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Competitiveness of the EU Neighbours after the 2004/2007 EU enlargement

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Aleksandra Galek, Katarzyna Żukrowska

International Security Department
Warsaw School of Economics- Poland

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1. Introduction

The main goal of this study is to assess the macroeconomic performance and institutional development of the countries from the EU Southern Neighbourhood (SN) against the benchmark of the new member states (NMS) and Eastern Neighbourhood (EN). This will be done on the basis of selected macroeconomic indicators and the countries' openness, as well as rankings reflecting the countries' competitiveness, economic perspectives and progress in structural reforms. The main focus will be given to the economies of the Mediterranean Partner Countries – Algeria, Egypt, Morocco, Jordan, Lebanon, Tunisia and Syria which, being the members of the Barcelona Process, were also invited to the European Neighbourhood Policy (ENP) scheme.

This paper will look at number of issues linked with the economic influence of the enlarged EU[1] on the economies of its Neighbours. A performance- and institution-based SWOT analysis of two regions – Southern Neighbours and Eastern Neighbours – will be prepared and used as a tool to assess the main strengths and weaknesses and major macroeconomic challenges of the countries in question. This analysis will be based on different reports made by International Financial Institutions (IFI) such as the World Bank, International Monetary Fund, the UN's – WIR, and others. It will examine Global Competitiveness Indicators (World Economic Forum), Governance Indicators (World Bank), and current economic performance indices (GDP growth, inflation, unemployment, public finance balance and current account balance). We will look also at the instruments of the ENP, as it was developed to help the neighbouring countries in their systemic transition, by offering them access to the internal market, EU transfers and rules of the EU economic regime.

The paper undertakes the effort to test the following theses:

1. The EU, being economically more developed, stable and influential internationally, can play an important role in transmitting macroeconomic stability and development to other regions if conducive conditions are created. Some preconditions for that were created by process of deepening and widening as gradual deepening of mutual political and economic ties with third states. The EU has, over time, worked out tools

[1] Enlargement of the EU to the East was divided into two unequal phases: first embracing eight Central and Eastern European states: Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovakia, Slovenia, as well as two western small states Malta and Cyprus. The second phase embraces two Central and Eastern European post-communist states Bulgaria and Romania. The latter have relatively smaller economies and represent lowest level of development in the process of enlargement until now, and this is main reason why the title concentrates on 2004 enlargement, acknowledging that there was second phase as well. Despite the title, analysis refers to the two states of 2007 enlargement.

to protect the interests of partner states (asymmetry in liberalisation, privileged access to its market, export of capital, expertise, development aid, evaluation of progress in reforms declared by a state in its partnership agreement). Mutual relations also embrace advice on the building and functioning of administrative institutions.

2. Cooperating closer with the EU: Southern and Eastern Neighbours have to be ready to face more intensive competition and be prepared to change the structure of their economies to be able to shoulder development challenges.

3. The impact of the EU 2004/2007 enlargement on macroeconomic development in the Southern and Eastern Neighbourhood can be measured mainly by the experience gained in this process, which generally is positive when one measures it by levels of rates of growth in the new and old MS. In both cases it has accelerated despite all fears that accompanied the process.

4. The positive impact of the enlarged EU on the macroeconomic development in the Southern and Eastern Neighbourhood is going to be stronger with the strengthening liberalisation processes in the EU Neighbourhood.

5. Eastern Neighbours are to gain more proportionally from the ENP scheme than Southern Neighbours if one compares the previous (2000-2006) and current (2007-2013) financial perspectives. Nevertheless, the allocations are designed according to absorption abilities of a state/ group of states as well as their declarations concerning plans to use the available money.

The paper will conclude with some recommendations both for the European Commission responsible for further cooperation with the ENP countries and for the governments of the EU Neighbours. Those recommendations will be based on the experience of NMS in their transformation period and on the different characteristics of the Southern and Eastern Neighbourhood.

2. The enlargement process – its rationales and implications for the economies of the EU-15 and the acceding countries

Both groups of states gained from the enlargement. Despite different fears concerning costs of enlargement, the burdens laid down on new and old MS are under control and there was no need to increase the obligations within the scope of own resources burdens. Moreover, analysis of the margin of total appropriations for commitments as well as for payments, measured as share of common GNI, are lower than the upper ceiling in both cases. The available margin here ranges for 2007-2013 between 0,18-0,30 GNI as compared with the own resources ceiling. This is despite additional tools introduced for Bulgaria and Romania, who are eligible for compensations in 2007-2009[2]. Moreover, certain new instruments outside the budget were introduced in order to increase the flexibility of the budget, enabling financing for a given financial year, and up to an indicated amount of clearly identified expenditure which could not be financed within limits of the ceilings available for one or more other headings. The annual ceiling here is EUR 200 million. Moreover, all economies of the EU MS – old and new – accelerated their rates of growth. The euro area rate of GDP growth is 2,5%, which gives 1,2% increase in comparison with 2006. The NMS (except Hungary) enjoyed an accelerated rate of growth of around 6%. In Hungary the rate of GDP growth was the lowest and did not surpass 1,4 %[3].

The prospects of EU membership and finally the EU accession in 2004 and 2007 have proven to be both a successful "external anchor" and a "growth accelerator" for 10 Central and Eastern European (CEE) countries. The economies in the CEE region are growing at a buoyant average pace of around 5-6%, which is driven by internal and external consumption as well as by incoming foreign direct investment (FDI) and the EU structural funds. At the same time the EU membership perspective accelerated the reform process and facilitated structural reforms before the accession and now, all the countries, although at different speeds, are committed to further reforming their systems according to the EU rules defined in the Growth and Stability Pact (macroeconomic level) and the Lisbon Strategy (microeconomic level). Thus, the development gap with the EU15 is narrowing, systemic

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[2]Institutional Agreement and financial Framework 2007-2013. www.europa.eu/scadplus/leg/en/lvb/134020.htm

[3] The Economist, 25 August-31 August 2007, p. 89.

transformation is advanced and the new member states (NMS) are challenged by the vision of following the development path of Ireland or Spain, rather than Greece.

Generally, those economies which were applying a model of transformation based on ex post competitive advantage rather than an ex ante enjoy now high rates of growth and positive results in closing their gap between imports and exports[4]. Those who cared more about current competitiveness by applying protectionist measures in trade as well as exchange rate policies face problems today. The results of the applied policies were intensified by accession – competition stimulated by creation of a FTA (free trade agreement) was intensified additionally by lower external tariffs (in comparison with national ones) applied within the framework of common foreign trade policy[5].

Additional factors like globalisation and liberalisation processes, and creation of the European Monetary Union, have had an impact on the intensity of competition as well as stimulating structural changes moving the advanced economies towards more service oriented structures and decreasing the share of industry and agriculture in employment (in some cases), as well as in creation of GDP. This process enables, on the one hand, moving capital to less developed economies, increasing competitiveness of thus performed production. This creates jobs in less developed economies and thus enables self-financing of consumption, and decreasing dependence on aid flows, which often are used unproductively (at least in comparison with private investment transfers)[6].

After WWII the world economy developed in a sequenced pattern[7], which led to creating interdependencies[8], that is relations among states creating very efficient guarantees that external relations with stronger economies will not be utilized against the interests of weaker economies. At the same time, concentration of resources in a limited number of economies formed some of the conditions of interdependence: disparities in access to technologies, disparities of supply in production factors capital, labour, goods, raw materials, and so forth. Moreover, sales of products supplied from companies experiencing permanent overcapacities

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[4] K. Zukrowska, Klasyfikacja modeli transformacji gospodarczej, w: K. Żukrowska, D. Sobczak (ed), Rozszerzenie strefy euro na wschód, Instytut Wiedzy 2004, Warszawa, s. 13-32.

[5] J. Ziemiecki, K. Żukrowska, Konkurencja a transformacja w Polsce. Wybrane aspekty polityki gospodarczej. SGH, Warszawa 2004, s. 197.

[6] K. Żukrowska, Methods available to overcome the Balassa-Samuelson effect in a catching-up economy, Economic Paper, No.: 40, 2006, s. 201-208

[7] K. Żukrowska, *Institutionalization and sequencing - instruments building confidence as precondition to universal development*, Bonn (Conference article available at: www.eadi.org/gc2005/paperswgopen/ zukrowska_rev.pdf)

[8] R. O. Keohane, J. S. Nye, Power and interdependence, Third edition. Longman, New York 2001, p. 228-266, 265-299.

of production require new markets. In the past those markets were found in third countries' economies and were a source of wealth in developed economies. Currently, with the progress of service led growth, developed economies have found interest in moving production to less developed economies, decreasing thus their own taxes, which formerly were used to financed aid transfers. This new strategy possesses several advantages: it enables a decrease in tax burdens, which formerly were used for financing aid; it increases the effectiveness of external financing which is addressed to stimulate growth in less developed economies; it helps to reduce external debt burdens; it does not stimulate increases of external debt in the medium and long run (although it can act in such way in short term); it increases wealth in developed economies moving production factors from low value-added types of production, to higher value-added types of production; it increases wealth in less developed economies; it creates conditions for self-financing in the case of less developed economies; it is based on a strategy of giving access to markets of highly developed economies creating thus conditions for production in less developed economies. This means quite the opposite approach to that in the case of colonial relations. (Nevertheless, opening an economy is not a sufficient condition to create industrial infrastructure and jobs. This has to be proceeded by law introduction as well as law enforcement, institutions, macro stabilization, and so forth)

