ENLARGEMENT AND GLOBALISATION:
LOCATION AND COMPETITIVENESS OF FIRMS IN EUROPE
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The Impact of EU Enlargement on Firms' Strategies and the Location of Production in Europe

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The Paradox of Enlargement

- Objective of the latest enlargement

- Western members often fear that they may represent a burden for their own economies and the budget of the EU.

  - Negotiation phase: net transfers to the future members;

  - Issue of wage and tax competition; debates on trade, FDI and the potential relocation of economic activities in the new members.

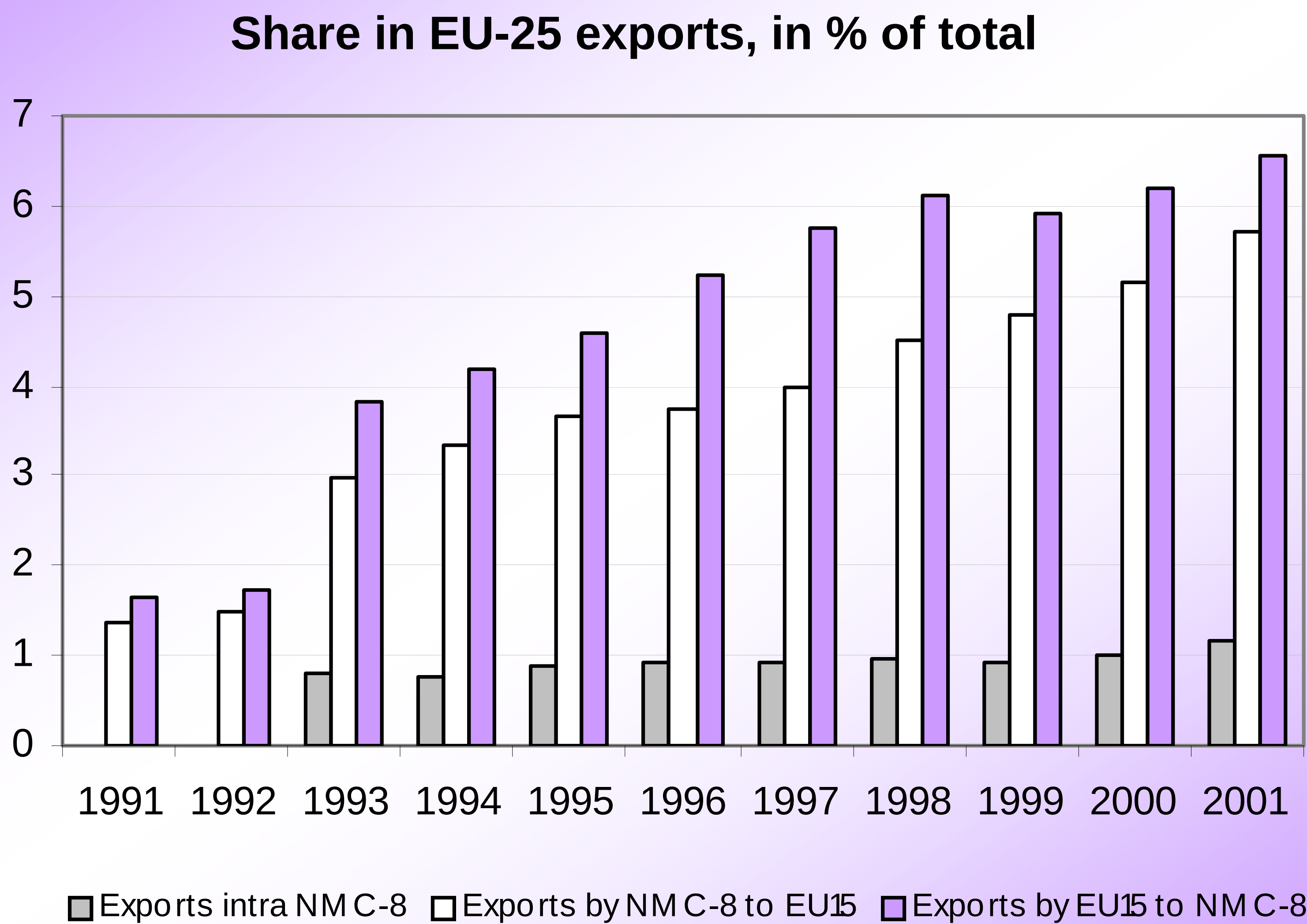
Solving the paradox:
The Role of the Global Context

Economic integration of the new members started in the 1990s. But, the 2004 enlargement takes place at the same time as the emergence of other new competitors on global markets.

Outline

- Simultaneous integration of low cost new members and increased global competition.
- Impact on the location of production and competitiveness in Europe.
- Policy issues.

