



EU enlargement and convergence

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Key thoughts

- EU enlargement as a political and economic project
- EU as guarantor of prosperity, peace, and quality of life
- Economic impact unambiguously positive (but varying)
- Some unintended consequences
- Social transformation also helped by EU accession

Overview

1. Enlargement facts
2. Economic impact of EU accession...
3. ...and an economist's explanations
4. Other dimensions of convergence
5. Conclusion



European
Commission

Enlargement facts



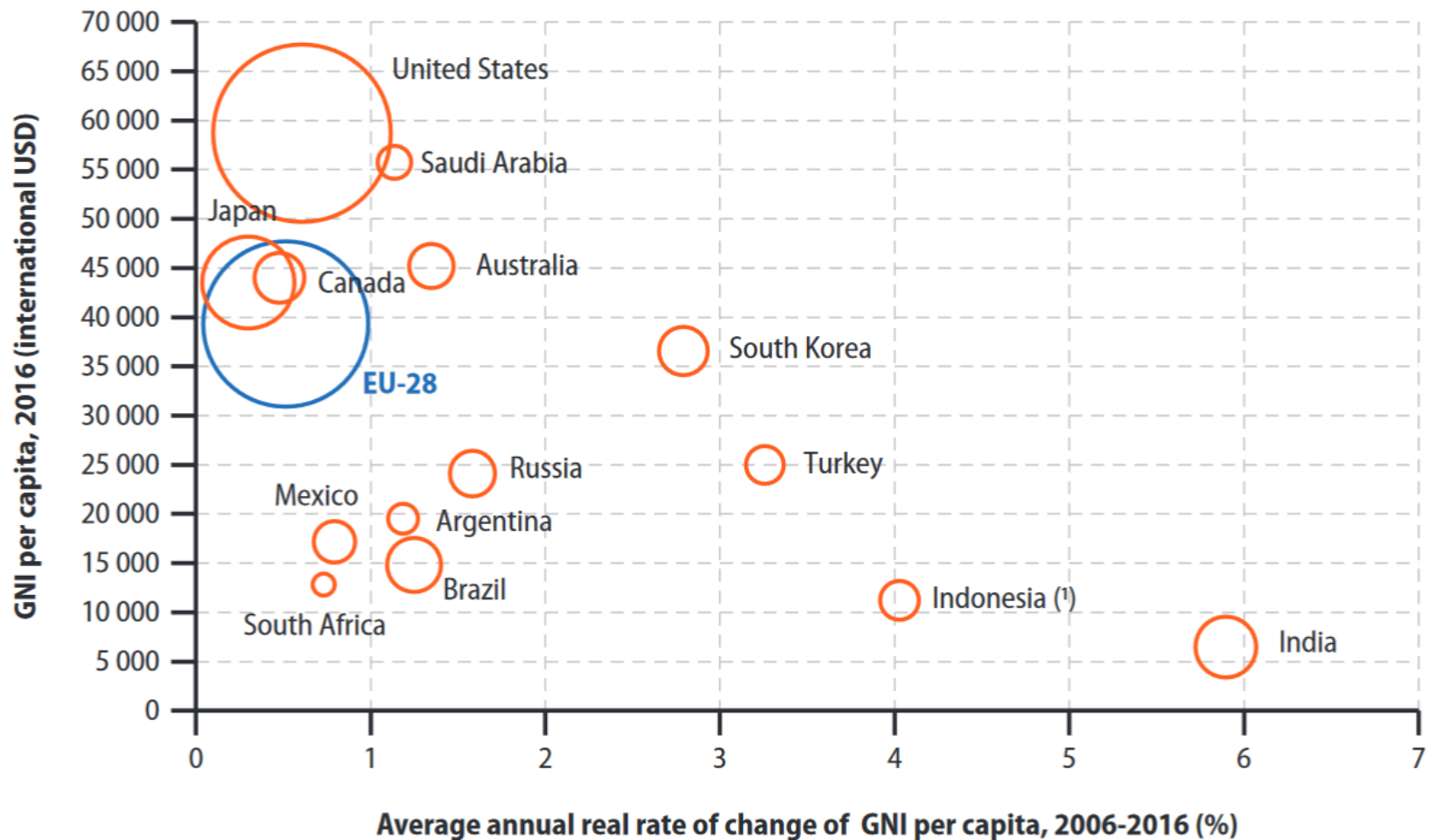
Source: EU Commission

Economic and
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Enlargement facts

