11. Greece and the Eastern Enlargement of the European Union

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1. Eastern Enlargement: the greatest EU challenge

Although the European Union (EU) has absorbed a number of countries since its creation, growing from the original six to the current fifteen member states, the next enlargement to include the Central and Eastern European Countries (CEECs) presents the greatest challenge yet for three reasons. First, it is the largest ever enlargement. Ten CEECs are currently candidates for accession with a total population of more than 100 million people. Second, in none of the previous enlargements the candidate countries differed so much from the incumbent member states. Thus, the candidate countries have a considerably lower level of development, relatively large agricultural sectors and, until a decade ago, they had a completely different political system. Third, in none of the previous enlargements the EU was at such an advance stage of economic integration. In the last ten years the Single Market has been implemented and the euro has been created with eleven of its member states already belonging to its zone.

These three factors create three major problems which have to be dealt with in order to make the enlargement possible. First, an institutional reform is required in the EU. This reform was not included in the Amsterdam Treaty but has to be decided before accession takes place. Second, the accession of the CEEC's into the EU involves heavy demands on the EU budget. These demands arise from the application of the Common Agricultural Policy (CAP) and the EU structural policies to the new member states. These two sets of policies already absorb 4/5 of the EU budget. Third, significant structural changes have to take place in the candidate countries before becoming EU member states, a difficult task imposing also some further demands on the EU budget.

Despite these problems, the political will is for these countries to enter the EU because in this way they will be assisted in their development process, some economic benefits will accrue to the EU also but, most important of all, the eastern enlargement of the EU will secure against the return to the Cold War era.

2. Eastern enlargement and the Greek interests

Greece seems to share the need to enlarge the EU eastward despite the aforementioned problems. Apart from the obvious reasons to support the eastward enlargement, it can be argued that, Greece has two additional ones. First, Greece shares a parallel political experience with these countries because its accession into the (then) European Economic Community (EEC) secured the establishment of democracy in the country which had suffered under a military dictatorship shortly before accession. Becoming a member of the EEC became the major national target after the fall of the dictatorship in 1974 and became possible only seven years later. Thus, at least sentimentally, Greece fully supports the new enlargement of the EU.

Second, Greece has a significant interest towards enlarging the EU to include the south-eastern European countries, two of which (Romania and Bulgaria) belong to the CEEC-10 applicants. These countries can operate as a bridge between Greece and the rest of the EU while the small distances involved and traditional links with these countries make the integration with them important for Greece.

However, despite the strong reasons for which Greece supports the eastern enlargement, this development involves one political complication and three significant economic implications. The political complication has to do with the effort made to have Cyprus also joining the EU at the same time with the CEECs. As it is known, the European Commission has already expressed a positive opinion on the accession of Cyprus into the EU in the sense that it satisfies the relevant accession criteria. In fact, Cyprus satisfies also the criteria for becoming a member of the European Monetary Union (EMU). Greece as a member of the EU made the eastern enlargement conditional on starting accession negotiations with Cyprus also. Thus, accession negotiations are currently under way for the five CEECs for which the European Commission has been expressed positively for accession (Poland, Hungary, Czech Republic, Estonia and Slovenia) as well as Cyprus. If the accession of Cyprus at the same time with these countries does not proceed, Greece has the option of a veto. However, it is doubtful whether Greece has the political weight to veto such a major development in the EU.

The economic implications of the eastern enlargement for Greece have to do with the effect that the enlargement will have on the current benefits that Greece enjoys from the EU membership as well as the possible implications for the competitiveness of Greek products after the enlargement. These benefits arise from the application of the Common Agricultural Policy (CAP) to Greek agriculture and from the inflows into the country from the EU Structural Funds. As mentioned above, but also according to the Commission communication under Agenda 2000, the eastern enlargement has very important demands on the EU budget through the operation of the CAP and the Structural Funds. Given the unwillingness of the large contributors to the EU budget to expand the EU budgetary resources beyond the current limits and the limited capacity of the candidate countries to contribute to the EU budgetary resources, the fear exists that resources will be withdrawn from the current member states to assist the development process in the new member states.

