THE IMPACT OF EASTERN ENLARGEMENT ON THE MEDITERRANEAN REGION: TRADE, FDI AND COHESION

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1. Introduction

The enlargement of the European Union to the east became a reality on May 1st 2004. The 'Enlarged Europe' is established on the internal market as the basic membership criterion, which provides the foundation to hold all 25 Member States together within a supranational policy platform.

One enquiry that remains rather unclear is the impact of enlargement on the Mediterranean region. One group of Mediterranean countries that could be concerned are the group of so called 'cohesion countries'. The cohesion funds are granted to areas in which the GDP is no more than 90% of the EU GDP average. With the completion of enlargement, the average GDP fell substantially, making Southern European Member States comparatively wealthy. This means that Spain, Portugal and Greece could find themselves no longer entitled to benefit from the funds. The second group that could be affected are the Mediterranean Non-Member Countries (MNMCs). The rationale is that if the Central and Eastern European Countries (CEECs) are competitors vis-à-vis the MNMC in the same economic activities, the latter would suffer some negative effects from enlargement (such as trade diversion), due to the full entrance of CEECs into the Market. Thus, the paper examines the economic activities of the triangle EU-CEECs-MNMCs in terms of trade and foreign direct investment (FDI) during the pre-accession period (1989-2003).

The structure of the article is as follows. Section one describes the patterns of core-periphery within the enlarged EU. Section two explains the economic activities between the EU and CEECs, focusing on the effects on the Northern Mediterranean Members. Section three illustrates the economic relations between the EU

(including the new members) and MNMCs. The last section offers some reflections concerning the prospects of the region.

2. Aggregate Economic Activity and the EU Core-Periphery Pattern

The European Union consists of countries with a diverse GDP per capita. As can be seen in Table 1.1, there are countries like Denmark, Luxembourg, the Netherlands and Austria which have a GDP per capita more than 20 percent above the EU-25 average; while at the same time, countries like Estonia, Latvia, Lithuania, Poland and Slovakia have a less than 50 percent GDP per capita of than the EU-25 average. This variation increases the probability that the Union will be affected quite differently by asymmetric shocks. It also means that the concept of flexibility is of a high value, since in order to submit a unified (European) policy in such a varied space, the Union will have to develop a mechanism that will assist each country to exploit its comparative advantage towards a genuine convergence.

According to the traditional neoclassical theory, the real GDP growth rate is one of the major indicators in examining the occurrence of economic convergence. The theory relies on the concept; diminishing returns immediately lead to a process of convergence. A poor economy with a very small amount of capital will tend to have a large marginal product, meaning that a poor economy will tend to grow fast. Table 1.2 shows that the countries from central and eastern Europe belong to the group with the highest average annual growth (with Ireland and Luxembourg as well); Slovakia with 4.28%, Slovenia with 4.64%, Estonia with 4.95% and Latvia with 5.61%. The cohesion Mediterranean Members show lower figures of growth. Greece obtained an average of 3.35%, Spain 3.15%, and Portugal only 2.57%.

Table 1.1: GDP per capita in Purchasing Power Standards (PPS), 1998-2005, (EU-25 = 100)

	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	116.8	116.3	117.7	118.1	117.3	116.9 (f)	116.5 (f)	116.2 (f)
Czech Republic	:	:	0.1	0.1	0.1 (f)	69.0 (f)	69.9 (f)	71.1 (f)
Denmark	125.6	127.9	127.8	127.4	123.7 (f)	123.9 (f)	124.0 (f)	123.4 (f)
Germany	115.1	113.9	112.9	111	109.7 (f)	108.5 (f)	108.0 (f)	107.3 (f)
Estonia	42.2	41.5	43.9	45.4	47.8 (f)	49.0 (f)	51.2 (f)	54.9 (f)
Greece	72.2	72.1	73	74.2	78.0 (f)	79.8 (f)	81.6 (f)	82.5 (f)
Spain	89.7	92.3	92.3	93.1	94.8 (f)	95.8 (f)	96.2 (f)	96.9 (f)
France	115.3	114.8	114.9	115.7	115.6 (f)	113.9 (f)	113.4 (f)	113.2 (f)
Ireland	117.7	122.8	127.3	130	138.1 (f)	131.4 (f)	130.8 (f)	132.1 (f)
Italy	114.4	112.6	112.1	110.5 (f)	108.4 (f)	107.3 (f)	106.2 (f)	106.0 (f)
Cyprus	81.5	82.3	84.4	86.5	84.2	83.6 (f)	83.5 (f)	84.1 (f)
Latvia	35.8	36.2	37.6	39.6	42.0 (f)	45.5 (f)	47.4 (f)	49.3 (f)
Lithuania	40	38.5	39.6	41.9	43.8 (f)	46.1 (f)	48.5 (f)	50.6 (f)
Luxembourg	194.1	209	220.1	214.5	209.0 (f)	209.2 (f)	208.0 (f)	208.8 (f)
Hungary	51.8	52.8	54	56.9	58.8 (f)	61.0 (f)	62.0 (f)	63.0 (f)
Malta	:	77.9	78.6	76.2	75.7 (f)	73.7 (f)	73.0 (f)	72.5 (f)
Netherlands	121.9	121.2	122.6	125.2	122.7 (f)	120.3 (f)	118.5 (f)	116.7 (f)
Austria	125.1	125.6	126.6	123.7	122.2 (f)	121.5 (f)	120.9 (f)	120.6 (f)
Poland	44.7	46.2	46.2	46.2	45.9	46.4 (f)	47.3 (f)	48.1 (f)
Portugal	75.9	77.6	77.9	78	77.8 (f)	75.2 (f)	73.9 (f)	73.3 (f)
Slovenia	72.2	74.3	74	75.3	76.6 (f)	77.3 (f)	78.1 (f)	79.2 (f)

Slovakia	48.1	47.4	48.4	49.4	52.0 (f)	51.4 (f)	51.5 (f)	52.0 (f)
Finland	114.3	112.1	115.2	115	112.1 (f)	110.5 (f)	110.3 (f)	109.7 (f)
Sweden	115.7	119	120.7	117.3	115.4 (f)	115.8 (f)	115.1 (f)	114.6 (f)
United Kingdom	114.4	113.7	114.9	116.1	118.3 (f)	119.4 (f)	120.7 (f)	120.8 (f

Source: Eurostat

Table 1.2: Real GDP Growth Rate
Growth Rate of GDP at constant prices (1995) - percentage change on previous year

