

EDITORIAL

Europe may be growing, but is it also thriving?

Europe is growing, and its roots go deep. After several years of negotiating, the treaty between the States of the European Union and the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and the Slovak Republic on accession to the European Union was signed in Athens on the 16th April 2003. In accordance with its Article 2, Paragraph 2, it comes into force on the 1st May 2004.

Agreement has been reached in the accession document on the adjustments of the treaties on which the European Union is founded. It remains to be seen whether the amendments regarding the composition of the Community bodies and the new decision-making mechanisms will prove their worth in practice and maintain the ability of the European Communities to act. While one can reckon with enlargement proceeding without any friction with regard to those aspects of the European Union that have already assumed a community character, the EC and the EAC, leaving aside possible and by no means new vying for financial shares, it will probably become even more difficult to agree on drafts of political concepts, let alone a common approach, in the area of the European Union's two inter-governmental pillars, GASP and PJC.

This applies above all to the Common Foreign and Security Policy. The Iraq War has created a deep rift within the European Union, including the Accession Candidate Countries. Unco-ordinated action and solo efforts have added to reducing the Union's significance in the world arena, which is not that overwhelming in any case. In the long run, forfeited influence in global politics can only be regained if one no longer allows short-term electioneering considerations or jealous intrigues to guide action but instead looks for standpoints serving common European interests. This is going to be more difficult with 25 Union states than it has with the 15 so far. What also remains to be seen is to what degree the lessons of the Babel of languages regarding the Iraq issue are going to influence the work of the European Constitutional Convention in terms of Common European Foreign Policy. Everyone ought to become aware of how important it is to assume responsibility for an organic growth of the European Union.

Prof. Dr. Christian Koenig

Summer University brings together Israeli and Palestinian experts

by Albert Roger Njome Ekango

A delegation from ZEI went to Israel from 15th to 18th February 2003 in order to prepare a novel project: a European Summer University on Telecommunications Law and E-Commerce Legislation for 40 Israeli and Palestinian experts that ZEI is organising in its premises in Bonn from the 9th to 23rd August 2003 (ESU 2003). These two weeks will be the first phase of the project. The second and third phases are to take place respectively in 2004 (Israel) and 2005 (Palestinian Territories).

Whether the whole project of Telecommunications Law and E-Commerce Legislation in Israel and the Palestinian Territories, which is limited to three years, can be realised as planned is subject to the experiences during the "Bonn phase" as well as the prevailing political situation on the spot.

The target group for the ESU project is acknowledged young Israeli and Palestinian experts – young researchers and young professionals, including IT workers – from both the public (e.g. Communications Ministry, regulatory authority, university) and the private sector (e.g. IT companies) who are confronted with the issue of infrastructure regulation in their everyday

business. In this was the project is expected to receive its intended practical orientation.

The ESU project will be carried out in cooperation with the German Gesellschaft für Technische Zusammenarbeit (GTZ), which is also funding the first project phase in Bonn, and three partner universities: Hebrew University (Jerusalem), Haifa University (Haifa) and Al Quds University (Jerusalem). ZEI will also rely on the logistic support of the Gustav Stresemann Institute (GSI) in Bonn, where participants are to be accommodated during their stay in Bonn.

The main purpose of the ESU 2003 is to enable a transfer of knowledge. Therefore, the programme will offer the Israeli and Palestinian participants, 40 in all, the opportunity to intensively deal with European telecommunications regulation and e-commerce legislation as well as the problems of its implementation and to discuss together the practical relevance of European experience in this field for their countries. Particular emphasis will be laid on the latter aspect. In this context, participants will jointly examine whether and to what extent they can gain some insights from the European experience that may be of use in the regulation of telecommunications and e-commerce legislation in their respective home regions. By embarking on this ESU project, ZEI seeks to make its own contribution to providing the region – and most notably the Palestinians – with the know-how needed to efficiently regulate and administrate

Meeting of the coordinators from the university partners for the ESU-project : (from the left) Bishr Shibliq, Prof. Dr. Christian Koenig (ZEI), Prof. Munther Dajani (Al Quds University), Dr. Khalid Ghanayim (representative of the coordinator from the University of Haifa), Dr. Albert Roger Njome Ekango and Dr. Hartmut Ihne (ZEI), Rifat Azam (Hebrew University) and Prof. Dr. Eyal Zamir (dean of the Faculty of Law at HU)



► telecommunications infrastructure.

Moreover, at the same time, the ESU project as a whole is expected to foster dialogue between young Israelis and Palestinians. This second effect is already intended to be strengthened during the first phase in Bonn through a supporting programme designed to complement the workshop. The supporting programme is expected to encompass talks with prominent personalities with experience in conflicts such as the one the Middle East is currently experiencing.

In the context of preparations for the ESU 2003, a high-level delegation of ZEI was on an official visit to the three university partners Hebrew, Haifa and Al Quds in Israel from 15th to 18th February 2003. The ZEI delegation consisted of Prof. Dr. Christian Koenig, LL. M, Director at ZEI and Director of the ESU project, Dr. Hartmut Ihne, Managing Director of the Internationales Wissenschaftsforum Bonn, IWB, in which ZEI is located, Dr. iur. Albert Roger Njome Ekango, research assistant at ZEI and executive manager and co-ordinator of the ESU project, and Mr. Bishr Shibliq, law student and assistant in the ESU project.

