

**Should the international community be concerned about
the enlargement of Regional Trade Blocks?
The case of the European Union**

BY

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ABSTRACT

This research assesses the impact of enlarging regional trade agreements (RTAs) on external producers' market share within the RTAs. More specifically, it focuses on the accession of the less advanced nations to the European Union, to see whether there is trade diversion with the rest of the world because of those nations' comparative advantages in cheap labour and lower transaction costs. The findings of this study support the claim that the effects of RTA enlargement on trade are ambiguous. However, the results also show that the effects bear more resemblance to trade creation than trade diversion. The study concludes that in upward trending markets an RTA enlargement does not produce serious adverse consequences for other countries.

DEDICATION

For my parents, Elżbieta and Andrzej for their continuous support in even the wildest of my endeavours.

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TABLE OF CONTENTS

APPROVAL	ii
ABSTRACT	iii
DEDICATION	iv
ACKNOWLEDGEMENTS	v
TABLE OF CONTENTS	vi
LIST OF TABLES	viii
LIST OF FIGURES	viii
LIST OF ABBREVIATIONS	ix
INTRODUCTION	1
1. Thesis Introduction.....	1
2. Case Study: EU in perspective.....	3
3. Overview of the Thesis	4
CHAPTER I: THEORETICAL DISCUSSION AND LITERATURE	
REVIEW	7
1. Theory Introduction.....	7
2. The Paths to Free Trade: Debates in the literature	8
3. Literature Review's Conclusion	21
CHAPTER II: CASE STUDY	22
1. Case Study Introduction.....	22
2. Brief Literature Review.....	25
3. Case Study.....	31
a. Methodological Rationale	31
b. Methodology (see Appendix 1)	32
c. Analysis	34
d. Further Analysis.....	35
e. Case Study Conclusion	37
4. Indicators	38
a. Trade Openness	38
b. Current Account	42

c. Import and export fluctuations	45
5. Chapter Conclusion.....	52
CHAPTER III: THE CURRENT ENLARGEMENT.....	54
1. Chapter Introduction	54
2. Brief overview of the CEEC situation and how we arrived at the enlargement	55
3. Scorecard for the Current Enlargement	58
4. What do the indicators tell us about the potential of the CEECs enlargement and its effects on trade with the rest of the world?	69
a. Trade openness.....	69
b. Current Account balance	73
c. Import and export fluctuations	77
5. Chapter Conclusion.....	80
CHAPTER IV: CONCLUSION	82
1. Is enlargement of the EU detrimental for the trading world?	82
2. Reflection On Theory/Future Implications	86
REFERENCE LIST.....	88
APPENDIX A.1.....	99
APPENDIX A.2.....	100
APPENDIX A.3.....	102

LIST OF TABLES

Table 2.1: Spain versus Poland.....	24
Table 2.2: Trade Openness in Goods	39
Table 2.3: Trade openness in services	41
Table 2.4: Current Account Balance in billion \$.....	43
Table 2.5: Current Account Balance as a % of GDP	44
Table 2.6: EU Import totals and US and Japan's EU imports in million US dollars	46
Table 2.7: EU Export totals and US and Japanese exports to EEC/EU in million US dollars	49
Table 3.1: Country Comparison for CEECs in 2003.....	57
Table 3.2: Current Account Balances with the US in billion ECU/EURO	75
Table 3.3: Current Account Balances with Japan in billion ECU/EURO	76

LIST OF FIGURES

Figure 2.1: Percentage change in the EU imports	47
Figure 2.2: Percentage change in the EU exports.....	50
Figure 3.1: Trade Openness	70
Figure 3.2: Protection in the agriculture	72

LIST OF ABBREVIATIONS

ARIMA	Auto-regressive integrated moving average model
ASEAN	Association of the Southeast Asian nations
CAP	Common Agricultural Policy
COMECON	Council for Mutual Economic Assistance
CEECs	Central and Eastern European countries
CU	Customs Union
EC	European Commission
ECSC	European Coal and Steel Community
ECU/EURO	European Currency Units
ERDF	European Regional Development Fund
EEC	European Economic Community
EFTA	European Free Trade Area
EU	European Union
EUROATOM	European Atomic Energy Community
EUROSTAT	European Statistical Organization
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FTA	Free Trade Area
G7	Group of Seven
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMP	Global Mediterranean Policy
GNP	Gross National Product
IMF	International Monetary Fund
ITO	International Trade Organization
LDCs	Less Developed Countries
MERCOSUR	El Mercado Commun del Sur
MTN	Multilateral Trade Negotiations
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
PHARE	Poland and Hungary Assistance for Reconstructing the Economy
ROW	Rest of the World
RTA	Regional Trade Agreement
TEMPUS	Cooperation Program for Higher Education managed by the EC
TDC	Trade Development Council
UNCTAD	UN Conference for Trade and Development
UN	United Nations
US	United States
WTO	World Trade Organization

INTRODUCTION

'I don't think there is any reason for major changes in EU trade policy vis-à-vis the US or in US trade policy vis-à-vis Europe'

Pascal Lamy

1. Thesis Introduction

In the 1980s the world experienced a renewed interest in the liberalization of trade via regional agreements. Such a trend had occurred before in the 1960s but it had little success because at that point the major trader, the US, was not interested in supporting regionalism. The situation was quite different the second time because the US has embraced regionalism by first completing a Free Trade Agreement (FTA) with Israel in 1985 and proceeding to negotiate a larger FTA with Canada (the CUSFTA) which culminated in the conclusion of the North American Free Trade Agreement in 1994 (WTO: RTAs notified to GATT/WTO and in Force, 2004). The EU¹ had recognized the value of regional integration in the 1950s when it concluded the Treaty of Rome and proceeded to expand in 1973 to include Denmark, Ireland and the United Kingdom as well as signing the Lomé agreements with the Asian, Caribbean and Pacific (ACP) former colonies (WTO, 2004 WTO: RTAs notified to GATT/WTO and in Force, 2004). In the 1980s, the EU accelerated its integration efforts by enlarging twice in 1981 to Greece and in 1986 to Spain and Portugal. Taking a cue from the industrialized trading powers, the developing world also began to pursue regional trade pacts. After the initial efforts and cooperation agreements between Brazil and Argentina in the 1980s, Paraguay and Uruguay joined the former two nations in signing the Treaty of Asunción in 1991. This resulted in the

¹ This thesis will use the term "EU" to refer to the supranational entity in general. However, in some specific instances, in the case study and the short history review, this thesis will refer to EU as EEC or EEC/EU to capture more accurately the terminology used at the given time frame to describe the European integration.

creation of MERCOSUR, designed to be a common market in Latin America (Red Académica Uruguaya, 2003). Although the Association of the Southeast Asian Nations (ASEAN) existed since the 1960s, member states did not conclude preferential trade agreements among themselves until well into the 1970s (ASEAN, 2004). The ASEAN nations adopted an Enhanced PTA Programme in the 1980s, which further liberalized and thereby enhanced trade among the members (ASEAN, 2004). Hence, the 1980s were a cradle for the revival of regionalism all around the world and the trend continues until today.

In light of this persistent trend, the discussion about the implications² of multilateral versus regional trade liberalization has continued within both academic and political communities. This debate is also prompted by the fact that 162 RTAs were in force as of 2002 and over half of them emerged after 1995 (Center for International Development at Harvard University, 2004). Furthermore, if the current level of enthusiasm for RTAs remains unchanged, the World Trade Organization estimates that over 300 RTAs will be in effect by 2007 (Center for International Development at Harvard University, 2004). Thus, given such a widespread acceptance for RTAs, it is important to consider the effects that they have on multilateral trade liberalization efforts and on achieving free trade in general. In debating this issue, neither neoliberal academics nor politicians seem to have reached any consensus on the effects of RTAs on the world's trade, except perhaps in their agreement that multilateral trade is generally the superior way of achieving free trade (see the next Chapter). This thesis attempts to contribute to the analytical framework for examining RTAs by focusing on the case study of the European Union (EU) and its enlargements. The choice of the EU was made because it is the most dynamically expanding RTA and also due to a strong personal interest. Hence, this thesis will hopefully

² The main implication of multilateral liberalization is trade liberalization for all and regionalism implies a more selective freeing of trade flows. The literature review will address this discussion in more detail.

contribute to the debate surrounding the expansion of regional blocs and its effects on trade.

2. Case Study: EU in perspective

European economic integration began with the formation of the European Coal and Steel Community (ECSC) in 1951 between Belgium, West Germany, Luxembourg, France, Italy and the Netherlands (Europa website, http://europa.eu.int/abc/history/index_en.htm). The ECSC was very successful in its goal of liberalizing trade in those two industries, which in turn led to the willingness of European nations to further integrate their economies. In 1957, the Treaty of Rome was signed creating the European Economic Community (EEC) and the less successful European Atomic Energy Community (EURATOM) (Bulmer, 2001). Simultaneous to these new economic arrangements, the EEC also developed political and organizational structures that fully crystallized and eventually merged the structures of the three existing agreements, ECSC, EEC and EURATOM in 1967. Integration stagnated somewhat in the 1960s as French president Charles DeGaulle resisted further concessions and stood firmly against the UK joining the EEC³. That trend of animosities finally subsided in 1973 when the UK, Ireland and Denmark acceded to the Community (Bulmer, 2001).

The European Union was established in 1993 with the Treaty of Maastricht which, in the further integration effort, added new areas of cooperation beyond the economic realm, such as defence and justice. By then, the EU had grown to include Greece (1981), Spain and Portugal (1986), and Austria, Sweden and Finland which joined in 1995 (Europa website, http://europa.eu.int/abc/history/index_en.htm). The most recent and significant accession took place in May 2004, when 10 transition economies were

³ DeGaulle felt that if the UK joined, Germany would gain an ally within the Community and hence increase its influence. He felt that this could lead to a further evaporation of French sovereignty (Foundation and Institute Charles De Gaulle, http://www.charles-de-gaulle.org/article.php?id_article=178)

incorporated into the EU. The degree of economic integration in the EU is much more substantial than it is in other RTAs. Since 1999, twelve members of the EU have adopted a single currency, the EURO, and the entire Community has been a more in keeping with an authentic rather than a theoretical 'Single Market' since 1992. However, many areas of the Single Market remain uncompleted. Still the effort is being made to speed up this process, particularly in financial service markets (Europa website, http://europa.eu.int/abc/history/index_en.htm).

Therefore, as a trading bloc, it has taken a long time to form such a complex structure, and it is by no means finished yet. Rather, the EU is facing many challenges, not only internally from the economic and political discrepancies among its members but also internationally, due to multilateral economic regulations and international political pressures. As such, EU trade policy is a delicate balancing act between these competing interests, and this thesis aims to analyze the trade policy of the EU at a vulnerable and difficult time of enlargement, when balancing the international interest with that of the Union becomes very challenging and complex. This thesis will focus on the issues of trade diversion and creation as a means to gauge whether integration via RTAs is beneficial or detrimental to the world's trade. For the purpose of this thesis trade diversion will be defined as trade shifts due to regional integration that cause a displacement of market supply from a more efficient external producer to a less efficient internal one (Cohn, 2005). Trade creation implies a situation when a more efficient external producer gains vis-à-vis a less efficient domestic producer as a result of regional integration (Cohn, 2005).

3. Overview of the Thesis

This thesis is divided into three sections. Chapter I will discuss theoretical debates surrounding the proliferation of regionalism as a means of providing the background for the analysis of how the EU's expansion has affected trade. Essentially, this section will focus on surveying the literature to see if any prevalent patterns emerge in the scholarly debates with regards to the effect of

RTAs on world trade and welfare⁴. Although a variety of theoretical perspectives offer their views on this issue, liberal scholars have produced the most robust body of literature and that is necessary to establish a proper basis for discussing this topic. Also, since this perspective is the most prevalent and relevant to the economic focus of this thesis the theoretical discussion here will be limited to liberal economic views on this issue.

Chapter II will look at the Iberian accession to the European Union in 1986. Specifically, it will focus on the effects of Spain's accession on the EU's trade relations with external suppliers. In due course, this section will try to identify whether enlargement leads to trade diversion against external producers. This chapter itself will be divided into five sub-sections. The first section will be an introduction followed by a brief overview of studies of the Iberian enlargement. This brief literature survey will demonstrate the predictions of the effects of enlargement on trade. The third section will be an ARIMA analysis of the Spanish enlargement. This analysis aims to determine whether trade diversion has in fact occurred away from the external producers, and thus benefited Spanish exports to the EU. The fourth section in Chapter II will look at three pertinent trade indicators including trade openness, the current account balance, and export and import fluctuations. Subject to the availability of data, those indicators will be analyzed prior to, and after the 1986 enlargement. This analysis is twofold as well. With reference to the significant Spanish economy, it aims to determine whether the EEC enlargement in 1986 led to external trade diversion. Second, it will also set the stage for a brief logical comparison between

⁴ For the purpose of this thesis, welfare will be defined as " the economic well being of an individual, group, or economy. For individuals, it is conceptualized by a utility function. For groups, including countries and the world, it is a tricky philosophical concept, since individuals fare differently. In trade theory, an improvement in welfare is often inferred from an increase in real national income." (Deardorff, 2001). Therefore, within the scope of this definition trade creation/diversion will be a welfare improving outcome if it leads to an increase in the real national income of the states. In line with this definition, trade creation is assumed to be more of a mutually welfare improving outcome. Trade diversion on the other hand can constitute an improvement on an individual state welfare, but a decline in the partner state welfare.

the 1986 enlargement and the current one (2004) as discussed in Chapter III and the conclusion of this thesis.

Chapter III will look at the current EU enlargement and will provide a brief analysis of its potential effects on world trade. This Chapter consists of five sub-sections. The first section is an introduction followed by a second section that offers a brief discussion of the experience of the Central and Eastern European (CEECs) countries as they attained membership in the EU. This section sets the stage for this analysis and also points to some problems facing the CEEC economies. The third section is essentially a scorecard of the current enlargement. It points to the possible negative and positive effects of accession of the CEECs to the EU. The purpose of this section is to decipher whether there is any dominant trend that could indicate a primary effect of the accession on world trade. The fourth section looks at the same three indicators as in Chapter II- trade openness, current account balance and import and export fluctuations- prior to enlargement, and attempts to determine whether the pattern of economic activity within the EU prior to enlargement could be indicative of external trade diversion or external trade creation after the accession. The final section will reveal concluding thoughts on the nature of this analysis.

The conclusion will assess and compare the enlargement effects of the accession of Spain and the CEECs in order to support the view that an individualized analysis framework, such as case studies, is of immense value in analysing the effects of RTAs on trade.

CHAPTER I: THEORETICAL DISCUSSION AND LITERATURE REVIEW

1. Theory Introduction

The importance of international trade in the contemporary world is undisputable. Whether one is a consumer enjoying the benefits of decreased prices due to trade liberalization, or a producer, profiting from larger sales in an expanded market, international trade has an undeniable impact on everyday life⁵. However, the direction and scope of international trade remains highly controversial as scholars have tried to measure its drawbacks and benefits.

In keeping with their emphasis of measuring interactions among states in terms of power, realists see trade as of a zero-sum game of power relations among states (Cohn, 2000). Historical structuralists would counter that trade is another way to exploit the South and create more inequality among nations. Neoliberals, on the other hand, would favour free trade as a way to achieve efficiencies and gain benefits from economies of scale (Cohn, 2000). Neoliberal economists believed that the market should function with minimal involvement of the state and that the "invisible hand" of the market will benefit the society a whole (Cohn, 2000). They assume that if the market operates freely these international interactions will be mutually beneficial for all actors. Distribution is less of a concern in neoliberal international interactions (Cohn, 2000). Neoliberals

⁵ It is understood that the effects of trade openness can be broadly perceived as the effects of globalization. There are many authors that discuss globalization in terms of economics and trade in more depth (Flighstein & Merand, 2002; Cohn, 2002; Held, 1998; Held & McGrew, 2002). Globalization as such could be a part of the explanatory discussion of this thesis since it is such a broad concept with many economic and non-economic facets. However, this thesis concerns itself with a specific issue of trade effects of RTA enlargement and as such it does not delve into a more broad discussion of globalization. A brief mention of globalization will appear in the literature review since Padoan discusses globalization as a propeller for regionalism, however this will be only as a background of his argument.

want free trade and free finance, and are generally in favour of business interactions that are based on comparative advantage⁶. Though they are relevant positions, this literature review is not concerned with either the realist or the historical structuralist perspective, and thus will only analyze neoliberal views on regional trade. This choice was made under the assumption that the neoliberal economic framework is the most prevalent in the world of contemporary trade policy, and as such will serve as an effective context from which to observe the direction and influence of preferential trade agreements. Hence, the objective of this review is to present the discourse around the issue of how best to reduce trade barriers and expand market access. Specifically, it will look at the debate surrounding both the beneficial and detrimental effects associated with Regional Trade Agreements (RTAs).

2. The Paths to Free Trade: Debates in the literature

In principle, the neoliberal paradigm is crystal clear in its support of the concept of free trade. In fact, Krugman specifically states, in his article appropriately entitled "Is Free Trade Passé?", that neoliberals continue to view the pursuit of free trade as a desirable and legitimate enterprise (1993 & Krueger,1992). However, this enthusiastic acceptance of free trade has not gone uncontested. The major contention is that neoliberal economic scholars hold distinct views on how best to achieve free trade. The literature on this issue can loosely be divided into three streams. Scholars such as Bhagwati, avidly maintain that trade liberalization should be achieved through multilateral channels. This group of academics believes that multilateral liberalization via the GATT/WTO framework is not only the best but the only way to assure that free trade

⁶ Comparative advantage is understood here as trade advantage that one country may have in a given product compared to another nation. As such, the two countries benefit from trading between each other because the second nation is likely to be able to produce the given product at a relatively lower cost (Cohn, 2000).

prevails. They are quite critical of RTAs and charge them with being discriminatory and hence constituting a blatant threat to the free trade objective.

Other neoliberal scholars, like Krugman, depict RTAs in a more positive light. They assert that RTAs are a more effective means of achieving free trade and can even prove to be a stepping-stone to multilateral trade agreements. They also point out that RTAs are not necessarily welfare distorting. A final group of academics participating in the debate, like Panagariya and Findley, do not see enough evidence to date to pass judgment on RTAs one way or the other. Moreover, they also note that the effects of RTAs may not be uniform since some are more welfare improving than others. Therefore, this review will first look at the two ways of achieving free trade through multilateral and regional integration. Since there is little controversy on the superiority of multilateral liberalization among neoliberal scholars, this analysis will focus on the debate in the literature surrounding the "second best" option⁷, RTAs, and their effects on trade. This will set the stage and explain the need for a case study of the EU's enlargement and its effects on trade.

The multilateral approach to free trade is embedded within the World Trade Organization, which encompasses many legal obligations, and evolved from the General Agreement on Tariffs and Trade (GATT). GATT was formed in 1947, and was the first trade agreement that committed the members to negotiate reductions in the high tariff levels in the post World War II era (Hoekman & Kostecky, 1995). GATT acquired the informal status of an international organization by default because the proposed International Trade Organization (ITO), a formal institution designed to govern international trade, was not ratified by the US Congress (Krueger, 1999).

