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**Business-Government Relations in EU-Acceding Countries:
Towards a Model of Institutional Change**

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EU Accession and the Changing Business-Government Relationship in Post-Communist Europe

The introduction of state ownership during communist rule fundamentally blurred the organizational boundaries between government and business. The state became the sole employer – private employers were non-existent, while the business function of state enterprises was highly politicized. The latter were controlled by the party-state through central planning and the *nomenklatura* system of recruitment and appointments.

Central plan meant direct bureaucratic management of the economy by institutions of the state. The central plan rather than market mechanisms designated what enterprises should produce and at what cost. It further designated the suppliers and customers for enterprises, the general framework for pay scales and terms of employment. Investment was provided primarily by the state, which in turn had the right to income earned by enterprises and organizations under its ownership. The abundance of administrative orders for sales, marketing and distribution resulted in lack of initiative and entrepreneurship. Competition was considered wasteful and unnecessary in a system of soft budget constraints (Kornai, 1980; 1992).¹ Managers were thus not decision makers but only implementers of decisions taken at higher political level—the main function of enterprise directors was the fulfillment of plan targets. Through the *nomenklatura* system, managers were appointed on the basis of political not professional criteria. The total party control over enterprises and the economy was further secured by the appointment of party secretaries in all major places of work.

Not surprisingly, it took years for the transformation of this highly rigid bureaucratic system of corporate activity into a new pro-market, pro-competitive

¹ Hungarian economist Janos Kornai identifies a set of mechanisms in the socialist economy, all of which lead to a softening of a firm's budget constraints: (1) soft subsidies mean that firms operate in an environment in which they expect that negotiations with planning authorities will yield additional funds; (2) soft taxation indicates that bargaining can reduce tax burdens for specific firms or industries; (3) soft credit denotes firms' ability to plead to the state bank for additional loans or alter the terms of existing debt; (4) soft administrative pricing refers to the practice of altering administratively set prices to provide funds to a given branch of industry or producer of a specific good. These practices are a matter of degree but together they point to an environment in which firms tend not to be responsive to price shifts nor are they profit maximizers. In Kornai's classical theory, the main "softening" action is a two-step process: in step one, the firm has fixed budget and a target quantity of output; in step two, the firm overspends the budget – using a greater quantity of inputs or excessive labor (costs) – and the state clears the debts through a subsidy or budget reconciliation.

corporate performance system, and for the emergence of a new type of business relations with the state based on the organizational and political independence of the former from the latter. As many observers of the region have noticed, in the initial years of post-communist transformation business success continued to be dependent upon political connections, and political, rent-seeking strategies of obtaining special privileges from state bureaucracies were a common practice. Furthermore, for a long time enterprise managers retained paternalistic corporate goals, rooted in the extensive social welfare functions of enterprises under communism. Priority was overwhelmingly put on maintaining and creating secure employment rather than reducing it in the name of pro-market goals such as economic efficiency, competitiveness and growth.

How did the accession of central and eastern European (CEE) countries into the European Union (EU) affect these legacies of the business-government relationship? Did the emerging post-communist businesses see EU membership as a means of securing a faster transition towards a more western, pro-market type of business strategy and operation, or as an additional threat to the survivability of enterprises? What was the impact of accession-driven adaptational pressures on business organization and strategy, especially on its relationship with government? While there is already an abundance of literature on EU accession and domestic adaptation (see, for example, Linden, 2002; Jacoby, 2004; Schimmelfennig and Seledmeier, 2005), especially on EU conditionality (Grabbe, 2006; Hughes et al., 2004; Schimmelfennig et al., 2005) and individual policy cases such as the restructuring of state administration and building its capacity to implement the EU common law or environmental transformation (Andonova, 2004; Vachudova, 2004), very little systemic study has been devoted to the business-government relationship and business per se as an agent in the EU accession process. Even for EU member states, little attention has been paid to the Europeanization of the business-government relationship. There are works that point to EU-level business-government relations or the actions of national groups in Brussels (Van Schendelen, 1993), there are also some works that focus on the Europeanization of business (Kassim and Menon, 1996), but only a few studies focus on the business-government relationship per se (Cowles, 2001; Schmidt, 1996a, 1996b; Lavdas, 1997). This is surprising given the fact that business has always been a champion of European integration, and that specific

configurations of business-government relations at the EU level and the domestic level of member states have largely determined the outcome of integrative processes across Europe.²

More specifically, business has persistently regarded the deepening and widening of integrative processes in Europe as the major means of increased corporate competitiveness in the global economy. While national governments of member states worried about possible loss of sovereignty it was business through its organizations in Brussels that lobbied persuasively them to overcome national sovereignty issues and embrace the ideas of a common market and increased liberalization, e.g. the removal of barriers to the free movement of goods, capital, services, and labor in Europe. European business further argued that the single market must be completed with a single currency, and lobbied for the signing of the Maastricht Treaty that has led to the creation of an economic and monetary union and the introduction of a single currency, the Euro. Persistently, European business has also promoted the widening of the Union, and has supported its enlargement rounds, including the most recent one, to the east.

Using an institutionalist approach grounded in the comparative Europeanization literature, this study explores institutional change in the business-government relationship in the EU acceding countries from the post-communist region. Similar to the neo-pluralist (societal) approach (see Nowell, 1996), the institutionalist approach emphasizes the importance of business-state alliances in determining political and policy outcomes and the fulfillment of business strategic objectives. Unlike the neo-pluralist approach, however, which emphasizes primarily the desire of business to control the state (Gibbs, 1991; Cox, 1994; Ferguson, 1983, 1984, 1995; Ferguson and Rogers, 1986; Frieden, 1988; Abraham, 1986), the institutionalist approach counts for the goals of business, but regards these goals as significantly constrained – defined and shaped – by institutions.³

² See, for example, the webpages of BusinessEurope, the Confederation of European Business (<http://www.businesseurope.eu/Content/Default.asp?>), and ERT, the European Round Table of Industrialists (<http://www.ert.be/home.aspx>) - the two major business formations at the EU level.

³ Institutions are understood in this study as the structures that human beings impose on their interactions, or as coherent systems of shared (enforced) norms and rules that regulate individual interactions in recurrent situations. They comprise formal rules and informal constraints. The formal rules refer to legislation, court decisions, and regulations of the executive and various regulatory agencies. Formalized institutions provide written norms and procedures prescribing behavior. The informal constraints are norms of behavior, conventions, and self-imposed codes of conduct that are combined with the enforcement

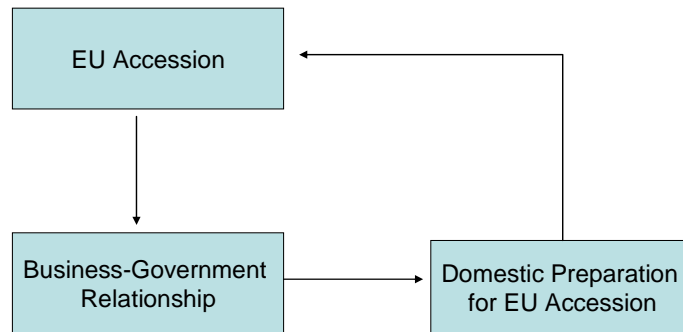
Institutions have always played a vital role in the EU integrative processes, including EU accession; the European Union is a polity heavily grounded in institutions (Katzenstein, 1997). What matters most in the case of European integration are the European common law, the *acquis communautaire*, and the EU common policy content and procedures. As Christopher Preston observes, the requirements that EU candidate countries take on board the entire *acquis communautaire* with no permanent derogations allowed; and that the accession negotiations concentrate exclusively on the practical aspects of the adoption of the *acquis* by the applicants, stand on top of the list of principles applied in all EU enlargement rounds (Preston, 1997). These requirements consequently define EU integration and more specifically the EU enlargement process as a highly institutionalized one.

By focusing on the business-government relationship in the EU accession countries from CEE, this study addresses the questions, in which way and to what extent does the EU exercise its influence on this relationship? The study has two intertwined goals in that regard: on the one hand, to broadly outline and explain the specific pattern of the Europeanization of the business-government relationship as a result of the adaptational pressures of EU accession; and, on the other – to trace the effectiveness of this relationship in facilitating the preparedness of an EU acceding country for EU entry (See Figure 1a).

It is important to emphasize the methodological difficulty in trying to disaggregate European integration as an independent source of change in the business-government relationship in the accession countries from CEE. In practice it has always been difficult to isolate European effects and to disentangle effects of European arrangements from global, national and sub-national sources of change (Olsen, 2002: 14; Risse et al, 2001: 4). For the CEE countries specifically, EU conditionality went hand in hand with the efforts of other international organizations to link transformation incentives with the fundamental political principles of the western world, such as the norms of human rights and liberal democracy, and the institutions of the market economy.

characteristics of both. Informal aspects of institutions usually encompass informal collective understandings and beliefs, and informal networks among executives and interest groups (March and Olsen, ; Sjöstrand, 1993: 9; North, 1993: 36).