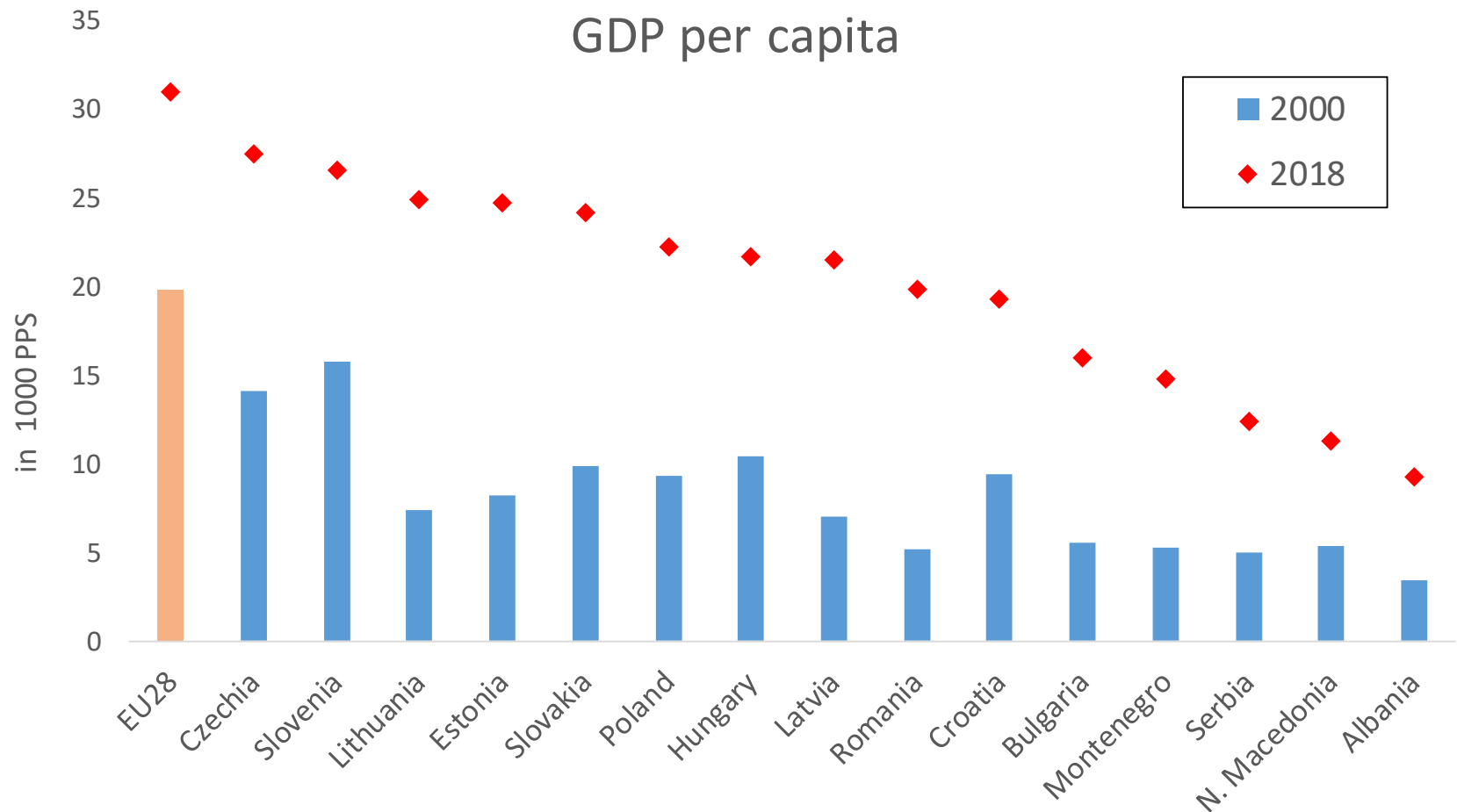
- **Copenhagen Criteria** set out who can join
 - Political, economic, membership fitness (€ and '*acquis*')
 - Entry preparations took place throughout the 1990s
- 2004 enlargement wave was **biggest to date**
 - EU population grew from 381m to 456m (2018: 513m)
- EU's share in world GDP jumped in 2004 to **30%** due to enlargement but has since fallen to 23% due to faster growth in China

