



Regional Consequences of an eastwards Enlargement of the European Union

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REPORT BY THE COMMITTEE REGARDING
THE ENLARGEMENT OF THE EU AND ITS
CONSEQUENCES ON REGIONAL
DEVELOPMENT AND THE COMMON REGIONAL
STRUCTURAL POLICY

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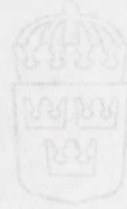


Government Official Reports
1997:160
Ministry of Industry and Trade

Regional Consequences of an eastwards Enlargement of the European Union

*Kommittén om EU:s utvidgning - konsekvenser för regional
utveckling samt den gemensamma regional- och strukturpolitiken*

Report by the Committee regarding the enlargement
of the EU and its consequences on regional development
and the common regional structural policy
Stockholm 1997



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Norstedts,
Stockholm 1997

ISBN 91-38-20784-2
ISSN 0375-250X

On January 27, 1997 the Swedish Government authorized cabinet minister Anders Sundström from the Ministry of Industry and Trade to appoint a special investigator with the task of analysing the regional consequences in Sweden of an eastwards expansion of the EU. Furthermore the consequences of the common regional and structural policy within the European Union were to be analysed as well as how these consequences would affect the regional development of the applicant countries.

On behalf of the Swedish Government the minister on the 27th of January 1997 appointed Mr. Lars-Inge Ström, PhD and research director of the Swedish Institute for Regional Research, SIR, to his special investigator.

The following persons have assisted the investigation: Kent Eliasson, BSc, SIR, Professor Janerik Gidlund, Umeå University, Professor Jan-Evert Nilsson, Nordplan, Docent Lars Westin, CERUM, former cabinet minister Nils G. Åsling and PhD Anders Östhol.

On February 15, 1997, Mr. Magnus Johansson, BSc, SIR, was appointed secretary.

Hereby the investigation presents the report of "Regional Consequences of an Enlargement eastwards of the European Union", Swedish Official Report Series (SOU) 1997:160.

Östersund, October 30, 1997

Lars-Inge Ström

/Magnus Johansson

Summary

This summary falls into five parts. The first of these analyses the potential economic impact on Sweden's regions of a possible enlargement of the European Union. An empirically oriented analysis of the international competitive position of different branches of the economy is related to the heterogeneous branch structure possessed by Sweden's regions. Conclusions are drawn concerning the development of trade - above all in the Baltic region - the spatial distribution of regions with, respectively, a dynamic and a contracting economy, effects on income developments, and the prerequisites of developing regional attractiveness. Part Two deals with Swedish regional policy in relation to the common regional and structural policy of the EU and the radical transformation of the candidate countries. This part can also be viewed in relation to the structural picture presented in the opening section. Central topics of inquiry concerning the development of the concentration and implementation of supranational support in Sweden and the possibilities of effectively using measures of regional support. The third part will illuminate the problems respectively created by and facing an eastward enlargement. This is done by considering experience from previous enlargements and the example of German reunification. This section discusses the political and fiscal costs of enlargement and the necessity of its being preceded by more thoroughgoing changes to the structural policy of the Union. Part Four summarises the analysis of the candidate countries' capacity for coping with the new regional policy situation which membership implies. Particular interest attaches here to the present deficiencies of all candidate countries at regional and local levels and ways in which Swedish and other border regions can contribute to development in this respect. Lastly the analysis is summed up in a number of policy recommendations.

Sweden's regions and the prospect of EU enlargement eastwards

How will the incorporation of ten Eastern European states in the EU affect developments in the regions of Sweden? This is of course a complex issue, and a detailed forecast is hardly feasible. It is possible, on the other hand, to describe the present-day regions in terms of their economic structure and sectorial specialisation.

Sweden's international dependence is manifested above all in the industrial sectors. A study of the degree of specialisation - that is to say, output value divided by the value of domestic consumption, in the various sectors shows knowledge-based, research and, to a certain extent, capital-intensive industry to be in the best position for holding its own in the international market. Moreover, the competitive advantages of these sectors have been reinforced over the past ten-year period; see Table 2.

Table 2 Sectorial specialisation trends in Swedish industry, 1985-1994

	Reduced or unchanged	Increasing
Highly specialised in 1994		Knowledge Capital Research
Low specialisation in 1994	Sheltered employment	Extraction

Source: Adapted from SCB (Statistics Sweden) *Utrikeshandel och Industristatistik*

This pattern of specialisation is clearer still in relation to the candidate countries as a group. Table 3, giving exports by percentages of imports, shows Sweden to have a large export surplus, above all in knowledge- and research-intensive production and a deficit in labour-intensive production.

Table 3 Export-import ratios by sectors of industry, 1994

	Labour	Capital	Knowledge	Research	Total
EU14	91	175	112	103	112
Spain	130	392	176	391	163
Greece	115	226	2,074	2,710	360
Portugal	18	301	147	483	52
Russia	97	14	4,000	2,673	79
Poland	78	267	270	259	131
Candidate countries	65	189	401	575	119
Japan	101	169	44	67	65
USA	85	266	264	39	108
DA	26	1,331	409	96	146

Source: SCB Utrikeshandel

Exchange with these countries, taken as a group, is, however, small, with only 3 per cent of Swedish exports and imports respectively in 1994 accounted for by the candidate countries, as against no less than 60 per cent of the EU. The short-term effects of an enlargement, therefore, are likely to be relatively small, but trade with Central and Eastern Europe has a considerable potential in the longer term, due above all to the geographical proximity of the candidate countries to Sweden, but also because, prior to the foundation of the Soviet Union, the candidate countries were closely integrated with the European economy. Their own calculations indicate a possible growth of trade exchange by up to five times during the coming ten-year period. Even a doubling of trade would raise the candidate countries as a group to a level corresponding to trade with Norway or Finland. These calculations, however, have to be interpreted with care and may only be looked on as rough estimates.

