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The Enlargement of EU Towards Eastern, Central and South Europe and Its Impact on the Third Mediterranean Countries

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**The Enlargement of EU towards Central, East and East-South Europe and its Impact on the
Third Mediterranean Countries**

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Abstract

The main purpose of this paper is to examine the impact of the latest and forthcoming EU enlargement on the Euro-Mediterranean relations. Given the fact that the economies of the Mediterranean countries depend strongly on their relations with the EU, it is possible that these relations are going to be modified after the recent EU enlargement towards CEE countries, with consequences not easily identified. In this article we try to analyze some global effects that the new EU enlargement induced on the Euro-Mediterranean Partnership. The findings of the analysis leads to some policy proposals for an upgrading of the Euro-Mediterranean relations also in the context of the new European Neighbourhood Policy.

Key Words: Enlargement, European Union, Central and Eastern Europe, Third Mediterranean Countries, European Integration, Euro-Mediterranean Relations

1. Introduction

The latest enlargement of the EU with the Central and East European Countries, but also the evolution of the European Economic Community to European Community and to European Union, clearly demonstrates that EU is an open integration model. Especially, in regard to the European economic space, the EU with the establishment of the European Economic Space with the Rest-EFTA countries, the various association agreements with European and non-European countries, the free trade area agreements and the preferential agreements with many developing countries promotes, under the scheme of “circles and rays”, the creation of a big space of economic integration and political cooperation (Papastamkos G., 2000). The European circle of integration and cooperation completes and concludes Southwards, mainly with the special cooperation relations that are set with the Third Mediterranean Countries (TMC). So the two neighbour areas of the EU, namely the CEE Countries and the TMC are the two basic regions of the European integration and under this view the stability and development of these two areas is going to decide the further evolvement of the unification procedure.

The external relations of the EU are not limited to its neighbour countries. Nevertheless, the special relations that the EU has developed to its adjacent areas are substantially different in regard to the relations with other countries of the world. Different of course are the relations between the EU and the CEEC to those between EU and TMC. Thus, the relations with the CEEC that were based mainly on the “European Agreements”, were developed after the beginning of the transition period and were in fact preparing the accession of the CEEC into the EU. On the other hand the Euro-Mediterranean relations focus on the making of a Free Trade Area (up to 2010) and to enhance the stability and prosperity in the Mediterranean Area through political dialog and financial and technical co-operation. The different position of the two regions in the European integration process has important implications for their future development (Hoeckman B., Edy Konan D., 1999).

The fact that the CEE Countries are already Members of the EU, and on the other hand for the TMC the only evident integration prospect is the Free Trade Area, creates scepticism for the future of the relations between EU / CEEC / TMC. A first estimation comes to the conclusion that the CEEC, as

members of the EU, are in a much advanced position than the TMC. So the concern of the TMC for the recent EU enlargement is logical in respect to keep their own interests from the Euro-Mediterranean partnership established in the '70thies but especially in 1995 (Barcelona Process).

The following analysis concentrates on the discussion of some selected areas of the Euro-Mediterranean cooperation that can be affected after the latest EU enlargement. These areas are immigration, trade and European foreign direct investments flows. The conclusions of this discussion leads to the formulation of policy proposals towards an upgrading of the Euro-Mediterranean partnership.

2. Enlargement and migration flows

The historical changes that occurred in Europe after the 90's have, among other things, brought an increase in migration flows. These, along with the intense demographic changes that are evident in many areas of the world, are two major characteristics of the 21st century. This phenomenon has a great impact on EU and its Mediterranean partners, where the on going changes tend to become in one of the most important factors of economic growth and stability in the region. These on going changes give a forecast for a major decrease in the European population (EU 15) of about 40 million people around 2050. This means an 11% decrease. This estimation becomes more tragic keeping in mind that for the same period the economically active population (15-65 years of age) will decline from 250 million today in about 188 million. These facts impose the necessity to enrich the manpower of the EU with about 1 million foreign workers each year for the next 50 years to come in order to keep the existing levels of development (Kazakos P., Liargovas P., 1996). Besides that, as it happens to all developed countries, it is common to reduce the total duration of working life by increasing the entrance age and reducing the retirement age respectively.

In the TMC the situation is completely different. Through a birth control program they are about to increase their economically active population in the next 20 years. This is proven by the fact that the percent of children of 0-14 age are the 40% of the total population, instead of a 17% for the EU. Of course the growth of the active population in the TMC, combined with the expected women entrance

in the workforce indicate that the TMC must create about 45 million work positions for the next decade, something that implies a yearly growth rate of about 6-7%.