Figure 1a



The methodological difficulty is even greater, having in mind the interwoven processes of post-communist transformation and EU accession. The borders between EU accession and post-communist transformation were not clear from the very start of the integration efforts, because EU membership was regarded as both a means and a goal of post-communist transformation. Even if we accept that much of the adaptational pressures had come from the EU in various forms and channels, such pressures did not necessarily target the goal of EU membership per se. They built on the basis of foreign aid conditionality for the smooth post-communist transition toward democratic institutions and market economies. The three Copenhagen conditions for accession elaborated in 1993 were equally important for the development of democracy and a market economy in the CEE region.⁴

Perhaps important domestic changes in the direction of political democratization and the creation of functioning and internationally competitive market economies would have occurred anyhow, without the prospect of EU accession. Yet the scope and speed of these changes might have been significantly different.⁵ Similarly, during the southern

⁴ Schimmelfennig and Sedelmeier made an attempt to differentiate these influences by distinguishing two main contexts of Europeanization in CEE: democratic conditionality, and *acquis* conditionality. Democratic conditionality refers to transition pressures concerning the general EU rules of liberal democracy applied in the very first years of post-communist transformation. The *acquis* conditionality refers to EU accession pressures, applied at a later stage when enlargement became a goal of the EU, roughly from 1995 (Schimmelfennig and Sedelmeier, 2005c: 211-212).

⁵ Some observers see the speed and scope of transformation as strongly correlated with successful preparation for accession. The more a country is advanced in liberalization, efficient privatization, restructuring and international competitiveness, the better it is able to face the challenges of adjustment to conditions of EU membership (Inotai, 1999: 3). Others tend to assume consecutive processes, to view

enlargement of the EU in the 1980s, the theme of modernization had been considerably interwoven with the political discourse of EU accession. In Greece, Spain and Portugal, modernization had often been equated with an approximation to western European norms and practices (Featherstone 1998; Borrás-Alomar, 1999).

In order to overcome these methodological difficulties while addressing the above stated questions, research and analysis were organized around an in-depth case study of the business-government relationship in one accession country – Bulgaria. Examining patterns of interdependencies and causalities in one particular country, industry by industry, region by region and company by company is essential in identifying the key elements of the pattern of change and the intervening factors that affect the business-government relationship. The selection of several sub-national case studies of industries, local regions and companies, permits research to be carried out into the complex interactions between business and government at local, regional and national levels. It is precisely these detailed analyses of linkages and networks that allow for the elaboration of a model of accession-driven institutional change in the business-government relationship, or a model of its Europeanization.

The study demonstrates the path through which Bulgaria – a classic example of the Soviet socioeconomic system⁶ – refocused itself to pursue EU membership. On the one hand, the Bulgarian case has a lot of common features with the changing business-government relations in the other CEE countries – new EU members because EU accession has evolved as a highly uniform process. The EU conditionality required the introduction of the same laws and regulations in each country which is aspiring for EU membership. At the same time permanent derogations were not allowed – the candidate countries had to take on board the entire *acquis communautaire* with accession

integration as the crowning moment, the final stage of the economic and political transformation of CEE applicants for EU membership – not merely a process of adapting to external conditions (Kolarska-Bobinska, 1999). Still others point to existing tensions between the transformation of the political, economic and social structures and the process of integration with the EU. Membership of the EU (together with NATO membership) became the primary goal of the post-communist transforming countries, and it put a lot of pressure on the institutional and organizational capacities and value orientations of potential new members (Widmaier, 1999).

⁶ During state socialism, more than any other nation in the Soviet Bloc region, Bulgaria's economy was patterned closely after the Soviet system, with a massive heavy-industrial sector, huge agro-industrial complexes, and ever-increasing urban concentrations and depopulation of the countryside (McIntyre, 1988). Observers called it the “most Soviet” of the Eastern European states (Pickles et al., 1998).

negotiations concentrating only on the practical aspects of the adoption of the *acquis* by the applicants. As Christopher Preston observed, this principle stands on top of the list of principles applied in all rounds of EU enlargement. Changing the “rules of the EU club” is possible only after accession, when new members could express their individual preferences in the decision-making process of the EU and try to change the rules through the accepted decision-making principles and procedures of the EU (Preston, 1997). That is why the findings of this study provide general insights that are also applicable to other new members of the EU from the formerly communist region.

On the other hand, the Bulgarian case differs from other CEE applicants for EU membership on the basis of the individualism of post-communist transformations, and the speed of preparedness for EU membership. As some authors have observed, the uniformity of integration contrasted with the individualism of transformations (Widmaier, 1999). In contrast to the 2004 entrants, Bulgaria lagged behind in the level of its economic restructuring and transformation, and hence in fulfillment of the EU economic conditions for accession. Although the country was not directly involved in the Balkan conflicts of the 1990s, its economy and emerging businesses suffered the consequences of political instability in the region, causing reduced investor confidence, postponement of needed structural reforms, and general economic malaise. However, important domestic factors such as the lack of political and legal transparency and the proliferation of corruption and clientelism due to close relations between political and economic elites also played a role for the poor economic performance. Overall, Bulgaria’s prolonged preparedness for EU membership in the economic/business realm makes it an excellent case study of the evolving changes in the business-government relationship as a result of EU accession.

What is to Change in the Business-Government Relationship?

The model of business-government relations in general is often constructed as a model of interdependence and reciprocity (Samuels, 1987; Chick, 1990; Moran and Wright, 1991; Lavdas, 1997). The assumption is that governments and businesses are bound in a relation of interdependence by virtue of some of the most profound

characteristics of the social systems in which they are embedded. Yet the relationship has clearly identifiable components, such as character, structure, and composition.

Character of the Business-Government Relationship: Adversarial vs. Cooperative

The character of the business-government relationship is rooted in the conflict – collaboration continuum, and is determined by the extent of substantive inter-penetration of business and government. That is, on the one hand, the extent to which governments intervene in industry or limit themselves to macroeconomic policies intended to promote economic growth, and, on the other, the extent to which business is involved in the policy-making process. There are three distinct modes of a business-government relationship based on the degree of state involvement in the economy, and the degree of business involvement in the policy-making process. They have virtually defined three distinct types of capitalism – neo-liberal, statist, and corporatist (Katzenstein, 1984 & 1985; Wilson, 1990).

In the neo-liberal, Anglo-Saxon model (typical for the U.S. and the U.K.), primarily market forces determine the allocation of investment and the coordination of different factors of production. The role of the state is to secure a business environment conducive to business's success by maintaining the institutional infrastructure needed for commercial activity (such as a system of law) and by steering the economy at the macro level in order to avoid recessions or inflations. The character of business-government relations is more adversarial rather than cooperative. The major political task for business in this model is to lobby for the reduction of taxes or regulations which cost business money.

Under the statist model (as practiced in Japan but also France), the state itself fulfils extended functions and takes a close interest in the strategies and activities of corporations. The greater government involvement in the economy is based on its leadership role – that is, identifying markets and products which are likely to grow in the future.⁷ Advocates of such a major, direct role for government in making investment decisions argue that government is capable of taking a longer term, more informed view

⁷ For details on the statist perspective, see more in Zysman, 1983; Johnson, 1982; Dyson and Wilks, 1983; Wilks and Wright, 1987.

of the prospects for growth and investment than is the individual corporation (Wilson, 1990). The state also has a mediating role between powerful interests such as business and labor in order to promote consensus on the measures needed to achieve growth.

Under the corporatist model, the state also exercises an extensive involvement in the economy but in tandem with business and other organizations of civil society. The interventionist state in the corporatist model seeks partnerships with business and other economic interests such as labor by promoting the growth of interest groups which, in turn, have a say in government policy and assist government by promoting and helping to implement government policies among their members. Through such partnerships, the most promising prospects for future economic growth are identified and resources are steered to those sectors.

A variation in the business-government relationship along the lines of the conflict-cooperation continuum stems also from variation in policy-making patterns across policy areas – regulatory, distributive and redistributive (Lowi, 1964; 1972). Regulation constitutes an arena of pluralist politics and pluralist competition over outcomes. By contrast, distribution concerns the allocation of public funds in accordance with log-rolling coalitions among various actors with often uncommon interests, leading to distributive bargains. Finally, redistributive policies concern the redistribution of social income among social groups (social policy) or territorial units (regional policy) and are associated with more stable interest coalitions.

Structure of the Business-Government Relationship: Degree of Institutionalization

The structure of the business-government relationship refers to the degree of formalization and institutionalization of the channels of communication between business and government, such as consultation procedures, councils, commissions, and others. The degree of institutionalization is the major dimension along which government-business relations vary in different contexts. The more institutionalized the government-business relation the more it will involve encompassing organizations and formalized channels of interaction governed by elaborate rules and norms.

