8. Accession to the European Union.

3 questions raised by accession of CEEC's to EU:

- what are the economic gains from enlargement of EU?
- What is the impact on EU budget ?
- What is the impact on EU decision-making ?

Readings:
- Baldwin, R., J. François and R. Portes, " The Costs
and Benefits of eastern enlargement: the impac on the EU and
Central Europe", Economic Policy, April 1997, 127-176;
-Baldwin et al. "Nice Try: Should the Treaty of Nice be Ratified?",
Monitoring European Interation, No 11, CEPR London.

Big differences in initial conditions:

- Czech republic, Hungary, Poland, Slovakia and Slovenia have
  18% of population of EU 15 but only 5% of its GNP.
- CEEC's export 50-60% of their total export to EU
- EU exports 4% of its export to CEEC's.

=> Asymmetric gains. Large new market for CEEC's, small
expansion of EU market for West.

Table 1. Basic economic facts

		1994		1993 export shares to:	
	Population (m)	Real per capita GNP (US$)	Agriculture GDP share (%)	CEECs (%)	EU (%)
Czech Republic	10	8900	6		63
Hungary	10	6080	7		55
Poland	38	5480	6		63
Slovak Republic	5	6290	7		53
Slovenia	2	6230	5		n.a.
Visegrad-5	66	6207	6		
Bulgaria	9	4380	13		39
Romania	23	4090	21		49
CEEC7	98	5547	9		
Greece	10	10 930	16	13	57
Portugal	10	11 970	4	1	80
Ireland	4	13 550	8	2	72
Spain	39	13 740	3	2	73
UK	58	17 970	2	2	58
Finland	5	16 750	5	11	55
Italy	57	18 460	3	5	57
Netherlands	15	18 750	3	3	74
Belgium	10	20 270	2	3	75
France	58	19 670	2	2	64
Austria	8	19 580	2	11	65
Germany	82	19 400	1	8	57
Sweden	9	17 130	2	3	55
Denmark	5	19 800	4	4	61
Luxembourg	0.4	35 860	n.a.	n.a.	n.a.
EU15	369	16 164	3	4	63

Trade mostly balanced but
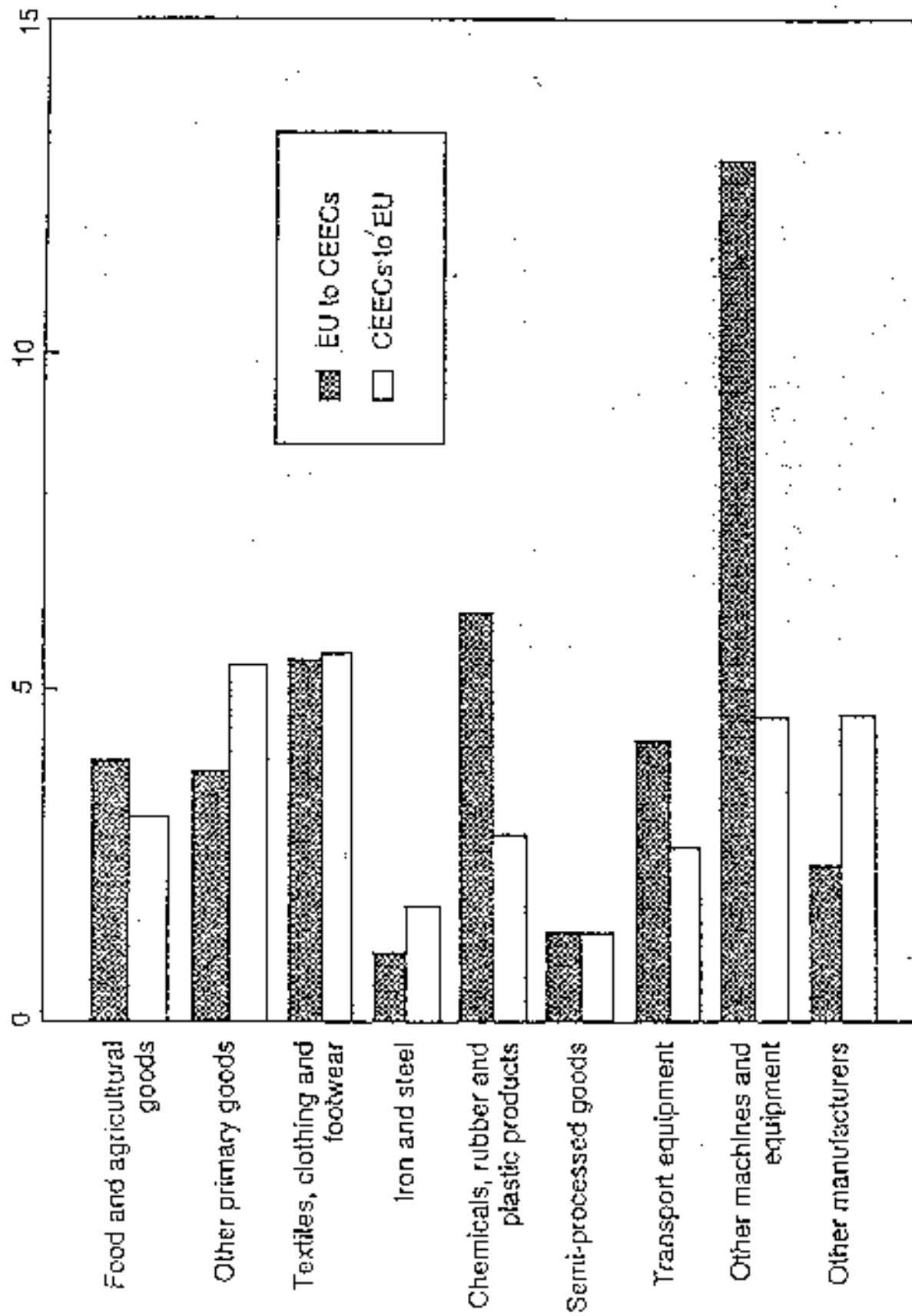- EU exports more machine and equipment,
  chemicals, rubber and plastic,