The Berlin Summit (March 1999) where the EU Financial Framework 2000-2006 was discussed, decided that the agricultural guideline during this period will remain unchanged while the overall level of expenditure under the Structural Operations will enable the Union to maintain the present average aid intensity levels. However, it was also decided that the agricultural guideline will be reviewed before the enlargement in order to make any adjustments deemed necessary. Furthermore, because the enlargement is expected to take place, at the earliest, during the second half of the period covered by the next financial framework, the demands on funds for Structural Operations are relatively limited. Therefore, it seems that what mostly worries Greece is the after 2006 period.

Finally, the accession of the CEECs into the EU may have implications for the competitiveness of Greek products into the EU markets. This fear arises from the similar levels of development shared by Greece and the CEECs and from exporting products embodying similar levels of technology.

In order to appreciate the importance of these factors for Greece we turn now into an analysis of the benefits of Greece as a member of the EU and some of the already existing links between Greece and the applicant countries. Before this a short historical note is presented.

3. Some history

Greece became a member of the EEC in 1981. The need to secure democracy and its glorious past played an important role in this development. Since then, two EU enlargements have taken place. Of the two, the Iberian enlargement was the one to have a greater impact on the Greek economy because of the increased competition it meant for the Greek products. For this reason, Greece demanded, and it was accepted, to be compensated for potential losses. The compensation took the form of the Mediterranean Integrated Programmes. These funds served purposes similar to the ones of today's structural funds.

The end of the 1980s found the EEC strengthening its Structural Funds designed to promoting growth in regions lagging behind or facing development problems. Since then, two Community Structural Programmes (CSP) have been applied to Greece involving very large funds for the size of the Greek economy. Ex post analysis of the first CSP showed a relatively inefficient use of the resources devoted to it. Things are much better with the second CSP. Currently the third one is being designed involving greater than ever resources.

Following the Maastricht Treaty, Greece received also funds from the Cohesion Fund while it embarked upon programmes leading to the achievement of the criteria set at Maastricht for membership of the European and Monetary Union (EMU). Greece turned up to be the only member state who wanted but could not become a member of EMU. Today, a year after the decision for the first eleven member states to join the EMU, Greece is very close to achieving this target while its higher than the average EU growth rate contributes to the real convergence of the Greek economy to the EU average. At this moment (June 1999) Greece has achieved all the EMU criteria but the inflation one which is expected to be attained at the end of the year. Soon Greece will enter the stability provided by euro thus being the last western European country to stabilise with considerable delay its economy since the 1973 oil shock.

4. Greece and the EU budget

Greece has been a significant net recipient of funds from the EU budget. Its positive net position is due to its relatively large agricultural sector and to its relatively low income level. Thus, as shown in table 1, Greece is currently receiving funds from the EU budget exceeding 5 percent of its GDP and tending to be stabilised close to this figure. Since accession and up to 1993 this percentage was rising and was stabilised between 5 and 6 percent after this year. Most of the funds are associated with the operation of the CAP (financed by the FEOGA Fund) but the Structural Operations are becoming increasingly important.

The net position of Greece with respect to the EU budget is very much on the positive side (four or more percentage points of GDP) since its relatively lower GNP does not allow for large contributions into the EU budget. Because of this situation it becomes apparent why Greece feels uneasy about the large demands for funds that CEECs will have when they become members of the EU.

