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Whereto World Economy: The Situation in Europe

1. Introduction

During the last decade a fundamental change in the world economy could be observed. The world's political landscape had been changed at least since the end of World War II, in the 1960s numerous former colonies became politically more and more independent states, and not to forget the transformation process in Central and Eastern Europe. Similar processes were running in all fields of international economic relations. The qualitative and quantitative extensions of trade, foreign investment, much more intensive international flow of capital and labour, the world- wide net of cooperating financial institutions and activities are characteristics of a process in general called economic globalization and led to a qualitatively new economic landscape. The centre of economic activities and scientific development has changed from Europe to other regions. As a consequence, the Old Continent has been faced with a new challenge, Europe has to find its new place, its new role within this process.

2. Two determinant processes in the world economy

In the world economy of our epoch there are two determinant processes: globalisation and economic integration. The fundamental difference between the two processes is that while globalisation embraces the whole world economy; economic integration has a regional character.

According to certain opinions globalisation existed already long time ago but from the beginning of 1970s the process accelerated in significant measure and became determining world economic process. The main characteristic features can be summarized as follows:

- International trade developed in an extraordinarily dynamic way which was promoted by the establishment of the GATT and WTO to a great extent. The fact that due to the technological development transport and communication expenses significantly decreased also played an important role in this process. The dynamic growth shows that the value of foreign trade in Western Europe has grown from 19% to 36% of its national income between 1973 and the millennium.

- Significant and manifold changes had taken place in the field of foreign direct capital investment too. On the one hand its volume has grown four times quicker than that of foreign trade, on the other hand its direction has radically radically changed. Earlier foreign capital first of all has targeted agrarian sector and the extractive industry of underdeveloped countries, but later this has shifted to the manufacturing industry, the trade and services sectors of the developed countries.

- The central actors of the world economy became the trans- and multinational enterprises. Their number in the 1970s was only 7000 but by the end of the 20th century worked enterprises 44000 like that and they had 280000 affiliated firms. In the

middle of 1990s these enterprises produced the one third-one quarter of the world industrial production, and transacted 40 % of the world trade. The 100 biggest enterprises employed 6 million workers and controlled one third of the world trade.

- The multinational and transnational enterprise-system integrates and optimizes the reproduction process in a complex manner. What does it mean?
 - About 70% of the R+D capacity of the developed countries concentrates in their hands.
 - Most of all they realize the advantages coming from the accelerated product-innovation and technological modernization.
 - Mostly they are capable of the global and rational allocation and utilisation of production factors, to minimize of expenditures.
 - The world market more and more admits the globally organized and optimized expenditures which results quality changes in the price formation processes.

- Another important characteristic feature of theirs is the internationalstion of internal relations. According to certain estimations one third of the international trade is realised within these enterprises, but the direct cooperation is much wider. Extraordinarily they concentrate research and development inside the enterprises. The most up- to- date technology is less and less for sale on the world market, but it flows inside the transnational enterprises in an increased degree. According to

estimations more than 50% of international technology transfer takes place inside these enterprises.

- To the internalized connections monopoly market symptoms join which influence the pricing processes as well. Inside the transnational corporations (TNC) so-called transfer prices are applied which among others makes the concealed international redistribution of the incomes possible.

- The economic influence of the exchange rate has changed. There have been doubts already earlier and reservations concerning the export stimulation effects of devaluation of exchange rate. It was considered efficient only in the short run. But by now the situation has changed. Due to the interpenetration devaluation does not necessary the competitiveness of the exporter, on the contrary it may bring it down, what is more it can entail inflatory effects. Besides the high import inputs in the consequence of devaluation the expenses tend to rise more quickly than the export stimulation effect of the devaluation can be utilized. The import prices go over to the export prices directly.¹

It is not to be questioned that the acceleration of the globalisation process attacks the framework of the national economies more and more. At the same time in other territories of the social life the role and influence of the external, international factors are steadily growing. Consequently the effective competency of government policies reduces.

The most frequently criticised effects of the globalisation are as follows:

- The growth of inequality both internationally and nationally, and an increasing tendency of impoverishment. The exclusion of the poorer countries from the results of economic and technological development.
- The extension of unemployment.
- The burst of the social catch-net. The wasting of the welfare state institutions formed earlier in the developed countries, concerning the growing costs of their maintenance.
- The loss of the greatest part of the social rights in the former socialist countries.
- The pushing into the background of the social, health and educational programs, the cutting down of the social budget in the developing countries.
- Sharp decreasing of the ability of certain countries to pursue independent, sovereign social policy.
- The welfare services are being up the market increasingly both on the national scenes.
- Especially in the economically underdeveloped countries and the greatest part of the former socialist countries in the consequence of the collapse of the earlier social security systems – what we can experience in Hungary nowadays – many people may fall from the socially supplied and secured circles.²

Among the social problems undoubtedly the worst is the mess unemployment. First of all and fundamentally it is the consequence of the rapid technological development which pushes out the major part of society from the sensible work and creates a heavy uncertainty of existence. Experiences unanimously prove that the introduction of the new technologies close down more working places than they are able to create. Views holding that the labour force driving out from the industry and agriculture will be absorbed by the sector of services have totally failed by now. The technological development drives out the labour force not only from the industry but also from the agriculture and services. Solution could induced part-time work,

home work, or the reduction of working hours. But the conditions of the use the mentioned forms are missing in most of the countries.