It is a good deal harder to say in which product categories trade will develop and in what direction. Short-term growth, presumably, will lie in the utilisation of the respective comparative advantages of Sweden and the candidate countries, i.e. exploitation of differences in technology, demand and factor availability. In the longer term there are also possibilities of developed two-way trade, i.e. an interchange of functionally similar products, with enterprises taking advantage of the economies of scale afforded by a bigger market. Opportunities for exhaustively analysing the competitive potential of the candidate countries are very limited at present, but previous studies have shown that until 1994 the countries of Central and Eastern Europe specialised in labour-intensive production, whereas the pattern of specialisation in capital-intensive industry was ambiguous. It is further confirmed that, between 1981 and 1994, the candidate countries were net importers of goods based on knowledge- or research-intensive production.

Table 4 Changes in numbers of job opportunities in sectors of Swedish industry, 1968-1990

Ind. Sector	1968		1990		Change	
	No.	%	No.	%	Absolute	%
Research	64,114	7.6	93,057	11.4	28,943	45.1
Knowledge	221,473	26.4	293,399	36.0	71,926	32.5
Labour	426,848	50.8	319,185	39.1	-107,663	-25.2
Capital	127,624	15.2	109,745	13.5	-17,879	-14.0
Total	840,059		815,386		-24,673	-2.9

Source: Adapted from *SCB Industristatistik*.

The analyses which have been performed do indicate, however, that the effects of enlargement on Sweden are in line with the long-term trend for Swedish industry. Table 4 shows the labour-intensive and capital-intensive sectors losing employment shares to the knowledge- and research-intensive sectors between 1965 and 1990.

In order to gain a more complete picture of regional conditions in Sweden, we also have to take into account the increasingly important service sector. Reduced interaction costs and rising incomes in an international market have led to a considerable change in the products delivered from industrial enterprises and in the way in which industrial activities are organised. Firms are tending to develop into co-ordinating organisations, with extensive networks of customers and suppliers occupying a central position. This is making it more and more difficult to draw a clear line of demarcation between production of goods and production of services. On the contrary, the fact of industrial enterprises basing their competitive strength more and more in elements of advanced services testifies to the necessity of focusing on these connections. The growing importance of services for employment is evident from the proportion of persons employed in the service sector having grown by 20 per cent between 1965 and 1990, whereas the commodity-producing sectors have reduced their shares of employment by the same percentage.

Service occupations, like industry, have developed in a variety of ways. Human-capital-generating public services and company-oriented private services showed positive development between 1986 and 1995, while other service sectors lost employment shares. Employment growth has thus been strongest in those service sectors which are extensively relatable to the dynamic side of industry.

Thus the past 25 years have seen a significant change in the structure of the enterprise mix at national level. At the same time as the contraction of the commodity-producing sectors continues, there are signs of a concentration in favour of scientifically more advanced industrial production. In the service sector, it is above service activities catering partly or wholly to other enterprises which have gained ground, reflecting the ever-closer integration of service production with commodity production. The rapid growth of human-capital-generating public services also points to the strategic role of knowledge and information in a modern commodity- and service-producing society.

This review shows that it is above all labour-intensive, and to some extent also capital-intensive, industry that may encounter growing competition from Central and Eastern Europe, at the same time as knowledge-intensive, research-intensive industry will have the possibility of finding new markets. Looking slightly further ahead, however, these parts of industry will also be faced with growing competition, competition which will have to be parried by greater specialisation in particular market segments which, could with rising demand, can afford growth for a wider spectrum of industry. The outcome of this balancing act between growth stimuli, resulting from a growth of demand, and the

increasing pressure of competition will ultimately depend on the development of competitive capacity in sectors generating incomes above the present-day average. Thus there is some likelihood of the industrial developments outlined above being accentuated parallel to the opening up of the Eastern economies.

The fact of industrial enterprises basing their competitive strength more and more in elements of advanced services means that service activities can have a crucial bearing on the prospects of coping with increased regional pressure for change. In addition, the ongoing development of information technology is bringing an international market within reach of certain service sectors. The export base of the Swedish regions may therefore come to be further diversified, so as also to include a variety of service activities. The rapidly expanding human-capital-generating public service sector - higher education, in other words - is also strategically important for the development of enterprise. This sector has a critical bearing on the development of regional factors of production and, accordingly, on the long-term comparative advantages of the regions.

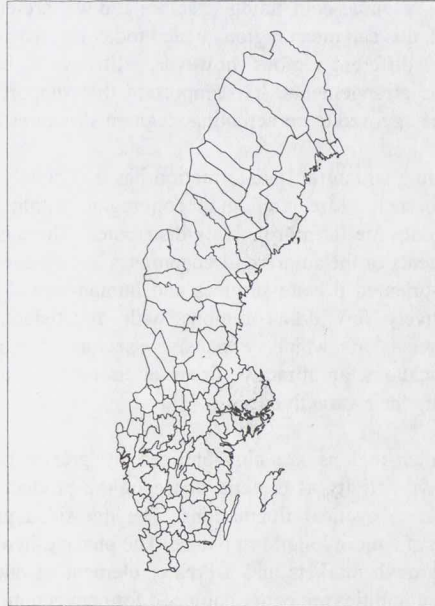
The in many respects far-reaching specialisation of Sweden's regions means that they will be differently affected by an enlargement of the EU and an ongoing integration of the states of Central and Eastern Europe. In order to arrive at a coherent picture of the future development prospects of the regions, the Commission has divided the stagnant and expansive branches respectively, as previously identified, into two groups. The stagnant ones are taken to include primary economic activities together with labour-intensive and capital-intensive industry, while the expansive ones consist of knowledge- and research-intensive industry, business-oriented private services and human-capital-generating public services.

Map 1 shows the local labour markets with high shares of employment in the branches which are expected to encounter the biggest adjustment problems. A line has been drawn at an employment share of more than 25 per cent, which means more than one out of every four economically active persons being employed in one of the stagnant sectors. Leaving aside one or two scattered regions of Norrland, practically all the 46 local labour markets are to be found in Småland and the Bergslagen region. A number of typical industrial and small manufacturing (*bruk*) communities occupy something of a special position, with employment shares of between 50 and 65 per cent. This extreme group consists of Gnosjö, Olofström, Laxå, Hylte, Gislaved and Bengtsfors.