The relationship between business and government is structured or institutionalized differently under each of the three major models of capitalism. In the

neo-liberal model, the business-government relationship is less institutionalized. Dealings between government and business are conducted by government either with numerous competing business organizations of uncertain status or directly with individual corporations. The model of neo-corporatism is characterized with the highest levels of institutionalization, although close consultation between business and government also occurs in the statist model of France and Japan, but this consultation is generally routed through highly developed business organizations (Wilson, 1990: 23).

The business-government interaction could be also realized through less formal institutional channels, especially networks of personal relationships. The implications for policy, including economic policy, are described in the literature as typically negative. Rent-seeking, clientelism and collusion among politicians, interested bureaucrats, and organized constituencies typically permit policies that favor narrow interests over the common good. But, as Haggard et al. note, expectations about the consequences of personal networks are not uniformly negative. It has long been recognized that formal organizations and institutional hierarchies are interlaced with informal networks that strongly affect their performance. The positive light on networks is that they can promote the two-way flow of information between government and private sector, which in turn enhances policy design and subsequent adjustment. To the extent that networks build reciprocity and trust, they benefit the economic policy process by lowering transactions costs between government and business and minimizing the likelihood of policy stalemates. Networks are also beneficial to the extent that they increase transparency because this raises the costs of individual rent seeking (Haggard et al., 1997: 54).

Composition of the Business-Government Relationship: A Multiplicity of Actors

The composition of the business-government relationship refers to the concrete actors that are involved in the relationship on each side. Both the state and business are not homogenous entities but comprise a multiplicity of sub-units. In the business-government relationship the state is regarded not just as a forum within which competing or conflicting social forces contend for control so that they can use state powers for their own purposes, but as a relatively independent actor with its own objectives and interests that cannot be reduced to those of any interest group, even one as important as business

(Skocpol, 1985). In the business-government relationship, the state acts as both a legislator, an executive, and a judiciary. The political party dimension of the state is also important in that regard.

Business is also not a homogeneous unit but has two important dimensions: on the one hand, it can be desegregated into capital, sector, and firm (or possessing common, industry-specific and firm-specific needs and interests); and on the other – into political organization and political representation.⁸ Businesses as factors of production or capital emphasize common interests vis-à-vis the state such as the protection of property rights and the creation of a favorable business climate (Lindblom, 1984; Hirschman, 1978)⁹. However, businesses also have divergent interests when it comes to particular public policies and sectors. In this case, rent seeking can become an important aspect of the business-government relationship (Olson, 1982; Krueger, 1974). In the business-as-firm case, characteristics of corporate structure, including size, internal organization, ownership, and patterns of financing, seem to affect both business preferences and the leverage that firms have vis-à-vis government actors. Two organizational dimensions – the relative size of major firms, and the extent of diversification within particular firms or groups – can have especially important implications for relations between government and business.¹⁰

In the case of business as political organization, the focus is on the institutions that mediate business interests, or on how business associations and interest groups aggregate, reconcile, and intermediate business interests (Silva, 1997; Doner and Ramsay, 1997; Biddle and Milor, 1997; Thorp and Durand, 1997; Schneider, 1997), as well as how they influence policy making through lobbying, and policy implementation through

⁸ In addition to capital, sector, firm, and organization, Haggard et al. (1997: 36-37) add also networks to the desegregation of business. However, their understanding of business-as-networks refers more to the specific mode of interaction with government which comes not through formal institutional channels but through networks of personal relationships.

⁹ See Winters 1994, 1996; Cohen 1996; Haggard, Lee and Maxfield, 1993 for full reviews of the literature on business as capital. It is important to note in this regard the structural aspects of business power. Authors such as Lindblom (1977) have stressed that business leaders are not just another interest group; in market societies they dispose of real power because they have been entrusted with the power to decide whether and where to invest in the new processes which are vital to the future prosperity of the whole community. If business leaders feel that the conditions are not right for investment, then that investment will not be made (Wilson, 1990: 11). States compete with each other to attract industry by having the lowest corporate taxes and in other ways creating a favorable business environment.

¹⁰ On the rising role of firms in business-government relations see more in Grant, 1987; Cowles, 2001.

private-interest governance, where business associations assume governmental functions. The role of business associations in mediating relations between government officials and capitalists is generally seen as one that can enhance economic performance. First, business associations can maximize the positive effects of government-business collaboration by limiting the pursuit of particularistic interests. Second, associations can promote collective self-governance of business, or private-interest governance, that can be equally if not more efficient and effective than direct state intervention or regulation (Haggard et al., 1997: 49). The political party connections and political representation of businesses are also an important aspect of the composition of the business-government relationship. It has been argued that the strength of pro-business political parties in western democracies has been more beneficial to business interests than the activities of business interest groups (Wilson, 1990: 24). But in general, in order to secure electoral success, even pro-business parties have to put some distance between themselves and business interests (Mills, 1956; Useem, 1984; Drew, 1983; Etzioni, 1984).

Towards a Model of Accession-Driven Institutional Change in the Business-Government Relationship

How to understand deliberate, accession-driven institutional change in the business-government relationship in EU accession countries? Obviously the starting point is its potential source since it is well-known – that is, accession to the EU. However, accession is a very broad process encompassing a variety of situations, factors and interactions. Hence it is necessary to identify those elements of the EU accession process which act as determinants (independent variable) of the changing business-government relationship in the acceding countries (dependent variable).

The effect of EU accession on CEE's domestic politics, policies, and institutions – including business organization and business-government relations – has often been referred to as Europeanization. The term Europeanization is used very broadly, however, often as a synonym of European integration. Olsen outlines at least five different meanings of Europeanization which, as he concludes, after all are rather complementary,

not exclusive (Olsen, 2002: 2-3)¹¹. The focus of this study is on one of these meanings – Europeanization through enlargement, or as a process of institutionalization taking place when the EU expands its boundaries. Europeanization through enlargement focuses on the relationship between the expanding organization – the EU, and its prospective members, from the perspective of the domestic institutions and actors of the latter. Thus, the questions that inform this study are: under what conditions would the accession process provoke change in the business-government relationship in EU acceding countries; and in what direction – towards greater collaboration or greater divisions and adversities, greater or lesser institutionalization, and greater or lesser actor involvement in the relationship on both sides?

Crucial for this study is the focus on *preparedness* for EU membership. In outlining the degree of domestic change as a result of EU accession, the concepts of “goodness of fit” and “policy misfits” have been widely applied (Caporaso et al., 1998; Börzel, 1998, 1999; Risse and Börzel, 2003; Cowles et al., 2001). The claim is that a misfit between European-level and domestic processes, policies, or institutions constitutes the necessary condition for expecting any change. There must be some degree of misfit or incompatibility between European-level processes, policies and institutions, on the one hand, and domestic-level processes, policies and institutions, on the other. This degree of fit or misfit constitutes adaptational pressures. Adaptational pressures alone are not sufficient for expecting change, there must be some facilitating factors (actors or institutions) that are responding to the adaptational pressures. These mediating factors enable or prohibit domestic change.

However, because of the high mixture of post-communist transformation with integration efforts to meet the complex set of EU accession criteria, the goodness of fit approach is generally less applicable to the would-be EU members from CEE. The

¹¹ First, Europeanization is considered to be a process taking place when the EU expands its boundaries through enlargement, and concerns third countries or applicants for EU membership. Second, Europeanization is understood as the adaptation of national and sub-national systems of governance of member states to a European political center and European-wide norms. Third, Europeanization is regarded as the development of institutions of governance at the European level. Fourth, the term Europeanization has been used to point to exporting forms of political organization and governance that are typical and distinct for Europe beyond the European territory. And finally, Europeanization is regarded as a political project aiming at a unified and politically stronger Europe (Olsen, 2002: 2-3). Another definition is offered by Schimmelfennig and Seledmeier who regard Europeanization as a process of rule adoption (a process in which states adopt EU rules (Schimmelfennig and Seledmeier, 2005b: 7).

concept “degree of preparedness” seems to be more suitable in exploring domestic change in the course of CEE’s accession to the EU. Similarly to the concepts of “policy misfits” and “goodness of fit,” the concept of “preparedness” also looks at the degree of fit between the various levels of the institutionalization process (Sjöstrand, 1993: 13-14). It identifies potential gaps, mismatches, tensions and frictions between the micro, or national level of applicant countries, and the macro, or the EU supranational level. The gap is the distance between the experiences of the many single individuals at the micro-level (applicant countries) and the regulations embedded in the more formalized institutions at the macrolevel (the EU) (Börzel, 1998; Risse et al., 2001). However, with the concept of degree of preparedness, the starting point of change is of less analytical importance, compared to the goodness-of-fit and policy-misfits approach. The focus is put on the end-goal – that is, EU membership.