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Belgium	3.2	2.4	1.2	3.5	2	3.2	3.8	0.6	0.7	1.1	2.0 (f)	2.5 (f)	2.17
Czech Republic	:	:	:	:	:	0.5	3.3	3.1	2	2.9	2.9 (f)	3.4 (f)	2.36
Denmark	5.5	2.8	2.5	3	2.5	2.6	2.8	1.6	1	0.5	2.1 (f)	2.2 (f)	2.48
Germany	2.3	1.7	0.8	1.4	2	2	2.9	0.8	0.2	-0.1	1.5 (f)	1.8 (f)	1.40
Estonia	-1.6	4.5	4.5	10.5	5.2	-0.1	7.8	6.4	7.2	5.1	5.4 (f)	5.9 (f)	4.95
Greece	2	2.1	2.4	3.6	3.4	3.4	4.4	4	3.9	4.3	4.0 (f)	3.3 (f)	3.35
Spain	2.4	2.8	2.4	4	4.3	4.2	4.2	2.8	2	2.4	2.8 (f)	3.3 (f)	3.15
France	2.1	1.7	1.1	1.9	3.4	3.2	3.8	2.1	1.2	0.5	1.7 (f)	2.4 (f)	2.10
Ireland	5.8	9.9	8.1	11.1	8.6	11.3	10.1	6.2	6.9	1.4	3.7 (f)	4.6 (f)	7.94
Italy	2.2	2.9	1.1	2	1.8	1.7	3	1.8	0.4	0.3	1.2 (f)	2.1 (f)	1.72
Cyprus	5.9	6.5	1.9	2.3	4.8	4.7	5	4	2	2	3.4 (f)	4.1 (f)	3.91
Latvia	:	1.6	3.8	8.3	4.7	3.3	6.9	8	6.4	7.5	6.2 (f)	6.2 (f)	5.61
Lithuania	-9.8	3.3	4.7	7	7.3	-1.7	3.9	6.4	6.8	9	6.9 (f)	6.6 (f)	3.69

Luxembourg	3.8	1.4	3.3	8.3	6.9	7.8	9	1.3	1.7	2.1	2.4 (f)	3.1 (f)	4.56
Hungary	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.5	2.9	3.2 (f)	3.4 (f)	3.48
Malta	:	:	:	:	:	4.1	6.4	-1.2	1.7	0.4 (f)	1.4 (f)	2.0 (f)	2.75
Netherlands	2.9	3	3	3.8	4.3	4	3.5	1.2	0.2	-0.7	1.0 (f)	1.6 (f)	2.52
Austria	2.6	1.6	2	1.6	3.9	2.7	3.4	0.8	1.4	0.7	1.8 (f)	2.5 (f)	2.07
Poland	:	2.7	6	6.8	4.8	4.1	4	1	1.4	3.8	4.6 (f)	4.8 (f)	3.84
Portugal	1	4.3	3.5	4	4.6	3.8	3.4	1.8	0.5	-1.2	0.8 (f)	2.2 (f)	2.57
Slovenia	5.3	11.2	3.6	4.8	3.6	5.6	3.9	2.7	3.4	2.3	3.2 (f)	3.6 (f)	4.64
Slovakia	6.2	5.8	6.1	4.6	4.2	1.5	2	3.8	4.4	4.2	4.0 (f)	4.1 (f)	4.28
Finland	3.9	3.4	3.9	6.3	5	3.4	5.1	1.1	2.3	1.9	2.6 (f)	2.7 (f)	3.63
Sweden	4.2	4.1	1.3	2.4	3.6	4.6	4.3	0.9	2.1	1.6	2.3 (f)	2.6 (f)	2.91
United Kingdom	4.4	2.9	2.8	3.3	3.1	2.9	3.9	2.3	1.8	2.2	3.0 (f)	2.8 (f)	2.96

Source: Eurostat

Regional incomes in the EU pursue an apparent pattern. There is a rich core of regions that have high GDP per capita and are situated close to one another, and a poorer peripheral set of regions positioned away from the core. Core regions with high GDP per capita enjoy good access to EU markets. That means, deeper integration is improving the accessibility of all regions in the EU, but it is improving the accessibility of the core regions relatively faster than for regions in the periphery.

The high concentration of activities in central regions is found in the following details as well: the core region accounts for only 14 per cent of the land area but one-third of the population and almost half (47 per cent) of the GDP (Hilpert, 2003:177). Population concentration in these regions is 3.7 times higher than in peripheral regions. In 77 of the 88 (87.5%) central regions (NUTS 2), GDP per capita in 1998 was above the EU average, while 88 of the 111 (79%) peripheral regions had a level below the average. Average

GDP per head in the central regions was twice as much as in the peripheral ones, and productivity was 2.4 times higher (European Commission, 2004a). In 1997, expenditure on research and development (R&D) amounted to 2.1 per cent of GDP in the core as against 0.9 per cent in the periphery. In six of the seven most-peripheral regions, GDP per head was just about half of the EU average (Ibid.). Observing the core-periphery patterns, a competition based on comparative advantage, should emerge between CEECs and the southern Members.

3. The EU-CEECs Trade and FDI Patterns

The discussion should begin with the notion that the more members there are in a free trade area (customs union), the greater the probability that low cost competitive producers of a broad range of goods and services are included. The famous argument is that the World is the optimal area (global free trade). The argument can be deduced to supply and demand factors. The greater the degree of overlap in production structures (the supply side), the greater the likely benefits for specialisation and trade to take account in competing products. On the demand side, the greater the parities in income levels, tastes and patterns of consumption, the greater will be the preference for intra-industry trade. The coming enlargement complies with the simple condition of increasing the number of members. However, the bigger concern is whether there is comparability in terms of the similarity of production structures, incomes and consumption patterns. A positive answer could be reached if membership *per se* would promote a further rapid convergence of the transition economies to the levels of the EU (Gabrisch and Werner, 1999).[1]

The discussion goes well beyond pure economic analysis and into the political dimensions, which have probably driven the move

[1] This is a similar argument to that applied in the case of the southern enlargement, with the accession of Greece in 1981, and Portugal and Spain in 1986. Nevertheless, the magnitude of the income disparities between the EU-15 and the 10 New Members is significantly greater than was the case in previous enlargements.

towards enlargement on both sides. After the collapse of the Soviet Union and the end of the cold war the EU and the US have been concerned with the shape of Europe. The proposal of accession for CEECs soon after the collapse of the old regimes was for political rather than economic reasons. Afterwards, it was decided to delay enlargement to enable the EU to complete the Single Market project and to introduce the single currency.