Map 1 Regions with high employment shares in stagnant sectors, 1995



Map 2 Regions with high employment shares in expanding sectors, 1995



Map 2 shows the regions presenting a large proportion of employees in sectors which are expected to benefit from integration. Here the critical limit has been put at an employment share of at least 15 per cent. Apart from a number of very scattered industrial regions, the 22 local labour markets also include all the university towns and cities. Emmaboda, Stockholm, Karlskoga, Göteborg (Gothenburg), Älmhult and Linköping are regions with more than a quarter of the work force employed in potential growth sectors.

One of the main points of inquiry in this study concerns the implications for Sweden's regions of the candidate countries becoming EU members. The Commission has argued that membership and its effects have to be viewed in the context of a considerably more comprehensive and long-term process, a process which advanced by a quantum leap following the collapse of the Iron Curtain. The candidate countries and the rest of Eastern Europe, in which Russia, for example, carries considerable weight, will, with their population, their geographical proximity and their structural differences compared to Western Europe, regardless of EU membership, impact on the pattern of Swedish trade and actively influence regional developments in Sweden.

The frames of this inquiry have not permitted numerical calculations of the aggregate welfare effect on Sweden's regions of the whole of this process or of the individual part of it represented by the candidate countries' EU membership. Such calculations, in any case, are not really possible at present, except as illustrative mathematical examples. Instead the main contribution of this study to knowledge and understanding concerning the complex course of events consists in a description of existing structures in the regions of Sweden. Basic processes and tendencies in the dynamics of economic geography can be exposed by dissolving the economic branches of the national aggregate into their more abundant regional diversity.

What, then, will be the consequences of the candidate countries joining the EU? The answer to this question hinges, of course, on the chronological perspective. In the short term, the relatively limited

size of the candidate countries in relation to the EU economies must mean that membership will above all accelerate their structural transformation, following the disappearance of the protection which non-membership affords. Membership can thus entail a strain on the internal work of the EU and on its resource-demanding structure and welfare-equalising policy measures. As has already been remarked, this can mean regions which today receive grants finding their support reduced. The impact of this on different regions, however, will have to be evaluated in relation to the function of the supportive arrangements. It is important that support should contribute towards positive structural change, as opposed to perpetuating stagnant structures in the regions.

The ongoing structural transformation has a distinctly local-hierarchic dimension. The dynamic and expansive sectors are tending to congregate within a small number of urban regions, while the stagnant ones are far more widely distributed. There is much to suggest that the dynamic productive environments of the future will encompass knowledge- and research-intensive industry together with business-oriented private services and human-capital-generating public activity. In this connection, the relatively few urban regions with a satisfactory structure constitute dynamic productive environments in which expansive sectors congregate and reinforce one another. Good communications, an attractive urban environment and a flourishing cultural sector are other factors reinforcing their attractiveness.

The smaller regions are characterised by greater one-sidedness and a larger element of price-competitive activity at the end phase of the product cycle, which renders them appreciably more vulnerable to cyclical fluctuations. The one-sided productive environment also creates structural problems of a more long-term nature. The phasing-in of new activities is impeded by lack of access to various growth markets and a greater element of outmoded factors of production. In this respect, larger communities are better equipped for conversion, renewal and expansion.

Consequences for regional policy in Sweden

For a long time now, regional policy in Sweden has been on the horns of a dilemma which is not directly concerned with the EU and its enlargement, namely the problem of deciding whether regional policy is primarily to reallocate support funding or whether it is to initiate change through competence development. The gap between these two working approaches has become clearly visible in recent decades. The political scene was until quite recently dominated by the top-down perspective, but today a pronounced bottom-up perspective leaves the field clear for alliances and initiatives of all kinds which are not amenable to supervision and control from the political centre. The task of central level then becomes more that of supporting good initiatives with rules and funding. The public sector becomes one of several parties with which these questions can be discussed and translated into practical policy.

Partnership is something which is highlighted through the EU's policy for the regions. This means looking for effective processes rather than policy measures of a particular kind. The regional policy which Sweden is now developing is characterised by this view of a highly co-ordinated partnership on local and regional foundations.

The Commission has stated that membership and the way to it require democratic understanding and acceptance at local and regional levels in the candidate countries. They also require effective co-ordination of regional policy measures in each country. If these requirements can be adequately met, the new members will be well equipped for the future with a modern organisation of well-trained, enthusiastic people. In the medium term this can enhance the regional competitive strength of the new members, and it is therefore essential for Sweden to continue the work of reform at its own regional level. The experiments to be conducted in Sweden between 1998 and 2002 have the makings of an

appropriate regional organisation. If those experiments are successful, Sweden should be ripe for the introduction of a general order establishing and strengthening its regional development process.

Sweden's regional policy in its present form will not be changed as a direct consequence of enlargement. On the other hand it is important that the Swedish process of regional development should be co-ordinated across sectorial boundaries, regardless of EU enlargement, and that clear responsibility for policy measures and results should be created within the Government. Both locally and regionally, the regional development process must rest on democratic foundations, and this calls for a distinct regional tier, elected by the people. A nationally co-ordinating distribution of resources between the country's regions must conform to a clear principle of fairness. Research into this extensive process of change must be conducted with the greatest possible commitment of resources, and there must be better co-ordination between research and practice. Sweden needs a forceful, dynamic regional policy to harness all the country's resources, as progressively keener European competition will make clear.

In order to cope with the demands of the future, the EU has issued new directives for its regional policy. The Swedish Government has endorsed those directives and feels that there is scope for improving the efficiency of the Structural Funds. This can be done by amalgamating existing funds and by introducing uniform rules on administrative routines. Thus the drift of the Government's thinking is that there will have to be a co-ordination and concentration of regional development measures, at least within the EU. There ought, as the Government sees it, to be no more than three objectives:

- Objective A, focusing on programmes and measures in the economically least developed countries and in sparsely populated regions.
- Objective B, focusing on regions and areas with certain long-term, widespread structural problems, regardless of economic sector. Area boundaries should coincide with those of the present Objectives 2 and 5. In addition, measures defined as Objective C should also be considered for the Objective B areas.
- Objective C, focusing on competence development in keeping with the measures taken under the present Objectives 3 and 4.

