

## **Benefits of the east-enlargement of the European Union seen in the context of the globalization of the world economy**

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### **1.§ Apprehensions underlying recent changes in public opinions concerning the east-enlargement of the EU**

In accordance with the "road-map for the east-enlargement of the EU", which was outlined at the EU-Summit in Göteborg in June 2001, we are nearing the final phase of preparations for EU-accession of the "most advanced" candidate countries. Though their choice (which is obviously to be made on the basis of the Progress-report to be presented by the Commission in October 2002) has not yet been made, it might be assumed, that this would concern all the original "first-wave" candidates, as well as four of the original "second-wave" ones. Negotiations concerning the transposition of the relevant clauses of the *Acqui Communautaire* into the legislation of these transition countries are expected to be concluded by January 1<sup>st</sup> 2004 and at that time also all the short-term recommendations presented in each of the Commission's Progress reports are expected to have been implemented. So at first sight it seems, that the enlargement of the EU by the "most advanced" eight candidate transition countries will proceed smoothly and on schedule.

But suddenly, - in this seemingly pastoral situation - the strengthening of a negative stance of part of the population of some of the countries involved - i.e. not only of present incumbents of the EU, but also of some of the above mentioned candidate countries - towards this event may be observed (see results of recent EU-Barometer polls conducted by Eurostat). Thus it becomes questionable, whether the EU east-enlargement resp. EU-accession - will be approved in all these countries by public vote, (i.e. the referendum), which is to take place prior to having it approved by their parliaments. And this is happening at a time, when the so-called "Communication strategy"- which had been launched by the Commission in order to make the population of the countries involved acquainted with the advantages of the east-enlargement of the EU - had been conducted with full force nearly two years. So obviously, it is not the lack of information about these advantages - to which the recent slackening of public support of the east-enlargement of the EU is usually attributed, - but some very real apprehensions, concerning its consequences, which is underlying this untoward development in public opinions.

In our field-research, which had been conducted in most of the countries in which this shift in public opinions had been observed, we have tried to pin-point its causes. And we have come to the conclusion, that most of them are directly or indirectly connected with apprehensions, that the costs of this enlargement - not only its financial, but also its social costs - might be much larger than originally anticipated. In some cases these apprehensions are based on present experiences. So f.inst. already at present may be observed in some of the candidate countries a snow-balling of financial costs of preparations for their EU-accession, showing up in increases of their budgetary deficits and/or their foreign public indebtedness, caused by the need to speed up here besides "institution-building", also some huge infrastructural investments (such as ecological clean-ups, the building of railway-corridors and other all-European through-ways etc.), which surmount by far their actual fiscal revenues.<sup>1</sup>

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<sup>1</sup> At first it was assumed, that a relatively high share of these costs will be covered by various types of "pre-accession aid" which is granted to these countries by the EU. But economic reality has shown, that the amounts earmarked for various aid-programmes (PHARE, ISPA or SAPARD) cover merely a fraction of these expenditures and in many cases could not be disbursed, either because their potential recipients - the municipalities - were unable to co-finance

Also the first signals, indicating the magnitude of social costs, which the fulfillment of conditions of their EU-accession implies, may be observed in individual candidate countries. These are showing up as yet only in a relatively slow increase of their unemployment rate, but this might become much steeper, - especially in countries with a strong agricultural sector - should the envisaged agricultural policies be applied here after their EU accession.

Table No. 1

Changes in the unemployment rate in candidate transition countries in % (ILO denom.)

	1993	1995	1997	1999	2000	2001	2002 partial data
Bulgaria	16,4	11,1	13,7	16,0	17,9	19,1	
Czech Republic	3,5	2,8	5,7	9,4	8,9	8,9	9,3
Estonia	-	5,0	9,4	11,7	13,2	11,8	
Hungary	12,1	10,4	10,4	9,6	5,7	5,7	5,8
Latvia	5,8	6,6	15,9	14,5	14,4	12,8	
Lithuania	4,4	7,3	16,4	15,3	16,1	17,5	
Poland	16,4	14,9	10,3	13,0	15,0	17,4	18,1
Romania	10,4	8,9	8,8	11,5	10,5	8,6	13,2
Slovakia	14,4	13,1	12,5	19,2	17,9	18,6	
Slovenia	15,4	14,5	14,8	13,0	12,0	11,8	12,0

Source: No. 1

It seems, that issues of agricultural policy might still become the "stumbling-stone" for the east-enlargement of the EU, for should present principles of this policy be maintained and applied also in relation to new EU-member states (from among present candidate-transition countries), a high share of agricultural subsidies - which are siphoning off nearly 50% of the EU-central budget, - would have to be redirected to these countries. And the proposal to mitigate this danger by reducing agricultural subsidies made available to them (to a quarter of their volume flowing to present incumbents of the EU), has been proclaimed as unacceptable by most candidate countries, i.e. not only by those with a big agricultural sector, but also by those where this sector was already "slimmed down" to nearly westeuropean proportions. Underlying this stance was the fact, that even in these countries governments have become aware, that - however small the number of their farmers may be, - ensuring them conditions in which they might survive even in coming years, represents one of their important responsibilities.<sup>2</sup> Besides, in all

