

HOW MUCH INTEGRATION AFTER THE ENLARGEMENT?

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Abstract

Three years have gone by after the enlargement of the EU to 10 new member states. It is now possible to dismiss the fears on the negative effects of this enlargement that circulated in Europe (and not only) before 2004. What is more relevant to assess now is how far the actual economic integration between the EU15 and the new member states has arrived. This is the aim of this paper, where we show that integration is indeed deep in a number of areas, but it is still a goal in others. Pursuing an effective integration process is necessary for all countries to benefit of the advantages created by the Single Market.

KEYWORDS: CEECs, Exports, Growth, Processing trade.

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1 Introduction

The enlargement of the European Union (EU) to 10 new member states (NMS) in May 2004 was saluted by many celebrations. The full membership to the EU of eight countries formerly belonging to the Soviet bloc was considered a historical event, that finally brought about the reunion of the European continent, and stability and democracy in the Central and Eastern European countries (CEECs). Few doubts were raised on the political dividend of this enlargement. Much more discussion took place on the economic consequences of the enlargement, both for the 15 countries that were EU members before 2004 and for the 10 new member states (NMS) that joined in 2004.

Many estimates were showing a number of potential economic benefits following the EU enlargement.¹ Thanks to the extension of the European market to a larger number of consumers and firms, to the possibility to exploit economies of scale and to expand the scope for technological spillovers for all European countries, both small and large, the enlargement was expected to generate an increase in GDP and to foster European competitiveness. In spite of this, fears of possible negative effects and of high adjustments costs circulated with the public. Some workers in the EU15 were concerned about a possible wage competition coming from the workers in the new member states, where salaries were much lower than in the EU15 and workers' benefits are smaller, and about possible migration waves jeopardizing their jobs. Some firms in the old member states raised worries about "unfair" competition coming from firms located in the new member states, where production costs were lower. The public opinion in the EU15 feared the the adjustment costs for letting a large number of poor countries into the EU would have been large.

Nearly three years after the enlargement of the EU to eight countries formerly belonging to the Soviet bloc and after completing the Eastern enlargement with the entrance of Bulgaria and Romania in January 2007, it is possible to dismiss these fears. So far, there are no signs of serious negative effects on the EU economy because of the enlargement. Is the lack of any of the expected negative effects due to the lack of a true process of integration? If, in spite of the formal accession that has occurred, the economies of the EU15 and the NMS have not experienced an increase in integration, it might well be that nothing occurred after 2004. Of course, this would mean that also the forecasted positive effects might not take place, after all. It was

¹A summary and a review of these estimates is available in the EU Commission publication (2006) "Enlargement, two years after: an economic evaluation".

underlined in all the simulations and analyses undertaken on the impact of the enlargement that it was likely that the costs of the process would have been faced rapidly, while it would have taken time for the benefits to be realized. If we have not seen negative effects so far because no true integration is occurring, in the future we cannot expect to see the benefits of the process either.

The aim of this paper is to look for some of the effects of the EU membership on the integration process between the EU old and new members, focusing on the extent of trade between these two areas. We want to assess whether for Central and Eastern European countries the EU membership implies an effective economic integration, and a reduction of the "border effect" that hampers the economic exchanges between countries.

2 What did not occur

No major economic shock has hit the EU after the enlargement. In particular, it seems that none of the negative consequences that worried the public opinion has taken place. With respect to the financial sustainability of the enlargement for the EU budget, the cost had been carefully calculated and negotiated beforehand, and there were no surprises. EU transfers to the NMS have been growing over time, and they increased after these countries joined the EU to reach a relevant share of the NMS GDP (about 12 billion euro, or 2.1% of their total GDP). But these transfers in 2005 made up only 0.1% of the old members' GDP and less than 7% of the EU budget, being therefore fully sustainable. It is also worth remembering that after their membership, the NMS must also contribute to the EU budget with an amount that is approximately 1 percent of their own GDP, and therefore the net transfer they receive from the EU budget is even smaller. Being the contribution to the EU budget proportional to a country's GDP, the larger NMS (the ones that raised more fears about their impact on the EU) are also the ones that receive a smaller net transfer.²

Before 2004, many fears were concerned with the impact of the enlargement on labor markets and the level of employment in the EU15. After almost three years, in the European labor market there are no signs of serious problems or disequilibria created by the enlargement. Overall employment rates in Europe have been increasing slowly since 2001, with an acceleration since 2005 thanks to the improvement in the business cycle. The increase in the number of jobs has been stronger in the old member states than in the new