The importance of the funds allocated to the Structural Operations is analogous to their size. However, the case of the funds received under the CAP is more complicated because the eastern enlargement constitutes the most important factor leading to further reforms of the CAP until it acquires a shape which will make possible the eastern

Table 1. Financial (budgetary) transactions between Greece and the EU
(percent GDP)

Year	Receipts			Payments			Net Receipts
	Total	FEOGA	Structural Operations etc	Total	Customs	VAT/ GNP basis	
1981	0,7	0,4	0,3	0,4	0,2	0,2	0,4
1982	1,9	1,6	0,3	0,6	0,2	0,4	1,3
1983	2,7	2,1	0,6	0,7	0,2	0,5	2,0
1984	2,4	1,9	0,5	0,6	0,2	0,4	1,8
1985	2,9	2,3	0,6	0,7	0,2	0,4	2,2
1986	4,1	3,0	1,1	1,4	0,3	1,0	2,7
1987	4,2	3,0	1,2	1,0	0,3	0,7	3,2
1988	3,8	2,6	1,2	1,0	0,3	0,5	2,8
1989	4,2	2,9	1,3	1,0	0,3	0,6	3,2
1990	4,5	3,1	1,4	0,9	0,2	0,5	3,6
1991	4,9	3,4	1,5	1,1	0,3	0,7	3,7
1992	5,4	3,6	1,8	1,1	0,2	0,8	4,3
1993	6,3	4,0	2,3	1,3	0,2	0,8	5,0
1994	5,9	3,7	2,6	1,3	0,2	0,9	4,6
1995	5,2	3,2	2,0	1,2	0,2	0,9	4,0
1996	5,9	3,2	2,7	1,2	0,2	0,9	4,7
1997	5,1	2,8	2,3	1,1	0,2	0,9	4,0

Source: Ministry of National Economy

Enlargement. The different shapes of the CAP have different distributional consequences for the member states as it is shown next.

5. Greece and the CAP

The CAP constitutes the most important common policy of the EU currently absorbing about half of its budgetary resources. Under the CAP, income transfers take place among the member states through budgetary transactions and trade. The latter occur because intra and extra EU trade in agricultural products is carried out at higher than international prices. The price wedge between domestic and international prices is maintained by the CAP support system. The total of the benefit or loss for each member state under the CAP is shown in table 2 for the period 1988-1997. According to these results, Greece is the second largest beneficiary (after Ireland) under the CAP when benefits are measured as a proportion of Gross Value Added of agriculture.

These benefits depend more than in any other country on budgetary transfers because of the structure of support for products produced in Greece. This is shown in table 3 where the proportion of the direct payments (paid out of the budget) in the transfers to the producers is shown.

However, the present CAP cannot be in place when the CEECs join the EU because the expansion of the CAP to these countries involves a great burden for the EU budget which its large contributors are not willing to pay. On the other had, transferring amounts similar to those paid to the current EU farmers to those of the CEECs will disturb the social fabric and upset the development process as more resources will be attracted to

Table 2. Net benefit/Loss under the CAP by Member State (1993-1997)

COUNTRY	*UNIT*	*1993*	*1994*	*1995*	*1996*	*1997*
B/L	MECUs	-555,4	-770,0	-725,7	-893,5	-928,6
	%GVA	-15,7	-23,5	-22,1	-36,3	-38,1
DK	MECUs	511,0	660,1	537,3	216,5	363,3
	%GVA	15,1	20,3	15,4	6,5	11,0
D	MECUs	-8749,0	-9684,8	-7464,1	-8013,7	-7046,9
	%GVA	-47,1	-55,4	-41,8	-54,1	-47,0
GR	MECUs	1449,8	1427,6	1326,4	1836,9	1747,9
	%GVA	17,6	15,8	15,1	28,4	27,9
ESP	MECUs	412,6	1082,1	1957,9	1079,3	1096,1
	%GVA	2,8	8,1	16,7	6,7	7,1
F	MECUs	47,7	248,4	1583,5	951,9	1416,7
	%GVA	0,2	1,0	6,2	4,0	6,1
IRL	MECUs	1010,4	1066,8	1213,6	1050,0	1365,0
	%GVA	46,8	53,9	59,3	46,5	61,3
I	MECUs	-3917,9	-2394,3	-1712,8	-1376,8	-837,3
	%GVA	-12,2	-7,4	-5,3	-5,3	-3,3
NL	MECUs	-402,4	-1056,7	-878,7	-1333,6	-1361,3
	%GVA	-3,7	-9,2	-7,5	-15,4	-16,5
P	MECUs	-528,7	-582,1	-240,9	-169,9	-100,1
	%GVA	-4,9	-5,1	-2,0	-2,0	-1,2
UK	MECUs	-2985,6	-1449,3	-2488,1	-2177,3	-1334,4
	%GVA	-147,5	-66,8	-107,6	-80,7	-61,9
A	MECUs	-	-	-897,5	-80,6	-332,0
	%GVA	-	-	-49,2	-4,5	-19,5
SWE	MECUs	-	-	-933,7	-711,6	-512,5
	%GVA	-	-	-93,9	-67,8	-58,3
FIN	MECUS	-	-	-489,5	-90,3	-172,5
	%GVA	-	-	-65,8	-11,9	-22,9
EU	MECUS	-13707,5	-11452,2	-9211,8	-9712,7	-6636,6

