

## Terms of reference

### ***1. Five years of an enlarged EU – Trade and foreign direct investment in an enlarged EU: opportunities and challenges***

#### *Background*

Most of the new Member States joined the EU with considerably lower income levels than the incumbent countries, bringing catching-up among the top priorities for the recently acceded countries. As borders are disappearing, accession offers great opportunities for trade and foreign direct investment seeking to take advantage of the better growth perspectives in the recently acceded countries. Greater market access and more investment thanks to higher rates of return are drivers for growth. This is also what has been observed in many countries, but at the same time questions arose as to the effects of integration across countries, time, sectors, regions or persons. It was felt that not every body is benefitting to the same extent of enlargement or even losing out.

#### *Aims of the essay and key questions to be tackled*

The aim of the essay is to study the impact of enlargement on trade and investment for old and new Member States and shed light on the benefits and costs for both groups of countries and the EU as a whole. With respect to country coverage, Romania and Bulgaria should be included where possible. The focus of the assessment is the 5 year period between 2004 and 2009, but often it will be necessary to have a broader time frame to understand developments. Indeed, the perspective of EU accession had been a driver in the economic transition of new Member States. As far as method is concerned, in addition to a macroeconomic approach with a relevant empirical dimension, also case studies of a particular sector, market or country will be highly welcome as they are concrete and potentially very effective in passing a message or illustrating a point. However, also with case studies the cross-country perspective may not be forgotten.

The essay may zoom in on a particular aspect of the issue or cover more domains, reflecting the state of the art in the literature on the topic:

- The drivers of trade and foreign direct investment and the relation between them;
- The impact of trade (imports and exports) or foreign direct investment on employment and growth; how performance is affected by the type of trade (inter versus intra industry trade) or foreign direct investment (horizontal versus vertical foreign direct investment);
- Adjustment mechanisms in the old Member States following trade with and foreign direct investment to the new Member States;
- Foreign direct investment as a vehicle of knowledge transfer, quality upgrade or improvement to productivity and competitiveness; the extent to which local firms can respond to newcomers or are crowded out;
- Offshoring and outsourcing; dislocation of productive capacity and the impact on job creation and job losses;
- The geography of trade and/or of foreign direct investment; specialisation and regional discrepancies;
- The interaction between FDI and financial integration; the role of FDI as a risk sharing mechanism.