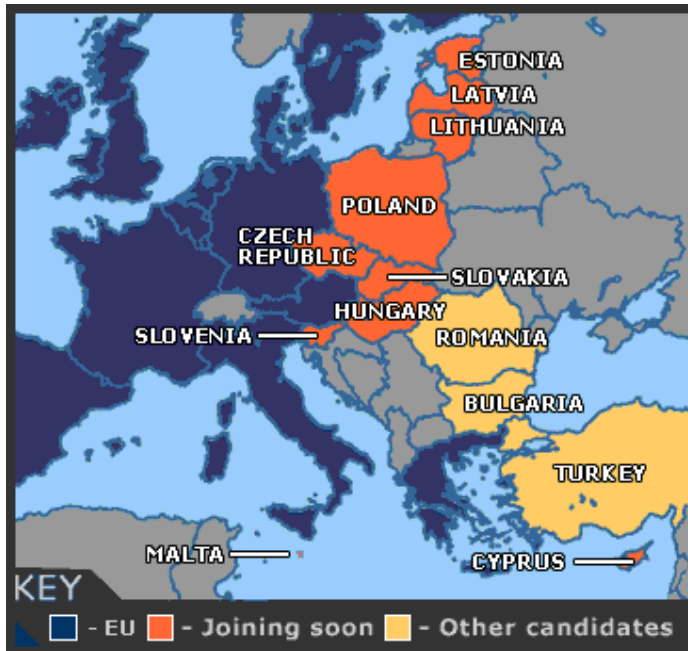


Introduction to EU enlargement

After growing from 6 to 15 members, the next wave of EU enlargement is around the corner. The EU has agreed to admit 10 new members from the central Europe and Mediterranean who meet the political criteria – stable democracy, respect for human rights, protection to minority, and the rules of law. As full market economies, they will implement all the EU's common rules and policies. After ratification of their accession treaty they will join in the EU in 2004. Meanwhile three other candidates still endeavour to pursue their membership of EU.



In the map, we can see all the countries that can be in the enlargement of European Union. The 10 candidates are Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta, and Cyprus. Romania and Bulgaria are in the stage of negotiation. Turkey has already been accepted as an candidate, and its membership negotiation will begin once it fulfills the political condition.

A larger Europe will have greater power and weight in the worldwide affairs. The enlargement will have a great effect on the member states, and the people's life in new member country will be changed dramatically as well. The EU leaders always describe the enlargement as a landmark, and strategic unification will spread the peace and prosperity throughout the Europe. Is the sounded and rosy image going to happen? What the existing member states can benefit from a larger Europe, and how much should they pay to improve the new member's fragile and weak economy. For the newcomers, there are still some uncertainties on the consequences of joining the EU. Is the entry to EU a quick cure to their economic and political problems? How

much are the small states weighted in the new union? This essay analyze the likely effect of EU enlargement on both the member states and the candidates.

The common effect of EU enlargement on all its member states and European Union

Firstly let's examine the impact of EU enlargement in the context of the worldwide globalisation process, and viewed the European Union as a whole in worldwide affairs. The enlargement will bring both challenge and opportunities to EU.

Benefit:

In the economic term, the member states are no longer in the position to solve their problems alone. The economic imparities among the member states will be diminished, and Europe can take advantage of the opening up of the internal markets and the economic integration. Its market scale will extend from 370 million to 480 million people, this extension will stimulate the growth of economy, and create thousands of business opportunity together with thousands of working vacancies. There is no single market with such a great purchasing power anywhere else compare with EU (even in the USA and Japan). All the candidate states have an enormous economic growth potential. A prosperous market will also intensify the business competition. Thereby it works in favour of consumers. An integrated economic can also give the member states higher living standards, more efficient allocation of resources, higher productivities and better levels of capital.

In political terms, EU enlargement will "extend the zone of stability in Europe, thus contributing to security and peace throughout the continent" (<http://europa.eu.int>) The democracy will be secured throughout the Middle and Eastern Europe. Through enlargement "more countries will participate in a Union that promotes the principles of democracy, good governance, the rule of law and respect for human and minority rights." (Hoyer, 2001). This of course will make Europe more stable and the borders more secure. With respect to the continental security, the enlargement makes the continent safer for its citizens. The threat – crime, terrorism, drugs, and pollution can be reduced by joint action across the continent, and some of the prospective members, including Turkey can be viewed as the 'gate-keeper' of continent.

