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**Article**

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# The EU after the Northern Enlargement

As of January 1st this year, Austria, Sweden and Finland belong to the European Union, raising its membership from twelve to fifteen and enlarging its territory by over a third to 3.2 million sq. km. (USA: 9.4 million sq. km.) The EU population, though, will rise only by 6% to 370 million (USA: 258 million) and gross domestic product (GDP) by 7% to ECU 5.9 billion (USA 1993: ECU 5.4 billion). Average per capita GDP, too, will go up by only slightly over ECU 100 to ECU 15,950 as a result of the new members, still well below the figure for the USA (ECU 20,780) and, particularly, that for Japan (ECU 28,880) – whatever such figures tell us about standard of living and economic performance. Austria and Sweden are near the top of the EU income scale. Finland ranges at about the same level as Italy and the United Kingdom, below the EU average.

The EU accession will change little in the field of industrial goods trade. With their in part highly developed, innovative manufacturing industry, the new members have enjoyed duty-free access to the EC market since 1977 thanks to the free trade accord between the EC and EFTA; the same holds for EC exports to these countries. A year ago the three countries also joined the European Economic Area (EEA), which extends the regulations of the European Internal Market for goods and services to the EFTA states (excepting Switzerland). Here EU accession will primarily simplify administrative procedures, in transit transport to Italy for example.

The main changes will, however, make themselves felt in a number of other fields. Participation in the Common Agricultural Policy means for the new members that they will have to cut down on subsidies to farmers, which could have a sizable impact in some regions. Their inclusion in the EU Regional Policy will offer certain compensations for this: 40% of Austria's population and even 54% of Finland's live in regions covered by the EC's structural funds. Consumers could also benefit: in Austria at least, prices for some food items have declined markedly since accession. Employees from the three new members will in future no longer require work permits when taking up employment within the Union; companies and self-employed will be free to set up business anywhere from the Inari Lake to Sicily and the last barriers to the free movement of capital in the new member states have now fallen. Participation in the EU budget will place a net burden on Austria and Sweden: for the Union it will accordingly mean a strengthening of its financial base through new net contributors; Finland on the other hand will also benefit financially from membership. Monetary policy will remain unchanged at first: with its Schilling still closely pegged to the D-Mark, Austria has now entered the exchange rate mechanism of the EMS; Sweden and Finland will become EMS members but will not be linked into the common exchange rate grid for the time being.

Of at least equal importance to the "static" effects of accession are the medium-term and long-term "dynamic" effects for the new members and for the Community as a whole. The Union affords the new members secure long-term prospects of participation in its highly integrated economy, which ought to have a positive effect on economic activity. Of course, the increase in exports, in investment and in the investment/GDP ratio, the increased growth and employment – critical issues in particular in Finland and Sweden, which have recorded employment drops of 18% and 13% respectively since 1991 – that government,

business and industry are hoping for will not automatically come about with accession. The two Scandinavian countries in particular are economically peripheral regions which tend to be at a disadvantage in international and European locational competition, a drawback they will have to work hard to alleviate. Swedish and Finnish manufacturing enterprises are highly innovative, but this does not of course provide any assurance in the long term that new products will also be manufactured domestically. The high foreign direct investments by Scandinavian enterprises, and even more so the extraordinarily low foreign direct investments in Scandinavia, must rate as warning signals. Sweden and Finland have in recent years "pulled down" their high cost level to the level at the centre by means of heavy currency depreciations and have also attempted to gain cost advantages, admittedly with only temporary success. A departure from some of its cherished social attainments seems inevitable in the North, too, and the announcement by the new Social Democrat government in Sweden of deep cuts in the all-embracing social welfare net takes this into account.

The Community has grounds to hope that the accession will mean a reinforcement of the "cosmopolitan" group of members favouring international (and intra-European) competition. In the past, businesses in these countries have readily responded to the challenges of international competition on both the domestic and the world market, and this has been an important source of their mobility and innovative strength. Anti-dumping measures – the EC's favourite deterrent against superior foreign competition –, voluntary restraint agreements and safeguards have hardly ever played a role for any of the three newcomers. It remains to be seen whether the change in the general economic climate in Scandinavia will alter this basic policy stance. On the whole, the trade policy of the Community ought to gain fresh impetus from the new members toward more open markets, a global division of labour and competition. This also holds for relations with central eastern Europe and the Baltic states, the natural neighbours and partners of the new members. With the "Europe agreements", the Community has taken a major step toward a mutual opening of markets, but the safeguard clauses, which de facto allow the Community to impose import restrictions unilaterally after a month if the market is "disrupted", will act as an impediment to the development of long-term trade relations and hence to investment activity in the emerging market economies. Despite all the summits held, it is still unclear how future economic and political relationships with this region are to develop; as champions of these countries the new members will press for a constructive EU policy which will also necessitate reforms in the EU system itself. Finally, as net contributors to the EC budget, Sweden and Austria can be expected to oppose the redistribution mentality in the Community, which is most evident in the rapid expansion of the structural funds, and which must also be gauged as one of the causes of the waning economic momentum.

On all three fronts, trade policy, relations with eastern Europe and redistribution policy, conflict with the "Southern wing" of the Union would appear inevitable. This conflict must be settled and it is to be hoped that Germany will take up a clearer stance in future than it has done in the past, especially in trade policy and distribution issues. At the same time, the role of Franco-German relations as a link between North and South and as an engine of the Union's future development will tend to grow. This should of course not mislead Germany into subordinating its own economic interests to harmonic relations with France, as has happened all too often in the past. With the changed power constellation in the Union relations to the United Kingdom should also be allotted a higher status.

The completion of the Northern enlargement (albeit without Norway) poses new challenges to the European Union. On the negotiation agenda are the Maastricht follow-up conference in 1996, the issue of Southern enlargement, Eastward enlargement – with the related institutional reforms and the reform of agricultural and structural policy – and, finally, the deepening of the Union to an Economic and Monetary Union due to take place in four years. All this requires a vision of the future geographic, substantive and institutional design of the Union. The discussion on this has only just begun.

*Hans-Eckart Scharrer*