



# EIIW News

Humboldt-Institut für internationale Wirtschaftsbeziehungen e.V.  
European Institute for International Economic Relations

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## New Journal: International Economics and Economic Policy

■ In April 2004 the new Journal *International Economics and Economic Policy* was launched. The journal, drawing on contributions by acclaimed experts from international economic organizations and leading research institutions throughout the world, provides a forum for exchange between the academic and policy communities. It combines theoretical and empirical results with specific policy recommendations and will appear four times a year.

The first issue has a primary focus on the European Stability and Growth Pact. Otmar Issing, Chief Economist at the European Central Bank, Patrick Artus, Chief Economist at a leading French bank, and Stefan Collignon, professor at the London School of Economics, discuss the state of affairs and reform options. In the different context, EU Commissioner Pedro Solbes looks at the macroeconomic aspects of the EU's eastern enlargement. The current issue is completed by articles on the link between globalization and poverty (P.R. Agénor, World Bank); on the opening of China's economy and the role of direct investments and multinational corporations (E. Graham, Institute for International Economics, Washington DC); on liberalization of capital flows in Austria (B. Braumann, Austrian National Bank - ÖNB); and on money demand in Italy (J. Wolters et al., FU Berlin).

As regards the board of editors see the list overleaf. The managing editors Paul J.J. Welfens, EIIW at the University of Wuppertal, Holger Wolf, Georgetown University and Jürgen Wolters, Freie Universität Berlin hope that the new Journal will become a leading voice in the international economic policy community. Potential subscribers should contact the journal website [www.econ-international.net](http://www.econ-international.net) or contact Springer Science Publishing.



## Winner of Research Prize for Young Researchers in Russian Economic Studies

■ We congratulate Mr. Libman who was the winner of a paper contest that the EIIW has launched via the project's website. More on the paper and the winner in the next issue and on our website. ([www.progressinfo.net](http://www.progressinfo.net))

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mic policymakers.

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## Editorial: EU Eastern Enlargement

■ The enlargement of the EU brings a reunification of Europe in the sense that some of the new member countries are truly "Old Europe" – eg think of Prague or Budapest as historical centers of Europe. EU eastern enlargement is the visible sign of the end of the Cold War and stands for overcoming socialism in Eastern Europe. Politically, EU eastern enlargement is a wonderful event for Europe. Moreover, one may expect economic benefits through rising trade and foreign direct investment flows in both EU – 15 countries and in the EU accession countries. As regards accession countries, community membership eliminates any political risk premium which will stimulate FDI inflows into eastern Europe. However, EU membership also brings an offsetting effect as the relatively complex rules and regulations of the Community will have to be applied in all accession countries: Estonia, Latvia, Lithuania, Poland, Slovak Republic, Czech Republic, Hungary, Slovenia, Malta and Cyprus.

The failed referendum on reunification in Cyprus shows that politicians at the UN have underestimated the problems of getting a majority vote in both parts of the divided island: This stands for poor political management at a high level. With Cyprus the EU now harbors Russia's most important off-shore financial center.

In terms of population growth, enlargement brings a rise of some 20%, while real output growth is 5% – however, at purchasing power parity the growth of Community output is some 10%. At the same time the average per capita income of the EU has declined: from about □ 22 000 to 20 000 (on the basis of figures for 2003). The average per capita income – on the basis of purchasing power parity – in the accession countries is about 45% of EU-15 per capita income. With a population figure of 450 mill. and a GDP of about □ 10 000 bill. the EU – 25 is the largest single market in the world economy; its GDP is equal to that of the US.

EU eastern enlargement brings economic benefits for EU – 15 countries and the accession countries, but it also is clear that the EU-25 has major problems:

- the largest economy, Germany, is facing serious problems as it has so far been unable to restore full employment – taking a closer look at the statistics, the true unemployment figure is closer to 5.5 rather than the 4.5 million which are indicated in the official statistics: More than 1 million unemployed are not counted as they participate in some special employment schemes; Germany could benefit from outsourcing to eastern European accession countries – hence imports of intermediate products from those countries will rise – to the extent that it will make German producers more competitive in global markets.