Since the beginning of the 1990s, the Applicant Countries' (ACs) trade policies have generated a major transformation. Not without obstacles, they all moved promptly from an institutional pattern of central planning and a sound bias against foreign trade, to a market-based trade regime in most industrial and agricultural goods. Trade flows were largely redirected from the former Soviet Union towards the EU (Patrakos *et al*., 2000). After the 1989 revolutions the Union quickly promoted Generalised System of Preferences (GSP) status for its eastern neighbours and between 1991 and 1995 it established Association Agreements with all CEECs.[2] In addition, Kaminski (1999) observed that the rapid fall in CEECs' tariffs was not followed by an increase in non-tariff barriers. Most of this group have much lower trade barriers than did Spain and Portugal in the 1980s during their entrance to the EC, and also much less protectionist than Austria and Finland were on agriculture until 1995 (Johnson and Rollo 2001; Kaminski, 1999).

The outlook of the impact of trade liberalisation between the EU and the CEECs is motivated by the theoretical argument of the Heckscher-Ohlin model. CEECs are considered to be abundant in qualified and unqualified labour, some raw material and energy. This pattern of factor endowments is similar to that in southern European countries. The Northern Member States of the EU are considered to be abundant in capital and human capital. Therefore, CEECs are supposed to react by increasing efficiency due to the

[2] These 'Europe Agreements' consisted of trade provisions, leading to a standstill of existing tariff levels and the gradual reduction of tariffs and quantitative restrictions on trade (Hare 2001). That means, even before accession, CEEC countries already had relatively free access to the EU market, and enjoyed limited asymmetric protection against EU imports and will continue to do so during their transition periods after accession.

exploitation of the relative comparative advantages in relation to northern European countries, while being in conflict vis-à-vis the southern European countries since they have the same relative comparative advantages (Brenton and Manzocchi, 2002).

Thus, the completion of enlargement and consequently, the termination of the EAs after accession, will have a significant effect on the spatial structure of production in the enlarged Europe, notably in the sensitive products sectors in the waning industries of the EU-15 Members.[3]

For our purposes, table 2 reveals quite an interesting picture. Almost all new members were in deficit in their current account transactions during 1992-2002. Poland, in particular, shows high figure deficit in 1999 and 2000 (-11.7 and -10.8 respectively), in the same period France had a surplus of 35.3 and 17.7 respectively. Concerning the Mediterranean cohesion Members, Spain succeeded between 1995 and 1997 to reach a surplus, only to return to a double figure deficit in 1999. Portugal and Greece stayed in deficit throughout most of the period (since 1996 in particular), and this deepened with the turn of the century.

Table 2: Current account transactions, EU-25, Net Balance, 1992-2002 (1000 million ECU/EUR)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Belgium	:	:	:	:	:	:	:	:	:	:	21.7
BLEU	5	9.4	10.3	10.9	11.1	12.3	18.1	17.8	18.3	16.3	26.8

[3] The EU's external trade stance remains relatively liberal, with the notable exception of some specific sectors such as agriculture, and is governed by the rules of the General Agreement on Tariff and Trade (GATT) and the World Trade Organization (WTO).

Czech Republic	:	0.4	-0.7	-1	-3.4	-2.8	-1.2	-1.5	-2.9	-3.7	-4.7
Denmark	2.4	3.3	2	1	2.1	0.8	-1.7	2.7	2.7	5.5	5.3
Germany	-11.3	-8.3	-20.2	-15.8	-6.3	-2.4	-5.5	-23.4	-27.9	4.2	59.7
Estonia	:	0	-0.1	-0.1	-0.3	-0.5	-0.4	-0.3	-0.3	-0.4	-0.8
Greece	:	1	1.9	-1.1	-2.2	-0.4	-3.1	-6.9	-10.6	-10.5	-10.3
Spain	-16.5	-4.7	-5.4	0.6	0.3	2.2	-2.6	-13.1	-21	-18.3	-16.6
France	3.6	7	6.2	8.4	16.2	34.5	36.3	35.3	17.7	25.7	27.4
Ireland	0.4	1.6	1.3	1.3	1.6	1.7	0.7	0.6	-0.6	-1.2	-1
Italy	-22.9	8.2	11.6	19.6	31.9	29.7	17.7	7.7	-6.3	-0.7	-7.3
Cyprus	:	:	:	-0.1	-0.4	-0.3	-0.5	-0.2	-0.5	-0.4	-0.6
Latvia	:	0.4	0.2	0	-0.2	-0.3	-0.6	-0.6	-0.5	-0.8	-0.7
Lithuania	:	-0.1	-0.1	-0.5	-0.6	-0.9	-1.2	-1.1	-0.7	-0.6	-0.7
Luxembourg	:	:	:	:	:	:	:	:	:	:	1.8

Hungary	:	-3.7	-3.4	-1.8	-1.3	-0.8	-2.1	-2.3	-3.2	-2	-2.8
Malta	:	:	:	-0.3	-0.3	-0.2	-0.2	-0.1	-0.5	-0.2	-0.1
Netherlands	5.7	11.6	15.1	18.3	17.4	26.7	14.8	16.3	8.7	12.4	12.2
Austria	:	:	:	-4.7	-4.3	-5.7	-4.7	-6.3	-5.4	-4.1	0.7
Poland	:	:	0.8	0.7	-2.6	-5.1	-6.2	-11.7	-10.8	-5.9	-5.3
Portugal	:	:	:	:	-3.3	-5.4	-6.9	-9.1	-12	-11.6	-9.4
Slovenia	:	:	0.5	-0.1	0	0	-0.1	-0.7	-0.6	0	0.3
Slovakia	:	:	0.6	0.3	-1.7	-1.7	-1.9	-1.1	-0.8	-1.9	-2
Finland	-3.8	-0.9	1.1	4	4	5.8	6.6	7.3	10	9.6	10.6
Sweden	:	:	:	:	5.1	5.6	6.2	8.3	8.3	9.5	11.6
United Kingdom	-22.5	-23.1	-17.3	-3.8	-8.6	-1.4	-5.6	-31.7	-32.1	-29	-30.2

Source: Eurostat

Table 3: Intra-Industry trade, total product, EU-15 1992-2002
Current prices (1 000 million ECU/EUR)

