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EU Enlargement and Financial Crisis

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Abstract
The global economy faced a financial crisis involving banking systems, stock markets and the credit flow. Seeking common strategies to solve the difficulties, European institutions coordinated national responses and made recommendations to improve the financial system. European leaders have defined a common approach for restoring confidence in the financial industry and preserving economic growth. The reform was “all-encompassing” and included more international supervision to ensure transparency and accountability. EU enlargement is not officially connected with the crises so the stopping of the enlargement process and introducing new barriers in Europe is not an option. In this paper the analyzis is maderding to the data and situations noted in the European commission report. The split interests and objections for further enlargement in the member states, such as France and German are interpreted as well. Research analyzis shows that EU the candidate countries have progression in economic growth in the time of the financial crisis which is not case with some of the EU member states. Therefore, EU enlargement should continue as important policy that will ensure prosperity in Europe.
Keywords: European Union, Copenhagen Criteria, Member-States, Candidates

Introduction

The US banking crisis in 2008 was an initiating trigger of a serious economic crisis in Europe due to the loans taken from the US that led to closure of factories, economic facilities and increase of the unemployment in Europe as well. It is widely accepted now that Europe faced the worst crisis since the establishment of the European Community in 1957 (Vittori, 2013). All the mentioned processes have opened the issue of further enlargement or whether to continue or stop this trend during the debtor, economic crisis. These discussions lasted for longer period of time and fortunately the EU and the candidate countries found the final decision to continue with the Euro-expansion regardless of the serious problems arising from the crisis, but also regardless of the objections within the EU itself. Stopping the enlargement would mean lack of stability across the EU and until the last country on the European continent join this family; the EU will always raise the question of its political, economic and security stability. Therefore, it should never be questioned whether to continue or not with the EU enlargement because of it is sine-qua-non for the further development and advancement of the EU idea. Back in 1993 the criteria for joining the EU has been set and these criteria should be a basic requirement for enlargement. If any candidate country meets these conditions it means that it reached the level of the European democracies. Therefore, only the fulfilment of these criteria should be a condition for admission and not the economic or any other crisis. Despite this well known fact still there is a certain opposition and other technical problems that hinder the EU enlargement contributing to political and economic instability in the EU as one of the biggest economic factors in the world with a market of 500 million people, which must be taken in mind to avoid the disorder. Because, regardless of the EU commitment to move towards the conquest of the entire world market and get the primacy of that market, the EU as a whole and almost all EU countries nowadays are facing serious problems, mainly from economic and security nature (migrant crisis) then not so far ago, the non- adoption of the EU Constitution just because the rejection of one Member State. Besides that, there are other problems that threaten to destabilize the community and cause its dissolution.

EU Enlargement Process

From the founding days of the European Coal and Steel Community ("ECSC") in 1952, European integration has been designed as an open access model (Emert and Petrovic, 2014). However, Enlargement is a process and not an event of simply adding new states, thus it is more about politics on both sides, the candidate countries seeking membership as well as the EU and member-states (Schimmelfennig and Sedelmeier, 2002). In other words, EU enlargement is a 'tango dance by two' where the applicant countries must satisfy the EU requirements of liberal democracy, market economy and administrative requirements, yet they are not sufficient enough to guarantee EU membership (Jano, 2014). The most significant enlargement in the European Union history has been done with the accession of twelve Central and Eastern European Countries, out of which eight ex-communist countries from Central and Eastern Europe, including Malta and Cyprus and two more, Bulgaria and Romania that have joined in 2007. The uniting of Western and Eastern Europe through a substantial enlargement of the EU is perhaps the most important single policy instrument available to further a more stable and prosperous continent. (Moravcsik and Vachudova, 2003). The enlargement process continues to have a 'democratizing effect,' as Western Balkans candidates and proto-candidates respond to the incentives of EU membership: political parties have changed their agendas to make them EU-compatible, and governments have implemented policy changes to move forward in the pre-accession process. (Vachudova, 2014). However, the European Union's enlargement towards the Western Balkans may be facing its most difficult challenge as the prospect of Balkan enlargement has been hard-hit by the deterioration of the European economy, and particularly the Greek sovereign debt crisis, as the countries of the region have been deeply affected by the shock waves emanating from Greece (Panagiotou, 2013). Meanwhile, besides the "widening" of the club's membership hand in hand with "deepening" of the integration, there have been several set-backs, in this field: the rejected EU Constitution in 2005, negative Lisbon Treaty referendum in Ireland in 2008 and especially the Brexit voting of 23 June 2016.

