

**A European Perspective for Ukraine -  
Risks and Challenges**

**- Strategy Recommendations –**

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## **Introductory remarks**

Enlargement of the European Union (EU) towards the east is a step toward creating security and stability beyond the borders of present day “Europe”. The new opportunities at the same time also carry some new risks and political challenges. These emanate on the one hand from economically and politically unstable neighbouring states and on the other hand from follow-up questions beyond the current requirements of EU enlargement towards the east. Ukraine, located between Russia and Poland, and a case of unfinished transition, includes as well risks and challenges for the EU. At the same time, Ukraine remains at risk for exclusion from European institutions. Such an exclusion would preclude the possibility of influencing the Ukrainian transition through norm setting from the outside and encouraging a western orientation.

The policy recommendations “**A European Perspective for Ukraine - Risks and Challenges**” are based on the report “**Beyond EU enlargement**”.<sup>1</sup> The report deals for the first time with the potentials and risks at the eastern and south-eastern borders of the European Union that will exist “beyond enlargement”, with “beyond” understood in a threefold sense:

**Geographically** as regards those states and border regions for which the EU has not yet formulated accession prospects, and which will thus find themselves beyond the European integration process in the medium term as well;

**Temporally** as regards the follow-up questions of enlargement towards the east from 2005 onwards for various policy areas;

**Qualitatively** as regards the questions of principle to be derived from enlargement towards the east and the discernible finality of the Union.

These three dimensions are not only relevant for the analyses of Eastern and Southeastern Europe presented in the two accompanying volumes, but also for future policies which will be geared towards all of Europe, along and beyond the borders of the EU. As far as the regions beyond the future EU borders are concerned, the key questions of exporting stability without importing instability, of permeability and control, of enlargement process and foreign policy are

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<sup>1</sup> Beyond EU Enlargement. Strategy Paper, Werner Weidenfeld (ed.), Gütersloh 2001.

unavoidable. At the moment these bordering states can be divided into two groups: The successor states of the former Soviet Union, which after eastern enlargement will come to share a border with the EU, and the southeastern region of Europe. Both regions confront European decision makers with new tasks in the area of security policy, caused by the whole spectrum of transformation problems, ranging from economic crises to minority conflicts escalating into violence. In this context, the EU is required like no other organisation in Europe to play a role as stabiliser in the transformation process, and also as a soft-security provider. In formulating its policies, the EU has up to now opted for various forms of co-operation that do not offer the perspective of accession: In its co-operation with Belarus, Moldova, Ukraine and Russia accession has been excluded for the time being. Relations with states that will be in Direct Neighbourhood with the enlarged EU are limited to partnership and co-operation. For the regions of acute crisis in the “Western Balkans”, on the other hand, the “window of opportunity” for prospective accession has been opened, and is supported by the Stability Pact as well as the Stabilisation and Association Process.

Despite substantial differences, the security and stability problems in both regions can be approached via a comparison of four key areas:

1. Minority problems and legacies of the past;
2. Questions of visa and customs procedures;
3. Regional and cross-border co-operation;
4. Pan-European security.

With these topics in mind, the regions of the future eastern border (Direct Neighbourhood) and the future southeastern border were investigated in order to identify risks and follow-up questions resulting from the process of enlarging the EU towards the east. Conclusions and consequences can be found in the subsequent policy recommendations. Even though Ukraine is an important neighbour for the enlarged EU, it should be analysed and considered strategically in a wider framework.

## **Transition problems and challenges for Ukraine**

Since its independence in 1991, Ukraine has remained a difficult case of transition. Until 1995 successful achievements reforms were mostly limited to foreign policy. The Ukrainian goals for its position in international relations focus on a balance between Russia and the West. Relations with the West were consolidated by signing the “Charta NATO-Ukraine”, fulfilling American requirements of the withdrawal of nuclear warheads, membership in the Council of Europe, co-operation with the EU and rapprochement with the Central and East European states. Polish-Ukrainian relations changed from hostility based on legacies of the past to a strategic partnership in Central Europe. Deepening and strengthening of relations with the EU is one of Ukraine’s priorities, because of internal as well as external interests. The EU is one of the most important actors supporting the Ukrainian transition process. The EU’s policy towards the Central and East European accession states and the Stability Pact for South Eastern Europe are the best examples of making closer relations with the Union, up to and including membership, conditional on economic, social and political reform. Furthermore EU-Ukrainian relations are important to maintaining Ukraine as an independent nation-state. At the same time, Ukraine has succeeded in regulating key problems with Russia, as seen by the signing of the treaty on the Black Sea Fleet as well as an agreement on good neighbourliness and co-operation.

