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The impact of EU enlargement on current and new member states. An assessment from the economic and political point of view

Dr. George Papaioannou*

Abstract

The fifth enlargement of the European Union, apart from the most demanding in terms of preparation for the candidates and EU institutions has been the most ambiguous in terms of potential impacts both on economic and political spheres. In this paper we try to identify the directions of potential consequences based on the performance of the new countries during the pre-accession period and the degree of preparation by the time of the first part of accession. The preliminary assessments show that EU and newcomers economies shall face a series of positive impacts in terms of growth, productivity, employment and competitiveness, though to different degrees, while political and social conditions will continue to improve. The greatest challenge for EU policy makers, will continue being the assurance of socio-economic stability during the biggest enlargement ever in EU, yet, with less intervention through an adjusted to the new needs decision making process.

1. Introduction

Up to now, the greatest part of the debate, for the European Union enlargement has been concentrated almost exclusively on questions of financial compatibility of the enlargement with the Union's budget, addressing mainly such questions as: a) whether the EU budget would be able to finance the inevitably increased expenses associated with the extension of the agricultural, regional and cohesion EU policies to the CEECs; or b) how should this greater burden be distributed among the 15 incumbent members of the Union. Equally extensive scrutiny has been dedicated to the necessity, for the EU, to reform its institutional arrangements, to review its decision-making procedures and to correct some of its most controversial, and expensive policies, before the enlargement could take place. Lastly, the likely magnitudes

* Public Administration Dpt., Panteion University, Athens.

of the anticipated costs and benefits have been amply discussed and evaluated, even if these exercises have been performed more for the incumbents EU members than for the applicant countries.

Much lesser attention has been devoted, however, to the problem of evaluating the CEECs accession to the EU in terms of their own fundamental needs and peculiarities as "countries in transition" or, in other words, to the connection between the systemic transformation undertaken in these countries in the last decade and their eventual entry into the European Union as full members (apart from some exceptions). The appropriateness of EU membership for the transition countries is seldom discussed, but it is a very important issue since for any country acceding to the EU, the discretion of national policy-makers is considerably reduced a membership implies a major transfer of national competences to the level of the Union, mostly in the fields of foreign trade, capital movements, financial markets, fiscal policy, regional policy, environmental policy, monetary policy and exchange rate policy.

Enlargement offers the unique opportunity of ending the artificial divide which has split the European continent into two for most of the past 60 years. Not only will individuals be able to move, study and work freely across frontiers, but businesses and economies in central and Eastern Europe should prosper as a market-based economy takes root. Europe as a whole will also benefit economically and politically with the creation of a domestic market of 500 million people.

The EU has already experienced four separate enlargements (in 1973, 1981, 1986 and 1995) as it has grown from six to 15 members. But with 13 candidate countries in the wings stretching from Estonia in the north to Turkey in the south, this is easily the most ambitious. The preparations that have to be made by both existing and potential members to meet such a challenge are huge. To take just purely economic considerations, the GDP per head in purchasing power standards as a percentage of existing EU levels ranges from 79 % in Cyprus and 68 % in Slovenia to 23 % in Bulgaria and 27 % in Latvia.

Internally, the EU has to adapt its own policies, finances and procedures to prepare for a Union of 20 or more countries. The first two challenges were met at the EU summit in Berlin in March 1999 when budgetary ceilings were set for all areas of EU spending up to 2006. These were accompanied by wide-ranging reforms to regional, social and agricultural expenditure. Decision-making procedures are also being streamlined. In addition, the Commission is coordinating various information campaigns to inform the public of the implications of enlargement.

The EU summit in March 1999 made some 22 billion euro available for pre-accession support between 2000 and 2006 - double the amount allocated during the 1990s (CEC, 1997, 1998b). In addition, the Union's budget will be ready for the first accessions from 2002 onwards with some 57 billion euro specifically earmarked for new Member States between 2002 and 2006.

2. EU membership conditions

Before a country can contemplate the possibility of joining the EU it must demonstrate that it satisfies the three basic membership criteria laid down at the Copenhagen Summit in June 1993. These are:

- The existence of stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
- The ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

Negotiations with six of the applicants - Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus - opened in March 1998. After receiving the green light from EU leaders at their Helsinki European Council meeting in December 1999, formal negotiations were launched in mid - February 2000 with another six candidate countries - Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia.

Although the accession negotiations have been launched in two groups, each applicant is considered on its own merits. The Union has put in place a fully flexible, multi-speed accession process where countries will be assessed on their own merits and join when they are able to meet all the obligations of membership. This is followed by detailed negotiations on the 31 individual policy chapters ranging from fisheries to external relations.

The Union has a number of specific pre-accession programs to help the candidates prepare for membership. The best-known and longest-running vehicle for channeling the financial and technical cooperation to the candidates is PHARE. This program provides grants, rather than loans, and can be broken down into two main priorities. The first, with some 30 % of the budget, is institution building to help national and regional administrations as well as regulatory and supervisory bodies familiarize themselves with EU objectives and procedures. The second, with 70 % of the budget, helps the candidates bring their industries and major infrastructure up to EU standards by mobilizing the investment required. The support is chiefly targeted at areas where EU norms and standards are becoming increasingly demanding: environment, transport, industrial plants, and quality standards in products and working conditions.

Other aid programs are specifically aimed at agricultural and rural development and at transport and environmental projects. There are also programs to fight corruption and organized crime and to handle refugees and asylum seekers. In addition, numerous seminars and workshops for officials in the candidate countries are held on subjects as diverse as fiscal surveillance and customs clearance.

While the European Union has taken the lead in helping candidate countries prepare for membership, it is not alone. Other international bodies lend their support and expertise: the World Bank, the European Bank for Reconstruction and Development, the Council of Europe and the Nordic Council.

A particular case is Turkey, for which formal relations with the Union date back to the 1963 association agreement and the country was the first of the current group of applicants to apply for EU membership back in 1987. For a variety of political, economic and human rights reasons, the request made little progress over the years, until the Helsinki Summit in December 1999. At that meeting, EU Governments formally recognized the country's status by agreeing that 'Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States'.