Increasing trade between EU15 and NMC8



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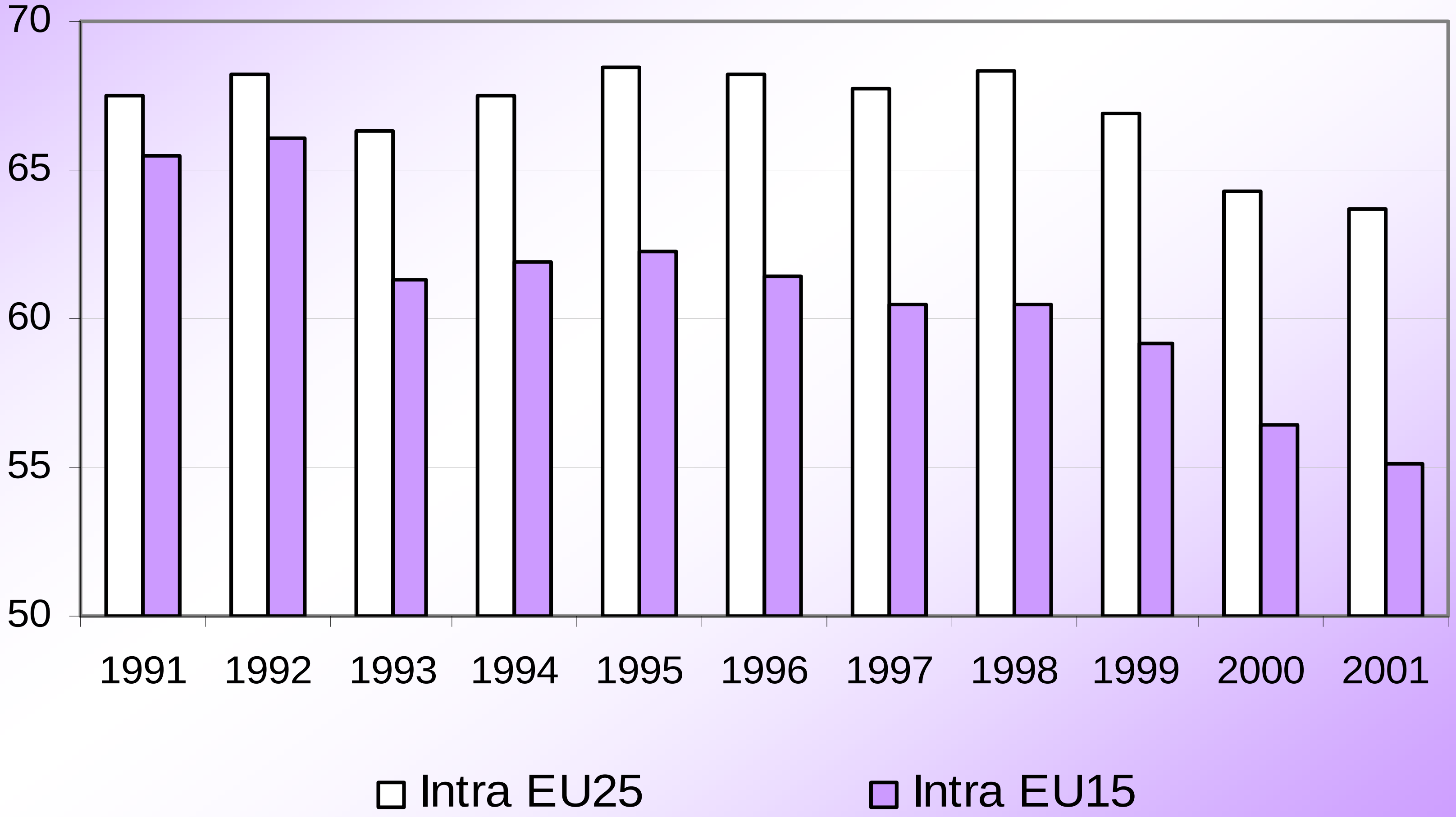
Decreasing Intra-EU Trade

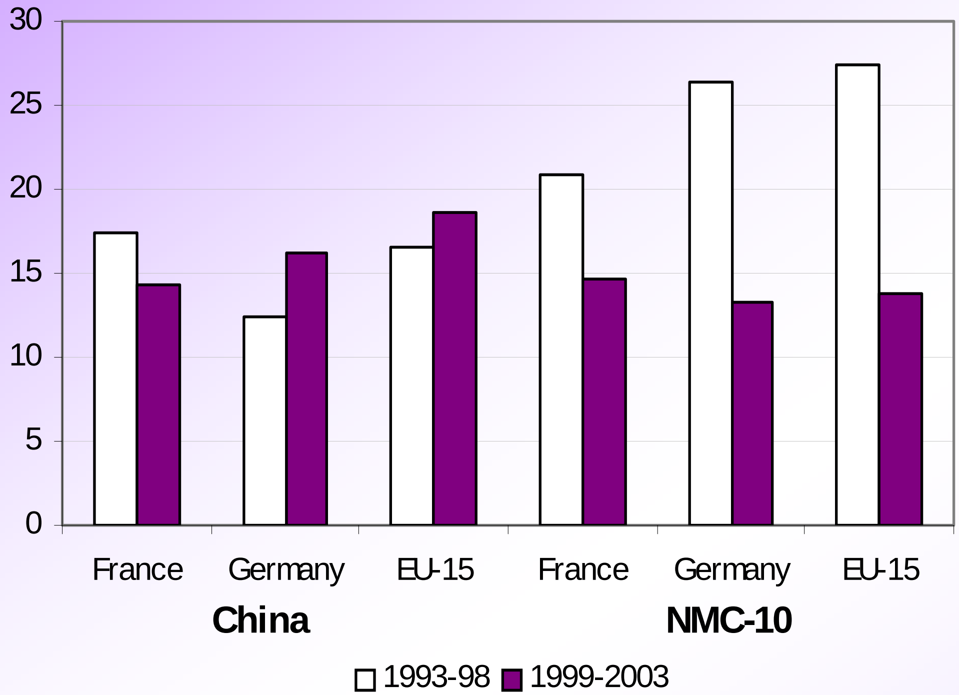
Share in % of total exports by EU-15 and EU-25



