

# Ten Years After Europe's 'Big Bang': How Enlargement Has Transformed the EU

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## Quentin Peel

Ladies and gentlemen, welcome to a splendid Chatham House event: 'Ten Years After Europe's "Big Bang": How Enlargement Has Transformed the EU'. A very relevant subject today, with so many events happening to our east, in our heart, in this country, that I think have all been affected by this process. I'm Quentin Peel, I'm the Mercator senior fellow with the Europe Programme here at Chatham House. I am merely here to provoke the participants on this panel occasionally, and indeed to bring you all into the debate.

We have a wonderful panel. Jacek Rostowski, former deputy prime minister of Poland and the longest-serving finance minister of Poland since forever. That's quite an achievement. I have it very nicely put here in my notes that Jacek is a Polish and British economist, because you did your original economics at the LSE, I think. Then secondly, Anne Applebaum, who now is back in London quite a lot of her time as director of the Transitions Forum at the Legatum Institute. Anne has been passing her time between Warsaw, Berlin and London for a long time, and is the author of two wonderful books: *Gulag: A History*, and more recently, *Iron Curtain: The Crushing of Eastern Europe*, which mean that her historical focus is second to none. Finally, Dimitar Bechev, senior visiting fellow at the European Institute at the LSE. Two LSE voices to come – Anne, you and I have got to keep up. He's now an affiliate of the Southeastern European Studies at Oxford, a research unit in St Antony's College, and used to be head of the Sofia office of the European Council on Foreign Relations.

So now you know who's here. I think I'm just going to turn quickly over to Jacek. I just would remember one thing before I do. May 1, 2004: I think that morning I was asked to come and do some fairly superficial interview on CNN, and I took my taxi at some ghastly hour (7.30 in the morning or something, which I'm not used to getting up at). When I got there, I remembered that CNN served about the worst coffee in London. So I went across the road to the little coffee shop which was already open at that time of day and I said: I want a cup of coffee, please. The girl behind the counter gave an enormous smile and said: it's a great day today. I said: why is it a great day today? She said: because we're joining Europe. I said: oh, where are you from? She said: I'm from Poland. I said: you've just changed exactly what I'm going to say when I go on CNN. I was going to go into CNN and I was going to say: everybody's underestimating that this is going to be a very bumpy ride. Actually, I went on and said: it's a great day for Europe. This is the best thing we've done and this is going to be the best thing that's happened to the whole of Europe, including Britain.

But anyway, it has been a bit of a bumpy ride too. Jacek, how do you think that enlargement has transformed the European Union?

## Jacek Rostowski

First of all, I wanted to thank you very much for inviting me today. It's a really great pleasure to be here. I certainly remember, and I can confirm what you've said, that a lot of people were running around western Europe in early 2004 worrying about the dreadful accession shock that the new member states were going to suffer. I was very surprised, being an economist. I was absolutely convinced that if there was going to be an accession shock, it was going to be in the old member states and not in the new member states. It turned out that that was more or less true. I think we'll go on to that a bit later.

From the perspective of central Europe, I think one of the ways that one can sum this up is by that wonderful Groucho Marx: I wouldn't join a club that would have me as a member. That's not quite the right gloss to put on it, but we all joined the European Union expecting it to be a massive influence for economic and political stability – instead of which, ten years later, we have something that I think one can only call a general European crisis, a general European crisis that consists of three parts.

First of all, and I think fundamental, is the euro zone crisis, which has set northern Europe against southern Europe – something that we, as central and eastern Europe, never expected to see. That's, of course, because the euro was fundamentally ill designed and the world economic crisis revealed its weaknesses.

The second part of this general European crisis is the Russian crisis. We shouldn't call it a Ukrainian crisis, it's a Russian crisis. It's Russia behaving extremely badly in Europe. I'm convinced that that Russian crisis is in part also the result, apart from being the result of bad things that have been happening in the Russian state and Russian society, it's also to some degree the result of the euro zone crisis. If I were Putin and I was looking at the way the euro zone has been unable to solve its problems, that allowed a situation to develop for two years in which we were on the absolute edge of catastrophe – because of course, the collapse of the euro zone would have been a general European and maybe world economic and political catastrophe, because if the euro zone had collapsed, there's no question that the European Union would have collapsed – and observing this and thinking: it's taken them two years to come up with the obvious solutions, and even then they're not implementing them properly. I would certainly have thought it's going to take them a lot longer than that to react to my occupation of Crimea.

