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# Building a Transnational Developmental State in Europe: Lessons from the Big Bang enlargement for the next integration round

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**ABSTRACT**

Why should the EU care about the developmental externalities of enlargement? To answer this question, we bridge the enlargement literature, which studies rule transfer prior to accession, and the political economy literature, which examines how economic actors from less developed EU member states adapt to these rules in the post-accession period. Each has its own blind spots. The enlargement literature does not explain why the EU cares – or should care – about anticipating and mitigating the longer-term negative externalities of rule transfer. The political economy literature offers insights into how new member states cope with these externalities but it does not examine in detail how and why the EU takes - or should take - market-correcting measures while integrating less developed economies into the Single Market. In this paper, we show that during the Eastern enlargement the EU laid the foundations of a short-lived Transnational Developmental State (TDS) to correct market outcomes. We also identify three mechanisms that compelled EU insiders to address the negative externalities of rule transfer. Beyond its theoretical contribution, our analysis provides crucial lessons for the next round of EU integration and especially for managing Ukraine's EU accession.

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## Introduction

Market integration is a key dimension of European Union (EU) enlargement. For economists, it entails creating a transnational 'level playing field' that reduces discrimination among producers of goods and holders of factors of production by granting them the same freedoms and imposing the same

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obligations, regardless of their member state of origin (Balassa, 1961). From this perspective, market integration in the EU is about expanding the geographic and material scope of the Single Market through flawless rule transfer. This has been the starting point for some of the most prominent studies on the politics of EU enlargement, which mainly view it as a process of rule transfer (Schimmelfennig & Sedelmeier, 2005; Steunenberg & Dimitrova, 2007).

Political economists, by contrast, emphasize that applying the same economic rules to economies with vastly different capacities and institutional and economic endowments produces both winners and losers. Market integration must therefore also address potential negative social, economic, and political externalities of rule transfer, such as the marginalization of less competitive sectors or regions, widening social inequalities and territorial disparities, increasing dependence of less developed member states on decisions made by foreign public and private actors, mobilization of dissatisfied voters against 'Brussels' by sovereigntists, the rise of illiberal political forces, the spread of economic nationalism, or large-scale migration from rule-taking countries – developments that can trigger disintegration (for a literature overview see Bruszt & McDermott, 2012; Bruszt & Vukov, 2017).

There is a clear division of labour in the literature. Enlargement scholars focus on the pre-accession governance problems of rule transfer. While they may note potential externalities, they do not examine how – and why – the EU should manage them on a large scale. Political economy scholars, on the other hand, provide insights into how new members address these externalities after accession, but rarely analyse the supranational governance of widening integration, particularly in the pre-accession period.

At first glance, previous enlargements may not seem to fill these gaps. Neither the Southern nor the Eastern enlargement included developmental goals as part of the accession process. In the Southern case, enlargement preceded the creation of the Single Market. In the Eastern case, existing scholarship offers only a limited view of the institutions the EU developed to mitigate potential negative consequences of integration, focusing primarily on exemptions and safeguards (Kleine, 2013; Phelan, 2014). This paper argues, in contrast, that during the Eastern enlargement the EU did not leave economic and social outcomes entirely to market forces. Instead, it used transnational public power to influence the developmental effects of market integration.

We contend that during the pre-accession period of the Eastern enlargement, the EU – departing from the economic orthodoxy of the time – laid the foundations for a short-lived Transnational Developmental State (TDS). This machinery produced developmental outcomes in accession countries that the enlarged market alone would not have achieved. Building on studies of the EU as a specific version of a Transnational Integration Regime (TIR) (Bruszt & Langbein, 2020), we focus on the transnational level

to trace how the EU used institutional bricolage and mobilized a network of transnational public and private actors to operationalize the 'capacity to withstand competitive pressure' – one of the key Copenhagen criteria for membership.

Why did the EU invest in creating a TDS? Given that scholarship often portrays the EU as a primarily market-enhancing machinery (Höpner & Schäfer, 2014; Scharpf, 2006), it is striking that it turned to market-correcting policies under conditions of extreme power asymmetry between EU insiders and applicant countries. Using contract theory, we identify three mechanisms that compelled the more powerful member states to address the developmental effects of integration on weaker actors. First, rule-makers may decide managing the developmental consequences of integration in anticipation of large-scale negative externalities in the rule-taking countries. Due to geopolitical proximity and/or economic interdependence between rule-making and rule-taking countries these externalities are difficult to externalize, which can considerably alter the costs and gains of enlargement in the old member states. Second, the same effects can be expected if member states fear a disintegration of the integrated market caused by large-scale non-compliance in the new member states due to (social, economic) dislocations resulting from attempts to comply with the rules imposed by the EU. Third, rule-makers may act out of fear of large-scale post-enlargement distributive conflicts between old and new member states.

We argue that the shared interest of the EU insiders in managing these effects led to ad hoc supranational capacity-building in the pre-accession period. The European Commission loosely coordinated this governance arrangement, designed to anticipate and mitigate major negative developmental consequences of rule transfer. As it served the common interests of EU insiders, this management of interdependence took place through technocratic problem-solving – what Genschel and Jachtenfuchs (2013) call 'integration by stealth' – avoiding publicity and preventing politicization.

Critics may argue that the TDS failed to prevent growing Euroscepticism, populism, illiberalism, and economic nationalism in Central and Eastern Europe (CEE) (Epstein & Jacoby, 2014). We attribute this less to the idea of the TDS itself than to its limited, technocratic design, which aimed to make enlargement cost-effective by preventing large negative externalities before accession. Once this outcome was deemed accomplished and the new members were integrated into the EU, the transnational machinery was dismantled. Nevertheless, elements of the TDS persisted in the form of transnational industrial policies (Medve-Bálint & Šćepanović, 2020), and the developmental coalitions it helped create continued to shape post-accession economic transformation (see Bruszt & Langbein, 2020).

