

Enlargement and the consequences

On myth and fact!

Dangers of enlargement

Myth or fact?

1. Delocalisation of industry
2. Import of cheap products
3. Immigration of cheap workers
4. EU becomes too big

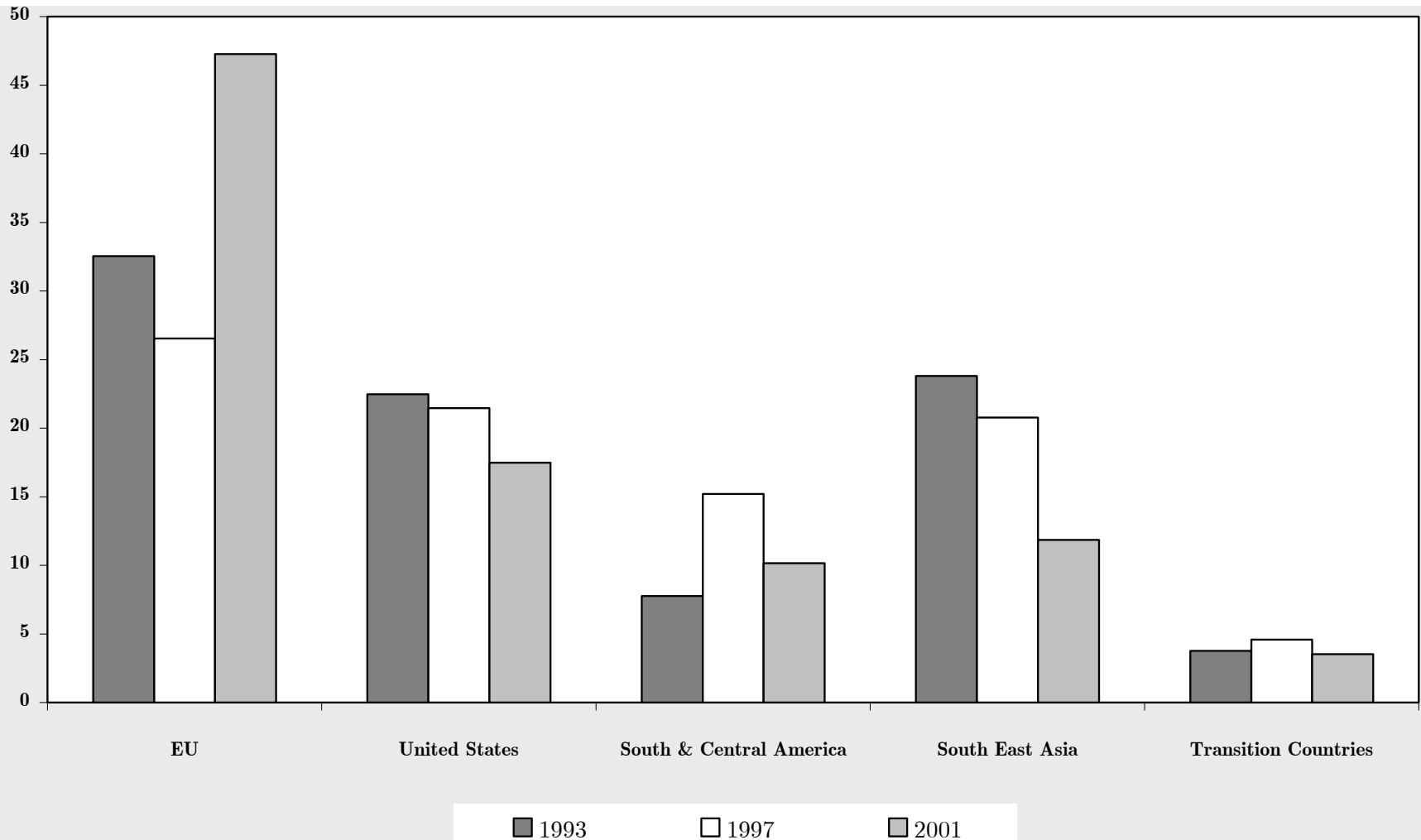
1. Delocalisation of industry

Will Western Europe become an
industrial desert?

Should I STAY or should I GO now?

