

More Employment in the EU through Foreign Trade with the Transition Countries

In the wake of the dissolution of the CMEA (Council for Mutual Economic Cooperation), trade relations between the former centrally planned economies of central and eastern Europe have virtually broken down, whereas there has been a substantial increase in trade with western industrialised countries, particularly the EU countries. In the medium and longer term economic relations between eastern and western Europe will intensify further; this, at least, seems likely in view of their geographical proximity, the productivity-increasing effect of the international division of labour and, not least, political pressure to reduce the economic and social divide in Europe. The following study¹ shows both that there is a significant potential for an expansion of goods trade between the EU and the transition countries if the transition process continues to make progress and is reflected in success in terms of economic growth, and that the net effect of this on employment in the EU countries is positive.

Trade between eastern and western Europe

Goods trade between the EU and the *ten transition countries* in central and eastern Europe with which the EU has reached association agreements and which have applied to join the Union (CEE countries), grew strongly during the first half of the 1990s. In 1995 EU exports to the ten CEE countries totalled in excess of US-\$ 68 billion; EU imports from these countries amounted to almost US-\$ 59 billion (cf. table 1). The EU's export surplus against the CEE (10) was, at US-\$ 9.6 billion, around US-\$ 2 billion higher than in the previous year. Compared with 1989 EU (15) imports from the six largest CEE countries² trebled, while exports almost quadrupled.

¹ The study was conducted within the framework of a research project funded by the Volkswagen Foundation entitled "Transition of economic systems in the central and east European countries: foreign trade conditions and effects".

² Figures are not available for the other CEE countries for 1989.

There has also been a marked increase in trade with the CEE countries (10) as a share of total EU trade over recent years, although even by 1995 the figure was still low: 3.5% of exports and 3.1% of imports. Having said that, trade with central and eastern Europe is of significantly varying importance for the different EU countries. The highest relative figure was for Austria (8.8%), followed by Germany (6.2%) and Greece (4.8%), and for Italy (3.8%), too, such trade plays a relatively important role. For France and Great Britain, and especially for Portugal and Ireland, on the other hand, it is of comparatively minor importance. Conversely, for the CEE countries the EU tends to be the main trading partner, accounting, on the average for the 10 CEE countries, for more than 60% of their overall foreign trade, compared with just 30% prior to the start of economic and political transition.³

By comparison, trade with the countries of the Confederation of Independent States (CIS) expanded, on the whole, far less dynamically. In 1995 EU exports totalled more than US-\$ 26 billion and EU imports in excess of US-\$ 33 billion. Russia accounts for 80% of EU trade with the CIS; the EU's balance of trade with Russia is heavily in deficit, reflecting its substantial imports of primary goods.

Germany is by far the most important western trading partner of the central and east European countries. In 1995 Germany accounted for 26% of Russian trade with the OECD countries and for as much as 43% of CEE (10) trade with the OECD. Germany is the only EU country whose imports from CEE countries have grown more rapidly than its exports. These trends for Germany as a whole conceal a significant expansion of west German trade with eastern Europe and a dramatic initial fall in east German trade with the region. Overall, the united Germany now enjoys more comprehensive trading relations with central and eastern Europe than the two "halves" of the country together in 1990: in 1995 8.4% of overall German trade was with this region (incl. CIS).

The dynamic of EU trade with central and eastern Europe occurred against the background of unfavourable income trends in the transition countries. Industrial output fell drastically and, initially at least, GDP declined in all the transition countries. Although the contraction process is still under way in the CIS, the economies of most of the other countries have since bottomed out. According to figures by the European Bank for Reconstruction and Development (EBRD), the overall level of output in Poland has reattained the level prevailing prior to the transition process; Slovenia has achieved

³ Calculated on the basis of IMF figures; cf. table 1.

