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**Impact of the Eastern Enlargement in 2004 on the EU
with a Special Emphasis Germany, France, Poland and Hungary**

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Table of contents

1.) Economy of the European Union.....	3
2.) Economic Facts – Pre- accession statement.....	5
2.1. Transitional regulations.....	6
2.2. Free movement for workers after enlargement?.....	7
3.) Post- accession statement.....	9
3.1. General facts – introduction.....	9
3.2. Economic growth, convergence and employment in the past two years.....	11
3.3. How is the situation in the new member states?.....	13
3.4. CEE countries in the Euro zone?.....	14
4.) Situation in Germany.....	15
4.1. Forecasts.....	16
5.) Situation in France.....	17
5.1. Economic situation in France.....	17
6.) Situation in Poland.....	18
6.1. Migration and related changes in Poland.....	19
7.) Situation in Hungary.....	20
8.) Summary.....	21

1.) Economy of the European Union:

The EU was already founded in 1952. At the beginning having 6 member states, the EU has now grown to a Union of 25 member states. Ten of them joined the EU only 2 years ago, in 2004.

As this was probably the most discussed and criticized enlargement because the new members are all post- communist countries of Eastern Europe and by many Europeans considered to have weak economies, the economic impacts of the 2004- enlargement are to be discussed in this paper.

The European economy is the largest in the world, even larger than that of the US. According to the International Monetary Fund, the European Union's GDP in 2005 was 12,865,602 million; the GDP in the US was 11,734,300 million¹. As the population in the US is half of that in the European Union, the average GDP per capita is 40,000 US \$ versus 28,100 USD. Through the enlargement in 2004, one further step towards an international most competitive EU has been made.

The GDP per capita is in fact not equal in all member states. There are huge differences between the old and new member states, i.e. the countries that have been members before 2004 and the ones that became members in 2004. With the exception of Greece, Spain and Portugal, all the old members have a GNI above average, all new member states and the mentioned old ones have a GNI below average. The following table shall give an overview of the main economic data from the several states²:

Table 1: Overview Over The Main Economic Data of the EU Countries

Member state Sorted by GDP	GDP in billions of \$ (USD) (real exchange rates) (2004)	GDP % of EU (2004)	GDP per capita in PPP \$ (USD) (2006 est.)	Public Debt % of GDP	Deficit % of GDP	Inflation % Annual	Unempl. %
European Union	12, 690.6	100.0 %	28 477	63.8	-2.6	2.0	8.8
Germany	2 714.4	21.4	31 572	66.0	-3.7	1.8	9.6
UK	2 140.9	16.9	31 628	41.6	-3.2	2.0	4.6
France	2 002.6	15.8	30 322	65.6	-3.7	1.8	9.8
Italy	1 672.3	13.2	29 727	105.8	-3.0	2.2	7.8
Spain	991.4	7.8	27 542	48.9	-0.3	3.2	9.9
Netherlands	577.3	4.5	32 062	55.7	-2.5	1.5	5.0
Belgium	349.8	2.8	32 500	95.6	-0.1	2.7	8.1
Sweden	346.4	2.7	31 235	51.2	-1.4	0.8	6.3
Austria	290.1	2.3	35 002	65.2	-1.3	2.0	4.6
Denmark	243.0	1.9	36 079	42.7	-2.8	1.7	4.9
Poland	241.8	1.9	13 797	43.6	-4.8	1.4	17.8
Greece	203.4	1.6	23 519	110.5	-6.1	3.2	9.7
Finland	186.6	1.5	32 822	43.6	-2.1	1.0	8.6
Ireland	183.6	1.4	42 859	29.9	-1.3	1.9	4.2
Portugal	168.3	1.3	19 949	61.9	-2.9	0.6	7.2

¹ Source: http://en.wikipedia.org/wiki/Economy_of_the_European_Union

² Source: http://en.wikipedia.org/wiki/Economy_of_the_European_Union

Czech Republic	107.0	0.8	19 478	37.4	-3.0	1.3	8.1
Hungary	99.7	0.8	18 492	57.6	-4.5	3.7	6.3
Slovakia	41.1	0.3	17 239	43.6	-3.3	2.5	15.5
Slovenia	32.2	0.3	23 250	29.4	-1.9	1.7	5.9
Luxembourg	31.1	0.2	72 945	7.5	-1.1	3.2	4.7
Lithuania	22.3	0.2	15 443	19.7	-2.5	2.0	8.1
Cyprus	15.4	0.2	22 334	62.3	-3.5	1.5	5.1
Latvia	13.6	0.1	13 784	14.4	-0.8	6.6	9.1
Estonia	10.8	0.1	17 802	4.9	-1.8	4.6	7.9
Malta	5.4	0.04	20 365	75.0	-5.2	2.1	6.8

Table 1: overview over the main economic data of the EU countries

The economic growth in the old and new member states is as follows³:

Table 2: Economic Growth in the Member States

Old member states	% GDP Growth		New member states	% GDP growth	
	2004	2005 (est.)		2004	2005 (est.)
Austria	2.4	1.9	Cyprus	3.9	3.7
Belgium	2.7	1.2	Czech Republic	4.4	6.0
Denmark	2.4	2.2	Estonia	7.8	9.8
Finland	2.8	1.8	Hungary	4.2	4.1
France	2.0	1.5	Latvia	8.5	10.2
Germany	1.6	1.8	Lithuania	6.7	7.5
Greece	4.2	3.2	Malta	1.0	1.0
Ireland	5.5	5.0	Poland	5.4	3.2
Italy	1.2	0.0	Slovakia	5.5	6.0
Luxembourg	4.4	3.1	Slovenia	4.6	3.9
Netherlands	1.7	0.7			
Portugal	1.0	0.5			
Spain	3.1	3.2			
Sweden	3.6	2.6			
UK	3.2	1.9			

Table 2: economic growth in the member states

As one can see from this data, the economies in the new member states are growing robustly, although they start from a lower point. Their GDP reaches only 5.0% of the GDP of the old member states; on the opposite, 20% of all European citizens are from the new member countries⁴. Thus, one of the main challenges is that the economy in the new member states catches up the economy of the old member states.

Therefore, and also because of several other factors as labor costs, taxation and other regulations in the economy, there was a huge debate about the consequences of ten 'poor' Eastern European countries joining the European Union. Especially the neighboring countries Austria and Germany and 'rich' or 'popular' migration countries such as the UK or France were afraid that the enlargement would have a negative impact on their economies: labor

³ Source: http://en.wikipedia.org/wiki/Economy_of_the_European_Union

⁴ Source: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf

force would come in, companies would move to nearby regions in the new member states and tax competition might be caused.

On the other hand, the Eastern European countries are, economically, performing very well since years - they have a functioning market economy, constantly positive and high growth rates and are trying to raise their living standard permanently, so that the political position of the EU was that they should be given the chance to join the European Union.