These questions take on particular relevance with the opening of accession negotiations with Ukraine – a country at war, experiencing

deindustrialization (Milakovsky & Vlasiuk, 2024) and rising debt. Compared to earlier enlargements, Ukraine's accession stands out because the success or failure of market integration is directly tied to long-term EU security (Anghel & Jones, 2024). The margin for error in ignoring potential negative externalities of regulatory integration is extremely narrow. If Ukraine were to emerge from integration with an unstable economy and democracy, it would represent a strategic defeat for Europe, a security threat, and a loss of influence regionally and globally (Koval & Vachudova, 2024).

The short-lived TDS, the EU's more recent revival of industrial policy (Bulfone, 2022; Wigger, 2023), the emergence of new hybrid developmental institutions such as the EU's 'hidden investment state' (Mertens & Thiemann, 2019), and evolving EU-level industrial policy mechanisms (Di Carlo & Schmitz, 2023) offer valuable lessons for governing Ukraine's integration. First, institutional entrepreneurship can assemble ad hoc and flexible market-correcting mechanisms without major institutional reform or a crisis. Second, the governance of such arrangements – especially their accountability structures – will determine whose interests they serve and their longer-term political and economic impacts.

The paper proceeds as follows. Section Two draws on the literature on developmental states and on the EU as a regulatory power and integration regime to define the TDS and situate it within the broader scholarship on state-like activism in the EU. Sections Three and Four analyse how and why the European Commission sought to mitigate the potential negative consequences of market integration, based on our prior studies of the political economy of enlargement (Bruszt & Langbein, 2014, 2017, 2020), secondary literature, EU documents, and semi-structured interviews with 20 EU officials involved in operationalizing and implementing the accession criteria during the fifth enlargement. The concluding section reflects on the lessons of the TDS for Ukraine and other candidate countries.

## Defining and situating the EU's Transnational Developmental State

Our concept of the TDS draws on two strands of scholarship: debates about the EU as a regulatory power and integration regime, and the literature on developmental states.

Starting with the first, regulations have long been recognized as a distinctive mode of state intervention in the economy, and the rise of the European regulatory state has been at the centre of scholarly research since the 1990s (Majone, 1996). There are rich debates over where the centre of European regulatory power lies, and over how and to what degree regulatory authority is shared between national agencies and supra- and transnational actors within the 'European regulatory regime' (Eberlein & Grande, 2005). From

the perspective of 'regime-takers' – in this case, the countries applying for EU membership – joining the transnational market requires compliance with the conditions set by the supranational hierarchy.

Alongside the reduction and abolition of tariffs, regulatory integration is the most important means of creating and expanding transnational markets. For domestic economic actors, integration entails 'dis-embedding' from the national regulatory framework that previously protected them from transnational competition or restricted their participation in international markets. In most TIRs, such dis-embedding occurs through the negotiated distribution of gains and opportunities between participating countries (on the concept of TIR, see Bruszt & Langbein, 2020). The EU as a TIR differs from other such arrangements in that it does not negotiate over the distributive consequences of market integration. Instead, it presents the flawless implementation of its regulatory framework as a non-negotiable membership criterion when integrating new economies.

Importantly, the designers of the Single European Act did not assume that less-developed parts of Europe would automatically benefit from deepening integration. They created programmes such as the Structural Funds, aimed at building market-friendly developmental state capacities at the national level in less-developed member states, while delegating responsibility for reducing economic disparities to those states (cf. Bruszt & Langbein, 2020). The central contention of this paper is that, during the last wave of widening – the Eastern enlargement of 2004–2007 – the EU also created such developmental capacities at the transnational level.

In development studies, a state is described as 'developmental' when public power is used to alter social or economic outcomes that the market alone would not have produced. The literature identifies three types of such interventions. Following Peter Evans' now-classic framework, the term 'demiurge' applies when public power intervenes directly in production activities and sometimes acts as an entrepreneur or producer itself. A developmental state acts as a 'midwife' when it protects nascent industries or groups of firms not yet exposed to transnational competition, offering them favourable conditions and credit guarantees, and preparing them for competition without direct control. Finally, the 'husbandry' function describes the use of public power to help economic actors improve their position in transnational markets, secure better positions in value chains, or sustain and increase competitiveness (Evans, 1995).

As we will show, during the Eastern enlargement the EU performed the more market-friendly developmental state functions. It directly coordinated the midwife role and promoted the husbandry function in future member states.

The TDS is not the only instance in which the EU has acted in a developmental state capacity. However, despite its selectivity and limitations – which

we analyse below – it comes closest to what Johnson (1982) and Evans (1995) call a full-fledged or comprehensive developmental state, since it aimed to manage the developmental externalities of integrating entire national economies. By contrast, more recent studies on EU-level industrial policies (Di Carlo & Schmitz, 2023; Gräf, 2024; Medve-Bálint & Šćepanović, 2020) or on the 'hidden investment state' (Mertens & Thiemann, 2019) focus on specific policies or sectors. In the developmental state literature, such interventions are often described as 'islands' or 'pockets of efficiency' (Evans, 1995; Grindle, 2004), and are classified as sectoral or fragmented developmental states (Evans, 1995; Johnson, 1982). This emerging body of work shows that, despite structural limitations on supranational market-correcting policies (Scharpf, 2006), the EU can create state-like capacities in various forms when strong demand meets sufficient supply capacity (Genschel & Jachtenfuchs, 2013).

