

## **THE ENLARGEMENT OF THE EUROPEAN UNION AND ITS IMPLICATIONS FOR THE OIC COUNTRIES**

SESRTCIC

The latest enlargement of the European Union on 1 May 2004 is likely to have a considerable impact on its neighbouring countries, including the OIC members. This article explains the context in which the new members will benefit from joining the Union and examines the possible implications of the enlargement process for the economies of the neighbouring OIC countries, particularly those with which the Union has close economic ties. To that end, the EU's relations with the OIC Mediterranean countries, the Gulf Cooperation Council (GCC) countries and the OIC countries in Central Asia are explained within the context of the existing trade agreements as well as the EU's "Wider Europe–New Neighborhood" policy. It appears that the OIC countries in those regions will face ever-increasing challenges from the enlargement process due to the possible changes in the direction of the Union's trade and investment flows. Moreover, increased EU investments in its new members will represent a challenge for the OIC countries.

### **1. INTRODUCTION**

The European Economic Community (EEC), later the European Union (EU), was founded in 1957 by Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Since then, it went through several enlargements and its membership reached 25 countries as of 1 May 2004. The Union's latest enlargement has not only created a larger community with expanded borders but also a more dynamic one, something which is expected to increase the economic benefits of its members. Yet, a formidable task ahead the EU lies in meeting the financial and economic challenges to enhance the potential of its new members in particular and meeting other targets that will make a positive impact on the economies of its members in general.

The latest enlargement in 2004, with Bulgaria and Romania scheduled to join in 2007, marks the start of a new era in the EU's relations with countries in neighbouring regions. A good example of this is the "new European Neighbourhood Policy" which was adopted by the European Commission on 11 March 2003 and covers some countries in North Africa, the Middle East, East Europe and, more recently, West Asia. However, in order to achieve substantial progress under this policy, the EU needs to work out adequate strategies to develop relations with those countries.

The relations between the EU and the OIC countries have developed through trade, EU investments, bilateral association agreements and financial protocols. For example, the Euro-Mediterranean Partnership has played an important role in promoting close ties with the OIC Mediterranean partners. The EU-GCC relations and the EU relations with the OIC countries in Central Asia are also likely to prosper with existing cooperation agreements between the two sides. On the other hand, the opening of accession negotiations between the EU and Turkey on 3 October 2005 marks a new era not only in the EU-Turkey relations but also in promoting the EU's relations with the countries of the Caucasus, including Azerbaijan. This will in general contribute to promoting EU-OIC relations.

The changes taking place in the EU common policies, such as the Common Agricultural Policy and Cohesion Policies, will increase the challenges for the EU member states and, particularly, for those countries that will join the Union in future enlargements. In this context, the outcome of the EU budget will affect the OIC countries as it will have a great impact on those policies over the next term starting from 2007 until 2013.

Before their accession in 2004, the Central and East European Countries (CEECs) harmonised their policies with those of the EU. Bulgaria and Romania, which are the only countries left in that region that have not yet become members, have fulfilled their obligations by closing the chapters required to show compliance with the 'acquis communautaire'. However, like the rest of the CEECs, they are expected to achieve a higher level of compliance with the rules and regulations as well as the structure and procedures of the Union on accession.

In view of this situation, this paper attempts to assess the implications of the EU enlargement for the OIC countries. Section II discusses pre-accession assistance to the new member states and how the enlargement will affect the Union's budget in the next period. Section III reviews the Union's relations with the OIC countries in neighbouring regions. Section IV sheds light on the prospects for the EU member states in the larger Union based on recent developments in the value of the euro and the global economy and the implications of the EU enlargement for the economies of the OIC countries. The paper ends with some concluding remarks on the overall impact of the EU enlargement.

## **2. EU ENLARGEMENT: FINANCIAL SUPPORT AND OTHER BENEFITS TO THE NEW MEMBERS**

The European Union, as it is known today, was created in 1951 as the European Coal and Steel Community (ECSC) by its original six members: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. This was followed by the foundation of the European Economic Community (EEC) on 25 March 1957 by the Treaty of Rome. In 1967, the European Community (EC) was created by the merger of the ECSC, the EEC and the European Atomic Community (EURATOM). Finally, in 1993, the EC was transformed into the EU as the Treaty of Maastricht came into force.

**Table 1: Previous and Prospective EU Enlargements**

<b>1973</b>	Denmark, Ireland and the United Kingdom
<b>1981</b>	Greece
<b>1986</b>	Portugal and Spain
<b>1995</b>	Austria, Finland and Sweden
<b>2004</b>	Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia
<b>2007</b>	Bulgaria and Romania

Source: <http://www.europa.eu.int/comm/enlargement>.

With the first enlargement in 1973, Denmark, Ireland and the United Kingdom acceded to the EU, thus increasing its membership to 9 countries (Table 1). The second enlargement took place in 1981 with the accession of Greece, and the third in 1986 with the inclusion of Portugal and Spain. In 1995, Austria, Finland and Sweden joined the Union. With the latest enlargement in 2004, 10 new countries joined the Union to raise the

number of its members to 25. Further expansion is expected with the accession of Bulgaria and Romania in 2007<sup>1</sup>.

The accession of the first batch of CEECs into the EU with the latest enlargement in 2004 traces its roots back to the “Europe Agreements” which were first signed with Hungary and Poland in December 1991 (Table 2). As part of those agreements, the EU provided financial assistance to the CEECs with the aim of facilitating their economic transition to reach EU levels. Initially, as part of the Poland/Hungary Assistance for Reconstruction of the Economy (PHARE), financial assistance was provided to Poland and Hungary to help them adapt to market economics to which they had minimum exposure before the collapse of Communism in Europe. This programme later became the financial instrument of the “Europe Agreements” which were signed by the remaining CEECs in the period 1991-1996. Although the agreements increased in general the CEECs’ market access to the EU, some restrictions remained, particularly in agriculture and textiles. In addition to strengthening commercial ties and other areas of cooperation, the ‘Europe Agreements’ also had a political dimension through which the Union established links with the CEECs.

**Table 2: Europe Agreements with Central and East European Countries (CEECs)**

Country	Date of signature of the Europe Agreement	Entry into force of the Europe Agreement
Hungary	December 1991	February 1994
Poland	December 1991	February 1994
Bulgaria	March 1993	February 1995
Czech Republic	October 1993	February 1995
Romania	February 1993	February 1995
Slovak Republic	October 1993	February 1995
Estonia	June 1995	February 1998
Latvia	June 1995	February 1998
Lithuania	June 1995	February 1998
Slovenia	June 1996	February 1998

Source: <http://www.europa.eu.int/comm/enlargement>.

The CEECs applied for the EU membership in the period 1994-1997 (Table 3). The “Europe Agreements” with those countries recognised

<sup>1</sup> The year 2007 will also mark the beginning of a new budgetary era for the EU, known as the future financial framework, that covers the seven year-period from 2007 to 2013, as the current budget period (2000-2006) will end by that date.

their aspiration to become EU members and created the conditions for their participation in the Pre-accession Strategy for Candidate Countries. The development of the Accession Partnerships, Pre-accession Strategies and the National Programme for the Adoption of the Acquis (NPAA) led to a reorientation of the PHARE programme. The effectiveness of the programme was strengthened by reformed administration methods which included the concentration of projects on the acquis implementation priorities programmed by the Accession Partnerships; improved budgetary implementation; a radical increase in the size of projects; and continued decentralisation of management in favour of the recipient countries.

**Table 3: Dates of Application for EU Membership**

Turkey	14 April 1987
Cyprus	3 July 1990
Malta	16 July 1990
Hungary	31 March 1994
Poland	5 April 1994
Romania	22 June 1995
Slovak Republic	27 June 1995
Latvia	13 October 1995
Estonia	24 November 1995
Lithuania	8 December 1995
Bulgaria	14 December 1995
Czech Republic	17 January 1996
Slovenia	10 June 1996
Croatia	21 February 2003

Source: <http://www.europa.eu.int/comm/enlargement>.

On 26 March 1999, during the Berlin European Council, the EU Heads of Government or State concluded a political agreement named 'Agenda 2000' which was an action programme aimed at strengthening the EU policies and giving the Union a new financial framework for the period 2000-06 with the aim of enlargement. As part of the 'Agenda 2000' for increased pre-accession assistance in the period 2000-2006, the PHARE programme was supplemented in 1999 by two new grant instruments: the Pre-Accession Instrument for Structural Policies (ISPA) and the Special Accession Programme for Agriculture and Rural Development (SAPARD). Thus, in the period 2000-2006, EU financial assistance will be provided through those three instruments. The ISPA provides support to investments in transport and

environmental protection while the SAPARD is designed to channel grants into agricultural reforms and rural development.

