



EXECUTIVE SUMMARY

Conference on

Bulgaria and the EU: Before and After Accession

27 April 2009

Maison de l'Europe, Luxembourg

Introduction

In association with the Embassy of the Republic of Bulgaria to the Kingdom of Belgium and the Grand Duchy of Luxembourg, the Luxembourg Institute for European and International Studies (LIEIS) convened a conference on 'Bulgaria and the EU: Before and After Accession' on 27 April 2009 in Luxembourg. More than 20 participants from Bulgaria and many other EU member-states had an exchange of views with the Deputy Prime Minister and Minister of Foreign Affairs of the Republic of Bulgaria Ivailo Kalfin and discussed a number of key questions such as lessons from Bulgaria's accession, the country's positioning within the EU's shared identity, Sofia's contribution to the Union's 'soft power' and the challenges of the economic crisis (cf. programme and list of participants in the appendix).

Like previous LIEIS seminars, this conference focused on theoretical and practical questions in relation to the process of European integration and enlargement. The emphasis was less on empirical description and abstract theory and more on conceptual issues and brainstorming. Rather than reading papers, the speakers were asked to make short, introductory presentations and interventions and not to start with assertions but rather to raise questions and gradually move to argument, conclusions and recommendations. The ambition was to have a lively debate that can advance contemporary thinking on Bulgaria's path to full EU membership and make a contribution to the ongoing discussions about Bulgaria's role within the EU and the future of EU enlargement.

In his introductory remarks, the Director of the LIEIS Armand Clesse welcomed the joint initiative and cooperation of the LIEIS and the Bulgarian Embassy. He expressed the hope that such meetings could be both intellectually rewarding and politically fruitful, helping analysts better to understand the diplomatic and political processes while also allowing diplomats and politicians to draw on insights from research and policy studies. Finally, he thanked the Deputy Prime Minister and Minister of Foreign Affairs of the Republic of Bulgaria Ivailo Kalfin for taking the time to address this gathering.

I. Debate with Bulgaria's Deputy Prime Minister and Foreign Minister Ivailo Kalfin

After having been introduced by A. Clesse, I. Kalfin began his address by thanking the organisers for the opportunity to set out his views on the success and limits of the EU's accession process with special reference to the Bulgarian case. Enlargement has been one of the Union's most successful projects over the past 50 years or so. Even though the current economic crisis seems to bring domestic politics into sharp focus, the European dimension is never absent and countries within the EU have tended to do better than those without. The extension of the single market and the four freedoms of movement have added growth to the 'old' member-states, but it should be stressed that all countries, including the 12 new ones (who joined in 2004 and 2007) have benefitted. This is reflected in popular support for the EU: populations have on the whole been enthusiastic about both the process of accession and membership itself. For example, 75% of all Bulgarians approved the country's entry into the EU prior to accession and at present the level of support stands at 80%. Moreover, confidence in EU institutions is higher than in national institutions. This is all the more remarkable since membership is not a one-off step, but instead a long process – no fewer than 17 years have passed since the collapse of Communism, yet at the same time Sofia's achievements have been substantial and significant.

Given the very different levels of economic development across the Union, Bulgaria was always going to have to work very hard to meet all the criteria (especially on inflation, public debt, budgetary deficit), but the country is making steady progress towards the ambitious goals. The special mechanisms put in place for Bulgaria and Romania (the Cooperation and Verification Mechanism and biannual reports on progress) were never resented but accepted by the overwhelming majority of the country who endorsed Bulgaria's entry. Accession brought a large economic stimulus to the economy. Until the crisis hit in 2008, the country had seen a 20-22% of growth in foreign direct investment (FDI), amounting to €20 billion. Bulgaria also experienced unprecedented levels of stability: the currency board arrangements – introduced after the serious financial and banking crisis in 1996-97 – first linked the national currency to the Deutsche Mark and then to the Euro, thereby kept exchange rate and price volatility to a minimum. Moreover, for the last 8 years the country has enjoyed a budget surplus: in the last 4 years, this represented 3% and was used to reduce public debt from 32% to 16% of GDP. Finally, Bulgaria is a very open economy, with 60% of exports going to the rest of the EU and a significant influx of FDI: in the last 5 years, this has represented 5% of GDP growth and in the last 4 years, this has even represented to 6%. In March 2009, unemployment stood at 6.7% and such was lower than the EU average.