Therefore, GATT signatories agreed to negotiate tariff reductions to stimulate international trade without institutionalizing their commitment. The

⁷ Scholars call RTAs a 'second best' option of trade liberalization since there is a general agreement that multilateral liberalization is the best way to achieve free trade.

multilateral trade system that emerged was very successful and progressed well beyond expectations in its capacity to liberalize trade. Krueger points out that GATT was an effective 'interim agreement' and a good reflection of the US adherence to the multilateral system despite their inability to ratify the ITO (1999, p.106). However, the process became stalled when at the 1982 Ministerial meeting, the member states failed to produce an agreement to launch a new round of negotiations. As a result of the impasse, the US became frustrated with the multilateral route, and opted for a "two-track approach" by forming its first RTA with Israel in 1985 (Krueger, 1999, p.106). This strategy was successful in persuading the reluctant EU Ministers to agree to commence a new round of negotiations. However, this move also legitimized regional trade agreements (RTAs) as a way to obtain free trade more efficiently.

This is not to argue that the GATT framework has collapsed since then. On the contrary, multilateral trade liberalization was institutionalized in 1995 by the replacement of the informal GATT with the formal World Trade Organization (GATT still exists as the largest agreement under the WTO). Also, since the Uruguay Round, trade negotiations are a "single undertaking", which means that all WTO members have to agree to incorporate all of the new agreements into their own trade regulations. Beyond the WTO's efforts to remove all obstacles to trade, including the less visible ones such as non-tariff barriers it also seeks to maintain the GATT-inspired commitment to non-discrimination and reciprocity⁸ (Bagwell & Staiger, 2004). Furthermore, the negotiations conducted through this process have progressed beyond trade in goods and now include regulatory frameworks for intellectual property, investment and services. The creation of such a framework was very significant as the *Economist* contends that the GATT/WTO not only encouraged trade liberalization but also that without this framework "rich countries' (...) liberalization would not have happened"

⁸ Non-discrimination and reciprocity are two of the global trade regime principles. Other ones include trade liberalization, safeguards and to a lesser extent development (Cohn, 2000).

(Economist, 2002, p. 72). Krugman agrees adding that now, as compared to the turn of the century, "most trade oriented economies (...) have much higher trade shares than ever before" (Krugman, 1995, p.330). Therefore, multilateral trade liberalization is given much of the credit for the gradual removal of a variety of trade barriers. Further, it is also claimed that the multilateral approach is the most effective and sometimes the only way to proceed towards freer trade.

Despite impressive progress in multilateral trade negotiations, states have continued to pursue RTAs. In 1998, the WTO listed 98 registered RTAs, and the trend has grown rapidly ever since (Krueger, 1999, p.107). In fact, in 2002, the total number of RTAs increased to 172 (Panagariya, 2002). Therefore, somewhat surprisingly, regionalism seems to have established itself as a second way of achieving free trade. Regional integration, which usually takes a form of regional trade agreements (RTAs), is perceived as a 'second best' option to multilateral liberalization and sometimes even as a stepping-stone towards it. Moreover, this preference for RTAs appears to have been further embedded by the continued enthusiasm of significant trading powers such as the US. While gridlock in the multilateral negotiations process indirectly led to the growth of RTAs, GATT also accepted regionalism. For instance, in Article XXIV, GATT permitted the formation of RTAs to account for the regional trading differences and enhance the multilateral progression. Naturally, some would say that GATT had little choice in the matter, given the support for regionalism in several European states. Many scholars, like Bhagwati, criticize these provisions as excessively vague, and thus open to potentially harmful interpretations (Bhagwati, 1993, p. 27). Cohn agrees with Bhagwati, and adds that apart from the lack of procedural clarity, GATT article XXIV fails to account for 'contingent protection measures and rules of origin' (Cohn, 2000, p. 249). However, this scholarly criticism does not seem to diminish the popularity of RTAs in policy circles.

To date, there have been two major waves of regionalism in the post-World War II era. Though the first wave of regionalism in the 1960s was considered to be a failure, Cohn points out that one must not forget that this

period was also marked by the initial success in the early integration of Europe (2000). The second wave of regionalism began in the 1980s and was spearheaded by the United States, which Bhagwati argues is, a major reason why it is likely to endure (1993, p. 29). This rapid and apparently successful resurrection of RTAs has ignited the discussion regarding their effects on the global trading system.

Still, there is no agreement as to the effect of the revival of regionalism. It is not clear if this "second best" option is a 'stepping stone' or a 'stumbling bloc' in achieving multilateral trade liberalization. There is, for one thing, profound disagreement among experts with regards to the means that could be used to arrive at a Pareto optimal outcome of free trade ⁹. The debate among scholars can be loosely categorized into three groups.

The first group, led by an avid free trade supporter Bhagwati, advocates that multilateral trade liberalization through the World Trade Organization is the best, if not the only path to achieve free trade. Bhagwati and his followers are also highly critical of regionalism as a "second best" option to liberalization because, they claim it is not an option at all (Bhagwati, 1993a). He goes even further in his criticism and insists that regional integration's "main motivation is protectionism"¹⁰ (Bhagwati, 1993b, p. 22). Assuming that RTAs are incompatible with pro-free trade efforts, Bhagwati argues that RTAs are hurting multilateralism because they establish discriminatory market access and restrict external competition (1993a). "That alone" he adds, "not only deprives the multilateral system of the support it needs to survive, let alone be conducive to further trade liberalization" (Bhagwati, 1993a, p.162).

⁹ In game theory, pareto-optimal outcome signifies the best collective outcome for the players in the game whereby no single actor will be made better off without making another actor worse off. (Cohn, 2005)

¹⁰ In this case Bhagwati is referring to Free Trade Areas, which is the most common form of RTA.

Krueger agrees with Bhagwati and adds that, although the pareto-optimal outcome is still multilateral free trade, within a regional framework, free trade areas (FTAs) are by far inferior to Custom Unions (1997). Interestingly enough, despite his pro-free trade convictions, Bhagwati has not always been so strongly convinced. In his 1988 publication entitled 'Protectionism', he argues that there are two legitimate limits to free trade that even classical economists considered, first to protect infant industry development and second as a retaliatory means to induce other states to lower their trade restrictions (Bhagwati, 1988). Also, he added that although he has strong reservations about the "resurrection of regionalism", it appears that "this time it is likely to endure" (Bhagwati, 1993, p. 29). Still, Bhagwati is somewhat optimistic that this wave of regionalism will be more beneficial than the previous one. However, in his 2002 lectures entitled "Free trade today" he denounces "both aggressive unilateralism and RTAs" as "a pox on the world trading system" (Bhagwati, 2002, p. 95), effectively reverting to his strong pro-multilateral free trade conviction. He further argues that the proliferation of RTAs created a 'spaghetti bowl' effect, or a maze of preferences between countries, since each participant is also a member of at least one or more RTAs at the same time (Bhagwati, 2002, p. 112). This change in view could also be an effect of the shifting nature of RTAs in the 1980s. Hence, since 2002 Bhagwati contends that we have a "systemic issue" which is pushing multilateralism to the peripheries while leaving "free trade in a sorry state" (2002, p. 119).

Although his convictions were not always so definite, Bhagwati maintains a strong following among some neoliberal scholars. Wolf agrees with Bhagwati noting that "the shift of US thinking towards FTAs (...) may well have doomed the GATT system" (Wolf, 1989, p.93). Lal joins in by criticizing RTAs as being based on "bilateral reciprocity and discriminatory practices and go(ing) against the GATT MFN rule" (1993, p. 352). He points to three issues including the influence of interest groups, conflicts between regional blocs, and limited political capital and energy, all of which are associated with the completion and maintenance of RTAs as factors which constitute a challenge to the multilateral

trading system (Lal, 1993). Further, Lal condemns regionalism as being historically "the economic policy of the uncompetitive and the foreign policy of the weak" (1993, p. 352) He also argues that RTAs create a danger of increased trade friction, which could over time "erode the multilateral trading system" altogether (Lal, 1993, p. 355).

Pomfret adds that RTAs not only pose a serious challenge to expanding multilateral trade, but also constitute a threat to the "efficient allocation of world resources" (1986, p. 110). He argues that non-discriminatory tariff reduction must be superior to RTAs because it "achieves trade creation while avoiding trade diversions" (Pomfret, 1986, p. 109). Yi further looks at RTAs in terms of their welfare effects. His study shows that RTAs are indeed welfare improving for members, but welfare diverting for non-members (1996). He therefore argues that RTAs can be a stepping-stone if their membership is kept open to all states (Yi, 1996). Andriamanjara builds on Yi's study and shows that bloc expansions are likely to stop before they reach global free trade levels under open regionalism. Hence they will not be open to all nations (2002). Thus, RTAs are more likely to have trade diverting than trade creating effects.

Michael Moore, a former WTO director-general, also supports the view that RTAs are rather harmful ("Former WTO Director-General on multilateral trade", 2003). He maintains that the multilateral approach has always been and will continue to be the only framework for trade that also benefits smaller players (2003). RTAs, therefore, do not benefit all the players in the world trading system. Thus, Moore concludes that countries should facilitate global trade instead of their regional needs (2003). He disregards regional preference as "short-sighted", as countries "praise multilateralism on one hand and simultaneously work on deals that will include issues that reject the multilateral system (but benefit) (...) their own good" ("Former WTO Director-General on multilateral trade", 2003).

Echoing Moore's sentiments Krishna adds that despite their trade diverting effects, RTAs are most likely to be the ones that are politically

supported (1998). He also suggests that RTAs can alter domestic incentives so that initially feasible multilateral liberalization can become politically infeasible if and when RTAs are signed (Krishna, 1998). Panagariya continues this line of argument by claiming that there has been little else that has placed similar restrictions on international trade since World War II than bilateral agreements (1999). He points out that often "RTAs get voted in precisely when trade diversion is the dominant force" (Panagariya, 1999, p.8). This makes RTAs a convenient solution to internal domestic pressures and an easy target for the lobbying power of domestic interest groups. Perhaps though, it is Bhagwati who seems to best summarize this group's view by stating that 'effects of the RTA path on the MTN path have been malign, not benign' (Bhagwati, 1996, p. 870).

The second group of scholars is more optimistic about the effects of regionalism on the world's trade and welfare. Shang-Jin and Frankel suggest that multilateral liberalization is the best option, but "as long as trade volumes with non-members do not fall below 14-15%, regional trade blocs are likely to be welfare improving" (1998, p. 452). Summers and Krugman are even more confident about the value of RTAs (The Fraser Institute, 1998). Summers "find(s) it surprising that the issue (i.e. trade diversion) should be taken so seriously- in most other situations, economists laugh off the second best considerations and focus on direct impacts" (The Fraser Institute, 1998). He also adds that many RTAs are formed between "natural trading blocs" where a significant amount of trade between the members was already high prior to regional integration. Thus, the "risk of large amounts of trade diversion is reduced" (The Fraser Institute, 1998). Krugman agrees and adds that if this is the case, "then the gains from trade creation within blocs are likely to outweigh any possible losses from external trade diversion" (The Fraser Institute, 1998). Hence, trade blocs solidify natural trading relationships. This in turn suggests that RTAs may not be a threat to trade liberalization after all. He also points out that the cost of RTAs, as opposed to multilateral trade liberalization is small relative to potential gains (The Fraser Institute, 1998). Finally, he reaches the conclusion that multilateral and

regional trade liberalization agreements are not inconsistent with each other (The Fraser Institute, 1998).

Griswald contests Bhagwati's approach by arguing that the evidence of trade diversion as a result of RTAs is small while the benefits of large RTAs are substantial (2002). He adds that RTAs create a "safety valve" in case the multilateral track becomes blocked" (2002, p.182). He, like the others in this pro-RTA group reiterate that Bhagwati is correct, in his assumption that the fundamental principle of free trade should always form the core of the international trading paradigm.

Freund takes more of a middle path between Bhagwati and the pro-RTA group. Her study concludes that overall welfare is better achieved by regional agreements in the initial stages of integration (1998). She argues that regionalism provides firms with "first mover advantage" and "introduces a strategic incentive to expand output", thus alleviating the problem of low output associated with imperfect competition (Freund, 1998, p.32). She also suggests that this benefit primarily extends to the nations that entered the regional agreement early, and it decreases as the integration progresses. Her study of the European Union confirms this assertion. Freund concludes that multilateral trade may be more welfare beneficial for those who enter the RTA late, and that "world welfare during the period of free trade is higher from the regional path" (1998, p.33) than from the multilateral path alone.

Telo (2001) addresses the debate on the place and function of regionalism in the contemporary trading system. First, he juxtaposes the views of Summers, who argues that liberalization is best achieved by creating RTAs, with Bhagwati who claims that RTAs slow down liberalization and endanger the multilateral system. He also briefly analyzes the view held by Bergsten and Luttwack that regionalism puts the unilateral priorities of the RTA participants in conflict with global ones, or those of multilateral trade. As a result, regionalism

will constitute a "new form of geo-economic conflict" (2001, p.6). Telo stipulates that regionalism can provide public goods in the post-hegemonic world¹¹ and thus offset the market instabilities (2001, p.13). Therefore, Telo proposes that RTAs are beneficial because bargaining between regional blocs in a post hegemonic era is also more efficient and less difficult than inter-state bargaining.

The work of De Melo, Panagariya and Roderick looks at regional integration from the perspective of an interaction between governments and domestic pressure groups (1993, p.187). They propose that regionalism can be of great benefit to more trade liberalization only if real authority is delegated to the institutions that govern the newly created RTAs. RTAs are more sustainable than multilateral institutions considering the diversity of national interests. Also, RTAs offer the possibility of curbing the impact of domestic pressure groups, thus increasing the economic efficiency of national economies (1993, p. 175). Hence, a well-structured RTA can be a stepping-stone to multilateral liberalization.

Mansfield and Pevehouse (2000) add that a positive feature of RTAs is that its members are less prone to disputes than other states and that hostilities between RTAs are less likely to occur as trade flows among them increase. They speculate that the formation of RTAs mutes tensions between members because they generate expectations of future economic gain to the insiders (Mansfield and Pevehouse, 2000). Therefore, they conclude that the increase in commercial flows reduces the likelihood of mutual conflict. Certainly, their findings are somewhat contradictory to Lal's argument that suggests RTAs will actively increase the likelihood of conflict in general.

Padoan follows Telo's idea that in the post hegemonic world RTAs serve a significant purpose. He points out that the creation of RTAs resolves the problem of the post hegemonic world where there is a decreased supply of public goods

¹¹ A post-hegemonic world implies that no nation is dominant enough to be granted the status of a hegemon that provides public goods.

and an increased demand for them (2001, p.43). Globalization, he argues, helps stimulate regionalism and serves as a reason for building a regional comparative advantage through the creation of regional standards. Therefore, as club theory suggests, regionalism encourages¹² the demand for integration by offering protection against global instabilities and stimulating development of regional comparative advantage (Padoan, 2001, p. 45). Hence, there are major benefits to be drawn from the formation of RTAs.

Hormats points out that "different layers or categories of trade relationships will coexist" (1994, p.2), so the question here is how to exploit the potential benefits and minimize the drawbacks, not whether it is good to have RTAs in general. He suggests that there is a useful role for the multilateral approach here as a means of striking a balance between the benefits and drawbacks of RTAs. Thus, he contends that the WTO needs to take a role in moderating friction between regional blocs so they do not result in discrimination against outsiders. (1994, p. 2). Therefore, the multilateral system should control the RTAs' discriminatory tendencies so that the WTO's membership can maximize the benefits of regional agreements, without precluding any further multilateral progress. De Gotari advances this position by contending that RTAs do not only tend to have a trade creating potential, but also encourage multilateral liberalization through trade liberalization between members (1995). Further, Poon points out that "regionalism involves fewer negotiations, it is more flexible (...) and a natural phenomenon" (1997, p.5). He also argues that multilateralism and regionalism may therefore be "complementary rather than contradictory" (Poon, 1997, p.12). Hence, the encouragement and coordination of RTAs is beneficial.

¹² Club theory argues that states join regional and other integration initiatives because the benefits of being an insider are greater than being an outsider. Also, clubs offer collective protection against market instabilities, by protectionist policies for example, and provide enough support (via protection for developing industries etc.) to allow for a comparative advantage development (Gardner, 2001)

Interestingly, this group's view seems to be also embraced by political actors and bureaucrats. The former EC Trade Commissioner, Pascal Lamy, has long argued that 'multilateralism and regionalism are not mutually exclusive' (2002, p. 1400). The United States Trade Representative Michael Zoellick supported this view by stating that "I believe a strategy of trade liberalization on multiple fronts- globally, regionally and bilaterally- enhances our leverage and best promotes open markets" (Gordon, 2003, p. 105). This general line of policy seems to be best expressed in the text of the Singapore Ministerial Declaration where the ministers stated that "(...) we affirm the primacy of the multilateral trading system, which includes a framework for the development of regional trade agreements, and we renew our commitment to ensure that regional trade agreements are complementary (...)" (Panagariya, 1999, p.6).

Another, albeit smaller group of scholars, remain neutral in this debate by declaring the RTA's welfare effects to be ambiguous and the evidence to date inadequate to pass a generalized judgment with respect to value of regionalism. Panagariya and Findley look at RTAs from a somewhat different perspective (1996). They assume that trade policy is endogenous, not exogenous. From there they proceed to examine Bhagwati's ideas regarding economic integration and endogenous trade policy. Bhagwati contends that in this case the decreased protection within RTAs will be accompanied with increased protection against the outside world. This in turn can reverse the welfare-improving effects of integration resulting in a reduction in welfare. Panagariya and Findley adjust the Meade model to test this premise, and come to the conclusion that if protection is endogenous and RTAs are accompanied by increased protection against outsiders, their effect on welfare is ambiguous. Thus, they concluded their evidence to be inconclusive and contingent on the general research assumptions, hence lacking reliability (1996, p. 265). This result suggests that generalizing effects of the RTAs on welfare are not as straightforward as Bhagwati implies.

In fact, Telo, although supportive of RTAs in general, acknowledges that they can lead to preferential market access and consequently increase the cost

of being an outsider. Also, many "club members" will demand protection on a variety of levels, hence threatening to weaken the multilateral system. Telo, therefore, agrees with Panagariya and Findley that the 'new regionalism'¹³ remains (...) ambiguous and open- cooperative and/or conflict oriented' (2001, p.6). Lipsey concurs with this argument and reiterates that determining welfare effects of the RTAs is in fact not so 'simple as to only base it on a trade creation and trade diversion framework' (1957, p. 41).

Another view prevalent in this group is that certain RTAs are more trade creating than others. The European Union is often considered to be an example of a more trade creating RTA (Krueger, 1999, p. 105). It is usually contrasted with the MERCOSUR, which seems to be more trade diverting and was formed with the purpose of creating a regional comparative advantage at the expense of external trade (Krueger, 1999 & Lal, 1993). In fact, the literature considers the RTAs that involve only LDCs to be largely trade diverting. The World Bank reports that such RTAs between two or more poor countries are more likely to generate trade diversion, especially if their external tariffs are relatively high (2000). Yeats adds that this could potentially create a problem for trade with the nations external to the RTA (1998). Schiff concurs and claims that RTAs between the Southern smaller nations also tend to replace cheaper external imports with internal products from less efficient suppliers, thus causing trade diversion from the external producers (1997).

Therefore, it appears that this literature suggests that although RTAs may be both trade creating and diverting, those formed by less developed nations have a more trade diverting potential. This group of sceptics plays an important role in challenging the assumptions and generalizations. They also point to the fact that thus far no comprehensive framework has been developed to analyze the universal effect of RTAs on welfare. The absence of such a framework may in

¹³ Here new regionalism implies the second wave of regionalism.

turn leave room for a more individualized analytical framework, such as this case study of the European Union and its expansion.

3. Literature Review's Conclusion

This chapter illustrated that there is little agreement on the effect of RTAs on free trade. Both academics and political actors continue to disagree on how different trade arrangements would serve the ultimate goal of multilateral free trade. Neoliberal scholars, like Bhagwati argue that RTAs are not a legitimate way to achieve free trade and are rather harmful to international trade. Another group of scholars claims that RTAs serve as a step toward multilateral free trade in a complex world of trade relationships. Finally, some scholars argue that effects of the RTAs are not easily generalized and as such cannot be clearly deciphered. Therefore, to date, neoliberal scholars have yet to devise a uniform theoretical framework to analyze the issue of effects of RTAs on trade.