The EU Economy in the world



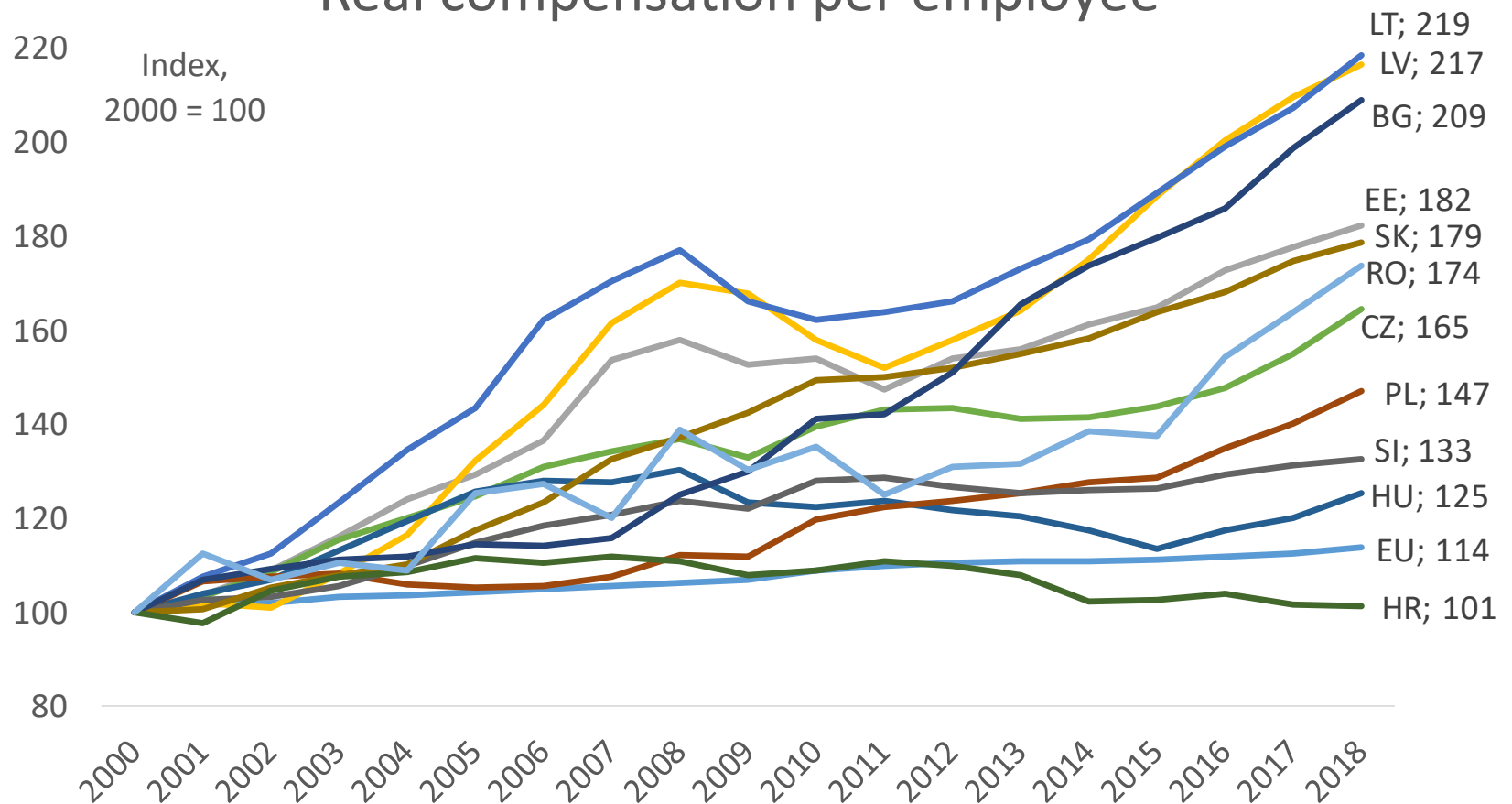
Source: EU Commission

Living standards have risen



Real wages have grown

Real compensation per employee



Start low – faster you shall grow

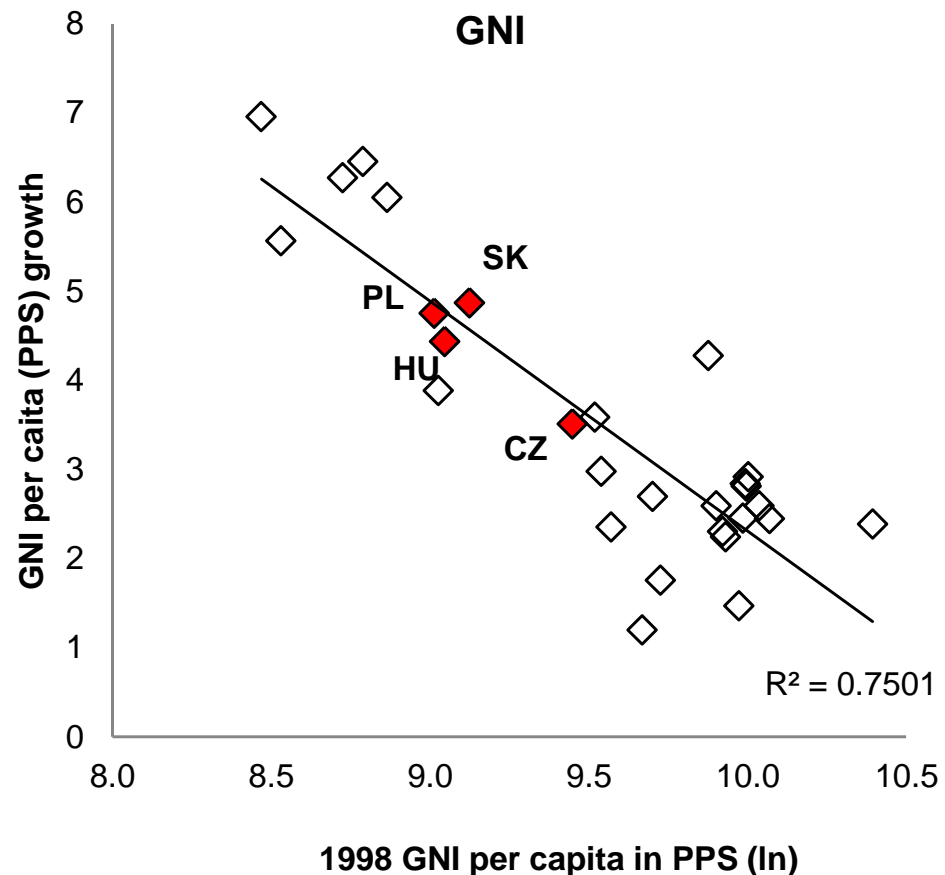
Unconditional beta convergence:

Convergence to similar levels of per capita income in the long-run

→ Negative relationship between initial income and income growth

Conditional beta convergence:

Convergence to respective steady state levels of income (structurally determined)