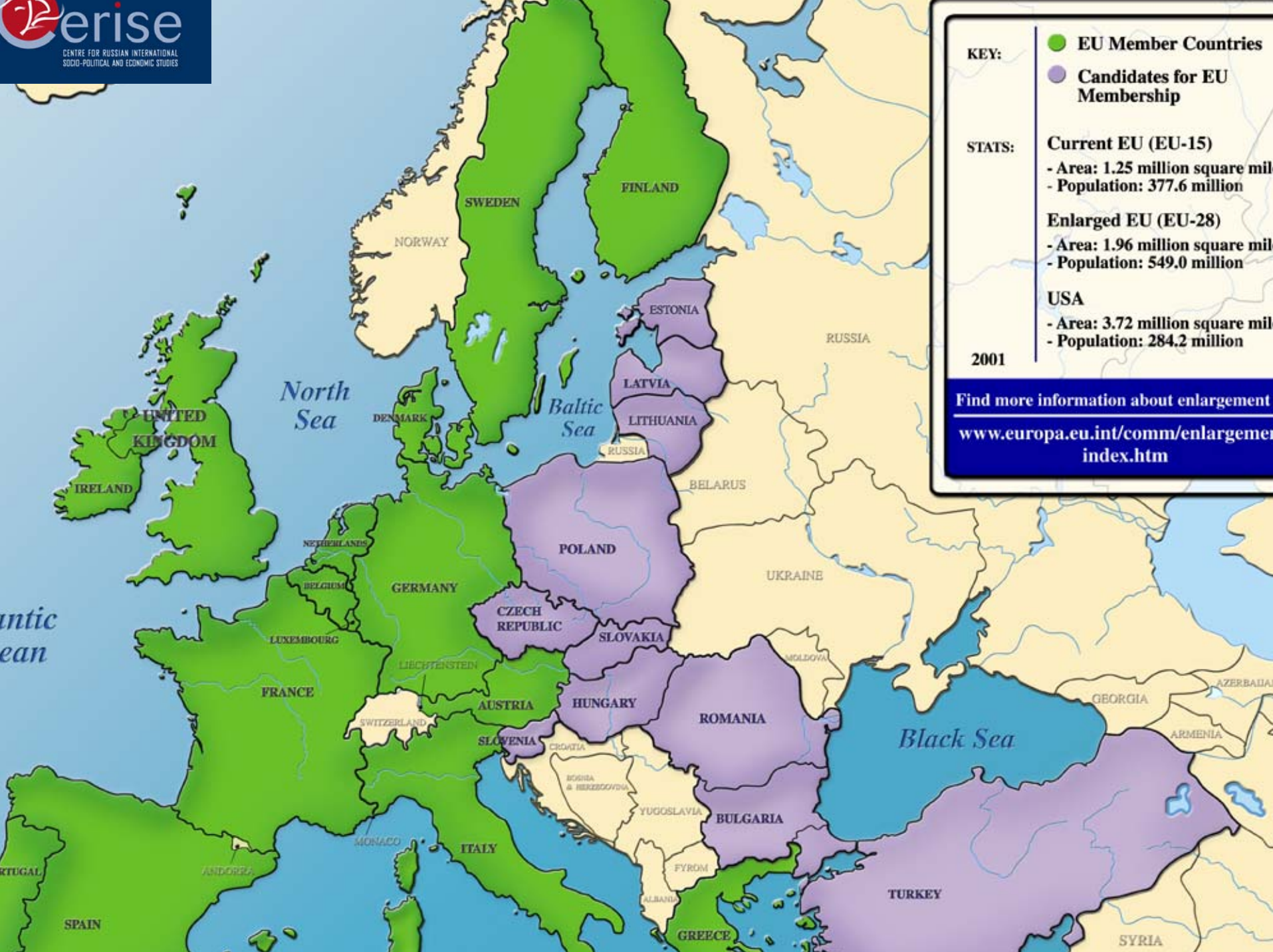
- Popular fear: enlargement draws investors and jobs away
- The name is FDI (foreign direct investment)
 - If we host FDI, we call it « **foreign investment** »
 - If we are the source of FDI, we name it « **delocalisation** »
- The EU is BY FAR the world's LARGEST host of FDI
 - If the EU closes itself, it will be the main loser
 - If we close up, investment will neither come nor go and the EU will lose.

EU's share in world FDI has NOT fallen in the accession period!!!



If I go it will be trouble?

- There are largely two types of FDI
 - Market-seeking FDI
 - Efficiency-seeking FDI
- Market-seeking FDI
 - The choice is not stay OR go, but often to stay AND go
 - Market-seeking FDI goes for a larger market
 - Organisation of production chain on EU-wide scale
 - Higher scale creates economies of scale
 - Maintains or raises employment at home
 - The investor WINS (Interbrew, Bekaert, Stokota, KBC)



KEY:

- EU Member Countries
- Candidates for EU Membership

STATS:

Current EU (EU-15)

- Area: 1.25 million square mil
- Population: 377.6 million

Enlarged EU (EU-28)

- Area: 1.96 million square mil
- Population: 549.0 million

USA

- Area: 3.72 million square mil
- Population: 284.2 million

2001

Find more information about enlargement
www.europa.eu.int/comm/enlargement/index.htm

The Helsinki corridors



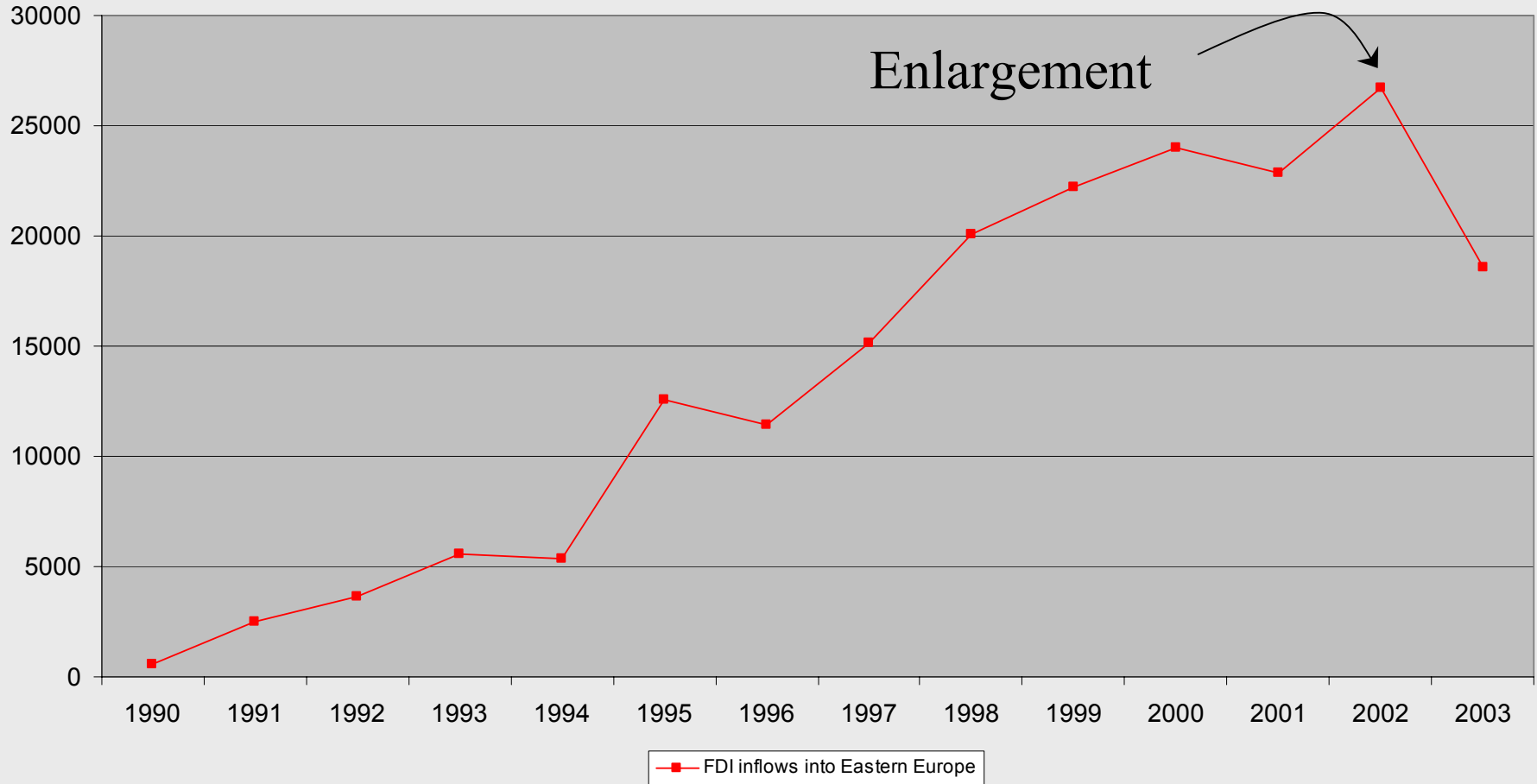
If I stay it will be trouble?