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the respective investments appropriately, or because the red-tape connected with applying for funds surmounted by far their administrative capabilities. We ascertained, that preparing properly - and according to the Commission's rules - an application for an ISPA grant requires up to a year-long effort of all the technical staff of the applying municipality (plus a lot of outside technical aid), while it has merely a 1 to 100 % chance of being accorded the requested funding. This is obviously discouraging municipalities from applying for ISPA grants, - however urgently they need the money. Slovakia was openly criticised (by the Commission) for not having applied for funding, which had been made available to this country in the framework of the above mentioned three pre-accession aid programmes. This led here to the establishment of consulting firms and public task-forces in charge of helping municipalities and other institutions to cope with the unnecessarily complicated red-tape connected with applying for these grants. The fact, that also in other candidate countries persist gaps between pre-accession aid earmarked for them and its actual drawing proves, that even for them this complicated red-tape represents a veritable barrier for making use of the commitments the EU has made in this respect.

<sup>2</sup> It should be noted, that adjustments of the CAP, which were proposed after lengthy negotiations conducted by the IGC (Intergovernmental conference), merely revealed, that at present this policy is non-reformable. Not even the so-called "Fischler proposal", presented in mid-2002, represents a viable way out of the above mentioned dilemma, for it envisages the pay-out of full agricultural subsidies to new EU-member states (i.e. to present candidate countries), provided they will "switch over" presently to ecological production. This makes these payments conditional on the fulfilment of a condition, which farmers in these countries will be unable to fulfil for at least a decade. The acceptance of this proposal would result merely in establishing a "second barrier" for farmers in these countries to be accorded a non-discriminatory treatment, which would come to the fore only after their EU-accession, causing a huge wave of resentment to develop among their population at that time.

candidate countries there are strong objections against their being treated as "second-rate" EU-member states, which such a curtailing of agricultural subsidies made available to them, would imply.

Apprehensions of their population, that candidate-transition countries would be treated in this manner, were strengthened further by the insistence of representatives of some of the present incumbents of the EU, on preventing citizens of these countries to seek employment in other EU-member states during 5 plus 2 years after their accession to the EU.. Even in those candidate countries, whose population is not interested in working abroad,<sup>3</sup> this decision of the EU is negatively influencing its attitude towards EU-accession, because it is regarded as a serious offence against principles of their non-discriminatory integration into the Union, as these imply granting them all "four freedoms", including that of free movement of their labour-force in its framework. This offence is felt the more keenly, as requests for far more modest derogations, which had been presented by individual candidate countries in the course of their pre-accession negotiations, had been repeatedly rejected. At first sight it might seem, that insisting on this derogation - though it is clearly detrimental for the economic perspectives of individual candidate countries and in some of them also for the enactment of their political obligations<sup>4</sup>, - will be at least beneficial for the stabilisation of conditions on the labour market of present incumbents of the EU. But our computations indicate, that even here its implementation might have negative effects, because it will prevent their entrepreneurs to benefit from lower wage-levels accorded to "guest-workers", they will be deprived of an important calculatory advantage, which might have strengthened their competitiveness and subsequently also their foreign sales possibilities, which would have led to an increase - and not to the expected reduction - of employment opportunities in present incumbents of the EU.

Finally I would like to mention still another reason for the waning support of the population of some of the present incumbents of the EU for its east-enlargement, which is caused by apprehensions concerning the magnitude of financial costs of this enlargement. These apprehensions have recently come to the fore, due to the increased attention given to this topic in the media. They have strengthened in spite of the fact, that practical experiences have shown, that it is possible to keep these costs very low. Let me remind the audience, that the European Commission succeeded in "accommodating" in the central EU-budget for the years 2000-2006 not only pre-accession aid to be granted to individual candidate countries, but also payments of various funds which will be disbursed to them after their accession to the EU, while the full volume of subsidies regularly flowing to present incumbents of the EU had been maintained and in some cases even increased.

Table No. 2.

EU spending on enlargement as a proportion of total EU spending in 2000 – 2006  
(in bill. ECU resp. EUR)

	2000	2001	2002	2003	2004	2005	2006
Total EU spending	97	99	105	107	109	112	114
EU spending on enlargement	3	3	9	11	14	16	18
% of EU spending devoted to enlargement	3	3	9	11	13	14	16

Source: No.13

Thus in these six years the share of candidate countries in expenditures of the EU budget will reach hardly 11%, while after some of them will become EU-member states (presumably in 2004) their contributions to the revenue-side of this budget will reduce further the additional burden, which it will have to carry due to the envisaged east-enlargement of the EU. And should it be possible to keep the growth-rates in present as well as in future EU-member states at the anticipated level (of at least 2% p/a in the former and 4% p/a in the latter), it might be possible to cover all necessary expenditures of the central

<sup>3</sup> Investigations have revealed, that there are huge differences in migratory tendencies in individual candidate countries and that in some of them the interest in seeking work abroad is only marginal. As a proof can serve also the low interest in the "green cards" (work-permits) offered by the FRG to foreign ITech specialists, which persists in most candidate countries in spite of the high share of such specialists among their younger population.

<sup>4</sup> f.inst. in Hungary, whose government had committed itself to give to Hungarians living in neighbouring countries the opportunity to seek work in Hungary - which is often the only way how to protect them from extreme poverty.