Note: MECUs=million ECUs
GVA=Gross value added of agriculture

Source: G. Zanias, 'The distribution of CAP benefits among member states and the impact of its partial re-nationalisation', mimeo.

Table 3. The proportion of Direct Payments in the Producer Transfers (%)

Country	*1993*	*1994*	*1995*	*1996*	*1997*
B/L	**5,8**	**8,3**	**10,2**	**12,0**	**13,0**
DK	**7,3**	**16,1**	**21,3**	**24,7**	**26,1**
D	**11,1**	**18,6**	**24,1**	**27,7**	**26,8**
GR	**54,7**	**53,5**	**53,8**	**57,5**	**56,5**
ESP	**43,4**	**40,6**	**43,7**	**35,7**	**36,7**
F	**15,2**	**26,3**	**29,9**	**33,2**	**31,9**
IRL	**15,0**	**20,4**	**24,3**	**27,0**	**29,4**
I	**28,2**	**29,7**	**35,3**	**33,7**	**36,0**
NL	**3,9**	**2,8**	**3,7**	**4,6**	**5,2**
P	**20,1**	**31,6**	**38,5**	**29,3**	**28,6**
UK	**14,2**	**24,0**	**25,6**	**27,6**	**33,2**
A	**-**	**-**	**2,5**	**47,3**	**29,8**
SWE	**-**	**-**	**1,9**	**30,1**	**30,9**
FIN	**-**	**-**	**1,0**	**41,2**	**25,6**

Source: Ibid.

Table 4. Impact of Partial CAP Re-nationalisation on Benefits/Losses (1996, 1997 average)

Member State	**Benefit/Loss** *(MECUs)*	Change in Benefit/Loss				
		MECUs	% of Benefit/ Loss	% of GVA	% of GNP	% of Government Expenditure
B/L	-911,1	+156,3	+17,2	+6,4	+0,06	+0,11
DK	+289,9	-51,4	-17,7	-1,5	-0,04	-0,07
D	-7530,3	+861,4	+11,4	+2,9	+0,02	+0,04
GR	+1792,4	-537,6	-30,0	-8,5	-0,53	-1,24
ESP	+1087,7	-409,2	-37,6	-2,6	-0,09	-0,21
F	+1184,3	-461,1	-38,9	-2,0	-0,04	-0,07
IRL	+1207,5	-132,5	-11,0	-5,9	-0,26	-0,78
I	-1106,9	-87,4	-7,9	-0,3	-0,009	-0,02
NL	-1347,5	+262,1	+19,4	+3,1	+0,08	+0,16
P	-135,0	-22,6	-16,7	-0,9	-0,03	-0,07
UK	-1755,9	+270,9	+15,4	+3,6	+0,03	+0,07
A	-206,3	+57,7	+27,9	+3,4	+0,03	+0,06
SWE	-612,1	+62,1	+10,1	+7,1	+0,03	+0,05
FIN	-131,4	+31,4	+23,9	+4,2	+0,03	+0,06