Table 1

Goods Trade with the Transition Countries in Central and Eastern Europe, 1989¹⁾ and 1995
in US-\$ billions

		CEE (6) ²⁾	Baltic states	Slovenia	CEE (10) ³⁾	CIS	of which: Russia	"USSR" ⁴⁾	CEE (10) plus CIS ⁵⁾	memo item: World
Exports										
EU (15)	1989	15.1	.	.	.	.	.	18.4	33.5	1 241.8
	1995	57.1	4.4	6.7	68.2	26.2	20.4	30.6	94.4	1 947.9
of which:										
Germany	1989	6.9	.	.	.	.	.	6.1	13.0	341.4
	1995	26.9	1.2	2.2	30.3	10.1	7.2	11.4	40.5	509.3
All countries	1989	48.7	.	.	.	.	.	59.5	108.2	2 963.1
	1995	90.8	9.0	8.5	108.3	77.5	48.8	86.5	185.8	4 995.8
Imports										
EU (15)	1989	16.0	.	.	.	.	.	20.6	36.6	1 278.7
	1995	48.9	4.0	5.7	58.6	33.3	28.7	37.3	91.8	1 884.7
of which:										
Germany	1989	5.7	.	.	.	.	.	4.5	10.2	269.6
	1995	25.2	1.0	2.5	28.7	10.8	9.5	11.8	39.5	443.8
All countries	1989	54.5	.	.	.	.	.	55.0	109.5	3 074.5
	1995	79.5	6.9	8.0	94.4	104.3	76.1	111.2	198.7	5 098.6
Exports minus imports										
EU (15)	1989	-0.9	.	.	.	.	.	-2.2	-3.1	-36.9
	1995	8.2	0.4	1.0	9.6	-7.1	-8.3	-6.7	2.6	63.2
of which:										
Germany	1989	1.2	.	.	.	.	.	1.6	2.8	71.8
	1995	1.7	0.2	-0.3	1.6	-0.7	-2.3	-0.4	1.0	65.5
All countries	1989	-5.8	.	.	.	.	.	4.5	-1.3	-111.4 ⁶⁾
	1995	11.3	2.1	0.5	13.9	-26.8	-27.3	-24.7	-12.9	-102.8 ⁶⁾

1) 1989: EU and Germany excl. east Germany; separate figures not available for Slovenia, the Baltic states and the CIS republics. — 2) Poland, Czech Republic, Slovak Republic, Hungary, Romania, Bulgaria. — 3) CEE (6) plus Slovenia, Estonia, Latvia and Lithuania. — 4) Territory of the former USSR, i.e. CIS plus Baltic states. — 5) 1989 CEE (6) plus USSR, i.e. excl. Slovenia. — 6) Cif difference in world trade.

Source: IMF, Direction of Trade Statistics, Yearbook 1995 and magnet tape August 1996.

about 90% of its previous level, the Czech and Slovak Republics, Hungary and Romania around 85% and Bulgaria around 75%.⁴ The shift in the output pattern within eastern Europe has been accompanied by a marked geographical shift in trade with the region: in 1989 more than half of EU trade with eastern Europe was with the former Soviet Union, whereas in 1995 only one third was conducted with the CIS.

Prospects for EU trade with central and eastern Europe

In order to evaluate and to model present and future trade relations between the EU countries and the transition countries, a concept of a "normal pattern" of trade

⁴ EBRD, *Transition Report Update*, April 1996, p. 22.

flows between market economies is required. To this end the so-called gravity model presents itself. It explains bilateral trade relations in terms of:

- the GDP of the exporting and importing country as an indicator of the supply and demand strength of the countries;
- per capita income as a rough indicator of capital endowment,⁵ and
- a series of factors serving to impede or to stimulate trade.

With regard to goods trade, the prime factor working to impede trade is transport costs, which – broadly – are proportional to distance;⁶ factors serving to stimu-

⁵ A high per capita income also implies a high endowment with human capital per head of the population.

⁶ The distance between countries was calculated as the shortest link between their economic centres, usually their capital cities, in terms of longitude and latitude.

late trade include, among others, cultural similarities, a common language, historical ties and regional preference zones.

On this basis⁷ estimated values for the trade potential of the EU countries with the 10 associated countries and Russia were calculated on the assumption that goods trade with the transition countries develops in accordance with the trade pattern between market economies. The estimated values were calculated for three variants: variant I is based on trade between the OECD countries. This was the basis used most commonly for such estimations in other studies,⁸ but has the methodological drawback that the level of GDP in the CEE countries is far below the spread in the OECD countries. Variant II also takes account of trade with the developing countries, and thus also allows for substantially lower income levels. Variant III is based on the trade flows of the individual EU countries and also allows for nationally specific characteristics. The base for the regressions is, however, far narrower in this case than with the other two variants.