Imports

	EU (15 countries)	Belgium	Denmark	Germany	Greece	Spain	France
1992	838.6	75.89	18.74	196.7	12.22	47.29	136.7
1993	771.1	73.15	18.52	172.7	11.84	43.06	124.1
1994	868	82.11	21.36	190	12.28	49.61	140.7
1995	974.41	91.83	25.22	214.12	13.88	59.47	151.47
1996	1024.99	96.61	25.17	218.06	14.33	66.13	157.66
1997	1112.48	101.77	27.81	232.6	15.43	67.28	165.67
1998	1207.15	107.18	29.41	248.13	17.73	86.12	185.47
1999	1273.01	108.85	29.97	257.11	19.15	87.21	197.98
2000	1491.1	131.95	33.67	295.34	22.11	112.3	239.51
2001	1508.9	138.63	34.51	300.1	17	115.66	239.2
2002	1509.4	148.73	37.5	286.42	17.25	117.48	229.99
2003	1497.6	148.93	35.29	292.58	21.32	117.46	230.77

Sweden	Finland	Portugal	Austria	Netherlands	Luxembourg	Italy	Ireland
24.17	9.61	17.91	29.35	71.14	:	91.68	12.5
22.76	8.77	15.41	28.74	69.33	:	75.32	12.13
27.07	10.75	16.72	31.78	77.88	:	86.26	14.2
34.13	14.65	18.44	38.44	89.5	:	95.85	15.98
36.12	16.15	21.15	40.13	92.57	:	100.19	18
39.18	17.94	23.58	42.56	98.53	:	113.1	21.31
42.23	19.32	26.79	45.68	101.45	:	120.9	23.74
43.55	19.7	29.3	48.41	106.66	8.6	127.29	27.08
50.65	23.08	32.49	53.93	120.84	10.09	146.57	34.38
46.27	23.14	33.07	56.8	120.35	10.9	150.37	37.09
46.71	23.39	33.03	55.77	122.62	10.91	150.46	36.63
48.37	23.22	30.56	58.19	121.58	10.87	146.36	28.97

Exports

France	Spain	Greece	Germany	Denmark	Belgium	EU (15 countries)		United Kingdom
125.6	36.25	5.21	210.3	21.24	79.92	833.9	1992	
117.7	35.5	4.25	190	21.28	83.68	803.4	1993	
133.6	42.97	4.52	208.2	23.09	93.71	904.1	1994	
145.03	50.83	5.08	232.72	25.92	105.03	1019.8	1995	111.46
150.3	57.29	4.98	237.06	26.98	107.15	1070.81	1996	122.72
165.26	60.72	5.08	251.25	28.84	114.76	1166.71	1997	145.71
178.38	71	5.22	274.11	29.05	123.72	1258.92	1998	153
190.89	69.77	5.6	293.37	31.6	128.35	1339.17	1999	162.16
219.07	87.67	6.02	337.38	37.16	151.81	1565.8	2000	184.13
219.56	92.98	4.68	351.61	37.92	160.26	1603.2	2001	185.81
215.41	94.85	4.79	354.8	40.07	166.58	1611	2002	192.56
213.02	95.36	5.43	367.18	39.66	168.69	1587.7	2003	183.11

United Kingdom	Sweden	Finland	Portugal	Austria	Netherlands	Luxembourg	Italy	Ireland
85.71	26.88	12.08	11.43	23.32	94.41	:	84.7	16.81
87.88	25.1	11.5	10.53	22.47	93.05	:	82.57	17.92
99.22	28.6	14.2	12.09	24.56	105.8	:	92.53	20.99
105.95	36.63	17.79	13.95	29.04	124.17	:	102.38	25.27
117.27	38.2	17.65	15.62	29.4	131.65	:	110.16	27.11
137.23	40.55	19.46	17.07	32.69	144.87	:	116.53	32.41
141.81	43.81	21.89	18.14	36.69	150.66	:	124.67	39.78
149.64	46.49	22.89	19.16	39	163.01	6.57	128.69	44.13
176.37	52.77	27.78	21.17	44.98	198.57	7.64	144.41	53.01
175.04	46.13	25.92	21.89	48.61	202.88	9.37	148.03	58.35
174.3	46.54	25.72	22.57	51.09	199.38	9.26	144.89	60.71
151.5	48.52	24.78	21.96	52.34	200.49	10.2	138.22	50.32

Although a deficit of itself does not necessarily mean a problem, a continual and persistent deficit is an indicator of obstacles for the local market, especially since the growing national debt constitutes a burden on the economy.[4]

As mentioned earlier, EU trade with the ACs was significantly low until the end of the 1980s. It increased strongly in the 1990s, both in imports and in exports. EU trade with the ACs tripled between 1992-1999. Within the EU-ACs trade, about 75% of EU exports go to the Central European countries. About 20% of exports went to the Mediterranean ACs, and only 5% to the Baltic States (Dohrn et al., 2001). In 1999, the trade balance showed a surplus on the side of the EU in all cases except the Slovak Republic. Two major processes explain this sharp increase in trade between the EU and CEECs. The first is the exploitation of a "new market", deriving from structural reforms and augmented economic activities. The second is that the economic activity had to be "normalised" from the originally distorted trade structures. At the end of the 1980s, only 30% of exports as well as imports of the Central European ACs were conducted with the EU. During the 1990s, the EU's share within total trade of the ACs augmented to about 70%, which is even more than the share of EU-15 Intra-Trade within the Union total trade (Ibid.)

However, table 3 reveals, in addition, that parallel to the intensification of EU-CEECs trade throughout the period, the Mediterranean Members have increased as well their volumes in intra-EU trade. Greece and Portugal imported from the Union in 2003 1.7 times more than in 1992, while Spain imported 2.4 times more. In exports, Greece remained at almost constant figures throughout the period, Portugal nearly doubled its exports, and again Spain showed the most growth (2.6 times higher). The figures, thus, explain why Spain is of the three the closest to reaching the EU average in the near future, while Portugal and Greece are still lagging behind (see also, table 1).

[4] Constant deficit increases the size of allocations that is needed to disburse interest payments.

4. FDI

The Eastern European countries saw a large inflow of FDI. In fact, they received more than most cohesion countries ever did, which should facilitate their path to restructuring their economy towards the west (Tondl, 2002). Foreign investors started to invest first in Hungary and the Czech Republic in 1991/92 with annual FDI of about 4% of GDP (Hunya, 2000). By contrast, the cohesion countries began receiving FDI inflow between 1987 and the mid-1990s, consequently due to the creation of the internal market, and respectively with their entrance to the EC. The rationale was again to exploit relocation of firms to the periphery for comparative cost advantages and market entry.

