CEPS EXPLAINER

WHY THE EU'S ENLARGEMENT IS ACTUALLY AN UNSUNG AND SUCCESSFUL CATCH-UP STORY

Michael Emerson
Daniel Gros

2024-03

SUMMARY

The pattern of macroeconomic catch-up seen in the EU's enlargement process is a remarkably positive story – if largely unsung and still incomplete. The catch-up achieved thus far constitutes a key backdrop to today's debate about further enlargement. Without the rapid growth of the most recently acceding states it would be impossible for the EU to even contemplate taking in more members that are much poorer than the majority of current EU Member States.

Michael Emerson is an Associate Senior Research Fellow and Daniel Gros is Distinguished Fellow at the Centre for European Policy Studies (CEPS).

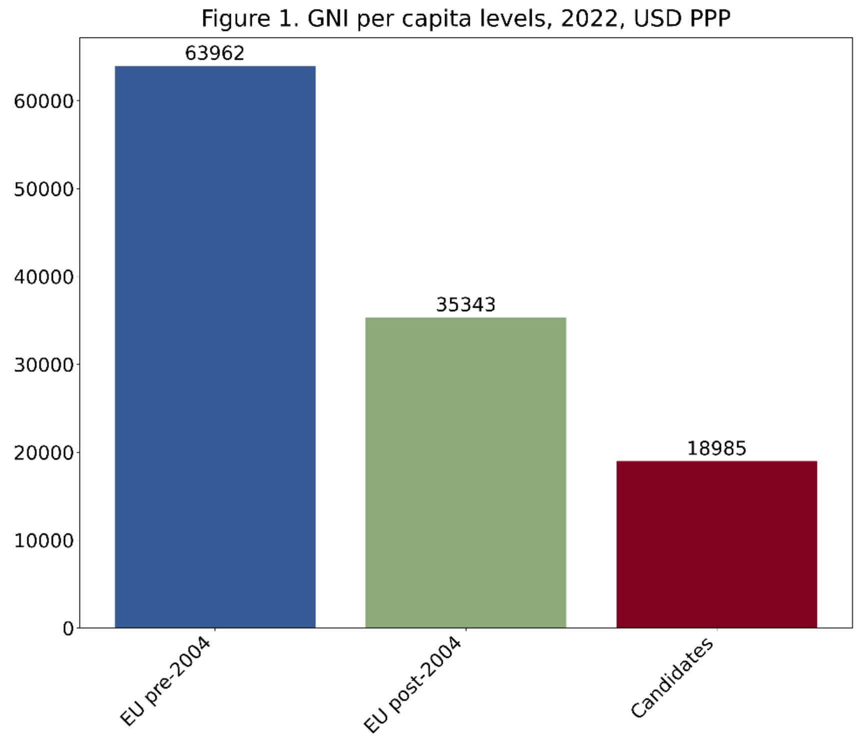
CEPS ▪ Place du Congrès 1 ▪ B-1000 Brussels ▪ Tel: (32.2) 229.39.11s ▪ Tel: (32.2) 229.39.11

THE EVIDENCE OF CATCH-UP

Countries are presented in three groups, as pre-2004 Member States, post-2004 Member States, and current candidate/applicant states. The data reports respectively GNI per capita levels in 2022 and GDP growth rates over the period 2004 to 2022 (see Figures 1 and 2 and, for more comprehensive detail, Tables 1 and 2).