## How did the EU lay the foundations of a Transnational Developmental State?

The standard view in the political science literature on the EU's Eastern enlargement focuses on rule transfer: the transposition and implementation of the existing rules of the common market in aspiring member states (Grabbe, 2006; Schimmelfennig & Sedelmeier, 2005). This literature centres on the various mechanisms that can facilitate rule transfer, ranging from persuasion to coercion (Jacoby, 2006). The developmental interests of domestic actors in rule-taking countries rarely feature in this account (but see Dunn, 2003).

This standard view aligns with how mainstream economists define market integration. For them, integrated markets are about creating a 'level playing field' by gradually removing national discrimination among producers of goods and services and among holders of different types of capital (Balassa, 1961). It is assumed that such market expansion will, over time, be Pareto-improving: potential losses will be offset by future gains through domestic adjustments undertaken in response to market incentives. In this vein, many economists have assessed the costs and benefits of Eastern enlargement, largely concluding that it represented a win–win situation for both the EU core and the candidate countries (e.g., Baldwin *et al.*, 1997). Some found that the welfare gains for CEE economies would be much greater than for the EU-15, making a two-step integration – first the Single Market, then the European Monetary Union – advisable (Breuss, 2002).

Departing from aggregate calculations, other studies have highlighted loss-making industries or marginalized regions and economic groups in the CEE economies, pointing to the need for 'industrial relocation' (Lejour *et al.*, 2001). This finding comes closest to a political economy approach to market integration. Political economists maintain that the making and

implementation of common rules must be studied together with how the developmental externalities of integration are managed (for a literature overview, see Bruszt & Palestini, 2016). Creating a 'level playing field' presupposes applying the same market rules to actors with dramatically different capacities. The greater the economic disparity between countries, the greater the potential negative social and economic externalities of such integration. This increases the need to 'level the playing field' through policies that temporarily protect less-competitive strategic sectors and strengthen the capacities of economic actors to improve their competitiveness and sustain adherence to common market rules (Bruszt & Palestini, 2016; Schrank, 2013).

## *Beyond rule transfer: managing negative externalities of integration during enlargement*

That EU desk officers involved in the Eastern enlargement avoided the term 'development' when discussing integration makes it harder to challenge the standard view of enlargement as primarily the transposition and implementation of Single Market rules. The key term used in the Commission was instead 'viability' – of firms, sectors, and regional or local economies. Defined as 'ability to grow, survive outside the womb' (Merriam-Webster, 2015), viability aligned closely with one of the Copenhagen criteria for CEE economies: 'the capacity to cope with competitive pressure and market forces within the Union' (European Council, 1993, p. 13). In plain terms, this meant integrating CEE economies into the common market in a condition to stay afloat.

Viability – understood as the capacity to adhere to EU rules and live by them – was mentioned in our interviews in various forms, linked to the sequencing and phasing the implementation of EU measures, capacity-building, assistance, and requests for derogations. As one interviewee put it:

> It was always important in negotiations to know what was economically viable both for the CEE countries and the EU-15. Therefore, we introduced transition periods and safeguard clauses and set up numerous pre-accession instruments.[1]

Another interviewee went further:

> There was a lot of discussion going on within DG ECFIN [Directorate-General for Economic and Financial Affairs], whether we should promote a particular economic model about industry in the various countries or whether this is the responsibility of the market. We were not really sure. We could not come up with five-year plans on how to restructure certain economies. Of course, we had an idea about whether it would be wise to shift the focus from heavy manufacturing to textile industry. But what we did was to come up with analyses to study factor endowments of countries, e.g., when we prepared the Commission's Opinions on these countries before opening of accession negotiations,

> so we could actually assess when an accession country X would suggest to introduce safeguard clauses for the shipbuilding industry, whether this would be really the right way to go about it or whether this is not really helpful to ensure economic viability.[2]

During the period of the Association Agreements, accession countries could negotiate 6- to 10-year transitional periods for phasing out state-sponsored promotion and protection of certain strategic economic sectors. Although these grace periods were hardly generous, our comparative case study of the automotive sectors in CEE countries found that – holding other factors constant – they helped sectors to survive by allowing rule-takers time to prepare for competitive pressures (Bruszt & Langbein, 2020).

The steel sector provides further evidence for this argument. As Lienemeyer (2005) details, the Commission required candidate countries to submit restructuring plans aimed at making their industries viable – meaning able to compete on the EU internal market. Social protection was secondary. If a state could not demonstrate the long-term profitability of certain mills without subsidies, the EU required their closure. At the same time, states could continue to use public funds to support redundancy payments for workers who had to be laid off.

Poland, for example, was permitted to maintain subsidies until EU accession, provided it could clearly justify their necessity. The EU raised no objection when Polish authorities argued that state aid was still needed for employment restructuring or debt reduction in order to make a particular steel mill more competitive or attractive to foreign investors. At the same time, the EU pressed for privatization and compelled the Czech government to consolidate the sector by merging four steel mills into one to attract investors, when no convincing alternative was forthcoming (Sznajder, 2006). Even after accession, the EU allowed the Czech Republic, Poland, and Slovakia transitional periods for restructuring their steel sectors, during which state aid could be granted under certain conditions.