The ESU 2003 must be the beginning of long-term, constructive and sustainable co-operation

The visit was necessary to enable the ZEI representatives to get acquainted with the three partner universities and gain a better and more thorough impression of the way the latter are preparing for the ESU 2003 in Bonn. Moreover, it offered a suitable opportunity to have a detailed exchange of ideas with the co-ordinators of the project from the partner universities' side on the next preparation steps to be taken (e.g. selection of participants).

The highlights of the visit were the various meetings the ZEI delegation had with the respective presidents of the partner universities – Sari Nusseibeh, Ph.D. (Al Quds), Prof. Yehuda Hayuth (Haifa) and Prof. Menachem Magidor (Hebrew) – and the signing of a "Framework

Agreement" giving co-operation between the four institutions a formal basis.

Although the presidents were met separately, the ZEI delegation were surprised about the similarities in their respective perception of the opportunities the ESU project offers. They underlined the particular value of the contribution ZEI will be making to knowledge transfer between Israeli and Palestinian experts with the starting phase in Bonn. For all presidents one thing was clear: The ESU 2003 must be the beginning of long-term, constructive and sustainable co-operation between the four institutions. All the parties involved are ready to do their best to make it a tremendous success.

Most importantly, the partner universities outlined the fact that the ESU project will also enable specialist exchange between some potential Israeli and Palestinian decision-makers. All the representatives of the partners agree that this aspect is an additional benefit from the project that will give Israeli and Palestinian experts an opportunity to learn from their mutual experiences.

The idea of extending the circle of participants – involving other Middle East regions such as Jordan and Egypt – and the incremental thematic opening up of the overall project to other issues of infrastructure regulation, such as energy or water supply, was agreed to be considered for phases 2 (2004) and 3 (2005). The first phase in Bonn will therefore be used to give co-operation a sound and solid basis and to identify further needs of participants and partners for the future.

Dr.iur. Albert Roger Njome Ekango is a Research Assistant at ZEI's Department for "Political, Legal and Institutional Issues".

AT A GLANCE

The implementation of the European Community's new regulatory framework for electronic communication markets and the large-scale reform of German telecommunications law triggered thereby, were subject of the conference "Implementation of the New Telecommunications Regulatory Framework" held on 26th February 2006 in Brussels. The conference was organised by ZEI and the Representation of North Rhine Westphalia to the European Union. The consolidation procedure set out by Article 7 Directive 2002/21/EC formed the centre of the discussion involving renowned experts such as **Mr Matthias Kurth** (President of the Regulatory Authority for Telecommunications and Post, Reg TP), **Prof. Dr. Dr. h.c. Ulrich Immenga**, **Ms Eunike Prokop** (General Directorate Information Society), **Dr. Manfred Witte** (Federal Ministry of Economics and Labour), **Prof. Dr. Bernd Holznagel** and **Dr. Rüdiger Hahn** (Reg TP). According to Article 7, the Commission plays an important role in regulatory procedures before the national regulatory authorities. Representatives of Reg TP stressed that the implementation of the consolidation procedure would bring about considerable changes in regulatory practice and that decisions could be delayed if the parties did not stick to the timetable set out by Article 7. The Commission, on the other hand, outlined the possible legal consequences of an infringement of the relevant provisions.

At the beginning of 2003, ZEI won 15 more Senior Fellows from eleven countries to join the different research groups: **Prof. Shuhui Dong** (Nankai University, VR China), **PD Dr. Stefan Fröhlich** (University of Erlangen/Nürnberg), **Ambassador Igor Jovic** (former republic of Jugoslavia), **Svetlana Pogorelskaja** (Academy of Sciences of the Russian Federation, Moscow), **OSZE-Ambassador Geert-Heinrich Ahrens** (Albanien), **Prof. Dr. Thomas Banchoff** (Georgetown University, USA), **Dr. István Stumpf** (Budapest), **Prof. Dr. Alexander Tschubarjan** (Director of the Institute for General History of the Russian Academy of Sciences), **Prof. Dr. Horoyuki Ogino** (Tokio), **Prof. Dr. Fathi Tikri** (Tunis), **Prof. Dr. Kam-por Yu** (Hongkong), **Prof. Dr. Tatsuo Inoue** (Tokio), **Prof. Dr. Ryosuke Ohashi** (Kyoto), **Prof. Dr. Wang Guangcheng** (Modern Management Center Shanghai) and **Jing-Bao Nie** (University of Otago, Bioethics Centre, Dunedin, New Zealand).

ZEI CALENDAR

JUNE-SEPTEMBER 2003

3 rd - 6 th June	34th Konstanzer Seminar on "Monetary Theory and Policy" on the Isle of Reichenau
6 th June	Inaugural Lecture of Dr. habil. Jürgen Kühling, Juridicum Bonn
13 th June	Workshop (ZEI-A) about the new European Telecommunications Law at ZEI
20 th - 22 nd June	Workshop on Federalism und Decentralization at ZEI
24 th June - 19 th July	10th Transatlantic Summer Academy (TASA) , organised by ZEI in co-operation with the University of Bonn's North America Program for Students from North America and Europe with the topic "Unilateral America, Multilateral Europe? Managing Divergence in Transatlantic Relations"
27 th - 28 th June	4th Session of the Macroeconomic Committee of the German Economic Association at ZEI
8 th July	EMU Monitor Press Conference , Presse-Club Frankfurt
14 th - 22 nd July	ZEI Summer School on Monetary Theory and Policy, 2003 at Physikzentrum Bad Honnef
15 th July	Europaforum : Prof. Dr. Erhard Buseck, Special Coordinator of the EU Stability Pact for South East Europe, speaks about "Topical Developments within the Stability Pact"
19 th - 27 th July	Summer School organized by ZEI's Network for European Studies in South-East Europe at the BRIE in Rousse/Giurgiu (Bulgarian-Romanian Inter-University European Centre)
10 th - 24 th August	Summer University on Telecommunications at ZEI
14 th - 17 th August	Conference "Political Economy of Transition: Job Creation and Job Destruction" organised by ZEI and the William Davidson Institute, University of Michigan
7 th - 15 th September	4th Stability Pact Summer School in Dubrovnik