However, rising off-shoring – that is foreign direct investment outflows to eastern Europe, undertaken in order to produce there for local and global markets, will impair export growth of firms located in Germany. The logic of the new international division of labour in Europe requires that Germany (as a high wage country) should specialize more on skill-intensive and technology intensive goods. Prospects for such a specialization are not very bright as Germany's school system has scored weakly in the Pisa test. Moreover, in the 1990s the stock of patents of Germany has been declining indicating a long term weakening of Germany's innovativeness.

- As long as the EU constitution has not been adopted, the enlarged community has no explicit basic political consensus which will undermine the EU's ability to achieve fast and consistent decision-making in key policy fields. One can only hope that the EU-25 countries will adopt the proposed constitution soon.
- EU enlargement implies that the Euro area will become larger soon. One should, however, warn the accession countries not to strive too fast for membership in the Euro zone as there is still enormous need for structural adjustment – accompanied by growth of real income and economic catching-up. The Balassa-Samuelson effect will raise the nontradables price along with the growth of per capita income; and as income will rise there will be an expansion of intra-industrial trade in the enlarged community.

The year 2004 will be remembered as the date of enlargement. However, the year 2004 will also bring the Commission's report on the

question of Turkey's membership. While the EU has a clear interest in deepening and stabilizing its economic and political relations it is unclear whether the EU-25 is in good shape to consider seriously a Turkish enlargement. Islamist fundamentalism which is spreading across the Arab world, Iran and Turkey also makes the case of EU membership of Turkey difficult. Moreover, there is apparently no majority in EU-25 countries in favour of EU membership – but considering adding Turkey as a country of some 85 million in 2030 to the existing EU must be carefully evaluated and certainly requires the democratic support of both the EU and Turkey. Speedy Turkish membership raises the risk that Germany as a country quite exposed to potential Turkish immigration may face strong domestic pressure to leave the Community. This would mean that one of the key goals of creating the European Community in 1957 would be violated seriously: integrating Germany in a sustained way into a peaceful cooperative network of countries in Europe.

*Paul J.J. Welfens*

## Joint Research Project with DIW, Berlin on Financing Higher Education in the Ukraine

■ The EIIW has prepared a study for the German Advisory Group to the government of the Ukraine in cooperation with the DIW (German Institute of Economic Research). The study, carried out by Christopher Schumann (EIIW), analyzed financial support schemes for students in Germany, the Netherlands, Australia and Estonia with respect to admission and tuition regimes, public financial support for students and the institutional organization. Conclusions concerned the question which system is favourable for the Ukraine with respect to efficiency, governance and equality. The Ukrainian government is preparing a new financing scheme in the framework of an overall reform of higher education. The main research results will be published in the EIIW discussion paper series soon.

## Brussels February 6–8: New Journal/Special Issue Workshop

■ The editors (Prof. Audretsch, Indiana University, Bloomington, Prof. Bretschger, ETH Zürich and Paul J.J. Welfens) of the special issue I of the *Journal International Economics and Economic Policy* welcomed colleagues from the US, Japan and Europe for the workshop **Economic Integration, Innovation Dynamics and Growth**. For details see the programme. The Managing Editors of the *Journal* are quite grateful to all those who have presented a paper or enriched discussions with comments; and we all benefited from the lunch presentations by our two distinguished speakers, Günter Grosche from the European Commission and Ludger Schuknecht from European Central Bank. Brandon Mitchener from the *Wall Street Journal* guided a panel of three economists with rather divergent views smoothly. Financial support by **BP Europe and RAG, Essen** as well as **Springer Science, Heidelberg** is gratefully acknowledged. We do recommend a subscription to the *New Journal*!



Participants of the Special Issue Workshop listening to the presentation by Ludger Schuknecht from the European Central Bank

### Journal: *International Economics and Economic Policy*

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## Wuppertal, April 1 and 2: Foundations of National and International Economic Policy

