

The new EU

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The European Union (EU) experienced the greatest single enlargement in its history, when ten new states were accepted as members. Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia were officially welcomed at a ceremony held in Dublin on 1 May 2004.

Although the total number of nations increased from 15 to 25, the population of the EU Trade Bloc has only increased from 380 million to 455 million (growth of around 16%). This comparatively low increase in numbers reflects the fact that three existing member countries - the UK, France and Germany - are very heavily populated and are home to nearly 200 million EU residents. In comparison, some of the new countries have tiny populations. Cyprus and Malta both number less than one million, for instance. Amongst the other eight nations, all of whom were previously part of the Communist Soviet Union until 1989, only Poland is heavily populated, with 38 million citizens. There are substantial economic differences between the old and

new member states. The combined annual GDP of the original fifteen members is around £6,000 billion. In comparison, the ten new states bring in just an additional £750 billion (*The Guardian*, 29 April 2004).

Who benefits from the new economic geography of the EU?

Since the end of the Second World War, European nations have been attempting to break down barriers to the movement of goods, capital and people; and in economic theory, free trade brings benefits to all. By removing barriers to intra-community trade, while also adopting a common external customs tariff, European governments have helped their native firms to thrive. Markets have grown, while production and transport costs have fallen, following the abolition of restrictive customs barriers between member states. Smaller firms have often merged, making their operations more cost-effective. Following the principle of economies of scale, the greater the scale of production, the lower the production cost per unit, thereby bringing benefit to both consumers and producers. For instance, Tesco has already installed 170 stores in Poland, Hungary, Slovakia and the Czech Republic, with many more sure to follow. Goods can now be shifted even more easily and cheaply into these nations following accession. For firms like Tesco, an additional 75 million new customers is clearly great for business!

What is a Trading Bloc?

A Trading Bloc is a grouping of nations that allow free trade across their borders and may have undergone some further degree of political integration. At the simplest level, the North America Free Trade Agreement (1994) encourages free trade between the US, Canada and Mexico by removing internal tariffs. A further step involves adopting a common external tariff; the Mercusor pact between Argentina, Brazil, Paraguay and Uruguay (1995) is a recent example of this type of *customs union*. In contrast, the European Union is a highly integrated Trading Bloc which has moved beyond a common market towards full economic union with the introduction of a common currency while also now sharing some political legislation. Countries can belong to more than one Trading Bloc and the BBC provides an excellent [interactive link for studying the major groupings of nations](#)

The enlargement of the EU is already bringing about many locational changes for existing manufacturing industries. The economic geography of the enlarged EU will bear many similarities to NAFTA (North America's Trading Bloc), where US firms employ cheap labour close to the Mexican border in branch plants known as *maquiladoras*. Situated in Mexico, they produce cheap goods for US markets that can be transported across the border with minimum tariffs imposed. Similarly, while the headquarters of the most powerful European Transnational Corporations will remain in cities such as London, Paris, Milan, Stockholm and Berlin, lower-paid work in branch plants will increasingly be exported to the new member states, where wages are lower. Average annual wages in most of the new members are under £3,000 and unemployment rates are much higher than in western Europe (currently 18% in Slovakia).

For instance, the huge German electric firm Siemens recently announced the migration of 10,000 jobs to eastern Europe. Swedish giant Electrolux is shifting its production wing to Hungary. German air firm Lufthansa is taking most of its clerical work to Poland. The new members look set to serve as a cheap location for many more [footloose](#) branch plants – becoming part of what geographers call a **spatial division of labour**. Similarly, foreign firms looking for a springboard into Europe will be tempted to place their branch plants in the new countries. South Korea's Samsung is already shifting its EU base of operations from Spain to Slovakia, while French car firm Peugeot is transferring from Coventry to Slovakia ([The Guardian, Jobs & Money, 01 May 2004](#)). Along with [Terry's of York](#), these are among the first of many UK [jobs that look set to leave Britain](#).