In fact, surprisingly, we reacted faster to the occupation of Crimea than to something which was a true existential threat for Europe. But nevertheless, there has been that link. Of course, the Russian crisis makes the west European crisis – let's not call it the euro zone crisis, let's call it the west European crisis – even more serious.

Then on top of that, as a sort of cherry on the cake, we've got the British crisis. Fortunately, we haven't got a Scottish crisis since the 18th of September, but we frankly were extremely worried that we'd have that as well. But we do have a British crisis. We do have the threat that Britain will leave the EU. From our point of view in central Europe and from our point of view in Poland, our policy has been basically, from day one, from the beginning of the euro zone crisis in March 2010, to do everything to try and stabilize the situation, and do everything that we can to help the euro zone repair itself and mend itself.

In the summer of 2011, we had some consultations with the UK government and came to the conclusion that even if – well, first of all we came to the conclusion that the collapse of the euro zone would be an absolute catastrophe for everybody. Secondly, that avoiding that required much deeper political integration. Third, because the collapse of the euro zone would be such a catastrophe, we would agree to deeper integration of the euro zone, even if it meant that we were going to be on the side of that – that it was definitely the lesser evil. That has been, in a sense, the lodestone of certainly Polish foreign policy ever since then. The main element of our west European policy is to help – of course, we can't do it ourselves, the west Europeans have to do it – but to do everything we can to help west Europeans to breach that north-south gap.

My own interpretation is that we're still far from being out of the woods. I think that the danger of a Le Pen victory in France is also a direct consequence of the euro zone crisis. It's got nothing to do with immigration in France. It's got everything to do with the deep humiliation of France during the euro zone crisis. I think there is every chance that Le Pen will win the 2017 European elections for that very reason.

As you can imagine, I'm not a great fan of German economic policy in the euro zone. Thank you very much.

### Quentin Peel

Thank you very much. We'll come back to that subject, close to my heart. But let me turn to Anne, because in a way, what Jacek has talked about – the three crises – the only one that I think bears none of the consequences of enlargement is actually the euro zone crisis. One cannot say that enlargement had anything to do with it. There are those who would argue that Putin's behaviour has been affected by quite a significant amount of his apparent sphere of influence deciding not to be his sphere of influence but to join Europe. There are those who would argue that part of the British crisis is related to open borders and their fear of no longer being a benighted little island (I'm not biased on this subject, by the way). How do you see enlargement having changed the European Union?

### Anne Applebaum

Let me go back a little bit and remind you of one of my favourite cartoons of all time. In February 2009, *The Economist*, a beloved institution of many people in this room (I used to work there), had a wonderful cartoon which showed the leaders of Europe sitting around a table. It was Angela Merkel and Gordon Brown and Sarkozy. They were all looking horrified at the bill – there was a sort of elaborate dining table and there was a bill. The bill was the bill for unified Europe. The headline was something like 'The coming bill that we will have to pay because eastern Europe is going to collapse'. There was something in the article like, 'and when eastern Europe collapses, it might even bring down proper countries like Ireland and Greece'. Within weeks of the publication of this cartoon, Ireland had a crisis, Greece had a crisis, Spain had a crisis. The only part of Europe that didn't have a crisis, unless we count Hungary, which staved one off, was eastern Europe.

What I think the cartoon illustrated was how long it's taken for people inside the western half of Europe to understand what an enormous success the transition of eastern Europe has been, and what a great example some of the changes of eastern Europe have for western Europe. If I take you back a little bit: when you start thinking about what was expected in 1989, let alone in 2004 – I recently went back and looked up what people were saying about Poland and Hungary, and who was going to be successful and who wasn't. Poland was going to be a far-right dictatorship. The economies of the region were going to collapse. These were weak and poor societies that had no chance of success. Actually, the story of the past 25 years is one of enormous success and outstanding achievement, which it's taken sort of this long for western Europe to absorb and understand.

I've written a couple of times and thought a lot about what were the elements of that success. Some of them don't all bear repeating tonight. Some of it had to do with having an alternative elite and having people like Jacek Rostowski, who had already thought about what kinds of changes could be made and what was necessary. Those countries which were lucky enough to have had that and to develop that under communism did better than others.