EU-budget while keeping the level of contributions to it at the present level (of 1,27% of the GDP of individual member states). This lets us infer, that even in future these macroeconomic costs of the east-enlargement will be relatively low (provided the economic situation in some of the new member states will not deteriorate, due to untoward interferences with their development pattern).

But at this point I wanted mainly to stress, that the magnitude of these macroeconomic costs represents only one side of the picture; that in order to evaluate the pros´ and cons´ of the east-enlargement of the EU properly, it is necessary to compare them with the potential benefits of this enlargement. Some of these benefits are already well known not only in the business community, but also among the population of all the countries involved. (Among them figures first of all improved access to the markets of partner countries, economies of scale and scope, technology transfers etc.). But at present new potential benefits of the east-enlargement of the European Union are coming to the fore. These are given by the fact, that east-west corporate networking developing in its framework (possibly also beyond its eastern border) represents one of the few possibilities how EU-member-states and their business community might cope successfully with fundamental changes in their external environment , caused by the globalisation of the world economy and relevant policy-measures and corporate strategies, which already are, or will be adopted before long, in its overseas regions.

## **2.§ Signals of necessary changes in the pattern of east-west corporate networking in Europe**

As our previous research-results have revealed,<sup>5</sup> east-west corporate networking developed in Europe throughout the 90s at a relatively high pace. It had contributed substantially to improved capacity utilisation in the manufacturing industry of European transition countries, as well as to cost-reductions achieved by EU-based companies. But as yet it caused companies based in present incumbents of the EU to dislocate to individual transition countries mostly only labour-intensive, technologically simple, low-value-adding productions and to source mainly products of such productions from these countries. This behavioural pattern persisted even after the share of engineering products and products of other skill-intensive industrial branches increased spectacularly not only in exports, but also in overall industrial output of some of these countries. (So f.inst. at present the share of products coming from their engineering industry -i.e. SITC 7 items - in exports of Hungary has reached about 54%, in the Czech Republic it has surmounted 50% and preliminary data indicate, that in Slovak and Polish exports this share has reached about 40%). This structural change is regarded by many economists as a proof, that corporate strategies applied in the manufacturing industry of these countries have already resulted in fully utilising special skills of their labour force, as well as other factors underlying their robust technological potential.

Unfortunately, the outcome of investigations, which we have conducted last year, does not confirm this thesis. We have ascertained, that most domestically owned enterprises operating in the engineering industry of these countries are engaged either in commission work, or they are acting as second-tier or even third-tier subcontractors And foreign-owned firms established in the engineering industry of these countries - some of which account for a major share of their overall machinery exports - are only rarely enacting so-called "full productions". Some of them are operating here merely assembly plants, others - though they are considered to be full-scale producers of final products - are conducting here mainly labor-intensive operations, while sourcing the majority of skill-and RandD intensive "inputs" from abroad.

Probably in response to the increase of competitive pressures coming from abroad, some of those EU-based companies, which have already become genuine "global players", have already adopted the principle to source from neighbouring transition countries also somewhat more skill-intensive semiproducts, provided their price is at least 40% lower then that of identical semiproducts of EU-provenance. A few of these companies have even established "sourcing centers" here, which are in charge of seeking such favourable purchasing possibilities. But such cases are as yet extremely rare, while the predominant corporate strategy, applied by the majority of EU-based industrial companies, is the above mentioned one, which resulted in their importing from these countries mostly only technologically simple products and to outsource to them merely such segments of their production-chain, which cannot be

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<sup>5</sup> see publications. No. 10 and 11. mentioned in the overview of references attached to this paper.

operated profitably in EU-member states due to relatively high wage levels established here. Simultaneously they are trying to "keep at home" most higher-value-adding segments of their production, whose higher yields enable them to cover these increased labour-costs without problems. This tendency is enhanced also by a wide range of policy measures - applied either on the national or on the Community level - which are encouraging EU-based companies, to use "inputs" of domestic or other EU-provenance.

Consequently, behavioural patterns applied at present in the manufacturing industry of individual EU- member states are developing in line with requirements of local trade-unions, which are strictly against the outsourcing of any higher-value-adding activity because they assume, that thereby numerous jobs would be lost. But simultaneously they are by-passing numerous cost-advantages, which they might have made available to them, if they would not have limited the scope of their international relations with their counterparts in transition countries in the above mentioned manner. With barriers, which the implementation of this restrictive corporate strategy of EU-based companies creates for an effective restructuring of the manufacturing industry of individual candidate transition countries, we have dealt already in our previously published studies.<sup>6</sup> At present we wanted mainly to express our concern about the consequences, which its continuing implementation might have on the future competitiveness of an east-enlarged European union, on the position which the Union will occupy in the global economy. The following data, which show how strongly the share of the European Union in world exports of manufacturing goods has been observed to diminish since the beginning of the 90s, while the share of Japan in these exports has remained unchanged - in spite of the doll-drums in which its economy has been for years - and the share of the USA has been observed to increase substantially in spite of the "strong dollar" and the shift in the structure of its overall exports in favour of services, can certainly be regarded as an indicator of what these consequences might be in future, should the urgent need to change these strategies be disregarded.