ZEI as think-tank in European Policy Institutes Network (EPIN)

by Marcus Höreth

The deliberations within the Convention on the Future of Europe are in a crucial stage now. The Convention can be expected to ambitious proposals for the next Intergovernmental Conference which will start in October this year. In order to be an active part of this historic Constitutional process, ZEI, together with its partners, has founded EPIN, a network of EU Research Institutes acting Europe-wide.

Almost 40 research institutes from 28 states that are either already members of the EU or will become Member States very soon are participating in this network. These dynamic think-tanks are concentrating their research on the Future of Europe debate.

Not only do regular meetings in Brussels address important topics for academics, but they also serve as an effective instrument in policy-advising. At least two official members of the Convention are participating in these Workshops in order to exchange their views with the experts.

For both sides, political decision-makers and political scientists alike, the advantages of this network of excellence are obvious. While the experts are directly informed about the current state of the Convention's deliberations, the politicians gain from the instructive expertise by the academics who may offer convincing and sustainable solutions to a wide range of problems relating to European institutional construction.

By the same token, the multinational organisation of EPIN guarantees that mutual

respect is fostered for divergent national positions and debates in the respective home countries. Therefore, regular meetings of EPIN take place not only in Brussels, but also in all home countries of all participating research institutes. These meetings are generously supported by the European Commission. ZEI's contribution within this network was a Conference on "Prospects for a European Constitution – Prospects for more Legitimacy" which took place on May 13th/14th, 2003. Not only did many experts from Europe's leading think-tanks attend this successful Conference, but practitioners and politicians, such as Nikolaus Meyer-Landrut, spokesman of the Convention, and Walpurga Speckbacher, Head of Chairman Giscard d'Estaing's Private Office, came as well.

Dr. Marcus Höreth is a Scientific Assistant at ZEI's Department for "European Value Systems, Cultures and Languages"

ZEI PUBLICATIONS

TEXTBOOKS

Koenig/Kuhlenkampff/Kühling/Loetz/Smit: Internetplattformen in der Unternehmenspraxis: Wettbewerbsrecht, Kartellrecht, Ökonomie. Schriftenreihe Kommunikation und Recht, Vol. 12, Heidelberg 2002 (ISBN: 3800513072).

Koenig/Vogelsang/Kühling/Loetz/Neumann: Funktionsfähiger Wettbewerb auf den Telekommunikationsmärkten: Ökonomische und juristische Perspektiven zum Umfang der Regulierung. Schriftenreihe Kommunikation & Recht, Vol. 16, Heidelberg 2002 (ISBN 3-8005-1318-8).

ARTICLES AND PAPERS

Koenig: Wider wettbewerbswidrige Querverbindungen in vertikal integrierten Unternehmen. In: EuZW 2002, S. 289

Koenig: Freiwillige Zusatzversorgung und EG-Beihilfenrecht. In: Zeitschrift für Tarif-, Arbeits- und Sozialrecht des öffentlichen Dienstes (ZTR) 2002, S. 568-577

Koenig/Beer: Wie wird die Gesetzliche Krankenversicherung in Europa bestehen? In: Zeitschrift für europäisches Sozial- und Arbeitsrecht (ZESAR) 2002, S. 54-61

Koenig/Braun: "Das Geld muß im Lande bleiben" - Über die Unvereinbarkeit der Neuregelung des hessischen und des sachsen-anhaltinischen Lotterierechts mit der EG-Dienstleistungs- und Kapitalfreiheit. In: Sächsische Verwaltungsblätter 2002, S. 157-164

Koenig/Engelmann: Internetplattformen im Gesundheitswesen auf dem Prüfstand des Kartellrechts - am Beispiel der Versorgung mit medizinischen Hilfsmitteln. In: Wettbewerb in Recht und Praxis (wrp) 2002, S. 1244-1252

Koenig/Kühling: Der Streit um die neue Tabakproduktrichtlinie. In: EWS 2002, S. 12

Koenig/Kühling: Totgesagte Vorschriften leben länger. In: Zeitschrift für das gesamte Handelsrecht und Wirtschaftsrecht (ZHR), Vol. 166, S. 656-684

Koenig/Neumann: Das Ende des sektorspezifischen Datenschutzes für die Telekommunikation? In: ZRP 2003, S. 5

Koenig/Steiner: Die Vereinbarkeit nachvertraglicher Wettbewerbsverbote mit der Arbeitnehmerfreizügigkeit des EG-Vertrages. In: NJW 2002, S. 3583-3588

Stabilisation policies in a monetary union

by Susanne Mundschenk
and Jürgen von Hagen

Should economic policies be co-ordinated in a monetary union? This question remains controversial in the public debate about EMU. How independent are Member States in pursuing national economic objectives in a monetary union? What is stabilisation policy in the euro area, where monetary policy is decided at aggregate level while fiscal policy remains in national responsibility? In 1997, the Department "Economic and Social Issues" at ZEI started a broad research programme that addresses these questions.

