

Five Years of an Enlarged EU

Filip Keereman • Istvan Szekely
Editors

Five Years of an Enlarged EU

A Positive Sum Game

 Springer

Editors

Filip Keereman
European Commission
ECFIN.E.2
BU1 -1/10
1049 Brussels
Belgium
filip.keereman@ec.europa.eu

Istvan Szekely
European Commission
ECFIN.A
BU-1 03/209
1049 Brussels
Belgium
istvan-pal.szekely@ec.europa.eu

The information and views set out in this book are those of the authors and do not necessarily reflect those of the Commission of the European Communities.

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Foreword

The Fifth Enlargement that took place in 2004 and 2007 was a milestone in the history of the European Union. Not only because of the large number of acceding countries but also because of their recent political and economic experience. Ten of them had undergone a profound transition from a totalitarian regime to democracy, and from a centrally planned economy to a market-based system. Most of them had income levels significantly below those of the then EU-15. Now, 6 years later, we can clearly see that the process of European integration, both before and after 2004, was what enabled Europe to overcome the gaps between various parts of the continent. The enlargement made Europe a better and wealthier place and strengthened its position in the world.

Integration into the European Union has always been one of the strongest incentives for reform in the new Member States. Particularly important in my view have been the development of financial markets through foreign direct investment and capital inflows, and the opening of labour markets – which was a two-way phenomenon, with markets being opened up in acceding as well as the incumbent Member States. The Fifth Enlargement was thus an exercise of globalisation in miniature, a practice run for the Union to tackle the challenges of the ever smaller world.

This book brings together a number of papers by academic researchers and colleagues in other international institutions and critically assesses the first 5 years of the enlarged European Union. Despite the setback which the economic and financial crisis undoubtedly represents, I am convinced that the path followed was the right one and that the foundations of European integration are sound and robust. This book supports this view. But we cannot rest on our laurels in times of economic hardship. We need to carefully analyse and critically assess the factors of growth and the role of the EU in enhancing welfare and accelerating convergence. This book is an excellent contribution to the ongoing debate on these issues.

Olli Rehn
Commissioner for Economic and Financial Affairs

Acknowledgements and Disclaimer

The 2004 and 2007 enlargements of the European Union were unprecedented in many ways. While the political dimension cannot be overestimated, the economic significance is equally important. In order to make a contribution to the understanding of the process of market integration and income convergence, the Directorate General Economic and Financial Affairs of the European Commission launched a series of studies ahead of the fifth anniversary of the latest enlargement on 1 May 2009. The academic studies prepared by researchers at universities and think-tanks were presented at a workshop organised in Brussels on 13 and 14 November 2008 and an edited version of their papers can be found in this book, as well as the discussants' comments.

We would like to thank all those who contributed to make the workshop a success and broaden our knowledge on economic growth and catching-up in Europe. The insights provided helped us drafting the Commission report on the matter including a Communication released on 20 February 2009. Further to authors and discussants, we acknowledge the chairpersons of the various sessions at the workshop. Last but not least the technical assistance by Rajko Vodovnik and Martine Maebe in preparing this manuscript was greatly appreciated as well as Anita Ivan's contribution to the index list and Robert Gangl's work as publication manager.

The views expressed are the authors', discussants' and editors' alone and do not necessarily correspond to those of the European Commission or the institutions to which some of the contributors mentioned in this book are affiliated.

Filip Keereman and Istvan F. Szekely
The editors

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Authors

Jan Babecký Jan Babecký obtained a Master in economics at the University of the State of New York and CERGE-EI, Prague (2000) and holds a PhD. from the University of Paris-1 Sorbonne and CERGE-EI, Prague (2005) with a thesis on transition and EU enlargement. He joined the Czech National Bank in 2003 and is since 2007 Senior Economist in the Economic Research and Financial Stability Department. His academic activities include various teaching and research assignments at universities and international institutions as well as being a member of the editorial board of the Czech Economic Review. He published on international monetary issues, exchange rates, labour markets and wage flexibility.

Jean-Claude Berthélemy Jean-Claude Berthélemy is Professor of Economics at Paris 1 Pantheon Sorbonne University since 1993. He is also affiliated with the French Academy of Social Sciences. He has spent part of his career at the Organization for Economic Co-operation and Development (OECD), where he was director of research at the Development Centre from 1994 to 1997. He has published extensively on various aspects of development economics and his recent research papers are focused on health, poverty and economic development, with a particular attention to Africa. Besides his academic activities, he is regularly consulted on development policies by international organizations such as the World Bank and the European Commission and by governments.