As a result, the country benefits from a pre-accession strategy and partnership to stimulate and support its political and economic reforms and a closer political dialogue with the Union. It is able to participate in existing EU programs and in meetings between the candidates and the Union and is being helped to bring its own domestic legislation into line with the EU's rules and practices. But before actual accession negotiations may begin, Turkey must first demonstrate its respect for human rights and restructure many elements of the country's economy. Given the historical friction between Turkey and its Aegean neighbor, Greece, the Union has specifically called for the peaceful settlement of any outstanding border disputes and other related issues, such as Cyprus. Alongside Turkey's EU membership aspirations, a customs union with a 15 million euro budget already links the two and the Union is making available a further 135 million euro to promote the country's economic and social development. Enlargement must not lead to new barriers

Enlargement also raises questions about how the Union will organize its relationships with countries facing a longer road towards membership. The Commission has floated the concept of virtual membership to give Albania and former Yugoslavia, for instance, the stimulus and advantages of various forms of close cooperation even before they are ready for accession. But to benefit from these, they would have to meet certain criteria. These include recognition of each other's borders, settlement of all outstanding issues relating to the treatment of minorities and the establishment of a regional cooperation organization. This would encourage economic integration by creating a free trade zone and then a customs union which could later merge with the EU's own customs union as a first step towards accession.

3. Some thoughts on problems to be faced.

The enlargement of the European Union is one of the challenges that European Countries will face in the years ahead. A precondition to cope with this task in an efficient way is to get a comprehensive picture of the consequences of this enlargement. There is little doubt that its overall impact will be positive in the long run, due to an enlarged market, an improved division of labour, and the dynamic forces of increased competition. However, this will not necessarily be true for all sectors, regions, and types of enterprises; especially during the initial phase of integrating new members into the EU. The discussion about "sensitive" sectors such as textiles or agricultural, and the special treatment they have received under the "Europe agreements", hint at some of the existing adaptation problems. However, there are not only specific risks but also specific opportunities, whereby some sectors, regions, and types of enterprise will benefit more by the enlargement than others (CEC, 2000), (ENSR, 1996, 1998) .

In particular, some principal questions pose difficulties to an assessment of the consequences of enlargement. First, the EU will experience a "staggered" enlargement, as not all countries that apply for membership will enter the Union at the same time. Second, enlargement will not take place at a specific time, but it will be a process taking several years, some measures already coming in force in a pre-membership phase, others long after the membership is achieved due to transition periods. Trade barriers, e.g., between the candidate countries and the existing Community, have already been eliminated to a large extent, whereas experience from earlier enlargements suggests that in some sensitive areas the "aquis communitaire" will be fully applied 10 years after accession or even later. Third, there also are delays between impulse and impact. Thus, the consequences of enlargement will be felt over a relatively long period, making it difficult to assess when changes expected in the long run will come into force. Another problem occurs, as the international environment does not stay constant during the process of enlargement. Therefore, it is difficult to separate the effects of economic integration in Europe from wider global trends in some sectors (e.g. restructuring in the clothing and textiles industries). Insofar, this paper often can only give the directions enlargement will influence the development of regions or industries, but it cannot quantify these effects.

Although there is no doubt in the European political arena and its economic and business sectors, that this complex exercise will come to fruition, it is also true that, until recently, the citizens of Europe had reservations and concerns before the magnitude of the challenge. This paradoxical state of affairs was clearly reflected in the Euro-barometer of Autumn 2000, which showed that only 44% of the European public opinion favored enlargement, whereas 35% was against it and 21% with no clear position on the matter. The reason for this puzzling figures can be found in the answer to another poll question: 83% of Europeans believed that they were little or badly informed on the development of the enlargement process, and only 17% had enough understanding of the matter. To remedy the situation, the Commission has just updated its communication strategy, by means of decentralization and by the inclusion of the civil society, both in the Member States and the candidate countries.

Since then, the situation has improved, probably influenced of further clarification of the enlargement perspective. The last Euro-barometer published in June already shows a 50% positive response, with 30% detractors and 20% undecided. Furthermore, the percentage of people in favor of enlargement in E.U. countries such as Germany, UK or Austria, surpasses that of those against it. In Spain, the situation is quite comfortable, with 64% in favor and only 14% against.

The peculiar nature of this fifth enlargement stems from two main specific circumstances. On the one hand, there is the number factor, since we are negotiating with 12 countries at the same time. Until now, the maximum number of simultaneous accessions did not exceed three. Such was the case in 1973, with the accession of the UK, Ireland and Denmark. Similarly, the last enlargement of 1995 included Finland, Sweden and Austria. In 1981, there was the single accession of Greece and in 1986 Spain and Portugal joined the E.U. On the other hand, as opposed to previous enlargements, we are at present dealing with a truly diverse group of countries in terms of size, population, history, culture, ethnic composition and degree of development. Moreover, with the exception of Cyprus and Malta, these countries are involved in a deep process of transformation and restructuring of their economies and at the end of the consolidation of their democratic systems.

Added to these initial difficulties, greater than those faced by previous candidates, are a number of demanding conditions and precise requirements that candidate countries must fulfill. These were established in 1993 at the European Council of Copenhagen and include a whole set of political, economic and institutional criteria which are deciding factors when evaluating the degree of preparation for accession of individual candidates.

But, enlargement is not just demanding for the candidate countries. The EU must also be prepared to rise to the challenge. In this context, there are two critical issues that must be underlined. In December 1997, the European Council of Luxemburg, decided to initiate a reform of the institutions, in order to adapt them to the new circumstances. As a result, the Treaty of Nice, adopted two years later, allowed for the participation of future Member States in the different institutions of the Union, including the re-weighing of their respective vote. This process is still open and currently under way with the Convention set up to prepare the next Intergovernmental Conference for 2004.

No less important is the budgetary adjustment of the EU. In March 1999, the Council of Berlin adopted the new financial perspectives, based on the Agenda 2000 and effective for the period 2000-2006. Among them were two new headings, number seven in relation to pre-accession aid and number eight concerning the resources specifically allocated to the new partners. The amounts that appeared in each of them are, 21.840 Million Euros and 51.070 Million Euros, respectively.

The complexities also extend to the negotiating process per se. Its contents refer to transposition and effective application of the totality of the *acquis,* which has been divided into 30 chapters for practical purposes. The assumption by each candidate country of a reliable commitment in this sense allows the provisional closure of each chapter. In some cases, whenever justified, transitional periods can be accepted, provided that they are limited in time, as well as in their area of application and in their impact on EU regulations. A specific deadline for their conclusion should also be established.