- **Efficiency-seeking investment looks for cheap labour,**
 - Choice is NOT to STAY OR GO
 - But rather WHERE to GO: to China or rather to Eastern Europe
 - The real battle for efficiency-seeking FDI is with South-East Asia
 - Enlargement is opportunity to bring or keep investment in Europe
 - Efficiency-seeking FDI will leave anyway
 - Eastern Europe is much better for the EU,
 - Reason: they IMPORT from the EU big time
- **FDI flow to Eastern Europe happened BEFORE accession**
 - Increasing until 2002, a bit lower afterwards
 - The largest shock is already over
 - Many companies only survive because of their earlier investments in Eastern Europe

FDI flows to CEEC mainly before accession (mln of \$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albania	–	–	20	68	53	70	90	48	45	41	143	207	135	178
Bosnia-Herzegovina	–	–	–	–	–	–	–	–	67	177	146	119	268	382
Bulgaria	4	56	41	40	105	90	109	505	537	819	1002	813	905	1419
Croatia	–	–	16	120	117	114	511	533	932	1467	1089	1559	1124	1998
Czech Republic	132	513	1004	654	869	2562	1428	1300	3718	6324	4986	5641	8483	2583
Estonia	–	–	82	162	215	202	151	267	581	305	387	542	284	891
Hungary	311	1459	1471	2339	1146	4741	3291	4166	3344	3311	2777	3949	3021	2340
Latvia	–	–	29	45	214	180	382	521	357	347	413	132	254	300
Lithuania	–	–	8	30	31	73	152	355	926	486	379	446	732	179
Poland	89	291	678	1715	1875	3659	4498	4908	6365	7270	9343	5714	4131	4124
Romania	–	40	77	94	341	419	263	1215	2031	1041	1037	1157	1146	1840
Serbia-Montenegro	–	–	–	–	–	–	–	740	113	112	50	165	475	1360
Slovakia	18	82	100	195	269	308	353	220	684	390	1925	1579	4012	571
Slovenia	4	65	111	113	117	151	174	334	216	107	136	370	1645	339

FDI flows to Eastern Europe millions of dollars



Why do we invest in Central Europe ?