Fritz Breuss Fritz Breuss is emeritus professor of international economics at the Vienna University of Economics and Business. Since 1995, professor Breuss is also Jean Monnet Professor for Economics of European Integration. Prof. Breuss was a visiting scholar at the University of Cambridge in 1980 and at University of California (Berkeley) in 1985. At the beginning of his career, Prof. Breuss was an economist at the Austrian Institute of Economic Research in Vienna. Key areas of interest are international economics and European integration with special focus on monetary integration and EU enlargement. He published extensively on these topics.

Aleš Bulíř Aleš Bulíř works since 1993 at the International Monetary Fund and prior to that appointment he was Associate Professor at the Prague University of Economics and Advisor to the Czech National Bank. He holds a MSc (Economics) from the London School of Economics and Political Science and a PhD from the Prague University of Economics. He is associate editor of the Czech Journal of Economics and Finance. Aleš Bulíř published on development aid, monetary policy, economic convergence and exchange rates.

Stefania Fabrizio Stefania Fabrizio is Deputy Division Chief in the IMF's Strategy, Policy and Review Department. Prior to the current position, she was in the European Department, where she was mission head for Cyprus and was involved in several Article IV consultation missions to Hungary, Lithuania and Italy. She also did extensive country-specific work on low-income countries when she was at the IMF's African Department. Before joining the IMF, Ms. Fabrizio was a visit professor at the University of Salamanca, Spain. She published on topics related to the politics of public finances, public debt sustainability and external competitiveness.

Sabine Hermann Sabine Hermann is currently employed in the Economics department as well as in the economic research centre of the Deutsche Bundesbank. She also worked for 6 month in the European Neighbouring Region Division of the European Central Bank as a national central bank expert. Mrs. Hermann has a Master of Arts from the University of Basel and obtained an MBA at the University of Munich. She holds a PhD in economics from the Faculty of Applied Macroeconomics at the University of Basel. She is a lecturer at the Frankfurt School of Finance and a referee for several economic Journals. Mrs. Hermann has published extensively on issues related to monetary and financial integration, current account developments in Central and Eastern Europe and real convergence in Eastern Europe.

Martin Kahanec Martin Kahanec is Assistant Professor at the Central European University in Budapest and Senior Research Associate, Deputy Program Director "Migration", and former Deputy Director of Research at the Institute for the Study of Labour (IZA) in Bonn. He has a PhD in Economics from Tilburg University, a Master of Arts degree in Economics from the Central European University and a Master degree in Management from Comenius University in Bratislava. He has held several advisory positions and participated in and coordinated a number of scientific and policy projects with the World Bank, European Commission, OECD, and other international and national institutions. Dr. Kahanec is a member of several professional associations. His topics of interest include labour markets, ethnicity and migration, on which he has published extensively over the last few years.

Elzbieta Kawecka-Wyrzykowska Elzbieta Kawecka-Wyrzykowska is professor of Economics (Ad personam Jean Monnet Chairholder), Head of the Jean Monnet Chair of European Integration at the Warsaw School of Economics since

1998 and Vice Rector of the Warsaw School of Economics (for International Cooperation) since 2008. Ms. Kawecka-Wyrzykowska has published widely on European economic integration and the GATT/WTO system. She was a representative of the Polish government at trade negotiations during the GATT Uruguay Round and served as an economic adviser to the President of Poland in the period 2002–2005. She coordinated several international research projects and prepared a number of expertises for OECD and Economic Commission for Europe on implications of the Uruguay Round for countries in transition.

Filip Keereman Filip Keereman studied economics at the Catholic University of Leuven (Belgium), obtained an MBA at the University of Chicago (USA) and holds a PhD. from the European University Institute in Florence (Italy). He joined the research department of Kredietbank (now KBC) in 1984. As an official of the European Commission since 1986, he has dealt with the liberalisation of capital movements, monetary integration, economic forecasts, fiscal policy and EU enlargement. Currently, he is head of the unit responsible for monitoring national financial developments and external funding in the Directorate General for Economic and Financial Affairs. He published on financial integration, forecast accuracy and the new EU Member States.

