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ECONOMIC ADVANTAGES FOR THE NEW EU MEMBERS

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1. Introduction

In its four decades of existence the EU has witnessed 4 enlargements (1973, 1981,1986,1995), but the envisaged fifth enlargement with the CEE countries at the beginning of 21st century will have no precedence. Before arguing this statement it is necessary to look into the historical background of previous enlargements.

The EC founding countries constituted of rather firm and homogenous members. The 1973 enlargement, which increased the Community's membership from 6 to 9 countries (Great Britain, Ireland and Denmark joined the EC in this year) was expected to give it a fresh wind and enable it to develop further and faster during the 70s. These hopes were partly fulfilled because the enlarged EC did not succeed in agreeing on a timetable for a customs union and basic constituents of CAP. Moreover, the nine members formed a less cohesive grouping than the original six. The EMS has, to some extent, compensated the failure of not achieving full economic and monetary union by 1980.

The next enlargement in 1981 was rather smooth as the Greek government took the view that it had to secure entry at all costs and therefore accepted nearly all the offered terms which were very much conditioned by political considerations.

In the early 80s, the EC was facing severe problems related to budget constraints, the need for institutional reform, the UK standing regarding payments to the budget and the need to remove the internal barriers within the EC. In 1984, an agreement was reached on the UK budget issue, on increasing the EC's own resources, on cutting the agricultural spending and clearing the way for the new enlargement (Spain and Portugal). Under the leadership of Jacques Delors, the commission produced a programme designed to put Community funds on a stable basis by scrutinising agricultural spending and collecting financial means for common research and the expansion of structural funds (regional and social funds).

The Maastricht Treaty in 1992 represents a historic milestone, the most important one since the Treaty of Rome. It gave new rise to European integration processes by setting out a detailed timetable for the economic and monetary union, providing the development of common foreign and defence policies and introducing a concept of institutional reforms. The difficulties over the ratification of the Maastricht treaty in 4 member states were seen as a sign for improving the relationship between the public voters' opinion and the EC political leadership.

The enlargement in 1995 with 3 developed EFTA countries (Austria, Finland, Sweden) gave new impetus to the EU. It can be stated that this enlargement meant the fulfilment of the 1992 programme of a single market with 370 million consumers.

The Eastern enlargement in the next decade (the first negotiating group of countries including Czech republic, Hungary, Poland, Slovenia, Estonia as well the second group including Bulgaria, Lithuania, Latvia, Romania and Slovakia plus Cyprus and Malta should be taken into account) represents the greatest challenge the EU has faced in its entire history. As Malta and Cyprus are small island economies with a relatively long market tradition and with different geopolitical considerations, our attention will be focused on the 10 CEE countries. However, the above mentioned list of candidates is not exhausted as the rest of southern European countries (former Yugoslav Republics and Albania) will after the accomplished transition and the resolution of the Yugoslav crisis in Kosovo become potential candidates.

The envisaged Eastern enlargement is significant not only because of the great number of potential candidate countries (12) and their variety but because of the enormous political, strategic, economic, monetary, systemic, legal and cultural dimension of the enlargement. After many centuries of divisions in the extensive European history the Western and Eastern part of the continent should be united. There is a great historic opportunity for both sides to strengthen peace and security in Europe, to contribute to cultural diversity and increase the European common market.

There are different parallel processes undergoing in the continent. On one side, it is particularly important that the applicant countries are expected to successfully complete their own transition from planned, undemocratic societies to pluralistic and market economies simultaneously with socio-economic adjustments to the advanced EU and embark on sustainable growth. On the other hand, the EU itself is facing crucial systemic and institutional challenges: a change of the voting system by the introduction of enhanced majority voting; modifications in division of responsibilities between the EU Council, Commission and Parliament; an adjustment of some key community policies like CAP, structural and cohesion funds etc.

