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Some Economic Implications of Eastern EU Enlargement for Belgium

Trade, FDI, Migrations

Federal
Planning Bureau
Economic analyses and forecasts

Avenue des Arts 47-49
B-1000 Brussels
Tel.: (02)507.73.11
Fax: (02)507.73.73
E-mail: contact@plan.be
URL: http://www.plan.be

Dominique Simonis
Micheline Lambrecht

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I Introduction

The enlargement of the European Union (EU) to the Central and Eastern European countries (CEECs) represents a challenge to both the current members and the candidate countries[1]. For the current EU member countries, the Eastern EU enlargement will imply costs and benefits. The outcome of the accession negotiations is of particular importance to the extent that this enlargement will increase heterogeneity inside the EU, as a result of the difference between the increase in population and in GDP that will ensue. If the ten candidate countries of Central and Eastern Europe were admitted, the EU's population would increase by 22% (to around 480 million inhabitants) but its GDP by only 4% at current exchange rates. The average GDP per capita in the EU25 would fall by 24% in Purchasing Power Standards according to Eurostat (table I.1). By contrast, the admission of Spain, Portugal and Greece in the 1980s reduced the EU's average income by just 6%.

- The EU Eastern enlargement involves countries characterised by a much lower income per capita than that of the current member countries and, for some candidate countries, by a rather important agricultural sector, in terms of contribution to the GDP and especially in terms of employment. This observation of the facts has led all the EU member countries to expect an increase in their net contribution to the EU budget if the EU common agricultural policy (CAP)[2] and the structural funds were extended to the new member countries. In the "Agenda 2000" presented in July 1997, the EU Commission has proposed a financial framework for the period 2000-2006, taking into account the perspective of EU enlargement in 2002. This framework has been modified in Berlin, in March 1999. The budgetary implications of the enlargement will also have repercussions on the cohesion policy of the EU.
- The EU Eastern enlargement means the integration of low wage countries, which attract foreign direct investments and can represent a potential area of relocation.
- The income gap between the current EU members and the CEECs together with high levels of unemployment in the CEECs can represent a major determinant in the decision to migrate to the West.

1. The ten candidate countries of Central and Eastern Europe can be divided into two groups: the so-called Luxembourg countries, Poland, Hungary, the Czech Republic, Estonia, Slovenia, with which accession negotiations started in 1998; the so-called Helsinki countries, the Slovak Republic, Latvia, Lithuania, Bulgaria and Romania, with which accession negotiations started in 2000. The Luxembourg group also includes Cyprus and the Helsinki group also includes Malta, while Turkey has been admitted as a candidate for eventual EU membership.
2. The extension of the present system of guaranteed prices and direct payments to farmers.

Enlargement will also offer new economic opportunities to the EU as a result of the integration of the CEECs, i.e. the extension of the custom union and the single market to the CEECs. However, these gains are difficult to quantify. They vary among the EU member countries and they can be associated with adjustment costs within these countries.

TABLE I. 1 - Candidate countries: basic economic indicators (2000)

	Luxembourg group					Helsinki group				
	Czech Republic	Estonia	Hungary	Poland	Slovenia	Bulgaria	Latvia	Lithuania	Romania	Slovak Republic
Population (million)	10.3	1.4	10.0	38.6	2.0	8.2	2.4	3.7	22.4	5.4
GDP per capita in euro - PPS	13500	8500	11700	8700	16100	5400	6600	6600	6000	10800
GDP per capita - PPS (EU15=100)	60	38	52	39	72	24	29	29	27	48
Share of Agriculture (% of gross added value)	3.9	6.3	4.8	3.3	3.2	14.5	4.5	7.6	12.6	4.5
Share of Agriculture (% of employment)	5.1	7.4	6.5	18.8	9.9	26.6*	13.5	19.6	42.8	6.7
Unemployment rate**	8.8	13.7	6.4	16.1	7.0	16.4	14.6	16.0	7.1	18.6
Inflation rate	3.9	3.9	10.0	10.1	8.9	10.3	2.6	0.9	45.7	12.1
General government deficit (% of GDP)	-4.2	-0.7	-3.1	-3.5	-2.3	-0.7	-2.7	-3.3	-3.8	-6.7
Share of exports to EU15 (% of total trade)	68.6	76.5	75.1	69.9	63.8	51.2	64.6	47.9	63.8	59.1
Share of imports from EU15 (% of total trade)	61.9	62.6	58.4	61.2	67.8	44.1	52.4	43.3	56.6	48.9
Current account (% of GDP)	-4.7	-6.7	-3.3	-6.3	-3.3	-5.0	-6.9	-6.0	-3.7	-3.7

Source: Eurostat.

Note: PPS = Purchasing Power Standards.

* 1999.

** Unemployment rates according to the ILO definition (% of labour force).

For the candidate countries of Central and Eastern Europe, EU accession is a key element of the reform process and the transformation of the institutional environment. By encouraging trade and investment, enlargement will certainly reinforce macroeconomic stability and improve the long-term growth prospects in the CEECs.

Having concluded the Europe Agreements in the 1990s, the CEECs have already been given access to EU markets for trade in industrial products. Full membership will give them market access for trade in agricultural products. Enlargement will also imply the extension of the EU's internal market to the CEECs and the removal of the remaining trade barriers between the EU and the CEECs, but also the free movement of services, capital and workers.

A significant lowering of real trade costs will result from this further trade liberalisation including tariffs, antidumping proceedings and other non-tariff barriers such as standards and specifications protecting domestic markets. Enlargement will also integrate the CEECs in a custom union, which will require the adoption

of the common external tariff[1]. The new members should also benefit from the agricultural and regional policies of the EU. But the principles and modalities of extension of the CAP[2] and the cohesion and structural funds[3] to the CEECs are not yet settled.

However, the new members have to satisfy demanding criteria. As stated in 1993, at the Copenhagen European Council, membership requires that the candidate countries comply with the following criteria (the "Copenhagen criteria"):

- "the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities";
- "the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the EU";
- "the ability to take on the obligations of membership, including adherence to the aims of political unification, as well as Economic and Monetary Union (EMU)".

Full implementation of the *acquis communautaire* is a time consuming and costly process. Adopting EU regulations - particularly in the social and environmental areas - can also increase production costs in the CEECs. Although the candidate countries benefit from the pre-accession assistance of the EU (Programmes PHARE, ISPA, SAPARD), the remaining efforts to be accomplished are still very important as indicated in the most recent progress reports of the EU Commission. Moreover, it is not enough to pass the laws and regulations, their actual enforcement will also be monitored[4]. This requires the adjustment of the institutional structures, so that European Community legislation transposed into national legislations be implemented effectively through appropriate administrative and judicial structures.

All the candidate countries will also have to join the European monetary union and adopt the single currency. The CEECs hope that joining the EMU will imply a significant fall in interest rates and enhance economic growth. Currency stability should also attract foreign investors. However, the CEECs will have first to meet the "Maastricht criteria" on inflation, interest rates, exchange rate, fiscal deficits and public debt.

This report will examine the implications of Eastern EU enlargement and try to assess how the factors will balance for Belgium. It will be divided into three parts and will take into account the main dimensions of economic integration: trade, FDI and workers migrations.

1. Although MNF tariffs are generally somewhat higher in the CEECs than in the EU, the adoption of the common external tariff also means that Estonia will have to raise tariffs to comply with the EU policy and that the economic ties between Poland and Ukraine will be affected.
2. Under current proposals, the extension of the CAP to the CEECs would exclude direct payments to farmers.
3. Under current rules, 51 of the 53 regions in the ten CEECs have an average GDP per capita below 75% of the EU average and would automatically qualify for regional aid. However, no country can receive more than the equivalent of 4% of its GDP in EU aid.
4. The table presented in the Annex summarises the state of the accession negotiations at the beginning of the Belgian Presidency (second half of 2001).

- The first part considers the likely impact of enlargement on trade potential. Although it is expected to be moderate, this impact is difficult to assess because trade between the EU and the CEECs has already been liberalised to a large extent. The impact for Belgium is determined on the basis of the existing trade pattern. It takes into account the rather modest involvement of Belgium in the economic relations with the CEECs.
- The second part shows the evolution of the FDI in the CEECs during the 1990s and analyses the consequences of EU enlargement on these flows. The impact for Belgium in terms of relocation is expected to be moderate, but several sectors could be more concerned.
- The third part examines the likely impact of enlargement on migrations with Belgium and their subsequent main macro-economic consequences. It gives first the amplitude and a description of the population of the CEECs natives living now in Belgium and of their current migration movements to and from Belgium. Using a recent report carried out by a European Integration Consortium of research centres[1], which projects the effect of enlargement on the net migration flows from the CEECs to the EU15, it measures the impact in Belgium of the increase of population and labour on the main macro-economic variables.

1. Boeri T. and Brücker H., main authors, European Integration Consortium: DIW, CEPR, FIEF, IAS, IGIER (2000), *The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States*, Final Report.

II Implications on Belgium's foreign trade

A. Introduction

Since the beginning of the transition, the CEECs have increased the integration of their economies into the European Union. Due to its geographical proximity, the rapid trade reorientation of the CEECs towards the West was directed mainly towards the EU. The conclusion of the Europe Agreements in the 1990s has also facilitated access to EU markets in the field of industrial products. As a result, the concentration of trade of the CEECs vis-à-vis the EU is already similar to that of other EU members. In particular, Germany is a main trading partner of the CEECs. In 2000, the share of trade with the EU15 was higher than 50% both for imports and exports in almost all the CEECs, even reaching 70% on the export side in Estonia, Hungary, Poland and the Czech Republic. Enlargement should reinforce this trend, through the extension of the EU's internal market to the CEECs, the removal of the remaining trade barriers between the EU and the CEECs, and the adoption of the common external tariff[1].

For the EU, enlargement will enhance its economic weight and offer new opportunities to firms. Further trade opening will provide benefits to the EU countries in terms of an improvement of the international division of labour and additional outlets for their products, especially if the reforms in the CEECs bring an increase in the GDP per capita. However, the perspective of the Eastern enlargement is also a challenge for the EU countries because it means the integration of low wage countries, representing potential areas of relocation of activities. Some of the CEECs also have comparative advantages in the so-called sensitive sectors, such as steel, textile and clothing, chemical industry, agriculture.

Enlargement will also imply allocation effects. Trade creation effects will result from the further reduction in trade barriers, while trade diversion effects should be limited because EU already represents the main trading partner of the CEECs. The countries of the CIS (Community of Independent States), especially Russia and Ukraine, which represent significant trade partners for the CEECs could suffer from such diversion effects. The EU had already encouraged the creation of regional free trade agreements such as the "Central European Free Trade Association"(CEFTA) and the "Baltic Free Trade Agreement" to limit possible negative effects of the "Europe Agreements"on trade among the CEECs.

1. Although MNF tariffs are generally somewhat higher in the CEECs than in the EU, the adoption of the common external tariff also means that Estonia will have to raise tariffs to comply with the EU policy and that the economic ties between Poland and Ukraine will be affected.

With EU enlargement, the future trade patterns between Belgium[1] and the CEECs will be affected by the free movement of goods, services and factors between the EU and the CEECs. Although thought to be moderate, this impact is difficult to assess because trade between the EU and the CEECs has already been liberalised to a large extent and because some developments can be attributed to the transition process in general. In addition to the tariff liberalisation already realised on the basis of the Europe Agreements between the EU and the CEECs, full membership implies the elimination of all non-tariff barriers because of the extension of the Single market to the CEECs and the further reduction in trade costs.

This further liberalisation of trade between the EU and the CEECs means that firms can find additional outlets for their products, new trading partners, and new opportunities to invest. But at the same time, this process might be a source of concern for producers in the current EU countries, as competition will intensify, which may force a number of products out of the market because of cheaper substitutes being produced in the CEECs. In conclusion, the macroeconomic impact for Belgium of increased trade flows is thought to be negligible. Nevertheless, the increased competition could place downward pressure on mark-ups and lead to a modest acceleration of growth. To analyse the extent to which the different sectors of the Belgian economy are exposed to trade with the CEECs, it is necessary to account for the existing trade pattern and the rather modest involvement of Belgium in trade with the CEECs. To some extent, this "backward looking" analysis also contains elements of forecast of the future impact of Eastern EU enlargement.

B. Recent developments in EU trade policy with the CEECs

1. The Europe Agreements

In response to the reforming process engaged at the end of the eighties in the CEECs, the EU has improved the access to its market for these countries. The ten candidate countries have all signed Europe Agreements with the European Union, as shown in Table II.1.

By removing tariffs and quantitative restrictions, the Europe Agreement allow reciprocal free trade in industrial products[2] between the EU and the CEECs. The process has been gradual and asymmetric (more rapid liberalisation on the EU side than on the side of the associated countries). This means that the industrial products from the CEECs have had virtually free access to the EU market since the beginning of 1995, except for textiles and clothing, coal, iron and steel for which trade barriers have been eliminated more gradually. The free access to the market of the CEECs for the industrial products from the EU will be completed in 2002, with the elimination of custom duties levied by the CEECs on EU imports of vehicles.

1. Trade data used in this report come from Eurostat. For Belgium, the trade data cover Belgium-Luxembourg Economic Union area (BLEU) until 1998.
2. Trade in agricultural products remains subject to various limitations.

TABLE II. 1 - The Europe Agreements

Countries	Signature	Entry into force	Official application for EU membership
Bulgaria	March 1993	February 1995	December 1995
Czech Republic	October 1993	February 1995	January 1996
Estonia	June 1995	February 1998	November 1995
Hungary	December 1991	February 1994	March 1994
Latvia	June 1995	February 1998	October 1995
Lithuania	June 1995	February 1998	December 1995
Poland	December 1991	February 1994	April 1994
Romania	February 1993	February 1995	June 1995
Slovak Republic	October 1993	February 1995	June 1995
Slovenia	June 1996	February 1999	June 1996

Source: European Commission.

In addition to the liberalisation of trade, the Europe Agreements also contain provisions regarding the free movement of services, the free movement of capital, and the free movement of workers. In addition, when establishing and operating in the territory of the other party, enterprises must receive treatment not less favourable than national enterprises. Under the Europe Agreements, the partner countries also commit themselves to approximating their legislation to that of the European Union, particularly in the areas relevant to the internal market. This includes applying legislation favouring competition and applying state-aid rulings, which are compatible with comparable legislation in the EU. Legislation will also have to be introduced which provides similar levels of protection to intellectual, industrial and commercial property.

2. The PECAs

The agreements, known as Protocols to the European Agreements on Conformity Assessment (PECAs), are a particular type of mutual recognition agreements, operating on the basis of the adoption by the CEECs of the *acquis communautaire* in the sectors covered by the agreement[1]. They provide for mutual acceptance of industrial products that are legally placed on their markets, along the lines of the mutual recognition of products within the EU. This means that the parties agree to accept each other's technical bodies for assessing the conformity of goods with the legislation, so that technical controls at borders are no longer necessary.

These agreements will provide for reciprocal improvement to market access, and eliminate technical barriers to trade with respect to industrial products. In 2001, the European Union signed such trade facilitation agreements with Hungary, the Czech Republic, Latvia and Lithuania (see Table II.2). Talks on analogous agreements are in progress with Estonia, the Slovak Republic and Slovenia, and will also be opened with other applicant countries.

1. PECAs treat all mandatory approval procedures in the sectors that they cover (see Table A.II.1 in Appendix 1).

TABLE II. 2 - PECAs: Summary of negotiations and adoption procedures

Countries	Open negotiations	Initialling	Signature	Adoption by Council	Publication O.J.	Entry into force
Hungary	07.1997	10.07.2000	26.02.2001	04.04.2001	OJ L 135 of 17.05.2001	01.06.2001
Czech Republic	07.1997	10.07.2000	26.02.2001	04.04.2001	OJ L 135 of 17.05.2001	01.07.2001
Latvia	10.1998	10.07.2000 (only framework) 04.04.2001 (4 annexes)				
Estonia	10.1998					
Lithuania	02.2001	07.2001				
Slovak Republic	02.2001					
Slovenia	05.2001					

Source: European Commission.

The PECAs will deliver significant trade benefits to EU and candidate countries' industries.

- They will allow EU exporters to test and certify their industrial products to harmonised requirements, allowing for significant economies of scale in designing and testing their products. They will then gain access to those markets without any further conformity assessment requirements.
- For candidate countries, the PECAs provide a means to develop closer trade relations with the EU by fully integrating certain sectors with the Single Market before accession. PECAs will facilitate access by candidate countries' industry to the EU market, and will give them credit for aligning their legislation.

TABLE II. 3 - EU trade with Hungary and the Czech Republic *(in million euro)*

	Export		Import	
	Hungary	Czech Republic	Hungary	Czech Republic
Machinery	3750	3611	5332	2301
Electrical sector	3510	3,760	4918	3072
Pharmaceuticals	314	428	61	43
Medical devices	112		56	
Lifts		5		5
Hot water boilers	81	59	43	28
Gas appliances	14	12	1	4
Simple pressure vessel		5		25
Pressure equipment		332		311
(1) All PECA sectors	7781	8212	10411	5789
(2) Total EU trade	21447	22415	20358	20294
(1) As in % of (2)	36.3	36.6	51.1	28.5

Source: European Commission.

Assessing the economic impact of the PECAs is not an easy task. The methodology to be used should include a model for assessing both the micro-economic benefits (e.g. the costs of certification directly saved), and the macro-economic benefits (e.g. those attributable to freer trade flow). On this basis, and taking into consideration the costs of developing and maintaining the PECAs, one should be able to determine the net economic benefits. Table II.3 gives an idea of the proportion of trade covered by the PECAs in total EU trade with Hungary and the Czech Republic.

3. The Agreements on agricultural products

Parallel to the accession negotiations on the agriculture chapter, additional trade concessions in the field of agricultural products were granted by the European Union, on an autonomous and reciprocal basis in July 2000 (January 2001 in the case of Lithuania), pending the entry into force of additional protocols to the Europe Agreements[1]. The approach adopted, which was the same for each country, was to propose three lists of products subject to bilateral concessions[2]:

- List 1. The least sensitive products (CEEC products subject to a Community customs duty of less than 10% and products not grown in the CEECs: citrus fruit, olives, olive oil, etc.) subject to total and reciprocal liberalization of trade.
- List 2. Products covered by the "double zero" option, that is to say the reciprocal opening of duty-free tariff quotas and the abolition of export aids. The quantities concerned must correspond as far as possible to the traditional volume of trade during a reference period.
- List 3. Products subject to commercial concessions on a case-by-case basis. This list adjusts the balance of the quantities of products in list 2, since trade between the EU and a given country does not necessarily involve the same volume and the same product on both sides.