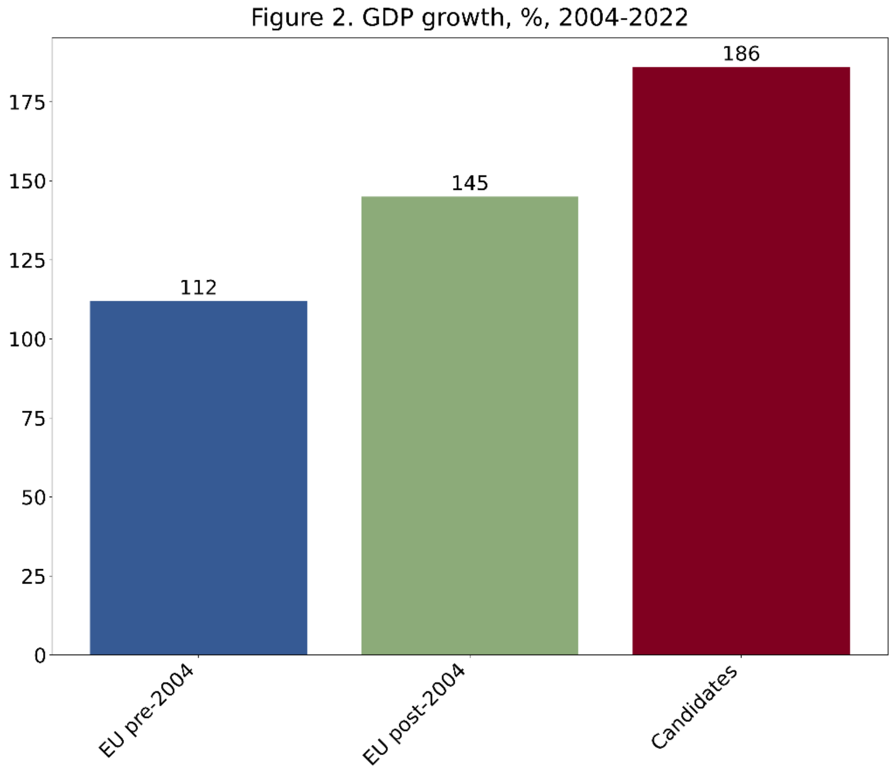
Regarding current GNI levels there is a remarkable clarity in their hierarchy, with the three groups appearing in the order that one would expect, with the older Member States first, the newer Member States second, and the candidate states coming in third (Table 1). The only departure from this notional order is seen in two older, southern Member States – Greece and Portugal – ranked now among the middle of the newer Member States[1].

Bringing in macroeconomic growth rates since the big 2004 enlargement, and recalling also the 2003 Thessalonika Declaration where the EU pledged further enlargement with the Western Balkans, the story is even more remarkable. The pattern of results in Table 2 is a mirror image of the first table that covers GNI per capital levels.



Source: own calculations based on data.worldbank.org

[1] Data on GNI per capita levels are given in Table 1 at both current USD and purchasing power parity exchange rates. The PPP data shows less wide per capita differences, but the rank order and argument hardly changes.



Source: own calculations based on data.worldbank.org

This is the catch-up story. The newer Member States have all been growing faster than the older Member States. The only two small exceptions (Ireland and Luxembourg) are due to statistical quirks relating to income being shifting by multinational corporations. The candidate states have in turn been growing faster than the post-2004 acceding states on average.

The big outlier from this pattern is Ukraine, which is both the poorest country and experienced only slow growth up until 2021, followed in 2022 by huge economic losses due to the war with Russia. The prospect for a fast catch-up here in a post-war scenario is boosted by the population's relatively high level of education, and notably its next generation to enter the labour force, which is more advanced and educated than any other accession candidate (OECD/PISA results). Such a catch-up would also be dependent on a large number of Ukrainian refugees currently hosted throughout the EU deciding to return to their home country.

Whether this broad catch-up narrative is solid can be tested out with some counter-arguments.

A first suggests that the real story is Old Europe's failure to grow faster. To be sure, the growth record of Old Europe's Mediterranean states is poor, especially Italy, which has had a mediocre performance for decades and Greece, which is still recovering from its economic crisis of a decade ago. However, for the bulk of Old Europe the story seems rather to be one of their economies maturing at quite high income levels, and where societal objectives have tended to become less about economic growth and more about the quality of the environment and healthcare, as well as migration-related concerns. The EU average GDP per capita in PPP terms has in fact grown approximately at the same rate as the US, whose demographic growth accounts for its higher commonly quoted growth rates.