²For example, the net EU transfer represent only 0.25% of the GDP of Hungary, while they constitute about 2% in the case of Lithuania.

ones. Unemployment rates do not appear correlated with the enlargement process. The aggregate unemployment rate in EU15, that was up to 8.1% in 2004, was reduced in 2005 and 2006. In Germany, the main economic partner of many NMS, the unemployment rate was stationary between 2004 and 2005 and it declined in 2006. Considering the labor market data over a longer time span, the EU15 unemployment rate in 2006 is more than two points below its level in the early 1990s. In the NMS, where generally unemployment rates are much higher than in the EU15, long term unemployment is showing a slowly declining trend. There are a few empirical detailed studies that try to test if there has been a substitution effect between the employment of workforce in the EU15 and in the NMS, and the results show that in the few cases where a significant substitution effect seems to exist, this has affected at most 1% of the labor force.

Another concern from the point of view of the NMS was the possible slowdown of their GDP growth rates after joining the EU because their economies would have been constrained by the adoption of the EU rules and regulations. Also in this case there are no signs of a negative impact of the enlargement on the economies of the member states. In the NMS the GDP growth rates show no decline after 2004, and if there was an effect on GDP growth of the enlargement, this seems rather positive, as the NMS continue to grow quite rapidly.

The lack of any strong negative effects should in fact have been expected. The difference in economic size between the NMS and the EU prevented any serious disruption from occurring, and the pre-accession process further reduced the impact of the enlargement. But the soft impact also makes it difficult to assess the extent of the true process of integration. If with the formal accession, the economies of the EU15 and the NMS experienced a speed-up in the rate of integration, it might be that more changes should be expected for the future. If instead we have not seen negative effects so far because no true integration is occurring, in the future we cannot expect to see the benefits of the process either.

We will see in the next section that this is not the case. In most sectors, economic integration between the EU15 and the NMS proceeded rapidly well before 2004, and it was accelerated by the accession. Of course, this has not occurred in all sectors to the same extent, and there are areas where the process of economic integration still needs to be completed.

3 How much integration did occur?

Before dismissing the impact of the EU enlargement on the European economies as negligible (both for the positive and the negative), it is important to evaluate the actual degree of integration that has been realised so far. Economic integration is an ongoing process, that did not take place on May 1st, 2004, but started much earlier and it is still on the way. Especially for the NMS, it is important to complete the integration process with the other EU economies to fully benefit from the new allocation of resources, the technology transfers from the EU, and the pro-competitive effects of the EU market. But integration does not necessarily take place automatically when formal barriers are removed. This is why it is necessary to consider some quantitative measure of the effects of integration, and not only the removal of barriers in itself.

3.1 Trade integration

The most common measure of integration is the amount of trade taking place between countries. The free circulation of goods and services within the EU is also one of the pillars of the European single market. Therefore, to see if now the single market is effectively extended to the NMS, we consider first of all the amount of trade taking place within the EU25 and between the NMS and the EU15.

Trade flows have increased rapidly between the EU15 and the candidate countries already in the 1990s.³ In 2003, when most barriers to trade flows had already been removed, even if formal membership was not achieved yet, the EU15 was the destination of 67% of the future member countries' exports and originated 58% of their imports. For all of the NMS (with the only exception of Lithuania) before the accession, the shares of trade with the EU-25 were above the average of all members, and they were much higher than the ones of many older members.

As shown in Table 1, the NMS share in intra EU-25 exports has increased substantially in the last few years, and this is true for all the countries involved. After the accession, the NMS shares in the EU15, which were increasing since the mid-1990s, experienced an acceleration. During the 1990s, the share of the EU15 in the NMS markets has remained substantially stable, but since 2004 the rate of growth of imports of the NMS has increased remarkably. After the accession, there has been an expansion in the intra-EU25 trade flows, also because the amount of trade among the NMS expanded. The relevance of the NMS in EU trade is much higher than their weight in

³On the trade patterns between the EU15 and the future member states, see De Benedictis and Tajoli 2007a and 2007b.