According to an estimation of the European Commission based on current trade figures (1996-1998), the share of the CEECs agricultural exports to the EU to be exempted from duty should increase from 37% to 77% and the share of the EU agricultural exports to the CEECs (excluding Poland) to be exempted from duty should increase from 20% to 37%.

The negotiations between the EU and the CEECs continue with a view to expand progressively agricultural trade liberalisation with each country. The aim is to avoid the potential negative impact of an immediate opening of markets upon accession. In this perspective, additional trade concessions on processed agricultural products entered into force in September 2001 with Estonia and in November 2001 with Slovenia. Similar agreements are being negotiated with Bulgaria, Hungary, the Slovak Republic, Latvia, and Lithuania.

1. The Agreements with Bulgaria, Estonia, the Czech Republic, Hungary, Latvia, Romania, the Slovak Republic, Slovenia, entered into force on July 1, 2000. The Agreement with Poland entered into force on January 1, 2001. The Agreement with Lithuania will enter into force on July 1, 2001.
2. European Commission (2000), "Farm trade with the CEECs", *Newsletter*, n° 23, June, DG Agriculture.

4. Remaining trade barriers between the EU and the CEECs

Tariff barriers do not constitute any longer serious barriers to trade between the EU and the CEECs. The elimination of the tariff barriers is however an asymmetric process on two aspects[1]. First, the external tariffs of the EU on the imports from the CEECs (after the Uruguay Round) are on average lower than the tariffs of the CEECs on the imports from the EU. Second, the external tariffs of the EU on the imports of agricultural products and food products are rather high whereas the tariffs of the CEECs in these sectors are lower and the tariffs on industrial products are relatively high. In the field of agriculture, EU enlargement could end up with an increase in trade protection for some of the CEECs.

Non-tariff barriers are a more serious problem. The elimination of the technical barriers and border controls will be a consequence of the accession of the CEECs to the EU and their participation in the internal market. This will mean a reduction in real trade costs estimated between 2% and 10% of the transaction amount according to various experts[2]. The PECAs signed by the EU with Hungary, the Czech Republic, and Lithuania represent a first step in this direction.

C. The accession negotiations

1. Free movement of goods

The CEECs have to transpose the *acquis* in Chapter 1 "Free Movement of Goods" and to put in place the necessary administrative structures as the full application of the EU legislation in this area from the first day of accession is considered a key condition of the proper functioning of the internal market. The chapter has been provisionally closed with all the CEECs, except Bulgaria and Romania. The chapter has been opened, but not yet closed, with Bulgaria and remains to be opened with Romania. The EU has accepted transitional arrangements (see Table II.4) concerning the renewal of marketing authorisation for pharmaceuticals with Lithuania and Slovenia, and concerning medical devices for Poland.

1. WTO (2001), *Market Access: Unfinished Business: Post-Uruguay Round Inventory and Issues*, Special Studies, n° 6.
2. Baldwin R.E., Francois J.F. and Portes R. (1997), "The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe", *Economic Policy*, pp. 127-176. Keuschnigg C. and Kohler W. (1999), *Eastern Enlargement of the EU: Economic Costs and Benefits for the EU Present Member States: The Case of Austria*, Final Report.

TABLE II. 4 - Free movement of goods: transitional periods

Countries	Transitional periods agreed
Lithuania	A transitional arrangement, until 1 January 2007, concerning the renewal of marketing authorisation for pharmaceuticals.
Poland	A transitional arrangement concerning licences for medical devices issued under the current Polish legislation, which will remain valid until 31 December 2005
Slovenia	A transitional arrangement, until 31 December 2007, concerning the renewal of marketing authorisation for pharmaceuticals.

Source: European Commission.

2. External Relations

The *acquis* in Chapter 26 "External Relations" covers the Community's economic and trade relations with third countries, as well as co-operation and assistance. The candidate countries are already associated with the Community's trade policy through the Europe Agreements and close co-operation takes place in international fora such as the WTO[1]. In the WTO framework, the CEECs will need to align their objectives and positions with those of the EU. The CEECs will also have to ensure that their bilateral treaties with third countries do not conflict with Community legislation. This chapter has been negotiated and is now provisionally closed with all the CEECs. No transitional arrangements have been accepted

D. Patterns of trade between the BLEU and the CEECs

This section examines the trade patterns between the BLEU and the CEECs at both the aggregate and the sectoral level. The implications of trade liberalisation on the Belgian economy depend on the potential of trade with the CEECs and on the extent to which the different sectors of the Belgian economy are exposed to trade with the candidate countries. At the aggregate level, we examine the growth of trade flows in a comparative perspective. On this basis, the first conclusions can be drawn regarding the characteristics of trade between the BLEU and the CEECs in comparison to the trade between its main trading partners and the CEECs. At the disaggregated level, we investigate the sectoral trends in the Belgian exports and imports with the CEECs after 1989. We investigate in which sectors the BLEU exhibits a comparative advantage vis-à-vis the CEECs and examine in which sectors the BLEU and the CEECs are in competition.

1. Aggregate trade patterns

a. Importance of trade with the CEECs

Belgium's geographical trade pattern (data covering the Belgian Luxembourg Economic Union area - BLEU[2]) reflects its high degree of economic integration with the other industrial countries, especially Europe. According to the COMEXT

1. Since the accession of Lithuania in 2001, all the CEECs are members of the WTO.
2. Separate trade data for Belgium are available only since 1999 in the COMEXT database (Eurostat).

database (Eurostat)[1], exports to the EU12[2] accounted for 73.57% in 1993 and 72.91% in 1998 of the BLEU's total exports. Imports from the EU12 accounted for 68.60% in 1993 and 67.18% in 1998 of the BLEU's total imports in 1998 (Table II.5). The importance of trade relations between the BLEU and the other countries of the European Union demonstrates the high degree of concentration on a few neighbouring countries. The main trading partners of Belgium are Germany, France, the Netherlands, the United Kingdom and Italy. Trade with the United States, Japan, and the Asian NICs[3] is rather modest, substantially less than that of the other EU countries considered.

The CEECs represent a rather modest share in the total trade of the BLEU (Table II.5). Also, the CEECs make up less trade with the BLEU than any of its main trading partners (except the United Kingdom) and the EU12. Compared to the other regions of the world, the CEECs account for 2.37% of the exports of the BLEU in 1998, coming second behind the United States (5.25%), and for a mere 1.63% of the imports of the BLEU, coming third behind the United States (7.94%) and Japan (2.61%).

However, starting from a very low level, trade between the BLEU and the CEECs[4] experienced a significant improvement during the period 1990-1998 (Table II.6), especially on the export side. The CEECs also accounted for a rapidly growing share in total trade with the other countries under review. Among the main trading partners of the BLEU, Germany and Italy show the closest links with the CEECs. Between 1990 and 1998, the share of the CEECs increased from 0.50% to 2.37% in the total exports of the BLEU. By contrast, the increase of the CEECs importance in the total imports of the BLEU is slower, it increased from 0.53% in 1990 to 1.63% in 1998. In the same period, the share of the CEECs increased from 2.05% to 8.11% in Germany's total exports and from 2.27% to 7.65% in Germany's total imports. The share of the CEECs increased from 1.27% to 5.28% in Italy's total exports and from 1.36% to 4.08% in Italy's total imports.

1. Separate trade data for the Czech Republic and the Slovak Republic are available since 1993 in the COMEXT database (Eurostat) .
2. For the comparison between 1993 and 1998, we focus on the EU12. Austria, Sweden and Finland were added in the list of declaring countries in the COMEXT database (Eurostat) only in 1995.
3. The Asian NICs include Indonesia, Hong Kong, Malaysia, Philippines, Singapore, South Korea, Taiwan,Thailand.
4. In the evolution of trade over the period 1990-1998, it must be noted that the CEECs include the Baltic states since 1992, according to data availability in the COMEXT database (Eurostat).

TABLE II. 5 - Geographical breakdown of trade of the BLEU and its main trading partners in 1993 and 1998

		Export						Import					
		BLEU	G	F	N	UK	I	BLEU	G	F	N	UK	I
BLEU	1993	-	6.8	8.3	12.4	5.4	3.0	-	6.9	10.1	10.4	4.5	4.7
	1998	-	5.7	7.5	12.2	5.0	2.7	-	6.8	9.9	10.1	4.8	4.8
Germany	1993	21.2	-	18.6	28.5	12.3	19.5	20.7	-	20.6	21.6	13.4	19.4
	1998	19.4	-	16.4	27.5	12.2	16.4	18.7	-	19.1	19.0	13.0	18.8
France	1993	19.7	12.3	-	10.2	9.4	13.2	15.5	11.7	-	6.9	9.1	13.7
	1998	18.4	11.1	-	10.8	9.8	12.7	14.1	11.3	-	6.7	9.1	13.2
Netherlands	1993	13.2	7.7	4.6	-	6.4	2.8	15.5	11.0	6.6	-	6.0	5.7
	1998	12.8	7.0	4.5	-	7.7	2.9	16.5	11.4	7.2	-	6.9	6.2
United Kingdom	1993	8.4	8.0	9.2	9.0	-	6.4	8.9	6.2	8.0	8.4	-	5.8
	1998	10.0	8.5	9.8	10.0	-	7.2	8.4	6.7	8.3	9.2	-	6.4
Italy	1993	5.5	7.6	9.4	5.1	4.6	-	4.2	8.5	10.1	3.5	4.5	-
	1998	5.8	7.4	9.0	5.9	5.1	-	4.0	7.7	9.7	3.2	5.2	-
EU12	1993	73.6	49.8	59.9	71.3	49.3	53.5	68.6	51.2	64.1	55.5	45.8	55.5
	1998	72.9	47.8	59.4	74.0	52.9	52.3	67.2	51.9	64.8	53.5	48.2	56.9
USA	1993	4.6	7.4	7.0	4.4	12.8	7.7	6.1	6.1	7.4	9.1	12.3	5.3
	1998	5.3	9.4	7.7	3.8	13.2	8.6	7.9	6.5	7.9	9.8	14.0	5.1
Japan	1993	1.1	2.5	1.9	1.0	2.2	1.9	3.3	5.2	2.8	4.8	5.8	2.6
	1998	1.0	1.9	1.5	0.9	2.0	1.7	2.6	4.3	2.1	4.9	4.9	2.2
CEECs	1993	1.2	4.8	1.4	1.8	1.2	3.3	0.8	4.7	1.1	1.7	0.9	2.5
	1998	2.4	8.1	2.6	2.5	1.9	5.3	1.6	7.7	1.7	2.1	1.4	4.1
AsianNICs	1993	2.9	4.8	3.9	3.6	6.1	4.8	2.3	5.3	3.0	6.5	6.4	2.9
	1998	1.9	3.8	4.0	2.5	4.8	3.3	2.8	4.5	3.5	10.3	7.5	3.2
ROW	1993	16.7	30.6	26.0	17.8	28.4	28.9	19.0	27.5	21.5	22.4	28.9	31.2
	1998	16.7	28.9	24.8	16.5	25.2	28.9	17.8	25.1	20.2	19.5	23.9	28.6
Total	1993	100	100	100	100	100	100	100	100	100	100	100	100
	1998	100	100	100	100	100	100	100	100	100	100	100	100

Source: Eurostat.

TABLE II. 6 - Evolution of trade with the CEECs (% of total trade)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Export									
BLEU	0.5	0.8	1.0	1.2	1.4	1.5	1.8	2.1	2.4
Germany	2.1	3.0	3.8	4.8	5.2	5.8	6.5	7.3	8.1
France	0.6	0.9	1.2	1.4	1.5	1.6	2.1	2.3	2.6
Netherlands	0.8	1.2	1.4	1.8	1.8	2.0	1.9	2.1	2.5
United Kingdom	0.6	0.7	1.0	1.2	1.3	1.5	1.8	1.9	1.9
Italy	1.3	1.4	2.3	3.3	3.6	4.1	4.6	5.0	5.3
EU12	1.1	1.6	2.1	2.6	2.8	3.1	3.5	3.8	4.2
Import									
BLEU	0.5	0.6	0.8	0.8	1.1	1.2	1.2	1.3	1.6
Germany	2.3	2.8	3.8	4.7	5.3	6.1	6.2	6.8	7.7
France	0.7	0.7	0.8	1.1	1.2	1.3	1.4	1.4	1.7
Netherlands	0.9	0.8	1.2	1.7	1.6	1.9	1.7	1.8	2.0
United Kingdom	0.6	0.6	0.7	0.9	1.1	1.2	1.2	1.3	1.4
Italy	1.4	1.4	2.0	2.5	3.0	3.4	3.4	3.8	4.1
EU12	1.2	1.4	1.8	2.2	2.5	2.8	2.8	3.0	3.3

Source: Eurostat.

b. Geographical breakdown of trade with the CEECs

Looking at Table II.7, the main characteristic that emerges is the concentration of trade between the EU and the CEECs on a few countries. In 1998, the bulk of trade was mostly due to three countries of Central Europe: Poland, Hungary, and the Czech Republic[1]. These countries, which also belong to the Luxembourg group, have progressed most rapidly in the reforms and are in geographical proximity to the EU. Due to its size, Poland absorbed 33.11% of the EU12 exports to the CEECs in 1998, compared to 19.63% and 17.60% respectively for the Czech Republic and Hungary. Poland also accounted for 25.10% of the EU12 imports from the CEECs in 1998, compared to 21.75% and 20.73%, respectively, for the Czech Republic and Hungary.

The same three countries (Poland, the Czech Republic and Hungary) accounted for about 76.5% of the exports of the BLEU to the CEECs and 71.2% of the imports of the BLEU from the CEECs in 1998. Poland absorbed 36.75% of the BLEU's exports to the CEECs, compared to 24.20% and 15.55% respectively for Hungary and the Czech Republic. Poland accounted for 16.79% of the BLEU's imports from the CEECs, compared to 25.33% and 19.06% respectively for Hungary and the Czech Republic. A similar geographical breakdown of trade with the CEECs was also established in the case of Germany, the Netherlands, and the United Kingdom. The situation was a bit different for the other main trading partners of the BLEU. Many factors may explain the particular geographic breakdown of a country's trade, such as proximity (distance), historic and cultural links (language), trade

1. In the following tables the CEECs are classified into three sub-groups of countries: the countries of Central Europe (Central5) including Poland, Hungary, the Czech Republic, the Slovak Republic and Slovenia, the Balkan countries (Balkan2) including Bulgaria and Romania, the Baltic countries (Baltic3) including Estonia, Latvia and Lithuania.

policy and the commodity structure of trade. For example, Italy and, to a lesser extent, France have a more significant orientation of their trade towards Romania and Slovenia.

TABLE II. 7 - Geographical breakdown of trade between the EU and the CEECs in 1998 (% of total)

	Total	Central5					Balkan2		Baltic3		
		HU	PL	CZ	SK	SI	BG	RO	EE	LV	LT
Export											
BLEU	100	24.2	36.8	15.6	4.9	4.1	2.8	5.4	1.6	1.9	2.8
Germany	100	19.7	31.2	24.2	8.0	5.1	1.8	5.3	1.0	1.4	2.3
France	100	14.3	33.9	15.2	4.9	14.8	2.9	9.6	1.0	1.4	2.0
Netherlands	100	14.8	41.5	16.6	5.4	5.2	2.6	6.0	2.3	2.6	3.0
United Kingdom	100	15.3	37.5	21.8	3.2	4.2	2.4	7.2	2.1	2.7	3.6
Italy	100	14.8	30.4	11.4	5.7	14.9	3.5	15.7	0.9	1.1	1.6
EU12	100	17.6	33.1	19.6	6.4	7.4	2.8	7.5	1.3	1.7	2.6
Import											
BLEU	100	25.3	26.8	19.1	5.2	3.3	6.9	8.1	1.3	1.2	2.9
Germany	100	22.1	25.5	27.0	9.5	6.5	1.6	4.8	0.5	0.9	1.5
France	100	19.0	24.5	16.3	5.4	16.0	3.6	10.4	0.8	0.6	3.5
Netherlands	100	23.8	29.4	14.2	4.8	3.0	2.6	6.8	5.2	7.5	2.7
United Kingdom	100	20.3	24.6	21.6	3.3	3.9	2.9	8.9	3.1	6.9	4.6
Italy	100	15.9	19.2	11.3	9.0	13.9	7.0	21.8	0.3	0.5	1.1
EU12	100	20.7	25.1	21.8	7.8	7.6	3.6	8.2	1.2	1.8	2.2

Source: Eurostat.

c. Trade performance

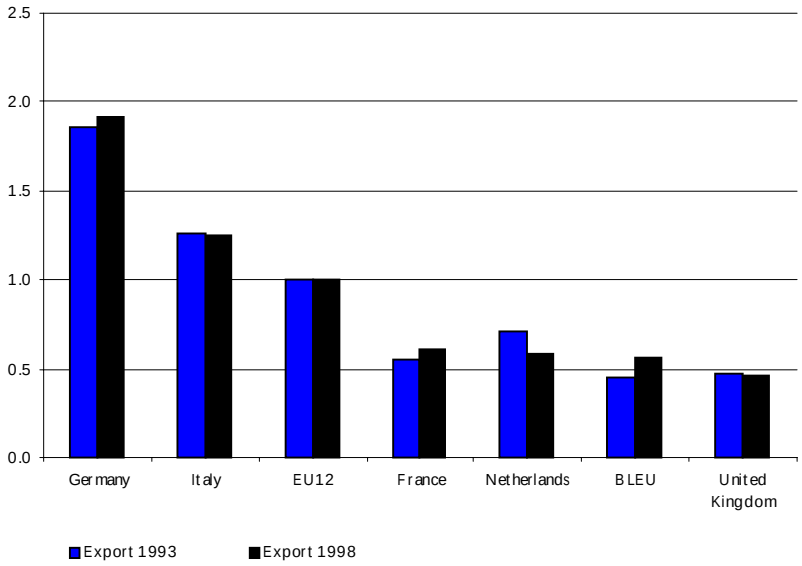
In order to better assess the competitive performance of the BLEU in the markets of the CEECs, an indicator of geographic orientation is calculated. It is defined as the ratio between the exports of the BLEU to the CEECs and the total exports of the EU to the same area (see Table A.II.1 in appendix 1). This index, which measures the export performance of the BLEU in the CEECs is then compared with the export performance of the BLEU in the world market as a whole, as measured by the ratio between the total exports of the BLEU and the total exports of the EU. This comparison allows us to determine whether or not the export performance of the BLEU in the CEECs has diverged significantly from its export performance in foreign markets. The results of the BLEU are compared with those of its main trading partners in Chart II.1.

The export performance of the BLEU to the CEECs in comparison of the performance in overall foreign markets has improved over the period 1990-1998. However, the export performance of the BLEU is still lower in the CEECs than in the world market. The opposite can be observed in the case of Germany and Italy.