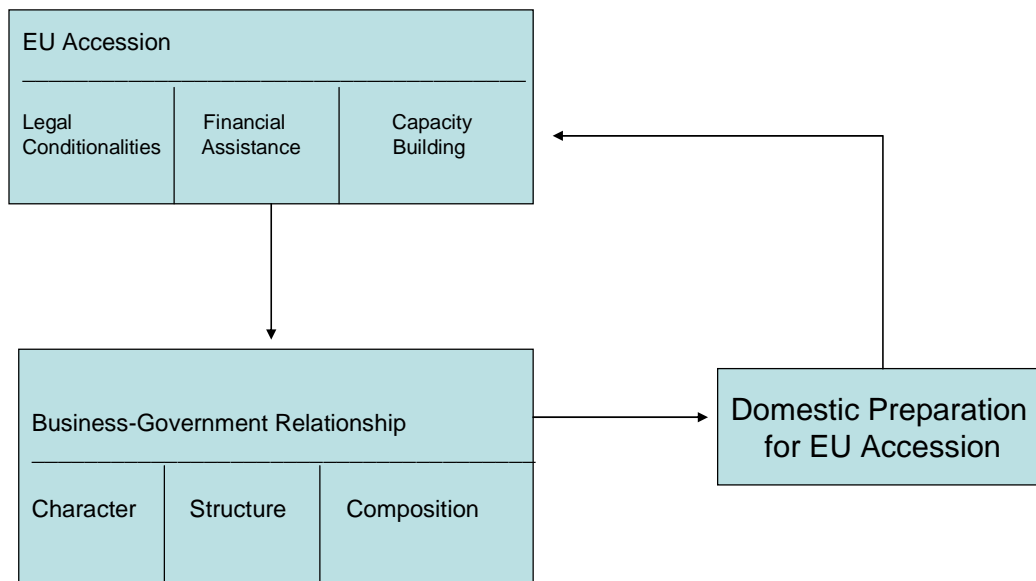
In the case of CEE applicants for EU membership, the domestic institutions and structures cannot be taken as “givens.” In the course of post-communist transformation, CEE experienced considerable pressures for adaptation and adjustment. Even fifteen years after the 1989 revolutions, their domestic structures remain much less stable than those of the EU member states. In addition, in many ways processes of institutionalization *ab ovo* (or from the very beginning) emerged, shaped by international conditionalities on granting post-communist financial aid to the region. Adaptational pressures from the EU (mismatches between EU requirements and domestic conditions) are thus undoubtedly very substantial, and the degree of preparedness reflects the level of harmonization of domestic institutions and structures with the EU standards, norms and procedures.

This study identifies the sources (or mechanisms) of change in the business-government relationship as these three aspects of the process of EU accession: first, the legal conditionalities and harmonization efforts for EU entry; second, the pre-accession and anticipated post-accession financial assistance with its specific priorities and requirements; and third, the capacity building and learning that ultimately stems from the efforts to adapt to the EU conditionalities of membership. The first two accession factors reflect a logic of consequences, while the third one – a logic of appropriateness. The first two thus assume strategic, instrumentally rational actors who seek to maximize their own

power and welfare (the rational choice institutionalism); the third one assumes actors who are motivated by internalized identities, values, and norms (the sociological institutionalism). Thus actors are driven by the logic of consequences or the sanctions (conditionality) and rewards (financial assistance) of the EU. They are also driven by the logic of appropriateness, or an EU-specific collective identity and an EU-specific set of common values and norms (March and Olsen, 1989, 160-162).¹²

EU accession (legal conditionalities, financial assistance, capacity building) affects importantly the three major aspects of the business-government relationship – its character, structure and composition (See Figure 1b). The following sub-sections will look in a greater detail into these dependencies.

Figure 1b



Legal Conditionalities and Harmonization

Membership conditionality is the most important mechanism through which the EU exerts influence on accession countries and their domestic actors.¹³ Conditionality

¹² Similarly, H. Grabbe describes five categories of mechanisms that effect change through EU conditionality: (1) models: provision of legislative and institutional templates; (2) money: aid and technical assistance; (3) benchmarking and monitoring; (4) advice and twinning; and (5) gate-keeping: access to negotiations and further stages in the accession process (Grabbe, 2006: 76-89).

¹³ Typically EU conditionality is seen as a formal instrument for the transposition of EU rules, norms and institutional templates to the CEE countries. Hughes et al. develop a process-based model of conditionality; they define conditionality by the process of its application rather than by an ideal-type assumed power

denotes deliberate efforts to determine the process's outcome through external pressure. This is achieved through specifying conditions or even preconditions for support, involving either promise of material aid or political opportunities. The historical experience with European integration reveals that during all enlargement rounds, the question of EU accession has revolved around the fundamental requirement for the acceptance of the supremacy of the EU common law, the *acquis communautaire*, over domestic legislation, the creation of mechanisms for its transposition into national legislation, and for its subsequent practical implementation and monitoring.

Compared with previous enlargements, specific for the conditions of CEE countries' accession was the higher threshold of conditionalities. The eastward expansion of the EU towards the formerly communist countries reflected conflicting pressures among and within member states. On the one hand, in light of political and security benefits, the EU favored prospective membership by the CEE countries. On the other hand, conscious of the great diversity of the CEE countries, especially in economic levels, the EU was highly hesitant in making more concrete and detailed commitments to enlargement. Notable in this regard were the concerns of the poorer members of the EU such as Spain, Portugal and Greece, that important EU structural funds that were going to them might be diverted to the CEE candidates.

As a result, the EU committed itself to an eastward expansion only within the framework of a *complex set of conditions* whereby the CEE countries would be committed to adopting certain fixed and core democratic, economic, and constitutional principles of EU governance. The EU's accession criteria for CEE applicants included, *firstly*, the basic democratic and free-market-oriented principles and primary provisions of the internal market *acquis*, which form the core of the EU (as stipulated in the Europe Agreements, although these agreements did not discuss accession); *secondly*, the three basic criteria for membership that were outlined by the Copenhagen European Council (1993) in the areas of political democratization, market reform, and judicial and administrative adaptations (the 1995 White Paper on the Single Market strengthened economic conditions with more detailed provisions on the internal market); and *thirdly*,

relationship, typical for the conventional model of conditionality. According to their model, conditionality is the interaction between multi-level actors, perceptions, interests, different rewards and sanctions, temporal factors, institutional and policy compliance (Hughes et al., 2004).

individually crafted aims for each CEE applicant country, through the reinforced pre-accession strategy and the accession partnership agreements concluded in 1998. The 1998 agreements extended the requirements not only by making further negotiations conditional upon the CEE ability to adopt and implement each EU goal as it is stipulated, but also by making financial assistance under the PHARE program conditional upon such progress.

The “*Association*” or “*Europe*” agreements, signed between December 1991 and spring 1993, proposed not accession but association. Specifically, they laid down a variety of conditions for better “association.” These included “the stability of institutions in the candidate country guaranteeing democracy, the rule of law, human rights and respect for minorities” (European Commission 1993:2). The agreements were also designed to reaffirm the commitment of the CEE countries to the principles of the market economy and social justice as the basis for association, and to make their economies competitive with the western European economies. The association agreements turned out to be considerably below the expectations of the CEE countries. The European market was opened asymmetrically to the CEE countries – the opening did not include the sensitive sectors of the EU such as coal, steel, textile and agriculture, which are actually the sectors where the CEE economies have some competitive edge. Besides, the EU rejected financially binding commitments in the agreements (Agh 1996: 9-10). Despite the absence of any commitment to accession in the agreements, and their clear intent to impose protectionist policies, the association agreements provided international political approval for processes of post-communist transformation, and policymakers and the public in the countries of CEE heralded the agreements as an act of high politics, “a dictate of the times,” and a political acknowledgment of the end of the Cold War.

The Copenhagen Council decisions of June 1993 provided that the Europe Agreement countries could become members of an enlarged EU as soon as they fulfilled certain general criteria for accession. The EU set three main criteria for beginning accession talks with the CEE applicants for membership: stable political institutions guaranteeing democracy, the rule of law, human rights, and the protection of minorities; a functioning market economy that can withstand competitive pressure from other EU countries; and the ability to take on the obligations of membership, including adherence

to the aims of political, economic, and monetary union, implementation of the EU's common law or *acquis communautaire*, and administrative and judicial capacity (European Council in Copenhagen, 21-23 June 1993, cf. Conclusions of the Presidency, SN 180/93, p. 13). There were a lot of analytical difficulties in interpreting the EU's accession conditionality. The three main conditions were extremely broad, highly debatable and slippery concepts. In addition, they were a moving target, an evolving process, and the linkage between fulfilling particular tasks and receiving particular benefits was not clear because the tasks were complex and many of them were not amenable to quantitative targets that showed explicitly when they had been fulfilled (Nello & Smith, 1997; Grabbe, 2006: 31-37).