Today, a part of this work force surplus is absorbed by the EU. Thus, a change after the enlargement could be expected which could negatively affect the TMC, because of the favourable position of the CEEC. However two facts minimize this danger:

- a) The population growth in the CEEC is extremely small, due to the low levels of births per family (1,5 children per family) which implies that the future needs of these countries will be significantly high.
- b) The rates of migration from the CEEC to the EU is not as high as expected, and in some cases particularly small.

3. Enlargement and trade in goods and services

With the "European agreements" that have been signed by the EU and the CEEC in the '90thies, the EU became the most important trade and economic partner of the CEEC given that they received a preferential trade regime. In parallel, the utilization of the EU financial support to the CEEC had contributed in the making of a favourable economic environment in these countries.

Beside the above characteristics, it must be noted that in the years before the CEEC accession into the EU, some special aspects were set in the economic and trade relations between the CEEC and the EU, none of which was applicable in the Euro-Mediterranean partnership (Tovias A., Dafni I., 2000):

- a) the right of accumulation of origin which has been applied since 1998,
- b) the fact that the antidumping rules could be set after relative negotiations and
- c) all reforms that took place in the CEEC in sectors like services, capital flows, market liberalization, competition policy and property rights actually were set and supported by the EU in order to prepare their accession.

These differences contributed in such a way that the trade potential of the CEEC in the EU markets was much stronger than that of the TMC for a long period before their accession. After their membership the economies of the CEEC are part of the common market. That means that these

countries enjoy the advantages of the “four freedoms” and of the funds transfer in the context of agricultural and cohesion policies. Also, against third countries the new member states apply the instruments of the common foreign trade policy. The membership of the CEEC has changed the framework and the conditions for the trade between the enlarged Europe and the TMC. The outcomes that can be expected are as follows (Tovias A., Dafni I., 2000):

a) Trade diversion in favour of the CEEC

By the enlargement the TMC have lost to some extent their privileges in the EU markets in favor of the CEEC. The full accession of the CEEC has caused important loss of the privileges that existed for the Mediterranean agricultural products and services, resulting in a trade diversion from the TMC to the CEEC. Such a trade diversion has already taken place since 1998, also in some industrial sectors (like textiles, clothing, leather, steel products) in which the TMC have comparative advantages. Trade diversion could be supported also by the fact that the TMC exports to EU face more technical barriers to trade than the CEEC. (Michalek et. all. 2005).

b) Trade diversion in the CEEC in favor of the EU countries

The trade diversion in the CEEC markets in favor of the EU producers is possible, to the extent that the Mediterranean exports can not compete the EU exports in the CEEC markets. Nevertheless the trade relations between the TMC and the CEEC are very small. Also, the structure of the TMC exports (labour and material intensive products, Mediterranean agricultural products) is very different than the EU - 15 export structure (capital and technology intensive goods, high quality services, processed agricultural products). That means that this outcome is expected to be of less importance.

c) Expansion effects in the trade of manufacturing products after the adoption of the common tariff system

The CEEC have to adopt the common tariff system and all the corresponding regulations of the Euro-Mediterranean agreements. This means that the tariff conditions for the Mediterranean exports will be

significantly improved (Tovias A., Dafni I., 2000). Consequently, an expansion in the trade between the CEEC and TMC can be expected.

d) Effects in the agricultural products from the implementation of the CAP in the CEEC

In the case of agricultural products reduced trade flows are expected from the TMC after the implementation of the CAP regulations in the CEEC.

e) Effects in the regime of the Mediterranean imports from the CEEC

The enlargement to the CEEC will make the TMC to liberalize their imports from the CEEC, because the CEEC countries are members of the EU. Thus, there will be a bigger dependency of the TMC from the EU.

The similarity of the industrial exports of the TMC and the CEEC to the EU markets, in fact hides an advantage for both parts, as long as they compete from the same starting point. So, the TMC could improve their position, if their exports became more competitive. For some countries and products this is possible. The industrial products of Turkey, Israel and Tunisia are more vulnerable. The trade diversion should be expected in textile, clothing, industrial products of iron and steel, electrical machinery and equipments.

4. Enlargement and FDI flows

The CEEC and the TMC have several reasons to attract European FDIs in order to promote economic development (Darrat, et. all. 2005). The FDIs are not the only factor of development, but are one of the most important means to upgrade productive base and technology level of a developing country. Raw material and many products that need manufacturing, cheap labour force and a big consuming market, are attractive factors for investments from foreign enterprises in developing countries (Michalet Ch-A., 1999). Because of the importance of FDIs for the economic growth of the CEEC and

TMC, the competition between the two areas for European FDIs inflows and the location of European companies is going to be extremely hard.

