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Catching up with the rest of Europe: challenges and opportunities from the EU enlargement

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BBL Seminar - RIETI
10 November 2004

2004 enlargement

- Milestone in the history of Europe
- Large political significance
- Marginal economic impact in the short and medium term
- but wide income gap

'Old' EU and NMS

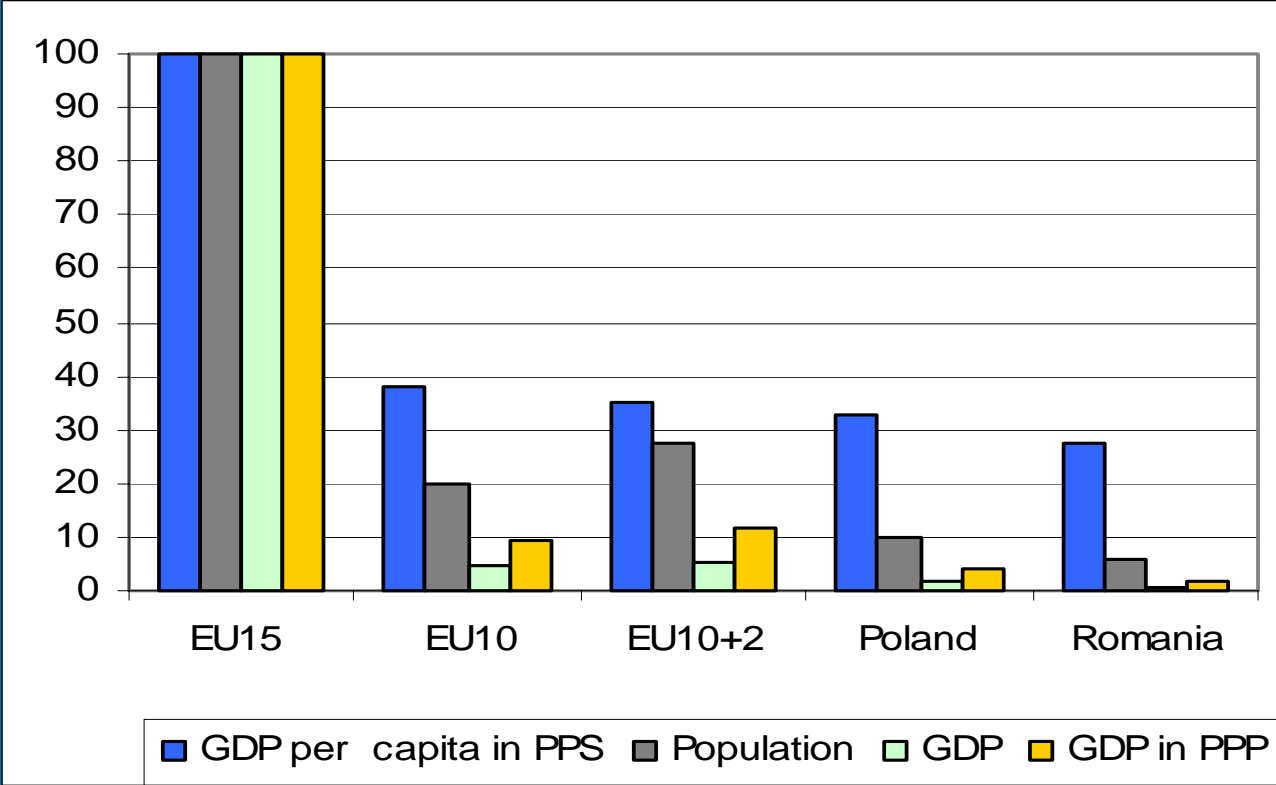
Changes in Real GDP, 2001-2005

	2001	2002	2003	2004	2005
Germany	0.8	0.1	-0.1	1.7	1.6
France	2.1	1.2	0.5	2.3	2.1
Italy	1.8	0.4	0.3	1.2	1.9
Euro area	1.6	0.9	0.6	1.9	2.0
United Kingdom	2.3	1.8	2.2	3.1	2.7
EU15	1.7	1.1	0.9	2.2	2.1
Czech Republic	2.6	1.5	3.1	3.7	3.7
Estonia	6.4	7.2	5.1	5.8	6.0
Hungary	3.8	3.5	3.0	3.8	3.6
Latvia	8.0	6.4	7.5	7.2	6.6
Lithuania	6.4	6.8	9.7	6.9	6.5
Poland	1.0	1.4	3.8	5.3	4.7
Slovakia	3.8	4.6	4.0	4.7	4.4
Slovenia	2.7	3.3	2.5	3.8	3.5
EU10	2.4	2.4	3.6	4.5	4.3
European Union	1.8	1.1	1.0	2.4	2.2

