



# 20 YEARS IN THE EU: CEE AND ITS PATH TO PROGRESS

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**4LIBERTY.eu**  
REVIEW

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# 20 Years in the EU: CEE and Its Path to Progress

Time flies. It has already been twenty years since a number of CEE states (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) entered the European Union (EU) and became full members. These two decades have been marked by incredible progress – economic, political, and social. The citizens of these countries have played their part to reap the fruits of the European project that contribute to the improvements in quality of life, mobility, conducting business, and exercising democratic freedoms. All these processes, however, have ran in parallel to several major challenges – rising populisms, economic crises, the COVID-19 pandemic, inflation, to name but a few. All these issues have put a strain on the so-called ‘new members’.

Nonetheless, the year 2024 is a momentous occasion for the CEE region. Therefore, we wanted to use this opportunity to celebrate 20 years of being a part of the European Union – a project that, despite its challenges, continues to better our political, economic, and social culture. This is why in the 20<sup>th</sup> issue of the *4liberty.eu Review*, we discuss the past, the present, and the future of CEE in the EU, with the focus on a wide range of topics – competitiveness, adopting the euro, free trade, foreign and security policies, among others.

We also look at the newer members (like Croatia, which joined in 2013) and potential future ones –Ukraine and Georgia. This broad perspective allows us to better understand the full landscape of opportunities, hopes, and challenges that stem from being a part of the European Union. Overall, we learn that the EU continues to be an aspirational project that builds up both the CEE region and Europe as a whole. It remains a shining beacon of hope for freedom, democracy, unity, human rights, and the rule of law, which is why being a part of this club is key for all countries that desire to cultivate these values.

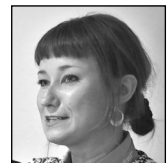
The 20<sup>th</sup> anniversary issue of the *4liberty.eu Review* is at the same time the last issue of the publication. I would like to personally use this opportunity to thank you, our Readers, authors, editors, and other unique individuals who made this remarkable project possible. We trust it has given invaluable insights into the Central and Eastern European perspective on a number of areas – from education, to economy, regulation, politics, to social issues and various freedoms. It was a privilege to be a part of this extraordinary effort of our partners in the *4liberty.eu* network and other colleagues across Europe. We hope that the publication will continue to be a part of the ongoing discussions long after it ceases its operations. After all, *finis coronat opus*<sup>1</sup>.

Enjoy your reading,

Dr Olga Łabendowicz



Editor-in-Chief of *4liberty.eu Review*



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<sup>1</sup> In Latin, ‘the end crowns the work’.

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# Competitiveness and Convergence in CEE: What Can We Learn From 20 Years of EU Membership?



\*

PETAR  
GANEV

The 20<sup>th</sup> anniversary of the accession to the European Union (EU) in many countries in Central and Eastern Europe (CEE) is the perfect occasion to take an in-depth look at the economic development of all new member states and the convergence towards the biggest EU economies. New member states from CEE have come a long way in the last two decades, building upon their competitive advantages, expanding economic freedom and seizing the opportunities of the European Single Market.

The economies in the CEE region may be relatively small in comparison to the biggest EU economies, but their economic growth



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is consistently stronger, and they are catching up. The share of the ten new member states from the CEE region<sup>1</sup>, which are examined in this article, in the total EU economy (in terms of GDP) increased from 6.2% in 2004 to 11.2% in 2022<sup>2</sup>. These are most of the countries from the EU's 'fifth' enlargement in 2004 (the Czech Republic, Poland, Hungary, Estonia, Latvia, Lithuania, Slovakia, and Slovenia) and the two countries from the EU's 'sixth' enlargement in 2007 (Bulgaria and Romania). All of these countries have integrated deeper within the wider EU economy and converged significantly towards the EU's biggest economies<sup>3</sup>.

The catching-up process has been accompanied by many challenges, with the EU economy going through at least three major crises in the last 20 years – the financial crisis of 2008-2009 (referred to as the 'Great Recession'), the mild recession of 2012-2013 (following the European debt crisis), and the sharp decrease in economic activity during the COVID-19 pandemic (2020). These episodes of economic downturn affected the new member states, but they still managed to return to the path of convergence rather quickly. At the end of 2023, following the energy crisis and the highest inflation in both new and old member states in the last 20 years, the EU

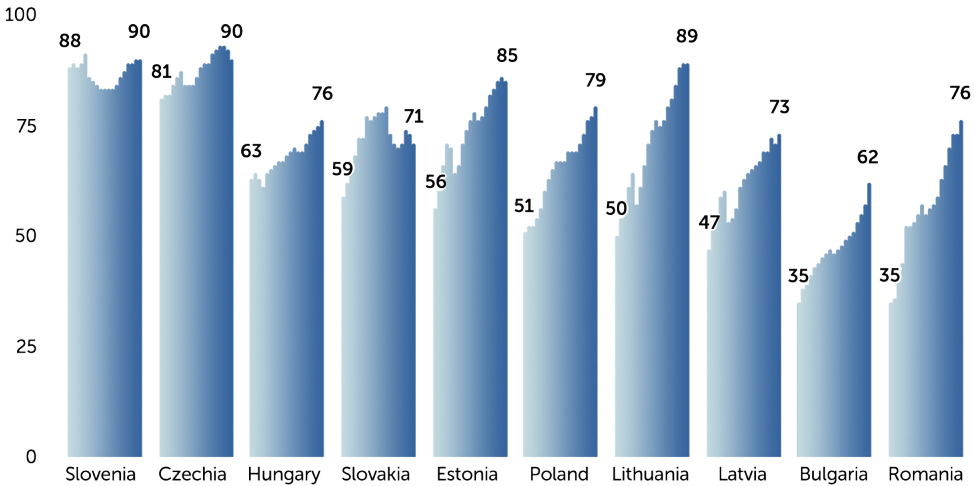
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<sup>1</sup> This article focuses on ten new member states from the CEE region: The Czech Republic, Poland, Hungary, Estonia, Latvia, Lithuania, Slovakia, and Slovenia from the EU's 'fifth' enlargement in 2004 (Cyprus and Malta are not included) and Bulgaria and Romania from the EU's 'sixth' enlargement in 2007.

<sup>2</sup> Eurostat (2024) *Gross Domestic Product at Market Prices*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/nama\\_10\\_gdp\\_\\_custom\\_9936356/default/table](https://ec.europa.eu/eurostat/databrowser/view/nama_10_gdp__custom_9936356/default/table)

<sup>3</sup> The five biggest economies in the EU are Germany, France, Italy, Spain, and the Netherlands. These five countries represent 2/3 of the total EU economy (in terms of GDP). In this article, when investigating the performance of CEE countries, they are compared either to the EU average level (EU 27) or, in some cases, in relation to the performance of the five biggest economies in the EU.

Figure 1: GDP per capita in purchasing power parities (EU27=100, 2004-2022)



Source: Eurostat<sup>4</sup>

is once again heading into a recession<sup>5</sup>, making the topic of competitiveness, economic growth, and convergence highly relevant. In addition, some CEE countries are experiencing recent periods of political instability<sup>6</sup>, which may potentially undermine their economies.

The main thesis of the article is that the competitiveness of the new member states is key to faster growth and convergence. Countries implementing policies to support their competitiveness – expanding

<sup>4</sup> Eurostat (2024) Volume Indices of Real Expenditure Per Capita (in PPS\_EU27\_2020=100). Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/prc\\_ppp\\_ind\\_\\_custom\\_9461210/default/table](https://ec.europa.eu/eurostat/databrowser/view/prc_ppp_ind__custom_9461210/default/table)

<sup>5</sup> Eurostat (2024) *GDP Main Aggregates for the Fourth Quarter of 2023*. Available [online]: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-08032024-ap>

<sup>6</sup> An obvious example in this respect is Bulgaria, which held five parliamentary elections between 2021 and 2023.

<sup>7</sup> Ibid.

”

SOME CEE COUNTRIES ARE EXPERIENCING RECENT PERIODS OF POLITICAL INSTABILITY, WHICH MAY POTENTIALLY UNDERMINE THEIR ECONOMIES

economic freedom and removing barriers, strengthening institutions and the rule of law, easing business environment, and staying fiscally responsible, ultimately perform better within the Single Market





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and grow faster. In the ever-changing and highly unpredictable world, new EU member states need to preserve their competitive advantages and pursue policies that provoke private investments, attract talent, and, ultimately, lead to economic growth.

### THE PATH TO CONVERGENCE

The most straight-forward indicator to analyze the convergence within the European Union (EU) is the gross domestic product

(GDP) per capita expressed in purchasing power standards (PPS) and, more specifically, the deviation from the EU average for the individual countries. Back in 2004, most of the new member states from Central and Eastern Europe (CEE) were at around 50-60% of the EU average<sup>8</sup>. This means that the real expenditures of their citizens (also considering the price differences) were almost twice as low than the EU average. Six out of the eight new member states from CEE in 2004 were in the 47-63% range, and only the Czech Republic and Slovenia were above 80%. In the same period, just three years before their accession in 2007, Bulgaria and Romania were at 35% from the EU average.

Nearly 20 years later, four of the new member states from CEE are at 85-90% and the other four within 70-80% of the EU average<sup>9</sup>. Bulgaria and Romania also recorded significant growth reaching 62% and 76% of the EU average, respectively. Romania is, in fact, already catching up with the other CEE countries, with only Bulgaria remaining below the 70% mark [See: Figure 1]. It is evident that in the last two decades the whole CEE region converged significantly with the EU's biggest economies and, although not entirely, this is undoubtedly linked to the participation in the EU Single Market and the deeper integration with the wealthier Western economies.

This period of convergence for the new member states is not necessarily a period of convergence across the entire EU. On the contrary, over the last 20 years, convergence indicators in the old member states have not shown much improvement, which is a direct result of rather slow

<sup>8</sup> Eurostat (2024) *Volume Indices of Real Expenditure Per Capita (in PPS\_EU27\_2020=100)*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/prc\\_ppp\\_ind\\_custom\\_9461210/default/table](https://ec.europa.eu/eurostat/databrowser/view/prc_ppp_ind_custom_9461210/default/table)

<sup>9</sup> Ibid.



IT IS EVIDENT THAT IN THE LAST TWO DECADES THE WHOLE CEE REGION CONVERGED SIGNIFICANTLY WITH THE EU'S BIGGEST ECONOMIES AND, ALTHOUGH NOT ENTIRELY, THIS IS UNDOUBTEDLY LINKED TO THE PARTICIPATION IN THE EU SINGLE MARKET AND THE DEEPER INTEGRATION WITH THE WEALTHIER WESTERN ECONOMIES

economic growth and the debt burden over the biggest economies in the EU. In the last two decades, convergence indicators for countries like Italy, France, and Spain have deteriorated, falling below the EU average threshold (France is right on the

borderline, but with a negative trend), while Germany and other Nordic economies, manage to keep the debt burden under control and remain well above the EU average in terms of GDP per capita in purchasing power parities<sup>10</sup>.

This observation shows that the countries that have benefited the most from the single market in the last 20 years are precisely the new member states from CEE. Their competitive advantages related to lower costs and better environment for doing business, prudent fiscal policy, and much lower burden of government debt, allowed them to benefit greatly from the access to the wide EU market. In that respect, the single market does not guarantee convergence, but it allows countries to exploit their competitive advantages, integrate deeper with the biggest economies in Europe and pursue policies to support economic growth. The process of catching-up was also facilitated by the expansion of economic freedom in CEE region in the last two decades.

### **ECONOMIC FREEDOM IS KEY FOR THE CEE REGION**

The expansion of economic freedom is a crucial factor for the success of the new member states in the EU. In the early 1990s, most of the countries in Central and Eastern Europe were among the least free economies in the world, as presented by the Economic Freedom of the World annual reports, published by the Fraser Institute<sup>11</sup>. The index measures the degree to which the policies and institutions of countries are supportive of economic freedom,

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<sup>10</sup> Eurostat (2024) *Volume Indices of Real Expenditure Per Capita (in PPS\_EU27\_2020=100)*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/prc\\_ppp\\_ind\\_\\_custom\\_9461210/default/table](https://ec.europa.eu/eurostat/databrowser/view/prc_ppp_ind__custom_9461210/default/table)

<sup>11</sup> Fraser Institute (2023) *Economic Freedom of the World: 2023 Annual Report*. Available [online]: <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2023.pdf>

covering five broad areas – the size of government, legal system and property rights, sound money, freedom to trade internationally, and regulations. By the year 2000, the entire CEE region had improved significantly in their economic freedom score, while still underperforming (especially Bulgaria and Romania) in comparison to the biggest economies in the EU (Germany, France, Italy, Spain, and Netherlands).

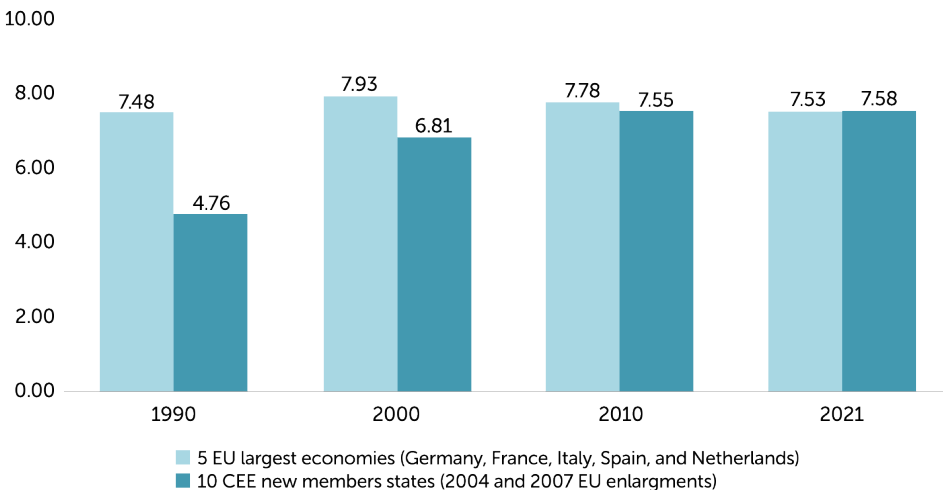
Over the next 20 years the CEE countries continued to expand their economic freedom, joining the EU (2004 and 2007) and taking advantage of the vast opportunities of the EU Single Market [See: Figure 2]. In the years since their accession to the EU, the new member states have been catching up in economic freedom with their Western counterparts, with the average score of the ten new member states slightly outpacing the average score of the five largest economies in the EU in the latest report (2023). This process has been driven by removing barriers and easing regulations as part of the EU Single Market



THE COUNTRIES THAT HAVE BENEFITED THE MOST FROM THE SINGLE MARKET IN THE LAST 20 YEARS ARE PRECISELY THE NEW MEMBER STATES FROM CEE

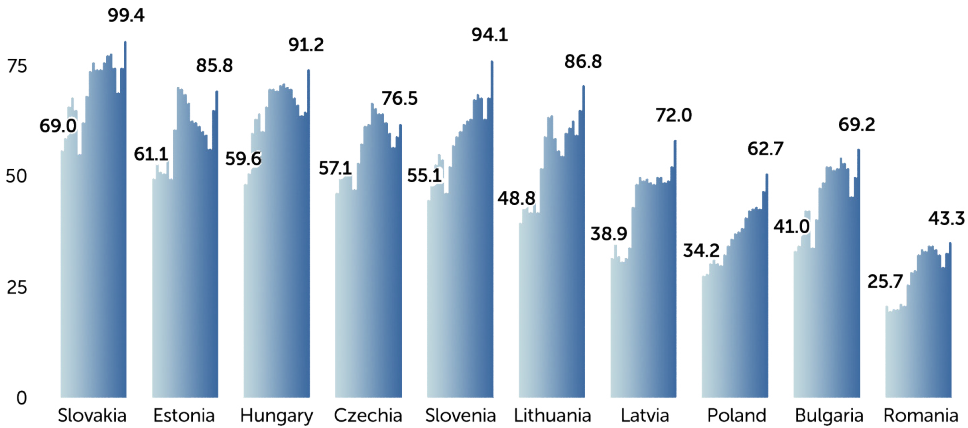
– meaning free movement of people, services, goods, and capital, as well as preserving a competitive tax policy and rather prudent fiscal policy.

Figure 2: Economic freedom score by Fraser Institute (1990-2021)



Source: Own calculations based on: Fraser Institute (2023) Economic Freedom of the World: 2023 Annual Report

Figure 3: Exports of goods and services in CEE (% of GDP, 2004-2022)



Source: Own calculations based on: Fraser Institute (2023) Economic Freedom of the World: 2023 Annual Report



## THE EXPANSION OF ECONOMIC FREEDOM IS A CRUCIAL FACTOR FOR THE SUCCESS OF THE NEW MEMBER STATES IN THE EU

At present, quite a few of the new member states from the CEE region and the Baltics are among the freest economies

in the world, although there is no representative in the top 10. The highest freedom score of the new member states is in Estonia (7.95), Lithuania (7.95), and the Czech Republic (7.81), while the lowest is in Poland (7.12), Slovenia (7.23), and Hungary (7.36). A crucial factor for the better performance within the CEE region seems to be the legal system and the rule of law.

The expansion of economic freedom in the CEE region is clearly visible in the first years of EU membership, but in the last decade there has been a stagnation of the freedom score – against the background of a slight retreat of economic freedom in the largest EU economies. The stagnation of economic freedom in the CEE region has been triggered by the growth of government spending and the size of government, in some cases increased regulatory burden, and a lack of sufficient progress in the area of the rule of law. Bulgaria is a notorious example in this field, receiving high scores in various economic areas – sound money, freedom to trade, and taxation, while failing to catch

<sup>12</sup> Eurostat (2024) Exports of Goods and Services (% of GDP). Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/nama\\_10\\_gdp\\_custom\\_9937450/default/table](https://ec.europa.eu/eurostat/databrowser/view/nama_10_gdp_custom_9937450/default/table)



AT PRESENT, QUITE A FEW OF THE NEW MEMBER STATES FROM THE CEE REGION AND THE BALTICS ARE AMONG THE FREEST ECONOMIES IN THE WORLD

up in terms of the legal system, judicial independence, and, in essence, corruption.

### CELEBRATING THE SINGLE MARKET

Being part of the EU Single Market allowed the new member states to increase the openness of their economies and deepen their integration within the EU supply chains. Exports increased considerably in all new member states – not only in absolute terms, but also as a percentage of the economy. Back in 2004, exports of goods and services in all new member states did not exceed 70% of GDP, and, in some cases, were even below 50% of GDP<sup>13</sup>. In the following two decades, there has been a steady increase in the share of exports in the entire CEE region, with the share of exports in most of the countries under consideration rising by more than 25 percentage points and, in some cases, the total exports of goods and services reached over 90% of GDP [See: Figure 3].

Over the last 20 years, there has also been an increase in exports in the old member states, with exports in the euro area rising from 35% of GDP in 2004 to over 50% of GDP in 2022. This development reflects the opportunities of the single market and the deeper integration of the supply chains in the EU. Intra-EU trade has grown significantly over the last two decades, with the the total volume of intra-EU exports increasing from EUR 1.7 trillion in 2004 to EUR 4.3 trillion in 2022<sup>14</sup>. The share of intra-EU exports of the ten new member states increased from EUR 180 billion in 2004 (11% from the EU total) to EUR 840 billion in 2022 (20% from the EU total). In other words, the new member states doubled their share in internal exports of goods within the EU.

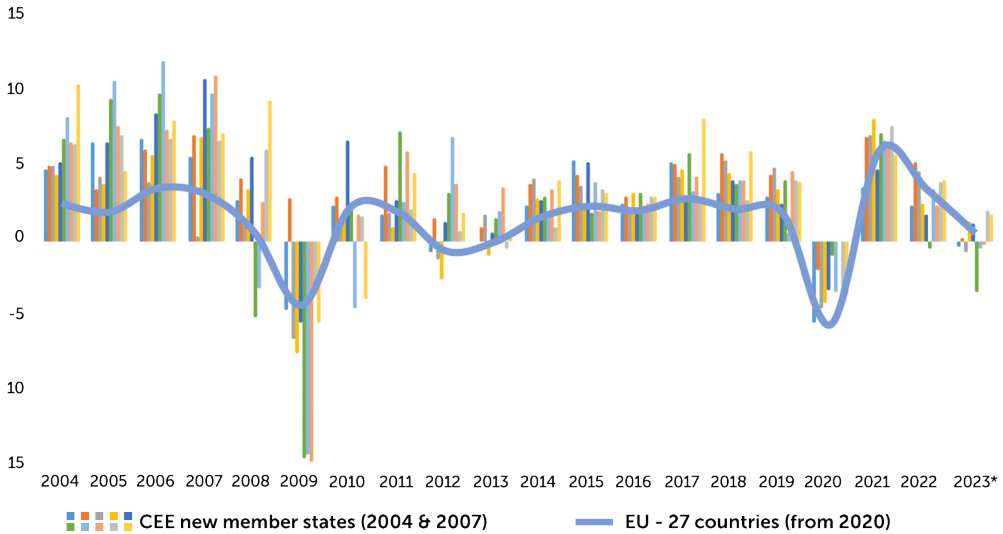
The single market means not only trade in goods and services, but also free movement of people and capital in the EU. The new member states have benefited greatly from the influx of foreign capital, especially in the early years of EU membership. The total stock of foreign direct capital from the EU in the ten new member states from the CEE region reached above EU 750 billion in 2022<sup>15</sup>, which has contributed to the economic growth in the region. Foreign direct investments in Bulgaria almost doubled in the last 20 years, with as much as 75% of the foreign capital coming from the EU countries. However, one may argue that the foreign capital contribution to growth in the CEE region is conditional upon implementing economic reforms that support competitiveness and investment in human capital.

<sup>14</sup> Eurostat (2024) *Intra-EU Trade in Goods (Exports in EUR Million)*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/ext\\_lt\\_intratrd\\_cus-tom\\_9971224/default/table](https://ec.europa.eu/eurostat/databrowser/view/ext_lt_intratrd_cus-tom_9971224/default/table)

<sup>15</sup> Eurostat (2024) *EU Direct Investment Positions, by Countries*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/bop\\_fdi6\\_geo\\_cus-tom\\_10308540/default/table](https://ec.europa.eu/eurostat/databrowser/view/bop_fdi6_geo_cus-tom_10308540/default/table)

<sup>13</sup> Ibid.

Figure 4: GDP growth in CEE and EU-27 (% , 2004-2023)



Source: Eurostat\*<sup>16</sup>

\*Data for 2023 is based on: European Commission (2024) European Economic Forecast



BEING PART OF THE EU SINGLE MARKET ALLOWED THE NEW MEMBER STATES TO INCREASE THE OPENNESS OF THEIR ECONOMIES AND DEEPEN THEIR INTEGRATION WITHIN THE EU SUPPLY CHAINS

## TWO DECADES AND THREE EPISODES OF ECONOMIC DOWNTURN

There is no doubt that the economies of the CEE region had experienced economic growth in the last two decades and were catching-up with the biggest economies in the European Union. CEE countries registered higher economic growth than the EU average in most of the last 20 years. While this may be viewed as a rather long period of, predominantly, economic growth, there were also turbulent times that challenged the EU economy. There were three clear episodes of economic downturn in the European Union in the last two decades, which also affected the new member states [See: Figure 4].

<sup>16</sup> Eurostat (2024) GDP at Market Prices (Chain Linked Volumes, Percentage Change on Previous Period). Available [online]: [https://ec.europa.eu/eurostat/data-browser/view/nama\\_10\\_gdp\\_custom\\_9994154/default/table](https://ec.europa.eu/eurostat/data-browser/view/nama_10_gdp_custom_9994154/default/table)

The first period was the global financial crisis (referred to as the 'Great Recession'), which plunged Europe into a prolonged recession in late 2008 and throughout 2009. Almost all of the CEE new member states (except Poland) went into a severe recession – the Baltic countries registered a drop in GDP of 14-15% in 2009 alone<sup>17</sup>. Although full recovery from the crisis took years across Europe, CEE countries managed to return to economic growth and convergence rather quickly.

The second period, directly related to the aftermath of the global financial crisis, is the European debt crisis, which pushed Europe into a shallow recession in 2012 and 2013. In this episode, some of the CEE countries experienced a period of low growth, other went into a short recession, but overall, the new member states performed better than the biggest economies in the EU<sup>18</sup>. The economies in the CEE region were better prepared for this economic period, which is related to the lower levels of public debt and better fiscal performance in the new member states<sup>19</sup>.

The third period of economic downturn came with the COVID-19 pandemic that plunged Europe into a deep, but rather brief, recession in 2020<sup>20</sup>. The pandemic disrupted the supply chains throughout



## THE NEW MEMBER STATES DOUBLED THEIR SHARE IN INTERNAL EXPORTS OF GOODS WITHIN THE EU

the world and, in a way, revealed the importance of the single market in Europe – when free movement of goods and people is disrupted, the economy collapses. However, recovery has been swift, and the CEE countries performed well, registering strong growth in 2021, and returning relatively quickly to the pre-pandemic levels of economic activity. While the global financial crisis had lasting effects on the labor market and unemployment, jobs were quickly recovered after the initial shock of the pandemic, and employment levels had been at record high levels both in the CEE region and the entire EU<sup>21</sup>.

Nevertheless, turbulence was far from over. In February 2022, Russia invaded Ukraine in a horrific act of violence. Supply chains in Europe were once again disrupted and energy prices exploded. Inflation reached record-high levels in both new and old member states in late 2022<sup>22</sup>, and the European

<sup>17</sup> Eurostat (2024) *GDP at Market Prices (Chain Linked Volumes, Percentage Change on Previous Period)*. Available [online]: [https://ec.europa.eu/eurostat/data-browser/view/nama\\_10\\_gdp\\_custom\\_9994154/default/table](https://ec.europa.eu/eurostat/data-browser/view/nama_10_gdp_custom_9994154/default/table)

<sup>18</sup> Ibid.

<sup>19</sup> Eurostat (2024) *Government Consolidated Gross Debt*. Available [online]: [https://ec.europa.eu/eurostat/data-browser/view/gov\\_10dd\\_edpt1\\_custom\\_9940787/default/table](https://ec.europa.eu/eurostat/data-browser/view/gov_10dd_edpt1_custom_9940787/default/table)

<sup>20</sup> Eurostat (2024) *GDP at Market Prices (Chain Linked Volumes, Percentage Change on Previous Period)*. Available [online]: [https://ec.europa.eu/eurostat/data-browser/view/nama\\_10\\_gdp\\_custom\\_9994154/default/table](https://ec.europa.eu/eurostat/data-browser/view/nama_10_gdp_custom_9994154/default/table)

<sup>21</sup> Eurostat (2024) *Total Employment (Percentage of Population)*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/lfsi\\_emp\\_a\\_custom\\_10304605/default/table](https://ec.europa.eu/eurostat/databrowser/view/lfsi_emp_a_custom_10304605/default/table)

<sup>22</sup> Eurostat (2022) *Annual Inflation Up to 10.6% in the Euro Area (October 2022)*. Available [online]: <https://ec.europa.eu/eurostat/documents/2995521/15265521/2-17112022-AP-EN.pdf>



## THE NEW MEMBER STATES HAVE BENEFITED GREATLY FROM THE INFLUX OF FOREIGN CAPITAL, ESPECIALLY IN THE EARLY YEARS OF EU MEMBERSHIP

Central Bank (ECB) raised interest rates in ten consecutive steps (from July 2022 to September 2023)<sup>23</sup>. As a result, inflation went down and is currently under control<sup>24</sup>, but, by the end of 2023, economic growth in Europe disappeared, and the European Union is on the verge of a fourth episode of economic decline in the last 20 years.

By the end of 2023, the entire CEE region is experiencing a slowdown in growth, with at least five countries registering negative economic growth – the Czech Republic, Hungary, and the Baltic countries. Although the latest forecast of the European Commission<sup>25</sup> shows that the EU economy as a whole may avoid entering into recession

<sup>23</sup> ECB (2024) *Key ECB Interest rates*. Available [online]: [https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/key\\_ecb\\_interest\\_rates/html/index\\_en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index_en.html)

<sup>24</sup> Eurostat (2022) *Annual Inflation Down to 2.8% in the Euro Area (January 2024)*. Available [online]: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22022024-ap>

<sup>25</sup> European Commission (2024) *European Economic Forecast*. Available [online]: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_730](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_730)

and the expectation is for the return of the economic growth in CEE region in 2024, the events from recent years clearly show that the new member states should stay resilient to shocks and improve competitiveness. In a turbulent environment, with various political and geopolitical risks in the region, policies in support of economic growth and the rule of law are crucial for moving forward.

### THE BURDEN OF PUBLIC DEBT

One of the main differences between the CEE countries and the largest economies in Europe are the debt burden and the sustainability of public finances. All of the new member states are below the EU average in terms of government spending. While government spending in the European Union on average reaches 50% of GDP (2022), eight out of ten new member states from the CEE region register government spending below 45%, with the three Baltic countries (Estonia, Latvia, and Lithuania), Bulgaria, and Romania being below or close to 40% of GDP<sup>26</sup>. This is a 10-percentage point difference than the levels in Germany, and 15-percentage point difference in comparison to France and Italy. The highest share of government spending in CEE region in 2022 is in Slovenia (47% of GDP) and Hungary (49% of GDP).

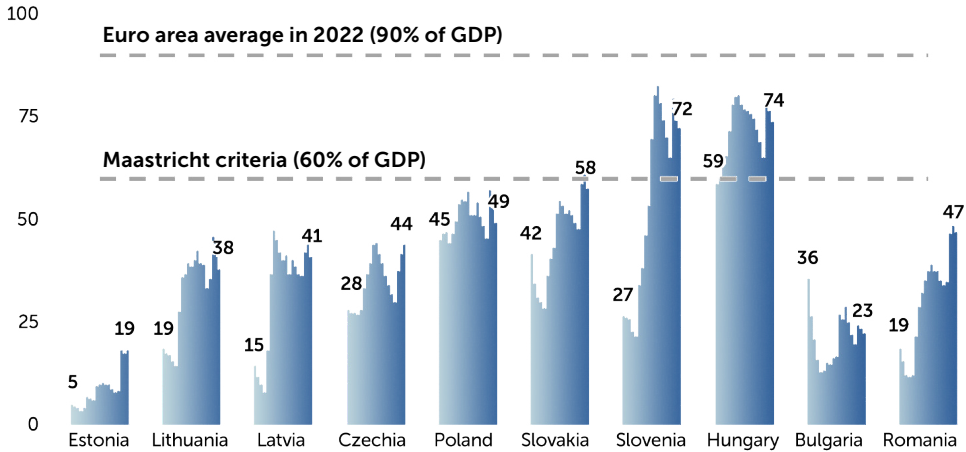
Most CEE countries had public debt levels below 30% of GDP in the year of their EU accession<sup>27</sup>. Public debt in the new member states increased during the global financial crisis and the European debt crisis, and then again during the pandemic, but

<sup>26</sup> Eurostat (2024) *Total General Government Expenditure*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/gov\\_10a\\_main\\_\\_custom\\_9939353/default/table](https://ec.europa.eu/eurostat/databrowser/view/gov_10a_main__custom_9939353/default/table)

<sup>27</sup> Eurostat (2024) *Government Consolidated Gross Debt*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/gov\\_10dd\\_edpt1\\_\\_custom\\_9940787/default/table](https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1__custom_9940787/default/table)



Figure 5: Government consolidated gross debt in CEE and EU-27 (% , 2004-2022)



Source: Eurostat<sup>28</sup>

still remained at sustainable levels – only two countries (Slovenia and Hungary) went beyond the 60% of GDP limit [See: Figure

5]. Estonia and Bulgaria are the best performers here, keeping their debt to GDP ratio at around 20-25% even after the pandemic. At the same time, debt levels in the euro area reach over 90% in 2022, with Italy, France, Spain, and Portugal being above 100% of GDP.



THE EVENTS FROM RECENT YEARS CLEARLY SHOW THAT THE NEW MEMBER STATES SHOULD STAY RESILIENT TO SHOCKS AND IMPROVE COMPETITIVENESS

Despite the lower public debt levels in the CEE region, it should be noted that while 20 years ago all the new member states from CEE had low public debt, in 2022, the picture is different and only Estonia and Bulgaria retain very low public debt levels. A series of episodes of economic downturn, including the financial crisis and the pandemic, triggered larger deficits across Europe and eventually led to higher debt in CEE countries. Large economies, such as Germany and the Netherlands already stand comparable in public debt levels to some CEE countries. Germany currently has a lower debt level than Slovenia and Hungary, and the Netherlands is performing even better, having a comparable public

<sup>28</sup> Ibid.



## CEE NEW MEMBER STATES HAVE COME A LONG WAY IN THE LAST 20 YEARS

debt level to countries like Slovakia, Poland, and Romania. Rising government spending and public debt levels in the CEE region are among the factors that could undermine competitiveness in the new member states and limit growth in the long-term.

### THE NEXT 10 YEARS

CEE new member states have come a long way in the last 20 years. Economic freedom in the entire region expanded and CEE countries converged significantly with the rest of the EU. Participation in the Single Market has allowed the new member states to exploit their competitive advantages, integrate into European supply chains, and double their share of intra-EU trade. Looking at the economic growth in the region and the convergence indicators, we may argue that the countries that have benefited the most from the single market in the last 20 years are precisely the new member states from CEE.

In this period, Europe has gone through at least three severe economic crises that have affected CEE economies but have not reversed the general trend of convergence. At the end of 2023, the EU is once again close to recession, making the topic of competitiveness, economic growth, and

convergence in the CEE region highly relevant. Series of crises and episodes of economic downturn had shown that maintaining macroeconomic stability and resilience, as well as implementing far-reaching economic reforms to support competitiveness are key to the success of the new member states.

Major challenges on the eve of the third decade of EU membership are related to the turbulent geopolitical situation and the big unknown of the outcome of Russia's aggression in Ukraine, the political instability in some CEE countries, lack of sufficient progress in terms of the rule of law and corruption, elements of state capture, and democratic backsliding in the region. Against the backdrop of these mainly political risks, economic policies in individual member states and at the EU level are key for the future of the region. CEE should aim to remain the fastest growing part of Europe in the next decade.



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# Evolution of How CEE Perceives the European Union



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IZABELL  
BÁLINT

The enlargement of the European Union (EU) in 2004 was of high importance not only because it was the largest round of accessions so far<sup>1</sup>, but also due to the fact that most joining countries were Central and Eastern European (CEE) ones – speaking in geographical terms – and formerly belonged to the Eastern Bloc. That background has left a lasting mark, both politically and culturally, on the social fabric of these countries. During the past 20 years, the perception of the EU in these countries has shifted many times<sup>2</sup>, creating an ever-changing curve of approval and disapproval that is heavily influenced by governments and the messages they are conveying about the EU.

It is, therefore, crucial to better understand how the image of the EU has changed in Central and Eastern European countries over the last two decades, what it was like before the accessions in the early years of membership, and more recently. While the geographical scope for addressing these questions is quite wide, it might be helpful to draw somewhat general conclusions and paint a comprehensive picture of the EU's perception throughout the years.

In an analytical sense, the focal point is determining the factors that have been influencing the image of the EU in these countries via a deeper study of Poland and Hungary. These two countries have been a prime example of how political leadership can influence the way the EU is viewed by a society, as well as how to distort the

<sup>1</sup>[https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/6-27-members\\_en](https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/6-27-members_en)

<sup>2</sup> Guerra, S. (2013) *Central and Eastern European Attitudes in the Face of Union*, London: Palgrave Macmillan., <https://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2016/major-changes-in-european-public-opinion-2016/report/en-report-exploratory-study-201611.pdf>

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SYSTEM TRANSFORMATIONS USUALLY ENTAIL A POLITICAL PURGE AND ENSURING THAT JUSTICE – OR AT LEAST WHAT IS PERCEIVED AS JUSTICE – IS SERVED

perception. The final goal is to reach conclusions that can be applied to the countries of the Central and Eastern European area and assessing the challenges of the past, and their contemporary impacts.

### **DOMESTIC TRANSITIONS IN THE ACCEDING COUNTRIES BEFORE 2004: THE AFTERMATH OF THE COMMUNIST REGIME**

When assessing and analyzing the 2004 EU enlargement, it is crucial to keep in mind that the majority of the ten acceding countries had belonged to the Eastern Bloc until the then relatively recent collapse of the USSR. In order to understand the period leading up to negotiations and the accession of CEE countries, one must take into account the processes that characterized the domestic political and cultural sphere at the time. It can be concluded that former communist countries were in a period of transitioning from an authoritarian regime to a democratic and pluralist political

system<sup>3</sup>, accompanied by extensive and deep economic transformation.

System transformations usually entail a political purge and ensuring that justice – or at least what is perceived as justice – is served<sup>4</sup>. As a new government takes the lead, people get the desire to remove those who collaborated with the previous regime from the political elite. However, in the case of the former communist countries that later joined the EU, this process was quite difficult because of the high involvement rate of citizens in different branches of the communist regime<sup>5</sup>. This piece of historical heritage created a changing and evolving society in the 1990s, characterized by the re-emergence of the civil society that had been suppressed during the socialist period.

The historic background provided by the communist regime had severe and long-lasting impacts on both the political culture and the society of these countries. On the one hand, after a time period when the international community split in half along the strong West versus East division, citizens formerly belonging to the Eastern Bloc had the desire to become more like Western societies. They wanted to internalize values perceived as Western and modern – a desire that was embodied in the European Union. Therefore, there was a strong sense of ‘Euroenthusiasm’ among the citizens of these states<sup>6</sup>. They wanted political, economic, and social developments and the EU was perceived as the potential source of all of

<sup>3</sup> Welsh, H. A. (1996) “Dealing with the Communist Past: Central and East European Experiences After 1990” [in]: *Europe-Asia Studies*, Vol. 48, No. 3, May. Available [online]: <https://www.jstor.org/stable/152734>

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Guerra, S. (2013) *Central and Eastern European Attitudes in the Face of Union*, London: Palgrave Macmillan.



POSSIBILITY OF ACCESSING THE FREE MARKET AND FURTHERING THE DEMOCRATIZATION PROCESS OF THEIR OWN COUNTRIES WERE TWO INCENTIVES FOR PEOPLE TO SUPPORT THE IDEA OF BECOMING EU MEMBERS

them. Moreover, the possibility of accessing the free market and furthering the democratization process of their own countries were two incentives for people to support the idea of becoming EU members.

Another way this historical heritage impacted political culture was the rise in the importance of the ‘bottom-up approach’<sup>7</sup>. Citizens wanted to have a bigger say in the future of their country and they had grown tired of politics being a tool and sphere of only the elites. The bottom-up approach basically meant that the ideas of ordinary

<sup>7</sup> Steenbergen, M. R., Edwards, E. E., and C.E. De Vries (2007) “Who’s Cueing Whom?: Mass-Elite Linkages and the Future of European Integration”, [in]: *European Union Politics*, Vol. 8(1), March.

people about politics, the policies that should be implemented – and just in general the future of the country – were taken into account as they circled up to the decision-makers. Simultaneously, the political elite realized the importance of listening to the voices from society, thus public opinion gained importance and even became a legitimizing tool for political decisions. Public opinion became a two-way tool, as it both influenced domestic politics and is influenced by it<sup>8</sup>.

### PERCEPTION OF THE EU BEFORE THE ACCESSIONS: EXPECTATIONS

Historian Yuval Noah Harari says that, oftentimes, there is a big gap between expectations and reality, adding that this was particularly true in Central-Eastern Europe during the collapse of communist regimes in the area. He argues that it is impossible to meet the expectations that arise in times of change over the course of a short period, which eventually leads to a loss of enthusiasm and support<sup>9</sup>. This idea summarizes the period between 1989 and 2004 perfectly: the citizens of former communist countries yearned for a change of regime, they wanted to belong to the Western world and embrace its values. However, once the regime change happens, the focus shifts to economic matters<sup>10</sup>, because that affects everyone, and the expectations are now tailored to the overall better living conditions that had taken over after the breakdown of the communist system.

<sup>8</sup> Guerra, S. (2013) *Central and Eastern European Attitudes in the Face of Union*, London: Palgrave Macmillan.

<sup>9</sup> Pataky, I. (2019) "Az EU nélkül román–magyar háború jöhet? – Yuval Noah Harari szerint az európaiak ma természetes állapotként fogják fel a békét", [in]: *Krónika Online*. Available [online]: <https://kronikaonline.ro/kulfold/az-eu-nelkul-romannmagyar-haboru-johet-n-yuval-noah-harari-tortenesz-szerint-az-eu-ropaiak-ma-termeszetes-allapotkent-fogjak-fel#> [in Hungarian]

<sup>10</sup> Ibid.



## PUBLIC OPINION BECAME A TWO-WAY TOOL, AS IT BOTH INFLUENCED DOMESTIC POLITICS AND IS INFLUENCED BY IT

What is the consequence of this process? People have higher expectations, even though their living conditions have already improved, but it takes time to achieve economic prosperity and development. Therefore, people might end up feeling like the shift towards European values did not bring them the desired changes and that is how enthusiasm and support towards integration declines over time<sup>11</sup>. Right after the breakdown of the communist regime in CEE countries, the general public had little information on what being a member of the EU actually entailed<sup>12</sup>. This lack of understanding allowed them to fill the gaps with their own desires as to what they wanted membership to mean: economic prosperity and a different set of values, among others.

However, as negotiations began and the accession approached, people were suddenly bombarded with a lot of information<sup>13</sup>, ranging from the process of accession to

<sup>11</sup> Ibid.

<sup>12</sup> Guerra, S. (2013) *Central and Eastern European Attitudes in the Face of Union*, London: Palgrave Macmillan.

<sup>13</sup> Ibid.



PEOPLE MIGHT END UP FEELING LIKE THE SHIFT TOWARDS EUROPEAN VALUES DID NOT BRING THEM THE DESIRED CHANGES AND THAT IS HOW ENTHUSIASM AND SUPPORT TOWARDS INTEGRATION DECLINES OVER TIME. RIGHT AFTER THE BREAKDOWN OF THE COMMUNIST REGIME IN CEE COUNTRIES, THE GENERAL PUBLIC HAD LITTLE INFORMATION ON WHAT BEING A MEMBER OF THE EU ACTUALLY ENTAILED

the structure of the EU, all of which was difficult to process and understand all at once. At this point, another piece of communist heritage appeared in the public opinion: the deeply rooted mistrust towards institutions and the government – the *us* versus *them* dichotomy<sup>14</sup>. This tendency affected the way the supranational organization of the EU was viewed. The numbers of the Central and Eastern Eurobarometer survey illustrate this phenomenon: in 1991, around two thirds of the people in Bulgaria, Poland, Czechoslovakia, and Hungary had ‘heard of the EC’, but the same number of people felt that they had little information about it<sup>15</sup>.

Between 1994 and 1995 there was a slight decrease in support for the European project in some countries (Slovakia and Lithuania), but the general trend was that the initial enthusiasm calmed down and a more balanced attitude took over – so-called ‘Euroneutral’. This term showcases the fact that the decrease in support did not lead to a significant rise in opposition, but more so that there was a group of undecided people who were neutral (rather than skeptical) towards the accession<sup>16</sup>.

A possible explanation to the decreasing rate of support after the negotiations began is that the public started to realize the costs of integration because of the infrastructural changes that had to be done and the standardizing policies<sup>17</sup>. It is, therefore, important to understand that becoming part of the EU comes with its costs and states must submit some of their decision-making powers and other privileges to the EU in

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<sup>14</sup> Ibid.

<sup>15</sup> Central and Eastern Eurobarometer (1991) *CEEB 1*, pp. 43–48.

<sup>16</sup> Guerra, S. (2013) *Central and Eastern European Attitudes in the Face of Union*, London: Palgrave Macmillan.

<sup>17</sup> Ibid.



order to achieve goals together as a union. For the public opinion to support the decision of their state to give something up, they need to feel that the benefits they – as citizens – receive by being members of the EU outweigh the costs. The assessment of costs and benefits is a fine balance, which is constantly changing depending on government rhetoric, EU policies, and the general political and economic sphere.

In order to get a more comprehensive picture of the 2004 enlargement, it is crucial to take a look at the other side of the public opinion: the incumbent member states. The opinion of current members of an organization at the time of accession is a great indicator of the socio-economic circumstances surrounding the process, as it highlights the interests of the parties. An important element of the 2004 enlargement was the narrative that it is more than the accession of ten countries, it is a symbolic reunion of Western and Eastern Europe after the Cold War<sup>18</sup>, finally uniting in the same organization, accepting common values and guidelines. It is a compelling insight that crises and conflicts have the power to change how countries that are geographically close (or in some other way related) view each other, as they enhance the feeling of belonging to one another, creating a sense of us<sup>19</sup>.

The support for the 2004 enlargement – on the part of the states that were already members of the EU – was fueled by the hopes of reuniting Europe and a perceived common pan-European identity<sup>20</sup>. West-

<sup>18</sup> <https://www.oegfe.at/policy-briefs/from-eu-enlargement-fatigue-to-enlargement-enthusiasm/?lang=en>

<sup>19</sup> Ibid.

<sup>20</sup> Maier, J. and B. Rittberger (2008) "Shifting Europe's Boundaries: Mass Media, Public Opinion and the Enlargement of the EU", [in]: *European Union Politics*, Vol. 9(2). Available [online]: <https://doi.org/10.1177/1465116508089087>



BECOMING PART OF THE EU COMES WITH ITS COSTS AND STATES MUST SUBMIT SOME OF THEIR DECISION-MAKING POWERS AND OTHER PRIVILEGES TO THE EU IN ORDER TO ACHIEVE GOALS TOGETHER AS A UNION

ern-European powers viewed Europe as a community of democracies, characterized by pan-European values<sup>21</sup>, thus, they aimed at ensuring that Eastern countries were also integrated into this system. Common historical heritage and the rationality of integration based on geographical proximity also played a part<sup>22</sup> in the mild support of voters regarding the Eastern enlargement<sup>23</sup>.

<sup>21</sup> <https://eu.boell.org/en/2014/06/10/europe-after-eastern-enlargement-european-union-2004-2014>

<sup>22</sup> Eurobarometer 61, Spring 2004.