The two decisive variables for estimating potential trade between the EU countries and the central and east European countries are GDP and distance. GDP statistics for the CEE countries are unreliable, however, because in a number of transition countries a national accounting system on the western pattern is only now being established, and the "shadow economy" not covered by the statistics tends to be relatively large. Given that exchange rates and purchasing power parities diverge significantly from one another, very different values – when expressed in a common currency – are obtained depending on the conversion rate chosen. Moreover, expectations of the potential economic growth in the transition countries in the coming years differ. Accordingly, two different values for GDP were used in each case to estimate trade potential: the 1994 values on the basis of actual exchange rates and values three times this figure. The first calculation understates future trade potential, while the second calculation indicates the maximum trade potential over the medium term.

If the GDP figures for 1994 in US-\$, converted on the basis of actual exchange rates, are taken as the indicator

⁷ A more detailed account of the methodology is available in German: Dieter Schumacher, *Perspektiven des Außenhandels zwischen West- und Osteuropa. Ein Gravitationsansatz*, paper prepared for the seminar "Transformation des Wirtschaftssystems in den mittel- und ost-europäischen Ländern: Außenwirtschaftliche Bedingungen und Auswirkungen", 27-28 June 1996 at the DIW, Berlin.

⁸ Cf. among others: Richard E. Baldwin, *Towards an Integrated Europe*. CEPR, London 1994; Frédérique Festoc, *Quel potentiel d'échanges entre les pays d'Europe Centrale et l'Union Européenne?*, in: *Journées ASFE (1995)*, Intégration Economique Européenne, Recueil des contributions, Vol. I, Nantes, pp. 489-498.

of income levels in the central and east European countries,⁹ the estimation equations suggest a potential of between US-\$ 46 and 73 billion for EU exports to the CEE (10) and a potential of US-\$ 37 to 56 billion for imports (cf. table 2).¹⁰ Actual imports and exports in 1994 were in the lower regions of this range, suggesting that the EU as a whole had more or less exhausted its trade potential with the CEE (10). The scope for further expansion would, on this basis, be limited.

The results for the individual EU countries, on the other hand, vary substantially. Germany, the Netherlands, Greece, Austria and Finland exceeded the estimated potential for trade with the CEE (10) in 1994 (relations less than one), whereas France, Spain, Belgium and Portugal were significantly below the potential level (relations greater than one).

The results also vary significantly between the CEE countries (cf. table 3). The figures clearly indicate a potential for increased EU trade with the Slovak Republic, in particular, and also for increased exports to Russia, Romania, Latvia and Lithuania. On the other hand, EU trade with Estonia exceeds by the greatest margin the trade potential estimates.

These estimates for trade with the central and east European countries reflect their low output levels. Yet the figures used – GDP in US-\$ – significantly understate the economic potential relevant – under the gravity model used here – for determining the level of imports and exports. In 1994, for example, GDP in Slovenia and Hungary was around 1.5 times as high at purchasing power parities as on the basis of exchange rates, and in other transition countries two to three times as high.¹¹ This difference has declined since 1992 as most currencies have appreciated in real terms. In some countries currency appreciation has come to a halt for the time being, while in others it is set to continue.

Moreover, the official GDP figures are substantially lower than would be expected under market conditions. Compared with the average relationship in market economies between per capita income and human capital endowment – the latter measured in terms of the aver-

⁹ According to calculations and estimates by the DIW on the basis of national statistics. In most cases these figures are in line with those given by the World Bank; in the case of Estonia, Latvia and Russia, however, they are significantly lower.

¹⁰ For the EU countries population and GDP levels in 1992 were entered as variables in variants I and II. In variant III the influence of these two variables is contained in the constant term of each regression equation. Because the regression equations were calculated for the average foreign trade volume for the years 1988 to 1990 and the 1989 income level, the results in variant II were "extrapolated" to the 1992 level by multiplying them with the country-specific growth factor for total imports or exports for 1992 compared with the average for 1988 to 1990.

¹¹ Calculated using World Bank figures.

