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COMMITTEE FOR TRADE, INDUSTRY AND ENTERPRISE DEVELOPMENT

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Agenda item 4

TRADE, BUSINESS AND INVESTMENT IN A WIDER EUROPE

Workshop held on 7 April 2003

Note by the Secretariat

A. Introduction

1. The enlargement of the European Union (EU) to the east and to the south will have a significant economic impact on the neighbouring countries who currently have little or no prospect of membership. To address some of the major challenges confronting the future neighbouring countries, the United Nations Economic Commission for Europe (UNECE) held an all-day Workshop on Trade, Business and Investment in a Wider Europe on 7 April 2003, under the auspices of the Committee for Trade, Industry and Enterprise Development.

2. The aim of the Workshop was to discuss the possibilities for further integration and liberalization within the European region, enhancing the trade, business and investment environment, so as to promote stability and prosperity beyond the new borders of the EU, in the interests of all in the region.

3. Participants agreed that enlargement could help draw the new neighbouring countries closer together with their European counterparts. For this to happen, **further progress in transition must be achieved, structural economic reforms must be strengthened, an investment-friendly environment needs to be created and trade regimes liberalized in the countries concerned.** It is also crucial that the new neighbours implement modern trade practices, undertake harmonization and improve their ability to operate under widely used international and regional technical norms and standards.

4. The European Union has recently developed a new policy framework which aims at promoting regional and intra-regional cooperation and at progressively integrating its new neighbours through the intensification of trade and investment, through increased cooperation in a number of areas including energy, environment, transport and telecommunications and through greater technical and financial assistance.

5. The workshop noted the existing income inequalities between the EU member States and the future new neighbours. In most new neighbouring countries, economic growth has been sluggish and poverty and social exclusion have been increasing. This has led to growing disparities among and within the countries of the region. **Poverty alleviation is therefore a key priority in order to develop cohesion and stability throughout the European Region.**

6. In the above context, **UNECE has much to offer these countries** since UNECE norms, standards and recommendations constitute essential “trading tools” as well as offering the foundations for practical trade and enterprise development policy. UNECE’s experience and its existing work in areas such as regulatory harmonization, standards and trade facilitation, as well as its experience as a forum for the exchange of views on best practices and policy guidelines, make the regional commission well placed to become a platform for all its member States in promoting this process.

7. This paper will highlight the main topics and themes that were presented and discussed at the Workshop.

8. The opening and closing sessions were chaired by Prof. Dusan Sidjanski (President, Centre Européen de la Culture, Geneva), Session II. on “Trade Issues in a Wider Europe” was chaired by H.E. Mr. Carlo Trojan (Ambassador, Permanent Representative of the European Commission, Geneva) and Session III. on “Business and Investment in a Wider Europe” was chaired by Prof. Jean-Pierre Lehmann (International Institute for Management Development, Lausanne, Founding Director of the Evian Group).

9. Presentations were made by: Mr. Hiddo Houben (Deputy Head, Trade Analysis Unit, Trade Directorate-General, European Commission, Brussels), Prof. Constantin Stephanou (Department of International and European Studies, Panteion University, Athens and Special Advisor, Permanent Mission of Greece to the United Nations Office at Geneva), Mr. Nuno Encarnação (Moderator of the Telecom Initiative, UNECE Working Party 6; Chairman of Access and Terminals, European Telecommunications and Standards Institute; Expert of the Federal Office for Communications, Switzerland), Prof. Claude Cellich, Vice-President, International University in Geneva and former Chief of Human Resource Development, International Trade Centre, Geneva), Dr. Béla Galóczi (European Trade Union Confederation and European Trade Union Institute, Brussels), Prof. Paul Dembinski (Secretary-General, Observatoire de la Finance, Geneva), Mr. Gilbert Dubois (Head of Unit, OSCE and Council of Europe, External Relations Directorate-General, European Commission, Brussels), Dr. David A. Dyker (Reader in Economics, University of Sussex, Brighton, United Kingdom), Ms. Patrizia Baur (Economist, Swiss Reinsurance Company, Zürich), Prof. Yelena Kalyuzhnova (Director of the Centre for Euro-Asian Studies, University of Reading, United Kingdom), Dr. Brigid Gavin (United Nations University, Comparative Regional Integration Studies, Bruges, Belgium), Prof. Ivan Samson (The Russian Federation-European Centre for Economic Policy, Moscow and University of Grenoble, France) and H.E. Mr. Mykhailo Skuratovskyi, the Ambassador and Permanent Representative of Ukraine to the United Nations Office at Geneva.

