

European Integration and the Asia-Pacific Region

*Edited by
Heungchong Kim*



**Korea Institute for
International Economic Policy**

Contents

	Preface	iii
	Introduction and Overview	1
	Heungchong Kim	
I.	The European Convention and the Future of European Integration	9
	Frank Delmartino	
II.	Enlargement and the EU's External Relations	19
	Michael Dauderstädt	
III.	A "Work-in-Progress": Negotiating Economic Partnership Agreements	
	- The EU and the ACP Pacific States	39
	Martin Holland	
IV.	The EU 'New Strategy' towards the Asia-Pacific Region	53
	Bernadette Andreosso-O'Callaghan	
V.	Economic Relations between the EU and the Asia-Pacific Region	69
	Bak-Soo Kim	

VI.	The EU as a Model of Regional Integration: Challenges and Agendas	95
	Philomena Murray	
VII.	Financial Integration in East Asia: A Comparison with Europe	119
	Hee-Yul Chai and Yeongseop Rhee	
VIII.	European Integration and Korea: Toward a New Direction For Industrial Cooperation Between Korea and the EU	141
	Yong-Dai Shin	
IX.	South Asia and European Integration	163
	Rajendra K Jain	

Tables

II

Table 2-1. Membership of International Organizations (year of accession)	21
Table 2-2. Trade Volume and Share of World Trade of Bigger Candidate Economies in 2001	23
Table 2-3. Tariffs of the Candidate Countries Compared with the EU's External Tariffs	25
Table 2-4. FDI Flows between the Candidate Countries and the EU (€million)	27
Table 2-5. Expenditure of the Candidate Countries on Development Cooperation	29

III

Table 3-1. Human Development Index of 14 Pacific Countries	46
--	----

IV

Table 4-1. EU Trade with Asia in Comparative Terms (2000)	57
---	----

V

Table 5-1. Major Economic Indicators	71
Table 5-2. EU and the Asia-Pacific Region in World Trade	77
Table 5-3. EU's Exports to the Asia-Pacific Region	78
Table 5-4. EU's Imports from the Asia-Pacific Region	79
Table 5-5. Asia-Pacific Exports to the EU	80
Table 5-6. Asia-Pacific Imports from the EU	81
Table 5-7. Trade Intensity of EU and the Asia-Pacific	82

Enlargement and the EU's External Relations

Michael Dauderstädt*

After enlargement, Europe will not be the same to the outside world, but the changes will remain modest and affect foreign policy more than external economic relations and be focused on the EU's "near abroad."

Because of their relative poverty, the new members will hardly affect the EU's trade and investment relations with third countries. However, the attractiveness of the new members as locations for investment from third countries could be affected by accession in rather different ways: on the one hand, it might decline with the adoption of EU regulations; on the other hand, it might increase due to better infrastructure, and more secure access to the EU market. The new members will add little to the EU aid effort, though they might focus the EU's attention on East and South-east Europe, and some post-communist recipients such as Vietnam or Laos.

In foreign and security policy, enlargement might strengthen the forces within the EU which favor a closer partnership with the United States in global affairs and a stronger military role for the EU abroad. Generally, the EU will become more preoccupied with the management of its own affairs as its internal diversity increases at the same time as it levels its internal playing field (internal market, common currency, Convention).

With regard to Asia, the following developments are to be expected:

- Trade: Asia is likely to remain the EU's most important trading

* Michael Dauderstädt is the head of the International Policy Analysis Unit of the Friedrich-Ebert-Foundation (FES), michael.dauderstaedt@fes.de.

partner outside western Europe. Trade with Asia has grown particularly rapidly in Central and Eastern Europe since 1990, albeit from a low base. Imports are much higher than exports, thus confirming the general pattern of EU–Asian trade.

- FDI: Asia is an important investor in some Central and Eastern European countries. However, the attractiveness of the new members as locations for investment from third countries is affected in an ambiguous way by accession: on the one hand it might decline with the adoption of EU regulations; on the other hand, it might increase due to better infrastructure, and more secure access to the EU–market.
- Aid: Asia will continue to be a somewhat less important recipient of EU development aid as other regions figure high on the EU's agenda, notably East and South-east Europe, the Mediterranean countries, the Middle East and Africa. That does not exclude some "odd" effects such as a specific interest on the part of the new post-communist donors in Vietnam or Laos.
- Foreign and security policy: Asia will remain more important as an economic partner than as a political one. Of course, the EU will continue to contribute to global security (for example, in Afghanistan). Enlargement might strengthen the forces within the EU which favor a closer partnership with the United States in global affairs and a stronger military role for the EU abroad.