Phases of deepening integration in the EU (or some other supply/demand external shocks) were matched with consecutive stages of liberalizing economic relations with third economies (i.e. 1973/1978 – two energy crises, 1997/98 financial crises, exchange rate crises 1990/1992). This observation leads to the conclusion that those shocks can be considered as a stimulation of changes and conditions enabling international cooperation to overcome their negative results. Without such tensions cooperation would be more difficult to achieve as experts would be giving different solutions on how to come to a common denominator in cooperation and how far states should be engaged in such cooperation, protecting their own interests and sovereignty. The next move towards new adjustments in the world economy will be created by liberalisation of services. Today, limited competition in services, despite creation of a single internal market in 1987 (completed in 1992), can be labelled as an unfinished process. Liberalisation of services is not completed and one can say that it is even postponed, which can be proved by rejection of the so called Bolkenstein Directive. Half-way liberalisation of services already produces some tension on the EU market, stimulating inflation.[9] Liberalisation of a service market coordinated with the next move towards liberalisation of Mediterranean and CIS markets can be considered as a correctly devised strategy creating new conditions for an international division of labour newly adjusted to globalised conditions. The novelty of a new division of labour will be based on several assumptions:

- There is a new drive in shaping terms of trade, which traditionally were characterised by an opening of the "scissors" formed by industrial prices curve (going up with increase of supply); and the raw-materials, agricultural products and food curve (going down with increase of supply). Today, with a post-industrial phase of production and the start of mass consumption in China, India and remaining developing or catching-up economies (which is followed by moving production to those markets), the scissors of the terms of trade (both curves) are shutting. This is against the observation known in economics as the R. Prebisch law (Prebisch-Singer hypothesis)[10]
- Catching-up economies move from simple competitive advantage based on labour costs towards advanced competitive advantage based on advanced technology application, productivity, work organization and quality of labour engaged as well as quality of the product. This is a consequence of quickly growing labour costs in catching-up economies
- A new division of labour is based on intra-branch division not on inter-branch division which means that interdependence is also embracing division of labour, and a final product is not available without all components often being manufactured in different parts of the world
- Anti-dumping procedures are more often applied not by developed against developing, but in the opposite direction by developing (catching-up) against developed countries (which can be considered an indicator pointing to withdrawal from interventionist policies).

[9] Recently financial studies diversify inflation of different markets of both non-tradables and tradables services. Tradeables in developed market economies experience limited growth of prices while non-tradables show faster increase in prices. Knowing sources of inflationary rise of prices (supply/demand sources, cost sources) we can see that limitation of competition (lack of liberalisation of the market) possess a challenge.

[10] K. Zukrowska, China starts to produce and consume, w: A. Kukliński, B. Skuza (red.), Turning points in the transformation of the global scene, Oficyna Wydawnicza REWASZ, The Polish Association for the Club of Rome, Warsaw 2006, s. 307-312

In sum, liberalisation-embracing states representing different stages of development increases the speed of structural changes, but at the same time has an impact on the new shape of division of labour. This can be seen for example in the case of China becoming world's main factory, and India developing with slower path of growth, but concentrated more on services than on production. The EU with its neighbourhood policy is a world-wide player stimulating development in its neighbourhood by aid money, but much more by giving access to own market, opening towards immigrants (who send remittances back home), giving advice, pointing what should be done and how as far as administration and management of the state is concerned, as well as how to build and operate by effectively established institutions. All this is supported by the application of law, which turned to be practically tested in well functioning market democracies. This model was applied by all states that were taken aboard by the growing European Community. Some of those states represented a relatively low level of development in comparison with the others, for example Ireland, Greece, Portugal and Spain. Now they are ranked as developed economies and Ireland is enjoying a GDP per capita higher than the EU average. The best results of cooperation with the EU, in last decade, were shown by CEE states. The development diversification between old and new MS was here much bigger than in case of the former group. (the per capita GDP in all except Slovenia was below 40% of the EU average). Today some states still keep that distance but the others are quickly climbing up the development ladder. Poland or Estonia being the best performers proves a certain strategy. In both cases it was based on wide opening of the market for goods, capital, services and people. Nevertheless, this strategy of opening was preceded by institutional and legal preparations. There is no chance to take advantage of opening of the economy without preparing it up-front for that change. The market itself is not able to do the job; it works in cooperation with the legal and institutional infrastructure specially designed for that purpose.

Mutual relations between the new MS and the old MS can be used as a model for other states with neighbourhood states in the forefront. The positive effects of applied strategies designed by the Commission as well as disciplining tools used can be applied in other regions. They are a challenge, as they were in case of CEE region, but they turned out to be effective.

3. From Partners to Neighbours – the Enlargement process and its impact on shaping EU policy towards the Mediterranean Partner Countries

The Eastern enlargement has been generating an impact, not only on each and every EU policy and the economic and political situation of the member countries. In a globalising world it has great implications on the outside world – on close and more distant neighbouring countries. The connection of this particular last enlargement to the Mediterranean policy of the EU does not look so straightforward from the perspective of NMS interests and involvement in the region (expect for Malta and Cyprus which belong to the Mediterranean region). Sedelmeier and Wallace[11], in their analysis of the implications of the last enlargement wave mention three big issues – challenges for future EU foreign policy towards its closest neighbours. They are: the question of candidate countries who were not admitted to the accession negotiations – Turkey; the relations to the Eastern neighbourhood – Russia and CIS countries; and south-east European countries of former Yugoslavia. Following their path of analysis, after the enlargement happened one can argue that its impact on the Barcelona process will be rather indirect – through the creation, further development and results of the new EU foreign policy instrument – the European Neighbourhood Policy.

The ENP was launched as a complementary policy to the EU enlargement of 2004/2007[12]. It embraces the Southern Neighbours – Algeria, Egypt, Morocco, Jordan, Lebanon, Tunisia, Syria[13], and Eastern Neighbours – Ukraine, Georgia, Moldova, Armenia and Azerbaijan. Since the Eastern enlargement the EU has developed different policies and instruments towards these countries, especially towards the second group – so far the "neglected" region. The countries of the Eastern Neighbourhood were not only indicated by the European Commission as the first beneficiaries of the Wider Europe initiative which finally took shape of the ENP. Additionally, during the German Presidency in the first half of the 2007, the

[11] Eastern Enlargement. Strategy or Second Thoughts?, Ulrich Sedelmeier, Helen Wallace, Policy-Making in the European Union, Fourth Edition, Helen Wallace and William Wallace, Oxford University Press, 2000, p.428.

[12] See EU documents: Commission of the European Communities (2003) "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours", COM (2003) 104 final, 11 March and "ENP Strategy Paper, COM (2004) 373, 12 May.

[13] West Banka/Gaza and Israel are also part of the ENP scheme and the countries which take part in the Barcelona Process. However, we decided that in they will not be included in this analysis. Libya and Belarus are also "close" to the ENP but not signing any association or partnership agreement with the EU, they have lower status than the countries that have negotiated such agreements. Russia has decided to withdraw from the ENP wishing to obtain the status of a strategic partner. Its role is crucial as far as the relations between the EU and its Eastern Neighbours is concerned but of less importance regarding the Southern Neighbours. Thus, Libya, Belarus and Russia are not be generally analysed in this paper.

Black Sea Synergy was proposed – a new cooperation initiative including, among others, some of the Eastern EU Neighbours[14]. Thus, the Southern Mediterranean countries can feel challenged by the vision of the "Easternisation" of EU interests, and face stronger competition for the EU transfers, interests, experts knowledge, both from inside (NMS) and outside the EU (Eastern Neighbours). However, "Easternisation" is not a real threat in our opinion and it was visible just in 2007, when Germany and Portugal divided the goals of their presidencies and in the first half the priorities concentrated on the Eastern and in the second half on the Southern Neighbours. In this respect, although the Barcelona Process was said by the European Commission to be complimented rather then replaced by the ENP, the balance of EU engagement and interests in the Mediterranean region will shift from the Barcelona process towards the ENP scheme. Our arguments supporting this thesis are the following:

1. All financial resources so far distributed through the MEDA instrument were put in the financial basket of the ENP - the European Neighbourhood and Partnership Instrument.

The EU has increased its financial assistance to 12 billion euros which can be used via different programs, on a country, regional and trans-border level. Thus, the ENPI funds allocated to the Southern Neighbours will have to cover the goals of the Barcelona Process, both the Association Agreement and the ENP, and each of the Action Plans. The assessment of the programs will be only possible after the first phase of their functioning. However, one issue is striking now – when you compare the funds directed to the NMS as a part of the EU Cohesion Policy and the funds for all NCs in the form of ENPI[15], one will see that all the NCs combined will get as much as Slovakia – around 12 billion euros, whereas Poland alone will be granted around 67 billion euros. The impact of ENPI on the economies of the NCs will be of minor importance – rather on a micro-scale of technical and administrative support than on a macro level.

Comparisons of net values of allocations show a high disproportion between the NMS and Southern Neighbours, which is a result of different titles with diversified allocations in each case. Future members, associated states, states with partnership programs approving the ideas

[14] The Black Sea Synergy countries are: Greece, Bulgaria, Romania and Moldova in the west Ukraine and Russia in the north, Georgia, Armenia and Azerbaijan in the east and Turkey in the south. Though Armenia, Azerbaijan, Moldova and Greece are not littoral states, history, proximity and close ties make them natural regional actors. See: Communication from the Commission to the Council and the European Parliament, Black Sea Synergy – a New Regional Cooperation Initiative, Brussels, 11 April 2007.

[15] The grants of the European Investment Fund are not taken into account.

of integration and harmonizing law, institutions and liberalizing economy are given special financial support. This support is continued after accession, which as a result is pointed at adjusting the levels of development in NMS or preparing for membership. There is no competition among groups of states for the aid money; moreover there is no competition for the finances within a group. States can compete in cutting the time needed for adjustment of their laws, institutions, liberalisation of the economy. Making planned steps quicker means that they can think about replacement of an old agreement by a new one which is more advantageous, also financially. Moreover, closer relations with the EU mean more stable standing, which in turn increases the attraction of such market for capital inflows. Nevertheless, the interest of world capital does not come automatically; most of the capital invested abroad is institutional capital (pension programs, savings of companies), which means that it has to be invested safely and bring a decent return. FDI coming to an economy is much higher than aid transfers, moreover, earnings remittances of emigrants often also are higher than FDI. All three types of flows occur and can have an impact on the economy, when investors are convinced that the economy is stable, predictable and there are no unexpected events coming ahead, which can be risky for them by reducing returns from the investments.