Table No. 3

Changes of the share of individual members of the "triad" in world exports of manufacturing goods (i.e. SITC 5 - 8 less SITC 68).

Years	World	European Union	USA	Japan
1990	100.0	44.0	15.0	3.8
1995	100.0	37.9	15.9	4.4
1999	100.0	38.0	19.0	3.8

Source: No.2

Obviously, there exist several causes for this decrease of the market share of the European Union in exports of manufacturing goods,<sup>7</sup> but results of an in-depth-analysis conducted by a renown German research institute<sup>8</sup> let infer, that the long-term implementation of the corporate strategy of EU-based industrial firms outlined above, played in it an important role. This analysis revealed, that Japanese, as well as US based industrial companies, had been benefiting much more then EU-based ones from the technologically given possibility of segmenting their production chains, that they have been consistently and for years dislocating individual segments of this chain - whether labour-intensive or skill-intensive, whether low-value-adding or high-value-adding - to those countries and regions, where they can be operated best and simultaneously at the lowest possible costs.

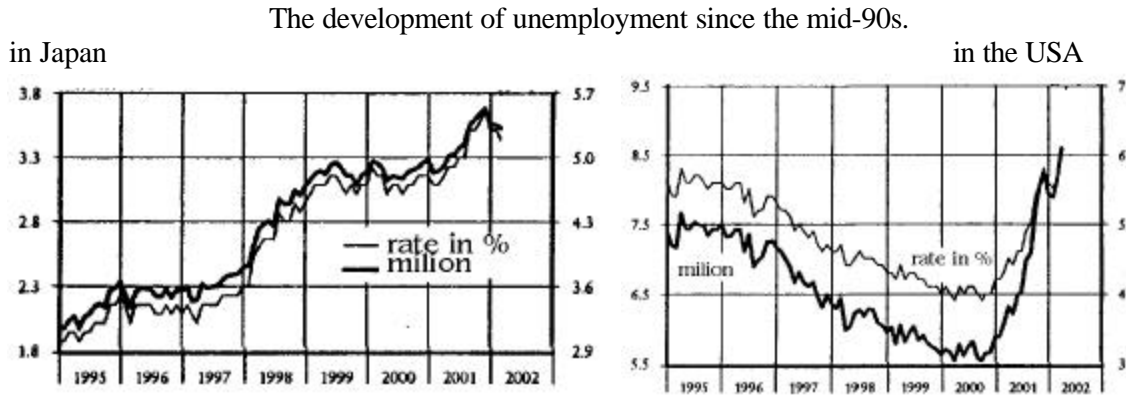
Astonishingly, the implementation of this strategy was not detrimental to the situation on their labor market, for in Japan the unemployment rate has even during its hitherto deepest economic recession been kept between 3% and 5,5%, while in the USA it has oscillated throughout the 90s. between 4% and 4,5%, coming up to 5,8% only while reaching the "trough" of the recent recession, while at present it may be observed to recede again.

<sup>6</sup> see. Publications No. 10, 11 and 14 mentioned in the overview of references, attached to this paper.

<sup>7</sup> but it should be noted, that a shift in favour of exports of services is not among them, for in the USA this share is much higher then in the EU.

<sup>8</sup> the Rheinisch-Westfälische Institut für Wirtschaftsforschung, Essen.

Table No. 4

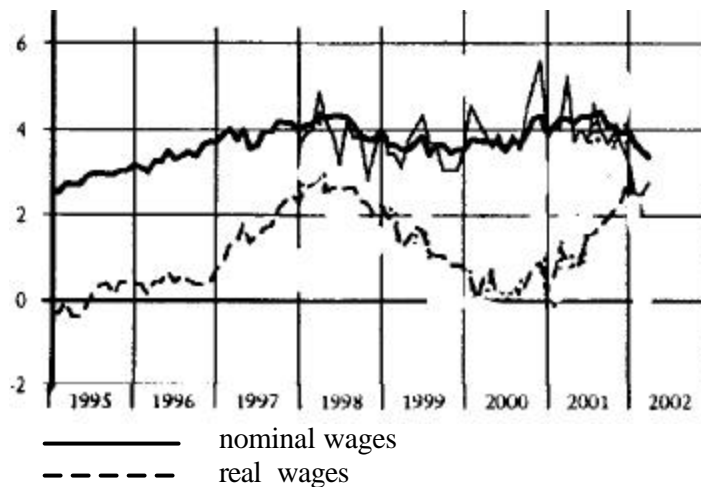


Source No. 3.

There had been even voiced the opinion, that it were these globalistic outsourcing practices - and the increased competitiveness of numerous US-based and Japanese industrial companies reached thereby - what had helped to keep the unemployment-rate in these two countries at half the level usual in the EU. I personally regard this assumption as a crude simplification, for it is well known, that the competitiveness of the business community in these two countries has been influenced also by numerous other factors. In order to ascertain which of them are less pronounced in the EU, we have undertaken a comparative analysis - not only of corporate strategies applied in the manufacturing industry of the above mentioned three members of the "triad", but also of policy measures which had been conditional for their implementation. The limited size of this publication does not permit me to present here all the findings we reached in the course of this investigation. So let us look briefly at least at the causalities, which seem to have contributed most to the strengthening of the competitiveness of US-based industrial companies. (At first sight this "extempore" seems to be far removed from the topic of our present workshop. But you will become presently aware, that it is aimed at pin-pointing the manner, in which the business community in present and future EU-member states will have to react to new challenges, with which it will be faced before long.)