■ In a two day workshop some 40 participants – plus EIIW staff – contributed to a workshop on national and international aspects of economic policy; the location chosen was the conference hall of Campus Freudenberg/ University of Wuppertal. *Dieter Bender* (University of Bochum) and *Paul J.J. Welfens* (EIIW) and *Wolf Schäfer* (Helmut Schmidt University, Hamburg) looked into basic theoretical issues of creating stable and efficient economic systems in open – and digital – economies. Welfens argued in favor of a new economic system design: A Digital Market Economy. *Ulrich Fehl* and *Joachim Schwerd* (University of Marburg) analyzed the Kyoto Protocol and its challenges for economic policy. *Thomas Apolte* (University of Münster) and *Torsten Sundmacher* (University Essen-Duisburg) presented two papers on issues of social security reform and the reform of the health insurance system, respectively. *Jörg Thieme's* (University of Düsseldorf) analysis and the paper by *Uwe Vollmer* (University of Leipzig) were on, respectively, ECB monetary policy and ECB options of institutional changes in the context of EU enlargement. Contributions by *Manfred Tietzel* (University of Duisburg-Essen), *Rolf Caspers/Petra Kreishoyer* (European Business School) and *Ullrich Heilemann* (University of Leipzig), respectively, look into competition issues in the railway sector, problems and effects of capital flow liberalization and the role of policy advisors and applied policy analysis in Germany.

Panel I had – guided by *Konrad Handschuch* from *Wirtschaftswoche* – lively discussions on EU eastern enlargement: with panelists *Dr. Thomas Geer*, former chief economists of ThyssenKrupp AG, *Kazimierz Lupa* from the Polish Embassy and *Paul J.J. Welfens*, EIIW. There was considerable agreement among the panelists that part of the adjustment dynamics required in the context of EU enlargement had already been realized in the run-up to May 1, 2004; but it was noted that there will be continuous medium term adjustment pressure for both EU-15 countries and accession countries – at the bottom line there seems to be more public scepticism on enlargement than among professional economists. The second panel featured *Kurt Demmer* (IKB), *Ulrich Cichy* (Ministry of Economic Affairs of North-Rhine Westfalia), *Manfred JM Neumann* (Institute for International Economic Policy at the University of Bonn) and *Dieter Cassel* (University of Duisburg-Essen). The focus of this panel was on necessary economic reforms in Germany – and the contradictions emerging from what economists typically would recommend, namely a greater role of markets, and the tendencies of many politicians who favor populist quick fix approaches which rarely help in the long run.

All the contributions will feed into a proceedings volume which will be dedicated to *Prof. Dr. Dieter Cassel* who will celebrate a special anniversary this year. We are also

grateful to the discussants *Volker Clausen* (University of Duisburg-Essen), *Thomas Wilke* (Boston Consulting), *Lambert T. Koch* (University of Wuppertal), *Dietrich von Delhaes-Günter* (HTWK Leipzig), *Wilfried Boroch*, AOK Hestia, *Spiridon Paraskewopoulos* (University of Leipzig), *Markus Ksoll* (Deutsche Bahn AG), *Andre Jungmittag* (EIIW), *Theresia Theurl* (University of Münster), and *Dieter Smeets* (University of Düsseldorf). Financial Support is gratefully acknowledged from:

- Haniel Foundation, Duisburg
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- Vorwerk & Co. KG, Wuppertal

## Berlin: Internet Economy

■ The research study conducted – jointly with the Fraunhofer Institute, Karlsruhe – for the German Ministry of Economic Affairs has been completed. A summary of the study which notes both strong and weak points of Germany's digital economy (information and communications technology) is available in English and German on our website. The German version of the study will be published as a book in summer.

## Moscow and Brussels: Project Russia's Integration into the World Economy

■ At the beginning of 2004, Prof. Paul J.J. Welfens and the EIIW team were very active in the framework of the research project "Integration of Russia into the world economy". The project, financed by the Krupp von Bohlen und Halbach foundation began in 2001 and will end in summer 2004. Dr. Ralf Wiegert has left the project as he accepted a new position at Global Insight in Frankfurt/Main. On this occasion, we would like to thank again Mr. Wiegert for all his efforts and ideas he has put into the project in recent years. In Wuppertal, Christopher Schumann has taken over the lead in project management/organization.

