock 1994; Wallace and Young 1997). For a variety of reasons, including the advocacy of high process standards by the Commission, some governments and relevant environmental and consumer groups, in practice minimum essential requirements have tended to be set quite high.

Hence a double dialectic is set in train. There will be strong resistance to the dilution of these standards in the form of a softened *acquis* for the CEECs, combined with irritation at low cost competition from the CEECs thought to result from lower

process standards. But there are also west European entrepreneurs seeking to take advantage of less stringent rules and norms in the CEECs, yet wanting access back into the EU market. One result may be a fragmentation of producer, exporter and importer lobbies on the EU side in relation both to enlargement and the management of the association agreements, in which the range of interests might cancel each other out, leaving policy-makers in practice room for manoeuvre. But it would be premature to underestimate the capacity of organised industrial and trade lobbies to influence EU trade and regulatory policy towards the CEECs. Their potential for doing this is greater in circumstances where political leadership is weak or contested.

Notions of solidarity

The term solidarity, or various proxies for it, permeates the discourse of the EU. Sometimes it is left unspecified; but often its meaning is qualified — financial solidarity, in the case of the CAP, cohesion, as the trigger for the structural funds, the language of Community preference, and so forth. It is a product in part of continental European political traditions (not quite comfortably translated into English), as well as an explanation for concrete mechanisms of mutual support or transfer payments. Over the years since the inception of the EC it is in the language of solidarity that some policies have been justified. Those who take an interest-based explanation of European integration may be inclined to dismiss solidarity as a cosmetic rather than an operational concept. But those who admit that ideas and values are part of what distinguishes 'deep' from 'shallow' integration view solidarity as part of the core understanding about the process. To recall Karl Deutsch again, forms of active and activated solidarity were crucial to his analysis of what could constitute a durable sense of community. Or, to put it another way (Axelrod and Keohane 1985), solidarity is part of the discussion about the shadows of the past and of the future, and thus about whether the basis of European bargaining can be expressed as 'diffuse reciprocity'.

In the context of the relationship with the CEECs three main issues arise. First is the question of how firm the basis of solidarity is in the EU15, compared, for example, with the original EC6. Second is the question of whether or not at the level of values and ideas there is the basis for a pan-European form of solidarity. Third come the practical consequences, ie in what ways might solidarity be expressed as a planned sharing of burdens and benefits.

As regards the EU15, it seems evident that the base for well-defined and operationally productive solidarity has become less strong. Serial enlargement may have eroded the definition of solidarity. The declining pertinence of mutual defence against a common enemy may be part of the explanation. The increasing shift to regulation-based policy set, leaving less emphasis on (re)distribution and social measures may be another sign (or consequence). The debate in the IGC about flexibility and 'hard core' proposals was indicative of declining confidence in the probability of a retained sense of strong solidarity. Echoes of this can be found in the discussion of the relationship between 'ins', 'pre-ins' and 'outs' in the EMU context. Broadly therefore we can observe a questioning, perhaps weakening, of the assumptions about solidarity.

Secondly, it follows that for a pan-European EU of, say, 25 members, a major issue arises of what would constitute solidarity. Although we have earlier noted the strong symbolic language as regards eastern Europe, we have also noted that it has proved difficult to give strategic definition to the assertion of shared values. The opportunities to build up a firmer base are quite limited so far in terms of political and social processes of community-building in pan-Europe. If the old EC model of integration was in essence elite-driven, then we have to recognise that this has been even more so in the pan-European case, not least because of the difficulty of establishing stable interlocutors in the CEECs and the asymmetric pattern of dependency.

Most often the operational question posed about embedding solidarity for eastern enlargement is focused on cohesion and agriculture, ie about the willingness of incumbents to pay for poorer newcomers. Of course, again as noted above and in all of the academic and practitioner analyses, this is a very difficult issue, especially since generosity towards the CEECs depends on a recasting of prior bargains within the existing EU membership between and within member states. It is not hard to reach the conclusion that the base of support for substantial financial transfers to the CEECs is so far weakly expressed, though the existence of the Phare programme is rarely given sufficient weight in the debate. The Commission's document — *Agenda 2000* — partly addresses these issues, in particular by its detailed proposals on agricultural policy reforms and revised budgetary arrangements.