In contrast to the successful foreign policy, internal reforms towards democracy, market economy and civil society have been very slow. While some formal progress such as the adaptation of a post-socialist constitution in 1996, the holding of parliamentary and presidential elections in 1994 and 1999 and the introduction of the national currency Hryvna in 1996 has been achieved, the record of institutional reforms in Ukraine was very weak:

Table 1. Progress in transition in sectors 1999<sup>2</sup>

	Reform Index	Private share/GDP, in %	Large-scale privatization	Small-scale privatization	Enterprise restructuring	Price liberalization	Trade & Forex	Competition policy	Banking Reform	Financial market
Hungary	28	80	4	4+	3+	3+	4+	3	4	3+
Czech Republic	27	80	4	4+	3	3	4+	3	3+	3
Estonia	28	75	4	4+	3	3	4	3-	4-	3
Slovak Republic	26	75	4	4+	3	3	4+	2	3+	3
Poland	26	65	3+	4+	3	3+	4+	3	3+	3+
Slovenia	25	55	3+	4+	3-	3	4+	2	3+	3
Latvia	25	65	3	4	3-	3	4+	3-	3	2+
Lithuania	25	70	3	4+	3-	3	4	2+	3	3-
Croatia	24	60	3	4+	3-	3	4	2	3	2+
Bulgaria	22	60	3	3+	2+	3	4+	2	3-	2
FYR Macedonia	22	55	3	4	2	3	4	1	3	2-
Albania	21	75	2	4	2	3	4	2	2	2-
Romania	21	60	3-	4-	2	3	4	2	3-	2
Moldova	21	45	3	3+	2	3	4	2	2+	2
Russia	20	70	3+	4	2-	3-	2+	2+	2-	2-
Ukraine	19	55	2+	3+	2	3	3	2	2	2
Belarus	12	20	1	2	1	2-	1	2	1	2

(1=hardly any progress, 4+=standards of industrialized countries)

Responsible for the sustained reform resistance of Ukraine was, apart from the lack of a national elite and the absence of suitable state institutions, the high level of corruption and the capture of the state by private interests. The development of a deeply entrenched rent-seeking system has hindered reforms in general and stifled markets and private enterprise in particular. A very illustrative indicator is the extremely small flow of foreign direct investment into Ukraine, apart from Belarus the lowest per capita of all European transition countries.

<sup>2</sup> EBRD, Transition Report 1999 London 2000, p. 24.

The year 2000, however, was a remarkably successful year in reform terms for Ukraine. The government of PM Yushchenko was the first government in Ukraine, which was determined to put structural reforms through, genuinely interested in maximizing welfare for Ukraine. Among the major achievements the mentioning of the following should be made:

Table. 2. Reform Successes of the Yushchenko-Government<sup>3</sup>

<ul style="list-style-type: none"> <li>• paradigmatic change of government away from rent-seeking behaviour towards good governance</li> </ul>	<ul style="list-style-type: none"> <li>• reduction of wage and pension arrears</li> </ul>
<ul style="list-style-type: none"> <li>• substantial reduction of state subsidies for various sectors and enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• implementation of structural reforms in agriculture</li> </ul>
<ul style="list-style-type: none"> <li>• strengthening of fiscal discipline and improvement of budget procedures</li> </ul>	<ul style="list-style-type: none"> <li>• start of structural reforms in the energy sector</li> </ul>
<ul style="list-style-type: none"> <li>• reduction of non-monetary transfers (barter)</li> </ul>	<ul style="list-style-type: none"> <li>• speeding-up of privatisation</li> </ul>
<ul style="list-style-type: none"> <li>• reduction of foreign debt</li> </ul>	<ul style="list-style-type: none"> <li>• first successes in deregulation of industry</li> </ul>

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<sup>3</sup> See in particular German Advisory Group on Economic Reforms, The First 365 Days: A Constructive Retrospective of Economic Reforms in Ukraine in the Year 2000, Kyiv, January 2001.