In terms of cooperation in Central and Southeast Europe, Bulgaria's priorities are threefold: the Southern Balkans, the Black Sea region and energy security. First of all, the region of the Western Balkans was pacified partly through the help of Romania and Bulgaria. In particular, the integration into the regional economy and other measures of stabilisation were successful, even though this involved tricky issues like Kosovo and Bosnia. Now the challenge is to extend this model to the Southern Balkans. Second, the Black Sea region – like the Union for the Mediterranean or the EU's Northern Dimension – could be designated as a distinct region and policy priority aimed at forging closer links with privileged partners like Turkey and Russia. Bulgaria and Romania would play a leading role in developing this strategic part of Europe. Third, on energy security, it is imperative to expand gas transfer (via the proposed Nabucco pipeline via Turkey to Austria, the South Stream project from Russia's Black Sea to the Italian Mediterranean), but also to promote renewable energy. At the international summit on "Natural Gas for Europe: Security and Partnership" held in Sofia on 24-25 April 2009 and hosted by the Bulgarian President and government, 11 heads of state and government signed a joint declaration, including the Russian President Dmitry Medvedev. Deputy Prime Minister and Foreign Minister I. Kalfin concluded his address by saying that on these and other issues, Bulgaria's membership has added value for the Union as a whole within the EU's political framework.

Ben Fayot, President of the Commission on Foreign Affairs of Luxembourg's Chamber of Deputies, said in his short remarks that Bulgaria's accession has made the Union stronger and that the EU's success in the economic sphere should lead to equivalent political progress. Since 2000, the aim has been to make the EU more democratic and institutionally stronger, adapted to a membership of 27 and perhaps more. But thus far no treaty is in place to match this purpose, which is why ratification of the Lisbon Reform Treaty is a crucial first step in reforming the operation of the Union, its shared institutions and common policies. He also lauded Bulgaria's active role in strengthening the EU and notably in reinforcing the power of the parliamentary dimension, both the European Parliament (EP) and national parliaments. Likewise, Ambassador Paul Duhr, Secretary General of the Ministry of Foreign Affairs of Luxembourg, added that Bulgaria is very popular within the EU because the country and its leadership have been staunch defenders of European values and of the process of integration and enlargement.

Following these speeches, the other participants of the conference were invited to address questions and comments to Deputy Prime Minister and Foreign Minister I. Kalfin. Michael Humphreys, the former Head of the European Commission Delegation in Sofia, asked whether the Cooperation and Verification Mechanism has potential for future member-states (i.e. whether Brussels should monitor the adoption of the *acquis communautaire* after accession) or whether it is preferable to solve all the open questions prior to a country's entry into the EU. Ambassador Tarja Laitinen of Finland wondered what the impact of the positive attitude towards the EU would be on the forthcoming EP elections. According to Kyriil Drezov, the Bulgarian President and Government have performed a U-turn with their decision to recognise the independence of Kosovo, thus breaking rank with the two other EU member states in the Balkans, Greece and Romania. A. Clesse mentioned a short article in *The Economist*, suggesting that Bulgaria had asked the EU to monitor and perhaps even intervene from outside to help govern the country.

In response to these questions and comments, Deputy Prime Minister and Foreign Minister I. Kalfin noted that the Cooperation and Verification Mechanism is already in place and that it is performing a useful and constructive role. Throughout the process of accession and since obtaining full membership, Bulgaria has invited experts from different EU countries to come to the country in order to give their advice, but responsibility for the state of affairs in Bulgaria lies of course with the Bulgarians themselves. *The Economist's* suggestion that external intervention would be needed to root out corruption failed to understand that the proposed idea is to adopt 'best practices' for a number of key sectors. Such an approach could be extended to (all) other member-states, but of course only on a voluntary basis.