This paper focuses mainly on the economic and monetary effects of Eastern enlargement and on the expected advantages from the standpoint of acceding countries. It should be stressed at this point, that in many cases it is impossible to discuss only the advantages, benefits or opportunities as the complex political and economic processes involve at the same time also disadvantages and costs. Some initial accession costs (like implication of harmonisation of legislature of acceding countries and practically full adoption of "acquis communautaire") might in the middle and long term turn into competitive advantages and benefits.[1] In financial budgetary terms the benefits for accession countries (becoming net beneficiaries by participating in structural, cohesion funds and in CAP) will be the costs for the EU members. There is a tendency among the member states to generally concentrate more on the costs of enlargement rather than on its benefits, which are less tangible than costs.

The paper is organised in the following way: On the basis of theoretical assumptions and some empirical findings assessments of the present and future effects of the integration mainly in the fields where benefits will outweigh the costs and disadvantages are given.[2] At first, expected macroeconomic advantages (GDP growth, trade, employment) of the integration for the CEE countries are discussed. These effects are substantially discussed in economic literature. Due to earlier high growth rates of inward foreign direct investments (FDI) in the region and positive effects of liberalisation of financial services, arguments are given for further increase of FDI in the light of the accession process. Last but not least, the effects and specific advantages of CEE countries' joining the EMU after the formal accession into the EU are dealt. Finally, ~~in~~ the conclusions are drawn from the previous discussion in order to shed some new information for future policy measures.

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1 TECCH (Technology, Environment, Competitiveness, Change Management), UNIDO, Vienna 1998

2 There were made several studies by EU trying to assess the costs of adoption and implementation of CEECs environmental legislation to EU directives. The estimation for 10 CEECs varies between 121.5 and 198.4 billion ECU. For the main sectors (water, air, waste) this is equivalent to ECU 1000 per capita or 3% of GNP in 1995.

2. Macroeconomic effects for the new acceding countries

Theoretical analysis of the effects of economic integration on general welfare usually differentiates between allocation and accumulation effects (see Baldwin, Francois, Portes, 1997).

Allocation effects refer to the reallocation of production factors through sectors and regions. This is a result of eliminated barriers on the flows of goods and production factors and abolished price distortions. With the redistribution of incomes these effects lead to the equalisation of prices of goods and factors and to their more efficient use. The allocation effects mostly depend on the efficiency of the initial location of factors among sectors. These effects will be relatively high in less developed acceding countries.

Theoretically, three types of allocation effects can be identified (Viner, 1950). The first one originates from trade volume changes. When prices for imported goods decrease due to the abolishment of import tariffs, the increase of imports diminishes the cost of consumer goods and thus raises national welfare. This is the so called trade creation effect which is supposed to be relatively high in CEE acceding countries. The second impact stems from changes in trade prices. When a country is the net importer of a good, a decrease of the border price is beneficial, while the opposite is true when a country is the net exporter. This is so the called trade diversion effect. The trade diversion effect is usually lower in bigger integration areas. In the case of the enlarged EU customs union (population of almost 480 million, GDP of around 6700 billion ECU, 20% of world trade) the trade diversion effect for newcomers will be small.

The third effect relates to the trade rents which are the revenues arising from the sales across the gap between the lower border prices and high domestic prices. The recent analysis (Breuss, 1998) argues that with the enlargement of the EU, trade costs will be reduced in trade between the EU incumbents and newcomers.

The **accumulation** effects arise from new investment incentives. They increase the volume of available production factors and accelerate economic growth. They are expected to appear in the long run and are not linked so much to the customs union but rather to the forms of deeper economic integration (production, technology). They are complex and diversified, and therefore difficult to evaluate. Another reason why they are difficult to assess is that they cannot emerge automatically. They have to be utilised by the companies and the economic policy. Foreign direct investments are a typical example. Although a large opportunity for a country or a region, FDIs will not flow unless a very attractive micro and macro economic environment is prepared. It is interesting that in economic literature (Strmšnik, 1997, Breuss, 1998, Baldwin, 1994) the attention moves from static benefits to long term dynamic advantages of economic integration. This is partly due to the fact that in Western Europe a large part of the static benefits have already been realised during the previous integration process and the EU has been changing from a customs union to a deeper form of economic integration (production, technology, intra-industry trade, monetary union).