This lack of consensus provides the rationale for this thesis, which aims to contribute to the individual analysis of RTAs. As such, it is a case study of the EU and the expansion of the world's largest regional trade bloc. This choice is based on the assumption that since a generalized framework has yet to be designed; a more individual analysis may contribute to this debate, and thus advance the analytical framework in this area.

CHAPTER II: CASE STUDY

1. *Case Study Introduction*

One organization that evaluates the EU's economic performance as a regional bloc is the Organization for Economic Cooperation and Development (OECD). In its 1998 'The European Union's Trade Policies and their Economic Effects' report, the OECD suggests that trade creation in the EU as an RTA is likely, especially in the manufacturing sectors (Hoeller, P & Girouard, N & Colecchia, A, 1998). However, the report goes on to point out that the risks of trade diversion as a result of accession agreements are considerable in other sectors. Further, it suggests that there is a concern that the trading world could fragment into a tripolar constellation as a result of the popularity of regionalism. This could produce welfare-minimizing effects and provide an impetus for further multilateral liberalization to vanish. The EU expansion could potentially serve as the evidence of the materialization of this prediction. On the other hand, the OECD also argues that although the EU trade policy is walking on 'three legs'¹⁴, the RTA currently appears to pursue multilateral liberalization (Hoeller, P & Girouard, N & Colecchia, A, 1998). According to the report it is also deepening integration with Eastern Europe and the Mediterranean countries, as well as strengthening cooperation on trade-related issues with major trading partners rather than becoming more protectionist. This OECD assessment is a good practical illustration of the academic and political sentiments described in the literature review, namely that it is very difficult to assess the general effects of the enlargement of RTAs, like the EU, on world trade. This case study will look at the individual accession of Spain to the EU¹⁵ in order to see what effects this

¹⁴ This phrase is used to indicate that the EU supports regional integration of Europe, multilateralism and preferential access for the LDCs in its trade policy.

¹⁵ In this Chapter the European Union will be referred to as EEC or EEC/EU. Since the European Economic Community became the European Union in 1993 as a result of the Treaty of Maastricht, it is more accurate to use the above abbreviations than the EU.

enlargement had on world trade. It will also aim to draw logical parallels with regards to the current enlargement effects on world trade flows based on the Spanish accession.

Spain's path to the European Union was somewhat similar to that of the Central and Eastern European countries (CEECs). Before 1975, Spain was under the rule of the dictator Franco, and upon his death the Spanish economy had to deal with the economic turmoil of the oil shocks that plagued the world at the time (Neal & Garcia-Iglesias, 2003). Like Spain, the CEECs also experienced a lengthy period of authoritarian rule but with the fall of communism their virtually closed economic systems gave way to major economic restructuring in order to make the transition from central planning to market economies. The main difference between the two regions, however, is to be found in the degree of integration prior to their accession to the EU. The CEEC economies were very separate from their external markets and autarchic in nature. On the other hand, as early as 1957 when the Treaty of Rome was signed, Spain instituted the policy of *apertura*, or openness towards the outside world and began a period of rapid industrialization (Neal & Garcia-Iglesias, 2003). By 1960, Spain had become a member of the OECD, and had close economic ties and large volumes of trade with France, Italy, the UK, Argentina as well as the US (Neal & Garcia-Iglesias, 2003). In 1970, Spain signed a preferential trade agreement with the EEC and applied for full membership in 1977 (Hine, 1989).

Interestingly enough, the worries of the EEC members with regards to Spain joining the Community were somewhat similar to those currently expressed towards the CEECs accession. Spain had a high rate of unemployment that stood at 22% in 1986 and its wages were low, which gave it a competitive advantage over the existing members in terms of productive output and FDI attraction in some areas (Hine, 1989). Spain also had a competitive advantage in the economic sectors already considered to be sensitive in the EEC, such as agriculture, textiles and shipbuilding. In fact as of 1986 about 17% of its labour was in agricultural production (Hine, 1989). It was also a prime candidate for

assistance under convergence funding, such as the Cohesion Fund or the European Regional Development Fund (Neal & Garcia-Iglesias, 2003). Therefore, Spain like the CEECs was treated as a potential burden in terms of cost of convergence to the EEC economic averages, as well as a potential threat to the existing balance of supply and demand for both labour and industry. Hence, this case study will look at Spain's accession as a potential indicator for the effects associated with the May 2004 enlargement. Spain was chosen due to many existing similarities to the CEECs. Specifically its size and population fit with the largest current entrant Poland, which by its sheer size is presumed to have the most effect on the Union's trade diversion or creation with the outside world. The following table illustrates the degree of similarity in some areas between the two economies.

Table 2.1: Spain versus Poland

	Spain in 1986	Poland in 2003
Population	38,473	38,232
Territory (km²)	505.957	312.685
Unemployment in %/EEC/EU	22/12	19.2/7.7
Inflation rate/ EEC/EU	8.9/3.6	2.3/1.8
Government Debt as a % of GDP/EEC/EU	49/53.2	45.4/64.3
GDP per Capita in U.S. dollars	6182/n.a	5855/n.a
National Savings as % of GDP/EEC/EU	19.8 (1983)/24.4	16.1/20.9

Data Source: WTO, Eurostat, Instituto Nacional de Estadística, <http://www.ine.es/inebase/menu1.htm#5>, Polska Statystyka Publiczna, <http://www.stat.gov.pl/english/>, European Economy, UN Statistics, IMF
n.d= no data available; numbers after '/' sign correspond to the EEC/EU averages at the time

This part of the analysis will start with a brief overview of literature that predicts and assesses the effects of this specific accession. This will be followed by the ARIMA analysis of two decades of Spain's trade flows with the EEC/EU to see if the potential fears associated with the Spanish accession have actually materialized. Finally, the three indicators, trade openness, current account

balance, and import and export fluctuations will be analysed to identify trends in Spanish trade with the EEC/EU ex ante and ex post enlargement. This last section is aimed at achieving a basis for logical comparison between the current enlargement and the Spanish accession. This will allow for some broad inferences to be made about the potential effects that could take place with regards to the CEECs economic position in the EU's Single Market vis-à-vis external producers.

2. Brief Literature Review

To gain a better understanding of the effects of accession, it may be useful to review what is known about the effects of the enlargement of the EEC/EU in general, and more specifically, about the Iberian enlargement. Because the literature often studies Spain and Portugal together, this literature review will also include Portugal, however the case study itself focuses only on Spanish entry to the EEC.

Michel Kreinin (1959) in his article 'On the "*Trade Diversion*" Effect of Trade-Preference Areas' explores the GATT/WTO claims that trade diversion is only an important problem during periods when there is an overall decline in trade, and negligible when business activity is booming and trade is expanding. He tests this by examining three preferential agreements-the the Benelux countries CU, European Coal and Steel Community and the Organization for European Economic Cooperation- and finds it to be untrue (1959). Thus, he concludes that trade diversion should be a concern even in the periods when trade is expanding such as the EEC/EU enlargement. Therefore, in the time of accession, when trade flows within the Community are definitely larger, one should not discard the potential for trade diversion.

Balassa (1989) extensively studied trends in European trade policy in an effort to isolate instances of trade protectionism in the 1970s. One of his studies

looked at the income elasticity of demand¹⁶, which is measured in terms of the change in income over the change in Gross National Product (GNP) at a constant price. The research awarded the European Community a trade creating status of about 1.8-2.1 on the income elasticity index (Balassa, 1989). Balassa further deciphered a weak effect of trade creation by doing a sectoral analysis of EEC trade, which found that trade creation actually comes from only a few sectors, such as manufacturing equipment whereas trade diversion was noted in food, beverages, chemical and electrical sectors. Hence, according to this study, a weak trade creation effect will remain as long as manufacturing industries are booming in Europe during the accession events.

In another work Balassa (1975) actually goes further to try to determine the generalized extent of the effects of the European RTA evolution until 1975 to see whether they were creating or diverting in terms of trade. Upon looking at the creation of the EEC, the European Free Trade Association (EFTA) and the first enlargement of the Community, he concluded that there was a \$1.1 billion increase in the gross total trade between the members in the first enlargement, and the diversions amounted to \$500 million (Balassa, 1975). The end result of all of the events combined was \$3 billion in gross trade created and \$500 million in net. However, he notes that each country's balance scorecards are different. Some like Austria and Norway had a net deterioration in their trade balance, and Denmark and Sweden noted an improvement. Thus, although the initial integrations of the EEC undoubtedly had trade creating effects, the internal distribution of those gains are not even for all countries. Hence, there are shifts from the traditional to more efficient producers in the Union as well as a possible shift to outside producers.

¹⁶ Income elasticity of demand measures the relationship between a change in quantity demanded and a change in income. The basic formula for calculating the coefficient of income elasticity is: Percentage change in quantity demanded of good X divided by the percentage change in real consumers' income. Depending on the type of good the index can range from negative (inferior goods) to positive values (superior goods). (Turor2U, http://www.tutor2u.net/economics/content/topics/elasticity/income_elasticity.htm). In Balassa's study (1989) the values in the index ranged from 0-4.

Michael Fouquin (2003) concurs with this opinion by studying the EEC's enlargement effects on trade from the conception of the RTA. The Iberian enlargement is an interesting case study because when Spain, Portugal and Greece joined the EEC, it meant that the Community was no longer restricted to only wealthy members, a condition that Michael Fouquin claims persisted until the 1980s. While he contends that the enlargement was constructed politically to strengthen new democracies, it also had considerable economic costs for the Community because of the demand for structural funds and the competition from the lower cost producers (Fouquin, 2003). Thus, the EEC/EU may have faced political challenges of internal trade shifting from the current supplier to lower cost producers in the Iberian Peninsula in the 1980s, and this trend could once again occur in the current accession countries.

Drawing on the parallel between the occurrence of trade diversion and the accession of the less developed countries, Glejser and Moro (1996) modelled the estimated trade effects of Spain's and Portugal's entry to the EEC. The review of previous expansions shows some diversion as a result of the 1973 enlargement, but it is speculated that due to increases in both population size and internal competition in the EEC/EU during the 80s and 90s even more trade diversion would have taken place in the 1980s. The main loser according to their study was the US, although the Iberian enlargement also impacted Less Developed Countries (LDCs). Essentially, this regression-based study concludes that since 1986, there has been a considerable trade diversion away from Africa, Latin America and also the industrialized outsiders.

Michael Plummer (1991) looked further at the Iberian accession ex-ante and tried to estimate the static gains¹⁷ from accession. He finds that, on the whole, trade diversion suffered by the outside world as a result of Spanish accession, equalled about \$163 million (or about 1%). However, when looking at

¹⁷ Economists consider trade diversion and creation to be a form of static effects from trade, whereas foreign direct investment would be considered to be a dynamic effect.

specific sectors trade creation in agriculture was in the line of \$9 million, but the diversion was \$183 million, which was primarily a cost to the US producers. Also, tobacco trade diversion amounted to \$136 million due to the tariff increase as a result of accession (Plummer, 1991). Trade creation for the manufacturing sector was relatively small, \$19 million, and becomes even less advantageous when we consider the \$11 million diversion in steel and iron exports. Textiles, Plummer argued, would see \$7 million in trade creation but \$30 million of diversion (1991). In Portugal, trade diversion occurred in the agricultural sector (especially in cereal \$35 million) and also in tobacco (\$7 million), textiles, iron and steel (1991). Thus, his initial estimate of trade diversion was about \$1 billion. He claims that although the numbers diverge from the largely trade creating effect of the first enlargement in 1973, they are consistent with theories of the preferential trading unions between unequal partners. Therefore, trade diversion throughout the sectors is estimated to be large, although the net impact is only about 1% of the EEC trade, and the costs of adjustment for the acceding economies are also high in the short run.

Corado and de Melo (1986) conducted a simulation of Portugal's sectoral gains and losses due to enlargement. They found that in several exporting sectors that included in primary and consumer goods, trade creation would double (livestock, fruit, clothing, footwear and cork). However, in the intermediate and capital goods producing sectors, internal trade creation¹⁸ and external diversion would occur (agriculture, fishing, mining, beverages and tobacco, textiles, manufacturing etc.). Furthermore, they found instances of both external and internal trade diversion in iron and steel. Hence, this study's conclusions are consistent with Plummer's (1991) and predicted that the Iberian enlargement was to be costly for external producers.

¹⁸ Trade creation and diversion are sometimes divided into internal and external. Internal diversion means within the RTA, i.e. between members. External creation means with the rest of the world, i.e. between member and a non-member. (Turrion & Velazquez, 2004)

The Food and Agricultural Organization of the UN (1983) speculated that accession events were most likely going to result in the EEC becoming more self-sufficient in various commodities, while increasing the volumes of trade among the members. However, third countries would find their trade reduced, as Iberian and Greek producers would most likely replace those from the developing countries in the EEC-9 markets (FAO, 1983). Haniotis and Ames (1985) agree with this assessment, but offer a more in-depth analysis of the specific areas of agricultural trade that would affect trade flows between the EEC and the US. They concluded that the Community would be more self-sufficient in oilseed and vegetable oils as a result of the Iberian enlargement while US exports of animal feed would suffer post-accession. Finally, wine supply would also increase considerably in the EEC/EU affecting the market share of the growing US wine industry. Hence, they agree with the FAO (1983) that, as a result of the Iberian enlargement, the EEC had become more self-sufficient in certain agricultural products affecting the market access of external producers.

Yannopoulos (1987) focused his study on the external effects of the Iberian enlargement, and looked specifically at the effects of Spain's entry on the preferences given to the Mediterranean countries. He concludes that the producers from those nations would be displaced by Spanish producers especially in the areas where the EEC's preferential rules and regulations adopted by the new entrants do not lead to a reduction in trade barriers. This mainly implies trade diversion in agricultural production, but Yannopoulos finds that Spain and the Mediterranean countries had high similarity indices in their export of certain manufacturing goods suggesting the potential for trade creation for Spanish producers and a loss of market share for the Global Mediterranean Policy states (GMP). He also suggests that the removal of trade barriers between the EEC and Spain would eliminate the uncertainty of non-permanence in the tariff preferences granted under the RTA to Spanish producers, which in turn would create an export thrust among them further affecting the market share of international producers. Yannopoulos suggests however, that this substantial trade diversion may be offset in some industries by the fact that Spanish tariffs

were required to fall to the levels of the Common External Tariff of the Community. However, the industries of interest to the GMP nations, such as agriculture, could see their tariffs heightened. Hence, the entrance of Spain into the EEC would almost certainly result in substantial trade diversion to the rest of the world as a result of Spanish entry to the EEC.

Few studies have explored the accession ex-post shedding some light on the actual effects of the Iberian enlargement. Sinclair and Fajarnes (1997) look at such a model of trade effects of the Spanish enlargement on the Latin American countries and find that the effects of accession on trade were mild and differed greatly depending on the country. Their model shows that Spanish accession had a significant impact on imports from Argentina and a small effect on the imports from Ecuador and Mexico. However, they find no significant trade diversion for Brazil, Chile, Columbia and Venezuela. On the commodity level they found no adverse effects of Spanish accession on Latin American trade except for a small diversion in electrical materials from Brazil. However, the authors explain that their findings do not negate the possibility of distortions in the sensitive sectors trade, like agriculture. Hence, this study finds that the Spanish enlargement did not have a huge effect on its trade with its Latin American partners after all, except for trade in sensitive sectors.

De Boer, Martinez and Harkema (2000) speculate that Spain experienced a structural break in the allocation of supply in manufactured goods between domestic and foreign suppliers. As a result of this structural break, foreign suppliers benefited at various levels at the expense of Spanish producers. The authors use residual imputation to gauge the impact of the structural break, and show that during the post-accession period (defined here as 1986-1992) the home market share of Spanish manufacturers declined from 85.94% to 76.71%. The main beneficiaries of that decrease were the EEC producers which saw their Spanish market share double during the same time from 9.9% to 18.14%, although Japan and the EFTA countries also benefited as well. Meanwhile, the study finds that the countries that experienced trade diversion were Canada and

the US. Hence, the redistribution of the Spanish market shares post-enlargement benefited mostly the RTA producers and caused some loss in terms of exports for the world's largest manufacturing economy, the US.

Hence, the effects of enlargement in terms of trade do not appear to be uniform or easily decipherable. Rather, there are many frameworks and models. None of these can holistically capture the overall effects of trade interactions. Discovering a single framework is not the purpose of this case study, however. Rather, this work advances an inductive framework by concerning itself specifically with the EEC's enlargement effects on external trade diversion. To properly assess the effects of enlargement and control for trade diversion in the world, the internal trade patterns between Spain and the Community between 1976 and 1994 will also be included in the analysis. Auto-regressive integrated moving averages (ARIMA), was chosen as the method for identifying trade diversion experienced by external producers as a result of Spain's membership in the EEC, as well as for identifying the effects of the Iberian enlargement on Spanish trade with the EEC. This type of analysis was chosen due to the need to account for a lack of independence among time points and their associated errors in the trade data.

3. Case Study

a. Methodological Rationale

The choice of subject, Spain, was already discussed here. It was chosen because it is the closest example that could help us understand the repercussions that might emerge in trade flows as a result of the current enlargement.

The decision to use the two-decade span can be methodologically problematic due to a limited number of time points. However, the time frame is justified by history. Before 1976, Spain was under the authoritarian rule of

Franco and the validity of the data is, therefore, in question even in the light of Franco's policy of openness. After 1994 there was further accession to the EU¹⁹ and considering the fact that the Greek accession was already included in the sample it would be difficult to decipher any effects of RTA enlargement on trade if the sample contains two accessions. The 1995 enlargement is made even more problematic in that it included developed nations with GDPs over the EU's averages, hence their effects on the EU trade policy may be different. As a result, including the Greek accession in a sample was an acceptable compromise since it was similar in nature to the Iberian enlargement. Also, another limitation to the data is that the EEC turned into the EU when the Treaty of Maastricht was signed in 1993. However, including one more year beyond this large structural change was not seen as a huge restriction since the implementation stages of the treaty provisions took time. As noted before, it was not possible to use a simple regression in this analysis due to the fact that the nature of trade data violates the independence assumption (SPSS Handbook, 2002).²⁰ Hence, the quasi-experimental single intervention ARIMA analysis was chosen instead to adjust for this problem.

b. Methodology (see Appendix 1)

In preparation for the analysis, raw data were first gathered from the International Monetary Fund and UN Statistics. The datasets obtained included Spain's trade with the rest of the world (ROW) in terms of imports and exports and Spain's trade with the EEC/EU also in terms of imports and exports. All four datasets cover 1976-1994. Thereafter, Spanish trade with the EEC/EU was subtracted from the ROW to adjust for double counting. Further, the data were

¹⁹ Austria, Sweden and Finland joined in 1995.

