

Working Group on European Integration **The Enlarged EU Needs an Effective Neighbourhood Policy**

By May 2004, the European Union (EU) will have extended to 25 Member States and thus assume greater international importance and responsibilities. Following this major phase enlargement the EU's priority will have to be to integrate its new Member States, instead of discussing the accession of further members.

Another consequence of this is that the EU urgently needs to develop an effective, independent neighbourhood policy. In its Communication entitled "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours", the European Commission opened the debate on this issue.

The Union's neighbouring countries are a mixed bunch, whose individual situations and relations with the EU vary considerably. Whereas the remaining EFTA countries – Switzerland, Liechtenstein, Norway and Iceland – are stable, prosperous and democratic, the EU's eastern and southern neighbours are faced with numerous difficulties which impact on the EU and can be attributed to poverty, delays in modernisation, defective democracies and internal and international conflicts.

However, there are substantial differences within this group of countries. Bulgaria and Romania look set to join the EU before the end of the decade. A decision on the launch of negotiations with Turkey will be taken in December 2004, as the European Council in Thessaloniki stressed once again. The current version of Article 49 of the Treaty on European Union also gives the EU's new eastern neighbours – Ukraine, Belarus and Moldova – the possibility of applying to join the EU.¹ By contrast the EU's southern Mediterranean neighbours have no prospect of acceding to the Union.

The objective of the EU's neighbourhood policy must be to create an area of shared values, of peace, freedom and prosperity. In this respect, neighbourhood policy can convert the positive potential for co-operation within Europe into a practical foreign policy and make the most of the comparative strength of European policy. When this goal has been reached, a multilateral, cooperative model of global domestic policy will have been realised at regional level that can serve as an example for the world as a whole. It is here that the approach advocated by the EU of taking preventive measures to resolve international conflicts has its counterpart.²

This policy comes at a price, but the costs involved are low compared with those with which the EU would be saddled if it neglected its neighbourly duties and found itself in an unstable environment, in a neighbourhood racked by crises and conflicts. On the other hand, closer cooperation between the EU and its neighbours throws up a great many opportunities for enhancing Europe's economic potential and increasing its global political clout. Finally, an effective neighbourhood policy will prevent the creation of fresh rifts on the borders of the enlarged EU, which is particularly important to the Union's new Member States.

Differentiated action plans within overall regional concepts

The architecture of this neighbourhood policy must take account of the heterogeneous nature of the sub-regions Southeastern Europe, Eastern Europe and the Mediterranean, because both their respective problems and the outlook regarding their relations with the EU (candidates for accession, association, trade or cooperation agreements) vary. Whereas the EU has already started developing and implementing a specific neigh-

1 Article 49 of the version modified by the Treaty of Amsterdam states that: "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." Similarly, Article 57 of the draft Treaty on a European Constitution dating from 27 June 2003 states that: "The Union shall be open to all European States which respect the values referred to in Article I-2, and are committed to promoting them together." The principles or values invoked here include democracy and the rule of law, freedom, the protection

of human rights, human dignity and equality (the latter two values only appear in the newly drafted version).

2 See also the report by Javier Solana, High Representative for the Common Foreign and Security Policy of the EU, entitled "A secure Europe in a better world", European Council, Thessaloniki, 20 June 2003.

bourhood policy, as part of the process of stabilisation and association in the western Balkans and within the framework of the Barcelona Process in the Mediterranean region, the development of its eastern dimension (including the Russian Federation) is still only in its infancy.

Any neighbourhood policy must be consistent with the European principle of reconciling interests. There are two respects in which it can do this:

- it must adopt a tailor-made approach to each neighbour;
- the specific action plans it adopts must be incorporated into an overall regional concept for the respective geopolitical area.