Commonly asked questions

Q *Are Europe and the EU the same thing?*

A No. Europe is a continental land mass, bounded by Russia in the east and the Mediterranean in the south. The EU is a political grouping of *most* of the nations within Europe. Not all European states belong to the EU: Iceland, Switzerland and Norway are not members, for instance.

Q *What advantages derive from belonging to a Trading Bloc?*

A Economically, membership brings advantages. Tariffs fall, allowing free trade and movement of goods. Within a Trading Bloc, increased economies of scale are achieved by industries with a now-enlarged market; specialisation occurs in areas of comparative advantage; greater protection also exists from imports outside the bloc. Free movement is also good for tourism and foreign work experience.

Q *Why, then, are so many British people opposed to membership of the EU?*

A The EU is becoming a highly integrated Trading Bloc. Whereas others, such as NAFTA and Mercusor, have simply adopted common tariffs, the European Union has gone much further in beginning to adopt a shared legal framework and common currency. The new EU constitution, which the UK may eventually sign up to, could affect our future ability to act independently in terms of defence, spending and criminal law.

For companies beginning to draw the new member states into their production networks, EU membership brings other benefits. Countries such as Poland will be eligible for EU Structural Funds to improve their infrastructure. Good road and rail links will make eastern Europe far more conducive to TNC investment, especially when just-in-time (JIT) production and transport is important. In mobile phone or PC markets, for instance, consumer trends change rapidly and manufacturing firms need to be able to respond quickly to unexpected fluctuations in demand from European high street stores. Around £27 billion will be made available this year to assist infrastructure improvements for the new members. Agricultural producers in the region will also benefit from farm subsidies issued under the Common Agricultural Policy (CAP), although at a reduced rate initially. This will certainly entice major western European food suppliers and supermarkets to attempt to acquire or merge with eastern European agribusinesses (see [The Guardian, 29 April 2004, for more on this](#)).

What is the controversy over migration?

Free movement of goods is accompanied by free movement for people in a world without barriers and concerns over immigration into the UK have certainly been causing a political storm during the past year. Initially, jobseekers from the new member states were to be treated no differently from those of existing members. They were to be guaranteed free and legal entry to the UK and other core nations to seek work or claim benefits should they become unemployed. However, since the negotiations for the accession of the new states were completed in December 2002, existing members have rapidly introduced reforms designed to limit the ability of new migrants to move freely until 2011. In all cases, they are taking advantage of a transitional rule that allows existing members to place entry restrictions on migrants from the new countries for up to seven years.

The British government made its own announcement in February that new migrant workers will not be eligible for the full range of UK benefits such as housing or income support ([The Guardian, 24 February 2004](#)). Sweden made a similar announcement a month earlier ([The Guardian, 31 January 2004](#)). Initially, Portugal is limiting its work permits to 6,500 while Germany, whose economy is currently weak, is to ban migrant labour in many sectors of the labour market for the full seven-year period

allowed under the accession rules. The ten newcomers will have to wait until 2011 for full freedom of movement for people, goods and capital amidst worries that too many migrants will flood into western Europe. Similar fears were previously voiced in the UK in 1986, when Spain and Portugal joined the EEC; on that occasion, only small numbers of people actually migrated north. Politicians will be watching carefully to see what happens this time!

And what's all this fuss about the "EU constitution"?

The EU is always evolving. The next stage in its development may see far closer political integration than before, perhaps eventually moving towards a federal state system, similar to the way the US is organised. Levels of enthusiasm for such potential developments vary widely between different nations and amongst their citizens. Many people in the UK are concerned that EU Constitution Articles relating to a Common Foreign Policy would make it difficult for the British Government to act independently in the future, as it recently did in Iraq ([The Daily Telegraph, 30 April 2004](#)). There are also concerns that the national identity will be jeopardised by closer integration. However, not everyone thinks that this will happen. Writing in *The Times* (30 April 2004), Tony Blair is keen to point out that new states joining the EU have only recently won their independence, having been shackled to the Soviet Union for decades. "It should be no surprise," he surmises, "that countries which have only recently regained their freedom should be determined to preserve their independence within the EU."

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