3. The situation in Europe

By the 1st of May 2004 with 8 central-eastern European countries together with Cyprus and Malta, the European Union was enlarged to 25 members. During all the earlier enlargements the European Union admitted only one, two or maximum three countries at a time.

Previously after the establishment of the European Economic Community in 1957, four times were enlargements:

- in 1963 : United Kingdom, Ireland, Denmark
- in 1981: Greece
- in 1986: Portugal and Spain
- in 1995: Austria, Finland, Sweden

Of course during the earlier enlargements the European Union has also admitted countries where the maturity for the integration, mildly speaking, was questionable. For example behind the engagement of Greece, Portugal and Spain there was an unambiguous military policy issue, namely the fastening of the south wing of the NATO.

The Copenhagen Summit, in 1993, specified the criteria whiches to be fulfilled by the candidate countries.(Democratic Political System, the building up of the market economy, etc. But the time schedule for the fulfilment of these conditions wasn't specified.

The choice of the "Tens" obviously was not made on the basis of the countries' suitability or maturity for the integration, but the European Union wanted to define the borders of its

extensibility in this way. Namely the candidates were of many kinds: small and big, poor and affluent. The admission of the Central Eastern European Countries together with Malta and Cyprus increased the inner market of the European Union by 100 million consumers. But at the same time GDP/capita of these countries was only 32% of the EU average and increased the GDP of the European Union by 5% only.³

The data of the table below illustrates the situation of the "old" and the "new" member countries and candidate countries.

GDP/capita in the "old" and "new" member countries and in candidate countries in average of EU-15 in 2002(%) (in purchasing power parity)

"Old" member countries	%	"New" members and candidates	%
Greece	71	Cyprus	76
Portugal	71	Slovenia	69
Spain	86	Malta	69
		Czech Republic	62
		Hungary	53
Italy	98		
Germany	100	Slovakia	47
Finland	102	Poland	41
France	105	Estonia	40
Sweden	105	Lithuania	39
United Kingdom	107	Latvia	35
Belgium	107	Romania	27
Austria	111	Bulgaria	26

The Netherlands	111	Turkey	25
Denmark	113		
Ireland	125		
Luxembourg	189		
Average of EU-15	100	Average of CEE*	32
Average of EU-25**	100		
EURO-Zone	107	Czech Republic	69
EU-15	109	Hungary	61
		Poland	51

*2000

**2003

4. Preliminaries of the Accession

At the beginning of 1990s the talks of the accession started with the pre-condition that the candidate countries will access the European Union when they are able to meet the mentioned Copenhagen criteria. That is why the countries top-ranking in the political reshuffle and the building up of the market economy-as Hungary, the Czech Republic, Slovenia, Estonia - thought that they could join the European Union in the first round. Of course, for the European Union it was quite clear that there are significant differences in the accomplishment of the criteria of accession among the associated countries.

At the same time every associated country had their own promoting member country. For example Greece promoted Bulgaria and Cyprus. Germany Hungary and Poland in the same

way how. France promoted Romania. Sweden and Finland promoted the Baltic Republics. Italy promoted Malta, etc. At the same time there were hard threats on behalf of certain promoting countries. For example Greece declared that if the European Union isn't willing to receive Cyprus it will veto the other candidate countries. Schröder German chancellor declared that without Poland there will no be EU-enlargement.

In the meantime the European Union had drawn up its expectations for the associated countries which didn't reflect the intention of cooperation based on the mutual advantages equal of partners. The European Union thought that the candidate countries must liberalize their foreign trade and apply EU-conform rules in their trade with the member countries. At the same time the EU thought that the "new comers" should not threaten the employment inside the EU with their "sensitive" products. For this reason quotas have been established for these products (for example textile and steel products). Moreover they opposed that the "new comers" disturb the already problematic agrarian policy with their cheap agrarian products. The immediate admission of the labour force of the "new comers" were stiffly refused for two important reasons:

- on the one hand, they referred to the heavy problems of employment prevail in the EU;
- on the other hand they stressed that the associated countries could ruin the labour market of EU with their low wages.

Similarly they thought undesirable the competition of the cheap Eastern European services (for example road transport), while at the same time they expected that Eastern Europe to open its market for the EU's banking, insurance and tourist services.