2. The ENP's design draws on the one hand from the eastern enlargement experience of a "success story" which required "**innovation, creativity, and strategic policy-making**".[16] On the other hand, it tries to complement previous policies towards the neighbouring countries which were criticised by lack of real progress (like the Barcelona Process itself).

The Eastern enlargement is often described as a successful example of EU external governance by conditionality.[17] According to Noutcheva and Emerson, the promise of full integration into the EU Single Market has helped to legitimize the EU "rules of the game" in the economic sphere in both accessing and candidate countries (NMS and Western Balkans). Those countries, according to the authors, belong to the 3rd and 4th circle of EU economic governance – they have (or will have) access to the Single Market and they are (or will be) EU members. The present situation of the EU Neighbours is of a different and more complicated nature. Noutcheva and Emerson place them in the fifth ring of EU economic

[16] Sedelmeier, Wallace, op.cit., p.428.

[17] Economic Regimes for Export, Extending the EU's Norms of Economic Governance into the Neighbourhood, Gergana Noutcheva and Michael Emerson, CEPS Working Document, No. 233/December 2005, Centre for European Policy Studies.

governance – the countries are potential EU internal market participants but not potential candidates for EU membership.[18] The European Commission, when designing the ENP, believed that even without offering a membership perspective, the countries of the EU neighbourhood will adapt their institutions to EU standards, converge with the internal market rules in order to have some undefined "stake" in the EU Single Market; not only an undefined, but also a very long-term goal. Although successful transition of the NCs, improvement of their institutions, participation in the area of free movement of goods, services, capital and labour can be a "carrot" itself, giving the NCs "instruments" to increase their competitiveness and lead to higher growth rates, only Mediterranean Neighbours will be able and willing to accept this "smaller" carrot. Eastern Neighbours, particularly Ukraine and Georgia after the Orange and Rose revolutions, will surely pursue a goal of full membership in the EU.

The Barcelona Process, despite its history and specially-advanced framework of relations between the EU and Mediterranean Neighbours, can become one of the external, regional EU initiatives, inferior to the broad framework of the ENP which, including all EU Neighbours, can attract attention of all EU member countries, especially such as the NMS and Germany are more interested in relations with the Eastern rather than Southern Neighbours. Thus, the ENP and not the Barcelona Process can play a central role in shaping the relations with those countries. Lack of such big incentives as EU membership will require no less innovation, creativity, and strategic policy-making from EU policy makers than was in the case of the last enlargement. Especially when taking into account the fact that the NCs are more heterogeneous, politically and economically, than the NMS were.

3. Although all the Action Plans are just technical documents and not the association agreements, they envisage in some future the replacement if existing agreements with a new type, enhanced agreements.

Ukraine is the first country which started negotiations. An agreement which will be signed by both parties could be a model for all other NCs. Mediterranean countries have also started negotiations on liberalisation in services and establishment of a FTA at the end of the period.

[18] Ukraine can be seen however as an exception. It will be the first ENP country which will acquire a status of a "candidate country" in the future.

The Euro-Med Association Agreements, even the last ones which were agreed (the Association Agreement with Lebanon signed on 17 June 2002), are to narrow in the scope of their provisions to respond to the challenges of the global economy of the 21st century.

4. In spite of some disappointment on the side of the NCs concerning the lack of real incentives (membership perspective in case of Ukraine) or becoming a "neighbour" and not a "partner" like before (in case of Mediterranean Neighbours), the ENP offers more opportunities with its differentiation principle for the countries really wishing to reform and be ready to face the competition on the EU market.

The ENP, when compared to the Euro-Med Partnership, put more emphasis on bilateral relations between the EU and each neighbouring country. A differentiation principle and positive conditionality approach will be more beneficial for those countries who are "transition leaders" and less or non-rewarding for "transition laggards". Using EU-terminology, the ENP does not envisage some kind of a "big bang" accession to the EU Single Market for the NCs. It proposed rather the "regatta" option, where all of the ENP countries start the race at the same time, but row at different speeds towards the finishing-line, depending on the pace of their convergence with the EU and the success of their domestic reforms. This option would be fair and could lead to a healthy competition among the NCs. The biggest problem, however, is that there is "no clear and one size fits all" finishing line. We may only predict that in some distant future, some ships will start rowing towards the accession finish while others towards full integration with the internal market. Such goals would require the NCs to adopt the policy of "becoming EU alike" and adopting acquis communautaire instead of acquiring the policy "let's cooperate" like it is in the case of the Barcelona Process.

Changing the approach requires fully understanding two major things:

- The world economy, within globalisation and liberalisation as well as with its diversification of level of development, is aiming at reducing the difference in development and narrowing if not closing the development gap. This cannot be done mainly by aid transfers. This has to be done by adjusting laws, institutions, liberalizing economies and making the market more friendly for foreign investment;

- A world economy after liberalisation, which commonly is considered as a precondition to catch-up in development and wealth, will be organized in a similar way as the model which is tested and applied in the EU internal market;
- States located beyond the European borders can negotiate their pattern of cooperation with the EU following two philosophies: “there is room for us in the EEA” or “let’s change the EU conditions for membership, including also economies outside Europe”.

Both philosophies derive directly from the approval of the fact that states have an interest in changing the world economy, and a more effective way to achieve this is replacing aid money by conditionality and external control linked with one of the EU partnership agreements, designed uniquely for the group of cooperating states.

5. In comparison with Germany, which is implicit declaring its interests in the Eastern Neighbourhood, the NMS are concentrated in their policy towards Eastern Neighbours or the countries of Central Asia, while France, Spain or Italy do not have any coherent vision of a direction in which the relations between the EU and the Southern Mediterranean countries should further develop.

Most of the prognoses here state that the EU is a victim of its own success, which was proved by the last 2004/2007 enlargement. There is no other policy that can be evaluated as so effective as enlargement in catching up in development and democratic stabilization. Nevertheless, further enlargements can bring new problems to the EU agenda, which embrace such issues as terrorism, impact of other cultures (which are less homogenous than the European ones), conflicts between religions, and others. The new challenge the EU faces is to answer the question of solving development problems of other regions with the tools applied formerly, but keeping at the same time the financial stability of the EU reached with such difficulties and time-consuming debates.

Eastern Neighbours, headed by Ukraine and Georgia, gathered much European attention during the German Presidency. On the side of the Southern Neighbours, two issues will be crucial for developing more coherent and effective policy towards this region, although not directly connected neither to the Barcelona Process nor to the Southern dimension of the ENP. Firstly, Tony Blair took the role of special Middle East envoy who will work on behalf of the EU, the US, Russia and the UN to support Palestinian governance, economics and security. Secondly, Nicolas Sarkozy has come up with the idea of a Mediterranean Union which would include countries like Portugal, Spain, France, Italy, Greece, Cyprus, Malta, Turkey, Lebanon, Israel, Egypt, Libya, Tunisia, Algeria and Morocco.[19] One of the arguments of Sarkozy's supporters is that after the EU enlarged to the East, it is high time to concentrate more on the South. The countries would build a common market which would be parallel to the EU Internal Market. This idea has been appraised by Spain, Israel and Egypt so far, but Turkey strongly criticised this idea, taking it rather as an impediment to its accession to the EU. A Mediterranean Union is at this time just an idea which is being shaped by the French government and no one is able to predict how it will develop and how it will fit with the other policies towards the Mediterranean region. However, it builds on the same logic as the ENP – integrating the neighbouring countries with the EU internal market; the Mediterranean Union does not involve all of the EU but only those EU countries which have an interest in the region and a direct coastline. Thus, it is highly unlikely that the European Commission, who designed the ENP, endorses the project. If, however, this "inspiring utopia" takes some shape[20], negotiations on the European level concerning the feasibility of so many existing neighbourhood policies towards the Mediterranean region will be indispensable. One can imagine France supporting the Mediterranean Union on one side of the bargaining table, and Germany endorsing the ENP on the other. The question would be: who from the EU states would support the Barcelona Process?

Summing up the above arguments, we may conclude that introducing the ENP as a policy complementary to the Eastern enlargement will undermine the meaning of the Barcelona process as the main policy towards the Mediterranean region. It will also be interesting to observe the further development of the idea of the Mediterranean Union.

Nevertheless, all experiences with integration which were practiced until now show that, despite commonly approved theories awarded even with a Nobel Prize in economics (1988)[21], integration of equals makes sense if it includes equals representing high level of development, while integration of low-developed economies does not bring the expected results. What solution seems to be the best here, as far as development is concerned? The best results can be ascribed to the establishment of an organization (club) prepared by, developed and enlarged by both types of economies: developed and catching-up. In both cases, the process of

[19] Katrin Bennhold, Sarkozy's proposal for Mediterranean bloc makes waves, International Herald Tribune Europe, published May 10 2007, assessed on 11 August 2007: http://www.iht.com/articles/2007/05/10/africa/france.php?page=1.

[20] Jean-Louis Guigou, See: Sarkozy tests the Mediterranean Union in the Maghreb, Report by Alain Barluet, published on 10 July 2007, www.lefigaro, fr,

[21] Maurice Allais.

integration should be preceded by adjustment of law, institutions and creation of a FTA. Current requirements expand additionally the list of requirements by liberalisation of capital, services and labour movement. Differentiation of levels of development increases the strength of market forces which in turn stimulate structural changes of the integrating economies, cutting the time needed for completion of the changes. All experiences of equals representing lower levels of development did not bring expected returns but can be used as a decision expanding the market and making it more attractive for FDI, when economies are stable and safe. This was the case with all regional agreements like: Mercosur, Asean, Saarc, CEFTA, GUUAM, East-European- Asian customs union, etc. The finding is proved by the experience of NAFTA, CEFTA and their cooperation with EU, and EFTA. This brings us to an alternative solution to the one mentioned above.