In addition, many actors are involved in this process. The Commission, together with each candidate country, is responsible for the detailed examination of the *acquis,* the preparation and submission to the Council of the draft common positions on the different chapters of the negotiation and finally, the preparation and proposal of the overall negotiating strategy. The Member States, in turn, must examine and, whenever necessary, review the project presented by the Commission for its final adoption, in accordance with the unanimity rule. The candidate countries are then provided with the different common positions that must be individually negotiated in successive meetings of the Accession Conferences. Where agreement is reached, the chapter is provisionally closed. This means that it is possible to reopen it, if required. Last but not least, the European Parliament carries out a continuous follow-up of the whole process and receives regular reports from the Council's Presidency and the Commission.

It cannot be denied that the candidate countries must face a number of financial, social and also political burdens as a result of the internal reform that needs to be achieved to successfully conclude negotiations. The transitional periods under negotiation in especially sensitive chapters (such as free circulation of persons and capitals, competence, justice, environment, taxation, energy or transport, to mention only some) should soften the blow delivered by these extensive transformations. Nevertheless, the direct benefits derived from accession will be felt rather quickly in the growth potential of these countries.

The advantages derived from enlargement are unquestionable. Suffice it to remember that after the accession of the present candidates, the Union's internal Market will increase to a population of 500 million inhabitants, facilitating all kinds of exchanges within that common economic space, creating additional job opportunities and, ultimately, bringing about greater growth and improving the standard of living for all the European peoples. At the same time, there will be an increase in competitiveness, especially in those sectors more dependent on manual labor and natural resources, which will inevitably lead to higher levels of quality, productivity and business management.

In June 2001, a Commission report on the macroeconomic effects of enlargement evaluated that the average increase of the candidates' joint growth rate will range between 1,3% and 2% during the 2000-2009 period, as a consequence of reforms and restructuring currently underway, which will translate into better allocation of resources and increased productivity and investment (Brown and Raines, 2000). There are three main sources of such growth: higher levels of investment due to transfers from the E.U. and to increased direct foreign investment; larger workforce as a result of a raise in the participation rate within the labor market; and lastly, an increase in overall productivity caused not only by changes in the sectoral composition of production but also by the implementation of the necessary structural reforms which will allow the appropriate level of performance in a single Market as competitive as that of the EU.

To a lesser extent, the current Member States will also experience an additional average increase of their joint growth rate, which can be estimated at 0,5%-0,7% for the same period. This will come as a result of enhanced commercial integration and of manual labor imports from the candidate countries. One cannot hide the fact that the advantages will not be evenly distributed, and that those who will benefit more are the ones who already have stronger relations with the candidate countries.

All in all, enlargement does not end here. It is more than a mere extension of the internal Market in its present form. The advantages will not be of an exclusively economic nature. Equally or even more important, there will be political benefits derived from the consolidation of democratic systems and the respect for human rights in the candidate countries, in accordance with the strict criteria established in Copenhagen Furthermore, they will enjoy positive changes in the social and environmental spheres, through their endeavors to meet the standards of the Union. Finally, as a result of the events of September 11 in the US, there has been a significant strengthening of cooperation in security matters and the fight against terrorism, which has sped up the integration of the candidate countries in the area of freedom, security and justice, pertaining to the third pillar of the EU.

It can of course be expected that such a complex and difficult exercise will be accompanied by uncertainties. Along the way, political contingencies emerge, in particular electoral processes in candidate countries and Member States, which can affect the whole process. Another factor to be reckoned with is the shifting mood of European public opinion on enlargement issues, which, as already mentioned, requires great additional efforts and more intensive information campaigns to dispel reservations and concerns. Last but not least, the possibility of *"accidents"* should be factored in, such as the outcome of the Referendum in Ireland over the ratification of the Treaty of Nice, or, more recently, the tragic events of September 11.

3. Impact of Enlargement on the Union

3.1. Macroeconomic aspects

The consequences of Eastern enlargement for sectors, regions, and companies in the Union very much depend on the macroeconomic environment at the time it occurs (see RWI in co-operation with EPRC, 1997). In particular, the growth path of the economy in the EU – as well as in the accession states – is crucial to the way and the possibilities all enterprises can adjust to the challenges ahead. Companies' reactions to increasing pressure from abroad as well as how they utilize new chances offered by the enlarged market will be highly dependent upon their expectations about growth. In a high growth environment it will be easier for them to absorb shocks, but there might also be less stimulus to seize opportunities in new markets. Where growth rates are low, on the other hand, companies will face pressure to adjust from the internal and the external side at the same time, so that many might be forced to exit the market. However, some companies – above all the most competitive ones – might seek even more intensively for opportunities in foreign markets. Therefore, it is appropriate to start this study with some consideration of the growth scenario for the EU as a whole as well as for the accession countries. These will be followed by an assessment of the impact of Eastern enlargement on growth.

3.2. Growth perspectives in the EU

Over the last two decades, the economy of the European Union as a whole grew at an average annual rate 2.1 %, showing a slightly upward trend. Changes in employment as well as productivity contributed to this growth though the lion's share can be explained by productivity (CEC 1998a). Its annual growth is remarkably stable with an average rate of 1.9 %. It accounts for about four-fifths of GDP growth. Employment on the other hand only grew slightly. The average annual growth rate has been well under 0.5 %. Nevertheless, there are some hints that employment trends are improving, not least due to deregulations in the labor market that many EU countries have undertaken in recent years.

Taking into account these tendencies, it seems plausible to assume that growth in the EU will follow a path of 2.5 % per annum during the years in which EU enlargement will take place. There is some room for higher growth, e.g. if improvements in the labor market continue; there are also some risks, given that demographic factors will lead to a decrease of labor force. However, an average annual GDP growth of 2.5 % underlies the EU Commission's calculations on the impact of EU-Enlargement on the Structural Funds, too (CEC 1997: 87). Furthermore, projections by other institutions, e.g. by the World Bank, support this growth scenario. The World Bank forecasts a 2.5 % annual growth of GDP in the European G4

All in all, the European economy will grow at a moderate rate that will be well under the rates experienced in the 1960s; but there are no signs that growth trends will be directed downward. Hence, companies in the EU will have to adjust to opportunities and challenges of the EU enlargement in an economic environment that is characterized by stable economic conditions.