A second argument is that the catch-up process is less explained by the EU accession process and more about the formerly communist economies of central, eastern and southeastern Europe recovering naturally from the gross inefficiencies of the communist economic regimes. This argument has weight, especially for countries such as the Czech Republic and Slovakia that had well-established industrial cultures before the communist period, and for the Baltic states with their long Hanseatic trading heritage. However, taken on its own, this argument fails to account for the synergies between the politics of re-joining democratic Europe and the economics of integration with the single market. The other post-Soviet countries in central Asia have not converged despite their strong endowment with raw materials.

A third argument is that while the Balkan states have been growing relatively fast, their accession prospects have become less credible. Regarding formal accession procedures this may be true, but all the Western Balkan states have now *de facto* become entirely encircled by the EU and considerably economically integrated with it, especially thanks to the constant the movement of its diaspora into the EU and then often back again.

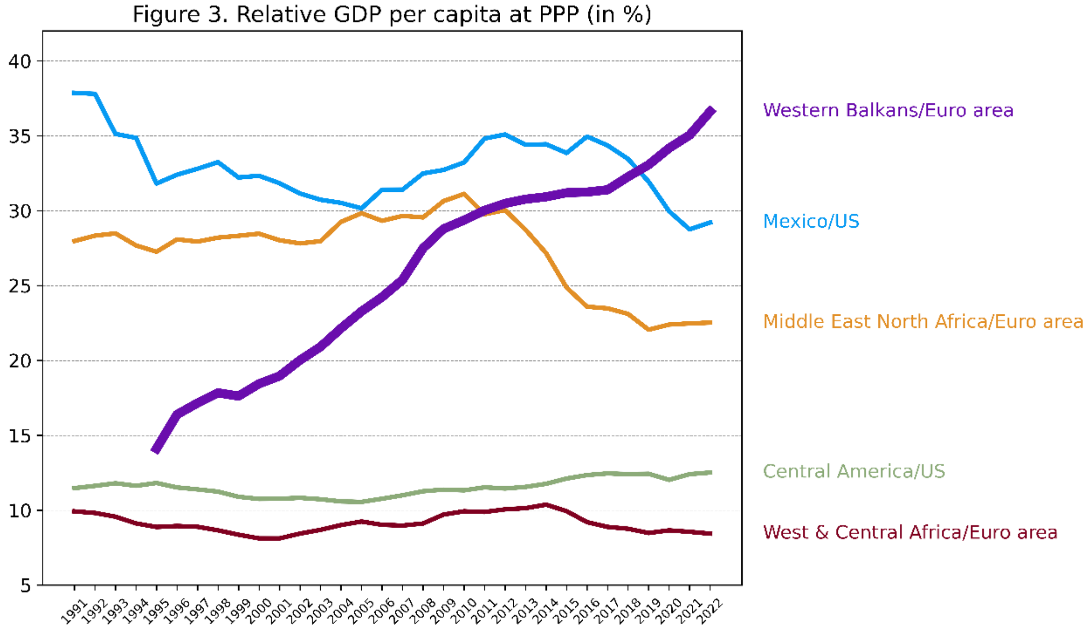
A further question is how far these trends since 2004 should be expected to continue. Naïve extrapolation of past growth rates would see Estonia reach the GNI per capita of France (itself close to the EU27 average) in the early 2030s. Conventional growth theory would suggest however, that growth rates tend to taper off asymptotically as income levels rise towards the levels of the mature advanced economies.

While the positive catch-up trend is welcome, both the Commission and Western Balkans states agree that they would like the candidate states to grow faster, as reflected in the 'Growth Plan' for the Western Balkans proposed alongside the Commission's 'Enlargement Package' published in November 2023. This initiative proposes considerable additional financial incentives which are conditional on specific reforms, and thus it should become a growth accelerator for the region.