Table 1: New member states exports

	Value of export (to EU25)		Value of export to EU15		Average yr. growth of exports to EU15		Country's share in intra EU25 exports	
	1999	2005	1999	2005	1999-2003	2004-2005	1999	2005
Czech Rep.	21581.7	52977.2	17289.7	41655.5	15.06	18.02	1.43	2.46
Estonia	1937.7	4802.6	1644.0	3717.0	16.12	16.92	0.13	0.22
Hungary	19344.2	38335.3	17902.2	32855.8	12.28	8.29	1.28	1.78
Lithuania	1899.0	6203.5	1371.0	4024.4	19.05	23.27	0.13	0.29
Latvia	1254.7	3167.9	1010.4	1960.4	12.27	11.33	0.08	0.15
Poland	20770.3	55495.9	18089.9	46730.3	16.37	19.61	1.38	2.58
Slovenia	5856.3	10293.8	5302.2	8854.2	5.74	15.88	0.39	0.48
Slovakia	8471.7	21993.4	5698.9	14854.7	20.21	12.51	0.56	1.02
Total NMS	81115.7	193269.5	68308.4	154652.2	14.50	15.48	5.37	8.98

Source: our elaboration on Eurostat Comext data.

terms of GDP. Therefore, if we use the trade over GDP ratio as a measure of integration for the NMS, this appears to be very high.

Table 2: New member states imports

	Value of import (to EU25)		Value of import to EU15		Average yr. growth of imports to EU15	
	1999	2005	1999	2005	1999-2003	2004-2005
Czech Rep.	20396.1	49976.2	17151.3	41021.4	12.39	24.29
Estonia	2355.9	6122.4	2099.3	4770.7	11.10	24.66
Hungary	18599.9	35857.7	16930.4	30525.5	8.47	14.74
Lithuania	2608.7	7410.2	2052.1	5137.7	16.63	16.76
Latvia	2087.6	5254.8	1510.3	3054.1	11.92	13.84
Poland	30897.4	61100.7	27959.1	53446.0	7.30	20.60
Slovenia	7240.7	12792.4	6527.8	11344.0	6.07	17.64
Slovakia	7892.5	22147.0	5491.7	13778.1	17.10	15.90
Total NMS					9.73	19.48

Source:

our elaboration on Eurostat Comext data.

The descriptive evidence on the high degree of trade integration is confirmed by a statistical analysis of trade flows between the EU15 and the NMS using a gravity model, which also shows that the negotiation process and the preparation of the NMS to the accession indeed fostered the economic integration between the two areas. The basic gravity model regression using bilateral total exports between the NMS and each EU15 member was run on different years, and results are reported in Table 3. Overall, the results of the model are good, showing a high goodness-of-fit, and coefficients with a high significance and the expected signs.

Table 3: Gravity equation results

Dependent variable	log(exports99)	log(exports02)	log(exports05)	log(imports99)	log(imports02)	log(imports05)
Explanatory variable						
log(GDPnms)	0.837 (12.017)	0.840 (13.219)	0.924 (12.510)	0.705 (11.168)	0.658 (11.182)	0.700 (11.609)
log(GDPeum)	0.813 (17.777)	0.805 (18.662)	0.827 (16.367)	0.964 (23.265)	0.951 (23.856)	0.856 (20.754)
log(distance)	-1.537 (-10.489)	-1.325 (-10.028)	-1.437 (-9.930)	-1.622 (-12.227)	-1.497 (-12.248)	-1.590 (-13.437)
contiguity dummy	0.594 (1.911)	0.722 (2.579)	0.718 (2.528)	0.509 (1.808)	0.528 (2.039)	0.543 (2.343)
R-squared	0.794	0.808	0.773	0.840	0.845	0.826

Note: t-statistics in parenthesis.

Our attention is focused especially on the distance variable, whose coefficient should capture the relevance of the barriers to trade between the trading partners, the trade costs and other obstacles to trade. The interpretation of the coefficient of the distance variable has been discussed at length in the literature.⁴ In particular, there is evidence that distance captures more than transport costs, and that larger "distance" may be associated with greater information and search costs (Loungani *et al.*, 2002). This kind of interpretation is very much in line with what occurred right after the elimination of the "iron curtain" and during the early phases of transition in Central-Eastern Europe, when information on the CEECs was very scarce and this constituted a barrier for many economic transactions.

In our estimates the distance variable is significant in all regressions, with a fairly high coefficient, like it usually occurs, but it is interesting to see that the coefficient of this variable declines significantly between 1999 and 2002. Given that the geographical distance used to measure this variable is by definition constant over time, this result means that distance mattered less over time. In other words, the declining value of the distance coefficient can be taken as an indication of the reduced "separation" or the increased integration between the two areas in that period. This reduction fits well with what occurred along the pre-accession process of Central-Eastern Europe, when an increasing amount of information was collected on the candidate countries to evaluate their readiness to join the EU, and more Western firms got in touch with Eastern counterparts, spreading the knowledge of the characteristics of the CEECs' economies.