<sup>23</sup> Schimmelfennig, F. and U. Sedelmeier (2002) "Theorizing EU Enlargement: Research Focus, Hypotheses, and the State of Research", [in]: *Journal of European Public Policy*, Vol.9(4). Available [online]: <https://doi.org/10.1177/1465116502009004>

**PERCEPTION OF THE EU  
IN THE EARLY YEARS  
AFTER THE 2004 ENLARGEMENT –  
THE DIFFERENT DIMENSIONS  
OF PUBLIC OPINION IN THE EU  
AND IN THE ACCESSING COUNTRIES**

Most public opinion polls<sup>24</sup> that were conducted after the 2004 enlargement (including annual surveys that had been conducted for years at that point) examined EU member states as a whole, instead of focusing on the Central-Eastern region specifically, which makes it slightly more challenging to study the perception of the recently joined countries. However, the combination of keeping in mind the common historical heritage of CEE countries and taking a look at surveys only examining one country allows us to draw somewhat general conclusions, which can be applied to most of the accessing states.

When examining the overall public opinion about the EU, usually positive trends can be observed in the years of enlargement rounds and elections, and 2004 was no exception<sup>25</sup>. This positive change followed a slight decline in public attitudes towards the EU in 2003, which can be explained by the anxiety of incumbent member states as their organization was about to expand from 15 to 25 members<sup>26</sup>. These opinions characterized the general public perception of EU citizens at the time.

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[org/10.1080/13501760210152411](http://org/10.1080/13501760210152411)

<sup>24</sup> See, for example: Eurobarometer surveys. Available [online]: <https://www.pewresearch.org/short-reads/2023/10/24/people-broadly-view-the-eu-favorably-both-in-member-states-and-elsewhere/> Note: This survey lists the results of specific countries, but does not focus exclusively on the CEE region.

<sup>25</sup> <https://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2016/major-changes-in-european-public-opinion-2016/report/en-report-exploratory-study-201611.pdf>

<sup>26</sup> Ibid.



THE ASSESSMENT OF COSTS AND BENEFITS IS A FINE BALANCE, WHICH IS CONSTANTLY CHANGING DEPENDING ON GOVERNMENT RHETORIC, EU POLICIES, AND THE GENERAL POLITICAL AND ECONOMIC SPHERE

If one takes a look at the newcomer countries and their national public opinion polls, a slightly ambivalent combination of anxiety and high expectations can be observed. Polish polls published in 2004 revealed that the public had the highest hopes for the economic dimension of the accession<sup>27</sup>. And understandably so, as that is arguably the aspect directly affecting the lives of citizens the most. The public was hopeful about the acceleration of their national economic development by their newly acquired EU membership.

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<sup>27</sup> CBOS Public Opinion Research Center (2004) *Improvement of Social Moods after the EU Accession and Resignation of the Government*. Available [online]: [https://cbos.pl/PL/publikacje/public\\_opinion/2004/05\\_2004.pdf](https://cbos.pl/PL/publikacje/public_opinion/2004/05_2004.pdf)

Out of the three main dimensions of their EU accession – economic, political, and cultural – the support was the highest for the first one among Polish people, with 71% of them being in favor of economic integration (for comparison, the support for political integration was 52% at the time, and only 24% for cultural integration)<sup>28</sup>. This proves an important point about EU membership (one that is true in general, not just in the case of the 2004 enlargement): accessing countries might not be equally eager about all areas of the integration, but – as mentioned before – if the foreseeable benefits outweigh the costs, they are willing to overlook certain aspects of joining the EU that are perceived as less beneficial.

In the case of Poland, according to the 2004 public opinion polls, this area was cultural integration. Citizens wanted to maintain their own national culture<sup>29</sup> instead of merging it with the pan-European values, but decision-makers realized that cherry picking the areas of integration they wanted to take part in was not an option, and the projected benefits were higher than this cost.

An important point needs to be made when discussing the topic of cultural integration in relation to the CEE region, namely that historical heritage has an impact on how nations view this issue. Poland is a great example of a broader phenomenon<sup>30</sup> that can be applied to many of the 2004 accessing countries. Countries that have a history of being occupied and governed by foreign powers often develop a national

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<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Stanley, B. and M. Czeńnik (2019) "Populism in Poland", [in]: Stockemer, D. (eds) *Populism Around the World*. Available [online]: <https://link.springer.com/content/pdf/10.1007/978-3-319-96758-5.pdf>



THE SUPPORT FOR THE 2004 ENLARGEMENT – ON THE PART OF THE STATES THAT WERE ALREADY MEMBERS OF THE EU – WAS FUELED BY THE HOPES OF REUNITING EUROPE AND A PERCEIVED COMMON PAN-EUROPEAN IDENTITY

identity based on the resentment of alien powers<sup>31</sup>. The long-term effect of this tendency – also relevant in the EU integration process – is the desire to protect their national culture and values perceived as their own from external influences. During the integration period, the desire to be part of an organization that embodies progressive and democratic values was stronger than the fear of European culture overriding their national one.

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<sup>31</sup> Roszkowski, W. (2006) "The Lands Between: The Making of East-Central Europe", [in]: T. Rakowska-Harmstone and P. Dutkiewicz (eds.) "Trends and Prospects", Vol. 1. *New Europe: The Impact of the First Decade*.

However, this attitude of protecting national integrity and identity in the face of (real or often only perceived) threats is a strong feature of many CEE countries, stemming from their historical background. The need to protect national values, identity and sovereignty has been characterizing the rhetoric of certain CEE countries towards the EU in the past few years, mostly due to the rise of populist parties in Europe. The anti-establishment nature of populist parties<sup>32</sup> results in a strong sense of distrust towards the EU and its institutions, hence the term 'Euro-scepticism'<sup>33</sup>. While, in a strict sense, populism and the emergence of the so-called Eurosceptic attitude does not belong to the discussion on the early years after the enlargement, it is an important consequence of the tendencies observed in 2004.

A key economic circumstance that one must not forget is that the 2008 financial crisis took place shortly after the enlargement. A 2016 exploratory study published by the European Parliament (based on Eurobarometer numbers) suggests that economic crises do not cause immediate negative trends in public opinion. In the case of a supranational organization – such as the EU – states might even view being members as a good thing in times of crises that are hard to manage on the national level<sup>34</sup>.

Nevertheless, the above-mentioned study by the European Parliament revealed –

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<sup>32</sup> Mudde, C. (2007) *Populist Radical Right Parties in Europe*, Cambridge: Cambridge University Press.

<sup>33</sup> Taggart, P. (1998) "A Touchstone of Dissent: Euroscepticism in Contemporary Western European Party Systems", [in]: *European Journal of Political Research*, Vol. 33(3). Available [online]: <https://doi.org/10.1111/1475-6765.00387>

<sup>34</sup> <https://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2016/major-changes-in-european-public-opinion-2016/report/en-report-exploratory-study-201611.pdf>



WHEN EXAMINING THE OVERALL PUBLIC OPINION ABOUT THE EU, USUALLY POSITIVE TRENDS CAN BE OBSERVED IN THE YEARS OF ENLARGEMENT ROUNDS AND ELECTIONS, AND 2004 WAS NO EXCEPTION

drawing on polls from 2009 and 2010<sup>35</sup> – that survey numbers support the theory that a decrease in public opinion is due to follow crises, but in a delayed manner, not right away. These survey results suggested that between fall of 2009 and spring of 2010, a rise in negative opinions on the image of the EU took place. Another supposed consequence of the financial crisis was a decreasing level of trust the public had towards EU institutions<sup>36</sup>. This loss of trust began in late 2004 and continued until early 2016, but the results suggest that the global economic crisis was the main trigger of this process.

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<sup>35</sup> Ibid.

<sup>36</sup> Ibid.



# COUNTRIES THAT HAVE A HISTORY OF BEING OCCU- PIED AND GOV- ERNED BY FOREIGN POWERS OFTEN DEVELOP A NATIONAL IDENTITY BASED ON THE RESENT- MENT OF ALIEN POWERS

Altogether, it can be concluded that the years following the CEE enlargement brought several events challenging the EU both on the national and the supranational level. These challenges ranged from the 2005 debates about the Treaty, aiming to establish a Constitution for the European Union, to the 2008 financial crisis. The former disrupted the inner unity, as it did not get ratified by all member states<sup>37</sup>, and in the case of the latter, the EU had to act as a global actor, while formulating policies for its members, which posed a difficult duality. However, it can be concluded that the EU managed to keep the public's perception predominately optimistic,

<sup>37</sup> <https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/draft-treaty-establishing-a-constitution-for-europe>

with the positive and neutral opinions on membership remaining higher than the negative ones<sup>38</sup>.

## PERCEPTION OF THE EU IN RECENT YEARS: THE IMPACT OF CRISES

Since the 2004 enlargement, the EU has been through a number of crises: Brexit, the COVID-19 pandemic, and various international conflicts, just to mention a few. Some argue that for the EU, crisis is the driver of development<sup>39</sup>. Beyond academic curiosity, examining this claim also has practical relevance. Approaching the European Parliament elections, it is important to take a look at the role of the EU in the lives of its citizens. How has the perception of the European project changed recently? Has it changed at all? 2024 is rounding up to be a year when over 4 billion people will have the chance to vote in over 40 countries and in the EU<sup>40</sup>. While this is a unique landmark in the history of political societies, it entails an equally great responsibility. Thus, taking a look at the past of the EU might be valuable, before forming plans its future.

The data on the general approval of EU citizens regarding the European Union suggests that the perception of the EU took a hit in early 2010 and positive opinions remained under 42% until 2016<sup>41</sup>. However, it is important to note that the number of people having a neutral view of the organi-

<sup>38</sup> <https://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2016/major-changes-in-european-public-opinion-2016/report/en-report-exploratory-study-201611.pdf>

<sup>39</sup> <https://carnegieeurope.eu/2022/10/18/eu-and-creative-and-destructive-impact-of-crises-pub-88145>

<sup>40</sup> <https://theconversation.com/more-than-4-billion-people-are-eligible-to-vote-in-an-election-in-2024-is-this-democracys-biggest-test-220837>

<sup>41</sup> <https://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2016/major-changes-in-european-public-opinion-2016/report/en-report-exploratory-study-201611.pdf>

zation has often been higher than 42%<sup>42</sup>, leading one to believe that the perception of the EU has not deteriorated radically, but rather, a more moderate public opinion took over.

Looking at more recent data, a survey conducted in early 2023<sup>43</sup> seems to prove the 'crisis as a trigger for development' approach. It found that in nine surveyed member states (Hungary, France, Germany, the Netherlands, Sweden, Spain, Poland, Italy, and Greece) the median of positive opinions was 69% versus 31% of negative ones. Two CEE countries were part of the survey, with Poland reaching an outstandingly high percentage of positive opinions (87%) and only 10% of negative ones. Meanwhile, in Hungary, 59% of the polled people had favorable opinions, whereas 39% had unfavorable ones. In the nine examined member states, the overall lowest ratings were reached between 2013 and 2018 and in the majority of them, the highest ratings were reached in 2022.

2016 was a turning point for the world of politics in many different regards: Donald Trump was elected as the U.S. president, populist politicians gained popularity in several Western countries<sup>44</sup>, and – not unrelated to this – the referendum about their EU membership took place in the UK<sup>45</sup>. There was a wide range of reactions to the UK parting ways with the EU. Nationalists in Slovakia even went as far as to claim that

<sup>42</sup> Ibid.

<sup>43</sup> <https://www.pewresearch.org/short-reads/2023/10/24/people-broadly-view-the-eu-favorably-both-in-member-states-and-elsewhere/>

<sup>44</sup> <https://www.hks.harvard.edu/publications/trump-brexite-and-rise-populism-economic-have-nots-and-cultural-backlash>

<sup>45</sup> The global rise of populist politicians enhanced emerging Eurosceptic attitudes, and this played a role in the idea of an "exit referendum". Populist politicians raised issues that later played a key role in the Brexit campaign, such as migration.



PROTECTING NATIONAL INTEGRITY AND IDENTITY IN THE FACE OF (REAL OR OFTEN ONLY PERCEIVED) THREATS IS A STRONG FEATURE OF MANY CEE COUNTRIES, STEMMING FROM THEIR HISTORICAL BACKGROUND.

their country should follow the British example and host a referendum of their own<sup>46</sup>. The idea that parting ways with the EU is possible amplified dissatisfied voices in the country and 'soft' Eurosceptic opinions in the CEE region were enhanced<sup>47</sup>. Soft Euroscepticism entails a negative view of certain aspects of the integration, without the element of opposing the European project as a whole<sup>48</sup>. Examples of this attitude are

<sup>46</sup> Braun, D., Hutter, S., and A. Kerscher (2016) *What Type of Europe? The Salience of Polity and Policy Issues in European Parliament Elections*, [in]: *European Union Politics*, Vol. 17(4)., Hobolt, S. B. and C. E. de Vries (2016) "Public Support for European Integration", [in]: *Annual Review of Political Science*, Vol. 19(1).

<sup>47</sup> [https://ec.europa.eu/regional\\_policy/whats-new/panorama/2023/09/09-06-2023-the-development-trap-a-cause-of-euroscepticism\\_en](https://ec.europa.eu/regional_policy/whats-new/panorama/2023/09/09-06-2023-the-development-trap-a-cause-of-euroscepticism_en)

<sup>48</sup> Ibid.



THAT THE YEARS  
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Hungarian governing party Fidesz and former Polish governing party Law and Justice. After Britain formally left the EU in early 2020, notoriously Eurosceptic Hungarian Prime Minister Viktor Orbán referred to this decision as “evidence of the greatness of the British”<sup>49</sup>.

Meanwhile, Polish reactions were somewhat ambiguous: the PiS (Law and Justice) government expressed their regret, as they lost an important ally, but right-wing nationalists took the chance to praise the decision<sup>50</sup>. Krzysztof Bosak from the far-right Confederation party congratulated Britain and used the slogan “Let’s make Europe

great again!”<sup>51</sup>. This is a classic rhetorical phrase often used by right-wing populists to evoke a sense of nostalgia towards – real or perceived – past greatness. This phenomenon could be clearly observed in Donald Trump’s campaign slogan “Make America great again”. (Interestingly, this particular phrase was first used by Ronald Reagan in his 1980 presidential campaign<sup>52</sup>). Later, Viktor Orbán paraphrased it when referring to the upcoming Hungarian EU Presidency in his State of the Nation Address with the phrase “Make Europe Great Again!”<sup>53</sup>. The 2018 CODES (Comprehending and Understanding Euroscepticism) research found that an “emotional dimension” was present in Latvia in connection with Euroscepticism and their perception of the EU<sup>54</sup>. This is probably not unrelated to Brexit, as it was an event that heightened both positive and negative opinions through its polarizing effect.

Brexit opened a newfound cleavage among member states, characterized by the diverging opinions about leaving the European project<sup>55</sup>. There is an intriguing duality in the consequences of Brexit. On the one hand, it had an acute polarizing effect. However, on the other hand, it brought the remaining member states closer, as they realized the high costs and the challenges of leaving the organization<sup>56</sup> (“a post-

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<sup>51</sup> Ibid.

<sup>52</sup> <https://www.ussc.edu.au/reagan-making-america-great-the-first-time>

<sup>53</sup> <https://miniszterelnok.hu/en/prime-minister-viktor-orbans-state-of-the-nation-address-2024/>

<sup>54</sup> <https://blogs.lse.ac.uk/brexit/2018/01/04/what-euro-scepticism-looks-like-in-central-and-eastern-europe/>

<sup>55</sup> Glencross, A. (2019) “The Impact of the Article 50 Talks on the EU: Risk Aversion and the Prospects for Further EU Disintegration”, [in]: *European View*, Vol. 18(2).

<sup>56</sup> Chopin, T. and C. Lequesne (2022) “Disintegration Reversed: Brexit and the Cohesiveness of the EU27”, [in]: *The Nested Games of Brexit*, London: Routledge.

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<sup>49</sup> Reuters (2020) *Brexit proves ‘Britain’s greatness’ but Hungary will not follow, PM Orban says*, Available [online]: <https://www.reuters.com/article/idUSKCN-26G2AO/>

<sup>50</sup> <https://notesfrompoland.com/2020/01/31/we-want-the-eu-to-change-so-others-dont-follow-britain-polish-politicians-react-to-brexit/>

referendum cohesion of the EU27<sup>57</sup>). The enhanced level of cohesion seems to support the theory that crises often have a way of resulting in development.

### THE IMPACT OF GOVERNMENTS ON THE EU'S PERCEPTION AMONG ITS CITIZENS: EXAMINED VIA THE EXAMPLE OF HUNGARY AND POLAND

In the previous section, the focal point of analysis was a crisis of political nature. Very often, when talking about crises, only the traditional types (like economic, demographic) are considered. This approach leads to disregarding one of the most significant challenges of the last two decades: the rise of populism in Europe. What is interesting is that it can be viewed both as a crisis itself and a result of previous ones<sup>58</sup>. Inglehart and Norris<sup>59</sup> claim that based on the economic inequality theory – suggesting that “economic insecurity and social deprivation” may result in support for “anti-establishment, nativist, and xenophobic” populist parties – financial hardships could have contributed to the emergence of a new crisis. Regardless of what we believe the source of it to be, one thing is certain: populist rhetoric has been characterizing political discourse towards the EU. Therefore, examining populist tendencies and rhetoric in member states can provide valuable information when assessing the

<sup>57</sup> Ganderson, J. (2023) “Exiting after Brexit: Public Perceptions of Future European Union Member State Departures”, [in]: *West European Politics*. Available [online]: <https://doi.org/10.1080/01402382.2022.2164135>

<sup>58</sup> Csehi, R. and E. Zgut (2021) “We Won't Let Brussels Dictate Us: Eurosceptic Populism in Hungary and Poland”, [in]: *European Politics and Society*, Vol. 22(1). Available [online]: <https://doi.org/10.1080/23745118.2020.1717064>

<sup>59</sup> Inglehart, R. F. and P. Norris (2016) “Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash”, [in]: *HKS Faculty Research Working Paper Series*, August, p. 3. Available [online]: <https://www.hks.harvard.edu/publications/trump-brexit-and-rise-populism-economic-have-nots-and-cultural-backlash>



POPULISM IS OFTEN COUPLED WITH XENOPHOBIA AND NATIONALISM, ESPECIALLY ON THE RIGHT-WING END OF THE POLITICAL SPECTRUM. HOWEVER, THESE TENDENCIES ARE FURTHER AMPLIFIED BY THE HISTORICAL HERITAGE OF THE CEE REGION

relationship between CEE governments and the European Union.

*“Eastern Europeans are among the most pro-EU publics on the continent, yet they vote for some of the most Eurosceptical governments. These governments, in turn, use Brussels as a rhetorical punching bag while benefiting from its financial largess”<sup>60</sup>. This quote encompasses the duality of the CEE region and their*

<sup>60</sup> Krastev, I. (2018) “Eastern Europe's Illiberal Revolution”, [in]: *Foreign Affairs*, Vol. 97(3 (May/June)), pp. 49–56.





IN 2023, THE PEW RESEARCH CENTER FOUND THAT VOTERS OF THE HUNGARIAN RULING PARTY, FIDESZ, ARE LESS LIKELY TO HAVE A POSITIVE PERCEPTION OF THE EUROPEAN UNION THAN THOSE WHO VOTE FOR ANOTHER PARTY

somewhat ambivalent relationship with the EU perfectly. Right-wing populism has been prominent in Hungary and Poland, along with Eurosceptic attitudes (which took different forms in the two countries<sup>61</sup>) and the above-mentioned tendency can be observed in both countries.

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<sup>61</sup> Both countries' Eurosceptic rhetoric centered around the protection of national sovereignty in the face of attempts of supranational domination, but Poland focused on the rule of law crisis, while Hungary focused on the migration crisis of 2015-2018. The extent of Eurosceptic rhetoric in the national political sphere also differed. See: Csehi, R. and E. Zgut (2021) "We Won't Let Brussels Dictate Us": Eurosceptic Populism in Hungary and Poland", [in]: *European Politics and Society*, Vol. 22(1).

The core idea of populism – regardless of whether it is its right- or left-wing in form – is the opposition between 'the corrupt elite' and 'the pure people'<sup>62</sup>. This is easily translated into Eurosceptic rhetoric: the EU is the corrupt elite, misusing their power and attempting to downsize national sovereignty<sup>63</sup>. The contrast between 'Us' and 'Them' allows populist leaders to create an image of protecting their nation from a perceived danger: immigrants, the war in Ukraine, or simply Brussels and the EU in general (see slogans and speeches of Hungarian PM Orbán).

Populism is often coupled with xenophobia and nationalism, especially on the right-wing end of the political spectrum. However, these tendencies are further amplified by the historical heritage of the CEE region. For these countries, which have a past of being occupied by various regimes, resentment of foreign people – immigrants and foreign dominance – a supranational organization, such as the EU – is about reclaiming their past and overcoming their historical humiliation<sup>64</sup>. The need to protect their national values and sovereignty from perceived threats is deeply embedded into these societies, making it easier for populist politicians to gain support when voicing similar concerns and aims.

The following excerpt from an Orbán speech (2011) is a great example of this attitude: "*we did not let Vienna dictate us in 1848, we did not let Moscow dictate us in 1956, and we won't let Brussels or others*

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<sup>62</sup> Mudde, C. (2004) "The Populist Zeitgeist", [in]: *Government and Opposition*, Vol. 39, pp. 541-563

<sup>63</sup> Csehi, R. and E. Zgut (2021) "We Won't Let Brussels Dictate Us": Eurosceptic Populism in Hungary and Poland", [in]: *European Politics and Society*, Vol. 22(1). Available [online]: <https://doi.org/10.1080/23745118.2020.1717064>

<sup>64</sup> Ibid.



## HISTORICAL HERITAGE CANNOT BE IGNORED AS IT INFLUENCES MANY DIFFERENT AREAS OF A SOCIETY

*dictate us now*<sup>65</sup>. Another peculiarity of CEE countries is that joining the EU, they had high hopes for a better life to come with better conditions than what the communist regime provided. If these high expectations are not met, people will start looking for someone to blame and, essentially, they have two choices: their domestic government and the supranational organization they are part of. Whether the blame falls on the EU or not is heavily influenced by government rhetoric<sup>66</sup>.

But how can we be certain that Euroscepticism is connected to certain rhetorical patterns and not just party affiliation? In 2023, the Pew Research Center found that voters of the Hungarian ruling party, Fidesz, are less likely to have a positive perception of the European Union than those who vote for another party<sup>67</sup>. However, voters of Jobbik (another Hungarian right-wing party) are more likely to have a positive opinion of the EU. This

difference in the attitude of Fidesz and Jobbik voters proves that the main source of Eurosceptic attitudes is not necessarily to be found in voters' location on the left-right axis. It is rather the consistent Eurosceptic rhetoric of politicians – in the Hungarian case, PM Orbán, who creates a measurable decrease in positive opinions. In a 2016 speech, Orbán followed classic populist patterns when saying that the leaders of the EU “*are trying to reshape Europe against the will of the people of Europe*”<sup>68</sup>. This is a traditional populist claim that the corrupt elite is not in accordance with the general will of the people and this was the core message in the majority of his EU-related speeches.

Poland is an interesting case because its citizens are in favor of the European Union. The 2023 Spring Eurobarometer survey found that 77% of Polish citizens were optimistic about the future of the EU and 58% had an overall positive image of it<sup>69</sup>. Still, the former government of Law and Justice (PiS) and mainly Jarosław Kaczyński (not the PM, but the effective leader of the ruling party) employed heavily Eurosceptic rhetoric regarding many topics. The most significant examples were in connection with their own domestic democratic deficit and immigrants between 2015 and 2018.

In connection with the latter, Kaczyński's rhetoric was very similar to that of PM Orbán's, with both arguing that the migration crisis is to be blamed on the corrupt and unfit leaders of the EU<sup>70</sup>. Their message to the citizens was that the EU is working

<sup>65</sup> Ibid.

<sup>66</sup> <https://blogs.lse.ac.uk/brexit/2018/01/04/what-euro-scepticism-looks-like-in-central-and-eastern-europe/>

<sup>67</sup> <https://www.pewresearch.org/short-reads/2023/10/24/people-broadly-view-the-eu-favorably-both-in-member-states-and-elsewhere/>

<sup>68</sup> Csehi, R. and E. Zgut (2021) “We Won't Let Brussels Dictate Us’: Eurosceptic Populism in Hungary and Poland”, [in:] *European Politics and Society*, Vol. 22(1). Available [online]: <https://doi.org/10.1080/23745118.2020.1717064>

<sup>69</sup> Eurobarometer 99, Spring 2023.

<sup>70</sup> Ibid.

against them, completely disregarding national interests. The public opinion polls suggest that the Polish attempt at dismantling the image of the EU and creating a scapegoat out of its leaders was less successful than the Hungarian one. However, it is beyond dispute that these types of rhetoric create long-term damage in the perception of the EU.

## CONCLUSIONS

Looking at the countries of the 2004 enlargement through the years, a couple of conclusions can be drawn. First, historical heritage cannot be ignored as it influences many different areas of a society. CEE countries have a heavy burden to carry with their post-communist heritage, as it is one that left many sensitive areas – ranging from economic insecurity to fear of foreign influence. These sensitive issues, stemming from the socialist past have been exploited and amplified by populist politicians, but that is not to say that the damage they had done to the EU's reputation is irreparable.

Another pattern that can be seen is that the European Union is great at becoming stronger and more united in the aftermath of crises, thus it is a possibility that the current challenge posed by populist will trigger further development in the long run. After all, in historical perspective and in the grand scheme of things, the EU is a relatively young organization, and it seemingly learns from all its mistakes and hardships. Dealing with Eurosceptic member states helps create a precedent, which might be useful if a similar situation arises in the future.

Another implication of the CEE accession experience is that high expectations can be hard to meet in the framework of a supranational organization. It is a difficult and delicate task to coordinate the interests of several different member states,

thus it can take some time to achieve goals – especially ones directly affecting the lives of citizens.

Citizens' perception of the EU is ever-changing, affected by many different factors. While some cannot be changed, the CEE heritage can be used in a good way, acknowledging it but not letting it entirely determine the future of the region's EU membership.

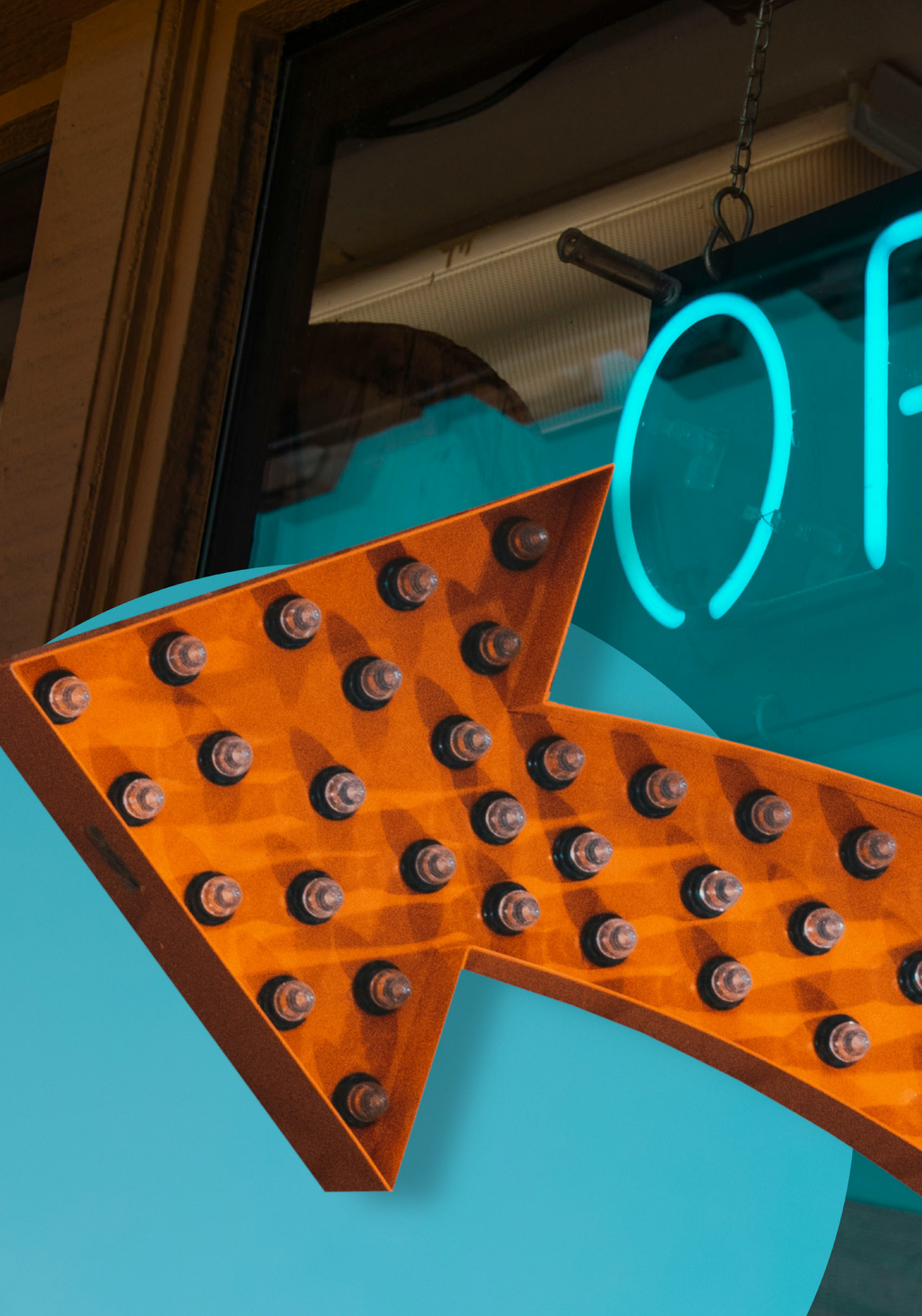


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IZABELL  
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International Relations student at Eötvös Loránd University of Budapest, Hungary, and a former intern at the Republikon Institute





# The Past and Next 20 Years: Why Does CEE Need (More) EU?



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HUBERT  
WEJMAN

This year's 20<sup>th</sup> anniversary of the presence of Central and Eastern European countries in the structures of the European Union (EU) is a time to take stock and set new priorities. The upcoming twenty years are expected to be crucial, not only for these countries individually, but also for the overall structure of European collaboration and unity. The journey of CEE countries within the EU has been marked by significant advancements in economic growth, political stabilization, and cultural integration.

However, the road ahead is fraught with challenges and opportunities that necessitate a deeper and more nuanced understanding of the intricate dynamics between CEE and the EU. Therefore, it is crucial to delve into the multifaceted nature of their integration, exploring the economic disparities that must be bridged, the crucial role of political stability, the complex web of geopolitical pressures, and the rich potential of cultural fusion. It is a narrative that underscores the necessity of a stronger EU for CEE, not just as a convenience, but as a shared destiny and a mutual path towards progress.

### **ECONOMIC INTEGRATION: THE KEY TO BRIDGING EAST AND WEST IN THE EU**

The economic situation in Europe is an intricate mix of differences, with Central and Eastern European countries experiencing notable inequalities when compared to their Western counterparts. To understand the reason for this variation, it is necessary to look at historical, political, and economic factors.

After the Cold War, CEE countries underwent a tumultuous transition from centrally planned economies to market-driven systems. While this transition was necessary, it was also fraught with challenges. Many companies that thrived under state control

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THE JOURNEY OF CEE COUNTRIES WITHIN THE EU HAS BEEN MARKED BY SIGNIFICANT ADVANCEMENTS IN ECONOMIC GROWTH, POLITICAL STABILIZATION, AND CULTURAL INTEGRATION

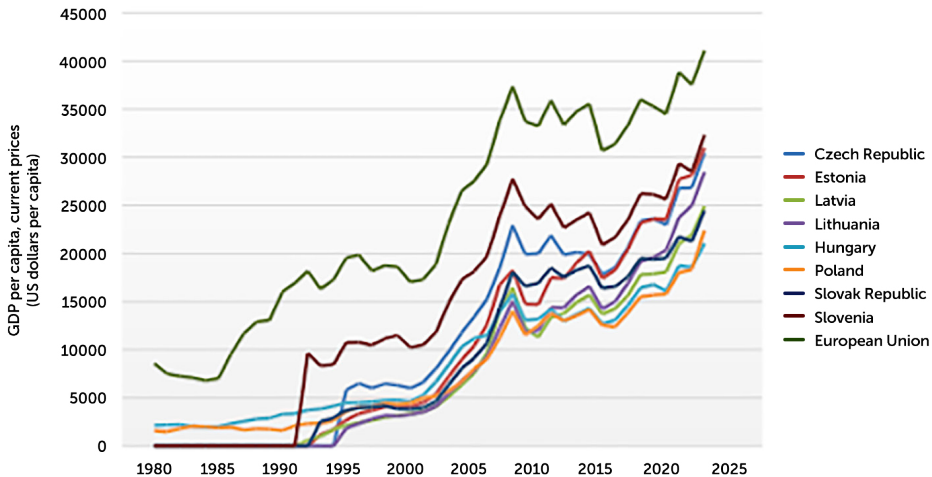
struggled to adapt to the global market, and the outdated infrastructure required significant investments to keep pace with modern economic demands<sup>1</sup>.

Meanwhile, Western EU nations continued to advance, further widening the economic gap<sup>2</sup>. This disparity is evident in various aspects of economic life – including the quality of public services, job opportunities, and the overall vibrancy of economic activities. The GDP numbers alone cannot capture

<sup>1</sup>Mitra, P.K. and M. Selowsky (2002) Lessons from a Decade of Transition in Eastern Europe and the former Soviet Union”, [in]: *Finance and Development*, Vol. 39, No. 2. Available [online]: <https://www.imf.org/external/pubs/ft/fandd/2002/06/mitra.htm>

<sup>2</sup>IMF (2006) *The World Economy at the Start of the 21<sup>st</sup> Century, Remarks by Anne O. Krueger, First Deputy Managing Director, IMF*. Available [online]: <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp040606>

Figure 1: GDP per capita in CEE [in USD]



Source: IMF<sup>3</sup>

the full extent of the division, as the everyday lives of citizens are significantly impacted by these economic differences. In essence, the economic landscape of Europe is a tale of two regions, each with its unique set of challenges and opportunities. While Western EU nations have established market economies that continue to thrive, CEE countries face a more challenging path towards economic growth and development.

Even before joining the European Union, the CEE countries were experiencing rapid economic growth as a result of free market reforms. EU accession gave a further boost to growth through access to the single market and development funds. Dynamic growth is confirmed by GDP per capita data [See: Figure 1]. However, there is still more potential for integration<sup>4</sup>.

<sup>3</sup><https://www.imf.org/external/datamapper/NGDP-DPC@WEO/UVK/EURO/EU>

<sup>4</sup><https://for.org.pl/en/projects/report-the-next-25-years>

Deeper economic integration is essential for the prosperity of CEE nations and the EU, requiring policy alignment and strong economic institutions. Enhanced cooperation presents opportunities for Western EU businesses in CEE markets, fostering growth and collaboration. By working together towards shared goals, a more resilient EU can be achieved, benefiting all member states. True economic integration goes beyond financial aid, focusing on policy harmonization and a united commitment to progress within the single market.

Poland stands as a great example to the transformative power of EU integration. Through the strategic utilization of EU funds, Poland has seen remarkable improvements in infrastructure and the business environment, catalyzing economic growth and development. These successes underscore the mutual benefits of economic cooperation. However, in Poland, as in other CEE countries, there are populist voices undermining the





## AFTER THE COLD WAR, CEE COUNTRIES UNDERWENT A TUMULTUOUS TRANSITION FROM CENTRALLY PLANNED ECONOMIES TO MARKET-DRIVEN SYSTEMS

economic benefits of EU membership. A high-profile example was the report presented by right-wing MEP Patryk Kami, according to which Poland lost out on EU membership PLN 535 billion. Theses from the report were quickly debunked and explained by economists<sup>5</sup>.

The disparities between Central and Eastern Europe and Western EU nations are pronounced, with significant variations in GDP per capita and labor market dynamics underscoring the depth of the economic divide. CEE countries face substantial investment needs in critical areas for sustainable growth – such as renewable energy, digital infrastructure, and education. EU structural funds and policy harmonization stand out as essential tools for facilitating

economic convergence and enhancing the bloc's overall cohesion<sup>67</sup>.

Today, this historical backdrop sets the stage for current economic challenges. The COVID-19 pandemic, geopolitical tensions, and an escalating energy crisis exacerbate the existing disparities, underscoring the urgency for comprehensive solutions. In response to the pandemic, the European Union demonstrated the power of integration by rapidly deploying a range of mechanisms to combat the health crisis. This included the joint procurement of vaccines, the establishment of the EU Digital COVID Certificate to facilitate safe and free movement, and the unprecedented Next-GenerationEU recovery package, featuring the National Recovery Plan aimed at mitigating the pandemic's economic impact. These actions showcased how EU integration can serve as a critical tool in managing and overcoming crises, reinforcing the necessity of economic convergence within the EU. Achieving this goal remains elusive but increasingly imperative, as collective action has proven essential in navigating the complexities of contemporary global challenges<sup>8</sup>.

The challenges to further integration and development in CEE include administrative capacity to absorb EU funds, regulatory barriers, and a need for increased emphasis on innovation and digitalization. Tackling these issues is crucial for narrowing the economic gap and fostering a more equal and solidary EU.

<sup>6</sup> <https://www.dw.com/en/europe-grapples-with-regional-economic-divides/a-61280976>

<sup>7</sup> <https://energypost.eu/europe-preventing-a-carbon-wall-between-the-west-and-the-ten-central-and-eastern-eu-nations/>

<sup>8</sup> <https://www.intereconomics.eu/contents/year/2021/number/4/article/europe-s-covid-19-crisis-response-a-race-well-run-but-not-yet-won.html>

<sup>5</sup> OKO.PRESS (2021) *Polska straciła na Unii 535 mld zł? Ekonomiści sprowadzają odlot ziobrystów na ziemię.* Available [online]: <https://oko.press/raport-jaki-ue> [in Polish]



## EU STRUCTURAL FUNDS AND POLICY HARMONIZATION STAND OUT AS ESSENTIAL TOOLS FOR FACILITATING ECONOMIC CONVERGENCE AND ENHANCING THE BLOC'S OVERALL COHESION

The economic challenges facing CEE nations are manifold, including demographic decline, brain drain, and the necessity for economic diversification<sup>9,10,11</sup>. These issues, if not addressed, could impede efforts to achieve parity with Western EU nations. However, the reconstruction of Ukraine offers a unique opportunity in this regard. This monumental task could serve as a catalyst for regional development, providing CEE countries with a chance to showcase and leverage their goods, services, and expertise, thus furthering their integration within the EU.

<sup>9</sup> Golovics, J. (2019) "Addressing the EU's East-West Brain Drain: Why a Tax Solution Would Be in Vain", [in]: *New Perspectives*, Vol. 27, No. 2, pp. 63–86. Available [online]: <https://www.jstor.org/stable/26831887>

<sup>10</sup> <https://www.bruegel.org/blog-post/central-and-eastern-europe-uncertain-prospects-economic-convergence>

<sup>11</sup> <https://www.imf.org/en/News/Articles/2019/07/14/sp071519-tackling-demographic-challenges-in-cese>

The reconstruction of Ukraine represents not just a challenge, but a beacon of opportunity for CEE. By participating in rebuilding efforts, CEE countries can attract investments, stimulate economic growth, and enhance their strategic importance within the EU. This involvement would not only aid Ukraine's recovery, but also spur the development of CEE economies by opening new markets, fostering innovation, and creating jobs. Furthermore, it could strengthen regional cooperation and solidarity, underscoring the EU's commitment to unity and mutual support in times of need<sup>12</sup>.

The quest for economic integration and the bridging of the East-West divide within the European Union is a complex but feasible endeavor. It demands a comprehensive approach that encompasses policy harmonization, strategic investments, and a steadfast commitment to collective prosperity. By seizing the opportunities presented by EU integration and the reconstruction of Ukraine, CEE countries can overcome the legacies of the past and current challenges, paving the way towards a more balanced, resilient, and prosperous European Union. The journey is undoubtedly challenging, but the rewards—a more cohesive, competitive, and inclusive EU – far outweigh the efforts required to traverse this path.

### POLITICAL STABILITY THROUGH EU INTEGRATION

The European Union plays a crucial role in promoting democratic values and political stability in CEE. This region, characterized by relatively young parliamentary traditions (compared to the institutions with long traditions in Western European countries), has undergone significant transformations from the economic and political tumults of

<sup>12</sup> <https://media.bgk.pl/229470-bgk-report-rebuilding-and-bringing-ukraine-to-the-eu-to-become-a-historic-opportunity-for-central-europe>

the late 20<sup>th</sup> century. These nations evolved from authoritarian regimes to pluralistic democracies, where democracy is understood as more than just casting a vote. True democracy in CEE emerged through the establishment of institutions, laws ensuring personal freedom, media freedom, and civil society—developments that have been further strengthened by these countries' accession to the EU<sup>13</sup>.

The European Union represents not merely an economic union; it embodies a community of common values. This is evidenced by the Copenhagen criteria, established by the European Council in 1993, which required joining countries to meet both economic and political standards. These criteria mandated the establishment and preservation of the rule of law, human rights, and minority rights, indirectly influencing the development of legal frameworks that allow the EU to intervene in the protection of democracy and the rule of law in member states<sup>14</sup>. This gradual process led to the creation of intervention mechanisms (such as Article 7 of the Treaty on European Union), enabling the EU to protect its foundational values<sup>15</sup>.

The EU linked financial support to the adherence to the rule of law principles, a move confirmed by the Court of Justice of the European Union on February 16, 2022<sup>16</sup>. This decision paved the way for the European Commission to take stronger actions in protecting Europe's democratic

<sup>13</sup> <https://www.globsec.org/what-we-do/publications/voices-central-and-eastern-europe-perceptions-democracy-governance-10-eu>

<sup>14</sup> [https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/glossary/accession-criteria\\_en](https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/glossary/accession-criteria_en)

<sup>15</sup> Closa, C. and D. Kochenov (2016) *Reinforcing Rule of Law Oversight in the European Union*, Cambridge: Cambridge University Press.

<sup>16</sup> <https://www.hrw.org/news/2022/02/16/eu-top-court-approves-linking-eu-funds-rule-law>



## THE QUEST FOR ECONOMIC INTEGRATION AND THE BRIDGING OF THE EAST-WEST DIVIDE WITHIN THE EUROPEAN UNION IS A COMPLEX BUT FEASIBLE ENDEAVOR

values. EU interventions, especially in CEE countries, were motivated by the need to maintain political, economic, and social stability within member states. Through mechanisms like the Citizens, Equality, Rights and Values (CERV) funding program, the EU supports the role of civil society in promoting the rule of law, demonstrating its commitment to protecting democracy – especially in regions where democratic processes and legal institutions are more vulnerable to challenges such as political pressures or corruption<sup>17</sup>.

In the context of Poland, the return of Donald Tusk to national politics and his assumption of the prime ministerial role initiated a new phase in the country's efforts to rebuild democracy and the rule of law institutions. Tusk's government undertook a series

<sup>17</sup> [https://poland.representation.ec.europa.eu/publications/czym-jest-program-cerv\\_pl](https://poland.representation.ec.europa.eu/publications/czym-jest-program-cerv_pl)

of reforms aimed at strengthening judicial independence, protecting media freedoms, and civil rights, and intensified cooperation with the European Union in enhancing democratic mechanisms and the rule of law. Poland can serve as an example for future EU interventions aimed at protecting political stability, where cooperation and constructive dialogue between countries and EU institutions lead to the renewal and strengthening of democratic norms<sup>18</sup>.

The future of democracy protection by the EU appears to focus on strengthening enforcement and monitoring mechanisms to ensure member states' adherence to the rule of law principles. Following the Court of Justice of the EU's decision, allowing for financial sanctions on non-compliant states, the EU is now positioned to act decisively against those undermining democratic values and the rule of law. The European Commission is expected to quickly initiate procedures to suspend, reduce, or prevent new financial agreements with member states violating these principles. The actions and procedures presented above underscores the EU's commitment to defending its democratic values and the rule of law, which are crucial for the future of democracy in the European Union.

The European Union plays an irreplaceable role in supporting democratic institutions and political stability in CEE. Through integration with the EU and adherence to the Copenhagen criteria, member states are encouraged to maintain democratic norms and practices. The EU's influence is key to the consolidation of democracy in CEE, offering a framework for political assessment and integration that supports the development of robust democratic institutions.



## THE EUROPE- AN UNION PLAYS A CRUCIAL ROLE IN PROMOTING DEMOCRATIC VAL- UES AND POLITICAL STABILITY IN CEE

As the EU continues to develop mechanisms for democracy protection, its commitment to promoting stability and democratic values among its member states, particularly in the CEE region, remains unwavering. This ongoing support is essential for the next 20 years and beyond as CEE countries navigate the complexities of modern democracy in the broader European context. The example of Poland and the actions of the Tusk government indicate the possibility of effective democracy rebuilding and strengthening through cooperation with the EU, serving as a model for other nations seeking to ensure lasting stability and prosperity in Europe.

However, Hungary's case under Prime Minister Viktor Orbán can be seen as both an exception in its aggressive push against EU democratic norms and a symptom of the European Union's imperfect mechanisms to enforce these standards. This duality underscores the complex challenges the EU faces in upholding its foundational values among member states, demonstrating the need for more robust and effective tools to address such deviations. The exceptionality of Hungary

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<sup>18</sup> <https://www.politico.eu/article/poland-justice-minister-bodnar-to-introduce-plan-restore-rule-of-law-brussels-eu/>

could be linked to Orbán's unique blend of nationalism and populism, effectively leveraging EU criticisms to bolster domestic support while exploiting the EU's procedural and political limitations to resist substantial reform<sup>19</sup>.

## GEOPOLITICAL LABYRINTH

In the face of rising geopolitical challenges, Central and Eastern European countries stand at the frontline of shifting international relations. Within this context, integration with the European Union and close cooperation with NATO become key pillars ensuring security, stability, and development of the region. Membership in these structures not only enhances the security of CEE countries amid an uncertain geopolitical environment, but also opens the door to economic and political benefits stemming from the single European market and a common foreign and defense policy<sup>20</sup>.