While Bulgaria and Romania together have been allocated some EUR 4.5 billion in pre-accession aid for the period 2004-2006, for the new member states, 2003 was the final programming year, but the contracting of projects continued until 2005 and payments based on those contracts can continue until 2006<sup>2</sup>. Since those two countries have already fulfilled their obligations by closing the chapters required to comply with the 'acquis communautaire' by the end of 2004, those funds will play a fundamental role in helping them meet other requirements of EU membership after accession (Table 1, Annex).

With the phasing out of pre-accession instruments PHARE, ISPA and SAPARD, and the phasing in of the Structural Funds<sup>3</sup> and the Cohesion Fund<sup>4</sup>, the EU financial support increased substantially and became fully decentralized. The PHARE programme does not have a direct successor as in the case of the ISPA and SAPARD which are replaced by the Cohesion Fund and European Agricultural Guidance and Guarantee Fund (EAGGF) respectively.

The Structural Funds absorb approximately one third of the EU budget. Their allocation for the period 2000-2006 is EUR 195 billion for the EU-15, not including the Cohesion Fund. The new member states were allocated EUR 22 billion in Structural Funds in the period 2004-2006 (Table 2, Annex). For the Cohesion Funds, EUR 15.9 billion (in 2004 prices) are available for the years 2004-2006. More than half of the funding (EUR 8.49 billion) is reserved for the new member states. The amount available for the EU funding of rural development under the EAGGF Guarantee Fund for the new member states has been

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<sup>2</sup> The SAPARD came into effect on 1 January 2001, and is budgeted until the end of 2006. However, candidate countries may only benefit from the programme between the year 2000 and the time they join the Union. Until 2003, the overall annual budget for the 10 CEECs was EUR 560 million. The programme is now focusing on the acceding countries Romania and Bulgaria. For 2004, a total of EUR 225.2 million was available under the programme, about 70 percent of which belonged to Romania and 30 percent to Bulgaria.

<sup>3</sup> The Structural Funds are EU instruments to implement Community policies for economic and social cohesion. They comprise the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG).

<sup>4</sup> The Cohesion Fund applies to Member States with a GNI of less than 90% of the Community average. The 10 new member states as well as Greece and Portugal will benefit from this Fund.

set at EUR 5.76 billion (in current prices) for 2004-2006 (EU, 2004a, p.9). In addition, approximately EUR 2 billion of structural funds resources (EAGGF Guidance Fund) are dedicated to rural development measures.

Since the Agenda 2000 reform of the Common Agricultural Policy (CAP), the rural development policy is widely referred to as the second pillar (Table 2, Annex). Rural development is one of the priorities of the EU agricultural policy. The Agenda 2000 allows member states to transfer money from the first pillar (CAP) and allocate them to the second (rural development) (GAIN, 2004, p.4). The mid-term review of the CAP in 2003 brought further important decisions on the reform of the first pillar, introducing a further decoupling of support from production in the form of Single Farm Payment (SFP) based on an historical reference, and reducing SFPs and thereby allowing a transfer of funds from the first pillar to the second. In the draft 2006 EU budget, adopted on 15 July 2005, agriculture amounted to EUR 51.4 billion after increasing 3.5 percent from the previous year. The ongoing CAP reform phasing is expected to boost rural development, as the transfer of funds from the first pillar to the second takes place in 2006, the first budget year on which the CAP reform will have an impact, and at an accelerated pace as the foreseen modulation rate increases in the coming years.

On the other hand, Article 34 of the Act of Accession has set up a post-accession Transition Facility to provide continued financial assistance to the new member states until the end of 2006 in a number of core areas requiring further reinforcement, which were identified in the 2003 Comprehensive Monitoring Reports. This assistance addresses the continued need for strengthening institutional capacity in certain areas through action, which cannot be financed by the Structural Funds.

The new member states as well as Bulgaria and Romania, the acceding countries, have also been beneficiaries of the EU financial assistance provided by the European Investment Bank (EIB)<sup>5</sup>. In the pre-accession period, the Bank granted loans amounting to EUR 25 billion to projects in the CEECs in support of transport and telecommunications infrastructure, water and environment, industry and services, health and

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<sup>5</sup> The new EU member states gained full access to the Bank's facilities on the same basis as the 15 shareholders of before 1 May 2004.

education infrastructure and to small and medium-sized enterprises (SMEs) and local governments (EIB, 2005, p.1). In the new member states, the Bank's priorities are made to support projects that help integrate their economies into the EU Single Market and contribute to the application of European standards as developed in the "acquis communautaire".

In February 2004, the European Commission's draft budget for 2007-2013, which took into account the enlarged Union with its 27 members, constituted the starting point for future budgetary negotiations. This draft was extended by additional Commission proposals in the context of the Third Cohesion Report of February 2004 as well as the Own Resources Report and package of detailed legislative proposals of July 2004. In addition to the administrative costs, the Commission's draft budget provided for four main areas of expenditure: (1) sustainable growth (comprised of sub-areas competitiveness and cohesion); sustainable management and protection of natural resources; (3) citizenship, freedom, security and justice; and (4) the EU as a global partner (Table 3, Annex).

According to the Commission's plans, the total amount of expenditures over the 2007-2013 period is estimated to reach EUR 928.7 billion in appropriations for payments while the total appropriations for commitments are expected to reach EUR 1.025 trillion (Maruhn R. And Emmaouilidis J. A., p.2).

Based on the conclusions of the Third Cohesion Report, on 14 July 2004, the European Commission adopted its legislative proposals on cohesion policy reform. Of the total amount of EUR 336.1 billion allocated to the new cohesion policy sub-heading, 79 percent is allocated for reducing the gap between poor and richer regions while 17 percent would be spent on increasing the competitiveness of poor regions and creating local jobs there (Table 4, Annex). The remaining 4 percent will be used to foster cross-border cooperation between frontier regions. Thus, with approximately one third of the community budget, this reform aims to make structural actions more targeted on the EU's strategic priorities and concentrated on the least favoured regions while anticipating change in the rest of the Union and more

decentralization with a simpler, more transparent and more efficient implementation.

As part of the reform of the regional policy, on 14 July 2004, the Commission presented a package of proposals for the Structural Funds (European Regional Development Fund (ERDF) and European Social Fund (ESF)) and the Cohesion Fund. The basic reference document containing the general provisions for these proposals sets a total budget of EUR 63 billion for the Cohesion Fund, accounting for 23.86 percent of the total budget of EUR 264 billion for the 'Convergence' objective whose purpose is to speed up the economic convergence of the less developed regions by means of improving conditions for growth and employment by investing in human and physical capital, innovation and the development of the knowledge society, encouraging adaptability to economic and social change, protection of the environment and improving administrative efficiency (Table 4, Annex). The other Regulations lay down specific rules for the ERDF<sup>6</sup>, ESF, Cohesion Fund<sup>7</sup> and the new European Grouping of Cross-border Cooperation (EGCC). In addition to these changes, the Financial Instrument for Fisheries Guidance (FIFG) will be replaced by the European Fisheries Fund (EFF) to provide aid to fisheries from 2007 to 2013. The EFF will replace the Guidance Section of the EAGGF for rural development and will no longer be a part of the Structural Funds. The July 2004 proposals also included centralising funding of current instruments linked to rural development to a single fund, namely the European Agriculture Rural Development Fund (EARDF).

During its meeting on 19-20 September 2005, the Agricultural Council adopted the new EU Rural Development Regulation for 2007-2013 which focuses on improving the competitiveness of farming and forestry, environmental stewardship in land management and improving the quality of life in rural areas under a single funding, namely the new Rural Development instrument (EARDF). Prospects for the EU to achieve its long-term objectives will be promising once the funding for this rural development is secured for the period between 2007 and 2013.

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<sup>6</sup> The ERDF proposal also includes specific rules on urban and rural areas, areas dependent on the fishing industry, the outermost regions and geographically disadvantaged areas.

<sup>7</sup> In the future, the Cohesion Fund will no longer be based on a project approach, but instead form a part of the multi-annual programmes in the field of transport and environment.

During the Luxembourg Presidency not much has been achieved in reaching an agreement on the future EU budget. However, during the UK Presidency, which took over the rotating Presidency of the EU at the beginning of the second half of 2005, the EU was able to make substantial progress in this area after long consultations with the other EU member states. The agreed budget at the Brussels summit meeting on 15-16 December 2005 would be reduced to EUR 862.4 billion, corresponding to 1.045 percent of EU GNI. The UK also agreed to slash its advantageous rebate and turn the savings over to the 10 new members.