The year 1997 marked a turning point in the evolution of EU conditions. The European Commission's blueprint for enlargement, "Agenda 2000," and the Commission's opinions (*avis*) of the ten CEE applicants for EU membership, issued in July 1997, opened the negotiation process and further outlined the conditions for accession of CEE countries to the EU. These documents also differentiated between two groups of applicant countries: fast-track (Poland, Hungary, the Czech Republic, Slovenia and Estonia, plus Cyprus) and slow-track (Bulgaria, Romania, Latvia, Lithuania, and Slovakia). In an attempt to soften the impact of accession and differentiation, and as a concession to the slow-track applicants, in 1998 the Commission drew up contracts for EU membership known as "accession partnerships." They proposed further strengthening the pre-accession strategy for each applicant country, whatever stage it has reached in the transition process.

The reinforced pre-accession strategy had two main objectives. The first was to channel some portion of financial assistance funds from all available sources—that is, from PHARE and international financial institutions—into the implementation of national programs to help prepare the applicant nations to meet the requirements for membership. Among the objectives and necessary commitments were reinforcement of democracy and the rule of law; protection of minorities; macroeconomic stabilization; enhancement of institutional and administrative capacity; preparation for full participation in the internal market; attention to justice and home affairs, agriculture, the environment, transport, employment, and social affairs; adjustment, as necessary, of

regional policy and cohesion; adherence to nuclear safety guidelines; and the adoption of the *acquis communautaire* within a precise timetable, focusing on the priority areas identified in each opinion. The second broad aim of the strategy was to familiarize the applicants with Union policies and procedures by inviting them to participate in Community programs.

Monitoring was a key mechanism in the conditionality for membership, through the cycle of accession partnerships and regular reports published by the EC on how prepared each CEE applicant was in different fields. This process provided the EU with a subtle and highly effective route of direct influence on domestic policy-making. The regular reports judged the performance of lower-level officials within the ministries, but also of other societal actors including business (Grabbe, 2006: 83).

Similarly to the Europeanization of EU member states, which refers predominantly to the emergence and development at the European level of distinct structures of governance, and their impact on the domestic institutions and actors of member states (Ladrech, 1994; Olsen, 1995a and 1996; Andersen and Eliassen, 1993; Rometsch and Wessels, 1996; Mény, Muller, and Quermonne, 1996; Forder and Menon, 1998; Risse et al., 2001),¹⁴ Europeanization of accession countries through legal conditionalities recognizes the existence of important interactions among several levels of governance (European supranational, national, and subnational). Unlike the Europeanization of member states, however, the Europeanization of candidate countries and their domestic actors and institutions through legal conditionalities and harmonization is characterized with interactions and linkages between national and European levels that are not so close and continuous. If for EU member states the causal processes ultimately go both ways – activities at the domestic level affect the European level and vice versa (Risse et al., 2001; Goetz, 2002)¹⁵ – for EU candidate countries the

¹⁴ In their influential book *Transforming Europe: Europeanization and Domestic Change* Cowles, Caporaso and Risse, for example, understand Europeanization as the emergence and the development at the European level of distinct structures of governance, that is, of political, legal, and social institutions associated with political problem solving that formalize interactions among the actors, and of policy networks specializing in the creation of authoritative European rules. Political institutionalization involves the development of formal and informal rules, procedures, norms, and practices governing politics at the European, national, and subnational levels (Cowles et al., 2001: 3).

¹⁵ As some authors have noted, for member states it is hard to even speak of levels in a system in which European and domestic influences are so thoroughly melded (Risse et al., 2001: 2; Rometsch and Wessels, 1996).

levels are much less interdependent, and there are in fact a lot of power asymmetries. They stem from the limited opportunities of the acceding countries to negotiate derogations or transition periods because of the non-negotiability of the *acquis communautaire*. However, understood is a solid promise that possible reforms to reflect the individual preferences of new members would take place after enlargement.

Overall, Europeanization through legal conditionalities and harmonization changes nation-states and their domestic actors and institutions by exerting adaptational pressures. In that regard, the major questions that inform this study are: How have the pressures stemming from the harmonization of domestic law with the EU common law affected the character of the business-government relationship in EU acceding countries – has the latter become more corporatist–collaborative or more neo-liberal–conflictual? What formal/informal channels of communication and institutions of interaction have emerged to help with the harmonization of legislation? Has the legal harmonization effort changed in any way the composition of the relationship, that is, the internal constituencies of both business and government, and in what direction and at what levels?

Financial Aid

Financial assistance from the EU to the CEE applicants dates back to the late 1980s, as a response to the revolutions in the region. In July 1989, the G24 countries (the Group of 24 western industrial countries)¹⁶ decided to assist reforms in Poland, Hungary, and throughout the region, with EC coordination. The EC held a special informal summit of heads of governments in November 1989 to discuss the challenge of revolution in the east. The Summit agreed to support reform through the creation of the European Bank for Reconstruction and Development (EBRD) and the opening up of EU programs in education, training, and technology. In December 1989, the Council adopted the PHARE Program. Until 1997, PHARE was oriented towards a broad range of goals connected with transition towards pluralist democracy and market economy, largely through technical assistance. PHARE was demand-driven, allowing CEE governments to formulate their own requests in the fields of institutional reform and infrastructure

¹⁶ The 24 were the EU-15, the U.S., Canada, Australia, Turkey, New Zealand, Switzerland, Japan, Norway and Iceland.

development. Projects were awarded to consultants under a competitive tendering process, but without a policy framework, so there was little opportunity for consistent and persistent influence from the EU. Besides, foreign financial aid, including PHARE, while viewed as crucial for the adjustment periods, has proven marginal to the needs of the transition process (Wedel, 1998; Bideleux, 1996; Mayhew, 1998: 135).

With the advancement of the accession process, the EU has committed itself to an unprecedented pre-accession financial assistance, of more than 3 billion Euro per year, to help the candidates duly prepare for membership. This money was channeled through three pre-accession instruments. In addition to PHARE, in 2000 the EU created ISPA and SAPARD. PHARE's two main priorities became institution-building, with a stress on training of public servants (30% of funds), and development of infrastructure (70%), concentrating on transport and environmental projects. Investment support was given to strengthen the regulatory infrastructure needed to comply with the *acquis*, and also for economic and social cohesion measures similar to those supported in the member-states through the European Regional Development Fund and the European Social Fund. ISPA provided structural funds money to contribute to accession preparations specifically in the area of economic and social cohesion, which covered environmental measures and transport infrastructure measures. SAPARD funds contributed to the implementation of the *acquis* concerning the common agricultural policy and related policies, and could also be used to solve specific problems in adapting the agricultural sector and rural areas to EU membership.

Half of the overall pre-accession assistance per year during the 2000-2006 period was allocated to PHARE. The precise appropriation for 2001 were 540 million Euro for SAPARD, 1.08 billion Euro for ISPA, and 1.62 Euro for PHARE, amounting to an overall budget of 3.24 billion Euro (European Commission, 2002a: 7). Meanwhile, the EU deepened its cooperation with the international financial institutions. The latter and especially the World Bank have been actively involved in the preparations of the CEE countries for accession. As Grabbe observed, however, aid money to the candidates was disbursed through an inflexible bureaucratic process. It was thus hard to use it as a carrot to get the countries to move in a particular direction. Moreover, EU aid to CEE was still small compared with FDI inflows for the front-runner candidates, so withdrawal of aid

was not a heavy sanction economically. Nevertheless, the political embarrassment a withdrawal caused could be effective (Grabbe, 2006: 81-82).

Once an applicant country becomes a member of the EU, it can receive aid through the Structural Funds and the Cohesion Fund of the EU. These are the main financial instruments of the EU for achieving the main objectives of its regional policy – reduction of regional development disparities within the EU regions. The Structural Funds comprise the European Fund for Regional Development, the European Social Fund, the European Fund for Agricultural Guidance and Guarantees – section Orientation, and the Financial Instrument for Fisheries Guidance. The European Regional Development Fund is the most important mechanism for carrying of the common regional policy of the EU, with the goal to reduce regional disparities in the Union in the field of development and living standards. The major goal of the European Social Fund is the provision of financial support in the fight against unemployment, mainly through financing measures for education and training of unemployed, easy access to the labor market, creation of equal opportunities at the labor market, development of skills and professional qualification, and encouragement of the creation of jobs. The European Agricultural Guidance and Guarantee Fund facilitates the implementation of the Common Agricultural Policy. It finances measures for the development of rural regions and support of farmers. And the Financial Instrument for Fisheries Guidance is designed to help for the restructuring, adaptation and modernization of the fisheries industry. The Cohesion Fund of the EU targets environmental improvement and development of transport networks.