Partly as a result of the above-mentioned reforms, macroeconomic data for 2000 is quite impressive:

Table. 3. Key Economic Indicators for Ukraine<sup>4</sup>

		1997	1998	1999	2000
Nominal GDP	USD bn	50.2	41.9	30.8	32.2
GDP growth (real)	% yoy	-3.0	-1.9	-0.4	6.0
Industrial production	% yoy	-1.2	-1.7	2.2	12.9
Agricultural production	% yoy	-1.9	-9.8	-6.9	7.6
Private consumption	% yoy	0.5	2.0	1.5	5.0 *
CPI	% yoy aop	15.9	10.6	22.7	28.2
CPI	% yoy eop	10.1	20.0	19.2	25.8
PPI	% yoy aop	7.7	13.2	31.5	20.9
Exports (gs, USD)	% yoy	0.0	-13.4	-7.9	19.6 +
Imports (gs, USD)	% yoy	2.0	-14.0	-19.1	15.0 +
Terms of trade	% yoy	6.3	1.5	-10.6	2.2
Current account	USD bn	-1.3	-1.3	0.8	1.9
Current account	% GDP	-2.7	-3.1	2.7	5.8
FDI (net)	USD bn	0.6	0.7	0.5	0.6
Gross official reserves, net gold	USD bn	2.3	0.6	1.0	1.6
Fiscal balance	% GDP	-6.6	-1.9	-1.3	0.7
Total public debt	% GDP	30.4	51.5	62.8	44.1
External debt (total)	% GDP	19.4	38.4	51.0	32.2
Monetary base	% yoy eop	44.6	21.9	39.3	39.9
Exchange rate	USD aop	1.9	2.4	4.1	5.4

While formal structural changes have progressed, informal structures remain reform resistant. Apart from the absence of suitable state institutions, the high level of corruption, and the capture of the state by private interests were responsible for the sustained reform resistance of Ukraine. The development of a deeply entrenched rent-seeking system has hindered reforms in general and stifled markets, private enterprise and foreign direct investment in particular. Decision-making is more dominated by key actors and interest groups than by institutions, differentiation between

<sup>4</sup> Derzhkomstat, NBU, Deutsche Bank Research, European Central Bank, Institute for Economic Research and Policy Consulting, Kyiv, [www.ire.kiev.ua](http://www.ire.kiev.ua).

economic and political power remains very low, and the weakness of civil society is a major obstacle for transition problems. Ukrainian actors and representatives of international organisations have properly criticised violations of the media, human rights and representatives of the opposition. At the beginning of 2001 President Kuchma came under national pressure and international critique because of his alleged involvement in the disappearance of the journalist Gregory Gongaze. Furthermore, the ousting and arrest of Yulia Timoshenko, the former deputy Prime minister in charge of the energy sector, was a symptom as well as cause of problems of corruption and weak civil society. Therefore, despite the positive results of the Ukrainian reform efforts in 2000, one can foresee a full range of future risks for the transition of Ukraine and, hence, its relations with Europe. These risks have been aggravated by the recent ousting of the Yushchenko-government by an anti-reform coalition of communists and oligarchs in April:

(a) **Economic Growth:** Economic growth in Ukraine is far from sustainable. Major factors in last year's 6% growth of GDP were the drastic devaluation of the Ukrainian Hryvna in 1998, the low statistical base, and the growth of the Russian economy, which is fuelled by soaring oil and gas prices. As Russian economic growth is already slowing down, Ukrainian growth will be put to the test in the second half of this year. Growth can only be sustained if Ukraine continues to follow the paths of reforms.

(b) **WTO-Accession:** The years 98/99 were completely lost to Ukraine's efforts to become a member of WTO. The Yushchenko government resumed the work and made good progress last year. However, the preparatory measures for WTO accession have come to a halt and there seems to be a lack of coordination between various government agencies.

(c) **Administrative Reforms:** Administrative reforms proved to be too slow and are sabotaged by the old administrative elites. Pathologies of the soviet style bureaucracy still persist. Only an efficient and well-paid public service will ensure sustainable economic reforms in the long run.

(d) **Structural Reforms:** After the ousting of Deputy Prime Minister Timoshenko the reform drive particularly in the energy sector has weakened. Whether the recent privatisation of 6 regional energy companies will bring about a structural change remains to be seen. Furthermore, the future of privatisation, which was already in the past lacking transparency, seems to be rather bleak in the wake of a strengthening of communists and oligarchs.

(e) **Public Finances:** The budget situation in Ukraine is still precarious. A return to soft-budget policies and large scale subsidies for various industrial sectors would easily off-set the successes of Yushchenko in this field. Already in April, there has been a considerably reduction in budget revenues. Similarly, the problem of sovereign foreign debt looms large. Paris Club negotiations have been postponed and relations with the IMF are already strained.