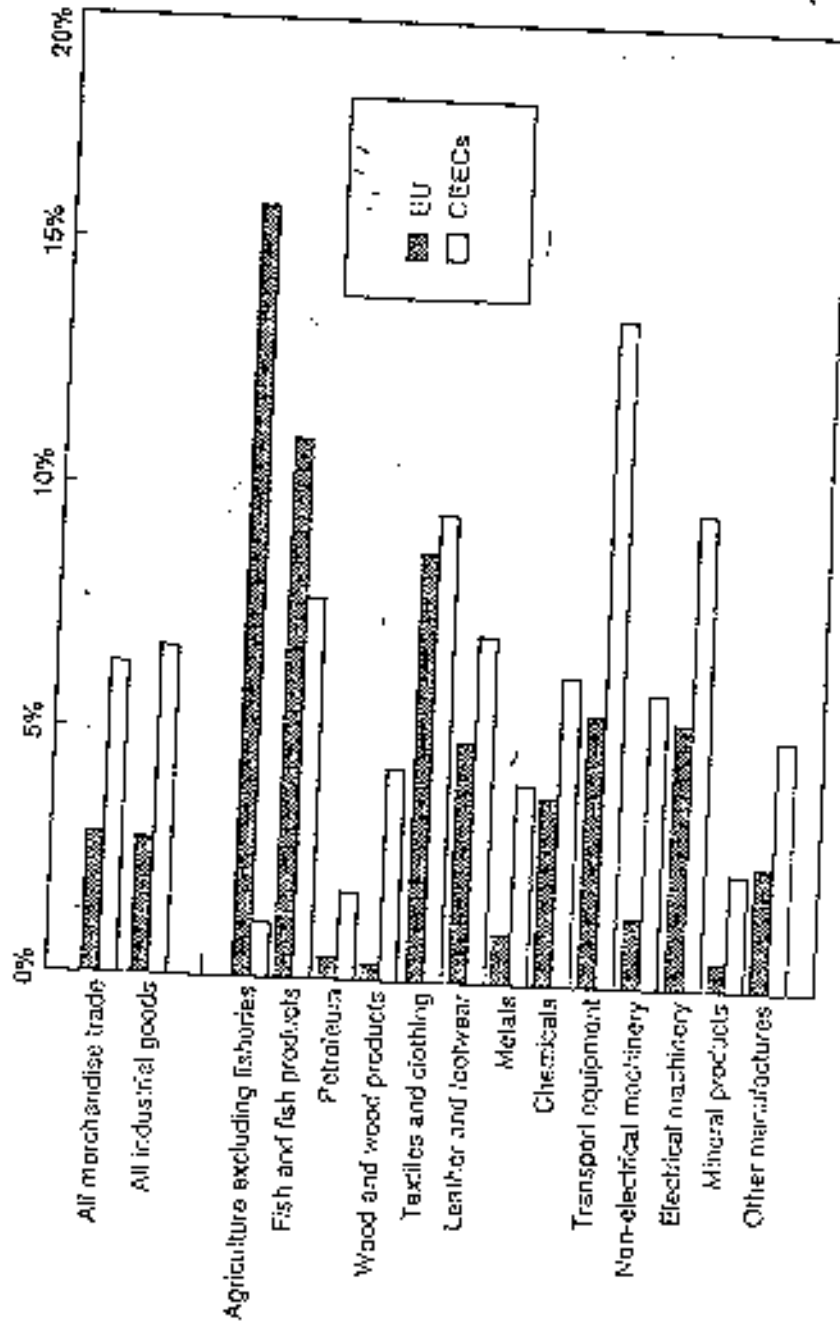Figure 1. EU–CEEC trade, 1993 (US$bn)

Source: WTO database.

