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**“EU ENLARGEMENT:  
EXTERNAL IMPLICATIONS FOR  
ECONOMIES & SOCIETIES”**

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# **EU ENLARGEMENT: EXTERNAL IMPLICATIONS FOR ECONOMIES & SOCIETIES**

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**(revised)**

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EU enlargement is already making headlines in Europe for at least 10 years. Recently, in the realisation that political decision-makers face the moment of truth, debates have greatly intensified around issues such as the finalisation of negotiations in agriculture and its funding and the formulation of package deals which should prevent non-ratification in a Member State. The big-bang decision of taking in ten candidates by 2004 has meanwhile reduced lingering fears of a spectre of endless quarrelling between Member States, shifting the final decision again and again while poisoning the 'end-game'. It has also become more likely that, after some additional years of *acquis* adoption and catch-up growth, Romania and Bulgaria will accede in 2008 or so.

This fifth enlargement of the EU is no doubt the most spectacular one. This is due to the sheer number of countries (12, if not 13 sooner or later) and (for 10 of them) their emergence out of transition. It will render the Union pan-European and almost certainly increase the incentives for other European countries to join later.

For all these reasons, one would expect the rest of the world to watch the process carefully. Surely, trading partners could be presumed to be pro-active in ensuring that the external implications are benign or be corrected in the right direction. International economic organisations might be thought to draft competing reports about the external economic implications of enlargement, or analytical and policy briefings for others. Not least, one might venture some hope that the EU itself, remembering the misleading campaign about Fortress Europe in the wake of EC-1992, would be sensible and diplomatic enough to set the record straight while anticipating the trouble spots.

Amazingly, however, none of these expectations turn out to be correct. When it comes to the external economic implications, this is a 'silent enlargement'. There is virtually no debate on the external implications, in sharp contrast with the enlargement of 1973 (the UK, Denmark and Ireland) and 1986 (Spain and Portugal). There are no strong overall accusations of Fortress Europe and, at most, few and minor diplomatic skirmishes on the economic impact of the candidates adopting the *acquis* wholesale.

The present paper will deal with a range of external economic effects of enlargement, other than monetary (dealt with by other speakers). It will briefly venture into non-economic territory as well in touching upon social, institutional and cultural consequences. The structure of the paper is as follows. Section 1 attempts to understand the reason for the 'silence' in the world of economic policy makers elsewhere. Section 2 discusses the three main topics of the external economic impact: industrial trade effects, the likely impact on FDI and agricultural trade effects. Section 3 assumes a more important longer term perspective in addressing the prospects for secular catch-up growth for the candidates in Central Europe and the deeper economic reform issues in an EMU of 25 and a steadily expanding Euroland. Section 4 briefly discusses social, institutional and cultural aspects so as to preempt misunderstandings in other parts of the world.

## 1. **Does 'silence' mean external support?**

The 'silence' in worldwide economic diplomacy about enlargement may have several grounds. Most probably, enlargement is widely supported because it is considered as the most 'deep' and secure form of stabilising this once so bloody continent, of precluding any temptation to go back to a form of planned economies or totalitarianism and, not least, of

locking-in economic reforms and incentive structures promising to deliver prosperity. This support would seem to be implicit in many parts of the world and explicit in numerous declarations by the US and Japan, or OECD countries more generally as well as in ASEM. Interestingly, the de-facto support from international economic institutions such as the OECD, IMF and the World Bank, and of course, the EBRD, is expressed openly in many technical policy documents as supportive of transition, reforms and/or growth. To my knowledge there is no WTO document on enlargement and the recent WTO Trade Policy Review on the EU (not yet published)<sup>1</sup> scarcely pays attention to it.

There is a business corollary. Business was quick, through prudent, in venturing into Central Europe right after the ‘winds of change’ had turned away from communism. US business followed suit and is now present throughout the region. Japanese business has taken more of a wait-and-see attitude but in some strongholds of Japanese industry such as cars this reticence has now been replaced by entry and expansion. European big business (as represented in the ERT, the European Round Table of Industrialists) has been highly supportive of the pre-accession process, even providing flanking business initiatives as helpful corporate citizens in all candidate countries (see ERT, 2001). Irrespective of numerous concerns about corruption, fledgling market institutions and infrastructure, global business looks at enlargement mainly in terms of opportunities.