To take these facts as well as the old member states' fears into account, several transitional agreements have been made in the accession treaty for the new member states – actually one of the fundamental freedoms within the EU (namely Art. 39 EG treaty – freedom of settlement) is not yet realized. The different economical aspects of the enlargement will be discussed in this paper, afterwards the four countries Germany, France, Hungary and Poland shall be discussed in more detail.

2.) Economic facts - Pre- Accession Assessment

The old member states had strong economic ties with the new member states even before they became members in 2004. In 2000, 60 – 75% of the exports of the EU countries went to the Eastern European Countries⁵. In 2002, Germany exported nearly as much to Hungary, Poland and the Czech Republic as it did to Italy – even though their whole economy is just one third of that of Italy⁶. German foreign direct investments in that same year came up to 0.4% of the country's GDP. 29.9 % of all foreign direct investments in Slovenia came from the neighbor country Austria. In 2002, 12.5% of all EU- exports were to the new member countries, 10.8% of all imports in the EU were from these countries.

This is not a very recent development arisen in the light of the enlargement, though. The Eastern European countries have been gaining market share in the EU since their market economy has been successfully established⁷. The EU is exporting far more to the Eastern European countries than it is importing. Thus, a huge surplus was created and a total number of more than 100,000 jobs in the EU have been created hereby. Companies have been undertaking foreign direct investments in Eastern Europe since years. To mention an example: Volkswagen (a German car producer) started investing in the Czech Republic already in 1990 – one year after the fall of communism. It acquired the Czech car producer Skoda in different steps (since 2000 VW owns Skoda per 100%). The investments taken since 1990 amount to millions of Euro, many jobs in the Czech Republic could and can be secured hereby. Another example, also from the car industry and also in the Czech Republic is the cooperation of four automobile manufacturers: TPCA – Toyota Peugeot Citroen Automobiles, two famous French car producers co working with Toyota. This investment started in 2001. Through this cooperation, more than 7000 jobs in the whole region are secured.

This does not mean, however, that there is a lack of FDI in the domestic markets. FDI and investments in the domestic market are, on the opposite, positively correlated – this means that FDI were and are undertaken in addition to, and not instead of, the domestic investment. According to a German research, German FDI have created around 450,000 jobs in the East European countries. The overall foreign direct investments come up to a sum of 130 billion Euro. Through FDI Western European companies make sure that they stay competitive – and hereby also jobs in their domestic market can be secured because the company is able to

⁵ Source: http://www.cer.org.uk/pdf/essay_enlargement_two_%20barysch.pdf

⁶ Source: <http://www.ecb.int/press/key/date/2004/html/sp040517.de.html>

⁷ Czech exports grew by more than 230% since 1933, the Hungarian exports for even more tahn 400%; source: Survey: EU enlargement: How to reap the benefits, in: Economic Trends 2/ 2004

lower the costs by employing low- cost workers in the foreign country, whereas the high skilled work force remains in the head office.

Thus, fears that companies might move dramatically more often to the new member states as they would have doing if they didn't become members are not really justified. Indeed, the membership of the Eastern European countries might facilitate companies to move there because there are no restrictions any more and EU law can be applied. But still, the fact that companies are moving to Eastern Europe is not mainly or even partly only because those countries are members now, but simply because it is a consequence of globalization, the world's economy development and of companies having to save costs (if they didn't move to Eastern Europe they would maybe just move to China or somewhere else). And furthermore, the decision if a company moves or not is also dependent on other factors such as a good infrastructure, good technical supplies and so on.

In the light of the future enlargement, Eastern European countries also started to adapt their legislation more to the Western standards years before the actual accession. Thus, their business environment started to resemble that in Western Europe – the result being Western companies feeling more 'at home' in these countries. FDI were reaching a total percentage of around 20% of the total investment and around 5% of the Eastern European countries' GDP even before the accession⁸.

The overall impact on the EU- 15 was foreseen as being negligible. The new members are small compared to the old member states' economy: all together they do not amount to more than 5% of the old EU economies. Thus, they are simply too small to influence economic growth in big countries such as Germany or Italy.

Furthermore, the possible investment potential was considered as having already been pushed to the limit, it was believed that through the accession there would not be significantly more investment or significantly more economic growth in the new members than before.

2.1. Transitional regulations

The ten new member states are full members of the EU since the May 1st, 2004. Nevertheless transitional regulations have been introduced for these Eastern European Member States, while other fundamental freedoms have already been realized. The free movement of goods has already been introduced several years before.

Through the accession free passenger transportation has been implemented. The only exception is the free movement of workers that shall be discussed in more detail in section 2.2. The freedom of services has also been imposed but must not be changed with the international service delivery for which also transitional measures have been taken. Thus international service delivery is not yet totally free.

The free movement of capital is realized only with restrictional measures concerning the acquisition of agricultural and forestal land. For all new member countries except from Malta, Slovenia and Cyprus restrictional measures have been taken. Thus, within the first seven years and in Poland even for 12 years, land can only be acquired under the requirements of the national law.

Direct payments in the field of agricultural policy will be introduced over a period of ten years. In 2004 the payments started with 25% of the EU- level and will reach 100% in 2013.

⁸ source: http://www.cer.org.uk/pdf/essay_enlargement_two_%20barysch.pdf

2.2.) Free movement for workers after enlargement?

As the fear of the EU – 15, respectively the people, was one of the main reasons of all the controversies and debates about the enlargement, this topic shall be discussed more detailed. **Citizens of the EU- 15** were, as already pointed out, pretty **concerned and worried** about a massive arrival of workers from the new member states. On the opposite, most **Western European companies supported** the EU membership of the Eastern European Countries.

These fears have been taken into consideration in the Accession treaty – some restrictional measures have been laid down. At this point it is important to mention that all restrictional measures apply **only for workers** – students, retired persons and other groups (see Art 39 EG- treaty) are not included. Those transitional arrangements lay down that in the first two years after accession the old member states are allowed to apply their national law also to citizens from the new member states. Thus, workers from those countries still need a work permit to work there⁹. The transitional arrangements will last up to seven years. After two years (2006) there will be an evaluation of the situation – thus, this evaluation has already taken place. The concerned countries are given the possibility to prolong the measures for another three more years; after 2009 restricting measures might only be taken if there is a severe threat for the country's national labor market.

Furthermore, a safeguard clause has been implemented: it says, that members who have chosen not to apply any restrictional measures anymore, might ask the Commission for allowance to impose new restrictional measures if their labor market is seriously threatened or experiences serious difficulties.

A special safeguard clause exists for Austria and Germany concerning a limited number of sectors (such as construction and industrial cleaning). The clause says, that if an enterprise that is situated in one of the new member states wants to offer its services in Austria or Germany (including temporary employment of their workers there) this might be restricted if the service sectors are seriously affected. Germany and Austria have been given the right 'to apply flanking national measures to address serious disturbances or the threat thereof'¹⁰, which might arise in certain (geographically closed) regions. So far, no safeguard clause has been implemented.