One of the most important effects of integration will be the advantages of increased efficiency due to fiercer competition between producers and the advantages of economics of scale. The supply effects are translated in macroeconomy through lower prices which are influenced by higher productivity of production factors. Greater efficiency implies a number of changes in production due to the elimination of X-inefficiencies and a more optimal use of production factors.

Greater competition should eliminate inefficient companies and lead to economic restructuring. Even if the number of competitors doesn't increase considerably, the potential chance of their entry to the market itself changes the behaviour in the market and generates a more competitive environment. Lower costs can be expected also from the use of economies of scale on the expanded market. Savings can be accumulated at the level of the production plant, economic sector, region or national economy as a whole (Strmšnik, 1997).

At this point, advantages derived from the **abolishment of customs formalities** (costs of delays at the customs, cost of customs service) should also be mentioned. The abolishment of customs control would, in the long run, result in a drop in internal EU imports costs.

The **abolishment of market barriers** (technical regulations, A-tests, declaration of origin) is another factor reducing costs.

Liberalisation of the **public procurement** effect will contribute to trade creation. Greater competition from abroad will force domestic producers to reduce their prices and will have positive effects on the CEEC's budgets.

3. Expected welfare and trade benefits for CEE countries

The consequences of CEEC's integration into the EU in the area of foreign trade, need to be assessed from the standpoint of global liberalisation processes. The economic globalisation and regional integration are marked by the consistent elimination of the remaining trade barriers. This should bring about large benefits to open market economies. In the developed EU countries, the level of welfare should even increase, while in the CEECs the constant flow of technology, capital and know-how from the developed countries should lead to higher productivity and faster economic development. The only alternative to such an approach is a protectionist policy which would bring worse economic results (Strmšnik 1997).

The globalisation process also brings about greater interest in the preferential trade areas (EU, CEFTA, EFTA, NAFTA, APEC, MERCOSUR, etc.). The theory of the customs union itself cannot predict a final net effect on the volume of trade and the level of welfare for the members. The final effect depends on a wide range of concrete conditions in each individual country. Nevertheless, the interest in regional integrations has been growing, because they provide a chance for faster liberalisation than that in WTO. Besides, each integration offers some other specific advantage. The harmonisation of economic policies, investment regulation, social policy, environmental standards and product conformity, bring to the members of contemporary regional integrations much greater benefits than the possible losses in foreign trade.

Table 1: EU - CEEC Trade Relations during transition (1990-1997)

A. EU member states' trade with CEEC-10*)

	Export shares % of total			Import shares % of total			Trade balance Mill. US-$		
	1990	1993	1997	1990	1993	1997	1990	1993	1997
Belgium-Luxembourg	0,49	1,23	2,19	0,51	0,79	1,36	-24,8	662,1	1577,9
Denmark	1,12	2,40	3,71	1,44	2,59	3,13	-62,3	99,7	417,2
Germany	2,04	4,78	7,26	2,30	4,73	7,01	246,4	1992,9	6550,4
Greece	2,47	6,01	6,29	2,12	2,33	3,47	-220,0	75,6	-419,1
Spain	0,38	1,03	1,92	0,52	0,61	1,15	-245,6	143,4	592,4
France	0,64	1,46	2,42	0,78	1,21	1,67	-474,9	567,2	2411,2
Ireland	0,33	0,43	1,01	0,64	0,56	0,73	-53,1	5,8	233,8
Italy	1,27	3,27	5,05	1,35	2,51	3,81	-300,2	1688,8	4019,4
Netherlands	0,69	1,81	2,18	0,83	1,64	1,89	-132,8	463,0	867,0
Austria	5,56	10,28	13,55	3,82	5,79	8,61	414,8	1316,5	2362,5
Portugal	0,15	0,23	0,77	0,17	0,29	0,47	-18,3	-34,6	19,6
Finland	0,96	4,59	7,58	2,00	3,14	3,63	-286,7	512,3	1979,3
Sweden	1,12	2,22	3,86	1,31	2,0	3,55	-69,6	213,3	906,6
United Kingdom	0,59	1,18	1,94	0,55	0,91	1,44	-143,5	284,0	1040,5
EU-15	**1,24**	**2,83**	**4,23**	**1,28**	**2,35**	**3,34**	**-1270,7**	**7990,0**	**22558,7**