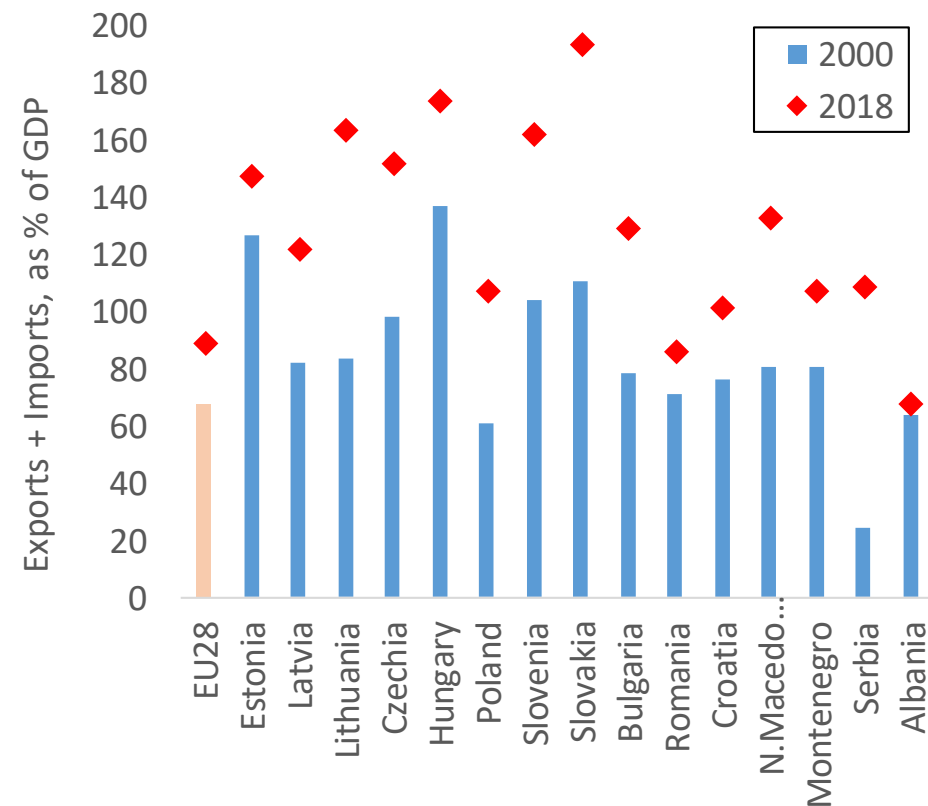


Source: EU Commission

Trade intensification

- Greater specialisation according to comparative advantage:
 - Economies of scale
 - Competition lowers price-cost margins
 - Restructuring due to competition
- 'Insiders' in Single Market see trade creation (among EU members) and trade diversion (away from extra-EU trade).
- Studies suggest trade boost (5-50%), GDP impact +2.2% to +2.6% (more if services included)