These restrictions concerning the migration of labor force have been taken for eight countries (Malta and Cyprus not included). **All old member countries except the UK, Ireland and Sweden** used this possibility to protect their domestic labor markets. Thus, since 2004 there are three EU- 15 countries that did not impose restricting measures. As the evaluation in 2006 has already taken place, four more countries decided not to apply their national law anymore, but to allow free movement of EU- 10 citizens: Portugal, Spain, Finland and Greece gave up their restrictions on May 1, 2006. Italy decided to do so only a few weeks ago. France on the other hand will lower the restrictions and give them up within a transitional period of some years.

Since the signing of the treaty in 2003, the EU- 15 have not been allowed to introduce new restrictional measures in the labor markets. They also had to ensure that citizens of future member states were given the priority in comparison with non- EU members, when jobs are on offer.

In contrast to these fears, a study conducted by the European Commission and the European Foundation of Improvement of Living and Working Conditions¹¹ found out that the potential of migration only comes up to 1% of the population of the new member states. Only in

⁹ in return, the new member states may also apply their restricting regulations to members of old member states

¹⁰ Source: http://ec.europa.eu/comm/enlargement/negotiations_eu10_bg_ro/pdf/negotiations_report_to_ep.pdf

¹¹ source: <http://europa.eu/scadplus/leg/en/cha/c10524.htm>

Austria (1.4% in 2005) and Ireland (3.8% in 2005) this percentage is higher¹². Those who are willing and ready to take advantage of the new mobility and want to emigrate, are mostly highly skilled young people, among them many women. Thus, the problem is seen in an exodus of young people and a general brain drain from new member states. This study goes in line with other studies. Furthermore, Eastern Europeans are unproductive compared with Western Europeans. A German worker produces in the same time 2 or three times more than his colleague in Eastern Europe¹³. This low productivity might be boosted through the enlargement and on the other hand also might stop companies from moving East.

According to a report of the European Commission, the impact of the free movement also to those 3 states from the 10 new member states has been quantitatively less important than it was foreseen. Workers from the new members even helped to relieve labor markets and shortcuts. The UK, Ireland and Sweden experienced **economic growth**, a **drop of unemployment** and at the same time a rise of employment. Ireland as the country with the highest percentage of **workers from the new member states** has had a high economic growth which was also **contributed** to by these new workers. And also in those countries where workers had to obtain permission to work, they were integrated and contributed to the labor market. Yet, some of the countries experienced also **undesirable side-effects** such as **more undeclared work or self-employed work**. But over all, the impact of flows of work force on the EU as a whole was limited.

Thus, the transitional agreements are regarded as being no more really necessary, as there is no connection between them and the mobility of workforce. More likely, the move of work force is driven simply by supply and demand, according to this report. The Commission already stated that it would like to see labor market within the EU- 25 being opened. So far, Finland, Portugal and Spain have declared their readiness to open their labor markets; the other states still insist on their labor markets being closed for at least 3 more years, possibly also until 2011. According to a study commissioned by Britain's Department for Works and Pensions¹⁴ the rise in Britain's unemployment rate in 2005 had nothing to do with its labor market being open to workers from the new EU countries. On the contrary, the survey even states that the overall impact of the enlargement has had a small, but positive impact.

On the other hand, it is confirmed that companies move from the old to the new member states. This has several reasons, though (not only the enlargement). Obviously, companies will always seek for lower costs, which in the new member states certainly is the case. Still, this movement should not be seen only as a phenomenon arisen through the enlargement in 2004, but rather as a phenomenon arisen from globalization¹⁵.

3.) Post – accession assessment

3.1. General facts – introduction

The impacts of the enlargement are evaluated permanently. Since 2004, the new member states clearly benefited from the European Union, which was foreseen also before¹⁶.

They experienced high economic growth and enjoyed an accession boom. Imports as well as exports in and out of the new member states grew a lot in the accession year of 2004 - unlike

¹² source: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=119

¹³ Source: EU enlargement: how to reap the benefits, in: economic trends 2/2004

¹⁴ source: <http://www.euractiv.com/en/enlargement/old-member-states-grappling-labour-movement-issue/article-153031>

¹⁵ Source: http://ec.europa.eu/comm/enlargement/faq/myths_en.htm

¹⁶ source: http://www.cer.org.uk/articles/regout_europeanvoice_27april06.html

foreseen, there was a real export boom which was linked to FDI and also a huge economic growth. But this growth might partly also be pushed by people having been afraid of higher prices after accession, thus causing a consumer boom by buying a lot before May 2004. This is also proved by a credit growth in some countries.

Besides the old member states did well, as their exports grew; to give numerous data: Germany's exports to the new member states grew by 10%. Imports, on the other hand, stagnated¹⁷.

By the FDI also Western European companies made substantial profits.

The old member states' fear of unemployment, which was the main reason for the old member states to be skeptical, can be seen as not really justified in the overall view. The relocation started long before the enlargement (as pointed out before). Overall, in Germany the enlargement is considered having secured more jobs than it cost.

Yet, a report dated January 2006¹⁸ evaluates the impact of the enlargement differently: impacts of the enlargement differ from country to country. Thus, the impacts of the enlargement should not only be seen in an overall view, but also according to the specific country. While labor migration generally continues to increase, it decreases in Sweden, even if this was one of the three countries that chose not to apply their national restricting law to the new EU members. While the influx of labor force from the new countries was only 1,600 in France (France is, concerning the granting of work permissions, a very strict country), this number amounts to 125,000 in Ireland and 290,000 in Great Britain.

And while the Commission is against prolonging the transitional period, Germany, Austria and other countries want to prolong these measures and already decided to do so. Reasons herefore are the high unemployment rate in Germany and the geographical closeness. Austria decided to keep up the restriction measures because the forecasts for the employment situation are not really good¹⁹. In the first year of accession Austria experienced an inflow of EU-10 workforce, which then stabilized in 2005²⁰. Germany gave permission to around 500,000 EU-10 citizens (around 1% of the possible working population). Both countries gave this permission with different restrictions concerning time and duration of the permission.

The movement of labor force naturally affects certain industries most: agriculture, horticulture and forestry (seasonal work), as well as the construction industry. Unlike predicted, the influx of **unskilled** labor force dominates. Only for Denmark it can be said the also the influx of skilled labor force has been (more or less) successful.

There can be also somehow be seen a dilemma between restricted individual migration on the one hand and unrestricted labor mobility in the field of service provision on the other hand. A consequence of this is a higher labor migration in the service sector which takes part through increased self-employment.

Finally, there is also an increased competition concerning wages. Service mobility (there are no restrictions in this area) is higher, which, on one hand, contributed to more flexibility, but caused, on the other hand, cases of dumping of wages and conditions (which demonstrates the vulnerability of national markets).