* in 1990 trade with CEEC-6 (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia) in 1993 and 1997 trade with CEEC-10: CEEC-6 plus Estonia, Latvia, Lithuania, Slovenia.

B. CEECs trade with the EU

	Export shares % of total			Import shares % of total			Trade balance Mill. US-$		
	1990	1993	1997	1990	1993	1997	1990	1993	1997
Bulgaria	37,70	30,00	43,00	51,70	32,80	37,30	-1008,6	-446,3	305,7
Czech Republic*	38,90	49,40	59,90	43,30	52,30	61,50	-1060,9	-208,1	-3052,3
Estonia		48,30	62,30		60,40	67,20		-152,2	-1173,9
Hungary	45,40	57,90	71,20	48,90	54,60	62,40	133,4	-1689,3	271,5
Latvia		67,20	45,40		50,50	45,60		80,4	-1223,6
Lithuania		32,10	48,90		27,00	53,20		-2410,0	-498,0
Poland	54,80	69,30	64,20	51,40	4,80	63,80	2851,9	-2410,0	-10467,0
Romania	33,30	41,40	56,70	21,50	45,30	52,50	-9,1	-931,9	-1154,8
Slovakia		29,60	46,90		27,90	39,50		-151,3	-101,5
Slovenia		63,20	63,60		65,60	67,40		-420,9	-992,2
CEEC-10		**53,40**	**60,40**		**53,40**	**58,90**	**1915,3**	**-6746,6**	**-18086,1**

* in 1990 former Czech-Slovak Republic

Source: Breuss (1998) and Eurostat, UNO: FTW, IMF: DOT, Wifo.

The current EU is already the largest single market in the world. There are no internal borders and the harmonisation of regulations and standards ensures free circulation of goods and services. The liberalisation of trade between the EU and CEE countries caused by implementation of co-operation agreements and especially of the European Agreement, contributed to the huge increase of mutual trade (more than 16 times as shown in current prices in table 1) but also to the enormous CEEC's trade deficit with the EU. In the period 1990-97 the EU as a whole increased export shares with CEE countries by 341% (Germany by 355%, Belgium-Luxembourg by 447%, Spain by 505%, France by 378%, Italy by 397%, Portugal by 513% etc. A small surplus in the CEEC's trade balance with the EU from 1990 turned into a huge deficit with over 18 billion US$ respectively 22.5 billion

US$. The increase of imports from the EU contributed a lot to the welfare effects in CEECs. The EU already eliminated its tariffs for most products imported from CEECs in 1997. The exemptions are so called sensitive products (agricultural products, steel, textiles, vehicles). CEECs are going to cut their tariffs gradually until the year 2001. The reduction of external tariffs is a welfare improving effect in the CEECs. When considering trade advantages, the broadest effect is given by the simple extension of the EU's trade policy regime to the acceding countries. Where there is currently a single trade regime for the EU and a different regime for each of the candidates, the latter will be transformed into the former. A common commercial policy and common customs tariff will have to be implemented.