One of the first major events in 2004 was the workshop "Infrastructure, Investment Financing and Economic Internationalization: Perspectives on Russia and Eastern Europe" in Moscow. In cooperation with our partners at the Higher School of Economics the workshop was held on February 26-29 in the dynamic and snowy capital of Russia. New research results were presented by our partners Prof. Evgeny Gavrilencov, Higher School of Economics and Troika Bank, Prof. Nina Oding from the Leontief Institute in St. Petersburg and Prof. Ruslan Grinberg from the Russian Academy of Sciences, Moscow as well as from our special guests Mr. Christof Rühl from the World Bank, Prof. Yuri Borko from the Russian Academy of Science in Moscow and others – from EIIW in particular Dora Borbély/Christopher Schumann, Ekatarina Markova/Paul J.J. Welfens and Albrecht Kauffmann. All presentations and discussions were held in Russian language and a Russian proceedings volume of the workshop will be soon published in Moscow.

On April 24-26, we met in Brussels for the final workshop of the project. We chose Brussels as a location in order to share our results with representatives from European institutions. We particularly welcomed the head of the Russian desk at the European Commission (DG II), Dr. Marco Fantini. For two days, our workshop was held in the Renaissance Hotel – next to the new building of the European Parliament in Brussels. The project members presented papers on "Sustainable External Economic Liberalization and Integration Policy: Options for Eastern Europe and Russia". There were papers by Gerhard Strohe/Noer Achsani from Potsdam University, Paul J.J. Welfens, EIIW, Evgeny Gavrilencov (Troika Dialog), Moscow, Irina Eliseeva, St. Petersburg, Ruslan Grinberg, Moscow, Frank Bohn, Dublin, Nina Oding, Leontief Institute St. Petersburg and others. Among the many highlights was a presentation by Prof. Thorvaldur Gylfason (University of Iceland, Reykjavik) on the struc-

tural development and specialization patterns in Norway, a country that is, similarly to Russia, rich in natural resources; but to some extent appears to have avoided the Dutch disease problem. Interesting conclusions could

respectively. Among the participants was Dr. Natalja von Westernhagen who received her PhD at Potsdam University/EIIW in Potsdam and is now working for the Deutsche Bundesbank in Frankfurt.



Participants of the Brussels Russia Workshop in the DGII Building

also be drawn from other contributions – including papers by Dora Borbély/Christopher Schumann and Albrecht Kauffmann from EIIW in Wuppertal and Potsdam (at [www.progress-info.net](http://www.progress-info.net)). We held two panel discussions in the main building of the European Commission DG II – the Beaulieu building – on our last day. Prof. Jouko Rautava from BOFIT, Helsinki, Mr. Marco Fantini, Prof. Evgeny Gavrilencov discussed macroeconomic aspects and financial market dynamics in Russia and the EU. While Russia's economic growth look impressive in the present environment of high oil prices the long term perspectives seem less favourable as financial market development as well as restructuring of banks has made only slight progress so far.

Another highlight was to hear Russian and European perspectives on the Kyoto protocol from Dr. Christian Cleutin, European Commission, Prof. Konstantin Sonin, New Economic School and CEFIR in Moscow and Dr. Peter Palinkas, DG Science of the European Parliament. There was considerable disagreement to what extent the Kyoto protocol was desirable for both industrialized and developing countries/newly industrializing countries: While Mr. Cleutin and Mr. Palinkas presented a win-win perspective, Mr. Sonin was rather sceptical that developing countries would also benefit. The panels were chaired by Paul J.J. Welfens and by David Kernohan (CEPS),

At the eve of EU eastern enlargement we hopefully have contributed to building intellectual bridges between EU-25 and the New Russia. A conference proceedings volume will reflect the discussions we had during our final workshop in this project.

In July, Dr. Gregori Feiguine from St. Petersburg will come to EIIW to have the opportunity to intensify analysis. Another guest researcher, Prof. Dr. Tiit Paas from the University of Tartu, Estonia, is also expected to come to EIIW in July; she will present econometrical work on regional integration in Europe.

Many important research issues are still unresolved and EU eastern enlargement is certainly adding new topics for economic research with a focus on Russia. EIIW is grateful to the some 60 researchers from Europe/Russia, the US and Asia – including representatives from central banks and major international organizations – who have participated in our two year project. We are most grateful to the Alfred Krupp von Bohlen und Halbach Stiftung (Foundation) whose support has enabled us to create a great network of researchers and institutions. Publications in English, Russian and German have resulted from our research efforts and we also are grateful that both policymakers in Moscow, Berlin and Brussels have looked into some of our key research results.