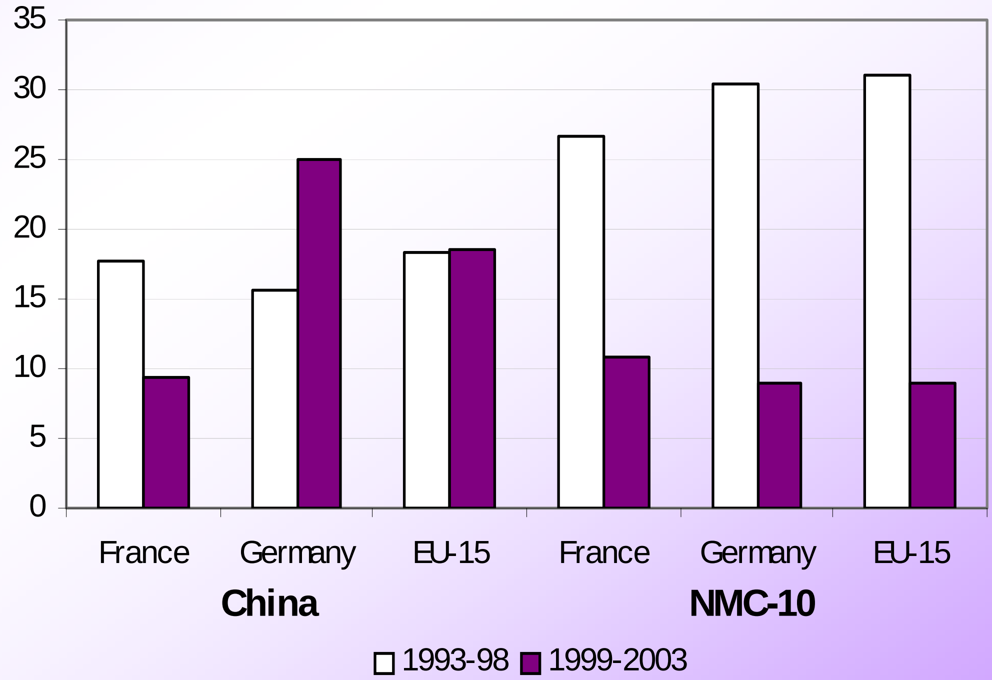
EU15 Trade with NMC10 and China, 1993-2003