In the budget period 2007-2013, the transfer of funds from agriculture to rural development will be at the discretion of the member states and subject to 20 percent of the amounts that accrue to them from market-related expenditure and direct payments. Under the recently agreed budget, the allocation for the EARDF will be EUR 69.75 billion before the transfer of funds from agriculture to rural development (EU, 2005b, p.24). Including transfers from the EAGGF, the EU-10, Bulgaria and Romania are expected to receive at least EUR 33.01 billion in rural development for 2007-2013. This indicates that once the new budget is ratified by the relevant EU organs, the new member states will be delivered substantial funding in rural development from the Community budget, thus the CEECs will start playing a more vital role in the Union not only as a region that has become more competitive but also one that attracts more investments.

On the other hand, it is worth mentioning that the exports of the CEECs to the EU increased from USD 78.2 billion in 1998 to 176.4 billion in 2003, equivalent to an increase of 17.7 percent per annum. The imports of those countries from the EU increased from USD 100.7 billion to 189.1 billion, equivalent to an increase of 13.4 percent per annum (Table 5 in the Annex). Moreover, FDI inflows to the CEECs increased by one fifth during the period 2000-2004 and their share of FDI inflows in the EU increased dramatically from 3.3 percent of inflows in 2000 to 12.2 percent in 2004 (Table 6 in the Annex). This is a reflection that the region is becoming more developed, suitable and comparatively advantageous for foreign investment.

### **3. RELATIONS BETWEEN THE EU AND OIC COUNTRIES**

#### **3.1. EU and OIC Countries in the Mediterranean and Middle East Region**

##### *3.1.1. The EU and the OIC Countries in the Mediterranean Region*

The EU-Mediterranean relations reached the partnership level with the launch of the Euro-Mediterranean Partnership after the EU-15 and 12 Mediterranean partner countries<sup>8</sup> signed the Barcelona Declaration at the Euro-Mediterranean Conference of Foreign Ministers in Barcelona on 28 November 1995 (EU, 2000, p.1). Thus, a significant achievement has been made in capturing the Union's attention on the Mediterranean region by bringing the Mediterranean issue back on the European agenda and launching the Barcelona Process during the EU Spanish Presidency in 1995.

The Barcelona Process is a regional framework that brings partners together at the political and technical levels to promote their common interests. It builds on the various Mediterranean policies developed by the EU since the 1960s. The three main goals of the EU Mediterranean policy are defined in the Work Programme of the Barcelona Declaration as follows: strengthened political dialogue on a regular basis, the development of economic and financial cooperation and greater emphasis on the social, cultural and human dimension.

An essential feature of the implementation of the Euro-Mediterranean Partnership has been the negotiation of the Euro-Mediterranean Association Agreements between the EU and its Mediterranean partners, which replaces the Cooperation Agreements dating back to the 1970s. The provisions of the Euro-Mediterranean Association Agreements governing bilateral relations vary from one partner to another but have certain aspects in common such as political dialogue, respect for human rights and democracy, etc<sup>9</sup>.

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<sup>8</sup> Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Palestine, Malta, Morocco, Syria, Tunisia and Turkey.

<sup>9</sup> *The Euro-Mediterranean Partnership: Association Agreements*, viewed on 6 June 2002 at [http://www.europa.eu.int/comm/external\\_relations/euromed.ass\\_agreements](http://www.europa.eu.int/comm/external_relations/euromed.ass_agreements).

**Table 4: Progress of Negotiations on Euro-Mediterranean Association Agreements**

	<b>Date of conclusion</b>	<b>Date of signature</b>	<b>Entry into force</b>
Algeria	December 2001	April 2002	March 2005
Egypt	June 1999	June 2001	June 2004
Jordan	April 1997	November 1997	May 2002
Lebanon*	January 2002	June 2002	March 2003
Morocco	November 1995	February 1996	March 2000
Palestine*	December 1996	February 1997	July 1997*
Syria	October 2004		
Tunisia	June 1995	July 1995	March 1998

Source: [http://europa.eu.int/comm/external\\_relations/euromed/med\\_ass\\_agreemnts.htm](http://europa.eu.int/comm/external_relations/euromed/med_ass_agreemnts.htm).

\*An Interim Agreement has entered into force.

The Euro-Mediterranean Association Agreements are a step towards the creation of a wider Euro-Mediterranean Free Trade Area (FTA), which will be made possible through the full implementation of the Partnership in line with the Association Agreements (Table 4). The Euro-Mediterranean FTA foresees free trade in manufactured goods and the progressive liberalisation of trade in agricultural products.

The exports of the OIC Mediterranean countries to the EU increased from USD 42.1 billion in 1998 to 82.2 billion in 2003, equivalent to an increase of 15.4 percent per annum (Table 7 in the Annex). During the said period, the imports of those countries from the EU increased from USD 60.8 billion to USD 79.2 billion, which corresponds to an increase of 5.4 percent per annum (Table 8 in the Annex).

To assist its Mediterranean partners in their efforts to implement free trade among them, the EU provided financial support through the Mediterranean Assistance (MEDA) Programme which is based on a regulation adopted by the EU Council in 1996 and later amended in 2000 with another regulation known as the "MEDA II" regulation. In this context, two periods emerge under the MEDA Programme: the MEDA I covering the 1995-1999 period, and the MEDA II covering the 2000-2006 period. Through both programmes, the Union allocated more than EUR 9.7 billion, and grant support is now over EUR 800 million per year. The EC grant aid has increased from EUR 3.5 billion under MEDA I to EUR 5.4 billion under MEDA II. Consequently, the existing MEDA programme is an indication of the EU's continued commitment to develop ties with those countries to more strategic levels.

On 26 March 2003, the Brussels European Council approved the “EU Strategic Partnership with the Mediterranean and the Middle East” (Auswärtigen Amt, p.1). The aim of the initiative is cooperation in a spirit of partnership which promotes peace, prosperity and progress in the region and builds on tested instruments such as the Barcelona process. The European Council adopted in June 2004 the “EU Strategic Partnership with the Mediterranean and the Middle East”.

During the mid-term Euro-Mediterranean Foreign Ministers’ meeting in Dublin on 5-6 May 2004, it was acknowledged that the Association Agreements and the national action plans under the European Neighbourhood Policy should be fully used to support reforms and modernisation (EU, 2004b, p.3). The Ministers also welcomed the signing of an FTA by Turkey and Morocco. Egypt, Jordan, Morocco and Tunisia concluded the Agadir<sup>10</sup> Agreement in March 2004.

On 29 September 2004, the European Commission decided to simplify the funding of external assistance worldwide by reducing the number of financial instruments for the delivery of aid. In this respect, from 2007 onwards, the European Neighbourhood and Partnership Instrument (ENPI), which is one of the four new instruments to be set up under the Future Financial Perspective 2007-2013, will replace the current MEDA programme in the Mediterranean Partner countries. Since Turkey, as a candidate, will be covered by the Pre-Accession Instrument, the ENPI will cover 9 Mediterranean Partners<sup>11</sup>.

During the Euro-Mediterranean Foreign Ministers’ meeting held in the Hague, the Netherlands on 29-30 November 2004, the Ministers welcomed the progress made in developing the European Neighbourhood Policy as a policy to enhance the Barcelona Process (EU, 2004c, p.2). They also took note of the significant contribution made by Morocco, Palestine and Tunisia through the conclusion of an FTA with Turkey and expressed that more countries should express their willingness to conclude free trade agreements with Turkey as a contribution towards the creation of the Euro-Mediterranean FTA by the target date of 2010 (EU, 2004c, p.8). On 22 December 2004, Turkey and Syria signed an FTA agreement. At the 7<sup>th</sup> Euro-Mediterranean Conference of Ministers of

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<sup>10</sup> The Agadir Process which was initiated in May 2001 with a view to creating an FTA among Egypt, Jordan, Morocco and Tunisia.

<sup>11</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Palestine, Morocco, Syria and Tunisia.

Foreign Affairs in Luxembourg on 30-31 May 2005, it was stressed that intra-regional trade in the southern Mediterranean is currently below 15 percent and is expected to increase with the entry into force of the Agadir Agreement and the implementation of the Pan-Euromed cumulation system<sup>12</sup> (EU, 2005a, p.4).