Perhaps more of a speculative rationale to explain ‘silence’ as support is the TINA argument, TINA standing for There Is No Alternative. Emerging out of a difficult and fragile transition process, in itself aided by open market access (for industry and most services) in the Europe (association) Agreements, the prospect of EU membership has prompted an astounding discipline and determination on the part of the candidates. It is little known that the Europe Agreements (usually with some 120-130 articles) have only a single and brief, substantive article on the adoption of the regulatory part of the internal market acquis.<sup>2</sup> It merely consists of a list of headings of regulatory areas without any detail, or time-table. Similar lists can be found in some other association or FTA agreements with the EU. In the latter cases the follow-up tended to be weak, selective and shallow. In the case of the Europe Agreements, however, the follow-up was almost as steadfast as if the associates were EU members already, with extraordinary detail, large-scale technical assistance (in the PHARE programme), meticulous monitoring, widely-published annual (so-called ‘Regular’) reports and permanent feedbacks to governments and other public agents.<sup>3</sup> This hegemonic approach does *not*, therefore, follow from the Europe Agreements and can only be explained by the strong desire to prepare for membership. It goes without saying that there was no comparable alternative to this kind of lock-in and stimulus. Nowadays, on the other hand, having accomplished the adoption of the acquis, with many favourable consequences for transition too, the Europe Agreements can serve as a reasonable fall-back position in case ratification might somehow fail. This is so because of the ratchet-effects incorporated in the Agreements, in other words, the de-facto sharing of a good deal of the internal market opportunities can be maintained. Nevertheless, this fall-back position would not be under strict EC compliance systems (up to the EC Court of Justice) and would not provide for free

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<sup>1</sup> The (accompanying) EU report is published (WT/ TRP/ G/ 02 of 26 June 2002), but the official WTO TPR is not yet de-restricted.

<sup>2</sup> See Pelkmans, 1998, for detail.

<sup>3</sup> See the 1995 White Paper (COM (95) 163 of 10 May 1995 and its Annex specifying 899 directives and decisions in 23 chapters of the acquis; and the Regular Reports, published in the autumn of every year, this year published as SEC (2002) 1400 until 1412, attached to the Strategy paper of the Commission of 9th October (COM (2002) 700). These regular Reports, 2002, together add up to more than 1800 pages!

agricultural trade, migration, cohesion-type transfers or access to Euroland. The fall-back position is far superior to what other transition countries enjoy – as the economics of transition literature has amply shown – but it clearly does not satisfy the ambitions of the candidates. If the TINA argument is right, it should raise the credibility of the pre-accession process – and the credibility of the substantive negotiations. One is led to conclude that the world community has come to trust the EU in bringing about an enlargement which, on the whole, is seen as a win-win strategy for Europeans and non-Europeans.

## 2. Impact on trade and direct investment

### *Industrial trade*

From an analytical point of view, enlargement is the change from an industrial free trade area (the Europe Agreements) to a customs union. However, the candidates enter the internal market and this introduces additional potential benefits which are hard to model properly. If tariff differentials in a free trade area are modest and tariffs are absolutely low, the change-over to a low-CET customs union should not be expected to cause large changes. Thus, for industry, most of the adjustment driven by the free access to the EU goods market will be over *before* 2004. What then follows might be characterised by further deepening of specialisation and vertical intra-industry trade, stimulated by foreign direct investment and sub-contracting. So the positive effects for third countries will primarily depend on this long-run deepening and upgrading of specialisation. The early signs demonstrate a very dynamic adjustment process. After the massive shift towards trade with the EU (up to 1994), the initial dominance of labour-intensive final goods has reduced, and the share of technology and skilled-labour intensive products moved up from 37% in 1993 to 50% in 1997 (Kaminsky, 2001). Quality upgrading is also found by Nielsen (2001), at a very high level of disaggregation, but the CEEC quality levels still lag greatly behind those of the EU. Vertical intra-industry trade dominates East-West industrial trade (Aturupane, Djankov & Hoekman, 1999), with the CEECs invariably supplying the low unit-cost goods. The import side of Central Europe is extremely dynamic for capital goods (not including motor vehicles and their parts), nearly a tripling between 1993 and 1998. These and other studies, combined with the flows of foreign direct investment, point to ongoing forceful restructuring and upgrading. It is guesswork to make inferences about the quality of factor endowments and applied technology in 2004 but there are good reasons to expect the starting position in the larger customs union to be radically different from the empirical basis of most of the meanwhile published literature on trade effects. If correct, it is good news for competitiveness, and ultimately catch-up growth. In any event, a reasonable guess would be that the candidates' share in EU-15 imports (already gone up from 3.4% in 1992 to 9.8% in 1999) would rise to 13% - 14% by the time of entry. Central Europe will begin to matter in EU trade.