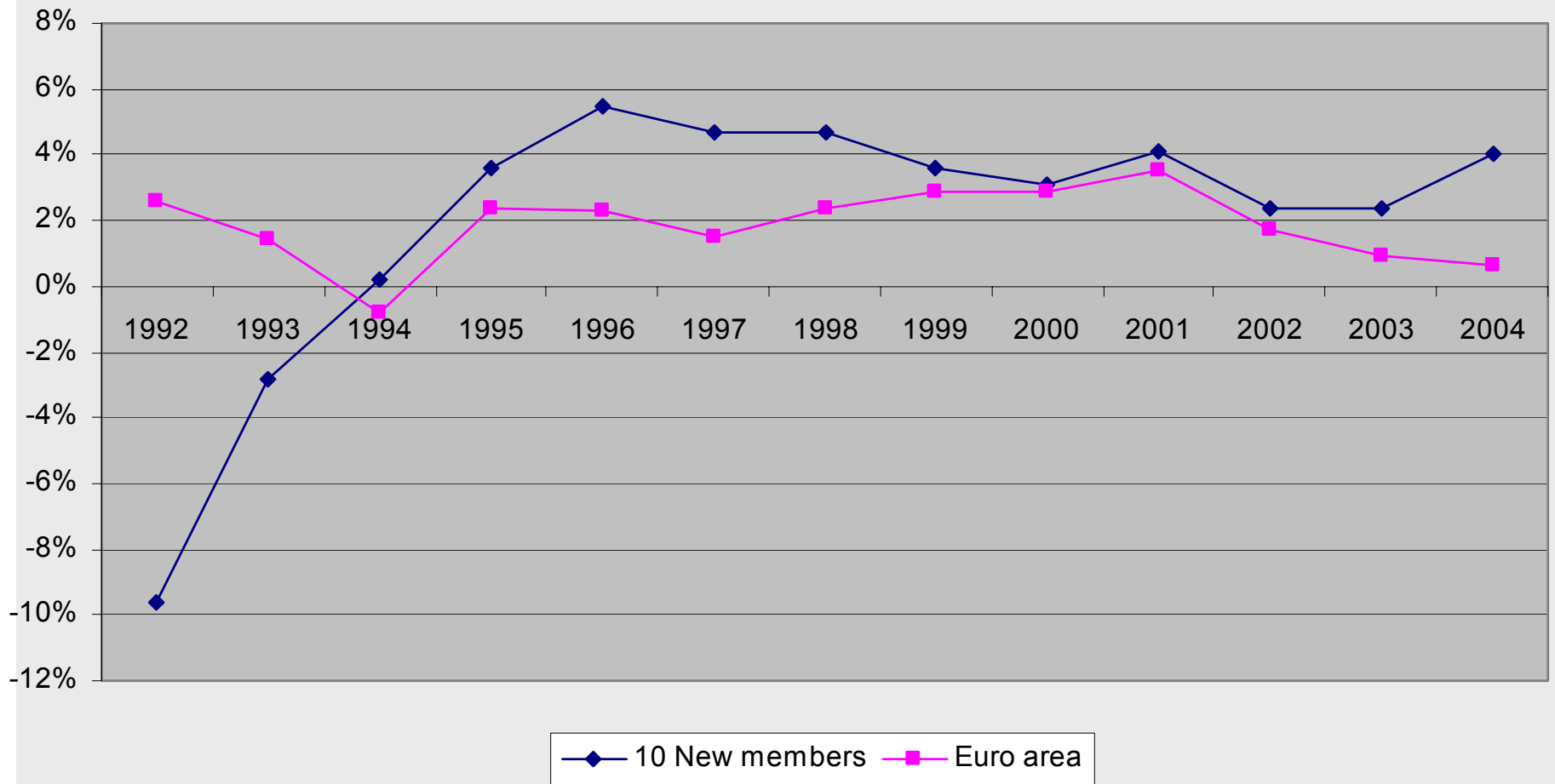
- Expected economic growth 3.57
- Large new market 3.00
- Expected membership of EU 2.86
- Cheap labour 2.71
- All other factors less than 2.5
- Investment incentives local govt 1.43

Fast growing markets maybe?

Economic growth in selected CEEC

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bulgaria	2.1%	-11%	-6.9%	3.5%	2.4%	4.0%	4.1%	4.3%	4.4%	5.6%
Estonia	4.3%	3.9%	10.6%	4.7%	-1.1%	7.7%	5.0%	5.6%	7.2%	5.1%
Hungary	1.5%	1.3%	4.6%	4.9%	4.5%	6.0%	3.7%	3.3%	3.5%	3.0%
Latvia	-8.0%	3.3%	8.6%	3.9%	0.1%	6.8%	7.7%	5.3%	6.4%	7.5%
Lithuania	3.3%	4.7%	7.3%	5.1%	-4.2%	3.8%	5.9%	5.9%	6.8%	9.7%
Poland	7.0%	6.1%	6.9%	4.8%	4.1%	5.0%	1.0%	1.3%	1.4%	3.8%
Romania	7.1%	3.9%	-6.1%	-5.4%	-3.2%	1.5%	5.3%	4.5%	4.8%	8.0%
Slovakia	6.5%	5.8%	5.6%	3.9%	1.3%	2.2%	3.3%	4.2%	4.6%	4.5%
Slovenia	4.2%	3.5%	4.5%	3.8%	5.2%	4.6%	2.9%	3.0%	3.3%	2.5%
Czech R.	5.9%	4.8%	-1.0%	-2.2%	-2.0%	2.0%	3.3%	2.6%	1.5%	3.7%