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) helps the EU's ten Mediterranean partner countries<sup>13</sup> meet the challenges of economic and social modernisation and enhanced regional integration in preparation for the establishment of a Euro-Mediterranean free trade area by 2010. In 2004, the FEMIP lending rose to EUR 2.2 billion. This was also the first year in which grant finance under the FEMIP's Technical Assistance Support Fund was provided to Mediterranean partner countries.

During the first Euro-Mediterranean Meeting of Ministers of Economy and Finance (ECOFIN Meeting), held in Rabat-Skhirat on 19-20 June 2005, the Ministers concluded that more efforts were needed to create an enabling environment for the private sector developments and stressed the importance of increased FDI flows to the region. They supported the recommendation by the foreign ministers that further progress be made in regional trade liberalization. They also discussed how the Union could help raise economic growth in the Mediterranean partner countries through the enhancement of the Barcelona Process.

### *3.1.2. The EU and Turkey*

Turkey and the EEC concluded an Association Agreement (the Ankara Agreement) on 12 September 1963. This agreement entered into force on 1 December 1964 and aimed to integrate Turkey into the EEC through the establishment of a customs union between the two sides. In 1987, Turkey applied for EU membership. On 6 March 1995, it signed a customs union agreement with the EU, which included the perspective of membership. In 1999, Turkey was granted candidate country status and

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<sup>12</sup> The Protocol on the Pan-Euromed system was a key achievement of the 3<sup>rd</sup> Euro-Mediterranean Trade Ministerial Conference in Palermo in July 2003 as it allows the extension of the pan-European system of cumulation of origin to the Mediterranean countries. The harmonisation of rules of origin in the Euro-Mediterranean area represents a major step forward for the trade chapter of the Barcelona Process since it will significantly facilitate trade in the Euro-Mediterranean region and contribute to the creation of an FTA.

<sup>13</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Palestine, Morocco, Syria, Tunisia and Turkey.

in 2002, the Copenhagen European Council decided that it would open accession negotiations once Turkey had fulfilled the Copenhagen political criteria for membership.

Determined to join the EU at the earliest possible time, Turkey has continued to adopt reforms in line with the Copenhagen criteria. In December 2004, the European Council decided that Turkey had sufficiently met the Copenhagen political criteria to begin negotiations on 3 October 2005. However, membership seems far away since it is not envisaged before the establishment of the financial framework for the period starting from 2014. Moreover, a possible deadlock in the EU budgetary negotiations for the period between 2006 and 2013 could postpone Turkey's membership beyond expectations. Yet, EU membership will depend on the progress made by Turkey in meeting the requirements for full membership, which is a long and difficult list of reforms in different areas to deal with during the negotiations. During this process, like Bulgaria and Romania, Turkey is expected to implement the Community's legislation fully, effectively and efficiently; otherwise the negotiations could be suspended. Thus, Turkey should be cautiously optimistic despite the positive developments taking place in the EU-Turkey relations.

In the years ahead, as it deepens its reforms, Turkey has to find an ideal solution to maintain its relations with other countries in the Middle East, including the OIC members. In this sense, it can act as a bridge between the East and West, particularly in the Middle East where the Union has a lot of interests and is in competition with the growing economies in Asia.

Turkey's total exports to the EU increased from USD 15.2 billion to USD 29.8 billion in the period 1998-2003, equivalent to an increase of 14.4 percent per annum (Calculated from Table 7 in the Annex). In 2003, 63 percent of its total exports were to the EU, which accounted for more than one third of the total exports of the OIC Mediterranean countries to the Union. Turkey's imports from the EU increased from USD 24.1 billion in 1998 to USD 33.4 billion in 2003, which corresponds to an increase of 6.7 percent per annum (Calculated from Table 8 in the Annex). With such levels of exports and imports with the EU, Turkey is an important trade partner of the Union. It is also the main exporting country in the OIC Mediterranean region and importing

country both in the OIC Mediterranean and Middle East regions in 2003.

### *3.1.3. The EU and the Gulf Cooperation Council (GCC)*

The GCC<sup>14</sup> and the EU concluded a Cooperation Agreement in 1989 to facilitate economic and commercial relations between them. Working groups were established in the fields of industrial cooperation, energy and the environment. The Agreement also foresees holding talks on a Free Trade Agreement between the EC and the GCC. Through regular meetings, the GCC and the EU Foreign Ministers review their relations with a view to improving their economic ties.

In this connection, the 12<sup>th</sup> Session of the Joint Council, held in Granada in February 2002, agreed to hold negotiation rounds on the free trade area (FTA). It noted with satisfaction that five negotiation rounds had taken place in the course of the year, over which good progress was achieved, in particular regarding regulatory elements. The Joint Council reiterated its view that trade, investment and cooperation constituted the foundations on which EU-GCC economic relations would be developed and improved and noted the progress achieved in the implementation of the cooperation agreement and in the negotiations on the FTA (EU, 2003, p.1-2).

The 13<sup>th</sup> Session of the Joint Council, held in Doha, Qatar, on 3 March 2003, noted in particular the importance of intensifying cooperation in the field of energy through the energy experts' meeting and the ongoing cooperation for the promotion of hydrocarbon technology transfers. The Joint Council took note of the ongoing work on investment and welcomed the recommendation of the Investment Working Group to promote reciprocal investments.

At the 15<sup>th</sup> Joint Council, held in Manama on 5 April 2005, the EU and the GCC took the opportunity to review developments in relation to the "EU Strategic Partnership with the Mediterranean and the Middle East". Within this framework, both the EU and GCC reiterated their

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<sup>14</sup> On 26 May 1981, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates established the GCC by signing an agreement to coordinate economic, political, cultural and security policies among them.

desire to strengthen bilateral relations by exploring the potential offered by the Strategic Partnership.

The total exports of the GCC member countries to the EU amounted to USD 22.9 billion in 2003 (Table 7 in the Annex). This accounted for 12 percent of the GCCs' total exports in the same year. In the period 1998-2003, GCC exports to the EU increased by 12.9 percent per annum (Calculated from Table 7 in the Annex). GCC imports from the EU amounted to USD 42.2 billion in 2003 (Table 8 in the Annex). This accounted for 29.8 percent of the GCC total imports in the same year. In the period 1998-2003, GCC imports from the EU increased by 7.8 percent per annum (Calculated from Table 8 in the Annex).

### **3.2. The EU and the OIC Countries in Central Asia**

Like with the CEECs, the EU has Partnership and Co-operation Agreements (PCAs) with the OIC Central Asian Republics (OIC-CAR) of Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. PCAs are legal frameworks, based on the respect of democratic principles and human rights, setting out the political, economic and trade relationship between the EU and its partner countries. Moreover, they are the foundation of the EU relations with Central Asian countries, and their full implementation is of high significance. Each PCA is a ten-year bilateral treaty signed and ratified by the EU and the individual state. The PCAs between the EU and Azerbaijan, Kazakhstan, Kyrgyzstan and Uzbekistan entered into force on 1 July 1999. Although a PCA was signed between the EU and Turkmenistan, it is not yet in force. A PCA was also signed between the EU and Tajikistan on 11 October 2004, which provided for significant strengthening of the relations between both sides<sup>15</sup>.

The EU's relations with the countries in this region have been governed by the EC's Technical Assistance Programme for the Commonwealth of Independent States (TACIS) since the beginning of the 1990s. In the period 1991-1999, the TACIS had committed roughly EUR 4.2 billion of funding to projects in the partner countries. By the

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<sup>15</sup> EU's Relations with Eastern Europe & Central Asia: *Partnership & Cooperation Agreements*, viewed on 28 December 2004 at [http://europa.eu.int/comm/external\\_relations/ceeca/pca/index.htm](http://europa.eu.int/comm/external_relations/ceeca/pca/index.htm).

end of 1999, partner countries experienced different patterns of development. As a result, the TACIS is now more focused on developing the market economies of those countries as it is no longer merely a technical assistance programme following the introduction of its new phase in January 2000. The new phase, which is planned to provide assistance totalling EUR 3.1 billion by the end of 2006, concentrates the TACIS activities on fewer objectives to have a sufficient impact. From 2007 onwards, the European Neighbourhood and Partnership Instrument will replace the current TACIS programme in Azerbaijan and other countries in the region that are covered by the European Neighbourhood Policy.

The inclusion of Azerbaijan in the “Wider Europe–New Neighbourhood” policy in June 2004 is an important step in further enhancing relations with other OIC countries in Central Asia. The “Wider Europe” policy covers Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine from the countries to which it had contributed financial assistance under the TACIS.