Source: Ibid.

agriculture. Furthermore, problems with agreements under the WTO will exist[2]. For these reasons the CAP which existed until a while ago cannot be in its place when the CEECs join the EU. With two reforms so far since 1992, the EU tries to solve this problem by giving a greater role to the market forces and transferring the part of support given by the higher prices to the budget. One way of solving the budgetary problem thus arising is to partially re-nationalise the CAP. Table 4 shows that such a development will have its greatest impact on the benefits accruing under the CAP to Greece. Therefore, this possibility involves heavy losses for Greece.

6. Links between Greece and the CEECs

Greece has some trade links (table5) with the CEECs which will participate in the first wave of the eastern enlargement. Although the value of trade has risen in some cases, it does not exceed the 1.5 percentage points of total Greek agricultural exports. The most important items exchanged being fruits and vegetables from Greece and road vehicles from the five CEECs thus taking advantage of some complementarities that exist.

Thus, although some trade exists, this is relatively limited. However, the expected income growth in those countries and the deepening of the integration process are expected to give a further stimulus to the already existing trade links creating mutual benefits.

Closer links exist with applicant countries which will enter the EU at a later stage. As shown on the same table, only the trade links between Greece and Romania equal those of the five first entrants. Trade with Bulgaria is double this figure which makes Bulgaria the most important trade partner of all applicant countries. Furthermore, very important investment links exist between Greece and the south-east European countries which increases further the Greek interest to have them as members of the EU.

Table 5. Trade between Greece and certain applicant countries (1000 ECU)

Country	1993			1997		
	Exports	Imports	Net trade	Exports	Imports	Net trade
Estonia	173	146	27	1014	524	490
Poland	31329	18673	12656	66535	56354	10181
Czech Rep.	36304	37874	-1570	34830	31679	3151
Slovenia	10076	5844	4232	8066	2979	5087
Hungary	25235	14196	11039	33466	23622	9844
Bulgaria	257522	168399	89123	282335	365965	-83630
Romani	76162	56219	19943	155037	179660	-24623

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Source: Eurostat

7. Eastern enlargement and the competitiveness of Greek products

Are the exports from Greece going to face more intense competition in the EU markets after the accession of the CEEC? The answer a priori is positive if Greece and the CEECs export similar products. For this reason, a breakdown of the industrial exports from Greece and CEEC-5 (Poland, Hungary, Czech Republic, Estonia, Slovenia) by two-digit sector is attempted. Before this exercise, the evolution of the exports of Greece and CEEC-5 into the EU was traced. It was found that during the period 1993-1997, exports from CEEC-5 grew at a much faster rate with the exports of Slovenia to the EU markets matching those of Greece although Greece is a much larger country.

Furthermore, the breakdown of exports showed that there is significant overlapping between the Greek and CEEC-5 industrial exports into the EU ranging between 43 and 67 percent and that the main Greek industrial sectors with very limited competition are the ones associated with the geographic position of the country. This finding shows that the Greek exports may loose some markets but also that the increased competition may push Greek industry to become more competitive. Finally, the faster increase of exports into the EU from the CEEC-5 than from Greece may not be related to the pre-accession status of these countries but to the reorientation of their export destinations during their transition to becoming market economies since about 80% of EU imports are accorded preferential trade status.

8. Concluding remarks

Summing up, Greece has very important reasons to support the eastern enlargement of the EU but at the same time it is one of the current EU member states which may suffer economic losses from this enlargement. However, once the eastern enlargement has been completed, Greece may find itself with important 'allies' to pursue the strengthening of policies promoting the interests of the weaker ones inside the EU.

Notes

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1. See G. Zanias 'European agriculture and the CAP: retrospect and prospect' in J. Antle, J. Lekakis and G. Zanias *Agriculture, Trade and the Environment*, Edward Elgar, 1998.

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