Figure 2. Post-Uruguay Round applied MFN tariff rates

Source: World Bank, Finger et al., 1996.

Economic effect of integration.

Baldwin, Richard and Portes model of
computable general equilibrium:
-13 sectors, world in 9 regions
- takes into account trade creating and trade-diverting effects
- includes economies of scale and imperfect competition in 7
  sectors;
- capital accumulation

Table 3. Real income effects: conservative case

	Real income change (1992 ECUbn change from base case)	Real income change (% change from base case)
CEEC7	2.5	1.5
EU15	9.8	0.2
EFTA3	0.2	0.1
Ex-USSR	1.1	0.3

Notes: This is a comparative steady-state exercise, so real income changes are not equivalent to utility-based welfare changes. Real income is GDP. EFTA3 is Norway, Iceland and the Swiss-Liechtenstein customs union.
Source: Authors' calculations.

Small gain for EU due to different initial conditions.

Model predicts that with enlargement, export of CEEC's to EU increase by 25% but export of EU to CEEC's only by 1.5%.

Less conservative model takes into account investment effect due to lower interest rate premium because of smaller country risk.
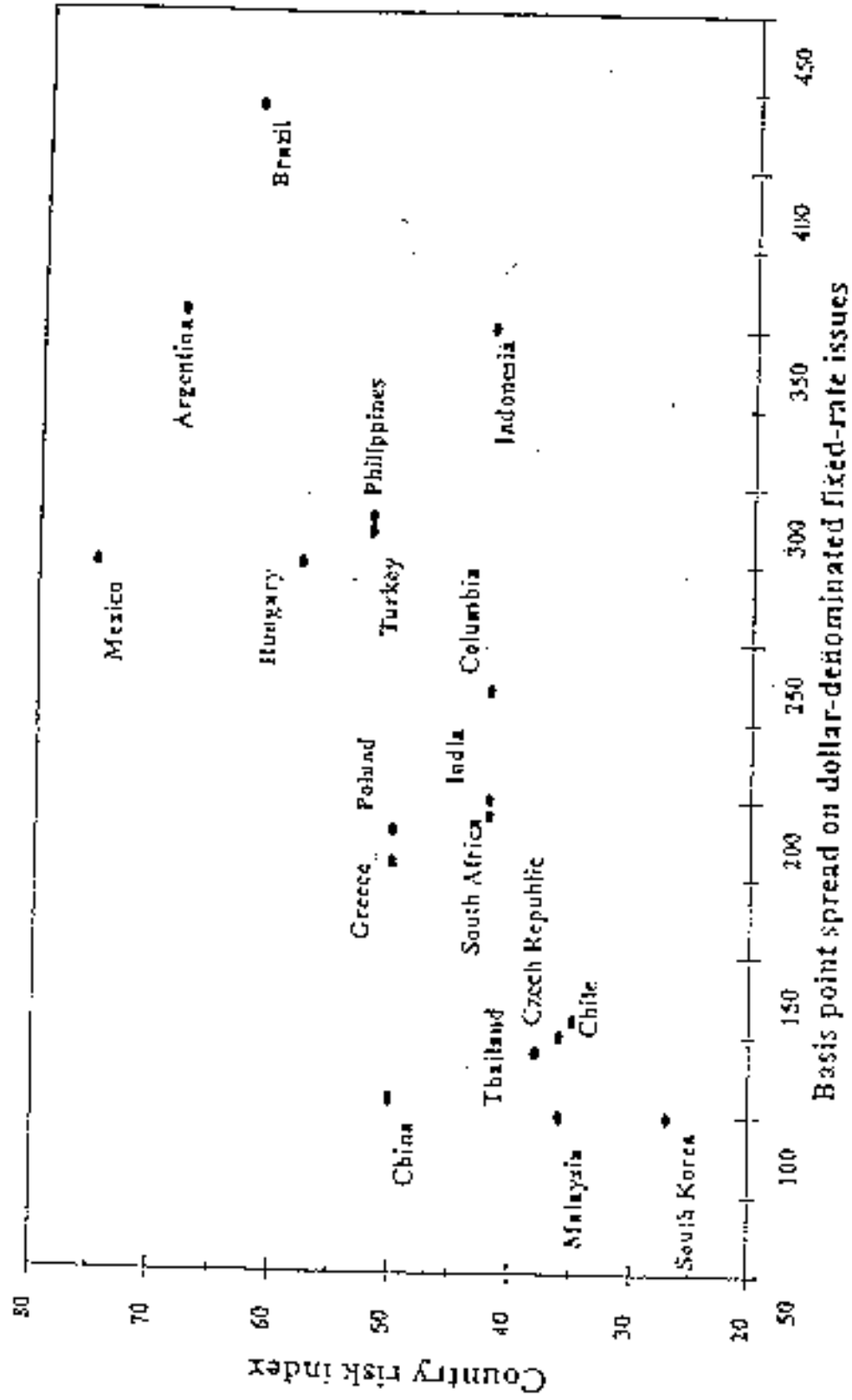
Figure 3. Risk and return in emerging markets

Sources: Horizontal axis risk premium: *World Bank* estimates from 1996 World Debt Tables, Extracts. Vertical axis country risk index: *Economist Intelligence Unit*, various issues.