Regardless of the EU challenges today, the positive pay-offs from EU membership are evident: the unified block created the world's biggest integrated economic area, with half a billion people producing 30 percent of the global economic output. In a little more than thirty years, the EU has grown from a six-member entity with a population of 185 million, to a block with combined population that has been estimated at 508,911,116 on January 1, 2015 hence, as per the Eurostat Report for 2015, holding 6.93% of the world's population. The deepening and broadening of European Integration have generated substantial growth and productivity payoffs to the point that many scholars attach exceptionality to Europe, in being the only region in which one can find evidence of unconditional beta and sigma convergences (Eichengreen, 2007). Beside the mentioned pros- of EU membership, it is a psychology of the countries to like being a member of a select club. The monkey see, monkey do factor plays a role and as Alan Winters put this succinctly by comparing preferential trade deals to street gangs, “you may not like them, but if they are in your neighborhood, it is safer to be in one” (Jovanovic and Damnjanovic, 2014). European Union (EU) residents hold complex attitudes toward expanding the union not completely captured in extant models of enlargement opinion (Dixon and Fullerton, 2014). Following the EU Enlargement Commissioner Olli Rehn on the European Economic and Social Committee plenary debate on Enlargement 5 years "EU enlargement has served as an anchor of stability and democracy and as a driver of personal freedom and economic dynamism and for the citizens of the new Member States, this marked a return to their historical European home." This EU enlargement commitment was recently confirmed by the Commissioner Johannes Hahn, who presenting the annual Enlargement Package 2015 has stated: “The current refugee crisis shows how crucial close cooperation between the EU and the countries in south-east Europe is. The EU enlargement process, covering the Western Balkans and Turkey, is a powerful tool to strengthen the rule of law and human rights in these countries. It also boosts the economy and promotes regional cooperation. A clear European perspective gradually transforms our partner countries and strengthens stability around our Union. Our firm commitment to EU enlargement, and to the conditions it involves, is therefore a long-term investment in Europe's own security and prosperity." However, the financial crisis changed the EU economic governance and consequently the implications of the EU entry for the CEE (Jiroudkova et al., 2015).

Review of the candidate status for EU accession – the case of Macedonia and Turkey

Republic of Macedonia as a candidate country for EU accession is developing a functioning market economy. The country has a stable macroeconomic environment, sound monetary policy and favourable conditions for entry of foreign investments. The Macedonian economy is moderately prepared to deal with the high competition within the European market. Macedonia is a leader in the region, according to the publication “Competitiveness in Southeast Europe - Policies and Perspectives 2016” of the Organization for Economic Cooperation and Development (OECD), which includes qualitative and quantitative analysis of 15 key reform policies to promote competitiveness in Albania, Bosnia and Herzegovina Kosovo, Macedonia, Serbia and Montenegro. Macedonia is positioned in first place in the fields of trade, development of the digital society, transport, access to finance, taxes and public services, and the second after, growth and development innovation, environmental protection, employment and health. The recommendations from the OECD on how to improve each area aim especially to the improvement the competitiveness of Macedonian companies, and raising the living standards and welfare of the citizens in the country. In order to improve the competitiveness of the national economy, he infrastructure projects worth about one billion euros are currently being implemented in Macedonia.

In 2015, the recovery of domestic demand stimulates the economic growth to the entire region. Private investments have become the main driver of regional growth in South-East Europe. The changes in the global economy especially lower oil prices and rising demand in the European Union (EU), as one of the main markets of the region.

All candidate countries must satisfy the accession criteria or Copenhagen criteria, adopted in 1993, as essential conditions to become a member state. These criteria are:

- Political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;

- Economic criteria: a functioning market economy and the capacity to cope with competition and market forces;
- Administrative and institutional capacity to effectively implement the acquis and ability to take on the obligations of membership. For EU accession negotiations to be launched, a country must satisfy the political criteria. However, candidate status does not mean that the country has an automatic right to join the EU. Each candidate country is being monitored on yearly basis on their progress in implementing these criteria and the European Commission makes report on this progress.