²⁰ Usually trade data are sequential and dependent on the volumes of trade from the previous year. As a result the error terms are correlated because of the patterns in the data over time (Tabachnick & Fidell, 2001).

adjusted for trade with Portugal²¹ and subsequently for inflation in the advanced economies (see table A1 in Appendix). Once data adjustments were completed, the four resulting datasets were exported into the SPSS. Apart from the four datasets the variable "year", that simply included the range of the series, was imported into the SPSS. Also, an additional variable was added to separate the before and after enlargement period in the data. Based on the literature review, it was theorized that the enlargement (the intervention) would have an abrupt, permanent effect on the trading world. Hence, to encompass this prediction, the ARIMA model chosen represents the abrupt, permanent interventions and is often called the step-function.²²

The sequence graph of the raw data was obtained for all four datasets, and it was determined that there was a need to adjust the data to bring it closer to the mean. The data were therefore converted into the percentage change from the previous years to account for the difference of means issue. The resulting data were then checked to determine if the ARIMA 0-1-0 model was appropriate by using autocorrelations and partial correlation plots. It was determined that the 0-1-0 problem, or means difference, was broadly accounted for, thus this model was not an appropriate approach to data analysis. This was confirmed by sequence graphs, which showed that the four adjusted datasets were largely stationary; hence the random walk problem was eliminated. However, those graphs revealed that although the data tend toward the mean the variance was still uneven and seemed to swing. Hence, a final 1-0-0 ARIMA model appeared to be appropriate. Therefore, this was performed on the percentage adjusted datasets as a dependent variable and the before-and-after enlargement variable as an independent variable. The final step of the analysis was to check the error terms for the above analysis of the datasets in order to see if there were any assumptions that were violated in this analysis and if the

²¹ Portugal is Spain's largest trade partner, which joined the EU simultaneously, hence trade with Portugal needed to be taken into considerations.

²² This additional "before and after" variable was coded as 0, for before, and 1 for after the accession trade flows.

model was well fitted.²³ The error terms seemed to be normally distributed here, variances were homogeneous and the mean was zero. The residuals appeared independent, there were no obvious outliers, and almost all the terms were within the confidence intervals. Hence, the assumptions appeared to be met. As per fit of the model, the Autocorrelations and Partial correlation errors were checked to determine if the error was random. Pankrantz argues that for errors to be random the absolute value of $t (=r/SE)$ for the first three lags should be less than 1.25 (Tabachnick, B.G. & Fidell, L.S., 2001). Hence, this model was tested against this standard and all Partial and Autocorrelation terms were less than 1.25, except one which was 1.27 (lag 3 for imports from the rest of the world), a relatively insignificant outlier. Thus, because the errors here were random, the use of ARIMA 1-0-0 model was an appropriate methodological choice and the model can be said to accurately show a trend in trade patterns before and after the intervention, i.e. Spanish accession.

c. Analysis

The analysis shows an interesting pattern in the data. In terms of exports of Spanish products to the EEC, there is a statistically significant result ($p=0.02$) indicating a change in before and after enlargement levels of trade. The Beta coefficient shows that the magnitude of increase was considerable at about a 25.5 percentage change in dollar terms as a result of this intervention. This is consistent with Yannopoulos's ex-ante analysis that predicted a thrust in export output among the Spanish producers post enlargement (1987). Hence, Spain's markets became more integrated with the EEC and its exports deeply penetrated the EEC market after the Iberian accession.

With regards to Spanish imports from the EEC, the ARIMA produced insignificant results. However, it should be noted that this output was just barely

²³ The four assumptions that needed to be checked were whether or not the errors were normally distributed, if their variances are homogeneous with zero mean, if the residuals are independent and there are no outliers (Tabachnick, B.G. & Fidell, L.S., 2001).

insignificant, coming in at the 0.06 level. The Beta value showed a 16.67 percentage increase in dollar terms in imports as a result of this intervention. Nevertheless, despite the fact that the result failed to reach significance, the direction of the Beta, which is positive, tells us that imports have been on the rise somewhat, which is an outcome consistent with the FAO predictions that the volume of trade between EEC members increases after an accession event (1983). These results for trade within the EEC are notably consistent with Balassa's analysis of previous enlargements that deciphered a definite trade creating effect experienced during periods of integration in the Community prior to 1975 (1975). Here, the data seem to comply with Balassa's conclusions in terms of exports but not imports. Hence, it is perhaps the case that when a less developed nation joins the EEC, their export industry benefits, but the EEC's exports do not gain as much vis-à-vis the entrants.

In terms of trade with the Rest of the World (ROW), the results for Spain's trade before and after accession are surprisingly insignificant. For Spanish exports to the ROW, the probability is (0.28) and for the imports from ROW the output showed a probability of (0.25). Hence, it seems that enlargement does not significantly affect trade flows with ROW. However, it is important to note that the Beta coefficients equalled 7.97 for exports and 8.92 for imports. This implies that although the results are insignificant, the magnitude of change in trade patterns as a result of the intervention was positive, either because of the natural growth of trade or perhaps, as De Boer, Martinez and Harkema (2000) noted, Spanish structural breakdown.

d. Further Analysis

As a result of this analysis, it was determined that one more series should be analysed to see whether the significant result of Spain's exports to EEC/EU actually affected the position of ROW in the EEC/EU supply. Hence, a series was created by adjusting the raw data for the EEC/EU imports for trade with Spain and Portugal, as well as for average inflation in the developed world. Once the

data were imported to the SPSS, a "before and after" variable was once again created to account for the impact of the intervention. Subsequently, sequence graphs, autocorrelations and partial correlations were again examined to check for trends in the data. As in the preceding analysis, the data needed to be converted into a percentage change from previous years to bring the statistics closer to the mean. Having achieved that, it was determined that swinging variance was again present in the data, and thus an ARIMA 1-0-0 model was chosen as the most appropriate form of analysis. Hence, the analysis was performed and errors checked for violations of assumptions. The error terms were not in violation of the assumptions except for lag 4 (1991), which could perhaps be explained by the emerging Eastern European markets and their increasing integration with the EEC/EU via Europe agreements.

The result of this analysis proved to be insignificant at $p=0.12$. This outcome is consistent with the conclusion that Spain's increase in exports to the EEC/EU did not block out the EEC/EU's imports from the ROW. Additionally, it seems that there was some increase in the EEC/EU imports from ROW judging by the value of the beta coefficient. The coefficient is positively signed and showed an 11.67 percentage increase in dollar terms in EEC/EU imports from the ROW, despite a large increase in Spanish exports to the EEC/EU. This is consistent with Balassa's (1989) findings that the EEC/EU integration can in fact have a weak trade creating effect internationally. Also, the result is in line with the ex post studies of the Iberian enlargement. Sinclair and Fajarnes (1997) showed that the EEC/EU enlargement to Spain and Portugal had little effect on EEC/EU's external trade. Moreover, De Boer, Marinez and Harkema (2000) found that non-EEC/EU shares in the Spanish market increased post accession, which is consistent with the results of this analysis. Hence, the EEC/EU imports from the outside world do not appear to have been affected by the Spanish enlargement, and in fact some increase of external trade flows might have resulted.

e. Case Study Conclusion

The ARIMA analysis showed that Spain gained considerably in terms of its exports to the EEC/EU, and the EEC/EU's position did not seem to decline in the Spanish market. The latter is shown in the rather insignificant figures for Spanish imports from the EEC/EU as well as in the research of De Boer, Martinez and Harkema that showed an increased presence of EEC exports in the Spanish market (2000). The surprising part of this case study is the fact that Spain's and the EEC/EU trade flows with the rest of the world were not distorted by its accession to the EEC/EU. On the contrary, it appears judging by the direction of the Beta coefficient, that trade growth with the outside world was probably positive.

Nevertheless, there is a need to qualify these findings. First, there is the issue that these statistics did not encompass a full business cycle and were, therefore, not all-inclusive. Many trade pattern studies include decades in their analysis and the trend seems to be towards using quarterly rather than annual data analysis in an effort to improve the validity and accuracy of the studies. This research was not able to use a larger time frame for the reasons explained in the methodological rationale section. The use of quarterly data in this case study would have been next to impossible due to data inaccessibility. Hence, this study suffers from validity issues as well as reliability problems, since the technological advances, the structural changes and diversity within the Community do not allow for larger generalizations from this study. Also, this research was only based on 20 time points, and as such, the conclusions should be treated with caution. Finally, Spain joined the EEC during an upward trended market. Therefore, its labour problems were actually rectified by European demand and its economy grew due to expanded market access. This might not be the case for the current entrants. Hence, the most appropriate conclusion to draw from this study would be a cautious one. Given an upward trended market, it appears that Spain's accession to the EEC/EU was not significantly trade distorting to the outside world and was probably trade creating for the entrant.

4. Indicators

a. Trade Openness

In light of the results of the case study regarding Spanish accession, it would be interesting to see if other indicators confirm these findings. One way of looking at potential trade diversion or creation issues is to analyze whether, as a result of the expansion of the European RTA, the EEC maintained its multilateral commitments. Trade openness, which is sometimes called integration, can help us assess the market openness of an economy by analyzing its export and import averages as a percentage of its gross domestic product (GDP). Table 2.2 summarizes the figures for the European Community between 1976 and 1994. It helps to gauge whether the EEC in fact became more protectionist as a result of enlargement. Calculations for the US are also included to broadly control for general changes in world trade.

Table 2.2: Trade Openness in Goods

YEAR	European Union Trade Openness	US Trade openness
1976	28.93	13.56
1977	29.26	13.87
1978	28.80	14.36
1979	31.51	15.75
1980	33.32	17.09
1981	33.32	16.19
1982	32.29	14.33
1983	31.65	13.31
1984	33.68	14.22
1985	34.49	13.64
1986	30.97	13.57
1987	31.03	14.27
1988	31.34	15.25
1989	33.51	15.61
1990	34.55	15.68
1991	34.64	15.55
1992	37.81	15.82
1993	37.16	16.04
1994	39.30	17.03

Data Source: The author's calculations based on UNCTAD & IMF data, according to formula $\text{exports} + \text{imports} / \text{GDP} * 100$ ⁽²⁴⁾

While it may seem that during those two decades, the European economy was more open than the US economy, in actual terms the two economies followed a very similar pattern in trade openness. Integration with the world economy increases relatively steadily up until 1982, where it dips slightly for the EEC from 33.32 to 32.29 and to 31.65 in 1983. This could be explained by the fact that Greece joined the Community in 1981 and perhaps the EEC did not

²⁴ The formula was taken from the paper by Wacziarg and Wallack (2004) , but many other studies also used it and it is the calculation utilized by the EUROSTAT.

need to import as much of certain products, such as agricultural goods. However, this trend is not inconsistent with the world's, since one can notice that the US's trade openness also decreased to 16.19 in 1981, 14.33 in 1982 and 13.31 in 1983.

Hence the decline in trade openness during those years may be an indication of the pattern demonstrated in the case study that Greece, like Spain, increased its exports to the EEC, and thus the EEC did not need to import as much. The EEC's trade openness decreased again in 1986 to 30.97 from 34.49 in 1985. This is the time when Spain and Portugal joined the Community, and as seen in the case study, Spanish producers started to export significantly more to the EEC. Hence, it would be natural for the EEC to import fewer products, and its openness in this indicator would have fallen. Therefore, the EEC supply seems to shift towards the new members, and that is reflected in the decline in the US trade openness. However, after a small decrease in 1985/86 US trade openness experienced a steady increase from 13.57 in 1986 to 17.03 in 1994. This is consistent with the case study findings that trade diversion was insignificant in terms of imports and exports from the world, but the Beta coefficient showed that it was a positive change for the world as well. The EEC's trade openness restored itself quickly though, and reached 1985 levels in four years, and continued to grow past the establishment of the European Union in 1991 with the Treaty of Rome. Hence, trade openness in goods shows a pattern consistent with the case study and gives a hint that trade diversion has been insignificant, but that trade creation with the EEC for the Spanish, and perhaps Portuguese, producers was considerable.

It is interesting to see whether this pattern of enlargement effects for EEC/EU accessions is present in the growing area of trade in services. The following table displays calculated trade openness for trade in services for both the EEC/EU and the US.

Table 2.3: Trade openness in services

Year	EU trade openness	US trade openness
1980	7.90	3.17
1981	8.33	3.26
1982	8.02	3.53
1983	7.71	3.35
1984	7.92	3.51
1985	8.12	3.44
1986	7.63	3.72
1987	7.69	3.97
1988	7.71	4.07
1989	7.95	4.15
1990	8.76	4.54
1991	9.10	4.69
1992	10.76	4.64
1993	10.96	4.60
1994	10.64	4.66

Data Source: The author's calculations based on UNCTAD & IMF data, according to formula $\text{exports} + \text{imports} / \text{GDP} * 100$

In terms of trade in services, one can see a consistent pattern with trade in goods during 1980-1994 for both economies. First, there is a slight decrease in trade openness from 8.33 to 8.02 in between 1981-82 and a further drop to 7.71 in 1983 for the EEC. This is probably due to the accession event that happened in 1981 and the shift of trade to new members. This pattern here is similar to the observed change in the trade in goods; however, it appears that the decrease in trade in services was not as large and not as long lasting. This decline can also be explained by trade creation internally and hence the temporary drop in demand for imports. This is also reflected in the slight decrease that the US experienced in its trade openness in services from 3.53 to 3.35 between 1982 and 1983. In the years surrounding the Spanish and Portuguese accession, trade in services also follows a pattern previously observed for trade in goods. The

openness for EEC services trade dips from 8.12 in 1985 to 7.63, but recovers to exceed its 1985 trade levels by 1990. This is consistent with the pattern of trade in goods, especially since the levels begin to rise again soon after the accession event of 1986. The US trade openness in services declines as well in 1985 from 3.51 to 3.44, but just like the EEC, it is restored to above its 1985 levels by 1986. Both the EEC and the US note minor decreases in trade in services openness during the 1990s, but the general trend is that of growth, rather than decline in openness.

Hence, trade openness indicators seem to show that trade diversion was not significantly correlated with enlargement. Rather, the declines in openness seem to be temporary occurrences due to, as suggested by the case study, increased intra-union trade and not external trade diversion. The rapid recovery of openness noted in both trade in services and goods seems to confirm the contention that diversion in general is not significant, and it is not aimed to distort the position of foreign producers in the EEC market. Hence, the trade diverting predictions associated with RTAs and their expansions that are propagated by scholars like Bhagwati do not seem to materialize in the case of the EEC/EU.

b. Current Account

The current account sums up the transaction record of economies in a given year. Trade constitutes a large share of this indicator. As such, this analysis will compare the changes in the current account of the EEC/EU, the US and Japan, in an effort to see if the actual fluctuations reflect the trade balance of the main trading partners. The following table shows the current account balances for the EEC/EU, US and Japan.

Table 2.4: Current Account Balance in billion \$

	EEC/EU	United States	Japan
1980	-36.00	7.00	-10.00
1981	-12.00	11.00	6.00
1982	-9.00	-4.00	8.00
1983	2.00	-36.00	22.00
1984	2.60	-102.00	35.00
1985	19.30	-114.40	49.10
1986	47.50	-142.40	85.20
1987	32.60	-160.60	88.00
1988	16.60	-116.90	80.10
1989	5.00	-99.00	65.00
1990	13.00	-102.00	72.00

Data Source: European Economy

The presumption in this analysis is that if there is a sharp shift in the current account around the time of the EEC enlargement to Spain, such a shift would imply that accession events had disruptive and perhaps even diverting effects on world trade.

It can be noted that the EEC experienced a sudden positive jump from a 19.30 billion dollar surplus in its current account in 1985 to 47.50 billion in 1986. Thereafter, there is a drop to 32.60 billion dollars, but that could be explained by the fact the indicator measures external trade for the Community as a whole so Iberian trade would have been internalized after 1986. This is consistent with the case study of Spain, which showed that there was a significant increase in its exports to the EEC after accession. During the same time, the US had experienced a decline in its current account balance from -114.40 to -142.20, and in 1987 its balance further dropped to -160.60. The major beneficiary of this decline, apart from the EEC, seems to have been Japan, which noted a considerable surplus jump in its current account from 49.10 to 85.20 between 1985 and 1986, and a slight rise to 88.00 in 1987. Hence from the raw data, it

would appear that the EEC's enlargement seems to have had some effect on the transaction distributions in the world, but that it was not necessarily trade diverting.

However, it may be useful to see if this pattern holds when the values are standardized as a percentage of GDP. Table 2.5 illustrates the current account fluctuations as a percentage of GDP for each of the three entities.

Table 2.5: Current Account Balance as a % of GDP

	EEC/EU	United States	Japan
1980	-1.3	0.1	-1.0
1981	-0.8	0.2	0.5
1982	-0.9	-0.3	0.7
1983	-0.11	-1.4	1.8
1984	-0.1	-2.6	2.8
1985	0.6	-2.9	3.7
1986	1.3	-3.4	4.3
1987	0.8	-3.6	3.6
1988	0.5	-2.4	2.8
1989	0.2	-1.9	2.1
1990	-0.2	-1.6	1.2

Data Source: European Economy

These values further confirm the pattern of redistribution of trade among the three trading partners. This adjusted indicator shows a strong increase in the EEC's current account surplus from 0.6% in 1985 to 1.3% in 1986. Japan also noted an increase in its current account surplus as a percentage of GDP from 3.7 in 1985 to 4.3 in 1986. On the other hand, the US deficit in its current account with the world increased in that period from -2.9 to -3.4. These standardized numbers help reveal that although, Japan's share of transactions in the world seems to have increased the most, in absolute terms, the EEC had the highest benefit during this period in terms of the percentage of its total previous year's GDP. However, a pattern also emerges implying that Japan seems to generally benefit from the declining US current account balance, and that the EU's surplus

decreases dramatically after 1986. The sudden surplus is perhaps simply indicative of the temporary boosting effects the enlargement had on the EEC's market share. This would be consistent with the previous indicator's findings as well as with the case study's results for the EEC's exports. Although small at 0.06 they show an increase in the EEC's trade with Spain. This sudden surplus is also demonstrated in the fact that, except for 1984-86, in no other years included in the tables was the increase in the current account surplus for the EEC as large. Hence, the EEC accession seems to have a distributive effect on world trade, but also seems to positively affect EEC/EU trade specifically. However, this temporary boosting effect can hardly be related to diversion from external producers.

c. Import and export fluctuations

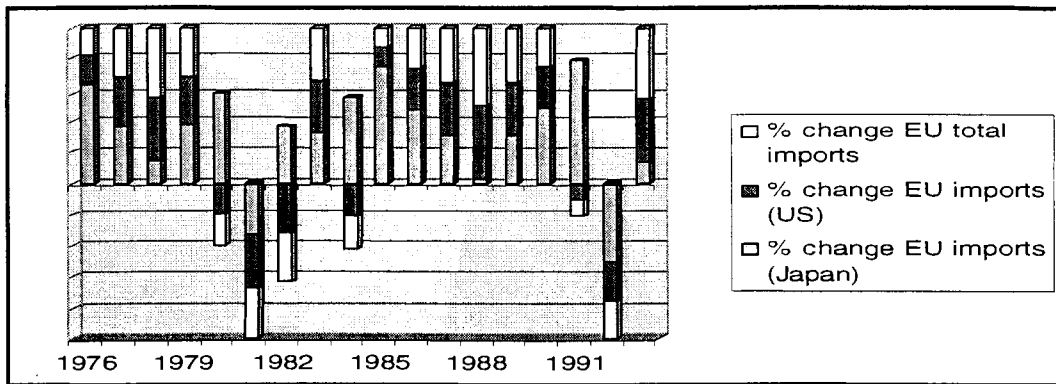
The final indicator to be analyzed here is the actual percentage change in imports and exports between the EEC/EU and the world, represented here by the US and Japan. This specific indicator was chosen because the previous two measures included not only exports and imports, but also other factors as well. Hence, it seemed reasonable to undertake an accurate analysis of only exports and imports. Table 2.6 and Figure 2.1 summarize the EEC/EU's imports for 1976-1993 and shows the percentage change from the previous year's levels. The data also include the figures for Japanese and US imports from the Community during that time.