Table 4: FDI in EU-25 as % of GDP (in the reporting country, total investment)

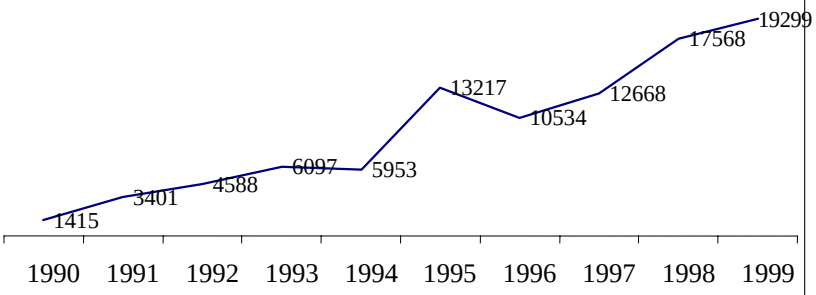
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Average
Belgium	:	:	:	:	:	:	:	:	:	:	5.4	5.4
BLEU	4.7	4.7	3.3	3.7	4.9	4.7	7.7	52.6	89.1	35.8	47.6	23.5
Czech Republic	:	:	:	:	:	:	:	:	9.1	9.2	12.6	10.3
Denmark	0.7	1.2	3.2	2.3	0.4	1.7	3.7	6.6	:	5.3	3.3	2.8
Germany	-0.1	0	0.3	0.5	0.3	0.6	1.1	2.7	10.7	1.2	1.7	1.7
Estonia	:	:	:	:	:	5.8	11	5.8	7.6	9.6	4.4	7.4
Greece	:	:	:	:	:	:	:	:	1	1.3	0	0.8
Spain	1.4	1.9	1.8	1.1	1.1	1.1	2	2.6	6.7	4.8	3.2	2.5
France	1.2	1	1.2	1.5	1.4	1.8	2.1	3.2	3.3	4.2	3.6	2.2
Ireland	:	:	:	:	:	:	10.2	19.4	27.9	9.4	20	17.4

Italy	0.3	0.4	0.2	0.4	0.3	0.3	0.2	0.6	1.2	1.4	1.2	0.6
Cyprus	:	:	:	:	:	6.4	3.8	8.8	9.7	10.5	9.8	8.2
Latvia	:	:	:	:	:	9.3	5.8	5.7	5.7	2.1	4.7	5.6
Lithuania	:	:	:	:	:	3.6	8.3	4.5	3.3	3.7	5.2	4.8
Luxembourg	:	:	:	:	:	:	:	:	:	:	599.6	599.6
Hungary	:	:	:	:	:	:	:	4.2	3.5	4.7	1.3	3.4
Malta	:	:	:	:	:	:	:	20.8	16.3	7.2	-10.4	8.5
Netherlands	2.2	2.4	1.6	2.8	3.5	3.3	9.6	10.3	15.7	13.5	6.3	6.5
Austria	:	:	:	0.8	1.9	1.3	2.1	1.4	4.6	3.1	0.7	2.0
Poland	:	:	:	:	:	3.2	3.8	4.4	5.6	3.1	2.2	3.7
Portugal	2	1.8	1.4	0.6	1.3	2.3	2.8	1.1	6.4	5.4	3.5	2.6
Slovenia	:	:	:	:	:	2.1	1.4	1.8	2.4	1.4	4.2	2.2
Slovakia	:	:	:	:	:	:	:	:	10.5	7.1	15.7	11.1
Finland	0.4	1	1.6	0.8	0.9	1.7	9.4	3.6	7.4	3.1	6	3.3
Sweden	0	1.9	3	5.8	1.9	4.3	7.5	24.2	:	5.4	:	6.0
United Kingdom	1.4	1.5	0.9	1.8	2.1	2.5	5	6	8.3	4.2	1.6	3.2

Average annual inflows of FDI as a percentage of GDP in cohesion countries between 1992 and 2002 amounted to 17.4% in Ireland, 2.5% in Spain, 2.6% in Portugal; and for the period 2000-2002 - only 0.8% in Greece (see table 4).

The New Members, however, present a different picture. The average annual inflows of FDI as a percentage of GDP in most of the group exceed 4.5%. Especially, in most recent years, the Czech Republic and Slovakia have presented more than 10% of FDI/GDP.

Table 5: Total FDI Flows to the Applicant Countries 1990-1999 in US$ Million



Thus, the Eastern Countries, now taking their first steps within the EU, are in a better position to catch up, as were the southern countries when they joined the Community. They are already more integrated through trade relations and FDI, have the benefit of geographic proximity and have achieved a certain macroeconomic stability (European Commission, 2003). Concerning FDI, almost no investment had been made in the CEEC by investors from the EU before 1990. In this year, annual FDI flows to the ACs totalled 1.4 billion dollars. Soon after the fall of the iron curtain, the CEECs gave priority to attracting foreign investors. Table 5 shows that in 1999 total FDI for this region was 13.6 times higher than 1990.

Nonetheless, the flows of FDI are exceedingly concentrated on a small number of countries. Hungary accounted for 37 % of total inflows of the ACs between 1992 and 1993; afterwards Poland became the dominant actor by receiving 38 % of total inflows in 1999 (Dohrn, et al., 2001). More than half of total FDI in the ACs came from EU investors. Among the EU, Germany is responsible for half of the investments, subsequently the Netherlands, France, and Austria (Ibid.; and Jovanovic, 2001). Yet, table 6 shows that the largest FDI stocks, among CEECs, have been gathered in Poland, Hungary, and the Czech Republic.

