International Journal of Emerging and Transition Economies
Vol.1, Issue 1, 2008, 33-39

TWO YEARS AFTER THE EU ENLARGEMENT: SOME POLISH EXPERIENCES

Anna Barbara Kisiel - Łowczyc *

ABSTRACT

The article presents and analyses some implications of the EU enlargement for the EU – 27, for new member states and for Poland after two years.

Keywords: *EU Enlargement 2004–2007, Regional Disparities, EU Cohesion Policy*

TWO YEARS AFTER THE EU ENLARGEMENT: SOME POLISH EXPERIENCES

The process of regional integration in Europe has, over the past half-a-century, led to the emergence of the European Union (EU) – a powerful subject of international economy. The process of European integration can be divided into subsequent stages, whereby formal and actual ties have been strengthened and deepened (free trade area, customs union, common market, economic and monetary union), as well as stages in the enlargement of the European Communities (EC)/European Union. The progress of cooperation and integration was different for individual stages of enlargement:

- 1973 – accession by Denmark, Ireland and the UK;
- 1981 – accession by Greece, followed by Spain and Portugal in 1986;
- 1995 – Austria, Finland and Sweden become members of the EU;
- 2004 – accession by Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, followed by Bulgaria and Romania in 2007.

The first three stages took place when integration was still less advanced, so it was easier for the acceding countries, well-developed economically, to adjust to the conditions of the developing economic system of the EC. At the same time the Community could be more comfortable in accepting new members – relatively few and over a relatively long period of time (more than 20 years) when compared with the most recent enlargement.

* University of Gdańsk, Institute of International Business, Sopot, Poland, E-mail: abkl@gnu.univ.gda.pl

The recent enlargement occurred at a time of a deepened integration of the EU, and the level of economic development of the numerous (10+2) new members was much lower than of the "15." The enlargement of 2004-2007, when countries of Central and Eastern Europe (CEE) acceded, known as **the big bang**, is particularly interesting in the context of the EC/EU integration to date. The political and economic change in Europe, particularly the transition in the CEE countries in the 1980s and 1990s, has meant new quality and the necessity to draft a clear vision of mutual relations for the EU. Following the Copenhagen Declaration (accession criteria for the CEE countries), the political will of the member states and the determination of CEE countries in their pursuit of EU membership, started a process in the mid 1990s, which culminated in CEE countries' accession.

Two years after the enlargement (EU population has grown to 487.4 m and the territory to 4,242.1 thousand square kilometres) several implications may be identified, relating to the current position of the EU in the global economy, consequences of membership for new member states (especially for Poland) and the impact of enlargement on the functioning of the EU.

The EU was enlarged at a time of growing international competition in the global economy. In terms of economic growth, the EU had been losing ground to the USA since the 1990s (between 1996 and 2001, average growth rate was 4.1% for the USA and 2.8% for the EU; in 2005 it was 3.5% in the USA, 1.4 in the EU and 2.6% in Japan). The growth rate differences not only widen the development gap between the USA and the EU, but also increased the difference in gross domestic product (GDP) per capita – the growth was 0.4 per cent slower in the EU than in the USA. Internal causes of sluggish economic growth of the EU also include lower productivity than in the USA, slower employment growth and the working time. In the context of intensifying globalisation, the growing economic importance of the dynamically growing countries of the Far East – India and China – should also be noted. Their growing competitive advantage over the EU is not so much the effect of low labour costs as of the share of advanced goods in their manufacturing activities. In this context, the contribution of CEE countries to the economic power of the EU was small: the GDP of the EU-25 rose by a mere 5%. The enlargement had a positive impact on the growth rate of the EU-25 – 0.5% higher than before enlargement. All new members had high growth rates in 2004 and 2005; the highest was in the Baltic Republics (Lithuania, Latvia and Estonia) – more than 6%; Poland's growth rate was 5.1% in 2004 and 4.5% in 2005. The EU-15 at the same time had ca. 1.5%, which was still better than 0.6% in 2002 and 2003.

The enlargement had little effect on how the EU ranks for trade – 25th, as measured by the share of the group in global exports and imports. Both changed by ca. 1% in comparison with year 2000; exports grew from 37.8% to 38.4% in 2005, while imports fell from 38.1% to

37.5%, respectively. The share of the new member states in 2005 exports was 3.0% (compared with 1.9% in 2000), and in imports 3.2% and 2.3%, respectively.

No major changes in trade within the EU occurred after the enlargement, as trade had been liberalised prior to new accessions. Trade with the EU-15 accounted for 62% of the trade of the ten new members. Neither was there a shift from non-EU to EU trade.