Daniel Leigh Daniel Leigh is an Economist at the Research Department of the IMF. He also served on the IMF teams of number of emerging market economies, including Hungary, Lithuania, Gabon, Colombia, and Peru. His research interests fall in the general field of international macroeconomics. He has publications in *Economic Policy*, the *Journal of Money, Credit and Banking*, and the *Journal of Economic Dynamics and Control*. In addition, he has written several chapters of the IMF's *World Economic Outlook*. He holds a PhD in Economics from Johns Hopkins University, and a MSc in Economics from the London School of Economics.

Mathilde Maurel Mathilde Maurel is currently researcher at the CNRS (Centre National de la Recherche Scientifique) and Deputy Director of the CES (Centre d'économie de la Sorbonne). She holds a PhD in Applied Economics from the Ecole des Hautes Etudes en Sciences Sociales. She has published extensively on transition economics and her recent research papers are focused on European integration, economies of Central and Eastern Europe, exchange rates and migration. Besides her academic activities, she is consulted on development policies by international organizations such as the World Bank, the European Commission and by Consulting Agencies. She is a member in several professional associations and a referee in editorial boards of international economics and comparative economics journals.

Ashoka Mody Ashoka Mody is Assistant Director in the IMF's European Department. He headed the IMF's 2008 Article IV consultation mission to Germany. He has led missions to Switzerland and Hungary, and is currently also mission head

for Ireland. Prior to this country-specific work, he held managerial positions in the IMF's Research Department and at the World Bank. He has held teaching positions at the University of Pennsylvania's Wharton School. He has published widely on international finance, especially emerging markets' access to foreign capital, domestic political economy, and the politics of reforming the financial sector and public finances.

Karl Pichelmann Karl Pichelmann is currently Research Adviser in the Directorate General for Economic and Financial Affairs and Associate Professor at the Université Libre de Bruxelles. Mr. Pichelmann earned his PhD from the University of Vienna in 1983. Before joining the European Commission, he was a senior economist at the Institute for Advanced Studies in Vienna. He held various consultancy positions in the past, including a stint at the OECD in the context of the Jobs Study. Current research interests focus on globalisation and European economic and monetary integration and its impact on labour markets and social models in Europe.

Ryszard Rapacki Ryszard Rapacki is professor of economics and head of the department of economics at the Warsaw School of Economics. Since 2000, he is also an Associate Professor at the Carlson School of Management, University of Minnesota. Previously, he was a Fulbright scholar at Michigan State University and a visiting scholar at the University of Minnesota. His main areas of research are macroeconomic theory, economic policy, systemic transformation in Eastern Europe, public finances as well as economic growth and real convergence. Professor Rapacki published extensively in Poland, UK, Germany and the US.

Sandor Richter Since 1990, Sandor Richter is senior economist at the Vienna Institute for International Economic Studies. At the beginning of his career, Mr. Richter was a research economist at the Institute of Economics of the Hungarian Academy of Sciences. He pursued undergraduate and doctoral studies at the Budapest University of Economic Sciences. His topics of research cover regional integration, international trade and the Hungarian economy. He has published extensively on these topics.

Katerina Smidkova Katerina Smidkova is currently an Executive Director in the Economic Research and Financial Stability Department of the Czech National Bank and an Associate Professor at the Faculty of Social Sciences of the Charles University in Prague. She has a PhD. in economics from the Faculty of Social Sciences of the Charles University. Mrs. Smidkova is a member of several professional associations in the Czech Republic and a member of the Steering committee of the ECB-CFS Network on Capital Markets and Financial Integration in Europe. Current research focuses on issues related to exchange rates, FDI and the transmission mechanism of monetary policy.

Juraj Stančík Juraj Stančík is currently a scientific fellow in the Institute for Prospective Technological Studies of the European Commission in Seville. He has a PhD in economics from the Center for Economic Research and Graduate Education in Prague. In 2007, he was a visiting scholar at the School of Arts and Sciences of the University of Pennsylvania. His areas of interests cover international economics and econometrics.

Istvan Szekely He has a PhD in economics from the University of Cambridge. He is also on the faculty of the Corvinus University in Budapest as an honorary professor. Before joining the European Commission in 2007, he worked at the International Monetary Fund (1999–2007) as a mission chief and in the National Bank of Hungary (1996–1999) as a general manager and advisor the governor. His research focuses on financial market and macroeconomic policy issues and on Central and Eastern European economies. He has published several books and articles in these areas.