The current discussions on a common EU defense and foreign policy include a new plan to coordinate increased military spending among EU members, aimed not just at bolstering Europe's defenses but also at boosting its defense industries. This plan encourages European governments to work together on joint procurement, offering financial incentives for collaboration to reduce dependence on non-EU military capabilities and support European defense industries. Challenges include aligning member states' interests and overcoming reliance on external suppliers, highlighting the intricate balance between achieving strategic autonomy and ensuring a unified

approach to defense and foreign policy<sup>21</sup>. Moreover, in the case of increased military spending, the European Union is loosening its policy on the Excessive Deficit Procedure. At the end of last year, Poland was given the go-ahead to exempt military spending under the EDP procedure<sup>22</sup>.

Russia has a profound influence on the CEE region. Initially, it subjugated the countries of the region by installing communist regimes and consolidating them within the Warsaw Pact. Then, at the turn of the 21<sup>st</sup> century, seizing the moment of Russia's weakness and the fall of communism, CEE countries joined NATO, marking a milestone towards EU integration structures. Currently, Russia's aggressive foreign policy, including military interventions among others Georgia and the full-scale invasion in Ukraine from 2022) and hybrid actions<sup>23</sup>, poses a direct challenge to the security and sovereignty of the region's states. Moreover, energy dependence on Russia further complicates the situation, making energy security one of the main challenges for countries in the region. However, these challenges consolidate both the CEE countries and the entire community.

Faced with these challenges, the EU undertakes a series of actions aimed at supporting CEE countries, whose energy mixes often do not guarantee energy security. Financing mechanisms – such as the Just Transition Fund<sup>24</sup>, the Recovery and Resilience Facil-

<sup>19</sup> Batory, A. (2016) "Populists in Government? Hungary's "System of National Cooperation", [in]: *Democratization*, Vol. 23, No. 2, pp. 283-303.

<sup>20</sup> Schimmelfennig, F. (2003) "EU Enlargement", [in]: *The EU, NATO and the Integration of Europe: Rules and Rhetoric*, Chapter, Cambridge: Cambridge University Press, pp. 52-62.

<sup>21</sup> <https://www.politico.eu/article/eu-defense-brussels-budget-military-us-josep-borrell/>

<sup>22</sup> Inwestycje (11/12/2023) *Mamy zgodę rady UE na wyłączenie wydatków na armie przy procedurze EDP* [online]: <https://inwestycje.pl/gospodarka/mamy-zgode-rady-ue-na-wylaczenie-wydatkow-na-armie-przy-procedurze-edp/> [in Polish]

<sup>23</sup> <https://www.pism.pl/publications/preparing-for-russian-hybrid-activities-against-natoand-eu-countries>

<sup>24</sup> <https://crido.pl/en/threads/just-transition-fund-jtf/>



AS THE EU CONTINUES TO DEVELOP MECHANISMS FOR DEMOCRACY PROTECTION, ITS COMMITMENT TO PROMOTING STABILITY AND DEMOCRATIC VALUES AMONG ITS MEMBER STATES, PARTICULARLY IN THE CEE REGION, REMAINS UNWAVERING

ity<sup>25</sup>, and some elements of the National Recovery Plan<sup>26</sup> – aim to support these countries in their green transition and the building of economic resilience<sup>27</sup>. The re-

<sup>25</sup> <https://www.oxera.com/insights/agenda/articles/promoting-the-green-transition-the-eus-recovery-and-resilience-facility/>

<sup>26</sup> <https://cor.europa.eu/cs/news/Pages/National-recovery-plans-Green-Deal-.aspx>

<sup>27</sup> <https://ceenergynews.com/eu-affairs/8-cee-countries-secured-4-11-blm-euros-in-eu-funds-for-clean-energy-transition-this-year/>

gion's countries will be the main beneficiaries of the green transformation.

For example, Poland will receive nearly EUR 27 billion from European funds for energy transformation in 2021-2027, about EUR 17 billion more than the next largest beneficiary<sup>28</sup>. Additionally, strategies such as the European Green Deal and initiatives for energy security like the REPowerEU Plan, such as the diversification of energy sources and the development of renewable energy sources, are key to reducing dependency on external supplies and increasing the energy stability of the region.

However, not only Russia impacts the security and stability of CEE. The EU's new migration pact, aimed at reforming the asylum and migration system, has become another flashpoint in the debate on European solidarity and the division of responsibility. While the pact aims to address long-standing challenges associated with migration management, the proposal for a mandatory relocation mechanism of migrants has sparked opposition among some CEE<sup>29</sup> countries, highlighting the difficulties in finding a common stance on such complex issues<sup>30</sup>.

<sup>28</sup> Rzeczpospolita (2023) *Fundusze UE zrekompensują Polsce koszty odejścia od węgla*. Available [online]: <https://energia.rp.pl/wegiel/art38055171-fundusze-ue-zrekompensuja-polsce-koszty-odejscia-od-wegla> [in Polish]

<sup>29</sup> Poland and Hungary were against during the vote. Slovakia, the Czech Republic, and Austria abstained. See: Polsat News (2023) *Unijny pakt migracyjny. Zapadała decyzja, dwa państwa się wyłamały*. Available [online]: <https://www.polsatnews.pl/wiadomosc/2023-10-04/unijny-pakt-migracyjny-zapadla-decyzja-dwa-panstwa-sie-wylamaly/> [in Polish]

<sup>30</sup> Forsal (2023) *Co oznacza nowy pakt migracyjny? UE przyjęła ostry kurs*. Available [online]: <https://forsal.pl/swiat/unia-europejska/artykuly/9386526-co-oznacza-nowy-pakt-migracyjny-ue-przyjela-ostry-kurs.html> [in Polish]

CEE countries find themselves at a crossroads, striving to balance their unique regional challenges with the expectations and standards of the EU. Their future in the European Union depends on the ability to collectively manage threats, such as energy security, Russian aggression, and migration challenges, while pursuing deeper integration and cooperation within the EU and with NATO. This path, though rugged, offers the greatest chance for maintaining geopolitical stability in the region and securing a safe and prosperous future for Central and Eastern European countries within a united Europe.

### **BUILDING A EUROPEAN IDENTITY**

The European Union embodies more than just economic cooperation or a political union; it represents a profound commitment to cultural integration that surpasses national borders, creating a foundation for the understanding and acceptance of diversity. This European identity, shaped by centuries of diverse cultures, languages, and traditions, assumes a new dimension amidst the contemporary challenges faced by the EU. The journey of cultural integration within the European project presents a multitude of challenges but, more significantly, opens up unparalleled opportunities for the peoples of Europe to thrive together.

Balancing the promotion of a common European identity while preserving the distinct cultural identities of individual member states poses a unique challenge. The EU's foundation is built on diversity, and cultural integration is not aimed at homogenization but rather at fostering understanding and respect among varied cultures. Programs like Erasmus+ exemplify this approach by enabling young individuals to study, work, and immerse themselves in different EU countries, thereby broadening their horizons, acquiring new skills,



THE EU'S FOUNDATION IS BUILT ON DIVERSITY, AND CULTURAL INTEGRATION IS NOT AIMED AT HOMOGENIZATION BUT RATHER AT FOSTERING UNDERSTANDING AND RESPECT AMONG VARIED CULTURES

and forming international relationships. Such initiatives not only enhance personal growth, but also significantly contribute to the economic dynamism within the EU by promoting labor mobility and encouraging a more interconnected European society<sup>31</sup>.

The cultural exchange facilitated by programs such as Erasmus+ is instrumental in forging a European identity that transcends traditional boundaries. With over 4 million participants, including more

<sup>31</sup> European Union (2018) *Erasmus+ Higher Education Impact Study*. Available [online]: <https://op.europa.eu/en/publication-detail/-/publication/94d-97f5c-7ae2-11e9-9f05-01aa75ed71a1/language-en>



## THE BROADER IMPLICATIONS OF CULTURAL INTEGRATION WITHIN THE EU ALIGN CLOSELY WITH LIBERAL AND FREE-MARKET IDEALS, LAYING THE FOUNDATION FOR A DYNAMIC AND COMPETITIVE ECONOMY

than 200,000 only from Poland in 2017<sup>32</sup>, the impact of these exchanges on fostering a European consciousness among the youth is undeniable. These experiences make other countries and cultures feel less foreign and thus make the decision to move across borders for professional reasons more accessible, enhancing the EU's internal mobility and labor flexibility.

The broader implications of cultural integration within the EU align closely with liberal and free-market ideals, laying the

foundation for a dynamic and competitive economy. A shared European identity facilitates the free movement of individuals, not just for cultural or educational purposes, but also for employment, embodying the essence of the EU's single market. This mobility is crucial for stimulating economic growth, fostering innovation, and enhancing the competitiveness of the European economy on a global scale<sup>33</sup>.

Furthermore, the liberalization of markets, coupled with cultural integration, catalyzes increased economic cooperation and the realization of a truly unified market where goods, services, and people circulate freely. Such an environment is conducive to entrepreneurship, innovation, and the creation of jobs, driving forward economic growth and sustainability<sup>34</sup>.

The engagement in cultural exchange programs has also been shown to foster an entrepreneurial mindset among Europeans, inspiring young entrepreneurs to establish startups with a pan-European vision. These startups often lead the charge in innovation, leveraging the EU's vast market and harmonized regulatory landscape to create economic value and job opportunities<sup>35,36</sup>.

<sup>32</sup> Bankier (2017) *Od 1998 roku 200 tys. studentów z Polski skorzystało z wymiany w ramach programu Erasmus*. Available [online]: <https://www.bankier.pl/wiadomosc/Od-1998-roku-200-tys-studentow-z-Polski-skorzystalo-z-wymiany-w-ramach-programu-Erasmus-4038829.html> [in Polish]

<sup>33</sup> <https://capacity4dev.europa.eu/projects/culture-and-development-action-and-impact-project/info/iii-impact-cultural-sector-eu-en>

<sup>34</sup> <https://www.csis.org/analysis/next-steps-eu-economic-integration>

<sup>35</sup> Jones, G., Chirino Chace, B. and J. Wright (2020) "Cultural Diversity Drives Innovation: Empowering Teams for Success", [in]: *International Journal of Innovation Science*, Vol. 12 No. 3, pp. 323-343. <https://doi.org/10.1108/IJIS-04-2020-0042>

<sup>36</sup> Kostic, P.C. (2021) "Culture, Innovation, and Economic Development", [in]: *Journal of Innovation and Entrepreneurship*, Vol. 10(22). Available [online]: <https://innovation-entrepreneurship.springeropen.com/articles/10.1186/s13731-021-00163-7>



The construction of a European identity, underpinned by liberal and free-market principles, represents a multifaceted strategy that not only enriches the cultural fabric of the continent, but also strengthens its economic foundations. Initiatives like Erasmus+ showcase how cultural integration can enhance European identity while respecting and celebrating national and regional diversities. In the face of globalization, where identities are increasingly fluid, Europe stands as a testament to the idea that a shared future can be built on the pillars of cultural diversity, mutual respect, and economic liberalization. This approach ensures a more inclusive, competitive, and resilient European Union, poised to navigate the complexities of the 21<sup>st</sup> century and beyond.

## CONCLUSIONS

The examination of the next two decades for Central and Eastern Europe (CEE) within the European Union (EU) framework reveals an imperative need for deeper integration. The journey thus far has showcased tangible benefits in economic growth, political stability, and cultural integration for CEE countries. However, the path forward is laden with challenges that demand an even more significant commitment to integration. Economic disparities, although narrowed, still present a critical frontier where further EU integration can catalyze mutual prosperity. The political landscape, too, underscores the EU's crucial role in fostering democratic stability and adherence to the rule of law – a cornerstone for the region's continued evolution.

On the geopolitical front, CEE's strategic significance is magnified amidst contemporary challenges, where EU solidarity and support become indispensable for regional and broader European stability. Culturally, the EU's endeavor to weave a shared European identity while celebrating diversity

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THE FUTURE OF BOTH CEE AND THE EU IS INTRINSICALLY LINKED TO THEIR ABILITY TO DEEPEN THEIR INTEGRATION

has enriched the continent's social fabric, showcasing the profound benefits of cultural exchange and unity.

As we look towards the next twenty years, it is clear that the future of both CEE and the EU is intrinsically linked to their ability to deepen their integration. It not only promises enhanced economic opportunities, political stability, and cultural cohesion, but also fortifies the vision of a unified, resilient, and prosperous Europe. The mutual benefits derived from this journey underscore the importance of continued efforts towards fostering closer ties, affirming the essential nature of EU integration for the flourishing future of CEE and the broader European project.



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# High Time for Real Common EU Foreign and Security Policy



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ERYK  
ZIĘDAŁSKI

The last several years have brought unprecedented challenges for the European Union (EU) as a whole. It faced a full-scale Russian invasion of Ukraine<sup>1</sup>, the energy crisis that followed<sup>2</sup>, as well as internal squabbles within the block (especially seen during the negotiations about sanctions against Russia<sup>3</sup> and military aid for Ukraine<sup>4</sup>), not to mention trade competition with China<sup>5</sup> and the

<sup>1</sup> <https://www.consilium.europa.eu/en/policies/eu-response-ukraine-invasion/>

<sup>2</sup> <https://www.consilium.europa.eu/en/infographics/eu-measures-to-cut-down-energy-bills/>

<sup>3</sup> <https://www.reuters.com/world/europe/hungary-will-veto-eu-sanctions-russian-nuclear-energy-pm-or-ban-2023-01-27/>

<sup>4</sup> Lukiv, J. and J. Parker (2023) *Hungary Blocks €50bn of EU Funding for Ukraine*. Available [online]: <https://www.bbc.com/news/world-europe-67724357>

<sup>5</sup> <https://www.economist.com/china/2023/12/07/china-and-the-eu-risk-a-trade-war>

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IT WOULD BE DIFFICULT TO IMAGINE POTENTIALLY 36 MEMBER STATES AGREEING UNANIMOUSLY TO ONE SOLUTION, GIVEN HOW HARD IT IS ALREADY

United States<sup>6</sup>. All these phenomena have left their mark on the EU and have showcased the downsides of the currently existing arrangements in regard to the common foreign and security policy of the EU.

It became clear that there is a need for change. Therefore, it is not surprising that the European Parliament realized the extent of the existing problems and called to set up a convention centered around amending the treaties<sup>7</sup>. While doing so, the MEPs had in their minds the potential future shape of the European Union – as consisting of 36 member states (including Western Balkan countries as well as Ukraine and Moldova), rather than the current 27<sup>8</sup>.

The proposed amendments concern various areas – some very crucial for the European economy, while others deal with the balance of power between European institutions. However, the most important ones touch upon the common foreign and security policy, as they would mean the removal of the existing veto power for all member states. This change would essentially mean that EU's actions could no longer be blocked by the 'black sheep' like Hungary, a move that would greatly improve the velocity of the decision making, so crucial in the fast-changing world of today.

There are, however, a few drawbacks to that development. A major one would be the potential growth of populist forces, which would portray such a change as

<sup>6</sup> <https://www.reuters.com/business/eu-seeking-resolve-trade-irritants-with-us-summit-2023-10-19/>

<sup>7</sup> <https://www.europarl.europa.eu/news/en/press-room/20231117IPR12217/future-of-the-eu-parliament-s-proposals-to-amend-the-treaties>

<sup>8</sup> See: Motives D and 2 of the European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

a 'limitation of sovereignty' by the European bureaucrats or even the 'dismantling of the nation state' (as the leader of formerly ruling Law and Justice party claimed in Poland<sup>9</sup>). Another one is the difficulty with passing such amendments, since there is a visible amount of opposition present among the politicians, especially of the central and eastern EU member states, to such an idea<sup>10</sup>.

Still, it seems that, in the long run, there is no other way forward for the EU if it wants to remain a competitive powerhouse. It needs to deepen its integration in crucial areas for the sake of security – like the energy sector and defense. At the same time, it must improve its decision making if it intends to fully accommodate the potential new member states. This is why the proposed changes go in a good direction.

The aim of this article is, therefore, to answer whether there is a need for changes to the EU's common foreign and security policy in order to accommodate the potential new member states, and if there is such a need, what an answer to that problem could be. Therefore, the starting point would be a presentation of current arrangements in that area combined with analysis whether they are sufficient with respect to integrating potential new members of the EU. Afterwards, proposed changes to the treaties will be explored, especially with the focus on removal of the veto power of the member states, which is (in my opinion at least) a necessary step. Apart from that, the article will touch upon the topics

<sup>9</sup> <https://www.polskieradio.pl/395/7784/Artykul/33155-76,kaczynski%E2%80%99s-wild-claim-polish-government-plans-to-practically-liquidate-the-nation>

<sup>10</sup> OSW Team (2023) *The EU Debate on Qualified Majority Voting in the Common Foreign and Security Policy. Reform and Enlargement*. Available [online]: <https://www.osw.waw.pl/en/publikacje/osw-commentary/2023-10-12/eu-debate-qualified-majority-voting-common-foreign-and>

of deepening the integration in the areas of military and energy, as well as addressing the problem of insufficient (in my opinion) monitoring of foreign direct investments from hostile countries (e.g. PRC), which all will be crucial for the EU to properly face potential challenges in the long run.

## CURRENT ARRANGEMENTS: LIBERUM VETO

Before diving into the overview of the amendments proposed by the European Parliament, it is essential to take a look at the currently existing arrangements concerning the common foreign and security policy in order to better understand the full scope of the potential reform. In spite of previous tendencies to integrate member states in a greater number of areas, as well as the Treaty of Lisbon aiming to strengthen the EU's international position, common foreign and security policy has managed to retain its unique character, which is reflected in the provisions related to it.

Currently, the common foreign and security policy is regulated within both the Treaty on the European Union<sup>11</sup> (title V) and the Treaty on the Functioning of the European Union<sup>12</sup> (e.g., article 215). Article 21 of the TEU establishing EU's aims<sup>13</sup> and Article 31 of the same treaty are probably the most important one of them all. The lat-

<sup>11</sup> European Union (2012) "Consolidated Version of the Treaty on European Union OJ C 326/13", [in]: *Official Journal of the European Union*. Available [online]: [https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_1&format=PDF)

<sup>12</sup> European Union (2012) "Consolidated Version of the Treaty on European Union OJ C 326/47", [in]: *Official Journal of the European Union*. Available [online]: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF>

<sup>13</sup> These aims include, among others: preserving peace; safeguarding its interests, security and independence; supporting democracy, the rule of law and human rights; as well as preserving peace and fostering sustainable development.

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AS IT WAS MENTIONED BEFORE, THE EUROPEAN PARLIAMENT HAS REALIZED THAT, IN THE LONG RUN, IT WOULD BE BETTER FOR THE EU AS A WHOLE, TO SCRAP THE EXISTING VETO MECHANISM, IN ORDER TO PREVENT DECISION-MAKING DEADLOCKS AND DELAYS FROM OCCURRING

ter establishes the general requirement of unanimity within the European Council and the Council of the European Union (simply referred to as 'the Council'), while adopting decisions concerning the common foreign and security policy.

Although such a mechanism was usually rather not problematic for most of the time, this has changed recently, especially as it was mentioned before, with the Russian full-scale invasion of Ukraine and EU's

response towards Putin's regime. Shenanigans around convincing all member states to support sanctions, which involved the European Commission's agreement to transfer funds to Hungary (much to EU Parliament's discontent<sup>14</sup>) have definitely proven how much of a burden it has become. It is especially apparent due to the fact that the 'green light' for the aforementioned funds was given in spite of severe infringements on the rule of law by the authorities in Budapest and the generally pro-Russian approach of Hungarian diplomacy<sup>15</sup>.

It would be difficult to imagine potentially 36 member states – some with completely different views and preferred approaches to tackling common challenges – agreeing unanimously to one solution, given how hard it is already. This is why it is essential for the EU to get rid of such a mechanism if it wants to improve its decision making and position in international affairs.

### PROPOSED CHANGES: A STEP IN THE RIGHT DIRECTION

As it was mentioned before, the European Parliament has realized that, in the long run, it would be better for the EU as a whole, to scrap the existing veto mechanism, in order to prevent decision-making deadlocks and delays from occurring<sup>16</sup>. Such a realization by the MEPs has resulted in the preparation of the amendments to the existing EU treaties that were officially adopted by the res-

<sup>14</sup> <https://www.europarl.europa.eu/news/en/press-room/20240112IPR16780/the-hungarian-government-threatens-eu-values-institutions-and-funds-meeps-say>

<sup>15</sup> <https://www.osw.waw.pl/en/publikacje/analyses/20-23-10-19/orban-putin-meeting-beijing-hungary-drifting-away-west>

<sup>16</sup> See: Motive B of the European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

olution of November 22, 2023. It is worth mentioning that this whole operation was done taking into consideration the potential enlargement of the EU in the future<sup>17</sup>, as well as tackling the existing and potential geopolitical challenges<sup>18</sup>. Therefore, it is essential to take a closer look at the final proposition of amendments concerning the common foreign and security policy, as presented by the European Parliament. In later segments of this article, we will also delve into the propositions in the areas of military and energy, as well as analyze whether they would be sufficient to enable the EU to deal with the upcoming issues.

Certainly, the most pivotal change is the increase in the number of areas where actions are decided by qualified majority voting (QMV) and through the ordinary legislative procedure (OLP), instead of acting unanimously. According to the European Parliament itself, the main purpose of such replacement is to strengthen the European Union's capacity to act<sup>19</sup>. Such a capacity is especially vital in the area of the common foreign and security policy; therefore, it should not be surprising that the QMV is meant to find its application upon taking the most important decisions in that area. The mentioned decisions would not only encompass the 'ordinary' foreign policy, but also the most important ones concerning the sanctions and interim steps in the enlargement process<sup>20</sup>.

This development is connected with the proposed further development of the Union's shared competences in the areas of energy, foreign affairs, external security and defense, external border policy in the



THE MOST PIVOTAL CHANGE IS THE INCREASE IN THE NUMBER OF AREAS WHERE ACTIONS ARE DECIDED BY QUALIFIED MAJORITY VOTING (QMV) AND THROUGH THE ORDINARY LEGISLATIVE PROCEDURE (OLP), INSTEAD OF ACTING UNANIMOUSLY

area of freedom, security and justice, and cross-border infrastructure<sup>21</sup>. One may ask why is that so important? The answer is pretty simple. What 'shared competence' means is that both the member states, as well as the European Union, may adopt legally binding acts in the area that is concerned. But the member state can act only provided that the EU has not exercised its power or has explicitly decided to cease doing so<sup>22</sup>. As a result, upon implement-

<sup>17</sup> See: Motive D of the Resolution above.

<sup>18</sup> See: Motive C of the Resolution above.

<sup>19</sup> See: Motive 4 of the Resolution above.

<sup>20</sup> See: Motive 21 of the Resolution above.

<sup>21</sup> See: Motive 15 of the Resolution above.

<sup>22</sup> [https://citizens-initiative.europa.eu/faq-eu-competences-and-commission-powers\\_en](https://citizens-initiative.europa.eu/faq-eu-competences-and-commission-powers_en)



## REPLACING THE REQUIREMENT OF UNANIMITY WITH QMV WOULD ALLOW THE EUROPEAN UNION TO REACH AGREEMENTS EASIER AND FASTER

ing the aforementioned amendments, it would be drastically harder for member states to undertake diplomatic actions, regardless of the others or even as going against the EU's diplomatic stance. Hence, the already mentioned voices of concern, which portray such a change as a 'limitation of sovereignty'.

So, what are the real pros and cons of such a change? Certainly, it is easy to find the former since – as was already mentioned – replacing the requirement of unanimity with QMV would allow the European Union to reach agreements easier and faster. It would also mean that no single member state would be able to prevent the entire block from acting, just to gain leverage in negotiations. Possibly, it would also lead to the change of perspective for the decision-makers who would not have to worry about a possibility mentioned in the previous sentence on the one hand, but on the other hand, could face a growing number of situations where the principle of sincere

cooperation would find its application, thus leading to compromises.

Nevertheless, scraping the veto power would strengthen the already strong position of the biggest EU member states like Germany or France, at the expense of, for example, the Baltic states. This imbalance obviously creates a risk that it would be harder to block mistakes from occurring in the foreign policy of the entire block, if the biggest countries would decide to pursue them (like with their stance towards Russia before its full-scale invasion of Ukraine). Still, there are remedies to be found. For example, the weight of votes in qualified majority voting could be altered so that the voting power of the largest countries would be reduced<sup>23</sup>. Apart from that, a mechanism could be introduced that in the event of one state being convinced that a decision would be taken against it, while this decision could impact its sovereignty, it could move the dispute to the European Council, which would decide unanimously<sup>24</sup>. Such a mechanism shows that there are possible ways to replace unanimous voting with the QMV, while at the same time seriously addressing existing fears against such a change.

### **MILITARY UNION: STRONGER TOGETHER**

As it was established earlier, the proposals of the amendments to the treaties, made by the European Parliament, touch also upon the area of military, and they definitely cannot be considered less important than the previously described change in the voting mechanism. Their importance stems from

<sup>23</sup> Such a possibility is presented by Professor D. Schwarzer, who is an expert working in the Franco-German group preparing the report on EU institutional reform. See: <https://wiadomosci.wp.pl/wielka-reforma-ue-ekspertka-z-perspektywy-niemiec-polska-jest-w-tej-debacie-kluczowa-6976438327954400a> [in Polish]

<sup>24</sup> Ibid.



SCRAPING  
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the fact that they go further than one could have anticipated. Full implementation of proposed changes would mean, first and foremost, the establishment of a defense union, which would include military units with a permanent rapid deployment capacity, under the operational command of the European Union<sup>25</sup>.

<sup>25</sup> See: Motive 22 of the *European Parliament resolution of 22 November 2023 on proposals of the European Parliament for the amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

Essentially, this would amount to the creation of the joint European army, fulfilling an idea dating as far back as the year 1948<sup>26</sup>. However, the creation of such units would not mean the dissolution of existing armies of the member states. It would simply add an additional layer of protection to the current ones. Due to the importance of such a step, it will be discussed further in the later part of this section.

But a European army is not everything envisaged by the European Parliament with regards to the area of the EU's defense. The MEPs saw a need for further integration of the procurement and the development of armaments which would be financed jointly by the European Union as a whole through a dedicated budget<sup>27</sup>. This whole procedure would fall under parliamentary co-decision, as well as its scrutiny<sup>28</sup>. Apart from that, the competences of the European Defense Agency would be adjusted to fit new arrangements<sup>29</sup>.

All of this defense procurement would potentially mean a huge breakthrough for the European arms producers and EUs armaments production capabilities, which at the moment of writing this article, are unable to fulfill the demand for the defense systems in the wake of the Russian aggression<sup>30</sup>. Such a change is especially needed, given the remarks made by possibly future (and

<sup>26</sup> Jurčák, V. and P. Poláček (2022) "The Need For The European Union Army/On Armed Forces", [in]: *Torun International Studies*, No. 2 (16). Available [online]: <https://apcz.umk.pl/TSM/article/view/40556/34650>

<sup>27</sup> See: Motive 22 of the *European Parliament resolution of 22 November 2023 on proposals of the European Parliament for the amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> <https://www.politico.eu/article/europes-arms-production-is-in-deep-shit-says-belgian-ex-general/>



previous) U.S. president, Donald Trump, that the United States under his administration would not come to aid to some of its allies<sup>31</sup>.

Although the European Union has decided that the defense spendings would not be taken into consideration while crossing the excessive deficit procedure (EDP) thresholds<sup>32</sup>, it may prove to be not enough to kickstart the production of armaments and ammunition and thus joint procurement is urgently needed. Apart from that, arms procurement on the EU level could also potentially mean more initiatives like the Franco-German Main Ground Combat System (MGCS)<sup>33</sup>, with more member states involved. This, in turn, would lead to bigger uniformity in equipment among their armies and, in consequence, to the better situation in terms of the logistics and supply during times of war.

What is extremely important, all changes mentioned above are meant to not be affecting the currently existing national traditions of neutrality, as well as the membership of the North Atlantic Treaty Organization (NATO)<sup>34</sup>. Arrangements of this kind would allow countries such as Austria, on the one hand, and all those EU member states that are currently part of

<sup>31</sup> <https://www.economist.com/leaders/2024/02/12/europe-must-hurry-to-defend-itself-against-russia-and-donald-trump>

<sup>32</sup> Broda, K. (2024) *Domariski: Wydatki na obronność nie będą brane pod uwagę w procedurze nadmiernego deficytu*. Available [online]: <https://www.gazetaprawna.pl/wiadomosci/kraj/artykuly/9429903.domanski-wydatki-na-obronnosc-nie-beda-brane-pod-uwage-w-procedurze-n.html> [in Polish]

<sup>33</sup> <https://cepa.org/article/europes-next-generation-main-battle-tank-new-hope/>

<sup>34</sup> See: Motive 22 of the *European Parliament resolution of 22 November 2023 on proposals of the European Parliament for the amendment of the Treaties (2022/2051(INL))*. Available [online]: <https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427-EN.pdf>

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THERE ARE POSSIBLE WAYS TO REPLACE UNANIMOUS VOTING WITH THE QMV, WHILE AT THE SAME TIME SERIOUSLY ADDRESSING EXISTING FEARS AGAINST SUCH A CHANGE

the NATO defense alliance, on the other, to participate in the defense union. Furthermore, joint military units would not necessarily mean a detriment to NATO, since additional powerful military force subordinated to a single decision-making center could mean a gain for the whole alliance<sup>35</sup>. As a consequence, more countries would be protected from the common threats, while others would get additional security guarantees, which could be vital for the Baltic states for example, who are right now preparing for the worst-case scenario – full-scale Russian aggression<sup>36</sup>.

Although old as it may be, the idea of a common European army refuses to die. What is even more interesting, it was

<sup>35</sup> Wróblewski, Ł. (2015) *Armia Europejska – marzenie czy rzeczywistość?*. Available [online]: <https://psz.pl/127-unia-europejska/armia-europejska-marzenie-czy-rzeczywistosc> [in Polish]

<sup>36</sup> <https://www.economist.com/europe/2024/02/10/as-donald-trump-threatens-nato-the-baltic-states-stiffen-their-defences>



FULL IMPLEMENTATION OF PROPOSED CHANGES WOULD MEAN, FIRST AND FOREMOST, THE ESTABLISHMENT OF A DEFENSE UNION, WHICH WOULD INCLUDE MILITARY UNITS WITH A PERMANENT RAPID DEPLOYMENT CAPACITY, UNDER THE OPERATIONAL COMMAND OF THE EUROPEAN UNION

found to be appealing even to the politicians that generally would not be associated with such a concept. For example, as previously mentioned in this article, Jarosław Kaczyński, who generally is not considered to be an enthusiast of deep integration among the EU member states, stated in 2010 that: “[t]he Union must get its hands on the creation of

a common army and this task cannot be continually postponed”<sup>37</sup>. One year later, he went even further by saying that: “[w]e are for a Europe that will have its own strong and efficient armed forces, which would report to the president of the European Union. This would give the Union a real position as a world power”<sup>38</sup>. He was not alone in such a statement, as in 2022, then Polish prime minister and de facto subordinate of Kaczyński, Mateusz Morawiecki, said in an interview for German newspapers that during the meeting of the EU Council he did propose the: “creation of a very strong European army, integrated into NATO”<sup>39</sup>. Such European armed forces combined with doubling the EU’s defense spending would in his eyes, have allowed the European Union to become: ‘a global player’<sup>40</sup>. These kinds of statements clearly indicate that such an idea could gain support even among some populist and euro-skeptical politicians and, therefore, is worth pursuing regardless of other proposed changes to the treaties.

However, one may ask what really is included in proposed amendments, as it is the text of the treaties that would form the legal obligations for the member states in the future. This is genuinely a good question. Therefore, now we will take a closer look at some proposed changes.

<sup>37</sup> [http://jaroslawkaczynski.info/aktualnosci/artikul/a,139,Jaroslaw\\_Kaczynski\\_dla\\_Welt\\_am\\_Sonntag\\_Polska\\_chce\\_silnej\\_Unii\\_Europejskiej.html](http://jaroslawkaczynski.info/aktualnosci/artikul/a,139,Jaroslaw_Kaczynski_dla_Welt_am_Sonntag_Polska_chce_silnej_Unii_Europejskiej.html) [in Polish]

<sup>38</sup> <https://demagog.org.pl/wypowiedzi/silna-armia-europejska-czego-chcial-jaroslaw-kaczynski/> [in Polish]

<sup>39</sup> <https://forsal.pl/swiat/unia-europejska/artykuly/8367426,morawiecki-potrzebujemy-silnej-armii-europejskiej.html> [in Polish]

<sup>40</sup> Ibid.



## ALTHOUGH OLD AS IT MAY BE, THE IDEA OF A COM- MON EUROPEAN ARMY REFUSES TO DIE

The alteration of common defense policy starts with the amendment 51<sup>41</sup> proposed by the European Parliament. Apart from implementing common procurement and development of armaments, which are to be financed from the EU's budget, within the framework of the common security and defense policy, it states that: "[the common security and defense policy] shall enable the Union to defend Member States against threats"<sup>42</sup>. This is a substantial change, since the existing versions of the treaties (in this case, TEU) do not include such a statement.

But this peculiar 'revolution' with regards to the defense policy does not end there, since the next amendment in line explicitly states that: "[the Union shall establish a Defense Union with civilian and military capabilities for the implementation of the common security and defense policy]"<sup>43</sup>. Its provisions also establish the military units

with 'permanent' and 'rapid deployment capacity,' which are meant to be 'under the operational command of the Union.' This amendment would also give member states an opportunity to voluntarily provide 'additional capabilities' and 'establish multinational forces', which may be made 'available to the common security and defense policy.' This intent proves that the creation of a defense union and creation of military units under the command of the European Union would not preclude further existence of the militaries of the member states. Such a change would only lead to an increase in the security of the entire block.

Said increase in security is further reassured by the proposed amendment number 55. This amendment states that: "An armed attack on one Member State shall be considered to be an attack on all Member States"<sup>44</sup>. The most obvious similarity that one can see is to the famous article 5 of the North Atlantic Treaty. This provision of the Washington Treaty (as it is also known) says that "[the Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all [...]"<sup>45</sup>. From the point of view of the easternmost EU member states as well as potential newcomers to this group, this would be the most welcomed change. It would give them further reassurance with regards to their security, while, at the same time, reminding the 'old members' that their interest also lies to the east and that the fears of their colleagues cannot be ignored. Not to mention the fact that for countries like Moldova or Georgia,

<sup>41</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>42</sup> Ibid.

<sup>43</sup> See: Amendment 52 of the Resolution above.

<sup>44</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>45</sup> NATO (1949) *The North Atlantic Treaty*. Available [online]: [https://www.nato.int/cps/en/natolive/official\\_texts\\_17120.htm](https://www.nato.int/cps/en/natolive/official_texts_17120.htm)

which have unresolved border disputes, this would mean potentially the only opportunity to join a powerful defense block and improve their security.

The last (but very not least) amendment worth mentioning is the amendment number 56. It gives the European Union the possibility to use 'civilian and military means' in order to combat "*hybrid threats [...] warfare, energy blackmail, cyberthreats, disinformation campaigns and economic coercion by third countries*"<sup>46</sup>. Usage of such tools could definitely be seen against the Russian Federation as it undertook many actions (as mentioned above) against the EU member states<sup>47</sup>.

Regardless of whether the proposed amendments would find their way to the future shape of the EU treaties, it seems evident that the entire block has to deepen its cooperation in the area of defense. Any setback to that process could risk the stability of the European Union as a whole and may prove fatal in the long run<sup>48</sup>. European politicians cannot forget that, with growing isolationist tendencies in the United States, the EU's defense cannot rely solely on NATO (which, in reality, means reliance of American guarantees). Although the growing number of politicians across the pond embracing the 'America First' ap-

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<sup>46</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>47</sup> A prime example would be failed energy blackmail of the EU after the full-scale Russian aggression on Ukraine. See: <https://www.reuters.com/world/europe/putins-energy-blackmail-europe-has-failed-commissioner-says-2023-05-18/>

<sup>48</sup> Wróblewski, Ł. (2015) *Armia Europejska – marzenie czy rzeczywistość?*. Available [online]: <https://psz.pl/127-unia-europejska/armia-europejska-marzenie-czy-rzeczywistosc> [in Polish]

proach<sup>49</sup> is worrying, it should neither prevent the block from pursuing Atlanticist ties nor should it cause the EU to cease seeking enlargement. It simply means that the European Union must prepare for the worst-case scenario – as in the Roman proverb, '*si vis pacem, para bellum.*'

<sup>49</sup> <https://www.nationalreview.com/corner/ukraine-and-america-first/>

## THE ENERGY UNION: A SHIELD AGAINST BLACKMAIL

The prospect of further integration does not end on the defense union. The MEPs saw a need for further cooperation in the energy sector and proposed a few changes to the treaties which, for some, may seem purely 'cosmetic' at first glance. But the reality is different. Though their implementation would not mean 'revolution,' (as, for example, the defense union mentioned above) they would, nevertheless, constitute an important milestone in the process of building the EU's energy security.

But before taking a closer look at the proposed amendments, it would be worth presenting, at least briefly, the way things stand currently with regards to the energy union. The concept itself was introduced by the European Commission back in 2015, in response to a request made by EU heads of state and government<sup>50</sup>. It was supposed to rest on five pillars: energy security, integrated internal energy market, energy efficiency, decarbonization of the economy, research and innovation<sup>51</sup>. One year later, the Commission proposed a set of regulations called 'Clean energy for all Europeans' with the aim of bringing the idea into life<sup>52</sup>. After a few years of deliberation between parties, all pieces of legislation that were meant to constitute the mentioned package were adopted by May 2019, thus completing the creation of the energy union<sup>53</sup>.

Still, challenges exist. Even though the EU's attempts to diversify its energy imports away from Russia succeeded – thanks to the initiatives like 'AggregateEU' or 'REPowerEU'



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plan<sup>54</sup>, – it seems that the European Parliament sees an urgent need for an even greater number of common projects. Hence the proposed amendments to the treaties.

In motive 33 of the 'Proposals of the European Parliament for the amendment of the Treaties', the MEPs called for "the creation of an integrated European energy union"<sup>55</sup>.

<sup>50</sup> <https://www.consilium.europa.eu/en/policies/energy-union/>

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Ibid.

<sup>54</sup> [https://energy.ec.europa.eu/news/focus-eu-energy-security-and-gas-supplies-2024-02-15\\_en](https://energy.ec.europa.eu/news/focus-eu-energy-security-and-gas-supplies-2024-02-15_en)

<sup>55</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

They also suggested that the energy system should be ‘affordable,’ ‘based on energy efficiency’ and ‘renewable energies,’ whilst, at the same time, remaining in conformity with EU’s international obligations with regards to tackling the climate change. This may seem like not a massive change, but the devil is in the details.

Frankly, it lies within the proposed amendment number 162. It states that: “[i]n the context of the establishment and functioning of the internal market and with regard for the need to preserve and improve the environment, the common energy policy of the Union shall aim, in a spirit of solidarity between Member States, to: [...]” and is, generally, very similar to the already existing provisions. But although the change may seem minor, it is in fact the opposite due to the introduction of the ‘common energy policy’, while, at the same time, retaining the crucial ‘spirit of solidarity’. Both ‘common energy policy’ and ‘spirit of solidarity’ indicate the next step in the integration of the energy systems of the member states, which could only result in greater security, potentially lower energy prices, and a better negotiating position of the European Union as a whole in the long run<sup>56</sup>.

The aforementioned ‘spirit of solidarity’ also plays an important role in this process. Although it is nothing new, its retainment is definitely reassuring for the countries like Poland or the Baltic states, not to mention the potential new members. It is an important provision that helps safeguard energy interests of smaller member states against their bigger partners, which could be seen in the case C-848/19 P Germany vs Poland

(the OPAL pipeline case)<sup>57</sup>. The General Court has found the ‘spirit of solidarity’ to be one of the fundamental principles of EU law, closely linked to the principle of sincere cooperation and producing binding legal effects. As a result, legitimate concerns of member states regarding their energy security should be taken into consideration by the European Commission and other member states while undertaking actions connected with the energy sector.

Finally, there is also another important aspect of the energy union that would be minimally altered by the proposed changes but could only bear a positive outcome. It has to do with the interconnection of energy networks. The amendment number 165 aims to replace the existing provision of ‘promoting’ the interconnection of energy networks, with ‘ensuring’ that it would be achieved<sup>58</sup>. Thus, the already existing policy of the ‘Trans-European Networks for Energy’ (TEN-E)<sup>59</sup> would be effectively entrenched on the treaty level. This is a most welcome news, as TEN-E is focused on linking the energy infrastructure of EU countries and, in consequence, strengthening the energy security of the member states. Therefore, it would also have a profoundly positive impact on potential member states, like Moldova, who would not be such an easy target of blackmailing

<sup>56</sup> A good example of such initiatives being profitable for the EU is ‘EU Energy Platform.’ See: [https://energy.ec.europa.eu/topics/energy-security/eu-energy-platform\\_en](https://energy.ec.europa.eu/topics/energy-security/eu-energy-platform_en)

<sup>57</sup> Info CURIA (2021) *Judgment of the Court (Grand Chamber) C-848/19 P*. Available [online]: <https://curia.europa.eu/juris/document/document.jsf?jsessionid=6F783B847D6FB8D92B524D07FBF0BFDE?text=&docid=244187&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=2118374>

<sup>58</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>59</sup> [https://energy.ec.europa.eu/topics/infrastructure/trans-european-networks-energy\\_en](https://energy.ec.europa.eu/topics/infrastructure/trans-european-networks-energy_en)



## THE GENERAL COURT HAS FOUND THE 'SPIRIT OF SOLIDARITY' TO BE ONE OF THE FUNDAMENTAL PRINCIPLES OF EU LAW, CLOSELY LINKED TO THE PRINCIPLE OF SINCERE COOPERATION AND PRODUCING BINDING LEGAL EFFECTS

as it was in the past<sup>60</sup>. Overall, the proposed amendments in the energy sector are worth pursuing, just as the provisions about the defense union, regardless of the changes to the voting mechanism.

### FDI SCREENING: PROTECTING EUROPEAN INTERESTS

Lastly, the European Parliament saw a need for changing the existing legal framework concerning the Foreign Direct Investments (FDI) and their screening mechanism. It is not a surprising step, given the growing presence of Chinese companies

in the sectors and infrastructure crucial for the security interests of the European Union<sup>61</sup>. Adding to the inefficiency of already existing mechanisms<sup>62</sup>, it is easy to see why the MEPs decided to call for the establishment of the permanent FDI screening mechanism on the level of the entire European Union.

It is best depicted by the motive 29 of the 'proposals of the European Parliament for the amendment of the Treaties', in which it is proposed to "establish a permanent mechanism for the screening of foreign direct investment"<sup>63</sup>. This aim would be achieved by the amendment number 177, which states that: "[a] permanent mechanism to monitor and examine foreign direct investment in the Union shall be established. This mechanism may be used to protect the European interest."<sup>64</sup> The latter part clearly demonstrates what should constitute primary purpose for which the mentioned mechanism would be introduced.

Such propositions go very much in line with the European Economic Security Package (EESP) published by the European Commission, which includes a proposal to reform the EU Regulation establishing a framework for Foreign Direct Investment screening<sup>65</sup>. Just as the amendment mentioned

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<sup>61</sup> Like, for example, with the Hamburg port. See: <https://www.dw.com/en/germany-inks-deal-with-chinas-co-sco-on-hamburg-port/a-65586131>

<sup>62</sup> <https://www.fieldfisher.com/en/insights/eu-commission-publishes-proposal-for-the-fdi-screening-regulation>

<sup>63</sup> European Parliament (2023) *European Parliament Resolution of 22 November 2023 on Proposals of the European Parliament for the Amendment of the Treaties (2022/2051(INL))*. Available [online]: [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427\\_EN.pdf](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.pdf)

<sup>64</sup> Ibid.

<sup>65</sup> <https://www.covingtonblogs.com/2024/01/27/draft-eu-screening-regulation-a-new-chapter-for-screening-foreign-direct-investments-in-the-eu/>

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<sup>60</sup> <https://www.euractiv.com/section/global-europe/news/moldova-accuses-russia-of-energy-black-mail-ready-for-any-scenario/>

above, it seeks to mitigate problems arising from already existing provisions – mainly insufficient cooperation between screening authorities and substantial differences between screening mechanisms across the member states<sup>66</sup>. Its main purpose would be to achieve a more efficient regime by harmonization of existing national screening rules across the EU<sup>67</sup> and making their existence mandatory (unlike currently existing arrangements)<sup>68</sup>. Upon its implementation, all member states would need to ensure that their screening mechanisms would fulfil the minimum standards<sup>69</sup> required by the regulation<sup>70</sup>. As a result, a larger number of foreign investments should fall under the scope of the screening framework, including also indirect investments made by EU subsidiaries<sup>71</sup>. Coupled with the coordinated submission of foreign investment filings across the EU, better reporting measures, substantive assessment of an investment's possible impact on security or public order<sup>72</sup>, a new screening framework should ensure a greater degree of protection of the European interest.

<sup>66</sup> <https://www.fieldfisher.com/en/insights/eu-commission-publishes-proposal-for-the-fdi-screening-regulation>

<sup>67</sup> <https://www.ropesgray.com/en/insights/viewpoints/102iyvb/all-change-ec-publishes-proposed-reforms-to-eu-fdi-screening-regulation#page=1>

<sup>68</sup> <https://www.fieldfisher.com/en/insights/eu-commission-publishes-proposal-for-the-fdi-screening-regulation>

<sup>69</sup> Among which are, for example: ability to conduct in-depth investigations, annual reporting on screening activities, introduction of a list of sectors that must be screened, obligation to assess the potential impact of the investment on critical infrastructure and ensuring investor's ability to seek judicial recourse.