¹⁷ source: <http://www.europa-digital.de/aktuell/dossier/erweiterung05/einjahr.shtml>

¹⁸ source: http://www.fafu.no/Oestforum/Kunnskapsbase/Publikasjoner/FoU/dolvik_eldring_eng_feb06.pdf

¹⁹ source: <http://www.euractiv.com/de/erweiterung/freizuegigkeit-arbeitnehmer-eu-25/article-129654>

²⁰ source: Report of the EU Commission on the migration situation 2 years after enlargement, February 2006

Through the enlargement of the EU, it was hoped that governments (in the old as well as in the new member countries) would be able (and also somehow forced) to realize reforms²¹. Some examples that reforms were promoted at least in some fields of the economy are the following: Germany and Austria lowered their corporate tax from 25 to 19 respectively from 34 to 25% (as both are direct neighbor countries). This was the response to most of the new member countries lowering their corporate taxes in the run- up of the accession or even the introduction of a flat tax. On the other hand, some of the new members also increased the tax on tobacco, oil or fuel and also the value added tax to approach their prices to that of the EU-15.

Furthermore it was hoped that through the enlargement the Western European countries would liberalize their labor markets which are traditionally more regulated than those of the Eastern European countries. More flexibility is supposed to bring about more competitiveness. Thus it happened, that workers of companies (Volkswagen and Siemens as examples) in Eastern Germany agreed to their wages being freezed as they saw their jobs being threatened. Associated employer outlay in Western European countries (Germany and Austria are considered to have the highest) is much higher than in Eastern Europe, which is supposed to be the reason for Europeans being afraid of losing their jobs. France loosened the rules of its 35- hour week. Germany as well as France try to liberalize their labor market in response to heightened competition in the enlarged Union. Such reforms might be good in the medium to long run, when they might also have positive effects for a single person. But in the short run they have caused many West Europeans being against enlargement an even against the EU. Thus, a big and solid majority of French, Germans and Austrians are against any further enlargement. On the other hand, especially Germany and Austria, respectively their companies, also benefited from exports to the new member states by using their fast growing economy.

Nevertheless, even if through the preceding examples the accession seems to have had an enormous (negative) impact on the old member states, it has to be said that this is (at least in the overall view) not the case. The new member states and their economies are simply too small to affect the old member states economies', they are too small to influence economic growth in big members such as Germany or Italy. As stated already above, economic integration started years ago, when Western European firms had to save costs by outsourcing parts of their companies (mostly the manufacturing and producing parts). Thus, the fact that companies are moving to Eastern Europe, is not only a result of the enlargement, but mainly of globalization and increased overall competition.

Furthermore, even though the new members have constantly high growth rates: fact is, that their economies in some respects are not as well as the EU- 15's indeed and they will need some decades to catch up to the EU- 15 standards. The enlargement will have a positive impact in the EU- 15 in the long run – it is an investment in the future. By now, it will have also some negative impacts, though. Especially countries such as Portugal and Spain will suffer from a lack of EU grants that, due to the new distribution of the EU sources, might be given to the new member states now. Border countries such as Austria and Germany face increased competition on the other hand, as already pointed out. Also this will only have a positive impact in the long run.

²¹ in some of the EU- 15 countries reforms of the old and unflexible structures are demanded since years, but so far the wasn't made real progress

3.2. Economic growth, convergence and employment in the past two years

The impact of the enlargement on the EU as a whole has been very modest. The reason for this is that the economies of the EU – 10 are relatively small (5% of the whole EU economy) – population increased by 20%, though. Thus, income per capita is substantially lower in the new member states. Prosperity in the EU- 25 hence is much more dispersed than it was before. The following table shows the percentage of purchasing power standards (PPS) of the several countries compared to the EU average²²:

Table 3: Growth and real convergence – comparison EU- 10 and EU- 15

Country	GDP per capita		Average of real GDP growth (%)
	1997	2005	1997 - 2005
<i>Czech Republic (CZ)</i>	61.9	67.8	2.3
<i>Estonia (EE)</i>	35.0	51.7	6.8
<i>Cyprus (CY)</i>	71.5	77.5	3.7
<i>Latvia (LV)</i>	29.8	43.1	7.1
<i>Lithuania (LT)</i>	33.3	47.1	6.1
<i>Hungary (HU)</i>	45.5	57.2	4.3
<i>Malta (MT)</i>	69.3	64.3	2.1
<i>Poland (PL)</i>	40.1	46.0	3.9
<i>Slovenia (SI)</i>	64.5	75.0	3.9
<i>Slovakia (SK)</i>	42.3	50.1	4.1
<i>EU – 10*</i>	100.0	100.0	2.3
<i>Belgium (BE)</i>	106.7	109.1	2.2
<i>Denmark (DK)</i>	113.3	114.6	2.1
<i>Germany (DE)</i>	105.6	100.0	1.4
<i>Greece (EL)</i>	64.3	77.1	4.1
<i>Spain (ES)</i>	79.3	90.7	3.8
<i>France (FR)</i>	103.6	100.5	2.3
<i>Ireland (IE)</i>	101.9	127.7	7.3
<i>Italy (IT)</i>	104.0	95.8	1.3
<i>Luxemburg (LU)</i>	164.0	214.0	5.3
<i>Netherlands (NL)</i>	112.5	114.2	2.2
<i>Austria (AT)</i>	112.9	113.3	2.2
<i>Portugal (PT)</i>	69.5	65.8	2.2
<i>Finland (FI)</i>	99.5	104.2	3.4
<i>Sweden (SE)</i>	104.6	109.5	2.9
<i>Unite Kingdom (UK)</i>	101.7	107.3	2.8
<i>EU – 15*</i>	100.0	100.0	2.3

Table 3: Growth and real convergence – comparison EU- 10 and EU- 15

Source: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf

* weighted average

²² Source: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf, p. 43

As one can see, there are huge differences between countries' economies and people's purchasing power standards. Effects of the enlargement will only be visible over time. The EU- 10 still have much lower incomes and living standards, but they performed very well since 1997 (as also the table shows) and their membership in the EU will push their economy and development even more. What is very important for cohesion in the long run is human capital²³. How fast the new member states will catch up to the EU- 15 standards will also depend on their available human capital. Human capital is, on the opposite of 'real' physical capital, seen as immobile. Thus, a country's ability to develop, to perform well in business and to attract capital (investments are important and even more are foreign direct investments) depends on the human resources available. Generally, the new member states have a good educational level. Many old citizens do not have a good education, though, which is still due to the time of communism. This might, on one hand, slow down the process of catching up a little bit, but on the other hand it might be compensated by young, educated and ambitious people in those countries. Concerning advanced training the new member states are still behind the 'old' EU.

According to a commission report²⁴, the EU- 10 will, under the precondition that the present development will go on, catch up the standard of the EU- 15 around the year 2040. After some time, also the new member states' cost advantages (labor etc.) will decrease and finally the costs will approach those of the EU- 15 – since the mid 1990s costs have already been rising: the total appreciation was around 40% between 1994 and 2005! Additionally, now they also have to meet the criteria of the EU regarding environmental standards, competition policy and so on. Thus, their cost advantages will decrease partly also because they have to meet certain (higher) standards. Furthermore, the reasons for companies to move to Eastern European countries are not so much because of the lower costs, but also because they want to establish a subsidiary to be presented in a new, attractive market²⁵.