Rate of growth in 1993-98 and 1999-2003, %

Imports

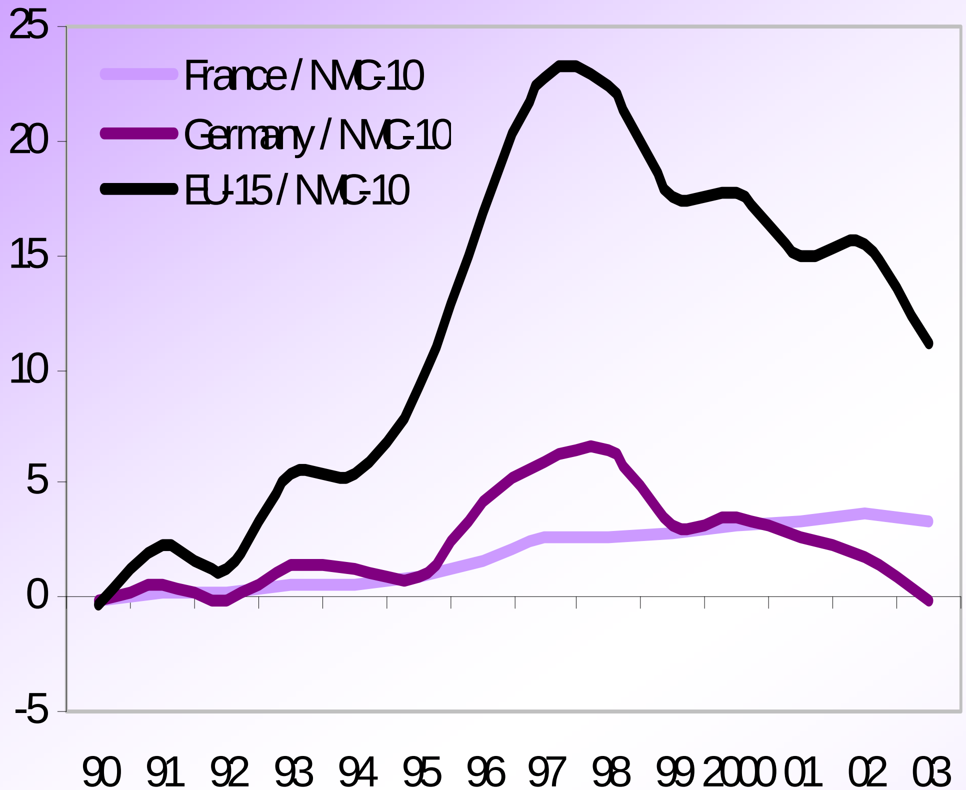


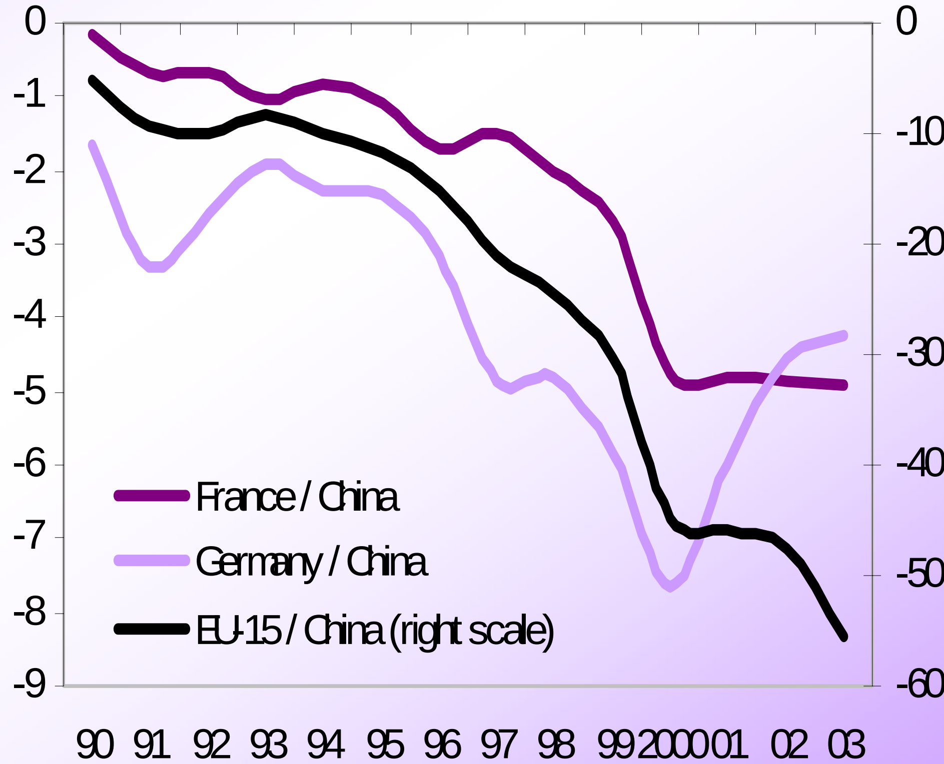
Exports



Trade Balance UE15 with NMC8 and China, 1990-2003

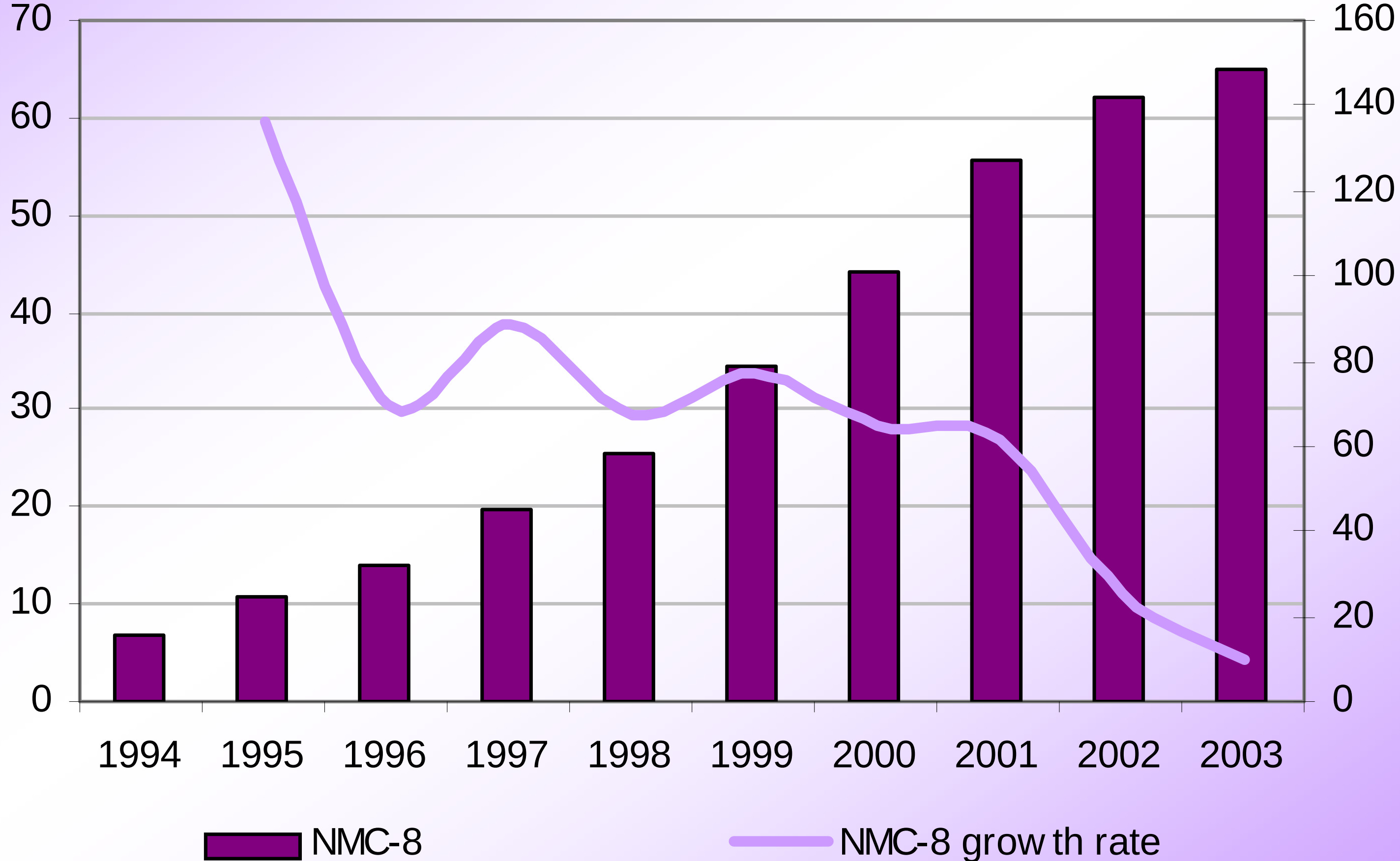
In euro billion





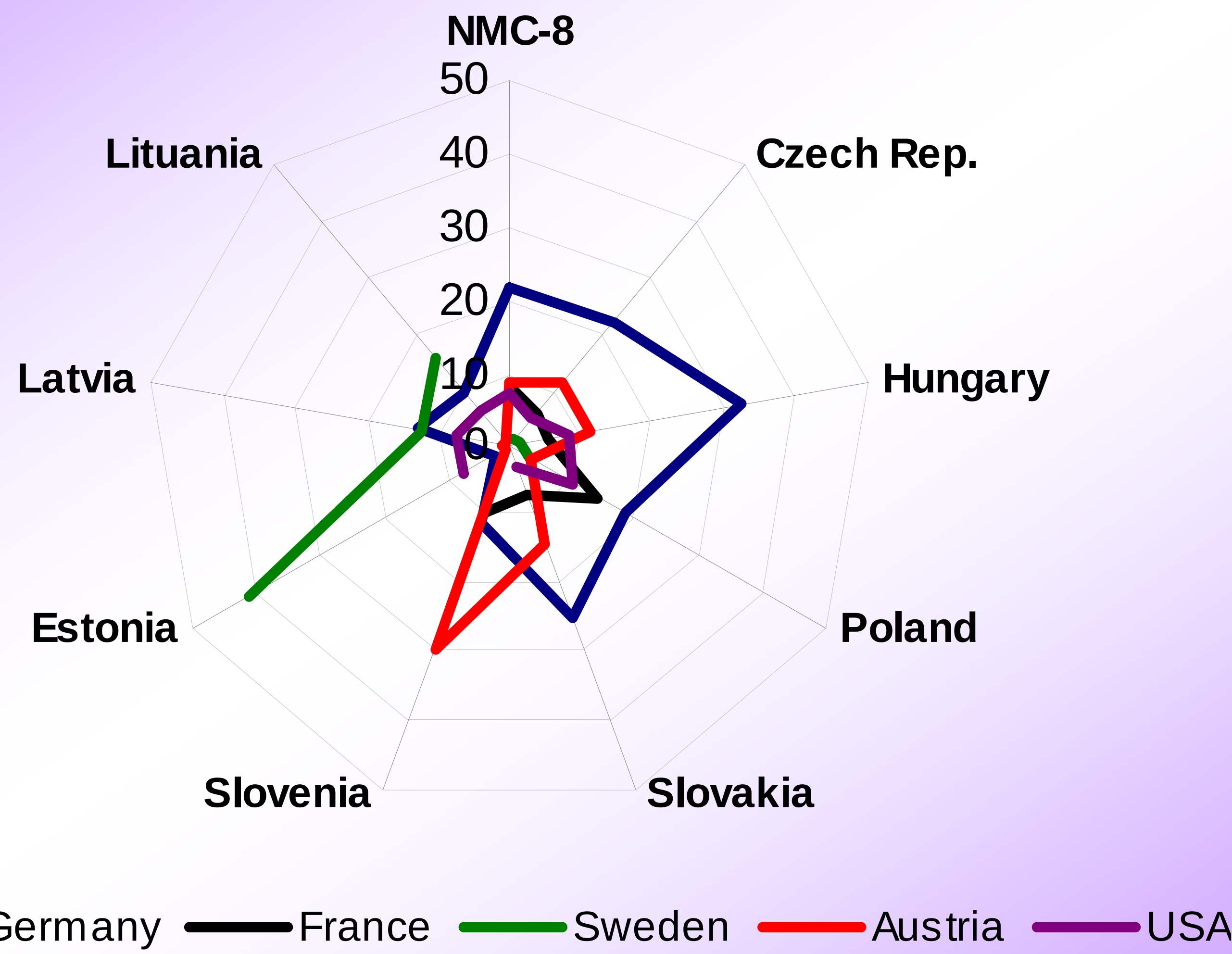
FDI in the New Member Countries

Stock of FDI, euro bn right scale; rate of growth left scale



Main investors in NMC-8 in 2002

FDI stock in % of total in host countries



Evolution of the Specialization of NMCs. 1

Traditional specialization of European peripheral countries in labor-intensive and low-tech activities.

1990s: NMCs have evolved towards more high-skilled and scale-intensive products.

Relation with FDI from EU15: 1993-2003 increasing vertical intra-industry and intra-firm trade with NMCs.

Evolution of the Specialization of NMCs. 2

Indicator of specialization of NMC10 in their trade with EU15

	1993	2003	Change
Furniture & parts	3,1	4.0	0.9
Motor vehicles	-1.7	3.3	5.0
Internal combustion piston engines	0.0	3.0	3.0
Telecommunication equipment	-1.6	1.6	3.1
Television receivers	0.0	1.5	1.4
Equipment for distributing electricity	0.4	1.4	1.1
Wood manufacture	1.5	1.1	-0.4
Automatic data processing machines	-1.2	1.0	2.2
Wood simply worked	1.3	1.0	-0.3
Women's clothing	5.0	1.0	-4.0

The Automobile Industry. 1

- Extension of the geographical scope of the "European motor industry" since the early 1990s.

  First by the German carmakers.

- Investment in greenfield sites and purchase of local operations in CEE countries.
- Local production: 1.3 million cars a year. Announced production capacity in Poland, Czech Republic, Slovakia, Slovenia and Hungary by 2014: 3.5 million.