(f) **Investment Climate:** The investment climate in Ukraine has not improved due to the following impediments:

- **Accreditation and Standardization:** The lack of progress in the field of accreditation, standardization and introduction of Euro-norms hampers economic cooperation and investment. While some new laws are in the pipeline, nothing has changed at the working level for the better. Ukraine has introduced even less Euro-norms than Belarus.
- **Weak protection of private property:** Unfortunately, there are still serious deficiencies concerning the protection of private property in Ukraine, such as the lack of private ownership of land, the non-existence of a mandatory Central Registry of Pledges of Movables, the weak protection of intellectual property rights and trade marks, and the deficiencies concerning corporate governance.
- **High level of regulation:** Despite some attempts to deregulate, a very high level of state regulation persists in Ukraine. For building a supermarket in Ukraine one has to obtain over 150 separate permissions. The whole process, which is largely intransparent, takes twice as long as in candidate states and is very costly.
- **Lack of legal reforms:** Crucial cornerstones of legal reform such as the Law on Justice, the Civil Code, the Civil Procedural Code, the Land Law, and the Administrative Code are still pending in parliament. Additionally, the weak court system hampers investment: Judges are often dependent on local authorities. In particular the arbitration courts often lack the necessary expertise and transparency to deal with the highly complicated civil law and tax issues.
- **Tax Reforms:** Current tax legislation in Ukraine is often contradictory and prohibitive. Its application by state authorities seems even more questionable. Apparently, the work on a unified modern Tax Code in the Parliament is very slow and will not bring about the necessary changes to improve the business climate in the near future.

- **Arbitrary inspections of businesses:** Inspections by tax, fire protection, sanitary and veterinary state agencies are very frequent, often have an abusive character and seem disproportionately targeted at foreign companies. The number of state agencies that have the power to inspect businesses is still much too high. Their powers, in particular to arrest property, should radically be reduced and procedures should be streamlined.
- **Banking System:** The Banking sector is still very weak and contributes very little to finance investment in the real economy. While in 2000 deposits and credits increased considerably, at the beginning of this year total volume of credits decreased.

From the point of view of international relations, Ukraine has made remarkable progress. Rapprochement with Poland and other Central and East European states was achieved. Ukraine's foreign policy is well balanced between Russia, Europe and America. The current international orientation of Ukraine is very much in the Western interest in an independent Ukraine. But the West is also interested in an internally stable Ukraine. Although Ukraine has succeeded in making some important reform steps, the transition is still far from stability and sustainability. From this point of view, Ukraine is a risk for Europe, and particularly for an enlarged European Union.

### **Success and shortcomings of European policy towards Ukraine**

The European Union has signed Partnership and Co-operation Agreements (PCA) with Russia, Ukraine, Belarus and Moldova. With the exception of Belarus, the agreements have been ratified by all countries and taken effect. Drawn up along the same lines, the agreements reflect Western interest in bilateral political co-operation on democratic foundations, as well as Eastern interest in economic co-operation. If the possibilities provided for in the agreements are completely implemented, this will create a broad range of opportunities for political dialogue and economic co-operation on various levels, from summits to concrete working groups, and in the case of economic co-operation may even lead to the establishment of free trade zones. The Partnership and Co-operation Agreements with Ukraine and Russia are supplemented by Common Strategies for each, instruments of the EU's Common Foreign and Security Policy. Between 1991 and 1999 EU member states and the EU were main supporters of the Ukrainian transition process with an amount of 3.7 billion ECU for technical assistance.

In formulating its policies of co-operation with Belarus, Moldova, Ukraine and Russia, the EU has up to now opted for various forms of co-operation that do not offer the perspective of accession.

The country reports of “Beyond EU Enlargement”<sup>5</sup> on relations between the Russian Federation, Ukraine, Belarus and Moldova and the European Union published in the documentation point toward distinct deficits and potentials insufficiently explored. One major point of criticism is raised in the country reports on Ukraine and Moldova. By way of a strategic answer, Ukraine and Moldova passed policy statements of their own on their relations to the EU. These are aimed at early association and the inherent promise of prospective membership. This has to be seen in conjunction with the foreign policy aims of distancing themselves from the hegemony of Russia and strengthening national sovereignty.

While Kiev and Chisinau think of prospective membership as a factor stabilising the transformation process, Brussels regards the fact that the transformation tasks have only been very insufficiently fulfilled as one of the main obstacles to formulating membership prospects. While the East European side perceives the continuing lack of membership prospects as a risk leading to loss of stability throughout Europe, the West European side fears that even a debate about possible accession might endanger internal security and stability in Western Europe.