1. The enlarged European Union in a global context

The European Union intends to accept 10 countries as new member states by 2004. This intended enlargement depends on referenda in a number of the candidate countries, as well as ratification of the accession treaties (signed in Athens on April 16) by the parliaments of all 15 current member states. If all these conditions are fulfilled, an enlarged European Union will come into existence whose position and role in the world will have changed in various aspects. In the present paper we will consider the effects of this enlargement.¹

The biggest change will be in the number of member states, which will increase by two-thirds. This means that the EU will then comprise 25 instead of 15 of the 191 sovereign states (UN member states) of

1. Use of the term "candidate country" or "applicant country" in this paper does not refer to Bulgaria, Romania or Turkey, which are both but will not join the EU before 2007. Moreover, we will focus on the eight applicant countries of Central and Eastern Europe and only occasionally deal with the two Mediterranean candidates, Cyprus and Malta.

the world (a share increase, therefore, from 7.85 percent of all states to 13.09 percent). It is questionable whether this will make the enlarged EU more powerful. Its own decision-making will certainly become more cumbersome. The EU has a complex system of multi-level governance where the member states have different opportunities to influence decisions. Voting rights vary from body to body (Council, Parliament, Commission, Court, European Central Bank) and from policy field to policy field (for example, decisions on enlargement have to be unanimous, others are by qualified majority voting; some competencies lie exclusively with the Commission, other decisions imply a variety of co-decision and consultation procedures between various bodies). Whether a larger number of states increases the power of the EU as an international actor, in particular in international organizations, depends largely on the compatibility of their interests (see Section 5 on foreign policy below). Given the short period of national sovereignty enjoyed by most candidate states, many of these interests are only now being defined.

Table 2-1. Membership of International Organizations (year of accession)

Country	IMF	World Bank	OECD	WTO
Estonia	1992	1992		1999
Latvia	1992	1992		1999
Lithuania	1992	1992		2000
Poland	1986	pre 1989	1996	1995
Czech Republic	1990/93	1993	1995	1995
Slovakia	1990/93	1993	2000	1995
Hungary	1982	pre 1989	1996	1995
Slovenia	1993	1993		1995

Source: EBRD Transition Report 1998 for OECD, WTO; Michael Dauderstädt, "A Comparison of the Assistance Strategies of Western Donors", *Transformation. Leipziger Beiträge zu Wirtschaft und Gesellschaft*, No. 3 (December 1996), pp. 51 ff. for IMF and World Bank.

The collapse of communism was followed by a re-ordering of the state structures in central and eastern Europe, massive economic upheaval, and an equally drastic change in foreign relations. Whereas Poland and Hungary (and Romania and Bulgaria) retained their state identity, Czechoslovakia, Yugoslavia and the Soviet Union disintegrated and the candidate countries of the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania and Estonia emerged as new, independent states with their own foreign, development and trade policies. All of these countries quickly acceded to the World Bank, the IMF, and – from 1995 – the WTO (see Table 2-1). In the mid-1990s, the Czech Republic,

Hungary, Poland, and somewhat later (2000), Slovakia became members of the OECD, marking their formal inclusion in the group of donor countries. In reality, the aid received by them, especially from the EU, has far exceeded the aid provided by them. Nonetheless, their membership in these (and many other) international organizations implies a substantial compatibility of their approaches with those of the current EU members.

Because most new members are small states (only three have populations of more than 5 million), the increase in the population is more modest. The current EU has 383 million inhabitants, and enlargement will add another 76 million people, an increase of 19.8 percent. Thus the enlarged EU will have 459 million inhabitants (to compare: the United States has 290 million). Its share of the current world population of approximately 6.32 billion will rise only slightly, from 6 percent to 7.2 percent. Although enlargement advocates love to talk about a big market with 500 million consumers (if one includes the two other candidates, Romania and Bulgaria), there are few immediate economic advantages to be expected from the larger population because most of the newcomers are poor.

The income disparities between the old EU and the candidate countries are considerable and in fact represent the most important problem of enlargement. While the EU has an average gross domestic product (GDP) per capita of about €25,000 in 2003, the income per head in the candidate countries ranges nominally (i.e. converted at exchange rates) from about €3,200 in the Baltic states to almost €10,000 in Slovenia, the richest applicant country. At purchasing power parities, the picture looks brighter with a GDP/capita of about €6,500 in the Baltics and more than €15,000 in Slovenia. Consequently, enlargement will contribute little to the total GDP of the EU, which will increase from €9,580 billion to about €9,950 billion (in comparison: US GDP is €10.3 trillion at PPP and about €35,000 per capita). Roughly, the enlarged EU will be as rich as the United States, though with many more inhabitants, many of them significantly poorer.

The relative poverty of the new members has several implications:

- The size of the enlarged internal market of the EU will increase only modestly, which is of significance for example for foreign suppliers.
- The volume of the EU's exports to and imports from third countries will also increase only slightly. In the applicant countries, the share of foreign trade in GDP is somewhat higher than the present EU average due to the small size of their economies. (As a rule, small economies are more open than big ones.)
- The new member states will be entitled to receive substantial

transfers from the EU, amounting to about 4 percent of their GDP.