Some of it was to do with having a sense of crisis. Actually the countries which had this sense that we need to make a huge change in 1989, like Poland, often did better than countries like Hungary which said: well,

we're the happiest barrack in the camp, we don't need to change that much, everything is basically fine. Those were the countries that had this sense of transition.

But above all, the countries which were most focused on rejoining Europe, on reconnecting to Europe and becoming part of Europe, and who were focused in that direction from the beginning, were the ones that had the most success. In a way, the Americans talk a lot about democratic transition and promoting democracy; the institution in the world that has done the most successful and most productive democracy promotion ever is the European Union. The example of Europe and the institutions of Europe – we can all make fun of all kinds of things about the various advisers who gave dumb advice and the various consultants who took too much money and so on. But actually the presence of Europe and European institutions and German *stiftungen* and French companies – all of that was really what pulled and made this really extraordinary transition such a success.

Since the topic of this is about what eastern Europe – how this has then changed Europe, I would say first of all, the most important change is the one that most western Europeans haven't yet acknowledged: that the eastern half of Europe is a case study in how you transform economies and how you transform political institutions. These case studies would have been of great use to a country like Greece in 2009, if anybody in Greece had been looking in that direction. The kinds of changes – the really dramatic political changes and economic changes that were made in eastern Europe – were a fantastic model for some of the west European countries that ran into trouble at that time, but because nobody thinks along those lines and nobody thinks about what a great success this was, that example is rarely taken.

There's even a 2009 example which is very interesting, which is the example of Latvia: a country that was almost totally destroyed by 2009 but made a number of – I don't want to say everything about Latvia is perfect but they made a number of very intelligent decisions. They had to cut budgets and they decided to cut bureaucrats rather than pensioners. They made a number of good decisions about how to change their economy in order to return to growth, which they have now done.

But the Greeks weren't looking at the Latvians for an example. They weren't looking at them for guidance. But there's a tremendous intellectual capital and economic capital in understanding of how to make transitions that I feel western Europe has ignored. Maybe now people will start to work it out.

Finally, I would say the reason I've been fiddling with my phone is not because I'm getting my email, but because I had here written down some – another argument that one can make is it is also possible, when you think about the transition and what it did for Europe, and what it did for western Europe, we very often focus on the costs, some of which you referred to. The costs of immigration and so on. We very rarely focus on the economic benefits. I once looked them up, and this is what I was trying to find.

The numbers are really quite striking. You can even argue that instead of dragging down Europe, the eastern half of the continent is a major contributor to growth and wealth all over Europe. One could even argue that the eastern half of Europe postponed the economic crisis. The exports of the 15 countries of old Europe to the 10 countries of new Europe doubled over the past decade. Britain's exports to the 10 countries that joined after 2004 rose from €2.2 billion in 1993 to €10 billion in 2011; France's, from €2.7 billion to €16 billion; and Germany's – wait for this – from €15 billion to €95 billion. So not only did EU enlargement not cause the current crisis, it might have staved it off for a number of years.

So you have an intellectual contribution to Europe, you have an economic contribution to Europe. I think this is one of your points – neither has ever really been acknowledged or absorbed or celebrated by anybody in western Europe, or very deeply understood or explained. It seems to me that some of the focus

on the negatives – the focus on immigration, which actually I agree with Jacek that if we weren't in a moment of economic crisis we wouldn't be talking about it – is a misunderstanding of what's happened in the last decade, and represents a political failure of elites, particularly in this country but also in other parts of Europe, to explain to people what the EU achieved and what these countries are now bringing to the party.

### Quentin Peel

I must say, I totally agree. This utter failure to see the positive in this whole process and the very depressing direction of the debate in this country at the moment – trying to move against free movement and so on – and nobody seems prepared to come out and say this was a fantastically positive movement. I know it's uncomfortable but actually in economic terms very positive.

Dimitar, your country, Bulgaria, sat out a little bit longer, waiting to come in, but never had any doubts about the need to come in, the need to join. Has it been actually a pretty uncomfortable process? How positive has it been?

### Dimitar Bechev

There was a consensus early on that the EU was the only game in town, and that was the case for everyone. I think the real question is how far you want to go to meet the criteria, and what the criteria were in the first instance. You have in this part of Europe lots of cases – and Greece illustrates this phenomenon – we expect quite a bit from it. We expect Brussels will modernize the economy, impose the rule of law, change the values of the political class, create a vibrant civil society. But the fact of the matter is that the EU can get you only so far. These are fundamental issues that have to be solved at home.