In this article, we will briefly review the key findings for Macedonia and Turkey that hold the candidate status for several years.

The 2015 report for Macedonia, about EU enlargement at the summary mention the country's most severe political crisis since 2001 with intercepted communications, apparently involving senior government officials, suggesting breaches of fundamental rights, interference with judicial independence, media freedom and elections. The breakdown of political dialogue and difficulties in arriving at consensus on issues highlighted once again the divisive political culture in the country.

Based on an agreement facilitated by the Commissioner, with the help of three members of the European Parliament, in June/ July, Members of Parliament of the main opposition party returned to parliament on 1 September after having boycotted it for more than a year. The boycott seriously affected the oversight function of the institution over the executive branch. Other key bodies failed to exercise effective oversight. Work has begun on the implementation of the political agreement. Implementation needs to continue and much more needs to pre-existing agreed reform targets.

The country is moderately prepared in the area of public administration reform. There has been progress on some issues. However, concerns about politicisation have been reinforced by the content of the wiretaps, and merit based recruitment continues to be undermined. Public trust in the functioning of the institutions has further eroded. Some steps have been taken to reform public financial management, but a medium-term budgetary framework and fiscal transparency still needs to be put in place and improved. The country’s judicial system has some level of preparation. The situation has been backsliding since 2014 because the achievements of the last decade's reform process have been seriously undermined by actual and potential political interference in the work of the judiciary. Concerning the fight against corruption, some level of preparation has been achieved. Legislative and institutional achievements were, however, overshadowed by a lack of political will and political interference in the work of the relevant bodies, especially in high-level cases. A track record of effective prosecution, especially on high level corruption, still needs to be established. In the fight against organised crime, the country has reached some level of preparation. Sufficient capacity and expertise to carry out financial investigations and asset confiscations in a systematic manner still needs to be established. The country generally maintains good relations with other enlargement countries and plays an active role in regional cooperation. Steps have been taken to improve good neighbourly relations.

Concerning the economic criteria, Macedonia is at a good level of preparation in developing a functioning market economy. The country benefits from a stable macroeconomic environment, supported by sound monetary policy, favourable conditions for market entry, and a sound legal system. There was some backsliding in public finance management. Medium-term fiscal targets were relaxed, the composition of public spending remains tilted towards transfers and subsidies and the development of overall public debt, as well as its transparency, remain a concern. The budget should be more geared towards growth and employment, while its overall design, transparency and implementation should be improved. A high level of non-performing loans has constrained credit supply and needs to be addressed by further policy action. Unemployment remains high at 28 %. The economy is moderately prepared to cope with competitive pressures and market forces within the Union. There was some progress in diversifying the export structure as a result of direct investment; trade and investment links with the EU strengthened further. However, the country needs to improve the employability of people, in particular the youth, by better aligning education with labour market needs, upgrade linkages between foreign direct investors and the domestic economy, and better priority investment. As regards its ability to take on the obligations of membership, the country has a relatively good level of alignment with the acquis (Bohmelt 2013). More focus is needed on administrative capacity and effective implementation. In most areas, the country is moderately prepared, including in the areas of public procurement, statistics and, financial control. Further efforts are needed across the board, in particular in those few areas where the country is at an early stage of preparation. Although the 'name issue' with Greece is mentioned that needs to be resolved as a matter of urgency, it should not be an obstacle to obtaining the status of negotiations. While a single Member State can hold back a candidate, a consensus between the Member States and the Commission can also accelerate the negotiating process with a country, at least potentially creating exceptions to some of the normal procedural steps (Emmert and Petrovic, 2014).

Since 1987, Turkey is unsuccessfully seeking its place in the European Union. Since applying for membership in 1987 until the official start of negotiations in 2005, there has not been any significant sift in this processs hence one may conclude that the process itself has been almost completely silent.

The Turkey 2015 Progress Report with respect to the political criteria, showed that the pace of reforms due to protracted elections has slown down. Serios remarks were noted in the area of adoption of new legislation in rule of law, freedom of expression and freedom of assembly which were found to be against European standards.