For cohesion and distribution matters their membership will affect especially the above mentioned countries Spain and Portugal. Grants for infrastructure, resources from the cohesion fund and other financial resources are now given to the new member states rather than to them to promote cohesion and adaptation of equal standards.

Still, through their accession, the EU as a whole benefits. As soon as they also join the monetary union with the EURO as their official currency, there will also be no more exchange risk. Additionally transaction costs will be lowered and price transparency will be increased. On the other hand, this might also cause a destabilization of the whole Euro zone. As it is important, this point will be discussed in more detail later on.

As already pointed out, the EU- 15 enjoyed an increase in their share of the EU- 10 market since the 1990s, but they also experienced losses in the recent years. Nevertheless they remain the main exporters to the EU- 10 market with Germany remaining the top exporter among the EU- 15. In the years of 1993 – 2003, Germany, Austria and Italy experienced large gains in the EU- 10, in the last two years it was the Netherlands increasing its market share there. Furthermore, the EU- 15 even face more competition among themselves in the EU- 10 market, as the Czech Republic, Hungary, Poland and Slovakia have been gaining market share as well.

Economically, it is important to synchronize the business cycles between old and new member states because it is an indicator of convergence in general reflecting integration of trade, capital and labor markets. Synchronization is desirable and important for successful economic policies (especially monetary policy). Only to mention an example: a negative

²³ Source: <http://www.iwkoeln.de/data/pdf/content/trends01-04-7.pdf>

²⁴ Source: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf, p. 43

²⁵ source: http://de.wikipedia.org/wiki/EU-Osterweiterung#Allgemeine_wirtschaftliche_Entwicklung

correlation between demand shocks in most of the new member states and the Euro zone can be found (except Poland and Hungary)²⁶.

The EU- 10 experienced a rise in unemployment and a decline in employment, both connected to the transition of their market economy. The EU- 15 enjoyed the reverse development.

Thus, overall, the labor market trends in the EU- 10 in the period preceding the accession are in contrast with those in the EU- 15 who experienced high employment rates and a decline in unemployment (though partly reversed in the recent years). The overall development of the labor market in the new as well as in the old member states has been positive in the past two years. In Poland the employment rate grew by 2% in 2005. Also in the old member states the employment rate increased in the last two years: 0.6% in 2004 and 0.7% in 2005. Yet, after all, the unemployment rate in the EU- 10 is with an average of 13.4% significantly higher than in the EU- 15. Poland's unemployment rate is with 17.7% the highest rate, while those of member states such as Denmark, Ireland, Luxembourg, the Netherlands, Austria and the UK are around 4-5% only; other EU- 15 countries have unemployment rates between of 9-10% (Germany, Greece, Spain, and France).

3.3. How is the situation in the new member states?

Not only had the EU- 15 had fears concerning the EU membership of 10 countries. Also in those countries the euphoria from the beginning gave way for scepticism towards the EU.

Thousands of Poles tried their luck in England or Ireland and wanted to have a better life there. Many of them returned with less money they had before – they had to admit that, even if they are allowed to work there, this is not too easy without a good knowledge of the language. Furthermore, Poland is a religious country. Thus, people are afraid of a lack of religion in the EU constitution which they might have to adopt if imposed on the EU.

Czech citizens are, opposite to that, satisfied with their EU membership by 72%. According to a survey, only one third of people having been asked are interested in a possible job in another EU country. The medical association was relieved that the feared mass migration of domestic medicals in the Western EU countries did not appear.

In Hungary, expectations have never been too big – thus, those expectations people had been fulfilled. Only the farmers are unsatisfied with the EU, especially with the bureaucracy, as they had not received their grants for 2004 for more than one year.

In the following, some statements of politicians, business man or experts are presented (summarized)²⁷.

The managerial member of the board of directors of the German- Baltic Chamber of Commerce said that through the accession the Baltic countries finally got out of their role as outsiders in Europe, and this also for possible foreign investors.

'There is no real improvement, as far as I can see. The first thing that comes to my mind is the different fines and rules that we have now. But, of course, it is also easier to cross the border now.' IT- specialist from Estonia.

The manager of a travel agency in Latvia says: 'In my opinion, the EU- membership of this country is not for its benefit. Daily life expenses got so much more expensive, we have even double- digit rises for staple foods.'

²⁶ Source: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf, p. 51

²⁷ source: http://www.dw-world.de/dw/article/0,2144,1563328_page_1,00.html

German- Maltese Chamber of Commerce: 'We appreciate our EU- membership, because hereby the economy can enjoy a lot more freedom. Trade between Germany and Malta increased by 13% since our membership'.

A Polish student on the other hand states: 'I only see disadvantages in our membership. So far, I didn't see any advantages. Ok, we can go to England without any problems now, as the borders are open. Therefore many Polish people already emigrated to England. Besides that, everything just got more expensive. Fuel and food got more expensive, living costs in general are higher.'

The Czech statements concerning the EU- membership of their country is throughout positive. Also the Hungarians regard their EU- membership throughout positive. Hungary experiences an immense boom in tourism, one third of all wellness stays in Hungary comes from Germany.

These statements do not, however, in any respect represent the general view of the concerned country. Here just the most significant ones were presented, and of course there might be and will be different views of this topic. At this point I just wanted to point out the sentiment of the EU- 10 about their new position in the EU- 25.

3.4. CEE countries in the EUROZONE?

As the CEE countries (Central and Eastern European Countries) are member of the EU they will have to join the Euro as soon as they fulfill the Maastricht criteria. They won't have the possibility of an 'opting- out' as some of the EU- 15 had²⁸.

Having learned from the first introduction of the EURO in 1999 with a three year transitional period until the actual introduction of the Euro in 2002, the Commission now wants this period to be shorter. The new member states, who preferably want to introduce the Euro by a 'big bang' (introduction of bank notes and official currency at the same time) have set their target dates of the Euro introduction between 2007 and 2010 (Czech Republic and Hungary being the last in 2010). To fulfill the Maastricht criteria they will need a lot more effort than the 'simple' implementation of the Acquis Commaunitaire did. Furthermore, the CEEC (which in some respect still deal with the economic transition to be completed) will face the risk of fixing the Exchange rate to eagerly and thus being trapped to choose disinflation over growth. Furthermore, there are discussions about how the influence of the ten new members might be – will it strengthen the exchange rate in relation to the USD or weaken it? There are different opinions, but the majority thinks that their membership also in the Euro zone will strengthen the Euro in relation to the Dollar, because the CEEC will have to fulfill the Maastricht criteria very strictly.