3.3 Growth perspectives in the accession states

Concerning growth perspectives, the five Central European accession states (CEEC) on the one hand and Cyprus on the other are in different positions. Since 1994, the five Eastern European accession states show a remarkably solid economic development (Table 1). They succeeded to overcome the trough of the transformation crisis quite quickly and returned to economic growth. Of course, the five countries are not homogenous: growth rates in Poland and Slovenia were relatively high in the mid-1990s, showing some signs of fatigue only recently. In Hungary, on the other hand, growth was rather sluggish for many years, but the economy seems to have reached a steeper growth path now. Estonia's growth has been the strongest among the five countries in the last two years, with an exceptional rate in 1997. The Czech Republic, finally, slipped into recession in 1998, not least because structural reforms were not pushed forward as necessary in the early years of transformation. All in all, real GDP has grown at an average annual rate of 4.5 % since 1994. 1998 was the first year showing a rate below 4 %, above all due to the Czech development.

Table 1. Growth, Inflation and Unemployment in the Accession States

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	Real Gross Domestic Product[1], annual change, %								
Czech Republic	-1.2	-14.2	-8	-0.9	2.6	4.8	3.9	1	-2.7
Estonia	-	-	-14.2	-8.5	-1.8	4.3	4	11.4	5.4
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	5.1
Poland	-11.6	-7	2.6	3.8	5.2	7	6.1	6.8	4.8
Slovenia	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.1	3.8	4.4
CEEC Total1	-7.7	-9.4	-1.2	2	4.3	5.4	4.6	5.1	3.4
Cyprus	n.a.	0.7	9.4	0.7	5.9	6.1	1.9	2.5	5
	Consumer Prices[2] annual change %								
Czech Republic	9.5	56.7	11.1	20.8	10	9.1	8.8	8.5	10.7
Estonia	-	-	1075.9	35.7	47.7	29	23.1	11.2	8.2
Hungary	28.9	35	23	22.5	18.8	28.2	23.6	18.3	14.3
Poland	585.8	76.7	45.3	35.3	32.2	27.8	19.9	14.9	11.9
Slovenia	550	117.7	201.3	32.3	19.8	12.6	9.7	8.4	8
CEEC Totall	376.7	68.9	55.7	30.1	24.9	23.1	17.6	13.7	11.7

Cyprus	n.a.	5	6.5	4.9	4.7	2.6	3	3.6	2.2
	Unemployment3 rate, %								
Czech Republic	0.8	4	2.6	3.5	3.2	2.9	3.5	5.2	7.5
Estonia	-	-	1.9	2.1	1.8	1.8	2.2	2.3	2.2
Hungary	1.9	7.5	12.3	12.1	10.4	10.4	10.7	10.4	9.1
Poland	6.3	11.8	12.9	16.4	16	14.9	13.2	10.5	10.4
Slovenia	5.8	10.1	13.4	15.4	14.2	14.5	14.4	14.8	14.5
CEEC Total3	4.6	9.6	10.6	12.9	12.3	11.6	10.7	9.4	9.6
Cyprus	1.8	3	1.8	2.6	2.7	2.6	3.1	n.a.	n.a.

Source: National statistical offices. - [1]GDP-weights 1998. - [2]National Definitions, end of the year quotas - [3]Weight: Total employment 1997

Although preliminary 1999 figures suggest that expansion will be lower than in the years before, some additional indicators make evident that growth is based on rather solid ground. Inflation, although still high compared the EU figures; is coming down considerably. In 1999, it was under 10 % in all five countries for the first time. In general, labor markets show signs of improvement as well. On average, unemployment rates have been coming down since 1993 and do not differ very much from the EU average, even if differences in definitions might make comparisons difficult. Finally, growth is – except in the Czech Republic – increasingly borne by capital formation (Table 2). Thus, restructuring of capital stocks is evident, creating a more solid platform for future growth.

Therefore, it can be expected that GDP growth in the accession states will remain above EU rates. In its calculations for the Agenda 2000, the EU assumed an annual growth in these countries of 4 % (CEC 1997: 78). It is difficult to assess whether this scenario is realistic. On one hand, growth has weakened in most countries recently, which in part hints at shortcomings in the transformation. Fixed capital formation, although – as already pointed out – growing, is still low compared to economies that successfully reduced their backlog against the industrialized countries. In any case, the weakening of growth also reflects developments in the international environment such as the Asian crisis and the developments in Russia, which should have no lasting influence. However, there is some risk that growth will be lower in future. On the other hand, there also is the chance that economic expansion will become stronger. The accession countries to some extent are in a position many Western European economies were in after World War II. Only by adopting technologies that are already available in the rest of the world they might be able to close the technological gap and increase productivity very quickly, leading to relatively high rates of growth (c.f. Dumke 1990).

In Cyprus, growth is less steady, but inflation and unemployment lower. However, as the economy is rather small – Cyprus population is 0.74 millions only – the impact of the growth scenario on the EU is negligent.

Table 2. Share of Gross Fixed Capital Formation in GDP in the Accession States 1992-1997, %

	1992	1993	1994	1995	1996	1997	1998
Czech Republic	-	28.0	29.6	32.8	33.0	30.7	28.1
Estonia	20.9	24.4	27.0	26.0	26.7	-	-
Hungary	19.9	18.9	20.1	19.1	21.5	22.3	23.4
Poland	16.8	15.9	16.2	16.9	19.0	21.2	22.1
Slovenia	-	18.8	20.1	21.4	22.5	23.5	24.2
Cyprus	25.7	22.6	20.6	19.3	20.4	18.5	18.0

Source: IMF and national statistical offices. 1998 estimate

Concerning the consequences of EU enlargement, the benefits will be the greater the stronger the economies of the acceding countries will be, for the economy as a whole. A strong economy in the accession countries means: more opportunities to increase exports to the acceding countries, better conditions for companies in Eastern Europe in their home market, diminishing the pressure to export; and lower subsidies that must be paid to the accession states and financed by taxpayers in the EU.

As already stated above, the overall impact of EU enlargement can be expected to be positive for sides, the EU as well as the acceding countries. Despite this clear tendency, it is difficult to quantify a general impact, although many studies have been published on the consequences of EU enlargement. Nevertheless, handy estimates of the overall consequences in terms of higher growth rates, more employment, or lower unemployment rates are not available, not least because most analyses concentrate on theoretical or on specific regional and sectoral (e.g. agriculture) aspects.