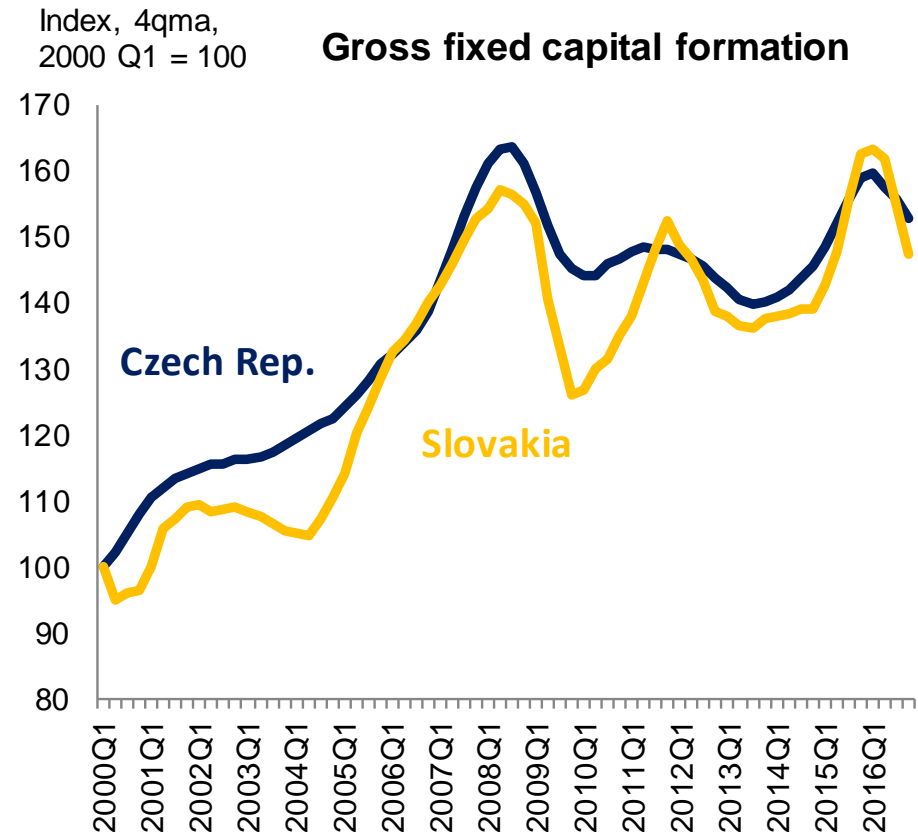
Trade Openness



Source: Baldwin, 2006; Rose and van Wincoop, 2001; Crafts, 2016

Higher investment

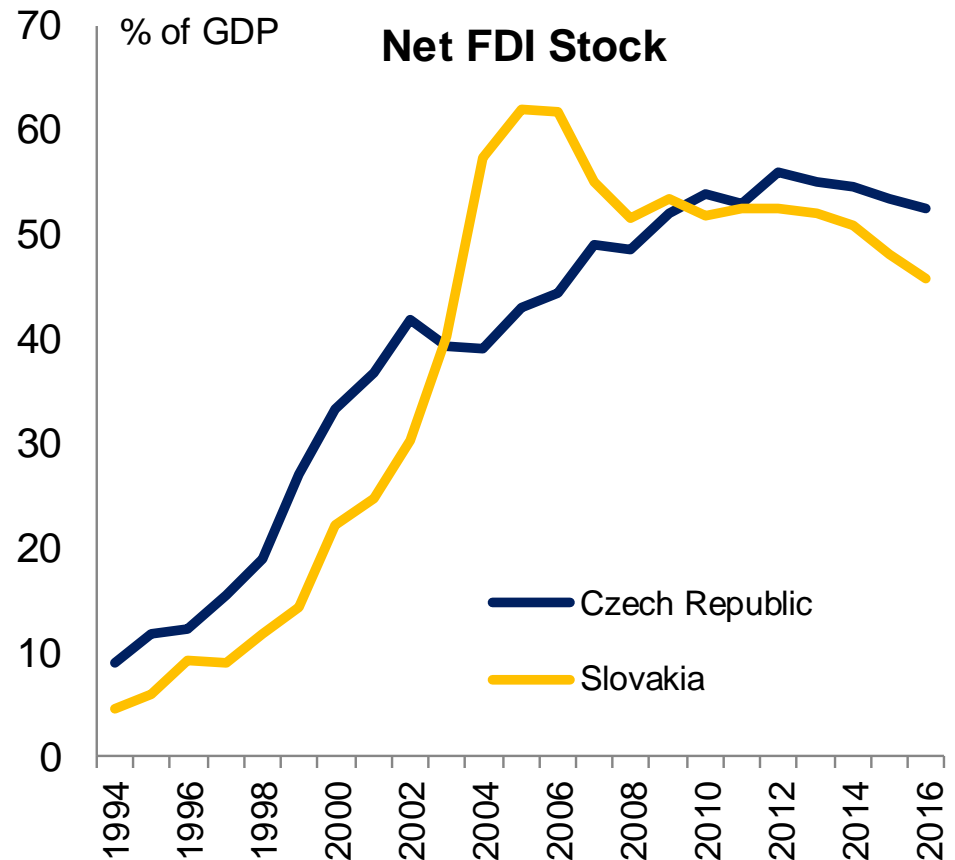
- As productivity rises, investment in physical and human capital should increase due to
 - Greater competition
 - Allocative efficiency gains
 - Technological progress
- EU funds have played a major role in supporting investment into infrastructure and knowledge