Besides from the fact that a bigger Euro zone will most likely strengthen the European economy and the currency of the Euro, there are also other impacts that an enlarged Euro zone might and will have: through elimination of the Exchange risk, lower transaction costs and better comparability there will be a further increase in FDI in those countries. International trade will be intensified even more. This will enhance further economic growth and hereby also promote convergence in the income level between the old and new member states. This effect was partly realized also through the accession to the EU, as pointed out before. Accession to the Euro zone will accelerate the process of adaption and cohesion even more, as

²⁸ Sweden, Great Britain and Denmark are the only old members not using the EURO

FDI enhance the accumulation of capital, take pressure away from national capital markets and have a positive impact on the economic development (growth), interest rates and wages.

4.) Situation in Germany

According to a research conducted by a German industry and trade organization²⁹ in 2005, the results were the following:

One third of the involved enterprises see a positive impact of the enlargement, the majority of around 50% does not see any impact for their enterprise, and a small part sees a negative influence. Most small agencies think neutral about the enlargement.

New possibilities are consequently used by the German companies. The majority of those who have been busy in the new member states also before the enlargement intensified their businesses with them (75%). 25% of those enterprises who have not been active in the new market before the enlargement are so now.

The most important advantages for companies are that there aren't border controls or customs duty controls anymore. Furthermore, also increased security concerning law and trade regulations has a positive influence.

On the other hand, German enterprises also face increased competition. This is seen as the most negative impact of the enlargement. But as, in return, they can enjoy the mentioned advantages as well, the overall impact is seen as positive.

A fact that many people were afraid of before the enlargement is the fact that companies increase the employment of people of those new member countries. In a survey in 2004 73% responded to the question whether they are afraid of negative impacts on the labor market with 'yes'³⁰.

The possible migration flows were the subject of many researches prior to the enlargement.

All of them come to the conclusion that the migration effects of the enlargement are not that big as public opinion and people were afraid of. This is also proved by the historical experience. The EU has been enlarged five times so far. Also in the EU- 15 there were fears that people from low- wage regions would migrate to regions with a high wage level (for example when Greece, Portugal or Spain joined) – this did not come true, the fears of the people in high wage countries were not justified, even though also in the EU- 15 there are regions in which the average wage level is only 50% or even less than the wage in other regions of the EU. To further hinder such migrations and take away people's fears, a transitional period of seven years has been introduced, as mentioned already before. Especially in Germany and Austria respectively, people were afraid of the Eastern Enlargement in 2004, because 80% of all the people from those countries who already have been working in the EU- 15 before the enlargement work in those two countries³¹.

Now, after the enlargement, big companies employ citizens of the EU- 10 mainly because they need their language skills and want to get specific knowledge about the new market and not only because it is cheaper. The language skills are a problem German companies are facing at the moment: only very few Germans are able to speak an Eastern European language and have a good knowledge about this market, so companies need to seek for employees abroad.

²⁹ Source: <http://www.dihk.de/inhalt/download/erweiterungsumfrage.pdf>

³⁰ Source: http://www.bpb.de/themen/TTQZ7C.0.Arbeitsmarkt_Migration_und_OstErweiterung.html

³¹ Source: http://www.bpb.de/themen/TTQZ7C.0.Arbeitsmarkt_Migration_und_OstErweiterung.html

The majority of small companies (one to nine employees) on the other hand do not even want to employ citizens of the EU- 10 (71%). Up to a size of 249 employees this percentage goes down to 57%. Big companies (over 250 employees) do not want to employ new members' citizen by only 39%. Thus, the bigger an enterprise is, the more it wants to employ people from the new member states.

If small companies employ EU- 10 citizens, though, the main reason for this is in fact to diminish labor costs; on the other hand it also has to be said that through increased trade between the member states also jobs could be established³².

Thus, there cannot be seen an overall negative effect. Furthermore, according to the German 'Bundesbank', there will only be an adaption of wages (lower wages) if through increased competition also the prices go down. This development is tried to be prolonged through transitional regulations in the labor market. On the other hand, prices are put under pressure also by increased international competition (not only by the enlargement as such). But these developments will only be possible to see in the mid- to long- term run. Thus, after two years it is not yet possible to say whether the enlargement has had a negative impact on wages, prices and employment or not.

4.1. Forecasts

According to a research, Germany already has and additionally will win many advantages of location within the next ten years. The country has an excellent technical equipment, highly-skilled workforce and excellent infrastructure and features in all areas of (business) life. These are features with which many other countries cannot catch up and which also play a very important role in a company's decision where to invest. The disadvantages of high costs compared to other countries, extremely high associated employer outlay and a lack of flexibility are partly compensated by the mentioned advantages: companies still invest in Germany as long as they have a profit. As already pointed out before, the Eastern European Economies do not work as efficiently and productive as the Western European Economies do. Thus, even if costs are higher there, through higher productivity it might still be better for enterprises to invest in Germany rather than in one of the Eastern European EU- 10 countries. If then, within the next years, also some of the disadvantages (high costs, more flexibility etc.) will diminish because of increased competition within the enlarged EU, Germany will, even though maybe there are some negative impacts first, experience another period of high economic growth, a rise in employment that will 'compensate' people for possible negative impacts they experienced before.

But even if politically and economically the enlargement can be seen as a success, people are still very skeptical. EU- politicians already talk about absolute freedom of services within the EU, people on the other hand are still afraid of losing jobs and wage dumping. Especially in Germany fears about illegal migration, a rising black labor market and criminality increase. 66% of the Germans think that the Eastern Enlargement has a negative impact – only 2% consider it to be the opposite! Also when asked about a further enlargement – in 2007 there will be the next – two thirds of the Germans are against it.

³² Source: http://www.bundesbank.de/download/volkswirtschaft/mba/2004/200405mba_euosterweiterung.pdf

5.) Situation in France

France had a different position from the beginning of the 1990s after the fall of Communism the Iron Curtain in Eastern Europe. Its interest sphere was always more in the area of the Mediterranean countries than in the East of Europe. On the opposite of Germany it did not enhance the enlargement to the East as did Germany. For France the enlargement and the membership of the EU- 10 did not mean that they would become the 'centre' of the EU as it was the case for Germany – their geographical position would remain the same. Thus, at the beginning, France took a more reluctant position towards the enlargement.

Economically, France has more contacts and trade connections with the Mediterranean countries³³. Only at the end of the 1990s it changed its position. France recognized the necessity to be present also in Eastern Europe and started to establish bilateral connections – Germany should also not be the only actor in that area. The countries in Eastern Europe were more and more seen as important economic areas, proceeding reforms further enhanced the trust of investors to involve and start business there. But even though politics changed in this concern, the economic integration with the Eastern European countries is not yet really intensified as shall be pointed out in the following.

French people generally are skeptical about the impacts of the enlargement. This is proved also by the referendum about the EU- constitution that was held in France: people voted against the constitution, thus expressing their position as regards to enlargement, the EU and the fears about 'delocalization' of jobs.

5.1. Economic situation in France³⁴

In 2005, the economic situation of France was worse than expected – the economic growth was only 1.2% instead of the foreseen 1.4%. Once more – on the opposite to Poland's economy – private consumption was the bearer of the economic growth, as they grew by nearly 2%. Still, in comparison to 2004, also the private consumptions' dynamics slowed down.