The exports of the OIC countries in Central Asia to the EU increased from USD 2.1 billion in 1998 to USD 6.8 billion in 2003 (Table 7 in the Annex). In this period, the share of exports to the EU increased from 21.3 to 31.4 percent. The imports of the OIC countries in Central Asia from the EU increased from USD 2.8 billion in 1998 to USD 4.3 billion in 2003. However, the share of imports from the EU fell from 25.5 to 24.2 percent in the said period (Table 8 in the Annex).

#### **4. FUTURE PROSPECTS IN THE LARGER EU: IMPLICATIONS FOR THE OIC COUNTRIES**

Even after the recent enlargement of the EU in 2004, the shape of Europe is still changing with further waves of enlargement planned for the future (FCO Web Site, 2006, p.1). However, the attempt by France and the Netherlands to cast a no vote for the European Constitution on 29 May 2005 and 1 June 2005 respectively has not only been a blow for the Constitution itself but also for the future of Europe as differences in opinion emerged more visibly among the European nations. This also raised questions over the EU’s enlargement policy and, more importantly, increased challenges to further integration into the EU.

Since not all the member states of the EU have adopted the euro, the outcome of those referendums gives an opportunity for those who oppose it to argue against it. Therefore, it is not surprising that uncertainty over the future of Europe has led to the weakening of the euro on foreign exchanges. The euro has an enormous impact on the euro zone countries as they are tied to a single currency in which they have no space to manoeuvre in terms of choosing their own style of economic and social organisation (ECB, 1998, p.2). The European Central Bank (ECB) decides on the monetary policy for the whole euro zone. Therefore, countries in the euro zone are not able to decide on the fate of the euro, which leaves less space for using it as a tool for increasing exports as well as managing their economy.

On the other hand, the increasing US foreign trade deficit compelled the US authorities to take measures to promote their exports by lowering the value of the dollar against the other currencies. This had a great impact on keeping the value of the euro higher against the US dollar, which made the European products more expensive on the international markets. In February 2005, oil prices increased and the US dollar fell rapidly, losing value against the euro. This led, among other things, to a diversification of exchange in Asian central banks, which held significantly high shares of the US dollar in their foreign exchange reserves, and accelerated the regression in the US dollar.

Yet, after the appreciation of the euro against the US dollar of 1.31 on 22 April 2005, it started to lose value in the following months of 2005 (Table 9 in the Annex). This was accelerated by the French and Dutch no votes on the future constitution of Europe and the subsequent deadlock at the European Summit on 16 June 2005, which have had one short-term positive impact for the businesses operating in the euro zone. Nonetheless, with growth slowing across the EU, Sweden's central bank (Riksbank) sharply cut interest rates by half a point to 1.5 percent on 21 June 2005 which brought ECB under pressure to follow suit, particularly after the adverse outcome of the referendums in France and the Netherlands. Low rates and bond yields acted as a disincentive for the ECB to lower interest rates since they dampened the demand for the euro.

Although the US dollar is still the reserve currency for the bulk of the international financial system, particularly for China which appreciated its currency on 21 July 2005, and others that appreciate their currencies,

it will be of paramount importance to keep their foreign exchange reserves in a stable currency. In this sense, the chances of investing in euro are not so strong since growth prospects in the euro zone are not promising. Furthermore, the ECB's recent action of increasing interest rates by a quarter of a percentage point to 2.25 percent on 1 December 2005 at a time of uncertainty over oil prices created scepticism in the EU as a rise in oil prices will feed inflation even as they slow economic growth.

On the other hand, the EU is an important actor in the world economy. Thus, it can help sustain global growth by increasing its growth potential given that it has a surplus in its budget. However, this depends on the Union's capability to achieve a greater convergence in its policies. Otherwise, this may become a challenge to the enlargement process.

In light of the above, the EU enlargement has created new frontiers, which brought the OIC countries in more close proximity to the EU borders. The EU is advocating its reform agenda to meet the economic challenges awaiting the accession countries in the near future. Concerning the new and future members, the CEECs will receive EU support to enable progress in areas that will help close the gap with the rest of the members. The competitiveness of the CEECs will increase, as they will exploit their potential in the larger EU. The growing markets in the CEECs are expected to improve the growth performance of the EU as they become more competitive over time.

Recently, a lot of funds have been made available to attract investors to the CEECs as FDI increased during the period 2000-2004. These investments help reduce the relatively high unemployment rates in those countries compared to those in other EU member states (Table 10 in the Annex). Competitive wages offered in the CEECs will be more attractive for investors aiming to place their resources in the CEECs and who will benefit from the legal protection of the EU in those countries. This will undoubtedly help attract multi-national companies (MNCs) to invest in the CEECs.

In contrast, FDI inflows to the OIC countries increased by more than double between 2001 and 2004 (Table 11 in the Annex). During that period, FDI inflows increased remarkably in the GCC area and in the

OIC member states in Central Asia. In 2004, FDI inflows to the OIC countries in Central Asia exceeded those in the OIC countries in the Mediterranean. As both regions enhance their efforts to attract FDI inflows, the EU enlargement will increase the challenges for the OIC countries in general to attract investments from that region.

The total volume of FDI inflows to the OIC countries in Central Asia was higher than those to other OIC groups in 2004 (Table 11 in the Annex). They increased steadily from USD 1.6 billion in 1998 to USD 9.7 billion in 2004. Progress made towards improving the business climate and taking legal action in line with promoting investment opportunities in those countries has led to an increase in FDI inflows which is likely to continue as more achievements are made in this region.

When the CEECs joined the EU two years ago, they had to harmonise their high national tariffs with the existing lower EU common external tariff. Consequently, this had a positive impact on the OIC countries' exports, as third countries' products became more attractive. Given their close proximity and the long standing trade relations with the Union, the OIC countries in the Mediterranean will be affected by the changes that will take place within the Union in the coming years. About 20.1 percent of the total OIC exports in 2003 originated from the OIC Mediterranean partners (Table 7 in the Annex). 67.1 percent of the total exports of those countries went to the EU which is a relatively high ratio when compared to that in the GCC, OIC countries in Sub-Sahara Africa and Central Asia as well as other areas in the OIC region.

Textiles play an important role in the economies of most OIC Mediterranean countries and Turkey. Since it enjoyed a preferential treatment through the Association Agreements, textiles remained competitive in the European markets. However, the preferential treatment that the CEECs enjoy by joining the Union outweighs that of the OIC Mediterranean partners which is expected to affect negatively the volume of the OIC countries' trade in textiles.

In the same context, the EU's agreement with China in June 2005 to restrict imports of textiles from China over the next 3 years will give a chance for adjustment in the EU textile producing countries during this period. As this deal is a relief for EU textile producers, it has a positive impact for textile producers in the developing countries, including the

EU's OIC Mediterranean neighbours. On the other hand, progressive trade liberalisation in textiles will improve productivity and lower prices for consumers. This is an important chance for the OIC countries not only to compete in international markets with their textile products but also to further develop their economic ties with other countries in the region. Moreover, competition is likely to intensify in the Union with the increased competitiveness of its new members. This necessitates that OIC countries be more active in increasing their trade ties with the Union and prepare themselves for other potential challenges.

Similarly, the US and China signed a trade deal on 8 November 2005 which allows to reign over China's booming clothing and textile shipments to the US for a period of three years and is in that sense similar to the EU-China deal concluded in June. This shows that major developed countries are finding ways to protect their clothing and textiles industries which were greatly affected by China's growing strength in this industry. Therefore, the OIC countries that have a strong potential in those industries should try to exploit it through acquiring the necessary technologies, specialising more in those areas and taking all the necessary measures to be able to compete globally to increase their market share worldwide.

On another front, at the WTO Ministerial Meeting, held in Hong Kong in December 2005, the EU showed its reluctance to lower tariffs related to agricultural products. Since the EU appears unwilling to reduce those tariffs, the new members will have more advantages than the OIC Mediterranean partner countries. Moreover, they will be subject to increased competition in agriculture in the enlarged Union, particularly given that there is less support for reducing farm subsidies in the EU.

Overall, to achieve substantial progress in regional integration, the Union needs to reduce disparities in the different levels of development, gross domestic product (GDP) per capita and income and wages between its member states and the Mediterranean partners, which could constitute a serious challenge for the latter as the EU enlargement produces a larger and more competitive market for them. Moreover, the high rate of trade dependence on the European market will aggravate this situation. However, the Partnership Agreements will benefit the Mediterranean partners in a more substantial way as the implementation process of the

Partnership gains momentum over time. In this context, trade relations constitute the most important element of those agreements.