At the same time, the number of Community initiatives should be reduced, concentrating exclusively on transnational and cross-border co-operation, development in city regions with major structural problems, and rural development. The Government wishes to give top priority to transboundary co-operation.

The intention is for every measure within the framework of the various EU programmes to imply an effective adjustment to the problems and possibilities of every Member State and its regions. It is important that both planning and implementation should comply with the subsidiarity principle, i.e. on an appropriate level in each system, and that partnership should be defined for all participating states. The elevation of quality which the Government is aiming for will improve the possibilities of using the large sums of money now being channelled through Structural Fund policy. The Government's wishes are very closely in line with the proposals put forward by the Commission.

One tangible consequence of the order now proposed is that support to Sweden may come to be reduced. The Government therefore maintains that a choice will have to be made between geographically oriented measures and national programmes, in order to solve the problem of unemployment and settle the allocation of resources among regions which may find themselves receiving less support.

Objective A, in the Government's opinion, should comprise the north of Sweden, where problems of balance are greatest. There is every reason for the EU to continue measures for the improvement of competitive strength in what at present constitutes Objective 6, i.e. the sparsely populated regions of Sweden and Finland. The low head of population now used as a criterion, namely fewer than 8 inhabitants per sq. km., should be supplemented by other conditions qualifying for continued support. The regions at present classified as Objective 6 command great natural resources of importance to the whole of the EU.

Objective B must be aimed at coping with structural change in many different economic sectors. This objective is to focus on regions which worries of this kind or are expected to encounter them. The measures taken shall create long-term employment and augment the competitive strength of the regions. The geographical distribution cannot be determined now.

Objective C, lastly, is to be solely concerned on conferring superior competence and will comprise regions with special needs. Together with Objectives A and B, this objective will play an important part in achieving the Union's employment target.

Parallel to the viewpoints tendered by the Government, there are the demands made for a reduction of Sweden's contributions. Sweden's contribution has been phased in since its admission to the Union but, as the rules now stand, is expected to level out at some MSEK 20,000 as from 1998. Sweden is not the only nation now demanding a reduction of its contributions. The biggest threat in this respect comes from Germany, but the Netherlands are also seeking to pay less. Both these states are among the big net payers in the Union, with Germany alone bearing an estimated 29 per cent or so of the EU budget.

Thus the Government argues that the present Objective 6 must have continuing support, at the same time as Sweden wishes to pay smaller contributions to the EU. It is impossible at present to judge the compatibility of these standpoints. With an extensive enlargement, however, mere reallocation of existing supportive measures will not, in the Commission's opinion, be enough. If, moreover, several large net payers carry out their threats to reduce their payments to the EU, a growth percentage high above the estimated 2.5 will hardly be sufficient to cover the financing of new members. In this case it will be difficult to justify Sweden's receipt of support covering a total of 62 per cent of its territory but affecting only 12.5 per cent of its population, at the same time as Eastern and Central Europe are wrestling with enormous problems. Objective 6 alone covers 55 per cent of the country's area but affects only 5 per cent of its population. It is also difficult to plead for support based on low population density, because that problem will not be solved within the foreseeable future. Evaluation of the supportive measures in relation to the support criterion is, in other words, impossible, and the present Objective 6 ought instead to be defined with reference to regions with large depopulation problems.

Sweden, with its high level of prosperity, may thus incur the "phasing out" proposed in Agenda 2000, as indeed the Government anticipates. This will mean a reduction of the current frame for structural measures in Sweden and would affect the regions belonging to Objectives 2, 5b and 6. No calculation of the effects is possible, because no one can foresee the amount by which a change in the current distribution would reduce grants from the EU. Greater co-ordinated measures will in cases of this kind have to be taken for communities in the Norrland interior and in other parts of Sweden with similar problems. The fact of Sweden belonging to a union which is planning to admit new members successively augments the pressure of competition on those regions of Sweden which, under present circumstances, have difficulty in maintaining their position in the process of change. The EU, through its very existence, constitutes a growing pressure of competition on both strong regions and not-so-strong ones.

Implications for EU power politics

As the report observes, there are considerable difficulties involved in linking together institutional questions, policy changes and budget within the Union. A coherent grasp of these questions has up till now been lacking. Previous experience testifies that these bundles of questions have been broken up into smaller sub-issues in connection with membership negotiations, causing the internal policies of the EU to be fashioned by interstate settlements. The result has been side-payments which have sometimes devoted more attention to questions of form and compensation between states than to substantial content. In the end the stepwise method has come to leave its imprint on the process as a whole. Financial resources look for an outlet and create their own dynamic through the genesis of policy networks. In the absence of a coherent, written constitution, the addition of new members necessarily changes the established policy networks. Given that institutional relations within the EU vary a good deal, each individual candidate state should develop institutions appropriate to its own internal economic, political and cultural structure - an order of things capable of dealing with minority issues, regional economic differences and questions concerning the distribution of political power. It is important for the integration process that these institutions should be capable of guaranteeing national security and meeting democratic requirements. This is also essential if they are to be capable of becoming fully fledged partners within the framework of wider policy networks and of competing for EU project funding.

The EU's policy for the regions, then, is on the verge of thoroughgoing changes. With many new members there will be no scope for generous side-payments in line with previous expansions. Every measure must be clear in form and effect. As the Union grows, its "acquis communautaire" must be correspondingly refined. The achievement of clearer rules of conduct would seem to be in line with Swedish interests. Demands for the introduction of a greater element of popular sovereignty and democracy are likely to be irresistible in the long run. Faced with developments of this kind, it is important here and now to begin thinking in terms of power balances between central EU institutions. A stronger role for the European Parliament is a procedure which will not immediately lead to a stronger hierarchy but which demonstrates an attitude in favour of steps being taken towards further deepening and a greater element of democratic decision-making procedures. An alternative approach is to press the question of stronger support from national parliaments. This would mean a completely different interpretation of the need for double majorities, with decisions requiring approval both from one of the central EU bodies (the Council of Ministers or the Parliament) and the Swedish Riksdag (parliament). Parallel to the growth, through structural commitments, of responsibility for developments in new Member States, the organisational shortcomings of the Union will be increasingly exposed. The organisation was originally conceived of as having six members and before long may have 26. The institutional questions will have to be dealt with before an enlargement can be possible.