To sum up, the economic changes which enlargement will bring about in the EU's international position are relatively minor but the political changes could be more far-reaching.

2. The External Trade Relations of the Enlarged EU

2.1 The development of EU and candidate-country trade

In 2001 EU exports (excluding intra-EU trade) amounted to US\$ 874 billion and imports to US\$ 912 billion (in comparison: US exports amounted to US\$ 730 billion and imports to US\$ 1180 billion, and Japanese exports and imports amounted to US\$ 403 billion and US\$ 349 billion respectively) (WTO 2002). That makes the EU the world's biggest exporter. This position will be reinforced by enlargement, though only marginally, as the volume of trade of the new members is comparatively small and a large part of it is already between them and the present EU, thus translating into intra-EU trade after accession.

The share of the present EU in the candidate countries' exports ranges from 48.7 percent in the case of Malta to 76.2 percent in the case of Hungary. The EU's share of the imports of the candidate countries ranges from 49.7 percent for Lithuania to 68.6 percent for Slovenia. A rough estimate based on 2001 data gives an increase in the EU's share of world exports from 18.4 percent to 19.3 percent and a rise in its weight as an importer from 18.2 percent to 20.2 percent. As the new members have relatively large current account deficits, they will possibly push the EU, currently running a slight surplus, into the red.

Table 2-2. Trade Volume and Share of World Trade of Bigger Candidate Economies in 2001

Country	Exports (US\$ billion)	Share (%)	Imports (US\$ billion)	Share (%)
Extra-EU	874.1	18.4	912.8	18.2
Poland	36.1	0.8	50.3	1.0
Czech Rep.	33.4	0.7	36.5	0.7
Slovakia	12.6	0.3	14.8	0.3
Hungary	30.5	0.6	33.7	0.7
Slovenia	9.3	0.2	10.1	0.2

Source: http://www.wto.org/english/res_e/statistics_e/its2002_e/its02_bysubject_e.htm#leading_traders

Since 1990, the candidate countries' foreign trade with developing countries has changed in the course of the market-oriented transition that entailed a massive reorientation of eastern European foreign trade away from the former Eastern Bloc to the West and particularly the EU. If one disregards statistical differences (the categorization of developing countries in eastern Europe in the 1990s generally did not coincide with the system applied in the OECD), the weight of the developing countries in the trade of the candidate countries initially declined substantially and then stabilized. However, this relatively stable small share of a foreign trade that was rising in overall terms did involve an absolute increase in imports and exports. In fact, imports rose faster than exports and all major candidate countries have appreciable trade deficits with developing countries, mostly resulting from trade with emerging Asian economies.

2.2 Enlargement and trade policy

The prospect of EU membership has already influenced the trade and development policies of the candidate countries and will continue to have a major impact once it becomes a reality. At the same time, it can be assumed that the new members will in future participate in shaping the relevant EU policies. Let us first consider the candidate countries and then the EU itself.

The candidate countries need to adopt the *acquis communautaire* of the EU in the fields of trade and development policy. Chapter 26, "Foreign Relations," which covers these policy fields, has been rapidly closed in the accession negotiations with all the candidates. Nor do the Progress Reports of the EU indicate any substantial conflict. Most of the adjustments refer to trade policy, albeit less with respect to developing countries and more with regard to other countries in central and eastern Europe with which the candidate countries have free-trade agreements. Thanks to WTO membership, the other effects are limited. In some cases, the tariffs of the candidate countries are actually lower than the EU's external tariff, in which case accession will make imports from non-EU countries more expensive. In other cases, however, the tariffs are higher (see Table 2-3). Specific technical, administrative and fiscal barriers will disappear and this may make access easier for trading partners in third countries, since they will be able to use the EU procedures familiar to them. The candidate countries will have to apply the Generalized System of Preferences (GSP). In doing so, they will in some cases have to grant trade preferences to emerging economies whose per-capita income is higher than their own.

Table 2-3. Tariffs of the Candidate Countries Compared with the EU's External Tariffs

Country	Average MFN	Farm products	Fish products	Industrial products
EU	6.3	16.2	12.4	3.6
Estonia	3.2	14.9	3	0
Latvia	4.2	13	7.9	1.7
Lithuania	5.3	15	3.8	2.4
Poland	15.1	33.8	18.5	9.9
Czech Rep.	6.1	13.4	0.1	4.5
Slovakia	6.1	13.2	0.1	4.4
Hungary	11.7	30.9	14.8	7
Slovenia	8.9	(8.9)*	6.7	8

Note: * The data in the Progress Report are unclear.

Source: European Commission, *Progress Reports 2002*.

When the candidate countries adopt the Cotonou Agreement (the successor to the Lom Convention), they will also have to grant the ACP countries the relevant preferences and implement liberalization under the "Everything but Arms" program. The same goes for the Mediterranean agreements and the Barcelona Process and for a host of other bilateral and multilateral agreements between the EU and individual developing countries or regional trading blocs (for example, Mercosur). Effective involvement of the new members in the bodies envisaged for many of these agreements is likely to prove problematic in terms of the scarcity of qualified experts, particularly in the smaller countries. In the course of the accession negotiations, the positions taken by the candidates and the EU in the Doha Round are already being coordinated.