However, to assess the consequences of enlargement for SMEs it is important to get some idea of overall growth effects, as higher growth in the end also means better economic conditions for all companies. A rough estimate can be derived from the size of the acceding countries relative to the EU. In terms of population, the Czech Republic, Estonia, Hungary, Poland, and Slovenia come close to 17 % of EU population. Consequently, the enlargement will expand the number of consumers in the EU considerably. On the other hand, GDP of the six countries amounts only about 3 % (1997) of EU GDP. For comparison: when Spain and Portugal joined to the EU in 1986, their GDP was 8.1 % of EU GDP at that time. This makes evident that these consumers still have little income at their disposal. Therefore, the macroeconomic impact of the Eastern enlargement will be rather limited for the European Union, at least in the first years after the accession, as the utilization of growth effects also will need time. Looking at trade, this view is supported strongly: in 1998, total EU exports to the accession country were ECU 71.3 billion, which is less than one percent of EU GDP.

After an enlargement of the union, exports are likely to be much higher, giving an impulse for growth. However, at the same time imports from the new members will rise more rapidly too, and thus reduce the expansionary effects of growing exports. Even if the trade surplus of the EU will persist for some time, and even allowing for some multiplier effects and taking into consideration that restructuring of the division of labor between the old and new EU members might lead to a better growth performance: the macroeconomic impact from trade will be limited after all, although positive.

Indeed, model simulations by Baldwin et al. (1997) generate a rather small expansionary impulse from the EU enlargement. This impulse is under their estimate of costs for the EU members that will arise through reforms of the agricultural and structural policy. A dynamic simulation of the macroeconomic consequences of an enlargement as agreed in the Agenda 2000 has been made for Austria, covering gains and costs of an enlargement as well (Breuss, Schebeck 1998). The calculations are based on the assumption that the five Eastern European countries will enter the Union in 2002. After four years, in 2006, the study expects Austrian GDP to be 0.8 %-points higher as it would have been without the enlargement, the annual growth about 0.2 %-points higher. As main factor an increase in competition seems to contribute to growth, as prices will be lower to nearly the same extent as real economic activity rises.

Other simulations were presented by Keuschnigg et al. (1999) for Germany, and Keuschnigg/Kohler (1999) for Austria, using computable general equilibrium models. In the German case, their simulations suggest that GDP will be 0.4 % higher in the long run, what again is a slight impact only, having in mind that the total effect will be realized piecemeal over an adjustment period that covers several years. In the case of Austria, the impact will be stronger (1.1 % of GDP in the long run), which does not differ too much from the results cited above.

The impact on growth in the accession countries will be higher as those in the EU. *Baldwin et al.* estimate – again considering static effects only – that under "conservative assumptions" real income in the Eastern European countries will be 1.5 % higher compared to the situation before entering the EU. In a "less conservative case", taking into account that membership in the EU will lower the risk premium the accession countries have to bear and therefore, will have a positive effect on investment, they even conclude that the impact of enlargement on Eastern European real income will be 18.8 % – again compared to a non-membership scenario.

The exports of the EU to the six countries analyzed here increased between 1993 and 1998 at an annual rate of 24 %, whereas imports grew by 22 %, meaning that the EU is increasingly in a surplus position (Eurostat, 1998). As already noted, the driving force behind this development was the restructuring of trade, i.e. the shift from the formerly predominant trade with partners in Eastern Europe towards the EU. It was partly spurred by the Europe Agreements and the liberalization of trade between the accession candidates and the EU. In particular, EU import duties have been cut mainly between 1992 and 1997. Not all EU-members were able to raise their exports to Eastern Europe to the same extent, and the same is true for imports as well. Some members' links to the acceding countries were very close at the beginning of the 1990s. In particular, the shares of Germany, Austria, and Italy were markedly above their importance for total extra EU trade. These countries could realize an under-proportionate increase in their exports to the acceding countries only, with Germany and Austria still remaining clearly above total export share, and Italy slipping behind (Table 3).

Table 3. EU-Trade with the Accession States by Country

1993 - 1997, shares in %	EU Exports			EU Imports		
	1993	1997	1997/93[1]	1993	1997	1997/93[1]
Austria	12.4	9.4	18.4	10.6	9.6	19.6
Belgium/Luxemburg	4.4	4.2	25	2.9	3.2	25.6
Denmark	2.6	1.9	16.3	2.7	2.2	16.7
Finland	3.2	3.6	30.6	2.5	2	15.9
France	8.2	7.7	25	8	6.2	14.7
Germany	53.5	42.7	20.1	60	50.1	17.1
Greece	0.5	0.3	13.7	0.8	0.6	13.7
Ireland	0.4	0.6	42	0.4	0.3	14.9
Italy	15.1	12.5	21.1	12.3	9.9	16.1
Netherlands	6.6	4.9	18.1	5.4	5.1	21
Portugal	0.1	0.2	52.4	0.2	0.2	24.2
Spain	1.9	2.4	34.6	1.4	1.7	29.6
Sweden	2.8	3.4	34.1	2.5	3.1	28.9
United Kingdom	6.6	6.1	24.4	6	5.8	21.5
EU total	100	100	27	100	100	22.5

Source: EUROSTAT. [1] Average annual growth.

The highest increases of exports – though, or just because, they started from a very low level – experienced Portugal and Ireland, followed by Sweden and Spain. The latter shows the highest increase of imports from the five Eastern European Countries. At the lower end, with regard to exports as well as imports, Greece can be located. Generally speaking, the differences between EU members in the expansion of imports are somewhat smaller than those for the exports. Astonishingly, France as well as the UK realized an under-proportionate increase of their exports to the accession countries, despite starting from a low level of trade. These discrepancies can be explained by many factors, among which are the diverging starting levels as well as (geographical and cultural) proximity. An important determinant, however, is the sectoral composition of the industries, both in the exporting and the importing countries and the structure of demand. The better the structure of exports by product in one country fits into the structure of imports of another, the higher will be the trade between the two. According to this logic, similarity between export patterns on the one hand and import patterns on the other can be used to measure the trade-creating effects of an EU enlargement, as similar trade patterns mean that the exporter offers just those goods that the importer demands. The export spectrum of Austria, Germany, Sweden, and Italy seems to fit very well into the import needs of the accession countries. Trade between the EU and the six potential new members shows more and more an intra-industry pattern. Increasingly, both regions export the same types of products.