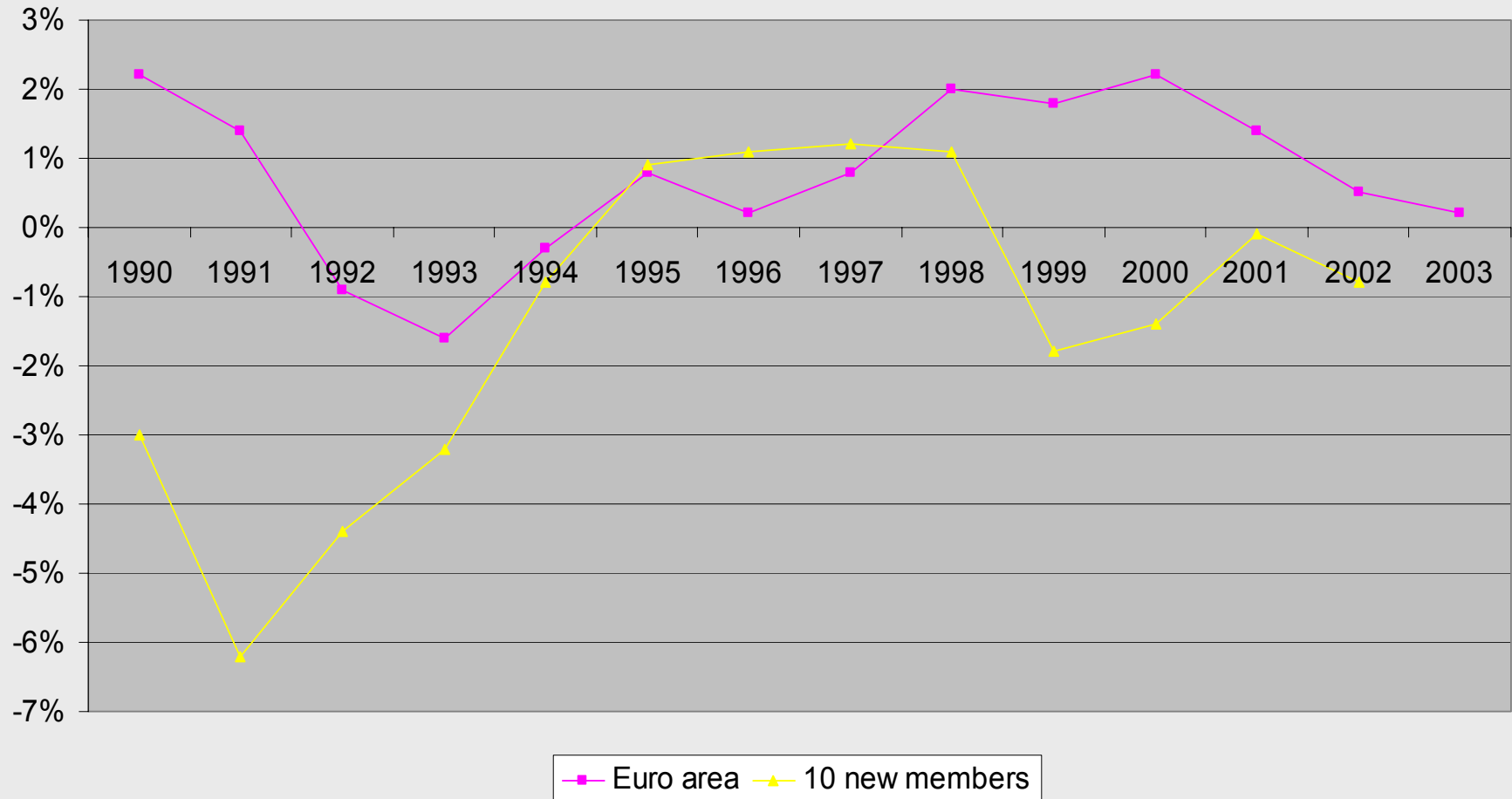
Fast growing markets indeed



Environmental dumping, cheap labour, or markets?

- **Environmental dumping: forget about it**
 - Acquis will be put in place by end 2002
 - Demand for environmental quality rises with welfare
 - Accession HELPS to SOLVE this problem
- **Cheap labour**
 - Cheap is always relative to productivity
 - Wages and productivity rise quickly thanks to integration
 - Accession HELPS to COMPETE with China
- **Access to markets, close to markets**
 - More than 100 million consumers
 - Added successor states of the former Yugoslavia
 - Growing much more quickly than rest of EU
 - Think of DHL

They steal our jobs?? Employment growth reconsidered



2. Import of cheap products from new member states

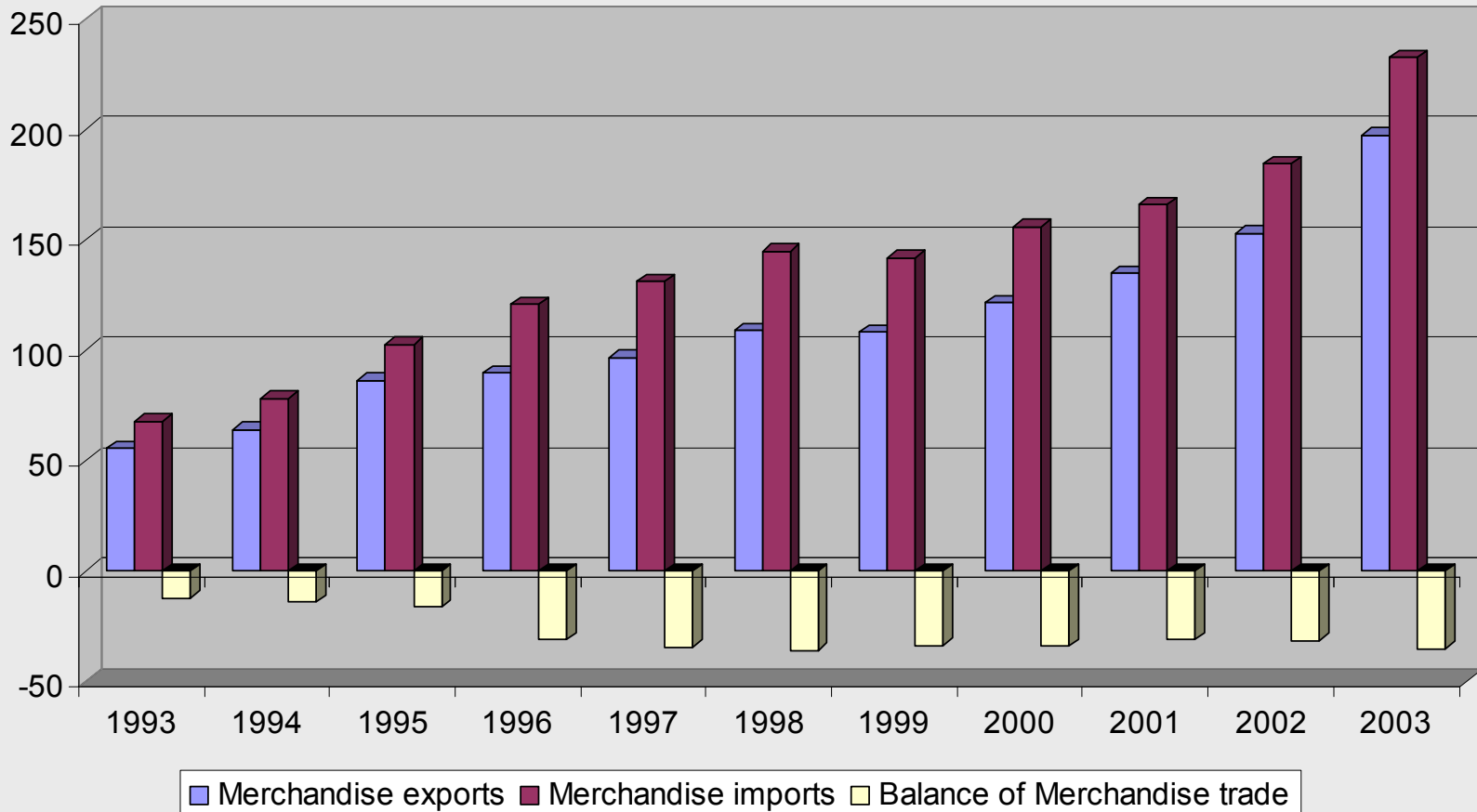
Will we be wiped out by the cheap
products from new members?