On the other hand, investments grew a lot – namely by 3.6%; even more the private investments – those grew by 4.1%. This development is caused by the continuing boom in domestic buildings. The FDI grew even more significantly, they reached 63.5 billion Euro in 2005 – in 2004 the FDI only came up to 31.4 billion Euro. Germany is the second largest investor in France. Also French companies invested a lot abroad – with a total amount of more than 116 billion Euro they invested more than in the previous two years together. The most important investors in France are still Western Europe and Northern America; the largest part of newly established or permanently secured jobs can be seen in connection with FDI from these countries (59% resp. 31%). The new member states are economically not too important for France: Poland as the 'most important' importer from the EU- 10 is on the 25th place in 2005 followed by the Czech Republic on rank 27³⁵; Hungary follows on position 31. The dominant importers are the US followed by Germany, China and the UK. As concerning

³³ Source:

<http://www.weltpolitik.net/Regionen/Europa/Frankreich/Frankreich%20und%20die%20Osterweiterung%20der%20EU/Grundlagen/Nach%20der%20Erweiterung%20Frankreich%2C%20Osteuropa%20und%20die%20neue%20EU-Nachbarschaftspolitik.html>

³⁴ Source: Wirtschaftstrends kompakt – Frankreich Jahresmitte 2006,

<http://www.bfai.de/DE/Navigation/Fachfunktionalitaeten/Matrixsuche/sucheMatrixGT.html>

³⁵ Source: http://en.wikipedia.org/wiki/List_of_countries_by_imports

the countries in which French companies are exporting, once again Poland is the first out of the EU- 10 countries, even though only on the 28th place³⁶. Czech Republic and Hungary follow on rank 31 respectively rank 35.

Weak factors in France's economy are the public demand as well as exports – both decreased and resulted into a negative contribution to the public budget (-0.2% resp. 0.7%).

But even though the situation wasn't too good – forecasts for 2006 and 2007 are positive and good. Export shall be promoted; private consumption will enhance economic growth once again. In 2006, exports shall give the first positive impulse since years. Imports will grow by around 2% as well (therefore the rise in the prices for fuel, gas and oil is important as it is also in Germany).

6.) Situation in Poland

Poland's economy is growing, even though not that much as it did in 2004. Because of the first quarter of 2005 many forecasts had to be corrected – the expected growth was around 5 – 5,5% (as it was in 2004) – but in fact the GNP (on a yearly basis) only grew by 2.1%. Especially the banking industry was surprised about this result, as there was still recognized an unbroken demand for credits.

Source of the (remaining) economic growth are mainly foreign trade and payments³⁷. Demand within Poland is not growing that much as was the economy as a whole in 2005. Inner Polish demand grew only by 1.8% in 2005, the whole GNP however grew by 3,3%. In comparison with an economic growth from 5,4% in the accession year of 2004 this is not too good. For 2006 the Polish Prime minister reckons an economic growth from over 5%, which is probably far too optimistic (4,5% are considered to be realistic). Germany remains the most important trading partner. Domestic demand shall be promoted more than it was the case in the year of 2005 – especially the construction industry is supposed to give incentives therefore.

The investment volume grew by over 5% in 2005. This is indeed more than the GNP growth, but it is nevertheless too less to bring Poland in a measurable to the EU- average. Reasons therefore are many. In 2005 there were several uncertainties – market structures were changing fast through new competitors, and also politically (due to the Polish elections in 2005) and economically (tax reductions after a possible change of the government were expected) there were some incertitudes. Furthermore, granted supports from the EU were, due to complicated application procedures and overworked authorities not fully used: from the granted amount of over 22 billion Euro for the period of 2004- 2006 only 284 million were used until September 2005 (that means only around 3,2%!).

Yet, in the still dominating state owned enterprises and among foreign investors good mood is prevalent: low costs for personnel, tax advantages and investment supports are the characteristics with which Poland is advertising itself as a location also in the international frame. For non- EU- investors it is furthermore important that Poland is a member of the EU now.

Domestic demand grew by only 2.4% - the highest European unemployment rate of 17.7% has its consequences. Real wages only grew by 1.8%. On the other hand, in the big cities with economically well situated people and a generally higher wage level more and more shopping centers are built – this also ought to give impulses to the real estate trade and industry.

³⁶ Source: http://en.wikipedia.org/wiki/List_of_countries_by_exports

³⁷ Source: <http://www.bfai.de/DE/Navigation/Fachfunktionalitaeten/Matrixsuche/sucheMatrixGT.html>

³⁷ source: <http://www.euractiv.com/de/mobilitaet/polen-schafft-doppelbesteuerung-ab-angst-brain-drain/article-156939>

In the retail industry the overall climate is more negative, though.

Besides from these negative facts also some positives have to be mentioned, though: since the accession to the EU in 2004 the integration of the Polish economy with that of the EU is rising. In the first year of the country's EU membership exports to the EU grew by 24%. Also those to Eastern regions (Russia) developed very dynamically. Thus, the financial situation of exporting countries is better than the situation of small and medium enterprises and the retail industry. Furthermore, the exporting companies are not satisfied only with export: around 250,000 companies intend not only to continue with exports to the EU, but to start up their business by an own subsidiary. Once again, especially Germany is important in this context: many of those enterprises want to establish a subsidiary in Germany.

6.1. Migration and related changes in Poland

Poland is also the country which was and is most afraid of a 'brain drain'. The country's unemployment rate is, as already pointed out, more than 17% - thus, people have huge incentives to go abroad. Since the enlargement in 2004, more than 240,000 Poles emigrated to or started working in the UK, as this is one of the countries that have not imposed restricting regulations and immediately allowed the free movement of labor. Many of those who emigrated even gave up completely their homeland of Poland out of taxational reasons: due to the different maximum amounts people are allowed to earn to pay a certain percentage of income tax in Poland and the UK, Polish people who still have a residence in Poland have to pay 40% of taxes instead of 22% in the UK³⁸ (the maximum percentage of 40% applies to the according income levels which naturally are a lot more higher in the UK). Thus, a situation of double taxation arose. To avoid that their highly- skilled work force does not come back at all, the Polish government and the UK signed a tax treaty regulating those cases, so that now double taxation will not arise anymore (the treaty has been signed on July 20th this year but is not yet in force).

A fact that is interesting in this context is, that even if more than 240,000 Poles already used the free movement for work force within some countries, only 40% of all Poles think that this is good and positive for them and their country³⁹. On the other hand, the same survey found out that the readiness to go to another country does not only depend on the attitude towards mobility a such, but mainly on factors such as living standard or employment situation; more than 50% would be all set to go abroad if they were unemployed in Poland⁴⁰.