A similar analysis can be performed on the side of imports (see Table A.II.1 in appendix 1). The results show that only the imports of Germany and, to a lesser

extent, Italy are relatively more oriented towards the CEECs in comparison to the EU, than towards the world market. The largest share of trade between the EU and the CEECs clearly goes to Germany.

CHART II. 1 -Ratio between the share of a country in the EU exports to the CEECs and the share of this country in the total EU exports



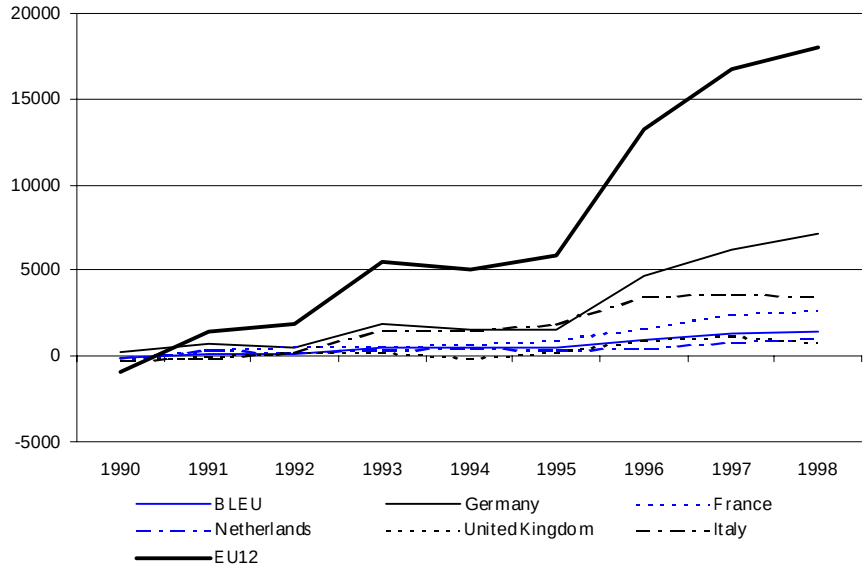
Source: Eurostat.

d. Trade balance between the EU and the CEECs

Trade balance between EU12 and the CEECs[1] is increasingly positive since 1991 (Chart II.2). This is also the case for the BLEU and for its main trading partners (except for Italy in 1991 and for the United Kingdom in 1994).

1. In the evolution of trade balance over the period 1990-1998, it must be noted that the CEECs include the Baltic states since 1992, according to data availability in the COMEXT database (Eurostat) .

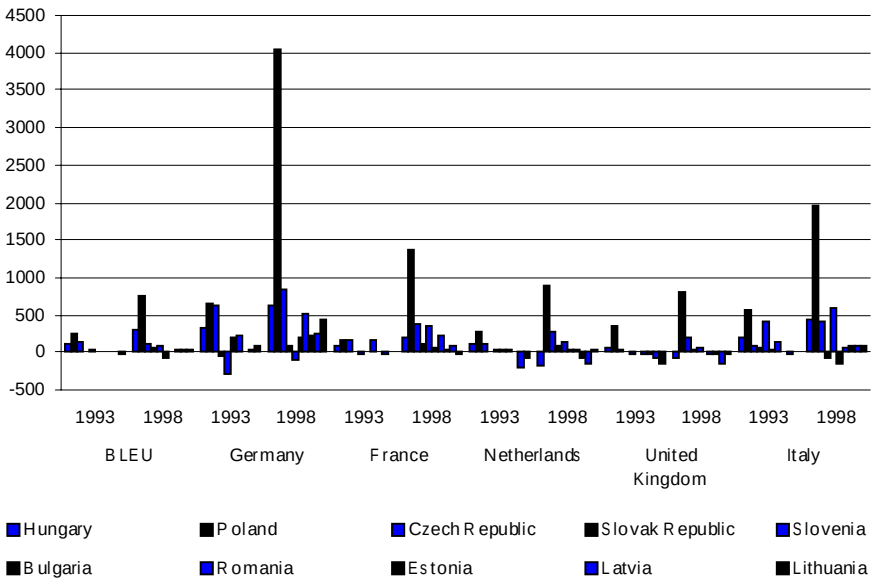
CHART II. 2 -Trade balance with the CEECs *(in million ECU)*



Source: Eurostat.

Chart II.3 shows that trade balance between the EU and the various CEECs in 1993 and in 1998 was almost always positive. In the case of the BLEU, a trade deficit was registered only with Lithuania in 1993 and with Bulgaria in 1998.

CHART II. 3 -Trade balance with the CEECs *(in million ECU)*



Source: Eurostat.

This evolution of the trade balance can be explained by the process of rapid transformation experienced by the CEECs during the period of transition from planned to market economies. The CEECs import from the developed countries

(mostly from the EU countries) the manufacturing products and the equipments needed to restructure their economies, while on the export side, they compete with each other on the foreign markets (mostly on the EU markets).

2. Sectoral trade patterns

In this section, we will compare the commodity pattern of trade of the BLEU to and from three areas, namely the intra-EU, the extra-EU and the CEECs, with that of the EU10[1]. The specialisation of the CEECs relative to the BLEU and to the EU10 and the nature of their trade will be presented in order to identify the complementarities between the partners.

a. Sectoral composition of trade between the BLEU and the CEECs

The main characteristics of the composition of trade between the BLEU and the three areas (the intra-EU, the extra-EU and the CEECs) in 1998 are described in the following table on the basis of the combined nomenclature (99 chapters[2]). The objective is to determine which sectors lead or lag the trade performance of the BLEU with the CEECs and to what extent that pattern is specific to that market. The same calculations are done in the case of the EU10 trade. The respective results are compared.

As shown in Table II.8, the intra-EU exports of the BLEU tend to focus on a limited number of sectors in 1998. The automotive industry (87) ranks first, with a higher share than in the exports of the EU. The mechanical machinery (84) ranks second, with a share half that in the exports of the EU. Next, come the plastics (39), the electrical machinery (85), the iron and steel (72). Two weaknesses of the BLEU can be underlined: a rather high share of traditional industries that have to face the fierce competition from the emerging countries and from the transition countries; a rather lower share of the mechanical and electrical machinery industries that have to face the competition from the EU partners.

In the extra-EU exports of the BLEU, the precious metal industry (71) ranks first. The mechanical machinery (84) ranks second, reflecting a somewhat better performance than in the intra-EU trade, but still clearly inferior than its share in the exports of the EU. The automotive industry (87) ranks third, with a share slightly inferior to that of the exports of the EU. The chemical industry (29) ranks fourth, with a higher share than in the exports of the EU. Next, come the electrical machinery (85) and the plastics (39).

The exports of the BLEU to the CEECs show an intermediate profile. They demonstrate a much better performance in the mechanical machinery (84) and the electrical machinery (85) than on the intra-EU and extra-EU markets, although significantly inferior to the EU performance for the mechanical machinery. This may represent a weakness in the context of the industrial restructuring in the CEECs. The plastic industry (39) ranks third, with a much higher share than in the EU exports and a better performance than on the intra-EU and extra-EU markets.

1. The EU10 refers to the EU12 minus the BLEU (Belgium-Luxembourg).
2. The sections and chapters of the Combined Nomenclature are detailed in the appendix 1.

The performance of the automotive industry (87) is only slightly better than on the extra-EU market and much inferior than on the intra-EU market. The evolution of this industry is closely related to the huge flow of foreign direct investments by the multinationals in the CEECs. Next, comes the pharmaceutical industry (30) with a higher share than on the other markets.

The intra-EU imports of the BLEU in 1998 tend to focus on the same few sectors than on the export side (Table II.8). The automotive industry (87) ranks first, with a slightly higher share than in the exports of the EU. The mechanical machinery (84) ranks second, with a share slightly lower that in the imports of the EU. Next, come the electrical machinery (85), the chemical industry (29) and the plastics (39).

In the extra-EU imports of the BLEU, the precious metal industry (71) ranks first. The mechanical machinery (84) and the electrical machinery (85) rank second and third, with a share clearly inferior to that in the imports of the EU. Next, come the automotive industry (87) and chemical industry (29).

The imports of the BLEU from the CEECs show an interesting profile in comparison to the imports of the EU. They are much more concentrated on the mechanical machinery (84). Next, come the electrical machinery (85) and the automotive industry (87). This result highlights the role of FDI in the export performance of the CEECs and the rapid process of restructuring in course. Next, come the furniture industry (94) and the apparel articles (62).

TABLE II. 8 - Main products traded by the BLEU and the EU 10 in 1998

	BLEU						EU10					
	EXTRA-EU		INTRA-EU		CEECS		EXTRA-EU		INTRA-EU		CEECS	
	CN	% of total	CN	% of total	CN	% of total	CN	% of total	CN	% of total	CN	% of total
Export												
	71	21.20	87	15.87	84	13.07	84	21.05	84	16.31	84	20.19
	84	11.60	84	8.35	85	12.58	85	11.09	87	13.66	87	13.38
	87	8.63	39	7.82	39	10.06	87	9.82	85	10.24	85	11.88
	29	6.87	85	6.47	87	9.44	88	4.57	39	4.25	39	4.89
	85	6.03	72	6.16	30	8.38	90	3.97	29	3.21	73	2.81
	39	5.14	29	4.58	57	3.21	29	3.18	90	2.67	90	2.40
	30	5.04	48	2.35	38	3.01	30	3.18	27	2.57	30	2.21
	27	3.30	27	2.04	94	2.31	39	2.83	72	2.40	48	2.15
	72	2.82	30	2.01	73	2.07	73	2.16	88	2.22	72	1.59
	38	1.80	73	1.84	72	1.88	27	1.94	48	2.02	94	1.57
Total 10		72.43		57.49		66.01		63.79		59.55		63.07
	73	1.61	94	1.66	90	1.68	71	1.54	30	2.00	38	1.53
	57	1.28	38	1.64	29	1.66	72	1.50	73	1.92	55	1.49
	37	1.17	71	1.58	40	1.66	22	1.50	94	1.55	32	1.30
	90	1.06	62	1.53	27	1.66	94	1.48	99	1.46	52	1.21
	28	1.02	2	1.44	59	1.64	38	1.46	62	1.39	27	1.21
	88	1.01	90	1.43	23	1.62	48	1.34	38	1.32	54	1.16
	17	0.94	4	1.33	48	1.52	99	1.31	76	1.30	62	1.15
	40	0.87	70	1.33	70	1.38	62	1.31	40	1.29	33	1.15
	48	0.83	40	1.31	32	1.34	89	1.15	4	1.26	40	1.09
	32	0.76	8	1.28	76	1.17	33	1.14	61	1.23	41	1.08
Total 20		82.98		72.02		81.34		77.52		74.27		75.44
Import												
	71	15.68	87	14.55	84	18.84	84	16.45	84	14.98	84	13.08
	84	10.07	84	12.09	85	10.21	85	12.11	87	14.18	85	12.30
	85	7.21	85	7.10	87	9.51	27	8.76	85	9.44	87	12.15
	87	5.76	29	6.29	94	8.98	87	5.13	39	4.44	62	8.52
	29	4.91	39	5.39	62	8.08	88	4.04	72	3.11	94	5.23
	27	4.81	27	5.10	72	4.54	90	3.68	29	3.08	44	4.14
	39	4.07	72	3.64	74	3.45	62	3.27	48	3.00	72	4.12
	62	2.85	48	2.80	29	2.88	71	3.18	90	2.47	73	3.82
	90	2.74	71	2.52	44	2.73	29	2.57	88	2.43	61	2.67
	8	2.69	30	2.50	71	2.38	61	2.18	99	2.43	27	2.51
Total 10		60.79		61.98		71.6		61.37		59.56		68.54
	72	2.44	73	2.04	73	2.38	39	1.83	27	2.11	64	2.41
	61	1.85	90	1.90	27	1.98	99	1.82	30	2.06	39	2.28
	30	1.72	94	1.78	39	1.91	72	1.53	73	1.75	76	1.88
	88	1.63	4	1.75	70	1.79	44	1.42	94	1.39	40	1.52
	26	1.62	76	1.36	31	1.52	76	1.28	2	1.30	29	1.24
	40	1.50	40	1.31	61	1.49	30	1.28	4	1.26	48	1.20
	44	1.50	28	1.30	76	1.28	3	1.24	38	1.25	70	1.17
	94	1.23	38	1.28	63	1.21	94	1.23	40	1.25	74	1.04
	48	1.20	22	1.27	40	1.18	73	1.21	76	1.24	90	1.04
	52	1.19	62	1.19	90	1.03	95	1.19	62	1.18	63	0.84
Total 20		76.67		77.16		87.37		75.40		74.35		83.16

Source: Eurostat.

3. Factor intensities

In Table II.9, the products have then been classified into three groups according to a typology based on the factor intensities:

- natural resource intensive products,
- high skilled and capital/technology intensive products,
- low skilled intensive products.

TABLE II. 9 - The factor intensity of EU and BLEU trade flows with the CEECs in 1993 and 1998

% of total		Natural resources		Skilled labour, capital, technology		Unskilled labour	
CN		1,2,3,4,5,8,10,14,15		6,7,16,17,18,19		9,11,12,13,20,21	
		1993	1998	1993	1998	1993	1998
BLEU							
Exports	CENTRAL5	16.95	15.53	60.46	69.18	13.38	12.63
	BALTIC3	27.19	19.1	43.58	59.1	12.53	19.2
	BALKAN2	64.88	33.55	20.64	43.44	8.07	19.4
	EXTRA-EU	43.15	38.69	44.42	53.36	11.63	7.42
	INTRA-EU	32.71	30.97	49.49	54.82	15.22	12.04
Imports	CENTRAL5	31.98	17.36	38.17	58.31	22.45	14.96
	BALTIC3	48.61	47.95	21.44	17.31	20.64	29.1
	BALKAN2	76.93	23.78	9.82	20.03	4.83	52.2
	EXTRA-EU	45.55	40.79	41.84	44.12	10.7	12.87
	INTRA-EU	36.3	32.75	50.15	57.18	11.04	7.66
EU10							
Exports	CENTRAL5	22.53	18.38	58.4	66.19	14.59	11.51
	BALTIC3	26.76	19.46	47.1	47.83	21.67	29.43
	BALKAN2	38.17	25.52	41.35	55.08	14.61	14.8
	EXTRA-EU	24.29	20.13	62.96	67.68	10.75	10.29
	INTRA-EU	30.09	26.24	54.28	61.32	13.36	10.26
Imports	CENTRAL5	34.6	22.33	30.64	52.78	27.98	18.74
	BALTIC3	25.9	25.92	17.02	17.26	46.03	51.27
	BALKAN2	74.21	32.89	9.04	15.2	14.95	46.56
	EXTRA-EU	37.92	31.07	44.42	52.4	15.08	13.91
	INTRA-EU	29.81	27.1	55.08	59.53	13.13	11.38

Source: Eurostat, own calculations.

Notes: Based on the OECD typology (OCDE 1996, pp.154-155).

Natural resource intensive: animal products; vegetal products, animal and vegetable fats, prepared foodstuff, mineral products, hides and skins, wood pulp products, pearl, precious and semi-precious stones (metals), base metals and articles thereof.

High skilled, capital/technology intensive: chemical products, plastics and rubbers, machinery and mechanical appliances, transportation equipment, instruments, measuring, musical, arms and ammunition.

Low skilled intensive: wood and wood products, textiles and textile articles, footwear, headgear, article of stone, plaster, cement, miscellaneous, works of art.

An interesting result is the rapid change of the factor intensity of imports from a sub-group of countries among the CEECs (especially Hungary and the Czech Republic), demonstrating a significant increase in the trade of products requiring intensive skilled labour and capital/technology. Classifying the CEECs into the following sub-groups: Central5, Balkan2 and Baltic3, we observe that this category of products increased from 38.17% in 1993 to 58.31% in 1998 in the imports of the BLEU from the Central5. During the same period, the share of these products increased from 30.64% to 52.78% in the imports of the EU10 from the Central5.

This evolution is mainly due to the following countries: Hungary, the Czech Republic and the Slovak Republic (both in trade with the BLEU and with the EU10). This result reflects a growing diversification of their industrial exports towards engineering products (the sectors of mechanical and electrical machinery) and highlights the role of foreign direct investments in the restructuring process and in the export performance of the CEECs.

4. Revealed comparative advantages

In order to define the pattern of international specialisation of the BLEU, an index of revealed comparative advantage has been calculated. The index measures the sectoral contribution to the total trade balance. This index is defined for any sector as the difference between the actual and the theoretical balance, which is the contribution to the total trade balance calculated for each sector according to its share in total trade (i.e. as if there were no comparative advantage or disadvantage for any sector). This index has been preferred to the Balassa index that ignores the import side of a country's trade. Sectoral contributions to the trade balance also allow to make up for the distortion resulting from business cycle variations[1].

Sectoral contributions to the trade balance are expressed as thousandth of total trade in the reference market: a positive/negative sign indicates the existence of comparative advantage/ disadvantage of a country vis-à-vis the producers in the reference market. By definition, the sum over all products is zero.

$$\left[\frac{X_{m,p}-M_{m,p}}{\sum_p X_{m,p}+\sum_p M_{m,p}}-\frac{\sum_p X_{m,p}-\sum_p M_{m,p}}{\sum_p X_{m,p}+\sum_p M_{m,p}}*\frac{X_{m,p}+M_{m,p}}{\sum_p X_{m,p}+\sum_p M_{m,p}}\right]*1000$$

Where:

$X_{m,p}$ = element (m,p) of the matrix of the reporting country's exports,

$M_{m,p}$ = element (m,p) of the matrix of the reporting country's imports,

m = market index,

p = product index.

1. Freudenberg, M. and Lemoine F. (1999), *Central and Eastern European Countries in the International division of labour in Europe*, document de travail CEPII.

The analysis of the evolution of specialisation is based on the identification of the underlying sectoral changes in trade structure. Three categories of changes can be distinguished:

- increased specialisation (comparative advantages or disadvantages become more pronounced),
- reduced specialisation (comparative advantages or disadvantages become less pronounced),
- shift towards a comparative advantage or towards a comparative disadvantage.