Several studies were made on future trade potentials of the EU-CEECs (Baldwin, 1994, Inotai, 1998, Breuss-Egger, 1997). The latter study using the gravity equation methodology came to the conclusion that the trade potential has been almost exhausted. In the case of Slovenia, the authors (Svetličič, 1996, Damijan-Caf, 1995, Potočnik - Majcen, 1996)[3] have confirmed the thesis that factors increasing trade will outweigh the factors diverting it. On the side of exports, the effect of free trade arrangements is undoubtedly positive. It increases in line with the level of export flows to partner countries and the elimination of trade barriers. On the import side, preferential trade arrangements can result in trade creation or trade diversion. The former includes the shift in consumption from expensive domestic products to cheaper products imported from the partner states. The latter includes the shift in consumption from products imported from third countries to products imported from partner countries. The net effect depends on the intensity of both effects in each individual case. With a customs union, the chance of a mutual benefit increases as it implies that a common tariff is imposed against the third countries. The wider the area of the customs union and the greater price disparities from the third countries compared to those inside the EU, the greater mutual benefits of EU incumbents and acceding countries will be.

4. The advantages brought by the increase of inward foreign direct investments

The liberalisation of financial services (banking and insurance services) and the liberalisation of capital flows (FDIs and portfolio investments) will result in positive effects for new acceding countries. According to Emerson et al.(1988), the most beneficial

[3] Similar studies trying to simulate trade cost reductions and national policy measures were done in Hungary (Braber, Cohen, Révész, 1996) and in Poland (Orlowski, 1966)

effect of the enlargement will be the decrease of the general level of prices including lending interest rates. On the whole, the price drop will have a cumulative positive effect on long- term growth of GDP of CEECs.

FDIs are crucial for industrial restructuring and improving international competitiveness.[4] FDIs speed up the introduction of modern technology and increase the level of R&D, apply new managerial methods, and create new job opportunities for the skilled and unskilled labour force. Moreover, they improve access to new markets and thereby increase export capabilities, accelerate integration of domestic production with the production of the EU incumbents, speed up the privatisation in the sectors which have not been privatised so far and contribute to the restructuring of the whole economy. In transition economies, FDIs also have been an important factor of growth.

In CEECs the foreign direct investment potentials has been realised on a different scale (table 2). So far, Hungary has been the leading CEE country in attracting FDIs. In 1998 the cumulative stock of FDIs in the Hungarian economy has in 1998 surpassed 21 billion US$. The per capita level of inward FDI is around 1500 USD.

Table 2: The inflow of FDIs into CEECs during the transition (in mio USD)

Country	1992	1993	1994	1995	1996	1997	1998 (1. half)
Hungary	1471	2339	1147	4453	1983	2085	951
Poland	284	580	542	1134	2768	3077	2093
Czech Republic	1004	654	869	2562	1428	1300	589
Slovenia	111	113	128	176	186	321	34

Source: WIIW, report No. 12/98 (based on balance of payment data)

The second largest FDI recipient (in absolute figures) in the region is Poland. Taking into account the IMF methodology (including purchase or taking over more than 10% of shares in a company and surcharge to its capital) the cumulated FDI inflows reached 11.4 billion USD in the period 1989-1997 and ca 15 billion USD in the period 1989-1997. The increase of inward FDI was significant in 1996-1997 when yearly 2.7-3.0 billion USD were invested by foreigners.

4 The world Competitiveness Report (IMD, 1999) takes into account 8 groups of the competitiveness criteria: government performance, internationalisation of economy (including inward and outward FDIs), science and technology, management, finance, human capital, labour and domestic economy. Statistical criteria is used as well as survey data based on the managers' assessments. 4 CEECs are ranked among 49 countries as follows: Hungary 26., Slovenia 40., Czech Republic 41., Poland 44..

In the Czech Republic high fluctuations were observed in FDIs in the period 1992-1998. From a very low 0.2% ratio of FDI to GDP in 1990, the peak (5% of GDP) was reached in 1995 when 2.6 billion USD of FDI inflow was registered. In 1996 the pace of establishing new joint ventures was maintained. There were no big FDI deals in 1997 but the sweeping majority of this amount was channelled into already existing joint ventures.

In absolute terms, Slovenia has in the past decade attracted very modest FDIs. The main reasons underlying this fact are the following: the legal, regulatory and administrative framework, while improving, is inadequate; the privatised companies are controlled to a great extent by managers and workers who fear foreign strategic investors; inadequate governmental FDI promotion is still prevailing.