Challenge:

It seems that the enlargement of EU is considerably beneficial to EU's economy. However, we should not be too optimistic, because the economic challenge brought by enlargement is tremendous and imminent. One big worry is the large-scale

immigration. After joining the EU, the people have the right to enjoy the benefit of labour free movement, and the big gap in wages and incomes would provide the incentives for east-west immigration. But on the other hand, in current economic climate, there are very few working opportunities in the rich regions, as a consequence, thousands of new immigrants would be unemployed. High unemployment rate could lead to a series of social and political problems. Some other challenges also need to be widely considered and assessed. But the situation is varied in the existing member states and the new members: Current EU institution is not compatible with a bigger Europe which will accommodate 27 members or more. Therefore the institutional reform is around the corner. A series of issues should be considered for an efficient governance of a Union up to 27 members. (See foot notes). Eastern enlargement can help the Europe as a whole to enhance its global competitiveness, especially with USA and Japan. For the foreseeable future the present EU with its 15 members does not seem able to increase the speed of its own economic development and presence of dynamic regions on its neighbourhood will create qualitative conditions for growth in Europe.

The effect of EU enlargement on the existing member states.

Benefit:

It is widely believed that the long-term growth potential of the candidate states is substantial and if realised, the current member is likely to benefit from it. Enlargement is seen as an opportunity for the current members. Apart from the single market, it will grow up to 500 million customers, businesses which will wish to expand in candidate countries will compete under a common regulatory framework, and their economies are largely complementary to EU economies.

Some studies show that the EU-15 are projected to gain 10Bn Euro in real income from the enlargement, and this gain is likely to be distributed as follows: Germany, France and the UK would altogether get 70% of the total. The CEE (Central Eastern Europe) countries' gain is 38Bn EUR(1.5% of their GDP), but if taking the investment multiplier into consideration, CEE states would only gain 30 billion EUR, about over 15% of their base year GDP. (Source: Baldwin, R.2002)

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1. Switch from unanimity to qualified majority voting with some exception where fundamental decisions are at stake.
 2. Decide what weight the bigger and smaller member should have in the council. The current weighting system is deliberately tilted against bigger countries, but if it continues as it is, the lack of balance between population and voting power will become unsubstantial. This issue is of particular importance in the perspective of new Members consisting mostly of small or medium-sized countries- only three out of the thirteen candidates have a larger population than the average of the existing Member states.
 3. Reforming the functioning of the Council is a key issue relevant to the institutional reform.

Table1: The distribution of profit derived from the EU eastward enlargement by the current EU members.

	Share of total EU-1 real income gain,%
Germany	33.8
France	19.3
United Kingdom	14.1
Italy	8.5
Spain	7
Netherlands	4.6
Sweden	3.9
Belgium/Luxembourg	2.6
Austria	2.6
Denmark	1.9
Finland	1.4
Ireland	0.3
Greece	0.3
Portugal	0.4

Source: Breuss, 2001

Table 1 shows distribution of trading profits received by western companies from trade with countries of central and eastern Europe. Germany is clearly the most important beneficiary of economic integration. Its trade with Central and Eastern Europe comes to 9% of its total external trade and around 34% of total EU trade with this region (although its economy only accounts for around 25% of the EU economy in terms of GDP). “Already, Eastern European markets are more important for Germany than the US and other markets” (Hoyer, 2001) The “core” countries for trade with Eastern Europe, i.e. Germany, France, United Kingdom and Italy have the best chances for economic growth and can carry out significant structural changes in the East. This creates additional demand for goods from other EU countries, particularly from less developed Mediterranean region and countries of the Mediterranean, Central and Eastern Europe will deepen their trade relations.

Cost:

The challenge of the enlargement for the current states is mainly from the cost of helping the countries with lower level of economy to meet the condition, reducing the disparities between the current member states and the candidate countries, harmonizing their policies and practice in economics, politics, agriculture and industry. The cost will be very huge, and the current budget spending plan is inadequate to cover all the cost of enlargement.

Table 2 Costs & Benefits of Enlargement

	<i>Costs</i>	<i>Benefits</i>
	<i>Bn Euro</i>	<i>Bn Euro</i>
<i>Germany</i>	3.3	3.3
<i>France</i>	2	2
<i>United Kingdom</i>	0.8	1.4
<i>Sweden</i>	1	0.4
<i>Netherlands</i>	0.8	0.4

Source: Breuss, 2001

The above table shows that the enlargement project is surprisingly expensive, and is non-profitable for some countries. However, I believe the presented data are rather simplistic due to the different approximation made by researchers. The situation will be changed, as some progress will be made by the candidate countries.