The value of the coefficient does not display a similar decline between 2002 and 2005, and this seems to show that not much more integration occurred in the last couple of years with the advent of EU membership. These results though are obtained considering trade in the aggregate, and they hide important differences between sectors.

Finally, the contiguity dummy variable in the regressions is positive and significant in nearly all cases, and it does not reduce its coefficient over time. This result confirms that not all EU15 members were affected by the EU enlargement in the same way, and that proximity to the NMS enhances the enlargement effects.

⁴On the possible interpretation of the distance coefficient, see Disdier and Head (2004) and Buch *et al.* (2004)

3.2 FDI integration

Foreign direct investments (FDI) are another important indicator of economic integration, and they can promote an acceleration of the process through technology and capital transfers. But in terms of foreign investments, the degree of economic integration between the EU15 and the NMS is lower than integration in trade. Even if Central and Eastern Europe received large flows of FDI since the 1990s, the total amount is still small if compared to the amount of intra-EU15 FDI that are taking place each year, and it is not comparable to the large wave of mergers, acquisitions and investments that characterized the creation of the European single market in the early 1990s. The inward FFDI stock in the NMS in 2004 was close to 40% of their GDP, which is a sizeable rate, but still below the 45% ratio given by the inward FDI stock over GDP in EU15.

FDI statistics are not updated frequently like trade statistics, and they are available with a lower degree of disaggregation, so that it is still difficult to get a clear picture of FDI flows within Europe after the enlargement. The last available data show a remarkable increase in intra-EU FDI flows in 2005, largely due to increased flows between EU15 member states. In 2004 and 2005 FDI flows increased significantly also from the EU15 to the NMS, but these flows amount only to 6.5% of total intra-EU25 FDI flows. It is worth noting that FDI flows are also slowly increasing between NMS (see Table 4).

Table 4: Intra EU flows of foreign direct investments (billion Euro)

	2001	2002	2003	2004	2005
Intra EU25 FDI flows	365.5	361.1	247.0	187.0	339.4
From EU15 to NMS	17.8	13.0	7.9	14.2	22.1
From NMS to EU15	1.1	1.3	0.7	4.3	8.3
Between EU15 members	346.2	345.8	237.4	167.0	307.8
Between NMS	0.4	0.9	0.6	1.5	1.2

Source:

Eurostat

A gravity equation run on bilateral FDI flows between the EU15 and the NMS produced results which are somewhat different from the regression run on trade flows. First of all, the goodness-of-fit of the regression for FDI is much lower: it is plausible that a gravity-type regression for FDI might have serious problems of omitted variables if some indicator of attractiveness for investors is not included. Also, the distance variable was not always

significant and the contiguity dummy was never significant. The only variable turning out to be always positive and significant is the NMS GDP, indicating a possible market effect attracting FDI toward the larger CEECs. The overall poor quality of the results for the FDI gravity equation can be explained in many ways, but they seem to indicate that this is a poor specification to try to measure the degree of integration of production activities between the two areas.

The available evidence indicates that so far a large part of the FDI inflows into the NMS are more closely related to the process of privatization and transformation of their economies than to a re-organization of production within the EU following the enlargement. But such a re-organization is likely to occur soon, especially if the European economy gathers momentum. Even if the NMS are less attractive than they used to be in terms of labour costs because of their fast catching-up process, their membership into the EU gives a number of guarantees to investors, and facilitates business operations, making them in many other respects an even more important location for investments than they used to be. This leads to think that a new wave of FDI might come in the future.

4 Is there an 'enlargement effect'?

After the formal accession of the NMS into the EU, it is not assured that the process of economic integration would continue at the same speed. In fact, on the one hand, once the goal of membership has been reached, it could be that the process loses its impetus because the political will to pursue it might be less strong, and because the easiest opportunities to reach have already been exploited. On the other hand, the removal of the remaining obstacles could speed up the on-going process. In order to see if there are differences in the integration process before and after that EU membership was reached, we consider again trade flows as indicator of "revealed" integration and we compare what happened before and after 2004. Looking at total trade flows in Tables 1 and 2, all NMS (with the exception of Slovakia) experienced an increase in the rate of import's growth from the EU after the enlargement, and on average this rate increased sharply. The increase in their exports toward the EU was much more moderate, even if in 2004-2005 their export growth increased by 1%, and reached 15.5%. These figures are in line with the results of the gravity model discussed in the previous section, where it was difficult to find an effect of the enlargement of trade data.