SUCCESSFUL ALSO COMPARED TO OTHER WORLD REGIONS

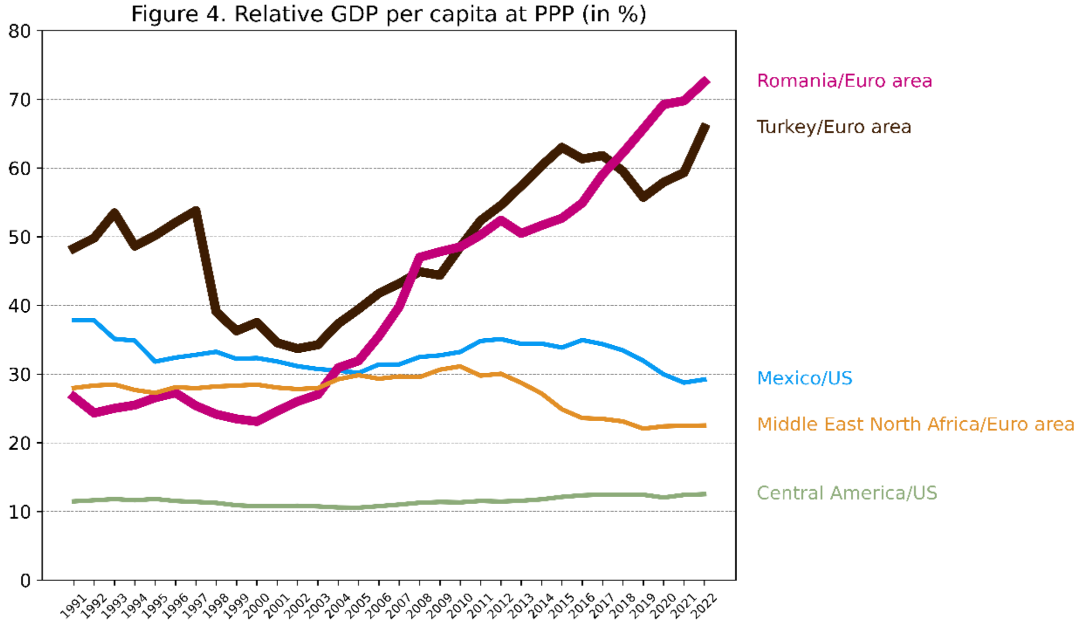
This apparent success story for the EU and the wider Europe is underlined by comparisons that may be made with other world regions (Figures 3 and 4). An interesting comparison here is between, on the one hand, the EU and its new Member States and accession candidates, and, on the other hand, the US in relation to its closest southern neighbours – thus Mexico compared to Turkey, and the five Central American republics (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) compared to the six Western Balkan states.

Figure 3. Relative GDP per capita at PPP (in %)



Source: own calculations based on data.worldbank.org

Figure 4. Relative GDP per capita at PPP (in %)



Source: own calculations based on data.worldbank.org

Mexico and the Central American states have failed to catch up at all with the US, whereas the EU's new Member States, such as Romania, as well as the Western Balkans and Turkey, have all been catching up significantly with the 'old EU' (represented in the Figures by eurozone states). The reasons for this divergent experience are no doubt complex, and involve complex cultural and historical factors.

Yet there is one major objective difference between the stories of these two continental hegemons and their respective neighbours – the EU and its neighbours have a set integration strategy, whereas the US has nothing comparable with its neighbours except for a thin Central American Free Trade Area (CAFTA) and the deeper USMECA with Mexico (and Canada), a diluted version of the former NAFTA that was renegotiated during the Trump presidency.