The Automobile Industry. 2

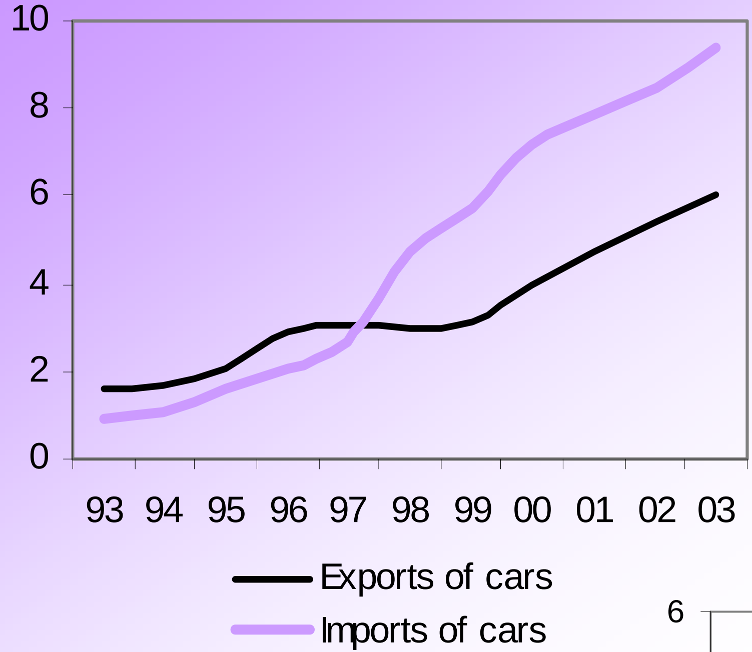
The types of cars and components produced reflect the dual motivation for investing in NMCs:

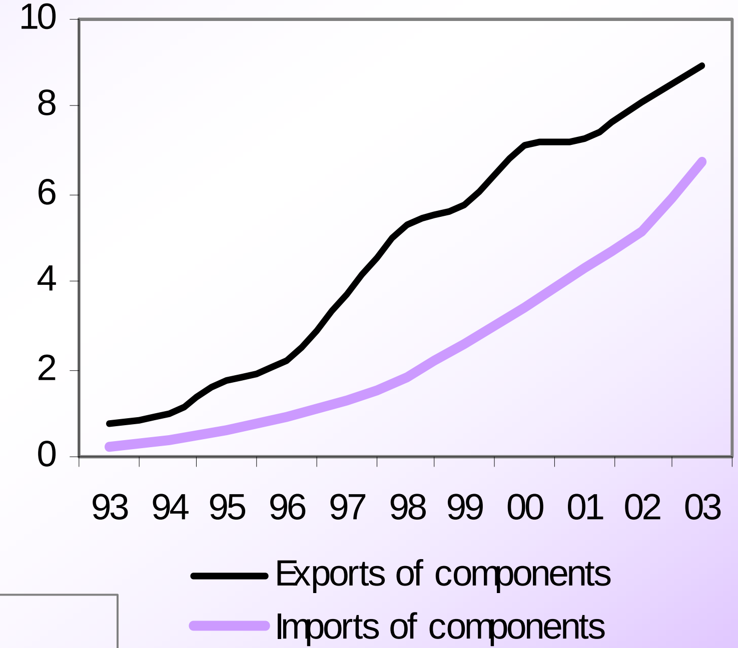
- dynamic emerging markets;
- low costs and good level of training in some NMCs.

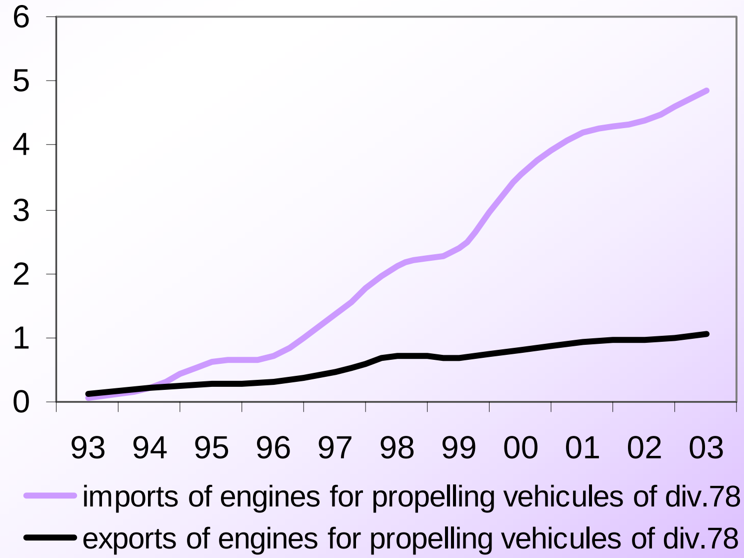
⇒ Specialization in small or low cost cars

The Automobile Industry. 3

Automobile trade of the EU15 with NMC10, euro bn







The Automobile Industry 4.
Post enlargement dynamics

Capacities tend to increase faster in NMCs than they will be downscaled in the EU15.

⇓

- Increasing role of cost in location in NMCs ?
- Increasing investment from suppliers in NMCs ?
- Prospects for imports of cars from China ?

ICT. 1

- Share of Europe in world ICT exports

  EU15 : 1992, 31% 2002, 41%

  NMCs : from less than 1% to nearly 4%.

- Stronger specialization: Ireland, Finland and Hungary.