10. **The Executive Secretary of the UNECE, Mrs. Brigita Schmögnerová**, opened the Workshop. She said that the European region would be facing new challenges and opportunities after EU enlargement, particularly the EU’s new neighbouring countries. She underlined the role of the UNECE in promoting cooperation in Europe and in helping to find solutions and bridge the gaps between the enlarged EU and the rest of Europe, especially southeast European countries, the Russian Federation and the Commonwealth of Independent States (CIS). She called upon the participants in the Workshop to explore the next directions for economic integration in the region,

in the areas of trade, business and investment, and to think beyond the process of EU enlargement and the trade negotiations in the World Trade Organization (WTO).

11. She stressed the importance of the EU as one of the most significant strategic players in the UNECE, whose economic role would increase even further after enlargement. UNECE sees the integration process as a building block for the future of a stable, prosperous and secure Europe. She believed that the EU's new neighbouring countries should be further integrated into the enlarged EU and cooperate more intensively among themselves. She said that it is one of **UNECE's priorities** to further increase its already close cooperation with the EU's new neighbouring countries.

12. In concluding her statement, the Executive Secretary called upon the UNECE to make a contribution to providing an open and accessible platform for all its 55 member States for enhancing economic integration within the framework of a Wider Europe, and within future closer European and transatlantic cooperation, and wished the participants successful deliberations.

B. Trade Issues in a Wider Europe

13. At the morning session of the Workshop, the historic significance of EU enlargement, which will take place in one year, was strongly stressed. The role of democracy and peace in the European region was highlighted and particular importance was given to the experience of the EU, whose roots go back to the period following World War II to ensure peace and security in the region. The UNECE was seen as a balanced link between regional integration on the one hand and globalisation on the other, and as an ideal forum for cooperation between the UNECE and the European Commission and, thus, very promising for the future of Europe.

14. The European Commission presented its new communication on "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours". The communication outlines **a new approach of the EU towards its future neighbouring countries**. The EU has identified a number of countries, a so-called "ring of friends", with whom it will extend cooperation immediately after enlargement takes place. These are the southern Mediterranean countries, the Russian Federation and western Newly Independent States (Ukraine, Belarus, Republic of Moldova). The initiative does not apply to countries that have a project in place for future EU membership. Other countries, which were not included into the immediate action plan for enhancing integration, will be included at a later stage, after they carry out political and economic changes.

15. The importance of the EU neighbours is considerable, in view of the fact that compared to the enlarged EU, which will have over 450 million inhabitants; these countries combined have a population of 385 million. Most of them, however, have a nominal gross domestic product (GDP) per capita of less than EUR 2,000, which is below 10% of the EU average. The total share of world foreign direct investment (FDI), which goes to the new neighbours, is just 1.65% as opposed to the 21.3% that goes to the EU, and acceding and candidate countries.

16. The EU has free trade agreements (FTAs) in place with most of the countries of the southern Mediterranean. However, these countries do not enjoy FTAs among each other, and there is therefore a need for a more coherent approach in the future in order to develop preferential trade and close economic relations among themselves. Because there are no FTAs among the Mediterranean countries, the trading environment is still of a "hub and spoke" nature for this region. It is for this reason that the Barcelona Process (established in 1995 between the EU and 12 Southern and Eastern Mediterranean countries in order to enhance intensive bilateral trade relations and

regional cooperation) aims at the creation by 2010 of FTAs encompassing all the Mediterranean countries concerned, together with the enlarged EU.

17. In contrast to contractual relations with the EU's other neighbouring countries, the Partnership and Cooperation Agreements (PCAs) in force with the Russian Federation, Ukraine and the Republic of Moldova grant neither preferential treatment for trade, nor a timetable for regulatory approximation. However, the prospect of both is given in these agreements. Some of the speakers thought that integration should contain a liberalization element; and that, therefore, FTAs should be launched between the EU and those countries in the future.