EU officials we interviewed stressed that the Commission's concern about potential negative effects of enlargement on candidate countries was largely a by-product of the accession process – above all, the negotiations themselves. These concerns did not result in a comprehensive master plan for cushioning social costs or supporting economic restructuring to make economies more resilient to the competitive pressures of the internal market. PHARE[3] provided support for building EU-compliant planning capacities in these countries and for developing strategic approaches to reforms and project design. However, this did not amount to a positive developmental strategy on the part of the EU, and engagement in technology transfer or investment in small and medium-sized enterprises (SMEs) remained limited. As one EU official, initially part of a negotiation team during the fifth enlargement and later responsible for coordinating pre-accession instruments, recalled:

> The EC wanted to avoid that these countries [the then applicant countries from CEE] collapse. (…) the EC's policy in this respect was more ad-hocish. (Authors' interview, 2015)[4]

The scale of EU pre-accession assistance should therefore not be overstated. Direct assistance programmes linked to rule transfer for the ten candidate countries that joined the Union in 2004 totalled €28 billion between 1990 and 2005. This was marginal in macroeconomic terms: PHARE funds amounted to 0.4–0.5 per cent of the region's GDP, while SAPARD[5] – a pre-accession instrument specifically for the CEE agricultural sector – distributed around 0.2 per cent (European Commission, 2007, 2010). If one adds development aid channelled through the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) – in particular for projects facilitating the adoption of the acquis communautaire and strengthening integration with the EU (European Commission, 2001a) – pre-accession assistance for the CEE countries amounted to only a few percentage points of the region's GDP. By comparison, the EU provided by far the highest level of funding to prepare future members for regulatory integration in the context of Eastern enlargement, surpassing other TIRs such as the former North American Free Trade Agreement (NAFTA) (Bruszt & McDermott, 2012).

Our earlier discussion suggests that the scope of managing interdependence between member states and CEE countries was shaped by the asymmetrical nature of the enlargement negotiations. None of the EU's enlargement policy documents sets out a positive developmental programme for accession countries. Brussels did not design a full-fledged master plan to prevent mass unemployment in CEE economies or to improve their positioning in European value chains (Bruszt & Langbein, 2014; Trappmann, 2013). Instead, the EU sought to avoid large-scale economic collapse, focusing on factors that could ensure the new members would both comply with and live by the rules of the common market. This management of interdependence took place within a framework of technocratic problem-solving. As Genschel and Jachtenfuchs (2013) have observed in relation to the EU's incremental expansion into other areas of governance, development occurred 'by stealth' – without public debates about the goals and means of these interventions to avoid politicization. Still, the governance of market correction confronted the EU, and the Commission in particular, with two specific dilemmas: (1) uncertainty about how to operationalize 'viability' in relation to the economic accession criteria; (2) information asymmetries in detecting potential negative externalities of rule transfer.

### *Managing uncertainty: operationalizing the goals of integration*

The first governance dilemma for EU negotiators arose from the fact that the two economic membership criteria did not provide clear, unambiguous guidance on what the rule-makers should require of the rule-takers – or how.

Consider the challenge of defining and operationalizing a 'functioning market economy', a core economic criterion for membership. This was far from trivial for the Commission in a regional integration regime where, at the time of the 'Big Bang' enlargement, at least three competing varieties of capitalism co-existed (Hall & Soskice, 2001; Hancké *et al.*, 2007). The concept as used by international financial institutions (IFIs) changed at least four times during the 1990s, and no two IFIs agreed on a common definition in that decade (Bruszt, 2012). Aside from some very general principles, the Commission never published clear benchmarks for measuring progress in this area.

The same applied to the second economic criterion: the capacity to withstand competitive pressure within the enlarged EU. Interviews with Commission officials who worked on the fifth enlargement confirm that DG ECFIN, responsible for ensuring the fulfilment of these two economic criteria, did not use specific thresholds to assess a country's competitiveness. Indicators such as the ideal structure of the economy, the share of SMEs, the concentration of market power, or the diversification of exports were not codified. Unlike the third Copenhagen criterion – acquis compliance – the assessment of competitiveness required DG ECFIN to interpret the concept broadly.

Rather than pretending to possess a definitive definition of a functioning market economy or ex ante benchmarks for competitive capacity, DG ECFIN adopted strategies that took uncertainty seriously and institutionalized a process of joint learning. It engaged a set of global and regional international organizations and think-tanks – often with partly conflicting definitions of these goals – to provide alternative views on how accession countries could converge towards them. These bodies submitted sometimes divergent assessments of the steps needed for a country to achieve functioning market economy status or to improve competitiveness. State officials and business representatives from candidate countries and member states could comment on and contest these models and their recommendations.

DG desk officers were aware of the fallibility of their own models and acted much like traders in volatile financial markets – using rival models to test their own assumptions (Beunza & Stark, 2010). As one DG ECFIN official from the fifth enlargement recalled:

> We had lots of consultations with experts in the World Bank and the IMF, both headquarters and local offices in the various countries, on these issues [how to operationalise the two economic criteria, the authors]. I spoke to my colleagues at the IFIs almost every day. Moreover, our EC delegations gained a lot of expertise over time through project experience. They knew which administrations to trust and which not, and where the economic deficits were. We also talked to the private sector, to chambers of commerce. In the mid-1990s, DG ECFIN was the only DG with economic expertise about these countries, but gradually other DGs – such as DG Enterprise and DG Agriculture – also developed

> considerable expertise, including on specific countries and horizontal issues like state aid, which provided very useful input for our assessments of how these economies should develop.[6]

From a governance perspective, such conceptual uncertainty is, of course, irrelevant. IFIs such as the World Bank or the IMF are free to impose benchmarks for market reforms in other parts of the world, even if their meaningfulness is loudly contested. The more serious governance problem for the EC was that the EU had little room to fail in the shadow of the ruins of the former economy of the German Democratic Republic (GDR) and amid fears of endangering the integrity of the EU internal market by extending the Union to the periphery in economic terms. The EC knew that it could not as easily externalize the costs of governance failure as the IFIs could. Therefore, it had strong incentives to take uncertainty about the goals and benchmarks of progressing towards achieving these goals seriously and to build the governance of integration on pragmatic principles.