Table II.10 summarises the evolution of specialisation of the BLEU in the trade with the CEECs. Having in mind that EU enlargement could imply higher adjustment costs for countries that have their comparative advantages in the same sectors as the CEECs, it is worth noting that the automotive industry shifted from a comparative advantage to a comparative disadvantage between 1993 and 1998 in the trade specialisation of the BLEU with the CEECs. This development reflects the change from a positive to a negative contribution of that sector to the total trade balance, resulting from a decrease in the share of exports of the BLEU to the CEECs while the imports from the CEECs have correspondingly increased. This result, however, is based on an analysis with a 2-digit disaggregation. In the case of the automotive industry a more detailed analysis is clearly needed to confirm this result

TABLE II. 10 - Evolution of specialisation of the BLEU in trade with the CEECs between 1993 and 1998 (selected products)

		Contributions to trade balance			Share in exports		Share in imports	
		1993	1998	1993-98	1993	1998	1993	1998
Increased specialisation								
- Comparative advantage	39	22.59	38.83	16.24	6.82	10.06	1.99	1.91
	30	22.57	38.24	15.68	5.14	8.38	0.31	0.34
	85	2.42	11.24	8.82	4.32	12.58	3.80	10.21
	38	4.76	13.04	8.28	1.64	3.01	0.62	0.27
	59	3.12	7.53	4.41	0.74	1.64	0.07	0.06
- Comparative disadvantage	84	-1.79	-27.48	-25.69	8.40	13.07	8.78	18.84
	62	-22.82	-34.95	-12.13	1.18	0.74	6.07	8.08
	71	-0.23	-10.53	-10.29	0.73	0.17	0.78	2.38
	94	-24.48	-31.77	-7.30	1.34	2.31	6.59	8.98
	63	-1.28	-3.56	-2.28	0.27	0.47	0.55	1.21
	61	-5.10	-6.27	-1.18	0.21	0.18	1.30	1.49
	72	-12.19	-12.66	-0.47	0.56	1.88	3.17	4.54
Reduced specialisation								
- Comparative advantage	17	8.16	0.73	-7.43	1.83	0.32	0.08	0.16
	57	19.41	14.60	-4.81	4.19	3.21	0.03	0.14
	37	5.28	2.14	-3.14	1.22	0.47	0.09	0.03
- Comparative disadvantage	27	-32.90	-1.52	31.39	2.96	1.66	10.01	1.98
	26	-19.79	-0.85	18.95	0.04	0.02	4.28	0.20
	29	-22.51	-5.78	16.72	2.10	1.66	6.92	2.88
Shift in specialisation								
- Towards a comparative advantage	40	-10.16	2.29	12.45	0.97	1.66	3.15	1.18
- Towards a comparative disadvantage	87	77.88	-0.30	-78.19	20.12	9.44	3.44	9.51

Source: Eurostat.

E. Future prospects for trade between the BLEU and the CEECs

The prospects for future trade of the BLEU with the CEECs have to take into account the main results of the analysis of trade presented in the previous section.

- First, a certain number of characteristics of trade between the EU and the CEECs, both at the aggregate and at the sectoral level, also apply to trade between the BLEU and the CEECs, while others are specific to trade between the BLEU and the CEECs.
- Second, the characteristics displayed by trade between the BLEU and the CEECs in the initial phase of transition (1993 trade figures) are somewhat different than those prevailing in a later phase (1998 trade figures). Economic growth experienced in all the CEECs, trade liberalisation, and the

role of FDI inflows in industrial restructuring contributed to the expansion of trade and to changes in the trade patterns.

The evolution of trade with the CEECs between 1993 and 1998 has consequences for the present EU members, and for the BLEU in particular. To some extent, this "backward looking" analysis also contains elements of forecast of the future impact of Eastern EU enlargement.

Trade between the EU and the CEECs is already an important channel of integration of the candidate countries. The initial driving force behind the development of trade between the EU and the CEECs has been the reorientation of trade of the CEECs away from the former main trading partners of Eastern Europe (former Comecon) towards the EU. This process has been more rapid or more gradual across countries but it is nearly completed now. Subsequently, EU-CEEC trade also benefited from the Europe Agreements and the liberalisation of trade between the candidate countries and the EU. All the EU countries did not benefit equally from this development. The growth of trade between the BLEU and the CEECs was quite rapid but from a rather low initial level. As a result, the BLEU is less engaged in trade with the CEECs than its main trading partners.

Now, an additional factor has to be taken into account in the perspective of EU membership resulting from the access to single market. The influence of the PECAs recently signed by the EU with Hungary and the Czech Republic, which will enter into force in the next months should give an idea of the further boost to trade between the EU and these countries. However, measuring the impact of such mutual recognition agreements is not easy. There is no consensus on the trade potential that has not yet been exploited. The estimations of this trade potential based on gravity models vary by a large margin according to the specifications used in several studies[1].

The exports from EU to the CEECs increased more rapidly than imports, meaning that the trade balance of the EU is increasingly positive since 1991. This is also the case of trade between the BLEU and the CEECs

As each partner tends to specialise on the basis of its comparative advantages in the perspective of the EU enlargement, it can be expected that the sectors characterised by a comparative disadvantage will have to face with greater difficulty the competition from the other countries. The EU enlargement will also imply higher adjustment costs for the countries that have their comparative advantages in the same sectors as the CEECs. According to this logic, the higher the similarity between export patterns in the EU and import patterns in the CEECs, the higher will be the EU-CEEC trade as a consequence of EU enlargement. On the basis of the same reasoning, the higher the similarity between export patterns of the EU and the CEECs, the lower will be the EU-CEEC trade as a consequence of EU enlargement.

According to the traditional theory of international trade, trade patterns are expected to reflect the relative factor endowments of the partner countries. Each country tends to export goods, which embody large amounts of its abundant

1. Brenton P. and Gros D. (1997), "Trade Reorientation and Recovery in Transition Economies", *Oxford Review of Economic Policy*, vol. 13, n° 2, pp. 65-76.

factor. Given the income gap between EU and the CEECs, it can be expected that the regions have different factor endowments. Focusing on the factor content of traded goods, several studies have come to the conclusion that, in the first phase of transition, the CEECs were specialised in labour-intensive sectors and in resource intensive sectors and had a comparative disadvantage in the sectors intensive in skilled labour and capital/technology. But, the evolution in the trade figures over the period 1993-1998 shows that most Central European countries have displayed a growing diversification of industrial exports towards engineering products (mechanical industry and electric industry).

Another aspect that has to be taken into account is that trade and international capital flows are closely linked. Following the important capital flows directed to the CEECs, mainly to the Central European countries, since the beginning of the reforms, the main trading partners of the BLEU in the CEECs, namely Poland, Hungary and the Czech Republic, are now characterised by a relative high performance in the export of high-skilled labour and capital/technology intensive products. The imports from the CEECs in the BLEU should therefore compete with this group of sectors in the local production. In the trade between the BLEU and the CEECs over the period 1993-1998, the automotive industry (87) has shifted from a comparative advantage to a comparative disadvantage. The evolution of this sector could be linked to the high level of FDI realised in these countries. Another potential weakness in the trade of the BLEU with the CEECs is linked to its relative low performance in the exports of high-skilled labour and capital/technology intensive products in comparison to the EU (for example, the mechanical machinery).

According to the new theory of international trade, the rise of intra-industry trade between countries having similar factor endowments can be explained by such determinants as economies of scale or product differentiation. This is also reflected in a high share of intra-industry trade. This feature is important because, according to the theory, trade liberalisation accompanied by intra-industry trade is expected to create less adjustment costs than in the case of inter-industry trade. This illustrates the integration of production between EU and the CEECs and the role of production networks as a determinant of trade patterns. However, the distinction made in several studies[1] between horizontal and vertical intra-industry trade in the case of EU-CEECs trade show that the most important part of intra-industry trade is vertical in nature and may lead to a specialisation in different quality segments within product groups and potentially lead to income divergence between East and West. The exports of the CEECs seem to be more concentrated on low quality products.

1. Freudenberg M. and Lemoine F. (1999), *Central and Eastern European Countries in the International division of labour in Europe*, document de travail CEPII.

III Implications on Belgium's foreign direct investment

A. Introduction

FDI represents another important channel of integration between European Union and the CEECs besides trade. The perspective of EU enlargement has already influenced capital flows between the Western countries and the candidate countries with the majority of capital transactions now occurring with the EU. A large share of capital inflows to the CEECs has been FDI, reflecting the substantial investment opportunities in these countries and early removal of restrictions on FDI inflows.

This chapter assesses the state of play in accession negotiations about the liberalisation of capital markets. Then, it presents the evolution of the FDI flows between the present EU member states and the candidate countries and gives a description of the sectoral and geographical breakdown. It also aims at better understanding the future prospects for FDI in the CEECs and the consequences for Belgium.

B. The liberalisation of capital markets

The European integration process assigns a major role to the mobility of the production factors besides the mobility of goods in the perspective of the internal market. The importance and the dynamics of FDI flows is a main element of the process of integration of the CEECs in the EU. In the same time, the perspective of the EU enlargement towards East has already influenced the volume of FDI inflows to the CEECs.

The liberalisation of capital markets represents a challenge for transition countries because it can hamper short-term macro-economic stabilisation. Indeed, the transition countries will have to manage rising capital inflows while liberalising the capital account. To cope with such difficulties, transitional derogations for the accessing countries can be introduced for certain types of flows (especially short-term capital flows), in the perspective of a sequencing in the liberalisation process. Safeguards are also provided that allows temporary restrictions on capital movements in the case of balance of payments difficulties.

In the accession negotiations, the extension of the free movement of capital to the CEECs is considered a key condition of the functioning of the internal market and of the improvement of its efficiency. Moreover, joining the monetary union

also requires capital liberalisation. For the CEECs, the prospects of harmonised regulations and access to EU markets represent the main driving force of investment in the long term and the perspective of a higher growth rate.

The principle of the free movement of capital and payments implies the freedom of all categories of capital transactions. The EU insists that measures should be taken by the candidate countries to maintain sound macro-economic fundamentals and an efficient and well supervised financial sector in order to reap the full benefits from liberalisation and to withstand any disturbances which might arise from international capital flows.

The present situation of capital markets in the CEECs reveals some significant differences according to the country and according to the type of capital flows. The accession countries have already begun to liberalise capital flows. In this field, the most advanced countries in the transition process have generally the most liberalised capital markets (except Slovenia). According to Table III.1, all the CEECs have accepted the obligations of Article VIII of the "Articles of Agreement of the International Monetary Fund" on current account convertibility. Foreign direct investments are to a large extent liberalised. Controls remain on most other capital transactions, particularly in the field of portfolio investments and real estate investments.

TABLE III. 1 - External account liberalisation in the CEECs (as of December 31, 1997)

		Indices of capital account liberalisation				
	Year of IMF article VIII acceptance	Overall	Direct investment	Real estate investment	Credit operations	Portfolio flows
Czech Republic	1995	73.7	100	50	62.5	70
Estonia	1994	97.6	100	75	100	100
Hungary	1996	59.5	100	75	75	33.3
Poland	1995	55.3	100	50	75	35
Slovenia	1995	40.5	83.3	50	37.5	25
Bulgaria	1998	35.3	66.7	50	37.5	25
Latvia	1994	97.6	100	75	100	100
Lithuania	1994	85.7	83.3	50	62.5	100
Romania	1998	12.5	83.3	0	0	0
Slovak Republic	1995	23.7	83.3	50	37.5	25

Source: Heliodoro Temprano-Arroyo and Robert A. Feldman, "Selected Transition and Mediterranean Countries: An Institutional Primer on EMU and EU Accession", Economics of Transition, Vol. 7, N° 3 (1999), pp. 741-806 cited in WEO 2000, chapter IV, IMF, p. 157.
Note: The indices can take values between 0 and 100, with 100 representing the maximum degree of liberalisation of the capital flows.

C. The accession negotiations

1. Free movement of capital

Chapter 4 of the accession negotiations on the "Free Movement of Capital" has now been provisionally closed with almost all the candidate countries: the three

Baltic states, Slovenia, the Czech Republic, the Slovak Republic, Hungary, and Bulgaria. The chapter is still open with Poland due to remaining issues relating to requests for transitional arrangements regarding the acquisition of ownership by foreigners over agricultural and forestry land, and secondary residences. As for Romania, the negotiations have been opened during the Swedish Presidency and are not likely to be closed in the near future.

In the course of the negotiations, the candidate countries commit themselves to be able to implement the *acquis* by the date of the country's accession to the EU at the latest and provide a detailed timetable for its full implementation. Some of the CEECs have already almost completed the liberalisation process of capital movements. The others have established a final timetable, but some restrictions will not be lifted before accession. Several countries have also requested, and been granted, transitional periods for the acquisition by foreigners of agricultural and forestry land (because of concerns that foreigners will purchase large amounts of the available land) (Table III.2).

TABLE III. 2 - Free movement of capital: transitional periods

Countries	Transitional periods agreed
Czech Republic	A 7-year transitional period for the acquisition of ownership over agricultural and forestry land, excluding self employed farmers from the scope. A 5-year transitional period for the acquisition of secondary residences by foreigners,excluding EEA citizens who reside in the future member state from the scope.
Bulgaria	A 7-year transitional period for the acquisition of ownership over agricultural and forestry land, excluding self employed farmers from the scope. A 5-year transitional period for the acquisition of secondary residences by foreigners, excluding EEA citizens who reside in the future member state from the scope.
Hungary	A 7-year transitional period for the acquisition of ownership over agricultural and forestry land, excluding self employed farmers who have been residing for 3 years and active in farming from the scope. A 5-year transitional period for the acquisition of secondary residences by foreigners,excluding EEA citizens who have been residing for 4 years in Hungary from the scope.
Slovak Republic	A 7-year transitional period for the acquisition of ownership over agricultural and forestry land, excluding self employed farmers who have been residing for 3 years and active in farming from the scope. The Slovak Republic has not requested any transitional period for the acquisition of secondary residences by foreigners.
Countries	**Transitional periods requested**
Poland	Wants a 12-year transitional period for the acquisition of ownership over agricultural and forestry land. The new government in Poland agreed to soften its position in the accession negotiations and dropped the request for a 5-year transitional period on the acquisition of land by foreigners for investment purposes. But it is unclear whether the EU will accept the proposed 12-year transitional period on farmland sales to foreigners.
Romania	Wants a 15-year transitional period for the acquisition of ownership over rural land. Wants an 18-year transitional period for the acquisition of ownership over urban land.

Source: European Commission.

2. Other aspects of the accession negotiations

Other aspects of the accession negotiations could have an impact on the FDI inflows to the CEECs. Two chapters appear of particular importance in this respect: environment and technical standards.

a. Environment

The environmental *acquis* covers a wide range of measures in the fields of environmental quality protection, polluting and other activities, production processes, procedures and procedural rights as well as products. The EU not only insists on the transposition of the EU environmental legislation into the national legal order and its implementation but also on the building of a well-equipped administration for the application and enforcement of the environmental *acquis*.

The Chapter 22 is provisionally closed with the Czech Republic, Estonia, Hungary, Lithuania, Poland and Slovenia. Negotiations are ongoing with all other countries except Romania, where the Chapter has not yet been opened. All candidate countries have requested transitional measures and technical adaptations. The EU has accepted transitional measures in areas where important adaptation of infrastructure is required or where substantial investments need to be realised over time. But transitional measures have not been granted on transposition of legislation, framework legislation (air, waste, water, impact assessment, access to information), nature protection or on essentials of the internal market. Moreover, transitional measures have only been agreed on the basis of detailed implementation plans, including financing strategies and intermediate targets.

As to FDI, it must be stressed that transitional measures do not apply to new installations. The position of the EU intends to allow the future Member States to deal with problems inherited from the past but not to attract new investments with lower environmental standards. There were concerns that the costs to conform to environmental requirements would encourage profit-maximising firms to relocate their activities in countries with less-stringent standards or lower levels of enforcement. This will be avoided as all new investments have to comply with the environment *acquis*.

Another aspect of this issue is related to the mechanisms defined in the "Kyoto protocol". In this field, the rules are not definitely settled. Several elements could have an impact on foreign investors. On the one hand, FDI satisfying the EU environmental standards would be encouraged by receiving a credit proportional to the "green" investment. On the other hand, the objective of the EU in terms of reduction of emissions would remain unchanged, while the accession of the candidate countries would continue to benefit from "soft" commitment.

The estimated costs requested by the adjustments to the directives on environment are very high (1% of GDP over a period of 10 years). The most resource-intensive or energy intensive sectors (chemical industry, steel industry, non-ferrous industry) would incur the most important adjustments costs. In some traditional sectors (leather industry), environmental costs can represent a barrier. In these sectors, a lot of FDI have been realised by foreign SMEs, for which adjustment costs could be difficult to sustain.

b. Technical standards

The estimated costs requested by the ajustments to the directives on technical standards, would be the most important for mechanical industry of medium-

high technological intensity, chemical industry, pharmaceutical industry, agro-food industry. These costs would especially affect the most advanced countries, which are relatively specialised in sectors of medium-high technology and will therefore have to incur the costs related to technical adaptation and certification. However, the technologically most advanced sectors have also attracted the major share of multinational firms, which can partially support these adjustment costs. The same remark prevails for the resource-intensive or energy intensive sectors. For traditional sectors, technical barriers are less important.

D. The increase of FDI in the CEECs

1. Evolution of FDI in the CEECs

Since the beginning of the transition process from a planned to a market-based economy, FDI inflows have gone to the CEECs. The CEECs have been carrying out structural reforms and huge industrial restructuring. Therefore, these countries are more inclined to receive FDI than to make FDI abroad. This chapter will be limited to the evolution of FDI inflows to the CEECs.

TABLE III. 3 - Foreign direct investment (net inflows recorded in the balance of payments)

Millions of US dollars	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2000**
Czech Republic	na	na	na	983	563	749	2526	1276	1275	2641	4912	6000	4595
Estonia	na	na	na	na	156	212	199	111	130	475	222	250	398
Hungary	187	311	1459	1471	2328	1097	4410	1987	1653	1453	1414	1650	1607
Poland	na	0	117	284	580	542	1134	2741	3041	4966	6642	10000	10601
Slovenia	-14	-2	-41	113	111	131	183	188	340	250	144	50	
Luxembourg group	*173*	*309*	*1535*	*2851*	*3738*	*2731*	*8452*	*6303*	*6439*	*9785*	*13334*	*17950*	*17201*
Bulgaria	na	4	56	42	40	105	98	138	507	537	806	500	1100
Latvia	na	na	na	na	50	279	245	379	515	303	331	300	285
Lithuania	na	na	na	na	30	31	72	152	328	921	478	295	
Romania	na	-18	37	73	87	341	417	415	1267	2079	949	500	581
Slovak Republic	10	24	82	100	107	236	194	199	84	374	701	1500	1452
Helsinki group	*10*	*10*	*175*	*215*	*314*	*992*	*1026*	*1283*	*2701*	*4214*	*3265*	*3095*	*3418*
Total CEECs	183	319	1710	3066	4052	3723	9478	7586	9140	13999	16599	21045	20619

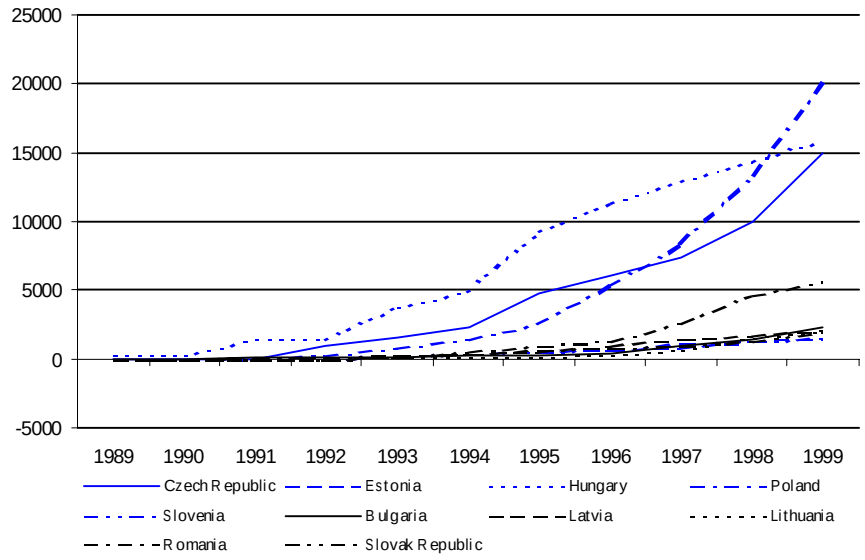
Source: EBRD, *Transition Report 2000*. For year 2000: * EBRD projection, ** UNCTAD, *World Investment Report 2001*.
Note: For most countries, figures cover only investment in equity capital and in some cases contributions-in-kind.