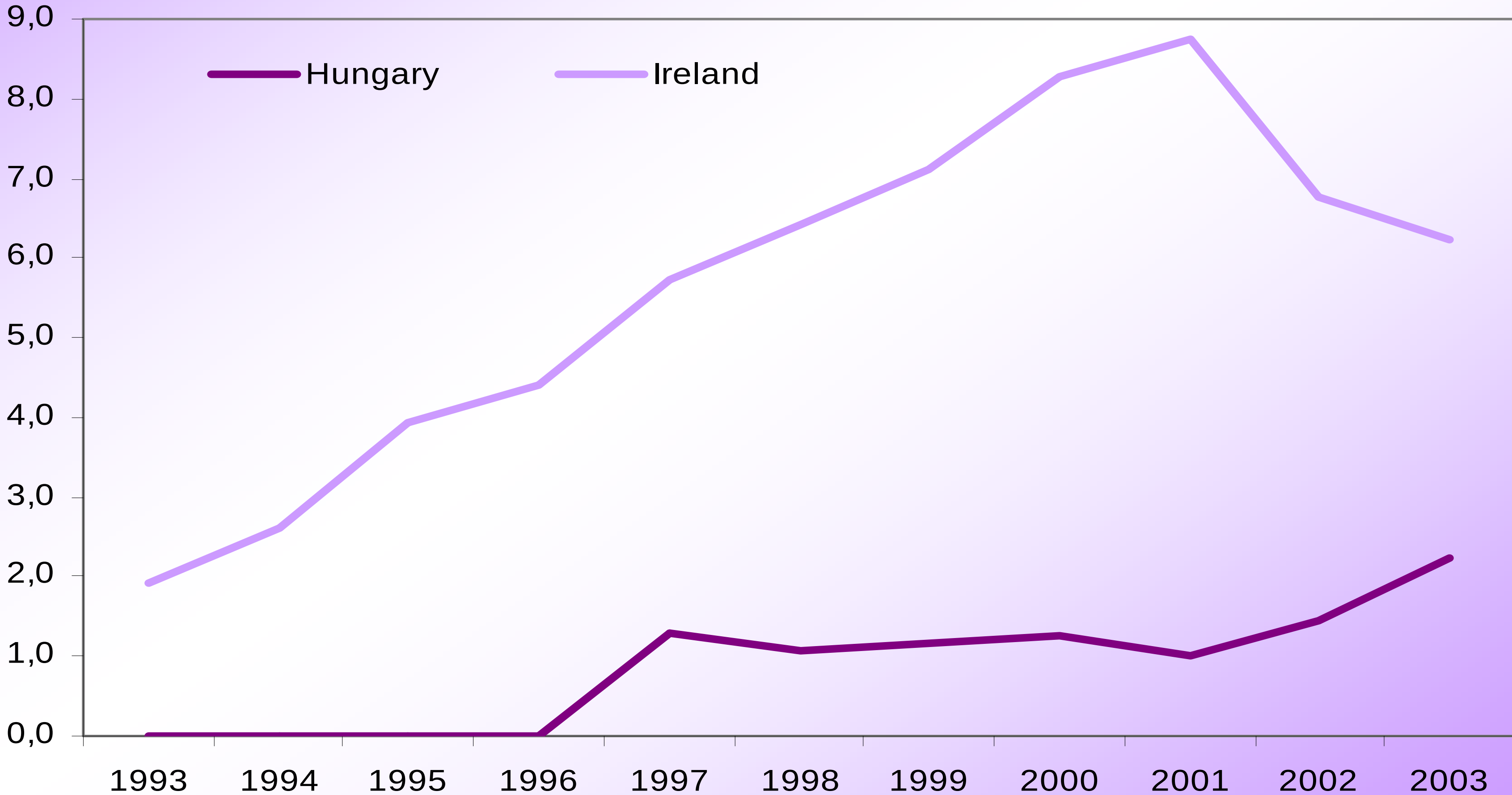
- European countries are specialized in different ICT products.

Telecommunication equipment: major specialisation for most European countries.

Computing: Ireland, Hungary, Netherlands.

ICT. 2. Computers: From Ireland to Hungary

Data processing equipment exports to EU15 ($ Billion)



ICT. 2. Computers: Conclusion

In the 1990s, development of complementary positions within Europe:

- assembly partly relocated in accession countries;
- high-end production activities and related services geographically more stable. Creating enough jobs to compensate for the loss of jobs in computers ?

In the 2000s, European production networks are included in global value chains and have to keep their competitiveness up.

ICT. 3. Mobile phones

Very competitive global market, with rapid changes among the leading companies (Korean firms).

The evolution of the location of production (leaders and contract manufacturers) has changed the trade patterns of the main EU producers.

- Estonia has become the main exporter to Finland.
- The share of Hungary has substantially increased in Finnish and German imports.
- The shares of China in Finnish imports and of Korea in Swedish ones have increased recently.

ICT. 3. Mobile phones. 2

- Enlargement has positive consequences for the EU mobile phone industry.

  - *Demand*. Larger European market; rapidly growing new countries with low rate of equipment.

  - *Production*. Increasing intra-EU division of labor. EU-15 specialize in R&D, prototypes, design, marketing and the final stages of production (testing, software).