### *Overcoming information asymmetries to detect and alleviate negative consequences of rule transfer*

The second governance dilemma concerned the third Copenhagen criterion, implementation of the rules of the common market. Here the EC could prepare clear benchmarks for the administrative and behavioural requirements of rule compliance. However, the EC did not possess, and never pretended to have, clear and universally applicable guidelines about the right way to reach these goals in dramatically diverse institutional contexts in 11 accession countries and more than 30 policy areas. The key challenges related to rule transfer were that information on potential capacity constraints of regulators and economic players to comply with and live by the EU rules was scattered, and that potential beneficiaries of pooling and using such information were, in many cases, not in a position to do so. Governments in the accession countries had weak administrative and development-planning capacities, and non-state actors lacked resources and organization.

The EC developed solid intelligence for anticipating and eventually alleviating potentially dangerous developmental consequences of rule transfer, relying on inter-DG coordination, capacity building in the accession countries, and the mobilization of a transnational network of private and public actors acting both as monitors of implementation and as participants in joint learning.

To start with capacity building, the EC asked candidate countries to produce a wide variety of plans on how, when, and with what kinds of resources they intended to meet the accession criteria. They had to prepare National Programs for the Adoption of the Acquis (NPAA) and

various more specific plans linked to different policy areas and sectors. The development of national economic strategies was important for candidate countries to receive a positive assessment from the EC regarding access to pre-accession assistance. Further, DG ECFIN asked candidate countries to prepare annual economic plans on how to achieve macroeconomic and financial stability and address structural problems. State bureaucrats from the candidate countries working in various areas were trained to develop complex plans following the EC's methodology (Bruszt & McDermott, 2012).

The EC supported and coordinated this planning exercise by sending thousands of experts – private consultants or bureaucrats from EU member states – to the candidate countries to advise local state bureaucracies on drafting their first plans in the various areas. While in many cases these consultants produced a cacophony of advice and represented widely diverging models for public policymaking, they helped to convey the key message to public actors in the accession countries: while planning is a key aspect of doing business in the common market, there are no universal models for achieving compliance or for increasing economic viability.

The monitoring of a potential candidate's progress in meeting the accession criteria also used methods that allowed for collecting and contrasting a wide variety of dispersed information, integrating monitoring and joint problem-solving in the process. For example, in preparing a progress report, desk officers in the country units of DG Enlargement and various DGs approached a broad range of actors for much-needed input. Rather than engaging in pure 'checklist monitoring', the EC asked business associations and non-governmental organizations (NGOs) from the EU member states and candidate countries, central banks, chambers of commerce, and experts working in Twinning or other technical assistance projects with the candidate countries to suggest solutions to overcome a candidate's problems (Andonova & Tuta, 2014; Sudbery, 2010). Intermediaries were multifunctional: they helped build much-needed planning capacities in these states and served as informal monitors for the EC, as they had up-to-date knowledge of the progress achieved in their areas of expertise and/or of the vested interests preventing it.

As for the coordination of the various decentred attempts at matching EU requirements with diverse local needs, the various DGs essentially circulated around the negotiating team from DG Enlargement like satellites. It was the task of all DGs to understand the weaknesses of candidate countries and why some of them would have difficulties implementing the acquis. DG Enterprise or DG Competition would, for example, highlight problems with state aid and – depending on the size of the problem – DG Enlargement, in cooperation with DGs Enterprise, Competition, or Economic and Financial Affairs, would ask countries to write plans on how to restructure the sectors and initiate certain co-financing measures with IFIs.

All in all, the activities of the TDS helped to keep the economies of the accession countries afloat during market integration. But, as we have shown, the development objective was primarily negative: to prevent major destructive economic consequences of market integration. Using the language of the developmental state literature from the Global South, the TDS focused on 'midwifery' (Bruszt & Langbein, 2020; Evans, 1995), detecting endangered sectors, groups of firms, and sub-national territorial units of strategic importance and helping them survive in the environment of the most competitive regional economy in the world. The promotion of economic actors – or 'husbandry', as Peter Evans has coined it – helping them to improve their market position and occupy better positions in transnational value chains was not among the goals of the TDS. Instead, it focused on selective protection. That said, EU's capacity-building programmes (Bruszt & Vukov, 2017) played a role in creating and, in some new member states, consolidating developmental coalitions that were important for transforming state capacities and introducing local and sectoral upgrading policies after accession.

## Why would the EU care?

At first sight, it seems counterintuitive to assume that, prior to accession, the EU should have cared about the developmental consequences of enlargement. The EU is a rich club with sovereign rights to decide about membership and the rules for distributing the benefits that come with it. Membership is the club's most precious good, and countries that want to join must accept the club's rules. The relationship between applicants and EU insiders can easily be pictured as a simple contract: in exchange for full compliance with the acquis, applicants automatically gain membership. The governance of such a contractual relationship could be based on simple principles: monitoring by the EU should be strict, and sanctioning should be based on meritocratic principles. Indeed, students of the Eastern enlargement have argued that rule transfer in the pre-accession period conformed to these principles (Schimmelfennig & Sedelmeier, 2005; Vachudova, 2005).

### *Enlargement as an incomplete contract*

Picturing enlargement as a simple contract is, however, misleading. We argue that the relationship has essential features of an incomplete contract: the parties do not have all the relevant information to foresee the future distributive consequences of fulfilling their contractual obligations and cannot trust that preferences disclosed at the time of contracting are a good guide to their subsequent relationship (Cooley & Spruyt, 2009). They thus need a governance mechanism that could help them manage these two problems.