Table No. 5

Year-to year and quarterly % changes of hourly wages in the USA



Source: No. 3

We have ascertained, that an important role in this process had played the fact, that for decades the internal market of the USA was wide open to inflows of cheap consumer goods and some food products imported from developing countries, for in this manner the living costs of "the man from the street" could be kept relatively low. Therefore pressures on wage increases had been feeble, making it possible to keep wage-levels for years and years more-or-less flat.<sup>9</sup>

Thus labor-costs in the USA were - and still are - lower then in those mature market economies, where attitudes towards imports of very cheap consumer goods and food products from developing or emerging countries are more strict. This certainly gives to US-based companies an important calculatory advantage.

Moreover, their outsourcing practices have been observed to be far more rigorous then those, applied in most other mature market economies. An increasing share of big companies operating in the US manufacturing industry has been observed to be outsourcing to "lower-wage countries" practically any segment of their value-adding chain, which can be dissociated from their core-production, re-importing the proceeds of this outsourcing, - i.e. the semiproducts which had been produced by their foreign subsidiaries or co-operation partners in low-wage-countries - at a fraction of the costs they would have incurred, if they would have produced them "in-house".

We have ascertained, that not only the implementation of the above mentioned, but also of other "globalistic" practices applied by US-based industrial companies, had led to the strengthening of their competitiveness not only on foreign markets, but also on their domestic market. It has strongly contributed also to the dramatic increase of their profits, which even at present - i.e. even in the aftermath of the ENRON "affair" - are still surmounting by far average profit levels achieved in the EU. The magnitude of this differential in profit levels is so huge, that it had caused FDI-flows<sup>10</sup> from the EU to the USA to be much stronger then vice-versa - in spite of the fact, that interest-rates on investment capital (on long-term bank credits) are in the USA much lower then in Europe.

Table No. 6

Flows of FDI from the Euro-zone to the USA and vice-versa, in bill USD.  
(in current prices)



Source: No. 4.

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<sup>9</sup> It is often argued, that the relatively robust growth of wage levels observed in the EU at that time was due mainly to the fact, that trade-unions have a far stronger position here, then in the manufacturing industry in the USA. But it cannot be doubted, that to this increase of wage levels has contributed also the fact, that imports of very cheap consumer goods and food products from "third countries" were and still are restricted here. Besides, domestic prices of these products are "inflated" by relatively high import duties and in the case of food products also by the CAP, implemented here. And all these influences, - however unrelated with developments of wage-levels they might seem, - are in fact diminishing the competitiveness of European companies on world markets.

<sup>10</sup> abbreviation of foreign direct investment

Before considering, whether the business community in the east- enlarged European Union should adopt similar corporate strategies as described above, we should try to clarify, what would be the social costs of their implementation. We need an answer to the question, whether a stronger involvement of EU-based industrial companies in "international production" - which implies among others also the massive outsourcing of part of their activities to other countries, - would cause here vast losses of employment opportunities. Our above mentioned findings let infer, that by-and-large these apprehensions - which were voiced not only by trade unions, but also by some west-European scholars and policy makers - are unfounded. Or to be more precise: the assumption that the implementation of these strategies would have a serious impact on conditions developing on the labor market of the countries whose companies are most strongly involved in these outsourcing practices, is correct only if their implementation will lead to the re-allocation of entire industrial productions to other countries, while no new employment opportunities are created in the respective country in other companies, branches or sectors. But if only part of the "core-production" of the respective company is outsourced and that in an appropriate manner, then the implementation of these strategies might have important positive effects, beginning with the expansion of its sales-possibilities, which might in time lead to the creation of numerous new employment opportunities even in its "core-plant", and ending with the strengthening of the position of the company operating the respective international corporate network on the domestic, as well as on foreign markets. Our previously described findings also signalise, that in line with the increase of the number of companies based in the respective country, which will adopt such strategies, - there might be expected substantial improvements not only of the export performance of the respective country, but also of the situation on its labour market.

Of course, these benefits will accrue only if in the "home-country" of companies applying such globalistic corporate strategies, as well as in all the "host countries" where enterprises linked into their international corporate network are located, will be established preconditions for a proper and smooth implementation of these strategies; if these preconditions will not only reduce the risks inherent to their implementation, but also make their positive effects available to all the economic subjects (companies and countries) involved in them.