Table 2.6: EU Import totals and US and Japan's EU imports in million US dollars

Year	EU's % change in imports	US imports from EU and % change	Japan imports from EU and % change
1976	417327	29994	9459.2
1977	466770 (11.85)	31707 (5.71)	11484.9 (21.41)
1978	543955 (16.54)	36865 (16.27)	13636.1 (18.73)
1979	712651 (31.01)	48938 (32.75)	15119.7 (10.88)
1980	857406 (20.31)	61593 (25.86)	19804.7 (30.98)
1981	763275 (-10.98)	59942 (-2.68)	21401.1 (8.06)
1982	727370 (-4.70)	54904 (-8.40)	19594.2 (-8.44)
1983	693381 (-4.67)	50795 (-7.48)	21281.4 (8.61)
1984	703479 (1.46)	52765 (3.88)	22096.6 (3.83)
1985	732111 (4.07)	51798 (-1.83)	23203.7 (5.01)
1986	856837 (17.04)	55870 (7.86)	34056.7 (46.77)
1987	1050384(22.59)	63126 (12.99)	42256 (24.07)
1988	1185030 (12.82)	79625 (26.14)	52135.6 (23.38)
1989	1303001 (9.95)	91624 (15.07)	52682.2 (1.05)
1990	1558589 (19.61)	103488 (12.95)	58701.4 (11.42)
1991	1579797 (1.36)	108413 (4.76)	64103.6 (9.20)
1992	1654108 (4.70)	107739 (-0.62)	67084.4 (4.65)
1993	1451331 (-12.26)	102285 (-5.06)	60236.4 (-10.21)
1994	1653224 (13.91)	107781 (5.37)	61174.4 (1.56)

Data Source: UNCTAD, IMF and author's calculations

Figure 2.1: Percentage change in the EU imports



Data Source: UNCTAD, IMF and author's CALCULATIONS

In the area of imports, it can be noted that the EEC/EU's imports rose steadily over the years. However, in terms of the percentage change from the previous year levels, the situation seems slightly different. EEC/EU imports increased on an annual basis until 1980 and then started to decline. This pattern continued until 1984, and then the EEC imports began to rise until 1987. This initial decline was perhaps consistent with Greece, a small country with few colonial ties joining the Community. The increase in imports reached its peak during the time of the Iberian enlargement. This increase can be explained by considering significant export increases from Spain and potentially from Portugal prior to entry, as well as by the fact that both Iberian nations had colonial ties with Latin America and hence were larger traders than Greece. Their entry to the EEC potentially increased the imports of goods from the former colonies. Also, the percentage increase generally declined in the years after enlargement in 1986. However, this is of no surprise since the EEC internalized two large nations, and their production aided the Community's self-sufficiency in some products, as suggested by the FAO (1983) and Haniotis and Ames (1985), hence temporarily decreased its needs for imports.

When analyzing the figures for the Japanese and American imports from the EEC/EU, one can notice an increase in the years after the enlargement. In 1980, the US had a 25.86% increase in its percentage of previous year's imports from the EEC, but then had a considerable decline in its imports from the

Community until 1983. This is consistent with the decline of EEC imports in general, but it is interesting to see that this shift reflected more in the US than in Japan. Japan's imports declined but only in terms of growth each year, except for 1982.

In terms of the Iberian enlargement, just as EEC imports continued to steadily increase, the EEC's trade partners also boosted their imports from the Community. Naturally, as the Community was growing, so were its exports, and US imports from the EEC increased by 7.86% in 1986 and by 12.99% in 1987. Japan also noted a considerable increase by 46.77% in 1986 and by 24.07% in 1987. Thus, in terms of imports, there seems to be little evidence that Iberian accession led to any trade diversion. Rather, it seems to have had a creative effect on imports from the EEC and on EEC imports in general. Thus, the European RTA enlargements seem to have an insignificant effect in terms of external imports.

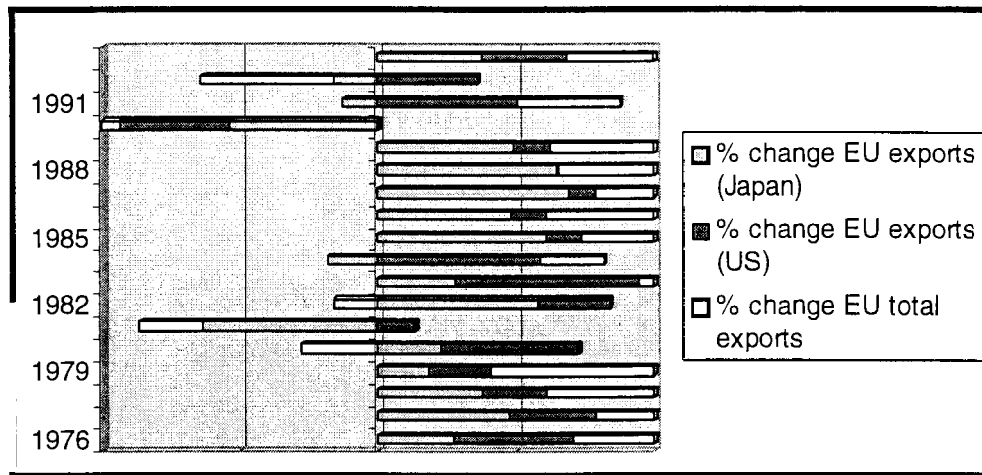
It is also interesting to look at exports of the EEC/EU, and of other traders to the Community to see if the pattern is consistent with trade creation for the Iberian enlargement. Table 2.7 summarizes the exports of the EEC/EU to the world, as well as the US and Japanese exports to the EEC/EU.

Table 2.7: EU Export totals and US and Japanese exports to EEC/EU in million US dollars

Year	EEC's total exports and % change	US exports to EEC and % change	Japanese exports to EEC and % change
1976	379514	21842	4178.4
1977	437989 (15.40)	26850 (22.93)	4790.2 (14.64)
1978	527342 (20.40)	35028 (30.46)	6967.5 (45.45)
1979	663030 (25.73)	40164 (14.66)	8703.5 (24.92)
1980	764939 (15.37)	42579 (6.01)	9115.1 (4.73)
1981	707679 (-7.48)	48345 (13.54)	9674 (6.13)
1982	679957 (-3.92)	49468 (2.32)	8616.1 (-10.93)
1983	663526 (-2.42)	51437 (3.98)	9364.6 (8.69)
1984	682437 (2.85)	68456 (33.09)	10669.3 (13.93)
1985	718525 (5.28)	77822 (13.68)	10216.4 (-4.24)
1986	871625 (21.31)	86055 (10.58)	15315.9 (49.91)
1987	1050479 (20.52)	91922 (6.82)	19219.5 (25.49)
1988	1165459 (10.94)	96500 (4.98)	26034.9 (35.46)
1989	1265889 (8.62)	96611 (0.11)	30255.8 (16.21)
1990	1509386 (19.23)	103405 (7.03)	37815 (24.98)
1991	1492861 (-1.09)	96594 (-6.59)	34422.1 (-8.97)
1992	1584668 (6.15)	104606 (8.29)	33709.6 (-2.07)
1993	1493623 (-5.74)	109093 (4.29)	33073.3 (-1.89)
1994	1705960 (14.22)	124035 (13.70)	38747.5 (17.16)

Data Source: UNCTAD, IMF and author's calculations

Figure 2.2: Percentage change in the EU exports



Data Source: UNCTAD, IMF and author's calculations

In terms of export volumes, the EEC was leading the other two largest traders in the 1980s in absolute terms. However, EEC export growth was declining, and both the US and Japan were gaining vis-à-vis the Community. For example, in 1981, EEC exports declined as a percentage of the previous year by 7.48% and continued on the downward trend until 1984. That perhaps is a reflection of increasing competition from US and Japanese goods. In 1981, US exports increased by 13.54%, and from then on its export growth was not spectacular, but it certainly was positive. Japan's exports fluctuated a bit more but generally grew, except in 1982 when they dropped by -10.93% and in 1985 when its exports declined by -4.24%. Therefore, the level of EEC exports seemed to be declining in the early 1980s, but this may have resulted from redistributive effects of competition from the other two large traders in export markets.

On the other hand, this case study deals mostly with the 1986 accession of Spain and Portugal to the Community. The situation in terms of exports as predicted by the model should not be trade diverting. The numbers here concur with that observation. In the EEC case, exports increased rapidly from 1985 to 1986 by 21.31% from 718,525 to 871,625 million US dollars, and they continued to grow until the 1990s. This is by no means surprising since the Community

internalized the exports of the relatively large Spanish economy, as well as those of Portugal. Hence, its output as a unit naturally increased. However, this did not have significant negative effects on the other trading partners. The US, for example, experienced some decline in the growth rate of its exports, but this did not mean that its exports actually fell. Rather, they simply grew at a slower rate in 1986. Subsequently, in 1987, US exports grew by 6.82% and in 1989 by 4.98%, but they only restored their early 1980s growth impetus in 1992.

Japanese exports followed a similar pattern. In 1986, Japanese exports continued to enjoy spectacular growth as a percentage of 1985 exports (by 49.91%), but in 1987 that growth declined to 25.49%. However, as mentioned before, Japanese exports to the EEC/EU fluctuate by a bit more than the US's, hence there seemed to be a growth year followed by a lower growth period. In the US case, this decline was perhaps due to the fact that when Spain and Portugal joined the EEC they became more integrated with the Community and did not need as many imports from the US. This is consistent with the model prediction of Spanish exports increasing to the Community, and thus its economic ties and lower transaction costs could have mildly affected the imports as well. This is also in line with De Boer, Martinez and Harkema's findings (2000). Hence, there is evidence here of the declining growth of US exports during the expansion event, but a conclusion of trade diversion or decline in exports in general would have been inaccurate.

Moreover, there is little evidence from export and import fluctuations that the EEC/EU enlargement results in trade diversion. Rather, the numbers show that at times, the accession could have affected growth rates of the competitors' exports and imports to the Community, but that it did not divert them per se. Imports jumped during the times of accession of the Iberian countries to the EEC. For the Community, import fluctuations were a natural by-product of enlargement, and the case study of Spain confirms that the exports of the new member to the EEC increased. On the other hand, the EEC's American and Japanese competitors, experienced higher imports from the EEC most likely

because Spanish and Portuguese exports were internalized. In terms of exports, the EEC noted a considerable gain once again as a result of the enlarging market, whereas the US noted a decline in the growth of its exports to the EEC during that time. However, this lack of growth was hardly equal to trade diversion and US exports regained their momentum by the 1990s. Hence, there seems to be little evidence in the export and import fluctuations that the European RTA enlargement caused trade diversion vis-à-vis external producers.

5. Chapter Conclusion

This chapter aimed to test the assertion that the enlargement of a first world RTA such as the EU causes external trade diversion. The case of Spain was used to illustrate the point and the findings were quite surprising. No diversion was noted from external producers, and large, statistically significant change occurred in terms of trade creation with the EEC for Spain. The EEC's gains were not that substantial, but nevertheless, the Community producers did not seem to have lost any market share due to the Spanish accession. Similarly, the rest of the world did not suffer in terms of trade due to the expanding European RTA. The results were qualified by the fact that Spain joined the EEC/EU in an upward trending period for the European market. The indicators included in the analysis seem to have concurred with the statistical findings. Interestingly, the results of the analysis of the indicators pointed to the effect of a temporary boost in the EEC's trade volumes as a result of enlargement, but with no harm to the market share of the external producers. This is consistent with the fact that the sheer size of the Community's economy increases as a result of accession; hence the volumes of trade would have risen.

Another indicative factor of the temporary effect was that the three indicators showed that although the economies of Japan and the US may have reacted with negative growth to the enlargement of the EEC, such effects did not last and were equalized shortly afterwards, and usually at the same time as the EEC's trade boost ended. Hence, this case study of the Iberian enlargement

showed little evidence that trade diversion is actually an effect of an accession event. Rather, there seems to be a positive effect, at least in the long run without any short run actual declines in terms of European and world trade. Therefore, it seems reasonable to conclude that the generalized effect of the Iberian enlargement was trade creating; but this does not negate the possibility of sectoral diversion. Nevertheless, this analysis has shown that regionalism may not be as 'malignant' as some scholars, such as Bhagwati, suggest.

CHAPTER III: THE CURRENT ENLARGEMENT

1. Chapter Introduction

The main focus in the contemporary discussion of the effects of enlargement of RTAs and their relation to trade is that of the recent accession of 10 nations to the European Union. The enlargement of the European Union (EU) from 15 to 25 countries became a reality on May 1st, 2004. The new members that joined EU at that time included: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. (BBC news, <http://news.bbc.co.uk/1/hi/world/europe/2266385.stm>). The EU's territory expanded by 29% and its population increased by 24%, but the GDP per capita decreased by 15% (Guersent, 2001). Sceptics of the current enlargement, including the former EU Commissioner Jacques Delors, are very wary of the effects Eastern enlargement may have on the EU. They assert that the expansion introduces burdens that may be too much to absorb, and may cause deterioration in the integration already achieved, thus constituting a risk of the "EU coming to a halt" (Dettke, 2001, p.1). The European Commission (EC) on the other hand, is adamant about the enlargement. In support of the EC line, some like Sjurssen (2002) claim that this move is just a fulfilment of the EU's natural mandate towards its European kin. Others assert that this decision has as its objectives long-term economic gains and the boosting of the supranational power of the EC (Heinemann, 2003). Although the explanations for the enlargement vary, the accession is a reality now, and it is more constructive to focus on the effects of this integration. Therefore, this part of this thesis will try to decipher if there is any reason for concern with regards to the effects of this accession on trade. First, this chapter will give a brief background on the CEECs' relations with the EU prior to accession. Second, it will analyze potential challenges and benefits both internally for the Union and externally for the rest of the world from this current enlargement. As such it will try to assess if, at

least initially, the apprehension about the enlargement effects was justified. Thereafter, this thesis will look at the three indicators that were already analyzed in the Iberian case study to see if there is a logical pattern that would allow us to draw some tentative conclusions about the potential effects of the current enlargement.

2. Brief overview of the CEEC situation and how we arrived at the enlargement

The CEEC economies have gone through a major readjustment since 1989. Once the CEEC nations emerged from the Soviet Union's influence, they were faced with the reality that they had little connection to the external world and had minimal trade flows or economic relations with it (Harrop, 2000). This was not only due to the prevalence of competing ideologies, but also to the fact that the Eastern currencies were virtually inconvertible and their 'natural' trading partner -the EU- was focusing its efforts on protecting itself from some sectoral imports, notably textiles, on the eve of the Iberian enlargement adjustment in the 1980s and early 1990s (Harrop, 2000). Many CEECs were faced with huge debts incurred because of their efforts to industrialize. Poland, for example, had an astounding debt of \$38.9 billion, or 59.7% of its GDP in 1988 (Harrop, 2000 & calculations using IMF data, 1999).

Additionally, there were many internal challenges to economic development. First, none of the CEECs had established market economies. The switch to a new economic system implied high inflation, privatization leading to high unemployment, and subsequent electoral discontent (Harrop, 2000). Furthermore, the EU continues to be seriously concerned about the rise of the populist right wing parties in Eastern Europe (Verheugen, n.d.). There was also a problem with corruption, weak institutions and bureaucracy that had few of the administrative skills needed to cope with the new political realities (Harrop, 2000). Corruption remains one of the main obstacles to increasing foreign

investment in the CEEC countries. For example, even in 2003 Poland still scored 64th out of 133 countries on the Corruption Perception Index produced by Transparency International (Emerging Europe Monitor: Central Europe, 2003). Still, many industries are ripe for an investment influx as they are suffering from outdated technology, and can offer lower cost labour to foreign firms. Therefore, after the fall of communism the CEECs faced privatization of industries, declining incomes, increased unemployment and low productivity.

However, the EU and the US recognized that this was a window of opportunity to put a definitive end to the Soviet domination of Eastern Europe, and they began to provide aid to reconstruct the ruined economies (Harrop, 2000). The EU and the Group of Seven (G7) initiative started in 1989 with the Poland and Hungary Aid and Reconstruction of the Economy, or PHARE initiative. This was followed by the TEMPUS program of academic exchanges that would provide the CEECs with the necessary expertise to develop. Finally, the European Investment Bank and the European Bank for Reconstruction and Development provided financial help towards the reconstruction of the region (Harrop, 2000). Europe also continued to provide technical support to the CEECs. Soon after the fall of the Soviet Union, the EU replaced the COMECON, the Council for Mutual Economic Assistance as a principal trading partner of the CEECs, and signed the pre-accession European Agreements with the countries in the region (Harrop, 2000). In May of 2004, 10 CEECs became members of the European Union, culminating in a rapid economic transition to satisfy the basic requirement of the Copenhagen criteria for accession.²⁵ Table 3.1 illustrates the economic situation of the CEECs in the year 2000 (European Commission, 2001 from Facchini, 2003).

²⁵ The Copenhagen Criteria required acceptance of *acquis communautaire*, established market economy, and democracy as well as budgetary and fiscal controls in accordance with the Growth and Stability Pact rules. At the point of entry, the two latter criteria could be considered completed but there seems to be less progress in the first one. However, the EU accepted this outcome as satisfactory.

Table 3.1: Country Comparison for CEECs in 2003

	Territory in sq. km.	Population in 2004 in millions	Inflation	Gov. Debt as % of GDP	Unemployed as total %	GDP growth	Labour productivity in PPS (EU15=100)
Cyprus	9,250	775,927	2.2	70.9	4.5	2.0	77.1
Czech Republic	78,866	10,246,178	3	37.8	7.8	3.1	61.3
Estonia	45,226	1,341,664	3	5.3	10.2	5.1	43.1
Hungary	93,030	10,032,375	5.2	59.1	5.8	3.0	62.8
Latvia	64,589	2,306,306	3	14.4	10.4	7.5	40.1
Lithuania	65,200	3,607,899	2.5	21.6	12.7	9.0	44.4
Malta	316	396,851	2	71.1	8.2	0.2	82.3
Poland	312,685	38,626,349	2.3	45.4	19.2	3.8	49.6
Slovakia	48,845	5,423,567	7.1	42.6	17.5	4.0	54.1
Slovenia	20,273	2,011,473	5.5	29.5	6.5	2.5	70.0

Data Source: Eurostat, GeoHive <http://www.geohive.com/global/world.php>, IMF, INE

Three years prior to the entry to the European Union, most of the CEECs' GDPs were below 60% of the EU average, which indicates that there is a long road ahead for those countries before they catch up to the rest of the EU. The discussion of the effects of the rapid transition from one economic system to another is beyond the scope of the thesis, but it will highlight some of the benefits and challenges the enlargement presents for the CEEC members of the EU, the EU itself and for the rest of the world.

3. Scorecard for the Current Enlargement

There are many negative effects which the present accession can have on the trade orientation of the EU. The most obvious reason one might suspect even a temporary change in the EU trade patterns is due to the burden of the cost of enlargement. Breuss (2002) has estimated that the cost of the current enlargement will be about 60 billion Euros or approximately 0.1% of the EU GDP. This is a considerable cost that only increases as we look at sectors important to the CEECs such as agriculture. Rollo (1995) warns that if the Common Agricultural Policy (CAP) were not further reformed the increase of the policy cost would have been about 70% (assuming equal access). This is astounding considering that the CAP after the 1992 McSharry Reforms still consumed around 50% of the EU budget, down from 73% in 1980 (Coleman, 2001). The CEECs have close to 20% of their labour in agriculture and their arable areas are over 50% of that of the EU, which would imply an increase in the CAP's expenses of 6.3 billion Euros, or an equivalent to one third of the EU's budget (Coleman, 2001). Due to the share of labour in agriculture and the fact that changes in both the share of agriculture in the GDP and employment are relatively small over time, Pelkmans (2003) suggests that a reform of the CAP may be essential.