In relation to Kosovo, Deputy Prime Minister and Foreign Minister I. Kalfin acknowledged that Bulgaria has changed position and has recognised the independence of Kosovo alongside 22 other EU countries, even though creating a country around an ethnic minority can set a dangerous precedent. The reason was that the Bulgarian President and government did not see what other options would lead to stability, peace and prosperity in Kosovo and the wider regions. The fact is that there are still substantial ethnic tensions and territorial divisions along ethnic lines, and Serbia was unable to take charge of the situation alone, and the UN administration was not going to last longer than eight years. In these circumstances, it was preferable to give responsibility to national and local politics and to make ethnic tolerance one of the highest priorities within a very tight framework. The Serbian President and government have often declared Kosovo to be the main issue, but relations with Bulgaria have stabilised and improved since Kosovo's independence was recognised by Sofia. For neighbouring countries of Serbia such as Bulgaria, Hungary and Croatia, this decision was difficult but in practice there was no alternative.

As for the EP elections, the hope is of course for a high turnout, but unfortunately the public understanding of why voting for EP representatives matters is not very developed. All member-states need to do much more to highlight the importance of representation in the EP and the EP's role in the functioning of the Union as a whole. Moreover, the Lisbon Reform Treaty – if and when it is adopted – will not just have positive political but also productive economic effects for all member-states, not only the 12 new member-states but the rest too. Finally, the questions of transparency, the judicial system, the fight against crime and corruption have strong political implications for Bulgaria. What is required is a mechanism which is particular to the country and which enables the authorities to attain very high standards given the nature of the problem.

In his reply, B. Fayot said that enthusiasm for EU tends to decline sharply after accession. Therefore new member-states must make a special effort to develop rather than hinder the integration process. Bulgaria has contributed more than its fair share to these ongoing efforts. However, there is still no political consensus about the need for integration in order for the Union to work efficiently and serve the citizens. Since the EU is not the Soviet Union, such a consensus will only be achieved through more dialogue and cooperation.

II. Bulgaria's Accession to the EU and Bulgaria's Sense of 'Europeanness'

At the start of the second session, M. Humphreys argued that the fifth round of enlargement in 2007 was a huge success, bringing stability and prosperity to the Union's Eastern borders.

But no one should forget that it was never a foregone conclusion. As late as April 2005, the issues were more acute for Romania than for Bulgaria. In September 2006, the European Commission recommended accession for January 2007, demanding more efforts from Sofia in relation to the rule of law, the enforcement of Community law and a greater independence of the judiciary. One lesson to draw from this most recent example is to omit a precise date for entry from the treaty with candidate countries, leaving open the possibility of postponing accession. In any case, it is crucial to distinguish between political and technical reasons. In the case of Romania and Bulgaria it was a political decision to set a precise date. The Cooperation and Verification Mechanism was an unprecedented step, and it took three years for the safeguard measures to be put in place. However, the whole exercise should not be open-ended. Indeed, among the negative consequences and risks, there is first of all the possibility of keeping the spotlight on Bulgaria and to focus media interest and, second, to prevent real action on corruption and rule of law. Third and more importantly, there is a danger of double-tier and double standards among all member-states, with some saying that Poland's judiciary is no better than Bulgaria's and so on.

In her introductory remarks, Gergana Noutcheva said she shares some of Ben Fayot's pessimism, in that enlargement has been a success story in terms of security and stability, but it has not necessarily brought about high democracy standards as expected. While Bulgaria has formal democratic standards and criteria, it still lacks strong provisions on the rule of law: the country is rife with corruption, criminality and administrative ineffectiveness in terms of fighting corruption. It also suffers from a weak judicial system which fails to create a feeling of social justice among Bulgarian citizens. Unfortunately, the much-vaunted Cooperation and Verification Mechanism (CVM) is quite weak to address these problems. After accession, nothing fundamentally has changed. First of all, the early 1990s belated and partial reforms created groups with vested interests in the *status quo* (in particular monopoly rents) who are blocking further systemic reforms, and the effects can be seen in the stagnating governance standards. Second, prior to accession, the EU's conditionality mechanism was a powerful tool in order to reform the country. But in the post-accession situation Brussels has no leverage other than the CVM. It was however useful to turn this into a political instrument (vote of no-confidence, cutting funds, etc.). Third, the Bulgarian public is now more sceptical about progress and therefore shows more support in favour of the CVM. Finally and perhaps most fundamentally, real political change can only come from within, not from without. At present, civil society is still weak.