These aggregate data hide a diversified situation at the sectoral level. Sectors that were still not fully exploiting their trade potential before the

enlargement experienced a clear increase in trade after 2004. One of these is certainly agriculture. In 2004, agriculture in the NMS was still employing a comparatively large share of the labour force and producing a relevant share of GDP.⁵ But trade with the EU in this sector was strongly regulated before the full membership, and the export potential of the new members was not exploited. We observe a sharp increase in the export flows of the NMS in agricultural goods toward the EU after 2004. This is a sector where we can clearly observe an enlargement effect. Other sectors display an increase in trade flows after the enlargement, because other barriers were removed, and more opportunities opened up (see Table 5).

In order to assess the significance of such an "enlargement effect", we checked for the existence of a statistically significant change in the values of trade flows after 2004. This test was performed by running a regression of the trade flows (exports and imports separately) of the NMS toward the EU15 on a time trend, and by introducing into the regression a dummy for the last two years, the membership period. A statistically significant coefficient for such a dummy variable would indicate a break in the trade flow series after the enlargement.

When regressing total exports of all the NMS toward the EU15, the time trend coefficient is positive and quite significant, confirming the increase over time of trade integration already discussed. But the introduction of an enlargement dummy does not improve much the goodness-of-fit of the regression, and the dummy is not significant.

Therefore, even this statistical test shows no clear structural break in trade flows after 2004. If we move to consider total export flows country by country in separate panel regression over sectors and time, the enlargement dummy was again not significant for any of the NMS with the only exception of Slovenia. This is somehow unexpected, given that Slovenia was already one of the countries most advanced in terms of integration before the enlargement. In spite of this, for this country full membership seems to have mattered significantly.

The last set of regressions considers the enlargement effect on trade in individual sectors. The enlargement dummy turned out to be quite significant for a few sectors, when the regression was run across countries and years for each individual sector. First of all, the significant enlargement effect is confirmed statistically in the agricultural sectors, both for processed and pri-

⁵The labor share employed in agriculture was 3.9% in the EU15 in 2004, but it reached 19% in Poland, 10% in Slovakia, and it is above 4% in all the NMS. Also in terms of contribution to the national value added, agriculture has a higher share in the NMS than in the EU15, even if the gap between the figures in this case is much smaller because of the high productivity differences.

Table 5: New member states - EU15 trade flows at sectoral level

	NMS export			NMS imports		
	Average yr. growth rate			Average yr. growth rate		
	1999-2005	1999-2003	2004-2005	1999-2005	1999-2003	2004-2005
Agricult. primary goods for industry	32.11	5.17	71.25	58.34	7.28	124.27
Agricult. primary goods for consumption	22.93	10.74	33.08	24.39	8.39	42.22
Agricult. processed goods for industry	42.59	5.60	95.24	14.47	10.73	15.36
Agricult. processed goods for consumption	37.04	19.97	39.56	31.48	11.92	47.80
Primary industrial supplies	15.94	12.13	15.85	23.30	11.06	33.12
Processed industrial supplies	16.02	12.56	15.28	16.29	12.19	16.47
Primary fuels	18.11	2.47	44.95	40.70	7.35	82.99
Processed fuels (motor spirit)	432.51	181.09	113.46	4.92	-10.13	58.87
Other processed fuels	49.99	21.74	56.97	39.34	16.00	52.45
Capital good (non transport)	32.03	35.87	10.00	13.07	6.50	20.80
Capital goods (parts and accessories)	20.43	17.49	15.48	20.73	9.88	30.41
Passenger motor cars with parts and access.	18.02	11.47	21.34	17.93	22.26	4.90
Industrial transport equip. with parts and access.	9.34	12.43	2.11	22.66	27.82	5.84
Non-industrial transport equip. with parts and access.	24.81	22.08	16.08	47.33	34.84	30.21
Parts and accessories of transport equip.	32.51	33.36	13.20	17.10	12.23	18.01
Durable consumer goods	28.78	18.95	27.56	10.60	2.97	23.11
Semi-durable consumer goods	3.58	3.28	3.68	16.05	4.84	32.23
Non-durable consumer goods	21.66	20.62	13.01	15.83	11.73	16.36
Goods not elsewhere specified	1.50	-5.18	18.72	59.90	62.45	15.66
TOTAL	21.07	17.51	16.58	17.43	11.00	21.03

Source: our elaboration on Eurostat Comext data.