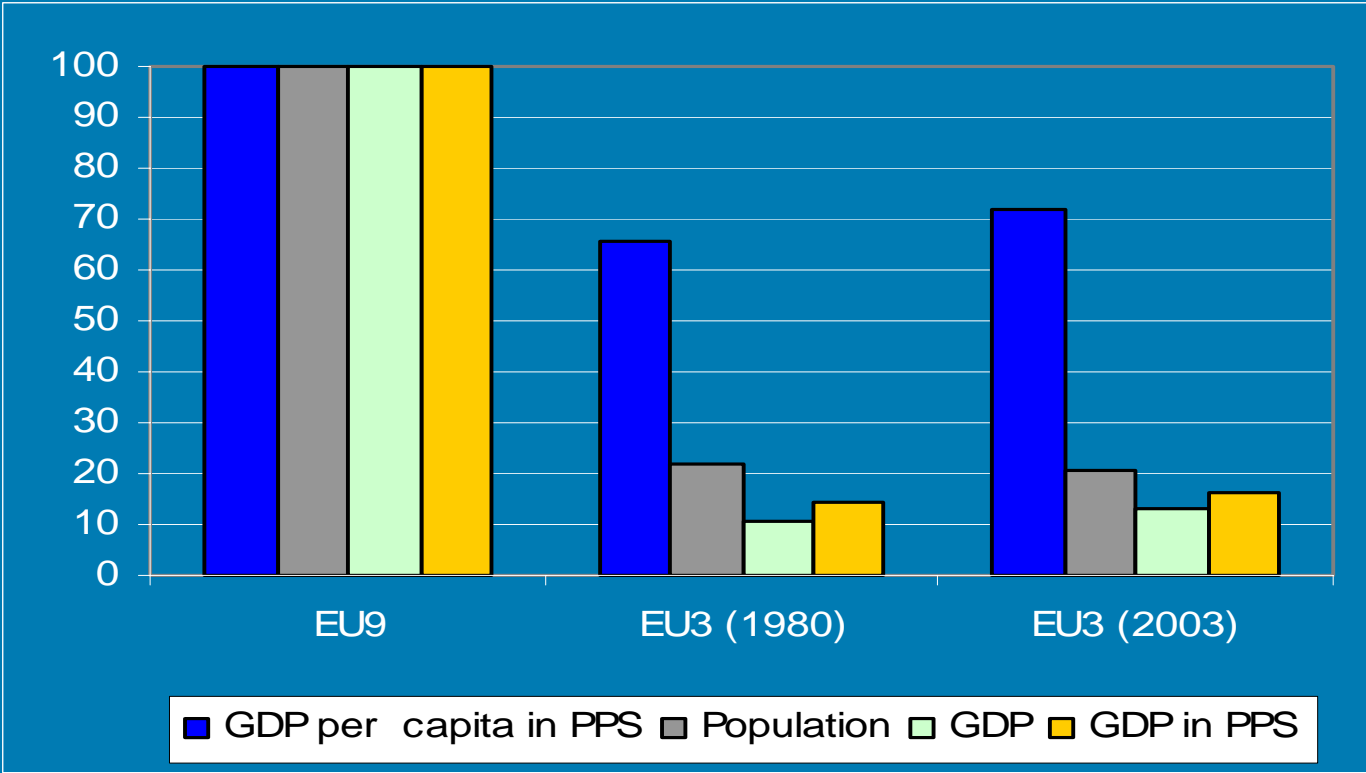
Too small to make an impact?

	Population (m)	GDP per capita, PPP constant 1995 international US\$
Czech Republic	10.2	14304
Hungary	10.1	12673
Poland	38.4	10108
Romania	21.7	6280
Germany	82.5	24010
France	59.7	23765
Spain	40.8	19362
Greece	10.7	17370