But we should beware of over-emphasising these forms of financial transfer as the main litmus test of solidarity. There are at least three other topics on which the question may be at least as pertinent: the social dimension to integration; the defence and security dimension; and the issues of justice and home affairs. On the social side it must be said that this has hardly figured in the debate about enlargement except expressed as an issue, actual or purportedly potential, about 'social dumping'. As for defence and security, some of this discussion is located in Nato, and some in the CFSP pillar of the EU. As will be argued below, so far the discussion has not crystallised. When it comes to JHA, so far the EU debate and early policy have been more exclusive than inclusive of the interests and needs of CEECs. Indeed the temptation to re-erect barriers to entry for individuals from the CEECs (or from third countries seeking to transit the CEECs) would take the EU away from, not towards, solidarity in this domain.

Security opportunities — and complications

Briefly as regards the security issues, in the development of the old EC security bargains and political economy bargains were closely interwoven, even though channeled through different organisations (ie Nato and WEU as well as EC). Quite how they were interwoven is less well analysed, hence some of the confusion about the consequences of the end of the cold war and the missing paradigm for pan-Europe. Similarly quite how much was dependent on the relationship with the US is not agreed. None the less in the debate since 1989 it has often been argued that the EU, particularly with its more explicit

adoption of a defence and security agenda, provides a kind of security shadow for its members and similarly would for new members.

One of the difficulties about taking forward a security dimension for pan-Europe lies in the unspecified definition of defence against what or whom. Another difficulty is that strong security and defence relationships are closed partnerships, not open-ended and expansive relationships. There is thus a tension between laying the base for a closely aligned security community, with a commitment to a form of common European defence (especially on the assumption of declining US engagement in Europe), and an open and inclusive relationship with the CEECs. This issue remains unresolved, and was not settled at Amsterdam. It is a major complication in the discussion of the interconnection between Nato and EU enlargement. It causes difficult discussion of the relationship with specific countries among the CEECs. In addition, the shift of attention to soft security issues takes the topic on to the sensitive ground of the third pillar, as well as the tangled subject of the second pillar of the EU. In brief, as yet the debates over the second and third pillars have not generated the underpinning for a shared sense of pan-European security to help to shape the context and contours of an extended political economy bargain.

CONCLUSION

The more one tries to identify the elements of the big bargains that would be required to develop a conventional form of EU enlargement for the CEECs, the harder it becomes to define how the bargains would be constructed. Hence the extension of the deep integration model seems improbable, at least on the basis of past precedent. Indeed the pressures on the deep integration model for only the EU15 are considerable and potentially about to be disrupted by the emergence of an EMU of fewer than the 15. The scale and range of the tensions in these debates within the EU15 are such that their early resolution seems unlikely. The modest results of the recent IGC leave open the core questions about how to provide a successor version of deep integration and thus postpone the consequential issues about the relationships with the CEECs.

What then of the chances of a designed version of shallow integration, as a potentially helpful second best? Again past experience is not encouraging on this score. Both the EEA example and the persistent difficulties of finding a viable formula for the EU relationship with Turkey are discouraging precedents. Hence in the short-to-medium term disjointed incrementalism seems much more plausible as a scenario. In the absence of a politically framed strategy, there are three probable patterns. One is an inconsistency of policy by the EU towards the CEECs as regards both market access and market regulation, which could include both elements of liberalisation or generosity and features of protection or discrimination. A second prospect is that emerging economic and market

factors will shape many of the outcomes, case by case, sector by sector and country by country in a variegated form, unless and until the issues are grasped politically. A third is that this will leave windows of opportunity for political developments in individual CEECs to develop their own national trajectories both for good and for ill. These could well include different kinds of east/west political and economic relationships in different parts of Europe, thus making the pattern in Baltic Europe take a different form from that in *Mittleuropa* or Balkan Europe.