18. The importance of bilateral negotiations between the EU and the Russian Federation on creating a Common European Economic Space as well as ongoing negotiations on accession of the Russian Federation to the WTO was also raised. The Russian Federation plays an important role in the region. Ukraine and the Republic of Moldova may well follow a similar path to the Russian Federation, but there is a need for better integrating them into the European family. Belarus was seen as a special case at present, but was still felt to be a country that should be given new hope and the prospect of being included in an enlarged Europe in the future.

19. The new approach of the EU towards the future neighbouring countries above mentioned is based on the following incentives: extension of the internal market and regulatory structures, preferential trading relations and market opening, perspectives for lawful migration and movement of persons, intensified cooperation to prevent and combat common security threats, greater EU involvement in conflict prevention and crisis management, greater efforts to promote human rights, further cultural cooperation and enhanced mutual understanding, integration into transport, energy and telecommunications networks and the European research area, new instruments for investment promotion and protection, support for integration into the global trading system and enhanced financial and technical assistance.

20. Giving the example of the well-functioning European Economic Area, established between the EU and some of the EFTA countries, it was pointed out that a wider Europe could work on a similar basis.

21. The Workshop also recognized the concerns of authorities in areas of economic activity, which are expressed in technical regulations, and a need for regulatory convergence. **Regulatory convergence** is a process whereby national administrations adopt more or less similar regulations in order to respond to similar risks. The discussion sought responses to a checklist of questions, if regulation was the best form of government action, what was the appropriate level of government intervention or if the benefits justified the costs and how could compliance be achieved. The issue was addressed from two perspectives: first, regulatory convergence initiated by means of international conventions adopted by international organizations, and second, the regulatory convergence of transition economies with the legislation of the EU or within other preferential arrangements.

22. Among the different international organisations, which have recognised the importance of regulatory convergence, are WTO, which agreed on the principles for the reduction of technical barriers to trade, and UNECE with its "International Model for Technical Harmonization", and its pilot implementation programme, known as the "Telecom Industry Initiative".

23. Countries acceding to the international organizations, and particularly to WTO, have to adjust not only their foreign trade legislation but also their rules on trade in goods, services and intellectual property regimes to conform to the General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS) and Agreement on Trade-Related Aspects Intellectual Property Rights (TRIPS). Newly acceding countries, including countries with economies in transition, must comply with the WTO rules upon accession or within a very short period and are often obliged to undertake liberal commitments, which they may have significant difficulty in fully implementing within the short time-frames given.

24. Even countries that are not members of the WTO and are not acceding to the EU have undertaken international obligations aimed at regulatory convergence. An example of such an undertaking is the Partnership and Cooperation Agreement between the EU and the Russian Federation, which lays down rules regarding competition, State aid, State monopolies, and State enterprises and commitments under the international conventions for the protection of intellectual property. The Russian Federation committed itself to progressively ensuring the compatibility of its legislation with that of the EU. For the EU, regulatory convergence serves to ensure a level playing field for business. In some areas regulatory convergence is left to the market forces and, in others, there are enabling provisions in the EU Treaty.

25. There is an urgent **need to lower trade transaction costs** for the new neighbours. To achieve this end, there is a need for greater transparency and simplified procedures and, especially, for harmonization. The convergence towards regional norms and standards is essential for lowering transaction costs and is thus of key importance in the enlargement process. Some participants also believed that the enlargement of the EU could in itself contribute to lower transaction costs. It was felt that the UNECE could make an important contribution in this regard through its existing work in trade facilitation, the development of agricultural quality and e-business standards and regulatory approximation. Both the UNECE, which has played an important role in standard setting, and the EU suggested that this contribution could be addressed through joint activities within the “Wider Europe” initiative.

26. Enlargement could be an opportunity for the further development of **Small and Medium-sized Enterprises (SMEs)**, especially if support can be given to their efforts to penetrate the new EU markets. Human resource development and assistance in the areas of information technology, Internet and e-commerce, were mentioned as priority areas. There is a need for better targeted training programmes with new knowledge components, such as knowledge of business operations in the EU, knowledge of the EU market, negotiation skills or quality requirements, in order to help SMEs operate successfully in business within the EU market.

27. The workshop also highlighted the social impacts of the structural changes and transformation process as well as the integration process of the Central and Eastern European Countries into the EU, and touched upon the costs and benefits of EU enlargement with regard to the economic and social effects on other European countries.