### **3.§ Benefits of the east-enlargement of the European union in the context of world-wide globalisation processes**

From our above mentioned findings it is possible to infer, that to prolong in the European manufacturing industry the implementation of the "inward-looking" corporate strategies described above, might have before long disastrous consequences. This has been signaled not only by the above mentioned losses of market-shares which EU-based industrial companies have already incurred (see table No. 3), but also by macroeconomic developments during the past year-and-a-half. These revealed, that the assumption, that a two-thirds share of mutual trade flows between EU-member states in their overall foreign trade and a similarly high share of EU member states in overall exports of candidate transition countries, will protect them from "economic shocks" coming from other regions of the world economy, was wrong. By now it is already well known, that the recession which started in the USA at the end of 2000 and the subsequent "cooling off" of the world economy - which resulted among others in the reversal of the dynamics of world trade from an increment of its volume by more then 13% in 2000 to an absolute decrease of its volume by nearly 4% in 2001 (and the absolute decrease of the volume of trade in manufactured goods by 2,4%), - had a dramatic impact on economic developments in both these groups of European countries. As data presented in the following table No. 7. clearly show, they had caused their "economic fundamentals" to deteriorate instantaneously and nearly as strongly, as happened in the "epicentre" of these upheavals, while the economic recovery which is expected here, will most probably come somewhat later and will be less pronounced then in this "epicentre" i.e. in the USA.



Table No. 7.

The growth of the GDP in selected countries and regions  
(annual percentage changes of volume).

	2000 <sup>R</sup>	2001 <sup>R</sup>	2002 <sup>F</sup>	2003 <sup>F</sup>
United states	4.1	1.2	2.0	3.3
Japan	1.5	-0.4	-0.8	1.0
Western Europe	3.4	1.7	1.5	3.0
Centraleast Europe	3.7	3.0	2.7	2.8

R: reality, F: forecast

Source: No. 6.

From this may be inferred, that in the ongoing globalization of the world economy, Europe had become highly vulnerable by any reversals which might happen not only on this continent, but also in other regions, even if these are situated on the other side of the globe. To this European companies must "face up", they must become fully competitive not only on the "Single market", but also in the global context. This seems to be imperative also for socioeconomic reasons, for covering merely EU-internal demand, - which has been already during the past two decades increasing at a relatively low pace, - could hardly lead to the urgent reduction of the high unemployment rate persisting in the EU.

Table No.8

Ten-year averages of yearly percentage changes of the increment of real domestic demand in selected countries and regions

	1983-92	1993-2002
United States	3,4	4,0
Japan	3,9	1,1
Germany	3,0	1,5
France	2,1	1,9
Italy	2,7	1,4
United Kingdom	2,7	3,2
Canada	3,1	3,1
European Union	2,8	2,2

Source: No. 2

It should be noted, that inroads into sales-possibilities of EU-based companies on domestic markets are caused much less by increasing imports of so-called "sensitive products" (of which policy-makers of EU-member states, as well as some of their scholars were very apprehensive at the beginning of the 90s.), then by massive imports of HI-Tech. related goods and services. It is mainly in trade with the latter group, that the respective "commodity balances" in foreign trade of individual EU-member states are showing repeated deficits.

Reaching global competitiveness - not only in present, but also in new EU-member states - is obviously conditional on a wide range of factors and measures. But the implementation of a full set of globalistic corporate strategies - whose main features we tried to outline in the previous chapter of this paper - by most big EU-based industrial companies, certainly belongs to them. In this context it is of major importance, that the envisaged east-enlargement of the EU might give them - already in the course of this decade - unlimited access not only to the markets, but also to the production base of upto ten candidate transition countries with a summary population of nearly 105 million persons. After these countries will accede the EU, its summary population would reach, or even surmount slightly, that of the NAFTA<sup>11</sup>, which represents a hitherto underestimated very important geopolitical and competitive factor.

<sup>11</sup> the North-American Free-trade Zone

With regard to the economic perspectives of the east-enlarged European union, it is of utmost importance, that in these ten new member states labor costs are as yet as low as in emerging countries in other regions of the world. Consequently, a rational utilisation of this vast new production base could lead to a substantial strengthening of the competitiveness of EU-based companies and thereby to a spectacular increase of their export revenues and profits. It could result in a dramatic increase of the export performance of the EU and thus also in the recovery of its share in global exports of manufactured goods. (See table No. 3). And this would certainly improve the situation on the labor markets not only of present incumbents of the EU, but also of new EU-member states (see table No. 1), simultaneously easing the tensions in public finances, which the latter group of European countries are experiencing at present.

We would like to draw the attention of the audience to the fact, that with regard to the above mentioned benefits, which present incumbents of the EU and individual members of their business community will be able to derive from the east-enlargement of the EU, the net costs of this event to be covered from the central EU budget (see table No. 2),- on which is now focused the attention of numerous scholars and of the population of several EU-member states - seem to be strongly overestimated. It would be much more to the point to compare the magnitude of the economic aid, which will be granted to individual new EU-member states (from among the present candidate transition countries) in the guise of structural, and CAP funds, with the above mentioned and other positive effects which the east-enlargement of the EU will have on the microeconomic level not only in new, but also in present EU-member states. Preliminary assessments indicate, that this summary reckoning will reveal, that these and other positive microeconomic effects of this event will surmount manifold its costs, incurred on the macroeconomic level.