The imbalance between the Ukrainian position on the one side and the EU position on the other leads to a strategic vacuum. In view of the dilemma created by the lack of EU membership prospects and unsolved transformation problems, there is a danger that Ukraine will remain a politically and economically “risky neighbour”. Should Poland be among the first East Central European members of the EU, the asymmetries along this border will continue to grow. It has to be assumed that the security and stability problems will increase too.

Complete or partial failure of the Ukrainian transformation would at the same time influence relations with the Russian Federation. Ukraine is still ethnically and economically a weakly consolidated nation-state. Because of its economic structure and ethnic make-up, Ukraine has traditionally been divided into a Russian-dominated east and a genuinely Ukrainian west. Russian dominance over the so-called “near abroad” also becomes manifest in economic dependencies, in

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<sup>5</sup> Beyond EU Enlargement, Volume 1: The Agenda of Direct Neighbourhood for Eastern Europe, Iris Kempe (ed.), Volume 2: The Agenda of Stabilisation for Southeastern Europe, Wim van Meurs (ed.), Gütersloh 2001.

particular the almost complete dependence on Russian energy supplies. Not only are the enormous debts owed to Russia for energy supplies a sensitive factor, but so are the routes of the pipelines. In the discussion about leading the Yamal pipeline through Belarus, Russia is making a point of bypassing Ukraine. This is not only perceived as violating Kiev's interests, but also raises Polish sensitivities. Ukraine's national independence and economic strength are of strategic concern to Poland. Through consolidation in the core of Europe, the Polish government is trying to make the Russian influence more calculable. In case of Poland's EU accession, the conflict about energy between Russia and Ukraine would also put a burden on EU-Russian relations, especially as Russia's political and economic interests overlap considerably in the gas and oil sector.

### **Recommendations for strategies**

Ukraine clearly demonstrates the agenda of policies beyond EU enlargement. With its enlargement towards the east, the EU contributes to ensuring stability and preventing conflicts in today's Europe. Despite the historic importance of this process, European politics has by no means reached its final point. On the contrary, enlargement towards the east entails new risks, but also new chances. Continuing instabilities in the neighbourhoods of the EU – the Direct Neighbourhood of Ukraine, but also of the other CIS countries, Russia, Belarus and Moldova for whom the Union has not formulated accession prospects so far, and the trouble spot southeastern Europe with promises of EU prospects – challenge the Union in its capacity for setting norms.

1. The European Union is increasingly taking over responsibility for **security and stability** in a far-ranging concept of Europe which not only comprises the accession states but also regions beyond the future external borders of the EU, whose instability has or may have repercussion on Europe. As a consequence, however, the other “mega-projects” of the EU, like enlargement towards the east, can no longer be dealt with in a purely normative way along the conditionality of the Copenhagen Criteria and the *acquis communautaire*. The enlargement reached a step where it is becoming politically. The process has been seen in the broader context of regional stabilisation and geopolitics – as was recognised in Helsinki where the accession negotiations with Romania and Bulgaria were “brought forward”. The contradiction between quality and speed of enlargement towards the east is of a structural

nature. However, as a consequence it is not only the transformation efforts that are rewarded, but also, in the worst case, transformation failure and regional instability.

2. One strategic deficit of the policy of the European Commission vis-à-vis the CIS is its limited differentiation. Decisions must not be made along the lines of system transformation, but in addition also have to take the European self-determination of the states into account. The basic No to CIS states willing to become members entails the risk of increasing instability caused by the rejection. At the same time the norm-setting policy of the EU loses its attractiveness and influence, as movement towards Europe or overcoming the problems of transformation respectively no longer carry the promise of positive sanction. In order to eliminate the strategic deficit the basic No to EU accession of Ukraine and Moldova, the European Commission should formulate **EU prospects for Ukraine and Moldova**. The implications of this reversal of policy will, however, be limited to rhetoric until the states willing to accede can prove that they have made real progress in their transformation processes. This makes it even more important for the EU to emphasise the conditionality of the Copenhagen Criteria in its dialogue with the states concerned. In the TACIS projects to support the transformation process it is also important to point towards the *acquis communautaire* of the European Union in the sense of a normative aim. This new EU-policy would also meet the necessity for a long-term perspective, which was somehow missing in the past. In the long run, the EU should bet on the long-term success of the Ukrainian transition. This process will lead despite temporary set-backs clearly towards Europe and is best supported by the raising of interdependence between the EU and Ukraine. In this respect, the EU should be very careful not to repeat the mistakes as committed in the Belarussian case. Only interdependence and integration leads to sustained structural change.
3. First and foremost any kind of perspective of EU membership for Ukraine and other CIS states depends on two factors: their interest in being an EU state as well as the development of the transition process. While Ukraine explicitly formulated its wish to become an EU associated country, the internal transition is far from achieving Union standards. Therefore, Ukraine has to develop a realistic policy for EU integration based on technical issues of convergence rather than political lip-service. Hence, the key of this policy must be the completion of political, legal and economic reforms. As shown above, the reform process of