28. At the beginning of the economic transformation process, the Central and Eastern European Countries faced an enormous challenge of structural changes, for which they would have needed substantial capital. However, while FDI has played an outstanding role in the actual transformation of industry in most of these countries, the costs of the fundamental restructuring of the economy have been covered mostly by internal resources. During the last decade, much of the “modernization deficit” has been converted into a social deficit. By now, Central and Eastern Europe belong to the most dynamic regions of the world, with an average growth prospect of around 3% for 2003. Accession to the EU is expected to bring an overall positive impact on the

economies of the acceding countries, which will be visible especially at a later stage. The EU is also set to enjoy some advantages after accession of the new members, which should reinforce the productive potential of the EU and give a boost to its growth, even if only to a limited degree. For the EU, enlargement will above all be the crowning achievement of the transition period and have positive political consequences for all of Europe.

C. Business and Investment in a Wider Europe

29. The Workshop also looked at what role the wider Europe could play in the world economy over the next decade and the implications for business and investment prospects in the region.

30. Regarding **investment** and the perspectives of non-acceding countries after enlargement, it was pointed out that right from the beginning of the transformation process, the great bulk of foreign investment going to transition countries had gone to the Central and Eastern European countries. This has no doubt reflected in part an anticipation of EU accession. It has also reflected judgements about the political stability and the quality of the business environment of the non-acceding countries. While it is true that accession to the EU might create a “crowding-out” effect, rising income in the newly acceding countries might also create new short-term comparative advantages as well as export opportunities for non-acceding countries, but in the longer term, however, it might turn into something of a poverty trap, with the non-acceding countries finding themselves unable to move up the trade/technology ladder. Therefore, EU enlargement should not cause a dramatic fall in the amount of FDI going to these countries. The danger is rather that it will affect the structure of investment, reinforcing the sectoral imbalances that are already present, and tightening rather than loosening the constraints on future growth and development of those countries.

31. To capitalize on these opportunities, non-acceding countries are doubling their efforts to enhance social and economic reforms, as well as to solve social issues and strengthen the democratic basis of their societies. The Permanent Representative of Ukraine to the United Nations Office at Geneva pointed out that from a strategic perspective, Ukraine considers EU enlargement as an important element of further European integration, which will create new and wider opportunities for multilateral cooperation. **EU enlargement will have significant consequences for Ukraine** in all major fields of its activities – political, economic, and social. Ukraine’s integration into the EU is not an alternative, but a priority for the further development of this country. One major step on the way of Ukraine’s integration to the EU, which strongly confirms the aim of Ukraine to bring its economic environment into conformity with the rules and principles of the EU, was the recent signing of a bilateral protocol with the European Commission within the framework of Ukraine’s accession to WTO.

32. The Workshop also included references to some aspects of **current negotiations between the EU and the Russian Federation on the development of a Common European Economic Space**. While the situation of non-acceding countries is still unsure, the prospect of joining the EU speeded up structural changes and FDI flows for acceding countries. EU and Western support policies so far have not consistently changed the situation in the CIS, but removing economic barriers, especially in trade and investment flows, could bring mutual prosperity, stability and security to those countries. A partnership with the EU for its future neighbours, particularly for the Russian Federation, Western CIS, the Caucasus and Central Asian countries, is of great importance for those countries. Simple FTAs between the EU and those countries do not bring them enough positive changes; therefore there is a need for a deeper integration, which could be achieved through the concept of the common economic space. Development of that concept will be based on “four freedoms” (i.e. free movement of goods, services, capital and persons), as well as on knowledge flows through FDI and institutional changes based on harmonization with the *acquis*

communautaire. The EU may develop the equivalent of free trade agreements enhanced with regulatory convergence and FDI, which would be tailored to specific regions in the new EU's neighbourhood, and include not only the CIS but also the Mediterranean region and the Middle East.

33. Participants agreed that the **implications of EU enlargement on trade and investment in the energy sector in the Caspian Sea region** will be rather significant. The EU is already the largest energy importer in the world and the second largest consumer. According to EU data, its dependence on imports could reach 70% of energy supplies by 2030. The forthcoming enlargement will reinforce the above-described trend, despite the fact that some acceding countries are producers of some primary energy products. The enlargement of EU gas and power markets to the East will produce major challenges, in addition to fairly wide opportunities for investment and trade.