Accession countries had to develop capacity to utilize these funds before accession. Resources from the funds could be granted to member states only on the basis of strategic programming, or the preparation of multi-annual strategic framework programs and their implementation through the financing of projects targeted at carrying out the programmed actions and achieving the desired results. This is also a process in which more concrete operational programs have to be developed. These programs define the channeling of resources for meeting certain priority needs as specified in the strategic framework program.

In the case of Europeanization through financial aid, the major questions that interest this study are: How are the provisions, requirements and procedures of pre-

accession financial assistance inducing change in the character of the business-government relationship in EU acceding countries – has the latter become more collaborative or more adversarial, especially in regard to the redistribution of financial resources? Have any formal and informal channels of communication and institutions of interaction emerged in regard to the management of the EU structural funds? Have the procedures of pre-accession and post-accession financial assistance affected in any way the composition of the business-government relationship, that is, the internal constituencies of both business and government, and in what direction and at what levels?

Capacity Building

Europeanization is further fostered through capacity building and a learning process of how to operate as a future member, how to upload domestic preferences once EU membership is achieved.¹⁷ More specifically, Europeanization through capacity building and learning is a process in which European institutions and political elites devote resources to enticing important domestic actors to learn to get involved in Euro-level processes, to learn how to participate in European-level decision-making. The process of learning how to take part in the Euro-level policy-making activities would actually become a process of uploading of domestic preferences to the European level after accession is achieved. At the accession preparatory stage this process includes learning about representation and participation in the EU common policies and how to influence them, as well as how to manage the EU structural and cohesion funds. All this involves major changes in the internal administrative structures of applicant states and preparation of domestic actors such as business for EU membership.

In the case of Europeanization through capacity building, several questions inform this study: Has the process of learning how to operate in the EU multi-level governance system and how to participate in EU-level policy making altered in any way the character of the business-government relationship, making it more collaborative or more conflictual? Have any specific channels of business-government communication emerged related to the learning process, such as learning committees and networks,

¹⁷ One of Grabbe's five mechanisms of influence of the EU over acceding countries is "advice and twinning" which is quite similar to the Learning factor as described here.

across business and government, and within their segments? What specific segments or internal constituencies of businesses and governments have been included in the learning process, or has the latter affected in any way the composition of the business-government relationship in an EU acceding country?

Dimensions of the Europeanization of Business-Government Relations

The Bulgarian case reveals that the actual effects of EU accession on the business-government relationship in an accession country could be traced along the lines of three major developments: greater collaboration through endorsement of the partnership principle; greater institutionalization and multi-level interaction; and strengthening of the executive on the side of the state and consolidation of business as capital, sector, and political organization, as well as embedment of the business-government relationship into organized civil society (See Table 1).¹⁸

Table 1.

EU ACCESSION	Character of the business-government relationship	Structure of the business-government relationship	Composition of the business-government relationship
Legal conditionalities and harmonization	<ul style="list-style-type: none"> * collaborative through endorsement of the partnership principle and accent on shared social governance; * conflicts are predominantly technical in character: <ul style="list-style-type: none"> - competition in regard to who is the better expert on the issues under negotiation with the EU; - disagreement over postponement of some regulations; 	<ul style="list-style-type: none"> * direct involvement of business in the accession negotiations; * emergence of new institutions of interaction (consultative councils, public-private partnerships); * emergence of a multi-level structure of interaction. * conflicts based on lack of information flows and lack of endorsement of mutually agreed positions in the actual negotiations with the 	<ul style="list-style-type: none"> * dominance of the executive; * strengthening of business as political organization, also as capital and sector; * embedment of the relationship into organized civil society (social dialogue & Economic and Social Council).

¹⁸ Lavdas (1997) identifies a dual impact of EC membership on domestic government-business relations: indirect and direct. It helps reshape the relationship's environment but it also influences, more directly, the relations themselves, their forms and contents. The direct impact has resulted in organizational development for the peak business organization in Greece, the Federation of Greek Industries (SEV). European integration also affects the channels, points of access and lobbying strategies of interest groups; it also influences the domestic organizational patterns and modes of interaction with governments.

	- information and communication issues.	EU.	
Financial aid	<ul style="list-style-type: none"> * reinforcement of the partnership principle through: <ul style="list-style-type: none"> - strategic programming for the utilization of the EU structural funds and the Cohesion Fund; - building of absorption capacity for the utilization of the funds; - joint monitoring and control of the funds; * conflicts over technical issues (who is the better expert in terms of proposing better schemes for the effective utilization of the funds). 	<ul style="list-style-type: none"> * joint working groups over the preparation of all programming documents for the 2007-2013 programming period; * creation of joint monitoring and control committees; * creation of mutual partnerships over the distribution of financial aid. 	<ul style="list-style-type: none"> * dominance of the executive; * strengthening of business as political organization; * embedment of the relationship into organized civil society.
Capacity Building	<ul style="list-style-type: none"> * expansion of the partnership principle to the EU level. 	<ul style="list-style-type: none"> * emergence of new domestic institutions of interaction; * emergence of multi-level institutions and structures for the preparedness of domestic actors for EU membership: <ul style="list-style-type: none"> - institutional twinning; - joint consultative committees on economic and social issues between the EU and the accession country; - creation of Euro-Info Centers. 	<ul style="list-style-type: none"> * EU-level governing bodies involved in tandem with the executive (EC; EP; ESC); * strengthening of transnational business organization; * new role of domestic business organizations as facilitators of business adaptation for EU membership.

Character: Endorsement of the Partnership Principle

Legal Conditionalities. The most notable effect of the EU legal conditionalities for membership was the endorsement of the partnership principle and the accent on shared social governance. Social dialogue involving governments, business and labor has always been a central element of the European social model, one which has accompanied European integration from the very beginning. With the entry into force of the Amsterdam Treaty, social dialogue became a means of transposing Community directives at national level. As stipulated in the Treaty, a lot of Community directives may be

implemented in the member states by means of either legal harmonization or agreements between the social partners. As a result, the social partners in the EU have become key actors in what some experts define as “shared social governance” (Vaughan-Whitehead, 1999: 2). In the process of accession negotiations the Commission actively promoted this new understanding of social dialogue not so much as a means for mediation and conciliation but as a new form of policy making, as a collaborative governance mechanism. Overall, the message from Brussels was for the encouragement of the cooperation between the social partners in order to be able to participate in the self-regulation of the integrated European market and the achievement of greater competitiveness of the national economies.

However, the implementation of Community legislation through agreements between the social partners rather than national legislation requires strong social dialogue and collective bargaining structures, and representative employer and employee organizations to ensure the effective implementation of national agreements at lower levels. The lack of these conditions in candidate countries predetermined the transposition of EU common law through national legislation rather than through agreements between the social partners. None of the new EU member states or still candidate countries has used the option of national agreements between the social partners for the transposition of EU legislation (Vaughan-Whitehead 2003: 237). Besides, the social partners are still lacking the expert capacity in order to be legislators and political consultants. And the state still holds a monopoly position in the decision-making process and the accession process in particular, which allows for the selective consideration of the different proposals that come from business and other groups.

Despite of this drawback, the EU used another tool for the strengthening of the institution of social dialogue in EU accession countries and converting it into a shared social governance mechanism. It encouraged the active engagement of the social partners in consultations over the harmonization of domestic legislation with the EU common law. The reasons for this are rooted in the necessity for the achievement of broad public consensus regarding the decision for joining the EU and the redrafting of political priorities. There was a belief that the participation of the social partners in the accession process would help at a later stage for the effective and qualitative implementation of the

European common law, the *acquis communautaire*, at firm, branch and regional levels. The necessity for active participation of the social partners in accession negotiations also stemmed from the fact that many EU directives specify such involvement of the social partners at national level, especially those directives that are focused on health and safety issues in the EU (Lado and Vaughan-Whitehead 2003: 78).

Overall, the EU insisted from the very start of the accession process that business and labor as the two major “social partners” to the government have to be included in the elaboration of the government positions on each negotiation chapter of the *acquis*. The EU strongly promoted dialogue and supported the professional organizations of business and other segments of civil society, in an effort to create a functioning civil society in acceding countries, one in which consultation by the government would be an integral part of the policy-making process. The idea was to help the professional organizations prepare for a post-accession active participation and involvement in the EU’s multi-level governance system.

Conflicts between government and business in regard to the legal conditionalities and harmonization requirements emerged but they were predominantly technocratic and technical in character. Thus most of the tensions arose as a result of competition in regard to who is the better expert on the issues under negotiation with the EU. Another hotly debated area included the necessity of postponement of some of the regulations because of the great hardship that they would impose on business, with the ultimate result being its decreased competitiveness on the EU single market. Furthermore, under pressure from business, and as part of the legal harmonization effort, the state had to undertake initiatives to improve the general business environment by relaxing the administrative regulations towards business, reducing the licensing and registration regimes and regulations, and making the business environment more transparent and less corrupt. Conflicts between business and government in regard to the EU legal conditionalities were also based on lack of information flows and lack of endorsement of mutually agreed positions during the actual negotiations with the EU.