Economic and Monetary Union has created new and enhanced externalities of economic policies among Member States. Price stability is a prime example. Price stability can only be defined for the entire currency union. Yet, national policies can affect the overall price level, prompting the ECB to react and this reaction is felt by all member states. Thus preserving price stability in the presence of national policy actions by one Member State creates economic costs for the other members. EMU also weakens the incentives for governments to consider the consequences of their national economic policies for price stability, because the benefits partly fall on other member governments in EMU.

What are the implications for stabilisation policies in a monetary union? If the ECB cares about overall price stability and aggregate output, and if national fiscal authorities are concerned about their national output and their relative competitiveness, then monetary policy and national fiscal policies will interact in determining output and price stability in the monetary union. Who should optimally counteract aggregate demand and supply shocks? At the level of the Union, optimal monetary policy solely offsets the aggregate demand shocks, while optimal fiscal policies

react to supply shocks only. Monetary policy also reacts to the aggregate supply shocks even if the central bank cares about price stability only. This is because output rises and prices fall in response to supply shocks caused by i.e. productivity increases. This enables the central bank to ease its monetary policy stance in response to the shock.

Given the economic interactions the question of whether countries should co-ordinate or not is not relevant since co-ordination takes place anyway and the only open question is to what degree governments should co-ordinate. Co-ordination thereby ranges from mutual recognition of the policy responses by other member states to a joint evaluation of policy trade-offs. What are the implications if fiscal authorities co-ordinate by jointly evaluating their policy trade-offs? Under a joint evaluation scenario, fiscal authorities would react less to supply shocks. This indicates that externalities between Member States have been internalised in policy formulation. The central bank however, given the co-ordinated policy response of the fiscal authorities, would formulate a stronger response to an aggregate supply shock in this scenario as long as it cares not only about inflation but also about output. What are the implications if fiscal authorities together with the central bank jointly evaluate the policy trade-offs? In this scenario, the central bank is the only actor at Union level, offsetting not only the aggregate demand shocks but also the aggregate supply shocks. The aggregate fiscal policy would not react at all, suggesting that the conflict is a pure distributional game between individual governments with no implications for the Union.

Susanne Mundschenk is Junior Fellow at the ZEI department "Economic and Social Issues"; Prof. Dr. Jürgen von Hagen is the director of this department.

State aid control in the Candidate countries

by Jens-Daniel Braun,
Glori Husi, and Karlis Svikiis

The Candidate countries have made considerable progress in adapting their laws to the *acquis communautaire* as regards the area of EC state aid law. However, the institutional arrangements in the Candidate countries are far from perfect.

In the Europe Agreements (EA), all Candidate countries have undertaken to adapt their legislation to the *acquis communautaire*. The basic provisions dealing with state aid control in those countries can be found in Art. 63, 64, or 65 (the numbering varies) of the Agreements. The compatibility of state aid falling under the provisions of those articles shall be assessed on the basis of criteria arising from the application of the rules of Art. 87 EC Treaty (Art. 64 (2) EA). By 2001, implementing rules to these provisions had been adopted in all Candidate countries. The most important legal elements of these Implementing Rules are the obligation to establish national monitoring authorities and the definition of the state aid *acquis communautaire* to be implemented by the Candidate countries.

Decisional practice of national authorities satisfactory

The provisions of Europe Agreements apply to new aid, notwithstanding the obligation of the Candidate countries to also align existing "old" aid schemes, now subject to Art. 88 (1) EC, as existing lawful aid. The Europe Agreements do not contain provisions similar to Art. 88 EC regarding aid granted unlawfully. Therefore, it is in principle left to the Candidate countries themselves to decide on the procedural aspects with regard to aid notifications, and on the consequences of unlawful aid measures.

All Candidate countries have introduced their own national legislative provisions dealing with this issue. Furthermore, they have established responsible national state aid monitoring authorities. These authorities have come up with a remarkable amount of decisional practice which has been evaluated as satisfactory by the Commission in most cases. However, in certain cases, the efficiency of the institutional arrangements can be questioned. For instance, in a number of Candidate countries the Ministry of Finance (or an institution linked to it), rather than an independent supervisory body, is responsible for the control and assessment of state aid measures. This lack of "functional independ-

ence" throws doubts upon the reliability of these mechanisms. The shortcomings of these institutional arrangements become even more obvious when considering that the Commission has to rely to some extent on the reports provided by the very same national authorities when evaluating the state aid policies in the Candidate countries. Furthermore, the legal powers and the political influence of these authorities hardly resemble to that of the EC Commission.

Occasionally, Candidate countries have tried to justify certain practices incompatible with EC state aid law by pointing to their particular status as transitional countries with specific problems. However, the Commission is becoming ever more reluctant to accept this argument. It has recently voiced its opinion that all Candidate countries with the exception of Bulgaria and Romania are already to be considered as market economies. Likewise, the recently drawn Implementing Rules follow the approach that Candidate countries may only ask the Association Council to adopt, under certain circumstances, a decision, that will deal with the particular difficulties of these states on their way towards a market economy. Therefore, it is unlikely that the Commission will grant exemptions to one of the Candidate countries under Art. 4(3) of the Implementing Rules in the future. Nevertheless, all Candidate countries are considered areas covered by the exemption of Art. 87(3)(a) EC, and are entitled by the existing rules on regional aid to grant a higher amount of state aid. The Commission – together with the Candidate countries – is currently preparing the so-called regional aid maps, which will allow for a correct application of the regional aid rules in the Candidate countries.

