



## Economy: Growth and Jobs

Enlargement has boosted the economies and improved living standards in the new member states. It has benefited the economies of the old members by creating a larger internal market.

### Impact on new members

Enlargement has greatly **stimulated growth and modernisation in the new members' economies**. There has been a clear structural shift towards services and the knowledge intensive sector.

Integration into the EU's internal market has brought **benefits from increased trade, foreign investment and further integration into financial markets**. Business operators from the new members – large and small alike – have managed to use efficiently the opportunities provided by the internal market.

New member states' economies have continued to **grow fast** – generally faster than the economies of the old members (5.6% against 2.2% in 2004–08, with countries like Slovakia and the Baltic states reaching growth rates as high as 7–10% in the best years). It is estimated that joining the EU gave the new members an extra growth boost of around 1.75 percentage points per year over the period 2000–08.

In the context of the current **international financial crisis**, EU membership gives the new members invaluable protection.

**Four countries have already joined the Euro (Cyprus, Malta, Slovenia, Slovakia)**, which has helped to stabilise their economies and protected them from the worst effects of the crisis.

But EU support is not limited to these countries. For example, at the end of 2008, when the Hungarian financial markets came under severe stress, the EU decided to provide balance of payments assistance of up to €6.5bn to Hungary. In return, Hungary had to commit to measures that support sustainable economic policy – such as fiscal consolidation, fiscal governance and financial sector regulation.

**Fast growth has stimulated employment** in the new members, although increased emigration has caused some concern about brain drain and labour shortages in specific sectors.

However, *emigrant remittances have greatly helped the balance of payments* in some countries (in 2006, they were some 5.5% of GDP in Bulgaria and Romania, over 2% in the Baltic States and 1.5% in Poland).

Similarly, *improved living conditions have reduced incentives to work abroad*, and a trend of return has been observed. Returning workers bring back new skills, precious to the home economies.

## **Old members and EU as a whole**

***Enlargement has contributed to economic growth in the old EU members*** through further investment opportunities and increased demand for their products (7.5% of their exports went to the new members in 2007, compared with 4.7% in 1999).

The larger internal market has boosted competitiveness in the EU as a whole.

In the long run, the economic potential of adding countries with around 100 million additional producers and consumers is considerable.

### ***Workers' mobility***

In most EU countries, the number of people arriving from outside the EU exceeds the number of newcomers from other EU members. The only exceptions to this are Ireland and Luxembourg.

Workers from new member states have helped to meet extra demand for labour in the host countries, especially in sectors where there is a shortage of local labour supply.

The possibility to work legally in the old member states can also reduce undeclared work and the grey economy. This has well-known beneficial effects, such as greater compliance with legally sanctioned labour standards, improved social cohesion and higher state income from tax and social security contributions.

### ***Relocation of jobs***

Of all the jobs lost in the EU in 2003–06, only 8% were due to companies moving activities to another country. There was no sign of an upward trend in relocation in the four-year period examined.

Some offshoring has already occurred from the new member states to lower-cost countries – proving that it is not enlargement that causes relocation of business, but global competition.

Companies will always seek lower costs, larger markets, technological innovation and other factors that give them a competitive edge. European companies face competition especially from the United States, China and India. Investing in Central and Eastern Europe instead of third countries can help European industry to maintain jobs and to create growth throughout Europe. In a globalised economy, Europe's long-term answer to economic challenges can only be increased competitiveness combined with the development of our social model. Enlargement can contribute to this to a large extent.

### ***Cost of enlargement?***

Financial support to new member states from the EU budget has brought a significant boost to their economies. Yet EU financial assistance to the new member states represents only some 0.2% of the gross domestic product of the old members, rising to

0.3% by 2013. In addition, structural support to new member states also benefits old member states: roads and other infrastructure are often built by firms of the richer member states.

## The impact of future enlargements?

*Enlargement to the Western Balkans and Turkey is likely to bring economic benefits to these countries and the EU as a whole.*

The cost of enlargement to the Western Balkans for the EU will be small – the GDP of all of them together is just slightly more than that of Slovakia – but the impact for this region will be big.

The cost of Turkish accession will be small in areas that are already covered by the existing customs union. Challenges will be greater in some other areas. Both Turkey and the EU must prepare well. This is why accession negotiations take time and long transition periods are envisaged for sensitive areas. Turkey will only join once these issues have been addressed.

At the same time, the EU population is ageing. In 2050, our workforce will have to deliver the same results with 50 million less people. The Western Balkans and Turkey could help the EU to better face the future demographic challenges.

Last update: 30.03.2009