Policy shifts, compared with institutional changes, are relatively easy to accomplish. A qualified majority in the Council of Ministers is sufficient for the adoption of a new policy and, moreover, the directly elected Parliament is playing a far greater role now than it used to. As has already been remarked, regional and structural policies have been palpably changed in connection with enlargements. The difference this time is that stepwise solutions can prove very costly to the EU. The economic development of Central and Eastern Europe is lagging so far behind that their internal problems cannot be fully allowed for at European level; many of those problems demand national solutions. Their unfavourable negotiating position will make it hard for them to exact various forms of compensation in return for membership. The EU Member States are under pressure not to let slip a historic opportunity. Disappointment and widespread social discontent in the candidate countries are liable to roll back what has so far been achieved in the form of integration with Western Europe if there is loss of confidence in democracy and the market economy as the solutions to their national problems.

In connection with enlargements, the scale of the budget becomes a subject of interstate negotiations. Experience has shown the budget to be greatly affected by the side-payments occurring as a consequence of negotiations during a governmental conference. Putting it drastically, every government probably has an interest in recovering as much as possible, preferably more, of what it pays in membership contributions. To avoid large transfers on the grounds of showing solidarity with the states of Eastern and Central Europe, a reduced membership contribution can be offered instead for a phasing-in period. This will give the present EU countries time for their internal preparations for enlargement.

Regional and structural policies together with agricultural policy account for the overwhelming bulk of expenditure. If phasing in is to be facilitated through a reapportionment of expenditure, both these policy fields should be subjected to an open-ended review. They occupy some 80 per cent of the EU budget and are conservative in character. The CAP because it favours the original members, and regional and structural policy because it is a result of and adapted to previous enlargements. The reductions now planned in the number of fund programmes and Community initiatives are a necessary step. Also, it is uncertain whether a spending frame of 1.27 per cent of the Union's GDP will suffice for the admission of ten new members, all the more so as that frame presupposes 2.5 per cent annual GDP growth in EU-15. Nor is there any preparedness for economic or political crises in the candidate countries or in the EU itself. The candidate countries, even though they are passing through a sensitive transitional phase, are expected to display political and social stability.

The absorption capacity of the candidate countries is probably no less than that of the former DDR. Experience of German reunification tells us that, even with generous measures of support, the transformation process takes a long time to accomplish. Limiting the amount of support to 4 per cent of the Member States' GDP may therefore impair the possibilities of coping with the new situation which membership entails. Limited support can lead to a growth of tensions between regions in these countries, at the same time as they are under great pressure of change. A further complication will be added if the divided commencement of negotiations becomes a fact. Increased support of ECU 7bn seems too small a figure to enable those who are to wait for negotiations to catch up. In other words, the danger is that the costs of enlargement have been underestimated.

The Commission presents far too uncomplicated a picture of the future. After all, we are talking about a transitional period between 6 and 10 years ahead. The case of the DDR has taught us that, even with unusually strong financial support, the processing of adapting production and living conditions to western standards takes a long time. It is difficult, however, to envisage the present EU organisation being equal to negotiating with all candidate countries at once. Adapting the organisation to such a large influx is a tremendous experiment, but once the promises have been made it is the EU's duty not to create greater problems than the proposed enlargement was intended to solve.

Despite aims of making no distinction between the Member States, with the enlargement no planned there is a gradation in sight. The countries joining the EMU in 1998 will form an inner core. In practice this means that we already have a group of states *within* the EU which are preparing to join the monetary union, while others have chosen to wait on events. It is this latter group of countries that the Eastern and Central European countries will in future be able to join. If the EMU materialises, new members will join up with an outer circle of EMU non-members, because countries liable to cause a noticeable weakening of the common currency are unlikely to be admitted to the monetary co-operation.

The aim for an impending enlargement should be to minimise the number of side-payments. There is also much to suggest that structural and regional policy will have to be allotted a different role from that which they have played in previous enlargements.

Regional implications for the candidate countries

The regional level, generally speaking, is weak in all the candidate countries. This is partly due to the historical legacy of the Soviet area, but there are other reasons as well. One of them is that many of these countries are small in area and, therefore, have had no need for regional thinking. They are and have been easily surveyable from the centre. This is above all true of the Baltic Sea States. The regional level has not been very thoroughly treated in the European Commission's country review. It seems as though the Commission perceives the necessity of policies in all fields during an initial phase having a properly co-ordinated national strategy in order to succeed. The present Commission can endorse that idea for a brief transitional period, but in the longer term it will be essential for the now so complicated processes to which the networks involved are contributing to be accepted and understood at both regional and local levels. Regional development cannot be initiated without a high level of administrative competence, and without democratic support it cannot be implemented. All the candidate countries, therefore, are in need of extensive and direct measures of assistance in order to develop their national concepts of regional policy and the social organisation in which those concepts are to be rooted.

A large number of national authorities and private interests have been active in most of the candidate countries since the beginning of the nineties. Swedish interests are involved in all the candidate countries round the Baltic. Measures take the form of experience interchange between national authorities and educational institutions. Private business interests are also abundantly represented, and the combined presence of all these players presents an opportunity for the interchange of knowledge and a means of broadening the competence of the new array of administrators and leaders in the candidate countries. This is a highly important process which, given measures of co-ordination, can be accelerated in the Baltic Sea region. The Baltic Sea Programme initiated by the Government should for the future have the clearly declared aim of co-ordinating a comprehensive system of exchange between Sweden, other Nordic countries, the Baltic Sea states and Poland, with a view to building up a new cadre of officials, teachers, researchers and entrepreneurs at regional level. Joining together the regions in all the states round the Baltic at the earliest possible opportunity must be the most efficient means of achieving both depth and breadth in the task of strengthening connections between them. This would also help to give the development process the democratic footing essential for its long-term viability. If corresponding programmes are consistently implemented in the other Nordic countries, this could mean a good start for the new age that awaits us. For the remaining candidate countries, similar agreements with neighbouring states would be a step in the right direction.