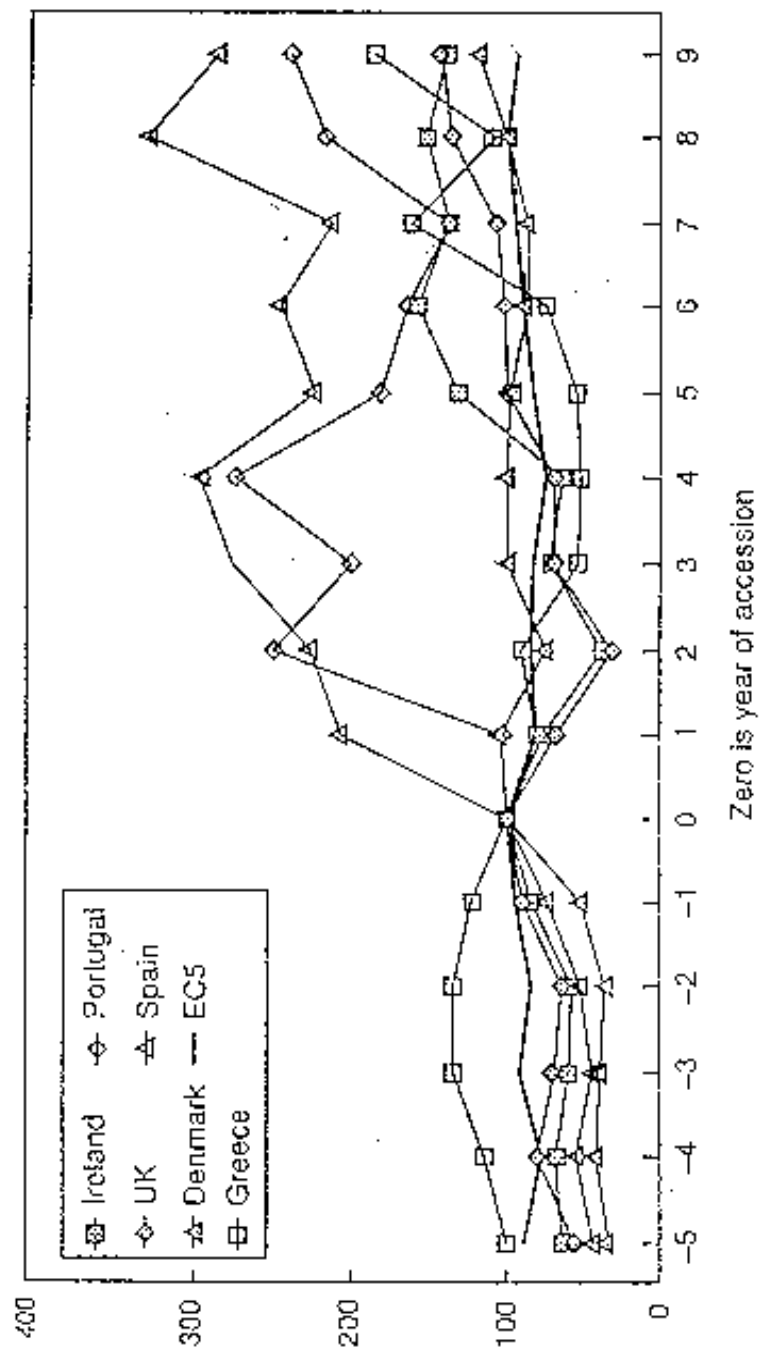Previous enlargements led to larger investments.

Figure 6. Stock market indices (accession year = 100)

Table 4. Real income effects: less conservative case

	Real income change (1992 ECUbn, change from base case)	Real income change (% change from base case)
CEEC7	30.1	18.8
EU15	11.2	0.2
EFTA3	0.1	0.1
Ex-USSR	- 2.1	0.6

Notes: This is a comparative steady-state exercise, so real income changes are not equivalent to utility-based welfare changes. EFTA3 is Norway, Iceland and the Swiss-Liechtenstein customs union.
Source: Authors' calculations.

Table 6. Distribution of gains among EU incumbents (change from base case, less conservative scenario)

	1992 ECUbn	% of EU15 total
Germany	3.8	33.8
France	2.2	19.3
UK	1.6	14.1
Italy	1.0	8.5
Spain	0.8	7.0
Netherlands	0.5	4.6
Sweden	0.4	3.9
Belgium–Luxembourg	0.3	2.6
Austria	0.3	2.6
Denmark	0.2	1.9
Finland	0.2	1.4
Ireland	0.0	0.3
Greece	0.0	0.3
Portugal	–0.0	–0.4
EU15	11.2	100.0

Note: See text for methodology.
Source: Authors' calculations.