This means that hardly any more major diversions of trade are likely, since liberalization has already occurred to a large extent and the level and structure of trade between the EU and the candidate countries is already close to what one would expect according to gravitation models. Thanks to WTO membership, no more significant changes are to be anticipated in trade policy. However, accession will end certain special rights for countries in transition. In future rounds of negotiation, some new EU members (for example, Estonia) may advocate a less protectionist policy, whilst others may call for greater protection—depending on the pressure to adapt and on the underlying position on economic policy. The candidates could, with some plausibility, insist that trade facilitations should be granted only to genuinely poor (i.e., poorer than the candidate countries) partners in the

Third World. In the important field of agriculture, the interests of the candidate countries in protection from imports of tropical and subtropical fruits (olives, wine, citrus fruits) are less than was the case when the EU enlarged southwards. Things could be more difficult with grain, meat or dairy products, although significant supplies of these products only come from a few countries in southern Africa and the Americas (Argentina, South Africa, and so on). Where the EU applies quotas to imports (for example, bananas), there will have to be an expansion or redistribution.

3. Enlargement and Foreign Direct Investment

In 2000, EU external foreign direct investment (FDI) amounted to €362 billion, compared with a world total of almost €800 billion. That makes the EU the world's largest foreign investor. In fact, European FDI is even bigger if one includes intra-EU investment of one member state in another member state, which amounted to €650 billion (or 7.7 percent of EU GDP). European investment abroad has increased very strongly—for example, it rose from €68 billion in 1996 to €221 billion in 1998—due to the expansion of the world economy. Growth has halted now, however, due to the recession. Inflows of FDI into the EU increased from €36 billion in 1996 to €176 billion in 2000.

The US economy is both the most important origin and the most important destination of FDI from the EU, hosting about 70 percent of all EU assets abroad and owning about 61 percent of EU FDI liabilities. Together with the overwhelming importance of intra-EU FDI, these figures indicate the minor role of the applicant countries. As can be seen in Table 3, candidate countries received less than 4 percent of the EU's outward FDI.

Enlargement is likely to increase the flow of European FDI into the new member states as potential risks become (or come to be perceived as) smaller. The experience of former enlargements certainly points in that direction. However, a number of factors could make the new member states less attractive for FDI from the EU, not to mention from third countries:

- Adopting the *acquis communautaire* implies stricter labor and environmental regulations, which will tend to increase costs.
- EU competition policy prevents subsidies to all, including foreign, investors as well as tax relief that discriminates in favor of specific, for example foreign, investors without the approval of the European Commission.
- The currencies of the new members might appreciate relative to the Euro due to large capital inflows (EU transfers), thus making

Table 2-4. FDI Flows between the Candidate Countries and the EU (€million)

Country	Outflows to		Inflows from	
	1996	2000	1996	2000
Estonia	62	183	-1	6
Latvia	21	153	5	10
Lithuania	57	456	2	6
Poland	2,428	9,206	-15	-7
Czech Rep.	1,308	2,018	-21	53
Slovakia	212	1,312	4	10
Hungary	1,162	-1,104	41	149
Slovenia	64	39	-8	102
Total Extra-EU	46,992	326,983	32,422	150,903

Source: European Commission, *European Union Foreign Direct Investment Yearbook 2001*, Luxembourg 2002.

assets more expensive.

- Wages in the new member states are likely to increase as prices rise towards the average EU level (Balassa–Samuelson effect).
- The quantity of former state-owned enterprises, the buying out of which accounted for many investments, will soon be exhausted.

This could mean that other investment locations with similar competitive advantages (namely low wages, fairly good productivity due to sound education and infrastructure, acceptable political and administrative environment) will gain. The immediate winners might be countries neighboring the enlarged EU, such as the second-line candidates Bulgaria and Romania, or Balkan and Western CIS² countries (for example, Ukraine).

4. Enlargement, the New Donors and the EU's Development Policy³

The EU is by far the largest donor of official development assistance (ODA) in the world. As a supranational donor it spent US\$5,96 billion in 2001. Including the bilateral assistance of the present member states, total EU ODA amounted to US\$26,29 billion in 2001, which is half the world total (in comparison, the two largest single donors, the

2. CIS = Commonwealth of Independent States, i.e., the former Soviet Union less the Baltic States.

3. This Section draws on Dauderstädt 2002.

United States and Japan, spent US\$11,43 billion and US\$9,85 billion, million respectively). The EU also holds the top position among large donors in terms of generosity measured by share of aid in GDP (EU: 0.33 percent, United States: 0.11 percent; Japan: 0.23 percent) (OECD 2002). The EU has developed an elaborate network of development-oriented relationships with various regions and country groupings, as well as with individual developing countries.