Is the trade with new members good or bad for EU?

- Popular fear: we will be swamped by cheap products from accession countries, BUT
- Enlargement does not change much at all
 - Already free trade before accession for industrial products (Europe Agreements)
- EU has benefited and still benefits from opening Central European markets
 - Trade balance with accession countries has ALWAYS been positive for EU and for Belgium, since we count
 - Export growth of EU driven by enlargement
 - The companies that export to our markets are often branches or subsidiaries of EU-firms
- It is better to look at the enlarged EU as one huge and integrated economic zone.

10 new member states

Trade of goods in billions of dollars

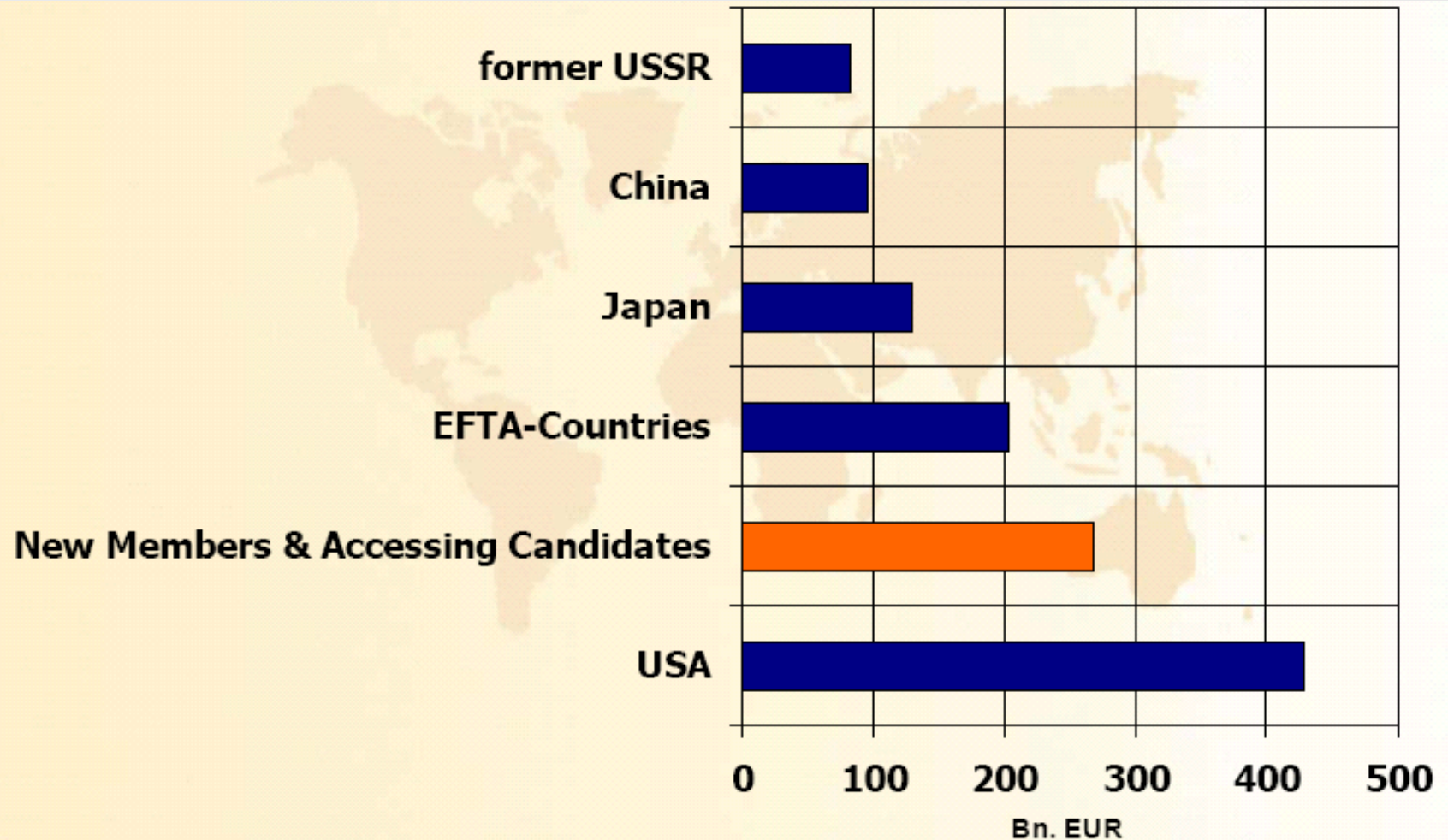


Trade integration in the (very) enlarged EU: a fact already

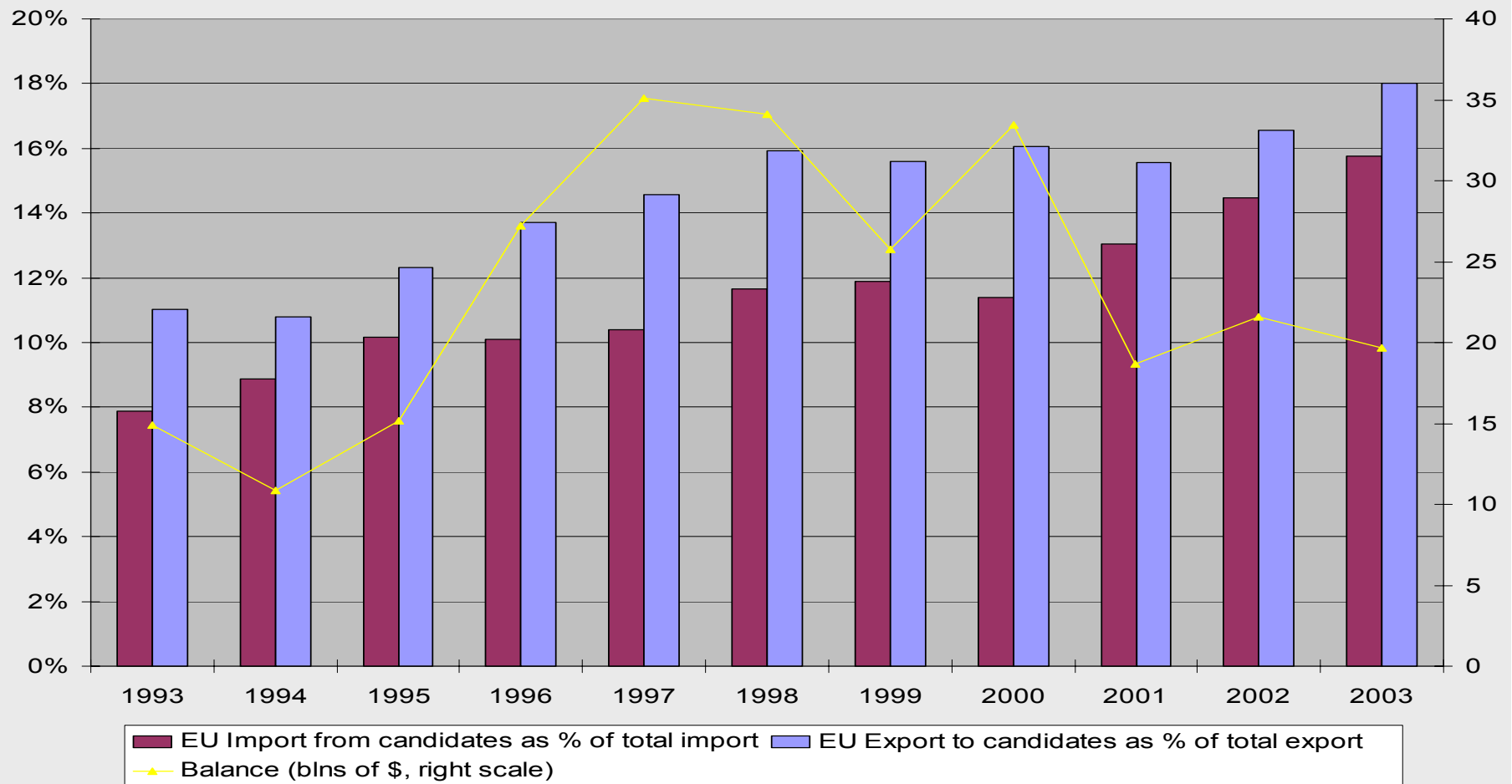
CEEC	<i>Import from</i>			<i>Export to</i>		
	CEEC	EU	Euro- zone	CEEC	EU	Euro- zone
Bosnia	51.9%	37.9%	89.7%	47.7%	51.0%	98.7%
Bulgaria	7.3%	49.0%	56.3%	6.8%	55.7%	62.5%
Croatia	17.4%	60.0%	77.4%	33.6%	48.9%	82.6%
Estonia	5.7%	60.2%	66.4%	12.4%	69.2%	81.6%
Hungary	7.9%	72.1%	79.9%	13.0%	70.2%	83.2%
Latvia	12.2%	70.0%	82.2%	6.7%	68.7%	77.5%
Lithuania	15.2%	40.2%	55.4%	6.2%	51.3%	57.5%
Macedonia	34.6%	33.2%	67.8%	12.7%	46.5%	59.2%
Poland	6.9%	67.6%	74.5%	11.8%	63.7%	75.5%
Romania	13.8%	56.3%	70.1%	5.0%	62%	67.0%
Slovakia	30.4%	45.4%	75.9%	39.8%	51%	90.8%
Slovenia	14.1%	76.9%	91.0%	21.3%	63.3%	84.6%
Czech R.	13.9%	66.7%	80.6%	24.6%	59.5%	84.1%
Yugoslav R.	11.7%	85.4%	97.1%	29.8%	70.2%	100.0%