An alternative concept could be constructed upon the idea of single market, which means membership in EEA. Such an approach will rely strongly on the idea which was formulated by the former EU President: Romano Prodi, who talked about "sharing everything – but institutions". He also added that the EU should work out a concept which would be as attractive as membership without being membership. Such a solution should be worked out for those who want to cooperate, but would not necessarily like to resign from their political rights to conduct their own external policy. Such a concept was presented in December (4-5th) 2003, before the decision on enlargement was taken, appointing the exact date of the event. There are some additional advantages of such concept. Membership in EEA will stimulate political integration within the EU – EMU members, while those outside EMU will be pushed by circumstances to join, despite their desire to do so, or not. This push will come from the side of states joining EEA and eliminating today's differences between EU MS who are not EMU MS and those countries who are members of the EEA. In such circumstances, according to liberal approaches, economic relations and liberalisation between as well as within the economies will take place. According to realist approaches, the relations between and within the EU MS will be subordinated to political and military interests of the countries engaged in the process.

The ENP regarded as such can be seen as both one of the foreign policy tools of the European Commission and a policy of economic governance having influence both on the internal market of the EU and the economic development of the Southern Neighbours. Later in this section we will evaluate the main economic provisions and rationales of the ENP trying to show how the last enlargement influenced economic policy making towards the NCs. In the next section we will use different indicators in order to feature the economic development of the NMS, Southern and Eastern Neighbours and indicate those areas which will be crucial for the implementation of the internal market rules. Such an approach increases effectiveness as well as time needed for preparing a state towards integration with the EU, without EU expertise, money, experts and accession to its market, the reforms would last forever. Different interests are usually supported by national parliaments and different to those of an international body, which sees the problems from another perspective and with longer term goals ahead. The national approach is always based on short term ideas, as politicians putting them forward have a strong incentive to be re-elected and such short term interests are considered as best tools to achieve this.

Although the ENP covers a vast range of policies in political, social and economic aspects, this paper looks closer at an economic dimension of this scheme, particularly those linked with the economic reforms having influence on growth.[22] The documents copy the structure of the regular monitoring reports prepared for the accession countries. They consist of huge number of action points referring to the acquis and thus making the compliance with the acquis the ultimate goal.[23] Neighbourhood Countries are able to decide what norms they want to choose and implement, at what pace and to what depth. This strategy of “joint ownership” brings both some benefits and risks. Beneficial is a ready-made regulatory framework, which the NCs do not have to create on their own. The new legal framework which is imported from outside is already tested in practice, while a nationally constructed framework could be subject to different legal gaps. The institutions governing the EU internal market are already tested and working, however they are applied for the first time in countries of such a low level of development as most of the NCs. The other risks are linked with the lack of clear benchmarks measuring the progress in economic reforms, a package effect, and scarcity of administrative resources in the NCs.

The NMS before accession to the EU had to adopt all the acquis, which was strictly a technocratic process but at the same time they had to fulfil and approve four broad economic criteria – so called Copenhagen criteria. The first one was related to a functioning market

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[22]The other texts analysing the economic issues of the ENP are: Noutcheva, Emerson, op.cit., The EU Neighbourhood Policy: Implications for Economic Growth and Stability, Michaela Dodini, Marco Fantini, JCMS 2006Volume 44. Number 3.pp.507-32, Kiel Institute for World Economics, Kiel Working Paper No. 1261, EU enlargement and Institutional Development: How far away are the EU’s Balkan and Black Sea Neighbours?, Felix Hammermann, Rainer Schweickert, November 2005, CASE Studies & Analyses No. 291 – Susanne Milcher, Ben Slay – The economics of the ‘European Neighbourhood Policy- an initial assessment”, Warsaw, March 2005.

[23] The first ENP documents were designed by the Commission’s Directorate-General for Enlargement which also greatly influenced the process of policy-shaping.

economy and the second to the capacities of coping with competition pressure in the internal market. The third criterion was ability to shoulder the burdens of membership. The fourth criterion was political and concerned well-functioning and stable democracy. Additionally, all candidates had to declare that they would participate (without opt-outs) in the process of deepening of integration. A good mark from the Commission was given after a general assessment of the transition process and a positive record of macroeconomic performance.[24] It seems that the same strategy will be applied towards the NCs. They will have to achieve some level of economic stability and prove themselves as functioning market economies before integrating with the Single Market. The approach towards the remaining criteria will be similar. The next section of this paper describes and analyses some of the basic indicators concerning growth, institutional development and competitiveness of the NCs against the benchmark of some NMS.

General economic assessment of the neighbouring countries will be also accompanied by the general political evaluation – progress in implementing political reforms and additionally overall opinion on a cooperation between the EU and a NC. All Action Plans are package deals, which means that sometimes the EU may be less strict in evaluating the progress in acquis implementation as well as in giving opinion on economic reforms in order to get some big concessions in the political sphere or in the international arena. Another risk is also that of scarcity of administrative resources in the NCs which are able to prepare the national legislation for adopting so many rules governing the internal market. They will have to decide which parts of acquis are essential for integration with the EU market, and what will be the sequence and pace of their implementation. The table presented below sheds some light on the process of acquis adoption by the countries from Central and Eastern Europe before their EU accession. *Italic* is used for the chapters connected to the internal market. It is only one example of guiding rules which can be followed by the NCs on their way to fulfilling the rules set by the ENP.

[24] See: Noutcheva and Emerson, op.cit., p.9.

Table 1: The sequence of acquis negotiations - experience from the NMS

Up-front	Medium term	Deferred
Small and medium-sized enterprises	Telecommunications	Energy
Science and research	Economic and monetary union	*Competition policy*
Education and training	External relations	Taxation
Statistics	*Fisheries*	Transport policy
Industrial policy	*Free movement of goods*	Justice and home affairs
Consumers and health protection	Culture and audio-visual policy	Regional policy and coordination of structural instruments
Common foreign and security policy	*Company law*	*Agriculture*
	Social policy and employment	Financial and budgetary provisions
	Freedom to provide services	
	Free movement of capital	
	Financial control	
	Customs union	
	Freedom of movement for persons	
	Environment	

Note: The chapters in the "up front" category are those negotiated, on average, within the first one-third of the total negotiation period of each new EU member; those in the "medium-term" group have been closed within the first two-thirds; and those categorized as "deferred" have been closed in more than two-thirds of the total negotiation period. The analysis is based on the timetable for the negotiation of the acquis chapters by the Czech Republic, Estonia, Hungary, Poland, Slovenia, Latvia, Lithuania, and Slovakia. The first five countries started negotiations in March 1998, while the last three in February 2000. Negotiations were completed for all countries by December 2002.

Source: CASE Studies & Analyses No. 291 – Susanne Milcher, Ben Slay – The economics of the 'European Neighbourhood Policy- an initial assessment", Warsaw, March 2005. K. Żukrowska, J. Stryjek (ed.) Polska w UE, Warszawa 2004.

The European Neighbourhood Policy and its economic components started to operate when most of the EU Southern Neighbours enjoyed favourable macroeconomic conditions which will be presented in the next section. However, the same can be attributed to both NMS and Eastern Neighbours. Those countries, particularly those from Eastern Neighbourhood, can be seen as direct competitors of Mediterranean countries as far as EU investment, trade and funds are concerned. Compared to the EU15, all three regions have underdeveloped institutions, infrastructure, and occupy lower places in international competitiveness rankings. However, the countries of CEE are already members of the EU, and thus the EU economic regime, now in the form of the Stability and Growth Pact and the Lisbon Strategy, will be a stronger anchor for reforms supported by large EU funds flowing to these economies until 2015. Nevertheless, the NCs, if interested in deeper integration with the EU market, should try to learn from the experience of new member states in transforming their economies via EU links. In the longer-term, on a global level, giving their economies better governance can be reworded by investors, tourists and what is more important, by their citizens.

4. The enlargement process and its impact on the economic and institutional development of the EU Southern Neighbours

Both Eastern and Southern countries show strong macroeconomic positions but weak institutional development. A number of studies conclude that it is the quality of institutions which explains many of the differences in economic development among the countries. There is a relatively common opinion that due to "enlargement fatigue", the EU neighbouring countries wishing to join the EU will have to "forget" about their "European perspectives" in the near future, as well as the perspective to follow the same path as the new member states from the CEE. Instead of that they can try to make the best use they can of the current high global growth and flourishing economic activity in the whole EU, and accelerate their pace of macro and structural reforms to increase their global competitiveness. The enlarged EU has the potential for stronger influence in economic development in neighbouring countries. It might happen, both directly through economic channels, and indirectly by providing an anchor for proper structural and macroeconomic policies.[25] This impact can be both positive and negative. Currently the EU economy has started to grow, unemployment has gone down, FDI flows are increasing and most of the macro-indicators are pointing at recovery of the economy. In such circumstances the impact can be nothing else but positive. Decisions for enlargement are always made when economy grows, not in times of recession. Growth brings optimism into the vision of integration and this period, opposite to the common opinion concerning forgetting about next wave of enlargement, should be used by states interested in integration into the EU market, to prove that they are able to join. This has to be proved by economic, institutional and legal harmonization, what requires the engagement of diplomats, scholars, state officials and administration officers in the whole process. Acceleration of the economy has to be used for the preparation of plans for the future and the vision here is relatively clear if we look at the goal of globalisation. It becomes more blurry when one tries to answer what role the EU plays in this process, although it moves forward on that path.

[25] Dodini, Fantini, Ibidem, op.cit .

The scope of opening of the economy, followed by engagement in the main stream of the world economy helps to increase the positive impact of the external economic forces on the national economy of the Partner. This impact has a positive effect on costs of produced goods, their competitiveness, as well as inflation and the branch structure of the economy. Each move of the production factors from the less value-added type of production to a more value-added one helps to gain wealth for the state's society. This process starts with moving those factors from agriculture towards more industrial type of production and further towards services. All such changes are stimulated by relations with the world economy; the national environment (demand and supply) has limited power to accelerate this process, while opening in such circumstances plays a role of a stimuli.