The credible perspective of EU accession has already contributed to increase the FDI inflows in the CEECs, particularly in the most advanced countries (Table III.3). The first half of the 1990s was dominated by the rapid increase of FDI in Hungary due to an early privatisation of its "champions". Hungary was followed by the former Czechoslovakia, while Poland only started to receive FDI after the rescheduling of its external debt with the Paris and London Clubs. Total FDI in the CEECs candidate countries to accession have increased significantly since the mid-1990s, notwithstanding the various financial crisis in the emerging countries (Mexican crisis in 1995, Asian crisis in 1997 and Russian crisis in 1998) and a certain volatility of the flows to the single countries, due to the transactions of

the privatisation process and the macro-economic evolutions of the various countries. The second half of the 1990s is also characterised by the increase in the gap between two groups of countries as far as the attractiveness of FDI is concerned.

According to UNCTAD[1], the overall surge of FDI inflows into the CEECs in 2000 (last column of Table III.3) masks diverging trends in individual countries. In Poland and Hungary, FDI rose (in the latter slightly), while in the Czech Republic it declined, despite a continued increase of Greenfield investment. The most dramatic surge in FDI inflows was registered by the Slovak Republic where the volume of inflows in 2000 (2.1 billion US dollars) was almost as high as the cumulative inflows of the preceding nine years, reflecting a series of major FDI deals realised in 2000. Privatisation-related transactions were a key determinant of FDI inflows throughout the region, with the exception of Hungary, where the privatisation process has already been completed to a large extent.

CHART III. 1 -Foreign direct investment in the CEECs (cumulative flows)



Source: EBRD (cf. Table III.3).

2. A few determinants of FDI in the CEECs

The literature about FDI usually distinguishes three main determinants of FDI.

- In the case of *market-seeking* FDI, the accession of a candidate country in the EU will tend to reinforce the main incentive to investment, because the dimension of the potential market to which the firms located in the CEECs have access has increased.

1. UNCTAD (2001), *World Investment Report 2001*, United Nations, New York.

- In the case of *efficiency-seeking* FDI (*labour and resource-oriented*), the main incentive to investment relies in the availability of cheap labour or natural resources in the CEECs.
- In the case of *strategic* FDI, firms invest in the CEECs to benefit from the "first mover" advantage.

A specificity of FDI in the CEECs concerns the *labour-oriented* FDI motivated by the access to cheap skilled labour. Eastern Europe and the former Soviet Union are indeed characterised by high levels of formal education, as shown for instance in high secondary school enrolment rates. There are some doubts, however, to what extent this high level of schooling is associated with a similarly high level of skills at the work place. A survey[1] realised by the EBRD asked foreign investors, how they rated the attractiveness of cheap and skilled labour relative to other factors determining the location of their investments. Some of the results are summarised in the following.

Among the determinants of foreign investment, the survey highlights that the most important factor for foreign investors across all regions of destination (emerging economies) is the access to an attractive host market. Cheap labour is not a very important factor attracting investment, but cheap skilled labour is the second most important factor on average. However, it scores not much higher than proximity to the home market or a favourable regulatory and tax environment. It is interesting to note that labour costs and regulatory/tax factors seem to be of some importance to most investors, if not of primary importance. Other factors, such as proximity to the home market, access to raw materials or strong institutional links with the home country are considered either very important or not important by the majority of investors. This could suggest a certain hierarchy of factors in taking location decisions, with geographic, cultural aspects coming first and subsequently wage and regulatory issues being considered.

With regard to the variation in the role of these factors across regions, we find that Eastern Europe does not stand out for its attractiveness due to cheap skilled labour. There is in fact extremely little difference across regions in the main factors attracting investment. However, after a closer examination and once controlling for a number of investor characteristics (such as size and sector of investment) it turns out that South-eastern Europe (including some countries of the Helsinki group) does seem to be particularly attractive in terms of cheap skilled labour. Indeed monthly wages in South-eastern Europe are barely above 100 US dollars, whereas wages are several times higher in Central and Eastern Europe.

E. The geographical breakdown of FDI in the CEECs

The geographical distribution of FDI inflows into the CEECs is very uneven and the ranking of the countries, which received the largest amount of FDI slightly evolved over the period 1989-1999. A clear distinction between two groups of countries[2] has emerged as far as the attractiveness of FDI is concerned (Table

1. EBRD (2000), *How do foreign investors assess the quality of labour in transition economies? Results from a postal survey*, Enterprise Survey produced by the Office of the Chief Economist, London.
2. With the exception of the Baltic countries in relative terms of population and GDP.

III.4). The major share of the cumulated flows since the beginning of the transition (period 1989-1999) are concentrated in the countries of the so-called Luxembourg group; among these countries, Poland, Hungary and the Czech Republic received together more than 75% of total FDI in the CEECs. In 1999, Poland had become the first country of destination in terms of cumulated FDI, surpassing Hungary, which remained however the first beneficiary in terms of FDI per capita (followed by the Czech Republic and Estonia). In the so-called Helsinki group, Romania attracted the largest amount of FDI (5,6 billion US dollars, i.e. 8,1% of total FDI) but remained however the last beneficiary in terms of FDI per capita (next to Bulgaria). Romania and Bulgaria are also the less advanced in the reforms and have the less probability of a rapid accession to EU.

TABLE III. 4 - Stocks of foreign direct investment (cumulative inflows)

	Cumulative FDI inflows	Share of the total	Cumulative FDI inflows per capita	FDI inflows per capita		FDI inflows	
	Millions of US dollars	%	US dollars	US dollars		% of GDP	
	1989-1999	1989-1999	1989-1999	1998	1999	1998	1999
Czech Republic	14924	21.3	1447	256	476	5	9
Estonia	1604	2.3	1115	397	154	11	4
Hungary	17770	25.4	1764	144	140	3	3
Poland	20047	28.7	518	128	172	3	4
Slovenia	1400	2.0	701	125	72	1	1
Luxembourg group	*55745*	*79.7*					
Bulgaria	2332	3.3	284	65	98	4	7
Latvia	2100	3.0	866	124	136	5	5
Lithuania	2012	2.9	545	249	129	9	5
Romania	5647	8.1	252	92	42	5	3
Slovak Republic	2111	3.0	391	70	130	2	4
Helsinki group	*14202*	*20.3*					
Total CEECs	69947	100.0					

Source: EBRD, *Transition Report 2000*.

F. The geographical sources of FDI in the CEECs

Due to geographical proximity and historical relations, Western European countries dominated FDI inflows to the CEECs[1]. However, over the period 1994-1999, EU FDI in the CEECs only represented 6.17% of total EU FDI outside the EU15 and 3% of total EU FDI in the world.

This pattern persisted in 2000, according to UNCTAD, with the EU15 accounting for the bulk of the flows (Table III.5). Among other developed countries, the United States (ranked second) and Japan (ranked third) represented minor investors in the CEECs in 2000.

1. Passerini P. (2000), "EU FDI with Candidate Countries: an Overview", Eurostat, *Statistics in Focus*, Theme 2-26/2000, Brussels.

TABLE III. 5 - Geographical sources of FDI net inflows in selected CEECs, 2000

Millions of US dollars	CZ	EE	HU	PL	BG	LV	RO	SK
Central & Eastern Europe	120	-4	-28	178	53	133	-15	187
EU15	3759	362	1337	8224	854	138	541	1180
Other developed countries	579	24	266	2491	57	83	14	46
of which USA	149	1	217	2197	37	20	-3	46
of which Japan	66		15	102	1			
Developing countries	134	11	24	11	29	-32	44	
Others (n.s.)	2	6	8	-303	107	-37	-4	39
Total	4595	398	1607	10601	1100	285	581	1452

Source: UNCTAD, *World Investment Report 2001*.

1. European Union FDI in the CEECs

During the period 1994-1999, the cumulated flows of FDI from the EU into the CEECs reached the amount of 40.7 billion euro, i.e. 6.17% of the extra-EU FDI (Table III.6).

TABLE III. 6 - European FDI in the CEECs (cumulative inflows 1994-99)

	FDI in the CEECs		Extra-EU FDI		Ratio (1)/(3)
	Millions of euro (1)	% of total (2)	Millions of euro (3)	% of total (4)	% (5)
Total	40683	100.00	659406	100.00	6.17
Belgium-Luxembourg	2790	6.86	32980	5.00	8.46
Denmark	949	2.33	7225	1.10	13.13
Germany	15956	39.22	143090	21.70	11.15
Spain	329	0.81	54879	8.32	0.60
France	4869	11.97	97397	14.77	5.00
Italy	1545	3.80	13872	2.10	11.14
Netherlands	6028	14.82	60071	9.11	10.03
Austria	2363	5.81	4325	0.66	54.64
Portugal	179	0.44	7158	1.09	2.50
Finland	293	0.72	5138	0.78	5.70
Sweden	1964	4.83	19842	3.01	9.90
United Kingdom	438	1.08	206346	31.29	0.21

Source: Eurostat.

The annual flows of FDI from the EU into the CEECs were multiplied four times during the period under review, increasing from 2.7 billion euro in 1994 to 11.3 billion euro in 1999 (Table III.7).

Concerning the geographical destination of EU FDI, the bulk of the cumulated flows into the CEECs were directed to the so-called Luxembourg group, with Poland, Hungary and the Czech Republic, in particular, accounting for 85% of the total.

TABLE III. 7 - EU15 FDI flows into the CEECs (1994-99)

	1994	1995	1996	1997	1998	1999	1994-99	1994-99
				Millions of euro				in %
World	74687	99150	110413	160645	325903	556251	1327049	
EU15	50320	53564	62554	75482	127518	296953	666391	
Extra-EU15	24129	45580	47412	84730	198235	259320	659406	
CEECS	*2699*	*5119*	*5402*	*7045*	*9140*	*11278*	*40683*	*100.0*
Hungary	839	2102	1073	1565	1537	-2	7114	17.5
Poland	616	1132	2427	2492	4189	7076	17932	44.1
Czech Republic	974	1594	1299	1916	1576	2534	9893	24.3
Slovak Republic	107	139	213	253	271	210	1193	2.9
Slovenia	51	68	64	99	136	226	644	1.6
Bulgaria	63	9	50	140	172	136	570	1.4
Romania	49	75	136	409	437	543	1649	4.1
Estonia	:	:	62	73	362	232	729	1.8
Latvia	:	:	21	46	45	78	190	0.5
Lithuania	:	:	57	52	415	245	769	1.9

Source: Eurostat.

Concerning the geographical source of EU FDI in the CEECs (Table III.6), Germany with 39% of the EU cumulated flows during the period under review, held the strongest position as providers of FDI to the CEECs. The Netherlands (15%) and France (12%) followed in the ranking of the main EU investors. The countries such as Spain and Portugal were the less active with a share inferior to 1%. The share of Belgium and Luxembourg (6.9%) was superior to that of Austria (5.8%), Sweden (4.8%) and Italy (3.8%).

The geographical pattern of EU FDI in the CEECs is closely related to the historical relations between the various countries. FDI from Germany, the Netherlands and Belgium are mainly directed to the Czech Republic, Hungary and Poland, while few FDI are directed to the Baltic countries. FDI from Austria are mainly directed to the Czech Republic, Slovenia and the Slovak Republic. FDI from France are mainly directed to Poland (more than half of the cumulated flows) and represent the main source of FDI in Romania. FDI from Sweden and Finland are mainly directed to the Baltic countries (40%).

2. FDI from the BLEU into the CEECs

The share of FDI directed by Belgium and Luxembourg represents 6.9% of total EU FDI to the CEECs during the period 1994-99, and is superior to that of Austria (5.8%), Sweden (4.8%) and Italy (3.8%), but much inferior to that of Germany, the Netherlands, and France (Table III.6).

These data reflect a non-negligible orientation of the BLEU towards the CEECs, if the result is compared to the mere 5% share of EU FDI to extra-EU markets attributed to the BLEU. The FDI from the BLEU to the CEECs represent 8.5% of FDI from the BLEU to extra-EU markets, compared to a huge 55% in the case of Austria,

11.2% for Germany, and 10% for the Netherlands. Althouh the role played by Luxembourg in FDI should not be underestimated, the evolution of FDI by the BLEU also reflects a certain degree of internationalisation of the production system in Belgium. An important determinant of this openness is to be related to the model of specialisation in Belgium still oriented towards intermediate products but also by an increasing openness of the sector of services (distribution, financial services).

The evolution of FDI is rather difficult to predict. Table III.8 shows that FDI flows are quite volatile, especially when it is based on a few large-scale privatisations. According to Eurostat, half of the cumulated FDI flows from BLEU to the CEECs occurred in 1999. This was due to a high amount of FDI realised in the Czech Republic in 1999, in relation with a single transaction in the financial sector. Over the period 1994-98, FDI to Hungary led the investment flows from the BLEU into the CEECs, while Poland came third behind the Czech Republic. An important investment was also realised by the BLEU in Bulgaria in 1997.

TABLE III. 8 - BLEU FDI flows into the CEECs (1994-99)

	1994	1995	1996	1997	1998	1999	1994-99	1994-99
				Millions of euro				in %
World	1017	8956	6354	6833	22792	108796	154748	
EU15	866	6671	2347	5930	16778	89272	121864	
Extra-EU15	151	2379	3994	890	6035	19531	32980	
CEECs	*30*	*162*	*135*	*428*	*573*	*1462*	*2790*	*100.0*
Hungary	-12	120	4	234	414	-115	645	23.1
Poland	5	17	51	58	68	338	537	19.2
Czech Republic	32	15	56	43	63	1198	1407	50.4
Slovak Republic	1	0	12	12	20	7	52	1.9
Slovenia	-1	0	0	1	-20	0	-20	-0.7
Bulgaria	-8	5	2	75	10	5	89	3.2
Romania	13	4	5	4	9	29	64	2.3
Estonia	:	0	5	0	-1	0	4	0.1
Latvia	:	0	0	0	0	0	0	0.0
Lithuania	:	1	0	1	10	0	12	0.4

Source: Eurostat.

G. The FDI from Belgium in the CEECs by sector of activity

The FDI realised by Belgium in the CEECs were concentrated in a few sectors over the period 1996-1998 (Table III.9). On the basis of the Enterprise Survey realised by the NBB, the importance of four sectors can be underlined: financial intermediation, manufacture of non metallic mineral products, real estates activities, and the manufacture of food products and beverages.

TABLE III. 9 - FDI realised by Belgium in the CEECs: main sectors *(% of total)*

	ISIC rev3	1996-98	1996	1997	1998
65	Financial intermediation, except insurance and pension funding	20.2	0.7	25.6	27.4
26	Manufacture of other non-metallic mineral products	19.2	11.4	29.4	13.2
70	Real estate activities	17.5	14.7	15.6	21.4
15	Manufacture of food products and beverages	14.3	29.4	10.4	8.6
51	Wholesale trade and commission trade, except of motor vehicles and motorcycles	8.4	22.5	1.9	6.2
45	Construction	4.3	5.6	3.4	4.5
37	Recycling	3.6	2.8	3.5	4.4
52	Retail trade, except of motor vehicles and motorcycles; repair of"personal and household goods	2.0	0.0	2.2	3.1
27	Manufacture of basic metals	1.8	1.9	1.6	1.9
74	Other business activities	1.6	3.2	0.3	1.9
14	Other mining and quarrying	1.5	1.5	1.4	1.6
24	Manufacture of chemicals and chemical products	1.0	0.8	0.9	1.4
25	Manufacture of rubber and plastics products	0.7	1.3	0.6	0.4
17	Manufacture of textiles	0.7	1.4	0.8	0.1
93	Other service activities	0.6	0.2	0.0	1.6

Source: NBB, Enterprise Survey.

Note: Due to the lack of breakdown by sector of activity for FDI from Belgium in the Eurostat database, we used the data from the Enterprise Survey realised by the NBB. Appendix 2 also gives some results based on the data from the Central Balance Sheet Office (NBB).

H. Future prospects for FDI in the CEECs

On the basis of previous EU enlargements, foreign enterprises are likely to continue to make investments in the CEECs in the perspective of EU accession. However, empirical studies on whether further integration with the EU will increase these flows are mixed. Anyhow, the growth of FDI in the CEECs will be stimulated to a large extent by the rate of growth of the host countries and by the path of economic reform.

1. The gravity model

The analysis of the impact of EU enlargement on the FDI inflows to the CEECs based on a gravity approach (Brenton, and Di Mauro (1998)) concludes that the three major countries of the Luxembourg group (Hungary, Poland, Czech Republic), in which 75% of the FDI inflows to the CEECs is concentrated, have already reached their potential level of attractiveness of FDI on the basis of their level of development and the distance from the internal market, even taking into account the proximity of accession to the EU. The potential level of attractiveness of FDI had not been reached for the other countries such as Bulgaria and Romania, but also Slovenia. For the latter countries, the EU enlargement could stimulate additional capital inflows if the perspective of accession has a positive impact on their growth perspective and that of the most advanced countries. A similar conclusion is drawn in another study (Brenton, Di Mauro and Lücke (1998)), which suggests that the stock of FDI in the CEECs diverges little from the

normal pattern after controlling for the main determinants of FDI stocks, so that a surge in FDI to the CEECs in future years is not expected.