Source: Own calculations based on the IMF's Direction of Trade Statistics

Main trading partners of EU (15)



Increasingly important and relatively balanced trading partner



So what are we talking about?

- Every year the EU has exported more to the new members than it imported
 - But there are distributional effects
 - Some sectors win, some lose, but there is a NET BENEFIT
- The cumulative gain in terms of jobs, growth and welfare is VERY large
- Why can the new members keep importing from us?
 - Because they become richer
- Why do they become richer?
 - Because they can also export to our markets
 - Because of our foreign direct investment
- If we stop investing \Rightarrow exports may be harmed and more jobs will be lost.

3. Immigration of cheap workers after enlargement?

Will the EU be swamped by migrants
from the new members

A closer look at the facts

- **Legal migration postponed until 2011**
 - In the accession treaty EU-15 members have the right to restrict immigration for 7 years (until May 2011)
 - Initially all countries (except Sweden) did so for the first 2 years (May 2006)
 - More restrictions are likely until May 2009.
- **By 2011**
 - Wages will be a lot higher in Eastern Europe
 - Our social welfare system will be less and theirs more attractive.
- **There may be an issue with trade in services**
 - E.g. Polish companies doing subcontracting in Belgium
 - Officially they are bound by our social rules and regulations
 - But in practice the Polish government has to enforce this

How many people might migrate?