In a series of shorter interventions, several participants reacted to the opening two presentations. Plamen Pantev pointed out that Deputy Prime Minister Kalfin and Gergana Noutcheva are not so much at odds in their analysis. Both argue rightly that the trust in EU institutions is higher than in domestic institutions. Of course EU enlargement to countries such as Romania and Bulgaria is a political decision, but there was no alternative. Without a more united Europe, there is a very real danger that we might see a 'clash of civilizations' between East and West, involving America, Europe, Russia and China. An enlarged EU can diffuse tension and be an anchor of stability and prosperity in the wider European and Eurasian space. For his part, Mario Hirsch suggested that the critical voices on Bulgaria's membership reflect the increasingly hostile attitude of public opinion within the EU towards further enlargement. So what about Croatia, Bosnia and also Turkey? Have Brussels and the national capitals drawn the right lessons – even if there was no alternative in the past and there won't be any in the future? Gerhard M. Ambrosi pointed to the various bilateral disputes that

threaten to undermine the integration and enlargement process, such as Slovenia *versus* Croatia and Greece *versus* Macedonia. In the past, Greece tried to block the entry of both Spain and Portugal, citing a lack of democratisation but in reality it was fearing that it would lose out in the competition for EU funds. After 1989, the bankrupt socialist economies of the East had little choice other than to go down the EU route. In any case, EU membership entails not so much a net loss of sovereignty but rather a sharing or pooling of sovereignty. Dmitri Zojs made two points. First, voting in the elections of the EP could be made compulsory in order to boost participation and make sure that the outcome reflects the views of the population. Second, the main obstacle for further political, economic and social progress seems to be the institutional weaknesses of the Bulgarian administration. It is therefore imperative to reform and upgrade the institutional capacity and capability.

In his intervention, K. Drezov argued that history and culture are more important than most politicians and diplomats suppose. The paradox is that Bulgaria has been perceived as a success but also as a source of uneasiness and anxiety. Its pro-European enthusiasm is noted, but it is also traditionally seen as non-Western. Samuel P. Huntington, who warned about the looming ‘clash of civilizations’, focused on ‘the West’, not Europe - similar to Spengler, who was anxious about the fate of the West but denied Europe any cultural specificity or relevance.

Historically, the European Union had evolved and clustered around the Europe of Charlemagne. By all accounts Bulgaria is resolutely outside this ‘core Europe’, and the country tended to be more closely linked with the Orthodox and Slavic poles in Constantinople and Moscow. More recently, we have seen Bulgarian alliances with the Second and the Third Reich, as well as with the Soviet Union, all of which created lasting damage to Bulgaria’s image in countries like Britain, France and the USA. Bulgaria also has a tradition of putting all eggs in one basket, by enthusiastically embracing a single hegemonic power. Consider the following statistics: in the 1930s and the 1940s, 60% of Bulgaria’s exports went to the Third Reich; from the 1960s to the 1980s, 60% of exports went to the USSR; since the 1990s, a growing proportion of exports is going to the EU, now reaching 60%. Interestingly, during Soviet times, there were occasional doubts as to how committed the Bulgarians were to communist values (even though they were thought to be the closest allies among all the Soviet satellites). There are similar doubts nowadays concerning the depth of Bulgaria’s commitment to European values, despite its ostentatious enthusiasm about the EU. One can formulate the following hypothesis: Bulgaria has tended to adapt to its external environment by adopting a form of self-limiting behaviour i.e. by choosing not to exercise all the levers of sovereignty in exchange for concessions from the hegemonic powers. Now the question is whether Bulgaria can craft a specific narrative about the country and whether it can find its place within the European space (for a longer statement, see Kyril Drezov, “Bulgaria and the 'Western Project'”, online at <http://www.ieis.lu>).

Vladimir Shopov explained that in the context of the last negotiations, there was an unwritten consensus about compatibility, both cultural and political, between the EU and candidate countries in the east. 1989 defined the whole political space east of Vienna, so the context of the 1990s is absolutely central in order to understand why Bulgaria was invited to apply for full membership and to join accession negotiations. Moreover, the democratic standards of the 1990s were very different (new constitutions, multi-party systems, elections and peaceful change of government) and in fact much lower than recently or today (compared with the so-

called Copenhagen criteria). In the context of the 1990s, Bulgaria chose not to have a post-Communist nationalist project – unlike Serbia and others to the west of Bulgaria.