Less favorable for exploiting the trade creating effects are the export structures of Portugal, Spain, and Ireland, Denmark and Finland, as well as Greece, the latter showing the lowest index of correspondence by far. It can be expected that enlargement will benefit these countries less than others in the EU (Bachtler, Taylor and Kearney, 1996).

These regional effects partly mirror the industries that can be found in these countries. The six countries analyzed are competitive with a relatively small number of products, showing either high or at least increasing RCA-values and a relevant share in total exports to the EU. In nearly all countries, four product categories can be found: articles if apparel, mechanical machinery, electronic products, and vehicles. Three countries, among which Poland can be found, that have the highest exports to the EU among the countries analyzed, are competitive with wood, wooden products, and furniture. The remaining categories, mainly agricultural or metal products, are classified as competitive only in rare cases. Thus, import competition will concentrate on a rather limited, but nevertheless important part of the EU manufacturing sector.

Enlargement will also influence the flow of factors, i.e. of labor and capital. Before 1990, investment of EU countries in Eastern Europe was actually almost non-existent, except the then Yugoslavia which was more open to foreign investors. In the case of Germany, for example, which was and still is the most important investor, FDI stocks in Poland were about 5 million ECU in 1989, and in Hungary 36 million ECU both being less than 0.05 % of total German FDI. Since then, FDI in Eastern Europe in general has risen considerably, and the five accession states were preferred locations to invest. Taking the inflows reported by the five countries considered as a yardstick, most of the increase in FDI took place before 1995 (Table 4). Since then, total foreign investment was stagnant, although significant shifts took place between the countries, with Poland taking the leading role from Hungary.

Most of this investment came from the EU, in Hungary about 63 %, in the Czech Republic and in Poland more than 70 %. With respect to the sectoral structure, significant differences between the Eastern European countries exist, above all reflecting different privatization strategies. In Hungary, the Czech Republic, and Slovenia a good deal of the investment went to the electricity, gas and water sector (Table 5), another large share in the telecommunication sector (Czech Republic 18%, Hungary 9%). In Poland, the manufacturing sector is dominant (45%). Interestingly, about one-fifth of FDI in the manufacturing sector – except in Slovenia – was made in the food industry, indicating that investments primarily aimed at developing new markets. In Slovenia, finally, considerable FDI was allocated in financial services.

Table 4. Foreign Direct Investment in the Accession States

1992 - 1998; US$ mill	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Czech Republic[1]	988	568	862	2568	1435	1287	2554
Poland	678	1715	1875	3659	4498	4908	6363
Hungary	1479	2339	1145	4519	1982	2080	1936
Slovenia	111	113	128	176	185	321	165
Estonia	82	162	214	201	150	266	581
Total CEEC	3338	4897	4225	11123	8251	8862	11599
Cyprus	107	83	75	80	48	64	37

Source: IMF, EBRD. National Sources. – [1]Without FDI-relations between the Czech and the Slovak Republic.1992 estimate.

Table 5. Foreign Direct Investment in Accession Countries by Sector

	Czech Republic -1997	**Hungary -1996**	**Poland -1996**	**Slovenia -1997**
Agriculture & Fishing	0.1	1.2	0.2	n.a.
Mining & Quarrying	1	1.3	0.4	n.a.
Manufacturing	41.9	38.8	45	30
Food products	11.6	9.5	11	2
Textiles and wood activities	5.2	4.4	5.9	7
Petroleum, chemical, rubber and plastic products	7.7	8.5	7.8	6
Metal and mechanical products	4.9	4.6	4.1	5
Office machinery, computers, radio,	n.a.	5.1	0.9	n.a.
Vehicles and other transport equ.	12.5	2.5	7.2	n.a.
Electricity, Gas, Water	8.9	14.8	0.1	14

Construction	7.4	3.9	1.6	n.a.
Trade and Repairs	8.9	11.9	11.6	11
Hotels and Restaurants	n.a.	2.4	0.4	n.a.
Transport and Communication	18.2	9.2	2.4	n.a.
Financial activities	9.4	9.3	11.1	17
Real estate and business activities	n.a.	7.1	2.9	13
Other Services	n.a.	0.5	0.2	n.a.
Not classified	4.1	-0.3	24.2	15

Source: OECD, UNCTAD

3.4. Macroeconomic and sectoral effects

The enlargement of the European Union will have a positive impact on the economy in its existing as well as its new members; even if these effects are difficult to identify. Some have already come into force under the Europe Agreements; others will be realized long after the accession having taken place due to transition periods. Their economic environment will improve for various reasons. The market will become larger, division of labor will be improved, and the increased competition will bring about dynamic forces. All these factors will result in generally higher incomes and thus create opportunities for expansion. Nevertheless, all model simulations published hitherto suggest that the gains for the existing Union will be modest.

However, competition is the clue to realizing the growth potential of enlargement. This necessarily means that the adjustment to the new integration area and the new division of labor will bring about winners as well as losers. On a sectoral level, we identified both "opportunity sectors" as well as "risk sectors". In manufacturing, both types of sectors overlap to a large extent when looking at broad categories. Going more into detail, risk sectors are characterized above all by high labour intensity, as the availability of cheap labor has been the main source of comparative advantage of the accession countries. Therefore, competition from the accession countries rose particularly in branches that require little human capital. But the labor force in the potentially new members is well educated as a rule, so that in addition, some more "skills-intensive" sectors might come under pressure, too. In the service sector, information about trade between the EU and the accession countries is less detailed. The figures available suggest that advantages of the EU can be found in the field of business and financial services, whereas among the accession countries' exports tourism and transportation services are dominant.

3.5. Border and non-border region effects

For the border regions, the enlargement will influence the integration into the international division of labor substantially. However, many production relocations have already taken place since the fall of the iron curtain. The overall effect is regarded as positive, with benefits outweighing the costs, though the scale of the benefits may depend on the timing of enlargement (European Parliament, 1996). One aspect of accession, which will have unique effects on the border regions, is labor migration. Cross-border commuting has already been extensive in both regions, and is expected to increase with accession. This could have a beneficial impact on firms in certain service sectors (notably construction, retailing and tourism) and some manufacturing sectors (e.g. wood products and furniture) whose competitiveness may grow because of their ability to cut wage costs by hiring CEE workers. Small firms with highly localized markets on the border could face greater competition as result of integration though – e.g. providers of personal services such as hairdressers. Insofar, the impact will greatly depend on when free movement of labor between the Union and its new members is fully achieved.