Budgetary costs: Previous estimates : + 56 bn Euro
(doubling of EU budget)

Table 7. EU budget, 1994

Revenue		Spending	
VAT	48.4%	CAP	49.4%
Tariffs	18.4%	Structural Funds	31.9%
Agricultural levies	3.3%	R & D	4.4%
GNP based	27.4%	Administration	5.3%
Other	2.1%	Foreign aid	6.7%
		Other	2.3%
Total (ECUbn)	68.6	Total (ECUbn)	67.6

Source: EU Court of Auditors (1995).

Table 9. Projected Structural Funds spending

	Projection assuming ECU400 per capita (ECUbn)	Implied aid absorption (%)	Projection assuming 5% of GDP in 2000 (ECUbn)
Czech Republic	4.1	9.3	2.2
Slovak Republic	2.1	13.3	0.8
Hungary	4.1	7.8	2.7
Poland	15.4	12.4	6.2
Slovenia	0.8	4.2	0.9
Visegrad total	26.6		12.8

Note: See text for methodology.

Table 10. Estimated CAP cost of eastern enlargement (ECUbn)

Study	Visegrad-4	CEEC10
Anderson and Tyers (1995)	37	
Tyers (1994)	34	
Brenton and Gros (1993)	4–31	
Mahé (1995)	6–16	32–55
Tangermann and Josling (1994)	9–14	
EC (1995c)		
Slater and Atkinson (1995)	5–15	12
Tangermann (1996)	13–15	9–23

Note: Slovenia joined the Visegrad-4 after the studies were completed.
Sources: See References.

Table 11. Cost estimates in perspective, 1994 data

	GAP cash (ECUm)	Farmers (m)	ECU per farmer	Farm land (m hectares)	ECU per hectare
B	1229	0.1	12 290	1.3	914
IRL	1658	0.1	11 845	4.3	388
DK	1321	0.2	8806	2.7	402
F	8621	1.0	8226	27.0	319
NL	1948	0.3	7379	2.0	967
D	6159	1.0	5951	17.0	362
EU12	30 909	7.1	5621	117.9	339
UK	3070	0.6	5433	16.4	187
E	4953	1.2	4303	24.7	200
I	6724	1.6	4277	14.7	456
GR	2985	0.8	3779	3.5	844
L	22	0.0	3650	0.1	172
P	1219	0.8	1514	4.0	309

High-, medium- and low-cost estimates for Visegrad enlargement

Visegrad-4 high	15 000	4.50	3332	31.4	478
Visegrad-4 medium	10 000	4.50	2221	31.4	318
Visegrad-4 low	5000	4.50	1111	31.4	159

Notes: For B, DK, L and P, number of farmers for 1990. Slovenia joined the Visegrad-4 after the studies were completed.
Sources: EC (1995a, c).

$\Rightarrow$ Rough estimate: + 10 in CAP +13 in structural funds
- 4 in contribution to EU budget = 19 billion Euro