In this evaluation of potential benefits of the east-enlargement of the EU is usually not yet included the fact, that it might be granting to EU-based companies not only the necessary know-how, but also business contacts, which they will need for a possible later expansion of their entrepreneurial activities further eastwards - to individual republics of the CIS, possibly also to other transition countries which do not yet figure among EU-accession candidates - i.e. to a vast territory encompassing a population of more than half a billion persons. The importance of such an expansion of their corporate networks will increase, once the All-American Free-trade Zone (encompassing a similarly numerous population) will be established, for this will give to US-based companies unlimited access not only to the markets of all Latin-American countries, but also to an extremely cheap subdelivery base of an unprecedented dimension, whose utilization - in the manner described previously - will further increase their competitiveness. With regard to this perspective a built-up of a similarly large and low-cost subdelivery base beyond the eastern border of the EU seems to be one of the fundamental preconditions for preserving, possibly even improving, the position of the European manufacturing industry on the domestic, as well as on foreign markets. But this perspective is accentuating also the necessity to adopt and develop in this industry truly globalistic corporate strategies, for otherwise the expansion of entrepreneurial activities of these companies further east might be more instrumental in increasing their risks, than their countervailing power, which they might use in competition with their overseas competitors.

Finally we would like to stress, that the east- extension of corporate networks operated by EU-based companies, not only to individual candidate transition countries, but even beyond the eastern border of the EU, which will appear after its east-enlargement, represents one of the few available possibilities for appropriately strengthening the position of these companies on world markets and in global (internationally conducted) production. And the increased competitiveness of these companies, which might be achieved thereby, represents simultaneously one of the most important preconditions for the strengthening of the position of the EU in the world economy. This is of utmost importance especially at present, when integration processes proceeding in other regions of the world economy are not only deepening, but also increasing their scope (see f. inst. the impending creation of the All-American Free Trade Zone or the ongoing incorporation of China into integration processes developing in Southeast Asia), when the inability of the EU to resist competitive pressures generated in these regions, might have very serious consequences for its perspectives. The awareness of this fact calls for a reassessment of the implications of the east-enlargement of the EU for its present incumbents. It shows this process in a new light, not as an additional burden which present EU-member states will have to take on, as it is as yet regarded by part of the population of these countries, - but as a key to ensuring their positive perspectives in a rapidly globalising world economy.

#### **4.§ Basic preconditions for "reaping" potential microeconomic benefits of the east-enlargement of the European union**

As a concluding remark I would like to stress, that the implementation of corporate strategies described in this paper cannot be regarded as a "patent recipe" which will bring the above mentioned positive results whenever and under whatever conditions they are implemented. Not only members of the business community, but also policy-makers should become aware, that the success of these strategies is dependent on the fulfillment of a wide range of preconditions.

Among them will surely figure the necessity to adopt an adequate approach to developing east-west business relations in Europe, to do so with appropriate expertise and with regard to cultural differences and traditions. (There is a general belief, that this prerequisite is being observed already since the early 90s, but the results of our field research indicate, that disregarding this requirement is even at present more the rule than the exception).

The success of the envisaged east-extension of corporate networks of EU-based companies might be jeopardized also by some of the still entrenched ailments of transition countries (f.inst. by the slow functioning of institutions, the difficult enforcement of the rulings of courts, sometimes also by still persisting corruption). Much less known is as yet the fact, that the success of the implementation of new-globally oriented - strategies described in this paper might be jeopardized also by presently introduced changes in conditions in which east-west trade flows will proceed in future and/or industrial production will have to be conducted in individual candidate transition countries.

Just as an example of this may be mentioned the fact, that adopting the relatively high "common tariff" and the strict implementation of "rules of origin" in foreign trade of new EU-member states, will most probably curtail trade relations and co-operations between their business community and their counterparts in transition countries beyond the Community. This will certainly reduce not only existing trade-flows between these countries (which might have constituted a calculatory advantage of indigenous firms in new EU member states), but it will also disrupt ties of long standing between industrial enterprises established in both groups of transition countries. This will make it very difficult to utilise their long-established good contacts as a bridgehead for the above mentioned expansion of entrepreneurial activities of westeuropean industrial companies eastwards.

The success of these strategies is conditional among others also on the utilisation of specific comparative advantages of all the countries involved. It requires the emergence and the usage of synergies, based on a symbiosis of specific comparative advantages of "mature economies" and those of "emerging economies". The problem may be seen in the fact, that - in order to fulfil some of the conditions of EU-accession - candidate transition countries will have to shed some of those "emerging countries" comparative advantages, on which the competitiveness of their indigenous industrial enterprises was as yet based. As such a competitive advantage is regarded f. inst. the fact, that - thanks to the special skills of their labour force - these enterprises were able to achieve top-level quality standards (to fulfil ISO-norms etc.) while operating on machinery of older vintage. Unfortunately, on this machinery usually cannot be fulfilled EU-regulations concerning "safety at work" or "clean production". So with the incorporation of these regulations into the legislation of these countries - which has to be done already prior to their accession to the EU - many of these firms will probably have to close down, as they cannot afford to install new machinery which would enable them to qualify in this respect. They are unable to install such machinery not only because of the lack of own financial reserves, but also because interest rates on long-term credits available in these countries usually surmount by far the profit levels these enterprises will be able to achieve. So instead of finding in these countries a rich selection of viable low-cost subcontractors, industrial companies based in present incumbents of the EU might find here a void, or newly established and newly equipped foreign-owned companies, whose deliveries will be far less cheap. So by the very enforcement of these new rules, the calculatory advantage, which westeuropean companies might have used for strengthening their own competitiveness, might get lost.