Moreover Sofia's key post-accession difficulties include, first of all, the fact that the country has not developed the core elements of a liberal democracy and does not benefit from the legacy of long-standing legal and political practices. It therefore finds itself in a complex environment which it does not fully assimilate. Second, this leads to an off-loading of expectations onto the EU and subsequent disappointment – a stage that is yet to occur in Bulgaria's political cycle. More fundamentally, conditionality is now part of the process of pre- and post-enlargement politics. There are both automatic benefits in virtue of being an EU member-state and achieved benefits through implementing common rules. On this account Bulgaria is failing. The question is whether Bulgaria is running the risk of becoming a systemic liability for the rest of the Union. Culturally speaking, there are stark differences in introducing capitalism in Protestant, Catholic and Orthodox countries. It remains to be seen how Orthodox cultures will cope with the potential opportunities as well as the drawbacks of a capitalist economy and a liberal democracy (for a longer exposition, see Vladimir Shopov, "Projecting Political Influence and Diplomacy: beyond EU conditionality").

In the discussion that followed this intervention, a number of participants made comments and raised further questions. First of all, are we seeing standards of good governance in Bulgaria's security sector? Is there an ongoing security reform and are standards rising? (P. Pantev). Second, is it preferable to delay entry or to make a principled decision in favour of accession? The bar has been raised for the countries in the Western Balkans, so how are decisions in relation to conditionality being perceived? Third, is it not the case that politicians use the argument about sticking to promises of accession too easily? They always tend to invoke path-dependency whereby the pursuit of an initial promise puts in place a certain dynamic trajectory which can only be interrupted or stopped at disproportionately high costs (Dominik Tolksdorf).

In response, M. Humphreys contended that the prospect of accession negotiations is a positive incentive for candidate countries and a significant commitment on the part of the EU. One concrete lesson from the ongoing dispute between Slovenia and Croatia over borders is to make sure that the Union only admits those who have already settled their disputes. Concretely, this means that the EU should not repeat the same mistake it made over Cyprus and Turkey in possible future cases like Greece and Macedonia. A. Clesse wondered whether the principle and the practice of conditionality do not favour blackmail and the blocking of accession, e.g. Turkey and the French promise of holding a national referendum. For his part, M. Hirsch claimed that Croatia is getting preferential treatment because it has powerful friends within the EU, notably Germany. D. Zois remarked that the European Commission has put more emphasis on verification than on cooperation, creating opposition in Bulgaria. A. Pabst raised the issue of the costs of enlargement for the EU (in terms of reform and integration) and especially the costs of accession for the candidate countries (loss of comparative economic advantage, social capital and specific political cultures). What are the implications of a Union of 27 that is politically paralysed and economically trapped for the sequence of enlargement and integration?

In conclusion of this session, K. Drezov talked about the need for countries such as Bulgaria to reshape their national mentality and societal outlook and to develop policies that promote both the specificities of the country and cooperation with its fellow EU partners.

III. Bulgaria's Soft Power: Bulgarian Participation in the Implementation of the European Politics

The third session began with some short introductory remarks by P. Pantev who argued that the concept of 'soft power' involves specific norms and cultural power which can be brought to bear on other countries. To what extent, if at all, has Sofia contributed to the EU's attempts to reach out and assert itself as a global actor by using European 'soft power'? Two philosophical and political orientations championed by Bulgaria can be distinguished. First of all, despite the various problems posed by the economic and political transition of the 1990s and the intricacies of EU accession, these problems were never imposed on Bulgaria's neighbours. Bulgaria was no factor of instability in its neighbourhood. Second, Sofia supports and promotes the long-term project of creating a 'security community'. The practical effects of such an initiative are to support and extend already functioning security communities in the case of the EU, NATO and the Nordic states.