2. The sovereign ratings approach

Sovereign ratings can be considered as a good indicator of the perception of the situation in the CEECs by foreign investors. The credit analysis of transition economies assessed by rating agencies is based on general sovereign ratings methodology, slightly modified in order to take in consideration several issues characterising the transition process from a planned to a market-based economy. In the future, the implementation of domestic reforms by the CEECs will continue to influence the confidence of foreign investors (Table A.III. in Appendix 2). The evolution and the ranking of these credit ratings over the last decade have largely been the reflect of each country's path of political and economic transition (Table III.10). These ratings of European transition countries clearly confirms the classification of the CEECs into more advanced economies (Slovenia, Czech Republic, Hungary, Poland, and Estonia); economies that for various reasons need several more years to catch up (Latvia, Lithuania, and the Slovak Republic); and less-advanced and more-unpredictable economies (Bulgaria and Romania). Therefore, the future prospects for FDI in the CEECs can be derived, among other elements, from the recent creditworthiness trends. In 2001, the creditworthiness of the CEECs improved.

TABLE III. 10 - Transition-economy countries rated by Standard & Poor's (April 2001)

	Current Ratings		Initial Ratings	
	Foreign Currency and outlook	Local Currency and outlook	Date Rating Assigned	First Foreign Currency Rating and outlook
Slovenia	A/Stable	AA/Stable	May 1996	A/Stable
Czech Republic	A-/Stable	AA-/Stable	July 1993	BBB/Positive
Hungary	A-/Stable	A+/Stable	April 1992	BB+/Positive
Estonia	BBB+/Positive	A-/Positive	December 1997	BBB+/Stable
Poland	BBB+/Positive	A+/Stable	June 1995	BB/Positive
Latvia	BBB/Stable	A-/Stable	January 1997	BBB/Stable
Lithuania	BBB-/Stable	BBB+/Stable	June 1997	BBB-/Stable
Slovak Republic	BB+/Positive	BBB+/Positive	February 1994	BB-/Stable
Bulgaria	B+/Positive	BB-/Positive	November 1998	B/Positive
Romania	B-/Positive	B/Positive	March 1996	BB-/Stable

Source: Standard & Poor's, *Rating the transition economies*, April 2001.

A particularly important element that will influence the future prospects for FDI in the CEECs is related to the privatisation process. In the immediate future, privatisation will continue to lead FDI inflows into the region. After 2002, however, most of the privatisation process is expected to be completed in some economies that are far advanced in the transition process (especially the Czech Republic and Poland), and FDI patterns there may well become similar to those in Hungary now, where FDI inflows are driven by additional Greenfield investments and, increasingly, by private cross-border M&As (UNCTAD (2001)).

3. The political economy of EU enlargement

There are also reasons to believe that the scenario of EU enlargement could influence the attractiveness of the CEECs, enlarging the gap among the countries, between the "in" and the "out"[1]. The countries remaining outside the EU would attract less FDI and therefore specialise in production corresponding to the labour-intensive and slowly growing segment of world demand. If FDI contribute to the increase of the growth rate, the gap between the "in" and the "out" could become cumulative. Empirical studies about the determinants of FDI inflows to the CEECs show that the classification of the CEECs between the first and the second group in the Agenda 2000 seems to have influenced the inflows in the CEECs.

1. Manzocchi S., Ottaviano G.I.P. (2001), "Outsiders in economic integration. The case of a transition economy", *The Economics of Transition*, vol. 9, n° 1, pp. 229 - 249, London.

IV Implications of the Eastern EU enlargement for Belgium.

Implications on the population's and workers'migrations

A. The institutional framework

A theme covered by chapter 2 of the negotiation program

The accession of the ten Central and Eastern European countries – the CEEC-10[1] - to the European Union should imply the free movement of population and workers (chapter 2 of the negotiation programme). In accordance with the first accession negotiations, some self-employed, who fall within chapter 3 on the free movement of services, can already close contracts and can, within this framework, move freely.

The anxiety of some countries …

However, countries, which would be highly exposed to a sudden increase in population and to an inflow of workers once the borders are entirely opened up, such as Austria or Germany, are favourable to a moratorium. Chancellor Schröder asked for one in December 2000.

… induces the Commission to suggest a flexible transition

On April 11 2001, the European Commission suggested a flexible arrangement to implement the free movement of persons and workers. Once the enlargement takes place, a general transition period of five years should enable all member states to maintain their own legislative provisions or to open up their borders more. After two years, the global situation could be reviewed, which may accelerate the opening up process. Each country can, however, decide whether it retains its national provisions or not. After five years, the general transition period would end. A country, which would hand in a file to justify that this causes serious perturbations for its labour market, could be allowed to keep its protective measures for a maximum of two more years.

B. Question put and approach used in this document

Should Belgium worry about its economy?

In Belgium, might the enlargement of the European Union to the CEEC-10 lead to an important inflow of persons and wage earners, who may well disturb the structure of its population and of its economy? In other words, could Belgium consider without problems the free movement of persons or should it rather be cautious and decide upon e.g. a five year transition period, considering the present situation of the proposals.

1. Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.

What does the population of these countries represent in Belgium and what is the importance of the annual migration flows?

The study of the impact of the enlargement in terms of population and worker flows mainly requires a study of the CEEC-10 population residing in Belgium, and the analysis of the present annual migration flows of CEEC-10 nationals from and to Belgium.

The CEEC-10 residents in Belgium, only represent a small part of the foreign population, less than 1.5%. Certain nationalities have quite a long tradition of settling down in this country, especially the Poles but also the Hungarians, the Czechs, and more recently the Bulgarians.

In recent years the net annual balance of migration flows from and to the CEEC-10 countries has become more important. In 1999, it represented 8.5% of the net inflow of foreigners.

Migration flows of CEEC-10 nationals from and to Belgium should continue with or without a specific opening measure

Migration flows of CEEC-10 nationals from and to Belgium should continue spontaneously at least to the same extent. The latest demographic perspectives, jointly elaborated by the National Institute for Statistics, the Federal Planning Bureau and a group of demographers[1], were built at unchanged policy, without a particular shock, resulting from the enlargement, at a precise moment. When elaborating these perspectives, it was, indeed, impossible to determine that precise moment. They include the option of continuing a net inflow of residents of foreign countries, which do not belong to one of the 15 European Member States, regardless whether they come from the South or from former Eastern bloc countries. Nevertheless, it is not inflow, which would increase, but rather outflow, that would diminish slightly.

The assumptions of the Boeri and Brücker report help to define the possible net population impact of the enlargement ...

Research, carried out under the direction of Tito Boeri and Herbert Brücker on behalf of the European Commission[2], established the possible increase of CEEC-10 residents in each of the EU-15 countries from 2002 to 2030, assessing that the full impact of the enlargement would appear from 2002 on, also what concerns the free movement of persons. As long as those projections concern the total migration balance, the difference with the population, which can be derived from the latest Belgian projections, gives the net population impact of the enlargement as soon as free movement of population and workers is allowed.

... which is then converted into potential labour force increase

The age structure of the migration balance of the CEEC-10 nationals with Belgium in 1999 was applied to the net population impact of the enlargement. This population by age group was then combined with the evolution of the global participation rates in Belgium for the same age groups, leading to the estimation of the increase of potential labour force due to the enlargement.

Assessment of macroeconomic effects with the Hermes model: small but meaningful implications

By introducing into the Hermes model the increases of population and potential labour force resulting from the enlargement in the year 2002, the main macroeconomic effects they generate can be measured. Due to the limited number of persons concerned, macroeconomic implications will be small but yet consistent and instructive.

1. National Institute for Statistics and the Federal Planning Bureau, "Perspectives de population 2000-2050" - "Bevolkingsvooruitzichten 2000-2050", Brussels, National Institute for Statistics, 2001.
2. Tito Boeri and Herbert Brücker, main authors, European integration consortium: DIW, CEPR, FIEF, IAS, IGIER, "The impact of Eastern enlargement on employment and labour markets in the EU member states - Final report", Berlin and Milano 2000.

C. Official CEEC-10 population living in Belgium

Data of the National Register only record foreigners officially allowed to live in Belgium and who are requested to have a residence

Publications from the National Institute for Statistics provide, since the observation of January 1 1999, a description of the population of each of the CEEC-10 which lives in Belgium, including a breakdown by gender and age group. Those statistics are based on the National Register and so record all persons having an official residence in Belgium.

The following observations have to be made:

- the population recorded by the National Register concerns people authorized to live on the Belgian territory and having an official residence;
- it does not include the following categories of foreigners: illegals, people with a tourist visa, people having officially asked to be allowed to live in Belgium but are not yet allowed to do so (they are recorded in the regular way in the Waiting Register, or, exceptionally, they can be illegals who have asked to benefit from the recent operation of regularization[1]);
- immigrants of earlier generations, having acquired Belgian citizenship, disappear from the statistics of foreigners.

Data of the CEEC-10 residents in Belgium reveal the predominance of four nationalities, especially the Polish and Romanian ones

In annex, Table A.IV.1 gives a detailed overview by gender of the number of CEEC-10 nationals settled in Belgium in 1999 and 2000. It also gives the published elements for some nationalities from 1989 on. It gives the total amount of official foreigners since then.

On January 1 2000, the residents of four countries represent 90% of all CEEC-10 citizens living in Belgium. Those are nationals of Poland (55%), Romania (19%), Hungary (9%) and Bulgaria (7%) (see Table IV.1). They also reflect a longer past of immigration, which is especially true for Polish natives.

TABLE IV. 1 - Main nationalities of CEEC-10 citizens living in Belgium - 1.1.1999 and 1.1.2000

			%	
	1999	2000	1999	2000
Foreigners	891980	897110	-	-
CEEC-10	*11332*	*12300*	*100.00*	*100.00*
in pc of foreigners	*1.27*	*1.37*	-	-
Bulgaria	846	929	7.47	7.55
Hungary	1022	1089	9.02	8.85
Poland	6319	6749	55.76	54.87
Romania	2063	2311	18.21	18.79
Subtotal	10250	11078	90.46	90.06

1. Some people who have already been recorded in the Waiting Register for a long period and have not yet received an answer, also handed in a file within the framework of this regularization operation.

The CEEC-10 nationals represent less than 1.4% of the foreign population living in Belgium

On January 1 2000, CEEC-10 citizens (12300 persons) only represented 1.37% of the total number of foreigners living in Belgium (897110 persons).

Compared to the whole foreign population, a greater proportion of women and people of active age (18-64)

While foreigners are mostly men (52%), CEEC-10 residents are mostly women (63%) (see Table A.IV.1 in Annex). That can be explained by movements of family reunification. Table IV.2 hereunder gives the age structure of the four main nationalities and confirms the presence of children. Poland shows the largest proportion of elderly. In annex, Table A.IV.2 shows an odd proportion of Slovenian elderly, 24% out of 180 nationals. The proportion of people of active age (18-64: 76%) is higher than in the total foreign population (72%) and of course than in the global population living in Belgium (62%).

TABLE IV. 2 - Age structure of the CEEC-10 citizens in Belgium

	Total	0-17	18-64	65 and more
Total population	100.00	21.15	62.10	16.75
Foreigners	100.00	17.98	72.01	10.01
CEEC-10	*100.00*	*14.01*	*76.20*	*9.79*
Bulgaria	100.00	17.44	79.44	3.12
Hungary	100.00	12.30	78.97	8.72
Poland	100.00	13.84	72.32	13.84
Romania	100.00	13.80	83.43	2.77

D. Official CEEC-10 migration flows

Migration flows from the CEEC-10 still come mainly from those same four countries

In the publications of the National Institute for Statistics, migration flows are given for Hungary, Poland and former Czechoslovakia as from 1993. From the year 1998, detailed flows are given for each of the CEEC-10 countries. Table A.IV.3 in Annex gives a detailed overview of those statistics. The four countries mentioned above remain at the top of the current migration flows, representing altogether 93% of the net migration flows of the CEEC-10.

TABLE IV. 3 - Migration flows of four main CEEC-10 citizens to and from Belgium in 1999

	Immigration	Emigration	Net removal[a]	Balance	Balance in %
Foreigners	57784	24380	12064	21340	-
CEEC-10	*2486*	*658*	*303*	*1525*	*100.00*
Bulgaria	227	52	37	138	9.05
Hungary	229	72	53	104	6.82
Poland	1151	327	85	739	48.46
Romania	587	87	60	440	28.85
Subtotal	2194	538	235	1421	93.18

a. The net removal is the difference between people being struck off because they moved without notifying, and people who were found again in another municipality and who were reregistered. It is often assimilated to emigration.

The net migration flows from those four countries even increased from 1998 to 1999. The migration balance for Bulgaria, Hungary, Poland and Romania was in 1999 respectively 138, 104, 739 and 440. Values in 1998 were for the same countries respectively 128, 102, 636 and 212. That can be seen in Annex, Table A.IV.3, which also emphasizes the increase in the net migration balance from 1993 on. In 1993, this was 41 and 396 for respectively Hungary and Poland to be compared with the 1999 values of 104 and 739.

CEEC-10 migrants seem to emigrate from Belgium less than foreigners in general

Compared to immigration, emigration from Belgium is less important for the CEEC-10 citizens than for all foreigners; it represents respectively 26% and 42% of the immigration.

The net removal is also less important for the CEEC-10 residents than for all foreign residents, representing respectively 12% of the immigration in comparison to 21%.

When cumulating emigration and net removal, we have for the CEEC-10 citizens and all foreigners respectively 38 and 63% of the immigration, which in 1999 was compensated by a departure from Belgium. Yet, a careful examination of the detailed Table A.IV.3 (see Annex) shows a great mobility for some countries where the addition of emigration and net removals in 1999 can amount up to 76% for the Czech Republic and can even be greater than immigration, in the case of Slovenia, leading to a negative net migration balance.

They are mostly aged 20 to 34, taking with them young children

The age structure of the net migration balance of the CEEC-10 citizens in Belgium can be calculated carefully by using the statistics per age of each CEEC-10 in 1999, see Annex Table A.IV.4. It leads to the following age distribution of the annual net increase, which concentrates on people aged 20 to 34 and their young children, see Table IV.4 hereafter.

TABLE IV. 4 - Age structure of the net migration flow from the CEEC-10 in 1999

Age-group	0-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60et+	Total
CEEC-10	15	8	19	26	13	6	6	4	2	1	1	100

E. The research of Boeri, Brücker and alia

A research carried out for the European Commission...

A research, carried out under the direction of Tito Boeri and Herbert Brücker on behalf of the European Commission[1], measured, in its part A, the possible impact of the enlargement on the CEEC-10 residents in the various EU15 countries. It is now used as a reference in many countries, and will be used here as such, its demographic results for Belgium seeming coherent with the observed data.

1. Tito Boeri and Herbert Brücker, main authors, European integration consortium: DIW, CEPR, FIEF, IAS, IGIER, *The impact of Eastern enlargement on employment and labour markets in the EU member states* - Final report, Berlin and Milano 2000.

... based on an adapted methodology, first developed by T. Hatton ...

It is based on an econometric methodology developed by Timothy Hatton (1965) to analyse the migration in the United Kingdom. In line with other authors, he assumes that migration is based on expectations of future incomes, conditioned by the possibility of finding a job in the host country compared with the situation in the home country. Yet the methodology used diverges from the one of Hatton by the fact that it explains the annual change in the rate of the total migrant population present in the host population and not an annual migration rate, to be based on the home population.

... gives an estimation of the change of the migrant population living in a country

The explicative variables of the annual change in the ratio of the migrant population to the host population are differences of standards of living between the host and the home countries (GDP per capita), employment rates in the two countries, lagged ratio of the stock of migrants to the population, legal dispositions regarding foreign workers (guest-worker agreements, free movement), country specific variables related to culture, geography, language, etc. Income and employment variables are used both in levels and changes, so that a dynamic equilibrium relation is reached by a simple error correction model.

The model was first applied to Germany ...

The reformed model was first applied to Germany, using historic data. In perspective, the baseline scenario assumed a progressive convergence of the levels of income in the host and home countries, diminishing actual gap by 2 percentage points a year. Unemployment rates would remain on both sides constant. Complete freedom to move would be applied from 2002. The maximum impact of the free movement of workers on the migration stock would be reached thirty years afterwards, then return migration would be higher than immigration leading to negative migration balances with the host country. Such an hypothesis can be accepted, supposed the enlargement would be a success for the CEEC-10.

... and then extrapolated to the other EU15 present members

The results for Germany were then extrapolated to all EU15 members on the basis of the share of CEEC-10 residents they had in 1998, assuming by the way that this proportion would remain constant.

Results for Belgium

On this basis, results for Belgium would be the following:

- With 10773 CEEC-10 citizens in 1998, Belgium hosted 1.26% of the 853128 CEEC-10 residents in the EU15. The total number of CEEC-10 residents would increase in the EU15 by 335843 in 2002 and then yearly by a declining number leading to an increase of 146926 in 2010 and progressively to a very small increase of 2366 in 2030.
- So, the number of CEEC-10 citizens in Belgium would increase yearly by a constantly declining number of residents from 4241 residents in 2002 to 1855 in 2010 and 30 in 2030.
- The residents of the CEEC-10 in Belgium would evolve from 10773 mentioned above in 1998, to 14646 in 2002, 36713 in 2010 and 49151 in 2030.

F. Specific impact of the enlargement on the Belgian population and labour force

From Boeri and Brücker's demographic projection ...

Estimations for Belgium made by Boeri and Brücker in their research can be used as a projection of the annual increase of residents of the CEEC-10 from 2002 on.

... via the Belgian demographic perspectives ...

The latest Belgian projections made by the National Institute for Statistics, the Federal Planning Bureau and a group of demographers and geographers[1] already include migration flows from non-European countries. Members of the specific working group on migration assumed that pressure from the South and from Eastern Europe would go on. Yet, those projections were made *"at unchanged legislation"*, not taking into account specific consequences of the enlargement and the sudden free movement of people and labour force.

Combining both approaches would allow to measure the specific impact of the enlargement, beyond the current tendencies.

... to the specific impact of enlargement

Table IV.5 hereafter successively gives for Belgium the net migration balance from the CEEC-10 according to the Boeri-Brücker research, the net migration balance from the same countries, which can be derived from the Belgian demographic perspectives, and the specific impact of the enlargement.

Table IV.5 gives values only till 2010, because the macroeconomic estimations only reach up to that period. However, according to the Boeri-Brücker model, the net migration balance of CEEC-10 citizens would become negative soon after 2010 (see point E above).