The upcoming accessions will alter relationships between the candidate countries, the enlarged EU and developing countries. As in many other policy fields, the candidate countries are already taking up elements of characteristic EU development policies as they prepare for membership. At the latest when they join, or possibly after a subsequent transition period, they will have to adapt fully to EU rules. They will then have the opportunity to influence future EU policy on developing countries. This section looks at the development of the major candidate countries from donors to recipients and back to donors since 1989; their current relations with the Third World; and their likely post-accession influence on EU policy towards developing countries.

4.1 Development cooperation of the candidate countries

The communist countries of the former Eastern Bloc, the so-called "Second World," competed with the Western "First World" for influence in the Third World. The instruments they used to achieve this included trade and development policy. In addition to bilateral cooperation, they also participated in multilateral aid in the context of their UN membership. Poland and Hungary (as well as Romania, which is not considered further here) were also members of the International Monetary Fund (IMF) and the World Bank, even before 1989. The Eastern Bloc countries' rapid advances in industrialization in the 1950s and 1960s acted as a model for many developing countries and resulted in the copying of centralized economic planning policies in many Third World states. At the same time, Eastern Bloc aid was concentrated on countries pursuing a socialist development model and a foreign policy which was sympathetic or at least neutral towards the Eastern Bloc (one exception was Turkey, which was one of the leading recipients of loans). The level of aid stood at 0.06 percent of GDP in the eastern European countries in 1980 (0.14 percent in the case of the Soviet Union), lower than the OECD level (0.35 percent at that time). In 1979, communist aid to developing countries including Cuba, North Korea and Vietnam amounted to US\$1,85 billion (US\$420 million from Eastern Europe) (Machowski and Schultz 1981).

In view of the dramatic decline in national income in the first phase of systemic change, it was no surprise that these countries largely

discontinued their aid, especially as their Cold War political objectives were now obsolete. Having overcome the transitional crisis and commenced preparations for EU accession, the candidate countries (again) launched their own development policy activities. The volume of funding remained modest. As Table 2-5 shows, the countries spent, on average, no more than 0.03 percent of GDP on development cooperation; by way of comparison, the OECD average is almost 10 times higher. The OECD members amongst the candidate countries have already begun to adapt to the normal rules of the Development Assistance Committee (DAC).

All of the countries mix bilateral and multilateral aid. In the case of the Czech Republic, multilateral aid accounts for almost two-thirds of the total; in Poland for just over half; in Slovakia for almost three-quarters; and in Hungary for as much as 85 percent in 1999.⁴ The Baltic countries are also involved in trilateral cooperation with Canada in the former Soviet Union. Furthermore, most of the countries also provide humanitarian aid.

The regional focus of development cooperation is appreciably

Table 2-5. Expenditure of the Candidate Countries on Development Cooperation

Country	Year	Amount (€ '000)	Share of GDP (%)	Amount in 2001 (€ '000) *
Estonia	1999	450	0.009	470
Latvia	2001	70	0.0012	no data
Lithuania	2002	27	0.00025	29
Poland	2000	40,000	0.026	48,700
Czech Rep.	2000	17,000	0.03	34,000
Slovakia	2000	6,360	0.03	2,000
Hungary	1999	13,000	0.025	29,000
Slovenia	2000	2,500	0.014	2,950**

Notes:

* European Commission, Progress Reports 2002; all amounts refer to 2001, except Lithuania (2002); in the case of Slovakia, the figure refers to additional humanitarian aid.

** Slovenian sources (<http://www.gov.si/mzz/eng/index.html>) state that Slovenia spent 5 billion tolar (about €20 million) in 2000 and 2001, which would imply a proportion of about 0.1%.

Source: Léna Krichewsky, "Development Policy in the Candidate Countries," Trialog Vienna 2002; OECD "Development Cooperation Report 2001," Paris 2002; and article by Judit Kiss in Michael Dauderstädt (ed.), *EU Eastern Enlargement and Development Cooperation*, Bonn: FES (2002).

4. Based on OECD figures for the Czech Republic, Poland and Slovakia; the figures for Hungary are based on Kiss 2002.

different from that of other OECD countries. The candidate countries concentrate their bilateral aid on other post-communist countries, particularly in the former Soviet Union and in the Balkans. Hungary operates sizable aid programs for the Hungarian minorities in neighboring states, particularly Romania, but these do not count as official development aid. Slovenia gives almost all its aid (95 percent) to the former Yugoslavia and the rest (5 percent) to Albania. The regional distribution occasionally shows some traces of the communist past, for example in the form of aid for Angola, Vietnam or Yemen. One sectoral emphasis is the experience of transition (for example, in the cases of Hungary and Poland), with the advanced transition countries advising those lagging behind in eastern and south-eastern Europe. Other policy fields often mentioned are agriculture environment, and infrastructure.