Financial Aid. The partnership principle was further reinforced through the design and use of pre-accession and post-accession financial instruments, such as strategic programming; building of absorption capacity for the utilization of the funds; and joint

monitoring and control of the funds. In this specific context, the partnership principle implies close cooperation between the EU Commission, central and sub-national governments, the business sector and NGOs, in order to achieve common development objectives. The principle of partnership requires the partners to present their opinions and proposals in a transparent way during the preparation, financing, monitoring and assessment of projects. All money which come from the EU funds have to be spent for such activities for which there is a consensus among the partners. Even more broadly, partnership is increasingly perceived as a value, method of work or “culture” underpinning structural funds and as a practical tool to ensure the full commitment (moral and financial) of partners to agreed priorities and objectives. Furthermore, the need to include the social partners in the management of the EU structural funds (especially the European Social Fund) is seen as an important milestone in securing their capacity to participate in social dialogue as a meaningful mechanism of shared social governance.

Capacity Building. The capacity building imperative further strengthened the partnership principle and expanded it to the EU level. With European integration, business and other segments of civil society no longer look at their national governments as the sole source of economic and social policy; governments share this function with the EU’s policy-making institutions. Hence a multi-dimensional approach is emerging as a major change in the business-government relationship. Business and government have to learn how to operate at multiple levels of governance, and how to incorporate the European context even when dealing with very specific micro issues at the local level.

Structure: Multi-Level Institutionalization

Legal Conditionalities. As part of the legal harmonization efforts, business became directly involved in the accession negotiations through participation in most of the institutional structures that were specifically established in order to facilitate accession. This included participation in the thirty working groups which were formed on the basis of the sections of the EU common law. The working groups comprised representatives not only of the state ministries but also of the social partners, civil society and political institutions. They formed the extended negotiation team of each accession

country, with the task to handle the entire preparation of the negotiation process on a sector by sector basis. More specifically, the groups' tasks focused on the preparation of draft negotiation positions by sectors, as well as general positions on the conformity of draft laws with the *acquis*, and on the national priorities in the respective industry/field. In addition, business participated in newly emerged institutions and structures of interaction, such as consultative councils on European integration at the various ministries where the various challenges of the *acquis* were discussed on a sector by sector basis. Another institutional development was the creation of public-private partnerships in order to meet the EU legal requirements of accession, especially in the area of environmental protection where a lot of financial resources were needed for the harmonization of domestic legislation with the EU environmental *acquis*.

Financial Aid. In regard to the utilization of EU funds, working groups and commissions were also created, permanent or temporary according to the tasks that they fulfill. These working groups take decisions for the utilization of the structural and cohesion funds, and determine the development of regions and the country as a whole. Plans (strategies) and operational programs for the utilization of EU funds have to be presented to the EC only after consultations with partners. Partners also have to be involved in the monitoring committees of operational programs. Public-private partnerships were also developed in regard to the utilization of EU funds. The PPP is a long-term contractual relationship among persons from the private and the public sector for the financing, construction, reconstruction, management and maintenance of infrastructure with the goal of achieving better level of services. Partnerships were recommended for attracting the co-financing needed to utilize the structural funds.

Capacity Building. The learning process in regard to state officials was realized through the formal institutional, policy and financial links between the EU and the CEE applicants, which are aimed at facilitating the institutionalization and domestic preparation of government officials and public administration, the judiciary and parliaments in general for EU membership. These were, *first*, the intergovernmental institutional structures of association and accession that developed on the basis of the Europe agreements (association councils, association committees, association parliamentary committees), and were specifically created to ease and facilitate the

process of accession and domestic adaptation. The association councils comprised members of the European Council and the European Commission, together with members of the governments or experts appointed by the governments. The association committees prepared the ground for decision-making and comprised members of the Council and Commission of the EU, on the one hand, and representatives of the government of the associated country, on the other hand, at senior civil servant level. Importantly, the work of the association committees involved actors beyond governments on both sides, such as economic agents, usually from the business communities, representatives of EU institutions, and various social groups affected by the accession process. The association councils could also establish specialized committees on more specific issues related to agriculture, transport, economic policy, harmonization of national law with the EU common law, and policy relating to competition. These specialized committees also involved representatives of the business communities. The association parliamentary committees enabled members of the parliaments of the associated countries to meet and exchange views with members of the European Parliament. The joint parliamentary committees were complemented by parliamentary standing committees on transport, industry, trade, fiscal policy, foreign policy, and other sectors in which the EU applicants had to harmonize their policies and legislation with those of the EU.

Second, the EU provided a wide range of policy advice to CEE through the technical assistance offered by the PHARE program from 1989 to 1997 and through the twinning program that started in 1999. TAIEX (the Technical Assistance Information Exchange Office) also provided experts to give short-term advice. The EU's efforts were supplemented by SIGMA (Support for Improvement in Governance and Management in Central and Eastern European countries), an OECD body funded by PHARE that provided advice on horizontal government functions. Furthermore, institutional twinning was aimed at helping CEE countries to adapt their administrative and democratic institutions to comply with membership requirements by learning from member-state experiences of framing the legislation, and building the organizational capacity necessary to implement the *acquis*. The program used PHARE funds to pay for the secondment of officials from EU member states to work in CEE ministries and other parts of the public administration (that is, institutions, professional organizations, agencies, and European

and regional bodies). Under twinning, EU servants worked alongside CEE counterparts and taught them how to do things the EU way although the advice and expertise offered by the twinning agents was not controlled centrally by the EU (Lohan, 1998; Grabbe, 2006: 85-86). Twinning combined different means, such as short-term expertise, training, services (translation and interpreting in particular), and specialized help (such as specialized computer software), in addition to the pre-accession advisors. Initially, twinning focused on the fields of agriculture, environment, public finance, justice and home affairs, and regional policy. By 2001 the twinning instrument covered the whole body of the *acquis* in all its diversity. During the 1998-2002 period, a total of 684 twinning projects were programmed. Their implementation often involved more than one member state (European Commission, 2002a: 8).

The learning process in regard to public interest groups, including business, focused on the creation of joint consultative committees on economic and social issues between the EU and each candidate country. Members of these committees represented, respectively, employers' organizations, chambers of commerce, trade unions, and organizations of farmers, consumers, and women, from both an acceding country and EU member states. The committees were set up to pave the way for enlargement of the EU by promoting dialogue and supporting the professional organizations in acceding countries in their efforts to create a functioning civil society, one in which their consultation by the government would be an integral part of the decision-making process. Another task of the joint consultative committees was to promote dialogue and cooperation between the economic and social interest groups in the European Union and those in acceding countries. The dialogue covers all economic and social aspects of the relations between the EU and acceding countries in light of the Association/Europe Agreements and the Accession Partnership Agreements between the EU and each of them.

Membership in European interest organizations, broad interaction with the respective counterparts from EU member states, and participation in European-level structures became another important learning component for the social partners in accession countries. Their involvement in EU-level social dialogue would give them an opportunity to discuss their problems in a wider context, and contribute to the design of appropriate European policies in the long run. It may also help them face the new

difficulties that may emerge with the prospect of EU enlargement, such as risks of social dumping for the west, or brain-drain for the east, which the social partners from neither the accession countries nor the old EU member states would be able to tackle alone. In addition, the EU and the EU-level business organizations provided training and educational assistance on the effective participation in the processes of strategic planning and programming; development and fulfillment of projects, education for building capacity for strategic planning and programming; and development of skills for the creation of partnerships and partnership mechanisms.

The learning process specifically in regard to the business communities in EU applicant countries encompassed the emergence of new institutional ties and networks for the preparation of business in meeting the challenges of EU accession and membership, especially in regard to those business segments that would be mostly affected by competitive pressures in an enlarged EU. The process involved the formation of both purely business – domestic and transnational – networks on capacity building, on the one hand, and mixed ones, including business and governance structures from the various levels of the EU multi-governance system, on the other. Thus more or less formalized ties emerged between businesses of EU member countries and those of an acceding country. Links also intensified between the supranational, EU-level business organizations such as UNICE and ERT, on the one hand, and national businesses and business organizations, on the other.

Composition: Embedment into Organized Civil Society

Legal Conditionalities & Financial Aid. The legal harmonization effort as well as the mechanisms for management of the EU funds clearly endorsed the dominance of the executive vis-à-vis the parliament but the role of parliament in the accession process naturally increased with the opening of accession negotiations as only the parliament has the authority to change the legislation in a way that makes it compliant with the EU common law. However, business lobbying continued to target predominantly the different branches of the executive rather than the parliamentary commissions, because the draft laws came to parliament and its commissions in an almost accomplished form.