At a disaggregated level, the (short-run) positive effects for outsiders hinge on the reduction of trade protection. The accession to the EU (industrial) customs union will on the whole be beneficial to outsiders since tariffs of all candidates (except Estonia, which has no industrial tariffs) will fall to the EU rates which, on average, amount to 5.3% (applied rates). As is known, few countries actually pay these tariffs due to many preferential agreements or GSP. But for Japan and the US, it means that the average tariff reduction is often half the current rate or more. Customs union theory amounts to a warning that a shift from tariff-ridden trade to a customs union, even with low tariffs can still (sometimes) lead to trade diversion. But in Europe, intra-trade is already tariff free and hence the tariff reductions will

generally boil down to a pure improvement of market access for the US and Japan (and others).

Cases of trade diversion can be suspected in cars and possibly in textiles and clothing. Both sectors show extremely buoyant intra-European trade. Both are driven by fragmentation of the production process, a search for differentiated location according to comparative advantage, outsourcing and massive direct investment. Appendix 'Eastern enlargement and T & C II' shows the phenomenal success in intra-European adjustment expressed in clothing and textiles trade growth. To some degree this must be due to trade diversion, made possible behind relatively high tariffs and MFA quotas. With enlargement this trade diversion will tend to reduce because EU tariffs (9% - 12%) are generally lower than those of candidates. This tendency is reinforced by the abolition of the last tranches of MFA quotas one year after accession.

The case of cars has recently been characterized by considerable protectionism on the part of some candidates (notably, Hungary, Poland and Romania), presumably as a form of industrial policy. Enlargement will amount to a cold shower for these candidate countries because the EU car tariff is 10% (higher for trucks). Some one-fifth of the FDI stock in candidate countries is in the car industry. Forward and backward linkages, upgrading of numerous suppliers, technological modernisation of equipment suppliers and JIT management will be crucial to achieve competitiveness in a low-tariff environment vis-à-vis third countries and pan-European free trade. So far, third country producers (Korea, Japan, US) have preferred to invest rather than to export to Central Europe. Expectations for exports from the candidates to Western Europe, once quality is ensured, remain high. Also, local demand for cars is expected to grow faster in Central Europe than economic growth. It would thus seem that the car sector offers substantial opportunities while becoming exposed to global competition.

### ***Foreign direct investment***

FDI flows have been quite strong during the second half of the 1990s. As Brenton & di Mauro (1999) have shown, FDI in the more advanced candidates was greater than one should expect given the actual level of income, market size and relative proximity. The determinants of future FDI flows into Central Europe are perhaps even more difficult to establish than elsewhere. Bevan & Estrin (2000) find as key determinants country risk, unit labour cost, host country size and other gravity factors. In turn, country risk is influenced by private sector development, industrial development, budget (im)balance, reserves and the degree of corruption. They show that more FDI boosts credit ratings with a lag, which in turn boost FDI again. This suggests virtuous circles but also rivalry in attracting FDI between the lagging and advanced candidates. The perception or expectation that chances for long-run catch-up growth are good will act as a major stimulus for FDI which in turn will contribute to the realisation of that economic growth. It is for this reason that business attaches so much significance to *actual*, not possible, EU membership (ERT (1999); ERT (2001)). They regard the EU as a credible – even when far from perfect – enforcer and stabiliser of the regime change and wish to see the seal of approval. The Spanish and Portuguese accession led to a true explosion of FDI inflows for about four years, before returning to 1986 levels. One might add that the subsequent entry into Euroland would further boost FDI although little hard empirical work seems to underpin this expectation. Soft indications for this statement include the massive business support for the euro precisely on the grounds of predictability and low long term interest rates. An additional argument that tends to be overlooked is the

stability of market access and of currencies *inside* Central Europe. FDI is known to respond positively to such regional facilitation of market access, since critical mass for scale might now be accomplished by sales to a subset of CEECs rather than from Western Europe.