If you look at the wider region of central and eastern Europe, you see that some countries were just in a better position for a variety of reasons: historical, institutional, rule of law, state structures. They could make the most of the EU process. The EU is what we made it to be. It's not a universal machine tackling every nook and cranny of the political system and society. In fact, it has very narrow competences, and for good reason. Also, it doesn't have extensive financial means. But then again, if you go back to the early 1990s, this whole narrative about the return of Europe, you expected the EU to be the force – which it was. But if we think of it more analytically and a nuanced way, we see that the EU was not the main driver. It was a dynamic from outside that locked in the political will and helped catalyse change, but it was not the *deus ex machine*.

In some countries, you had all the political will and the necessary dynamic and institutional capacity to implement changes. In other countries, that was qualified. Also, the starting point was different. That's pretty much the case in Bulgaria.

Now, if we go back to the early 1990s and go all the way to 2004, you realise that was a unique historical moment. We've come a long way from then. I'm here with Mr Rostowski: the three crises have changed fundamentally the dynamics in Europe. Back then, if you look at the supply and demand of enlargement, you had consensus that Europe was the only game in town. Also, in the big member states, the political elites were prepared to push forward with enlargement. That was never easy, mind you. In 2005, we

remember the French referendum and the Dutch referendum. So public opinion was not welcoming the Polish plumber and the Lithuanian builder and what have you.

But it's a fact of life that Schroeder and Chirac and, let's be clear on that, Tony Blair played a critical part in steering and organizing this consensus, pushing forward. That was a period of economic growth before problems that would beset the European economies; the pie was growing. So the cost of enlargement and the kind of consensus was there: the cost was not as profound.

Finally, there was no counter-narrative. There was no Putin to say that there is managed democracy as an alternative course. He was in office, but there was no alternative pole. It was just one way of doing things.

What is amazing is that if you go back to the debates back then about the impact of enlargement and the problems that might be created by adding new member states, they never materialized in full. We were nitpicking in academic conferences about institutions, that 27 member states or 28 member states would just make it impossible for those institutions like the Council and the European Parliament to function. Countless intergovernmental conferences and treaty changes were implemented. That never came true.

What happened though with 2008, which I think is the fundamental turning point, is that this EU consensus started falling apart. First of all, in many of the countries of the region, we realized that integration can be a liability as well. There is the Europe of Brussels but also there is the Europe of economic integration. Like in my country, maybe Vienna or Milan are the real centres, also Athens, because that's where the banks are based that have all the branches in southeast Europe. At the moment crisis struck in the euro zone, contagion was spread around. I wrote a paper called 'The Periphery of the Periphery', which kind of picked on all those issues. Also the reversal of FDI, remittances going down. So there was vulnerability in the system.

A lot of countries managed to adjust. The example of the Baltic states is really illuminating actually, they did a lot to bounce back in the crisis. But others have been in a much worse place, in terms of issues like the rule of law, economic policymaking capacity, quality of institutions. So for places like Bulgaria or Serbia or Bosnia, you name it, the bounce-back in core euro zone countries that are the main trading partners doesn't necessarily mean that there will be economic growth, because the whole world of pre-2008 is gone. You actually can grow on the back of financial transfers – now you have to be competitive, you have to export and you have to compete in a much more tough environment. Poland is a good source of inspiration but it doesn't apply to other countries.

We have seen after 2008 in a number of places the blind spot of the reform consensus. Lots of work was done on areas where the EU had competences and could push for change, like in competition policy. But in other areas, like judiciary reform and the rule of law, much was not accomplished, partly because Brussels couldn't set criteria because of internal diversity.

Finally, we saw that the European Union narrative is not as strong as it used to be. It's based on convergence, the idea that the EU over time can grow to the same political and economic standards as the core of Europe. Now the core is in question with the euro crisis. What is the call if it's falling apart? Is southern Europe a trailblazer for the EU, given that the EU were admiring Greece but also Spain and so on, but now their experience is problematic, how much they benefitted. Which opens the political space for challenges, and that's how actually Russia comes in. You have an alternative model on the threshold, with Putin saying that liberal democracy and Europeanization and the whole list of good things don't quite work. One day you have Putin coming to Belgrade and he's greeted as a hero, on the 70th

anniversary of the liberation of Belgrade. That's the message he wants to pass to the likes of [indiscernible] the Ukraine.