<sup>70</sup> <https://www.ropesgray.com/en/insights/viewpoints/102iyvb/all-change-ec-publishes-proposed-reforms-to-eu-fdi-screening-regulation#page=1>

<sup>71</sup> <https://www.covingtonblogs.com/2024/01/27/draft-eu-screening-regulation-a-new-chapter-for-screening-foreign-direct-investments-in-the-eu/>

<sup>72</sup> *Ibid.*



TEN-E IS FOCUSED ON LINKING THE ENERGY INFRASTRUCTURE OF EU COUNTRIES AND, IN CONSEQUENCE, STRENGTHENING THE ENERGY SECURITY OF THE MEMBER STATES

Nevertheless, one may ask why this sort of regulation would be important in order to properly incorporate potential member states into the EU? The answer is simple. It creates a remedy for a potential future problem connected with investments made by for example China<sup>73</sup>, since this sort of legislative mechanisms would have to be implemented during the procedure of adopting the 'acquis communautaire'<sup>74</sup>. They also seek to implement better cooperation among the national authorities conducting the screening procedures, which, in consequence, could mean giving more insight to the institutions of future member states.

<sup>73</sup> <https://www.fpri.org/article/2023/09/china-continues-to-deepen-political-influence-in-georgia/>

<sup>74</sup> The body of common rights and obligations that is binding on all the EU member states.



## CONCLUSIONS

In light of the evolving geopolitical landscape and growing prospect of the European Union's expansion by admission of new member states, this article analyses the potentially significant overhaul of the EU's common foreign and security policy that could happen upon introduction of the proposed changes to EU treaties. It addresses the inadequacy of currently existing arrangements to effectively respond to the challenges posed by aggressive third parties and internal squabbles. It also advocates for the necessity of a more active and robust stance in international affairs.

The proposed reforms focus on abolishing the unanimity requirement in decision-making, which has often hindered swift EU responses to crises. This would happen by application of qualified majority voting to larger number of situations. Such a change aims to enhance the EU's agility, as well as its unity in the area of foreign policy and security. Although there are potential arguments against such a reform, there already exist ideas that could help mitigate potential problems and would soothe fears voiced by some (like previously mentioned Jarosław Kaczyński) in the public debate.

Furthermore, this article highlights the critical need for deeper integration in defense and energy sectors. These areas are crucial for the security of EU member states and, therefore, integration within them should be pursued. Implementation of proposed changes within these areas would mean the creation of an additional layer of protection, which could prove to be crucial for some of the member states (including the future ones). Not to mention that deepening integration in both mentioned sectors may also prevent the isolationist tendencies in the United States from having as profound effect on the EU security as it

would have without the implementation of the defense and energy unions.

Apart from that, this article aims to show that there is a need for the establishment of a more effective mechanism for screening foreign direct investments, particularly from potential rivals of the entire block. Fortunately, there are already planned steps in that direction. The European Commission proposed a new regulation in that matter. Its implementation could lead to better monitoring of the foreign direct investments, as well as better transmission of information and experience among EU member and potential member states.

These changes seem to be essential for the European Union to maintain its competitive edge, ensure its security, and provide a chance for a successful integration of the new members. Therefore, one may say that this article aims to show a vision for a better integrated, powerful, and active EU, capable of navigating and shaping global politics in a way that would safeguard its interests and those of its member states.



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ERYK  
ZIĘDAŁSKI

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# Autonomy Versus Dependency: Why the EU Should Stick to the Idea of Open Trade



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FILIP  
BLAHA

The European Union's quest for more autonomy vis-à-vis the rest of the world (also called 'strategic autonomy') may come at the expense of serious sacrifices in the Eastern European countries. A closer look at the examples of the Czech Republic, Poland, Slovakia, and Hungary (the 'V4 countries') shows that the V4 countries are more vulnerable to policies aimed at reducing the EU's reliance on international trade. This is because these countries have a unique economic profile in contrast to other EU countries, and especially the founding members (France, Germany, Italy, and the Benelux countries). This difference is rooted in history, as after the collapse of the Soviet Union the Eastern European states adopted a laissez-faire approach to the economy to rapidly catch up to Western EU countries. Such an approach was their only option.

To come to this conclusion, an analysis capturing how vulnerable countries are to policies aimed at reducing reliance on international trade was calculated in this article. This analysis aggregates information about the ranking of countries in various macroeconomic indicators such as Gross Domestic Product per capita, *Human Development Index* (HDI), *the Foreign Direct Investments Restrictiveness Index*, Trade Openness, *Global Competitiveness Index* (GCI), and Foreign Direct Investments Inward flows. Overall, the analysis shows, apart from the Czech Republic, that V4 countries are more vulnerable to restrictive policies regarding international trade than other EU countries, especially the founding members.

These results are at odds with the general direction<sup>1</sup> the European Commission has pursued recently. It has introduced its

<sup>1</sup> See, for example: Bauer, M. (2022) *The Costs of the EU's Strategic Autonomy Agenda – Why Member States Should Stop Ignoring Them*. Available [online]: <https://ecipe.org/blog/eu-strategic-autonomy-agenda/>

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AS AFTER THE COLLAPSE OF THE SOVIET UNION THE EASTERN EUROPEAN STATES ADOPTED A LAISSEZ-FAIRE APPROACH TO THE ECONOMY TO RAPIDLY CATCH UP TO WESTERN EU COUNTRIES

'strategic autonomy' agenda, which encompasses several policies related to the digitization and green transformation of the economy<sup>2</sup>, with the goal of reducing reliance on international trade<sup>3</sup>.

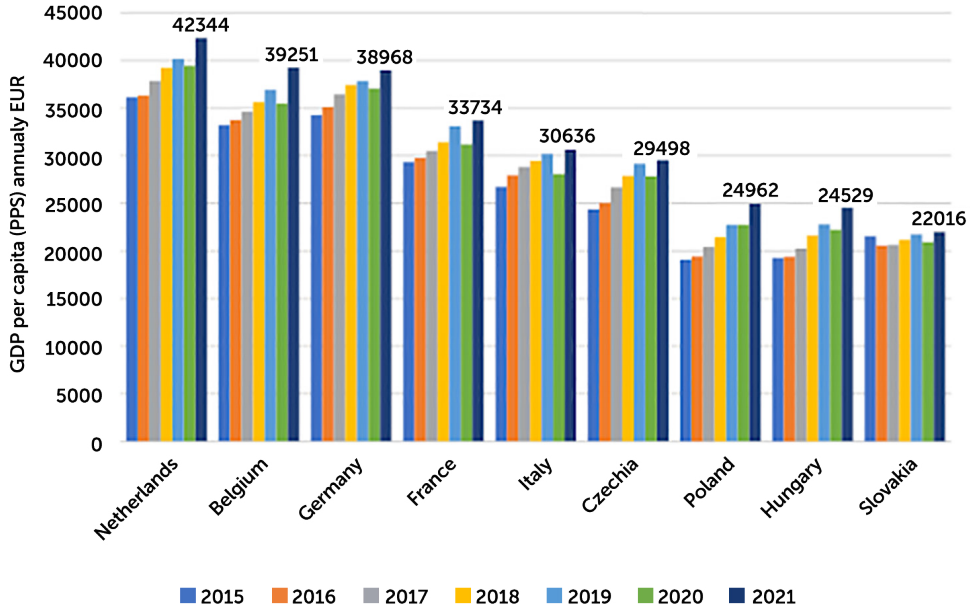
#### UNIQUE STRUCTURE OF V4 ECONOMIES WITHIN EU

Together, the V4 countries are the fifth largest economy in Europe and 12th globally. The region would rank as the 22<sup>nd</sup> most populous country in the world and 4<sup>th</sup> in Europe (64 million people) with most people

<sup>2</sup> See, for example: European Commission (2019) *The European Green Deal*, document COM(2019)640 final. Available [online]: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0640>

<sup>3</sup> See, for example: Bauer, M. (2022) *The Costs of the EU's Strategic Autonomy Agenda – Why Member States Should Stop Ignoring Them*. Available [online]: <https://ecipe.org/blog/eu-strategic-autonomy-agenda/>

Figure 1: V4 countries' economies are still smaller than the western ones



Source: Eurostat (2022)

living in Poland (38 million), followed by the Czech Republic (11 million), Hungary (10 million), and Slovakia (5.5 million)<sup>5</sup>.

However, as we can see in the following Figure, the V4 countries are still poorer than the founding members. Interestingly, Slovakia reports only 52% of gross domestic product (GDP) per capita in purchasing power standards (PPS) of the Netherlands in 2021. But while the Netherlands and other countries' GDP per capita have been rising in PPS terms, Slovakia's has held stable over the last seven years. This means that Slovakia has gotten relatively poorer

with respect to all covered countries. In short, the V4 countries are still catching-up to richer EU countries.

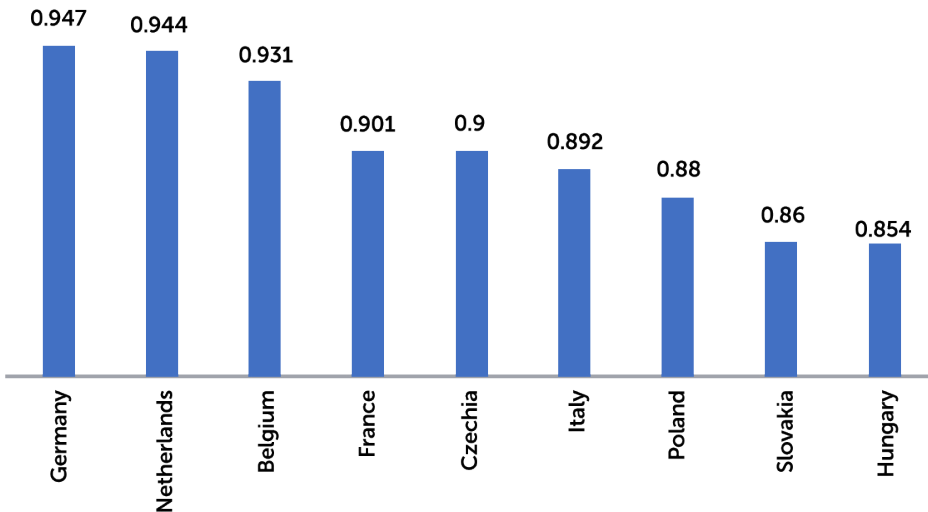
The V4 countries lag in terms of general development as captured by The *Human Development Index*. However, the Czech Republic stands out and is ahead of Italy [See: Figure 2]. V4 citizens have a lower quality of life with regards to criteria such as health, education, and economic level of the state than the citizens of founding EU members. However, considering the four countries' communist past, which for almost half a century damaged the institutional framework and hampered their economic development<sup>6</sup>, a certain Western lead in this respect is understandable.

<sup>4</sup> Eurostat (2024) Purchasing Power Parities (PPPs), Price Level Indices and Real Expenditures for ESA 2010 Aggregates. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/prc\\_ppp\\_ind/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/prc_ppp_ind/default/table?lang=en).

<sup>5</sup> V4 Recharging Europe. See: <https://v4.mfa.gov.hu/page/v4-facts-infographics-tbc>

<sup>6</sup> Lipton, D.: "Eastern Europe", [in]: *EconLib*. Available [online]: <https://www.econlib.org/library/Enc/Eastern-Europe.html>

Figure 2: Quality of life, health and education is lower in the Eastern part of Europe



Source: UNDP (2019) Human Development Index (HDI)

Countries of the V4 are more industrial than the rest of the EU. The services sector appears to be less important, according to the level of imports of services. Imports of services are valuable sources of sharing new technologies and know-how. The gap between the levels of imports of the V4 and other countries demonstrates different opportunities and starting lines of innovations for the V4 and the Western countries [See: Figure 3].

According to the *Digital Economy and Society Index (DESI)*<sup>7</sup>, which shows how countries use new technologies [See: Figure 4], the V4 countries lag in terms of usage of new technologies compared to the founding members. While Hungary, Slovakia, and Poland occupy positions at the tail end of this ranking, the Western countries all rank fifteenth or higher (among all EU

members). The Czech Republic ranks nineteenth. Additionally, digitization shows an upward trend since 2017. This means that overall, connectivity, human capital, use of internet, and integration of digital technology and digital public services are developing in Europe.



THE V4 COUNTRIES LAG IN TERMS OF USAGE OF NEW TECHNOLOGIES COMPARED TO THE FOUNDING MEMBERS

<sup>7</sup> European Commission (2022) *Digital Economy and Society Index (DESI)*. Available [online]: <https://digital-strategy.ec.europa.eu/cs/policies/desi>

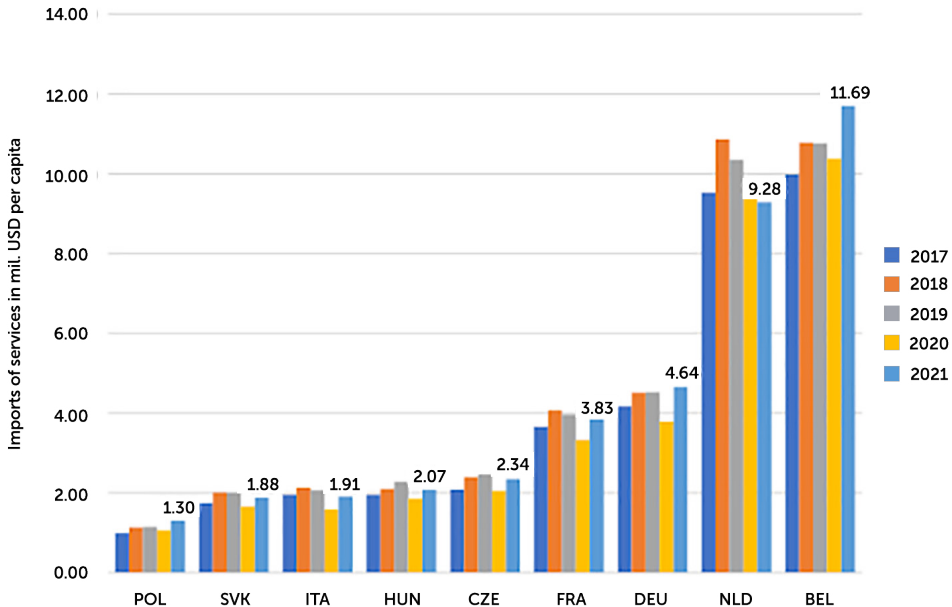


LOW RESTRICTIONS AND LOW TAXES MADE THE V4 COUNTRIES MORE ATTRACTIVE TO FOREIGN INVESTORS AND INTERNATIONAL TRADE

### V4 COUNTRIES' LAISSEZ-FAIRE APPROACH

The V4 countries have adopted a laissez-faire approach to be able to catch up rapidly to western EU countries, which, at the time, felt like the best solution to build a strong economy similar to other countries in Europe and securing the accession to the European Union. This trend is visible in the index capturing the level of trade restriction of an economy (the *Foreign Direct Investment* index) and the rates of effective corporate tax. Low restrictions and low taxes made the V4 countries more attractive to foreign investors and international trade. On the other hand, the EU founding members have shown a more restrictive environment [See: Table 2].

Figure 3: Eastern EU countries import in some cases up to five times less services than the Western ones



The V4 countries (in compassion to EU’s founding members) have so far not been active in screening foreign direct investments (FDIs) or regulating other foreign investments. This different approach to trade policy has provided the V4 countries with a comparative advantage in attracting investments compared to more developed founding member states<sup>9</sup>.

The level of corporate taxes in the V4 countries is generally lower, which might indicate a more attractive environment for business, including foreign direct investments [See: Table 3]. In this respect, a minimum

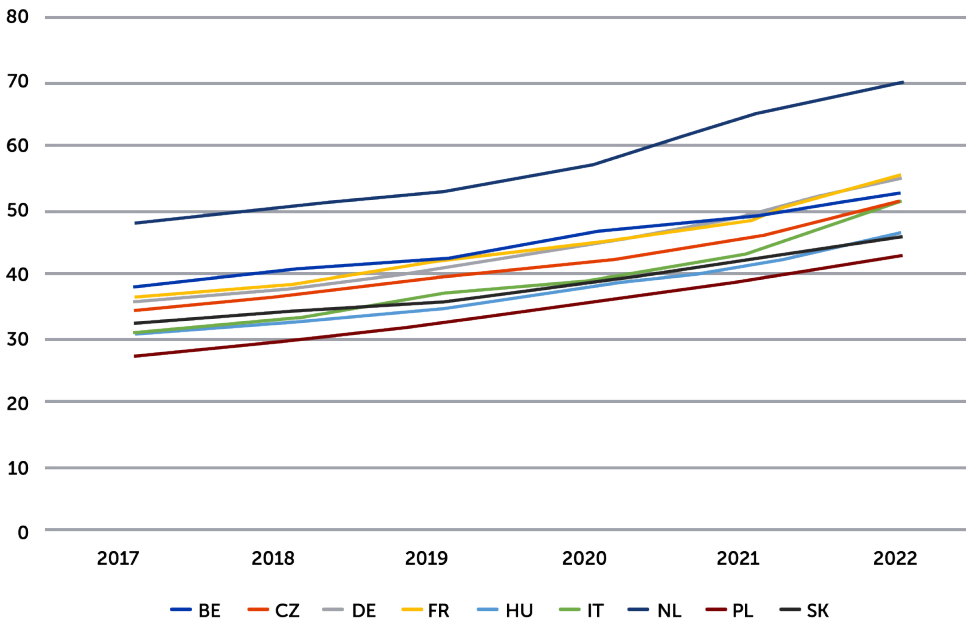
global corporate tax rate of 15%, which was agreed at the OECD in March 2022<sup>9</sup> would take away this advantage of V4 states. This policy is also intended to help prevent profits being transferred offshore.

Even though the V4 countries try to attract FDI via lower effective tax rates, a new wave of protectionism – triggered by the EU-US trade war – has led to several measures restricting international trade. For example, in response to U.S. tariffs on steel and aluminum, the EU has imposed reciprocal measures on some 1,800 U.S. industrial, agricultural, and manufacturing prod-

<sup>9</sup> The index does not provide a clear dividing line between founding members and V4. However, considering the individual sectors, V4 indicates less restrictiveness policies.

<sup>9</sup> World Economic Forum (2024) *What Does the OECD Global Minimum Tax Mean for Global Cooperation?*. Available [online]: <https://www.weforum.org/agenda/2024/02/oecd-minimum-tax-rate/>

Figure 4: Digitization is supposed to lead the new age but so far it is only taking place in western EU countries



Source: European Commission (2022)

ucts worth EUR 2.8 billion of U.S. exports. After three years of continued US tariffs, these measures would then be extended to another 150+ products worth EUR 3.6 billion of U.S. exports<sup>10</sup>. The European Union implemented a new instrument in October 2020 to streamline the coordination of FDI screenings between member states. These efforts alone could have affected the rate of FDI flows. For the investors, however, they may also have appeared to be the beginning of new protectionist policies and have created a degree of uncertainty that may compound the negative effects<sup>11</sup>.

<sup>10</sup> Harte, N. and E. Roderick. (2018) "US Tariffs: EU Response and Fears of a Trade War", [in]: *European Parliamentary Research Service*, PE 623.554, June 21.

<sup>11</sup> Gunnella, V. and L. Quaglietti (2019) "The Economic Implications of Rising Protectionism: A Euro Area and Global Perspective", [in]: *ECB Economic Bulletin*, Issue 3.

The V4 economies are more open to international trade [See: Figure 5] than the founding members: Italy, Germany, and France are almost twice less open to trade



ITALY, GERMANY,  
AND FRANCE ARE  
ALMOST TWICE LESS  
OPEN TO TRADE  
THAN V4  
COUNTRIES

Table 2: V4 countries belong to the most open economies in Europe

	Total	Primary sector	Transport	Media	Telecoms	Finance	Business	Manufacturing	Electric, electronics and other instruments
Czech Republic	0.01	0.025	0.075	0	0	0.01	0	0	0
Slovak Republic	0.049	0	0.075	0	0	0.002	0	0	0
Poland	0.072	0.05	0.092	0	0.75	0.003	0	0	0
Hungary	0.029	0	0.167	0.298	0	0.005	0	0	0
Belgium	0,04	0.035	0.114	0.023	0.023	0.024	0,248	0.023	0.023
Netherlands	0.015	0.062	0.083	0	0	0.002	0	0	0
France	0.045	0.155	0.15	0.048	0	0.054	0,003	0	0
Italy	0.052	0.13	0.2	0.363	0	0.018	0	0	0
Germany	0.023	0.069	0.2	0.025	0	0.005	0	0	0





THE V4 COUNTRIES REMAIN ATTRACTIVE TO INVESTORS, IN PARTICULAR BECAUSE OF THEIR CHEAP BUT STILL RELATIVELY SKILLED LABOR FORCE, AND THEIR PROXIMITY TO LARGE EUROPEAN MARKETS

than V4 countries. Belgium and the Netherlands share similar levels of trade openness as the V4 countries. This could be driven by the high level of import and export in those countries, and the lack of industry. Policies aimed at relying less on international trade will tend to impact more the countries whose trade openness is higher.

The V4 countries rank lower in the Global Competitiveness Index (GCI) [See: Figure 6]. The only exception is the Czech Republic, which is catching up to Italy. The founding member states rank in the top twenty – or better. As Peragovics<sup>12</sup> concludes, the V4 countries remain attractive to investors, in particular because of their cheap but still relatively skilled labor force, and their proximity to large European markets.

Finally, the European Union adopting more restrictive trade measures may have led to lower levels of FDI in the V4. After the adoption of the trade measures in June 2018 against the United States at the EU-wide level, foreign investment inflows started to decline in the V4 countries [See: Figure 7]. Specifically, from 2018 to 2019, FDIs in the Czech Republic fell from USD 11 to 10 billion, in Poland from 16.3 to 13.3 billion, and in Hungary from 6.4 to 4.3 billion. This phenomenon may have been caused by regulatory actions on the EU level, but also compounded by the induced uncertainty in international trade that arose from restrictive measures. Such trade war measures can be considered as one of the uncertainty shocks, which forces companies

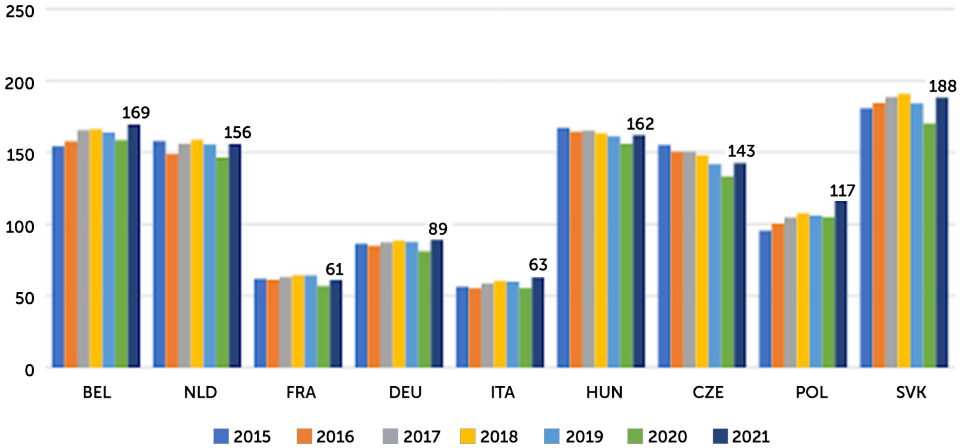
<sup>12</sup> Peragovics, T (2019) *Protection Without Protectionism? Foreign Investment Screening in Europe and the V4 Countries Today – A Comparative Analysis*, Centre for Economic and Regional Studies, May Working Paper No 252, pp. 1-31.

Table 3: V4 states use low tax rates

Country	Czech Republic	Slovak Republic	Hungary	Poland	Netherlands	Belgium	France	Germany	Italy
Effective forward tax rate	18.3%	19.3%	10.2%	15.5%	23.7%	20.3%	29.4%	28%	21.3%
Effective backward tax rate	17%	18.7%	11.1%	16.8%	22.5%	23.2%	28.1%	28.9%	23.9%

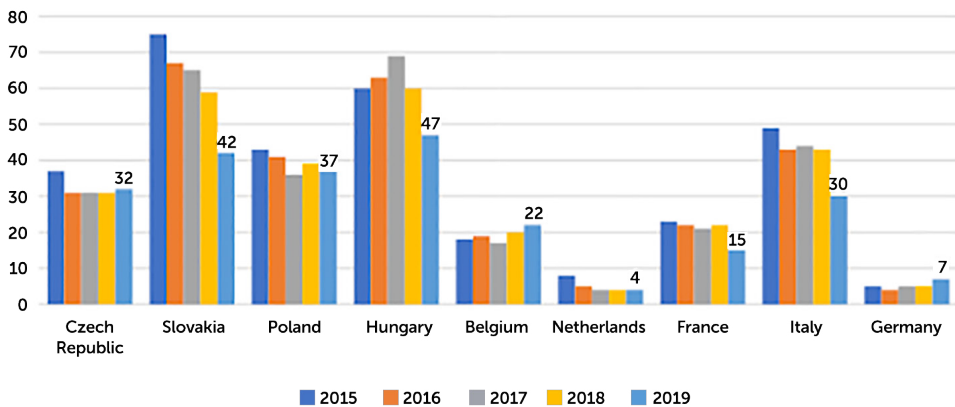
Source: OECD-Effective forward and backward corporate tax rate in the selected countries (2020)

Figure 5: V4 and Benelux countries rely heavily on foreign trade and are therefore vulnerable to policies reducing the reliance on international trade



Source: OECD (2021) Trade Openness

Figure 6: The economies of the founding countries are at the top of the global competitiveness ranking. All V4 countries are below them.



Source: World Economic Forum (2015 – 2019) Global Competitiveness Index (GCI)

to reduce their foreign activities much more than their domestic ones<sup>13</sup>.

From 2020 to 2021, Poland experienced a record increase in FDI inward flows, from USD 13.65 million to USD 26 million. According to government officials, Poland was able to benefit from the disruption of supply chains and the search for new alternatives in supply chain remediation, with the latter becoming one of the new alternatives for investors<sup>14</sup>. However, there is currently no research that analyses this fact in more detail.

In the case of Hungary, there is a large drop in FDI inward flows (from 7.9 million to -14.5 million USD from 2014 to 2015). This drop was caused by the long-standing bad Hungarian policy towards foreign investment, which included nationalizing companies or introducing sectoral taxes, but also by the country's poor fiscal and overall economic situation, as stated by the European Commission<sup>15</sup>.

Similarly, the introduction of the screening mechanism might have contributed to the decline of FDI inflows in the Czech Republic between 2020 and 2021 from USD 9.4 billion to USD 5.8 billion<sup>16</sup>. In the case of Hungary, we can observe a decrease from USD 6.8 to USD 5.9 billion. However, given

<sup>13</sup> Novy, D. and A.M. Taylor (2014) "Trade and Uncertainty", [in]: *CEP Discussion Papers*, No 1266, Centre for Economic Performance, London School of Economics and Political Science.

<sup>14</sup> Lyttle, C. (2022) "Poland Enjoys Record Year for FDI Attraction in 2021", [in]: *Investment Monitor*.

<sup>15</sup> European Commission (2015) *Macroeconomic Imbalances Country Report – Hungary 2015*, Directorate-General for Economic and Financial Affairs.

<sup>16</sup> This decline may come from the fact that additional screenings generate higher costs for the companies, which they try to avoid by choosing other destinations. The screening mechanism was introduced in 2021 by accordance with Act No. 34/2021 Coll. On screening of foreign investments. See: <https://eur-lex.europa.eu/eli/reg/2019/452/oj>



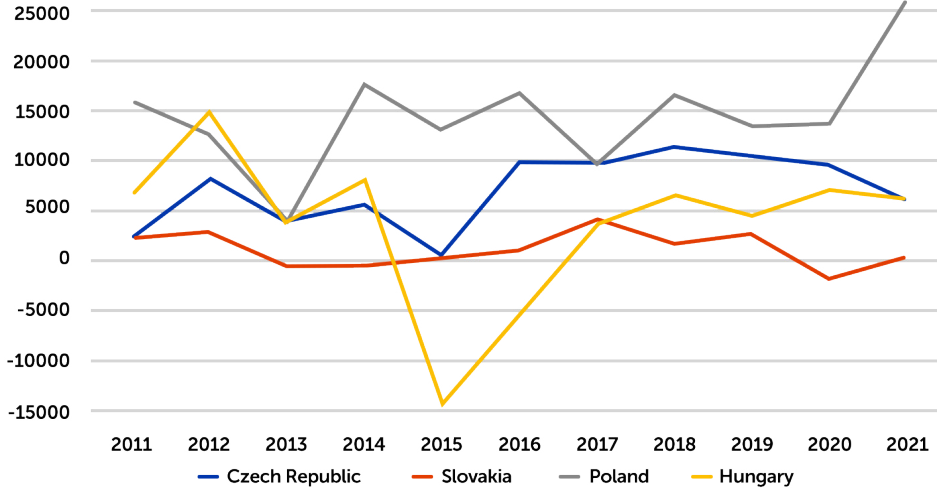
WHILE THE FOUNDING EU MEMBERS CAN WITHSTAND MORE ECONOMIC ADVERSITY THANKS TO THEIR HIGHER LEVELS OF WEALTH, THE POORER REGIONS AND COUNTRIES OF THE EUROPEAN UNION NEED ECONOMIC GROWTH

the effects of the COVID-19 pandemic, it is unlikely that the screening mechanism alone is responsible for the decline.

The effect of U.S. protectionism may have been relatively small for Europe as a whole, but it affected member states to varying degrees<sup>17</sup>. However, with the introduction of reciprocal measures and the further escalation of the trade war, the European Union has rather intensified the negative

<sup>17</sup> Salotti, S., et.al. (2019) *Macroeconomic Effects of US Tariff on Steel and Aluminium: Who Would Pay the Bill*, EUR 29769 EN, Publications Office of the European Union, Luxembourg.

Figure 7: Declines in foreign direct investment inward flows may have been caused by EU protectionist policy



Source: OECD (2011–2021) Foreign Direct Investments Inward flows in millions USD

effects of the trade war<sup>18</sup>. In addition, the uncertainty stemming from fears of a new wave of protectionism that this situation may have triggered certainly played a role too and may have caused a postponement of trade operations by companies that feared rising protectionist policies<sup>19</sup>.

### EASTERN EUROPE IS MORE VULNERABLE TO TRADE RESTRICTIONS

To illustrate how vulnerable a country is to policies reducing the reliance on international trade, an analysis using macroeconomic indicators discussed was computed by the author of the article. The following

discussion only focuses on the nine countries of interest, although the results can be generalized on the EU level.

According to the analysis, the V4 countries clearly lag behind the founding EU members [See: Figure 8]. The most significant difference can be observed for Slovakia, which scored only 44 points in 2019. Poland and Hungary achieved slightly higher scores with 84 and 67 points, respectively. The Czech Republic leads the V4 countries with 98 points, similarly to Italy and Belgium. The Netherlands, France, and Germany are in the top 10 with more than 120 points<sup>20</sup>.

The founding EU member states benefit from generally higher socio-economic development levels (for example, GDP,

<sup>18</sup> Demertzis, M. and G. Fredriksson (2018) "The EU Response to US Trade Tariffs", [in]: *Intereconomics Review of European Economic Policy*, Vol. 53, No 5, pp. 260-268.

<sup>19</sup> Novy, D. and A.M. Taylor (2014) "Trade and Uncertainty", [in]: *CEP Discussion Papers*, No 1266, Centre for Economic Performance, London School of Economics and Political Science.

<sup>20</sup> See, for example: Bauer, M. (2022) The Costs of the EU's Strategic Autonomy Agenda – Why Member States Should Stop Ignoring Them. Available [online]: <https://ecipe.org/blog/eu-strategic-autonomy-agenda/>



GIVEN THE CURRENT GEOPOLITICAL SITUATION (THE RUSSIAN WAR IN UKRAINE, THREATS AROUND TAIWAN), EUROPE SHOULD RECONSIDER ITS DIGITAL SOVEREIGNTY AGENDA AND INSTEAD PURSUE GREATER REGULATORY CO-OPERATION WITH THE UNITED STATES

HDI, or FDI inward flows). In contrast, the V4 countries use their high openness and low tax incentives to attract foreign trade. As a result, the Czech Republic, which is among the most economically developed, has a similar position as Italy and Belgium [See: Figure 8].

#### V4 BENEFITS MORE FROM OPEN TRADE

While the founding EU members can withstand more economic adversity thanks to their higher levels of wealth, the poorer regions and countries of the European Union need economic growth. This is especially true because lackluster economic growth often leads countries to more authoritarian regimes that restrict citizens' liberties.<sup>21</sup>

There are three main areas in which policies are put forward that are aimed at reducing reliance on international trade: (1) the Green Deal, (2) Digitization, and (3) Strategic Resilience. In the case of the Green Deal, it is mainly about the energy mix. The fact that the V4 countries have been more dependent on Russian fossil fuels than founding members makes their strategic position worse off<sup>22</sup>. Therefore, the V4 needs the open market, open science, and open innovation to be able to switch rapidly from dependency on Russian fossil fuels, and not the EU's current focus on technological sovereignty, which might be in contradiction to the V4 countries' needs.

As for digitization, European regulators have taken aggressive action against U.S. technology companies for years, levying or threatening billions of euros in fines on Intel, Microsoft, Facebook, Google, Qualcomm, and Amazon<sup>23</sup>. Given the current geopo-

<sup>21</sup> Barchefsky, C. (2020) "EU Digital Protectionism Risks Damaging Ties with the US", [in]: Financial Times. Available [online]: <https://www.ft.com/content/9edea4f5-5f34-4e17-89cd-f9b9ba698103>.

<sup>22</sup> See, for example: Bauer, M. (2022) *The Costs of the EU's Strategic Autonomy Agenda – Why Member States Should Stop Ignoring Them*. Available [online]: <https://ecipe.org/blog/eu-strategic-autonomy-agenda/>

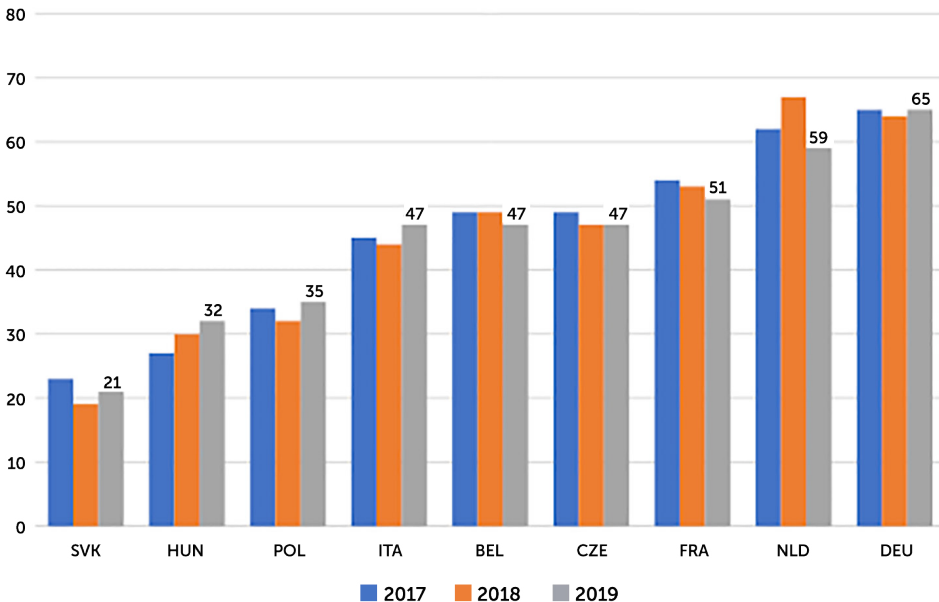
<sup>23</sup> Barchefsky, C. (2020) "EU Digital Protectionism Risks Damaging Ties with the US", [in]: Financial Times. Available [online]: <https://www.ft.com/content/9edea4f5-5f34-4e17-89cd-f9b9ba698103>



ANY PROTECTIONISM MEASURE CAN AFFECT THE FINAL CONSUMER IN EU COUNTRIES, ESPECIALLY IN THE DIGITAL ERA

litical situation (the Russian war in Ukraine, threats around Taiwan), Europe should reconsider its digital sovereignty agenda and instead pursue greater regulatory co-operation with the United States. Additionally, as Barchefsky adds, *“Demoni[z]ing US technology companies hinders efforts to address the foremost challenge for both sides with respect to the digital economy: China. Chinese protectionism (...) poses an existential threat to a vibrant digital economy. For example, China is pressing for a new centrally controlled internet, which the US and EU oppose”*.

Figure 8: Germany is the least vulnerable to protectionist policies (data from 2019)



Source: Own elaboration based on data of Gross Domestic Product per capita, Human Development Index (HDI), the Foreign Direct Investments Restrictiveness Index, Trade Openness, Global Competitiveness Index (GCI), and Foreign Direct Investments Inward flows

## CONCLUSIONS

Reducing the reliance on international trade could generate higher costs for the V4 countries than for the founding members of the European Union. This is particularly important as the European Commission is pushing for major policies under its strategic autonomy agenda, whose exact purpose is to reduce reliance on international trade.

As Gunnella<sup>24</sup> claims, there are several channels by which economic activity might be affected by policies aimed at strategic autonomy. Significantly, higher custom duties lead to higher prices for final imported products or services. Usually, the increased monetary amount of the product or service depends on the substitution effect for the affected goods. However, in the case of IT services, EU countries have low chances to substitute high-tech products and services in the short term (for example, the operating systems or highly developed cloud systems from American-based companies). Therefore, any protectionism measure can affect the final consumer in EU countries, especially in the digital era, when these IT services are used on a daily basis by the majority of the population in each country.

Further research is needed to exactly understand the costs and benefits of these policies in individual countries and figure out the 'losers' and the 'winners' of the EU's strategic autonomy. The European Union should return to its original idea of creating free trade, not trying to prevent it. Moreover, as has been demonstrated, this hindrance may have more negative effects for the Eastern European coun-

tries and, therefore, it should not only take into account the macro aspect but also the local economic specifics of all member states.



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<sup>24</sup> Gunnella, V. and L. Quaglietti (2019) "The Economic Implications of Rising Protectionism: A Euro Area and Global Perspective", [in]: ECB Economic Bulletin, Issue 3.

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# EU Accession and the Euro: Unfinished Business



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TOMASZ  
KASPROWICZ



The year 2024 marks the 20<sup>th</sup> anniversary of the largest EU enlargement since its inception, especially when paired with its extension less than three years later covering Romania and Bulgaria. Thus, 2004 was a historical moment that welcomed Central Europe back after an era of Soviet yoke. The accession required great effort from all parties involved and, despite many obstacles, it was deemed a success. Yet, integration remains incomplete with respect to membership in the Schengen Zone and Euro Area. The former was remedied on March 31, 2023, with Bulgaria and Romania joining the Schengen zone. However, it is crucial to examine the current state of accession to the eurozone of CEE countries that have not done it yet despite obligations, as well as the debate concerning its pros and cons.

The CEE countries that joined the EU varied with respect to the size of their economy and the level of development. By sheer size, Poland dominated the list with a GDP slightly larger than the next two (Czechia and Hungary) combined<sup>1</sup>. The second group consists of countries with medium-sized economies: Czechia, Hungary, Romania, and Slovakia. The final group comprised small economies: Slovenia, Bulgaria, Lithuania, Latvia, and Estonia.

The economic development as measured by GDP per capita is, however, quite different. With Slovenia firmly in the lead (over USD 17k), there was a tight pack of neighbors behind it: Czechia, Slovakia, and Hungary (between USD 10k to USD 12k), then Baltic states and Poland (between USD 6k and USD 9k), with Romania and Bulgaria closing the list with less than USD 3.5k [See: Figure 1].

<sup>1</sup> World Bank (2024) *World Development Indicators*. Available [online]: <https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.MKTP.CD&country=EUU>



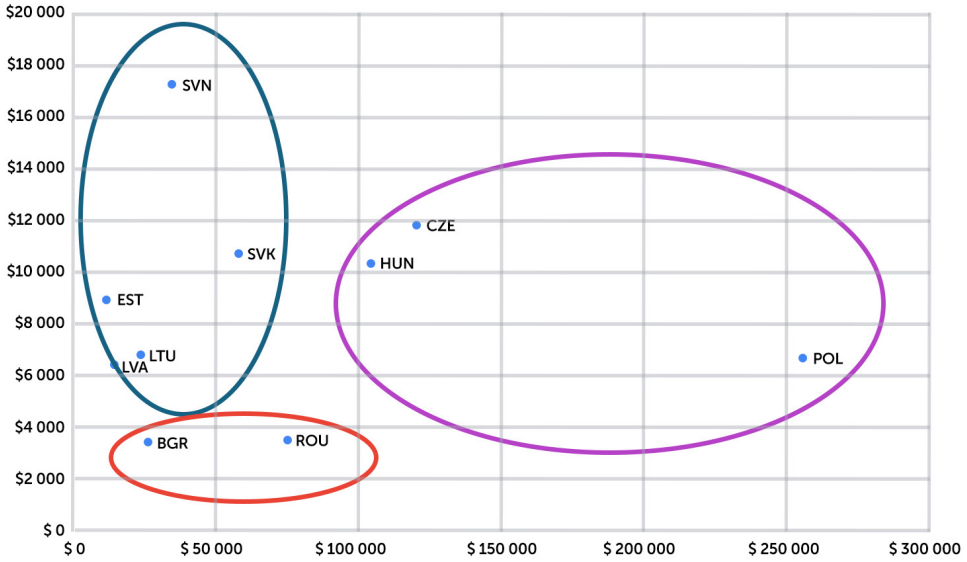
IN FACT,  
THE 2008 CRISIS  
THAT WAS  
TO DESTROY  
THE EUROZONE  
MADE IT MUCH  
MORE ROBUST  
AND INTEGRATED

This division holds to a degree today. Poland put an even larger gap between itself and the runner-up in terms of size, while the Baltics and Czechia managed to increase their GDP per capita significantly. At the same time, Hungary is migrating towards the group of smaller and poorer economies, with Romania slowly taking its place [See: Figure 2].

These groupings of countries have something else in common: their attitude towards joining the eurozone. The smaller and relatively richer ones (the blue oval) adopted the euro quite quickly – sometimes within a few years after joining the EU. The group of smaller in terms of economy but poorer countries (the red oval) have not joined the euro yet but are actively trying. The bigger ones (the purple oval) seem to have forgotten about the obligation to join the eurozone. It is, therefore, worth looking back at why it is the case.

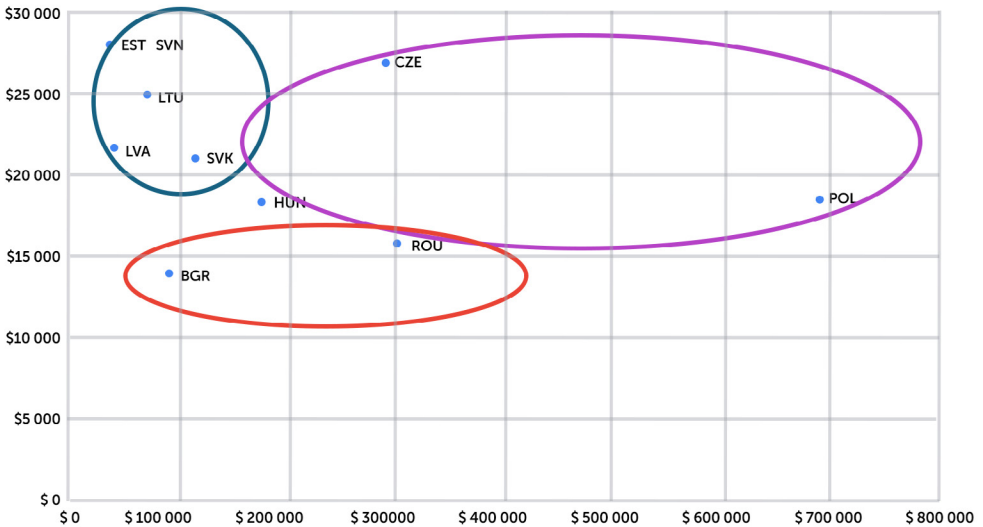
Up to 2007, joining the eurozone was on the agenda of all of the CEE countries. The biggest problem was fulfilling the criteria,

Figure 1: GDP vs GDP per capita in 2004 in CEE



Source: World Bank

Figure 2: GDP vs GDP per capita in 2022 in CEE



Source: World Bank

”

THE POLISH SITUATION IS MORE AKIN TO THE CZECH ONE. PUBLIC SUPPORT FOR ADOPTING THE EURO IS SOMEWHAT LOW (AT 55%), AND NO POLITICAL FORCE IS ACTIVELY SETTING THE ADOPTION OF THE EURO AS ITS GOAL

as economies were not strong enough at that time - aside from Slovenia, which joined the eurozone right away<sup>2</sup>. For the rest of states, adopting the common currency was aspirational and indicated rather a goal to be achieved when their economies develop.

But then, the 2008 financial crisis hit hard. Serious problems regarding the fiscal stability of Greece and the broader group of PIIGS (Portugal, Italy, Ireland, Greece, and Spain) were largely blamed on the euro. According to critics, the lack of independent monetary policy made adjustments difficult (we will look at these arguments later in more detail) and, therefore, triggered

a crisis that could have been avoided via the devaluation of the national currency<sup>3</sup>.

Regardless of how true these arguments were, the crisis did, indeed, expose weaknesses of the eurozone: lax oversight of banks, weak protection of customers, and lack of a system of stabilization in the case of the fiscal crisis<sup>4</sup>. The eurozone started to reform, creating a more unified and better-coordinated organism. In fact, the 2008 crisis that was to destroy the eurozone made it much more robust and integrated<sup>5</sup>.

Looking at the general mess and aftermath of the crisis in Greece, the CEE societies were not as enthusiastic as before. Also, having a national currency appeared to be beneficial: in Poland, the weakening of the Polish zloty allowed to amortize the crisis, and Poland became one of the very few countries that avoided recession<sup>6</sup>. Yet, the process of adopting the euro continued: first in Slovakia, which was completing its preparations when the crisis hit, then in Baltic states, which looked at the euro as a means to increase their security<sup>7</sup>. But then, the expansion came to a halt for many years, and the topic of adopting the euro was not a part of the debate anymore. That phenomenon has changed in recent months for several reasons – some common to all of the CEE countries, some very much idiosyncratic in nature.

<sup>3</sup> <https://www.theguardian.com/business/economics-blog/2012/may/18/who-blame-greece-crisis>

<sup>4</sup> Wyplosz, C. (2016) "The Six Flaws of the Eurozone", [in]: *Economic Policy*, Vol. 31(87), pp. 559-606.