Table 6: FDI Intra EU-25 flows by Member State of Destination (in million ECU/EUR)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Belgium	:	:	:	:	:	:	:	:	:	:	12856
BLEU	6737	6302	5357	6489	7943	7866	12229	118447	201185	67273	107521
Czech Republic	:	:	:	:	:	:	:	:	4333	5493	9018
Denmark	541	843	3053	2587	208	1857	1053	7426	:	5686	3448
Germany	1248	541	3045	4278	3148	7187	19610	41610	206885	15023	28562
Estonia	:	:	:	:	:	149	488	240	376	460	260
Greece	:	:	:	:	:	:	:	:	1155	1641	0

Spain	4300	6963	5446	3784	3590	4719	9493	7551	27807	26499	18718
France	8212	7803	9341	11646	3152	16053	22458	35973	41215	53375	42833
Ireland	:	:	:	:	:	:	4647	6307	40936	19045	18336
Italy	1501	2528	1467	2567	2274	2224	2117	4310	10346	13084	12138
Cyprus	:	:	:	:	:	196	:	211	408	421	:
Latvia	:	:	:	:	:	:	:	:	197	173	272
Lithuania	:	:	:	:	:	161	634	277	287	325	315
Luxembourg	:	:	:	:	:	:	:	:	:	:	107734
Hungary	:	:	:	:	:	:	:	1331	1381	2174	431

Malta	:	:	:	:	:	:	:	:	:	:	:
Netherlands	:	5869	1692	5055	3479	8637	13222	24946	35237	30424	20732
Austria	:	:	:	840	3020	1486	4342	2093	7747	5664	760
Poland	:	:	:	:	:	3286	4485	6119	9575	5881	4117
Portugal	1191	1062	681	390	1075	1672	1196	1233	7085	6260	4014
Slovenia	:	:	:	:	:	285	342	347	422	260	623
Slovakia	:	:	:	:	:	:	:	:	1928	1522	3741
Finland	59	512	981	481	999	1480	10332	4131	9230	4561	8179
Sweden	196	1264	2378	853	2205	5092	12950	50450	:	9722	:

United Kingdom	3011	2037	4337	4289	5742	9974	16863	60231	85965	49479	21557

Hence, taking into account trade patterns and FDI, deepening integration with CEECS, all in all, would seem to benefit the Central European and the Northern EU Members more than the Southern and Western Mediterranean cohesion Members. However, the variation within each sub-region, which is revealed almost in every table, indicates that we cannot speak freely about one group vs. the other.

Spain has made significant progress toward the 'core' of the Union, while Portugal and Greece will have further to go in order to converge. Of the new Members, Poland, Slovakia, and the Czech Republic seem to be converging faster than the others.

In the long run, the ability of a member state to move between 'core' and 'periphery' will be a consequence of its capacity to attract FDI and trade and to be a genuine competitor within the EU and well beyond. Nevertheless, European policies could and should assist a member state during a defined period of time to gain the abilities of competition. The next section concerns one major example of such - the Cohesion Fund.

5. The Cohesion Dilemma

The Cohesion Fund was established at the Maastricht summit, December 1991, due to strong pressure from the four poorest member states for additional financial support, in order to boost their prospects of meeting the convergence criteria for Economic and Monetary Union. This fund has applied to countries with a GDP per capita of less than 90% of the Union average (the Members within the EU-15 were: Portugal, Spain, Greece and Ireland, with a combined population of 63 Million). Whereas the

European Regional Development Fund (ERDF) seeks to reduce regional disparities, the Cohesion Fund seeks to reduce disparities between countries. Cohesion fund disbursements are project based, whereas most ERDF funding is program based. Moreover, the cohesion fund was applied only for four states and is limited to transport and environment infrastructure projects (European Commission, 1997). The Edinburgh European Council decided that 15 billion Euros (at 1992 prices) would be allocated to the fund between 1993 and 1999, with 70% going to Objective 1 regions. The fund came into existence at the end of 1993 with an annual budget of 1.5 billion euros, rising to 2.6 billion euros by 1999. In 1999, commitments for financing cohesion fund projects amounted to 3.15 billion euros, covering between 80 and 89% of the cost of the supported projects. 18 billion euros are available for the fund between 2000 and 2006.

However, the disparities in unemployment rates between the ten worst-affected and ten least-affected regions became increasingly marked. In 1993, unemployment rates in the ten worst-affected regions were seven times greater than in the ten least-affected. The Commission's Sixth Periodic Report (1999) showed that unemployment in the worst-affected regions had risen from 20 to 24%. In 1998, Andalusia in Spain had the highest unemployment rate (29.9%) and Centro in Portugal the lowest (2.1%).[5]

The Report (1999) showed, in addition, that between 1986 and 1996, the GDP per capita in the 25 poorest regions increased from 52 to 59% of the EU average. In this period, the GDP per capita in the four poorest countries increased from 65 to 76.5% of the EU average. It is not surprising that these countries should be concerned by eastern enlargement, since they may be about to lose their allocation from the cohesion fund (see, in addition: Farrell, 2001; Hooghe, 1996).

Table 7 shows the development of the cohesion countries, compared to the applicant countries. The data commence in 1988, with the major reform of the regional policy, under Jacque Delors'

[5] It worth noting, both are Cohesion countries (Ibid.).

Commission presidency. The trend is significantly marked toward one direction. A European inter-state convergence seems to occur in the Mediterranean cohesion members, as well in the ten applicant countries.

Table 7: GDP per head (PPS), in MED cohesion countries and AC-10, EU15=100

GDP per head (PPS), EU15=100	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	58.3	59.1	57.4	60.1	61.9	64.2	65.2	66.1	66.9	66	66	66.8
ES	72.5	73.1	74.1	78.7	77	78.1	78.1	78.4	79.5	80	81.1	82.5
P	59.2	59.4	58.5	63.8	64.8	67.7	69.5	70.9	71.1	74.3	75.3	76.1
AC-10 (in market prices)						38.9	39.6	42.4	43.2	42.9	44.6	44.6

Source: Eurostat, REGIO

Subsequently, Table 8 shows the Commission's estimation of GDP growth rate of the Mediterranean cohesion members with and without structural funds' support. In all countries, removing EU intervention leads to a decrease in GDP growth, even causing Portugal to trail towards a negative growth.

Table 8: Table of SF Effects
GDP Growth rate in %, with or without Structural Funds' support

	Spain		Portugal		Greece	
	GDP	GDP without SF Objective 1 support	GDP	GDP without SF Objective 1 support	GDP	GDP without SF Objective 1 support
2000	4.1	2.9	3.4	-1.1	4.3	1.9
2001	2.7	1.5	1.7	-2.5	4.1	1.6
2002	2.0	0.8	1.5	-2.5	3.5	0.8
2003	3.2	2.0	2.3	-1.5	4.2	1.4
2004	3.7	2.6	2.8	0.0	5.0	2.4
2005	3.8	2.7	3.0	0.1	5.0	2.5
2006	3.8	2.8	3.0	0.2	5.0	2.7

Source: Eurostat

Nonetheless, I wish to end this section with the following data. Table 9 indicates the disparities in GDP per head in PPS by region within selected Mediterranean Members. One surprising picture is revealed. In Spain, Greece and Italy, although there is a convergence between Members, the inequalities within the Members have actually increased during the period (Portugal is the exception).

