

**Brussels Briefing No. 38****Five years on – the benefits of Enlargement****INTRODUCTION**

The fifth and biggest wave of EU enlargement (with ten countries joining in 2004 and two more in 2007) was a potent symbol of the reunification of Europe and a historic milestone in the development of the EU. Nevertheless, it was accompanied by a number of challenges, not least managing the significant economic, social and political disparities between the newly acceded member states and the old members. Five years on, it is clear the EU and its framework have provided the necessary tools to successfully negotiate these challenges. In this issue of Brussels Briefing we shall examine the findings of a study on enlargement produced by the European Commission and entitled - 'Five years of an enlarged EU: Economic achievements and challenges'.

**An economically stronger Union**

The benefits of enlargement have been felt across the whole of the EU. In the new member countries, income and living standards have improved rapidly, while the old member states have gained access to a larger market. Overall, enlargement has enhanced the diversity of the European internal market, which in turn has boosted the EU's capacity to respond to the challenges of the global economy, especially competition pressures from emerging markets. Overall, the EU's economic 'weight' in the world, measured by its global purchasing power has increased by 2.5% since accession.

Prior to enlargement, a key concern was how the income disparity between the new and old members would play out. However, accession has helped to strengthen economic growth in the new member states. Between 2004–2009, average GDP growth stood at 5.5% - a 2% increase on the rate over the five years prior to accession. Accordingly, the Commission's study found that the 'catch-up' pace among the new states is fast enough for absolute inequalities to diminish over time.

Five years prior to joining, the new members had much lower income levels compared with existing members - per capita GDP was just 40% of the EU-15 average and by 2004 while the new states' accounted for 21% of the EU population, they contributed just 7% of GDP. Yet since accession, economic integration has been swift, due to the strength of growth in the new states, and by 2008 their collective GDP had risen to 52% of the EU-15 average. Moreover, in relative terms, the gap between new members Cyprus, Slovenia, the Czech Republic and Malta and the EU-15 average is smaller than that of old member state, Portugal.

The Union's framework itself has been crucial in facilitating the economic growth in the new members, which has benefitted the EU as a whole. For the new countries, EU membership has led to improved institutional and financial frameworks, including the Single Market rules, Lisbon Agenda, fiscal monitoring, Monetary Union for economic stability and EU transfers.

Membership has also been associated with greater trade openness, increased capital and foreign direct investment. The latter has brought levels of investment that would not have been possible if the new states had been forced to rely on national savings alone, while it has also influenced improvements in product variety, quality and competition. The impact of these changes is reflected in the increased trading volumes of new members, both within the EU and externally. Since accession, they have doubled their share of the world market from 2% of global exports in 1999 to 4% by 2007.

## **Labour market realities**

Despite fears in the old member states that enlargement would adversely affect their national labour markets by reducing job vacancies and wage rates, this has not been the case. According to the Commission, nearly all the evidence points to the benefits of intra-EU worker mobility outweighing the negatives. Labour markets across the EU have largely improved since the enlargement. Between 2004-2007 there were 12.2 million extra jobs created, in contrast to 2.2 million in the three years before accession. By 2007, the old member states enjoyed the lowest unemployment levels for decades. Clearly, though, the situation has changed markedly since then, due to the credit crunch and the ensuing economic recession.

The old member states have not faced the major influx of labour from the east first feared. Since 2004 in all countries (except Ireland and Luxembourg), the number of non-EU recent arrivals has exceeded the number of intra-EU arrivals. Moreover in most countries, the inflow of nationals from the EU-15 has exceeded the inflow from the new members. And while the EU-15's labour markets have not been overwhelmed with workers from the new states, the workers that have moved have produced a positive economic impact. Intra-EU mobility has benefitted the EU-25's GDP by an estimated €30bn.

The advent of intra-EU labour mobility created fears of a potential 'brain drain' in the new member states. While some have experienced labour shortages, particularly the Baltic States, the Czech Republic, Poland, Romania and Cyprus, these are not primarily caused by emigration. Rather they are the result of strong economic growth, which has aggravated existing skills shortages and is indicative of deeper structural labour market problems.

The increase in enrolments into tertiary education in the new member states recently, however, may serve to address this problem. Moreover, their economies have benefitted from worker mobility via remittances from their nationals working abroad. For Poland, the Baltic States, Romania and Bulgaria, remittances have made a significant contribution to national GDP, helping to drive economic growth.

## **Conclusion**

The EU today is economically stronger, socially more diverse and politically more democratic as a result of the enlargements, the benefits of which have been felt across old and new member states alike. Such attributes are crucial for Europe to meet the challenges of globalisation and, most topically, the global economic crisis we are faced with today.

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