Table 2

Trade Potential of the EU Countries with CEE (10) at 1994 GDP Level

	Exports			Imports		
	Variants			Variants		
	I	II	III	I	II	III
In US-\$ billions						
Germany	19.5	22.6	12.4	11.2	19.3	11.4
France	7.4	8.3	5.6	4.5	8.1	4.5
Italy	8.6	9.6	7.1	5.4	9.2	6.6
Great Britain	5.5	5.8	3.0	3.6	6.1	2.6
Spain	2.3	2.1	1.6	1.7	2.1	2.1
Netherlands	2.7	2.6	3.3	1.7	1.8	2.3
Belgium-Luxemburg	6.0	6.8	2.9	2.8	3.0	2.1
Denmark	1.9	1.7	1.3	1.1	0.8	0.4
Portugal	0.4	0.2	0.2	0.3	0.2	0.4
Greece	0.7	0.5	0.4	0.6	0.4	0.5
Ireland	0.4	0.3	0.3	0.3	0.1	0.1
Sweden	2.6	2.5	1.8	1.5	1.3	0.7
Austria	7.9	8.7	4.5	4.1	3.4	2.7
Finland	1.4	1.2	1.0	0.8	0.5	0.1
EU (15)	67.1	72.8	45.5	39.4	56.4	36.6
In relation to 1994 trade flows ¹⁾						
Germany	0.9	1.0	0.6	0.6	1.0	0.6
France	2.1	2.4	1.6	1.5	2.8	1.5
Italy	1.2	1.4	1.0	1.0	1.8	1.3
Great Britain	2.0	2.1	1.1	1.2	2.1	0.9
Spain	2.6	2.4	1.8	2.1	2.6	2.6
Netherlands	1.0	0.9	1.2	0.8	0.8	1.0
Belgium-Luxemburg	4.0	4.6	1.9	2.5	2.7	1.9
Denmark	1.7	1.6	1.2	1.1	0.8	0.4
Portugal	6.3	4.1	2.7	3.3	2.0	4.1
Greece	1.2	0.8	0.7	1.1	0.8	0.9
Ireland	2.8	1.9	2.4	2.8	1.3	0.5
Sweden	1.5	1.4	1.1	0.9	0.9	0.4
Austria	1.6	1.8	0.9	1.2	1.0	0.8
Finland	0.7	0.6	0.5	1.0	0.7	0.1
EU (15)	1.3	1.4	0.9	0.9	1.3	0.9

1) Estimated exports/imports with respect to actual values in 1994.
Source: DIW estimates; on the methodology cf. text.

age number of years spent in school by the population – the central and east European countries achieve only around one third of the income level (in US-\$) that would be expected. One of the reasons for this is that the high level of qualifications exists only in a formal sense and that much of the knowledge acquired has a lower value in a market economic context. Accordingly, if the income gap is to be closed, not only must the existing human capital be used more efficiently, new capital must also be formed. The general school education and the experience of industrialisation in the transition countries constitute a good basis for this. Moreover, their

geographical proximity to the EU is conducive to direct investment by the EU countries and the know-how transfer this implies.

If the maximum trade potential is calculated on the basis of three times 1994 GDP in US-\$ in the CEE countries, the potential for exports to central and eastern Europe is around 2.5 times as high as that calculated for the 1994 GDP, and the potential for EU imports from this region more than three times as high. These estimates indicate continued strong trade growth between the EU and the central and east European countries. The medium-term potential for the EU as a whole is between

Table 3

Trade Potential of the EU (15) with the Central and East European Countries at 1994 GDP Level