Apart from the cost of enlargement, some current members would suffer from the reduction of FDI (Foreign Direct Investment), especially those comes from the USA. This proposition is based on the assumptions that the enlargement will discount some countries' attractiveness because:

- a. Some candidate countries have higher educational standards in areas such as mathematics, which is a crucial area for information technology.
- b. The gap in the level of labour cost means some candidate countries are more attractive as a business location.
- c. The candidate countries will adopt the same legal, regulatory and economic regime.
- d. English is widely spoken by the younger generation in some candidate countries.

Some effect on the new member states.

There are benefits and costs associated with the accession to EU by 10 newcomers. The benefits related to the opportunities that will be ushered in, primarily arising from the better access of their outputs to foreign markets, enhanced competitive structure and improvement in efficiency, which will strength the new members' competitiveness in the face of global competition in the long run. The costs mainly result from the change from a protected economy to an open and competitive one. It should be kept in mind that a considerable number of firms in the candidate countries

are used to sheltered market, and they may unable to cope with the fierce competition when being exposed to an open and unprotected market.

Benefit:

In economic term, the accession to EU will provide the new members a wide market accommodating 500 million customers with a strong purchasing power. Another advantage of this market is that it is a thoroughly open market to all the member states, which would make the access of the output from the candidate states to foreign market easier. Apart from a huge market, the efficient allocation of resources will be another benefit, in the consequence of adoption of an economic strategy to promote competition.

Accession to EU will further increase the candidate countries' attractiveness as a business location. Benefiting from its cheap labour cost, a lot of foreign companies would engage in the foreign direct investment in the candidate countries.

The availability of funding from EU is another benefit received from the membership of EU. EU plans to spend billions of Euros as financial aid to narrow the gap of the economic levels between the new member states and current states. The level of financial aid that each candidate country will receive would be varied according to their difference in economic levels. The funds will help the new members to construct their infrastructure and the environment and provide training opportunities among other things.

In political term, the candidate countries have to align their domestic legislation to the EU legislation with the major positive impact, especially on environment. The alignment would also grant a fair competition in the integrated market, and contribute to the legislative harmony and political stability. These political advantages would positively affect the economy.

Joining in EU would give the candidate countries, especially for the small ones the chances to impose their influence in the world affairs through EU, and access the resource that they could not afforded to maintain by their own.

Cost:

The inability of some product producers in new member countries to cope with the international competition will lead to loss of jobs and incomes. Industrial supplies from non-EU members may become more expensive. The removal of export subsidies to EU exporters will result in the close down of their domestic producers. Opening up

of capital flow may result in huge outflow of funds.

The free movement of labour could encourage the outflow of skilled workers to a richer region, and the local company has to pay more on the welfare of the labour so as to retain the skilled worker. The influx of foreign labours would threaten local labour market and the welfare of local labour.

In some new member countries, such as Hungary, the adoption and implementation of the common bodies of rules and laws agreed by all the EU members would adversely affect Hungary's economy. Hungary is considered the most dynamic country in eastern Europe, and it offers various favourable conditions for foreign investors to purchase the property, establishing business and taxation. It must, however, after the entry to EU, be forced to change its status as a tax heaven. This will undoubtedly reduce the competitiveness of Hungary in the larger European market.

The people in the new member states are delighted of what is going to happen, they think the membership of EU will have a quick improvement to their economic and politic problems. But the fact is, that will take many years, and they will experience disappointment after joining the EU. An economist at Slovak Foreign Policy Association said "there is this myth that we will suddenly claim our rightful place as rich country in the heart of Europe, but that will take years and the expectations are bound to be disappointed". (Ardy, 2001) Things will get worse before they get better.

Conclusion:

The EU's enlargement should be a win-win situation both to the current members and candidate members. The biggest economic prize offered by EU enlargement is a single market with 500 million people, and all the participants have to respect the same regulatory principles. The development will boost the business confidence.

The ultimate beneficiaries will be the citizen of Europe, as an individual liveing in a democratic society or as a consumer enjoying the benefit of integrated market and as a worker or business people working to develop European economy.

It is undoubtedly that the enlargement will bring in huge amount of cost. Some people would express their fears on the cost, but cost is inevitable in the globalisation and it will benefit EU in the long run. It is far better to manage the cost in the common interest-Enlargement offers the best opportunity to do it appropriately in the European context.

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