Corina Weidinger Sosdean Corina Weidinger Sosdean is an economist in the Directorate General for Economic and Financial Affairs (Macrofinancial stability). Before joining the European Commission, she worked in the field of financial market supervision, as expert at the Austrian Financial Market Authority in Vienna. She has a PhD. in economics from the University of Timisoara (Romania) and a Master of Arts in international relations from the University of Vienna and Vienna Institute of International Studies. Topics of interests: financial markets, banking and insurance supervision, emerging economies.

Adalbert Winkler Adalbert Winkler holds a PhD from Trier University and a post-doc (“Habilitation”) from the Bayerische Julius-Maximilians University of Würzburg. Mr. Winkler held lectureships at Frankfurt’s Goethe University, at Chemnitz University of Technology (Commerzbank Visiting Professor) and served for more than 10 years as (senior) lecturer at the Bayerische Julius-Maximilians University of Würzburg. In 2001 Mr. Winkler joined the European Central Bank (ECB) in the ECB’s Directorate General International and European Relations and from 2004 to 2007 he was Deputy Head of Division. In the first half of 2008 he served as an advisor at the International Department of Deutsche Bundesbank. Mr. Winkler research interests and publications have been focusing on financial development and growth, development and microfinance as well as monetary policy and financial stability challenges in emerging markets, the international role of currencies and developments in the global monetary system.

Klaus F. Zimmermann Klaus F. Zimmermann is Director of the Institute for the Study of Labor (IZA) in Bonn, President of DIW Berlin and Professor of Economics at Bonn University. He received his doctoral degree and habilitation from the University of Mannheim. His current professional interests cover issues of migration, labour, financial markets and the macro economy. Prof. Zimmermann has

served as an adviser to the President of the EU Commission as a Member of the Group of Economic Analysis and he is currently a Member of the “Group of Societal Policy Analysis.” He has held numerous other advisory and consulting positions for senior policy makers, opinion leaders in Germany, and international organisations. Prof. Zimmermann is a member of many international organisations and has co-ordinated a wide range of academic projects and organised many professional conferences.

Abbreviations

Member States

| | |
|----|-----------------|
| AT | Austria |
| BE | Belgium |
| BG | Bulgaria |
| CY | Cyprus |
| CZ | Czech Republic |
| DE | Germany |
| DK | Denmark |
| EE | Estonia |
| EL | Greece |
| ES | Spain |
| FI | Finland |
| FR | France |
| HU | Hungary |
| IE | Ireland |
| IT | Italy |
| LT | Lithuania |
| LU | Luxembourg |
| LV | Latvia |
| MT | Malta |
| NL | The Netherlands |
| PL | Poland |
| PT | Portugal |
| RO | Romania |
| SE | Sweden |
| SI | Slovenia |
| SK | Slovakia |
| UK | United Kingdom |

Other Countries

| | |
|-------|--|
| AL | Albania |
| BA | Bosnia Herzegovina |
| BR | Brunei |
| EA | Euro area |
| EU | European Union |
| EU-2 | RO, BG |
| EU-8 | EU-10 minus Cyprus and Malta (Central and Eastern European countries) |
| EU-10 | European Union, Member States that joined the EU on 1 May 2004 (CZ, EE, CY, LT, LV, HU, MT, PL, SI and SK) |
| EU-12 | EU-10 plus Member States that joined the EU on 1 January 2007 (BG, RO) |
| EU-15 | European Union, 15 Member States before 1 May 2004 (BE, DK, DE, EL, ES, FR, IE, IT, LU, NL, AT, PT, FI, SE and UK) |
| EU-25 | European Union, 25 Member States before 1 January 2007 |
| EU-27 | European Union, 27 Member States |
| HK | Hong-Kong |
| HR | Croatia |
| ID | Indonesia |
| KR | South Korea |
| KS | Kosovo |
| MK | FYR Macedonia |
| MY | Malaysia |
| PH | The Philippines |
| RS | Serbia |
| SG | Singapore |
| TH | Thailand |
| TR | Turkey |
| TW | Taiwan |