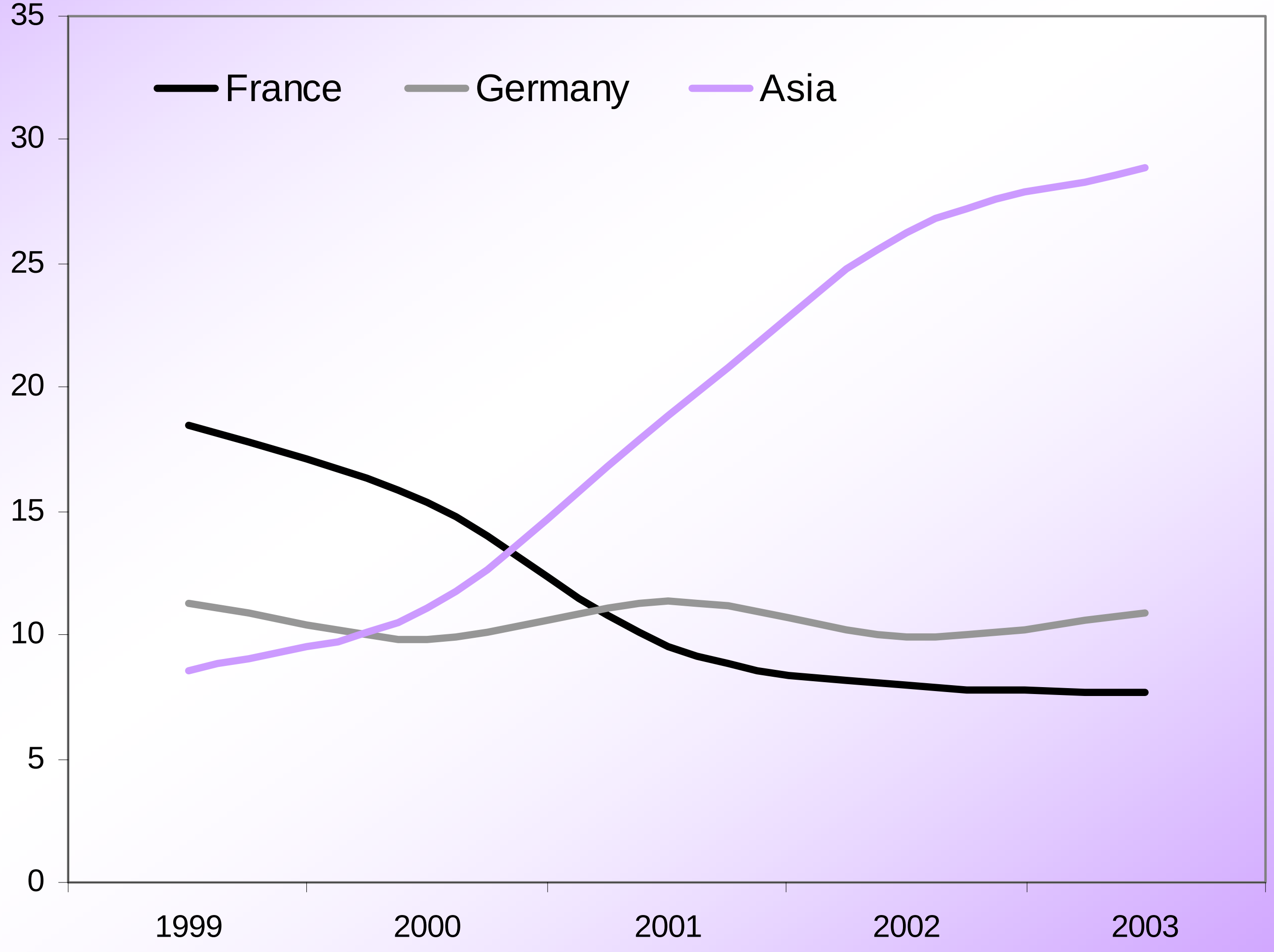
- Challenges: Increasing wages in accession countries; development of global outsourcing networks, which increase the competitive pressure.

Main contributions to the EU15 trade balance with NMCs in 2003, bn EURO

Positive impact on the EU trade balance	
Pharmaceuticals	2.9
Lamps,cathod ray tubes; integrated circuits	2.4
Components for the auto industry	2.2
Other machines for industry	1.4
Automatic vehicles for special purposes	1.4
Paints, varnishes and similar products	1.4
Sheets of plastic	1.3
Paper and cardboard	1.3
Components for IT equipment	1.1

Negative impact on the EU trade balance	
Furniture and parts	-4.5
Cars	-3.4
Internal combustion engines	-3.2
TV sets	-1.7
Telecommunication equipment and parts	-1.6
Equipment for the distribution of electricity	-1.5
Wooden works	-1.3
Simple wood work	-1.2
Women's clothing	-1.1

Distribution of Imports of Cathod Ray Tubes by NMCs, in % of total



Conclusions
1. The end of European Integration as a Strategy

Increased exchanges within EU-25 through trade and FDI has meant:

- NMCs, opportunities to upgrade their production capabilities;
- EU-15, exports to dynamic markets and a process of regional vertical specialization.

Enlargement is not sufficient to:

- ensure dynamic growth of the EU-25;
- prevent a decrease in the world share of production of the EU.

Conclusions

2. Enlargement as pressure to structural change

- Enlargement occurs in a context where competitive pressures from emerging countries are gathering pace

⇨ factor of acceleration of change in a global context of change.

- Germany and France: slow evolution of their industrial structure over the last twenty years. As a consequence, the emergence of new competitors is seen as a major threat to jobs in a number of low to mid-tech sectors.

Conclusions
3. Race to the Bottom vs. Race to the top.

Perception of races to the bottom may trigger structural policies, which would not be compatible with a race to the top in areas such as infrastructure or research.

- **Accession countries**: Resist the temptation to reduce taxes to attract FDI and run unsustainable public deficits.
- **EU-15**: Stimulate innovation-based growth that will generate jobs in new activities and reduce the fear of relocation. This requires more public spending in education and research, but also institutional changes (innovation, labor markets, competition).
- **EU policies** should focus on complements to national reform (research and innovation policy).