Unlike the political criteria, the Report noted that the country has a functioning market economy with moderate economic growth. The need for adjustments in monetary and fiscal policies and further structural reforms are evident as well as the economy's vulnerability to shifts in global monetary conditions dur to the large account deficit. Furthermore, the country has a relatively high rate, which may affect the macro-economic stability and general government structural balance significantly negative. As for the unemployment rate, it increased slightly to an annual average of 9.9 % although, as per the Turkish Statistics Institute (TUIK) in 2016 it rose to 11.1%, hitting double digits for the first time since 2010. Turkish financial markets are indeed integrated to the world financial markets. Turkish economy, or the financing of Turkish economy, crucially depends on the low interest rates of the U.S. economy (Karaman and Can, 2014).

The recent migrant crisis seems to have changed the prospects for the EU-Turkey relationship. Ironically, as one of the most important destination and transit countries for Syrian refugees, it is also still uniquely positioned to help the EU deal with the current refugee crisis (Kirişci 2016). Aware of its good geopolitical position, Turkey has agreed to offer its help to the divided European Union and in November 2015, they both signed a Joint Action Plan to better manage the situation, but also to reactivate the negotiations on Turkey’s accession to the EU.

Research Analysis of the Financial Crises Impact to the European Economy and the Enlargement

The data presented by the European Commission in their Enlargement publication for 2015 indicate that the enlargement creates growth. There are benefits for all EU member states since they have broken down trade barriers in Europe and created a bigger and more prosperous internal market.

The analyses show that after the 2004 and 2007 enlargements there are growth effects to the European economy. The GDP of the 12 ‘new’ EU countries that joined in 2004 and 2007, from 2004 to 2013 has grown 77%. However, the GDP of the 15 ‘old’ EU countries, members of the EU before 2004, for the same period has grown only 19%. The liberalization of the trade barriers between the old and new EU member states from 2004 to 2013 has given growth effect to the trade of 185%. Even more, the direct investments held by the ‘old’ EU countries in the ‘new’ EU countries for the same period have given growing effect of 325%. According to these data, we can say that the enlargement process has brought only positive effects to the European economy.

In 2009 the European Union reached a crucial moment in its history, in which the terms Europe and crisis became conjoined: the European sovereign-debt crisis, or Euro-crisis (Mulle et al., 2013).

Another issue is that the growth rates in the new EU countries before the financial crises in the period 2007-2009, were significantly higher than the average growth rates in the old EU countries The Eurozone crisis created a sharp north-south division within the EU. ‘Croats watching the EU’s stumbling attempts to contain the Eurozone crisis wonder if they are joining “just in time for the funeral” (Jovanovic and Damnjanovic, 2014).

Third quarter of 2015 compared with second quarter of 2015, government debt fell to 91.6% of GDP in euro area, and down to 86.0% in EU28. At the end of the third quarter of 2015, the government debt to GDP ratio in the euro area (EA19) stood at 91.6%, compared with 92.3% at the end of the second quarter of 2015. In the EU28, the ratio decreased from 87.7% to 86.0%. This decrease in the EU28 government debt to GDP ratio is driven by exchange rate fluctuations of non-euro area Member States against the euro. Compared with the third quarter of 2014, the government debt to GDP ratio fell in the euro area (from 92.3% to 91.6%) and in the EU28 (from 86.9% to 86.0%). Compared with the third quarter of 2014, fifteen Member States registered a decrease in their debt to GDP ratio at the end of the third quarter of 2015 and thirteen an increase. The highest decreases in the ratio were recorded in Ireland (-13.2 pp), Greece (-6.6 pp), Latvia (-4.8 pp), Denmark (-4.6 pp), Malta (-4.5 pp) and Germany (-3.5 pp), and the largest increases in Slovenia (+6.2 pp), Austria (+4.6 pp) and Cyprus (+4.1 pp).