4.1 Reforming the in and the outs – comparing the economies of the NMS and NCs

In the last year's research conducted by the GO-EuroMed consortium, JMC (FU Berlin)[26] have calculated that in the case of MPCs, it will take decades to catch up to 50% of average EU GDP per capita. Assuming that the EU will grow at 1,7% annually and MPCs at 6%, the MPCs will need more than two generations to catch up with the EU-27 and in the more optimistic case – growing at 10% - one generation. Most of the countries from the EU Southern Neighbourhood are showing the signs of recovery and are growing at different growth rates – starting from 4,% in Algeria (2006) and reaching 8,1% in Morocco (2006). However, the enlarged EU has reached in 2006 a growth level of 2,9% (EMU – 2,7%) which is the highest figure since 2000. This acceleration is ascribed to fiscal reforms as well as to changes of the production structure and economic effects of enlargement. Increases of rate of growth in EU-15 are followed by accelerated and still higher rates of growth in NMS (EU-10). Both groups of economies without enlargement would develop with slower rates, while with the enlargement on a big scale they are developing quicker, which can be considered as advantageous for old as well as for new member states. Without the impulses stimulated by enlargement the catching up pattern for Central and Eastern European States would be longer than the planned 50 years, while old MS would be gaining in wealth slower than they are after that decision. A similar philosophy can be applied for MPC's but before making a decision the participating Partners of such an agreement have to be convinced that the process is not a "zero sum game" but a "win-win" solution. Acceleration of the catching up process and

[26] GO-EuroMed Stage 1 Summary, see: http://www.go-euromed.org, at Publications.

successful competition on the EU and global markets against the NMS and Eastern Neighbours will require more investment in real and human capital and technological progress. Additionally, it will need to be accompanied by institutional transformation.

The Global Competitiveness Report is a useful tool, explaining growth determinants of 125 countries and showing why some of them are more successful in making better use of available production factors and resources than the others, and thus, contributing to a better standard of living for their citizens.[27] All the researched countries are grouped into three categories – different stages of development where different factors matter as far as growth is concerned. The EU Southern Neighbours (except for Israel) belong to the first (Egypt, Morocco) stage of development (together with all the Eastern Neighbours) or to the second stage (Algeria and Jordan and Tunisia are approaching). All the NMS are in the medium or in the highest stage of development. GCI consists of nine sub-indexes: institutions, infrastructure, macro-economy, health and primary education are the most crucial for the first stage (basic requirements); higher education and training, market efficiency and technological readiness (efficiency enhancers) for the second stage, Business sophistication and innovation (innovation and sophistication factors) are the most important for the most developed countries.

Table 2. Stages of development – Global Competitiveness Report 2006/2007

1 stage GDP p.c.< 2,000$	transition stage GDP p.c.2,000-3,000 US$	2 stage GDP p.c. 3,000-9,000 US$	transition stage GDP p.c. 9,000-17,000 US$	3 stage GDP p.c.> 17,000 US$
Armenia	Jordan	Algeria	Czech Republic	Cyprus
Azerbaijan	Tunisia	Bulgaria	Estonia	Israel
Egypt		Latvia	Hungary	Slovenia
Georgia		Lithuania		
Moldova		Poland		
Morocco		Romania		
Ukraine		Slovak Republic		
		Turkey		

Source: Global Competitiveness Index, World Economic Forum, 2006.

In the 2007 Global Competitiveness Report, the top rankings were taken by Switzerland and the Nordic countries. Their success is attributed to their good institutional framework and

[27] Competitiveness, according to the WEF, is a set of factors, policies and institutions that determine the level of productivity of a country. Raising productivity should be the driving force behind the rates of return on investment which, in turn, determine the aggregate growth rates of an economy. See: http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm.

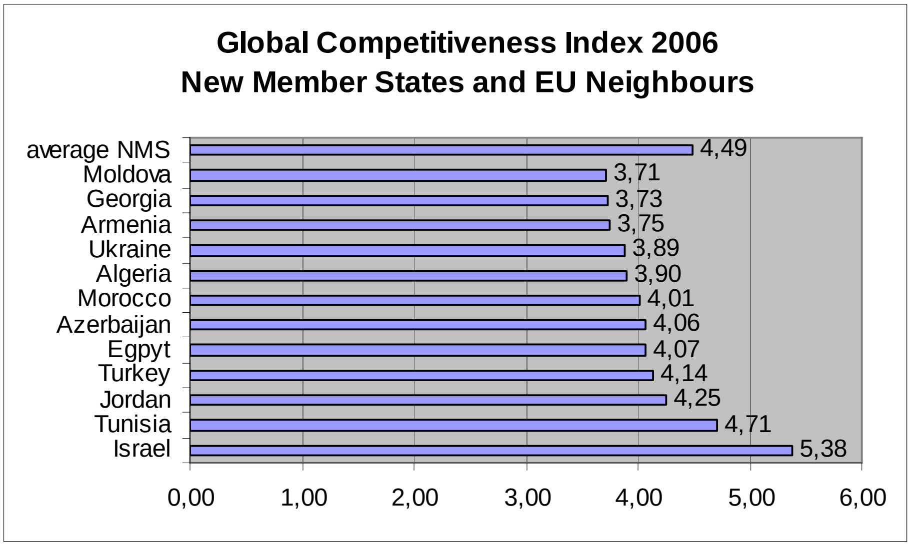
competent macroeconomic policies, combined with world-class education and a focus on technology and innovation. Mediterranean Partner Countries position themselves between the NMS, which on average have higher overall score, and EU Eastern Neighbours which rank lower. Tunisia (apart from Israel) performed excellently - well above an average for NMS, mainly due to the even scores across most of the indicators and very good performance of public institutions and business sophistication. One can notice that the stages of development measured by the Global Competitiveness Report show some disparities between the NMS and the NCs but at the same time they indicate that that some of the NMS and NCs represent a similar stage of development. This leads to the conclusion that after a stage of specially designed preparations, those economies can be considered as candidates for membership in the EEA or the EU.

Comparing EU Southern Neighbours to the Eastern ones, they rank mostly higher, except for the macro economy index. Lower "institutional scores" for the countries of Eastern Europe and the Caucasus at the starting point of the ENP functioning leave more space for the EU reform anchoring agenda than in the case of Southern Neighbours. It will be interesting to follow the index development in the coming years to see of this policy is working and if countries like Ukraine, Moldova or Georgia are benefiting from the "EU bonus", as those countries are usually seen as possible EU members in a longer perspective.[28] Institutions are crucial for preparing states for integration, which has to be followed by law harmonization. Without changes in the mentioned two fields the market is not able to function smoothly and can bring damaging effects in spite of the advantages ones.

The Global competitiveness Index in NMS and the ENP are also alike, although the average in the case of NMS is slightly higher than that in the case of MPC's.

[28] Turkey and Croatia – not yet EU members but already candidate countries, are, according to Global Competitiveness Report 2006/2007 (GCR), benefiting from such an EU bonus and improving their international rankings.

Chart 1. GCI 2006. Comparing NMS and the EU Neighbours



Source: own calculations based on data from Global Competitiveness Index 2007.

The Macroeconomic Index, beyond fiscal indicators, includes a measure of the trade-weighted real effective exchange rate - an important indicator of possible currency overvaluation. The highest rankings have, not surprisingly, Algeria and Azerbaijan, both experiencing high growth rates and surpluses in their budgets and current account deficits thanks to high oil and gas exports. All exchange rates of catching-up economies go through a stage of appreciation, what is a result of inflow of capital, inflow of aid transfers, increasing productivity, changes of the structure of the economy, growing currency reserves, and other factors. Appreciation of the national currency, if similar processes concerning the value of the currency of main partners does not occur, means that imports to a country with an appreciating currency are becoming cheaper, while exports gain in price. Such a situation has two effects. On the one hand it increases pressure on imported goods and stimulates additional competition on the market, while on the other it increases difficulties in placing abroad on foreign markets. This phenomenon can be temporarily reduced, but this requires specific policies applied in advance. Poland can be a good example to follow in this area and not only in this single area[29]. The appreciation of a national currency can be used as one of the tools in opening the economy and stimulating competitiveness by pushing down production costs. In the long run, the problem of appreciation can be eliminated by replacing national currency by the currency

[29] K. Żukrowska, Methods available to overcome the Balassa-Samuelson effect ,… op. cit.

of the main trading partner. Such a solution eliminates numerous problems and can be considered as one of the measures additionally opening the economy and creating a new channel helping to influence the Partners economy by scope of external contacts.

Macroeconomic indexes are decisive in evaluations of investors for their decision to be invest in a market. The comparisons here illustrate that differences between NMS and MPC are very limited (with some exceptions i.e. Algeria or Azerbaijan). Those comparisons also are in favour of closer cooperation and integration of the MPC with the EU.

Among the basic indicators, the role of institutions is especially important for competitiveness and growth. The system of rules according to which economic actors interact in the economy explains many of the growth differences among the countries, which is widely recognized in different empirical studies. The institutional framework and its importance will be discussed in more detail further in this section, supported by the World Bank Governance Indicators. Well-functioning institutions enable market forces to play their role but at the same time they can be used as a tool increasing attractiveness of the market for investors. Comparisons here also show that differences between NMS and NCs are very limited, which can be considered as an additional argument in favour of closer cooperation and integration of the MPC with the EU.

The next pillar (one of the efficiency enhancers) – Market efficiency assesses if goods, labour, and financial resources are allocated efficiently in an economy. Regarding the main ENP offer towards the EU Neighbours – a stake in the EU internal market, this factor is especially important. The "goods market" component describes efficient antitrust regulation, openness to trade, and anti-distortion regulations. In the case of labour markets, flexibility of wage determination and hiring and firing are essential in this respect. Finally, efficiently functioning financial markets are crucial for making credit and other financial products available. The data in the Chart 4 in the Annex presenting the scores for "Market efficiency" factors show that Mediterranean countries, except for Algeria, give quite a positive picture of what is happening in the region. However, rigid labour market regulations constitute the biggest problem across the region having influence on the high unemployment rates. Although there are certain differences within the group on MPC, the efficiency index also does not show vast disparities among NMS and MPC. Interpretation of this fact is similar as in the case of the previous indexes.