Crucially, Bulgaria has an important role and responsibility in blocking any spillover of danger and instability from the Balkans to the rest of Europe. Unlike the EU member states there is no state identity in countries like Bosnia Herzegovina. But candidate countries in the east and the southeast should know what they can offer to the supranational entity (in terms of education, the economy and political culture) before they have hopes of being admitted any time soon. Moreover, Bulgaria can make a contribution to relations with Russia. Sofia, like other national capitals, considers Moscow as a big power that deserves attention and a strategic partnership with the Union. In fact, this underscores a wider point about the EU: there is now a dire need for the EU to go global and develop a strategic vision – otherwise the Union will remain little more than a trading bloc and a tourist attraction, geo-politically insignificant for Russia, China and other (emerging) powers.

In his comments, Alfred Steinherr said that one of Bulgaria's competitive advantages is the size of the country. Sofia can realise its potential without facing the constant military or economic threats that confront world powers. This applies in different ways to small countries such as Luxembourg, Denmark, Norway, Switzerland and Ireland – in the latter case until the financial crisis struck. Indeed, smallness has many advantages: Bulgaria, unlike Russia, can play a very constructive role in trans-regional and cross-European affairs. Take Luxembourg's key role in the creation of the initial Europe of 6 and later the monetary union. E. F. Schumacher's 'Small is Beautiful' has not lost its relevance when it comes to cases like Bulgaria.

On the same question of size and influence, K. Drezov pointed out that when comparing Bulgaria with Poland or Hungary in its stance towards Ukraine and Belarus, Sofia is much more cautious than these two and has so far punched below its weight. On several occasions, Bulgaria has missed chances to intervene and recalibrate national strategy or shape European policy. Paradoxically, Serbia is absolutely crucial to Bulgaria's economic development as it sits atop Bulgaria's key trade routes, yet the Bulgarian political leadership chose to follow the

‘pro-European’ path and recognised Kosovo’s independence. Similarly, on Moldova, Sofia played a moderating role in the 1990s and could have projected more influence. The same lesson applies to Macedonian issues, where Bulgaria fails to communicate to other EU members that ‘Macedonian’ describes a well-established regional identity in Bulgaria, alongside a more recent national one in the Republic of Macedonia. In relations to other states in the region with ethnic or territorial problems, Bulgaria could play a far greater mediating role than it has done so far, rather than simply opt for the prevailing mood in Brussels.

G.M. Ambrosi agreed with earlier interventions and argued that in conflicts between countries like Georgia and Russia, only a ‘third way’ centred on soft power will be able to make a genuine difference. In a different context, the trans-regional Black Sea Cooperation seems to have a huge untapped potential and it lacks clout in terms of addressing issues of ‘high politics’ like border disputes, ethnic tensions and resource exploitation.

V. Shopov outlined a number of factors that underpin Bulgaria’s weakness. First of all, a certain ‘reputational’ uncertainty (inadequate resources, constant referral of new accession to NATO and EU, etc.); second, the transition from being an object to being a subject of international relations; third, the lack of any cost evaluation of getting involved in coalitions or alliances; which leads to the fourth weakness: the lack of identifying Bulgaria’s ‘comparative advantage’ and of defining the country’s priorities.

In her intervention, G. Noutcheva raised the fundamental question of why the EU’s soft power is not working in the Western Balkans. According to her, the Union should not forget that the carrot of EU membership is trying to achieve more than in the case of Bulgaria and Romania. In the case of the Western Balkans, the process of accession is not just about meeting the standards of the common market but also involves complying with the criteria for state building and security. The EU interventions in the name of democracy and higher economic standards are legitimate goals and they are accepted as such by the societies in the Western Balkans. This is not the case with the EU’s interventions in statehood matters in the region which are viewed as lacking legitimacy and therefore can provoke large-scale popular alienation and resentment against the EU. Serbia and Bosnia and Herzegovina are cases in mind.

Further comments related, first of all, to the distinction between the impact and the cost of legislation and the fact that Bulgaria’s role in the Western Balkans and on Kosovo was within an EU context (M. Humphreys); second, to a short history of missed opportunities in influencing European foreign and security policy (D. Tolksdorf); third, the phenomenon of EU-sponsored ‘consolation prizes’ for those who are (thought to be) not quite up to full membership, as perhaps in the case of Turkey (M. Hirsch).