	Exports			Imports		
	Variants			Variants		
	I	II	III	I	II	III
In US-\$ billions						
Poland	18.1	17.7	11.5	9.8	16.3	10.4
Czech Republic	14.6	16.9	9.1	8.8	12.5	7.3
Slovak Republic	6.1	7.0	3.9	3.3	4.1	2.7
Hungary	11.5	13.7	8.3	7.3	11.6	6.5
Romania	5.5	5.0	3.8	2.8	4.2	3.2
Bulgaria	2.3	2.0	1.5	1.1	1.2	1.2
CEE(6)	58.1	62.3	38.1	33.1	49.9	31.3
Slovenia	5.7	7.4	4.9	4.6	5.0	3.7
Estonia	0.7	0.6	0.6	0.4	0.3	0.3
Latvia	1.2	1.2	0.9	0.7	0.6	0.6
Lithuania	1.4	1.3	1.0	0.7	0.7	0.7
CEE(10)	67.1	72.8	45.5	39.4	56.4	36.6
Russia	26.2	23.8	18.0	13.6	30.9	17.5
In relation to 1994 trade flows ¹⁾						
Poland	1.3	1.2	0.8	0.8	1.3	0.9
Czech Republic	1.4	1.6	0.9	1.1	1.5	0.9
Slovak Republic	2.4	2.7	1.5	1.3	1.6	1.0
Hungary	1.2	1.4	0.9	1.0	1.6	0.9
Romania	1.6	1.5	1.1	0.8	1.2	0.9
Bulgaria	1.1	0.9	0.7	0.7	0.8	0.8
CEE(6)	1.4	1.5	0.9	0.9	1.4	0.9
Slovenia	1.1	1.4	1.0	1.0	1.1	0.8
Estonia	0.6	0.5	0.4	0.5	0.3	0.4
Latvia	1.5	1.4	1.1	0.5	0.4	0.5
Lithuania	1.4	1.3	1.0	0.7	0.7	0.7
CEE(10)	1.3	1.4	0.9	0.9	1.3	0.9
Russia	1.6	1.4	1.1	0.5	1.2	0.7

1) Estimated exports/imports with respect to actual values in 1994.
Source: DIW estimates; on the methodology cf. text.

two and four times the 1994 level of export and import flows (cf. table 4). The conditions for rapid trade growth are most favourable in the associated countries, whereas they are far less so in Russia.

EU membership

Trade between the EU and central and eastern Europe can be intensified to an even greater extent if the associated countries become members of the EU. It can

be concluded from regression calculations¹² that EU membership increases goods exchange by between 15 and 50%. In the initial years of membership, EU exports to the new member country increase faster than its imports from there, particularly in those cases in which the country is less highly developed than the EU as a whole. This is shown by the experience of Spanish and Portuguese accession and is indicated by the coefficients in the regression equations. To some extent this reflects

¹² Cf. Dieter Schumacher, op. cit.

Table 4

Trade Potential of the EU (15) with the Central and East European Countries at Three Times 1994 GDP Levels

	Exports			Imports		
	Variants			Variants		
	I	II	III	I	II	III
In US-\$ billions						
Poland	41.5	49.9	30.8	29.8	58.7	28.8
Czech Republic	33.6	47.4	24.4	26.8	44.9	20.3
Slovak Republic	14.0	19.6	10.6	9.9	14.7	7.6
Hungary	26.5	38.6	22.4	22.2	41.5	18.3
Romania	12.7	14.1	9.9	8.4	15.0	8.9
Bulgaria	5.2	5.6	4.0	3.3	4.5	3.4
CEE(6)	133.5	175.1	102.1	100.5	179.2	87.1
Slovenia	13.0	20.9	13.0	13.8	18.0	10.1
Estonia	1.6	1.8	1.5	1.1	0.9	0.9
Latvia	2.8	3.3	2.4	2.0	2.0	1.7
Lithuania	3.2	3.5	2.6	2.2	2.4	2.0
CEE(10)	154.3	204.6	121.7	119.6	202.6	101.8
Russia	60.1	66.9	48.3	41.3	111.0	52.5
In relation to 1994 trade flows ¹⁾						
Poland	2.9	3.5	2.1	2.4	4.8	2.4
Czech Republic	3.2	4.6	2.4	3.2	5.4	2.4
Slovak Republic	5.5	7.7	4.2	3.8	5.6	2.9
Hungary	2.8	4.0	2.3	3.1	5.8	2.5
Romania	3.8	4.2	2.9	2.4	4.4	2.6
Bulgaria	2.5	2.6	1.9	2.1	2.8	2.1
CEE(6)	3.2	4.1	2.4	2.8	5.1	2.5
Slovenia	2.5	4.1	2.5	3.0	4.0	2.2
Estonia	1.3	1.5	1.2	1.5	1.2	1.2
Latvia	3.4	3.9	2.9	1.6	1.6	1.4
Lithuania	3.3	3.6	2.7	2.2	2.4	2.0
CEE(10)	3.1	4.0	2.4	2.8	4.7	2.4
Russia	3.6	4.0	2.9	1.6	4.4	2.1

1) Estimated exports/imports with respect to actual values in 1994.
Source: DIW estimates; on the methodology cf. text.

the increasing inflow of capital to the new member country which serves to expand its future export capacity.