These estimates however do not take into account effect of enlargement on decision-making in EU!
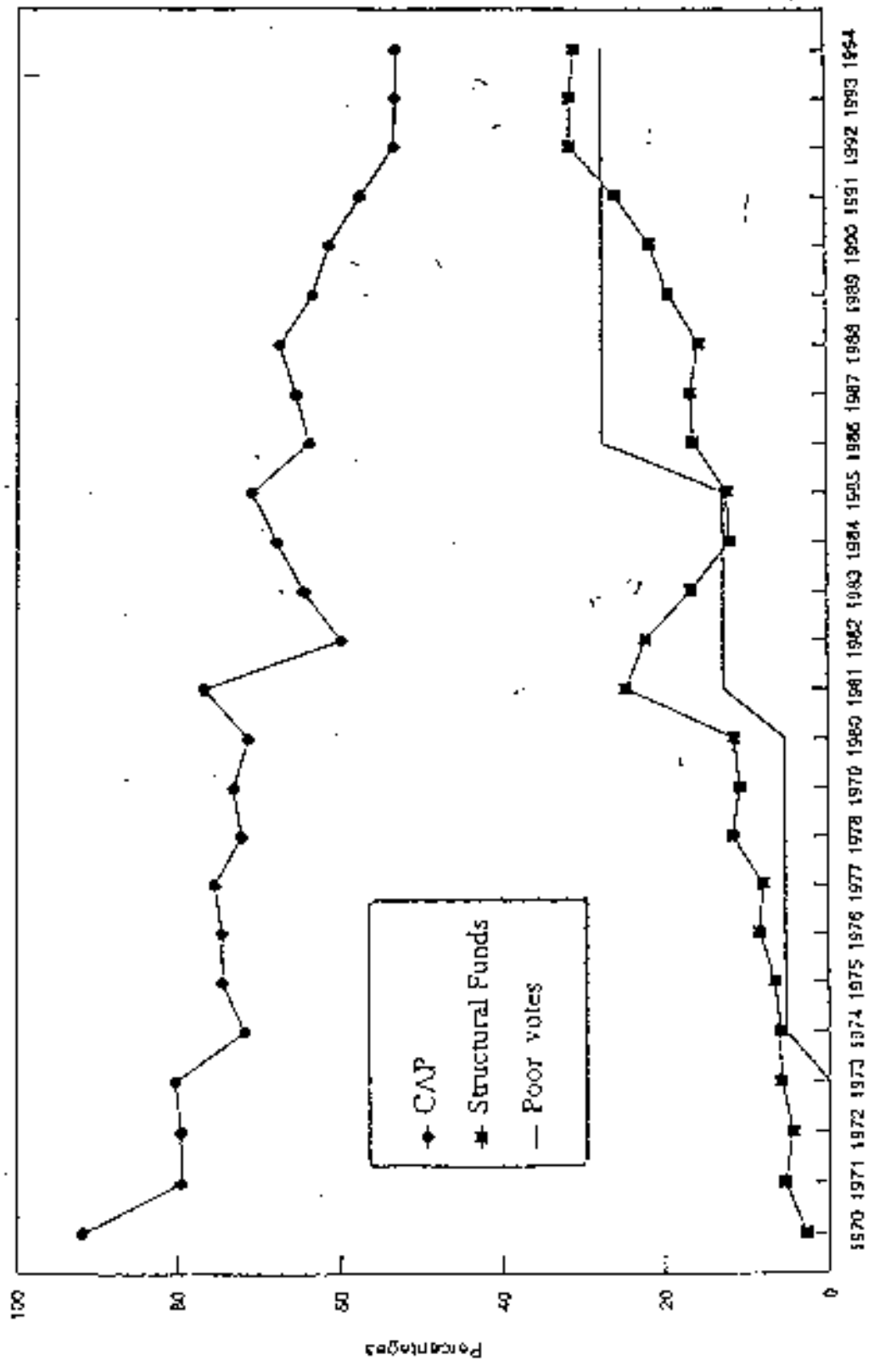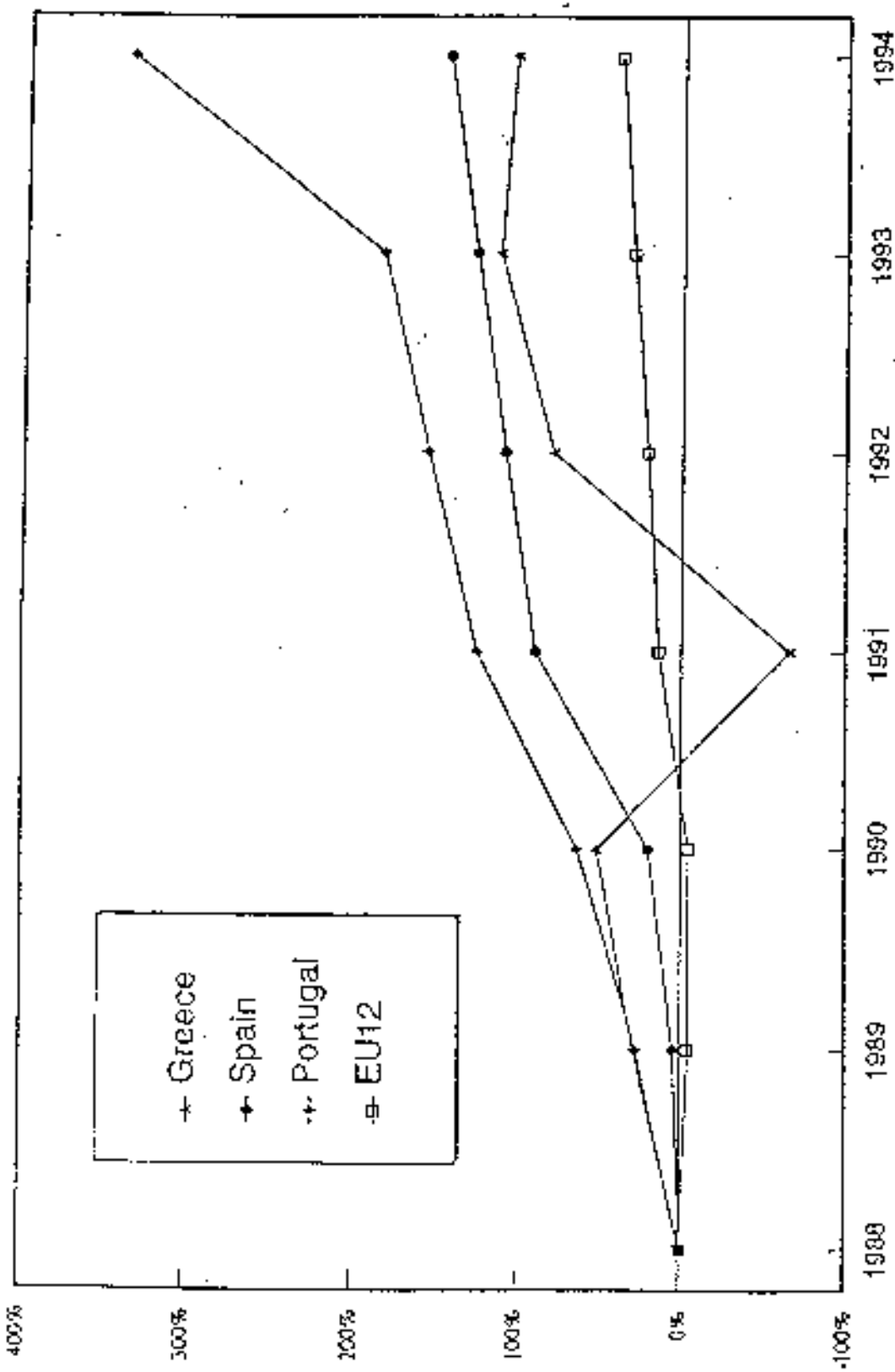
Figure 8. Voting power and spending shares, 1958–94

