The effects of EU enlargement

Common resolution of the Economic and Social and the Neighbourhood Commissions adopted by the Berlin Central Council (6 June 2008)

The Economic and Social Commission and Neighbourhood Commission of ELEC, meeting in Brussels on 22 April 2008

- **observed** that standards of living in the new and old members of the EU were drawing closer, due to the much more rapid growth in new Member States (5.4% as compared with 1.5% annually for older members over the last five years). Nevertheless, the per capita income gap remained considerable (around 40% overall and 60% for the two most recent accession states) and two or three decades would doubtless be necessary before the complete convergence of per capita GDP could be achieved;

- **noted** that growth in countries with fixed exchange rate systems was generally the most satisfactory, even though this phenomenon had been reversed somewhat most recently. After Slovenia, Slovakia should be able to join the euro zone in 2009 and the Baltic countries towards 2011. Both commissions were hopeful that the other countries would not unduly delay the adjustment measures which were essential to fulfill the criteria for adoption of the single currency;

- **noted** that, apart from the well-known consequences of catching-up (the "Balassa-Samuelson effect") in terms of trade deficits and rising prices, adoption of the single currency was the most effective means of ensuring the fundamental equilibria and vital structural reforms;

- **expressed concern** regarding the persistence of inflation, aggravated by the current economic shock which had hit countries at the periphery of the EU. Apart from its social cost, this inflation threatened their future growth and could compromise the catching-up process. There was also a danger that it might acquire the nature of an "asymmetric shock", in particular in those countries which were most dependent on crude oil or gas imports;

- **observed** that the new Member States had benefited from significant capital inflows, mainly in the form of direct foreign investment, reaching over 10% of GDP in some countries - although the EU-15 continued to mobilise 40% of direct investment worldwide. Furthermore, investments from EU enterprises only represented a modest proportion of their total external investments. These capital inflows, while they had financed necessary investment in the modernisation of the economy in the accession states, had also led to significant purchases of consumer goods. And although their levels of indebtedness were low overall (less than 40% of GDP on average), several new Member States were carrying significant external deficits which were not sustainable in the long term;

- **noted** that job losses in Western European countries, often wrongly attributed to relocation in Eastern Europe, had remained very limited: they could be estimated at less than 0.5% of the labour force on the average among EU-15 countries. Further, although it was true that the new Member States had had gained market shares, the redistribution of activities in accordance with the principles of international specialisation had benefited everyone. A significant reduction in unemployment had been recorded in new Member States over the last 10 years;

Rue de Livourne, 60 #4 - B-1000 Bruxelles - Belgique
info@elec-lece.eu - www.elec-lece.eu

- **noted** that immigration from the new Member States had remained low overall in the EU-15 (where it represented no more than 0.3% of the labour force), but that it was more significant (1 to 2%) in the countries which had opened their borders the most: Great Britain, Ireland, Austria etc. The quid pro quo, in the countries of departure where as much as 6% of the labour force had emigrated, had been a certain "brain drain" insofar as it had principally concerned the most qualified workers;

- **observed** that the catching-up took place, and that the significant European budgetary aid - which nevertheless represented only 0.1% of GDP for the older Member States - allocated to the new members had played a part in this, even though only around a half had been used, given the lower than expected absorptive capacity and some genuine administrative difficulties. One could estimate at around 2 percentage points of GDP yearly the additional growth obtained through such aid;

- **welcomed** the fact that the reciprocal opening of the markets had greatly benefited both the old and the new Member States; and considered that all the political players should emphasize the progress achieved, and that an information campaign should be launched to make EU citizens - often critical of enlargement - more aware of this progress;

- **proposed** that an information campaign should be launched to make EU citizens - often critical of enlargement - more aware of this progress, and **deemed it important** that all the political and economic players should better emphasize the progress achieved.

- - - - - - - - - -