World FDI flows declined sharply in 2001. The 2002 World Investment Report (UNCTAD, 2002) notes a fall of 59% (!) for developed destinations and 14% for developing countries. However, the inflows to Central Europe remained stable (+2%), and this testifies to the confidence business has in enlargement. It is widely expected that, after 2004, FDI flows to Central Europe will go up sharply, at least for a number of years, and this despite the drying-up of privatisation projects.

A potential commercial dispute between the US and the EU together with the candidates, is simmering with respect to the bilateral investment treaties (= BITs) the US has concluded with Central European countries. These BITs have to be cancelled by the candidates and the US is protesting. It is not easy to understand why. Surely, the EU investment regime (with national treatment and a strict prohibition to introduce restrictive, national measures) is appreciated by US business. Perhaps some benefits is special free-trade, processing zones might be at stake.

### ***Agricultural trade***

Here the picture is complicated. Although in temperate zone products, EU protection is extremely high, so that one should expect a range of agro-products to receive higher protection after 2004, there are also products for which protection in candidate countries turns out to be higher. Moreover, in the Doha round, EU agro-tariffs are bound to fall considerably – the question is rather one of timing. Other complicating factors are that the CAP mid-term review is likely to lead to changes (e.g. decoupling) and that candidates' farmers will get (slowly rising) income payments. Finally, the planned milk reform (2005-2007) will be implemented, whilst sugar protection will be undermined by the EU all-but-arms initiative for the 48 poorest countries of the world.

There is substantial academic literature on the impact of enlargement on third countries' agriculture and the EU's agro-commitments of the Uruguay Round.<sup>4</sup> Its thrust is that there are real risks of violating the WTO constraints and that there will be trade diversion in several product groups, such as bovine meat (seriously negative for the US and Argentina) and grains other than wheat (*idem*). However, the current state of flux creates considerable uncertainty. For one thing, the post-transition restructuring in agriculture in Central Europe is far from over, hence, the medium-term effects of extending the CAP are not generally worrying (for outsiders) as one might have expected given a healthy agro-food sector. (see e.g. European Commission, 2002a; 2002b).

A more radical CAP reform has not been implemented, although attempts to commit the Council to it by 2006 have not been rejected. Also the budget ceilings after 2006 have been tightened. The question now is whether future reform can combine a constrained budget (for income payments) and (much) lower trade protection. History and political economy teach that third countries better not be optimistic.

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<sup>4</sup> See, for instance, Swinnen (2002), Fuller et. al (2002), Weyerbrock (1998) and Frandsen, Jensen & Vanzetti (2000).

### 3. The long-term economic perspective

In the longer run, and given the accomplished ‘new security architecture of Europe’, enlargement is about prosperity. A successful enlargement is one which stimulates a catch-up economic growth rate, higher and better sustained than in other scenarios. Such a successful enlargement clearly would be a win-win result for Europeans and non-Europeans alike.

Let us first celebrate the good news. After the large output falls of the beginning of transition, the candidates have shown that rather basic recommendations about sound economic policy, combined with the gradual introduction of the *acquis communautaire* and the access to the EU markets, does bring catch-up growth. Between 1995 and 2000, 7 of the 10 CEECs were catching up despite Russian turbulence and lingering transition problems. And the cases of retrogression were clearly countries paying the price of half-baked reforms and/or very sloppy macro-economic policies (Bulgaria, Romania and the Czech Republic). All three are in the process of overcoming these setbacks, with Romania and Bulgaria currently on a catch-up rate of 2% - 3% points or more (if the EU remains trapped at a miserable 1% this year). However, the real issue is a long-run one: does the Union welcome the growth dynamo’s of the near future or must it face the risk of getting stuck with a bunch of new Mezzogiorno’s? In other words: how to escape from catch-22 and foster catch-up with the West? Recent extrapolations of the post-1995 experience suggests that catch-up to only 75% of the GDP per capita of the EU-15 will take one, two or three decades dependent on the country and ignoring the relatively high income case of Slovenia.