Source: EC (1994a) and own calculations.

Figure 10. Growth in CAP receipts, 1988–94

Source: EC Commission, *The Agricultural Situation in the Community,* various issues.

Table 13. Power politics in the EU budget

	Constant	Votes per capita	SSI/pop.	Cohesion	R^2
					No. of observations
Receipts per capita 1993–4	107.9	178.2 (18.8)		511.8 (9.2)	0.95
					24
Receipts per capita 1993–4	31		375.8 (23.4)	259.2 (7.5)	0.97
					24
Receipts per capita 1993–4 w/o Luxembourg	43.5		336.8 (5.7)	282.6 (6.1)	0.93
					22

	Constant	GDP per capita			R^2
					No. of observations
Contribution per capita 1993	−9.6	0.012 (7.8)			0.86
					12

Notes: *t*-statistics in brackets. Cohesion is a slope dummy variable for the poor-4 EU countries.
Sources: SSI is the Shapley–Subik index of power computed by Kirman and Widgrén (1995); votes are from Baldwin (1994); GNP per capita from *World Bank Development Report*, 1995; receipts and contributions from EU Court of Auditors (1995).

Table 14. Budget projections using the power politics view (Visegrad-5 enlargement in 2002)

	Using SSI power measure			Using vote-based power measure		
	Projected receipts (ECUbn)	Projected contribution (ECUbn)	Projected net (ECUbn)	Projected receipts (ECUbn)	Projected contribution (ECUbn)	Projected net (ECUbn)
Czech Republic	3.1	1.4	1.7	4.6	1.4	3.2
Hungary	3.1	1.1	2.0	4.6	1.1	3.5
Poland	5.8	3.2	2.5	9.6	3.2	6.4
Slovak Republic	2.4	0.6	1.8	3.3	0.6	2.8
Slovenia	1.7	0.4	1.3	2.3	0.4	1.9
Visegrad-5	16.1	6.7	9.4	24.4	6.7	17.7

Note: Enlargement assumed to occur in 2002, with the Visegrad-5 assumed to grow at 5% per annum between 1993 and 2002.

Source: Baldwin (1994) for votes, *World Bank Development Report*, 1995 for GNP/pop., Kirman and Widgrén (1995) for SSI index (EU20); NB per capita SSI times 100.

Table 15. Budget projections using power politics view (enlargements to EU25 in 2002)

	Using SSI power measure		
	Projected receipts (ECUbn)	Projected contribution (ECUbn)	Projected net (ECUbn)
Czech Republic	2.74	1.38	−1.4
Hungary	2.74	1.10	−1.6
Poland	5.12	3.22	−1.9
Slovak Republic	2.07	0.58	−1.5
Slovenia	1.46	0.40	−1.1
Bulgaria	2.18	0.60	−1.6
Romania	3.63	0.98	−2.6
Balkan-2	**5.8**	**1.6**	**−4.2**
Estonia	1.00	0.20	−0.8
Latvia	1.48	0.22	−1.3
Lithuania	1.51	0.18	−1.3
Baltic-3	**4.0**	**0.6**	**−3.4**
CEEC7	**19.9**	**8.3**	**−11.7**
CEEC10	**23.9**	**8.9**	**−15.1**

Source: Authors' calculations.