The objectives of the candidate countries' development cooperation reflect the blend familiar from traditional donor countries: foreign and economic policy interests on the one hand, and development policy ideals on the other (they do not necessarily conflict). Normal objectives such as good governance and respect for human rights, sustainability and integration into the world economy also emerge as criteria for the selection of recipients and projects.

The continuing relatively low status of development policy in the candidate countries finds expression not only in the tiny proportion of spending in terms of GDP, but also in the organizational and institutional set-up. State development policy is not, as in Germany, guided and administered by a separate government ministry, but—as in most major donor countries—by departments in the foreign ministry. However, other government ministries are often involved in project management. The non-governmental development cooperation of NGOs is also at a very early stage of development, since this sector did not start to emerge until after 1989. NGOs are already very active in Poland and Hungary in particular. The UNDP supports this development, for example via a Trust Fund under the Emerging Donors Program.

4.2 The impact of accession on candidate countries' development policy

In the field of development aid itself, the candidate countries will not only have to contribute their own share of the EU budget, but will also have to pay into the European Development Fund (EDF), which is financed by contributions from the individual member states, although they will probably not start doing so until the tenth EDF (the current ninth fund runs until 2007). There are no fixed rules on member state

contributions to the EDF, but the current total of €13.5 billion corresponds to about 0.15 percent of EU GDP. If the new members were to make anything like a proportionate contribution, this would entail a substantial rise in their currently low spending on development cooperation. These questions were addressed in the accession negotiations in Chapter 29 (budget)—tellingly, this chapter has only been closed after prolonged and tough negotiations with the candidates.

There are at present no binding EU rules on the level of member states' bilateral development aid or on total spending. However, guidelines on this were adopted at Monterrey (0.33 percent share of GDP by 2006), and their implementation necessitates considerable adjustments even by existing EU members. They would represent a massive increase in new members' spending levels.

As in many areas of international policy, the implementation of certain standards, particularly in the international arena, depends not only on the degree to which they are accepted, but also on the interests and capacities of the relevant countries, namely states and societies. EU accession will mobilize individuals and organizations in the candidate countries and promote the formation of institutions which for their part will influence national policy in the direction of a further development of cooperation with the Third World. This includes implementing organizations and experts as well as action groups and NGOs concerned with development policy. Their pan-European networking will reinforce their capacities and influence.

4.3 ... and on the EU

Even without the direct prospect of EU enlargement, the radical changes in central and eastern Europe gave rise to a debate in the early 1990s on whether the Third World and development policy might become less important for Europe (Dauderstädt 1992). The reasons for this were the end of the Cold War (which had been a key motivation for the emergence of development as a policy field in the first place), reduced economic interests, and the priority of stabilizing poor neighboring regions. There was indeed a relative decline in the weight of the developing countries as trading partners and as recipients of investment and aid. However, there was no massive or sudden drop.

Instead, traditional interests won the day in the EU once again. With the Barcelona initiative, the south-western member states corrected the eastern orientation of the EU in the mid-1990s with a new program for the Mediterranean countries. The development policy community was able successfully to defend its policy field both bilaterally and multilaterally. The relative stabilization in Central and Eastern Europe resulted in a redistribution of priorities: crisis areas in eastern and

south-eastern Europe, such as the Balkans, as well as in the Caucasus or Central Asia are increasingly being included in the traditional tasks/areas of development policy, and the traditional developing countries (some of which have since become more prosperous emerging economies and belong to the OECD) have, together with these countries, become the subject of a development policy which regards itself more as the domestic policy of a globalized world. This trend is likely to consolidate further following 11 September 2001.

The EU is a major pillar of this global domestic policy. But its specific regional and sectoral priorities, its instruments and institutions are the result of a long historical development which in many cases derives from the colonial era which ended just after the foundation of the EEC. It is this history which results in the bias towards the ACP countries and the Mediterranean region. Changes in the Third World, shifts in the general debate on development policy and, particularly, earlier enlargements of the EU have further altered and influenced the structures of European cooperation. The coming enlargement will also have an impact, but in view of the small weight (particularly in terms of national income and foreign trade) of the new members the effect will be modest.

In the field of aid policy, with the best will in the world the candidate countries are likely to request a lengthy period during which they, as poorer countries, make a smaller contribution than other EU members. They are also likely to influence the position taken by the EU at international negotiations if there is no corresponding advance agreement on internal burden-sharing. With regard to regional orientation, it can be assumed that the new members will have little sympathy for the traditional structures of EU cooperation and may call for a modification of the ACP cooperation towards an extension to all poorer developing countries, including their own historical partners such as Vietnam or Yemen, if the latter desire this. They will also have a greater interest in cooperation with south-eastern Europe, the Caucasus and Central Asia: in the negotiation of the package deals usual in the EU, they may call for greater Community efforts there before they give the go-ahead for measures in regions of less interest to them (Africa, Latin America). In an extreme case, the new members could insist on a re-evaluation of this EU policy field and demand an orientation towards narrower economic and security interests, primarily in order to develop and stabilize the nearer EU neighborhood.