Table 6: Enlargement effect: regression results

Dependent variable	total exports	tot. export growth	exports of food and beverages for industry	exports of food and beverages for households	exports of capital goods	exports of durable consumer goods
Explanatory variable						
time trend	1.46E+09 (3.724)	-6.977 (-4.352)				
Enlargement dummy	1.57E+09 (0.728)	26.071 (3.637)				
R-squared	0.935	0.393				
Dependent variable	exports of food and beverages for industry	exports of food and beverages for households	exports of food and beverages for industry	exports of food and beverages for households	exports of capital goods	exports of durable consumer goods
Explanatory variable						
time trend	2568259 (0.658)	6684773 (1.282)	2568259 (0.658)	6684773 (1.282)	3.07E+08 (3.357)	88976124 (2.768)
Enlargement dummy	81110112 (3.783)	64463242 (2.251)	81110112 (3.783)	64463242 (2.251)	-2.03E+08 (-0.405)	2.41E+08 (1.365)
R-squared	0.887	0.935	0.887	0.935	0.885	0.929

Note: all exports are in current values (euros) and refer to exports of new member states toward Eu-15 over the period 1999-2005. t-statistics in parenthesis. Countries' fixed effects included in all regressions.

mary agricultural goods, and especially for agricultural goods destined to industrial production, confirming an increased integration in the EU food industry. Other industries like passenger motor cars or durable consumption goods also show a significant increase of the rate of growth of exports following the enlargement, but when trying to assess statistically an "enlargement effect" this turns out to be non-significant (see Table 6). There are also industries, like for example capital goods, or parts and accessories of transport equipment where the coefficient of the trend variable is positive and significant over the entire time span, but the growth rate of exports decreases in the last couple of years, and in fact the enlargement dummy in the regression turns out with a negative (but non significant) coefficient. In these sectors it is very likely that the integration effect has been at work much before the actual membership of the NMS, and the enlargement did not produce any specific effect on trade flows.

Unfortunately, there are few updated data on exchanges in the service sector. This is a key sector, where integration could be very important for the NMS, that generally suffer a disadvantage especially in the business sectors vis-à-vis the EU15. Looking at the trend of export of services of the NMS up to 2005, this has been on average much flatter than the trend in exports of goods, with an yearly increase of export which was about half the one of goods. The trend of the EU15 exports of services toward the NMS has been instead more in line with their exports of goods, reflecting the different structure of their economies. It is worth remembering that even if in services trade integration is far from being complete, in this sector a large part of integration occurred through FDI: of the total stock of FDI from EU15 to the NMS, more than half took place in services. For services, data don't allow to check for an enlargement effect yet, but it will be interesting to see if membership into the EU has effectively removed the (often invisible) barriers to trade in services.

5 Conclusion

The extent of the changes brought about in the NMS by the EU membership has been different from country to country. These differences depend very much on the pre-existing specialization of the country. In general though, the EU enlargement did not bring about large changes in the EU after 2004, also because it was anticipated by a preparation process that led to a high degree of integration already before full membership was reached. The proximity to a large and rich market open to their exports and the quick re-orientation of their trade flows toward this market has been a key factor in fostering this

transformation already during the 1990s. In this respect, Central-Eastern Europe enjoys a key advantage with respect to other economies, and this advantage is reflected in a more diversified and more technologically advanced export pattern already in the early 2000s.

The evidence shows that the integration process in many sectors was well underway before the EU enlargement. This is not to say that there were no effects after the EU enlargement. The statistical analysis undertaken on trade data shows that in quite a few sectors integration (measured in terms of increased trade flows) was accelerated by the membership.

More changes are likely to take place also in the future. Even if the catching up process of the NMS was generally fast, there still exist a productivity gap that should close down between the countries that joined the EU in 2004 and the EU15, and an even larger gap for those who entered later. Increased integration through high flows of trade and investments, and the re-organization of production in the EU that includes all 27 members can speed up further this process of convergence.

Of course, the increasing convergence of the NMS and of the other CEECs toward the income levels and the specialization patterns of the rest of Europe will require some adjustment in the old member states, as the initial division of labour that was worked out between the EU15 and the CEECs is becoming obsolete.

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