Lessons to be learned

Regarding the experience of state aid control in the Candidate countries, two particular features should be emphasised: First, it would certainly be useful for the future Member States to retain the invaluable administrative know-how accumulated by the national monitoring authorities during the tremendous effort of the Candidate countries to adopt and enforce the state aid provisions. To make best use of this accumulated knowledge, the current national monitoring authorities might be mandated, upon accession, with the responsibility of co-ordinating units for state aid policy instruments, notifications, reporting, and participation in EC fora, such as the Advisory Committee established under Art. 28 of the Council Regulation (EC) No. 659/1999.

Functional independence of national authorities from donors of state aid must be guaranteed

The second point addresses the institutional arrangements in the Candidate countries. It is the first time that state aid control is applied not at a supranational level but at the national level. This raises the question of whether this can serve as a role model for the future. It is interesting to note that the recently introduced block exemptions go into that direction in that they are applied by national authorities and, for the purpose of control, depend to a large extent on national jurisdictions. The experience with the Europe Agreements demonstrates that such systems at national level can work, provided that two conditions are fulfilled. First, the state aid authority must have the necessary administrative capacity. Second, there must be a functional independence from the grantors of state aid. Nonetheless, the current model in the European Community, which by and large centralises state aid control at a supranational level, is still the most appropriate in a multilateral context.

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ZEI PUBLICATIONS

Discussion Paper Series

C 108/2002

Hans von der Groeben: Europäische Integration aus historischer Erfahrung. Ein Zeitzeugengespräch mit Michael Gehler.

C 109/2002

Emil Mintchev / Klaus Büniger: A Sustained Economic Revival in Kosovo. Need for a Liberal Concept.

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Stefan Fröhlich: Das Projekt der Gemeinsamen Europäischen Sicherheits- und Verteidigungspolitik (GESVP): Entwicklungen und Perspektiven

The fall of the Wall, September 11 and the Iraq conflict as reflected by the transatlantic activities of ZEI

Interview



The research group "Europe's Role in the World" focuses on European foreign policy. Dr. Franz-Josef Meiers, a distinguished expert on transatlantic relations after the end of the East-West Conflict, is concentrating on an analysis of security and defence policy on both sides of the Atlantic and analysing the different attitudes within Europe and the USA with regard to combating terrorism.

Dr. Meiers, why was the fall of the Wall a crucial date for the transatlantic relations of the EU?

Meiers: With the end of the East-West Conflict, the unifying ties of a common threat ceased to exist. The developments in the Balkans brought NATO into the arena. Its role in efforts to achieve peace had to be clarified.

In a major study funded by the Fritz Thyssen Foundation, you are examining the security and defence policy of the Federal Republic of Germany in the context of Euro-Atlantic integration in the decade between 1990 and 2000. What results have you established?

Meiers: Four case studies have been examined: the attitude towards European security and defence policy, NATO reform, participation in operations overseas and, finally, Federal Army reform. It was revealed that a distinction has to be made between the political and the military dimension. As far as the political dimension is concerned, Germany as a united country has clearly assumed the role of a leader. Take the early recognition of Slovenia and Croatia or Joschka Fischer's campaigning for a preventive and integrative policy of the comity of nations towards former Yugoslavia, which then led to the Stability Pact. What is characteristic of this is the clear emphasis on ending the conflict politically and eliminating the trouble spots. On the other hand, a reflex to avoid leadership can be identified in military issues, such as in the involvement of Federal Army soldiers in operations overseas, or also during the Kosovo War, when the Federal Army accounted for a mere one percent of the combat planes deployed by NATO.

With the new millennium, a new topic has come to the fore in transatlantic relations: the threat posed by Islamic terrorism and, in the wake of it, the Iraq conflict. How is European foreign and defence policy positioned in this situation?

Meiers: The crucial question is: how are we dealing with the new challenges? And what becomes apparent here is that opinions in Europe and the USA, but also among the individual European states, are far apart. Thus the American President had determined that he wished to rule out any threat from Iraqi weapons of mass destruction right from the start. To him, taking preventive action meant a military response.

Europe was deeply divided on this issue. Already in January, Germany and France did not sign the appeal of eight European states to support the USA in the Iraq issue. What is revealed here is that whenever difficult topics crop up, no common ground is achieved. The EU is still far away from a common foreign and security policy. All we always have is agreement on the basis of the smallest common denominator. At that point, this meant still granting the United Nations inspectors enough time to disarm Iraq. But already, there was no agreement on how much time should be granted.

From the 24th June to the 19th July, ZEI is running the tenth Transatlantic Summer Academy, TASA for short, for 30 students from the USA, Canada and various European countries. This is something of an anniversary. What is the aim of the Academy?

Meiers: In the interdisciplinary programme, which takes just under four weeks, the participants discuss the foreign and security policy as well as the economic topics that are crucial to the transatlantic relations at the beginning of the 21st century together with leading figures and experts from governments, politics, industry and science. The Academy's goal is to sharpen the awareness of future decision-makers in North America and Europe regarding the continuing crucial importance of transatlantic relations beyond the end of the East-West Conflict in a common approach to the multitude of challenges in a globalised world of the 21st century.

What are this year's highlights at TASA?

Meiers: The focus will be on "Unilateral America, Multilateral Europe?", i.e. on the issue of how disagreement among the European states regarding transatlantic relations

can be dealt with. The lecture on this topic at the opening ceremony of the Academy will be given by American Consul General Dr. Edward Keeton. Then, in Berlin, the students are to meet the Co-ordinator of German-American Relations at the Foreign Office, Karsten D. Voigt, representatives of the Chancellery, the EU Representation and the Research Institute of the Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik (DGAP - German Society for Foreign Policy).