As is often the case, it's the dog that didn't bark that is the most interesting part of the story. When the EU was contemplating expanding to the (then much) poorer countries of central Europe, the main fears were about permanent migratory pressures and low wage competition. These fears have now dissipated as migration towards the old Member States has practically stopped. This is in stark contrast with the continuing political debate in the US concerning immigration from Mexico and Central America. The same applies to Turkey, from where there are an increasing number of people asking for political asylum, but with no broad-based economic pressure for economic migration given the sharp improvement in Turkish living standards.

Europe's challenges over migration are much more related to the failure of the North African region to economically converge. Sub-Saharan Africa has also made no progress and remains at a similar level as Central America is relative to the US.

CONCLUSIONS

The positive catch-up story in the European neighbourhood comes through clearly at two levels. First, in the wider Europe, the hierarchy of GNI income levels and growth rates between pre-2004 EU Member States, post-2004 Member States and candidate states is coherent. Growth rates are inversely related to income levels, with the poorer states growing faster than the richer ones.

Second, while this positive story may seem quite natural, it becomes more remarkable when observing that it's not seen in the Americas, nor for Europe with regard to its non-European neighbours in the Middle East or Africa. A key explanatory difference may well be that while the EU leads and powers a regional integration process, albeit with much debated limitations, the US has no comparable regional strategy.

This clear economic success provides an unspoken – but indispensable – backdrop that has made discussions about further enlargements possible.

Table 1. GNI per capita, 2022, USD

EU pre-2004	EU post-2004	EU candidates/ applicants	at current $ exchange rates	at ppp exchange rates
Luxembourg			89,200	94,720
Ireland			79,730	91,090
Denmark			73,520	77,370
Sweden			63,500	67,630
Netherlands			60,230	70,210
Austria			55,720	67,830
Finland			54,290	59,970
Germany			54,030	65,990
Belgium			53,890	66,490
France			45,290	56,370
(EU)			(40,123)	
Italy			38,200	53,280
Spain			32,090	46,550
	Malta		32,860	50,230
	Cyprus		31,520	47,470
	Slovenia		29,590	47,370
	Estonia		27,120	45,200
	Czechia		26,100	47,780
Portugal			25,950	41,290
	Lithuania		23,870	47,120
	Slovakia		22,070	36,840
Greece			21,810	36,690
	Latvia		21,850	39,230
	Croatia		19,600	40,610
	Hungary		19,100	40,450
	Poland		18,900	42,390
	Bulgaria		13,350	32,740
	Romania		15,570	40,030
		Montenegro	10,480	27,570
		Serbia	9,290	22,720
		Bosnia-Herzegovina	7,660	19,840
		Albania	6,770	18,260
		North Macedonia	6,600	19,430
		Georgia	5,600	18,760
		Kosovo	5,660	15,160
		Moldova	5,500	15,780
		Ukraine	4,260	13,350

Source: data.worldbank.org. Note: the ranking under one to five stars in Tables 1 and 2 is to roughly mark out the different categories of achievement.

Table 2. GDP growth from 2004 to 2022

pre-2004	EU post-2004	Candidates/applicants	Growth 2004-2022, cumulative %
		Georgia	257
	Romania		216
	Lithuania		208
	Poland		207
		Albania	204
		Bosnia-Herzegovina	204
		Moldova	201
Ireland			202
	Bulgaria		197
	Latvia		182
		Serbia	181
	Slovakia		176
	Malta		172
		Montenegro	164
	Estonia		160
		North Macedonia	160
	Hungary		157
	Croatia		150
	Czechia		143
	Slovenia		137
Sweden			125
Germany			123
	Cyprus		123
Netherlands			122
Denmark			119
		Ukraine	118
Belgium			117
Portugal			116
Austria			115
Finland			113
France			112
Luxembourg			109
Spain			108
Italy			100
Greece			92

Note: for Ukraine the data is for 2004 to 2021. Due to war losses, the index for 2022 fell to 60.

Source: own calculations on basis of https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD

CEPS
Place du Congres 1
B-1000 Brussels