Ukraine is far from being smooth and bears various risks. To make the reform process successful and sustainable it will take a unified effort by the Ukrainian government and its people. The EU and its Member States can help to make Ukraine's ride to Europe less bumpy by setting benchmarks and encouraging their fulfilment via political support and technical assistance. The main responsibility and key to success, however, is to be found in Ukraine itself.

4. As long as Belarus is dominated by the Lukashenko regime, it will remain a risky neighbour. It is in the European interest to contribute to securing stability through a **democratisation of Belarus**. The Serbian case has demonstrated the effectiveness of supporting regional players and advocates of economic reform to bring about domestic change in Belarus and in this way to tighten the country's links to Europe. Apart from numerous possibilities of co-operation it is first of all necessary to increase the presence of European institutions in Minsk.
5. In view of the attractiveness of EU membership and the heterogeneity of the neighbouring states (e.g. "Western Balkans") **co-operation among neighbouring states** will realistically come second behind a conditional, bilateral convergence with and integration into the European Union. Regional co-operation should accordingly be supported as a supplement to rather than as an alternative to EU integration.
6. By the same token it is necessary to synchronise **EU integration and multilateral regional co-operation** in sub-regions, which could eventually stretch across the external border. Organisations for interstate regional co-operation offer a constructive forum for dialogue and co-operation throughout Europe, especially where their aims, or rather their membership, reaches across present and/or future EU borders: *Northern Dimension*, *Black Sea Co-operation*, *Baltic Sea Council* and *OSCE*. On the other hand they serve as an important counterbalance for centripetal tendencies in Europe and turn peripheral border regions into European sub-regions.
7. Especially in the area of **cross-border co-operation**, it is imperative to subordinate the institutional-procedural framework to the functionality of the respective funding programme. Accordingly an adjustment or rather a merger of the EU programmes for cross-border co-operation – Interreg-CBC for EU members, PHARE for accession countries, TACIS for CIS states, CARDS for the "Western Balkans" – would be appropriate for the

state of the European integration and enlargement. As a model for interregional and cross-border co-operation, the EU initiative *Northern Dimension* should be translated into the form of an **East Central European Dimension** to relations between Poland and Ukraine.

8. Prioritising cross-border co-operation also requires a reconciliation with the requirements set for accession candidates by the **Schengen criteria**. While in view of the visa requirements the erection of new dividing lines and thus an increase in the asymmetries along these borders is unavoidable, the negative consequences, especially for the border regions, can be limited with the corresponding preparation and commitment. An **effective visa strategy** must consist of a dovetailed approach combining an optimum of technical-administrative procedures with measures of cross-border co-operation.

Overall it is part of the open self-definition of the EU not to pursue a foreign policy in the classical sense vis-à-vis its neighbours, but to offer conditional accession prospects. Up to now the inner prosperity and stability of the EU as well as the attractiveness of this accession offer have proved to be highly effective instruments in relations with the neighbouring transformation countries.

The debate about limits to enlargement should, however, give more consideration to the time dimension and the capacity of the EU to integrate new members. A Union which would, e.g. offer accession prospects to Ukraine – with the corresponding expectation management and time tables – can contribute more to a long-term reduction of national instability and transformation deficits of this neighbour. At the same time, guaranteeing the quality and the capacity of the union to integrate new members requires a more concrete concept for enlargement towards the east. Realistic expectations management as well as the best-possible arrangements for follow-up issues in connection with the future neighbours, require an early setting of the date and the names for a first round of enlargement. If the EU were to come to a decision soon, this would on the one hand curb unrealistic expectations on the side of the candidate countries and on the other hand leave enough preparation time to cushion the consequences of a temporary concrete exclusion for accession countries and third countries beyond the union. Typically, this will lead to a differentiated political and economic integration, in order to counterbalance destabilising asymmetries along the external border.