The EU, its member states and the NGOs active in them will probably have to work for quite some time on establishing development policy institutions and organizations, as well as the training of the relevant personnel in the candidate countries (or rather new member states). Multilateral projects in which all the existing

members, partners outside the EU and new members cooperate could and should draw on the special expertise, experience and capacities of the post-communist countries. The EU must also have an interest in coordinating the involvement of the new members in international organizations in such a way that the weight of pan-European interests is enhanced there.

5. The Impact of Enlargement on the EU's Foreign and Security Policy

As stated at the beginning of this paper, the political impact of enlargement is likely to be stronger than the economic one. Given the comparatively small size of the candidate countries' economies their accession will not dramatically change the EU's foreign economic relations. However, because of their number and the still largely intergovernmental nature of the EU's foreign and security policy their influence on foreign policy and political relations with third countries will probably be substantial. A first sign of the possible problems ahead became visible during the Iraq crisis when most applicant countries supported the United States, the UK and several other member states against France, Germany and Belgium, among others. This development indicates a potentially stronger influence of the United States within the EU thanks to a highly developed feeling of loyalty towards America in some new member states, notably Poland and the Baltic states.

The recent crisis should not be exaggerated, however. The differences of interest within the EU are manifold, volatile, and crisscrossing: that is, allies on some issues might be opponents on others at any given time or with regard to the same issue at different times. Some positions depend on domestic power constellations. Most probably, center-left governments in Spain, Italy, and Portugal would have been less eager to support a US-led war against Iraq in confrontation with France and Germany. Some are more deeply anchored in national history and culture, such as the British special relationship with the United States, or the feeling among Poles, citizens of the Baltic states and others that only the United States will protect them from Russia (and Germany). Other issues will give rise to other cleavages: Poland and Spain are bound to quarrel over EU regional aid; Poland and France share an interest in continuing the EU's generous Common Agricultural Policy (CAP) against net contributors like Germany and the UK.

Generally, the EU has tried to ensure that foreign and security policies are harmonized during the pre-accession period. The regular

progress reports of the European Commission seldom mentioned problems related to Common Foreign and Security Policy (CFSP), in contrast to significant conflicts regarding the CAP, competition policy, or the budget. However, it is likely that many opposing views or interests will be aired with less reluctance once full membership is assured. The new members can point towards a history of "double standards" applied in the accession process when certain events and developments in the applicant countries were criticized by the EU which had never been subject to EU action among the old member states (for example, minority rights). A more confrontational stance can thus be expected regarding the internal as well as the external policies of the EU.

Leaving aside the high politics of war and peace or attitudes towards the dominant role of the United States in world politics, one important difference between the EU's pre- and post-enlargement foreign policy might be its regional focus. The enlarged EU will necessarily have other neighbors than at present. As already mentioned regarding development policy, the new member states will have a keen interest in improving the EU's relations with its eastern and south-eastern neighbors and in promoting stability and prosperity in that region. That need will be felt more strongly by the new members in Central and Eastern Europe than by Malta or Cyprus. In this regard, they will probably get more support from present member states closer to the East, such as Finland, Sweden, Germany, Austria, Italy, and Greece than from France, Spain, Portugal, or Ireland. The three south-western member states will continue to draw the EU's attention towards the Maghreb and, to a lesser extent, the Mashrak countries. Although only Cyprus and Malta are directly affected, the new members in Central and Eastern Europe will surely support the EU's efforts in the Mediterranean as that region's conflicts endanger Europe in general.

The European Commission recently presented a communication (European Commission 2003) regarding the wider Europe, asking for new Action Plans and more funds to promote peace, stability, democracy, and prosperity in neighboring countries. In the final sentence of this document, the Commission underlines the contribution of the new member states to that new policy. Given the mounting problems in many neighboring countries, the success of EU policies becomes more crucial. Unfortunately, history so far gives us little reason for hope as problems of low growth, high inequality, widespread poverty, sluggish reform, authoritarian regimes, and weak rule of law have persisted in many countries for decades despite the efforts of the EU. The new members will add new experience of their own transition and reforms to help deal with these problems, but the outcome remains wide open.

Regarding some important partners, the enlarged EU is likely to face additional friction. Cyprus' entry will disturb relations with Turkey. Poland and the Baltic states will continue to distrust Russia. The more distant a country is the more likely and feasible a common position on it by the enlarged EU will become. EU relations with Africa, Latin America, Asia, and Australia will hardly be affected.