Figure 1: Integration and Convergence after 1989

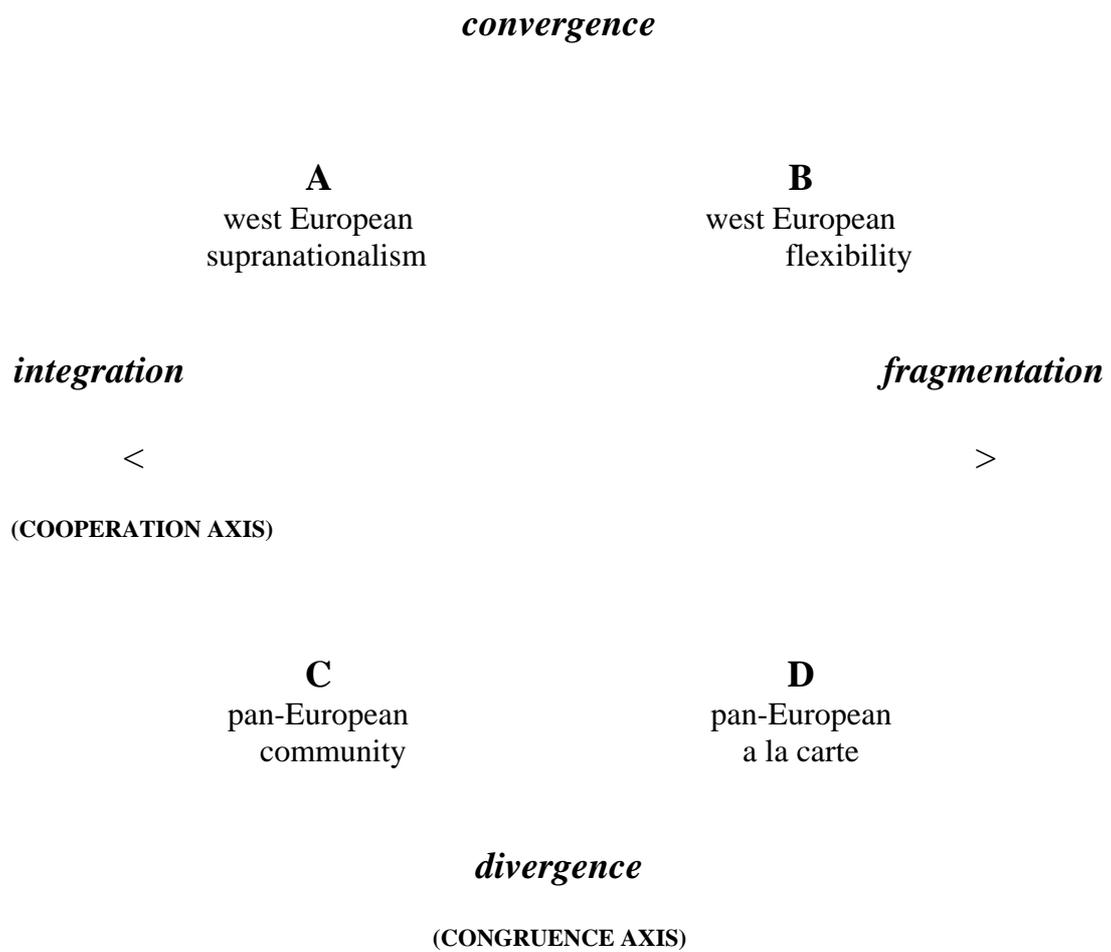
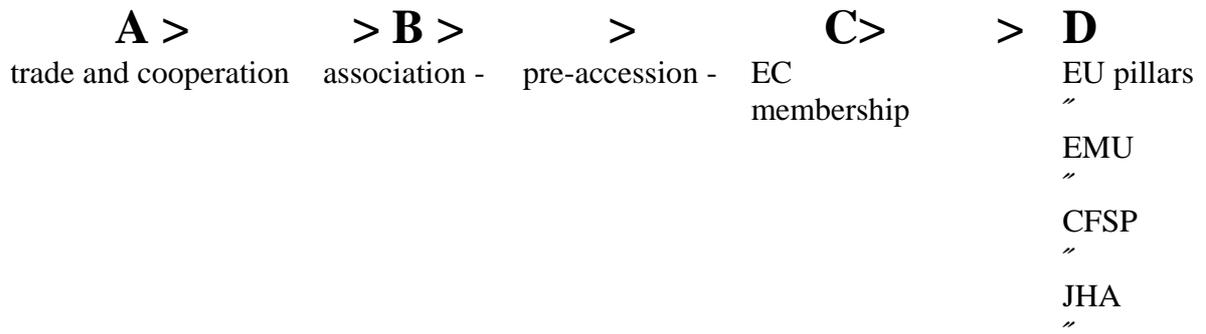


Figure 2



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