Source: EU Commission

Financial integration

- Foreign direct investment (FDI)
- Banking sector integration (greater foreign ownership)
- Convergence of financial and monetary conditions



Source: EU Commission

Institutional quality

- Poor governance can imply waste, risk of expropriation, and financial burden on businesses and consumers

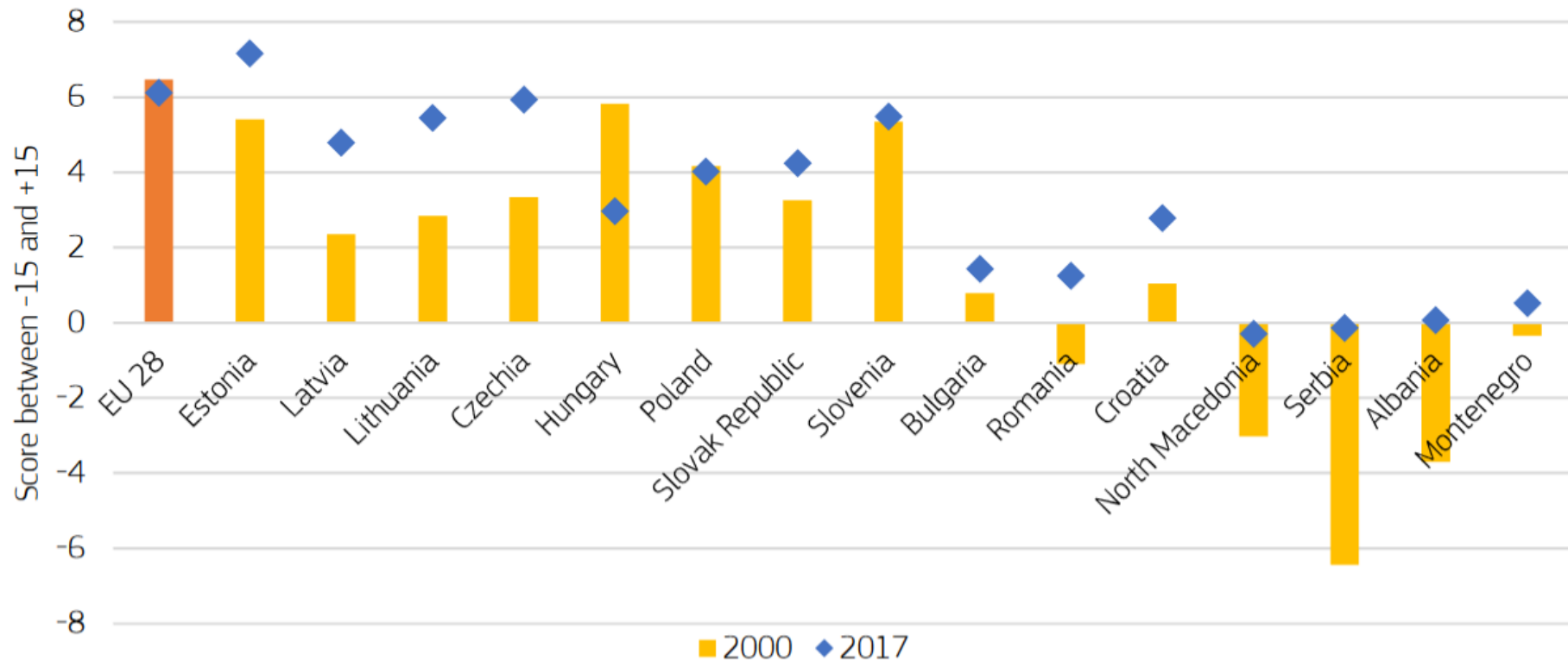
- Causality difficult to determine:

Does economic growth cause good institutions, and/or vice versa?