The mighty combination of “lock in” and policy stimulus, not to speak of the dynamic benefits of market access and competitive exposure in an EU-25, generates a pro-growth environment. It is not comparable to East Germany where irresponsible wage increases far ahead of productivity and a lack of local ownership, combined with what Rudy Dornbusch called both the ‘good’ and ‘bad’ institutions of Germany, have prolonged structural unemployment and deterred investors. It is not comparable to industrializing developing countries in general as they cannot hope to enjoy such forceful ‘lock in’ (not even Mexico in NAFTA), such strong guidance in economic policy, such powerful and long term assistance and such market access, indeed free movement (implying a *right* to access).

Nevertheless, the favourable environment notwithstanding, there are lingering doubts about catch-up growth. They have both practical and deep analytical grounds. Practical arguments include the egalitarian inclination in the domestic politics of the transition countries, which has caused intolerably high social mark-ups on wages (not seldomly higher than in Western Europe, which used to be the highest in the OECD) and considerable deficits in the pensions systems today (i.e. before ageing is beginning to hit). Other worrying observations include the hesitation to go all the way in restructuring of ailing sectors in the presence of high structural unemployment, the deep skill mismatches of many long-term unemployed in a rapidly changing labour market and the expected exit from agriculture with a questionable absorption capacity of industry and services, the alternative being a too generous CAP keeping far too many human resources in subsistence agriculture, dragging down growth. Last but not least, one could add the weaknesses in financial services and capital markets in actually serving the needs of local investors at low interest rates and the overall fear that implementation and market related institutions in Central Europe are so feeble that markets suffer from uncertainty, hence less growth.



The analytical reasons boil down to the controversies in economics about the long term determinants of growth. The empirical convergence literature has brought quite some confusion (see for a rich survey in the context of enlargement , UN-ECE , 2001). A careful application with parameters taken directly from Central Europe shows that these empirical models are not at all robust ( e.g. Campos , 2000). In any event these determinants are rather rough , such as simple enrolment rates as a measure of human capital and ( as a negative ) the share of government consumption in GDP . Broader development strategies a la Porter ( Porter & Christensen (1999) ) may be more insightful , yet tend to have a less rigorous basis. Also the debate on the East Asian miracle has ended in controversy on several major determinants ( IBRD (1993) ; Eggleton (1997) ; Morrisey & Nelson (1998) ; ADB (1997) ; ADB ( 1999 , part III ) ) such as the nature and degree of government intervention ( including the quality of economic institutions ) and the relevance of intensive versus extensive ( i.e. based on volume expansion of factor input ) growth. The consensus on a strong emphasis on human capital development and macro-economic stability is not particularly helpful because this is a widespread conviction anyway in Europe. Finally , the recent analytical underpinnings of the convergence /divergence debate for the reform of cohesion policy in the Union have led to great theoretical advances in the new economic geography ( see Fujita , Krugman & Venables (1999) and Neary (2001) ) but significant difficulties remain in translating it into policy recommendations as the authors themselves admit. In other words , as the Romanian economist ( and former finance minister) Daniel Daianu (2002) has put it , should we rely on “an apparent mythical belief “ in EU circles that a well functioning competitive market economy will ensure a catch-up growth trajectory ? Can Ireland be imitated by all or will many mimic the Greek tragedy before 1997 or are they capable of pursuing the reasonable Iberian middle-road? It seems obvious to this author that the EU can simply no longer tolerate the pre-1997 Greek underperformance combined with opportunism and bad implementation . EMU is a huge improvement in that respect and Greece has responded in kind.

But economic growth and a healthy enlargement cannot be limited to the Central Europeans. The entire new EMU of 25 faces a need for economic reform, in particular micro-economic reform in agricultural, services and labour markets. These reforms would also help in reducing the costs of shocks in Euroland than can no longer be cushioned by (national) currency realignments.