The students can then gain a first-hand impression of the Council of Europe and the European Parliament in Strasbourg and of the European Commission and NATO headquarters in Brussels. Here, the important topics will be the fifth Enlargement Round of the EU and the global orientation of NATO security policy. However, the programme also includes cultural highlights, ranging from the Beethovenhaus in Bonn through Sanssouci Palace in Potsdam to guided city tours of Aachen, Strasbourg and Brussels. Instead of an examination, at the end of the Academy, the participants will be given the opportunity to apply their new insights in strategy games involving politics, economics and international law.

Dr. Franz-Josef Meiers was interviewed by Dr. Brigitte Linden, a freelance journalist based in Bonn.

ZEI PUBLICATIONS

Discussion Paper Series

C 117/2003

Ludger Kühnhardt: Welche Grenzen setzt die Globalisierung der europäischen Integration?

C 118/2003

Franz-Josef Meiers (Hrsg.): Die Auswirkungen des 11. September auf die transatlantischen Beziehungen

C 119/2003

Hubert Iral: Between Forces of Inertia and Progress: Co-decision in EU-Legislation

C 120/2003

Carlo Masala (Hrsg.): September 11 and the Future of the Euro-Mediterranean Cooperation

C 121/2003

Marcus Höreth: Do Dreams or Nightmares come true? The Role of Powerful Regions in Europe 2007

C 122/2003

Finn Laursen: The Danish Presidency

A list of all ZEI Publications that have appeared so far can be called up from the Internet at: <http://www.zei.de>

What Role do Banks play in Monetary Policy Transmission in EU Accession Countries?

by Birgit Schmitz

Banks play a major role for the financing of firms. An empirical research project at ZEI investigates how credit growth of banks reacts to monetary policy actions and credit demand and supply factors.

Ten Central and Eastern European Countries have applied for European Union (EU) membership. At the Athens Summit, the accession treaties for eight of them have been signed and the entry date has been set for May 2004. Since all candidate countries must adopt existing EU law, one prerequisite for joining the EU is the country's agreement to join the European Monetary Union later on. The earliest possible date is two years after accession to the EU, so starting in 2006, the European Central Bank will have to pursue monetary policy in an enlarged euro zone with many new members. Therefore, the ECB will need an accurate assessment of the monetary transmission mechanism in these countries.

The financial sectors in the CEEC accession countries can be characterized by a still relatively low level of financial intermediation in comparison to the euro area, e.g. banking assets over GDP are only one third of the euro area average. The capital markets are underdeveloped, thus the external financing of the private sector is strongly bank dominated. Furthermore, the banking sectors had to undergo deep reforms during the transition from a centrally planned to a market economy. In the first half of the 1990s, the banking sector experienced a boom and the number of banks increased very strongly. A profound consolidation period with severe bad loans problems and resulting banking crisis followed in the second half of the decade. Banking regulation is now applied much more strictly than before and competition has become much more intensive due to the entry of foreign banks. Since banks play a major role for the financing of firms, the way they adjust lending in response to monetary policy actions can po-

tentially constitute an important channel through which monetary policy affects the real economy. This so-called bank lending channel has been empirically analysed for the U.S. and the current EMU members; a study for the future monetary union members is so far missing.

An empirical analysis at ZEI is investigating how credit growth of banks reacts to changes in the monetary policy indicator and credit demand and supply factors. First of all, a more restrictive monetary policy should be followed by a reduction in credit growth, while an increase in overall credit demand should have a positive effect on it. Moreover, it is of special policy interest whether different types of banks show different reactions to monetary policy. The usual assumptions in the literature are that a small, less liquid or less capitalised bank reacts more strongly to a monetary policy change than the average bank. The prediction is that the more liquid a bank's balance sheet is, the easier can the bank reshuffle funds on the asset side of the balance sheet to shield the lending activity from restrictive monetary policy shocks. The larger the size and the higher a bank's capitalisation, the more easily can it attract new funds to secure its liquidity position.

Annual Balance sheet data of 262 banks from the period 1990 - 2001

The above predictions are analyzed in a panel of individual banks together with macroeconomic variables. The approach uses annual balance sheet data from the period 1990-2001 of 262 banks, operating in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia. Size is measured by total assets, while liquidity is defined as the ratio of liquid assets to total assets and capitalization is given by the ratio of equity to total assets. These bank characteristics are also included in the regression in form of an interaction term, coefficient of which should give an answer to the question if banks with higher values of these character-

istics react less to monetary policy than the average bank. The respective country GDP growth represents the credit demand. As monetary policy indicator I use a domestic short term interest rate. In a second set of regressions I instead include the euro area short term interest rate in order to test how strong the ECB monetary policy influences the banks in the accession countries.

Different types of banks do not show different reactions to monetary policy

The results show that credit growth reacts negatively to an increase of the euro area short term interest rate, but does not respond to domestic rate changes. One explanation for that phenomenon could be the fact that these banks have a high proportion of euro-denominated deposits and loans, so that their lending behaviour is already euro-area oriented. GDP growth is an important determinant of bank lending, and the coefficient has the expected positive sign. Larger banks have, on average, less loan growth, which could be attributed to the role of foreign-owned banks which are in general small but very active in the loan market.