Actual Individual Consumption (AIC) is a measure of material welfare of households. In 2014, AIC per capita expressed in Purchasing Power Standards (PPS) varied from 51% of the European Union (EU) Average in Bulgaria to 141% in Luxembourg. Ten Member States recorded AIC per capita above the EU average in 2014. The highest level in the EU was recorded in Luxembourg, 41% above the EU average. Germany and Austria were more than 20% above. They were followed by Denmark, the United Kingdom, Belgium, Finland, the Netherlands, France and Sweden which all recorded levels between 10% and 15% above the EU average. AIC per capita for twelve Member States laid between the EU average and 30% below. Six Member States recorded AIC per capita more than 30% below the EU average. Estonia, Latvia, Hungary and Croatia were between 30% and 40% below, while Romania had AIC per capita 43 % below the EU average and Bulgaria was around 50% below. Over the last three years, AIC per capita relative to the EU average remained relatively stable in a majority of Member States. However, clear increases have been registered in the three Baltic Member States –Lithuania (81% of the EU average in 2014compared with 74% in 2012), Latvia (65% vs. 61%) and Estonia (68% vs.65%) – as well as in the Czech Republic (76% vs. 72%) and Slovakia (77% vs. 73%), while the most noticeable decreases were recorded in Italy (98% in 2014 vs. 103% in 2012) and Cyprus (90% vs. 95%). Gross Domestic Product (GDP) is a measure of economic activity. In 2014, GDP per capita expressed in PPS ranged between 47% of the EU average in Bulgaria and 266% in Luxembourg (Eurostat news release 219/2015).

Growth in the EU-28’s GDP slowed substantially in 2008 and GDP contracted considerably in 2009 as a result of the global financial and economic crisis. There was a recovery in the level of EU-28 GDP in 2010 and this development in 2011–13, before growth accelerated again in 2014, as current price GDP increased by 3.0 %. By 2014, GDP in the EU-28 had reached EUR 13.9 trillion (EUR 13 900 billion), some 6.2 % more than in the United States.

The global financial and economic crisis resulted in a severe recession in the EU and the United States in 2009, followed by a recovery in 2010; the upcoming crisis was already apparent in 2008 when there had been a relatively small reduction in real GDP in the United States and a fall in the rate of increase in the EU-28. Whereas the recovery stalled in the EU-28 in 2012, it continued in the United States, with growth above 2.0 % during the period 2012–14. Within the EU, real GDP growth varied considerably, both over time and between Member States. After a contraction in all of the EU Member States except Poland in 2009, economic growth resumed in 22 Member States in 2010, a pattern that was continued in 2011 when real GDP growth was registered in 24 of the EU Member States. However, in 2012 this development was reversed, as just under half (13) of the Member States reported economic expansion, while in 2013 this number rose to 17 and in 2014 to 23.

The effects of the financial and economic crisis lowered the overall performance of the EU Member State economies when analyzed over the whole of the last decade (Glanz, 2006). The average annual growth rates of the EU-28 and the euro area (EA-19) between 2004 and 2014 were 0.9 % and 0.7 % respectively. The highest growth, by this measure, was recorded for Poland (average growth of 3.9 % per annum) and Slovakia (3.8 % per annum), and followed by Romania (2.7 %), Bulgaria, Latvia and Malta (all 2.5 %). By contrast, the overall development of real GDP during the period from 2004 to 2014 in Greece, Italy and Portugal was negative. During the global financial crisis numerous Member States of the European Union (EU) faced so severe financial difficulties that they decided to request support from their European partners and from the International Monetary Fund (IMF) (Koczkas, 2015).

In the Annual Growth Survey for 2015, the European Commission said enlargement had brought about huge economic and political benefits for both sides. Key findings of the Commission's 2015 autumn forecast, shows the following:

- For the EU as a whole, real GDP growth is expected to rise to 2.0% in 2016 and 2.1% in 2017.
- Employment in the EU is set to increase by 0.9% in 2016 and 2017.
- Unemployment rate is expected to fall to 9.2% and 8.9% in 2016 and 2017 respectively.
- Annual inflation is to rise to 1.1% in 2016 and to 1.6% in 2017.
- The aggregate deficit-to-GDP ratio for the EU as a whole is forecast to decline from an estimated 2.5% in 2016 to 1.6% in 2017, while the debt-to-GDP ratio is expected to fall from 87.8% expected in 2016 to 85.8% in 2017.

New member state of the EU needs to comply with EU rules but also it should be economically fit for membership, so it can benefit from the EU accession and at the same time to contribute to the growth of the EU economy.