One promising sign is the realisation by most of the candidate countries of the need for a regional development process. Several of them, moreover, have seen to it that someone at governmental level is made responsible for the co-ordination of regional development questions right from the start. This, hopefully, can lead to the regional development process becoming a dynamic political theme as a counterpoise to the lingering old order.

The fact of several states not being considered mature enough to open negotiations in the first round can be a trifle disturbing from the viewpoint of regional development. Being considered mature enough to open negotiations at the same time as everyone else is probably a source of inspiration for further reforming endeavours. Regions bordering on Russia, for example, have a very low standard of living in European eyes, but also by comparison with regions bordering on Germany and Austria. The tension that can develop out of this regional imbalance must be made a subject of special measures in all states. The Commission doubts whether the funds which have been set aside will cover needs during the waiting period assumed by the European Commission. The ECU 45bn budgeted by the European Commission for the period between 2000 and 2006 is unlikely to cover the cost of enlargement, and it will therefore be hard to accommodate the budget within the EU's budget ceiling of 1.27 per cent of the Member States' total GDP.

As far as the Commission is able to understand, there are no strong objective reasons for excluding any candidate state on the grounds of its administrative apparatus or its capacity for receiving and using EU Structural Fund programmes being inferior to another country's. There are differences, but it is impossible today to place the countries in ranking order in the light of available facts. This is particularly true of the Baltic Sea States, where the European Commission's negative attitude to Lithuania's regional policy preparedness does not tally with the view taken by the Lithuanian Government. None of the candidate countries in question wishes to be left out, and an apparently unjustified and impenetrable ranking system can generate tensions within and between the candidate countries. The Union has already committed itself to an eastward enlargement. And there cannot be any decisive argument in allowing certain states to commence negotiations while others have to wait. All should be enabled to start simultaneously but to conclude their negotiations at different points in time, in which case there would at least be no room in the debate for the argument concerning unfair treatment. A common opening of negotiations would also give the candidate countries a breathing space and afford less scope for the oppositional forces wishing to prevent an enlargement of the Union from having special consequences for their own country. Perhaps the limitation lies more in the structure of the EU itself than in that of the candidate countries?

Policy recommendations

Given the potential which is now being established in the neighbouring region, Sweden and the entire Baltic and Bothnian Sea region will achieve greater accessibility and a more central location in relation to the growing European markets. The best way of developing trade with Central and Eastern Europe is by opening the way to imports from these countries and, since trade is above all impeded by link-related deficiencies and transport links include elements giving them the character of semi-collective goods, a central policy conclusion must be that: *Membership for the candidate countries will improve the prospects of a European traffic policy aimed at developing the transport and communications links which are lacking between Eastern and Western Europe.*

Sweden can also play a decisive part in the development of, above all, the Baltic Sea States and Poland. Sustainable development of the candidate countries will require measures over and above Union-financed support. *The regional process in the candidate countries must be supported by their neighbours. Cross-border regional co-operation is important in this respect.* In order to keep track of the course of events in Central and Eastern Europe, knowledge production relating to the regional development process must be linked more closely with research. One way of achieving this would be by setting up an institute responsible for regional development in the candidate countries - an institute which, it is suggested, can be localised in one of the new Member States.

Nor is it absolutely certain that the markets themselves are capable of accomplishing the structural renewal which the regions of Sweden have been greatly in need of for a long time now. A renewal of the regional enterprise structure is needed, regardless of EU enlargement. If enlargement results in declining industries encountering a growth of demand, the desirable pressure for change may be reduced. It is therefore important that the structure-conserving parts of Swedish and EU-initiated labour market, enterprise and regional policies should be abolished. *European and Swedish policies for enterprise and the regions need to be slanted clearly in favour of structural change.*

On the other hand it is policy measures themselves, in relation to enterprise structure and regional development during the 80s and 90s, which demonstrate the uncertainty of the political process being able to cope with this kind of change better than the markets. Competence-promoting and product-developing signals must therefore be made the focus of attention for the regional labour markets. *It is only with clear signals everywhere in the markets as to the location of future income growth that the tying up of labour in occupations with adverse long-term development of earnings can be avoided.* In

this connection, increased competition from Eastern Europe can indicate more clearly the sectors in which the growth of earnings is going to be further decelerated.