The liquidity position of a bank has a positive influence on lending; more liquid banks have larger loan growth than less liquid ones. But neither a large size nor a higher liquidity of a bank determine its loan supply response after a monetary policy action. The role of capitalization is not clear; overall it seems that banks with a high capitalization have, on average, higher loan growth, but it does not seem to shape the loan response to an interest rate increase. In summary, the ECB already influences strongly the banks' lending behavior in accession countries, although they do not belong yet to the same currency area. Second, different types of banks do not show different reactions to monetary policy.

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Does integration foster economic convergence?

by Iulia Traistaru

Over the last decade, increased economic integration, in particular with the European Union (EU), has been the main driving force for economic restructuring in Central and Eastern Europe and has led to a reallocation of resources across sectors and space. In a recent ZEI paper, the case of Hungary is analysed to uncover the role of changing specialisation on regional growth.

While sectoral shifts in these countries have frequently been analysed, the spatial implications of increasing economic integration in the EU accession countries have not been investigated in depth. Has a relocation of economic activity taken place? Did patterns of regional specialisation and industrial concentration change during the 1990s? How does regional specialisation relate to economic growth? Will the cost and benefits of EU membership be evenly distributed across space? Will economic integration foster a convergence of economic structures and income per capita?

These questions are investigated by Iulia Traistaru and Anna Iara in a recent paper which provides empirical evidence about the impact of market integration on regional production structures and regional growth differentials in

Hungary over the period 1994-1998 (Integration, Regional Specialization and Disparities in EU Accession Countries: Evidence from Hungary", presented at the Conference on "Cohesion Reform in a Larger Union", College of Europe, Brugge, 3-4 April 2003).

This research finds evidence suggesting that economic integration (accelerated after 1994) was associated with increasing regional manufacturing specialisation in Hungary. Regions bordering the European Union and interior regions had the highest manufacturing specialisation levels compared to national average and regions bordering other accession countries the lowest. Interior regions and regions bordering countries outside the EU enlargement had the highest increase in regional specialisation and regions bordering the EU the lowest.

Regional differentials in per capita Gross Domestic Product (GDP) increased over the period. Regions bordering the EU had the highest levels of GDP per capita compared to the national average, while regions bordering other accession countries and regions bordering countries outside the EU enlargement had the lowest levels of GDP per capita relative to the national average. The econometric analysis in this paper finds a positive relationship between regional manufacturing specialisation and regional growth. The change in regional specialisation is also positively related to regional growth, but

this relationship is weak. After checking on the initial levels of regional per capita GDP, the authors find that high growth rates are associated with high initial levels of GDP per capita, suggesting a pattern of regional divergence of per capita income.

This paper maintains that market integration has fostered divergence forces in Hungary and led to an increase in regional disparities, and led to an increase in regional disparities, in other words, to winners and losers. Although this paper does not take a normative approach, its results suggest a role for regional policy in the context of economic integration if achieving cohesion is an accepted goal.

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ZEI PUBLICATIONS

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Consequences of globalisation for the European integration process

As a Public Policy Scholar, Prof. Dr. Ludger Kühnhardt, director of ZEI's department of "European value systems, languages and cultures", visited the Woodrow Wilson Center for International Scholars in Washington D.C. from March to July 2002. As a result of his intense investigations he presented the publication "Constituting Europe. Identity, Institution-Building and the Search for a Global Role".

The question of European identity is increasingly becoming political. The work of the Constitutional Convention and the increasing demand for a stronger global role of Europe link the issue of identity with the political profile and willpower of the European Union. Scholarly research has to increasingly take note and combine the findings of various approaches: institutional research – which has defined the multi-level governance system inside the EU –, the finding of international relations – which look for a post-Cold War new world order – and political theory – which is searching for the normative foundation of Europe amidst an ever increasing ethical pluralism – have to be linked in order to gain fresh insights and deeper understanding of some

of the driving forces of our time. Kühnhardt has undertaken his latest research in the spirit of such a multidimensional methodology, which clearly broadens the horizon of the contents as well. His academic papers and essays contained in the book give testimony to the breadth and depth of the current conditions defining and shaping Europe's constitution.

Kühnhardt is a keen supporter of a European constitution. With the introduction of the EURO, the European integration process is becoming increasingly political and thus requires a constitutional frame, which at the same time will serve as a point of reference for further intellectual debates about the character of Europe. In light of the latest bio-medical research he expresses his unequivocal support for a concept of inalienable human dignity, if Europe is to maintain its claim to support universal human rights.

The need to revitalise education policies in the EU on the basis of incentive-oriented structures is considered by him as the second most important normative contribution for a Europe capable of winning the future beyond the world of material progress. A special aspect is mentioned in Kühnhardt's discussion of EU-Turkey relations. At the end of thorough reforms within Turkey, he argues, it should be

both in the interest of Turkey and the EU for Turkey to become an EU-member.

Kühnhardt puts special emphasis on the future of transatlantic relations. He pleads for a positive Atlantic agenda and supports the idea of a new Atlantic Treaty. The existing "acquis atlantique" is impressive, but it is no longer properly defined and framed. It includes not only security matters and economic issues, but also the field of co-operation on law enforcement, non-governmental social and cultural co-operation of a transcontinental character and the common search for global governance and development. As far as reinvigorating the Atlantic Community as the most advanced model of transcontinental co-operation is concerned, EU-US relations remain irreplaceable.

The book is published as Volume 60 of the ZEI Series with Nomos Publishing House Baden-Baden.