The new EU neighbourhood policy will play a key role in developing the EU's relations with the OIC countries in Central Asia and the Mediterranean. At the Euro-Mediterranean Ministerial Conference on Agriculture in Venice on 27 November 2003, the ministers pointed to their intention to create a common platform for certain areas of agricultural policy to contribute to the EU new neighbourhood policy, intended to promote intra-regional, sub-regional and cross-border cooperation. Therefore, any dialogue or assistance that reinforces the competitiveness of the Euro-Mediterranean area and helps the OIC countries in the CAR prepare for current and future challenges from the EU enlargement will contribute to promoting closer ties between the EU and the OIC countries in those regions.

On the other hand, once the FTA with the EU has entered into force, the GCC would be able to achieve higher trade levels with the EU and reinforce its role as an important trade partner in the Middle East. If the EU integrates the GCC into its neighbourhood policy, it will significantly enhance cooperation (Luciani G. and Neugart F., p.7). This will enable the Mediterranean and the Middle East regions to play a pivotal role in developing the Union's ties with the OIC countries in the long run.

The recent rejection of the future EU Constitution by some EU members has staggered the EU's integration process. Therefore, the deadlock over the EU's future budget would have added to the challenges in this process. As an agreement over the future EU budget is now reached, the flow of funds to the CEECs will increase those countries' competitiveness in the medium and long terms. Thus, the challenges facing the OIC countries may not necessarily have an immediate effect on them but will in the near future constitute an important challenge.

## **5. CONCLUSION**

The enlargement of the EU benefited its members in many ways. Those countries that have joined the Union experienced its growth, which itself increased with the new memberships. The process has also brought new challenges for the members of the EU as its single market broadened and witnessed more competition with the European companies engaging in

fierce competition both among themselves and with other companies. These changes made membership more difficult for applicants who have to prepare themselves for the process through engaging in intensive cooperation with the EU to adopt its standards and conform to the 'acquis communautaire'. Those changes, along with others anticipated, will have an impact on the EU itself as well as on the regions with which it has close trade ties, including the OIC countries, particularly through Association or Cooperation Agreements.

This shows that geographic proximity plays an important role and has, in this case, significantly contributed to favourable trade terms. Thus, it is important to intensify cooperation between the EU and the OIC countries, particularly in the area of trade, to further develop existing relations and avoid any negative impact of changing EU policies after the enlargement.

On the other hand, the total exports of the 6 OIC countries in Central Asia accounted for only 3.6 percent of the total OIC exports in 2003. Yet, those countries' share in the total exports to the EU accounted for nearly one-third of their total exports in the same year. This shows that with Turkey's possible membership in the future, the EU will become an even more important trade partner, as it will become a neighbour to the region. Moreover, under such a scenario, Turkey's relations with those countries will help promote their economic ties with the Union to a more strategic level as well as its role as an OIC member.

The OIC countries in the Mediterranean and Central Asia need to improve their business and investment climate to compete with the CEECs, which already have much higher levels of FDI inflows than the OIC countries in those regions put together. Moreover, in the long run, as the CEECs will have greater access to cheap capital, invest more in research and development and acquire technology, their competitiveness in specific sectors will increase. This will contribute to further FDI inflows in those countries. Furthermore, the EU membership is expected to improve the institutional structures, market conditions as well as the business climate in the CEECs, which will constitute a great challenge for the OIC countries in attracting FDI inflows. Eventually, the OIC Mediterranean partners will be compelled to play a more active role in increasing their competitiveness in sectors in which they have advantage both in the EU and the rest of the world.

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**ANNEX****Table 1: The State of Play of Accession Negotiations**

Chapter/Country	DECEMBER 2002		DECEMBER 2004	
	BULGARIA	ROMANIA	BULGARIA	ROMANIA
1. Free movement of goods	X	O	X	X
2. Free movement of persons	X	O	X	X
3. Freedom to provide services	X	O	X	X
4. Free movement of capital	X	O	X	X
5. Company law	X	X	X	X
6. Competition	O	O	X	X
7. Agriculture	O	O	X	X
8. Fisheries	X	X	X	X
9. Transport	O	O	X	X
10. Taxation	X	O	X	X
11. Economic & Monetary Union (EMU)	X	X	X	X
12. Statistics	X	X	X	X
13. Social policy	X	X	X	X
14. Energy	X	O	X	X
15. Industrial policy	X	X	X	X
16. Small & medium-sized enterprises (SME)	X	X	X	X
17. Science & research	X	X	X	X
18. Education & training	X	X	X	X
19. Telecom. & IT	X	X	X	X
20. Culture & audio-visual	X	X	X	X
21. Regional policy	O	O	X	X
22. Environment	O	O	X	X
23. Consumers & health protection	X	X	X	X
24. Justice & home affairs	O	O	X	X
25. Customs Union	X	X	X	X
26. External relations	X	X	X	X
27. Common Foreign & Security Policy (CSFP)	X	X	X	X
28. Financial Control	X	O	X	X
29. Financial & budgetary provisions	O	O	X	X
30. Institutions	X	X	X	X
31. Other	-	-	X	X
Chapters opened	30	30	31	31
Chapters closed	23	16	31	31

Source: [http://www.europa.eu.int/comm/enlargement/negotiations/pdf/satateofplay\\_20\\_12\\_02.pdf](http://www.europa.eu.int/comm/enlargement/negotiations/pdf/satateofplay_20_12_02.pdf)

\* Chapters opened, but still subject to negotiation are marked (O). Chapters closed are marked (X).

**Table 2: Copenhagen agreed Financial Package-maximum enlargement-related Commitments for 10 new Member States, 2004-2006 (EUR million, 1999 prices)**

	2004	2005	2006
<b>Heading 1 Agriculture of which</b>	1897	3747	4147
1a. CAP	327	2032	2322
1b. Rural development	1570	1715	1825
<b>Heading 2 Structural actions after capping of which</b>	<b>6070</b>	<b>6907</b>	<b>8770</b>
Structural Fund	3453	4755	5948
Cohesion Fund	2617	2152	2822
<b>Heading 3 Internal policies and additional transitional expenditure of which</b>	<b>1457</b>	<b>1428</b>	<b>1372</b>
Existing Internal policies	846	881	916
Nuclear safety	125	125	125
Institution building	200	120	60
Schengen facility	286	302	271
<b>Heading 5 Administration</b>	<b>503</b>	<b>558</b>	<b>612</b>
<b>Total (Headings 1, 2, 3 and 5)</b>	<b>9927</b>	<b>12640</b>	<b>14901</b>

Source: [http://europa.eu.int/comm/enlargement/negotiations/pdf/financial\\_package.pdf](http://europa.eu.int/comm/enlargement/negotiations/pdf/financial_package.pdf)

**Table 3: The New Financial Framework, 2007-2013 (EUR Million, 2004 Prices)**

Headings	Draft Budget	Agreed Budget
<b>1. Sustainable growth</b>	<b>477665</b>	<b>380120</b>
1a. Competitiveness for growth and employment	132755	72010
1b. Cohesion for growth and employment	344910	308119
<b>2. Sustainable management and protection of natural resources</b>	<b>404655</b>	<b>371705</b>
of which: Agriculture-Market related expenditure & direct payments	301074	293105
<b>3. Citizenship, freedom, security and justice</b>	<b>18505</b>	<b>10270</b>
<b>4. EU as a global partner</b>	<b>95590</b>	<b>50010</b>
<b>5. Administration</b>	<b>28620</b>	<b>50300</b>
<b>Total appropriation for commitments</b>	<b>1025035</b>	<b>862405</b>

Source: Local Government International Bureau (LGIB) (2004b), p.7.

**Table 4: Total Spending on Cohesion Policy in the Financial Perspective for 2007-2013 (2004 Prices)**

	Budget (Billion euros)	Proportion of Budget (%)
<b>Total Cohesion Budget (Heading 1b)</b>	<b>336.1</b>	<b>30% of EU Budget</b>
<b>Convergence</b> Of which:	<b>264.0</b>	<b>78.54% of cohesion budget</b> Of which:
Regions under 75% of EU GDP	177.8*	67.34%
Statistically effected regions	22.1*	8.38%
Cohesion Fund	63.0	23.86%
Outermost regions	1.1	0.42%
<b>Regional Competitiveness and Employment</b> Of which:	<b>57.9</b>	<b>17.22% of cohesion budget</b> Of which:
Phasing-in regions (up to 50% for ESD)	9.6*	16.56%
All other regions (equally divided between ERDF & ESF)	48.3*	83.44%
<b>European Cooperation Objective</b> Of which:	<b>13.2</b>	<b>3.94% of cohesion budget</b> Of which:
Cross-border	4.7	35.61%
Transnational	6.3	47.73%
Interregional (networking)	0.6	4.54%
External Borders	1.6	12.12%

Source: Local Government International Bureau (LGIB), 2004.