In the non-border regions, in general, the impact of enlargement will be less strong, as was expected from a priori considerations. Those regions have low levels of trade with the new member countries – though they are expected to increase in the near-term. The consequences will be more prominent in the labor intensive production sector, which will face some exposure to competition to low wage-cost CEE firms now. Insofar, the observation made for high and low income border regions seems to be valid here, too. However, forcing those region economies to steadily shift to more skills- and technology-intensive comparative advantages the problem will disappear. Some sectors may remain at risk though, notably those in low-wage and resource-dependent sectors, such as wood products, textiles and clothing.

4. Conclusions and recommendations on the EU policy agenda

The enlargement of the European Union is one of the challenges that European Countries will face in the years ahead. Undoubtedly, the fifth enlargement of the EU is the most demanding one both for EU and newcomers. There is little doubt that its overall impact will be positive in the long run, however this is not always true for all sectors, regions, and types of enterprises, especially during the initial phase of integrating new members into the EU.

By now the greatest part of the debate for the European Union enlargement has been concentrated mainly on issues such as financial compatibility with the EU budget, institutional rearrangement of the decision making process within EU and costs and benefits for the incumbent EU member countries. However, much lesser attention has been given to the fact that the great majority of the new members are transition countries with peculiar fundamental needs in the context of their EU accession.

An efficient way to cope with the overall impact is to get a comprehensive picture of the existing or potential consequences of the enlargement separately for EU and new member countries. However, the task of assessing the impact of enlargement, is getting more difficult as all new countries do not access simultaneously EU and the enlargement is a dynamic long run process with many phases for the countries to pass through with unpredictable levels of success within each phase. Apart from that the consequences of enlargement will be "obvious" long after the accession, as there significant delays between impulse and impact. Within this period the international environment shall change making it more difficult to consider the real impact of the enlargement net from external influences.

In this paper we attempted to present the main directions of the enlargement impacts. For EU as a whole, the advantages derived from enlargement are unquestionable, with the expansion of Internal Market size coming undoubtedly first. At the same time, advantages such as increase in competitiveness and so in quality, productivity and business management in some sectors, and increase in growth due to higher levels of investment, larger workforce and higher overall productivity cannot be ignored as long as EU's competitiveness is concerned. However, no one can surely admit that these advantages will be equally distributed within member states.

The consequences of enlargement for sectors, regions, and companies in the Union very much depend on the macroeconomic environment at the time it occurs. Taking into account the overall upward trend in growth rates, productivity and employment one can assume that EU growth will be increasing during the years in which EU enlargement will take place, while there is space for better results according to more optimistic scenarios.

On the other hand, for the accession countries although some preliminary figures suggest that the expansion will be lower than in the period 1994-2000, there is evident that growth is based on rather solid ground. Inflation, although still high compared the EU figures, is coming down considerably. On a sectoral level, apparently there are "opportunity sectors" as well as "risk sectors". To the border regions, the enlargement will influence the integration into the international division of labor substantially, especially through labor migration; though many production relocations have already taken place.

The EU enlargement consequences will not be of an exclusively economic nature. There will be also political benefits derived from the consolidation of democratic systems and the respect for human rights. Newcomers shall enjoy positive changes in the social and environmental spheres, while already great effort has taken place in the area of integration of the new and candidate countries in the area of freedom, security and justice.

The action programs now form the cornerstone of Community policy. The most recent has been the development of a new multi-annual program for enterprise and entrepreneurship to run until 2005. The program has five policies:

- Promoting entrepreneurship as a valuable and productive life skill;
- Encouraging a business environment in which enterprise, entrepreneurship and innovation can flourish;
- Improving access to finance for firms;
- Enhancing the competitiveness of SMEs in a knowledge-based economy; and
- Ensuring that business support networks and services to enterprises are sufficiently provided.

Action programs work both externally to encourage concerted actions between Member States, and internally by emphasizing coordination between enterprise policy and other Community policies and programs.

In the new work program supporting the 2000-05 enterprise agenda, a series of priorities and indicative actions have been laid out. First, enterprise policy will concentrate on *encouraging entrepreneurial activity*. To increase the number of potential entrepreneurs, increased efforts will be made to promote the image of entrepreneurs in Europe, greater risk-taking (such as a revision of bankruptcy legislation) and the emphasis on "business knowledge" at different levels of education. Access to finance will be improved, following a current review of how existing Community financial instruments support business start-ups, high-tech firms and very small enterprises. Bureaucratic and regulatory barriers to start-ups and enterprise development will also be targeted through simplification of business legislation (e.g. the BEST and SLIM programs), more business impact assessment in Community legislation and a medium-term review of all *acquis communitaire* for their impacts on the business environment.

The Commission will also continue providing access to information and advice services. Much of this will be done through the network of Euro Info Centers, which were originally appointed "first-stop shops" by the Commission under the 1997-2000 SME Action Program. They operate as a network providing advice, information and assistance on EC issues to enterprises. Specific support for the internationalization of SMEs and business cooperation will still be conducted through measures such as the Euro-partenariat program.

Second, a priority will be placed on *providing an environment in which business innovation and change is supported.* In achieving this priority, several areas will be addressed. To help remove the barriers to innovation and enterprise change, Commission enterprise policy will reform patenting systems with the adoption of Community patent and simplify regulatory procedures for introducing new products. For enterprise support policies as a whole – and innovation assistance in particular – the Commission will work with the Member States to promote the exchange of good policy practice through a series of scoreboards, peer review systems and benchmarking studies. Support will also be provided for developing interregional networks in innovation policy and highlighting the implications of the knowledge economy (especially business services) to EU industry.

Lastly, enterprise policy will *ensure access for goods and services to markets.* Central to this will be improving the operation of the Internal Market. Annual reviews will identify remaining barriers and outline actions to remove them, while appropriate measures will be taken to ensure Member State compliance and greater harmonization of product/service conformity assessment procedures. More globally, the Commission will continue to work towards greater tariff liberalization and regulatory and technical convergence in trade areas. The increasing importance of e-commerce to business will also be given more emphasis, as reflected in the Commission's recent *e-Europe* initiative, which identified a range of measures to accelerate the adoption of e-commerce in Europe.