<sup>5</sup> Lundgren, M. et.al. (2019) "Bargaining Success in the Reform of the Eurozone", [in]: *European Union Politics*, Vol. 20(1), pp. 65-88.

<sup>6</sup> Wprost Biznes (2012) *Belka: Złotówka ochroniła nas przed kryzysem*. Available [online]: <https://biznes.wprost.pl/firmy-i-rynki/344768/belka-zlotowka-ochronila-nas-przed-kryzysem.html> [in Polish]

<sup>7</sup> <https://www.ecb.europa.eu/euro/intro/html/index.en.html>

<sup>2</sup> Schadler, M. S. (2005) *Euro Adoption in Central and Eastern Europe: Opportunities and Challenges*.

## EURO IN CEE: THE STATE OF PLAY

The main reason the topic of the euro is back in the public debate is the recent outburst of inflation in the aftermath of the COVID-19 pandemic and the Russian war in Ukraine<sup>8</sup>. Of course, inflation hit everybody, but in the euro area, cumulative inflation for the last four years was 18%, while for the countries that did not adopt the euro in CEE, it ranged between 28% and 46%<sup>9</sup> [See: Figure 3].

This clear failure of domestic monetary policy has shown that it may yield positive results in some cases and be a liability in other cases. At the same time, while the

public does not easily accommodate subliminal economic arguments, the sharp increase in prices is easily understood.

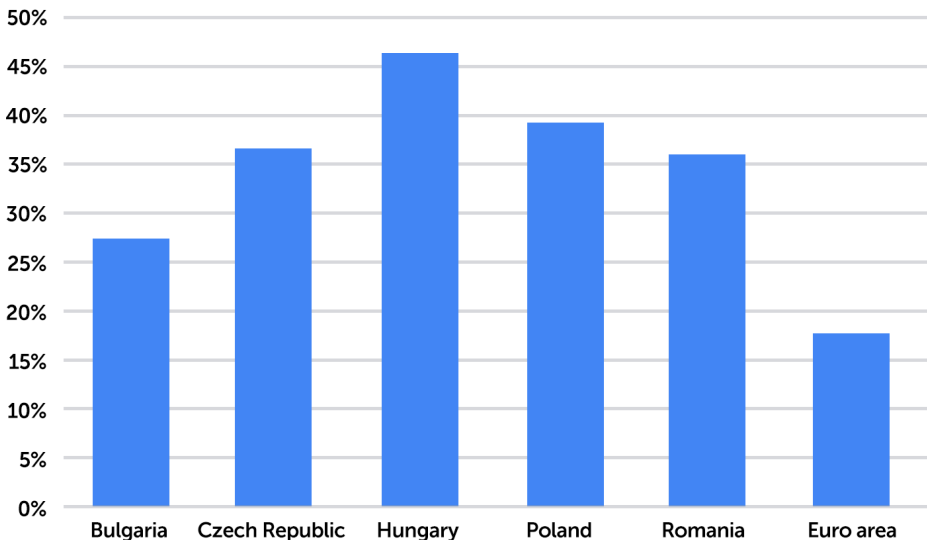
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IN ROMANIA,  
PUBLIC SUPPORT  
FOR ADOPTING  
THE EURO IS VERY  
HIGH, AND SO  
IS THE DECLARED  
SUPPORT OF MOST  
POLITICAL PARTIES

<sup>8</sup> Talach, S. (2023) "Eurostat: Inflacja w Polsce ponad dwukrotnie wyższa niż w strefie euro", [in]: *Interia Biznes*. Available [online]: <https://biznes.interia.pl/gospodarka/news-eurostat-inflacja-w-polsce-ponad-dwukrotnie-wyzsza-niz-w-str.nld.7155078> [in Polish]

<sup>9</sup> IMF (2024) *Inflation Rate, Average Consumer Prices*. Available [online]: <https://www.imf.org/external/data-mapper/PCPIPCH@WEO/EURO/SVK/POL/HUN/CZE/BGR/ROU>

Figure 3: Cumulative inflation non-euro CEE vs eurozone



Source: IMF

This led to unexpected events, like the call of the president of Czechia, Petr Pavel, in his New Year's speech to adopt the euro in the country<sup>10</sup>. This declaration is especially surprising since Czechia is the most skeptical towards the euro in the region, with 55% of the population against adoption<sup>11</sup>. This is why parties that favor adopting the euro have the support of about 25%, so the president's statement is so much more unexpected.

Such a situation is somewhat strange in a country with so many economic ties with the eurozone, as the benefits of joining are larger, while the dangers seem lower. The surprise is diminished when one realizes that Czechia has been introducing the euro gradually and through the back door. Companies can now perform settlements in euros, keep books in euros and – starting in 2024 – pay taxes in euros<sup>12</sup>. Effectively, many companies may forget the Czech koruna even exists – all that without alerting the public. With every passing year, the importance of domestic currency will shrink until adoption will become merely a formality.

The situation is slightly different in Hungary. Here, support for adopting the euro is overwhelming, at the level of 72% – the highest of all CEE countries that did not adopt the euro<sup>13</sup>. This attitude is – at least partially – connected to an appealing performance of the monetary policy. At the

<sup>10</sup> <https://brnodayly.com/2024/01/02/news/politics/president-pavel-calls-for-move-towards-adoption-of-euro-in-new-year-speech/>

<sup>11</sup> Data about the support for the euro based on Eurobarometer. Available [online]: <https://europa.eu/eurobarometer/surveys/detail/2982>

<sup>12</sup> <https://english.radio.cz/finance-minister-governments-plans-let-companies-pay-taxes-euros-2024-8752990>

<sup>13</sup> Data about the support for the euro based on Eurobarometer. Available [online]: <https://europa.eu/eurobarometer/surveys/detail/2982>



## BULGARIA IS EVEN CLOSER TO ADOPTING THE EURO

same time, the political scene is dominated by the ruling Eurosceptic (to put it mildly) Fidesz party, which opposes any deeper integration. Adopting the euro is seen as giving up another portion of sovereignty to more powerful countries of the EU and a potential danger to an economy that could not be boosted by depreciation. Still, the dire situation in which Hungary is – with slow growth, high inflation and limited access to EU funds – led even the Fidesz government to initiate a discussion about adopting the euro to improve its standing in the European Union<sup>14</sup>. As this plan did not work out, the debate about the euro in Hungary also froze.

The Polish situation is more akin to the Czech one. Public support for adopting the euro is somewhat low (at 55%), and no political force is actively setting the adoption of the euro as its goal. Unlike in Czechia, there is no champion of common currency, and the debate about the euro is slowly recovering from the abyss. It is associated with the recent change in the government, which is less skeptical of the euro. Still, it does not indicate any intent to start the

<sup>14</sup> <https://hungarytoday.hu/hungary-can-meet-conditions-for-adopting-euro/>

preparation process or even restore institutions tasked with monitoring and analyzing the current economic situation concerning eventual euro adoption, which the previous government dismantled<sup>15</sup>.

Bulgaria and Romania are quite different in this regard, as both countries actively pursue the adoption of the euro. In Romania, public support for adopting the euro is very high, and so is the declared support of most political parties [See: Figure 4]. However, the required reforms have not been implemented, so Romania does not fulfil the required criteria. This is because while the euro is popular, the required reforms are not, as they would be painful. The dates that politicians provide are, therefore, unrealistic. The 2024 deadline was an attempt to draw voters. The new goal is 2029, but the government aims to join in 2026<sup>16</sup>. Both of these dates are considered rather optimistic<sup>17</sup>.

At the same time, Bulgaria is even closer to adopting the euro. The goal of 2024 was missed, not in small part due to the unstable political environment. Caretaker governments were not in the position to make significant reforms – even though both major and opposing parties favor introducing the euro. In the meantime, pro-Russian forces started a campaign against adopting the euro, which led to a slide in support for adopting it. There were talks about a referendum on the topic, but eventually, the accession was postponed by one year. The main problem from the formal point of view is inflation, which may be tamed soon due to general disinflation. Whether



## THE BIGGEST OBSTACLE TO ADOPTING THE EURO MAY BE THE POLITICAL WILL TO DO SO

the goal of 2025 will be met will be clear quite soon<sup>18</sup>.

Aside from Bulgaria, CEE countries mostly do not fulfil the convergence criteria [See: Figure 5]. However, most of the ones concerning economic indicators could be fixed quite quickly, especially in Poland and Czechia. This is less true in the case of Romania and Hungary, but, surprisingly, it can be much easier in the former country, as it is developing quite rapidly recently – in contrast to Hungary, which is performing much worse mostly due to political reasons<sup>19</sup>. However, the biggest obstacle to adopting the euro may be the political will to do so.

### FEARS

The debate about adopting the euro usually revolves around dangers associated with monetary union. The main one that has catastrophic effects on social support is associated with expected price increases. Such perception arises from at least two effects. The first one is associated with the

<sup>15</sup> Kasprowicz, T. et al. (2023) "Euro Adoption in CEE", [in]: *Res Publica*.

<sup>16</sup> <https://www.euractiv.com/section/politics/news/romania-wants-to-push-euro-adoption-by-2026/>

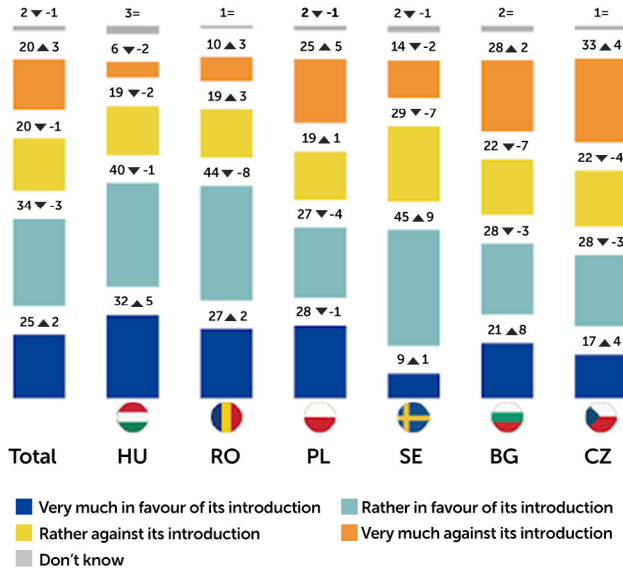
<sup>17</sup> Kasprowicz, T. et al. (2023) "Euro Adoption in CEE", [in]: *Res Publica*.

<sup>18</sup> Ibid.

<sup>19</sup> Kočenda, E., Kutan, A. M., and T.M. Yigit (2006) "Pilgrims to the Eurozone: How Far, How Fast?", [in]: *Economic Systems*, Vol. 30(4), pp. 311-327.

Figure 4: Public support for introducing euro in CEE countries

Generally speaking, are you personally more in favour or against the idea of introducing the euro in (THIS COUNTRY)? (%)



Base: all respondents (n=6 070)

▼▲ Evolution 2022-2023 (comparison with Flash Eurobarometer 508, April 2022)

Source: European Commission (2023) Flash Eurobarometer 527

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THE DEBATE ABOUT ADOPTING THE EURO USUALLY REVOLVES AROUND DANGERS ASSOCIATED WITH MONETARY UNION

shortcomings of introducing the euro by early joiners. In most cases, the transfer to the euro was done rapidly, which allowed for rounding up prices, especially for cheap items. This phenomenon led to price increases of some very popular cheap products (like coffee in Italy or baguettes in France) and was dubbed the ‘cappuccino effect.’ Overall, the effect on inflation was small – on average, about 0.07% (ranging from 0% in Portugal to 0.7% in Ireland), but it was perceived as much larger due to psychological effects and items affected by the largest price increases<sup>20</sup>.

<sup>20</sup> Fritsche, U. et al. (2008) “The Euro and Prices: Changeover-Related Inflation and Price Convergence in the Euro Area”, [in]: *KOF Studien*, No. 1.



## WHAT MAY SEEM TO BE TIMID PRICE GROWTH FROM WITHIN A COUNTRY, MIGHT LOOK LIKE RAMPANT INFLATION FROM OUTSIDE

To minimize this effect, the process of introducing the euro was modified. Instead of overnight change, stores are required to display dual-pricing months before and after the accession to deter rounding. State agencies are also checking for unexpected price increases. This strategy seems quite effective, as price jumps at the moment of introduction remained quite small: Slovakia 0.1%, Latvia 0.2%, Lithuania 0.1%, Estonia 0.2%, whereas Croatia 0.4%<sup>21</sup>.

The critics of the eurozone now claim that the price increase is no longer concentrated on the changeover but appears when controls of states weaken over time<sup>22</sup>. This argument also does not fare well under scru-

tiny. The year the euro was adopted in CEE countries, inflation was in a range set by the peers (other CEE countries that have not yet adopted) [See: Figure 6]. In fact, in three cases (Slovenia, Slovakia, and Croatia), it was significantly lower than average, in two cases (Latvia and Lithuania) almost identical to average, and only in case (of Estonia) it was slightly larger than the average.

Eurosceptics do not stop there, and the argument goes on – that price growth is actually taking place in the longer term<sup>23</sup>. This trend is also easy to check when we compare the average inflation of an adopting country since adoption vs its peers in the same time period. Again, the data does not confirm abnormally high inflation in adopting countries [See: Figure 7].

Here, some countries are falling out of range set by peers – but only by having inflation lower than them (Slovenia, Croatia). Slovakia enjoyed inflation lower than the average in CEE. Only the Baltic states show inflation results worse than average, which is caused by the very high impact of the Russo-Ukrainian war on these countries – which is understandable from a geopolitical point of view.

Another reason the introduction of the euro is associated with price increases is that prices are often observed from a completely different perspective. What may seem to be timid price growth from within a country, might look like rampant inflation from outside. The best example is the perception of Slovak inflation in Poland since the introduction of the euro. Before 2009, Poles often shopped and travelled to Slovakia because prices there were lower than in Poland. After the adoption, things changed considerably, and now Slovaks

<sup>21</sup> Kasprowicz, T et al. (2023) "Euro Adoption in CEE", [in]: *Res Publica*.

<sup>22</sup> Forsal.pl (2023) *Rzecznik PiS: Wprowadzenie euro w Polsce to wprowadzenie "euro-drożyzny"*. Available [online]: <https://forsal.pl/finanse/waluty/artykuly/8639812,rzecznik-pis-wprowadzenie-euro-w-polsce-to-wprowadzenie-euro-drozynny.html> [in Polish]

<sup>23</sup> Ibid.

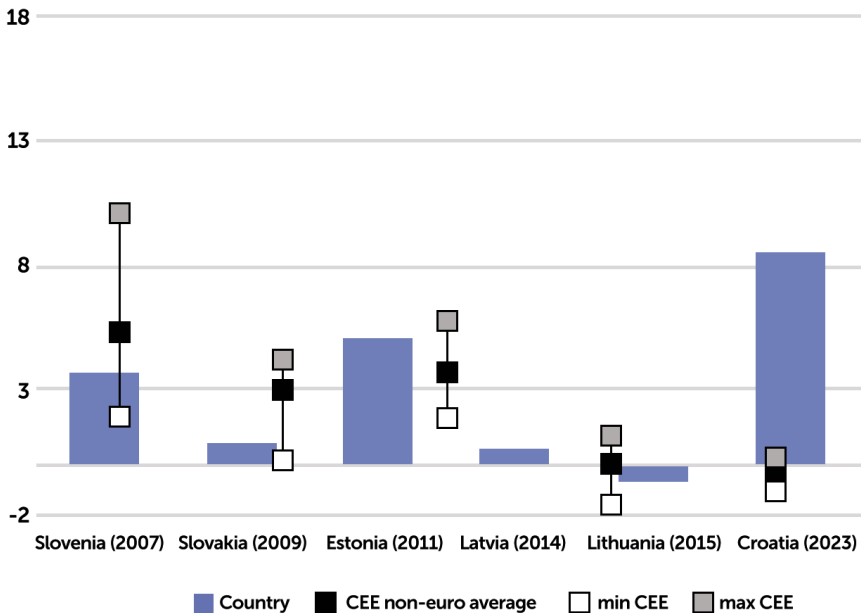


Figure 5: Fulfilment of convergence criteria in CEE



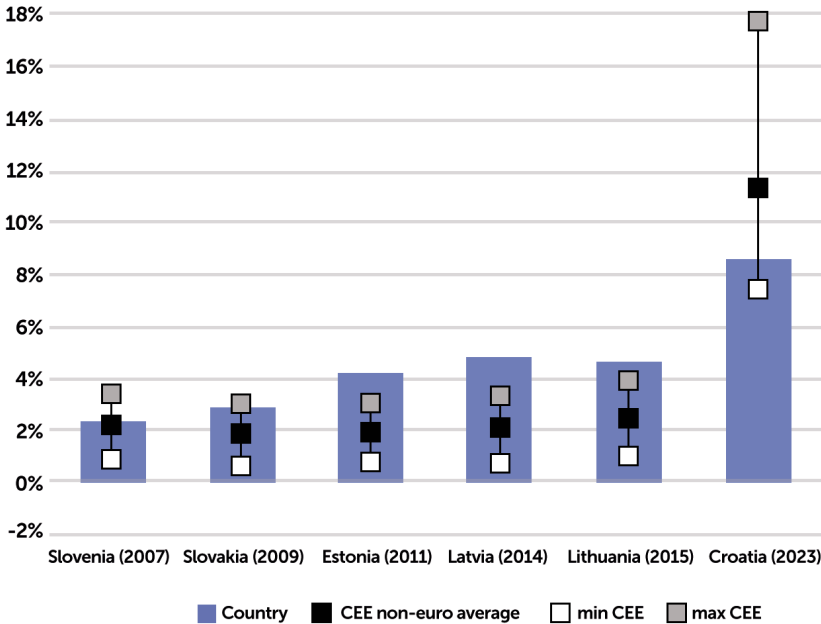
Source: Kasprowicz, T. et al. (2023) "Euro Adoption in CEE", [in]: *Res Publica*

Figure 6: Inflation in the year of introducing the euro vs peers



Source: IMF Databank

Figure 7: Average inflation since adoption vs peers



Source: IMF Databank

come shopping in Poland<sup>24</sup> – which leads to the conclusion that because of the euro, prices have increased significantly in Slovakia. In fact, Poles observed a weakening of their own currency, which lost between 2010 and 2022 17% of its value compared to the euro<sup>25</sup>. That is why Slovakia became expensive for Poles but not for Slovaks. Still, the general reception in Poland is that adopting the euro caused a stern price increase in Slovakia.

To sum up, there is absolutely no proof that adopting the euro causes price growth. If anything, the euro protects from price growth, which is in line with the recent experience of the CEE countries. Still, one cannot forget about how powerful the power of psychological bias is<sup>26</sup>. Some prices do indeed increase, and people tend to notice and remember them and then generalize this price growth to the entire economy. That is why rounding effects on small items are remembered to this day despite having a very limited impact on general price levels. At the same time, relative income decreases through depreciation of the national currency with respect to the euro, which is interpreted as price increas-

<sup>24</sup> Jedynka Polskie Radio (2020) *Słowacy przyjeżdżają do Polski na zakupy. U nas jest taniej i lepiej*. Available [online]: <https://jedynka.polskieradio.pl/artyku/2537279.S%C5%82owacy-przyje%C5%B-Cd%C5%BCaj%C4%85-do-Polski-na-zakupy-U-nas-je-st-taniej-i-lepiej> [in Polish]

<sup>25</sup> See: Stooq (2024) *Euro / Polish Zloty*. Available [online]: <https://stooq.pl/q/?s=eurpln&c=20y&t=lg&a=lg&b=0>

<sup>26</sup> Kahneman, D. (2017) *Thinking, Fast and Slow*, New York: Farrar, Straus, and Giroux.



## EVEN FULLY CONTROLLED MONETARY POLICY IS NOT NECESSARILY PERFECTLY ALIGNED WITH THE COUNTRY'S NEEDS

es in the country that adopted the euro. However, such impressions can be pervasive and shape public opinion for years. The debate about introducing the euro in CEE must take this under consideration.

### THE SOVEREIGNTY ISSUE

Another topic commonly discussed in the CEE countries concerning adopting the euro revolves around sovereignty. In particular, more Eurosceptical forces and their electorates believe that the EU is taking integration too far and that member states risk being engulfed by the organization and losing their identity. National currency is one of the symbols of national identity and should, therefore, be preserved. At the same time, control over one's own monetary policy and the ability to devalue local currency are assets of economic policy that are too valuable to be given up lightly. Some even suggest that giving up control currency to Frankfurt will result in Germany subduing these countries and eventually forcing them into a trans-European country under German control<sup>27</sup>.

<sup>27</sup> <https://www.cer.eu/in-the-press/germanys-euro-advantage>

Although such conspiracy theories seem quite outrageous, the argument itself should not be discredited off-hand. Symbols are important, which was recognized when creating the euro – the reverse of coins is reserved for national symbols of member states. This was done so that citizens felt psychologically attached to the new currency. This seems to be a successful approach as in the eurozone countries the euro is more popular than the EU itself. It appears that the sovereignty issue is more important for those who are to join the eurozone, but not so much for those already in, which is reassuring<sup>28</sup>.

It is also worth pondering whether joining the eurozone is a net increase or decrease in sovereignty. As mentioned, adopting the euro decreases control over monetary policy. However, it is important to remember that despite the European Central Bank being situated in Frankfurt, it does not mean Germans control it. It is controlled jointly by all member-states, which means none has as much control over monetary policy as when they had national currency, but still have influence over it. Still, there is some loss of control and hence the risk of compatibility of monetary policy and economic situation within a country.

However, one must also take into consideration that even fully controlled monetary policy is not necessarily perfectly aligned with the country's needs. The highly politicized central banks of Poland and Hungary kept interest rates low to help the government maintain popularity. This led to elevated inflation and costs associated with it<sup>29</sup>. Sovereignty is a tool, not an end to it-

<sup>28</sup> [https://www.ecb.europa.eu/pub/economic-bulletin/articles/2020/html/ecb.ebart202004\\_01~9e43ff2fb2\\_en.html](https://www.ecb.europa.eu/pub/economic-bulletin/articles/2020/html/ecb.ebart202004_01~9e43ff2fb2_en.html)

<sup>29</sup> [https://for.org.pl/pliki/artykuly/8154\\_42023high-inflation-in-poland-is-caused-by-the-monetary-policy-council.pdf?\\_\\_cf\\_chl\\_tk=YQRlg-](https://for.org.pl/pliki/artykuly/8154_42023high-inflation-in-poland-is-caused-by-the-monetary-policy-council.pdf?__cf_chl_tk=YQRlg-)

self, and it is not always used properly.

But is there an upside to the loss associated with a potentially greater mismatch between independent and shared monetary policy? Indeed, there is. Small currencies are subject to increased volatility and whims of financial markets. This may lead to sudden appreciations or depreciations that could harm the economy. This was the fate of Switzerland during the great financial crisis when the flight to the safety of investors elevated the value of the Swiss franc so much that it thwarted Swiss exports and tourism<sup>30</sup>. Large market players may attack currency for speculative gain, which happened even to the United Kingdom<sup>31</sup>. Hostile states may use currency manipulation as a means of hybrid warfare<sup>32</sup>. These problems disappear when you use major international currency – no forces are strong enough to attack the euro.

The list of enhancements of sovereignty when joining the eurozone goes on. Recent reforms of the eurozone included the European Stability Mechanism (ESM). Its goal is to guarantee that the crisis of 2008 will not repeat. Its funds are dedicated to helping countries facing fiscal or banking crises, averting them by its mere existence<sup>33</sup>. The mechanism already

helped solve problems with Spanish<sup>34</sup> and Cypriot<sup>35</sup> banks. Common banking policy is also a rising issue. With the banking union, the EU is approaching common deposit insurance.

While national insurance schemes are working perfectly well for small banks that are routinely failing, the collapse of a large bank would overwhelm the system. However, on the EU level, almost all banks are within the capabilities of common insurance. This step requires an even larger harmonization of macroprudential policies to mitigate risk and avoid moral hazard, but this step seems unavoidable in the coming years. As you can see, adopting the euro is associated with some loss of sovereignty with respect to monetary policy but several benefits to sovereignty in other aspects. Unfortunately, sovereignty mathematics has not yet been developed, so it is hard to determine the net outcome.

Assuming all of the CEE countries will eventually adopt the euro, the biggest harm to sovereignty comes from delaying the process. As mentioned, after the 2008 crisis, the eurozone is undergoing significant reforms. Instead of splitting up as prophesized by Eurosceptics, it deepened integration (a common EU strategy that does not let any crisis go unutilized)<sup>36</sup>. However, the decision about the depth of integration, its focus and details are decided among current eurozone members, and the CEE countries remaining outside have no say in it. When adopting the euro, they will be forced to accept all of the decisions made right now. The later they join, the less influence on the final shape

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[s5Ukhlm7CjhVht3dNUYDVwstKo1528556y2Z-pl-1709654585-0.0.1.1-1706](https://www.esm.europa.eu/assistance/spain)

<sup>30</sup> Yeşin, P. (2015) "Capital Flow Waves to and From Switzerland Before and After the Financial Crisis", [in]: *Swiss Journal of Economics and Statistics*, Vol. 151, pp. 27-75.

<sup>31</sup> Mongiardino, A. (1996) *A Model of the Currency Crisis of 1992: The Case of the British Pound and Italian Lira*, No. 2068-2018-890.

<sup>32</sup> Leblang, D. A. (2002) "The Political Economy of Speculative Attacks in the Developing World", [in]: *International Studies Quarterly*, 46(1), pp. 69-91.

<sup>33</sup> Aerts, J., & Bizarro, P. (2020) "The Reform of the European Stability Mechanism", [in]: *Capital Markets Law Journal*, Vol. 15(2), pp. 159-174.

<sup>34</sup> <https://www.esm.europa.eu/assistance/spain>

<sup>35</sup> <https://www.esm.europa.eu/assistance/cyprus>

<sup>36</sup> Lundgren, M., et.al. (2019) "Bargaining Success in the Reform of the Eurozone", [in]: *European Union Politics*, Vol. 20(1), pp. 65-88.



## ASSUMING ALL OF THE CEE COUNTRIES WILL EVENTUALLY ADOPT THE EURO, THE BIGGEST HARM TO SOVEREIGNTY COMES FROM DELAYING THE PROCESS

of the eurozone they have. This might be the biggest cost of delaying the adoption of the euro.

### **MOSTLY A POLITICAL MATTER**

The discussion about adopting the euro used to revolve around economic issues. This is no longer true as economic arguments lost prominence on both sides of the adoption debate<sup>37</sup>. The economic benefits do appear and are appreciated but tend to be much smaller than anticipated. It is a help but not a game changer. On the other hand, economic arguments against adopting the euro do not fare well under closer scrutiny (as seen in the case of inflation I discussed before). This is because convergence in economic cycles between eurozone countries due to trade, deeper integration and eurozone reforms is progressing.

<sup>37</sup> Kasprończ, T. (2023) "Jak przygotować Polskę na przyjęcie euro", [in]: *Res Publica*. Available [online]: <https://publica.pl/teksty/jak-przygotowac-polske-na-przyjecie-euro-71068.html> [in Polish]

At the same time, independence in monetary and exchange rate policy is mostly an illusion. EU countries are integrated, and those that did not adopt the euro need to synchronize with the eurozone anyway. That is why Denmark and Sweden are basically copying EBC policy despite having their own currency<sup>38</sup>. The same is true in CEE, which also follows EBC to a large degree, and deviations result in undesirable effects like increased inflation<sup>39</sup>. This was sooner spotted by smaller countries that do not have illusions of grandeur, and therefore, they were the first to join the eurozone.

The discussion about the adoption of the euro turns, therefore, into a political debate about the future of the EU. Many Eurosceptic forces want the EU to reverse into the economic union, preferably limited to free trade and customs union. The euro is seen as a sign of integration that goes too far. This view is, however, typical in the CEE that has not adopted the euro yet, not in the eurozone member states. There, the euro is more popular than the EU itself and is not the main object of attacks by Eurosceptics. Placing the issue in the middle of the identity debate does not bode well for the rational approach to the subject.

At the same time, the group of outsiders is shrinking and losing significance. This is especially visible since Brexit. The UK was the only significant economy in the EU that remained outside the eurozone and was weighted the most in the coalition of non-Euro countries. Since Brexit, it has not been a two-speed Europe but rather the core vs marginal peripheries case. Especially since

<sup>38</sup> <https://www.centralbanking.com/central-banks/monetary-policy/monetary-policy-decisions/4429736/denmark-cuts-main-rate-mirroring-ecbs-move>

<sup>39</sup> [https://for.org.pl/pliki/artykuly/8154\\_42023high-inflation-in-poland-is-caused-by-the-monetary-policy-council.pdf?\\_\\_cf\\_chl\\_tk=YQRlgs5Ukhlm7CjhVht3d-NUVDVwstKo1528556y2Zpl-1709654585-0.0.1.1-1706](https://for.org.pl/pliki/artykuly/8154_42023high-inflation-in-poland-is-caused-by-the-monetary-policy-council.pdf?__cf_chl_tk=YQRlgs5Ukhlm7CjhVht3d-NUVDVwstKo1528556y2Zpl-1709654585-0.0.1.1-1706)

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EVENTUALLY,  
THE 'EURO  
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AND CITIZENS

Denmark has its own currency only formally, as it is pegged to the euro, and Sweden has been debating joining the eurozone recently<sup>40</sup>. That could happen promptly as public support increased significantly. However, current political forces in the government are not that enthusiastic yet.

This leaves marauders of CEE more and more isolated, which will deepen with the admission of Bulgaria and Romania in the coming years. The political pressure on three (or five if you count Denmark and Sweden) outsiders will most likely grow both from inside and outside. Managing the EU and separately the eurozone will be increasingly cumbersome, as the delimitation of decisions that should be taken only by the eurozone countries versus the

entire EU will be harder and harder. Even now, the decisions of the eurozone countries affect outsiders, and this effect will only grow. So will grow frustration of the CEE being excluded from the most important economic decisions.

Therefore, today's debate should not concentrate on whether the CEE countries should adopt the euro. Instead, it should focus on how to prepare economies and institutions for adoption so that the benefits of the euro are maximized while existing pitfalls are avoided. Plenty of reforms are still required to achieve competitiveness and ensure the euro will not become a burden but a boost.

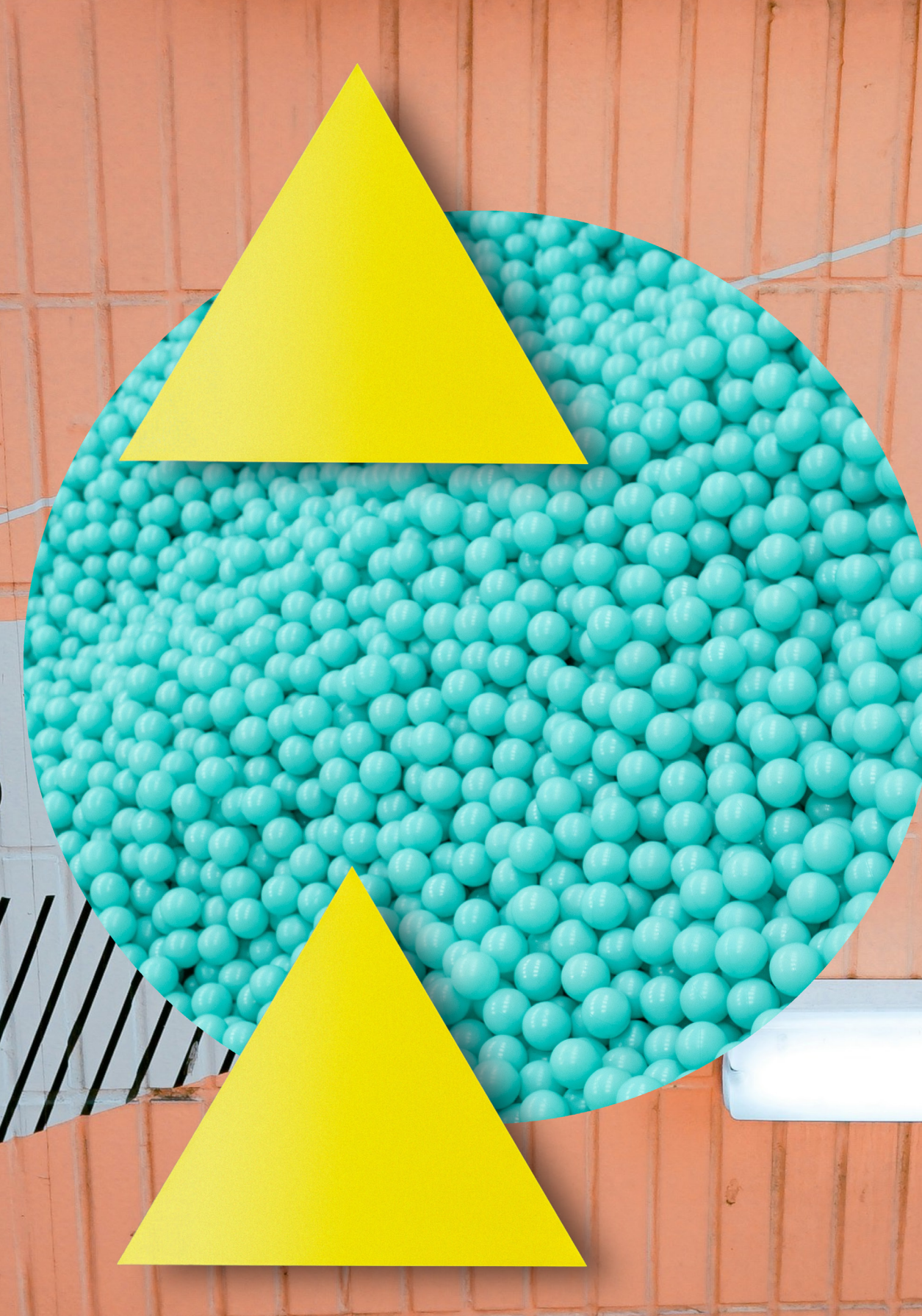
The complete this list would take another paper, but let us mention the issues that need to be addressed: demographic challenges that weigh on the labor market, inflexible real estate and real estate rental markets, depopulation, and migration policy, to name a few. The good news is that these issues must be addressed regardless of the date of joining the eurozone. Therefore, the reforms should not raise criticism of Eurosceptics. Eventually, the 'euro project' will be completed as the weight of being an outsider will grow heavy on politicians and citizens.



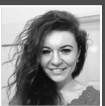
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TOMASZ  
KASPROWICZ

<sup>40</sup> [https://www.lemonde.fr/en/economy/article/2023/09/25/in-sweden-the-fall-of-the-krona-revives-discussions-on-the-euro\\_6139121\\_19.html](https://www.lemonde.fr/en/economy/article/2023/09/25/in-sweden-the-fall-of-the-krona-revives-discussions-on-the-euro_6139121_19.html)



# Ukraine's Bid to the EU: What Is to Be Expected?



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DR ŠÁRKA  
ŠOUP



The President of the European Commission, Ursula von der Leyen, has repeatedly expressed her support for Ukraine and its path to the European Union (EU)<sup>1</sup>. However, at the same time, she pointed out how long and difficult this path will be. Russia's aggression against Ukraine accelerated Ukraine's efforts to join not only the EU, but also NATO. Nonetheless, membership in both these institutions – in addition to carrying out a number of reforms and aligning with the required standards – requires the consent of all member states. Due to the wide spectrum of far-reaching impacts on the entire European Union, the path to the EU and the course of the entire process may be much more complicated for Ukraine than admission to NATO.

In addition to Ukraine's readiness itself, there is the question of the need for internal reform of the EU, i.e. European institutions, policies, and finance that would be necessary for such an expansion. Enlargement by a country the size of Ukraine would fundamentally change the distribution of funds from the EU budget and the functioning of key EU policies, including agricultural and cohesive policy. In the context of future functioning of the enlarged EU, some parties also mention a proposal to replace unanimous decision-making with qualified majority decision-making – for example, with regard to taxation or foreign policy, which can be particularly problematic for smaller member states with a more complicated path to the blocking minority.

<sup>1</sup> European Commission (2023) *President von der Leyen Discussed with Leaders EU Support for Ukraine, the Middle East Conflict, Competitiveness, and Migration, During This Week's European Council Summit*. Available [online]: [https://ec.europa.eu/commission/presscorner/detail/en/AC\\_23\\_6013](https://ec.europa.eu/commission/presscorner/detail/en/AC_23_6013)

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ENLARGEMENT  
BY A COUNTRY  
THE SIZE  
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CHANGE THE DISTRIBUTION  
OF FUNDS FROM THE EU  
BUDGET AND THE FUNCTIONING  
OF KEY EU  
POLICIES

As part of the discussion on ensuring the so-called 'absorption capacity' of the European Union and strengthening the credibility of the enlargement process, the issue of institutional reform of the EU is also mentioned. This could lead, for example, in the direction of two-speed EU integration. The core group would form a fiscal union and the outer group would include new member states and states that do not prefer deeper integration. However, such a move could also mean a split in the EU, a loosening of relations between the two groups, and a feeling of second-class status for some states without a common currency – among which the Czech Republic currently ranks.

Ukraine's potential accession to the European Union is a complicated process that requires not only the fulfillment of many



# UKRAINE IS IN A VERY COMPLEX MILITARY, POLITICAL, AND ECONOMIC SITUATION, WHICH NO ACCEDING COUNTRY TO THE EU HAS HAD TO DEAL WITH IN THE HISTORY OF ENLARGEMENT

criteria and the implementation of reforms by the candidate country, but also concrete steps and structural changes in the EU.

## THE UNIQUE NATURE OF UKRAINIAN ASCENSION

Ukraine is in a very complex military, political, and economic situation, which no acceding country to the EU has had to deal with in the history of enlargement. The only country that joined the EU with a territory partially militarily occupied by a foreign state was the Republic of Cyprus during the enlargement in 2004. But the security reality in Cyprus during the accession negotiations with the EU certainly did not resemble the fierce fighting in eastern Ukraine that we know today. Let us also keep in mind that the cancellation of Ukraine's associa-

tion agreement with the EU *de facto* led to the Euromaidan and the emergence of a war in eastern Ukraine in 2014<sup>2</sup>.

This exceptional position of Ukraine is also reflected in its position as a candidate for EU membership. States currently seeking to join the EU can be divided into three basic categories:

1. **The closest to accession:** In the first case, these are candidate countries such as **Albania**, **North Macedonia**, and the long-term unsuccessful **Turkey**. These states are characterized by a less developed economy with below-average performance compared to the EU average, a weak state and weak law enforcement, corruption, or elements of defective democracy. However, due to the war in Ukraine, they are anchored in the North Atlantic Alliance, which gives them solid security guarantees. Accession to the EU is thus primarily a matter of economic restructuring, i.e. a path that has become a recipe for membership in the European Union in the past 20 years<sup>3</sup> – whether for the states of the former Eastern Bloc (the Czech Republic, Slovakia, Poland, Hungary, Romania and Bulgaria), former republics USSR (Estonia, Latvia, Lithuania) or the republics of the former Yugoslavia (Slovenia and Croatia). These countries are closest to accession<sup>4</sup>.

2. **States somewhat close to ascension:** The second category of states are **the Balkan countries** that applied for membership before Russian aggres-

<sup>2</sup> <https://carnegieendowment.org/2023/10/24/ukraine-s-accession-poses-unique-conundrum-for-eu-pub-90838>

<sup>3</sup> [https://neighbourhood-enlargement.ec.europa.eu/2023-communication-eu-enlargement-policy\\_en](https://neighbourhood-enlargement.ec.europa.eu/2023-communication-eu-enlargement-policy_en)

<sup>4</sup> Ibid.

sion in Ukraine, but their security strategy did not yet include NATO membership or their accession was not possible, i.e. Bosnia and Herzegovina (2016), Montenegro (2008), and Serbia (2009)<sup>5</sup>.

3. **States farthest from ascension:** The last category form the **former USSR states** that applied for entry due to the acute security threat from the Russian Federation, which accelerated after the Russian invasion of Ukraine<sup>6</sup> – i.e. **Georgia** (March 3, 2022), **Moldova** (March 3, 2022), and **Ukraine** itself (February 28, 2022). These states, in addition to classic ailments in the form of weak infrastructure and the rule of law or high corruption, are troubled by an acute (Ukraine) or frozen military conflict (Moldova in Transnistria and Georgia in Abkhazia and South Ossetia) with the Russian Federation, which is the main engine, but also the brake of the entire integration process<sup>7</sup>.

### MAIN CHALLENGES AND OBSTACLES

As for the main obstacles and challenges regarding Ukraine's possible accession to the EU, the first circumstance is the security situation. Accession negotiations are a complex process that in the post-Soviet space requires concerted action by specific governments and extensive reforms in the administrative, economic, and political spheres of the given state. Fulfillment of the Copenhagen criteria, which include *"institutional stability, a functioning market economy and the ability to copy with competitive pressure and market forces within the EU, the ability to take on the obligations of membership"*, including the ability to effectively implement the

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.



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rules, standards and policies that constitute the set of legal EU regulations, and compliance with the goals of the political, economic and monetary union, is challenging even for states without an ongoing military conflict<sup>8</sup>. Ukraine's position is doubly complicated. On the one hand, it must make enormous efforts in the form of military operations and a war economy.

<sup>8</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/167/the-enlargement-of-the-union>

On the other hand, it must prove to the EU member states that it is willing to pay for the promise of future entry into the European Union with a military victory (or maximum stabilization of the situation) in the east and south of the country.

This phenomenon is also related to the expectations that the current EU members place in negotiations with Ukraine. After Russia's attack, the enlargement of the European Union is once again primarily connected with the EU's security policy on the eastern flank. Security integration tendencies in the territory of the EU have so far been limited to the strengthening of NATO's northern wing with Finland and Sweden. A similar process of security unification is expected in the post-Soviet space, as the viability of expanding in this way was tested mainly in 2004 – more or less successfully<sup>9</sup>.

### CONSEQUENCES FOR MEMBER STATES

Ukraine's approach is primarily a matter of security. If the fortunes of war turned against the Kyiv regime, countries such as the Czech Republic, being the destination of a large portion of Ukrainian refugees, would be hit by a major wave of migration similar to the first weeks of the Russian invasion. Moreover, the expansion of the Russian sphere of direct influence would clearly worsen the security situation in the accepting countries itself. In the case of successful integration of Ukraine into the EU, the center of gravity of security threats would fundamentally shift further to the east<sup>10</sup>.

<sup>9</sup> <https://www.cfr.org/in-brief/how-nato-will-change-if-finland-and-sweden-become-members>

<sup>10</sup> Cesifo Forum (2022) *How Can Europe Handle the Ukrainian Refugee Challenge?*. Available [online]: <https://www.cesifo.org/en/publications/2022/journal-complete-issue/cesifo-forum-042022-how-can-europe-handle-ukrainian>



IN THE CASE OF SUCCESSFUL INTEGRATION OF UKRAINE INTO THE EU, THE CENTER OF GRAVITY OF SECURITY THREATS WOULD FUNDAMENTALLY SHIFT FURTHER TO THE EAST

One should also not overlook the prevailing narrative of the enlargement of the European Union as a tool to weaken the position of Russia and China in Europe. In addition to the promise of economic development, access to the free market, or access to European funds, EU membership now has another value – a safe harbor for the states that are directly threatened militarily by the Russian Federation and, economically, by China<sup>11</sup>. This package of positives can thus force hesitant European states (mainly Serbia) to embark on the path of accelerated integration. For the current Kyiv regime, this is the only possibility for the direction of foreign policy, which includes freedom and independence.

<sup>11</sup> [https://eu-solidarity-ukraine.ec.europa.eu/index\\_en](https://eu-solidarity-ukraine.ec.europa.eu/index_en)

Another circumstance is the position of the Czech Republic within the EU and the opinion on its expansion. In the updated program statement of Petr Fiala's government, it is stated in the Foreign Policy chapter: *"We will actively participate in the post-war reconstruction of Ukraine, which will not only be a reconstruction, but a comprehensive modernization, with the aim of enabling Ukraine to join the European Union"*. Reconstruction is thus understood by the Czech government as modernization with the goal of Ukraine's later accession to the EU, when, in the words of Petr Fiala, *"candidate status has a huge moral and symbolic meaning"*. It is therefore about the overall transformation of Ukraine before joining the European Union and not *ex post*<sup>12</sup>.

Ukraine's approach would also fulfill the ambitions of Czech foreign policy, which has long been based on the further expansion of the EU to include the Balkan states and other former republics of the USSR<sup>13</sup>. The logic is that by expanding the European Union, the Czech Republic balances out the excessive influence of the founding or previously acceding and wealthy states of the EU, which naturally have other problems than the center and east of the Union. By accepting other states from the so-called 'former Eastern Bloc', the Czech Republic theoretically gains new allies in important issues such as the security architecture of Central Eastern Europe, migration policy, or cohesion policy.

From an economic point of view, the danger is Ukraine's strength in the field of agriculture. Huge and fertile Ukraine with low labor costs is a significant competitor to the farmers in Poland, Slovakia, Hungary,

<sup>12</sup> Government of the Czech Republic (2022) *Policy Statement of the Government*. Available [online]: <https://vlada.gov.cz/en/jednani-vlady/policy-statement/policy-statement-of-the-government-193762/>

<sup>13</sup> Ibid.



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and the Czech Republic. In the case of Ukraine's accession to the EU, there would have to be a fundamental reconstruction of the agricultural policy, which would have to be agreed upon by all states – mainly France and the Netherlands, which is considered by some experts to be the main obstacle to Ukraine's accession to the EU. As we witnessed in April of 2023, Poland, although in other respects a stable supporter of Ukraine, proceeded to restrict the import of Ukrainian grain into its territory<sup>14</sup>. All this happened in a situation where the export of agricultural commodities is key for Ukraine. This attitude shows how

<sup>14</sup> ČTK (2023) "Po Polsku zakázalo dovoz ukrajinského obilí také Maďarsko", [in]: *Novinky.cz*. Available [online]: <https://www.novinky.cz/clanek/ekonomika-po-polsku-zakazalo-dovoz-ukrajinskeho-obili-take-madar-sko-40428764> [in Czech]

complex the debate on the possible reform of EU agricultural policy will be<sup>15</sup>.