Thus EU accession would initially tend to heighten the trend towards EU (15) export surpluses in trade with central and eastern Europe. This fact reflects the substantial income differential between the two regions. Rich countries tend to post export surpluses against poorer countries, i.e. they export capital there. This manifests itself in the estimates for EU trade with the transition countries (excl. Russia), on the basis of which the EU (15) would, at 1994 GDP levels, have an export surplus of between US-\$ 9 and 28 billion against the CEE

countries (10). At a GDP value of three times this level in the CEE countries, the surplus rises in variants I and II to between US-\$ 20 and 35 billion, whereas in variant III it declines to US-\$ 2 billion.¹³ In any case the ratio of exports to imports declines over time, i.e. as the income gap between the CEE and the EU countries narrows,

¹³ In variant II imports are highly elastic with regard to the income of the exporting country. The more the CEE countries enter, in per capita income terms, the lower range of the OECD countries – given a trebling of GDP at actual exchange rates, this is true at least of Hungary and the Czech Republic; for Slovenia this is already the case – the less relevant is variant II and the greater the relevance of variant I.

imports from central and eastern Europe grow faster than exports to these countries. Thus to the extent that EU membership accelerates growth in the CEE countries, it serves, in the longer term, to reduce the export surpluses it originally helped to increase. Initially, though, the export surplus will continue to rise.

In the longer term Germany may gain an additional boost to trade with central and eastern Europe if east Germany, in the course of the economic "catching up process" there, increases its relative importance in terms of trade. In order to simulate the impact of such a change, in an additional estimation the geographical distances for German trade were measured not with respect to Frankfurt a. M. but to Berlin. On this basis the equations point to an additional growth of German trade, especially with Poland (by 30 to 50%, depending on the estimation variant) and with Russia (between 10 and 20%).

Increased division of labour with eastern Europe and structural change in western Europe

On the one hand employment in the EU countries is affected positively by the increased exports to central and eastern Europe and, on the other, negatively, due to the greater competitive pressure on domestic producers from imports. If the analysis is restricted to trade with the CEE (6),¹⁴ which accounts for the lion's share of EU trade in manufactured goods with eastern Europe, the employment balance for the EU is positive: exports are substantially higher than imports (by more than US-\$ 8 billion in 1995).¹⁵ Germany, too, earns an export surplus vis à vis the CEE (6). The problems arise from the fact that the goods structure of exports is substantially different from that of imports. This means that the employment effects vary significantly between different industries: some sectors gain in employment terms, while others lose out.

Clearly, sectoral export-import balances represent an indicator of the impact of foreign trade on sectoral employment. An export surplus indicates a positive, an import surplus a negative, employment effect (cf. table 5). In EU trade with the CEE (6) the export surpluses are concentrated in engineering, automobiles, chemicals, the textile industry and precision mechanics. The clothing sector registers the most significant import

¹⁴ Poland, the Czech and Slovak Republics, Hungary, Romania and Bulgaria.

¹⁵ Moreover, this does not allow for the fact that some of these imports are complementary and do not compete with EU output.

surplus – by a substantial margin – followed by furniture, wooden goods, shoes, non-ferrous metals, iron and steel and a number of other consumer and intermediary goods. Thus trade with central and eastern Europe tends to lead to a shift in the sectoral employment pattern in the EU countries away from consumer-good industries towards investment-good industries and chemicals.

This shift in sectoral employment structure raises overall labour productivity, because value-added per working hour in the industries benefiting from exports is higher than in industries shedding labour because of imports. Moreover, the job losses in the EU countries are concentrated among less highly skilled labour, whereas the demand for more highly skilled personnel increases.