The EU's neighbourhood policy must be anchored in the values of the Union as set out in Article 2 of the European Convention's draft European Constitution. Neighbourly relations can be intensified to keep pace with the application of EU values by the Union's new neighbours within their own territory and with the support shown for those same values in the international arena. At the same time, consideration must be given to the respective economic preconditions as well as to any historical ties dating back to the 20th century (e.g. in Eastern Europe).

Southeastern Europe

After enlargement in 2004, a relatively small number of countries in Southeastern Europe will remain outside the EU, and for the most part they will be surrounded by EU members. The objective here must be to promote regional cooperation (without sacrificing conditionality) and offer support that is linked to reforms (without running the risk of growing disparities or even the scenario of individual countries losing touch altogether).

For Romania and Bulgaria attempts are already being made via a benchmarking approach and by offering financial incentives to prevent the accession process from lasting longer than necessary. However, so far early representation in EU institutions and other more creative solutions have only been given superficial consideration.

The remaining group of countries in the western Balkans is extremely heterogeneous, with Croatia already fairly close to being eligible to apply for EU membership, whilst Bosnia-Herzegovina and Serbia-Montenegro (including Kosovo) still face fundamental problems of political order. The (in principle) correct instrument of stabilisation and association agreements must be used in different ways to take account of this,

with advanced countries being offered more than a stabilisation and association agreement, and other countries being dependent on 'softer' forms of cooperation for a longer period, whereby less ambitious expectations regarding progress in necessary reforms are tied to conditional assistance.

Eastern Europe

The EU must build up its functional cooperation with its new eastern neighbours, not just Ukraine, Belarus and Moldova, but also the Russian Federation. This regional approach is required to enable Ukraine to stretch itself in order to open up more to the West whilst also maintaining its ties with Russia. Likewise, it is essential for enabling Belarus to strike a balance between its ties to the Russian Federation and the country's ultimately inevitable opening up to the West.

Another conceivable approach would entail trying to build on the concept of the European Economic Area (EEA) and ascertain whether a similar offer of integration could be offered to the eastern neighbourhood of an enlarged Union and also whether such an offer might prove a successful alternative to the prospect of accession. Complementary offers geared towards closer integration could be developed within the context of the Union's CFSP and ESDP. To this end, the EU could design a system for monitoring its neighbourhood policy and then implement it together with its neighbours.

Technical assistance provided by the EU could be more closely geared to that neighbourhood policy than it has been in the past, with appropriately neighbourly conditions being attached to the provision of such assistance. In line with the agenda of neighbourhood policy, cross-border cooperation should be promoted and support given to pilot projects involving practical cooperation. As the present phase of enlargement reaches its conclusion, and with further eastward enlargement coming up, PHARE funding could be reallocated to support the EU's neighbours.

For the time being Belarus needs to be treated as a special case. No specific functional projects are viable there. Instead, the EU should engage in reasoned cooperation with the respective economic forces and political agents of reform and also in a dialogue with civil society and the opposition.

By contrast, the solution of transit-related issues with the Kaliningrad region is opening up new vistas for constructive cooperation. Here, the aim must be to promote the region's infrastructure and economy and bring about economic stability.

The Mediterranean

The Mediterranean riparian states of northern Africa and the Middle East have to receive better offers in order to stimulate economic prospects, amongst other things – indeed specifically – with a view to stabilising the crisis in the Middle East. The prospect of this could help to deflate the sense of hopelessness among the younger generation and thereby decrease its susceptibility to terrorist activities. Moreover, securing people's prospects for living in their own country would give them less of a reason to try and emigrate to Europe.

In this connection, the financial support provided by the EU needs to be hitched to reforms by the countries in the southern Mediterranean. The parallel nature of political, economic and sociocultural transformation processes must be emphasised. The southern Mediterranean countries must be urged very strongly to step up their regional cooperation (in a manner that complements, rather than undermines or substitutes for the Barcelona process). Finally, the Barcelona Process needs to be changed to ensure that it can develop largely independently of the progress made in the Middle East peace process.