Finally, one of the factors belonging to the third group is "Innovation" – a key word for the Lisbon Strategy and all the national strategies of the EU countries. According to the GCR, the innovation factor measures "the extent to which countries are able to develop entirely new products and services". Although, this is especially important for the most developed countries and not for those less-advanced, which can improve their productivity by adopting technologies from the other countries; countries like Algeria, Tunisia and Jordan which (almost) belong to the second stage of the development should keep in mind those factors as they will be important in the future. Regarding "Innovation", all the EU Southern Neighbours but Israel and Tunisia take the middle places – between the NMS and Eastern Neighbours. However, one has to remember that an average score for the NMS is highly biased by the scores of Bulgaria and Romania. They usually occupy places close to the Eastern Neighbours.

Innovations traditionally are considered to be one of the important indicators, which decide about the competitiveness ex post (or in longer run). Assuming that as a result of globalisation and liberalisation the world economy will turn into a single world market with one currency, each state should turn specific attention to its potential in introducing innovations. Lack of such abilities can be dangerous for its finances and give chances to other competitors to win in this battle.

Assessing a country's competitiveness, we can divide it into two broad categories.[30] The first is based on macroeconomic performance in a comparative perspective. That is why we analyse the Mediterranean Partner Countries against the benchmark of other economies – Eastern Neighbours which are the second addressee of the European Neighbourhood Policy and NMS which before the enlargement were usually taken as the main competitor of the MPCs. This analysis is performance-based and its main part will be presented below in the form of a SWOT analysis.[31] The second category of competitiveness comprises the regulatory framework, economic policy and the institutional framework of economic development. This part of the analysis - institution-based - will be expanded also beyond the SWOT table by the use of a set of World Bank Governance Indicators.[32] Together they determine each of the Mediterranean countries' macroeconomic performance and influence the country's international competitive position.

[30] The idea of this division take from: Poland. Competitiveness Report 2007. The Role of Foreign Direct Investment, edited by Marzenna A. Weresa, World Economy Research Institute, Warsaw School of Economics, 2007. Progress in Institutional Reforms. By Ryszard Rapacki, p.213.

[31] SWOT – Strengths, Weaknesses, Opportunities and Threats.

[32] See: Governance Matters 2007, Worldwide Governance Indicators (WGI) 1996-2006, http://info.worldbank.org/governance/wgi2007/.

According to the recent theories, there are two general views on the link between growth and institutions. Simon Kuznets[33] in his works represents the idea that economic growth is a cause of institutional development. Thus, institutions are an endogenous function of income. On the other hand, Douglass North[34] followed by Acemoglu, Johnson, Robinson[35] and many other authors[36] represent the opposite view. In their opinion, institutions are exogenously chosen and an outcome of this choice is a low or high level of growth. Keeping in mind that institutions are a choice which on one hand is shaped by development, and on the other hand affects development, one can find strong arguments for any of the theories.[37] We will follow the path of second one and analyse institutional development of Mediterranean countries more as a factor influencing their growth in the future.

Chart 6 shows an aggregate of six World Governance Indicators - Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. Together with data from the Global Competitiveness Report they present the set of indicators analysing similar factors as the Copenhagen Criteria. There are a number of issues which result from comparing data for indicated countries across 10 years. NMS were in 1996 at the same level of institutional development, however while since then Estonia and Czech Republic have been improving their record, Poland is an example of a country which after being assured of the EU membership slowed down the pace of reforms. According to the European Bank for Reconstruction and Development (EBRD) the same is happening now with Romania and Bulgaria.[38]

This trend may be an argument for not giving a carrot – a European perspective too early to countries like Ukraine and Moldova in the future. On the other hand, Bulgaria in 1996 was more or less at the same level of institutional development as Egypt, Algeria, Lebanon,

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[33] See: Kutznets, S., Towards a theory of economic growth, 1968, Yale UP, New Haven CT.

[34]See: Douglass C. North, Institutions, Institutional Change, and Economic Performance, Cambridge: Cambridge University Press, 1990.

[35] Acemoglu, D., S. Johnson, J.B. Robinson, and P. Yared (2005). Income and democracy. Working Paper, available from: http://econ-www.mit.edu/faculty/index.htm?prof_id=-acemoglu-&type=paper.

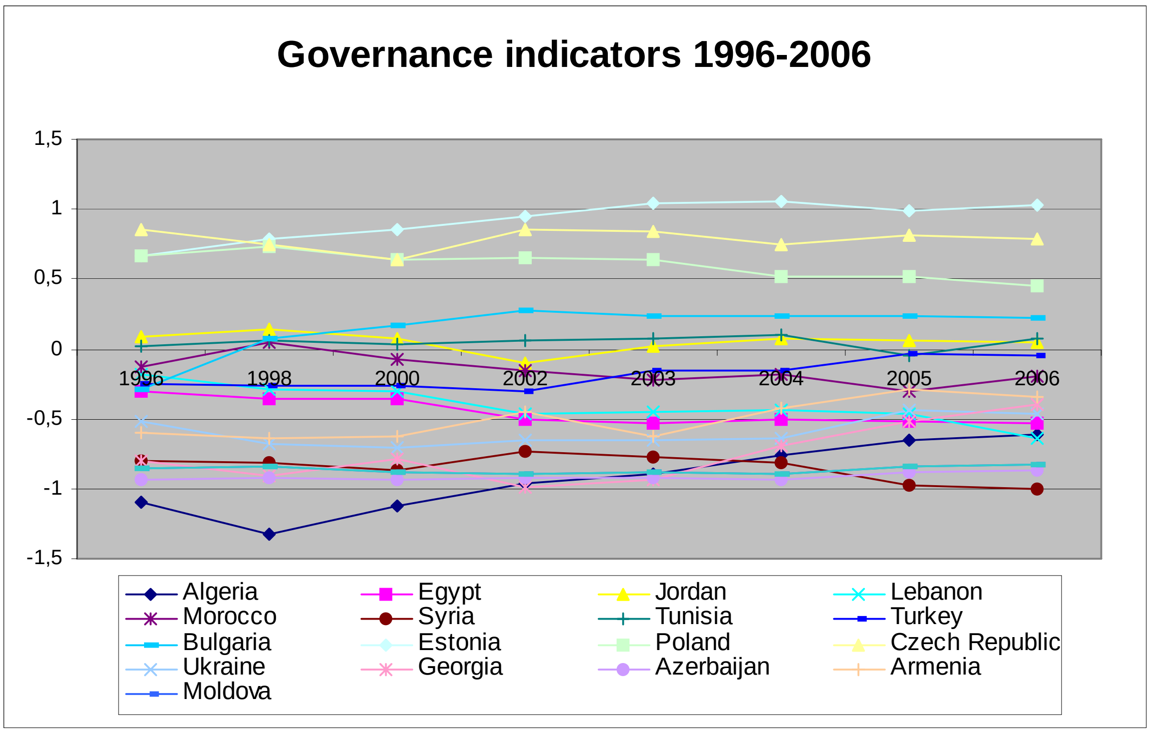
[36] Leszek Balcerowicz, Institutions and Convergence (preliminary version), Studies and Analyses, Center for Social and Economic Research (CASE), no. 342, Warsaw, March, 2007; Kiel Institute for World Economics, Kiel Working Paper No. 1261, EU enlargement and Institutional Development: How far away are the EU's Balkan and Black Sea Neighbours?, Felix Hammermann, Rainer Schweickert, November 2005; Centre for Public Policy for Regions, Discussion Paper No. 8., December 2005, Strengths and Weaknesses of "weak: Co-ordination: Economic Institutions, Revealed Comparative Advantages, and Socio-Economic Performance of Mixed-Market Economies of Poland and Ukraine, Dr. Vlad Mykhnenko, Inna Melnykovska, Who You Gonna Call? Transcending European Institutions through European Integration, Kiel Institute for World Economy, paper presentes at the ICCEES Regional European Congress, Berlin, August 2007.

[37] See: Martin Paldam, Erich Gundlach, Two Views on Institutions and Development: The Grand Transition vs. the Primacy of Institutions, Kiel Working Paper No. 1315, March 2007.

[38] See: Progress in Transition and Macroeconomic Performance, EBRD Transition Report, 2004.

Morocco and Jordan. Longer than in the case of 10 ECE countries' process of EU accession but finally successful appeared to be much better policy anchor than the Barcelona Process initiated in 1995. However, much of the Mediterranean countries' deterioration in performance can be attributed to the lack of progress in, or even worsening the situation around, the Palestinian-Israeli conflict. Chart 6 in the Annex presents data on four out of six WGI indicators: Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption.[39]

Chart 6. Worldwide Governance Indicators (WGI) 1996-2006. Southern and Eastern EU Neighbours vs. NMS and candidate countries



Source: own aggregation based on WGI data. Poland, Czech Republic, Estonia and Bulgaria represent NMS and Turkey candidate countries.

[39] ***Government Effectiveness*** quality of public services, the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. ***Regulatory Quality:*** the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. ***Rule of Law***: the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. ***Control of Corruption:*** the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Among the Mediterranean countries, the best performers are Tunisia and Jordan, the same as according to the GCI. Jordan ranks better than NMS in "Control of Corruption" and close to them regarding "Rule of law". Tunisia has positive marks for each index, but the best one for "Government effectiveness". The worst performing Mediterranean countries are Syria and Lebanon. Syria is the worst performer among all the analysed countries with regard to "Government effectiveness" and "Regulatory quality". Once again, EU Southern Neighbours acquired the middle ranks and found themselves between NMS and Eastern Neighbours on a scale. Again this field also shows advancement of preparations for closer relations with the EU, if those relations are compared with conditions that were fulfilled by the NMS in the period of preparation for accession. The following SWOT analysis will be a summary of EU Southern and Eastern Neighbours' performance – both regarding institutional and macroeconomic development. It will include such indicators as:

- Current economic performance described by the "magic pentagon" indices (GDP growth, inflation, unemployment, public finance balance and current account balance);
- Living standards measured by the prevailing pattern of income distribution (the Gini coefficient) and the Human Development Index (HDI);
- Position in external economic relations – trade in goods, services, attracting FDI, migration flows;
- Progress in institutional reforms.