Poland, for example, has a high share of labour force in agriculture (19.5 %) and a negative growth of value added²⁶ in this sector of -0.2 (Pelkmans, 2003). Its share of agriculture in total employment²⁷ stood at 26.9% and had only changed by 0.989 between 1990 and 1998 (Pelkmans, 2003). Also, a change in the share of agriculture in the GDP was only about 0.356, to 4.2% in 1998 (Pelkmans, 2003). Lithuania's situation is a bit better with only 14.9% share of labour force in the agricultural sector and with negative growth of value added of -3.0 (Pelkmans, 2003). However, its share of agriculture in total employment is still at 21.4% in 1998, a small fluctuation of 1.2 between 1990 and 1998 (Pelkmans, 2003). Agriculture has a 10% share of the country's GDP and its role has not diminished much, considering that the rate of change between 1990 and 1998 was only 0.362 (Pelkmans, 2003). Consequently, agriculture's importance in the CEECs may add a huge cost burden to the already expensive CAP. Also, reform of the policy and the potential reform of the agricultural sector in the CEECs to make it more efficient, could increase the cost burden of the enlargement substantially. Therefore, the cost of accession is an important factor to manage and monitor in order to prevent potential protectionist trends in the EU trade policy due to excessive cost burdens.

A related problem is the issue of the distribution and effects of the cost burden of the enlargement within the EU. Barry (2004) argues that the EU's so-called Cohesion Countries (Greece, Portugal, Ireland and Spain) stand to be the losers of the current expansion. He argues that the Cohesion states share many comparative advantages with the CEECs such as low wages or abundant labour supply. They also have similar industry specialization, and thus export advantage

²⁶ Value added is a difference between the input and output i.e. if a firm produces a good at \$500 and sells it at \$800, the value added would be \$300 (Tutor2U, http://www.tutor2u.net/assets/textfiles/Essential_AS_Economics_Glossary_2005.pdf)

²⁷ Agricultural sector, as an employer has a 26.9% share of total employment and 19.5% of working population is employed in agriculture. Hence, when this thesis refers to 'share of labour force' it means the employment in a given sector, and when a reference to 'share of a given sector in employment' is made it indicates the status of a given sector among the employers.

in relatively more labour intensive industries such as agriculture, textiles and footwear (except for Ireland) (Barry, 2004). Barry further claims that this positions the Cohesion Countries in direct competition with the CEECs for foreign direct investment (FDI) as well as the EU's aid and regional assistance funds. He also points out that the CEECs' geographical location allows for lower transaction costs with the rest of Europe in terms of decreased freight times which facilitates industry relocation and FDI inflows (2004).

Breuss (2002) concurs with Barry and adds that all net receivers of the EU funds will lose from the current enlargement, but the Cohesion states face by far the biggest problems. In fact, he estimates that from 2000-2010 the cost of enlargement and bringing the CEECs to acceptable development levels would be (including the CAP costs) around 190 billion euro or 0.15% of the EU's GDP. The Cohesion Countries' share of this cost is quite high with Portugal paying 1.5% of its GDP, Greece 1%, Ireland 0.75% and Spain 0.4%. The CEECs will gain in this transfer with Hungary and the Czech Republic receiving 5.25% of GDP in 2010 and Poland 4%. Since, the distribution of cost may not be even, problems may occur internally for the Union.

Turrion and Velazquez (2004) illustrate this trend in their study of the effects of the current enlargement on Spain. They argue that recent statistics show that the shares of the EU nations in the EU market decreased by 3% and Spain's by 8% whereas the CEECs' share went up by an astounding 33%. They proceed to point out that the CEECs are slowly increasing their share in medium and higher technology production and their quality is steadily improving. On the other hand, they find Spain itself increased its lower technical content production and agricultural output. They also show that the CEECs are gaining vis-à-vis Spain due to a better geographical location and between 1992-99 FDI stocks over GDP from the OECD countries were 7.7% in Spain and 24.2% in the CEECs. Finally, Spain should also be concerned about the terms of the EU's budgetary distribution. Turrion and Velazquez concur with Barry and Breuss, that Spain will lose on regional support payments. This is because the lower GDP of the CEECs

will raise Spain's GDP above 75% of the EU's GDP, making it ineligible for funding under Objective 1²⁸ of the European Reconstruction and Development Fund (ERDF). They add further, that Spain's situation will also suffer in terms of the Cohesion Fund support, since after accession of the CEECs, the Spanish GNP would be at 96% of the EU average putting it outside the maximum 90% of the EU's GNP eligibility criteria for assistance under the Cohesion Fund. Therefore, if the fund structures are not changed, the cost of enlargement will be borne disproportionately by the Cohesion states not only in terms of competition losses, but also in terms of the disappearance of EU support. Such a situation may be problematic for the EU's trade orientation since it will have to accommodate economies competing in similar industries with concurring needs. This can lead the EU to resolve the problem by displacing its imports with internal supply, thus causing trade diversion from the external producers. This internal challenge of distribution of cost burden may have serious repercussions for the EU's trading strategies with the outside world.

Another set of challenges sparked by the CEECs' accession emerges in terms of lower capital-intensive sensitive sectors, notably textiles, footwear and agriculture. The issue with textiles is that of employment. Textile import quotas were abolished on January 1, 2005 by the Uruguay Round agreements. As a result, European producers will have to face stiff competition from the Asian manufacturers (Hanzl-Weiss, 2004). The Cohesion countries have a high level of specialization in textiles and footwear, as do the CEECs, but this comparative advantage may vanish when faced with more efficient Asian competition. However, Lee and Mensbrigghe (2003) point out that the Cohesion states and the CEECs may recuperate some of their losses through more efficient competition. In fact, they predict some trade diversion to the West Asian

²⁸ Objective 1 is the main objective of the European Regional Policy aimed at assisting areas with a GDP per capita lower than 75% of the EU average to improve their situation. Nearly 70% of all structural assistance funds are allocated to Objective 1. The main recipients prior to the last accession were regions in Greece, Spain, Portugal (although all three also receive assistance under the Cohesion Fund), Italy (specifically Mezzogiorno region), East Germany and Ireland. (Tondl, 2001)

producers in processed food, textiles, apparel and transport equipment. In either case, in 2005, as a result of the completion of textile trade liberalization as per the WTO Uruguay agreement, the EU may face a huge unemployment problem not only in the CEECs but also in the Cohesion countries (Hanzl-Weiss, 2004). In 2000, the textiles and footwear sector employed 2.5 million people in the EU-15 and had production volumes of 237 billion euros (Hanzl-Weiss, 2004). This translates into 5.3% of the manufacturing production and as much as 9.3% of the manufacturing employment in labour intensive production (Hanzl-Weiss, 2004). While the CEECs account for only 7% of the EU's textiles and footwear production, they account for about 55% of employment, which makes the region particularly vulnerable to the effects of world competition (Hanzl-Weiss, 2004). These numbers point to another problem in textiles in the CEECs, namely low productivity of the workforce. Therefore, the EU may be faced with a large unemployment problem, which may cause it to adopt protective measures, such as Non Tariff Barriers (NTBs) to allow employment to naturally decrease rather than drop rapidly in both the CEECs and the Cohesion states.

An even larger challenge to the EU's trade orientation comes from the importance of the agricultural sector in the CEECs. The CAP is already putting a strain on the EU budget. Even with the 1992 McSharry reforms and the Agenda 2000 in place it still consumes 50% of funds (Coleman, 2001). Through those initiatives the EU managed to decrease the importance of agriculture to 1.7% of its GDP and to 5.1% of its employment (Breuss, 2002). In comparison, the CEECs' agricultural sector constitutes 7.2% of its GDP and employs 16.1% of its population on average (Breuss, 2002). This is a huge discrepancy and a challenge for EU policy makers in the international environment that persistently increases the pressure on the Union to reform the CAP. Some scholars are mildly optimistic, however. Pelkmans (2003) argues that the EU does not have to worry about trade diversion in the short and medium run, because the CEECs' farms are inefficient due to land fragmentation and backward agricultural technologies currently in use. They also have limited export opportunities because of low product quality (Pelkmans, 2003). Pelkmans (2003) also points out that labour

productivity of the CEEC workers is disastrous, and in Poland and Romania amounts to 8% and 6% in value added per worker. This would mean that reaching even a half of the EU's productivity levels would involve dismissing 4 million agricultural workers. He also points to the appreciation of real exchange rates and the requirement to lower agricultural tariffs to the EU levels as a hedge against diversion (Pelkmans, 2003). However, he precisely pinpoints the problem by arguing that productivity will have to increase eventually causing unemployment problems for the Union. Pelkman himself points to one issue already occurring, namely that employment levels in agriculture are seemingly increasing because the unemployed move to rural areas effectively making agriculture a "decoy for unemployment" (2003, p.10). Moreover, agricultural workers fearing unemployment tend to keep their land as a backup option even if they find another job, a policy that is disastrous for external competitiveness of the CEECs (Pelkmans, 2003). Therefore, even though in the short run the EU's trade concerns with agriculture may be that of bringing internal costs of the CEECs to par with other EU producers, it should be a concern to the international community if the unemployment burden does not smooth over. Also, faced with such challenges the EU may not be willing to negotiate further concessions on the CAP with the rest of the world, and if workers become more productive and the importance of this sector remains unchanged in the CEECs, trade diversion could become a serious concern.

Finally, the current enlargement is a challenge to the balance of power and decision-making in trade policy of the EU. There was already a split within the ranks of the EU-15 with regards to exclusive rights of the European Commission (EC) to make decisions on the EU negotiation position multilaterally (Meunier & Nicolaidis, 1999). Some nations felt cheated with regards to the EC

agreeing to the Blair House Accord ²⁹ with the US, and were ready to enforce their sovereign right of decision making over efficiency and economic interest (Meunier & Nicolaidis, 1999). The end result of this debate was the European Court of Justice ruling excluding so called 'new issues', such as non-tradable services and intellectual property from the exclusive jurisdiction of the EC forcing it to negotiate internally with the Member States to agree on international negotiating strategies (Meunier & Nicolaidis, 1999). This already slowed down the EU decision-making process, and now instead of balancing concerns of 15 nations the EU will have to deal with the interests of 25, all of which have different views, distinct priorities and most importantly a vote in granting the EC the mandate to negotiate at the WTO level (Rollo, 1995). Considering that after this enlargement the EU encompasses 30% of the world's output and trade, the internal policy struggles could seriously affect external liberalization efforts (Rollo, 1995). Therefore, whatever the resulting balance of power, the EC trade position has become more complicated internally and therefore externally. Hence, on top of all the previously mentioned challenges of enlargement, the slowdown of multilateralism may be a side effect of the CEECs joining the EU.

Despite the gloomy picture painted above, not all the effects of the EU's newest enlargement are negative. The CEECs have increased their presence in the EU markets as a supplier by 172% between 1992-2002 (Turrión and Velasquez, 2004). Trade with the EU is much more important to the CEECs than to the EU, at a 1:20 ratio, suggesting a strong integration (Breuss, 2002). In 1999, exports to the CEECs constituted 4.58% of the EU's total exports and

²⁹ The Blair House Accord was a bilateral agreement on agricultural liberalization signed in November 1992 between the EU and the US. The essence of this accord was in the redistribution of support payments to agricultural farmers and the reduction of protectionism in agriculture. The European Commission agreed to tariffy border measures, and reduce tariff levels by 36%, internal support measures by 20% and export subsidies by 36%. The traders also agreed to a 'Peace Clause' until 2003. The aim of the accord was to help reform very costly CAP support payments by allocating more resources to 'blue box' (payments to farmers that set aside land) and 'green box' (environmentally based payments). The agreement sparked internal debate in the EU regarding the EC's competence to unilaterally negotiate on such important trade concessions in the name of all the Member States. (Coleman, 2001)

imports from the region were 3.94% of the Union's total imports signalling convergence of their economies and deepening of integration despite challenges (Breuss, 2002). Also, considering that in the beginning of the 1990s, little to no trade existed between the EU and the CEECs, this is a spectacular pace of trade creation and integration.

Breuss (2002) estimates that due to the enlargement, the EU will save resources by eliminating border controls and lowering tariffs, and these savings would be in the line of 5-10%. Also, he points out that enlargement will lead to a mild increase of the real GDP for the EU of about 0.5% cumulatively during 2005-2010. The gains from this accession are not evenly distributed with countries like Austria and the Netherlands gaining around 0.25% of the GDP increase, France, Ireland and Italy benefiting by 0.1-0.2%, and some nations like Spain and the UK losing out on this deal. The CEECs are expected to gain ten times as much, with Hungary increasing its GDP by 4.5% between 2001-2010, and Poland and the Czech Republic by about a half that much (Breuss, 2002). All in all, in aggregate terms, this enlargement is trade creative without budget deteriorations. Also, the real GDP is expected to increase in the CEECs by 8-9% over the 10-year period and if Spain and Portugal's GDP per capita increases are of any indication the CEECs' GDP per capita should grow 1-1.6% faster than the EU's (Breuss, 2002). Therefore, the EU's enlargement has stimulated trade and trade creating benefits to the Union by marginally increasing its GDP, and has contributed to substantial growth of the CEEC economies.

The landmark work by Paolo Cecchini entitled the "Cost of Non-Europe" reiterates that there are many positive features of the EU's enlargement. This report is particularly relevant since it deals with the effects of establishing and expanding the Single Market. This report was done in 1988. It estimated that potential gains from the Single Market, would be about ECU 200 billion, or 5% of EU's GDP (cited in Yesilada, 1992). This benefit will continue to grow as the enlargement progresses. There would be savings from abolishment of administrative requirements and order controls of about 13-24 billion ECUs, and

from an increase in the production of manufactured goods of about 2% of the EU's GDP (Yesilada, 1992). It also predicted a deflation in the EU consumer prices over time of 6% and the creation of 205 million new jobs (Yesilada, 1992). The report predicted that this would boost the EU's trade with the world by 1% of its GDP and would aggregate cost savings from economies of scale by about 2% of the EU's GDP (Yesilada, 1992). Cecchini's report has been a landmark for fuelling further integration and the creation of the Single Market; when applied to the current enlargement it paints a positive prospect of benefits both for the EU and the outside world.

There also seems to be a positive attitude towards enlargement among the rest of the world. Pelkmans (2003) argues that the world considers the deepening of European integration and sectoral stabilization as an assurance that any temptation to deviate towards the old system will not materialize. He also argues that the positive economic effect of enlargement for the rest of the world also depends on the long run upgrades of the CEEC economies and their stronger trade flows. It is also noted that the CEECs are indeed successfully integrating and that by the time of entry their share of the EU-15 imports would be around 13-14% (Pelkmans, 2003). Accession is generally good for the outside world at the beginning since the CEEC tariffs have to go down to the EU levels of around 5.3% (Pelkmans, 2003). The concern that the EU will inherit many new Mezzogiornos³⁰ is unsubstantiated according to Pelkmans (2003). He argues that, although it can take the CEECs a couple of decades to catch up to 75% of the EU's GDP, they have experienced positive growth between 3.6% (Poland) and 5.1% (Romania) and this reflects their potential for attracting investment and developing their structures well (Pelkmans, 2003). Also, the fact that the EU has 'locked' the CEECs into a series of obligatory reforms and offered policy stimulus, the dynamic benefits of the market access and competitive exposure in the EU

³⁰ Mezzogiorno is a region of Italy that is extremely poor and unable to stimulate regional development even with the persistent EU support via Objective 1. Hence, the region has become known for unemployment and inability to industrialize and the EU holds it as an example of the inability to utilize the huge amount of funding received for years.

gave the CEECs a huge potential for growth which they seem to embrace (Pelkmans, 2003). Hence, from this perspective, in light of the CEECs willingness to learn and grow there is no reason to assume that the EU will have to undertake a shift in its trade policy to account for internal challenges caused by enlargement.

Also, EU-15 business interests are predicted to benefit from the EU expansion. Apart from the lowering of tariffs, and thus lowering the cost of business, the new EU will have 480 million consumers which will make it the world's largest Single Market with a single set of regulations of transactions and trade rules (Pongvutitham, 2004). Hong Kong's Trade Development Council (TDC), for example, found that in the time leading to accession the demand for industrial and consumer goods originating from South East Asia has increased significantly in the CEECs (Hong Kong to benefit from EU Enlargement: report, 2004). They argue that this is not only a positive side effect of the harmonization of regulations, but it is also due to rising incomes and better job prospects which stimulate spending and therefore the demand for imports increases (Hong Kong to benefit from EU Enlargement: report, 2004). The TDC states that the demand for imports in Poland went up from 49 billion dollars US in 2000 to 68 billion dollars US in 2003, Hungary increased its import demand from 32 to 48 billion dollars US in the same period (Hong Kong to benefit from EU Enlargement: report, 2004). Also, some argue that this positive import trend is supplanted with the extended confidence in investing in the CEECs that the EU regulative environment has created (EU Enlargement, www.bized.ac.uk/stafsup/options/not/es/eu5.htm). Therefore, there seems to be a more positive outlook by some as to the effects of this enlargement on trade flows. Perhaps, the new environment will stimulate traditionally conservative demand and allow people to relinquish the tendency to save excessively, thus slowing down the economic growth. Hence, the EU enlargement may be good for external producers.

The EU itself argues that this enlargement is essential for both the security of its people, and increased economic performance of the Single Market

(OECD, 2004). They claim that accession is a means of combating crime and illegal immigration, and is aimed at increasing cultural diversity and understanding of its population, while increasing the standards of living in the EU (OECD, 2004). The EU warns that the cost of not enlarging would have been rather high. For instance, depriving the CEECs of EU membership would also have prevented them from reaping the economic benefits of the Single Market, weakened their incentives for economic and structural reforms, discouraged investment and decreased the economic growth potential in the CEECs (OECD, 2004). The EU argues that this could have introduced instability in Europe, perhaps even another wave of Eurosclerosis³¹, which would have affected trade flows and sparked protectionist tendencies in the continent. Thus, if this assessment is right, accession prevented a disturbance in trade flows enabling the enlarged Single Market to in fact create more trade.

Therefore, there are many different and somewhat conflicting opinions as to how the EU's trade policy will be affected by the recent accession of the Eastern and Central European states. One consistent voice is that of politicians on both sides of the enlargement negotiations. Lithuanian PM Algirdas Brazauskas states: "we, as devoted Europeans all, are ready to help the Old Continent develop into an even stronger player on the international arena contributing to peace, security and prosperity of the world" (2002, p. 30). Gunther Verheugen, a member of the EC Enlargement Committee concurs by saying that, "every Euro invested in the candidate countries is an investment into our own future and that of our children and grandchildren" (n.d., 5).

With no agreement in the literature and no statistics yet available to assess the impact of the current enlargement, little can be concluded with regards to empirical effects of this accession. From the above discussion, it is

³¹ Eurosclerosis refers to the period of sclerotic, or slow tendencies in economic growth in Europe in the 1980s. The theory of sclerotic growth is based on the work of Olson who argued that democracy accumulates interest groups overtime and those impede growth unless they develop into encompassing organizations. (Crafts & Toniolo, 1996)

hard to conclude whether the CEECs accession will be a cause of diversion, but it is apparent that, although there is a potential for trade diversion, there are many positive effects of enlargement in terms of trade as well. To better assess the situation, the three qualitative indicators previously explored, trade openness, current account balance, and import and export fluctuation will be analysed. The aim is to see whether there is a trend in the data that could indicate potential trade diversion or creation, and whether there is a pattern in these indicators that can be logically linked to the experience of the Iberian enlargement. In this manner, some tentative potential scenarios can be logically deduced.