Where relations with Turkey are concerned, the EU is following the road map set out in Copenhagen, which provides for regular monitoring of the headway made.

Helping the neighbours find the path towards reform: Key instruments

The EU has an array of instruments at its disposal for attaining the goals of its neighbourhood policy, the main ones being trade policy and financial and technical cooperation. In that context, in its political dialogue it can bring its economic clout to bear as the most important trading partner and investor for most of the neighbouring countries.

At the same time, the political promotion of processes of reform is just as important as the provision of financial backing, for ultimately change depends on the rise to power of reform-minded forces in the respective neighbouring countries. The possibility of appealing to the EU can markedly boost their ability in this respect.

Concentrate on key reforms

When dealing with both its eastern and southern neighbours, the EU should focus its limited funds on

shaping and implementing planned reforms. Achieving the following in all countries should be a priority:

- a functioning democracy (multiparty systems, division of powers, freedom of the press, freedom of organisation, accountability of the executive to the legislative branch, and a transparent national budget);
- an independent, efficient justice system;
- the safeguarding of public order (fighting organised crime, corruption, smuggling, border checks);
- a functioning market economy (elimination of state-run monopolies, privatisation, competition rules, the dismantling of subsidies);
- a transparent, effective tax system;
- an education system that delivers.

Financial support should only be given to those neighbouring countries that agree and then go on to implement a medium-term reform programme with the EU in the aforementioned (or similar) areas. Payments should be made in proportion to the headway made in reforms.

The EU should have progress reports drawn up annually for each neighbouring country that wishes to undertake reforms with the Union's help, just as it did with the accession countries. This would guarantee the transparency of the reform process and enable the Union to highlight any shortcomings or any advances made.

Making trade policy serve reforms

Over the last 20 years the EU has systematically attempted to establish free trade relations with its neighbours. This approach was based on the assumption that eliminating trade barriers would promote trade with the Union's neighbours and almost automatically induce further economic and regulatory policy reforms (in areas such as customs and fiscal administration, competition, subsidising state-owned companies, etc.).

These expectations turned out to be ill-founded, for free trade alone is not a sufficient guarantor of good-neighbourly relations. Indeed, unless it is accompanied by far-reaching political and economic reforms, free trade leads nowhere. Furthermore, some neighbouring countries which primarily export raw materials such as oil and gas do not profit much from free trade. Consequently, in future the aim should be to aspire towards free trade only insofar as it will complement or foster attempts at reform. Free trade by itself is not a decisive factor for determining the quality of neighbourly relations.

Making use of investment support to foster neighbourhood policy

The more use the EU's neighbours can make of private direct investment and long-term loans, the sooner they will close the economic gap between themselves and the Union. More foreign direct investment will flood in once lasting improvements have been made to the political situation (predictability of legal rulings, corruption, jurisdiction, transparency of administration, clear laws, protection of ownership rights, privatisation, competition, absence of trade barriers, and so forth). The implementation of political and economic reforms will also make the EU's neighbours more attractive to foreign direct investment, as the accession countries in central Europe have shown to an impressive extent.

The European Investment Bank (EIB), which awards more long-term loans to public-sector borrowers than any other credit institution in the world, should focus more on the EU's neighbours. In the past it has not made a sufficient effort to do this, primarily because of the respective countries' inadequate creditworthiness and the lack of plans worth funding. For this reason the EIB should be fully involved in the EU's future neighbourhood policy, especially where the modernisation of transport, energy and water supplies are concerned.

Intensifying the political dialogue

The EU's political dialogue with its neighbours must be conducted at both the state and social levels, and the EU's interests in connection with reforms should be openly touched on in that context. The starting point must be a common definition of the respective objectives and values. Action plans should oblige both sides to adopt hard-and-fast measures designed to achieve these objectives. Steps down the road to integration and the provision of assistance should be made conditional on verifiable progress made in domestic reforms designed to boost democracy, increase willingness to resolve conflicts and produce a more efficient economic policy.