There are great challenges that enlargement countries would face in terms of economic reforms, competitiveness, job creation, fiscal consolidation and growth. Enlargement countries have largely maintained macroeconomic stability and modest continuous recovery through crisis. The accession process requires both efforts from the candidate countries and the willingness of EU members and institutions to accept newcomers in their EU family integration and enlargement (Sabriu 2013). Western Balkan countries face major structural economic and social challenges, with high

unemployment rates and low levels of revenues. The Western Balkans has low levels of industrialisation as well as low productivity of the existing industrial enterprises.
Latest economic projections for this region include:

- Macro-economic stability largely maintained in the enlargement countries but fiscal consolidation remains a challenge, with high public debt an issue in a number of countries.
- The candidate countries in the Western Balkans have grown by 2.5% on average in 2015.
- Unemployment remains high, on average around 22% in the Western Balkans.
- The EU is the main trading partner for the Western Balkan countries, receiving approximately 60% of the exports from the region. The EU is also by far the biggest provider of foreign direct investment.

The Commission is strengthening its support to improving economic development and competitiveness in enlargement countries. This should help the enlargement countries to release the potential for sustainable growth and job creation, to better plan and sequence structural reforms and, ultimately, to meet the economic criteria and therefore, contribute to the growth of the EU economy.
In the last decades a deep process of institutional reforms and economic reorganization took place in central and eastern EU countries (Capello and Perucca, 2014). According to the Economic report of the World Bank, the growth recovery in South East Europe is supported by investment. Southeast Europe's growth of 2.1 percent is significantly higher than the 0.3 percent growth in 2014. All six countries in the region have positive GDP growth. The higher growth in 2015 created new jobs in the private sector, boosted household incomes and reduced poverty. In Albania, Macedonia, Montenegro and Serbia, the average poverty rate declined by 2 percent between 2013 and 2015, which means that about 140,000 people in these four countries, have come out of poverty. Despite increased economic activity and employments that actually correspond to economic growth, the average unemployment rate in the region remained high, with an average of 21.5 percent.

The remarkable revival of investments supported economic growth, particularly private investment - both domestic and foreign. Export also helps in stimulating this growth. Domestic consumption, while still an important economic engine in the region, was surpassed by these two sources of growth in most countries. Improved productivity remains a key to growth in the region. According to the report, sustainable growth can be achieved by focusing on long-term agenda set at five pillars: eliminating dissimulative measures and barriers to formal employment, improving the business climate and governance, reducing the size of government while improving the quality of services for citizens, deepening trade and financial integration, and ensuring sustainable use of natural resources. Although signs of investment and growth are favourable, risks remain significant. The slight recovery in Europe and worldwide, greater external volatility in financial markets and changes in oil prices carry risks for the prospect of the region. However, the sustainable implementation of economic reforms will help mitigate these risks to the recovery.

Conclusion

Official position of the EU about enlargement is that it has to continue as the most important single policy instrument available to further a more stable and prosperous continent. Enlargement has served as an anchor of stability and a driver of democracy and the rule of law in Europe. As per the EU Commission report, enlargement had brought about huge economic and political benefits for both sides: "Economically, enlargement has led to increased living standards in the new member states, while creating export and investment opportunities for the old ones." This even more that the EU statistical data show that the candidate countries such as Macedonia has progression in economic growth in the time of the financial crisis which is not case with some of the EU member states: Ireland, Greece, Croatia, Latvia.

Hence, European Union must not allow the crisis that occurred due to weaknesses of the present financial capitalism to become an excuse for slowing or halting the EU enlargement process. In this context, it has been proved that the EU's expansion to Eastern Europe was a key factor of economic competitiveness and strengthening political stability, democracy and rule of law throughout Europe.

Never the less, all candidate countries must follow the rules that define whether a country is eligible to join the EU or not or so-called Copenhagen criteria.

Every EU candidate state has to comply with EU rules therefore, it economically fits for membership and contributes to the growth of the EU economy. The enlargement countries face major challenges in terms of economic reforms, competitiveness, job creation, fiscal consolidation and growth but they have largely maintained macroeconomic stability through crisis. According to the analyses, these enlargement countries can contribute to the growth of the EU economy with their membership, dealing with the crisis and post-crisis period more efficiently compared to some member states and thereby achieving continuous modest recovery and growth.

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