### APPROACH OF THE MEMBER STATES TO EU REFORMS

The first step of both the EU states and the European Union as a whole is to present the enlargement plan itself. Although experts consider Ukraine's accession to the EU in the next decade unlikely, a plan needs to be prepared that will describe the important and necessary steps that the European Union must take so that the EU can absorb Ukraine and other states with open access interviews or candidate status. The steps are quite simple: have a clear plan, start the preparations early enough, and set the final goal that EU enlargement should achieve<sup>16</sup>.

The first step is an agreement on whether and when the EU should expand. During his presidency of the European Commission in 2014, Jean-Claude Juncker made it clear that *"there will be no further enlargement in the next five years"*<sup>17</sup>. This is a similar definition of *what* will happen (and *when* will it have to happen) after the next European elections in 2024 and in the new Commission. The member states should play an active role in this process, i.e. insist on a clear timetable for further expansion. An appropriate approach seems to be the determination of a fixed and more distant date during the next budget period, let us say 2030. A time-ambitious plan, but for the states that participate in the common market, who have accepted obligations arising from the climate agenda or receive money from EU funds, it is realistic enough.

<sup>15</sup> <https://www.atlanticcouncil.org/blogs/ukrainealert/agricultural-obstacles-may-complicate-ukraines-path-toward-eu-membership/>

<sup>16</sup> <https://www.politico.eu/article/european-union-membership-enlargement-turkey-albania-north-macedonia-montenegro-ukraine-moldova/>

<sup>17</sup> <https://www.economist.com/europe/2014/09/27/in-the-queue>



IN THE CASE OF UKRAINE'S ACCESSION TO THE EU, THERE WOULD HAVE TO BE A FUNDAMENTAL RECONSTRUCTION OF THE AGRICULTURAL POLICY, WHICH WOULD HAVE TO BE AGREED UPON BY ALL STATES

This approach will create a target date that can act as a motivation for the candidate countries as well as for the EU itself to make the necessary reforms so that enlargement can actually take place.

Of course, this does not mean that the European Union must accept everyone in 2030 – it is a question of readiness and fulfillment of the criteria. Accession must still take place based on the fulfillment of the conditions set in Copenhagen. This means that even if Ukraine is in an exceptional situation, the EU cannot, in principle, reduce the criteria it requires of other countries. Abandoning the meritocratic approach would unsettle other states and support

the narrative that the EU does not measure all candidates equally<sup>18</sup>.

The second step is to put order inside the European Union itself and use the experience of the largest enlargement in 2004, which, despite criticism and initial skepticism, showed that the EU can successfully integrate states with a non-capitalist past (the case of Ukraine). On the contrary, history has shown that the maneuvering position of the United Kingdom leading to the exit from the EU in 2016 eventually became a problematic point of European integration<sup>19</sup>. The expansion by ten new members in 2004 was based on the revision of the previous European policies summarized in the Agenda 2000 document, which mainly reformed the agricultural and EU cohesion policy<sup>20</sup>. Given that the agenda was based on the recommendations of the European Commission initiated in 1998, it is high time to formulate a similarly visionary and fundamental reform if we want to catch up with EU enlargement at the beginning of the 2030s.

The expansion can thus take place during the new financial period between 2028-2034, i.e. the period on which negotiations will begin shortly. During the Polish presidency in the European Commission in the first half of 2025, the member countries could, therefore, support the adoption of the similarly ambitious Warsaw Agenda 2030<sup>21</sup> – i.e. a comprehensive plan on how



## ABANDONING THE MERITOCRATIC APPROACH WOULD UNSETTLE OTHER STATES AND SUPPORT THE NARRATIVE THAT THE EU DOES NOT MEASURE ALL CANDIDATES EQUALLY

to adapt EU policies and finances to enlargement, define the path to its fulfillment, and announce the plan at the December EU summit. After next year's European Parliament elections, the new European Commission should provide an impact assessment and policy recommendations to support these steps. In parallel, a process of institutional reform needs to be enacted with the goal of completion by 2030.

Due to the current global circumstances, it is important to accept the fact that the enlargement of the European Union is one of the most important tools for the EU to strengthen its influence in its immediate surroundings. It is crucial to promote the idea that all European countries should ultimately belong to the EU – including Kosovo, Belarus, and eventually also Russia (or its European part).

<sup>18</sup> EUR Lex: Prístupová kritéria (kodaňská kritéria). Available [online]: [https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=LEGISSUM:accession\\_criteria\\_copenhagen](https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=LEGISSUM:accession_criteria_copenhagen) [in Czech]

<sup>19</sup> European Parliament (2018) *The Impact of the UK's Withdrawal on EU Integration*. Available [online]: [https://www.europarl.europa.eu/RegData/etudes/STUD/2018/604973/IPOL\\_STU\(2018\)604973\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2018/604973/IPOL_STU(2018)604973_EN.pdf)

<sup>20</sup> <https://eur-lex.europa.eu/EN/legal-content/summary/agenda-2000-for-a-stronger-and-wider-union.html>

<sup>21</sup> <https://ecfr.eu/article/vision-2030-four-steps-towards-the-new-eu-enlargement/>



DURING THE POLISH PRESIDENCY IN THE EUROPEAN COMMISSION IN THE FIRST HALF OF 2025, THE MEMBER COUNTRIES COULD, THEREFORE, SUPPORT THE ADOPTION OF THE SIMILARLY AMBITIOUS WARSAW AGENDA 2030

### **EU'S GEOPOLITICAL AMBITIONS AND ITS ABILITY TO ABSORB NEW MEMBERS**

The main geopolitical ambitions of the European Union can be considered to be the promotion of peace, stability, democracy, and the rule of law – not only on the European continent, but also in the world. These aspirations can also include support for the development and stabilization of regions geographically close to the EU. Furthermore, ambitions certainly include expanding its influence, increasing security, and strengthening its position

as a global player that could compete with other world powers<sup>22</sup>.

All the mentioned goals have a great influence on how the EU is able – and especially willing – to integrate new members. This ability is influenced by several factors, such as economic stability, political consensus, as well as the willingness of existing member states to accept a new one. There are lively and sensitive political debates about the decision on enlargement, which are largely influenced by these geopolitical ambitions<sup>23</sup>.

Moreover, the geopolitical context can play a decisive role in whether the EU will actively seek new members at all. In the case of various regional and global challenges, it can seek stable partners in neighboring areas and be open to expansion. It initially offers various forms of cooperation and assistance to the countries on the eastern and southern edges, which can become the first step towards future membership.

### ***GEOPOLITICAL AMBITIONS AND ABSORBING NEW MEMBERS***

In 2004, the European Union expanded to include a number of Central and Eastern European states that were previously part of the Eastern Bloc. This enlargement was in line with the EU's geopolitical ambitions, which included the promotion of democracy and stability in the region, as well as aiming to strengthen democracy and market economies in these countries and expand the EU's sphere of influence to the east<sup>24</sup>.

<sup>22</sup> <https://www.politico.eu/article/european-union-membership-enlargement-turkey-albania-north-macedonia-montenegro-ukraine-moldova/>

<sup>23</sup> [https://european-union.europa.eu/principles-countries-history/eu-enlargement\\_en](https://european-union.europa.eu/principles-countries-history/eu-enlargement_en)

<sup>24</sup> Ibid.



The European Union has expressed its interest in enlargement to the Western Balkans, which would serve geopolitical ambitions to strengthen stability and democracy in a region that has historically experienced conflict and instability<sup>25</sup>. Moreover, it maintains a European perspective for Ukraine as well as Moldova and supports their reforms with the aim of bringing them closer to EU standards<sup>26</sup>, which also coincides with ambitions aimed at strengthening relations with these Eastern European states and contributing to their democratic and economic development. Also, the support of Ukraine during the war with Russia and the willingness to open a dialogue for acceptance is motivated by geopolitical ambitions too.

Conversely, Brexit was a negative example of geopolitical developments that affected the EU's ability to expand. The UK's departure meant that the European Union lost one of its largest members and a country whose geopolitical influence is, undoubtedly, vast in many ways<sup>27</sup>.

### ***EU ENLARGEMENT POLICY COULD BE TRANSFORMED AND MORE EFFECTIVE***

It is possible to consider greater financial and technical support for countries that are trying to carry out reforms and adapt their legal systems and economies to the necessary standards. It can be done in the form of support for strengthening institutions, fighting corruption, and improving the legal system – for example, financing projects for training judges or improving the transparency of public procurement.

<sup>25</sup> European Commission (2023) *COM(2023) 314 final*. Available [online]: <https://data.consilium.europa.eu/doc/document/ST-10638-2023-INIT/en/pdf>

<sup>26</sup> EUR Lex (2022) *Communication on EU Enlargement Policy*. Available [online]: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX-3A52022DC0528>

<sup>27</sup> <https://warsawinstitute.org/brexit-geopolitical-perspective/>



IT IS CRUCIAL TO PROMOTE THE IDEA THAT ALL EUROPEAN COUNTRIES SHOULD ULTIMATELY BELONG TO THE EU – INCLUDING KOSOVO, BELARUS, AND EVENTUALLY ALSO RUSSIA (OR ITS EUROPEAN PART)

The enlargement process itself could be made even more transparent, while making the decision-making as accessible as possible to the public (in both member and candidate states), which can help build trust. This could be achieved by means of, for example, regular meetings with civil society and publication of reports on the progress of negotiations<sup>28</sup>.

Moreover, the studies that are commissioned before the enlargement to include new members and which analyze the economic and social impacts on the member

<sup>28</sup> European Ombudsman (2010) *European Citizens' Right to Know - Complaints about Lack of Transparency*. Available [online]: <https://www.ombudsman.europa.eu/en/speech/en/5314>

states and on the new members, should be well presented and accessible to the public. Citizens will thus be well informed about cost and benefit estimates for both parties<sup>29</sup>.

Greater and more active communication with citizens of member states and candidate countries would be key. Thorough education and awareness of citizens about the benefits and risks of enlargement can help reduce Euroscepticism and fears. The EU could also invest more in campaigns that inform citizens about the benefits of enlargement and make objective information about the process available, in turn, reducing fears and mistrust of proliferation. The involvement of civil society and non-governmental organizations in the enlargement process can help increase legitimacy and democratic control over the process – for example, through consultative forums or dialogue with civil society<sup>30</sup>.

Apart from that, the European Union could be more flexible in assessing the progress of candidate countries and allow a longer transition period for those states that face particular challenges and need more time to adapt to EU standards. The answer to this question may be a multi-rate integration model<sup>31</sup>.

### A MULTI-SPEED MODEL OF EU INTEGRATION: ADVANTAGES AND DRAWBACKS

Ukraine has a long-term interest in EU integration and strives for political and economic reforms in accordance with Europe-

<sup>29</sup><https://www.transparency.org/en/news/low-political-integrity-throughout-the-european-union-gcb-eu-2021>

<sup>30</sup> Devesa, D.R. (2022) *Report on the Implementation of Citizenship Education Actions: A9-0060/2022*, European Parliament. Available [online]: [https://www.europarl.europa.eu/doceo/document/A-9-2022-0060\\_EN.html](https://www.europarl.europa.eu/doceo/document/A-9-2022-0060_EN.html)

<sup>31</sup> [https://neighbourhood-enlargement.ec.europa.eu/2023-communication-eu-enlargement-policy\\_en](https://neighbourhood-enlargement.ec.europa.eu/2023-communication-eu-enlargement-policy_en)



THE GEOPOLITICAL CONTEXT CAN PLAY A DECISIVE ROLE IN WHETHER THE EU WILL ACTIVELY SEEK NEW MEMBERS AT ALL

an standards. However, the country faces a large number of technical and institutional obstacles that prevent it from fully implementing EU regulations and policies. The war and a complex geopolitical situation made these problems even more complicated, and the process of rapprochement with the EU more difficult<sup>32</sup>.

However, it is clear that Ukraine enjoys extensive support in some member states and European institutions, and so does the very idea of integration into the EU, which would take into account its specific situation and needs. The solution could be precisely the two-speed model, which is perceived as a possible solution for European integration due to the disparity and differences of individual member and candidate states<sup>33</sup>.

<sup>32</sup> Ibid.

<sup>33</sup> Šidlová, T. (2022) "EU chce otevřít dveře Ukrajině. Morální význam je pro ně obrovský", řekl Fiala", [in]: *Seznam Zprávy*. Available [online]: <https://www.seznamzpravy.cz/clanek/domaci-politika-eu-chce-otevrit-dvere-ukrajine-moralni-vyznam-je-pro-ne-obrovsky-rekl-fiala-207106> [in Czech]



UKRAINE HAS  
A LONG-TERM  
INTEREST  
IN EU INTEGRA-  
TION AND STRIVES  
FOR POLITICAL  
AND ECONOMIC RE-  
FORMS IN ACCOR-  
DANCE WITH EURO-  
PEAN STANDARDS

### **POTENTIALLY POSITIVE ASPECTS**

The multi-speed model allows member states to continue integration at their own pace based on their own needs and preferences. In this way, it can offer candidate countries, as well as Ukraine, flexibility in the process of rapprochement with the European Union. Ukraine could proceed in line with its own reform efforts and capabilities, allowing the state to make the necessary political, economic, and institutional changes at a customized speed.

The states that are willing and able to go further in integration could thus act without waiting for the approval of all other member states. This change would allow them to respond more quickly to current challenges and be able to implement policies and projects faster. At the same time, the model could provide additional motivation for the implementation of further

reforms in the candidate countries, which may see a reward for their efforts in deeper integration.

For Ukraine and other candidate countries, the multi-speed model could open the possibility to develop closer relations with the EU based on their needs and priorities. The model would provide this advantage to all member states – multi-speed integration can respect the historical, economic, and cultural diversity of all states and allow them to retain a certain autonomy, where they can adapt their participation in the European Union to their needs with regard to national identity.

Furthermore, in the case of candidate states facing military conflicts, the model could help promote a peaceful solution. Enhanced cooperation between the EU and these states could bring economic and political benefits and thereby help stabilize conflict-affected regions.

The model can also help preserve the unity of the EU – even if some states go deeper in integration than others, they remain part of the EU. In the case of the existence of a certain form of this model, the United Kingdom, for example, would not have had to leave – as it wanted to participate in some policies together with the EU, but not in all of them and to a different extent.

Finally, two-speed integration could be the answer to some of the existing issues, such as the Eurozone or common defense. The states that want to participate in these policies would be allowed to do so, while others could stay away and join at any time later.

### **THREATS AND CHALLENGES**

The main threat based on the multi-speed Europe model is not only the disintegration of the unity of Ukraine, but also the



## THE MULTI-SPEED MODEL ALLOWS MEMBER STATES TO CONTINUE INTEGRATION AT THEIR OWN PACE BASED ON THEIR OWN NEEDS AND PREFERENCES

disintegration of the European Union. Should some states forge closer ties with certain regions of Ukraine or entities seeking independence, this can only fuel separatist tendencies and create even greater political tensions. A similar threat applies to the entire EU – if some states go faster than others in integration, standards and rules can only deepen, which as a result can reduce the unity of the entire union.

The model may also encounter the question of democratic legitimacy. If some EU member states were to have more influence on the decision-making processes regarding Ukraine, as well as on the creation of EU policies, it may trigger debates about equality, representation, and the fairness of such a system.

A big threat is the increase in social and economic inequalities, which again applies both to Ukraine itself and to the entire EU. Two-speed integration could lead to closer relations with only some regions of Ukraine

and leave others out of cooperation. The same applies to inequality between member states – those that are moving faster in integration could have greater access to the benefits of the European market and cooperation, as opposed to those that are lagging behind. As a result, Ukraine and other candidate countries could lose the incentive to undertake the further extensive reforms needed for full membership if the two-speed model allows them to enjoy some of the benefits of European integration, thereby essentially turning Ukraine away from full membership.

It is obvious that the management and coordination of this model would be very demanding. The European Union, even in its current form, often receives strong criticism about the extraordinary complexity of the entire bureaucratic apparatus, which the two-speed model could complicate even more. The functionality of the model would require great organizational efforts and the cooperation of all authorities and states, including Ukraine.

The model could also further increase political tensions across the region, as certain member states have different interests vis-à-vis Ukraine, which can create complications in diplomatic relations and decision-making processes. At this point, it is also necessary to emphasize the reaction of Russia, which will certainly criticize any form of integration of Ukraine into the European Union and see it as an attempt by the EU to expand into its traditional sphere of influence.

### **OTHER VARIANTS**

In addition to the multi-speed model, there is the option of the traditional enlargement model, where candidate countries become full members of the EU after meeting the set criteria and conditions. This model can strengthen EU unity, but it requires careful

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IT IS IMPORTANT TO FIND A BALANCE BETWEEN MAINTAINING THE UNITY OF THE EUROPEAN UNION AND RESPECTING THE SPECIFIC CONDITIONS AND NEEDS OF INDIVIDUAL COUNTRIES

monitoring and evaluation of reform processes. It is appropriate to discuss whether Ukraine would not meet a similar fate as Turkey, which has been in the status of a candidate country in the traditional enlargement model for over twenty years.

Another possibility is the use of association agreements, where the EU can conclude agreements with candidate countries enabling closer relations in some policies without them becoming members (which, on the contrary, two-speed Europe is counting on). These agreements may include commercial, political, and institutional aspects.

The choice of a specific approach depends on the specific circumstances, the needs of Ukraine and the candidate countries, and the political will of the EU member states. It is important to find a balance between

maintaining the unity of the European Union and respecting the specific conditions and needs of individual countries.

It is clear that in terms of Ukrainian ascension, multiple courses of action can be taken to help improve Ukraine's chances of being admitted to the European Union. Regardless of the approaches taken towards EU enlargement, it is important to understand the benefits that EU growth will bring. To ensure security and prosperity, the EU must gain a greater influence in surrounding areas to promote its core values. Spreading democratic values across the continent is a crucial step towards building a greater European Union.



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# Generation 1968: The Road to Prosperity and EU Accession



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KRASSEN  
STANCHEV

The ‘revolutions’ of 1989 were a process, not an instantaneous event. The process was about returning the countries to where they belonged before World War II, and that place was Europe. This ‘returning moment’ of the political and economic developments before and after historic events of the years 1968-2004 is often left without necessary attention<sup>1</sup>. Therefore, it is crucial to pay attention to these processes to gain a better understanding of the path to EU accession for Central and Eastern Europe (CEE).

### ‘MISUNDERSTANDING’ THE COLD WAR AND 1989

After 1989, it has become obvious that the so-called ‘West’, or Europe in general, have had a far greater chance of winning the Cold War. But this prospect was not even properly discussed, let alone expected or predicted by scholars, politicians, and defense strategists on either side of the Iron Curtain. Western discourse was blinded by misreading the ‘Soviet System’ as such, political inertia, Sovietologists’ research agendas, and influences by left-leaning social scientists<sup>2</sup>. On the East side of the Iron Curtain, the erosion of the regimes was obvious in all walks of life, but open discussions of it risked oppression – or even a Warsaw Pact invasion. The emerging anti-Communist civic initiatives from Berlin to Sofia preferred (or perceived it was less risky, until the early days of November

<sup>1</sup> See, for instance, one of the most detailed studies of the path to 1989: by Sierp, A. (2015) *Democratic Change in Central and Eastern Europe 1989-90 (The European Parliament and the end of the Cold War)*, European Parliamentary Research Service. Available [online]: [https://www.europarl.europa.eu/EPRS/EPRS\\_STU\\_538881\\_Democratic\\_change\\_EN.pdf](https://www.europarl.europa.eu/EPRS/EPRS_STU_538881_Democratic_change_EN.pdf)

<sup>2</sup> See: Cox, M. (2008) *1989 and Why We Got it Wrong*, Working Paper Series of the Research Network 1989, Working Paper 1/2008. Available [online]: [https://www.ssoar.info/ssoar/bitstream/handle/document/1628/ssoar-2008-cox-1989\\_and\\_why\\_we\\_got.pdf](https://www.ssoar.info/ssoar/bitstream/handle/document/1628/ssoar-2008-cox-1989_and_why_we_got.pdf)

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THE ‘REVOLUTIONS’ OF 1989 WERE A PROCESS, NOT AN INSTANTANEOUS EVENT. THE PROCESS WAS ABOUT RETURNING THE COUNTRIES TO WHERE THEY BELONGED BEFORE WORLD WAR II

1989)<sup>3</sup> sorting out everyday problems – from human rights (freedom of speech, movement, conscience, and pursuit of happiness), through environmental degradation (in almost all countries), to workers’ representation (especially in Poland), to hard oppression of ethnic minorities (rather specific for Bulgaria)<sup>4</sup>.

Like all social changes, the collapse of the Soviet system was a multi-factorial emergent phenomenon, in which no principal agent or factor bears the feature of an

<sup>3</sup> Colla, M. and Gjericova, 1989: *The Chronopolitics of Revolution*, Studies in Philosophy of History, Wesleyan University, 4 October 2023. Available [online]: <https://onlinelibrary.wiley.com/doi/full/10.1111/hith.12321>

<sup>4</sup> See, for example: [https://lawliberty.org/forum/lie-and-practice-before-1989/?fbclid=IwAR0TnrSXX-C8mzklYUgjd2gwa33doHmqIndE\\_u8-t\\_g6n5Y59unc-d1JSGAA](https://lawliberty.org/forum/lie-and-practice-before-1989/?fbclid=IwAR0TnrSXX-C8mzklYUgjd2gwa33doHmqIndE_u8-t_g6n5Y59unc-d1JSGAA)

ultimate cause<sup>5</sup>. Economic emergencies resulting from the deepening malfunctioning of the centrally planned economies – virtually all communist countries were on the verge of a default, respective enterprise sectors were loss-making and polluting the environment – trapped the countries into an economic performance dead-ends<sup>6</sup>. At the same time, the consumers' sentiment on the East side of the Curtain (from fashion and music, news, and entertainment, to home-appliances and cars), has already been oriented towards the West for decades<sup>7</sup>.

The first post-1989 East European governments (the future EU members of the 2004 accession) faced the challenge to do away with economic inefficiencies, prevent defaults, and establish normal preconditions of life, employment, and income. This constellation of circumstances had pushed the study of transition towards economic reforms and recipes for reforms. International institutions (IMF, World Bank, OECD, among others) and the European Community organized respective departments to research, statistically review, and negotiate with the ex-communist world. The focus on economic and diplomatic matters had an impact on 'transitology': it often misses the fact that paths, successes, and failures

<sup>5</sup> See the application of the emergent property theory to the Cold War history in: de Mesquita, B.B. (1998) "The End of the Cold War: Predicting an Emergent Property", [in]: *Journal of Conflict Resolution*, Vol. 42, No. 2, pp. 131-155. Available [online]: <https://www.jstor.org/stable/174566?seq=2>

<sup>6</sup> See: <https://www.econlib.org/library/Enc/Eastern-Europe.html>. On the effects of post-1989 economic challenges, see: Haynes, M. (1996) "Eastern European Transition: Some Practical and Theoretical Problems", [in]: *Economic and Political Weekly*, Vol. 31, No. 8, pp. 467-482. Available [online]: <https://www.jstor.org/stable/4403833?seq=10>

<sup>7</sup> Bren, P. and M. Neuberger (2012) "Introduction: A Short History of Communist Consumption", [in]: P. Bren and M. Neuberger (eds), *Communism Unwrapped: Consumption in Cold War Eastern Europe*, Oxford: Oxford Academic, pp. 3-20.

of transition from communism to capitalism result from human actions, endeavors, and social leadership.

## **GENERATIONAL EVOLUTION OF RESISTANCE TO COMMUNISM: FROM ARMS, THROUGH ECONOMIC DEFICIENCY TO MUSIC**

The opposition to the communist rule, as summarized below, has been present in Eastern Europe since 1944. It took different forms: an armed resistance (from Bulgaria and the Balkans, to the Baltic states and Poland), non- and anti-communist parliamentary factions, open public discontent, uprisings (in Hungary, 1956), constant exodus to the outer side of the Iron Curtain, dissident movements, the so-called 'Samizdat', issue-based protests, tacit disagreement, and fake support to the regime as personal survival strategy. It evolved through the Soviet and Warsaw Pact invasions, survived deprivations of human and citizens' rights, and eventually changed the world in 1989. Notably, diverse forms of opposition often belong to different generations.

The first generation that formed early resistance to Communism, which was active in 1940-50s, vanished. The political opposition was liquidated, expelled, sent to GULAGs, or discriminated against. The armed guerrilla troops lost the stand-off against regular armies and police forces<sup>8</sup>. The families of these people were expropriated, banned to live in capital cities, be employed in prestigious occupations, or teach, and were ostracized from public life for decades. The hairs of this generation could not be extinguished,

<sup>8</sup> There are about fifteen armed-rebels movement, most of them were active until mid-1950s, while some existed until early 1960s (in the Baltic countries, Bulgaria and Poland) or emerged as late as in 1962 and 1968 in Romania. See, e.g.: Turcescu, L and Theriault (editors), *From Today's Observation Post: Collaboration and Resistance under Communism*, (2015), Eurostidia, Vol 10, Number 1, pp. 1-146, Available [online]: <https://www.erudit.org/en/journals/euro/2015-v10-n1-euro02010/>.





BY LATE 1960S-MID-1970S, THE CENTRAL PLANNING DESIGN OF THE BLOC ECONOMIES PROVED IMPOSSIBLE – TOO MANY SEPARATE ECONOMIC, SOCIETAL PUBLIC ORDERS EXISTED IN PARALLEL

but were intimidated and treated as 'second-class citizens'. Some of the youngest political opponents of Communism, after surviving oppressions and GULAGs, restored their political parties in 1989 and took part in anti-communist coalitions or joined NGOs<sup>9</sup>.

The Red Army's brutal military suffocation of the Hungarian Uprising of 1956<sup>10</sup> and the invasion of Czechoslovakia<sup>11</sup>, along

<sup>9</sup> See: Stojarová, V., Šedo, J., Kopeček, L. and Chytilek, R., Political Parties in Central and Eastern Europe: In Search of Consolidation, Institute for Comparative Political Research, International Institute for Democracy and Electoral Assistance, 2007. Available [online]: <https://www.idea.int/sites/default/files/publications/political-parties-in-central-and-eastern-europe-in-search-of-consolidation.pdf>

<sup>10</sup> Sebestyen, V. (2006) *Twelve Days: The Story of the 1956 Hungarian Revolution*, London: Pantheon Books.

<sup>11</sup> Nikolov, A., Zahle leto. Prazske yaro, bratarska pomoc a Buharska Lidova Republika, Praha, Akademia, 2021.

with the Soviet occupation of CEE, the imposition of communist nomenklatura-KGB style of governance, and the customary oppression of protests and dissidents had a long-lasting detrimental effect on the societies of the region. Every important individual and public initiative, cultural, trade-unionists, in the economic field, or international relations could not avoid taking into account neither the fact of Soviet military presence nor the memory of the 1956 and 1968 event. Adding up the time Soviet troops were stationed in each country, the occupation of Eastern Europe lasted for 142 years<sup>12</sup>. In 1989, according to different estimates<sup>13</sup>, the Soviet troops stationed in the region counted 500-600 thousand men – approximately 10% of the Soviet military power. The threat (or at least the fear) of Soviet intervention was vivid until early 1989<sup>14</sup>.

<sup>12</sup> See: Tucker, S.C. and P. Roberts (2007) *Encyclopedia of the Cold War. A Political, Social, and Military History*, Volume I-IV, Santa Barbara, California: ABC-Clio. The total Soviet occupations of foreign territories by the Soviet Union (lasted for approximately 181 years. That of European territories is divided as follows: 51 of the Baltic countries, 47 of Hungary, 17 of Poland and 14 of Romania, 5 of East Germany, 2 of Bulgaria and 2 of Czechoslovakia 68-69. The latter one is legally counted as occupation by the Warsaw Pact, but 80% of the troops were Soviet and 100% of the command (as documented by Nikolov, referenced earlier).

<sup>13</sup> *The Direction of Change in the Warsaw Pact*, CIA, National Intelligence Council (1990). Available [online]: <https://1989.rchnm.org/files/download/1143/fullsize>

<sup>14</sup> After Lithuania announced independence in 1990, the Soviet Army and KGB launched a similar to 1968 invasion of the country in January 1991. It failed thanks to the courage of Lithuanian citizens, but 13 were killed and 140 injured, and the event became known as 'Vilnius Massacre' (See: Marek Grzegorzcyk: <https://emerging-europe.com/author/marekgrzegorzcyk/>). Two years earlier, on April 9, 1989, Soviet army tanks attacked peaceful demonstration of mostly young people in Tbilisi: 21 were killed, 18 of them women, and 427 injured (See: Natalie Sabanadze: <https://www.euractiv.com/section/europe-s-east/opinion/georgia-remembers-its-9-april/>). It looks as if that in the years of decline, the Soviet leadership was prepared to use force on its own territory but not in neighboring Europe. However, until the fall of the Iron Curtain the leaders of those countries, be they form the old or new generation, would customarily consult Kremlin on international initiatives.

The role of the political and civic leadership of the future members of the EU in bringing down the 'ancient regime' is almost totally neglected by the studies of 1989-2004 transition<sup>15</sup>. From 1950s to 1980s, the generations communist leaders changed as well. The new folk at ruling cockpit of the Warsaw Pact countries replaced the generation of 1950s: on the eve of 1989, only Ceausescu, Kadar, and Zhivkov, obsolete politically by any standard, retained the post they received in 1956. They could not match the worldviews (and reform attempts) of Gorbachev, Shevardnadze, Nemeth, or Poland's PMs of the 1980's or even Jaruzelski.

Take several contrasting examples. In August 1989, Nicolae Ceausescu<sup>16</sup> proposed a Warsaw Pact invasion of Poland and across the Eastern Block "to destroy anti-socialist elements"<sup>17</sup>. Savranskaya<sup>18</sup> gives a plausible explanation why the Soviet leaders disregarded such a proposal. A month later, Tadeusz Mazowiecki will head Poland's government, and Leszek Balcerowicz will begin pushing a plan to get Poland out of bankruptcy (in which it has been since 1980).

Or let us consider Bulgaria's dictator Todor Zhivkov: according to recently published archives, in June 1989, he offered

<sup>15</sup> Savranskaya, S., Blanton, T. and V. Zubo (2010) *Masterpieces of History: The Peaceful End of the Cold War in Europe, 1989*, Budapest: CEU. Available [online]: <https://books.openedition.org/ceup/2752?format=toc>  
The book is a rare exception: it traces the events from 1985 to 1990 and summarizes the deeds the Communist and Western leaders.

<sup>16</sup> The episode is discussed by Larry Watts of the Woodrow Wilson Center: <https://www.wilsoncenter.org/publication/did-nicolae-ceausescu-call-for-military-intervention-against-poland-august-1989>

<sup>17</sup> Ibid.

<sup>18</sup> Her chapter of the above referred book is titled: "The Logic of 1989: The Soviet Peaceful Withdrawal from Eastern Europe". Available [online]: <https://books.openedition.org/ceup/2759>



## THE INVASION OF CZECHOSLOVAKIA PROVED THAT THE WARSAW PACT WAS TASKED WITH KEEPING THE COUNTRIES IN THE DO-MAIN OF THE SOVIET UNION

Mikhail Gorbachev closer ties between Bulgaria and USSR and a COMECON reform (in an obvious attempt to retain his post with some help from Moscow). Gorbachev responded that they work of 'sovereignty proposal' to Soviet republics "but we'll sell them resources on international prices"<sup>19</sup>. In the Hungarian People's Republic, in May 1989, Miklos Nemeth, as the prime minister, began dismantling the barbed wire fence along the border with Austria and opened the barrier to let East Germans move to Austria. The action was agreed upon by the Kremlin<sup>20</sup>.

Ceausescu and Zhivkov were direct descendants of 1940s puppet regimes installed by Stalin's ComIntern and the Red Army to run Eastern Europe under

<sup>19</sup> See: <https://novovreme.com/pamet-chno-nabqlo/t-jivkov-kam-m-gorbachov-shte-zagine-bulgaria-no-shte-zagine-i-savetskia-saiuz/> [in Bulgarian]

<sup>20</sup> Sebestyen, V. (2009) *Revolution 1989. The Fall of the Soviet Empire*, New York: Vintage Books.

Moscow's instruction<sup>21</sup>. They sought support from the Soviet Union for their publicly unpopular rule and economic failure. Gorbachev himself, if one reads Victor Sebestyen's reconstruction<sup>22</sup> of the developments preceding the opening of the Iron Curtain carefully, would rather trust leaders, not puppets unfit to bear personal responsibility, while remaining of the opinion that the Soviet Union still is able to manage the region.

### ONE OF THE FACTORS OF CHANGING EVEN COMMUNIST MINDSETS WAS THE ECONOMY

By the mid-1960s, the Soviet Block economies were constantly malfunctioning. Between 1950 and 1973, the average annual economic growth of Western Europe was 4.8% of GDP, that of Eastern Europe was 3.8%<sup>23</sup>. Anne Applebaum gives a brief but profound depiction of inflation, falling living standards and workers' strikes. She quotes a letter of the Soviet ambassador in Prague (dated December 1952), which described the economic situation as "*nearly total chaos*"<sup>24</sup>.

To a limited degree, the acceptance of capitalist ways governing the economic affairs happened in the late 1960s and 1970s, when communist governments accumulated

negative trade balances with the West, began to borrow from the Paris and London clubs of creditors and attempted trade reorientation to obtain hard currency<sup>25</sup>. By then Bulgaria defaulted on its debt to the USSR – similar developments had been typical for all countries, although formal defaults were never reported. Hungary was the first to plan economic liberalization, and the respective 'new economic mechanism' was introduced in 1968<sup>26</sup>. A 1988 report of the RAND Corporation to the analyzed and provided evidence for the following economic challenges of the COMECON countries: subsidizations of foreign debt obligations by Soviet supplies of energy resources is costly and hardly sustainable, the economic decline of the late 1970s is pronounced and unstoppable, monetary policies cannot resolve the challenges, and the communist leaders want change and seek alternative economic policies<sup>27</sup>.

The Paris Club (of public creditors) would set political conditionalities: from closing GULAGs to respect for human rights, to joining CSCE and the Helsinki Accords on Security in Europe. The Helsinki process was of pure political nature and did not have an economic agenda<sup>28</sup>. In fact, after

<sup>21</sup> The leaders of the countries even became known as 'little Stalins'. See: Applebaum, A. (2012) *Iron Curtain: the crushing of Eastern Europe 1944-1956*, London, etc.: Doubleday, pp. 47-50.

<sup>22</sup> Sebestyen, V. (2009) *Revolution 1989. The Fall of the Soviet Empire*, New York: Vintage Books.

<sup>23</sup> <https://www.statista.com/statistics/1073158/europe-gdp-per-capita-by-region-1950-1998/>

<sup>24</sup> See: Applebaum, p. 436, about similar developments and public discontent of the period see Chapter 18 of her book. See also a 1959 comparative analysis of the productivity of USSR and US industries by one of the most knowledgeable experts on Communist economies: Nutter, G.W. (1983) "The Structure and Growth of Soviet Industry (A Comparison with the United States)", in: Nutter, G.W., *Political Economy and Freedom Collection of Essays*, Indianapolis: Liberty Fund, pp. 151-180.

<sup>25</sup> See, for example: [https://lawliberty.org/forum/lie-and-practice-before-1989/?fbclid=IwAR0TnirSXX-C8mzkiYUgid2gwa33doHmqIndE\\_u8-t\\_g6n5Y59unc-d1JSGAA](https://lawliberty.org/forum/lie-and-practice-before-1989/?fbclid=IwAR0TnirSXX-C8mzkiYUgid2gwa33doHmqIndE_u8-t_g6n5Y59unc-d1JSGAA)

<sup>26</sup> Boote, A.R. and J. Somogyi (1991) *Economic Reform in Hungary Since 1968*, Occasional Paper 83, IMF.

<sup>27</sup> See: Crane, C. and Skoller, D., Specialization Agreements in the Council of Mutual Economic Assistance (1988), Rand Corporation, available [online]: <https://www.rand.org/content/dam/rand/pubs/reports/2009/R3518.pdf>.

<sup>28</sup> See: Applebaum, p. 436, about similar developments and public discontent of the period see Chapter 18 of her book. See also a 1959 comparative analysis of the productivity of USSR and US industries by one of the most knowledgeable experts on Communist economies: Nutter, G.W. (1983) "The Structure and Growth of Soviet Industry (A Comparison with the United States)", in: Nutter, G.W., *Political Economy and Freedom Collection of Essays*, Indianapolis: Liberty Fund, pp. 151-180.

the accord was signed, the economic accountability of the Eastern Bloc countries deteriorated simultaneously with mounting economic challenges<sup>29</sup>.

The lost competition with the West had an impact on both Eastern European governments and consumers: the former – to keep the public quiet and finance current expenditures, the latter – to obtain preferred products, from cars to jeans, and fashion. Since the population, too, needed hard currency, the governments opened respective shops to collect West European and U.S. currency from the population. In 1966-1968, Hungary (sometimes called the 'happiest barrack' of the Soviet Camp), planned and introduced its 'New Economic Mechanism' to allow for – although limited – price-market coordination and enterprise profit seeking. This rang the alarm bell in Moscow, COMECON curtailed the reform, and the Warsaw Pact made no compromise when the next similar reform (official Dubcek's 'Socialism with human face' or the Prague Spring) had been spontaneously attempted in Czechoslovakia<sup>30</sup>.

By late 1960s-mid-1970s, the central planning design of the Bloc economies proved impossible – too many separate economic, societal public orders existed in parallel. This observation was made by Steven Sampson, Professor of Social Anthropology of Lund University, in 1988. He counted the following economic order (or rules of the game) of the countries: 'Directed', or Socialist sector (SOEs, cooperative and state

redistribution); 'Regulated' private sector (individual production and marketing, services); Criminal Economy (illegal private enterprises and tolerated illegal private enterprise; Informal Economy (unauthorized/illegal wage labor fiddling, pilferage, etc.); Speculation (unauthorized or illegal but tolerated market exchange), and Social Economy (barter and swapping, household and domestic economy)<sup>31</sup>. Sampson's categorization means that before 1989 in the Communist countries there were four parallel economies – the 'arbitrage' opportunities between them made the political coordination impossible while the shadow economic coordination had no option but to grow.

### **THE SOCIETAL AND COMMUNIST GOVERNANCE EFFECTS OF THESE CIRCUMSTANCES NECESSITATED DIVERGING TRAJECTORIES**

The governmental oppression of the first generation of 'little Stalins' had to rely on direct destruction of opposing members of the public and threat of violence to everyone else. With the second generation, the violence was softened to 'only a threat to use' it. Simultaneously, the search for alternatives (in the area of economic management) gave way to a new generation of Communist leaders – like those mentioned above.

The social trajectory after the invasion of Czechoslovakia could take only the path of informality and every-day, cultural opposition to the regime. The Iron Curtain was erected and maintained to keep individuals from fleeing to the West. Therefore, it may be concluded that the invasion of

<sup>29</sup> Hanson, Ph. (1985) "Economic Aspect of Helsinki", [in]: *International Affairs*, Vol. 61, No. 4, pp. 619-629. Available [online]: [https://www.jstor.org/stable/pdf/2617707.pdf?refregid=fastly-default:4c14700e50ec-62088c3d63f042fc3931&ab\\_segments=&origin=&initiator=&acceptTC=1](https://www.jstor.org/stable/pdf/2617707.pdf?refregid=fastly-default:4c14700e50ec-62088c3d63f042fc3931&ab_segments=&origin=&initiator=&acceptTC=1)

<sup>30</sup> Bauer, T. (1983) "The Hungarian Alternative to Soviet-Type Planning", [in]: *Journal of Comparative Economics*, Elsevier, Vol. 7(3), pp. 304-316.

<sup>31</sup> Sampson, S. (1988) "'May You Live Only by Your Salary!' The Unplanned Economy of Eastern Europe", [in]: *Social Justice*, Fall-Winter, Vol. 15, No. 3-4, pp. 135-159. Available [online]: [https://www.jstor.org/stable/pdf/29766425.pdf?refregid=fastly-default:2a64f5424fe4fcd0203d39758ad4b1579ab\\_segments=&origin=&initiator=&acceptTC=1](https://www.jstor.org/stable/pdf/29766425.pdf?refregid=fastly-default:2a64f5424fe4fcd0203d39758ad4b1579ab_segments=&origin=&initiator=&acceptTC=1)



BY THE BEGINNING  
OF 1960S,  
THE FAILURE  
TO CONTROL  
THE MINDS  
OF THE CITIZEN-  
RY SEEMS TO HAVE  
BEEN MARKED  
BY THE EMERGENCE  
AND THE POPULAR-  
ITY OF AUTHORS  
WHOSE CHARAC-  
TERS WERE AVERAGE  
HUMANS,  
WITH DOUBTS  
AND WEAKNESS-  
ES, WHOSE BOOKS  
SMELT OF REALITY

Czechoslovakia proved that the Warsaw Pact was tasked with keeping the countries in the domain of the Soviet Union.

The cultural and dissident dimension of opposition to Communism has many faces and has been different in magnitude in the

Eastern European countries<sup>32</sup>. Of the entire spectrum of attitudes and endeavors, let us briefly mention only two common phenomena: literature and pop music.

By the beginning of 1960s, the failure to control the minds of the citizenry seems to have been marked by the emergence and the popularity of authors whose characters were average humans, with doubts and weaknesses, whose books smelt of reality. They told stories of oppressions and GULAGs. Many of them were intimidated, oppressed to silence, or expelled from their country, but they created a quest for normalcy, human affairs, and individual liberty which twenty years later toppled the regime. To 'Live Not by Lie' was a personal credo and public message for Alexander Solzhenitsyn, Georgy Markov, and Vaclav Havel.

Or take the music. Even folklore in my country, Bulgaria, as survey demonstrated, was a branch of political manipulation<sup>33</sup>. One can find on the Internet different entries on 'how rock music killed communism'. Moreover, there are recent comprehensive studies on popular music in the communist countries – from Latvia to Bulgaria. Among dozens of rock bands from the new EU member states, I vividly remember, I would like to briefly mention only one – the Czech group named The Plastic People of the Universe (PPU). Victor Sebestien and many other authors discuss their story.

<sup>32</sup> See: Pollak, D. and J. Wielgoths (2004) *Dissent and Opposition in Communist Eastern Europe: Origins of Civil Society and Democratic Transition*, Burlington: Ashgate Publishing. Available [online]: [https://www.kuwi.europa.uni.de/de/lehrstuhl/vs/politik3/Lehre\\_WS\\_10\\_11/Wielgoths-Pollack-Dissent.pdf](https://www.kuwi.europa.uni.de/de/lehrstuhl/vs/politik3/Lehre_WS_10_11/Wielgoths-Pollack-Dissent.pdf)

<sup>33</sup> See: Silverman, C. (1983) "The Politics of Folklore in Bulgaria", [in]: *Anthropological Quarterly*, Vol. 56, No. 2, 'Political Rituals and Symbolism in Socialist Eastern Europe', pp. 55-61. Available [online]: <https://www.jstor.org/stable/3317339>

PPU were my favorite Czech band in the late 1960s and early 1970s, heavily influenced by Frank Zappa – another favorite musician of mine. Zappa was much more political than PPU. After the invasion of Czechoslovakia, they moved underground and recording them became an illegal business. Their music outraged the authorities because it is above all free, a little surreal, and somewhat psychedelic, very outspoken, for people who understand Czech. Soon, they started writing and singing in English. The band was arrested and tried for a show trial in 1976. To no avail: they continued to record and perform music illegally, sometimes abroad, until the final collapse of the regime. To mark the collapse of Communism in Central Europe, Frank Zappa, already fatally doomed by disease, performed two of his last concerts in Prague and Budapest in June 1991<sup>34</sup>.

The story of PPU is not unique (although I cannot recall any other band in Eastern Europe put on a show trial), but it is symbolic. It manifests a will to achieve individual freedom and pursuit of happiness that was witnessed by those who lived through 1968 in this part of Europe<sup>35</sup>. This generational will passed almost unnoticed. One of the few public tributes to the 'Generation 1968' at the time belongs to G.W. Nutter. In September 1968, at a Mont Pelerin Society conference, he summarized the background of the reforms and concluded: *"These are momentous times in Eastern Europe. Those striving... to give their*

<sup>34</sup> See: "Frank Zappa (VIDEO) The Last Performances (The 1991 Prague & Budapest Concerts)". Available [online]: <https://www.youtube.com/watch?v=fIOBSUSAikY/>

<sup>35</sup> As a teenage boy, I visited Prague in 1967 and 1968, and the civic strive for liberty resulted in life-long commitment to promote libertarian values everywhere in the 1980's and post-1989 world. I told the public at large how it happened in: Stanchev, K. (2023) "From Soviets to Classical Liberalism", [in]: Cavallo, J.A. and Block, M.E. (eds) *Libertarian Autobiographies*, Springer, pp. 433-439.



## COMMENTATORS OF TRANSITION OFTEN MISS THE COMMON FEATURES OF REFORMERS' PERSONAL BACKGROUNDS

*peoples greater measure of freedom... deserve sympathy, admiration and respect. In a profound sense, the hope for the West lies today in the East*<sup>36</sup>.

### FIRST ECONOMIC REFORMERS

Poland's first non-Communist prime minister, Tadeusz Mazowiecki<sup>37</sup>, irrespectively of his complex early career and his record as an MP defender of rights to assembly, freedom of beliefs (as a devout Catholic), and a member of the token opposition to the ruling party, who had no illusions about the reasons of the sad conditions of Poland's public life, was an active promoter of Solidarnosc. His inauguration speech in the Sejm had two accents: a promise to take responsibility for the future of the country, and 'closing the page of the past'.

With a different background, associated with Janos Kadar and the 'happiest barrack' of Eastern Europe, Hungary, ex-Communist

<sup>36</sup> Nutter, G.W. (1983) "Trends in Eastern Europe", [in]: Nutter, G.W., *Political Economy and Freedom*, p. 209.