The external environment and especially the several agreements of the EU with the CEEC and the TMC help the FDIs flows into these two regions. However, the different economic and reform policies that were implemented in these two regions as well as differences in political and investment climate and geography were the critical factors that influenced the preferences of the foreign investors in favour of the CEEC countries. So the available data are showing that the FDIs in CEEC increased significantly after 1990, despite the fact that they are still a small amount of the total European FDIs outflows. The total amount of FDI in 1999 in CEEC was over 18.4 billion US \$, an amount that is about 8.9% of the total amount that it was invested in the developing countries. This had to do with the privatization and liberalization policies that were implemented in those countries.

On the other hand, the FDIs in TMC were about 7.1 billion US \$, an amount that is about 3.4% of the total FDIs in developing countries. This poor result for the TMC has to do with the political and economic instability in the region, because many governments are not willing to take over all the necessary measures to attract foreign investors. Nevertheless, a comforting fact is that in the second half of the 90's the FDIs flows were much bigger than the first half of the decade. This implies that the Euro-Mediterranean partnership that was set in 1995, was a positive factor in attracting FDIs to the TMC. So the utilization of this partnership is probably the only chance for the TMC to increase their share in the total FDIs flows to developing countries, which was decreased from 6.2% in 1992 to 3.4% in 1999. In this aspect, in order for the TMC to reduce the competition from CEEC must implement all the attachment agreements with the EU, complete the Free Trade Area up to 2010 and make all the necessary reforms in their economic and political systems.

5. Possibilities for a balanced relation between EU (15)-CEEC-TMC

Given the interest of the EU for the economic, political and social development of its neighbouring regions the question that arises is whether there can be a beneficial relationship for the three regions (EU-15, new members, TMC). Several studies have proven that there are several ways of cooperation

among them in order to minimize the negative effects to the TMC from the latest enlargement (Sideri S., 1999, FEMISE 2003).

The first factor that supports the cooperation between the TMC and the CEEC is the estimated need of the CEEC for labour force in the near future. The CEEC will realize, sooner or later, this need as the other EU countries already have.

Second, the changes in the division of labour that took place in the European markets during the deepening of the Community integration were actually in favour of the TMC. In the same way the accession of the CEEC in the EU, has as a result the adoption of all the rules and regulations of the common market and common policies, a fact that will gradually change some of the advantages and the specializations they have today.

Third, even in the case of agricultural products, that is the weak point of the TMC, there could be some complementary elements in trade between the two areas because of the complementarity in their production and export structures. Countries like the Palestinian Authority and Jordan, which have managed to increase their share in the agricultural trade with the CEEC are a successful paradigm (The Euro-Mediterranean Partnership in the Year 2000, and Jabarin A., Muaz S., 2000).

The TMC trade is actually "one way" (inter-industry) and their trade share in the global division of production is smaller than that of the CEEC. However, some TMC with stable and liberal internal regimes, like Morocco or Tunisia, are capable of improving their competitiveness in the European markets, especially in some sectors like textile, clothing etc (Fabbris T., Malanchini F., 1999).

According to the findings of many studies there is room for further trade and a stronger economic integration between TMC and EU, especially in the fields of services and agricultural products (Ferragina, et. all. 2005; Mueller-Jentsch 2003). The agreed establishment of a free trade area till 2010 and its extension to the uncovered sectors will be beneficial for both regions (Chouchani Cherfane, C. et. all. 2005).

The expected increase in the wages in the CEEC and the changes in the infrastructure and in the production methods that are going to take place after their accession into the EU, will change the future competition conditions between the CEEC and the TMC. The final result of this will depend not only from the ability of the TMC to adjust their economies to the demands and standards of the European and global markets, but also from the ability and the willingness of the Euro-Mediterranean partners to implement effectively the Barcelona Process.

The example of externalizing the trade in textiles or electrical and machinery and equipment is of crucial importance for the entrance of the TMC in the global subcontracting chain of the European enterprises. In this case the best example are the CEEC. Their total trade of subcontracting is estimated (2000) to 6 billion €, against just 1 billion € for the TMC (Alessandrini S., 2000). In fact in the Euro-Mediterranean relationship there are several supporting mechanisms in this direction.

As a conclusion the full utilization of the Euro-Mediterranean relationship is the most important instrument of the TMC for the minimizing of the dangers that can outcome the EU enlargement. In parallel, the enhancement of the trade and economic relations between the TMC and the CEEC through common trade liberalization regulations, free trade agreements and the implementation by the TMC the advantage of the accumulation of origin are the basic priorities.

Finally, the new European Neighbourhood Policy includes some new instruments in order to enhance partnership between EU and TMC (Jones and Emerson, 2005).

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