This SWOT analysis will include also some facts and predictions concerning the already existing, and the future impact of the EU enlargement on the economies of both Southern and Eastern Neighbours. The authors aim to show which factors will be crucial when preparing the two regions for accession to the EU internal market, which is the main "carrot" of the ENP scheme, and answer the question whether the EU enlargement will be a driving force or an obstacle in the transformation process of the neighbouring economies.

Results of the SWOT analysis for the two groups of states are alike, which shows that they can be treated grouped together. Moreover, it seems a good idea to think about creating a free trade area between the two markets as a next step to organizing free trade within the two regions. Nevertheless, following the earlier findings of this paper, such a move should be following a plan of making first move towards creation of FTA with the EU. Liberalisation should not be limited only to industrial goods trade or raw materials trade but embrace also some moves in other areas such as agriculture as well as capital and service transfer. Such a vast variety of fields chosen for liberalisation increases the number of topics that have to be discussed prior to such a move and the preparations of the economy to cope with such changes. This means macro-stabilization, full convertibility with safe selecting of used anchors and exchange rate regime, harmonization of institutions as well as harmonization of law.

Both groups of economies should not be seen as mutually combating against another, where some states can be considered as losers, while others will pick up this what was lost by them. Competition organized by the EU is focused rather on more privileged access to the EU market if a country fulfils all of the conditions it puts on itself in its policy defined in a partnership paper. With consecutive enlargements, the expanding EU market can play a positive role while engaging on much bigger markets. This is possible thanks to: gained knowledge about necessary preparations prior to such move; the size of the EU market and dynamism of the catching-up of the new MS; diversification of levels of development – paradoxically the less developed states are included – the bigger and quicker impact of the surrounding market stimulating changes and increasing effectiveness of the process; positive example deriving from previous enlargements, especially the 2004 one, which has proved the abilities and know-how about catching-up strategies and their costs as well as abilities to finance them; knowledge about integration of economies representing differentiated levels of development[40]; knowledge about use of exchange rate regimes and policies in protecting or opening the economy[41]; knowledge concerning methods to diminish the Balassa-Samuelson effect on the economy in early stages of transformation.

Knowledge and patterns of change based on eliminating existing threats which are listed in the SWOT tables require also using and enforcing the strong virtues of the countries in question as well as the opportunities which they bring into the system. The most important issue here is political will and trust that none of the group of states will try to cheat the others and profit by exploitation of the less experienced partner. Such a philosophy was deeply rooted in the colonial times and despite a change of conditions and relations in the world economy, it still exists somewhere in the back of one's head, often paralysing moves which are necessary to introduce positive changes and lead a country to a desired growth path.

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[40] K. Żukrowska, Level of interest rates and capital flows, w: Economic Papers, SGH, Nr 37/2004 s. 7-16.

[41] K. Żukrowska, Policy of exchange rate and competition, w: Economic Papers, SGH, Nr 36/2004 s. 7-18

SWOT ANALYSIS OF EU SOUTHERN NEIGHBOURS 2000-2006

STRENGHTS	**OPPORTUNITIES**
Performance-based • Real GDP growth of 4,8% in 2006 (compared with 4,4% in 2005) driven by domestic demand and economic recovery of the EU economy • Improving fiscal balances both thanks to high oil revenues (oil-exporting countries) and reforming public finances and remittances (oil-importing countries) • Decreasing unemployment rate from 14,4% in 2004 to 12,6% in 2006 • Increasing productivity Institution-based • Progress in budget and fiscal management systems mainly in Morocco and Egypt • Slow but steady decrease of tariff barriers	• robust growth in tourism and record remittances – better performance in the CAB • adopting new Pan-Euro-Mediterranean Protocol of Origin by Morocco, Egypt, Israel and Jordan • opening negotiations with the EU on including provisions concerning services and investment into the present FTA • exposition to increased international competition – textile-exporting countries (due to the expiry of the WTO MFA) • earnings remittances of migrants • perspective age structure of population • prospects for education development • need to diversify the economic branch structure • need to use competition to create competitiveness, innovativeness, effective branch structure • ageing societies in NMS – need for non-European immigrants in a longer term
WEAKNESSES Performance-based • weak convergence – real GDP per capita growth rate of 1% in 2006 • reliance on oil revenues, workers' remittances and aid • vast size of rural population • water scarcity • high unemployment rate among young and well educated • high average public debt of 81,4% of GDP, compared to 19,4% in the Eastern Neighbourhood – the highest in Lebanon and Egypt Institution-based • below the world average progress in reforms regarding business environment (except Morocco) • slow improvement in reforms regarding governance • highly restrictive labour market regulation • slow progress in education system reforms • limited scope of privatization	**THREATS** • existing conflicts in Lebanon and between Israel and Palestinian Authority • increasing inflation caused mainly by higher oil prices • quite high vulnerability to external shocks • still existing problems with slow implementation of the regional trade liberalisation • exposition to increased international competition – textile-exporting countries (due to the expiry of the WTO MFA) • EU limiting import of unemployment from the MENA region (partially due to increase of migration from NMS to the EU-15) • Negative impact of the migration from NMS to the EU-15 on the EU migration policies towards the MENA region – "Community preference principle" (only in short-term) • Competition from the NMS and the EU Eastern Neighbours in EU FDI location •

SWOT ANLYSIS OF EU EASTERN NEIGHBOURS: 2000-20006

STRENGHTS	**OPPORTUNITIES**
Performance-based: • one of the fastest-growing regions in the world – average of 7,5% of GDP (including Russia and Belarus) driven mainly by internal demand • improving fiscal position (partially due to oil-revenues) - fiscal surpluses or small fiscal deficits and declining total gross public debt • improving inflation-targeting • significant increase of GDP per capita (between 2003 and 2006, increase of 75% in Moldova, about 50% in Georgia and Ukraine) • declining poverty • declining unemployment, however fuelled by massive emigration Institutions-based: • most of the institutions are designed but on paper • if those institutions would start working people will accept their rules if only they will see improvement in their everyday existence (such move is possible)	• Polish market opening for workers from the Eastern Neighbourhood • Deep and comprehensive FTA with the EU – the main trading partner • Accelerating pace of reform concerning business environment – Georgia and Armenia • Prospects for cutting the number of days needed to start a business • Treating foreign and domestic companies without differences • Prospects to use appreciation as one of the tools stimulating competition • Prospects of WTO membership (in case of those states who still are negotiating) and liberalisation of trade with the EU beyond the liberalisation of PCA • Diversification of branch structure – bringing more wealth to citizens • Role of earnings remittance of the migrants • Stabilization and FDI transfers • There could be very strong support for new politics if people only see changes which will have positive impact on the their everyday life and standards of living • There is need to develop new open and competitive media, starting with radio and TV and following by daily papers • Good basis for reforms of the educational system
WEAKNESSES Performance-based: • continuing appreciation of their currencies – declining competitiveness • deterioration in trade accounts of oil-importing countries • still modest FDI inflow • big poverty Institutions-based: • underdeveloped democratic institutions • still incomplete transition to the market economy • very limited liberalisation internally and externally • undeveloped infrastructure • very limited knowledge about market functioning • comparisons between past (foreseeable tomorrow) and today (unforeseeable tomorrow) • limited knowledge of citizens about market democracies, presented for long period as evil forces • not completed privatization	**THREATS** • increase in prices of gas imported from Russia (hit mainly Moldova, Georgia, Armenia and Ukraine) • inflation increasing: in oil-exporting countries due to monetary expansion and in oil-importing countries due to accelerating prices and inflow of remittances • slowing pace of reforms concerning business environment and governance – Ukraine • tensions in the region • mistakes in applied exchange rate regime and policy • return of inflation • growth of budget deficit • fear of opening-up the economy • political instability in the state • regional tensions • lack of real information, giving power to those who create them in undemocratic way, using this channel of communication for strengthening their own political positions • strength of traditional source of information or disinformation • weak educational system

4.2 The enlarged EU and its impact on the economies and strategies of the Mediterranean countries on their way towards closer integration with the EU internal market

The EU enlargement played an important role in the integration experience of the EU and brought about a number of findings, which still are known to a limited number of economists[42]. The reason why those findings are not widely disseminated are various and can be divided into separate categories, which are listed below:

- 2004/2007 enlargement embraces moves which combine internal and external economics, as well as macro and micro changes. It also combines international economics and international finances. Narrow specialization means that such a vast combination of specialization creates problems in interpreting the results and full understanding of the scope and real results of the process, as well as sources which have started the changes. Moreover, there is no theory of transformation. One can learn mainly from experts who were engaged in the process or specialists who participated in preparing the financial background of the changes[43];
- 2004/2007 enlargement for the first time included in the process states whose economies represented less than 50% f the EU average per capita GNP, showing that such disparities are possible and NMS could be put on the quick catching-up path. Moreover, such a policy was not so costly as expected earlier, and it was affordable for both NMS and OMS (old MS)[44];
- 2004/2007 enlargement concerned the biggest group of states which were included into the Union and despite expectations that such a big enlargement could have negative impact on the finances of the EU budget as well as on the standards of living in the EU states, nothing of this sort happened;
- 2004/2007 enlargement was preceded by deepening (creation of EMU) which was conducive to stimulate the move of capital from OMS to the NMS, accelerating changes in both groups of integrating economies. This shows that similar move can be applied in the future strategy of enlargement (i.e. liberalisation of services, which is a must and can be considered as one of the stimuli in case of the

[42] K. Żukrowska, Attitude of the EU members on enlargement, w: Economic Papers nr 33/2003 (published in 2004), Warszawa, s. 81-100.