Table 9: Disparities in GDP per head in PPS by region within Mediterranean Member States standard deviation of index EU15=100

Member State	1998	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
EL	6.1	6.5	6.3	6.1	6.6	7.6	7.8	10.4	10.2	10.1	10.2
ES	13.9	14.9	14.9	16	15.9	15.2	15.9	17.1	17.7	18.4	19.1
I	25.7	25.8	24.8	24.7	24.9	24.7	25.5	28.6	28.7	27.8	27.6
P	17.2	17.7	13.5	15	13.6	14.3	13.8	13.5	13.3	14	14.2

Source: Eurostat Regio

This observation suggests the following. As a country manages to converge closer to the average level, the core regions within the country grow faster than the periphery. These core regions, thus, grow faster than the EU growth average, in order their country would converge towards the EU average as an all. This indicates, for example, that the regions surrounding Madrid, Barcelona and Valencia have become as modern and sophisticated as the other core regions in Europe.

6. The EU-MNMC Trade and FDI Patterns

The European Union is the leading trade partner of the twelve Mediterranean Partner Countries (MPCs) accounting for 45% of total MENA trade in 1999. The Maghreb countries are particularly dependent on Europe.[6] The MENA countries accounted for 7.84% of the European Union's total extra-EU exports in 2001, but accounted for just 6.72% of extra-EU imports (see table 10).

Table 10: EU Major Trading Partners, 2001, in Million Euro

World regions	Imports	%	Exports	%
America	269397	26.59	326823	33.24
of which USA	195668	19.31	239905	24.40
MED	68110	6.72	77042	7.84
EFTA	108531	10.71	103302	10.51
New Members	134088	13.23	152817	15.54
Africa	87057	8.59	69929	7.11
Asia	345999	34.15	253335	25.77
Total Extra-EU trade	1013182	100	983248	100

Source (European Commission, 2004b)

[6] For example, the EU accounted for three-quarters of Tunisia's total trade in 2000 (European Commission, 2004b).

The eastern enlargement created a concern that the EU will intensify its abilities to perform as an economic regional bloc. The concern over EU becoming such a closed trade bloc is the fact that it could increase the economic pressure most southern Mediterranean countries feel already from the dependence on the EU as the major trade association. The concerns are related as well to the disappointing performance of the Barcelona Process. This Process, which aimed to reduce the economic barriers between the EU and the Mediterranean partners, has witnessed rather an upsurge in the gap between the northern and southern shores.

European business still refrains from investing in the region. Only 2% of European Foreign Direct Investment flow goes to MNMCs. The explanation lies in the many trade barriers that exist within MNMCs, raising the cost and risk of economic activities, and consequently, bias investments out of the region. Several barriers that are mentioned in the literature are: (1) complicated customs and bureaucratic procedures; (2) Technical barriers to trade (certification requirements); (3) Lack of investment guarantees; (4) High import duties and tariffs; (5) Lack of competition rules; (6) Security Fears; (7) Unreliable and underdeveloped banking system; (8) Cultural differences; and (9) Lack of telecommunications and transport infrastructures.[7]

MED South-South trade has not increased and the levels of EU investment in the region remain rather low and well beneath the flows of investment to other parts of the world (European Commission, 2000; Gillespie, 1997). The southern Mediterranean's most competitive merchandise, i.e. agricultural products, does not have free access to European markets, mainly because of the existence of non-tariff barriers (NTBs) and the restrictive Common Agricultural Policy (CAP), applied by the EU. Other NTBs that are related to technical barriers have included: the diversity of rules, lack of cumulation of origin, insufficient physical infrastructure, etc. It is not surprising, thus, that the MEDA financial aid program has encountered many difficulties in its implantation stage.

[7] See, in addition, the survey of the European Chambers of Commerce, website: http://www.eurochambres.be/

One negative effect of enlargement for MNMCs will occur as soon as the New Members replace Mediterranean agricultural exports to the EU (a classic trade diversion). In other words, MENA countries' export-access to the EU will be structurally affected because of enlargement.

Chemicals and machinery equipment is the most important EU-MNMCs trading sector, followed by textiles, beverage, food and electronics. Manufactured articles (consumer goods and textiles) and machinery equipment account for about 50% of trade exchange. Israel and Turkey are the biggest EU partners in the machinery sector and Tunisia, Morocco and again Turkey are the leading traders in the textiles sector (European Commission, 2004b). In addition, tourism is a key source of revenue for Maghreb countries and Turkey. However, the political instability of the region makes the economies very fragile. This makes the flows of tourism unpredictable. In addition, the dependency of some countries on oil as the prominent resource for income, the necessity of revenues from migrant workers in the gulf area to help the home economy, and the consequences of September 11th in general, all in all cause significant tumult in the region’s aggregate demand.

Table 11 reveals another pessimist picture for the Mediterranean non- Members countries. With the opening of the eastern European markets, the EU began importing more and more from CEECs and less and less from MED countries. Although there is an increase in EU imports from Med Countries in 2001 as a percent of total EU imports, it is still less than the figure in 1992, while the figures for CEEC new Members increase constantly.

Table 11: NMS and MP Shares in EU Markets

	EU imports from New Member States as a percent of EU total imports	EU imports from MED countries as a percent of EU total imports
1992	4.9	3.9
1995	7.5	3
1998	8.7	2.9
2001	9.8	3.5

Source: Direction of Trade Statistics, IMF (2002)

Total FDI flows to the MP as a ratio to total flows to developing countries declined from 4.3% during 1990–95 to 2.8% during 1996–2000 (European Commission, 2004). The drop in MP's share is ascribed to the limited attractiveness of these countries for the many reasons that have been mentioned earlier, and particularly when compared to other regions, such as central and eastern Europe, for example. These results are consistent with the pattern for the MENA region in which, on average, a country receives only one-third the foreign direct investment expected for a developing country of equivalent size, with most of the inflows being concentrated in enclave sectors in a few countries, while portfolio investment is virtually nonexistent because equity markets are underdeveloped (Ibid.).

It is further unlikely that investment patterns will be strongly affected by enlargement at the expense of the Mediterranean countries. Investors avoid the South Med countries because of political instability and economic rigidities, and not because of high tariffs, cost differences or better opportunities elsewhere.