34. In this respect, European energy interests in the Caspian region are particularly important. Firstly, there is the involvement of European energy companies in the region, with European companies involved in all spheres of energy – oil, gas, coal, and electricity – but particularly in the upstream sector of the oil and gas industries. Secondly, Europe has a growing interest in the Caspian Sea region as a current and future source of energy for use in Europe itself. Geographically and politically, Europe remains the most natural market for Caspian energy. This is indicated by the fact that the obvious export routes lie to the north and west, into Europe, and the EU, which has itself become concerned about the future security of the region's energy supplies.

35. Some opportunities and challenges for **eastern European insurance markets after EU enlargement** were also briefly discussed. Enlargement of the EU will bring structural changes to the insurance markets of the acceding countries, which have been obliged to adopt the relevant *acquis communautaire* and to remove particular barriers to trade in this important services sector in order to integrate themselves into the Internal Market. Competition in this sector will increase as market entry barriers come down. Insurance authorities could contribute to making the accession process smoother in a number of ways. Regulations need to be harmonized. Second, cooperation with other supervisory authorities needs to be reinforced, and upcoming changes need to be promptly communicated to the markets.

D. Discussion

36. During the discussion it was clarified that the new EU neighborhood policy should be seen as setting out a road map for these “new neighbour countries” to help them become closer to the EU, and when the right time comes, after they fulfil all political, democratic and economic criteria, they would be welcome to put forward an official request for EU membership. But first, there is a need for stability in the region and for establishing benchmarks for those countries.

37. Another question was put forward regarding the future institutional relationship of non-acceding countries, and whether this should be an association status or a kind of associate membership also with some limited rights to influence EU policy-making. The conclusion reached was that it is still premature to talk about the status of the future applicant countries, as the new neighborhood policy is still in the testing phase

38. Another set of questions addressed the relationship between the EU and the Russian Federation and the future Common European Economic Space, as regards the obstacles to this arrangement, in particular changes in the diversity of energy supply after enlargement. To create this common space, there is a need to remove barriers to trade and obstacles for development of business, entrepreneurship and investment flows and to ensure functioning institutions. There is therefore also a need for the Russian Federation to align its rules and regulations with those applied

in the EU. Energy is an important trade component of the future EU relations with the Russian Federation. However, it was stressed that there is no obligation on present or future EU members to limit their imports of energy from one particular source under present EU legislation.

E. Conclusions

39. The Workshop highlighted a number of challenges confronting the countries that are soon to become the “new neighbours” of the enlarged EU. The main challenge will be **to promote sustained economic growth and reverse the trend towards rising absolute poverty and increased income disparities through further strengthening economic integration**. This will be a priority for promoting regional stability and friendly relations between the EU and its new neighbouring countries.

40. In general, the non-acceding countries will benefit from simplified and enhanced access to the enlarged EU Single Market through and from the extension of common regimes and regulatory frameworks. The enlargement, in itself, could contribute to **lower transaction costs**, which should be achieved through greater transparency and simplified procedures and, especially, harmonization, and approximation of competitive conditions in the form of trade regulations. SMEs will be the first to gain from an environment where transaction costs are lower. Their already important contribution to employment and GDP throughout the European region could further grow if they get more training and are given more exposure to the Internet and electronic commerce.

41. Regarding **investment**, while enlargement will not necessarily cause a fall in the amount of FDI going to the non-acceding countries, it might affect its structure and reinforce sectoral imbalances. On the other hand, rising income in the newly acceding countries might also create new comparative advantages as well as export opportunities for non-acceding countries.

42. Discussions on post-enlargement Europe and **UNECE’s experience and expertise could greatly facilitate the development of the concept of a Wider Europe**. UNECE could make an important contribution through its existing work in trade facilitation, the development of agricultural quality and e-business standards and regulatory approximation. UNECE instruments provide the basis for many EU activities and legislation as well as a number of EU agreements with the CIS and Southeast European countries. In order to strengthen economic cooperation with the enlarged EU, there is a need for non-acceding countries to adopt and implement standards and legislation that are not identical to but are harmonized with the *acquis communautaire*. UNECE could be helpful in developing such norms, standards and regulatory instruments using its existing experience and expertise. Both UNECE and the EU suggested that this contribution could be reinforced through joint activities and cooperation within the “Wider Europe” initiative. Active collaboration between the EU and UNECE, and the various other actors concerned will be an important contribution to meeting this challenge.

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