CENTRE FOR EUROPEAN REFORM
policy brief

GETTING FROM LISBON TO WARSAW

Why structural economic reform matters to EU candidate countries. And vice versa.

The goal of joining the European Union is now tantalizingly close for many central and Eastern countries. The bigger question is what kind of EU are they joining? For much of the past decade, policy-makers and business leaders in the candidate countries have assumed accession is a sure-fire path to economic prosperity. In fact, the EU has under-performed badly for the last decade or so. GDP per head in the US, for example, is now 50% higher than the EU average.

To address this problem, EU leaders, meeting in the Portuguese capital in March 2000, agreed an ambitious ten year programme of economic reform. The goal of the 'Lisbon agenda' was to make Europe: "the most competitive and dynamic knowledge-based economy in the world" by 2010. This would require raising Europe's output by around 40% and creating 20 million new jobs. EU leaders agreed to meet each spring in order to maintain momentum.

The forthcoming European Council meeting in Barcelona on March 15/16 – two years after Lisbon – will therefore be a defining moment. Even last summer, British Prime Minster Tony Blair was already describing the Barcelona summit, as "make or break" for the EU's economic reform agenda. Progress on delivering technological innovation, market liberalisation, enterprise and social inclusion is badly needed.

In drawing up the Lisbon agenda, the interests of candidate countries, who will likely join half way through the ten-year programme, were hardly considered. Belatedly recognising the problem, the EU has pledged to formally include candidates in Lisbon-related discussions from 2003, even before they become full members of the Union. The candidate country Heads of State will therefore sit down with the EU-15 at Barcelona to discuss economic reform.

These discussions should not be seen as additional hurdle for candidates to cross before they can join the EU. It neither replaces nor adds to the *acquis communautaire*. But the Lisbon agenda gives candidates clear targets to aim for, when developing their own policies. It is essential they are not left behind in the economic transformation of Europe – otherwise the political 'iron curtain' will be replaced by an economic one.

In fact, *some* of the candidates on *some* of the Lisbon measures are at – or beyond – best practice in the EU-15. There are some compelling reasons why the enlargement of the EU should be good news for the Lisbon strategy:

- Candidates tend to be **fast-growing, dynamic economies**. Real GDP growth in the candidates is consistently around double what it in the EU-15. This is expected to continue, even in the current economic downturn.

- The labour force in candidate countries is often **low-cost but highly-skilled**. Investment into these countries has been growing rapidly in recent years in anticipation of their full participation in the single market.

- Sensitive sectors in candidate countries have undergone a **rapid liberalisation** in recent years in order to comply with the acquis. The candidates will, not unreasonably, expect existing members to come into line.

- New opportunities for experimentation and the **bilateral exchanges of best practice** will present themselves. The recent successes and failures of various government initiatives will help inform policy-making across the EU. The 'open method of co-ordination' was designed to work with, and benefit from, such diversity.

- Candidate countries are also much more used to **objective benchmarking** as part of the accession process. This is a key aspect of the Lisbon programme and peer pressure has been effective among the candidate countries, which are generally anxious not to get behind in the accession process.

These positive trends should not however blind us to the possible dangers to the Lisbon process that could result from enlargement. Among the more pessimistic scenarios are the following:

- The EU after enlargement will become **unwieldy in its policy-making procedures**. 25 member-states will find it much harder to agree shared positions on key subjects, especially on sensitive issues of economic reform, where real urgency is needed.

- The EU could become introspective after accession, **lost in the weeds of absorbing new member-states**. Arguments over the distribution of structural funds and reform of the Common Agricultural Policy are largely irrelevant to whether the EU achieves its objective of becoming the "world's most dynamic and competitive knowledge-based economy".

- New member-states would find it difficult to push through economic reform measures during **an extended economic downturn**. Labour unrest and westward migration would attract the attention of EU policy-makers and distract from the Lisbon agenda.

On balance however, enlargement should reinvigorate the Lisbon agenda, with new members, new ideas and the expanded possibilities of the wider single market. In the short term, elections in France and Germany could stifle progress. Politicians in both these countries have muffled talk of economic reform and the hard choices that must be faced. But Lisbon is far more important than that. If only these countries were forced to reapply for membership, much more rapid progress would be made.

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