During the associating period the EU handled the East European countries differently, as the former member countries. For example in the case of the former member countries had a so-called financial protocol attached to the association contracts. For example Greece, during the associating period has got no refundable 20 billion \$ promotion, similarly to Spain and Portugal. From the association contract concluded with the Eastern European countries the financial protocol was simply "omitted". Instead of there was the PHARE program heving limited financial resources, which obviously did not come up to the requirements of the reshuffle of political regimes and which could never been rightfully expected from the most important economic partner. The earlier member countries delayed the free movement of the labour force of the new member countries, moreover chased and molested with police actions the Hungarian and Polish employees. Against these actions Hungary complained at the European Union Court of Justice.

The new member countries also lived to see negatively that they have got only 25% of the agrarian promotion of the earlier member countries.

Because this discrimination the new member countries have rightfully experienced that they are second- class citizens in the European Union.⁴

5. Whereto Europe?

In the consequence of the enlargement the differences in the maturity for integration have grown further which increased the numbers of the multi-speed solutions. For example not every member country participants in the Shengen agreement. The situation is the same in the case of the European Monetary Union where only those member countries can join which

fulfil the so-called Maastricht criteria. At the same time there are countries which are able to meet the mentioned criteria, but do not want to enter the Monetary Union.

We can experience certain disappointment on behalf of the new member countries connection with the European Union, but we also can perceive a certain crisis mood in the older member countries too. What is the explanation?

- The cessation of the Soviet Union and the socialist countries stopped the external threat which had been a strong cohesive factor.

- In the consequence of the enlargements the economic differences among the member countries have grown remarkably, which induced the powerful divergence of economic interests. The decrease of the inner popularity is probably explainable by the fact that the European Union started to expand from the rich centre to the poorer western, southern and eastern territories. These enlargements put on the agenda again and again the distribution of the integration advantages and budget resources as well as the movement of labour force of the new member countries.

- Globalisation has created new challenges. The competitiveness gap between the European Union and the developed world has grown. In March of 2000 was born the Lisbon declaration which set the target that European Union must become the most dynamically growing region of the world. That's why the R+D expenditures have to reach the 3% of the GDP in EU average, on the other hand the proportion of the private

sector has to be increased from the present 57% to 75%. Unfortunately at present, the proportion of R+D expenditures is only 1.93% of the EU GDP which lags behind that of the USA 2.8% and the Japan 3.06%. In Hungary at present it is only 0.89%. We can predict it with high probability that this target will not come true by 2010.

- As a result of the general liberalisation process taking place in the world economy, the inner market of European Union is devaluated. Today, it already guarantees less advantage over of the outsiders. In this direction also played a role that high pressure pressed and press continuously on the European Union in the field of the trade liberalisation on the part of GATT and WTO.⁵

6. Conclusion: Enlarging or deepening?

Whether to deepen or enlarge has meant a permanent dilemma for the European Union and it is still does. The leaders of European Union try to keep the two processes going ahead parallelly and harmonically. But the truth is that the European Union wasn't prepare oneself for the enlargement. After the enlargement the institutional system and mechanism which already with the 15th worked "bumpy", went into a latent working crises. In the interest of avoiding the mentioned situation would be to universalise the vote of majority. But so far away even the refused constitution didn't want to go. Mainly the greater member countries were averse to give up a certain part of their sovereignty because their sovereignty is effective while that of the smaller member countries only apparent. The result of the process is that in Europe the strong federalist desire has passed.

Consequently there is no definite answer to the question: enlarging or deepening. The experiences of the enlargement realized in 2004 reinforced that the two processes cannot develop with the same intensity. The European Union ought to draw its final, but at least for a long time valid, new external borders. It is well known that on behalf of the USA and the United Kingdom there is a big pressure for admitting Turkey into the European Union. According to competent opinions, accession of Turkey throws the doors wide open to further enlargement wave (for example Croatia, Ukraine, Maghreb states, etc). The result is that the European Union can degrade into a big free- trade zone.

Europe has to face a further heavy problem-the aging of its population. In the next decades before us the European population will grow old in a significant measure due to very low 1,5 fertility rate and the increase of life expectancy. According to the statistical experimental data for a simple reproduction of the population – taking into account the child mortality rate –2,1 children/woman would be necessary. According to the forecasts in 2010 the number of working age population(between 15-64 years old) in 2010 will be 309 million, but by 2050 will reduce to 251 million. This means 18% decrease. The number of aged (above 65 years) at present is 65 million. By 2050 will doubled by 120 million. The proportion between the working age and aged population-the so- called aged dependency rate- will doubled from 25% to 50%. It means that at present four working age fall to one aged, by 2050 only two. This problem presumably could be solved by only a much more liberal immigration policy. But at present most of member countries are averse to such kind of immigration.

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