Institutional quality

Quality of Governance Indicator



Innovation and Technology

- A crucial determinant of long-run growth and prosperity

- Developing countries have an advantage:

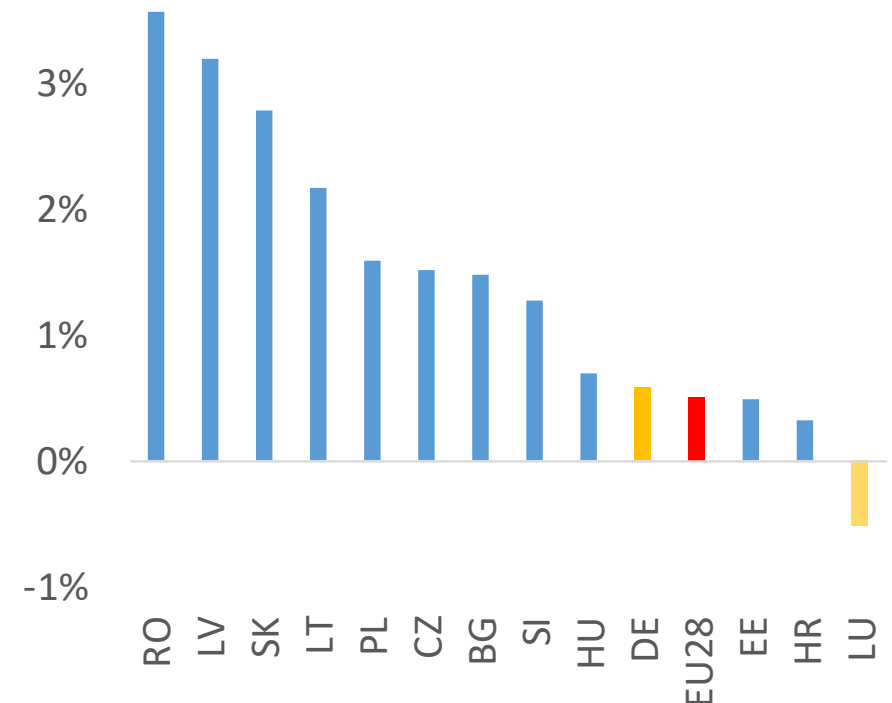
"...[they] do not need to develop from scratch technologies that are already available; they simply need to adapt and adopt them"

(D. Rodrik, 2011)

- Unclear whether EU membership offers permanently faster growth

% change
per year
4%

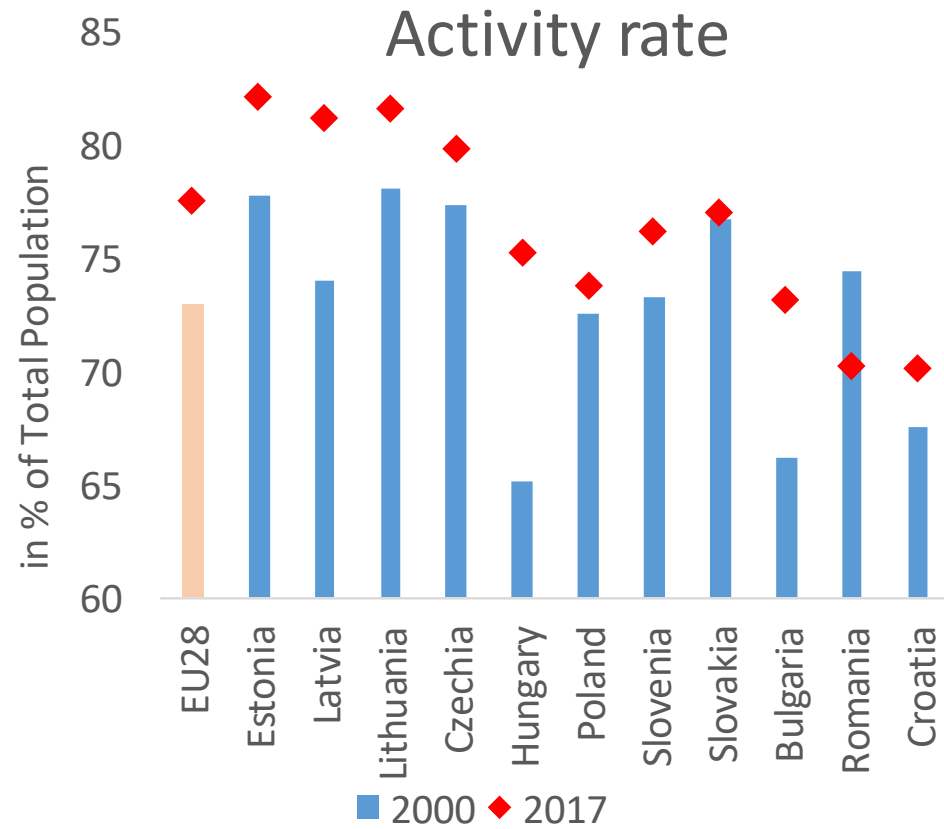
Total Factor Productivity
Growth (2000-2018)