The program outlined above will be equally applied to the candidate countries as to the existing Member States. In the context of accession, to date, the key focus of DG Enterprise has been to open up EU programs to participation by enterprises in the accession states, as part of the Commission's pre-accession strategy – integrating candidate countries into EU enterprise policy and actions. With the current work program, more efforts will be made to integrate the countries of the Europe Agreements into the Internal Market through monitoring their conformity acceptance procedures as well as their adoption of the *acquis communitaire.*

Several other points should be taken into account also.

First, *the scale of policy intervention at EU level should be limited.* It is clear that EU firms are unlikely to experience distinctive effects from enlargement, but rather the direct and indirect impacts typically associated with any substantial change in international market opportunities and increased competition from lower-cost producers. From the perspective of existing EU firms, enlargement as a whole should bring clear – though modest – gains. Where policy action may be required it should be directed more towards assisting small firms to adjust to the restructuring arising from increased competition: as noted below, this is only likely to be an area of concern among relatively few groups of these in the existing Community. Support policies should not aim at preventing the necessary structural change and protecting established market positions of the existing enterprises – an objective which is not to be aimed at under welfare aspects and which is not feasible.

Second, enlargement does not appear to create new policy needs, but perhaps *it requires an intensification of existing policies* (whether those policies are regional, national or EU in origin). Given that we suggest that the impacts of enlargement will be gradual – and not a once-only macroeconomic shock – as well as concentrated on particular groups, the effects are likely to involve at most an acceleration of existing restructuring processes, particularly in the "sensitive" sectors such as clothing and textiles. The overall balance of opportunities and challenges resulting from enlargement is positive – as in similar changes in the EU, such as the completion of the internal market.

Third, while policy actions should be designed to minimize the difficulties of businesses restructuring in the face of increased competition, *policy should not prevent such restructuring from taking place.* Where difficulties may arise because of restructuring, firms require assistance in adjusting to, not in preventing these changes from taking place, as is common in other sectors needing to adapt to a changing market environment. Insofar, no sector specific policy is required but a more general approach, helping adjustment and allowing new entries, so that the latter may create those jobs that get lost in the "risk" sectors. Indeed, the effects of enlargement are only unusual in the changes to the policy environment itself, notably in the potential withdrawal of policy support in some regions following changes in Structural Funds allocation after 2006.

Fourth, rather than simply be designed not just with the needs of existing EU firms in mind, *policy should also accommodate in the accession countries and the other candidate states*. In these countries, similar enlargement challenges exist – greater competition for their domestic markets, new market opportunities in the wider EU – but more intensively. In the accession countries, overall, they have experienced greater problems with finance, management skills, internationalization and increasing productivity than their counterparts in the existing EU. Community policies to assist them should be pitched and coasted from the perspective of candidate country enterprises as much as from EU's.

Fifth, in suggesting how EU policy can assist these groups, different policy contexts should be borne in mind. In particular, *national and regional policies often already provide adequate frameworks to support in adapting to restructuring processes*. As has always been the case with its policy, EU assistance should complement rather than duplicate measures which are already being implemented by national and regional authorities; indeed, it is perhaps more effective that policies directly influencing the resources available for growth and development be devised and operated at regional and local levels, given the importance of the local economic background in shaping such measures.

Lastly, *the division of policy responsibilities within the European Commission must be taken into account.* DG Enterprise has recently laid out a new policy program for the period 2000-05: within that program, there are areas where DG Enterprise policy action can assist to adjust to the implications of enlargement. The first is the provision of information about new opportunities in the markets of all existing and potential EU Member States. In terms of extending the existing coverage of material, this could include information relating to the specific commercial environments of the candidate countries as well as a brokerage service to facilitate commercial cooperation between businesses. Such information cannot only assist firms in taking advantage of the new markets but also in diversifying into new products and service areas. At the same time, the provision of these services in the new Member States would assist the accession countries to adapt more quickly to commercial conditions in the Community. As a result, we recommend the continuing use of the Euro-Info Center network as the main system for dissemination and encouragement an increasing focus in providing information on the candidate countries in advance of their actual accession.

In this context, more information about the subcontracting implications and commercial possibilities arising from enlargement would assist the existing EU-15 to adapt more rapidly, particularly in potentially groups such. There is also a continuing role for support through the cross-border assistance programs. The experience of the case-study regions has underlined the value of these programs in assisting regions to adapt to enlargement. In the cases of both the Austrian and German regions examined here, INTERREG IIA programs involved partners from the candidate countries in joint support activities for SMEs. Although operated by DG Regional Policy, the report recommends that DG Enterprise support the continued existence of the program in the context of an enlargement process likely to extend beyond the current INTERREG programming period.

Finally we acknowledge the importance of the EU retaining policy flexibility in being able to respond to sector-specific challenges and opportunities arising as a result of enlargement. Given the continuing uncertainty of how enlargement effects will interact with wider globalization trends to shape the development of certain European sectors, it is crucial that the European Commission maintains a flexible approach to policy. This means retaining a monitoring role on trends among different groups and being prepared to respond to with a series of policy measures if action is warranted.

At the same time, it is also important that the EU maximizes the benefits of an enlarged market by ensuring that companies in 'opportunity' sectors can take full advantage of the changes (Gow and Milner, 1999). This does not mean that EU SME policy support should be redirected to assisting the 'winners' of enlargement. The emphasis of EU policy should be in guaranteeing market competition and providing specific assistance to sectors, which have difficulties in adjusting to the market changes. However, it does place significance on ensuring market access in these areas, particularly in removing any remaining barriers in these markets as part of the internal market program. Hence, it is recommended that the Commission maintains a particular sensitivity to the barriers in these sectors to ensure that their growth potential is quickly achieved. Moreover, as with the risk-sensitive sectors, there is an EU role for providing international market information, both in terms of the general characteristics of national markets, specific sectoral features and individual commercial opportunities (such as joint ventures and subcontracting). While it is arguable this is a role, which it shares with national authorities with respect to opportunity sectors, the market information function is consistent with existing EU activities in this area.

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