- How many people are we talking about?
 - 75 million in 10 accession countries
 - 105 million in 12 accession countries
 - EU-15 has 380 million people
- Estimates of migration vary hugely
 - Lower estimate: 2% of population (0.4% of EU-15)
 - Median estimate: 3% of population
 - disaster estimate: 10% of population (2% of EU-15)
- BUT
 - Over 30 years
 - In Spain, Portugal and Greece, less than lowest estimate

Migration: Myth or reality?

- People will migrate, BUT
 - Later than anticipated
 - Less than feared (I guess not more than 3 million).
 - Young skilled labour is more than welcome
 - FDI will keep unskilled labour local and rise local wages
- Not too much of a problem in my book
- THE problem is weak and stretched borders
 - with Ukraine, Russia etc.
 - Illegal weapons, drugs and human trafficking
 - Illegal immigration from further through these countries

Illegal immigration and crime?

- This is a serious problems
 - Eastern European gangs discovered Western Europe
- BUT
 - Happens regardless of accession (illegal nature)
 - It attracts the worse and the very best
 - Musicians, academics, construction workers, thieves, criminals
- This illegal migration will increase unless proper reaction
- Maybe better to drop the 7-year limit?
 - At least the ones that come for work will then pay taxes and contributions

Why not open ourselves for talent?

- **What is wrong with attracting skilled labour?**
 - Huge needs in some sectors (seasonal labour, construction, welding etc.)
 - The companies sometimes « delocalise » because they do not find fit labour at home
- **The EU is very naive and slow and creates many barriers**
 - Consequence
 - Migrants come but illegally
 - Do not pay taxes, nor contribute to the social system
 - Perverse effects, because this makes them extremely cheap
 - US model: attract the skilled of the whole world
 - They contribute to growth and to the whole society

4. The EU is too big

- **Problem with internal structures**
 - Decision making becomes paralysed
 - Moving forward becomes very hard
- **Problems with EU-policies**
 - Common Agricultural Policy
 - Regional Policy
 - Security and Defence policies
 - Justice and Home Affairs
- **Too many differences between countries**
- **Solution: a constitution for Europe?**

The convention and the constitution

- **Problems with internal structure**
 - addressed in Convention,
 - drafted Constitutional Agreement
- **Intergovernmental Conference (Brussels 06/2004)**
 - Proposed constitutional agreement is approved
 - Contains new voting rules for the Council
- **New rules for qualified majority**
 1. Every country has only 1 vote
 2. Need 55% of the votes
 3. Representing 65% of the EU population

The constitution

- Streamlines EU decision making
- Subsidiarity strengthens national, regional parliaments
 - Very clearly defined
- Stipulates how to leave the EU peacefully
 - Historic, because now this is not clear
- Provides a charter of basic rights
 - With several social rights clearly stipulated
- Provides coherent structure for a series of treaties
 - Single European Act,
 - Maastricht treaty
 - Amsterdam treaty
 - Nice treaty

The failed constitution?

- Why is the constitution rejected?
 - Because people fear delocalisation
 - Because people fear for there jobs
 - People oddly blame the EU for this?
- The reality is
 - Enlargement has been and is a huge boon for the EU
 - It has created jobs
 - It has increased exports
 - It has attracted FDI to EU or kept FDI closer to EU (not in China but in Poland say)
- Are we going to kill the chicken with the golden eggs?

Decision making without constitution

- Double counting rule according to Nice Treaty of February 2001 and Brussels Council of October 2002
 - 232 votes should be in favour
 - Total number of votes after enlargement (in Jan 2005): 321
 - Minimum 62% of population in favour
- Passage probability of a law falls
 - EU-12: 9.8%
 - EU-15: 7.8%
 - EU-27: 2.5%
- Is decision-making effectiveness endangered by enlargement?

Weight of countries in EU(25) after treaty of Nice and Top of Brussels

Germ.	29	Belg.	12	Lithua.	7
UK	29	Hung.	12	Latvia	4
France	29	Port.	12	Sloven.	4
Italy	29	Swed.	10	Estonia	4
Spain	29	Austria	10	Cyprus	4
Poland	27	Slovak	7	Lux	4
Nether.	13	Denm.	7	Malta	3
Greece	12	Finland	7		
Cze. R	12	Ireland	7		

Blocking power in EU-25

- Poor nations in EU-25
 - Total population: 35% (no blocking minority)
 - Brussels votes: 142 (**blocking minority**).
- Eastern European accession countries in EU-25
 - Total population: 21% (no blocking minority)
 - Brussels votes: 78 (**no blocking minority**)
 - But if Bulgaria (10) and Romania (14) accede, they will total 101 votes, while the total will become 347 and the qualified majority 258: **future blocking minority**
- Big 4 (UK, Germany, France, Italy)
 - Total population: 53.4% (**blocking minority**)
 - Brussels votes: 116 (**blocking minority**)

Blocking power in EU-25

- **Original 6 (Germany, France, Italy, Benelux)**
 - Total population: 46.71% (**blocking minority**)
 - Nice votes: 116 (**blocking minority**)
- **Nordic states (Denmark, Finland, Sweden)**
 - Total population: 5.6% (no blocking minority)
 - Nice votes: 39 (no blocking minority)
- **Old poor (Spain, Portugal, Greece, Ireland)**
 - Total population : 25.18% (no blocking minority)
 - Nice votes: 87 (no blocking minority, 89 would be)

Conclusions

- FDI is much more an opportunity than a threat
- Cheap import is total nonsense
- Migration will NOT be a big problem and could be an opportunity
- The main challenges are
 - The EU has to reform its internal structure
 - The EU has to reform its own policies
 - European producers have to think on EU-wide scale
 - One big market, one big production chain
- Media are very myopic, nobody gives the facts
 - Everything in this presentation is publicly available
 - But fear-mongering sells better nowadays