Table 12: Direct Investment in MNMCs reporting country, 1992-2001, in million EUR

MED U/R	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CY	:	:	:	66	43	67	61	114	176	182
DZ	2	– 2	0	0	213	229	541	229	297	1319
EG	354	421	1056	457	501	786	960	999	1337	:
IL	453	517	372	1031	1092	1436	1570	2711	4755	3399
JO	:	:	:	:	:	:	:	:	:	:
LB	2	3	4	17	40	86	118	:	:	:
MA	298	370	187	213	240	968	336	880	281	3023
MT	:	:	:	101	218	71	238	770	693	:
PS	:	:	:	94	140	144	195	177	:	:
SY	:	13	19	7	6	6	7	22	26	:
TN	450	562	451	253	221	325	598	345	843	466
TR	650	543	511	677	569	710	838	735	1063	3647
Total	2209	2429	2600	2916	3283	4828	5462	6982	9471	12036

Table 12 shows how the MED region is not on the priority list for investment from around the world. Only Israel has managed to attract investments of more than one billion Euros constantly throughout the period. Table 13 intensifies the picture, showing how high is the variance between the MPCs. In 2001, Israel, Morocco and Turkey accounted for more than 80% of total FDI to the region.

Table 13: Share of MP Countries' FDI as a percentage of total FDI for the region, 1992-2001

MED U/R	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CY				2.26	1.31	1.39	1.12	1.63	1.86	1.51
DZ	0.09		0.00	0.00	6.49	4.74	9.90	3.28	3.14	10.96
EG	16.03	17.33	40.62	15.67	15.26	16.28	17.58	14.31	14.12	
IL	20.51	21.28	14.31	35.36	33.26	29.74	28.74	38.83	50.21	28.24
JO										
LB	0.09	0.12	0.15	0.58	1.22	1.78	2.16			
MA	13.49	15.23	7.19	7.30	7.31	20.05	6.15	12.60	2.97	25.12
MT				3.46	6.64	1.47	4.36	11.03	7.32	
PS				3.22	4.26	2.98	3.57	2.54		
SY		0.54	0.73	0.24	0.18	0.12	0.13	0.32	0.27	
TN	20.37	23.14	17.35	8.68	6.73	6.73	10.95	4.94	8.90	3.87
TR	29.43	22.35	19.65	23.22	17.33	14.71	15.34	10.53	11.22	30.30
Total	100	100	100	100	100	100	100	100	100	100

A solution could be found perhaps in a new initiative from the EU; for example in the New Neighborhood Policy (NNP). However, I would like to suggest in the concluding section how MNMCs could augment their welfare by themselves.

All in all, due to their tiny national income (in comparison to the present EU), the poor accession countries will contribute little to the EU's budget in general and its aid in particular. Their bilateral aid is almost negligible, in addition to their already small gross national products. Thus, the South Med countries can hardly expect more generous EU assistance thanks to higher EU budget revenues. The costs of enlargement are likely to make the enlarged EU stingier. Furthermore, the EU seems more concerned about the stability in the Balkans and the Former Soviet Union and will probably advocate more EU assistance to these countries.

Thus, Cohesion and enlargement will be the main task for the EU, and not the European Mediterranean Partnership (EMP).

Enlargement and the Impact on the Mediterranean Region - Some Reflections

- Eastern enlargement increases the gap between the north and the south of the Mediterranean region.
- The enlargement could be used as an anchor to make 'painful' reforms.
- The orientation of the Mediterranean Cohesion Members should be developed in a market based on high-skilled labour, rather than remain in low-skilled production sectors.
- Spain shows the best performance in this direction among the group.
- However, the re-allocation of the cohesion fund will moderate growth rates in all the present cohesion countries.
- With or without structural fund intervention, the gap between the regions within cohesion Members is not expected to diminish in the near future, rather to increase.
- FDI does not reach MNMCs because of political and security problems, not attached to enlargement; i.e., even without enlargement the weak rate of investments would have remained.
- The variance within MNMCs is significant. Israel, Morocco and Turkey attract most of the trade and FDI of the region, while all the rest are lagging behind.
- Small and medium enterprises (SMEs) should be promoted across the Mediterranean countries by reducing bureaucratic procedures.
- MNMCs should establish competitive and non-discriminatory rules in their markets, including in the government procurement sector. This will reduce governmental expenditures, increase competition and encourage growth.
- MNMCs should develop reliable infrastructures in the telecommunication and transport sectors. These sectors are fundamental in order to strengthen the connection between the region and the world economy.

- MNMCs should not wait for new programmes; rather they need to take the initiative and open themselves to the world economy.

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Abstract

The enlargement of the European Union to EU-25 became a reality on May 1st 2004. The 'Enlarged Europe' is established on the internal market as the basic membership criterion, which provides the foundations to hold all 25 Member States together within a supranational policy platform.

Although the process creates expectations of increased welfare in the European space, in west and east, within and around the Union alike, the impact on the Mediterranean region is yet unclear. One group of Mediterranean countries that could be concerned is the group of so called 'cohesion countries'. The cohesion funds are granted to areas in which the GDP is no more than 90 percent of the EU GDP average. With the completion of enlargement, the average GDP fell substantially, making southern European Member States comparatively wealthy. This means that Spain, Portugal and Greece could find themselves no longer entitled to benefit from the funds. The second group that could be affected is the Mediterranean Non-Member Countries (MNMCs). The rationale is that if Central and Eastern European Countries (CEECs) are competitors vis-à-vis MNMCs in the same economic activities, the latter could suffer some negative effects from enlargement, due to the entrance of CEECs into the Market. Thus, this paper explores the triangle of EU-CEECs-MNMCs in terms of patterns of trade, FDI and cohesion from 1989 onwards.

I argue that CEECs have indeed attracted most attention in terms of increase of trade and FDI, especially from the Northern Members (particularly Germany). In addition, in the short term, a disruption will occur to the real growth for the northern Mediterranean members, due to re-allocations of structural funds. However, in the long-term, enlargement will be beneficial for these countries, as they will have to adjust to a more competitive environment with more skilled workers in industries and services.

Conversely, the picture for MNMCs gloomy. While trade and FDI are increasing between EU and CEECs, they are diminishing between EU and MNMCs. When taking into consideration that the

patterns of FDI to the southern Mediterranean have never been significant, it is hard to see the light at the end of the tunnel. Nonetheless, the countries from this region that choose to liberalise their economy unilaterally, i.e. implement structural domestic reforms without attending to exogenous European initiatives, could make the most of this new enlarged Union.