The accession of new members had little impact on EU position in foreign direct investment (FDI) flow. After 2004 about 4% of EU-15 foreign investment total went to the new entrants, 53% was made in other countries of EU-15 and 12% in the USA. This tiny 4%, however, made EU companies leading foreign investors in the new member states, accounting in 2005 for as much as 77.5% of FDI total in these countries. FDI geographical distribution has not changed much, either, with 80% of investment going to Poland, the Czech Republic, Hungary and Slovakia. While enlargement had little impact on the value and geographical distribution of the Union's FDI, some production has been moved to the new member states to lower production costs and indirectly, to enhance international competitiveness (the so-called delocalisation). The phenomenon of delocalisation is limited to some sectors, only and its effects are hard to evaluate after two years; they are both positive (transfer of know-how fosters economic integration) and negative (concern about employment levels in EU-15 and possible social problems in certain industries and regions). For trade exchange, delocalisation means more trade in goods requiring further processing. When we look at the geographical patterns of export and import, more trade in such goods can be interpreted as the consequence of both, integration and globalisation.

Economic convergence consistent with the socio-economic cohesion criteria (Art. 158 of the Maastricht Treaty) is of key importance in evaluating enlargement implications for the new member states. The basic measure of economic cohesion of countries and regions is the narrowing of the gap in GDP per capita in terms of the purchasing power. If the threshold of 75% of EU average is the basic criterion for granting aid to regions, the enlargement has raised the number of eligible countries (the exceptions are Cyprus, the Czech Republic and Slovenia), with the level of available funding similar to that of the weakest EU-15 countries. Even though economic growth rate has, since 1995, been higher in the applicant countries than in the EU-15, the disparities were too large to diminish significantly (cf. Table 1). Of the new member states, the Baltic republics were the quickest to narrow this gap (Estonia by 10.7%, Latvia – 9%, and Lithuania – 8%). The catching up was the slowest in Bulgaria – 3.6%, Poland and Hungary – 4% each.

Table 1: GDP per capita in Terms of Purchasing Power in Selected EU Countries (EU =100)

	2003	2004	2005	2006
UE – 15	109.1	108.6	108.2	107.9
Some EU-15 countries:				
Greece	81.1	82.0	83.6	84.7
Ireland	134.1	137.0	138.4	139.8
Portugal	72.8	72.4	71.2	70.0
Spain	97.4	97.6	98.3	98.2
New members				
Cyprus	79.6	82.8	83.7	84.6
Czech Republic	67.8	70.3	73.3	75.0
Estonia	48.2	51.2	55.8	58.9
Hungary	59.3	60.1	61.9	63.2
Latvia	40.8	42.8	46.8	49.5
Lithuania	45.3	47.8	51.0	53.3
Malta	72.6	69.2	69.5	68.3
Poland	47.0	48.8	49.8	51.0
Slovakia	52.0	53.0	55.4	57.3
Slovenia	76.0	79.1	80.9	82.5
Bulgaria	29.7	30.6	32.1	33.3
Romania	30.0	32.2	32.9	34.2

Source: Eurostat, http://epp.eurostat.ec.europa.eu.

Our observations so far have dealt with national level. From the point of view of cohesion policy, differences between regions are more important. This is particularly true of larger countries (Poland, Bulgaria, and Romania). In Poland, for example, regional disparities have increased since the 1990s, as economic development tends to concentrate in certain cities and regions (due to greater site attractiveness, better infrastructure and competitive advantages). This has made more regions and a greater proportion of the population eligible for EU aid funds; from 19% of EU-15 population (with income below 75% of average GDP) to 32% of EU-27 population, of which 65% live in new member states. The enlargement has also widened the gap between the richest and the poorest. Before 2004, 10% of the population living in the most prosperous regions of what is now EU-27 were responsible for 20% of the respective GDP, while 10% of the population from the poorest regions accounted for only 1.5% of the GDP. The proportion between the wealthiest and the poorest regions, therefore, stood at 12.5:1. ("Enlargement, Two Years After," 2006).

Broadly speaking, the aim of EU cohesion policy is to narrow the disparities and ensure a fair distribution of the benefits of integration, which market mechanisms cannot deliver. The challenges of globalisation, however, have made it necessary for the policy to be revised and linked to the Lisbon objectives. Consequently, measures will now cover the following areas:

Objective 1	Convergence. Fostering economic growth and job creation in the 116 poorest regions inhabited by 35% of EU-27 population;
Objective 2	Regional competitiveness and employment. (for 165 regions that do not meet Objective 1 criteria, inhabited by 65% of the population). EU assistance is meant to support structural and labour market changes;
Objective 3	European territorial cooperation. Assistance is earmarked for border regions to enhance their competitiveness and sustainable development.