\*3% of these allocations will be held as a resource for performance and quality reserve.

**Table 5: Exports and Imports of CEECs to the EU (Million USD), 1998 and 2003**

	Exports		Imports	
	1998	2003	1998	2003
Bulgaria	2710	4560	2780	5860
Czech Republic	16460	42040	19140	40150
Estonia	2150	4420	2950	4870
Hungary	16950	33530	19100	33090
Latvia	1890	3000	2020	4670
Lithuania	1670	4630	2650	6970
Poland	18580	41530	31350	48350
Romania	5780	13940	6820	16680
Slovakia	6140	19170	6370	17250
Slovenia	5880	9570	7530	11180
<b>Total</b>	<b>78210</b>	<b>176390</b>	<b>100710</b>	<b>189070</b>

Source: IMF, Direction of Trade Statistics, yearbooks 1999 and March 2005.

**Table 6: Foreign Direct Investment Inflows to the CEECs, 1999-2004  
(Million USD)**

	1999	2000	2001	2002	2003	2004
Bulgaria	819	1002	813	905	2097	2488
Czech Republic	6310	4984	5638	8483	2101	4463
Estonia	205	387	542	284	891	926
Hungary	3312	2764	3936	2994	2162	4167
Latvia	347	411	163	254	300	647
Lithuania	486	379	446	732	179	773
Poland	7270	9341	5713	4131	4123	6159
Romania	1041	1037	1157	1144	2213	5174
Slovakia	428	1925	1584	4094	669	1122
Slovenia	106	137	369	1686	337	516
<b>CEECs Total</b>	<b>20324</b>	<b>22367</b>	<b>20361</b>	<b>24707</b>	<b>15072</b>	<b>26435</b>
<b>EU Total</b>	<b>479372</b>	<b>671417</b>	<b>357441</b>	<b>420433</b>	<b>338678</b>	<b>216440</b>
CEECs as a % of EU Total	4.2	3.3	5.7	7.3	4.5	12.2

Source: UNCTAD, World Investment Report, 2005.

Table 7: Exports of OIC Countries to the EU, 1998 and 2003

	Total Exports (Million USD)		Exports to EU (Million USD)		Share of Exports to EU (%)	
	1998	2003	1998	2003	1998	2003
Albania	206	453	191	410	92.7	90.5
Algeria	10956	24969	7500	16430	68.5	65.8
Egypt	3159	8259	2560	3810	81.0	46.1
Jordan	1208	3081	180	230	14.9	7.5
Lebanon	716	1176	180	230	25.1	19.6
Libya	6032	13722	4939	12450	81.9	90.7
Morocco	4634	9350	2717	7290	58.6	78.0
Syria	2890	6314	1660	3450	57.4	54.6
Tunisia	5748	8027	5040	8160	87.7	101.7
Turkey	26301	47255	15170	29760	57.7	63.0
<b>Mediterranean Area</b>	<b>61850</b>	<b>122606</b>	<b>40137</b>	<b>82220</b>	<b>64.9</b>	<b>67.1</b>
Bahrain	2750	10220	340	420	12.4	4.1
Kuwait	8915	18891	1380	2160	15.5	11.4
Oman	5375	10362	240	280	4.5	2.7
Qatar	4947	13380	130	960	2.6	7.2
Saudi Arabia	38727	85853	8580	14860	22.2	17.3
UAE	25806	49974	1760	4180	6.8	8.4
<b>GCC</b>	<b>86520</b>	<b>188680</b>	<b>12430</b>	<b>22860</b>	<b>14.4</b>	<b>12.1</b>
Benin	232	279	60	50	25.9	17.9
Burkina Faso	292	245	90	50	30.8	20.4
Cameroon	1671	2240	1312	1930	78.5	86.2
Chad	120	92	83	50	69.2	54.3
Côte d'Ivoire	4395	5493	2760	3280	62.8	59.7
Gabon	2488	3682	560	610	22.5	16.6
Gambia	29	18	23	10	79.3	55.6
Guinea	821	797	500	380	60.9	47.7
Guinea Bissau	102	70	11	10	10.8	14.3
Mali	292	216	110	70	37.7	32.4
Mauritania	495	593	350	380	70.7	64.1
Mozambique	245	1068	130	730	53.1	68.4
Niger	206	180	170	90	82.5	50.0
Nigeria	11364	24061	3250	6970	28.6	29.0
Senegal	832	1130	400	390	48.1	34.5
Sierra Leone	7	140	4	130	57.1	92.9
Somalia	128	108	12	3	9.4	2.8
Sudan	538	2609	200	200	37.2	7.7
Togo	413	416	50	70	12.1	16.8
Uganda	410	532	310	280	75.6	52.6
<b>OIC-SSA</b>	<b>25080</b>	<b>43969</b>	<b>10385</b>	<b>15683</b>	<b>41.4</b>	<b>35.7</b>
Azerbaijan	607	1907	60	1520	9.9	79.7
Kazakhstan	5404	12927	1090	4280	20.2	33.1
Kyrgyz Rep.	513	582	210	20	40.9	3.4
Tajikistan	597	791	100	240	16.8	30.3
Turkmenistan	506	3449	140	330	27.7	9.6
Uzbekistan	2441	1983	540	400	22.1	20.2
<b>OIC-CAR</b>	<b>10068</b>	<b>21639</b>	<b>2140</b>	<b>6790</b>	<b>21.3</b>	<b>31.4</b>
Bangladesh	3822	6229	2290	4160	59.9	66.8
Brunei	1979	4422	310	100	15.7	2.3
Guyana	582	594	160	210	27.5	35.4
Indonesia	48843	60995	11160	11900	22.8	19.5
Iran	12884	30501	4520	7860	35.1	25.8
Iraq	4649	8169	2550	1720	54.9	21.1
Malaysia	73470	104966	13130	18740	17.9	17.9
Pakistan	8433	11929	2680	3570	31.8	29.9
Suriname	436	550	151	200	34.6	36.4
Yemen	1497	3776	100	80	6.7	2.1
<b>Others</b>	<b>156595</b>	<b>232131</b>	<b>37051</b>	<b>48540</b>	<b>23.7</b>	<b>20.9</b>
<b>OIC Total</b>	<b>340113</b>	<b>609025</b>	<b>102143</b>	<b>176093</b>	<b>30.0</b>	<b>28.9</b>

Source: IMF, Direction of Trade Statistics, yearbook 2002 and March 2005.