Following these comments, P. Pantev concluded the third session by saying in response to K. Drezov’s critique that the Serbs tried to block any settlement, whereas the Kosovo Albanians want to portray themselves as competent and tolerant administrators. More generally, one of the very important factors of the Union’s overall cohesion is to develop and extend joint initiatives as part of the EU’s CFSP and EDSP. Otherwise Europe will lack geopolitical clout.

IV. The Challenges of the Economic Crisis

The final session focused on the challenges of the ongoing economic crisis for new EU members in general and Bulgaria in particular. Cormac Murphy explained that Bulgaria's rapid economic growth in the last few years was mainly investment-led and that it has generated widespread prosperity. At the end of the 1990s, the country suffered a full-scale banking crisis, followed by the introduction of a currency board and a growing influx of FDI in the banking sector – now owned largely by foreign banks. This created the conditions for investment and growth. Now that the crisis is hitting everywhere, both the financial sector and real estate are seeing a process of adjustment to the new realities (i.e. slower growth and lower influx of FDI). By contrast with Romania and some other countries in the region (eg Poland and Hungary), Bulgaria has not as yet signed up to an IMF programme. The country's currency board has been a vital source of protection and stability. In relation to the role of EU funds, a challenge has been posed by the suspension of certain funds but administrative and other steps are being taken to resolve this, and acceleration of future absorption is a priority. More generally, Bulgaria, together with other countries in the region, remains dependent on external developments, especially given the important role of FDI in the economy and the linkages through the mostly foreign owned banking sector. While a large but declining current account deficit remains an issue, its position also remains supported by a strong fiscal situation, the relative stability of the banking sector and less volatility because of the currency basket.

This analysis raised many questions and sparked a lively debate. First of all, bankers – like politicians – like to paint a rosy picture, but is this outlook realistic (M. Humphreys)? Second, who owns Bulgaria's banks and the banks that 'own' Bulgaria? How much capital are the owners withdrawing? What are the indigenous capacities to get Bulgaria through the crisis (A. Pabst)? Third, are not low salary levels a major handicap in efforts to raise living standards and reduce inequality (P. Pantev)?

V. Shopov claimed that the forthcoming general elections have coloured the debates. At first the ruling parties denied that Bulgaria faced any sort of serious problems, and when the financial storm hit the country, it was said that the crisis had been imported. More worryingly, the crisis has not led to a real debate on the quality of growth (education reform, energy efficiency, etc.). Where will growth come from, what is needed in terms of domestic strategies? The real question is about which types of economic development are available to Bulgaria.

A. Steinherr went further in his critique and surmised that the new member-states have put too much emphasis on the principle of joining the EU at the expense of sound policies? The positive outlook for Bulgaria has changed dramatically, especially in terms of current account deficit, which stands at 24% and is therefore much higher than elsewhere in the East. The boom in real estate is over and needs correction, while at the same time too much EU-related funding has flown in (seemingly without the need for proper structural reform). So is it the case that the EU has unwittingly contributed to the growing economic problems in Bulgaria?

Both Hristo Georgiev and C. Murphy contended that the political and economic prospects for the region as a whole are good. The former said that both Greece and Turkey supported Bulgaria's membership in NATO and the country also has excellent relations with Romania.

Moreover, Sofia has developed very good cooperation with other countries in Western Balkans and South-East Europe. The latter argued that Bulgaria has several reasons not to face a bankruptcy like Argentina in 2000-2001. The fiscal situation is sound, and the local banking sector is composed of Italian, Hungarian, Austrian, Greek banks. There is also the longer term perspective that Bulgaria has a comparative advantage in terms of both cost levels (lower living standards and income levels, which are half compared with the 10 new EU member-states who joined in 2004) and strong education levels which will continue to support its medium term development with an especially important role also to be played by EU funds in improving infrastructure.