Let us start with the issue of information about the distribution of the costs and benefits of enlargement between the parties. At the most general level of abstraction, enlargement refers to bringing often diverse national economies and regulations under the command of EU internal market rules. Domestic states must give up large parts of their economic powers to control developmental outcomes. Moreover, they must establish watchdog institutions within the state that can defend the common market from discrimination by domestic actors (Bruszt & Vukov, 2017).

The process of market integration consists of several stages: starting with the removal of tariffs, continuing with regulatory integration, and finally leading to the fulfilment of the requirements of the European monetary regime. From the perspective of the rule-takers, each stage of integration might entail uncertain developmental consequences, ranging from complete economic marginalization or even exclusion to an increase in economic opportunities or competitiveness.

The previous discussion suggests that enlargement entails large-scale institutional monocropping: the imposition of uniform institutions and policies in dramatically different national, local and sectoral contexts (Evans, 2004). The greater the number of transferred institutions and the larger the number of organizational fields affected, the higher the probability of the emergence of complex and uncertain social, economic, and political problems and potential recurring crises. As a result, the parties to the contract cannot have ex ante perfect knowledge about the distributive effects and developmental consequences of rule transfer.

This potentially large mismatch between uniform EU rules and diverse domestic developmental needs can cause a second problem: rule-takers may redefine their interests and pursue enlargement as a kind of 'Potemkin harmonization' (Jacoby, 1999) or deviate from compliance after accession.

What about the EU insiders, who have the power to decide about the rules and principles of accession? The above-discussed properties of rule transfer alter the way the rule-makers will define their interests as well. The potential amount of their net gains and losses becomes, at least partly, a function of the gains and losses of the rule-takers.

Against this background, we identify three mechanisms that might urge EU insiders to care about potential negative effects of rule transfer on the rule-taking countries:

First, unintended negative developmental consequences of rule transfer – such as economic collapse, political turmoil, or a large-scale migratory wave of displaced people from the rule-taking countries – are likely to reduce the welfare gains of market integration for the rule-makers or impose high costs on them. The costs of such unintended negative consequences cannot be completely externalized or prevented from spilling over to the rule-makers. Due to geopolitical proximity and economic interdependence, EU insiders

will be forced to internalize an unpredictable share of these costs. Potential gains by rule-making countries may be lost if unforeseen negative developmental consequences prevent the more developed countries from expanding their exports to new markets. Alternatively, large-scale economic dislocations caused by the negative consequences of rule transfer might undermine the capacity of multinational companies to profit from the abundance of cheap and often highly skilled labour in candidate countries.

Second, large-scale non-compliance in the new EU member states could decrease the competitiveness of economic actors in the rule-making countries. This could result in the massive relocation of firms to the new member states, induce a race to the bottom in the old member states, and, as a result, undermine the integrity of the internal market.

Third, the possibility of large-scale post-accession demand for fiscal transfers could endanger pre-existing distributive settlements among the member states and, in extremis, might dramatically weaken the EU's decision-making capacity.

Consequently, based on the above analysis, we assume that deep market integration transforms the simple asymmetrical relationship between rule-makers and rule-takers into asymmetrical interdependence (on this concept see Keohane & Nye, 1977; see also Moravcsik & Vachudova, 2003). We would expect that the rule-makers would seek governance solutions to help them anticipate and alleviate the potential large-scale negative consequences of rule transfer.

## *EU fears and the demand for governing negative consequences of enlargement*

Our empirical analysis of the Eastern enlargement revealed two types of fears related to transferring the rules of the common market to the CEE economies. The first was linked to the potential failure of complete rule transfer; the second was linked to its eventual success. In the first case, EU insiders feared that the new members would not be able to play by the EU market rules and that partial implementation might induce unfair competition, increase protectionism, and thus undermine the integrity of the EU common market. The second fear referred to the possibility that the new members would not be able to live by the EU market rules; that competitive pressures and/or political costs resulting from the imposition of EU rules would be too high for them to bear. Either way, the EU insiders risked losing control of the potential costs and gains of integration.

The overarching goals the EU sought to achieve through the fifth enlargement were to sustain political stability in Europe and to gain economic benefits from market enlargement (European Council, 1993; European Commission, 2001b; Moravcsik & Vachudova, 2003). Realizing that the

achievement of these larger objectives would be undermined if the developmental consequences remained unmanaged, the two fears described above triggered growing demand among the EU insiders for governance of the negative consequences of rule transfer.

The definition of the economic criteria of eligibility for membership at the 1993 Copenhagen Summit signalled the EU's new awareness of the potential developmental consequences of enlargement. Specifically, the EU added the requirements of a 'functioning market economy' and the 'ability to cope with competitive pressure'. This marked a drastic departure from the prevailing political paradigm at the time, which regarded these two accession requirements as automatic results of market liberalization. As interviews with EU officials revealed, key EU-15 member states and the EC learned from the collapse of the East German economy, caused by the unexpected consequences of rapid liberalization, poorly designed currency unification, and unplanned market integration after German reunification. The resulting economic and political turmoil, along with the need for massive fiscal transfers between the two parts of Germany, played a major role in convincing key players within the EU that they could not leave the task of integrating future members into the internal market solely to the power of transnational market forces.[7]

The added accession criteria were meant primarily to control the costs of enlargement. The core EU-15 countries were, on the one hand, not prepared to do for the CEE economies what West Germany had done for East Germany in terms of transfer payments. The southern members of the EU, on the other hand – the major recipients of cohesion funds within the Union – had made it clear that they wanted to keep their shares (O'Brennan, 2006).

Agenda 2000, the document in which the EC assessed the challenges of enlargement and developed an integration strategy, mentions in several places that supporting the process of adaptation would be necessary under the reinforced pre-accession strategy. While the document acknowledges that the extension of the Single Market would not happen for free, it cautiously lists the accession countries as the primary source of extra funds needed for successful integration:

> Adequate preparations for membership 'will require substantial investment in sectors such as the environment, transport, energy, industrial restructuring, agricultural infrastructure and rural society. The funds needed will have to come from public and private sources in the applicant countries themselves, the Union and other providers of foreign capital' (European Commission, 1997, p. 47).