Japan and much of Europe share a low capacity of economic reform nowadays. CAP reform over the next two decades seems likely to come back every five / six years or so until decoupling and (sufficient) decentralisation of income payments is accomplished and external protection has become low. The reforms in services, including network services, go slow and, beyond squeezing out the worst elements of cost inefficiency, progress becomes very difficult. This is even true for the critical sector of business services (despite its higher than average growth rate).<sup>5</sup>

The reforms of labour markets are an evergreen amongst European economists . It ranges from Giersch’ ‘eurosclerosis’ of 20 years ago until the recent , sensational call by a CEPR team led by prof. Boeri ( CEPR ( 2002) ) to make accession conditional upon the existence of a decent social safety net while at the same time letting the EU contribute to this net via the structural funds . The Boeri group goes even further and argues for a European safety net (!) , based on a European minimum guaranteed-income scheme (which would be

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<sup>5</sup> See the Commission report on the internal market for services, COM (2002) 441 of 30 July 2002.

differentiated , to be sure ) so that systems competition would only take place above that level. I shall not go into the merits and financing of those systems nor into the details of all kinds of labour market flexibility proposals floated by many economists , the EU and the OECD. The Luxemburg process , dealing with the so-called European employment strategy since 1998 , has attempted to approach it via the so-called ‘open method of coordination ‘ . One observes that all the hard reform issues remain excluded from this work. The benchmarking has done little to convince German or Italian vested (labour) interests to mend their ways. Would enlargement make the difference ? The answer is that only a combination of three changes might get Europe somewhere : making intra-EU labour mobility across borders easier ( a topic carefully neglected until in 2001 the Commission finally came with serious suggestions to remove barriers to cross-border labour mobility - see European Commission , 2001 ) , greater flexibility with the host country control principle , and some acceptance of the fundamental idea that the cumulation of regulatory protection in the labour market *and* a generous safety net without any trade – off between the two can be excessive and hence hinder the attainment of goals that the EU (hence its Member States ! ) have set. If this triptych is not accepted - and it will be an uphill struggle - chances are that , gradually , Central Europe will transform into a copy of Western Europe. The upshot will be sluggish growth in the continent while labour markets will fail to clear. If this agenda could even be partially implemented , as about half of the EU countries are favouring and are already doing to a degree , enlargement might infuse some extra dynamism.

#### 4. What impact on society

The fifth enlargement is much ‘bigger’ in terms of the added population to the Union (nearly 30%, or 105 million people for the 12, or even more when the 70 million Turks would be counted too) than in terms of ‘economic’ size (5% of EU GDP for the 12).

A very important aspect of enlargement is therefore its impact on society at large. For Central Europeans this means first of all, a “return to Europe”, its cultural heritage and outlook, its underlying values and, to some ill-defined extent, its institutions. The EU, following on from the old Helsinki process, has defined a core set of political conditions such as democracy, human rights, and the rule of law, including the proper protection of minorities ( a difficult issue in Central Europe). Beyond these however, little is directly influenced by the Union. The EU is not a federal state and will not become one soon. The influence on many types of institutions is at most informal, and via imitation of examples from one or the other Member State, unless the *acquis* is directly involved. In many respects social issues are decided at the Member State level and indeed in a whole variety of ways. The so-called “European social model” is much more clear in its rejection of the US (“a-social”) model – and indeed of many “harsh” alternatives in Asia – than in what it exactly means in Europe. Social regulation is largely national and nothing in the (tiny) EU budget resembles an expenditure for the ‘welfare state’. And cultural questions have – rightly – remained outside the EU competences, be it that EU can, when there is explicit agreement, pursue joint cultural policies if, and only if, they “contribute to the flowering of the cultures of the Member States”.

It is thus somewhat misleading to expect a direct influence of enlargement on society at large. The enormous turbulence of societies in Central Europe is primarily due to the disappearance of communism and its severe restraints on education, information, mobility, freedom of speech and press, choice, change and variety. The process of transition and the choices made have also deeply impacted on the predicament and conduct of the peoples of Europe. The larger EU cannot expect but to exert a minor, largely indirect influence, via the

setting and enforcement of standards, the appeal of reputation mechanisms and via a few policies relevant to society at large, such as audio-visual services (the TV without frontiers directive). One can also argue that the intensity and quality of business and official contacts and big programmes such as Erasmus and other exchanges might be expected to contribute to a renewed sense of European identity, over a period of a generation or so. It should, however, not be forgotten that the next enlargement (the 12 plus Romania and Bulgaria) adds the same number of languages. Many of the language areas are small to very small. Although this creates tremendous and costly complications in the Brussels and Strasbourg machineries, one can also regard it as a telling demonstration of Europe's great diversity. With as many as five or six more countries waiting in the wings to apply for EU membership<sup>6</sup>, the EU will find itself dealing with 30 languages in a decade or so. Like ASEAN 30 years ago and the USA 200 years ago, a single communication language will eventually become inevitable. Unlike the US, and much like the ASEAN, however, there ought to be no 'cannibalisation' of the local cultures.

