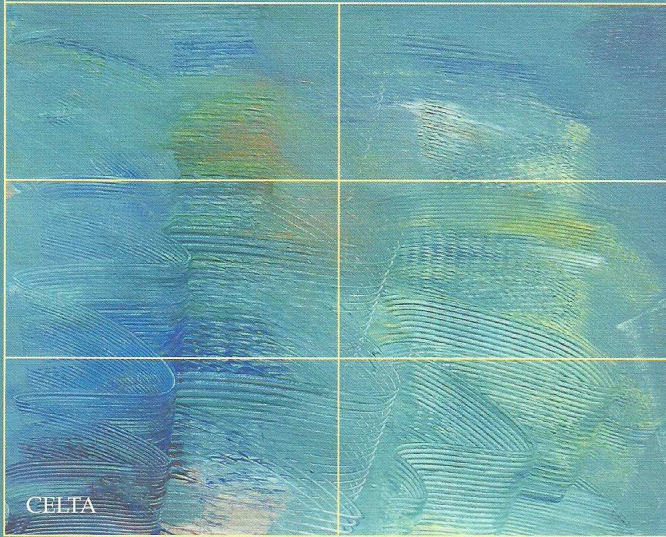


# The European Union's Fifth Enlargement

Effects on Trade and Foreign Investment



CELTA



The recent enlargement of the European Union to include eight countries from Central and Eastern Europe, plus Malta and Cyprus, is an important milestone in the European integration process. The building of an enlarged European market, where labour, goods and capital freely circulate, is the major challenge to the adjustment capability of the EU economies.

The consequences of this enlargement for both new and old members will most certainly extend over time, and the global effects can only be correctly evaluated in the future. The collection of texts in this book is an attempt to anticipate the effects of enlargement on trade and foreign direct investments, considered the two most visible channels of economic integration.

While considering the diverse effects on all EU members, this book reflects a natural concern about consequences on the Southern Cohesion members, geographically distant from the EU economic and political core. Although the global effects may be felt less noted in these peripheral countries, worries have emerged in relation to increased competition in labour intensive industries, and to the redirection of international investment.

This study was conducted by a group of researchers from the University of Évora, and is part of a wider project on the different dimensions of EU enlargement. The EZONEPLUS Project was financed by the European Commission and jointly developed by teams from old and new member countries.

Economics | European studies



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Given the complex nature of *Ezoneplus*, the different strands of analysis will be integrated carefully on the basis of an accurate description of data and methodologies applied.

Using quantitative and qualitative methods of several academic disciplines, the project is highly innovative in quite a few aspects. However, this research strategy also involves some risks concerning consistency, contingency and feasibility.

Taking these considerations into account, theoretical approaches and empirical analyses are cautiously designed. Research will focus on macro-theoretical and macro-empirical analysis within a framework of modern political economy. In order to ensuring consistency, this framework is applied to the study of economic impacts of political decisions as well as the challenges for the decision-making process. It is based on the assumption of rational decision-making and principle-agent-links.

According to the issues at stake, political and economic decisions are linked via institutions, which will be sorted out in an appropriate way. Markets and political institutions will be at the centre of the mechanism by which different interests are balanced and decisions brought to equilibrium. This framework will help to model the macroeconomic and macro-political adjustment process in an empirically testable way. Traditional and more sophisticated statistical methods will be used to analyse data on the basis of models that will in part be highly formalised.

Research intends to use empirical studies to illustrate some findings and results especially with regard to regions and nations. Quite some part of the project is devoted to the regional input for the macro (European)-model and to highlight national and regional specifics of markets, institutions, the political decision-making process, and social aspirations, conflicts and attitudes. This will also be done in a comparative way. Methodology will reflect the fact that national peculiarities count and have to be respected with regard to their impact on the enlargement process.

## INTRODUCTORY NOTE

The recent enlargement of the European Union (EU) to Central and Eastern European countries (CEEC), and to the islands of Malta and Cyprus, is an unparalleled process in the life of the Union given the diversity and economic dimension of the countries involved. The membership of nations evolving from centrally planned to market economies is challenging and requires structural adjustments that are not possible without a high capacity of adaptation on the part of national agents and institutions. In this context, the project *Ezoneplus* — *the Easternward Enlargement of the Eurozone*, financed by the European Commission's 5th framework program, emerged as a large scale research scheme, integrating a set of partners that include, apart from the Department of Economics of Evora University,<sup>1</sup> a number of institutions from old and new EU members.

The main objective of this research project was to evaluate the main consequences and implications from EU's Eastern enlargement, in terms of goods, services and factors' markets adjustments, and of the functioning of economic policies in the new institutional framework. Specific research tasks were assigned to the different consortium teams, and the Evora team assumed the responsibility of coordinating the research on the expected impacts upon international trade and foreign direct investments (FDI) flows.

Within the three year framework of the project many dissemination activities were developed. Six international conferences were organised, various books edited and a number of papers were published in renowned journals. Twenty five working papers were produced and are available in the project's internet site (<http://www.ezoneplus.org/>). As expected, the Evora team was deeply committed to this project, producing all the reports requested by the European Commission, and presenting its research results

<sup>1</sup> The University of Evora team included the following members: José Cardoso (coordinator), Aurora Galego, Isabel Vieira, Carolina Vieira and Tânia Vaz. Research assistance by Nuno Rêgo, Maria Galvão, Sofia Costa and Paulo Ferreira is gratefully appreciated.