4. What do the indicators tell us about the potential of the CEECs enlargement and its effects on trade with the rest of the world?

a. Trade openness

Trade openness can tell us what sort of pattern trade within the EU took in the decade prior to enlargement. This will help us to speculate on whether or not the EU was becoming more protectionist prior to accession in preparation for the political challenges it was about to face. The figures for the US will be included in this logical analysis to control for world trade trends. A first look at the results for trade openness for the EU seems to reveal a consistent pattern of increased trade flows. It seems that the trade openness³² of the EU has increased since the 1992 level of 7.0 to 10.4 in 2002 (Eurostat data, Trade Integration of Goods, 2003). Similarly, US trade openness increased from 7.7 in 1992 to 8.3 in 2002 (Eurostat data, Trade Integration of Goods, 2003). Both seemed to have experienced a hiatus in trade openness around the year 2000 (11.1 EU and 10.2 US), and then a slight dip to the current 2002 levels, which, among other things, could be a reflection of a shift in the global economy

³² Trade openness is measured in terms of average value of imports and exports of goods divided by GDP and multiplied by 100.

towards recession, a change in the political climate in the US, the introduction of the Euro or perhaps the enlargement of the EU. The OECD statistics, in Figure 3.1 show a similar story, although the numbers are slightly different (Visco, 2000). Between 1990 and 1999, the OECD estimates reveal changes for the EU from 9.5 to 12.7 and for the US from 10.2 to 12.2 (Visco, 2000). A similar result is also reflected in trade in services, which constitutes a significant part of total trade, especially in the developed world. The EU trade openness in services increased steadily with a hiatus in 2000/01 at 3.6, and it dipped slightly to 3.5 in 2002 (Eurostat data, Trade Integration of Services, 2003). The situation in the US is similar with trade openness in services also highest around 2000 at 2.6 before dipping to 2.2 in 2002 (Eurostat data, Trade Integration of Services, 2003).

Figure 3.1: Trade Openness

Table 1. Trade openness				
Average of imports and exports as a percentage of GDP				
	1970	1980	1990	1999
United States	5.4	10.2	10.2	12.2
European Union ¹	8.5	11.4	9.5	12.7
Japan	10.2	14.1	10.3	9.5

1. Net of intra-EU trade. Throughout the time period shown, the European Union is defined as the current 15 member states. The correction factor for intra-EU trade is based on intra-EU trade for goods only, due to insufficient data on services trade.

Source: OECD.

Both statistics seem to imply a general trend towards trade openness for the two largest trading partners, thus hardly showing any turn towards protectionist policies. However, it is significant that the Eurostat statistics do show a decline in trade openness since the year 2000 in both entities that could be an indication of a slowdown in multilateral trade liberalization (Eurostat data,

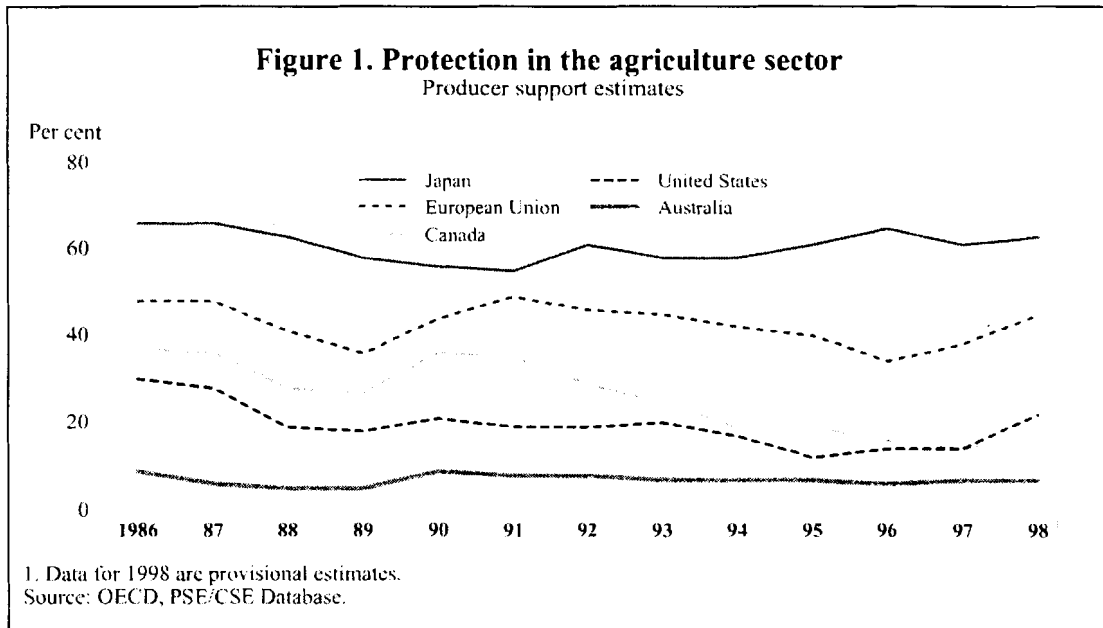
Trade Integration of Services and Goods, 2003). In the EU's case, this could also be an indication of the preparation for dealing with the enlargement costs.

Sectorally, the possibility of this trend seems even more visible. The OECD report regarding trends in market openness notes that the aggregate measures of trade openness have increased on average in the last 30 years, but this was not a homogenous trend across sectors (Coppel and Durand, 1999). It looks first at the production-weighted average tariff rates, and this measure of protectionism in the market shows that indeed the tariffs have not increased overall. However, the agricultural and foodstuff tariffs increased considerably for both the EU and the US (Coppel and Durand, 1999). The increases for the US between 1989 and 1996 were from 3.8% to 7.9% in agriculture, forestry and fishing sectors and from 7.6 to 15.9% in food, beverage and tobacco (Coppel and Durand, 1999). The EU also noted an increase during 1989-1996 in the above sectors of 6.4 to 10.7 and 27.4 to 32.5% respectively (Coppel and Durand, 1999). Of course, it should be noted here that the EU has less of a land base compared to the US, hence the US has more of a comparative advantage in agriculture compared to EU-15, and thus in the EU agriculture is a more sensitive sector than in the US. As a result, sectorally speaking, it seems that the EU is more protectionist in agricultural sub sectors because they are more sensitive to its economy than in the US case. This notion is reflected in the fact that after the removal of the quantitative restrictions and tariffication, the EU's increase of tariffs on those sectors appears to be larger than that of the US. This can also be in anticipation of the new set of producers that joined the EU soon afterwards. However, the trend of agricultural protectionism seems universal, and hence, not exclusive to the EU.

This position is further demonstrated in the specific figures for agriculture. Looking at the graph below, we can see that the protectionism of the EU in terms of producer support has not diminished, and even has an upward trend after the Uruguay Round completion. However, the same conclusion can also be made with regards to the US and Japan. Hence, there seems to be an

international pattern of agricultural de-liberalization rather than one of trade openness.

Figure 3.2: Protection in the agriculture



US protectionism may be lower in the agricultural sector but it is also on the rise. What is interesting is the fact that the trading relationship between the US and the EU seems to converge in agriculture. EU exports of agricultural goods to the US were second only to Canada at 16.5%, and constituted a 4% change since 2000 (WTO data, Imports of agricultural products of selected economies by region and supplier, 2002). US exports also constitute 4.2% of EU imports, second only to the intra-EU imports. Therefore, if the entities increase their cooperation in this area, it may be even more difficult to liberalize this historically protectionist sector. Thus, it is difficult to predict if this protectionist trend in the sensitive industries will negatively affect multilateral trade liberalization, but it appears that the incentive for across the board liberalization is small in the two largest trading blocs. It is reasonable to assume however, that since multilateral negotiations are now reaching the sensitive sectors, liberalization efforts may be affected. Also, it is possible to estimate that if such liberalization attempts are undertaken, they will be even more sluggish than the ones in the textile sectors since agricultural policy has its own intrinsic value beyond trade considerations

and the previous liberalization efforts via reform have had limited success. Therefore, it may be that the CEECs' accession will cause even more sluggish progress in multilateral liberalization due to the productive capacity it brought to the EU. Some may argue that the recent (July 31, 2004) WTO framework agreement on the eventual removal of agricultural export subsidies may negate this argument (WTO, 2004). However, neither the EU nor the US agreed on any timeline for this eventual liberalization to take place (WTO, 2004). Nevertheless, if the pace of textile liberalization can be of any indication, we will have to wait a long time for any tangible implementation program, even if the LDCs negotiate a compromise on this issue in the Doha Round. At any rate, enlargement seems to be more of an aggravating factor for the liberalization of agricultural trade, as it gives the EU a chance to argue for maintaining the subsidies for a longer time period in order to allow for the development and restructuring of agricultural production in the CEECs. Hence, the current accession will not necessarily have a reflection in a significant trade diversion to the rest of the world, yet it has the potential for stalling multilateral liberalization of agricultural trade in the developed world.

b. Current Account balance

The current-account balance summarizes a country's current transactions with the rest of the world, including trade, income from international investments, and transfers. Therefore, a brief analysis of the trends in the current account prior to enlargement could shed some light on the EU trade policy patterns with the rest of the world before the accession. Balances with the US and Japan will also be analyzed here since they are the two largest developed-country trading nations, so any changes in trade flows should be reflected in the EU's trade numbers with them.

The aggregate current account balance shows that the EU actually improved its trade balance with the US from a deficit of 10.7 billion ECU in 1992, to a surplus of 85.3 billion ECU/EURO in 2002 (Eurostat Data, EU Current

Account balances with the United States, Japan and EFTA, 2004). This surplus of 2002 however, is largely reflected by the improved trade figures for the larger economies in the EU, namely Germany (37 billion), France (20.6 billion) and United Kingdom (19.4 billion) (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). Smaller economies, on the other hand, experienced a deficit or close to a deficit in their current account balances with the US in 2002. The Czech Republic experienced a deficit of 0.3 billion, Ireland of 9.2, Netherlands 9.2, Austria 0.9 and Spain of 0.3 (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). During the 1992 to 2002 period, the trend was also negative in terms of the current account balances with the US for Greece (2.4-0.1), Ireland (-5.7- (-9.2)), Hungary (-0.2 in 2000-(-0.4)) and the Netherlands (-3.6-(-9.2)) (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). However, it is also true that the current account deficits that the smaller EU economies had with the US have been declining since 1992 for all except the Czech Republic, Netherlands and Ireland (see table 3.2 below). Therefore, although the large European nations experienced surpluses with the US in trade, many other countries in the EU had negative current account balances with the US, but most were consistently improving their trade balances. Considering the fact that a majority of the CEECs are small and some, for which the numbers are actually available like Hungary already experience deficits with the US, it is perhaps reasonable to assume that there is potential for the shift in trade towards the EU and away from trading with the world. However, if those deficits continue to decline there would be no reason to believe that any trade diversion as a result of enlargement may take place.

Table 3.2: Current Account Balances with the US in billion ECU/EURO

	1992	2002	Δ(2002-1992)
EU	-10.7	85.3	96
Germany	5.3	37.0	31.7
France	-0.9	20.6	21.5
UK	3.9	19.4	15.5
Ireland	-5.7(1999)	-9.2	-3.5
Netherlands	-3.6	-9.2	-5.6
Austria	-1.4(1995)	-0.9	0.5
Spain	-1.6	-0.3	1.3
Hungary	-0.5 (1999)	-0.4	0.1
Czech Republic	-0.5(2000)	-0.8	-0.3

Data source: Eurostat

As the second largest developed-country trading power in the world, Japan shows similar trends to that of the US. Japan has a deficit of 18.8 billion with the EU in its current account (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). However, its deficits with the larger nations in the EU were declining between 1992 and 2002. For instance, Japan's trade deficit with Germany declined from 11.8 to 3.8 billion, while its trade deficit with France declined from 1.3 to a surplus of 1.9 billion (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). A number of nations have experienced a considerable decline in their current account balances with Japan. Strangely, the UK is in this group with its current account balance declining between 1992 and 2002 from a deficit of 0.1 to 4.7 billion (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). Also, the Eastern European nations for which data are available and some smaller European countries have also experienced current account balance deterioration with Japan between 1992 and 2002. The Czech Republic's current account deficit increased from 0.6 billion in 2000 to 0.8 in 2002. Hungary's increased from 1.3 in 1999 to 1.6 in 2002 (Eurostat Data, EU

Current Account balances with the United States, Japan and EFTA, 2004). The Netherlands current account deficit increased from 1.1 in 1992 to 7.0 billion in 2002, the Benelux countries from 0.1 to 5.0, and Portugal's from 0.5 to 0.7 (Eurostat Data, EU Current Account balances with the United States, Japan and EFTA, 2004). However, the main trading nations within the EU have mostly experienced surpluses or declining deficits with Japan, and hence in the years leading up to enlargement there is little evidence of any trade diversion.

Table 3.3: Current Account Balances with Japan in billion ECU/EURO

	1992	2002	$\Delta(2002-1992)$
EU	-23.5	-18.8	4.7
Germany	-11.8	-3.8	8
France	-1.3	1.9	3.2
UK	-0.1	-4.7	-4.6
Benelux	-0.1	-5.0	-4.9
Netherlands	-1.1	-7.0	-5.9
Austria	-0.6 (1995)	-0.4	0.2
Spain	-2.8	-2.2	0.6
Hungary	-1.3(1999)	-1.6	-0.3
Czech Republic	-0.6(2000)	-0.8	-0.2

Data source: Eurostat

Therefore, the EU's main trading nations, such as Germany have experienced current account surpluses with the US and declining deficits with Japan. Hence, enlargement did not seem to have affected this trend that persisted since 1992. As a result, external trade flows of the RTA do not appear to be threatened by the accession. Also, the smaller nations that have mostly experienced current account deficits with the US and Japan have been improving on their trade balances (especially with the US) and may want to continue to increase exports to those countries. Therefore, as long as the large European trading economies maintain healthy surpluses or in some cases declining deficits with the US and Japan, significant diversion is unlikely to materialize.

c. Import and export fluctuations

Import and export fluctuations could be a good indication as to whether the CEEC producers may be displacing those from the outside world. The EUROSTAT data show that the CEEC shares of the EU imports more than doubled from 2.1% in 1992 to 4.8% in 2002 (Eurostat data, EU International Imports of Good, 2004). For example, Poland's shares increased during that period from 0.6 % to 1.1%, the Czech Republic's from 0.3% to 1.1% and Hungary's from 0.4% to 0.9% (Eurostat data, EU international imports of goods, 2004). This clearly indicates that the CEECs' product presence in the European market gained clout during the decade prior to enlargement. This is partially due to the Europe Agreements signed between the CEECs and the EU in the early 1990s. Those agreements established a progressive free trade area between Western and Eastern Europe on the basis of reciprocity (EUROPA website, http://europa.eu.int/comm/trade/issues/bilateral/regions/candidates/index_en.htm). However, the agreements were asymmetric in nature which meant that the EU implemented trade liberalization more rapidly than the CEECs, thus allowing for the economic development of the CEECs and the establishment of their market presence in the EU. However, the sheer size of integration in such a short time period is interesting especially since at the time, the Single Market had not yet been enlarged to include those nations. Moreover, imports had also doubled which is a sign that there may have been a shift in trade away from external producers. This fact is reflected in the EU imports from other nations. Furthermore, Japanese import shares to the EU dropped from 4.5% to 2.7% between 1992 and 2002, close to a 50% decrease (Eurostat data, EU international imports of goods, 2004). Similarly, the United States experienced a decrease in its EU import shares from 7.6% in 1992 to 6.8%. Certainly this may not represent a huge drop percentage-wise relative to that of Japan, but still it is a considerable amount for a large economy such as the US (Eurostat data, EU international imports of goods, 2004).

Finally, NAFTA's trade shares in the EU also showed a decline between 1992-2002 from 8.5% to 7.7% (Eurostat data, EU international imports of goods, 2004). This is significant because the decline in imports to the EU from the outside world has been relatively steady, indicating that as the relationship between the EU and the CEECs strengthened, the world imports were declining. It is perhaps a good indication that the EU could increase those import levels as the accession occurs. In addition, the percentage of American exports to the EU as a percentage of total exports declined in the 1992-2002 period from 24.08% to 20.78% (Eurostat data, Percentage of Trade with EU-15, 2004). Japan's share of exports to the EU as a share of its total exports also decreased from 19.76% to 14.74 during 1992-2002 (Eurostat data, Percentage of Trade with EU-15, 2004). Unfortunately, no such statistics are available from EUROSTAT for the CEEC states, but a reasonable assumption would be that the CEECs' shares in the EU market are growing while at the same time; trade is shifting away from outside producers. However, as I have shown in the case study, this trend may only be temporary and can actually contribute to even greater trade creation in the long run.

The OECD data show the share of world exports and imports since the 1990s. The Japanese share of world exports fluctuated from 7.5% in 1990, though a brief period of increases during 1991-1993. Since then, it has been declining steadily to 5.5% in 2003 (OECD, Shares in world exports and imports Annex Table 45, 2004). The US experienced a steady increase in its share of world exports until 1999. Since that year, its shares started to decline from 14.1% of the world exports in 1999 to 11.4% in 2003 (OECD, Shares in world exports and imports Annex Table 45, 2004). These declines coincided with the consistent increase of trade relations between the CEECs and the European Union. Considering that most trade flows are among Triad members (the US, EU and Japan), this decline in shares of world exports may be an indication of a trade shift towards internal producers, which may be a temporary effect of enlargement. However, here, as in the Spanish case, the exports of the rest of the world to the EU could rebound within a few years.

The OECD data also show the change in import and export volumes as a percentage of previous years. Incidentally, in 1993-1994 when Japan's share of world exports decreased, the CEEC nations noted a large increase in their export volumes. Hungary's export shares of goods and services increased in 1994 by 13.7%, whereas Poland noted an increase of 13.1% (OECD, Export volumes of goods and services Annex Table 38, 2004). Also, the Slovak Republic increased its share of exports by 14.8% between 1993-1994 (OECD, Export volumes of goods and services Annex Table 38, 2004). This pattern also shows in the US shares of export volumes of goods and services. The US shares started to decline in 1999, and once again, the CEEC states noted a formidable increase in their shares of exports in 2000. The Czech Republic's export volumes increased by 17% from 1999-2000, and Hungary's exports increased by 21.8% during this period (OECD, Export volumes of goods and services Annex Table 38, 2004). Poland's percentage increase in export volumes from previous years was about 23.2% during 1999-2000 and the Slovak Republic's was 13.7% (OECD, Export volumes of goods and services Annex Table 38, 2004).

Incidentally, for most countries this was one of the years where CEEC exports saw the largest positive change from the previous years. Perhaps, it is no coincidence that the largest gains made by the CEECs in export volumes were made in the years during which Japan and the US noted a decrease in their world export shares. This could be an indication of the CEECs integrating with the EU and gaining market share through benefits of the Europe Agreements. Also, the fact that for both Japan and the US, the declining trend continued through 2003 implies that the CEECs were gaining even more clout in world exports. However, this is a tentative assumption since there are also other economies that may have increased their exports vis-à-vis those of the US and Japan, China and India most notably. Nevertheless, the fact that the decline in the Japanese and US shares of exports coincides with the large gains in those of the CEECs constitutes an indication of a redistribution of the EU's market share toward the CEECs which is consistent with the temporary boost effect that enlargement can have.

5. Chapter Conclusion

This chapter has attempted to show that predicting the trade effects of the current EU enlargement is very difficult. There are many indications that the EU's external trade with the rest of the world will suffer not only because of what the CEECs have to offer in terms of cheap skilled labour and geographical advantages, but also because of the internal problems that the EU will have to face as a result of accession. Budgetary issues, policy decision-making challenges, and internal conflict resolution due to renewed competition for resources, all constitute serious challenges to the EU and may cause it to focus its attention on internal issues, even resorting to trade diversion to appease the internal situation. This chapter also shows that there are some positive outcomes of enlargement such as increased trade volumes as well as the economic development of the CEECs, which for some assures more stability. Also, the CEECs' accession is good for business, as these states have already been a target for foreign investment projects.