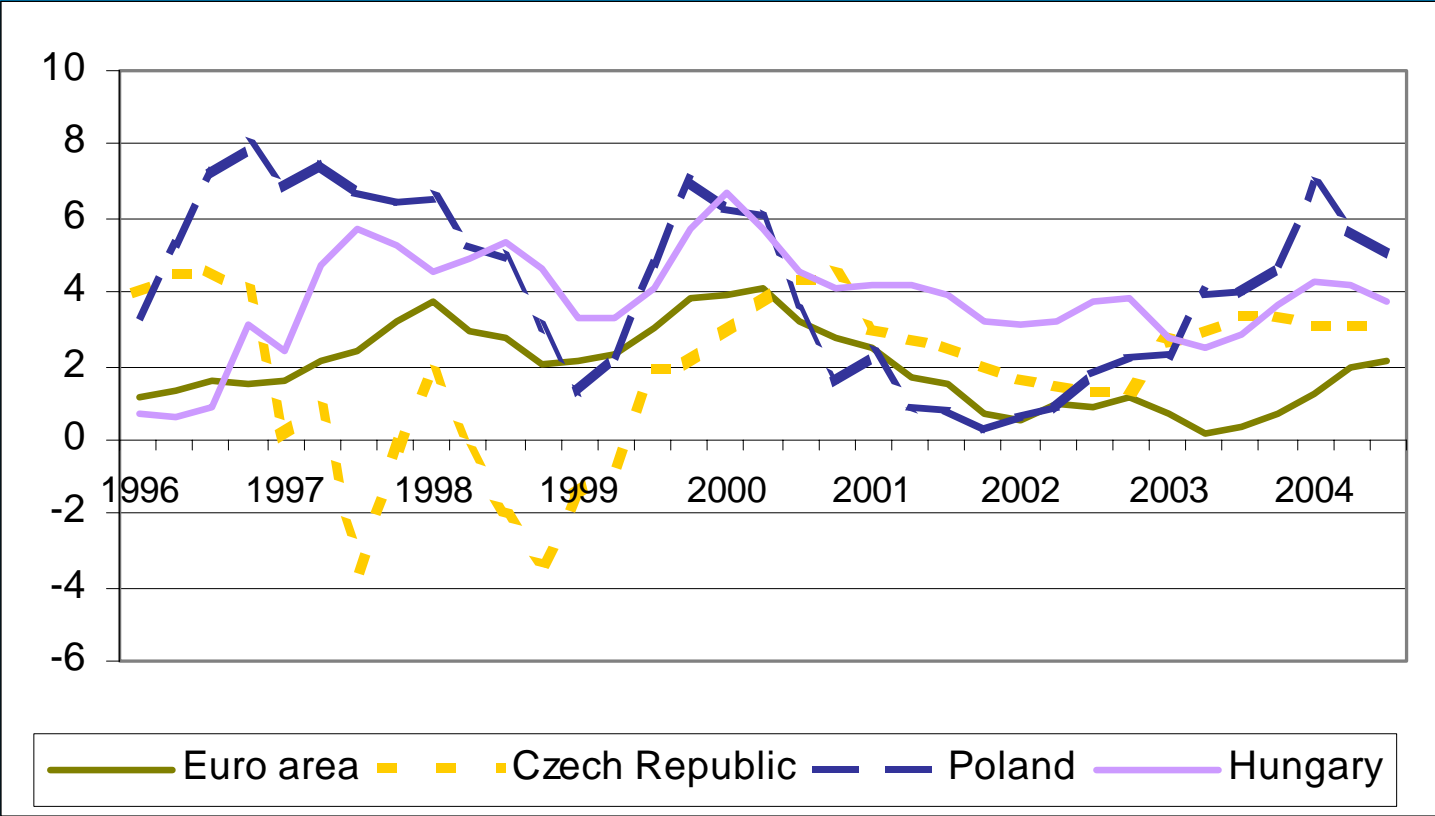
EU15 and EU10: A Comparison



Looking at the southern enlargement



Real GDP growth, 1996-2004



How many years to close the income gap?

Long-term growth in GDP per head (average % change)

	Baseline*	CH	CH no. of years	EIU	EIU no. of years
Czech Republic	3.1	3.5	44	3.7	39
Hungary	3.0	3.6	39	4.0	34
Poland	2.9	4.0	55	3.8	59
Romania	2.6	4.6	86	3.8	80

* EIU forecasts

A comparison: NMS and the BRICS

	Czech Republic	Hungary	Poland	Romania	Brazil	China	India	Russia
2001-05	3.0	3.7	3.3	5.3	2.4	8.0	5.3	5.1
2006-10	4.7	4.8	5.0	6.4	4.2	7.1	6.1	4.6
2011-15	4.7	4.6	5.2	5.9	4.0	5.8	5.9	3.7
2016-20	4.4	4.3	4.9	5.6	3.8	5.0	5.7	3.3
2021-25	3.9	4.0	4.5	5.2	3.7	4.5	5.7	3.4
2026-30	3.3	3.7	4.1	4.9	3.8	4.0	6.0	3.5
2031-35	3.3	3.2	3.9	4.4	3.9	3.8	6.2	3.0
2036-40	2.8	2.7	3.6	3.7	3.7	3.8	6.0	2.5
2041-45	2.1	1.7	3.3	2.9	3.5	3.5	5.6	2.1
2046-50	1.9	1.4	2.3	2.4	3.4	2.9	5.2	1.9

The Irish 'miracle'

- Joined the EC in 1973, but at the beginning of the 1990s it was still lagging behind Europe's main economies
- Now GDP per capita at PPP is well above EU25 average
- Is it really a miracle?
- Geographical and cultural proximity to the US
- Benefited from the US boom in the 1990s
- Small and open economy
- The role of the FDI
- Well-educated labour force
- Virtuous circle

Who scores best?

FDI components	BRICs	Ireland	EU10
Size of the economy	√		
Wages/competitiveness and trade advantages	√	some	√
Other factors		√	



The role of policy

- To stabilise the economy
- To narrow current account and public deficits
- To improve productivity
- To create a favourable business environment
- To maintain or increase the FDI flow (especially in NMS)
- To stimulate domestic capital formation
- To improve cross-border trade
- To achieve full labour mobility
- To increase labour market participation rates

A plausible scenario?

- A shift in economic power in the decades ahead
- Importance of scale: US
- Size matters
- Large countries and integrated regions

Who will be in the driver's seat?

- US
- China
- Russia (possibly)
- Japan (maybe)
- Europe (rather than Germany, France, UK or Italy)

Eu25: Which challenges lie ahead?

- Making the national economies compatible with the single currency
 - Lisbon Agenda
 - Stability and Growth Pact
 - Broad macroeconomic guidelines
 - Reforming the ECB's communication strategy
- Further enlargement?
 - The Balkans
 - Turkey

Thank you