These effects resulting from changes in sectoral economic structure are reinforced by the intensification of the *intra*sectoral division of labour, which follows the same basic pattern: standardised, labour intensive elements of the production process are relocated to central and eastern Europe. This is particularly the case in branches in which geographical proximity is important. In recent years, for example, German textile, clothing and leather firms have increasingly put out work to be performed in the CEE; the same process has also occurred in electrical engineering. The large German automobile concerns have also been quick to incorporate eastern Europe into their internal division of labour. Engineering firms are following this example, so that even in these core areas of the German economy the division of labour with eastern Europe is intensifying in intermediate goods, leading to corresponding structural shifts and productivity gains in Germany.

Thus the structural change resulting from trade with the CEE countries requires upgrading of the quality of labour in the EU countries. Overall, a more intensive division of labour with central and eastern Europe is serving to intensify structural trends that have been occurring for many years in western industrialised countries and which manifest themselves in rising labour productivity and human-capital intensity.

Résumé

If the transition process in central and eastern Europe continues to make progress and is reflected in economic success in terms of growth, there is a substantial potential for a further increase in the European Union's trade with the region. This applies primarily to the ten CEE countries already associated with the EU. The EU can be expected to post export surpluses in trade with these countries, the magnitude of

Table 5

Sectoral Export-Import Balances of the EU (15) in Trade with the CEE (6)¹⁾, 1990 to 1993
in US-\$ millions

ISIC ²⁾	Commodity groups	1990	1991	1992	1993
1	Agricultural products	-720	-772	-408	-16
2	Mining products	-1 069	-930	-642	-772
3	Manufactured products	538	4 031	5 593	8 993
31	Food, beverages and tobacco	-854	-365	-74	375
321	Textiles	627	861	1 356	1 764
322	Clothing	-1 531	-1 962	-2 773	-3 104
323	Leather and leather products	51	63	77	132
324	Footwear	-230	-303	-508	-486
331	Wood and wood products	-652	-653	-837	-725
332	Furniture and fixtures	-686	-772	-915	-910
341	Paper and paper products	56	279	408	613
342	Printing and publishing	32	129	188	241
351	Industrial chemicals	-36	-297	-24	492
352	Other chemical products	936	1 299	1 819	2 089
353/4	Petroleum products	-825	-367	-77	-84
355	Rubber products	-24	-24	-22	7
356	Plastic products	90	173	325	380
361	Pottery, china and earthenware	-66	-74	-98	-90
362	Glass and glass products	-257	-296	-296	-232
369	Other non-metallic mineral products	58	-110	-215	-177
371	Iron and steel	-800	-723	-971	-419
372	Non-ferrous metals	-540	-592	-759	-508
381	Metal products	-58	-145	-275	-77
382	Machinery, except electrical	3 609	4 009	4 755	5 189
383	Electrical machinery	461	830	1 392	1 594
384	Transport equipment	542	2 202	2 074	1 794
385	Precision engineering and optical goods, watches	549	663	794	854
390	Other manufactured goods ³⁾	88	204	249	281
00	All goods	-1 251	2 328	4 543	8 205

1) Poland, Czech and Slovak Republics, Hungary, Romania and Bulgaria. — 2) International Standard Industrial Classification. — 3) Musical instruments, games, sport articles, jewellery etc.

Source: DIW foreign trade data.

which would initially increase were the countries to become EU members.

In principle the EU countries should be in a position to cope with the structural changes resulting from an intensification of the division of labour with central and eastern Europe. This is particularly true of the two countries affected most profoundly by the changes: Germany and Austria. The adjustment costs would not be high in relation to GDP, even if trade with central and eastern Europe were to treble in volume, and would be spread over a number of years. Moreover, the one-off costs of structural adjustment would be matched on the other side by increasing returns. This is because the new structures reinforce the economic strength of the EU countries and increase wealth not only in eastern, but also in western, Europe.

Structural change in the EU countries will require additional investment, however. In view of the need to reduce fiscal deficits, public spending needs to be restructured, namely away from subsidies to maintain existing structures and in favour of research and development, education, and initial and further training. This applies both to national public spending and that at EU level. The challenges facing the EU countries resulting – in part – from the changes in central and eastern Europe make it vital that governments, firms and trade unions adopt a future-oriented and long-term policy approach, rather than the short-term perspective taken all too often at present.

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