Measuring the stock of inward FDIs in GDP (end of 1998) in the above analysed CEECs is as follows: Hungary 41.9%, Poland 19.8%, Czech Republic 14.9% and Slovenia 13.3%.

With regard to future FDI flows in CEECs after the accession, some parallels can be drawn from Spain, Portugal and Ireland. In Spain, 5 years after the accession, the inflow of FDIs increased from 1% of GDP to 2.5% of GDP (Strmšnik, 1997). The economic effects of these capital inflows were very positive: the financial limitations connected with the balance of payment equilibrium were reduced, they spurred domestic investment sources, contributed to the modernisation process and the development of the financial sector. Similar results were found in Portugal and Ireland. A close relationship between the access to the EU and the inflow of FDIs has been found by the assessment of three EU enlargements (1973, 1981, 1986) for six countries (Baldwin, 1997) for the period of five years after the accession. It can be said that the less developed country, the higher the inflow of FDIs. Regarding gross investment, results in the EU enlargements were similar. All less developed countries (except Greece) have increased their share of gross investment in GDP after the accession to the EU. In Spain and Portugal, however, this increase was only of transitional nature. Recently, these shares have again come closer to the EU average.

5. Effects of joining EMU

It is expected that the new acceding countries will not join EMU immediately after the accession, so that they can have a few years adjustment period.

On the benefits side, the main expected benefit of the membership in the EMU is that because of irrevocably fixed exchange rates and the use of the single currency new members' trade with the EU would not be exposed to exchange rate fluctuations, uncertainties, risks and associated costs, as well as to conversion costs within the euro area. This should lead to lower costs and to increased stability of trade, resulting in larger trade and capital flows with the EU and in deeper integration in the EU internal market. It needs not be proved that this is of a vital interest for CEECs economies. The next benefits from the EMU are linked to the expectations that euro is likely to be a very stable currency. In this case, acceding countries can expect lower inflation and interest rates, with favourable effects on its monetary stability, investment and economic growth. Finally, new members would participate in the seigniorage revenues from the creation and use of euro and would participate in the formulation and implementation of the European single monetary policy. It would also benefit from the economies of scale in pooling of the international monetary reserves and from the use of the euro as a potentially prestigious international currency, rivalling the dollar in its leading role as the international currency.[5]

On the costs side CEECs will in principle have to bear the same sacrifices from the inclusion in the EMU as the EU members of the euro zone. First, there is the loss of the national currency which is painful in itself, considering the symbolic and prestigious dimension of a currency. CEECs are in this respect in no worse position than the EU members of the EMU. In some cases, for them this sacrifice could be even less pronounced, since some of the currencies have a short history (Slovenian tolar for example) or have a poorer track record than the EU currencies. Second, the loss of the autonomy in monetary policy and particularly the loss of the exchange rate as an instrument of adjustment could represent a problem, but not of the great magnitude. Monetary autonomy is in itself to some extent a questionable concept if a country is integrating in an area with a stable currency. In this case monetary autonomy means in the first place the possibility of leading less responsible monetary policy and to misuse the monetary policy for some other (fiscal or redistribution) goals. In this sense the loss of monetary autonomy needs not necessarily be a loss worth grieving. In academic circles the prevailing view is that in a small open economy without capital controls monetary autonomy is in fact more or less just an illusion. The loss of the exchange rate autonomy may represent a more severe problem. To what extent the loss of the exchange rate instrument is really a cost of the inclusion in the EMU, depends mostly on two factors - exposure to the so called

[5] V. Lavrač and P. de Grauwe (1999).

asymmetric shocks and functioning of the alternative mechanisms of adjustment to these shocks, which substitute for the exchange rate when this instrument is given up as a result of the inclusion in the EMU.