### Quentin Peel

Is he greeted as a hero in Sofia by anybody?

### Dimitar Becev

He will be very divisive, let's say. Part of society will greet him, there will be demonstrations. The point is that the EU might discredit his narrative, saying it's a concoction of all kinds of clashing stories and references. But I think there is a serious challenge to this whole 1990s and 2000s story we used to operate with, coming from Brussels. That's how I think the euro crisis, enlargement and also the challenge from outside come together.

### Quentin Peel

This is true, the euro crisis has an awful lot to answer for. But Jacek – I'm going to throw this out into the floor but just before we do – you were saying: look, Le Pen wouldn't be there but for the euro crisis. But actually, as Dimitar reminded us, that French no vote on the EU constitution and the Dutch no vote both came before the economic crisis. There is very little doubt in my mind that both were significantly influenced by the feeling of the population that they were no longer in control in some way. They associated, whether rightly or wrongly, enlargement with the threat they felt from globalization. There was a very significant anti-immigration feel to those no votes, even then. So it's a bit of both, isn't it?

### Jacek Rostowski

Yes, except it's an awful lot worse. In the second round, Chirac got 80 per cent of the vote and Jean Marie Le Pen got 20 percent of the vote. We're facing a much closer race in 2017. The difference between these two, I'm convinced, is what has happened during the euro zone crisis. Of course it's not something that's come from nowhere.

The thing that worries me most is that, as I said earlier, I think it was a general diagnosis from Berlin to Paris, also accepted in Warsaw and London, that to resolve the euro zone crisis, we need much deeper integration within the euro zone – what's called political union. And in the last two years, instead of having more political union, we've actually had a set of rules introduced under the slogan of political union which actually make everybody even more responsible for their own little bit of the euro zone than they were before. In other words, instead of moving towards the possibility of a joint economic policy in response to the world economic crisis, we've actually moved away from that. So I remain very worried.



## Quentin Peel

We'll certainly, I'm sure, come back to that in questions. Anne, I want to put just one thing to you, because there is a theory by some people watching what's happening in Ukraine and with Russia that it's somehow all the European Union's fault that Mr Putin has got so difficult. That actually it was because Europe embraced too many of the countries that he should be allowed to interfere in, both in NATO and the European Union. What do you say to that?

## Anne Applebaum

That's rather a long conversation, and I won't go through all of it.

## Quentin Peel

Just say it's rubbish and then we can move on.

## Anne Applebaum

I would put it slightly differently. I would say that in a way, and I want to pick up on something you just said that was very interesting, about the new narrative – what really is a problem for Putin, and increasingly a problem, is not NATO, which has no troops in eastern Europe at all actually, and not the EU, which as we have all now agreed is a weak institution anyway and doesn't even have a clear foreign policy. What's a problem for Putin is this democratic transition narrative, this perceived success of Poland actually, of Estonia in particular – these are the countries that bother him the most, and he's more or less said that. And, the perception that there could be a transition like that in Ukraine.

If Ukraine were to make this transition, if Ukraine were to become a normal, democratic, European country – whether in or out of the EU but somehow integrated into the rest of Europe, never mind about NATO – if it were to somehow become normal and European, then why can't Russia be like that too? That is the real threat to him personally and it's a threat to the current Russian elite, because they stay in power through undemocratic means and through profoundly corrupt control over the majority of the economy. The number is something like 115 people own 35 per cent of the economy. They cannot allow any, whether it's a democracy movement or anti-corruption movement, they cannot allow any challenge to that authority. And the place where they see the challenge could come from is from a pro-European narrative.

So that is actually his problem. His problem is the thing which we think doesn't work anymore. We think these narratives are finished and democracy is weak and so on, but this is still – and he more or less has said this in the last couple of days. What he is really afraid of – they call it a colour revolution, but what he means is a pro-European revolution of the kind we saw in the Maidan over the last year.

So that's the problem for him. So in that sense, yeah, we're the problem, but –

## Quentin Peel

In that sense, the European Union is the real problem – it's not NATO.

## Anne Applebaum

It's the problem because of the kind of society it represents and what it claims to be. I could dismiss – if we had an extra 45 minutes, I could dismiss all the other arguments. I mean, the [indiscernible] is ridiculous.

## Quentin Peel

We'll put it to a vote. Okay, I want to open this up.