Consequently, there are many angles from which the effects of this enlargement on trade can be assessed. This chapter proceeded to analyze three indicators in hope for some clarification of the patterns of enlargement and trade. In terms of trade openness, the situation was generally status quo for the EU and the US, but there was a slight decline in openness for both in 2002. This indicator was very helpful, however in highlighting a real possibility of sectoral protectionism, especially in the sensitive sectors such as agriculture. However this trend is consistent for both the EU and the US, as it appears not to be indicative of diversion. The current account balance showed that although the aggregate balance for the EU was positive for both the US and Japan and many small nations in the EU experienced actual deficits with both. Therefore, since 9 out of the 10 nations that joined the EU in May are small states, we might expect them to run deficits with the rest of the world as well. Hence, at least in the short run, there may be little gain for the external world from the current enlargement. Finally, the import and export analysis showed that the decline in

shares of Japanese and US exports to the EU exports and the world corresponds to increases in the CEECs' shares in both during that time. This could imply that the CEECs are shifting trade from the two trading nations, and thus having negative effects on them. However, the trend could also be explained by the CEECs' economic growth and their integration into the world trading markets. In sum, trade diversion may not be taking place at all. Also, given the Europe Agreements and further market integration, this trade shift may only be a temporary outcome.

Although no data exist to date that could confirm these deductions, this analysis indicates that there should be few concerns for external producers. However, it is not indicative of a negative trend in terms of trade diversion as a result of enlargement. Hence, the concluding chapter will bring together the results from Spanish and CEECs indicators and will aim at explaining that the world is unlikely to see any trade diversion as a result of the recent enlargement of the European RTA.

CHAPTER IV: CONCLUSION

1. *Is enlargement of the EU detrimental for the trading world?*

This thesis has questioned whether the enlargement of an RTA, in this case the European Union, is likely to cause significant trade diversion away from external producers. The case study of Spain showed that this need not necessarily be the case. The accession of Spain likely had a positive impact on the creation of trade. However, due to the recent nature of the last accession event, no such statistical analysis can be done for the CEECs. The research design here sought to address this issue by providing an analysis of the three trade indicators so as to provide a tentative point of comparison.

Nevertheless, it has to be acknowledged that these data are problematic as well. First, there are no EUROSTAT data available prior to 1992, although these statistics are considered to be of superior quality, they were not available for the Spanish study. Instead IMF data were used which resulted in a validity threat of potentially different accounting practises in calculating the data. Also, trade openness in the Spanish case had to be calculated based on IMF data, whereas the CEECs' trade openness was reported via the EUROSTAT. Similarly, the current account data were not available in the same format, but due to the fact that trade between the Triad nations constitutes most of the world's trade, this limitation was acceptable. Finally, logical limitations between cases should not be ignored. Spain entered the EEC during an upward trending market, whereas the CEECs did not benefit from such circumstances. Spain's accession only brought two nations into the Community, while the current enlargement included ten countries. Similarities mentioned before, such as poor economic performance and authoritarian regimes serve as mitigating factors on these limitations, however the differences between accessions can have an effect on the comparison. Also, this analysis is a general one and is not indicative of potential sectoral levels of diversion. Another issue that could limit the validity of

this analysis is the fact that an 18-year gap between the two enlargements allowed for technological and other developments that could render the statistical comparison inaccurate due to changing conditions.

This study also cannot be generalized to every accession to the EU, but it could be speculated that there is some potential for the generalizability in terms of the accession of poorer nations to the EU. It is possible that such delimitations could help the external reliability of this analysis. Hence, this logical and tentative analysis serves as counter to the above limitations. This comparison is based on the three indicators analyzed in Chapter 2 and 3 and aims at discovering if the directions of the trends prevalent in those indicators are consistent for both enlargements. If so, it will be speculated that we can expect an outcome from the current enlargement similar to the one had for the Spanish accession; namely external producers likely suffered no significant trade diversion.

Trade openness was the first indicator analyzed here. In the case of the Iberian accession, trade openness grew steadily in both goods and services until 1986. During that year of accession, there was a decline in trade openness on the part of the Community, but interestingly enough, it was coupled with a decrease in US trade openness as well. Still, both economies seemed to quickly recover afterwards. Similarly, the EU's trade openness grew during the 1990s in the areas of goods and services, but it dipped slightly in 2000. However, this decline was reflected as well in US trade openness at the same time. Interestingly enough, a brief analysis of the current agricultural trade reveals a trend towards protectionism, at least in terms of tariffs, for both trading partners, the US and the EU. Hence, multilateral liberalization in this sector may be at risk unless the Doha Round negotiations yield a more tangible compromise. It was most surprising to not only notice a trend convergence between the enlargements, or at least prior to the accession event, but also to see the reactivity levels between the large trading economies. This also indicates that a significant trade diversion had not taken place before the Iberian accession and the transition was rather smooth. This is an outcome that could be repeated with

the current enlargement. Rather, the trends seen in the data seem to indicate that enlargements may cause a temporary decline in openness, perhaps for the purpose of adjustment. However, the data pattern also shows that the declines in openness after the Iberian enlargement were more indicative of a trend in world trade, as opposed to a significant trade diversion from external producers. One can also notice in the Spanish data that the two economies recuperated quickly to their earlier levels of openness. Thus, the trends of pre-accession in terms of trade openness were similar for both accession events, allowing us to logically speculate that the current accession's result may not be significantly trade diverting after all.

The current account balance data suffered from the fact that there was no EU level data available; therefore, the comparison is a bit more tentative here. The Iberian period data show the current account balances for the three economies, Japan, the EU and the US. On the other hand, the EUROSTAT data for the current enlargement include the EU's balances with those partners. This comparison is manageable since the link underscores the fact that trade between those three economies constitutes most of the world trade. The EEC/EU data in 1986 notes a surplus in the current account balance as a percentage of the previous years' balance. This is also the case for the Japanese economy, but the US current account dips slightly during that time only to recover soon afterwards. The data for the current enlargement demonstrate a similar pattern. However, these figures show that the distribution is not the same for all the economies and seem to indicate that the large European countries tended to have either surpluses or declining deficits with the US and Japan respectively. The small nations may have experienced deficits outright in their trade with both parties. However, since the volumes of transactions with the rest of the world were largely vested in the large economies in the EU, those numbers are hardly indicative of significant diversion. Therefore, the data for both enlargements seem to show little distortion in the current accounts of the three main developed-country traders. Consequently, it appears that the Iberian pattern may be repeating itself in the current enlargement at least judging by the ex

ante current account fluctuations. If that is the case, little trade diversion should be expected ex post the accession of the CEECs.

The final indicator analyzed here is the fluctuation in imports and exports when the enlargement occurs. In the case of the Iberian enlargement, there was a significant increase in exports from Spain and Portugal to the EEC in 1986. The world's imports from the EEC at the time increased as well, suggesting a possible trade creative effect of the accession. Also, exports of the EEC increased rapidly post enlargement, perhaps a factor of the internalization of the Iberian exports. Initially, the US and Japan noted a decline in the growth of their exports to the EU, but this cannot be equated with trade diversion as the export levels quickly recovered for both economies. Hence, no significant diversion was experienced in general terms as a result of the Iberian enlargement.

Similarly, before the CEECs joined the Union, their market share in the European markets increased substantially due to effects of freer trade under the Europe Agreements. As well, between 1992 and 2002, American and Japanese exports to Europe were lower, and subsequently the EU's imports dropped as well during that time. This could be an indication of the increased importance of the CEECs in the Community's supply chain; however, we have yet to see whether as in the Iberian case, the growth of external exports will recover quickly. Therefore, in terms of import and export fluctuations, enlargement seems to cause a temporary decline in import growth from the rest of the world as the exports of the acceding economies to the Union increase. However, if the CEECs' pattern maintains its similarity to the Iberian accession, the export growth for the rest of the world will quickly restore itself and no significant diversion will take place.

In sum, if we take the Iberian enlargement as an indicator, significant trade diversion seems unlikely to be produced by the current enlargement. All the indicators show a degree of similarity in the ex ante patterns of trade, and little actual diversion was noted in those trends. It is perhaps a myth that industrialized RTAs enlarging to unequal partners results in a significant

international distortion of supply. However, this is not to deny the sectoral variations, and difficulties the EU may face with potential trade diversion in the sensitive sectors. Nevertheless, this study's concern was whether or not there is a trend towards trade diversion in general, and since no such pattern was identified in the Iberian accession it is surmised that no significant diversion will result from the current enlargement.

2. Reflection On Theory/Future Implications

This study's conclusions support the view that the welfare effect produced through the enlargement of RTAs is ambiguous, and as such it supports the work of scholars such as Krueger and Lal. However, it also provides an indication that the effect of the European RTA's enlargement seems to be generally trade creating, following Summers' and Krugman's conclusions. It is still surprising in light of this small study that so many scholars subscribe to the view that RTAs divert trade and are detrimental to the expansion of multilateral trade. This study does not aspire to show that such distinguished scholars as Bhagwati are wrong, but this research demonstrates that perhaps significant diversion is not always the outcome of RTA accession. Also, it is the hope of this study to contribute to the increased use of individualized frameworks rather than aggregates when analyzing an RTA's effects on welfare. Methodologically, this kind of analysis yields more valid, but less externally reliable results. However, it is perhaps a step in the right direction since the standardized analysis of individual cases may be eventually collected into meta analysis and a more generalizable result may be obtained that could also be considered valid. On the other hand, it is also true that trade is not stagnant and is dependent on not only the actor and the previous year's trade volumes, but also on political circumstances. As such, trade is always going to be difficult to analyze. Nevertheless, the effects of regional agreements on trade are not always detrimental, and perhaps future research could be done to show the validity of these conclusions through a meta analysis approach that studies RTAs in detail. To date, this research has shown that in

upward trending markets, RTA enlargement does not significantly divert trade away from external producers.

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APPENDIX A.1

Year	Spain's imports to World excluding EEC/EC	Spain's EU imports in mln \$ US	Spain's imports from Portugal	Spain's Exports to World excluding EEC/EU	Spain's Exports to EEC/EU in mln US	Spain's exports to Portugal	Average Inflation Advanced Economies (IMF) in %	Average Inflation Advanced Economies (IMF):100
1976	4129.8	4597.2		11148.1	6312.9		8.8	0.088
1977	4914.7	5306.3		11222.4	6611.6		9	0.09
1978	6373.5	6744.5		11689.1	7023.9		7.5	0.075
1979	8596.8	9611.2		15552.7	9884.3		9.6	0.096
1980	9488.3	11230.7		22720.1	11356.9		12.7	0.127
1981	10642.3	9693.7		22063	10092		10.9	0.109
1982	10203.4	10294.6		20818.1	10645.9		7.3	0.073
1983	9515.2	10218.8		18964	10228		6.5	0.065
1984	11036	12526		18332.4	10499.6		6.2	0.062
1985	11167.6	13077.4		18228.8	11734.2		5.4	0.054
1986	10207.8	16998.2	941	16325	18731	455	2.8	0.028
1987	11619.6	22572.4	1549	20744.3	28367.7	822	3.2	0.032
1988	13004.8	27330.2	2255	24033.3	36483.7	1258	3.5	0.035
1989	13835.5	29849.5	2718	28087.5	42865.5	1661	4.5	0.045
1990	15940.8	39789.2	3369	32617.7	55182.3	2192	5.2	0.052
1991	16491.3	43835.7	3961	35312.9	61345.1	2541	4.7	0.047
1992	16894.5	47153.5	4836	35655.9	64177.1	2700	3	0.03
1993	18508.2	44222.8	4788	29637.3	52755.7	2210	3.1	0.031
1994	21572.8	51732.2	5719	33095.4	59088.6	2562	2.6	0.026

APPENDIX A.2

Year	Spain's imports to World excluding EEC/EC	Spain's EU imports in mln \$ US	Spain's imports from Portugal	Spain's Imports from EEC Imports from Portugal after 1986	Spain's imports to World excluding EEC/EC + imports from Portugal after 1986	Spain's Exports to World excluding EEC/EU	Spain's Exports to EEC/EU in mln US	Spain's exports to Portugal	Spain's exports from EEC- exports from Portugal after 1986	Spain's Exports to World excluding EEC/EU + exports from Portugal after 1986
1976	4129.8	4597.2		4597.2	4129.8	11148.1	6312.9		6312.9	11148.1
1977	4914.7	5306.3		5306.3	4914.7	11222.4	6611.6		6611.6	11222.4
1978	6373.5	6744.5		6744.5	6373.5	11689.1	7023.9		7023.9	11689.1
1979	8596.8	9611.2		9611.2	8596.8	15552.7	9884.3		9884.3	15552.7
1980	9488.3	11230.7		11230.7	9488.3	22720.1	11356.9		11356.9	22720.1
1981	10642.3	9693.7		9693.7	10642.3	22063	10092		10092	22063
1982	10203.4	10294.6		10294.6	10203.4	20818.1	10645.9		10645.9	20818.1
1983	9515.2	10218.8		10218.8	9515.2	18964	10228		10228	18964
1984	11036	12526		12526	11036	18332.4	10499.6		10499.6	18332.4
1985	11167.6	13077.4		13077.4	11167.6	18228.8	11734.2		11734.2	18228.8
1986	10207.8	16998.2	941	16057.2	11148.8	16325	18731	455	18276	16780
1987	11619.6	22572.4	1549	21023.4	13168.6	20744.3	28367.7	822	27545.7	21566.3
1988	13004.8	27330.2	2255	25075.2	15259.8	24033.3	36483.7	1258	35225.7	25291.3
1989	13835.5	29849.5	2718	27131.5	16553.5	28087.5	42865.5	1661	41204.5	29748.5
1990	15940.8	39789.2	3369	36420.2	19309.8	32617.7	55182.3	2192	52990.3	34809.7
1991	16491.3	43835.7	3961	39874.7	20452.3	35312.9	61345.1	2541	58804.1	37853.9
1992	16894.5	47153.5	4836	42317.5	21730.5	35655.9	64177.1	2700	61477.1	38355.9
1993	18508.2	44222.8	4788	39434.8	23296.2	29637.3	52755.7	2210	50545.7	31847.3
1994	21572.8	51732.2	5719	46013.2	27291.8	33095.4	59088.6	2562	56526.6	35657.4

APPENDIX A.2- cnd.

Average Inflation Advanced Economies (IMF):100	Spain's Imports from EEC- Imports from Portugal after 1986* inflation	Spain's Imports from EEC- Imports from Portugal after 1986+ inflation	Spain's imports to World excluding EEC/EC + imports from Portugal after 1986* inflation	Spain's imports to World excluding EEC/EC + imports from Portugal after 1986+ inflation	Spain's exports from EEC- Portugal after 1986* inflation	Spain's exports from EEC- Portugal after 1986+ inflation	Spain's exports to World excluding EEC/EU + exports from Portugal after 1986* Inflation	Spain's Exports to World excluding EEC/EU + exports from Portugal after 1986+ Inflation
0.088	404.5536	4192.6464	363.4224	3766.3776	555.5352	5757.3648	981.0328	10167.0672
0.09	477.567	4828.733	442.323	4472.377	595.044	6016.556	1010.016	10212.384
0.075	505.8375	6238.6625	478.0125	5895.4875	526.7925	6497.1075	876.6825	10812.4175
0.096	922.6752	8688.5248	825.2928	7771.5072	948.8928	8935.4072	1493.0592	14059.6408
0.127	1426.2989	9804.4011	1205.0141	8283.2859	1442.3263	9914.5737	2885.4527	19834.6473
0.109	1056.6133	8637.0867	1160.0107	9482.2893	1100.028	8991.972	2404.867	19658.133
0.073	751.5058	9543.0942	744.8482	9458.5518	777.1507	9868.7493	1519.7213	19298.3787
0.065	664.222	9554.578	618.488	8896.712	664.82	9563.18	1232.66	17731.34
0.062	776.612	11749.388	684.232	10351.768	650.9752	9848.6248	1136.6088	17195.7912
0.054	706.1796	12371.2204	603.0504	10564.5496	633.6468	11100.5532	984.3552	17244.4448
0.028	449.6016	15607.5984	312.1664	10836.6336	511.728	17764.272	469.84	16310.16
0.032	672.7488	20350.6512	421.3952	12747.2048	881.4624	26664.2376	690.1216	20876.1784
0.035	877.632	24197.568	534.093	14725.707	1232.8995	33992.8005	885.1955	24406.1045
0.045	1220.9175	25910.5825	744.9075	15808.5925	1854.2025	39350.2975	1338.6825	28409.8175
0.052	1893.8504	34526.3496	1004.1096	18305.6904	2755.4956	50234.8044	1810.1044	32999.5956
0.047	1874.1109	38000.5891	961.2581	19491.0419	2763.7927	56040.3073	1779.1333	36074.7667
0.03	1269.525	41047.975	651.915	21078.585	1844.313	59632.787	1150.677	37205.223
0.031	1222.4788	38212.3212	722.1822	22574.0178	1566.9167	48978.7833	987.2663	30860.0337
0.026	1196.3432	44816.8568	709.5868	26582.2132	1469.6916	55056.9084	927.0924	34730.3076

APPENDIX A.3

Year	Europe's Imports in mln U.S.	Spain's exp to Europe in mln U.S.	Portuguese exports to Europe in mln U.S.	Europe imp. Adjust Spain	EUimp adj Sp & Port	Average Inflation Advanced Economies (IMF):100	EUimp adj Sp & Port * Aver inflation	EUimp adj Sp & Port + Average inflation
1976	417327	6312.9	1168	411014.1	409846.1	0.088	36066.4568	445912.5568
1977	466770	6611.6	1278	460158.4	458880.4	0.09	41299.236	500179.636
1978	543955	7023.9	1586	536931.1	535345.1	0.075	40150.8825	575495.9825
1979	712651	9884.3	2353	702766.7	700413.7	0.096	67239.7152	767653.4152
1980	857406	11356.9	3044	846049.1	843005.1	0.127	107061.6477	950066.7477
1981	763275	10092	2641	753183	750542	0.109	81809.078	832351.078
1982	727370	10645.9	2821	716724.1	713903.1	0.073	52114.9263	766018.0263
1983	693381	10228	3151	683153	680002	0.065	44200.13	724202.13
1984	703479	10499.6	3528	692979.4	689451.4	0.062	42745.9868	732197.3868
1985	732111	11734.2	3917	720376.8	716459.8	0.054	38688.8292	755148.6292
1986	856837	18731	5461	875568	881029	0.028	24668.812	905697.812
1987	1050384	28367.7	7364	1078751.7	1086115.7	0.032	34755.7024	1120871.402
1988	1185030	36483.7	8537	1221513.7	1230050.7	0.035	43051.7745	1273102.475
1989	1303001	42865.5	9904	1345866.5	1355770.5	0.045	61009.6725	1416780.173
1990	1558589	55182.3	13246	1613771.3	1627017.3	0.052	84604.8996	1711622.2
1991	1579797	61345.1	13591	1641142.1	1654733.1	0.047	77772.4557	1732505.556
1992	1654108	64177.1	14861	1718285.1	1733146.1	0.03	51994.383	1785140.483
1993	1451331	52755.7	12336	1504086.7	1516422.7	0.031	47009.1037	1563431.804
1994	1653224	59088.6	14357	1712312.6	1726669.6	0.026	44893.4096	1771563.01