TABLE IV. 5 - Specific annual impact of the enlargement on the population

	1999=obs	2002	2003	2004	2005	2006	2007	2008	2009	2010
Boeri and Brücker										
CEEC-10 migr. balance(1)	-	4241	3874	3507	3140	2883	2626	2.369	2112	1855
Belg.popul.forec.2000-2050										
non-EU migr.balance(index)	1.000	1.028	1.030	1.032	1.034	1.037	1.039	1.046	1.049	1.059
1999 observation of the CEEC-10 migration balance x index(2)	1525	1568	1571	1573	1576	1582	1585	1595	1600	1610
Specific impact of enlargement on the migration balance of the CEEC-10 citizens										
(3)=(1)-(2)	-	2673	2303	1934	1564	1301	1041	774	512	245

An estimation of labour force deriving from the enlargement

Present medium-term macroeconomic simulation realized with the Hermes model already includes the Belgian demographic projections mentioned in line (2) of Table IV.5. Besides the specific impact of the enlargement on the whole

1. National Institute for Statistics and the Federal Planning Bureau, "Perspectives de population 2000-2050" - "Bevolkingsvooruitzichten 2000-2050", National Institute for Statistics, Brussels, 2001.

population (line 3 of Table IV.5), an estimation of its impact on the labour force has to be made.

With the age structure of the net migration flow from the CEEC-10 in 1999 calculated in Table IV.4, it is possible to break down the annual series of the specific impact of the enlargement on the migration balance obtained in line (3) of Table IV.5.

By applying the evolution of the global Belgian participation rates for the same age groups to those net migration balances by age groups, the increase of labour force which could derive from the enlargement can be estimated. Details of those calculations are given in Annex, Table A.IV.7 to A.IV.9.

TABLE IV. 6 - Specific annual impact of the enlargement on the labour force

	1999=obs.	2002	2003	2004	2005	2006	2007	2008	2009	2010
Specific impact of the enlargement on the labour force	953	1670	1442	1213	982	818	655	488	323	154
Global participation rate of the new CEEC-10 residents	0.625	0.625	0.626	0.627	0.628	0.628	0.629	0.630	0.630	0.631

The global participation rate of the CEEC-10 nationals is higher than the general one

As the net migration flow of the CEEC-10 citizens is mainly focused on the age group 20 to 34, the global participation rate of those new CEEC-10 residents should be significantly higher than the one of the whole population (in 1999, their observed values were respectively 62.5% and 44.1%).

Cumulative increments in population and labour force

The cumulative effects of the annual increments in population and labour force are summarized in Table IV.7. With a free movement of persons starting in 2002, there would be bruto, in Belgium in 2010, respectively 12347 additional persons of which 7743 active coming from the CEEC-10.

TABLE IV. 7 - Cumulative increase of population and labour force due to the enlargement

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Impact on population	2673	4976	6910	8473	9774	10816	11590	12102	12347
Impact on labour force	1670	3112	4324	5306	6124	6779	7267	7589	7743

G. Macroeconomic impact of enlargement

Cumulated values of annual increments in population and labour force are introduced in Hermes

It is interesting to test the macroeconomic effects of the cumulated increase in population and labour force, as given in Table IV.7, deriving from the introduction of a free movement of CEEC-10 citizens. The assumption, as in the Boeri and Brücker research, is that the free movement would start in 2002. So other frameworks, such as the macroeconomic one, relate to the same period of reference.

A slight positive impact on growth is expected in most EU15 countries

In the medium term, the increase in labour force in the EU should accelerate economic growth. The GDP of the EU is forecast to increase by 0.3% after ten years in a study carried out by the Commission[1] as well as in a simulation using the FPB's international model NIME[2], in which increases in population and labour force for all EU15 are introduced following the same method as the one described for Belgium, .

Increase in migration should benefit employment and economic growth and could also heighten social expenditure

The macroeconomic and budgetary implications for Belgium of increased export growth to the EU, together with a slight increase in Belgium's labour force and population, can be assessed using the national macroeconomic model of the FPB, Hermes.

The major part (nearly 70%) of the increase in labour force should be reflected in higher employment (see Table IV.8).

The GDP should grow by 0.1% in the medium term; social and education expenditure should slightly increase (unemployment, family allowances, health care). Globally, there would be virtually no effect on the financing capacity of the state (in percentage of GDP).

TABLE IV. 8 - Main macroeconomic and budgetary impacts of an isolated free movement of CEEC-10 citizens measure in 2002, for Belgium

mostly, % differences from the baseline	02[1-2]	03[1-2]	04[1-2]	05[1-2]	06[1-2]	07[1-2]	08[1-2]	09[1-2]	10[1-2]
Demand and product (changes in volume)									
- Private consumption	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
- Public consumption	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Gross fixed capital formation	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
. Business investment	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
. Public investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
. Housing investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Exports	0.0	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.4
- Imports	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3
- Gross domestic product	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Price indexes									
- Consumption prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
- GDP deflator	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0	0.0
Employment and unemployment									
- Employment -difference level in thousands	0.38	1.20	1.99	2.51	3.17	3.74	4.20	4.68	5.32
- Unemployment, FPB definition, difference level in thousands	1.29	1.91	2.33	2.79	2.95	3.04	3.06	2.91	2.43
- Unemployment rate, difference level in percent	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Income									
- Real hourly wage	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
- Unit labour cost	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
- Households' real disposable income	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
- Profitability	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.4

1. "The economic impact of enlargement", a study by DG ECFIN, may 2001, 66 p.
2. Meyermans Eric, "Enkele macroeconomische gevolgen van de uitbreiding van de Europese Unie", AD-Nota 6297/8706, FPB, 4.07.2001, 8 blz.

Budgetary results									
- Net lending (+) of net borrowing (-) of general government									
. difference level in billions of BEF	-0.16	0.52	1.10	1.21	1.80	2.34	2.67	3.11	3.18
. difference level in % of GDP	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Government debt									
. difference level in % of GDP	-0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2

[1] j:/fbfvh/hmasalnat3.var.

[2] j:/fb/hmasallib.var.

(-) Differences.

V APPENDIX 1
(*related to chapter II*)

A. Protocols to the European Agreements on Conformity Assessment (PECAS)

TABLE A.II. 1 - PECAS: Sectoral Coverage

	Czech Republic	Hungary	Latvia	Estonia	Lithuania	Slovakia	Slovenia
Electrical safety	X	X	X*	X°	X*	X°	X°
EMC	X	X	X*	X°	X*	X°	X°
ATE	X	X°				X°	X°
Machinery	X	X	X°	X°	X*	X°	X°
Lifts	X		X°	X°	X*	X°	
PPE	X		X°		X*	X°	X°
R&TTE	X°	X°				X°	
Gas Appliances	X	X		X°		X°	X°
Simple Pressure Vessel	X			X°	X*	X°	
Pressure Equipment	X	X°		X°			
Medical devices	X°	X				X°	
GMP for medicinal products	X	X				X°	
GLP for medicinal products	X°	X					
GLP for chemicals	X°						
Cosmetics							
Construction products							X°
Hot water boilers	X	X				X°	
Refrigerators and freezers						X°	
Eplosives for civil use						X°	
Measuring instruments	X°						
Non automatic weighing instruments	X°					X°	
Prepackaging	X°						
Toys		X°		X°		X°	
Recreational craft						X°	
Marine equipment						X°	

Source: European Commission.

Explanatory notes:

X Sectors included in the PECAS that have been concluded by the Council.

X* Sectors initialled by the Commission, but not yet adopted.

X° Sectors proposed or under negotiation.

B. Indicator of geographic orientation

TABLE A.II. 2 - Share in EU trade with the CEECs and with the world *(%)*

		1990	1991	1992	1993	1994	1995	1996	1997	1998
Export										
BLEU	to the CEECs	3.82	4.40	4.08	4.17	4.53	4.44	4.64	4.85	5.01
	to the World	8.61	8.51	8.36	9.20	9.14	9.18	8.89	8.83	8.93
Germany	to the CEECs	53.25	54.80	53.95	51.90	51.37	51.63	49.80	49.70	51.22
	to the World	29.09	29.09	29.18	28.01	27.56	27.85	26.66	26.23	26.70
France	to the CEECs	8.87	9.65	9.70	8.93	8.48	8.43	9.10	9.29	9.51
	to the World	16.28	16.61	16.97	16.33	16.17	16.02	15.50	15.45	15.74
Netherlands	to the CEECs	6.72	7.19	6.51	6.53	6.50	6.15	5.73	5.86	6.15
	to the World	9.93	9.66	9.52	9.17	9.89	9.76	10.62	10.63	10.51
United Kingdom	to the CEECs	6.96	5.60	6.31	6.28	6.01	6.13	6.76	7.14	6.18
	to the World	13.31	13.13	12.64	13.37	13.24	12.66	13.14	14.34	13.45
Italy	to the CEECs	14.10	10.95	13.33	15.72	16.01	16.18	16.94	16.10	14.82
	to the World	12.44	12.25	12.10	12.47	12.35	12.44	12.82	12.30	11.87
EU12	to the CEECs	100	100	100	100	100	100	100	100	100
	to the World	100	100	100	100	100	100	100	100	100
Import										
BLEU	from the CEECs	4.02	3.74	3.55	3.02	3.82	3.85	3.82	3.81	4.19
	from the World	8.75	8.55	8.41	8.72	8.49	8.80	8.77	8.58	8.55
Germany	from the CEECs	47.05	55.13	56.35	55.99	54.58	55.37	54.41	54.01	54.73
	from the World	23.84	26.28	26.20	25.94	25.42	25.76	24.59	23.98	23.86
France	from the CEECs	9.96	8.21	7.81	8.40	7.58	7.33	8.03	7.31	7.71
	from the World	17.00	16.66	16.51	16.46	16.39	16.07	15.71	15.33	15.58
Netherlands	from the CEECs	7.18	5.75	6.13	6.52	6.15	6.05	6.32	6.26	6.19
	from the World	9.48	9.27	9.42	8.49	9.52	9.20	10.23	10.26	9.90
United Kingdom	from the CEECs	7.99	5.95	5.52	6.68	7.17	6.45	6.62	7.20	6.69
	from the World	15.53	14.06	14.14	15.85	15.60	14.84	15.39	16.54	16.26
Italy	from the CEECs	14.90	12.62	13.22	12.91	13.81	13.71	13.66	14.20	13.36
	from the World	12.67	12.25	12.03	11.21	11.27	11.44	11.16	11.30	10.92
EU12	from the CEECs	100	100	100	100	100	100	100	100	100
	from the World	100	100	100	100	100	100	100	100	100

Source: Eurostat.

C. Combined Nomenclature (CN) - 21 sections

Section 1 : Animals & animal products (chapters 01 to 05)
Section 2 : Vegetable products (chapters 06 to 14)
Section 3 : Animal or vegetable fats (Chapter 15)
Section 4 : Prepared foodstuff (chapters 16 to 24)
Section 5 : Mineral products (chapters 25 to 27)
Section 6 : Chemical products (chapters 28 to 38)
Section 7 : Plastics & rubber (chapters 39 to 40)
Section 8 : Hides & skins (chapters 41 to 43)
Section 9 : Wood & wood products (chapters 44 to 46)

Section 10 : Wood pulp products (chapters 47 to 49)
Section 11 : Textiles & textile articles (chapters 50 to 63)
Section 12 : Footwear, headgear (chapters 64 to 67)
Section 13 : Articles of stone, plaster, cement, asbestos (chapters 68 to 70)
Section 14 : Pearls, precious or semi-precious stones, metals (chapter 71)
Section 15 : Base metals & articles thereof (Chapters 72 to 83)
Section 16 : Machinery & mechanical applicances (chapters 84 to 85)
Section 17 : Transportation equipment (chapters 86 to 89)
Section 18 : Instruments - measuring, musical (Chapters 90 to 92)
Section 19 : Arms & ammunition (chapter 93)
Section 20 : Miscellaneous (chapters 94 to 96)
Section 21 : Works of art (chapter 97)

D. Combined Nomenclature (CN) - 99 chapters

Chapter 1 - Live animals
Chapter 2 : Meat and edible meat offal
Chapter 3 : Fish, crustaceans & aquatic invertebrates
Chapter 4 : Dairy produce; birds eggs; honey and other edible animal products
Chapter 5 : Other products of animal origin
Chapter 6 : Live trees, plants; bulbs, roots; cut flowers & ornamental foliage
Chapter 7 : Edible vegetables & certain roots & Tubers
Chapter 8 : Edible fruit & nuts; citrus fruit or melon peel
Chapter 9 : Coffee, tea, mate & spices
Chapter 10 : Cereals
Chapter 11 : Milling products; malt; starch; inulin; wheat gluten
Chapter 12 : Oil seeds & oleaginous fruits; miscellaneous grains, seeds &
Chapter 13 : Lac; gums, resins & other vegetable sap & extracts
Chapter 14 : Vegetable plaiting materials & other vegetable products
Chapter 15 : Animal or vegetable fats and oils and their clevage products;
Chapter 16 : Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates
Chapter 17 : Sugars and sugar confectionary
Chapter 18 : Cocoa and cocoa preparations
Chapter 19 : Preparations of cereals, flour, starch or milk; bakers wares
Chapter 20 : Preparations of vegetables, fruit, nuts or other plant parts
Chapter 21 : Miscellaneous edible preparations
Chapter 22 : Beverages, spirits and vinegar
Chapter 23 : Food industry residues & waste; prepared animal feed
Chapter 24 : Tobacco and manufactured tobacco substitutes
Chapter 25 : Salt; sulfur; earth & stone; lime & cement plaster
Chapter 26 : Ores, slag and ash
Chapter 27 : Mineral fuels, mineral oils & products of their distillation; bitumen substances; mineral wax
Chapter 28 : Inorganic chemicals; organic or inorganic compounds of precious metals, of rare:earth metals, of radioactive elements or of isotopes
Chapter 29 : Organic chemicals
Chapter 30 : Pharmaceutical products
Chapter 31 : Fertilizers
Chapter 32 : Tanning or dyeing extracts; tannins & derivatives; dyes, pigments & coloring matter; paint & varnish; putty & other mastics; inks
Chapter 33 : Essential oils and resinoids; perfumery, cosmetic or toilet preparations
Chapter 34 : Soap; waxes; polish; candles; modelling pastes; dental preparations with basis of plaster
Chapter 35 : Albuminoidal substances; modified starch; glues; enzymes
Chapter 36 : Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations
Chapter 37 : Photographic or cinematographic goods
Chapter 38 : Miscellaneous chemical products
Chapter 39 : Plastics and articles thereof
Chapter 40 : Rubber and articles thereof
Chapter 41 : Raw hides and skins (other than furskins) and leather
Chapter 42 : Leather articles; saddlery and harness; travel goods, handbags & similar; articles of animal gut [not silkworm gut]
Chapter 43 : Furskins and artificial fur; manufactures thereof
Chapter 44 : Wood and articles of wood; wood charcoal
Chapter 45 : Cork and articles of cork
Chapter 46 : Manufactures of straw, esparto or other plaiting materials

Chapter 47 : Pulp of wood or of other fibrous cellulosic material; waste & scrap of paper & paperboard
Chapter 48 : Paper & paperboard & articles thereof; paper pulp articles
Chapter 49 : Printed books, newspapers, pictures and other products of printing industry; manuscripts, typescripts and plans
Chapter 50 : Silk, including yarns and woven fabric thereof
Chapter 51 : Wool & animal hair, including yarn & woven fabric
Chapter 52 : Cotton, including yarn and woven fabric thereof
Chapter 53 : Other vegetable textile fibers; paper yarn and woven fabrics of paper yarn
Chapter 54 : Manmade filaments, including yarns & woven fabrics
Chapter 55 : Manmade staple fibres, including yarns & woven fabrics
Chapter 56 : Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
Chapter 57 : Carpets and other textile floor coverings
Chapter 58 : Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
Chapter 59 : Impregnated, coated, covered or laminated textile fabrics; textile articles for industrial use
Chapter 60 : Knitted or crocheted fabrics
Chapter 61 : Apparel articles and accessories, knitted or crocheted
Chapter 62 : Apparel articles and accessories, not knitted or crocheted
Chapter 63 : Other textile articles; needlecraft sets; worn clothing and worn textile articles; rags
Chapter 64 : Footwear, gaiters and the like and parts thereof
Chapter 65 : Headgear and parts thereof
Chapter 66 : Umbrellas, walking:sticks, seat:sticks, riding-crops, whips, and parts thereof
Chapter 67 : Prepared feathers, down and articles thereof; artificial flowers; articles of human hair
Chapter 68 : Articles of stone, plaster, cement, asbestos, mica or similar materials
Chapter 69 : Ceramic products
Chapter 70 : Glass and glassware
Chapter 71 : Natural or cultured pearls, precious or semiprecious stones, precious metals and metals clad therewith and articles thereof; imitation jewelry; coin
Chapter 72 : Iron and steel
Chapter 73 : Articles of iron or steel
Chapter 74 : Copper and articles thereof
Chapter 75 : Nickel and articles thereof
Chapter 76 : Aluminum and articles thereof
Chapter 78 : Lead and articles thereof
Chapter 79 : Zinc and articles thereof
Chapter 80 : Tin and articles thereof
Chapter 81 : Other base metals; cermets; articles thereof
Chapter 82 : Tools, implements, cutlery, spoons & forks of base metal & parts thereof
Chapter 83 : Miscellaneous articles of base metal
Chapter 84 : Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
Chapter 85 : Electric machinery, equipment and parts; sound equipment; television equipment
Chapter 86 : Railway or tramway. Locomotives, rolling stock, track fixtures and parts thereof; mechanical & electro-mechanical traffic signal equip:ment
Chapter 87 : Vehicles, (not railway, tramway, rolling stock); parts and accessories
Chapter 88 : Aircraft, spacecraft, and parts thereof
Chapter 89 : Ships, boats and floating stuctures
Chapter 90 : Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments/apparatus; parts & accessories
Chapter 91 : Clocks and watches and parts thereof
Chapter 92 : Musical instruments; parts and accessories thereof
Chapter 93 : Arms and ammunition; parts and accessories thereof
Chapter 94 : Furniture; bedding, mattresses, cushions etc; other lamps & light fitting, illuminated signs and nameplates, prefabricated buildings
Chapter 95 : Toys, games & sports equipment; parts & accessories
Chapter 96 : Miscellaneous manufactured articles
Chapter 97 : Works of art, collectors' pieces and antiques

VI APPENDIX 2
(*related to chapter III*)

A. Foreign direct investment from Belgium into the CEECs[1]

Table A.III.1 based on data from the Central Balance Sheet Office (NBB) gives an overview of foreign direct investment by Belgian enterprises into the CEECs. In 1999, 365 Belgian enterprises had created 805 affiliates in the CEECs. Although the big enterprises accounted for the largest share of Belgian FDI in the CEECs in terms of invested amounts, many small-size (28%) or medium-size (57%) Belgian enterprises also invested in the CEECs. The average equity participation by Belgian enterprises investing in the CEECs was 75%. However, about 25% of those Belgian enterprises were themselves affiliated to foreign groups, illustrating the strategy of some foreign groups to invest abroad through their Belgian affiliates. Table A.III.2 shows that the impact of their investment in the CEECs on the performance of the mother company is positive (evolution from 1998 to 1999), especially for the companies investing only in this region (including most of the small size enterprises).