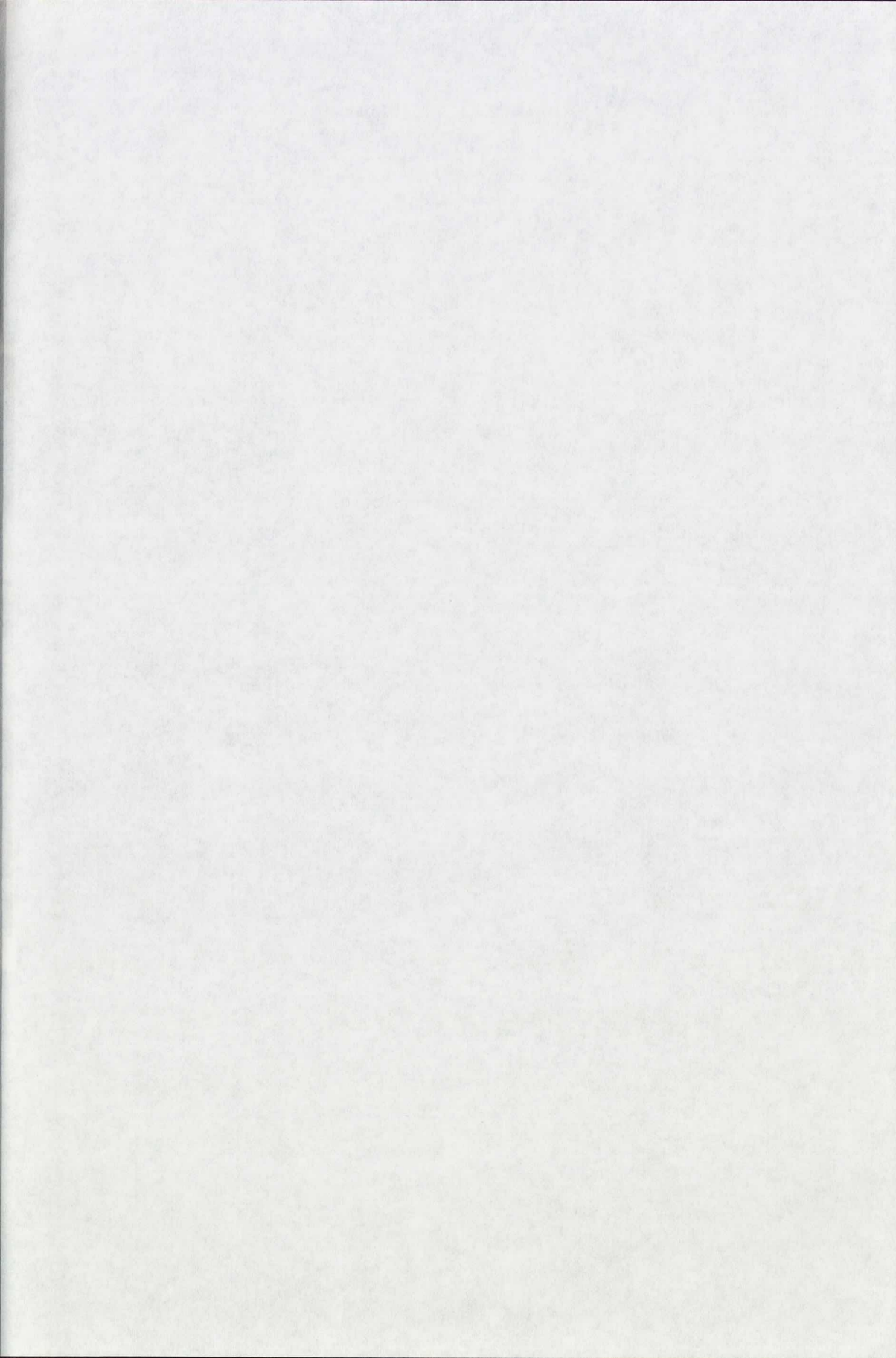
Urban growth is a dominant tendency of long-term population movements. Small regions without at least a knowledge-oriented urban community acquire vulnerable labour markets. Residents of small communities with low access to knowledge-oriented towns and cities must be prepared for slower income growth than people living in regions with more dynamic job markets. If the regional population base goes on stagnating, this is bound to mean a growing concentration of population. *Regions must therefore develop their collective resources in the form of factors of production, technology, environment and networks in order to create attractive job markets.*

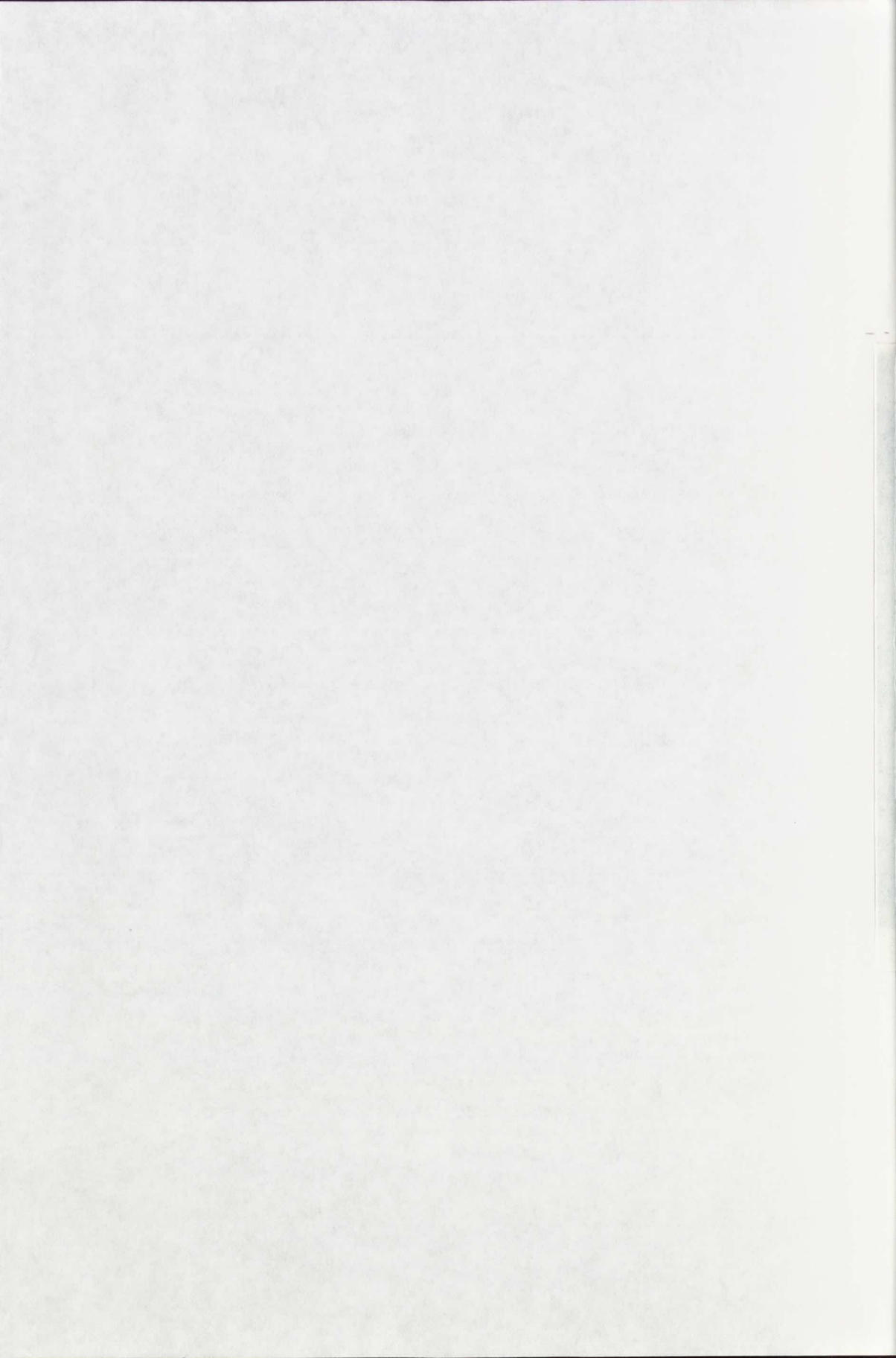
In order for the regions themselves to be capable of acting and in order for national and European policy-making bodies to be able to decide on trans-regional measures, a coherent picture is needed of regional links and resources. Knowledge of the national and international dependencies of the Swedish regions and of their available resources today constitutes a limiting factor of regional policy. *The regional problem picture existing below the national surface is insufficiently clear at present.* What is more, the possibilities of responding more distinctly and rapidly to the adjustment requirements and the cyclical sensitivity entailed by an integrated European market call for a high level of efficiency in Sweden's regional policy. *Through sectorially co-ordinated and concentrated measures, a new regional policy can make Sweden more competitive.* It is also important for this course of events to be more closely linked with research in the field.