Legal harmonization and EU financial aid requirements strengthened business as political organization, that is, it increased the role of business associations vis-à-vis the state – at the national but also at the branch level. Individual companies did participate in the accession negotiations as derogations and transition periods referred mostly to individual companies, not whole sectors. However, business organizations were the major participants in all working groups on accession, not individual companies. The participation of individual companies as well as business organizations in the accession negotiations had its industry specifics. For example, individual companies were more important in specific industries, such as oil, while business organizations, in contrast, were more important in sectors such as agriculture and food processing. Furthermore, business organizations not individual companies are also the major participants in all programming and monitoring institutions that emerged in response to the utilization of EU funds.

Most importantly, the legal requirements of EU accession endorsed the embedment of the business-government relationship into organized civil society, through the system of social dialogue. In the course of eastern enlargement the EU insisted on the broadening of the scope of participants in social dialogue, for the inclusion not only of the organizations of employers and employees but also all other formations that have economic or social role. In that regard, an accession requirement was added for the creation of permanent economic and social councils in each candidate country before accession. The idea was to transform the existing forms of tripartism at the national level into broader forms of civic dialogue, including in addition to the social partners (employers and labor unions) other interests from the third sector, and at the same time to provide to the social partners a separate arena for negotiations without the participation of the state, in the form of so called bipartite or autonomous social dialogue.

Economic and social councils were created in each accession country. They have been modeled on the European Economic and Social Council, as consultative organs representing the views of civil society on the economic and social development of an acceding country. The councils are structured into three groups – employers, employees, and various interests. The councils became a constant institutional form of social dialogue in the area of economic and social policy between the government and the

structures of civil society. Their task is to develop opinions on draft laws, national programs and plans regarding the economic and social development of the country; opinions on legal acts of the national parliaments regarding issues of economic and social development; opinions on strategic problems of the government's economic and social policy; and annual memorandums and analyses of the economic and social development of the country.

Capacity Building. The capacity building imperative endorsed the expansion of the business-government relationship to also include actors from the EU level as well as individual actors from EU member states, in a joint effort to prepare business and government for EU membership. The learning process thus strengthened the multi-level governance mechanism, as well as the transnational business organization. More or less formalized ties emerged between businesses of EU member countries and those of an acceding country. Links also intensified between the supranational, EU-level business organizations such as UNICE and ERT, on the one hand, and national businesses and business organizations, on the other. Furthermore, as part of the capacity building efforts, domestic business organizations developed a new role as facilitators of the adaptation of individual companies (predominantly SMEs) for EU membership.

Level of Efficiency of the Business-Government Relationship in Achieving the National Goal of EU Accession

The relationship between business and government has been an important variable in explaining economic performance and development (Maxfield and Schneider, 1997). The structure of the business-government relationship has always been considered as important one for the achievement of shared economic objectives (Wislon, 1990) or economic performance in developing countries (Schneider and Maxfield, 1997). Institutional analyses of development have often concluded that relations between business and government account for a large part of the variation in economic performance (Amsden, 1989; Evans, 1989; Doner, 1991; Thorp, 1991). As Schneider and Maxfield conclude, in all these development studies in various regions of the world the dependent variable changes from growth to state effectiveness to bargaining performance,

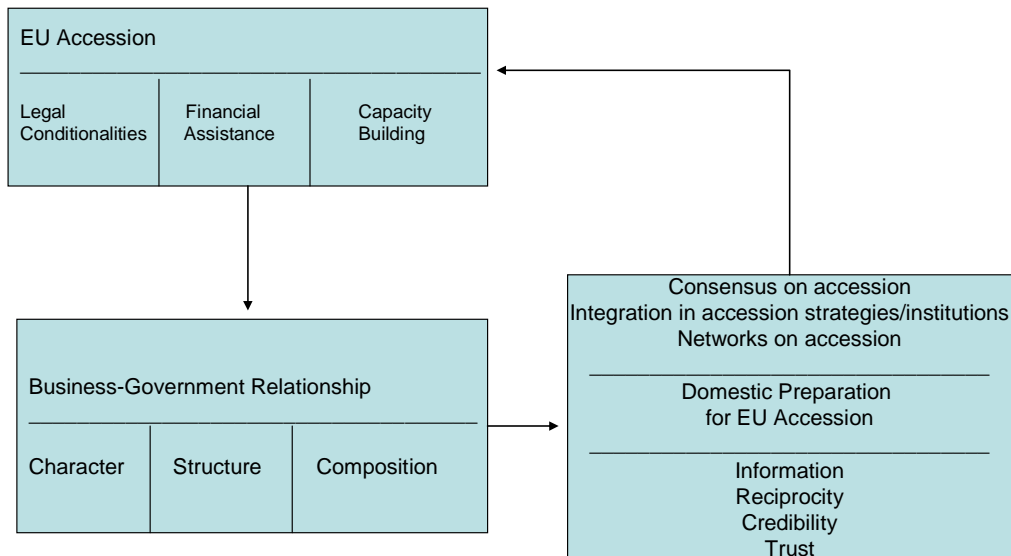
but in each case relations between business and the state had a decisive impact on economic outcomes (Schneider and Maxfield, 1997: 6-7).

Has the business-government relationship emerged as a major domestic facilitating factor for the preparedness of a candidate country for EU accession? Has it been effective in promoting EU accession? Accession-driven institutional change in the EU-acceding countries is based on deliberately created facilitating factors because where adaptational pressures exist, significant domestic change is not an automatic consequence. European signals are usually interpreted and modified through mediating factors such as domestic traditions, institutions, identities and resources. The mediating factors could both enable or block adaptational change.¹⁹ They could also stem from both the European level and the domestic levels.

For the EU accession countries, at least three macro- facilitating factors could be identified. These are, first, broad political and public consensus on accession; second, effective national accession strategies and institutions; and third, effective networks on accession. In that regard, the business-government relationship could play an important role, provided that, first, there is a broad consensus and support for EU accession among the business community; second, business is closely integrated into the national accession strategies and institutions; and third, close business-government networks have emerged with the goal to facilitate accession (See Figure 1c).

¹⁹ Risse et al. identify five such intervening factors: multiple veto points in the domestic structure, facilitating formal institutions, a country's organizational and policymaking cultures, the differential empowerment of domestic actors, and learning (Risse et al., 2001).

Figure 1c



Accession to the EU is undoubtedly a highly shared objective by both governments and businesses, and it could be argued that since this issue is generally not dividing business and government, the dynamics of the relationship could contribute in a positive way for the achievement of the accession objective. There is a problem, however, with the meaningful inclusion of the business community in the national accession strategies and institutions. In the course of accession negotiations, such inclusion has generally been reduced to only some negotiation chapters of the *acquis*, and the business community has often complained that the voice of business is not well heard in the decision-making process on EU accession. As for the emergence of close business-government networks on EU accession, such have undoubtedly emerged and have played a positive role in the preparedness of the business community for participation in the EU-level institutions and policy procedures.

However, while strong collaborative business-government networks can enhance performance and facilitate EU accession, they could be also subject to strong corrupting temptations. Moreover, the CEE region as a whole has much higher levels of corruption related to post-communist restructuring, especially privatization issues. The first general condition that can keep benign business-government collaboration from degenerating into collusion is an insulated bureaucracy characterized by meritocratic recruitment and

promotion, career service, and reasonable pay and prestige (Saxenian, 1994). However, such bureaucracies are scarce in both developing countries and transition economies. In their absence, other features of the state such as a hard budget constraint keep rent seeking in check. In still other cases, collective business action, or self-policing business associations work to minimize incentives for directly unproductive profit-seeking activity. Officials can delegate the administration of policy to associations that are better able than the delegating bureaucracies to restrain rent-seeking activities by their members, and thus reduce the likelihood that collaborative relations will degenerate into collusion and rent seeking (Schneider and Maxfield, 1997: 5). The insulation, not isolation of policy makers from societal pressures is essential for success and would allow a collaborative business-government relationship to play an important facilitating role in achieving the national goal of EU accession.

There are also micro- aspects of the relationship that can, in principle, enhance performance by both government and business. These include information, reciprocity, credibility, and trust. The close relations between business and government are particularly beneficial as a result of an increased flow of accurate, reliable information both sides. When a great deal of information flows easily from business to state actors, it can significantly improve the information base that officials use to evaluate policy options. Most policies aim to provoke some change in the behavior of private economic agents; therefore, the more accurately those policymakers can predict the responses of these agents, the more likely it is that the policy will have the desired effect. The timely flow of accurate and relevant information in the opposite direction, from state to business, can enhance performance on the business side. However, the exchange of information between business and state actors is complicated by information asymmetries and incentives on both sides to manipulate the exchange strategically (Schneider and Maxfield, 1997: 9).

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