TABLE A.III. 3 - Belgian enterprises in CEECs (1999)

	Number of Belgian enterprises	Average equity participation %	Number of foreign affiliates
Czech Republic	108	75	190
Bulgaria	16	82	24
Estonia	5	37	6
Hungary	81	68	139
Latvia	6	82	6
Lithuania	7	62	10
Poland	170	80	300
Romania	59	72	67
Slovak Republic	39	74	54
Slovenia	8	69	9
Total	365	75	805

Source: Central Balance Sheet Office (NBB) and FPB calculations (Note SD-HS-1467/8655).

1. This section has been prepared by Hilde Spinnewyn (FPB). A more complete overview can be obtained upon request (Note SD-HS-1467/8655).

TABLE A.III. 4 - Performance of Belgian enterprises with affiliates in CEECs, variation in % 1998-1999

	Belgian enterprises with affiliates only in the CEECs (n=154)	Belgian enterprises with affiliates in the CEECs and in other regions (n=271)
Number of employees	-2.6	-1.5
Net added value	+3.4	-1.4
Turnover	+0.8	-0.7
Profit or loss after taxes	+20.3	+10.4
Return on equity	+12.0	0.0

Source: Central Balance Sheet Office (NBB) and FPB calculations.

Table A.III.3 gives a list of the most important investments realised by Belgian enterprises in the CEECs over the period 1990-1999. In the Czech Republic, Glaverbel took over the national glass producer in 1991. It now plays an important role with 30 affiliates in 1999. KBC took over the fourth biggest Czech bank in 1999. In Poland, Belgian enterprises were active in the banking sector and in the cement industry. In Hungary, the biggest Belgian investor is Tractebel with a participation in a power station. In Bulgaria, Belgian enterprises took participations in the non-ferrous industry and in the chemical industry. In Romania, an important minority share was taken in a telecommunication company by the Belgian affiliate of France Telecom.

TABLE A.III. 5 - Most important Belgian affiliates in the CEECs with shareholders funds above 50 million USD (1999)

Name of the affiliate	Name of the Belgian owner	Year of participation	Sector	Share %	Shareholders funds 1000 US dollars	Net profit 1000 US dollars
Czech Republic						
- Ceskoslovenska Obchodni Banka	KBC	1999	finance	82.35	877479	78584
- Ceskomoravsky Cement	CBR	1991	cement	48.58	181626	15068
- Glaverbel Czech	Glaverbel	1991	glass	100.00	119216	7802
- Delvita	Delhaize	1991	food store	100.00	90513	8
Bulgaria						
- Union Minière Pirdop Copper	Union Minière	1997	copper	97.73	75975	-16482
- Solvay Sodi	Solvay	1997	chemicals	67.00	72207	-9944
Hungary						
- Dunamenti Erömü	Tractebel	1998	energy	74.81	137638	32088
- K&H Bank	KBC	1998	finance	32.62	79943	-32745
Poland						
- Kredyt Bank	KBC	1994	finance	48.59	156999	36138
- ZCW Gorazdze	CBR	1996	cement	93.01	114601	11214
Romania						
- Mobil Rom	France telecom participations Belgium	1999	telecommu-nication	21.45	104768	22167

Source: Central Balance Sheet Office and FPB calculations (Note SD-HS-1467/8655).

B. Rating the transition economies

TABLE A.III. 6 - Sovereign ratings methodology profile (Standard & Poor's)

Political risk

- Form of government and adaptability of political institutions
- Extent of popular participation
- Orderliness of leadership succession
- Degree of consensus on economic policy objectives
- Integration in global trade and financial system
- Internal and external security risks

Income and economic structure

- Living standards, income, and wealth distribution
- Market versus nonmarket economy
- Resource endowments and degree of diversification

Economic growth prospects

- Size and composition of savings and investment
- Rate and pattern of economic growth

Fiscal flexibility

- General-government operating and total budget balances
- Tax competitiveness and tax-raising flexibility
- Spending pressures

Public debt burden

- General-government financial assets
- Public debt and interest burden
- Currency composition and structure of public debt
- Pension liabilities
- Banking, corporate, other contingent liabilities

Price stability

- Trends in price inflation
- Rates of money and credit growth
- Exchange-rate policy

- Degree of Central Bank autonomy

Balance of payments flexibility

- Impact of fiscal and monetary policies on external accounts
- Structure of the current account
- Composition of capital flows

External debt and liquidity

- Size and currency composition of public external debt
- Importance of banks and other public and private entities as contingent liabilities of the sovereign
- Maturity structure and debt service burden
- Level and composition of reserves and other public external assets

Source: Standard & Poor's, *Rating the transition economies*, April 2001.

VII Appendix 3
(*related to chapter IV*)

TABLE A.IV. 1 - Population of nationals of the 10 CEEC-countries in Belgium (on January 1) - 1989-2000

													%	
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1999	2000
Foreigners														
- Total	868757	880812	904528	922502	909265	920568	922338	909769	911921	903120	891980	897110	100.00	100.00
- Men	468985	475034	487063	496556	490356	495613	492651	481734	480027	472864	464834	465903	52.11	51.93
- Women	399772	405778	417465	425946	418909	424955	429687	428035	431894	430256	427146	431207	47.89	48.07
CEEC-10 countries														
- Total	*5120*	*5127*	*5379*	*5291*	*5369*	*6056*	*10185*	*9571*	*10336*	*10773*	11332	12300	100.00	100.00
- Men						*2524*	*4438*	*3787*	*3938*	*3953*	4165	4501	36.75	36.59
- Women	*Subtotals*					*3532*	*5747*	*5784*	*6398*	*6820*	7167	7799	63.25	63.41
Bulgaria														
- Total							863	635	726	799	846	929	7.47	7.55
- Men							420	259	308	336	345	354	3.04	2.88
- Women							443	376	418	463	501	575	4.42	4.67
Czech Republic														
- Total											380	423	3.35	3.44
- Men											137	150	1.21	1.22
- Women											243	273	2.14	2.22
Estonia														
- Total											68	81	0.60	0.66
- Men											32	36	0.28	0.29
- Women											36	45	0.32	0.37
Hungary														
- Total						735	831	895	947	966	1022	1089	9.02	8.85
- Men						341	381	394	404	412	422	455	3.72	3.70
- Women						394	450	501	543	554	600	634	5.29	5.15
Latvia														
- Total											97	109	0.86	0.89
- Men											36	40	0.32	0.33
- Women											61	69	0.54	0.56
Lithuania														
- Total											88	112	0.78	0.91
- Men											29	40	0.26	0.33
- Women											59	72	0.52	0.59

													%	
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1999	2000
Poland														
- Total	4709	4689	4938	4821	4812	4902	5211	5371	5718	6034	6319	6749	55.76	54.87
- Men						1946	1975	1915	1946	2006	2170	2334	19.15	18.98
- Women						2956	3236	3456	3772	4028	4149	4415	36.61	35.89
Romania														
- Total							2652	1964	2178	2150	2063	2311	18.21	18.79
- Men							1366	911	968	910	820	890	7.24	7.24
- Women							1286	1053	1210	1240	1243	1421	10.97	11.55
Slovak Republic														
- Total											265	317	2.34	2.58
- Men											74	105	0.65	0.85
- Women											191	212	1.69	1.72
Slovenia														
- Total											184	180	1.62	1.46
- Men											100	97	0.88	0.79
- Women											84	83	0.74	0.67
anc.Tchecosl.														
- Total	411	438	441	470	557	419	628	706	767	824				
- Men						237	296	308	312	289				
- Women						182	332	398	455	535				

Sources: NIS and calculations of the FPB.

A. Population of nationals of the 10 CEEC-countries in Belgium per large age group in 1.1.2000

TABLE A.IV. 2 - Population of nationals of the 10 CEEC-countries in Belgium per large age group

	Total	0-17 age	18-64	aged 65 and +
Total population	*10239085*	*2166031*	*6357961*	*1715093*
Foreigners	*897110*	*161279*	*646048*	*89783*
CEEC-10 countries	**12300**	**1723**	**9373**	**1204**
Bulgaria	929	162	738	29
Czech Republic	423	69	336	18
Estonia	81	18	63	0
Hungary	1089	134	860	95
Latvia	109	6	101	2
Lithuania	112	18	93	1
Poland	6749	934	4881	934
Romania	2311	319	1928	64
Slovak Republic	317	50	250	17
Slovenia	180	13	123	44

Sources: NIS and calculations of the FPB.

TABLE A.IV. 3 - Age structure of the population of the nationals of the 10 CEEC-countries in Belgium

	Total	0-17 age	18-64	aged 65 and +
Total population	*100.00*	*21.15*	*62.10*	*16.75*
Foreigners	*100.00*	*17.98*	*72.01*	*10.01*
CEEC-10 countries	**100.00**	**14.01**	**76.20**	**9.79**
Bulgaria	100.00	17.44	79.44	3.12
Czech Republic	100.00	16.31	79.43	4.26
Estonia	100.00	22.22	77.78	0.00
Hungary	100.00	12.30	78.97	8.72
Latvia	100.00	5.50	92.66	1.83
Lithuania	100.00	16.07	83.04	0.89
Poland	100.00	13.84	72.32	13.84
Romania	100.00	13.80	83.43	2.77
Slovak Republic	100.00	15.77	78.86	5.36
Slovenia	100.00	7.22	68.33	24.44

Sources: NIS and calculations of the FPB.

TABLE A.IV. 4 - Foreign migration of the nationals of the 10 CEEC - countries (to and from Belgium) - 1998-1999

								%	
	1993	1994	1995	1996	1997	1998	1999	1998	1999
Foreigners								PECO en % étrangers	
- Migration balance	*21847*	*21874*	*20009*	*19460*	*14682*	*14436*	*21340*	*8.51*	*7.15*
- Immigrations	*53042*	*55965*	*53138*	*51884*	*49240*	*50693*	*57784*	*4.38*	*4.30*
- Emigrations	*21842*	*22638*	*21598*	*22010*	*23474*	*23905*	*24380*	*2.81*	*2.70*
- Removals-reregistered	*9353*	*11453*	*11531*	*10414*	*11084*	*12352*	*12064*	*2.59*	*2.51*
CEEC-10								PECO en % total PECO	
- Migration balance	*506*	*713*	*727*	*976*	*1095*	1228	1525	100.00	100.00
- Immigrations	*1043*	*1335*	*1643*	*1756*	*2076*	2219	2486	100.00	100.00
- Emigrations	*279*	*325*	*453*	*499*	*620*	671	658	100.00	100.00
- Removals-reregistered	*258*	*297*	*463*	*281*	*361*	320	303	100.00	100.00
	Subtotals								
Bulgaria									
- Migration balance		-17	19	57	132	128	138	10.42	9.05
- Immigrations		191	137	119	180	197	227	8.88	9.13
- Emigrations		68	46	29	24	31	52	4.62	7.90
- Removals-reregistered		140	72	33	24	38	37	11.88	12.21
Czech Republic									
- Migration balance						36	23	2.93	1.51
- Immigrations						96	94	4.33	3.78
- Emigrations						49	39	7.30	5.93
- Removals-reregistered						11	32	3.44	10.56
Estonia									
- Migration balance						22	13	1.79	0.85
- Immigrations						31	29	1.40	1.17
- Emigrations						9	10	1.34	1.52
- Removals-reregistered						0	6	0.00	1.98
Hungary									
- Migration balance	41	122	106	76	63	102	104	8.31	6.82
- Immigrations	130	193	198	165	198	221	229	9.96	9.21
- Emigrations	49	43	41	43	76	71	72	10.58	10.94
- Removals-reregistered	40	28	51	46	59	48	53	15.00	17.49
Latvia									
- Migration balance						29	12	2.36	0.79
- Immigrations						39	28	1.76	1.13
- Emigrations						3	14	0.45	2.13
- Removals-reregistered						7	2	2.19	0.66
Lithuania									
- Migration balance						24	22	1.95	1.44
- Immigrations						39	39	1.76	1.57
- Emigrations						13	9	1.94	1.37
- Removals-reregistered						2	8	0.63	2.64

	1993	1994	1995	1996	1997	1998	1999	% 1998	% 1999
Poland									
- Migration balance	396	564	499	610	594	636	739	51.79	48.46
- Immigrations	735	793	800	946	1063	1118	1151	50.38	46.30
- Emigrations	182	152	229	275	376	354	327	52.76	49.70
- Removals-reregistered	157	77	72	61	93	128	85	40.00	28.05
Romania									
- Migration balance			-2	163	234	212	440	17.26	28.85
- Immigrations			332	324	384	387	587	17.44	23.61
- Emigrations			95	74	66	104	87	15.50	13.22
- Removals-reregistered			239	87	84	71	60	22.19	19.80
Slovak Republic									
- Migration balance						28	52	2.28	3.41
- Immigrations						73	81	3.29	3.26
- Emigrations						36	23	5.37	3.50
- Removals-reregistered						9	6	2.81	1.98
Slovenia									
- Migration balance						11	-18	0.90	-1.18
- Immigrations						18	21	0.81	0.84
- Emigrations						1	25	0.15	3.80
- Removals-reregistered						6	14	1.88	4.62
anc.Tchecosl.									
- Migration balance	69	44	105	70	72				
- Immigrations	178	158	176	202	251				
- Emigrations	48	62	42	78	78				
- Removals-reregistered	61	52	29	54	101				

Sources: NIS and calculations of the FPB.

B. Age structure of the net migration flow of the nationals of the 10 CEEC-countries, Belgium 1999

TABLE A.IV. 5 - Migration balance of nationals of the 10 CEEC-countries in Belgium per 5 year groups in 1999

	Total	0-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60 and +
CEEC-10 countries	**1525**	**227**	**120**	**293**	**390**	**206**	**84**	**88**	**57**	**34**	**8**	**18**
Bulgaria	138	30	13	2	31	28	8	11	5	0	-1	11
Czech Republic	23	6	0	-1	12	1	0	3	1	2	0	0
Estonia	13	3	0	1	4	2	1	0	2	0	0	0
Hungary	104	13	13	8	39	9	-5	6	10	5	5	2
Latvia	12	0	0	5	7	-1	1	0	0	0	1	0
Lithuania	22	-2	1	15	2	0	4	1	0	0	0	0
Poland	739	134	65	135	173	91	57	42	30	19	0	-6
Romania	440	42	26	122	103	81	14	20	11	8	3	10
Slovak Republic	52	9	3	3	19	2	7	5	3	0	0	1
Slovenia	-18	-7	0	3	-1	-6	-3	0	-5	0	-1	0

Sources: NIS and calculations of the FPB.

TABLE A.IV. 6 - Age structure of the migration rate of the nationals of the 10 CEEC-countries in Belgium per 5 year groups in 1999

	Total	0-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60 and +
CEEC-10 countries	**1**	**0.15**	**0.08**	**0.19**	**0.26**	**0.13**	**0.06**	**0.06**	**0.04**	**0.02**	**0.01**	**0.01**

Sources: NIS and calculations of the FPB.

C. Net additional working population from the 10 CEEC-countries per age group

TABLE A.IV. 7 - Age structure of the migration balance of nationals from the 10 CEEC-countries in Belgium per 5 year groups in 1999 and the supposed splitting up of the migration balance from 2002 to 2012

	en %	1999	2002	2003	2004	2005	2006	2007	2008	2009	2010
0-14	0.149	227	398	343	288	233	194	155	115	76	36
15-19	0.078	120	209	181	152	123	102	82	61	40	19
20-24	0.192	293	514	443	372	301	250	200	149	99	47
25-29	0.255	390	683	588	494	399	332	266	198	131	62
30-34	0.135	206	361	311	261	211	176	141	105	69	33
35-39	0.055	84	148	127	107	87	72	58	43	28	14
40-44	0.057	88	154	132	111	90	75	60	45	29	14
45-49	0.037	57	100	86	72	58	49	39	29	19	9
50-54	0.022	34	59	51	43	35	29	23	17	11	5
55-59	0.005	8	14	12	10	8	7	5	4	3	1
60 et +	0.012	18	32	28	23	19	16	13	9	6	3
Total		1525	2673	2303	1934	1564	1301	1041	774	512	245

Sources: NIS, Boeri and Brücker report and calculations of the FPB.

TABLE A.IV. 8 - Participation rate per age groups (general forcasts for Belgium)

	1999	2002	2003	2004	2005	2006	2007	2008	2009	2010
0-14	0	0	0	0	0	0	0	0	0	0
15-19	0.09	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
20-24	0.61	0.60	0.60	0.60	0.61	0.61	0.61	0.61	0.61	0.61
25-29	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
30-34	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
35-39	0.87	0.88	0.88	0.88	0.89	0.89	0.89	0.89	0.89	0.89
40-44	0.84	0.84	0.85	0.85	0.85	0.85	0.86	0.86	0.86	0.87
45-49	0.79	0.81	0.81	0.82	0.82	0.82	0.82	0.82	0.83	0.83
50-54	0.69	0.71	0.72	0.72	0.73	0.73	0.74	0.74	0.75	0.75
55-59	0.50	0.54	0.55	0.56	0.57	0.58	0.58	0.59	0.59	0.60
60 and +	0.05	0.05	0.05	0.06	0.07	0.07	0.08	0.09	0.09	0.10

Sources: NIS, Boeri and Brücker report and calculations of the FPB.

TABLE A.IV. 9 - Net additional labour force from 10 CEEC-countries per age groups

	1999	2002	2003	2004	2005	2006	2007	2008	2009	2010
0-14	0	0	0	0	0	0	0	0	0	0
15-19	11	20	18	15	12	10	8	6	4	2
20-24	178	310	268	225	182	152	121	90	60	29
25-29	356	620	534	449	363	302	241	179	119	57
30-34	188	328	284	238	193	160	128	95	63	30
35-39	73	130	112	95	77	64	51	38	25	12
40-44	74	130	112	94	76	64	51	38	25	12
45-49	45	80	70	59	48	40	32	24	16	8
50-54	23	42	37	31	25	21	17	13	9	4
55-59	4	8	7	6	5	4	3	2	2	1
60 and +	1	2	2	1	1	1	1	1	1	0
Total	953	1670	1442	1213	982	818	655	488	323	154

Sources: NIS, Boeri and Brücker report and calculations of the FPB.

TABLE A.IV. 10 -General participation rate of the CEEC-nationals

1999	2002	2003	2004	2005	2006	2007	2008	2009	2010
0.6250	0.6247	0.6262	0.6271	0.6279	0.6284	0.6291	0.6296	0.6303	0.6309

Sources: NIS, Boeri and Brücker report and calculations of the FPB.

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