<sup>37</sup> See the biography of Tadeusz Mazowiecki here: [https://dzialam.um.warszawa.pl/biografia\[in Polish\]](https://dzialam.um.warszawa.pl/biografia[in Polish])

top brass Karoly Grosz, Miklos Nemeth, and Gyula Horn opted for a reform very similar to that of Mazowiecki in terms of pure politics and Balcerowicz's economic plan. All the Hungarian 1988-1990 leaders were only in name representatives of the old regime, while Miklós Nemeth was then viewed as the most radical reformer. For his role in the opening of the Iron Curtain in 1989 (and 'contribution to the unification of Germany'), in 2014, he was awarded Point Alpha Preis by the Deutscher Bundestag<sup>38</sup>.

Commentators of transition often miss the common features of reformers' personal backgrounds. Leszek Balcerowicz and Miklós Nemeth seem somewhat similar. The latter, in the 1970s, worked for the Planning Office of the government in Budapest and had inside knowledge of what worked and what did not in 1968 NEM. Balcerowicz, with a doctoral degree from the Central School of Planning and Statistics, in 1979-1980 led a team of economists to assess the pitfalls of investment and other policies, as a result of which Poland entered credit agreements with the Paris Club but had little to no chance to boost growth and pay the debts. This assignment contributed to Balcerowicz's popularity in both government and Solidarnosc circles.

Both men enjoyed relative liberty of their alma-maters in economics and were ardent supporters of the liberalization of private enterprise a decade before it was doomed to happen. It also seems that neither was sympathetic to Keynesian policies, which were then popular in the West. As Witold Gadomski wrote in his biography of Balcerowicz, Mazowiecki's in-

itation to join the cabinet as a minister of finance was formulated as "I am looking for Poland's 'Erhard'. Three years later one of the first international recognitions he received was the Ludwig Erhard Prize from the Erhard Foundation. Now, Balcerowicz is almost universally known as "the Polish Erhard"<sup>39</sup>. This 'Erhard' moment, as it may be called, is important: it refers to the 'economic miracle' Poland entered in the mid-1990s, like Germany in 1950-1965. The content of the Balcerowicz's Plan (already a textbook title) was based on the same principles as the Erhard Plan for post-War Germany (liberalization, competition and economic freedom, monetary and fiscal discipline, protection of private property, speed, and social safety nets) and were later summarized in *Wohlstand für Alle* in 1957<sup>31</sup>.

These biographical sketches indicate changes in the economic way of thinking by the middle and late 1970s. The curricula of economic universities moved away from Marxism. The government offices of central planning were already using international market prices, especially from commodity exchanges for respective five-year plans. Internationally operating enterprises applied international accounting principles and governments' balance of payments were compelled to fit the borrowing needs. P. Samuelson and J.M. Keynes were already translated in all languages of Eastern Europe, economic students would rather use them as textbooks. Professors already traveled abroad for short courses and scholarships, and university exchanged tickets for foreigners visiting Eastern Europe to lecture.

<sup>38</sup> Deutscher Bundestag (2014) *Aktueller Begriff. Point Alpha Preis für Miklós Németh*. Available [online]: <https://www.bundestag.de/resource/blob/283062/d9932c7ef2c73e3d6d3a0f055e2cc623/point-alpha-preis-fuer-miklos-nemeth-data.pdf> [in German]

<sup>39</sup> Gadomski, W. (2006) *Leszek Balcerowicz*, Warsaw: Świat Książki. See: Chapter 1. 31 See: Erhard, L. (1957) *Wohlstand Für Alle*. Available [online]: [https://www.mit-sh.de/sites/www.mit-sh.de/files/downloads/wohlstand\\_fuer\\_alle.pdf](https://www.mit-sh.de/sites/www.mit-sh.de/files/downloads/wohlstand_fuer_alle.pdf) [in German]

Stanislaw Gomulka – who fled Poland in 1969, became a lecturer in the London School of Economics and came back to help Balcerowicz to fine-tune his plan – was a prominent critic of central planning. Similar to his fellow reformers of Poland and Hungary, Vaclav Klaus worked at the Institute for Prognostics of the Czechoslovak Academy of Sciences. In the late 1960s, he spent some time in Italy and the University of Cornell, worked in a bank, and in late 1989 became the advisor at the Civic Forum and a finance minister in the Government of National Unity.

### INSTEAD OF CONCLUSIONS: EU ACCESSION

In other words, except for Bulgaria, the economic 'Golden Age' started a 30-year-long communist rule, which was imposed by military force. However, it could not be dismantled with oppression and the absence of divisions of power, human rights, and the rule of law. Economists and reformers (irrespective of their backgrounds and levels of understanding of social life) needed to be entrusted by the citizenry to promote the reforms. And it was the generation of the late 1960s and early 1970s that was called to first freely elected the reformers and then, to entrust them 'to close the page of the past'.

One of the first IMF comparative reviews of the economic developments in ex-communist countries<sup>40</sup> found that economic growth and recovery after 1990 has been a common phenomenon for all future 2004 EU members (and Croatia) as early as 1994-1995<sup>41</sup>. The accession to the

European Union was, first of all, a symbolic act. The leaders, like the economic reformers, emerged from the 1960s. The public expectations were formed in the same years – by writers and philosophers who professed a desire to 'not live in a lie' and believed in 'the power of the powerless', by dissidents, artists, movie makers, popular music, and rock bands, who not only believed in individual freedom, but also exercised it.

The 1968 generation carried out and paid the political and economic price for the 'return' to Europe. Their values were classical liberal, as it is evident from the similarities between Erhard's Plan and the 1990 reforms that led to the 2004 EU accession. The reforms themselves were, in essence, classical: they dismantled the remnants of central planning, removed the barriers to individual liberty and, perhaps, opened the prospects for a new and better functioning European Union.



\*

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<sup>40</sup> Havrylyushin, O., Izvorski, I, and R. van Rooden (1998) *Recovery and Growth in Transition Economies 1990-97*, IMF Working Paper No 98/141. Available [online]: <https://www.imf.org/external/pubs/ft/wp/wp98141.pdf>

<sup>41</sup> Bulgaria's transition to market followed the same path, but the recovery was interrupted by 1995 Socialist Party's attempt to reintroduce central planning.





# The European Union: Why Is It the Only Choice for Georgia?



\*

GIA  
JANDIERI

In December 2023, Georgia was given official status of a candidate state of the European Union. This decision was not easy, and the nation went through years (or even centuries) of efforts to align its future with Europe. The independence Georgia gained after the collapse of the Soviet Union was a long and difficult experience – the first years of independence did not promise much, but the reforms that started in 2004 created chances to join the Euro-Atlantic community.

In 2008, Russia attacked Georgia and occupied its two regions, limiting the speed of its reforms and development. The European Union answered this with new initiatives of the Eastern Partnership (EP)<sup>1</sup> converted into Association Agreement<sup>2</sup> and Deep and Comprehensive Free Trade Agreement with Georgia, Ukraine, and Moldova.<sup>3</sup> Alarmed by this, Russia attacked Ukraine and occupied Crimea and part of the Donbass region, which was continued with the 2022 wider invasion of Ukraine. The European Union offered to the EP trio (Georgia, Moldova, and Ukraine) acceleration of their path toward membership in the EU. As a result, the three nations were granted the candidacy status – Moldova and Ukraine in 2022, whereas Georgia in 2023<sup>4</sup>.

The discussions before receiving the candidacy status in Georgia were quite tough and came under pressure of openly pro-Kremlin groups, as well as with hesitation on the side of the government. However,

<sup>1</sup> [https://www.eeas.europa.eu/eeas/eastern-partnership\\_en](https://www.eeas.europa.eu/eeas/eastern-partnership_en)

<sup>2</sup> [https://ec.europa.eu/commission/presscorner/detail/sl/MEMO\\_14\\_430](https://ec.europa.eu/commission/presscorner/detail/sl/MEMO_14_430)

<sup>3</sup> <https://trade.ec.europa.eu/access-to-markets/en/content/eu-georgia-deep-and-comprehensive-free-trade-area>

<sup>4</sup> [https://commission.europa.eu/news/enlargement-commission-recommends-starting-accession-negotiations-ukraine-moldova-bosnia-and-2023-11-08\\_en](https://commission.europa.eu/news/enlargement-commission-recommends-starting-accession-negotiations-ukraine-moldova-bosnia-and-2023-11-08_en)

”  
MOST  
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AND CHOOSE  
THE EU

the majority of the pro-European population regards this move as a major chance to get rid of the Russian political and economic influence and be a member of a club that respects individuals and their families<sup>5</sup>.

On the other side of Georgia's choice is Russia and its Eurasian Economic Union (EEU). However, most Georgians instinctively oppose any ties with Russia and choose the EU<sup>6</sup>, even though Russian propaganda is still powerful. Directly financed by groups from Russia attempt to deceive Georgians that Russia is a good choice despite extensive evidence to the contrary. This is why many people can be trapped with propaganda narratives prepared in Russia<sup>7</sup>.

<sup>5</sup> <https://www.atlanticcouncil.org/blogs/ukrainealert/russia-is-losing-in-ukraine-but-winning-in-georgia/>

<sup>6</sup> <https://www.iri.org/resources/national-public-opinion-survey-of-residents-of-georgia-march-2023/>

<sup>7</sup> <https://ecfr.eu/publication/broken-dream-the-oligarch-russia-and-georgias-drift-from-europe/>



## GEORGIA NEEDS GOOD KNOWLEDGE OF WHAT THESE CHOICES PROMISE TO ITS PEOPLE IN ORDER NOT TO GET INTO ANOTHER TRAP OF LONG-RUN POLITICAL AND ECONOMIC OBLIGATIONS

Another new challenge currently in the world is the People's Republic of China (PRC) and it is led by a new union of nations – BRICS<sup>8</sup>. After decades of successful reforms and the PRC becoming the second largest economy in the world, the Chinese government operates with huge financial resources that are employed not only in military spending, but also in economic projects everywhere in the world. This phenomenon has already become a political issue for countries around the globe, including Georgia – where its government has already started a flirty relationship with the Chinese government, which looks

more like a domination effort from the PRC than an agreement<sup>9</sup>.

PRC and Russia, together with India, initiated a new agreement among them and now, already eleven nations (Argentina recently decided to stop its membership and this analysis does not include its data) that is called BRICS. Currently BRICS leaders (namely Russian and Chinese) initiated several projects, including getting rid of the U.S. dollar from their trade.

Squeezed between such challenges and choices. Georgia needs good knowledge of what these choices promise to its people in order not to get into another trap of long-run political and economic obligations.<sup>10</sup> What Georgia can immediately find out are: voluntary membership, consensus-based decision-making, and voting power of even the smallest member in the European Union. These are the most important political rights of a nation that are completely different from the Soviet Union rules. Georgians can assume that any new treaty with Russia and/or China can be very dangerous, harmful, and costly. Therefore, it is crucial to provide a comparative analysis of the EU, EEU, and BRICS from the Georgian perspective.

### BACKGROUND AND APPROACH

Georgia decided to be a member of the European Union that would be accepted by both the EU as a whole and its members. What can attract Georgians to the EU is life protected by means of civil, political and economic rights,<sup>11</sup> better quality of life, medical services, or education. As

<sup>9</sup> <https://eurasianet.org/strategic-partnership-between-georgia-and-china-puzzles-critics>

<sup>10</sup> <https://gfsis.org.ge/files/library/opinion-papers/22-expert-opinion-eng.pdf>

<sup>11</sup> [https://www.echr.coe.int/documents/d/echr/convention\\_ENG](https://www.echr.coe.int/documents/d/echr/convention_ENG)

<sup>8</sup> An intergovernmental organization consisting of Brazil, Russia, India, China, South Africa, and – since 2023 – Egypt, Ethiopia, Iran, and the United Arab Emirates.



EVERY CORRUPTION PRACTICE MAKES BUSINESS DEPENDENT ON POLITICIANS AND BUREAUCRACY – INSTEAD OF HARD WORK IN THE MARKET, PEOPLE CHOOSE HAVING ARTIFICIAL PRIVILEGES AND FAVORITISM, WHICH CANNOT BE A DRIVE OF A FLOURISHING ECONOMY THROUGH IMPROVED PRODUCTIVITY AND EFFICIENCY

a consequence, this analysis is based on several surveys of independent institutions studying certain aspects of life and business of the world nations. The results show unchallenged leadership and the best results of the EU overwhelmingly championing the rivals from the EEU and the BRICS.

Joining the European Union thus serves as a promise of a better quality of life and better opportunities for business, high development, and overall happiness.

As the evidence below shows, Europeans live longer, are wealthier and happier. Any partner of the EU will have a chance of using the given opportunities of huge market, high-purchasing power of its customers, best business environment, and protected rights. Therefore, the article offers a comparative analysis of the European Union (27 member nations), the Eurasian Economic Union (five members), BRICS (10 members), and Georgia. Its goal is to show the existing differences and prove advantages of joining the EU by Georgia. The analysis contains data from nine sources of independent and experienced experts from widely recognized organizations.

Georgian people have to decide what kind of country they want to live in – a free one, with protected rights, developed, and prosperous or whether to be oppressed and poor. The *Democracy Index*, *Freedom in the World*, *Press Freedom*, *Freedom and Prosperity* studies evaluate these conditions in the world. The *Corruption Perception Index* and the *World Bank Governance Indicators* study the government performance and legislative solutions, accountability of the power institutions, and leaders.

While Georgian businesses need to decide where to have partners, customers, or suppliers from, they still need to try – it is, after all, business – as nothing is guaranteed. There can be numerous advantages and disadvantages to either choice. Nobody can give a company absolutely precise advice on where to sell and buy goods. Business entrepreneurship is about ‘try, win, or lose’. Yet, there can be several ways to find

Table 1: Average scores of the EU, EEU, BRICS, and Georgia

Nation Groups	Overall score	Functioning of government	Civil liberties
EU	7.90	7.37	8.55
EEU	3.28	2.53	3.41
BRICS	3.86	4.29	3.18
Georgia	5.20	3.57	5.59

Source: Democracy Index 2023, Economist Intelligence Unit<sup>12</sup>

out where it is easier to make business, or to put it another way – where there are less barriers for business.

There are four studies about economic freedoms and business opportunities – two about economic freedoms (by the Fraser Institute and the Heritage Foundation) and third, also very valuable – global competitiveness (by the World Economic Forum). There was another study by the World Bank – of Ease of Doing Business, but it was suspended some years ago. So, let us start with the Fraser Institute Economic Freedom of the World Study (EFW). The new Freedom and Prosperity indexes also bring new perspectives on the ways to achieve a prosperous life. Finally, additional data to show the economic advantage of the EU are presented – including its capacities and the most important result: life expectancy.

### DEMOCRACY INDEX BY THE ECONOMIST INTELLIGENCE UNIT (2022)

The Democracy Index (DI)<sup>13</sup> was launched in 2006 and is based on sixty indicators grouped in five categories: Electoral Process

and Pluralism, Functioning of Government, Political Participation, Political Culture, and Civil Liberties. The 2023 Index recognizes four categories of nations: Full democracies (24 nations, scores 8-10 out of 10), Flawed Democracies (50 nations, scores

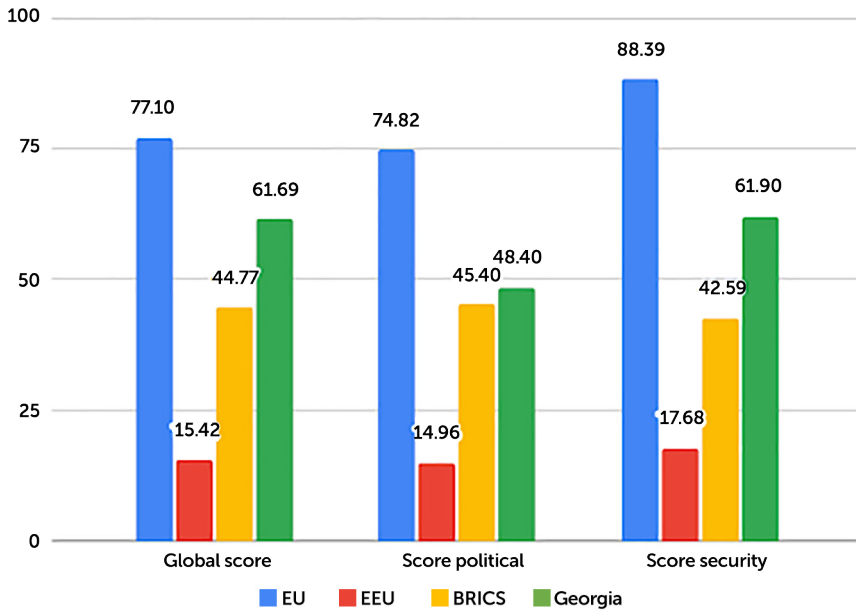


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<sup>12</sup> <https://www.eiu.com/n/campaigns/democracy-index-2023-download-confirmation>

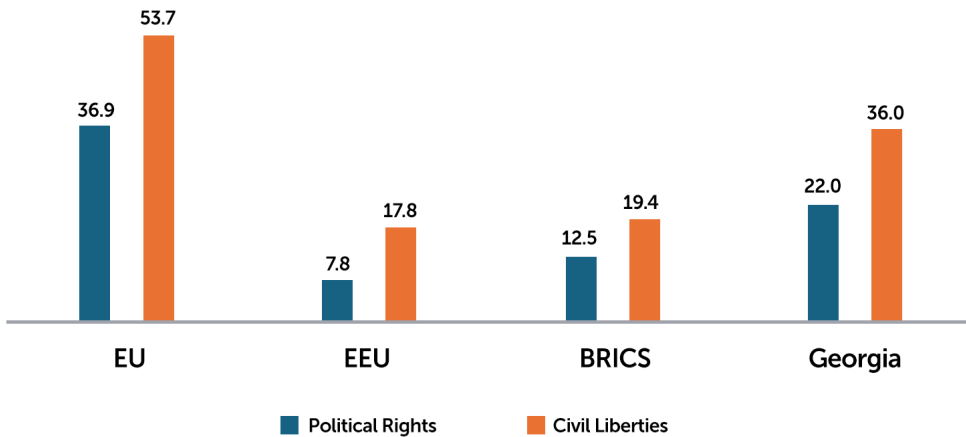
<sup>13</sup> <https://www.eiu.com/n/campaigns/democracy-index-2023-download-confirmation>

Figure 1: Global, Political and Security average scores of the EU, EEU, BRICS, and Georgia



Source: World Press Freedom (2023)

Figure 2: Average Scores of Political Rights and Civil Liberties in EU, EEU, BRICS, and Georgia



Source: Freedom House (2023)

6-8), Hybrid Democracies (34 nations, scores 4-6), and Authoritarian Regimes (59 nations, scores 0-4).

The study indicates that there are: 11 full democracies and 16 flawed democracies in the EU, 1 hybrid democracy and 4 authoritarian regimes in the EEU, and 3 flawed democracy and 7 authoritarian regimes in BRICS.

The DI is a very good tool for individuals to compare the living environment in these country groups [See: Table 1], who look for better protection from political abuse, from which nations one can study good governance and the creation of the best living conditions. The table above clearly indicates that the EU is the best.

### WORLD PRESS FREEDOM INDEX BY REPORTERS WITHOUT BORDERS (2023)

Assessment of press freedom by the Reporters without Borders was started in 2002. It includes measures of political, economic, legislative, socio-cultural and security of the media components. In this index, eight out of ten best press freedom nations are from the EU. Only Armenia (from the EEU group of nations) and South Africa (from the BRICS) are slightly higher than some EU nations [See: Figure 1].

The World Press Freedom Index is a source of very valuable information that allows one to find out where an individual is better protected, their voice is heard, and how

Figure 3: Freedom and Prosperity average scores of EU, EEU, BRICS, and Georgia, Freedom

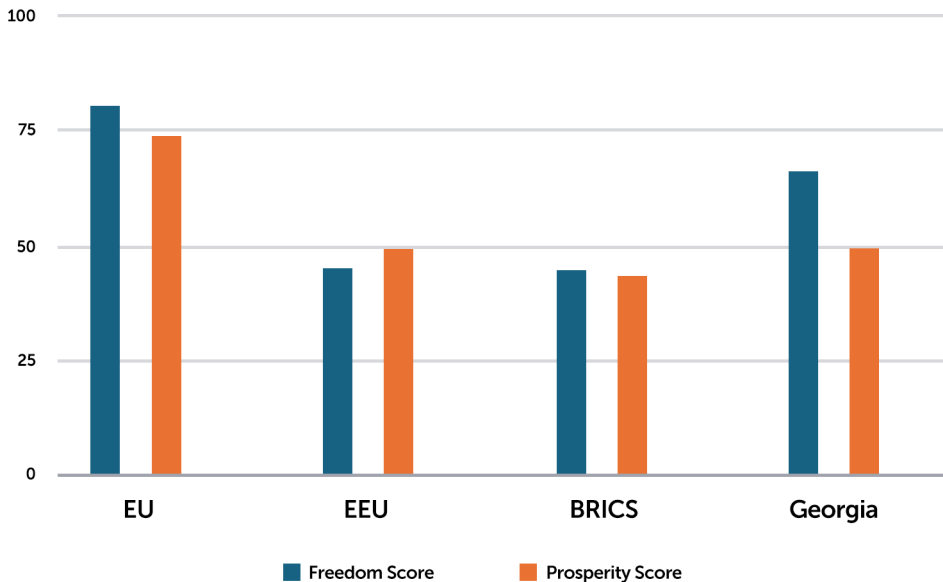
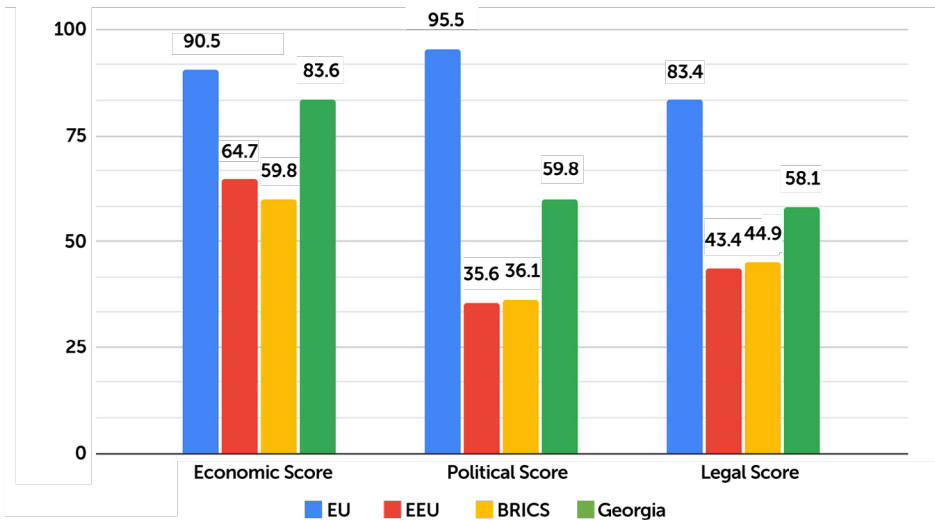




Figure 4: Economic, Political and Legal scores, EU, EEU, BRICS, and Georgia (0-100)



Source: Atlantic Council (2023) Freedom and Prosperity Indexes

freely they can get necessary information or hear the opinion of other people.

## FREEDOM IN THE WORLD BY THE FREEDOM HOUSE

*Freedom In the World* survey<sup>14</sup> is the annual survey that was launched in 1973 and measures political and civil freedoms among the nations and territories. There are three categories of freedom according to this index, there are<sup>15</sup>: 26 Free and 1 Partly Free nations in the EU, 1 Partly Free and 4 Not Free nations in the EEU, and 2 Free, 1 Partly Free and 7 Not Free in the BRICS. Georgia is considered Partly Free.

Freedom House also measures Political Rights and Civil Liberties in the world. The survey shows the opportunities of

individuals in those nations to maintain effective control over the decision-making in their countries and protection of their lives and activities. On the basis of the available data, it becomes obvious that the EU is far better and EEU and BRICS need numerous efforts to reach that level [See: Figure 2]. It also reveals that politicization of the economy and abuse of power is at the highest levels and that the people are oppressed.

## FREEDOM AND PROSPERITY INDEXES BY THE ATLANTIC COUNCIL

The Atlantic Council, a political think-tank in Washington DC, has very recently launched the new study of Freedom and Prosperity in the World<sup>16</sup> and there are two editions of the indexes yet. The indexes evaluate nations in freedom and prosperity terms and has four categories in each from free to unfree, and prosperous to unprosperous.

<sup>14</sup> <https://freedomhouse.org/countries/freedom-world/scores>

<sup>15</sup> [https://freedomhouse.org/sites/default/files/2023-02/Country\\_and\\_Territory\\_Ratings\\_and\\_Statures\\_FIW\\_1973-2023%20.xlsx](https://freedomhouse.org/sites/default/files/2023-02/Country_and_Territory_Ratings_and_Statures_FIW_1973-2023%20.xlsx)

<sup>16</sup> <https://www.atlanticcouncil.org/content-series/the-big-story/the-freedom-and-prosperity-indexes-how-nations-create-prosperity-that-lasts/>

Table 3: Average Scores of CPI in EU, EEU, BRICS nations, and Georgia<sup>17</sup>

Country Groups	Scores
EU	63.6
EEU	35.0
BRICS	40.0
Georgia	53.0

According to the current positions by Freedom and Prosperity Indexes 2023<sup>18</sup>, there are: 24 free, 3 mostly free; 13 prosperous, and 14 mostly prosperous nations in the EU; 1 mostly free, 4 mostly unfree, 2 mostly prosperous, and 3 mostly unprosperous nations in the EEU; 4 mostly free, 6 mostly unfree, 2 mostly prosperous, and 8 mostly unprosperous nations in BRICS. Georgia is regarded as a mostly free and mostly prosperous nation [See: Figure 3]. Moreover, the FP Indexes consist of subcomponents that are also interesting to be observed [See: Figure 4].

Like Economic Freedom studies, Freedom and Prosperity indexes are good indicators to evaluate where the best conditions are for life and activity, where an individual feels freer and faces no barriers for prosperity.

### **CORRUPTION PERCEPTIONS INDEX BY TRANSPARENCY INTERNATIONAL (2023)**

Transparency International, one of the leading international non-governmental organizations with more than 100 branches

over the world, measures corruption perceptions in the public sector in 180 countries. The last Corruption Perceptions Index (CPI)<sup>19</sup> was published in January 2024 and measures the 2023 scores and rankings of the countries. This index provides particularly strong evidence of the EU's big advantage over the EEU and BRICS [See: Table 3]. Interestingly, Georgia ranked 133<sup>rd</sup> in 2004, but the successful reforms after that improved the score and the ranking of Georgia – in 2017, it ranked as the 41<sup>st</sup>. The reforms included high transparency of public procurement and assets belonging to the public servants.

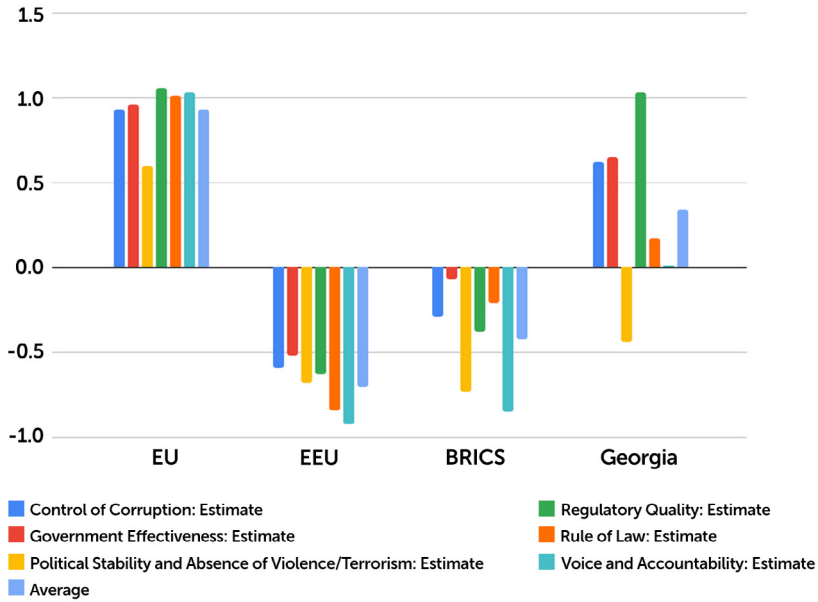
TI CP Index gives a good understanding of potential costs of making transactions, doing business, and living in these countries. Every corruption practice makes business dependent on politicians and bureaucracy – instead of hard work in the market, people choose having artificial privileges and favoritism, which cannot be a drive of a flourishing economy through improved productivity and efficiency. It is difficult to find markets, customers, and partners with corruption practices and methods. Investors always look for a rule

<sup>17</sup> <https://www.transparency.org/en/cpi/2023/index/swe>

<sup>18</sup> <https://www.atlanticcouncil.org/in-depth-research-reports/report/prosperity-that-lasts-the-2023-free-dom-and-prosperity-indexes/>

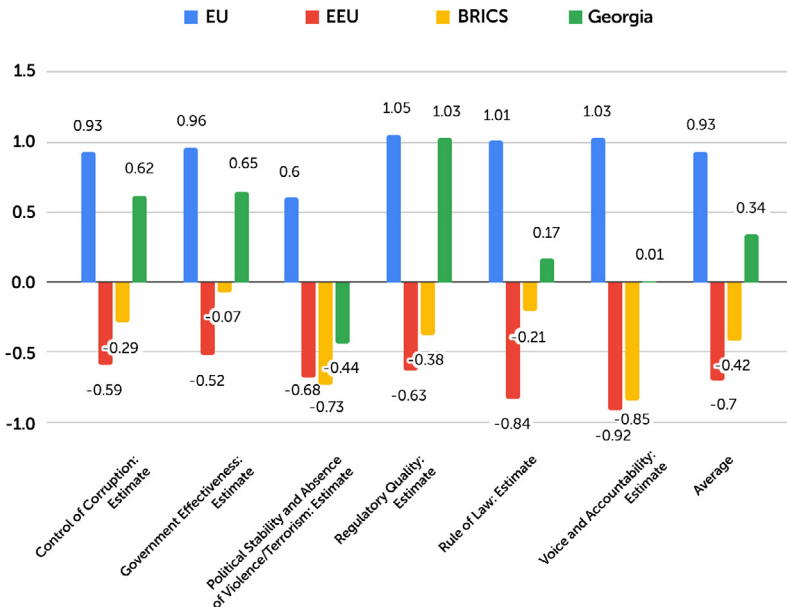
<sup>19</sup> <https://www.transparency.org/en/cpi/2023/index/swe>

Figure 5: EU, EEU, BRICS, and Georgia, Average Scores by Country Groups



Source: World Bank (2023) World Governance Indicators

Figure 6: EU, EEU, BRICS, and Georgia, Average Scores by Components



Source: World Bank (2023) World Governance Indicators

based, transparent environment with clear and low costs. The CP Index indicates that the European Union is a much better and lower-cost environment from the point of view of businesses and investors.

### **WORLDWIDE GOVERNANCE INDICATORS BY THE WORLD BANK**

The World Bank measures governance quality of more than 200 nations in the world<sup>20</sup>. This study contains the following components: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Every component is evaluated in the range from +2.5 to -2.5. It is, therefore, useful to examine the governance quality of the EU, EEU and BRICS nations on average [See: Figure 5 and 6]<sup>21</sup>.

### **ECONOMIC FREEDOM OF THE WORLD STUDY BY THE FRASER INSTITUTE**

The *Economic Freedom of the World* (EFW)<sup>22</sup> calculates the scores of 165 nations, U.S. states, and Canadian provinces. The last issue was published in September 2023, but it evaluates the EFW of 2021. Permanent leaders of the study have been Singapore, Switzerland, and New Zealand. Georgia holds the 25<sup>th</sup> place with a score of 7.71 out of 10, which is better than scores of all BRICS or EEU, and higher than 15 members of the EU.

The European Union is performing much better than the EEU and the BRICS in four components of the study except for the Government Size (the 1<sup>st</sup> component) – European nations spend much more on the



THERE ARE DIFFERENCES IN WEALTH BETWEEN EU NATIONS, BUT THE POOR-EST NATIONALS IN THE EUROPEAN UNION ARE STILL WEALTHIER THAN ANY IN THE BRICS AND EEU

welfare programs. What is most important for a business to know is how easy it is to defend its investments and properties (the 2<sup>nd</sup> component), how good are the foreign trade regimes (the 4<sup>th</sup>) or business regulations (the 5<sup>th</sup>). The Monetary Freedom component is also very useful, but it is closely monitored by the IMF and very few nations in these groups have any radical issues.

The EEU and BRICS foreign trade rules are much worse (with average scores 6.92 and 5.87, respectively) than of the EU (8.32). This means numerous barriers and

bureaucracy, but also highly probable–corruption practices. The average score of the Legal System and Property Rights for the EU is more than 2 points higher than

<sup>20</sup> <https://www.worldbank.org/en/publication/world-wide-governance-indicators/interactive-data-access>

<sup>21</sup> <https://www.worldbank.org/en/publication/world-wide-governance-indicators/interactive-data-access>

<sup>22</sup> <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report>

<sup>23</sup> [https://www.heritage.org/index/excel/2023/index-2023\\_data.xlsx](https://www.heritage.org/index/excel/2023/index-2023_data.xlsx)

Table 4: Comparison of scores of the EFW components and overall rates

Union	Size of Government	Legal System and Property Rights	Sound Money	Freedom to trade internationally	Regulation	Overall Score
EU	5.72	7.38	9.15	8.36	7.42	7.61
EEU	6.99	5.04	8.83	6.92	6.31	6.82
BRICS	6.00	5.07	8.07	5.87	5.81	6.16
Georgia	7.40	6.33	8.74	8.67	7.490	7.71

Table 5: Overall Average Scores of the EU, EEU, BRICS, and Georgia

Country Groups	Scores
EU	63.6
EEU	35.0
BRICS	40.0
Georgia	53.0

Source: Index of Economic Freedom, Heritage Foundation, 2023

those of the other unions. The European Union is also much more advanced than the EEU (by 1.46 points) and even more advanced than BRICS (by 2.5). Quite surprisingly, as many people regard the EU as very economically regulated, the scores of the EEU and the BRICS are much lower (by 1.11 and 1.61 respectively). Such evaluations can help the Georgian businesses calculate possible costs of overcoming the barriers. The EFW study can also show how much it will cost to have business disputes in a certain system of judiciary. The following table illustrates the differences of the scores between the three unions [See: Table 4]<sup>24</sup>.

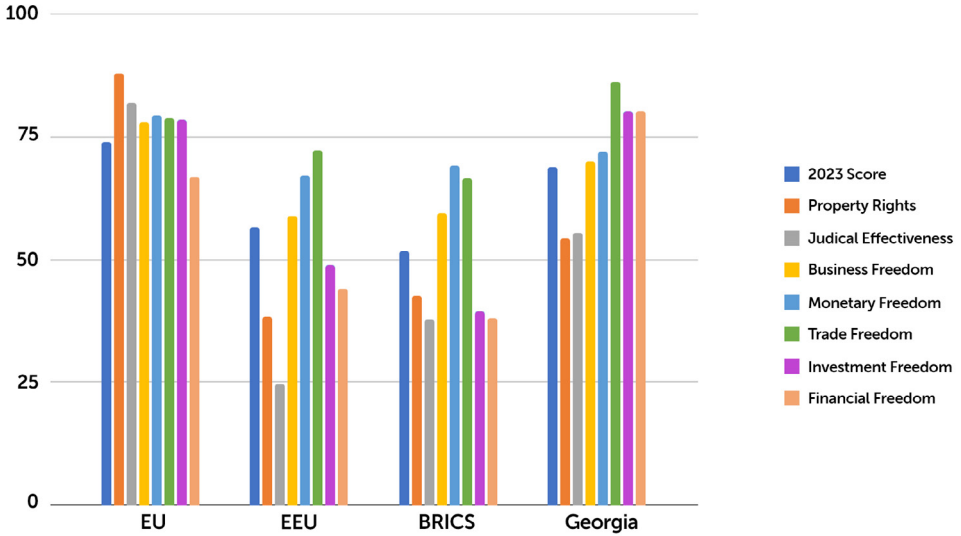
<sup>24</sup> <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report>

## INDEX OF ECONOMIC FREEDOM BY THE HERITAGE FOUNDATION (2023 EDITION)

American conservative think-tank Heritage Foundation has been measuring economic freedom among the world countries since 1995<sup>25</sup>. The study is quite similar to that by the Fraser Institute and, in most of the cases, provides similar results for the same nations. It uses twelve indicators and measures each freedom and overall scores from 0 to 100%. The groups of the nation's my study touches have different results for different indicators, but the EU nations have much higher overall scores on average, despite the higher burden of taxation and

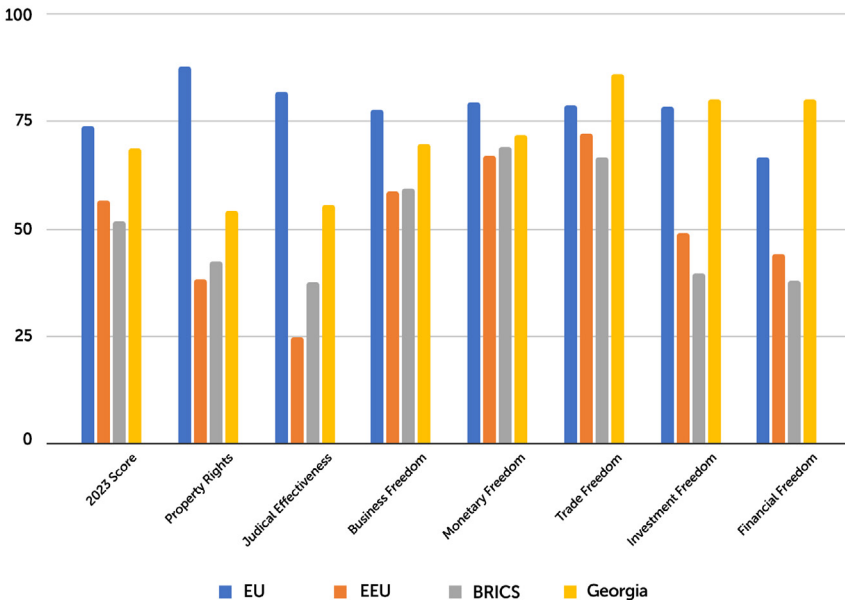
<sup>25</sup> <https://www.heritage.org/index>

Figure 7: Overall and Selected Component Scores, 0-100%, by Country Groups



Source: Heritage Foundation (2023) Index of Economic Freedom

Figure 8: Overall and Selected Component Scores, 0-100%, by EFI components but they fail mostly (Georgia is only slightly better) in Property Rights and Judicial Effectiveness. It is increasing risks of business (or any) activities, rising costs and decreasing efficiency



Source: Heritage Foundation (2023) Index of Economic Freedom

Table 6: Number of Population, EU, EEU, BRICS, and Georgia, GDP Current USD and GDP Per Capita Current USD Source: World Bank (2022)<sup>26</sup>

Nation Groups	Population	GDP Current USD	GDP per capita
EU	7,447,370,510	USD 16,746,223,630,459	USD 37,432.56
EEU	182,842,345	USD 2,569,769,655,180	USD 14,054.57
BRICS	3,617,563,035	USD 28,578,266,246,709	USD 7,899.87
Georgia	3,712,502	USD 24,780,791,064	USD 6,674.96

government spending, than the EEU and BRICS [See: Table 1].

The data indicates [See: Figures 7 and 8] the strong advantages of the European Union and Georgia over the EEU and the BRICS nations on average terms. The selected components belong to the Rule of Law Group and have very important meaning when looking for the best places to make business or invest in projects, for the people to live in freedom and prosperity.

The EEU nations have on average relatively high scores in Trade Freedom and BRICS – Monetary Freedom. However, the Rule of Law evaluation is the most fundamental to observe and helps predict what can happen today and in future in the areas of economy and life.

### CREDIT RATINGS

There are several credit rating agencies<sup>27</sup>, among which the Fitch, Moody's, Standard, and Poor are the oldest and the most famous ones. From the very beginning,

they intended to measure credibility of private companies, but later, these agencies (private companies) started also rating the sovereign nations, their fiscal sustainability, and integrity. The rating scores vary between A and C. According to the credit scores<sup>28</sup>, 18 nations of the EU are A class, and the other 9 – B; 2 nations from the EEU group are B rated and other 3 are not rated (very low scores); 3 nations of the BRICS are A rated, 4 – B, 3 – not rated; Georgia has average B class rates.

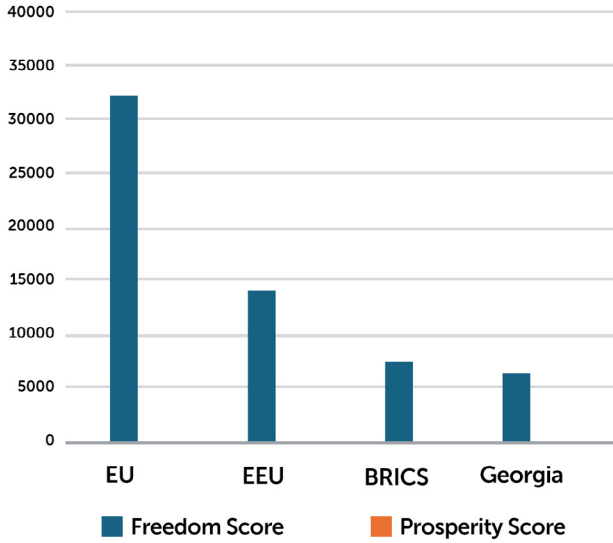
Credit Ratings are a very important source of measuring a nation's abilities to pay for its liabilities, stability of public finances and economic policy. The nations with a low rating cannot easily borrow in the financial markets, what influences local markets, investments drain, production decreases and prices, including of the financial resources increase. Economy, therefore, is slowing down. Credit ratings of a nation also influence the credibility of the entire economy, including local governments and private business. A nation with lower scores is regarded as a 'risky market' and

<sup>26</sup> <https://data.worldbank.org/>

<sup>27</sup> [Credit Rating - Countries - List](#)

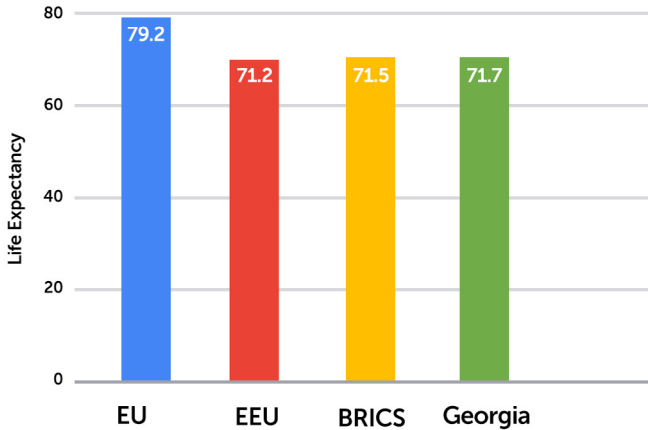
<sup>28</sup> <https://tradingeconomics.com/country-list/rating>

Figure 9: GDP Per Capita EU, EEU, BRICS, and Georgia, Current USD



Source: World Bank (2022)

Figure 10: Life expectancy at birth, average data for EU, EEU, BRICS nations, and Georgia



Source: World Bank (2021)



the interest rates (the cost of borrowing) are, therefore, higher.

### **THE MARKET SIZE: GDP AND GDP PER CAPITA, LIFE EXPECTANCY AT BIRTH BY THE WORLD BANK**

GDP in current U.S. dollars indicates the current economic power of a nation and GDP per capita – average economic performance per capita. The World Bank collects the data from the national statistical offices including both – the number of population and GDP [See: Table 6 and Figure 9].

Despite the huge scale of the market from the perspective of the number of population, BRICS is far from the high purchasing power of its population on average. The same is true for the EEU, where the dominant role is taken by the Russian Federation, which is based mostly on the export of mineral resources. Other nations in the EEU are far behind – in some cases, ten times poorer on average than Russia. The same situation is in BRICS – the major input in the GDP of this nation group has the PRC's economy, that is, like in the Russian case, the wealth concentrated in major cities and other populations are several times poorer. For comparison, there are differences in wealth between EU nations, but the poorest nationals in the European Union are still wealthier than any in the BRICS and EEU (on average).

An important indicator to find appropriate markets is the real purchasing power of the population in a partner country. The World Bank data shows that the EU customers with their high purchasing abilities are the most desirable market from this point of view, among these groups of nations.

Another good illustration where the life of an individual is easier, happier, and longer is the World Bank indicator of the Life Expectancy at Birth in the world nations. The

available data provides information and understanding of the quality of life (including medical treatment) of an individual [See: Figure 10]. The highest average life expectancy in the European Union is eight years higher than in other nation groups and Georgia.

### **CONCLUSIONS**

The comparative analysis very clearly shows the advantages of the European Union over other unions and gives Georgians very good arguments supporting their choice. Individuals are better protected and have the best opportunities, live better and longer lives in the EU. In the EEU and BRICS, people are not only poorer, but also oppressed – many live a short and brutal life.

Georgia has attempted changing its lifestyle – the country went through certain needed reforms and achieved some significant results. However, it still needs more efforts to improve the protection of individual rights and property, as well as in terms of respecting individuals in the similar ways as in the European Union. Regardless, the EEU and BRICS are not good choices for Georgians.



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GIA  
JANDIERI

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The founder and Vice-President of the New Economic School in Tbilisi, Georgia

# A Decade of Achievement: Celebrating Croatia's 10<sup>th</sup> Anniversary of EU Accession



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IGOR  
ŠLOSAR

Croatia has been on quite a journey – from the initiation of its European Union (EU) accession process in 2000, to its 10<sup>th</sup> anniversary celebration as a full EU member in 2023. The accession process involved overcoming historical challenges, such as transitioning from socialism, defending against aggression, and addressing issues related to war crimes and reconciliation. Despite facing hurdles, Croatia successfully joined the EU in 2013, marking a turning point in its economic landscape.