The second fear of the EU core countries was that problems with the functioning of market economies and low capacity to withstand competitive pressures might undermine the readiness of prospective members to play by

the rules of the internal market in the post-accession period. EU insiders feared distorted competition and saw the integrity of the internal market at risk. As one EU official recalls the discussion at that time:

> Before we started accession negotiations with the EU-10 and even still during the negotiations many within the EC feared that enlargement would risk deepening. Jacques Delors believed that deepening and widening of the EU don't go together. There was a strong fear that enlargement would destabilize the EU including the functioning of the EU internal market. In fact, Agenda 2000 was written in that spirit and puts a lot of emphasis on this fear.[8]

Agenda 2000 repeatedly mentions the necessity to avoid partial *acquis* implementation that is portrayed as a major threat to integration:

> Market distortion and prejudice to EU consumers could result from possible inadequate implementation of the internal market *acquis*. Sensitive areas in this respect include implementation of the *acquis* regulating free movement of goods, the protection of health, environment and consumers, indirect taxation, adequate management of the external borders, implementation of safety requirements and state aids. The capacity of acceding countries' administrations to manage the Community *acquis* will be a key element. The more this capacity is achieved before accession, the fewer problems will arise after it. If important problems were to remain after accession, protectionist political pressure could develop in both present and acceding Member States and could endanger the functioning of the internal market as a whole. (European Commission, 1997, p. 99)

The fear of non-implementation of EU market rules also appeared in another form. Given the CEE countries' factor endowments, which resulted in comparatively low production costs, the governments of EU member states feared that the competitive advantages of the rule-taking countries vis-à-vis the EU-15 would cause a massive relocation of production sites from old to new member states (von Hagen, 1996). The rule-makers were therefore keen to ensure full and sustainable rule compliance, as this would raise production costs in the East and reduce the risk that the new members would gain unfair competitive advantages. The following comment from one of our EC interviewees is telling in this respect:

> We [the Commission], or rather some of the member states' governments, feared that our sectors would be affected by the Central and Eastern European countries due to low-cost production/low salaries. So, we had to make sure that these countries at least fully comply with the acquis because this would also increase their local production costs.[9]

All in all, the dominant fears of the EU member states and the EC were that enlargement would (a) increase the pressure for fiscal transfers within the Union and reduce potential welfare gains for the EU core countries, and (b) destabilize the internal market and distort competition. As a result, the EC could not focus solely on rule transfer; it also had to manage

interdependence and have mechanisms in place to anticipate and alleviate the developmental consequences of integration.

### *Why was the scope and lifespan of TDS limited?*

As mentioned earlier, the TDS focused on managing the negative consequences of market integration rather than presenting a positive development plan. The limited scope of resources, discussed in the previous section, was shaped by the specificities of the EU polity: the structure of EU decision-making allows the strongest and most developed member states to keep market-correcting policies at low levels (Höpner & Schäfer, 2014; Scharpf, 2006). The incentives to do so stem from the structure of representation within the EU. As each elected policymaker within the EU is accountable solely at the level of the member state, representatives must present EU-wide common interests to their constituencies as the best representation of national interests. They must do so in competition with other domestic political actors who have strong incentives to denounce their proposed policies as weakening or undermining national sovereignty (Bruszt *et al.*, 2022). EU-level elected representatives can escape such a 'trap of confederalism' only to the extent that they can 'sell' EU-wide transfers as a cost-effective response that pre-empts the need for much larger cross–member state redistribution at a later stage (Truchlewski & Schelkle, 2024).

Ultimately, the external shock caused by the collapse of the former GDR induced political mobilization at the level of member states aimed at using the EU (Woll & Jacquot, 2010) to manage the potential large-scale negative economic externalities of integration. The limited scope of resources devoted to the governance of these externalities was due to Germany being overburdened, both politically and economically, by transfer payments to its Eastern federal states, combined with the Southern member states' insistence on retaining their share of EU transfers.

The relative success of the TDS, together with the effects of the confederal trap described above, played a key role in its limited lifespan: once the new members had joined the EU without major economic troubles, it would have been politically difficult to argue for maintaining the TDS among the old member states. Finally, as Machiavelli might have noted, fortuna was on the EU members' side – this time in the form of FDI inflows, which set the new member states on new growth paths while also helping to maintain the competitiveness of the older ones (Jacoby, 2010; Medve-Bálint, 2014).

## Conclusion

In this paper, we aimed to build a bridge between the enlargement literature, which studies how the EU makes applicant countries comply with its rules

prior to accession, and the political economy literature on the integration of EU peripheries, which examines how domestic actors try to manage the social, economic, and political externalities of rule compliance in the post-accession period.

To overcome the blind spots of these two approaches, we combined them to study the widening of the Single Market as a process of extending the EU's integration regime to countries at lower levels of economic development. Linking these approaches reveals the central governance challenge of widening the Single Market: ensuring that new members play by the EU rules during pre-accession and, at the same time, enabling them to live by and benefit from these rules post-accession.

The paper thus highlights the basic anomaly of the EU's approach to widening. Outside the EU, the politics of extending transnational markets involves negotiating mutually acceptable settlements that distribute the costs and gains of integration among the parties in advance. The EU-Mercosur deal, negotiated over 25 years, stalled in debates about the fair distribution of costs and gains among producers from the participating economies. Within the EU, however, much deeper and more encompassing market integration is pictured – at least on paper – as a simple complete contract that does not require ex ante management of distributive issues: applicant countries join the richest club in the world in exchange for implementing roughly one hundred thousand pages of EU rules. After accession, they are entitled to development funds, and it becomes their primary responsibility to manage the externalities of integration.