We may distinguish between past and present causes of disparities between countries and regions. The latter, which can be addressed efficiently by appropriate cohesion policy, include the structural deficit of key factors of competitiveness, in particular capital – both human capital and assets, innovation capacity, efficient management and friendly business environment. Human capital should be paid special attention to; it is not only the question of employment size and pattern, or proper education – the main problem of the EU is the dwindling proportion of working-age population (societies are aging), in other words the proportion between the sixty-five plus and the working-age populations. Since 2004, this factor for Poland, Slovakia and Slovenia has remained below 30%, while the figure for the EU-15 is 44%. The enlargement is unlikely to ease the demographic problems of the EU; just the opposite – they are likely to intensify (the forecast for 2025 is 30%). The innovative capacity improving the competitiveness of the EU and its regions depends on research and development (R&D) spending and the appropriate transfer of technologies into companies. In 2004, the EU-25 allocated only 1.92% of its GDP to R&D, compared with 2.6% in the USA and 3.15% in Japan. The 2006 figure for Poland is 0.6%. The enlargement has lowered the average R&D spending. Lisbon strategy precisely binds each new member state to reach the figure of 3% of its GDP. Another important factor of competitiveness is infrastructure in the broad sense of the word. This covers transport, energy, telecommunications and education. The new members lag behind also in this respect, which requires prompt and efficient action to remedy the situation. EU enlargement by ten CEE countries has lowered the level of socio-economic cohesion of the group, as illustrated by greater disparities between member countries and regions. This may adversely affect not only the current effects of integration, but also slow down integration process in the future.

The geographical enlargement of the EU coincided with a crisis in the development of the group. The extent of the enlargement and the social and economic specifics of the new member states have revealed the scale of the challenge facing the EU, at a time when institutional reform of the Union had become an obvious necessity and when public debate on European constitution started. This debate has failed to produce a consensus and is unlikely to do so in the nearest future. The most important and urgent problems are:

- future system of EU governance and the direction of further integration;
- limits to further enlargement;
- institutional reform.

The choice of the future system of governance in the EU is in fact a choice between the liberal socio-economic model (British) and the social model (Franco-German). The accession of CEE countries seems to have strengthened the support for the liberal model (liberalisation of the movement of labour and services – with certain restrictions). At the same time, the weakening of socio-economic cohesion caused by the accession has consolidated the supporters of the social model. The course of further EU integration is more and more strongly affected by globalisation and global-scale liberalisation – the WTO liberalisation has brought about a revision of the Common Agricultural Policy (CAP) and the degree of globalisation of world trade makes liberalisation within the EU look irrelevant.

The great differentiation of EU countries may result in the recurrence of the "core" concept, which would mean deeper integration within a smaller circle of countries (e.g. the euro countries), while the remaining countries function in the "outer" circles. This has partly materialised as various limitations were imposed on new EU members from CEE.

After the 2004-2007 accessions, further enlargement will probably be postponed. Public support for accession of new members is declining, and there is more opposition to further enlargement (according to Eurobarometer, in 2005 those saying "no" outnumbered those who said "yes"). Economic downturn, fear of the effects of another enlargement and, above all, lack of clear, precise criteria and limits of enlargement are the basic problems. The 1993 "Copenhagen criteria" are too general today and their interpretation can be very broad, indeed.

EU enlargement by 12 countries required institutional reform; changes in this respect were introduced by the Treaty of Nice, yet the problem of the new allocation of votes in EU institutions and of the way decisions are to be made remains. Economic aspects should not be overlooked; Germany – the greatest net payer to the EU budget – is afraid of growing costs of further enlargement and is making efforts to reduce budget contributions. As institutional reform is debated, the issue of excessive (and costly) bureaucracy, particularly in the European Commission, is raised – not without good reason.

The observations above concerning selected economic effects of EU enlargement by CEE countries cover a relatively short period of time. For many analysts, the enlargement has primarily a political dimension and is a factor of stability in Europe. The first two years after the enlargement have seen no significant impact on the position of the EU in world economy or on the economies of the fifteen "old members," however; there has been a decline in the level of socio-economic cohesion of the Union.

REFERENCES

Enlargement, Two Years After: An Economic Evaluation (2006, May). European Economy. Occasional Papers No. 24.

Eurostat Data Base. from the World Wide Web: http://epp.eurostat.ec.europa.eu.