The economic transformation post-accession is evident in positive changes, including workforce growth (from 1,364,298 in 2013<sup>1</sup> to 1,653,778 in 2023<sup>2</sup>, thus a little under 290,000 people), reduced unemployment rates (from 20.2% in 2013<sup>3</sup> to 6.5% in 2023<sup>4</sup>), and increased average net salaries (from EUR 732 in 2013<sup>5</sup> to EUR 1,191 in 2023<sup>6</sup>). The industrial sector experienced robust growth, contributing to an 11.2% increase in the size of the Croatian industry

<sup>1</sup> Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

<sup>2</sup> Državni zavod za statistiku (2024) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

<sup>3</sup> Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

<sup>4</sup> Državni zavod za statistiku (2024) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

<sup>5</sup> Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

<sup>6</sup> Državni zavod za statistiku (2024) *Prosječne mjesečne neto i bruto plaće zaposlenih za prosinac 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58119> [in Croatian]

## ” THE CROATIAN PATH TO EUROPE WAS NEITHER EASY NOR COMPARABLE TO ANY OTHER

by 2022<sup>7</sup>. Croatia's GDP witnessed the second-fastest growth in the EU (third after GDP revision), fueled by significant EU funds and membership in the Schengen area and Eurozone<sup>8</sup>.

Croatia's journey to EU membership has resulted in notable economic improvements and challenges, showcasing its commitment to European integration and the ongoing efforts required for sustained growth and development. In light of these developments, it is useful to examine Croatia's economic transformation post-accession, emphasizing workforce growth, decreased unemployment rates, and increased average net salaries.

Moreover, it is crucial to understand Croatia's accession to the Schengen Area and Eurozone, highlighting economic advantages, the impact on tourism, and the challenges associated with border management and immigration. Finally, let us address current and future challenges –

<sup>7</sup> Državni zavod za statistiku (2023) *Deset godina članstva Republike Hrvatske u Europskoj uniji*. Available [online]: <https://dzs.gov.hr/vijesti/deset-godina-clanstva-republike-hrvatske-u-europskoj-uniji/1600> [in Croatian]

<sup>8</sup> Šonje, V. (2023) *I nakon revizije BDP-a Hrvatska je pri europskom vrhu u ovom desetljeću*. [in: Arhivaanalitika.hr. Available [online]: <https://arhivaanalitika.hr/blog/i-na-kon-revizije-bdp-a-hrvatska-je-pri-europskom-vrhu-u-ovom-desetjecu-ali/> [in Croatian]



## ANOTHER INNOVATION WAS INTRODUCED INTO THE CROATIAN ACCESSION PROCESS – PRE-ACCESSION MONITORING

including the 2024 elections, immigration issues, and the geopolitical impact of Russia's aggression on Ukraine. Despite challenges, Croatia has experienced improved living standards, economic growth, and integration into the European project, making it a successful EU member.

### CROATIA'S JOURNEY TO EU MEMBERSHIP AND ACCESSION PROCESS

On July 1, 2023, Croatia celebrated its 10<sup>th</sup> anniversary of being a full member of the European Union. It was a major foreign policy milestone, which made independent Croatia rejoin the cultural circle of European countries it left almost exactly a century ago, following the beginning of World War I. Croatia's accession process lasted over a decade.

The journey began with its first step in November of 2000, in the form of a summit in Zagreb. It gathered fifteen heads of states and governments of the European Union to open negotiations for the Stabilization and Association Agreement, which was signed

on October 29, 2001<sup>9</sup>. Croatia applied for membership to the European Union on February 21, 2003. A total of thirteen meetings of the Intergovernmental Conference on the accession of the Republic of Croatia to the European Union were held at the ministerial level, and the negotiations were formally concluded on June 30, 2011, with the closing of all 35 negotiation chapters<sup>10</sup>. The referendum on Croatia's accession to the European Union was held on January 22, 2012, with 67% of citizens voting in favor of membership in the EU. On July 1, Croatia formally joined the European Union<sup>11</sup>.

The Croatian path to Europe was neither easy nor comparable to any other. Defending against a militarily stronger aggressor, transitioning from socialism to a market economy, building democratic institutions, implementing reforms, and joining NATO and the EU were significant challenges. Croatia embarked on a distinctive path initially seen as unrelated to other potential EU candidates. Nevertheless, it ultimately resulted in Croatia obtaining EU candidacy.

However, Croatia missed the second, smaller wave of EU expansion in 2007, when Bulgaria and Romania joined. The experience of that expansion, revealing issues with corruption, weak judiciary, and insufficient protection of fundamental rights<sup>12</sup>, raised the criteria for Croatia's accession

<sup>9</sup> Sabor.hr: *Kronologija važnijih datuma u procesu pristupanja Hrvatske Europskoj uniji*. Available [online]: <https://www.sabor.hr/hr/europski-poslovi/sabor-u-procesu-pristupanja-eu-u/kronologije/kronologija-vaznijih-datuma-u-procesu> [in Croatian]

<sup>10</sup> Ibid.

<sup>11</sup> Grubiša, D. (2012) *The European Referendum in Croatia: Controversies, Doubts and Lessons*, p. 5. Available [online]: <https://hrcak.srce.hr/file/151812>

<sup>12</sup> [https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law/assistance-bulgaria-and-romania-under-cvm/reports-progress-bulgaria-and-romania\\_en](https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law/assistance-bulgaria-and-romania-under-cvm/reports-progress-bulgaria-and-romania_en)

negotiations. Chapter 23, focusing on judiciary and fundamental rights, posed a substantial hurdle for Croatia<sup>13</sup>. Another aspect, related to processing war crimes, reconciliation, regional cooperation, and good neighborly relations, shaped the negotiations and depended on collaboration between Croatian governments and the Hague tribunal<sup>14</sup>.

Croatia was scheduled to commence negotiations on March 17, 2005. This date was contingent on full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), specifically in the effort to apprehend then-fugitive General Ante Gotovina<sup>15</sup>. The commencement of negotiations was delayed due to this objective, resulting in further loss of time. The ICTY continued to be a source of sluggishness in the process. The so-called artillery logs, sought by the Hague prosecution, led to a protracted blockage of the Judiciary and Fundamental Rights chapter for months.

Another innovation was introduced into the Croatian accession process – pre-accession monitoring. In this way, it was ensured that the country that completes the negotiations does not abandon work on reforms, which regularly happened in the past after signing the accession agreement. This development made it possible for the process of its ratification to be not a mere confirmation in the parliaments of

<sup>13</sup> [https://neighbourhood-enlargement.ec.europa.eu/screening-report-croatia-chapter-23-judiciary-and-fundamental-rights\\_en](https://neighbourhood-enlargement.ec.europa.eu/screening-report-croatia-chapter-23-judiciary-and-fundamental-rights_en)

<sup>14</sup> Organization for Security and Co-operation in Europe (2004) *Background Report: EC Recommends That EU Membership Negotiations Begin with Croatia*. Available [online]: <https://www.osce.org/files/f/documents/6/c/31052.pdf>

<sup>15</sup> Šeperić, D. (2011) *To Europe and Back – The Croatian EU Accession Process and Its Outcomes*, [in]: *SEER: Journal for Labour and Social Affairs in Eastern Europe*, Vol. 14(4), pp. 463–480. Available [online]: <http://www.jstor.org/stable/43293436>



THE MAJOR REASON CROATIA TOOK SO LONG TO RECOVER FROM THAT ECONOMIC DOWNTURN WAS THE LACK OF CRUCIAL REFORMS IN THE PUBLIC SECTOR, LABOR MARKET, HEALTH SECTOR, JUDICIAL SYSTEM, AND BURDENSOME TAXATION REGULATION

the member countries, but an effective instrument for pressure to continue with the reforms until the accession to membership.

Despite all these obstacles, Croatia was firmly committed to joining the European Union. Progress was happening, albeit slowly, but it was going forward. Finally, after the longest and most stringent accession process in EU's history, Croatia became a member in 2013.



## THE AVERAGE NET SALARY IN CROATIA HAS WITNESSED A SUBSTANTIAL INCREASE SINCE JOINING THE EUROPEAN UNION

### POSITIVE CHANGES SINCE CROATIA JOINED THE EU

In 2013, Croatia's accession to the European Union marked a significant turning point in the country's economic landscape and a major foreign policy milestone. Access to the EU's single market, and easier movement of goods, services and people for over ten years has contributed to the improvement of the overall economic stability. Through a decade of membership in the EU, Croatia has experienced a significant transformation in its workforce and employment rates.

To begin with, according to the 2022 data of the Croatian Statistics Office<sup>16</sup> (DZS), Croatia's workforce in 2022 reported 1,619,969 people, compared to 1,364,298 in 2013, which points to an 18.7% increase – and in 2023, that number

has risen to 1,653,778<sup>17</sup>. The unemployment in 2013 was at a staggering 20.2% level, which meant that every fifth person in the country was unemployed<sup>18</sup>. These problems have been present for decades and are not the direct consequences of the world of the economic crisis, but because of it they were potentiated<sup>19</sup>.

However, the major reason Croatia took so long to recover from that economic downturn was the lack of crucial reforms in the public sector, labor market, health sector, judicial system, and burdensome taxation regulation, which prevented quick economic recovery.

In 2024, according to the latest available data, the unemployment rate was reported at 6.8%<sup>20</sup>, reflecting a decade of steady decrease, despite a brief spike in 2020 due to the COVID-19 pandemic. For comparison, in November of 2007 – right before the effects of the upcoming recession fully took hold of Europe – the unemployment rate already stood at 14.5%<sup>21</sup>. Naturally, a multitude of economic factors can affect a particular country's economic performance; however, there is no doubt that a decade

<sup>17</sup> Državni zavod za statistiku (2023) *Zaposleni prema djelatnostima u prosincu 2023*. Available [online]: <https://podaci.dzs.hr/2023/hr/58007> [in Croatian]

<sup>18</sup> Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

<sup>19</sup> Croatian Chamber of commerce (2014) *Hrvatsko gospodarstvo 2013 godine*, p. 38. Available [online]: <https://www.hgk.hr/documents/hrvatsko-gospodarstvo-2013godine58edfb7aedf73.pdf> [in Croatian]

<sup>20</sup> Državni zavod za statistiku (2024) *U siječnju 2024. broj zaposlenih pao za 1,1% u odnosu na prethodni mjesec*. Available: [online]: <https://dzs.gov.hr/vijesti/u-siječnju-2024-broj-zaposlenih-pao-za-1-1-u-odnosu-na-prethodni-mjesec/1809> [in Croatian]

<sup>21</sup> Državni zavod za statistiku (2007) *Zaposleni po djelatnostima u studenome 2007*. Available [online]: [https://web.dzs.hr/Hrv/publication/2007/9-2-1\\_11h2007.htm](https://web.dzs.hr/Hrv/publication/2007/9-2-1_11h2007.htm) [in Croatian]

<sup>16</sup> Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

of EU membership, fueled by the deluge of EU funds, liberalization of the market economy, and eurozone membership, in large part, contributed to the betterment of the country's workforce numbers. This development resulted in economic growth in 2023, exceeding 75% of the EU development average regarding the purchasing power parity (PPP)<sup>22</sup>. In 2013, the first year Croatia was a member of the EU, the country's development level was only 62%<sup>23</sup> of the EU average.

When it comes to industry growth, in 2013, the size of the Croatian industry was around EUR 54.9 billion, whereas, in 2022, it amounted to EUR 66.2 billion<sup>24</sup> (adjusted for inflation), with a record growth of 11.2%<sup>25</sup>. Moreover, Croatian GDP in the period 2021-2023 had the second fastest growth in the European Union (after Ireland)<sup>26</sup>. Croatia also entered the Schengen area on January 1, 2023, lifting internal border controls with other Schengen countries. Its EU integration was complete on the same day when it introduced euro as an official currency, becoming the 20<sup>th</sup>

<sup>22</sup> Eurostat (2023) *GDP Per Capita, Consumption Per Capita and Price Level Indices*. Available [online]: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=GDP\\_per\\_capita\\_consumption\\_per\\_capita\\_and\\_price\\_level\\_indices](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=GDP_per_capita_consumption_per_capita_and_price_level_indices)

<sup>23</sup> Eurostat (2024) *GDP Per Capita in PPS*. Available [online]: <https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en>

<sup>24</sup> World Bank (2024) *Data bank: Croatia*. Available [online]: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=HR>

<sup>25</sup> Državni zavod za statistiku: *10 godina članstva Republike Hrvatske u Europskoj uniji; Statistički trendovi koji su obilježili proteklo desetljeće*. Available [online]: <https://web.dzs.hr/Hrv/important/Interesting/articles/clanstvoeu.html> [in Croatian]

<sup>26</sup> Vlada.gov.hr (2023) *Hrvatska ima drugi najbrži rast BDP-a u EU, rast prosječne plaće nadmašio je i Vladina obećanja s početka mandata*. Available [online]: <https://vlada.gov.hr/vijesti/hrvatska-ima-drugi-najbrzi-rast-bdp-a-u-eu-rast-prosjecne-place-nadmasio-je-i-vladina-obećanja-s-pocetka-mandata/40634?lang=is> [in Croatian]



DESPITE THE CHALLENGING GEOPOLITICAL AND ECONOMIC ENVIRONMENT IN RECENT YEARS, CROATIA HAS MANAGED TO QUICKLY RECOVER THANKS TO THE MONEY FROM THE EUROPEAN FUNDS

member state to join the Eurozone, the monetary union of the EU.

Finally, one of the most important metrics when measuring the economic well-being of a country is the element of salaries. It is also a crucial metric for most individuals when they are asked if joining the EU was a good step forward and a rock-solid answer to the question of tangible benefits of joining the European Union.

The average net salary in Croatia has witnessed a substantial increase since joining the European Union. In 2013, this value stood at EUR 732<sup>27</sup>, while in 2024, the

<sup>27</sup> Narodne Novine (2014) *Državni zavod za statistiku: Prosječna mjesečna neto plaća po zaposlenome u pravnim osobama rRepublike Hrvatske za 2013*. Available [online]: [https://narodne-novine.nn.hr/clanci/sluzbeni/2014\\_03\\_32\\_596.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2014_03_32_596.html) [in Croatian]

average net salary of a full-time single worker without children amounts to EUR 1,213<sup>28</sup>. Now, the events of the last few years (COVID-19, Russian war in Ukraine, subsequent energy prices, and overall energy outlook) have been putting a significant pressure on salaries in terms of costs of living and rise in inflation, which is the case in the majority of the countries in the EU. Growth in salaries came after the government abolished the surtax on income tax on the levels of local self-government as a latest move<sup>29</sup>, but mostly it has been fueled by a shortage of labor and private consumption<sup>30</sup>.

Despite the challenging geopolitical and economic environment in recent years, Croatia has managed to quickly recover thanks to the money from the European funds. According to official sources, money allocated to Croatia for the financial period 2021-2027 in current prices amount to almost EUR 14 billion from the MFF<sup>31</sup> (Multiannual Financial Framework) and a little over EUR 11 billion from the NGEU<sup>32</sup> (Next Generation EU), created during the COVID-19 pandemic. Total funds allocated from the MFF amount to EUR 1,074.3 billion, while EUR 750 billion is financed from the NGEU instrument. Of the EUR 750 billion allocated from the NGEU, EUR

<sup>28</sup> Eurostat (2023) *Annual Net Earnings of A Full-Time Single Worker Without Children Earning an Average Wage*. Available [online]: [https://ec.europa.eu/eurostat/databrowser/view/earn\\_nt\\_netft/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/earn_nt_netft/default/table?lang=en)

<sup>29</sup> Vlada.gov.hr (2023) *Vlada Saboru uputila paket porezne reforme*. Available [online]: <https://vlada.gov.hr/vijesti/vlada-saboru-uputila-paket-porezne-reforme-predloženo-povećanje-poreznog-opterećenja-dohotka-od-kapitala-i-imovine/38953> [in Croatian]

<sup>30</sup> Večernji list TV (2023) *Glavna prepreka ekonomskom rastu idućih godina bit će manjak radne snage*. Available: [online]: <https://www.youtube.com/watch?v=9hvTRO-Jy8Ak> [in Croatian]

<sup>31</sup> Europski strukturni i investicijski fondovi, EU fondovi 2021–2027. Available [online]: <https://strukturnifondovi.hr/eu-fondovi/eu-fondovi-2021-2027/>

<sup>32</sup> Ibid.



## CROATIA IS IN A SUPER-ELECTION YEAR, WHEN THE ELECTORATE WILL VOTE IN PARLIAMENTARY, EUROPEAN, AND PRESIDENTIAL ELECTIONS

390 billion are grants, while EUR 360 billion are loans to member states<sup>33</sup>.

With over EUR 25 billion<sup>34</sup> at its disposal over this financial period, one can argue that Croatia bases its growth very much at the expense of EU's wealthier states, while still failing to address the main problems within its own borders. According to the 2023 World Bank's Economic Memorandum, strengthening government institutions, public administration, the judiciary, reforming the labor market, health system, education, pension system, and further improving the business environment to attract more foreign investments – remain major obstacles to achieve more robust GDP growth<sup>35</sup>. Such reforms are even more

<sup>33</sup> Ibid.

<sup>34</sup> European Structural and Investment Funds: *EU Funds 2021–2027*. Available [online]: <https://strukturnifondovi.hr/en/eu-fondovi/eu-fondovi-2021-2027/>

<sup>35</sup> World Bank (2023) *Croatia Country Economic Memorandum—Laying the Foundations: Boosting Productivity to Ensure Future Prosperity in Croatia*. Available [online]: <https://www.worldbank.org/en/country/croatia/publication/croatia-cem>





## THE ECONOMIC ADVANTAGES OF SCHENGEN ACCESSION ARE SUBSTANTIAL

unlikely to occur in 2024 due to the fact Croatia is in a super-election year, when the electorate will vote in parliamentary, European, and presidential elections.

### **SCHENGEN AND EUROZONE: COMPLETE EU INTEGRATION**

Croatia's recent entry into the Schengen Area and full integration into the Eurozone signify the final steps in its journey toward complete EU integration. Joining the Schengen Area streamlines the movement of goods and services, fostering an efficient economic environment, and boosting the tourism sector. Simultaneously, entering the Eurozone has positively impacted Croatia's credit rating, providing access to lower interest rates, and enhancing competitiveness.

Despite the economic advantages, challenges such as increased illegal border crossings have emerged in the Schengen Area, demanding robust security measures. The adoption of the euro raised concerns about relinquishing monetary sovereignty, but its introduction did not lead to anticipated price increases. Croatia's comprehensive transformation prompts discussions on immigration, security, and the broader implications of these integration measures on the nation's future.

### **SCHENGEN AREA**

Croatia's accession to the Schengen Area on January 1, 2023, marks a pivotal milestone in the country's integration into the European Union. The Schengen Agreement, initially signed in 1985, established a zone without internal borders, enabling the free movement of people across participating member states. Croatia's inclusion in this area signifies not only a tangible step towards European integration, but also carries significant implications for the nation's security, economy, and overall connectivity.

The economic advantages of Schengen accession are substantial. The removal of internal border controls streamlines the movement of goods and services, reducing administrative burdens, and fostering a more efficient and integrated economic environment. Croatia's businesses gain access to a broader market without the hindrance of border checks, encouraging cross-border trade and investment. Moreover, Schengen accession enhances Croatia's position as a strategic transportation hub. Additionally, becoming a part of the Schengen area had a significant impact on one crucial element of the Croatian economy – tourism. According to the last available information, tourism accounted for 19.5% of the entire GDP of Croatia in 2022<sup>36</sup>.

However, joining the Schengen Area is not only about open borders, but also entails collaborative security measures. Becoming the defender of the 'hard EU border', comes with a whole different sets of challenges. According to the latest available report by the Croatian Ministry of the Interior, since the beginning of 2023, for

<sup>36</sup> Ministarstvo turizma i sporta Republike Hrvatske (2022) *Turizam u brojkama*. Available [online]: [https://mint.gov.hr/UserDocsImages//2023\\_dokumenti//230804\\_turizam\\_u\\_brojka\\_2022\\_hrv.pdf](https://mint.gov.hr/UserDocsImages//2023_dokumenti//230804_turizam_u_brojka_2022_hrv.pdf) [in Croatian]



## TOURISM ACCOUNTED FOR 19.5% OF THE ENTIRE GDP OF CROATIA IN 2022

the first ten months, the Croatian police recorded 62,452 actions related to illegal border crossings in the Republic of Croatia. This figure is 73.2% higher than the same period last year, when 36,059 procedures were recorded. The most represented citizens are from Afghanistan (21,195), Turkey (10,512), Morocco (5,970), Pakistan (5,100), Iraq (3,706), and Bangladesh (2,645)<sup>37</sup>.

As a result of the increase in illegal migration, the number of expressed intentions for international protection has also increased. In the ten months of 2023, the Republic of Croatia registered 60,440 expressed intentions to seek international protection, which is almost five times higher than in the whole previous year (2022 – 12,872)<sup>38</sup>. Even though the numbers seem to be in a slight decline overall<sup>39</sup>, by entering the Schengen area, the topic of immigration skyrocketed in the national discourse, and it is slowly becoming a major issue in the upcoming elections – both at home and abroad.

<sup>37</sup> Ministarstvo unutarnjih poslova (2023) *Report on the Situation of Illegal Migration in the Territory of the Republic of Croatia for the Period Since the Republic of Croatia's Entry into the Schengen Area*. Available [online]: [https://vlada.gov.hr/UserDocsImages/2016/Sjednica/2023/Studen/261%20\(telefonska\)%20sjednica%20VRH/261%20-%203.docx](https://vlada.gov.hr/UserDocsImages/2016/Sjednica/2023/Studen/261%20(telefonska)%20sjednica%20VRH/261%20-%203.docx) [in Croatian]

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

Concerning immigration, Schengen accession brings forth both opportunities and challenges. The free movement of people allows for easier travel within the Schengen Area, fostering cultural exchange, and facilitating business and educational endeavors. However, it also necessitates a robust border management system to address potential challenges related to illegal migration and security concerns, especially when you have a 1,400-kilometer-long outer EU border.

### EUROZONE

Croatia became fully integrated into the European Union when it became the 20<sup>th</sup> member of the Eurozone, a circle of EU countries sharing the common currency. The transition period with dual-price systems ended on January 1, 2024. Croatia, like all member states that joined the EU after 1992, when the Treaty on European Union (Maastricht Treaty) was signed, was obliged to introduce the euro as an official currency at some point in the future.

Entry into the Eurozone followed several years of negotiations and meeting the provisions of the Maastricht Treaty<sup>40</sup>:

- 1. Fiscal Responsibility:** Entry into the Eurozone required Croatia to adhere to stringent fiscal criteria outlined in the Maastricht Treaty. The annual fiscal deficit of the state must not surpass 3% of the gross domestic product (GDP).
- 2. Debt Limitation:** Another crucial provision mandates that the general state debt should not exceed 60% of the GDP. This limitation aims to ensure sustainable financial practices within the Eurozone framework.

<sup>40</sup> [https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining\\_en](https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en)

3. **Interest Rate Stability:** Croatia needed to maintain stability in its long-term interest rates. The state's interest rate during an observed year must not increase by more than 2 percentage points, surpassing the rates in the three member states with the most stable prices.
4. **Exchange Rate Stability:** To integrate smoothly into the Eurozone, Croatia had to ensure stability in its exchange rate. This involved staying within the fluctuation range defined by the European exchange rate mechanism (ERM II) for at least two recent years.
5. **Inflation Alignment:** Aligning with the Eurozone's economic principles, Croatia had to manage its inflation rates. The average inflation rate of the state during an observed year must not exceed the inflation rate in the three member states with the most stable prices by more than 1.5 percentage points. This is aimed at preventing inflationary discrepancies within the Eurozone.

Croatia met all the necessary criteria for joining the Eurozone, and the only challenge at that moment was rising inflation<sup>41</sup>. The conditions<sup>42</sup> for entering the Eurozone state that inflation in the candidate country must not exceed 1.5 percentage points compared to the 'best performing' members. At the same time, three members – that is, the countries with the lowest inflation in the EU – are excluded from the calculation. The reason for this exception is to avoid the absurdity where a candidate

<sup>41</sup> Falagiarda, M. and Ch. Gartner (2022) *Croatia Adopts the Euro*, [in]: *ECB Economic Bulletin*, Issue 8. Available [online]: [https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208\\_02~15fd36600a.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208_02~15fd36600a.en.html)

<sup>42</sup> [https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining\\_en](https://economy-finance.ec.europa.eu/euro/enlargement-euro-area/convergence-criteria-joining_en)



AS A RESULT OF THE INCREASE IN ILLEGAL MIGRATION, THE NUMBER OF EXPRESSED INTENTIONS FOR INTERNATIONAL PROTECTION HAS ALSO INCREASED

for entry into the Eurozone should have lower inflation than the average of countries that already use the euro as their currency, which would be meaningless. This approach ensures that the three 'best performing' members are not taken into account in order to prevent unrealistic inflation expectations of the candidate country.

Thus, entry into the Eurozone was relatively 'painless'. Croatia introduced the euro, went through a period of dual price reporting, and from January 1, 2024, it completely said goodbye to the Croatian kuna, a currency that surprised many with its stability over thirty years<sup>43</sup>. The introduction of the euro as the last step towards full integration into the European Union brought Croatia into the monetary union, where the main reasons against

<sup>43</sup> Croatian National Bank (2022) *Exchange Rate List Archive*. Available [online]: <https://www.hnb.hr/en/statistika/statisticki-podaci/financijski-sektor/sredisnja-banka-hnb/devizni-tecajevi/arhiva-hrk-tecajeva/arhiva-tecajnih-lista>

it were the relinquishment of part of the monetary sovereignty, and price manipulations by various service providers<sup>44</sup>.

The introduction of the euro had positive short-term effects already in the following two years. Three global credit agencies (Standard&Poors, Fitch, and Moody's) have repeatedly raised Croatia's credit rating to levels that Croatia has never had in history, with stable prospects<sup>45</sup>. They attributed the increase in large part to joining the Eurozone. Croatia thus gained access to lower interest rates when borrowing, and its competitiveness increased. However, in this last segment, the biggest obstacles remain the unpredictable tax policy and the slowness of the judiciary.

In addition to the previously mentioned argument of renouncing monetary sovereignty, the public was most afraid of 'price rounding' – a situation in which the public is afraid of price increases by service providers who want to take advantage of the moment when the currency changes and thus increase their prices and thus earn unfairly. Although these fears have not been new since 2002, when Germany exchanged marks for the euro, it turned out that they were unjustified<sup>46</sup>.

<sup>44</sup> Falagiarda, M. and Ch. Gartner (2022) *Croatia Adopts the Euro*, [in]: *ECB Economic Bulletin*, Issue 8. Available [online]: [https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208\\_02~15fd36600a.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox-202208_02~15fd36600a.en.html)

<sup>45</sup> Vlada.gov.hr (2022) *Plenković: Članstvo u europskoj dručju podiže kreditni rejting i reputaciju Hrvatske na međunarodnim tržištima*. Available [online]: <https://vlada.gov.hr/vijesti/plenkovic-clanstvo-u-europo-drucju-podize-kreditni-rejting-i-reputaciju-hrvatske-na-medjunarodnim-trzistima/35800> [in Croatian]

<sup>46</sup> Pufnik, A. (2017) *Effects of the Adoption of the Euro on Consumer Prices and Inflation Perceptions: An Overview of Experiences and Assessment of the Possible Impact in Croatia*. Available [online]: <https://www.hnb.hr/repec/hnb/survey/pdf/s-027.pdf>



ENTRY INTO THE EUROZONE WAS RELATIVELY 'PAINLESS'. CROATIA INTRODUCED THE EURO, WENT THROUGH A PERIOD OF DUAL PRICE REPORTING, AND FROM JANUARY 1, 2024, IT COMPLETELY SAID GOODBYE TO THE CROATIAN KUNA

The only interesting thing about the introduction of the euro in Croatia was the fact that it was done at a time of high inflation in the Eurozone<sup>47</sup>. According to the data from the European Central Bank (ECB) from March 2023, the consumer price index (HICP) for January and February 2023 shows that inflation in Croatia continued its slowing trend on an annual basis, falling from 12.7% in December 2022, to 12.5% in January 2023, and to 11.7%

<sup>47</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Consumer\\_prices\\_-\\_inflation](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Consumer_prices_-_inflation)

in February 2023<sup>48</sup>. Monthly inflation in January 2023 was 0.3%, which is lower than in some other Eurozone countries. In particular, the prices of food and services rose, while the prices of energy and non-energy industrial products fell compared to December 2022, which means that the introduction of the euro did not cause an increase in prices for the population.

### CURRENT AND FUTURE CHALLENGES

When talking about current challenges Croatia faces as a member of the European Union, perhaps one should start with the most current one – “Super elections 2024”. This year, Croatia will vote in parliamentary, presidential, and European elections. Even though elections in 2024 will happen outside of a decade we have been analyzing throughout this article, the current situation can be traced back to the first day Croatia joined.

In the latest Eurostat research, Croatia was the 23<sup>rd</sup> out of 27 EU member states when it comes to quality of life and overall experience of life<sup>49</sup>. In Croatia, the degree of satisfaction in the ten years of membership in the European Union increased by 0.5 points – from 6.3 at the time<sup>50</sup> to 6.8 at present<sup>51</sup>. In light of events of the last few years, populist parties will not waste even a second to tap into discontent which has risen, fueled mostly by rising energy prices, higher costs of living,

<sup>48</sup> Falagiarda, M. et al. (2023) *Has the Euro Change-over Really Caused Extra Inflation in Croatia?*. Available [online]: <https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog.230307--1669dec988.en.html>

<sup>49</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality\\_of\\_life\\_indicators\\_-\\_overall\\_experience\\_of\\_life](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality_of_life_indicators_-_overall_experience_of_life)

<sup>50</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Life\\_satisfaction,\\_by\\_age\\_group\\_and\\_country\\_\(mean\\_rating\),\\_2013.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Life_satisfaction,_by_age_group_and_country_(mean_rating),_2013.png)

<sup>51</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality\\_of\\_life\\_indicators\\_-\\_overall\\_experience\\_of\\_life](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quality_of_life_indicators_-_overall_experience_of_life)



IN THE LAST ELECTIONS, CROATIA ELECTED A COUPLE OF CANDIDATES WHO WERE BASING THEIR CAMPAIGN PURELY ON ANTI-ESTABLISHMENT AND ANTI-EU RHETORIC (SUCH AS IVAN VILIBOR SINČIĆ AND MISLAV KOLAKUŠIĆ)

and overall inflation numbers which still remain above the 2% mark<sup>52</sup>. According to the Eurostat, inflation in December of 2023 was at 3.4%, while in the euro area it was slightly lower – at 2.9%<sup>53</sup>. In the last elections, Croatia elected a couple of candidates who were basing their campaign purely on anti-establishment and anti-EU

<sup>52</sup> Eurostat (2023) *Annual Inflation up to 2.9% in the Euro Area Up to 3.4% in the EU*. Available [online]: <https://ec.europa.eu/eurostat/documents/2995521/18343103/2-17012024-AP-EN.pdf/9d885442-f323-cdde-e149-17ed99a63a6f>

<sup>53</sup> Ibid.



# UNPROVOKED RUSSIAN AGGRESSION IN UKRAINE IN FEBRUARY OF 2022 SHEDS SOME LIGHT ON THE NON-EX- ISTENT EURO- PEAN COMMON DEFENSE POLICY AND EUROPE'S TO- TAL DEPENDENCY ON THE UNITED STATES THROUGH THE NATO ALLIANCE

rhetoric (such as Ivan Vilibor Sinčić and Mislav Kolakušić)<sup>54</sup>. These elections will see some of them reelected, and a further rise in poll numbers of the far-right will

<sup>54</sup> European Parliament (2019) *Rezultati prema državnoj stranici: 2019. – 2024. Hrvatska – Službeni rezultati*. Available [online]: <https://www.europarl.europa.eu/election-results-2019/hr/drzavni-rezultati/hrvatska/2019-2024/> [in Croatian]

further mirror voters' discontent with the EU policies, who they see as a main culprit<sup>55</sup>. In this regard, the EU still has some work to do if it wants to connect with an average citizen in the country.

The second issue is immigration. Over the last ten years, Croatia's problems have become the EU's problems. A huge influx of illegal immigrants<sup>56</sup> is now creating frictions among various EU states, wanting to reform the EU immigration rules<sup>57</sup>, each in their own way. But that conversation has also shifted into a much bigger one about reforming the European Union itself. However, any changes regarding how the EU functions on a broader level will not happen until after the European elections in June, and after the new European Commission steps into light. For Croatia, this means fighting among the other 26 states for its own voice and making sure the outcome is in line with its national interests and ensures it can defend its own borders and those of the EU. Anything but a small feat.

Finally, unprovoked Russian aggression in Ukraine in February of 2022 sheds some light on the non-existent European common defense policy and Europe's total dependency on the United States through the NATO alliance. The current electoral cycle in the United States might further complicate things in Europe. The EU is now facing a dilemma on how exactly to achieve

<sup>55</sup> <https://www.politico.eu/article/brussels-braces-for-far-right-wave-as-eu-election-looms/>

<sup>56</sup> <https://www.pewresearch.org/global/2019/11/13/europes-unauthorized-immigrant-population-peaks-in-2016-then-levels-off/>; <https://www.europarl.europa.eu/topics/en/article/20170627STO78419/countering-irregular-migration-better-eu-border-management>

<sup>57</sup> [https://home-affairs.ec.europa.eu/policies/migration-and-asylum/irregular-migration-and-return\\_en](https://home-affairs.ec.europa.eu/policies/migration-and-asylum/irregular-migration-and-return_en)



THERE IS  
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UNION

the ability of Europe to defend itself<sup>58</sup>. Russia's aggression spreads through Europe not just with the devastation of a sovereign European states, but through propaganda, fake news, disinformation, and misinformation<sup>59</sup>. The influence on Croatia's neighbor, Serbia, is evident, and there is no doubt that Russia seeks to establish an even stronger

presence and influence in Serbia to further drive it away from the path of joining the European Union<sup>60</sup>. The challenge Croatia now faces is this: it must be able to deter all possible threats to its national security and sovereignty, but such long-term policy move will have to be in line with a future European defense policy, regardless what shape that might take.

Croatia has been fully integrated in the European project for over a year now. Despite all challenges that currently affect the EU, the life of an average Croatian citizen has improved, even if only in the short term. The consumer standard has now reached 73%<sup>61</sup> of that of the European Union average and it will continue to rise. Croatia is very successful in its own decarbonization efforts, and thanks to the euro and Schengen milestones, it can continue to grow its economy due to a vast single market, standardized set of rules, and lower interest rates on its future debts. It has an opportunity to finally implement much needed reforms and become a truly free market economy.

## CONCLUSIONS

For ten years, Croatia has been among the countries to which it historically and culturally belongs. Fully integrated into the European Union, a full member of the NATO alliance, and in the process of joining the OECD as the last major foreign policy goal, Croatia is an example of a country that is an ally of the European Union and the transatlantic partnership in the full sense of the word.

<sup>58</sup> Monaghan, S. (2023) *Solving Europe's Defense Dilemma: Overcoming the Challenges to European Defense Cooperation*, [in]: Center for Strategic & International studies. Available [online]: <https://www.csis.org/analysis/solving-europes-defense-dilemma-overcoming-challenges-european-defense-cooperation>

<sup>59</sup> <https://www.state.gov/russias-pillars-of-disinformation-and-propaganda-report/>

<sup>60</sup> European Parliament (2023) *Russia and the Western Balkans Geopolitical Confrontation, Economic Influence and Political Interference*. Available [online]: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747096/EPRS\\_BRI\(2023\)747096\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747096/EPRS_BRI(2023)747096_EN.pdf)

<sup>61</sup> <https://www.worldbank.org/en/country/croatia/overview>



CROATIA STILL HAS A LONG WAY TO GO. UNFORTUNATELY, IT DID NOT YET FULLY UTILIZE ALL THE POTENTIAL THAT WAS PROVIDED TO IT BY JOINING THE EUROPEAN UNION

Today, Croatia is one of the fifteen democracies in the world that are members of NATO, the EU, the euro area, and the Schengen area. Membership helped Croatia not only by implementing the acquis of the European Union and raising the standard of living, but also changed the attitudes of younger generations who saw all the benefits of living under the roof of the single market. The freedom to study, travel, live, and do business while enjoying legal equal treatment and status fundamentally changes society. The generation that was born after July 1, 2013 is now already ten years old, and in the next ten years they will enter the labor market and for them the EU will be the only known environment. The real changes in Croatia are yet to come.

Despite the obvious economic indicators that speak of a better situation now than ten years ago, Croatia still has a long way to go. Unfortunately, it did not yet fully utilize all the potential that was provided to it by joining the European Union, primarily by implementing key reforms that are necessary for strong growth. The Croatian economy is neither sufficiently exportable nor competitive. As a result, Croatia could sink into long-term stagnation after the abundant aid from EU funds dries up. Croatia must also move away from the use of EU funds and base its growth on exports, industry, and creation, as well as increasing the productivity of the population, as well as faster implementation of the EU legislation and taking a proactive stance in Brussels.



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IGOR  
ŠLOSAR

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# Past, Present, and Future



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MÁTÉ  
HAJBA

**E**xamining the past 20 years of the European Union (EU) is no easy feat, nor is evaluating the success of the recent members. Two decades is not enough, but it is sufficiently long to give a good overview of where the EU stands today and what lessons can be drawn from the integration process. Yet, this process is ongoing, so no final conclusions can be made. This, however, is not surprising given how the whole EU is a dynamically changing project.

In this issue of the *4liberty.eu Review*, the authors come from various countries that joined the European Union at different times. The contributors themselves come from different backgrounds, belong to different generations, and thus their experiences are engagingly diverse. The countries in focus also have very different histories. Most of them were ravaged by communism, whereas some even by war, not long before their EU memberships. They managed to make swift and seemingly successful changes toward liberal values, democracy, and free markets on their own, spurred on by the strong aspiration to rejoin their places in Europe, of which EU membership is symbolic.

Although these states managed to have these great accomplishments on their own, they greatly benefitted further by their membership of the European Union. Not everything lies in the numbers though. People of these countries wanted their freedoms back and worked hard to unite again with their brethren in Western Europe.

Now, there are populist forces in the EU, not content with all the achievements. They paint a grim but false picture of what sort of awful policies the European Union has forced upon the members. The EU needs to be criticized to make it ever better. There is no denying that there are faults. Yet, without it, the recent members would be much

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worse off. Furthermore, there is no *us* and *them*. We are the EU. The member states and their citizens. Therefore, the decisions made are not the fault of some abstract entity, but a fault of our own.

In light of these phenomena, this issue of the *4liberty.eu Review* provides a glimpse into the story of the hard work people put into joining the EU, the great benefits of the membership, and the dangers of populist voices wishing to weaken the European project. The articles in this issue can, therefore, serve as an aid for the EU and applicant states in drawing up a roadmap for future candidacy, factoring in all the past errors, future opportunities, and current attitudes.

I hope you enjoy reading them.

Máté Hajba

Content Editor of *4liberty.eu Review* no. 20



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HAJBA

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Director of the Free Market Foundation, an independent think tank in Hungary focusing on free market economics, rule of law, civic liberties, and tolerance



## MEMBERS OF 4LIBERTY.EU NETWORK

**Free Market Foundation** (Hungary) is a think tank dedicated to promoting classical liberal values and ideas. The organization's projects focus on advocating a free market economy and fighting racism. The Foundation's activities involve education, activism, and academic research alike, thus reaching out to different people.

**Liberalní Institut** (Prague, Czech Republic) is a non-governmental, non-partisan, non-profit think tank for the development, dissemination, and application of classical liberal ideas and programs based on the principles of classical liberalism. It focuses on three types of activities: education, research, and publication.

**The Lithuanian Free Market Institute** (Vilnius, Lithuania) is a private, non-profit organization established in 1990 to promote the ideas of individual freedom and responsibility, free markets, and limited government. The LFMI's team conducts research on key economic issues, develops conceptual reform packages, drafts and evaluates legislative proposals, and aids government institutions by advising how to better implement the principles of free markets in Lithuania.

**IME** (Sofia, Bulgaria) is the first and oldest independent economic policy think tank in Bulgaria. Its mission is to elaborate and advocate market-based solutions to challenges faced by Bulgarians and the region face in reforms. This mission has been pursued since early 1993 when the institute was formally registered a non-profit legal entity.

**The Academy of Liberalism** (Tallinn, Estonia) was established in the late 1990s. Its aim is to promote a liberal world view to oppose the emergence of socialist ideas in society.

**INESS** (Bratislava, Slovakia), the Institute of Economic and Social Studies, began its activities in January 2006. As an independent think tank, INESS monitors the functioning and financing of the public sector, evaluates the effects of legislative changes on the economy and society, and comments on current economic and social issues.

**Projekt: Polska** (Warsaw, Poland) comprises people who dream of a modern, open, and liberal Poland. It is those to whom a democratic, effective, and citizen-friendly government is a key goal, and who help accomplish this goal while enjoying themselves, forming new friendships, and furthering their own interests.

**Liberales Institut** (Potsdam, Germany) is the think tank of the Friedrich Naumann Foundation for Freedom dedicated to political issues such as how liberalism can respond to challenges of the contemporary world and how liberal ideas can contribute to shaping the future.

**Fundacja Liberté!** (Lodz, Poland) is a think tank created in Łódź in 2007. Its mission is to promote an open society, liberal economic ideas, and liberal culture, and to organize a social movement around these ideas. Among the foundation's most recognizable projects are: Liberté!, Freedom Games, 6. District. The foundation is coordinating the 4liberty.eu project on behalf of Friedrich Naumann Foundation.

**Republikon Institute** (Budapest, Hungary) is a liberal think tank organization based in Budapest that focuses on analyzing Hungarian and international politics, formulating policy recommendations, and initiating projects that contribute to a more open, democratic, and free society.

**Civil Development Forum (FOR)** (Warsaw, Poland) was founded in March 2007 in Warsaw by Professor Leszek Balcerowicz as a non-profit organization. Its aim is to participate in public debate on economic issues, present reliable ideas, and promote active behavior. FOR's research activity focuses on four areas: less fiscalism and more employment, more market competition, stronger rule of law, and the impact of EU regulations on the economic growth in Poland. FOR presents its findings in the forms of reports, policy briefs, and educational papers. Other projects and activities of FOR include, among others, Public Debt Clock, social campaigns, public debates, lectures, and spring and autumn economic schools.

**Visio Institut** (Ljubljana, Slovenia) is an independent public policy think tank in Slovenia. Aiming for an open, free, fair, and developed Slovenia, the Visio Institut is publishing an array of publications, while Visio scholars regularly appear in media and at public events.

**The Institute for Economic Research and Policy Consulting** (Kyiv, Ukraine) is a well-known Ukrainian independent think tank, focusing on economic research and policy consulting. IER was founded in October 1999 by top-ranking Ukrainian politicians and scientists, and a German advisory group on economic reforms in Ukraine, which has been a part of Germany's TRANSFORM program. Its mission is to provide an alternative position on key problems of social and economic development of Ukraine.

**New Economic School – Georgia** (Tbilisi, Georgia) is a free market think tank, non-profit organization, and NGO. Its main mission is to educate young people in free market ideas. It organizes seminars, workshops, and conferences for education and exchanges of ideas. NESG was founded by Georgian individuals to fill the knowledge gap about the market economy in the country and the lack of good teachers and economics textbooks.

**Economic Freedom Foundation** (Warsaw, Poland) strives to make Poland a prosperous and open country, where people enjoy a high level of economic freedom and other individual liberties. Its mission is to invest in the most valuable initiatives for economic freedom and to create a space for cooperation and integration of free market advocates.

## ASSOCIATE MEMBERS

**Bendukidze Free Market Center** (Kyiv, Ukraine) is a Ukrainian think tank created to promote liberty, limited open government and free market through analysis and development of new and modern policy options, introduction of educational programs and direct engagement with decision makers in the government, business and civil society.

**Centre for Economic and Market Analyses (CETA)** (Prague, Czech Republic) is a pro-market think tank. Its main goal is to analyze the market, socio-economic and political phenomena in the Czech Republic, and point out their impacts.

**PETAR GANEV**  
**COMPETITIVENESS AND CONVERGENCE IN CEE: WHAT CAN WE LEARN FROM 20 YEARS**  
**OF EU MEMBERSHIP?**

**PAGE 004**

It is evident that in the last two decades the whole CEE region converged significantly with the EU's biggest economies and, although not entirely, this is undoubtedly linked to the participation in the EU Single Market and the deeper integration with the wealthier Western economies.

**IZABELL BÁLINT**  
**EVOLUTION OF HOW CEE PERCEIVES THE EUROPEAN UNION**

**PAGE 018**

The years following the CEE enlargement brought several events challenging the EU both on the national and the supra-national level. These challenges ranged from the 2005 debates about the Treaty, aiming to establish a Constitution for the European Union, to the 2008 financial crisis. The former disrupted the inner unity, as it did not get ratified by all member states, and in the case of the latter, the EU had to act as a global actor, while formulating policies for its members, which posed a difficult duality.

**HUBERT WEJMAN**  
**THE PAST AND NEXT 20 YEARS: WHY DOES CEE NEED (MORE) EU?**

**PAGE 036**

This year's 20th anniversary of the presence of Central and Eastern European countries in the structures of the European Union is a time to take stock and set new priorities. The upcoming twenty years are expected to be crucial, not only for these countries individually, but also for the overall structure of European collaboration and unity.

**TOMASZ KASPROWICZ**  
**EU ACCESSION AND THE EURO: UNFINISHED BUSINESS**

**PAGE 078**

Today's debate should not concentrate on whether the CEE countries should adopt the euro. Instead, it should focus on how to prepare economies and institutions for adoption so that the benefits of the euro are maximized while existing pitfalls are avoided. Plenty of reforms are still required to achieve competitiveness and ensure the euro will not become a burden but a boost.

**ŠÁRKA SHOUP**  
**UKRAINE'S BID TO THE EU: WHAT IS TO BE EXPECTED?**

**PAGE 094**

It is clear that in terms of Ukrainian ascension, multiple courses of action can be taken to help improve Ukraine's chances of being admitted to the European Union. Regardless of the approaches taken towards EU enlargement, it is important to understand the benefits that EU growth will bring. To ensure security and prosperity, the EU must gain a greater influence in surrounding areas to promote its core values. Spreading democratic values across the continent is a crucial step towards building a greater European Union.