We have shown that during the Eastern enlargement, the EU – and the EC in particular – departed from this understanding of integration and created transnational capacities to anticipate and manage the largest potential negative externalities of rule compliance. The TDS, we argued, represented a pragmatic institutional experiment by the EC to defend the interests of the EU insiders. It had limited room and resources for correcting the outcomes of market integration and was forced to innovate to make the integration of ten fledgling market economies 'cost-effective'. Of the two main functions of the developmental state – protection and promotion – the TDS concentrated on protection and on building elementary developmental capacities in the accession countries.

Although the TDS was created and operated by stealth, the EC never claimed to know better than local actors what the developmental problems were or how to solve them. In sectors or regions where local actors were organized and had the capacity to make their voices heard effectively, they could shape the management of developmental problems (Bruszt & Langbein, 2014), sharing responsibility with EU-level development banks and bureaucrats from the member states.

In the current debate on the impact of Ukraine's accession to the EU on the functioning of the Union, there is a tendency to view deepening – introducing EU-level institutional reforms – as a prerequisite for widening (cf. Bastasin, 2023; Darvas *et al.*, 2024). However, as we have shown, the EU could readily revive the institutional practices of the TDS without cumbersome EU-level institutional reforms. The resources provided by the EU and other countries for post-war recovery could be channelled into mechanisms for managing the externalities of rule transfer. In this way, the EU could go beyond existing institutional innovations such as the Support Group for Ukraine (SGUA). While the SGUA has become more than a unit for coordinating acquis compliance – placing greater emphasis on public administration and decentralization reforms (Dimitrova & Dragneva, 2023) – building state capacities to detect and manage negative externalities of market integration has not been part of its portfolio. By reviving the TDS, the detection of potential negative impacts of rule-taking could be paired with exploring opportunities for ambitious industrial and regional economic recovery projects. Giving Ukraine a greater role in governing these processes could help strengthen the Ukrainian state's developmental capacities and improve the accountability of the EU administrative bodies involved.

The potential demand from the EU-27 for an updated TDS in the next wave of widening could be even stronger than it was during the Eastern enlargement of 2004–2007. If Ukraine's integration results in economic instability or a weakened democracy, it would represent a significant setback for Europe and a direct threat to its security. It would also create ample opportunities for Russian strategies to manipulate political developments in Kyiv, undermining any military gains and the prospects for lasting peace in Europe. Division among the member states over how to address the security challenge, however, weakens the chances of transforming these security-linked considerations into an effective demand for an updated TDS.

The 'European Enlargement State' (EES) (Thiemann *et al.*, 2025, in this issue) that is shaping the recent wave of widening does not provide a congenial starting point for an updated TDS. While the EES is much more efficient in mobilizing resources, it lacks the mechanisms that allowed the TDS to identify and manage in time the large-scale negative externalities of regulatory integration. The extreme centralisation of decision-making powers in the EES may allow for efficient implementation of policies defined at the supranational level, but it prevents the EC from exercising even the most basic midwifery role in supporting the timely management of the externalities of rule transfer. As a result, developmental interventions directed by the EC risk creating 'cathedrals in the desert' and potentially contributing to longer-term economic and political instability in Ukraine and other future member states.

In principle, Ukraine's integration could also build on the post-COVID EU's hectic search for new modes of producing regional public goods and

managing interdependence in 'cost-effective' ways. The EU's 'hidden investment state', the Recovery and Resilience Facility, and the evolving assemblage of EU industrial policy mechanisms could be combined with a resuscitated (and upgraded) TDS with the explicit goal of making enlargement a positive-sum game. However, the EC's increased capacity to mobilize resources, combined with the concentration of power in the Commission (Thiemann *et al.*, 2025, in this issue), could ultimately produce far fewer developmental outcomes for far greater resources.

## Notes

1. Authors' interview with an EU official (B) who was involved in planning the fifth enlargement, Brussels, February, 2015.
2. Authors' interview with an EU official (C) who was involved in planning the fifth enlargement, Brussels, February 2015.
3. PHARE stands for Poland and Hungary: Aid for Restructuring of the Economies. In December 1989 the EU passed Council Regulation (EEC) No 3906/89 on economic aid to the Republic of Hungary and the Polish People's Republic. In 1994, PHARE's tasks were adapted to the priorities and needs of each applicant country from Central and Eastern Europe, mainly in the areas of institution building and investment financing.
4. Authors' interview with an EU official (D) who was involved in planning the fifth enlargement, Brussels, February, 2015.
5. SAPARD stands for Special Accession Program for Agricultural and Rural Development. In June 1999, the EU passed Council Regulation (EC) No. 1268/99 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe to prepare the candidates to take on the EU acquis for agriculture and food safety.
6. Authors' interview with an EU official working at DG ECFIN during the preparation of the fifth enlargement, Brussels, February 2015.
7. Authors' interviews with Commission officials actively shaping the definition and the operationalization of the economic aspects of the Copenhagen criteria, DG ECFIN and DG Enlargement, Brussels, October 2012 and April 2013.
8. Authors' interview with Commission official (B) who was involved in planning the fifth enlargement, Brussels, February 2015.
9. Authors' interview with an EU official (A) who was involved in planning the fifth enlargement, Brussels, February 2015.

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## Ethics approval statement

We confirm that all the research meets the ethical guidelines, including adherence to the legal requirements of the study countries.

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## Data availability statement

Data sharing is not applicable to this manuscript as no datasets were generated or analyzed during the current study.

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