Source: EU Commission

Labour Market

- Freedom of movement affected intra-EU migration
- Filling labour shortages
- Wage competition
- Employment protection legislation eased



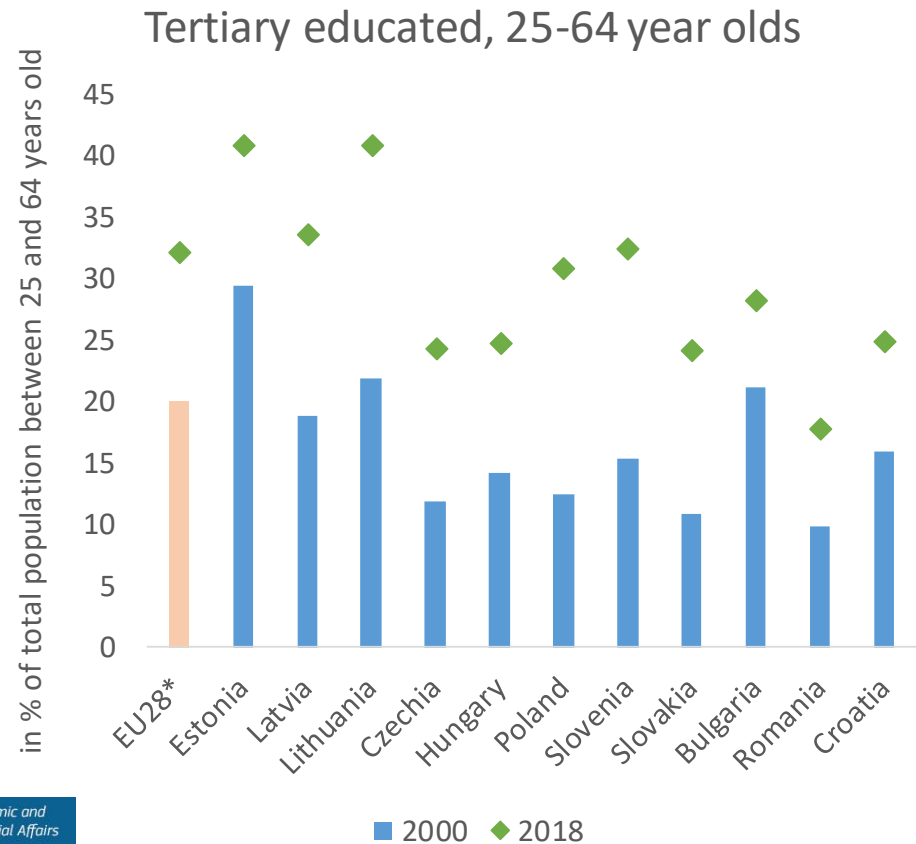
Source: EU Commission

Multi-dimensional convergence?

- GDP-based measures of convergence are important but can never paint an adequate picture

Need to extend convergence notion to include:

- Poverty, equality, happiness
- Education, health, environment
- Administrative quality, corruption



Conclusions

1. New member states richer, more open and free
2. Economic impact of enlargement had positive impact on EU15 member states as well (labour supply, supply chains...)
3. EU membership no panacea but a key ingredient for success
4. It's not only about GDP, but about economic and social transformation...
5. ...and forging a European identity
6. The pace of enlargement is bound to slow, appetite too low

Thank you