Table 8: Imports of OIC Countries from the EU, 1998 and 2003

	Total Imports (Million USD)		Imports from EU (Million USD)		Share of Imports from EU (%)	
	1998	2003	1998	2003	1998	2003
Albania	795	1846	620	1260	78.0	68.3
Algeria	9834	15385	5840	9030	59.4	58.7
Egypt	16479	21405	8200	7040	49.8	32.9
Jordan	4011	5743	1250	2130	31.2	37.1
Lebanon	7060	7628	3170	3850	44.9	50.5
Libya	5600	6136	2910	3610	52.0	58.8
Morocco	8427	14200	6660	9230	79.0	65.0
Syria	3895	8515	1730	2510	44.4	29.5
Tunisia	8402	10951	6360	7120	75.7	65.0
Turkey	44731	69637	24090	33390	53.9	47.9
<b>Mediterranean Area</b>	<b>109234</b>	<b>161446</b>	<b>60830</b>	<b>79170</b>	<b>55.7</b>	<b>49.0</b>
Bahrain	2831	4905	850	1090	30.0	22.2
Kuwait	8617	11410	2360	3530	27.4	30.9
Oman	5682	6572	1600	1470	28.2	22.4
Qatar	3717	4897	1490	2520	40.1	51.5
Saudi Arabia	30012	54158	13120	15310	43.7	28.3
UAE	24728	59852	9570	18280	38.7	30.5
<b>GCC</b>	<b>75587</b>	<b>141794</b>	<b>28990</b>	<b>42200</b>	<b>38.4</b>	<b>29.8</b>
Benin	639	1798	470	580	73.6	32.3
Burkina Faso	814	860	280	380	34.4	44.2
Cameroon	1495	1789	1030	1300	68.9	72.7
Chad	177	347	98	150	55.4	43.2
Côte d'Ivoire	2991	3516	1730	1240	57.8	35.3
Gabon	1118	1354	650	900	58.1	66.5
Gambia	329	897	120	410	36.5	45.7
Guinea	775	477	360	320	46.5	67.1
Guinea Bissau	91	127	46	50	50.5	39.4
Mali	1222	1540	370	400	30.3	26.0
Mauritania	610	989	320	470	52.5	47.5
Mozambique	817	1798	180	240	22.0	13.3
Niger	362	494	170	210	47.0	42.5
Nigeria	7582	14936	3140	5760	41.4	38.6
Senegal	1537	2358	980	1230	63.8	52.2
Sierra Leone	198	593	90	330	45.5	55.6
Somalia	246	420	18	20	7.3	4.8
Sudan	1609	2708	540	760	33.6	28.1
Togo	1088	563	280	510	25.7	90.6
Uganda	860	1372	220	240	25.6	17.5
<b>OIC-SSA</b>	<b>24560</b>	<b>38936</b>	<b>11092</b>	<b>15500</b>	<b>45.2</b>	<b>39.8</b>
Azerbaijan	1076	2887	360	890	33.5	30.8
Kazakhstan	4257	8409	1430	2340	33.6	27.8
Kyrgyz Rep.	841	712	100	120	11.9	16.9
Tajikistan	711	881	50	70	7.0	7.9
Turkmenistan	966	2511	180	390	18.6	15.5
Uzbekistan	3055	2482	660	510	21.6	20.5
<b>OIC-CAR</b>	<b>10906</b>	<b>17882</b>	<b>2780</b>	<b>4320</b>	<b>25.5</b>	<b>24.2</b>
Bangladesh	7370	9672	630	790	8.5	8.2
Brunei	2353	1341	690	510	29.3	38.0
Guyana	554	573	80	140	14.4	24.4
Indonesia	27337	32544	4580	4750	16.8	14.6
Iran	131158	30603	4890	11350	3.7	37.1
Iraq	1431	4868	560	1070	39.1	22.0
Malaysia	58319	82726	1490	9640	2.6	11.4
Pakistan	9308	13049	1730	2560	18.6	19.6
Suriname	552	669	168	190	30.4	28.4
Yemen	2167	4402	740	760	34.1	17.3
<b>Others</b>	<b>240549</b>	<b>180447</b>	<b>15558</b>	<b>31760</b>	<b>64.7</b>	<b>17.6</b>
<b>OIC Total</b>	<b>509956</b>	<b>618337</b>	<b>141434</b>	<b>213770</b>	<b>27.7</b>	<b>33.0</b>

Source: IMF, Direction of Trade Statistics, yearbook 2002 and March 2005.

**Table 9: Euro/USD Exchange Rate**

30/12/2005	1.1797
23/12/2005	1.1859
16/12/2005	1.1983
9/12/2005	1.1785
2/12/2005	1.1697
25/11/2005	1.1763
18/11/2005	1.1679
11/11/2005	1.1697
4/11/2005	1.1933
28/10/2005	1.2138
21/10/2005	1.2012
14/10/2005	1.1999
7/10/2005	1.2144
30/9/2005	1.2042
23/9/2005	1.2118
16/9/2005	1.2243
9/9/2005	1.2415
2/9/2005	1.2541
26/8/2005	1.2307
19/8/2005	1.2183
12/8/2005	1.2457
5/8/2005	1.2386
29/7/2005	1.2093
22/7/2005	1.2143
15/7/2005	1.2073
8/7/2005	1.1904
1/7/2005	1.2087
24/6/2005	1.2082
17/6/2005	1.2177
10/6/2005	1.2229
3/6/2005	1.2289
27/5/2005	1.2551
20/5/2005	1.2607
13/5/2005	1.2635
6/5/2005	1.2947
29/4/2005	1.2957
22/4/2005	1.3077
15/4/2005	1.2868

Source: European Central Bank.

**Table 10: Unemployment Rates in the EU-15 and CEECs, 2003**

<b>EU-15</b>	
Austria	7.0
Belgium	12.3
Denmark	6.2
Finland	9.0
France	9.7
Germany	11.2
Greece	-
Ireland	4.6
Italy	8.7
Luxembourg	3.8
The Netherlands	3.4
Portugal	6.3
Spain	11.3
Sweden	4.9
UK	3.1
<b>CEECs</b>	
Bulgaria	13.7
Czech Republic	10.3
Estonia	5.3
Hungary	8.4
Latvia	8.6
Lithuania	9.8
Poland	18.0
Romania	7.2
Slovakia	15.2
Slovenia	11.2

Source: <http://laborsta.ilo.org/cgi-bin/brokerv8.exe>.

**Table 11: Foreign Direct Investment Inflows to the OIC Countries  
(Million USD)**

	1999	2000	2001	2002	2003	2004
Albania	41	143	207	135	178	426
Algeria	507	438	1196	1065	634	882
Egypt	1065	1235	510	647	237	1253
Jordan	158	787	100	64	424	620
Lebanon	250	298	249	257	358	288
Libya	-128	-142	-101	145	143	131
Morocco	850	215	2825	481	2314	853
Palestine	189	62	20	-5		
Syria	263	270	110	1030	1084	1,206
Tunisia	368	779	486	821	584	639
Turkey	783	982	3266	1063	1753	2733
<b>Mediterranean Area</b>	<b>4346</b>	<b>5067</b>	<b>8868</b>	<b>5703</b>	<b>7709</b>	<b>9031</b>
Bahrain	454	364	81	217	517	865
Kuwait	72	16	-147	7	-67	-20
Oman	39	16	83	26	528	-18
Qatar	113	252	296	624	625	679
Saudi Arabia	-780	-1884	20	453	778	1867
UAE	-985	-515	1184	1307	30	840
<b>GCC</b>	<b>-1087</b>	<b>-1751</b>	<b>1517</b>	<b>2634</b>	<b>2411</b>	<b>4213</b>
Benin	38	56	41	14	45	60
Burkina Faso	8	23	8	15	29	35
Cameroon	40	31	75	176	215	
Chad	25	116	453	924	713	478
Comoros	-	-	1	-	1	2
Côte d'Ivoire	324	235	273	213	165	360
Djibouti	4	3	3	4	11	33
Gabon	-205	-43	-88	30	206	323
Gambia	49	44	35	43	25	60
Guinea	63	10	2	30	79	100
Guinea Bissau	9	1	1	4	4	5
Mali	1	78	104	102	132	180
Mauritania	1	40	92	118	214	300
Mozambique	382	139	255	348	337	132
Niger	-	9	26	2	11	20
Nigeria	1005	930	1104	2040	2171	2127
Senegal	142	62	39	78	52	70
Sierra Leone	6	5	2	2	3	5
Somalia	-1	-	-	-	1	9
Sudan	371	392	574	713	1349	1511
Togo	29	41	71	53	34	60
Uganda	222	275	229	203	211	237
<b>OIC-SSA</b>	<b>2513</b>	<b>2447</b>	<b>3300</b>	<b>5112</b>	<b>6008</b>	<b>6107</b>

**Table 11: Foreign Direct Investment Inflows to the OIC Countries  
(Million USD) (continued)**

	1999	2000	2001	2002	2003	2004
Azerbaijan	510	130	227	1392	3285	4769
Kazakhstan	1472	1283	2835	2590	2068	4269
Kyrgyz Rep.	44	-2	5	5	46	77
Tajikistan	21	24	9	36	32	272
Turkmenistan	125	126	170	100	100	150
Uzbekistan	121	75	83	65	70	140
<b>OIC-CAR</b>	<b>2293</b>	<b>1636</b>	<b>3329</b>	<b>4188</b>	<b>5601</b>	<b>9677</b>
Afghanistan	6	-	1	1	2	1
Bangladesh	180	280	79	52	268	460
Brunei	748	549	526	1035	2009	103
Guyana	48	67	56	44	26	48
Indonesia	-1866	-4550	-2977	145	-597	1023
Iran	35	39	55	548	482	500
Iraq	-7	-3	-6	-2	5	300
Malaysia	3895	3788	554	3203	2473	4624
Maldives	12	13	12	12	14	13
Pakistan	530	305	385	823	534	952
Suriname	-24	-97	-27	-74	-92	60
Yemen	-308	6	136	102	-89	-21
<b>Others</b>	<b>3249</b>	<b>397</b>	<b>-1206</b>	<b>5889</b>	<b>5035</b>	<b>8063</b>
<b>OIC Total</b>	<b>11314</b>	<b>7796</b>	<b>15808</b>	<b>23526</b>	<b>26764</b>	<b>37091</b>

Source UNCTAD, World Investment Report, 2005.