The theory of the optimum currency area, however, emphasises certain structural characteristics of the economy which determine whether for an individual country it is better to join a broader monetary union or to stay an independent monetary area with its own currency. The optimum currency area theory also suggests where the boundaries of the optimum currency area should be, or in the case of the EMU, how large it should optimally be. According to this theory the main structural characteristics which determine whether a country should join a monetary union, are the following: size, openness, diversification of production and exports, and geographical concentration of trade. According to these criteria, the CEECs (after successful accomplishment of transition and adoption of "acquis") seem quite suitable for joining the EMU.

In an economy with such structural characteristics we can expect that benefits of the EMU will increase and costs decrease, so that the net expected benefits from the EMU should increase, at least compared to other economies with different structural characteristics. Such an analysis is for the moment of course possible only in principle and on general level. Concrete estimations and quantifications of costs and benefits of the EMU for Central European economies are a demanding task which still needs to be done and which was hardly accomplished even for the EU member countries.[6]

Adjustments which CEECs will still need to face when joining the EMU because of its possible (or probable) lower (or in time declining) competitiveness of its economy on the EU internal market, will have to be borne (just like in the EU member countries in the EMU) in the first place by real wages and greater flexibility of the labour market in general. Possible alternative mechanisms of adjustment, such as mobility of labour within the EMU or fiscal transfers within the EMU area, are for well known reasons not expected to play a role worth mentioning. It can therefore be concluded that for CEECs the inclusion in the EMU will make sense only when they beforehand prepare themselves to be able to sustain the competitive pressures on the EU internal market. Not surprisingly, this is the main point and the main requirement in the process of negotiations for the full membership in the EU. In the opposite case, the loss of the exchange rate as an instrument of adjustment

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6 The most comprehensive analysis of costs and benefits for the EU member countries can be found in Emerson (1992), De Grauwe (1994) and Gros (1995).

when joining the EMU might really be too big a sacrifice. If the exchange rate policy is no longer available while alternative mechanisms do not function (they do not exist or are not flexible enough because of the built-in rigidities), a candidate country which faces problems with its international competitiveness on the EU markets could start to decline in economic growth and employment. It would become a depressed region in the EMU, which would be the final high cost of an unsuccessful inclusion in the EMU.[7]

6. Conclusions

Ten CEECs applied for full fledged EU membership and the first half of the more advanced candidates are already in the EU negotiating process. The effects (either benefits and advantages or costs and disadvantages) of their accession can be manifold. Short term advantages for CEECs will be mostly budgetary stemming from the participation in CAP, structural and cohesion funds. Medium term adjustment (application of "acquis communautaire" and harmonisation of standards) will represent quite substantial cost burden for CEECs which in the long run will turn into a competitive advantage. The free movement of goods (tangible and intangible), services and capital, migration of labour will bring advantages to CEECs mosty in long run.

After having examined the theoretical background and previous enlargement effects (of course, further detailed empirical sectoral and country studies are needed) it can be stated that the positive effects in the long run will outweigh the costs of accession. It is supposed that the accession will have a positive overall effects in CEECs: on welfare, on economic growth, on employment, on trade, on FDIs and on inclusion in the EMU. However, after scrutinising the main integration issues it can be concluded that most of the positive trade effects (especially in the more developed CEECs) have already been exhausted and that the future emphasis should be put on deeper integration effects (production and technology networks, fiscal and monetary issues, technological upgrading, modernisation of capacities). Other areas affected will be the competition policy, harmonisation of standards, product conformity, abolishment of customs formalities, health and environment regulations, public procurement, etc.

The future inflow of inward FDI in CEECs after the accession, depends very much on the general economic and political performance, sustainability of growth and absorption

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[7] Lavrač V. (1999).

capacities in these countries. According to past trends and the experience of the former EU enlargement, there is a scope for the further increase of FDIs together with accompanying positive effects.

On the other hand, the integration itself can provide CEECs with a kind of macroeconomic anchor and thus raise the credibility of their economic policies. In majority of the candidate countries, there is still a scope for the increase of integration factors (mainly in the field of outward and inward FDIs, science and technology, human capital etc.).

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