The EU is aware of this increasing diversity of interests and its potential impact on its capacity to take and implement decisions. The present Convention has the explicit task of dealing with that problem by redesigning, among other things, the institutional set-up and decision-making rules of an enlarged EU. In this context, it also deals with the organization of the EU's CFSP in order to make it more effective. To achieve that, three changes are considered essential:

- 1) Decision-making should take place by qualified majority voting when reaching a consensus appears too difficult and time-consuming.
- 2) The functions of the External Affairs Commissioner and the High Representative for Foreign and Security Policy should be merged.
- 3) The Presidency should focus on its key function of bringing about the necessary decisions in the Council specializing in Foreign Affairs. (Working Group 2003)

Although the applicant countries have no decision-making rights in the Convention they are probably interested in reforms that weaken the influence of large member states. Another option for dealing with the increased diversity of the enlarged EU is to stress flexibility or "closer cooperation" (Art. 43-45, EU Treaty) in order to allow sub-groups of member states to advance with certain projects and policies even when not all members can agree (Diedrichs and Wessels 2003).

At the EU Helsinki summit in 1999 the EU decided to set up a "Rapid Reaction Force" of 60,000 soldiers which should be ready by 2003 to carry out the "Petersberg tasks" (Art. 17 TEU) including crisis prevention, peace keeping, and disarmament. The institutional set-up of the EU's defense policy is complicated by the fact that various member states belong to either the West European Union or NATO or are non-aligned. Candidate countries Poland, Czech Republic, and Hungary are already NATO members, and the remaining candidates from Central and Eastern Europe were invited to join NATO at the NATO summit in Prague in 2002. Cyprus and Malta are non-aligned. Turkey, an important NATO member, has already prevented or slowed down certain initiatives to strengthen cooperation between the EU and NATO because of the EU's reluctance to start accession negotiations. Eventually, enlargement will strengthen the group of NATO members within the EU and the EU's emerging defense dimension.

6. Concluding Remarks: Relations with Asia and Korea

After enlargement, Europe will not be the same to the outside world, but the changes will remain modest and affect foreign policy more than external economic relations, focusing on the EU's "near abroad" rather than on more distant regions such as Asia and, in particular, Korea. Let us consider the relevant areas:

- Trade: Asia is likely to remain the EU's most important trading partner outside western Europe. More precisely: in 2001, the sum of the EU's exports and imports from and to Asia was higher than the trade with North America although as a destination for European exports North America was more important. Trade with Asia has grown particularly rapidly in Central and Eastern Europe since 1990, albeit from a low base. Imports are much higher than exports, thus confirming the general pattern of EU-Asian trade.
- FDI: Asia is an important investor in some Central and Eastern Europe countries. However, the attractiveness of the new members as locations of investment from third countries is affected by accession in an ambiguous way: on the one hand, it might decline with the adoption of EU regulations; on the other hand, it might increase due to better infrastructure and more secure access to the EU market.
- Aid: Asia will continue to be a somewhat less important recipient of EU development aid as other regions figure high on the EU's agenda, notably East and Southeast Europe, the Mediterranean countries, the Middle East, and Africa. That does not exclude some "odd" effects such as a specific interest on the part of the new post-communist donors in Vietnam or Laos.
- Foreign and security policy: Asia will remain more important as an economic partner than as a political one. Of course, the EU will continue to contribute to global security (for example, in Afghanistan). Enlargement might strengthen the forces within the EU which favor a closer partnership with the United States in global affairs and a stronger military role for the EU abroad.

Generally, the EU will become more preoccupied with the management of its own affairs as its internal diversity increases at the same time as it levels its internal playing field (internal market, common currency, Convention).

- World." Friedrich Ebert Foundation, *Eurokolleg Series*. Bonn.
- Dauderstädt, Michael ed. 2002. *EU Eastern Enlargement and Development Cooperation*. Bonn: FES
- Diedrichs, Udo and Wolfgang Wessels. 2003. "Die erweiterte EU als internationaler Akteur. Für eine gemeinschaftsorientierte Flexibilitätsstrategie." *Internationale Politik* 1 (2003): pp. 11-18
- European Commission. 2003. "Wider Europe-Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours." COM (2003) 104 final, Brussels (11.3.2003)
- Kiss, Judit. 2002. "Hungary." In Michael Dauderstädt ed. *EU Eastern Enlargement and Development Cooperation*. Bonn (Friedrich Ebert Foundation).
- Machowski, Heinrich and Siegfried Schultz eds. 1981. "RGW-Staaten und Dritte Welt. Wirtschaftsbeziehungen und Entwicklungshilfe." Bonn.
- OECD. 2002. "Net Official Development Assistance from DAC Countries to Developing Countries and Multilateral Organisations." Available at: <http://www.oecd.org/dataoecd/52/9/1893143.xls>
- Working Group on European Integration. 2002. "Making EU Foreign Policy More Effective." FES Working Paper No. 12. Bonn: FES.
- WTO. 2002. "Leading exporters and importers in world merchandise trade." Available at: http://www.wto.org/english/res_e/statis_e/its2002_e/its02_bysubject_e.htm#leading_traders.

References

Dauderstädt, Michael. 1992. "Development Policy '92: Farewell to the Third