Table 16. Possible distributions of extra budget costs (ECUbn extra contributions to EU budget)

	Straight line	Straight line without poor-4 paying extra	Gains share pro rata (from Table 6)
Germany	6.2	7.0	6.8
France	3.7	4.1	3.9
UK	2.0	2.2	2.8
Italy	2.3	2.5	1.7
Spain	1.4	0.0	1.4
Netherlands	1.2	1.4	0.9
Sweden	0.5	0.5	0.8
Belgium–Luxembourg	0.9	1.0	0.5
Austria	0.5	0.6	0.5
Denmark	0.4	0.4	0.4
Finland	0.3	0.3	0.3
Greece	0.3	0.0	0.1
Ireland	0.2	0.0	0.1
Portugal	0.3	0.0	−0.1
EU15	20	20	20

Note: 1994 contributions for Austria, Sweden and Finland calculated with contributions/population regression from Table 14.

*Source:* Authors' calculations (see text for methodology).

Nice Treaty in 2001 decided on voting weights and rules under enlargement to EU 27 (plus Malta and Cyprus).

Current rule. QMV (qualified majority voting of 71%).

Nice introduces triple rule:
- 71% of Council votes
- 50% of member states
- 62% of EU population

Figure 2.1 Nice's reweighting of Council votes in favour of large nations
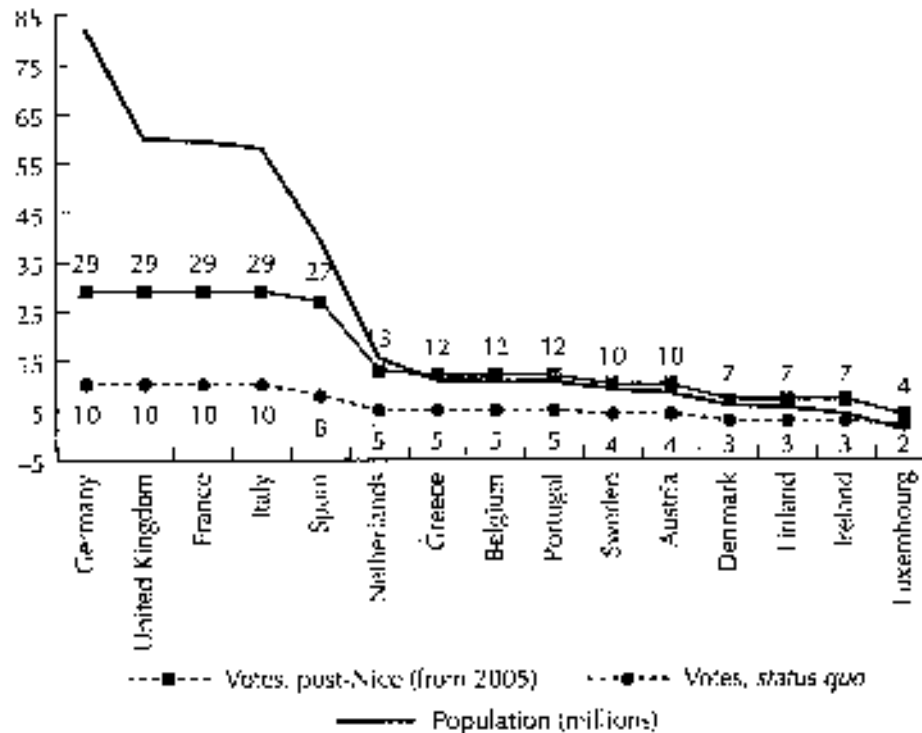
Notes
Members are arranged from largest to smallest populations and the lines show their current Council votes (circles) as well as the new numbers (squares) and populations in millions.

This shows that the Nice reform gave more Council votes to all EU15 members, but many more to the big five. Luxembourg's votes rose by 100%, Netherlands' by 160%, and France's by 190%. Spain did remarkably well, increasing its votes by 238%.

Bigger countries more favored than before.

Table 3.1 Decomposing the impact of Nice changes on efficiency

	Passage probability in the	
	EU15 (%)	*EU27 (%)*
Safety nets alone	23.2	19.1
Vote criterion alone (as under current QMV rules)		
● No reweighting with 71% threshold	7.8	2.5
● Reweighting with 71% threshold (246 votes to win in EU27)	8.3	3.5
● Reweighting with 74% threshold (255 votes to win in EU27)	n.a.	2.1
Total Nice reform (three criteria and 74%)	8.2	2.1

Notes

Safety net refers to the 62% population and 50% members criteria.

Vote criterion refers to the number of Council votes.

At the one digit level of precision, adding the safety nets to the reweighting plus 74% threshold has no effect on efficiency.

Source: Authors' calculations using IOP 2.0 program developed by Thomas Bräuninger and Thomas König, http://www.uni-konstanz.de/FuF/Verwiss/koenig/IOP.html.

Figure 3.2 Blocking power of East and poor coalitions in the EU27