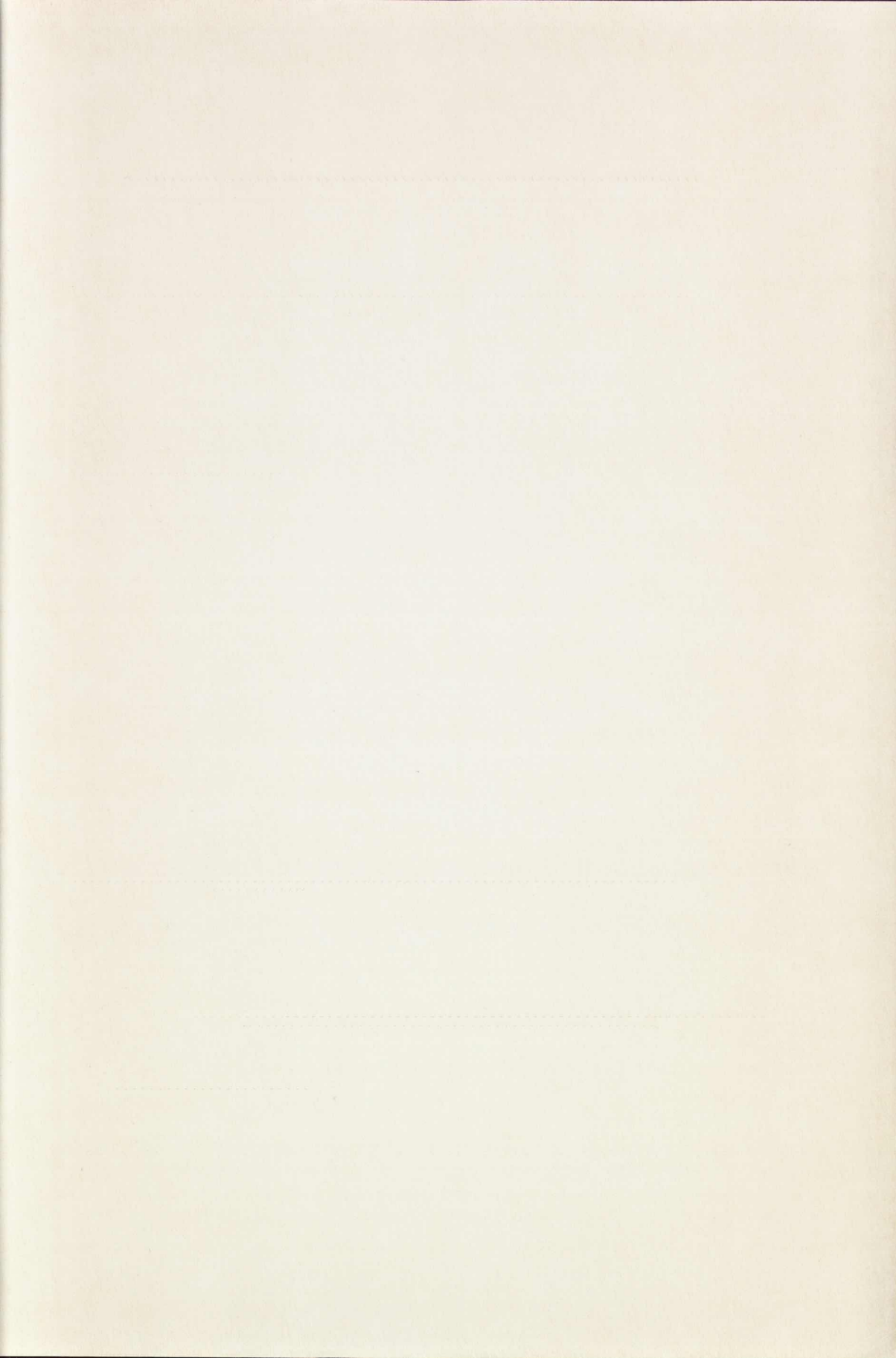
Comparisons with German reunification show that the cost of an eastward enlargement can be considerably greater than the European Commission has bargained for. This makes heavy demands on a thoroughgoing reform of the common regional and structural policy. Resource conservation demands greater concentration and clarity, which in turn must ultimately lead to a revised definition of Objectives. *Accordingly, there is much to suggest that Sweden must be prepared for a reduction of its funding allocations from the EU.*

Finally it is worth mentioning that in its material the Commission has found no clear objective reasons for splitting the commencement of negotiations.









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ISBN 91-38-20784-2
ISSN 0375-250X