Currencies

| | |
|-----|-------------------|
| BGN | New Bulgarian lev |
| CZK | Czech koruna |
| DKK | Danish krone |
| EEK | Estonian kroon |
| EUR | Euro |
| GBP | Pound sterling |
| HUF | Hungarian forint |
| JPY | Japanese yen |
| LTL | Lithuanian litas |

| | |
|-----|------------------|
| LVL | Latvian lats |
| PLN | New Polish złoty |
| RON | New Romanian leu |
| SEK | Swedish krona |
| SKK | Slovak koruna |
| USD | US dollar |

Other Abbreviations

| | |
|----------|--|
| AMECO | Annual Macro ECONomic database (Directorate General Economic and Financial Affairs, European Commission) |
| BIS | Bank for International Settlements |
| Bn. | Billion |
| CAP | Common Agricultural Policy |
| CARDS | Community Assistance for Reconstruction, Development and Stabilisation |
| CEE | Central and Eastern European |
| CEECs | Central and Eastern European Countries |
| CET | Common external tariff |
| CF | Cohesion fund |
| CGE | Computable general equilibrium |
| CIS | Commonwealth of independent states |
| CUs | Custom unions |
| DCR | Domestically captured rent |
| DG ECFIN | Directorate General Economic and Financial Affairs (European Commission) |
| EAFRD | European Agricultural Fund for Rural Development |
| EAGF | European Agricultural Guarantee Fund |
| EAs | Europe Agreements |
| EBRD | European Bank for Reconstruction and Development |
| ECB | European Central Bank |
| EDP | Excessive deficit procedure |
| EFF | European Fisheries Fund |
| EFTA | European Free Trade Association |
| EMBI | Emerging Markets Bond Index |
| EMU | Economic and Monetary Union |
| ERDF | European Regional Development Fund |
| ERM II | Exchange Rate Mechanism, mark II |
| ESCB | European System of Central Banks |
| ESF | European Social Fund |
| Eurostat | Statistical Office of the European Communities |
| FDI | Foreign direct investment |
| FTAs | Free trade agreements |

| | |
|---------|---|
| GDP | Gross domestic product |
| GNI | Gross national income |
| GTAP | Global Trade Analysis Project |
| GUT | Grand Unified Theory |
| HICP | Harmonised index of consumer prices |
| HIIT | Horizontal Intra-Industry Trade |
| ICRG | International Country Risk Guide |
| ICT | Information and communications technology |
| IIT | Intra-Industry Trade |
| IMF | International Monetary Fund |
| IP | Industrial Production |
| IPA | Instrument for Pre-Accession Assistance |
| ISPA | Instrument for Structural Policies for Pre-Accession |
| lhs | Left hand side |
| M&A | Mergers and Acquisitions |
| MENA | Middle East and Northern Africa |
| MFN | Most favored nations |
| Mio. | Million |
| NAFTA | North American Free Trade Agreement |
| NiGEM | National Institute of Economic & Social Research Global Econometric Model (UK) |
| NMS | New Member States |
| NTB | Non-tariff barrier |
| NUTS | Nomenclature of Territorial Units for Statistics |
| OCA | Optimum currency area |
| OMS | Old Member States |
| p.p. | Percentage point |
| PHARE | Poland and Hungary: Assistance for Restructuring their Economies |
| PPS | Purchasing Power Standard |
| R&D | Research and development |
| REER | Real effective exchange rate |
| rhs | Right hand side |
| RIAs | Regional Integration Agreements |
| RoE | Return on equity |
| RoW | Rest of the World |
| RTAs | Regional Trade agreements |
| SAPARD | Special Accession Programme for Agriculture and Rural Development |
| SE Asia | Southeast Asia |
| SF | Structural Fund |
| SGP | Stability and Growth Pact |
| SITC | Standard International Trade Classification |
| SM | Single Market |

| | |
|-------|--|
| SRER | Sustainable real exchange rates |
| Tacis | Technical Assistance to the Commonwealth of Independent States |
| TFP | Total factor productivity |
| ULC | Unit labour costs |
| UN | United Nations |
| USSR | Union of Soviet Socialist Republics |
| VA | Value added |
| VAT | Value added tax |
| VER | Voluntary export restraints |
| VIIT | Vertical Intra-Industry Trade |
| WTO | World Trade Organisation |

Legend to Tables

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|----|------------------------|
| : | Figures are negligible |
| na | Not available |

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