The Convention on the Future of Europe: Drafting a Constitution for the European Union

by Peter J. Cullen
and Peter A. Zervakis

The "Convention on the Future of Europe" has been working on a new EU Treaty in Brussels for one year. ZEI and the Academy of European Law (ERA) are members of a select group of experts who met in Trier in order to discuss the recent proposals.



On the panel of the Trier conference: (from the left) Wolfgang Heusel (director of ERA), Ludger Kühnhardt (director at ZEI), Sarah Judd and Alain Lamassoure (member of the convention, representative of the European Parliament)

The final report of the "Convention on the Future of Europe" containing its proposals for a new EU Treaty will be discussed at a special summit in Salonica on 30th June. Accordingly, the Convention has begun to rapidly accelerate its work, with the current debates focusing on the most controversial questions concerning the balance of power between the institutions. The Laeken Declaration of December 2001 entrusted the Convention with a mandate to make improvements in three main fields: the definition and distribution of EU competences, simplification of EU legal instruments, and the EU decision-making process. The Declaration points to the possible adoption of "a constitutional text in the Union" which would help achieve more clarity, efficiency, democracy and transparency in the running of the European Union. The new treaty should also serve the purpose of further preparing the Union's institutions to cope with the membership of twenty-five states.

On the 10th -11th April 2003, together with the Center for European Integration Studies of the University of Bonn (ZEI), the Academy of European Law (ERA) brought together a select group of experts from the EU institutions (Gilles de Kerchove, Alain Lamassoure, Alfonso Mattara, Kurt Riechenberg, Floriana Sipala, Hans-Bernhard Weissert), political, international academia (Yves Gautier, Finn Laurssen, John Ush-

er), and the media (Hans-Martin Tillack), in order to discuss the legal consequences of the latest constitutional proposals for the Union's legal system, the separation of powers between the institutions, and certain key policy areas.

Mr. Lamassoure, as member of the Convention, opened the conference by discussing the topic of the leadership of the EU by a new form of Presidency. The drafts proposed so far foresee a unified legal structure for the Union. This would entail the abolition of the "pillar structure" which finds its basis in a number of different treaties. The single constitutional text would begin by defining the guiding principles and objectives of the Union; it would incorporate the EU Charter on Fundamental Rights, contain a new specification and division of EU competences and adapt the EU's legal instruments.

The institutional part of the Treaty envisages co-decision with qualified majority voting in the Council as the general procedure for EU legislation. Exceptions would be permitted in certain very sensitive fields - with the attendant risk, however, that hoped-for efficiency gains may be lost. Most of the speakers argued that the abolition of the pillar structure would make sense only if proved and tested "Community methods" were then employed. There remain a number of open questions on key issues: Should the Union

be structured federally or remain a "hybrid model"? The effectiveness of the subsidiarity principle has yet not been proven; although the Convention hopes to strengthen it, most speakers continued to see it as, fundamentally, a political rather than a legal principle. While more integration in the field of Justice and Home Affairs may be achieved as a result of the Convention proposals - which were broadly welcomed by Mr. de Kerchove and Professor Gautier - the future of Common Foreign and Security Policy does appear much more uncertain after the Iraq War. The conference briefly discussed the splits between the Member States on the interpretation of global security, military intervention, a European defence arm and relations with the US Administration. Finally, a true public discourse on the European Union does not seem to have been achieved by the Convention, whose debates have been dominated by experts apparently unable to bring the discussion into the public domain. The anticipated broad media coverage has not materialised.

It is still unclear just how ambitious the final constitutional text to be presented will be as regards streamlining of the institutions, more effective legal instruments, an enforceable human rights Charter and stronger EU policies in criminal law and in foreign and defence policy. It is possible that the consensus being sought on these key issues will not be easily achieved, as the heated debate within the Convention on a stronger EU executive has revealed. The final panel discussion of this ERA-ZEI conference was intense and exciting, anticipating an equally exciting concluding round of Convention debates.

Peter J. Cullen is Head of Section for European Public Law, ERA (Trier). Dr. Peter Alexander Zervakis is Senior Research Fellow in the Department "European Value Systems, Cultures, and Languages" at ZEI.

The Basque Country in a globalising world

by Georg Michels

On March 26th, 2003, Juan José Ibarretxe, Prime Minister (Lehendakari) of Euskadi (the Basque Country), gave a keynote speech on the Basque country in a globalising world. While visiting North Rhine-Westphalia, Ibarretxe came to ZEI to make proposals for a consistent realisation and renewal of the Basque-Ibero agreement on Basque autonomy of 1979. He represented a self-confident region that is perhaps the most successful in Spain from an economic point of view and exceeds EU average.

Against the background of the war on Iraq, Ibarretxe pointed to the dangerous resurgence of a right of the stronger. Using this pattern to describe the domestic situation, he blamed the Spanish Prime Minister Aznar and his government for new authoritarian tendencies. Finally, Spain was to accept the fact that it consists of several nations, the Catalans, the Basque people, the Galicians and others, and abandon

the notion of a single Spanish nation, which has proved to be a threat to agreements on autonomy.

Ibarretxe pledged for a new agreement that would acknowledge the identity of the Basque people and respect their decisions. The Spanish government should recognise Basque autonomous rights, including an appropriate representation at EU level. The prime minister distanced himself from separatism and terrorism, which ETA stands for. Instead, he outlined a vision of a new Europe of regions that had overcome the phenomenon of national states.

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IMPRINT

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn
Walter-Flex-Str. 3
D - 53113 Bonn
Germany

ISSN: 1437-1545

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ZEIreport is published three times a year in English and German. It can be ordered free of charge from the address above.