Similar consequences might have also the introduction of social standards of the EU envisaged in all the new accession countries. The strict enforcement of these standards will weaken mainly the

competitiveness of indigenous enterprises,<sup>12</sup> for their low revenues - given by the very low prices they are able to achieve for their products due to the fact, that on foreign markets they are regarded as "no-name products" - do not enable them to absorb additional indirect labour costs, which reaching these standards implies. So instead of improving the fate of the local labour force, the introduction of these standards might cause a further increase of the unemployment rate in these countries - provided an increased inflow of foreign direct investment will not create numerous new employment opportunities. It will lead also to the curtailing of another important comparative advantage of these countries - of their as yet persisting extremely low labour costs - which westeuropean companies might have utilised also in future in their favour.

These comments are not meant to support the plea for derogations. For this it is already too late, as pre-accession negotiations concerning most relevant clauses of the Acqui Communautaire are already closed, and nobody wishes to open them once more. I wanted merely to remind the audience, that even in present incumbents of the EU some of these regulations are not enforced. And even if they are, there are differences in the strictness of their enforcement. So let us try to use this lee-way in order to preserve some of the specific "emerging economy's" comparative advantages of new EU-candidates (from among transition countries) until they will be able to adopt and utilise a full set of "mature economies'" comparative advantages. And this will obviously last some time, - in spite of the spectacular inflow of foreign direct investment into their economies which may be observed at present.<sup>13</sup> Let us try in this manner to preserve in this limited time-span the present comparative advantages of their indigenous firms, for otherwise the basis for the full usage of the above mentioned corporate strategies in these countries might disappear.

Finally I would like to make the audience aware of the fact, that a successful implementation of these corporate strategies is conditional also from the willingness of EU-based multinationals to relegate to their subsidiaries, co-operation partners and suppliers situated in individual candidate transition countries a place "higher up" in the production-chain they are operating. This is necessary not only because of the gradual increase of labour costs observed here, but also because of the ongoing erosion of the internal buying power of their currencies, which is increasing the costs also of other "inputs" into their production. Under these conditions these enterprises are no more able to "squeeze" into the low price levels achievable for technologically simple labour intensive products, which they are predominantly producing now. To disregard this fact might cause the chances of an east-extension of the subdelivery base of westeuropean companies to vanish and with it also their chances of reaping cost-advantages, which they might have made available to them in this manner. Numerous tests we and associated researchers have undertaken in the manufacturing industry of centraleuropean candidate transition countries have revealed, that the skills necessary for such a shift in the material content of their production programs are there. This shift might thus be implemented presently and that not only to the advantage of their indigenous firms, but also to the advantage of westeuropean companies, for the differences between wage levels of highly skilled workers in these countries and wages paid to such workers in present incumbents of the EU are much higher than in the case of unskilled workers. As yet it were mainly the latter type of wage differences, these companies have been utilising while operating in these countries.

Of course, such an improvement in the position of these indigenous firms in the framework of corporate networks operated by westeuropean companies, will require them to change also their own corporate strategies. They cannot merely enjoy their linking into the higher reaches of the production chain operated by these companies, but they will have also to organise activities at lower levels of this chain, as the newly (since the early 90s) adopted organisational pattern of these chains is usually an upside-down affair. That means, that each of the firms linked into this chain is fully responsible not only

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<sup>12</sup> not that of foreign-owned companies, for not only their higher productivity of labour, but also higher prices they are able to achieve for their products, enable them to cover easily the increased "indirect labour costs", which adopting these social standards will imply. Nevertheless it are mainly foreign-owned companies, which protest against the envisaged increase of these costs most vehemently, while domestic enterprises will accept them docilely and die quietly.

<sup>13</sup> As another line of research conducted at our institute had revealed, as yet corporate strategies of most EU-based industrial companies operating in these countries are aimed mainly - or predominantly- at utilising the extremely low labour costs still persisting in these countries. As our last year's statistical analysis had revealed, at present more than 60% of fully foreign owned companies are engaged in outward processing traffic and/or in other highly labour-intensive, but not skill intensive activities).

for its own performance (its impeccable qualitative and contractual discipline), but also for that of his supplier operating at the "once-down" segment of the chain. If any firm is unwilling to accept such extended obligations, the parent company will probably substitute it with another firm, which is willing to do so.

Besides, in order to remain competitive, - be it while linked into such a corporate network, or while acting on the market as seemingly independent economic subjects, - these firms will have often to outsource to other still lower-wage countries part of their own production-programme. They will have to seek in such countries subcontractors and/or co-operation partners or to establish here their own subsidiaries. So the corporate strategy of such firms will have to include in future also foreign direct investments (which upto now was only rarely the case), as well as the built-up of their own very low-cost subdelivery base abroad.<sup>14</sup> Thus the necessity to internationalise corporate strategies will before long permeate even behavioural patterns of medium-sized and smaller firms situated in the manufacturing industry of individual candidate transition countries and future new EU-member states. Without adopting such strategies, these firms will be doomed, however good the quality of their products might be. This fact should be impressed on them already now - in order to give them time to prepare for this change not only financially and institutionally, but also psychologically.

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<sup>14</sup> See ref. No. 15 and 16.

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