[43] K. Żukrowska, Różnorodność zastosowanych modeli transformacji gospodarki (Diversity of models applied in transformation), w: Prace i Materiały ISM, Nr 31/2004, s. 89-106.

[44] K. Żukrowska, Influence of European Integration on Economic Transformation, w: Economic Papers No.: 30, Warsaw School of Economics. Institute for International Studies, Warsaw 2000 s. 33-56.

neighbourhood enlargement, the same role but on a smaller scale can be ascribed to EMU enlargement by relatively big group of economies).

Eastern enlargement of the EU has produced experience on how to deal with economies representing relatively low development levels, while preparing them for EU membership. It has prepared specialists who are able to support similar processes in the EU Neighbourhood. Moreover, it has proved that such processes can lead to a quick recovery of the economy, especially when it is matched with some shocks within the EU market, crowding out some capital, which as a result seeks a location guaranteeing higher competitiveness of the production conditions experienced before the shock. It has also increased the size of the internal market, enhancing its impact on foreign markets. The whole process has shown that a number of well known theories could be reshaped in an open and internationally managed environment, while others should be simply replaced by some new findings. Finally, eastern enlargement has created new interests in the European neighbourhood policy; in addition to Germany, who was more interested in Eastern states than in Mediterranean ones, there is a bigger group of states supporting the interests of post-communist states in the EU. The traditional interests of Spain, Italy and France stay with the Mediterranean.

In other words, eastern enlargement has supplied the EU with big dose of practical and theoretical knowledge on how to deal with a big and diversified group of states, how to manage the queue, and how to negotiate with them while not losing ground. It has also proved that such a big enlargement is manageable, if only specific frames within which the negotiators move are defined. All this experience shows that despite numerous declarations that next enlargement should be postponed as OMS are a bit tired after such a big effort as the last enlargement, next moves in this direction should be expected. Bearing this in mind, all the NCs should negotiate their new agreements with the EU having in mind a future agreement which should be designed so that it will enable membership at the end of a preparation and transition process. These states, who are not located on the European continent and consider this a condition eliminating them from such solutions, have to take into account the possibility of changing certain paragraphs of the Treaty eliminating the word European state and replacing it by “all countries sharing same European values”. Such an approach, assuming simple editing of the EU treaty, is well based in the fact that the EU has an interest in creating stable conditions in its own neighbourhood; while neighbours of the neighbours are also taken into account, as they can be considered as a threat directly or indirectly to the EU. Moreover, continued liberalisation of the world economy will be based on common application of the solutions which were used to create a single internal market. Economies and their people have to be prepared for such a move economically, politically, and mentally, otherwise such a move can posses not a remedy but rather threat for them and for Europe as well. In such circumstances interests are obvious.

Liberalisation and integration are considered to be a condition which enables growth, smoothens the economic cycle, helps to manage the stimulation of growth and finally creates conditions for accelerated growth and wealth. Rejection of the offered cooperation can be an alternative but self-reliance in field of development prolongs the time needed for reforms, endangers politically and socially such processes, and thus can make its effects questionable. While in opposite conditions, when EU is managing such changes, it is considered as an external force, able to help introducing (not to use the word enforcing) certain desired solutions, which will lead to desired and planned effects.

Neighbourhood Countries have to be aware that the EU is profiting from structural changes which embrace economies representing lower level of development, which is the case with production as well as with services. In second case (services and their liberalisation) some economists consider that the EU is sensitive about liberalising services at this phase of integration, not talking about market conditions created by further liberalising agreements of enlargements. Are those fears realistic, or do they show which way the future "candidates" should go? The EU traditionally shows that membership is not possible, that it costs a lot especially when there is such a big disparity between old and new MS in the sphere of development and costs are too high to shoulder in conditions of a tense financial situation of the budget (quarrels during approval of the financial perspectives as well as consecutive budgets is considered are proof of this). In reality the costs are manageable; they are decreasing after the reforms introduced after Delors I and Delors II.

Experience of the NMS indicates that it would be advisable for NCs to reform their tax systems (following the guidelines of the Central and Eastern European moves in that respect), as well as to liberalise their service markets before creating the FTA with the EU. Such moves would increase the attraction of their markets in addition to the reforms required from the EU side. Central and Eastern European states were accused of acquiring social dumping, or tax dumping, and some of the politicians from the EU states were saying that low taxes can have a negative impact on size of the EU transfers to the NMS but this was only rhetoric and nothing of the sort happened. In reality, competition with taxes or prices in services increases competition in this area and thus can be considered as advantageous for states with less developed economies, who additionally are late comers.

Membership in the EU is not a challenge because of the competition between the EU producers but because of the competition from the side of third countries. The FTA with the EU MS was established (in 1997 with some small exceptions), so it was well advanced before the membership. With membership the NMS were confronted with competition of exporters from third countries (the EU external tariff was lower than national tariffs applied in candidate states at that time). What is advisable in such circumstances? First, creation of FTAs with all remaining neighbouring states and application of the policy enforcing competitiveness in the long not in the short run. In other words, the policy which is advised is to follow the ideas which were applied in Poland. The results of the Polish foreign trade account talk for themselves.

Central and Eastern European countries also applied different strategies as far as the general pattern of adjustment strategy was concerned. The most popular strategy was based on the pattern used by states who were preparing themselves before the enlargement of 2004/2007. Most of the applied strategies here were referring and were based upon polices which were applied by Spain and Portugal. This choice was based on assumption that "poor" should follow the strategy which was used by "poor". This was one of the mistakes, as both Spain and Portugal had joined the EC before SEA was introduced; not mentioning the further deepening moves (EMU). A more proper choice for a strategy called "follow the leader" would be to rely upon the strategy which was applied by the three EFTA countries: Austria, Finland and Sweden. They have joined the EU in 1995 just before creation of EMU. They were applying specific exchange rate policies as well as followed a specific exchange rate regime. Portugal and Spain with creation of SEA used a transition period in liberalising transfers of capital, while all the NMS have liberalised capital flows without transition periods. They were prepared for such move by their exchange rate policies and by steps to liberalise capital flows (including: all in WTO, some in OECD, others individually, by autonomous liberalisation of capital flows[45]).

In sum, there was much to be learned from the 2004/2007 enlargement and the lessons learned here can be applied in the ENP countries. Nevertheless, all strategies applied here should take into account the fact that the EU is changing and some years have passed already from the time when Poland as well as the remaining 9 post-communist states were negotiating their membership in the EU. The new strategy should embrace tax reductions (best solution

[45] OECD membership enforces on its members liberalisation of capital flows with remaining members. Such move brings reciprocity. Autonomous decisions do not bring reciprocity but states with deficit of capital do not mind such loss. The problem can be overcome by signing series of bilateral agreements. In case of bilateral agreements the condition of reciprocity is fulfilled.

here is to apply a flat tax: CIT, PIT and VAT), as well as to liberalise internally the service sector. Moreover, all ENC should think about the EU membership and manage their negotiations of the FTA into that direction. Finally, it is beneficial to establish an FTA among all cooperating with the EU ENP countries.

5. Conclusions

All experience of the 2004/2007 enlargement should be considered as supportive and imparting lessons to the Commission, MS, as well as those states who are interested in integration with the EU. All negative opinions, stating that Europe has enough of new MS for a long time after the last enlargement, are mostly exaggerated. The EU has interest in further enlargements, is able to shoulder the costs of further enlargements, and finally the further enlargements are in the interest of countries interested in catching up with EU support. Demonstration of "*desinteresment*" on the side of the EU can be explained by the fact that a country making the decision to join the EU and to use it as a trampoline towards development should be prepared socially for a hard period of negotiations before it starts to reap some benefits. This period requires political will to change, to integrate, to open up, as well as it needs voters' support. If the offer about membership would be coming from Europe, all the mentioned links would be suspicious where the trick is? When the proposal is coming from a third country, such suspicion is eliminated and the country is following its own path of growth, where the EU is considered as a supporter of changes, supplying a partner country with knowledge how to change, supporting it financially, as well as controlling what has been done from the list a country supplies in its accession strategy.

Despite bilateral relations with the EU, each ENP country should try to liberalise capital flows with third countries as well as with the EU and establish a FTA with remaining partners who in foreseeable future will move the same path towards the EU.

Each ENP country should prepare its own strategy, including some moves different than the others. In the case of preparing for membership it is advisable to reform the tax systems, lowering the level of taxes when they are higher than in the NMS, as well as introducing a flat solution for taxes. In case of services, the ENP countries should liberalise their service sector before coming closer to the EU. Such a solution, together with lower taxes, should be conducive to increasing interest amongst investors in the region.

Those economies who have relatively high labour costs, and whose market is characterised by lack of labour, should open up for immigrants, attracting foreigners to come and work, giving them similar conditions of works as those given to the national labour force.

All those moves are listed on top of normal liberalisation of economic contacts with the EU as well as traditional stabilization measures, with the introduction of convertibility and full float of the exchange rate. States who want to slow down the path of appreciation of their currencies should follow the strategy which was applied in Poland (unique solutions).

Generally, there is no competition on the side of the NMS which can be considered as blocking further enlargement. Old MS are also in favour of further moves in that direction; nevertheless, they do not express this fact openly. There is also no competition between Eastern and Mediterranean Neighbours, although both groups of states face different problems. Most of the macro-indicators as well as competitive indicators show that both groups are very similar from the economic point of view and can be dealt together.

Finally, the vision of future model of economic relations in the world economy indicates that the four liberties applied in the internal EU market will become a global solution. Perhaps today, one should think about such solution as something a bit futuristic, nevertheless, such vision helps one accept that liberalisation and integration are solutions which sooner or later will be applied on a world scale. The sooner such a decision is taken, the shorter the time of changes and the better the position in the global, competitive market.

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