Furthermore, the readiness of the Poles to go abroad did not change since the accession to the EU. Thus, even if many people left their country since the EU accession, even more had already left before. It is not possible to give an exact number how many Poles work abroad as many of them work illegally in another EU country – this applies especially for Germany, where a huge number of Poles is said to work without the according and necessary permissions. But this is, as mentioned, not a problem arisen only by the EU accession but has been existing for many years now⁴¹.

³⁸ source: <http://www.euractiv.com/de/mobilitaet/polen-schafft-doppelbesteuerung-ab-angst-brain-drain/article-156939>

³⁹ source: <http://www.euractiv.com/de/mobilitaet/neue-eu-buerger-stehen-mobilitaet-gespalten-gegenueber/article-156696>

⁴⁰ as a comparison to this: only 35% of the Slovaks would go abroad for a job and not even 30% of the Hungarians

⁴¹ source: <http://www.euractiv.com/de/mobilitaet/neue-eu-buerger-stehen-mobilitaet-gespalten-gegenueber/article-156696>

7.) Situation in Hungary⁴²

The forecasts for the overall economic situation in 2006 are better than the economic results in 2005. The exporting industry benefits from the better overall conjuncture within the EU and especially in Germany and furthermore from the weaker Hungarian currency, the Forint. Foreign trade has been rising by more than 15% in the first quarter of 2006. The infrastructure is still giving dynamic impulses and also private consumption is rising. Nevertheless, experts reckon with an economic slowdown at the end of the year, but the economic situation is still considered to be very well, as pointed out in the following.

The Hungarian government adopted a stronger line in June 2006 and follows the target of stabilization by tax increases as well as the reduction of price subsidies. Corporate tax rises from 16% up to 20%. Within the last years the economic situation has also been improved by the preceding tax reductions – the Hungarian government now had to increase them to diminish the public deficit of 8% in 2005. Prices for electricity and gas are rising as they are in the whole Europe, expenses for the health care system are increasing. But even though the government tries to fulfill the Maastricht- criteria by 2008 and tries to stabilize the budget – the planned introduction of the Euro in 2010 is considered to be nearly impossible.

In 2006, economic growth is foreseen with over 4%. Therewith Hungary lies in the lower midfield of the new member countries. Economic growth in Hungary is mainly pushed by investments in traffic infrastructure. In 2007, economic growth is seen as to be lower than in 2006 (forecasts are about 3- 4%), private consumption will not raise that much as it has been. More negative forecasts consider the economic growth in 2007 only to be around 2%⁴³.

Hungary is the country with the most intensive integration with the rest of the European Union. Nearly 75% of all its exports and around 60% of its imports are with the EU⁴⁴. Concerning FDI it lies on the second place right behind the Czech Republic, two thirds of all the investments come from EU- 15 countries. The country's west even reaches 75% of the average income level of the EU.

As mentioned above, one factor of Hungary's economic growth is the expansion of the infrastructure. Especially the expansion of the road network is booming and is supposed to grow even further in 2006 and 2007. From 2007 on, the network of railroads is going to be expanded and modernized; additionally many projects concerning modernization and expansion of airports are planned.

Furthermore, Hungary is (as are all new member states) receiving financial resources from the Cohesion fund. In 2007 – 2013 Hungary is going to receive 3.5 billion Euro for investments in environmental measures (for example for the building of clarification plants).

In the Hungarian industry, companies being owned by Western enterprises are pushing the economy as these are exporting their products to the West. Big takeovers such as the takeover of the airport in Budapest by the British BAA in 2005 prove the high FDI in Hungary. Also investments from small and medium enterprises are rising; those companies want to benefit from the lower wages in Hungary.

Private consumption is foreseen to rise. Reasons for this are the lower inflation and a rise in the wages by 2%, thus the real income being higher. The growth rate of private consumption

⁴² Source: <http://www.bfai.de/DE/Navigation/Fachfunktionalitaeten/Matrixsuche/sucheMatrixGT.html>

⁴³ Source: http://www.bfai.de/DE/Content/SharedDocs/Links-Einzeldokumente-Datenbanken/fachdokument.html?fid=MK20060726103125&suche=%3Csuche%3E%3Cthema%3E87%3C%2Fthema%3E%3Clad%3E%3C_%3E226%3C%2F_%3E%3C%2Flad%3E%3CfachDb%3Ematrixsuche%3C%2FfachDb%3E%3Ckat%3E-Eua%3C%2Fkat%3E%3Csicht%3Esuche%3C%2Fsicht%3E%3Csort%3Edat%3C%2Fsort%3E%3C%2Fsuche%3E

⁴⁴ Source: http://www.raiffeisen.at/eBusiness/rai_template1/0,7572,1015018521967-1015462448933_126232753947561586_126237740941463546-126237740941463546-NA-1-NA,00.html

is predicted with around 3- 4% in 2006. In the following years however, an attenuation might be faced, as prices for gas and electricity are rising.

8.) Summary

In this paper I tried to find out the impacts of the enlargement on the European Union. The membership of ten Eastern European (ex- communist) countries in 2004 has been discussed and criticized a lot, but on the other hand was and is also considered to be a unique chance for Europe from which everybody can benefit.

After characterizing the EU economy, facts about the European economy and comparing the EU- 15 with the EU- 10 I tried to discuss also the critical points and the fears people had before the accession of the ten new members. To take care about people's fears, transitional agreements have been made, from which the free movement of workers (that is not yet realized) is the most important one. Especially boarder countries such as Germany and Austria insisted on these arrangements as well as on their prolonging after 2006. To give an impression about how people in the new member states feel about the EU (as most of the public discussions are about the old member states and their citizens) I also mentioned some statements from either 'normal' citizens or people working in branches that feel the impacts of the enlargement.

When discussing the impacts of the enlargement, it can be seen that the overall impact on the old EU is very small. Migration is not that huge as predicted by skeptical voices, and wage dumping or the movements of companies to the new member countries do not take place in a much larger scale than before the enlargement. Companies have already been moving since years, and this not because of the (foreseen) enlargement, but because of globalization.

But as the impact of the enlargement varies from country to country, this also has to be discussed. Countries chosen for this were Germany and France as 'old' members, as they are the most important countries within the EU (and Germany is especially important in this context as it is a boarder country), and Poland and Hungary as examples for the new member countries. What could be found out is that basically the impact of the enlargement in the old member countries as well as in the new ones has to be seen in the long run. Wage dumping, of which many people were afraid, does not take place within only two years – it is the result of a development that has been going on for years. Thus, after two years the 'real' impact cannot yet be seen. Migration on the other hand is restricted by transitional agreements but is considered not to rise too much even after the liberalization of the labor markets.

Economies in the new member countries still develop very positive, but there can also be some points which might diminish their economic growth. Thus, overall, the enlargement has had a positive influence so far, even if this influence wasn't as big as was predicted before the accession.

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List of tables:

Table 1: overview over the main economic data of the EU countries.....	3- 4
Table 2: economic growth in the member states.....	4
Table 3: Growth and real convergence – comparison EU- 10 and EU- 15.....	11-12