For non- Europeans the impact of enlargement on societies will therefore remain too subtle to be noticeable. This does not mean that Europe's societies will not change. Quite the contrary, change is rampant and deep, especially in Central Europe, but it is largely driven by other forces than EU membership *stricto sensu*. The larger EU will very much remain 'united in diversity', even if the Convention would lead to genuine treaty changes. Much to the relief of Dr. Kissinger, the EU has now a phone number, but European society has not.

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<sup>6</sup> Croatia, Macedonia, Albania, Georgia, Moldova, not to speak of Turkey of course. Compare with the reading of this 'domino' effect in my 'The Pan-European flux', Singapore, SIIA, 1992, pp. 26-29.

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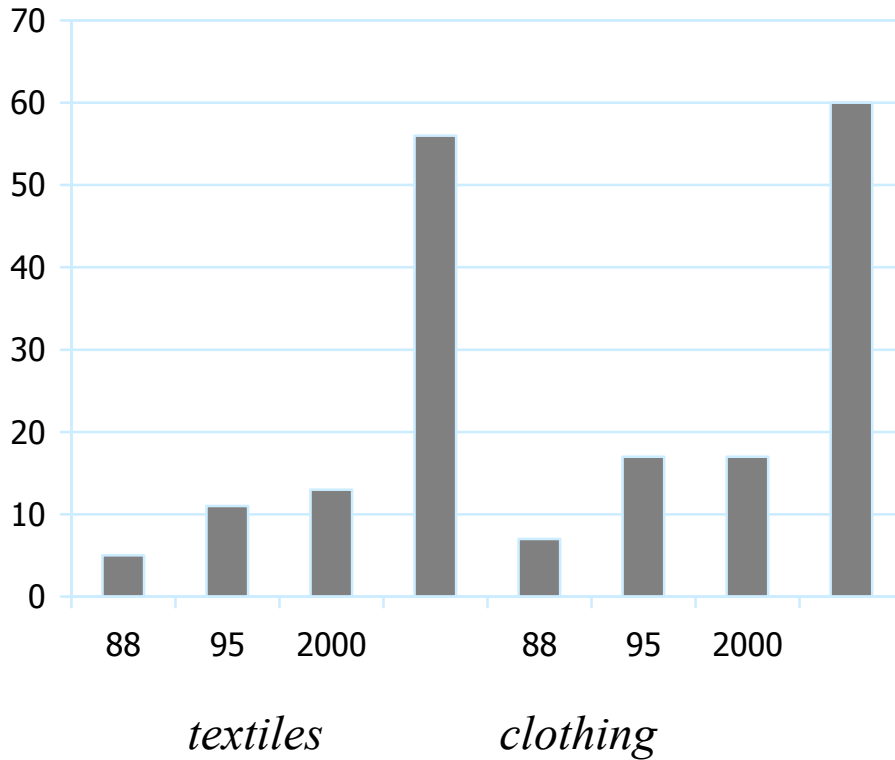
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Appendix:

### Eastern Enlargement and T & C II

CEECs SHARE EU	growth	CEECs SHARE	growth
imports	p.a (in euro)	EU imports	p.a. (euro)



#### MEMO ITEMS:

- growth p.a. of competitors in textiles: Turkey 16%. China 16%. India 18%
- growth p.a. of competitors in clothing: China 54%, Turkey 30%, HK 3%, Bangladesh 161%
- shares of competitors in textiles (2000): Turkey 10.7%, China 10.4%, India 10.1%
- shares of competitors in clothing (2000): China, 15.6%, Turkey 11.2%, Turkey 11.2%, Maghreb 10.3%