The conference concluded with a short debate on possible responses and solutions to Bulgaria's economic woes. According to A. Steinherr, there is no quick fix and old recipes like devaluation or subsidies won't work. Only education will ensure more competitive advantage than any other area, but Bulgaria – like other countries – is suffering the consequences of brain drain. In response, a number of participants disagreed with this assessment and prescription. First of all, brain drain is an inevitable part of enlargement. The current crisis will correct this because it is safer to be in one's home country when unemployed (M. Humphreys). Second, education reform could backfire because it risks abolishing the safety of permanent jobs which is important for academic output, and it could also run into difficulties due to gerontocratic structure of university hierarchies. K. Drezov suggested that the foreign affairs establishment in Sofia invites academics on a regular basis for an exchange of views as done in the UK, where brainstorming sessions are routinely arranged for the benefit of newly appointed British ambassadors.

Conclusion

The conference produced a number of important insights and lessons that are of interest for both policy- and decision-makers. First of all, Bulgaria's case raises the question of whether it is preferable for a candidate country to comply with the entire *acquis communautaire* prior to accession or to enter the EU and be subjected to continued monitoring (e.g. CVM). The same question can be addressed to the existing member-states and to future cases, including Croatia, Serbia, Macedonia and perhaps even Turkey.

Second, Bulgaria's entry into the EU casts new light on the dynamic between enlargement and integration. On the one hand, the EU is no closer to an agreement on institutional and other reform than before (pending the outcome of Ireland's second referendum). On the other hand, Bulgaria supports the Lisbon Reform Treaty and has not shown any signs of being Eurosceptic – unlike other new member-states such as Poland and the Czech Republic. What remains unclear is the shape of future political integration (supranational or inter-governmental). In turn, this raises questions about existing theories of the EU such as neo-functionalism and liberal inter-governmentalism and the need for a new conceptual framework.

Third, the accession of Bulgaria (and Romania) changes Europe's role in the world and offers potential for the EU's CFSP and EDSP. Bulgaria's ties with Serbia, Russia and other countries in the Union's neighbourhood could strengthen Europe's neighbourhood policy and the new eastern partnership. On the other hand, Bulgaria's recognition of Kosovo and its



NATO membership has not added a new impetus to EU foreign policy and might in fact reinforce existing divisions.

Conceptually and empirically, the case of Bulgaria before and after EU accession raises questions about the European promise of unity-in-diversity and the foundational principles of subsidiarity and solidarity. What is the normative basis of EU conditionality? Do accession treaties enforce uniformity at the expense of specificity or do they promote new synergies that benefit both old and new member-states? Have the single market and the Community institutions led to a greater centralization of power and concentration of wealth or do localities, communities and regions also flourish under the current arrangements? Are the provisions on adopting the entire *acquis communautaire* necessary for the full integration of a new member-state or do they actually hamper the necessarily gradual integration into the Community framework? Have the recent years seen a growing re-nationalisation of powers and policies within the EU or the rise of centripetal forces that might undermine the integration process?

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May 2009

Round Table

Bulgaria and the EU: Before and After Accession

Monday 27 April 2009

Maison de l'Europe, 7 rue du Marché-aux-Herbes, Luxembourg

PROGRAMME

- 09.00-09.30** Opening addresses by
Ivailo Kalfin, Deputy Prime Minister and Minister of Foreign Affairs of the Republic of Bulgaria
Ben Fayot, President of the Commission of Foreign Affairs, Chamber of Deputies of Luxembourg
Paul Duhr, Ambassador, Secretary General at the Ministry of Foreign Affairs of Luxembourg
- 09.30-10.45** **I. Bulgaria's Accession to the EU: Lessons from the Process of Integration**
- Problems and Progress
 - The Challenges of Full Accession and Membership
- 10.45-11.00** Coffee break
- 11.00-12.30** **II. Bulgaria's Sense of 'Europeanness'**
- History and Culture
 - In Search of a European Identity beyond East and West?
- 12.30-14.00** Lunch
- 14.00-15.15** **III. Bulgarian 'Soft Power': Bulgarian Participation in the Implementation of the European Politics**
- CFSP: Western Balkans, Black Sea Region, etc.
 - EU Defence Identity
- 15.15-15.30** Coffee break
- 15.30-17.00** **IV. The Challenges of the Economic Crisis, Globalization and Energy (In)Security for the EU in general and Bulgaria in particular**
- The Future of the Single Market and the Eurozone
 - The EU in the World Economy
- 17.00-17.15** **Wrapping up the discussions by Adrian Pabst**

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