## Wuppertal and Torun: Project on EU Eastern Enlargement and Structural Change

■ Two workshops took place in the first half of 2004 within the international project on **"Changes in Industrial Competitiveness as a Factor of Integration: Identifying Challenges of the Enlarged Single European Market"**. On January 12-13, an international group of experts came together in Wuppertal to discuss issues on structural change and exchange rate dynamics in the context of EU enlargement. The focus of the workshop was to elaborate the main features of catching-up, technological specialisation, geographical concentration, innovation as well as exchange rate dynamics in the accession countries; there was both a theoretical and an empirical point of view.

At the end of the first project year, on March 11-13 all project participants met in Torun, Poland, the home town of Nicolas Copernicus, to share the first year's research results. Paul Welfens and Dora Borbély participated in both workshops. Andre Jungmittag gave a paper at the Wuppertal meeting. Prof. Welfens stressed the impact of product innovation on real exchange rate dynamics and introduced a Mundell-Fleming macro model with innovations. A general finding is that exogenous shocks coming from innovation in the catching-up economy normally result in a

medium and long term exchange rate appreciation. This implies that accelerated international diffusion towards accession countries – that is faster innovation in such countries (innovation in those countries is typically simply diffusion when defined from the perspective of leading OECD countries) reinforce appreciation effects generated by the standard Balassa-Samuelson effect, which is typical for quickly restructuring catching-up economies. Dora Borbély analysed the EU export specialization patterns of selected accession countries. She found in her analysis that while Poland shows clusters of export specialization in sectors of low and medium R&D (research and development) intensity, the Czech Republic has clusters both in medium and high R&D intensive sectors, while Hungary specialises to a considerable extent in high technology products. Furthermore, R&D expenditure ratios are still much lower in eastern European countries than in the current EU member states, such as Germany. The sectoral distribution of R&D expenditures is, however, similar. This paper by Dora Borbély is available as EIIW Discussion Paper No. 116. The paper by Paul J.J. Welfens is EIIW Paper No. 120. The next general meeting of the project will take place in Brussels at the end of this year.

## Brussels: Innovation Analysis at the Commission

■ Dr. Andre Jungmittag was a visiting fellow at the European Commission, Directorate-General for Economic and Financial Affairs in October 2003. During his stay he gave a lecture on the topic "Innovations, Technological Specialisation and Economic Growth in the EU" and prepared a paper on the same topic, which in the meantime has been published in the Economic Papers series of DG II and is available under [http://europa.eu.int/comm/economy\\_finance/publications/economic\\_papers/2004/ecp199en.pdf](http://europa.eu.int/comm/economy_finance/publications/economic_papers/2004/ecp199en.pdf).

At the end of October, he also presented the paper "Foreign Direct Investment, Imports and Innovations in the Service Industry" (Co-author Knut Blind) at the international workshop "Effects of Foreign Acquisitions on Domestic Firms" of the HWWA and the Vienna University of Economics and Business Administration. This paper will be published soon in the **Review of Industrial Organization**. He also presented a paper on Policy

Advisors and Econometric Modelling (jointly with P.J.J. Welfens) at a conference in Radein/Bolzano (Italy). In February 2004, he again presented his paper "Innovations, Technological Specialisation and Economic Growth in the EU" at the workshop "Economic Integration, Innovation Dynamics and Growth" for the Special Issue (2+3) of the Journal International Economics and Economic Policy in Brussels. Furthermore, he was invited to a meeting of industrialists and scholars with Erkki Liikanen (Commissioner, Member of the European Commission), on the effects of outsourcing and globalisation on the ICT industry and the European economy in Brussels in April 2004. Here, he gave comments on "Patterns of Specialisation and Economic Growth in the EU". Dr. Andre Jungmittag will give presentations at the conference of the International J. A. Schumpeter Society in Milan and at the conference of the European Economic Association in Madrid.

## Bremen: Electricity Market Liberalization

■ Martin Keim and Paul J.J. Welfens participated in the conference on Energy and Culture at the International University Bremen in March. They presented a paper (jointly with Albrecht Kauffmann) on the liberalization of electricity markets in selected European countries. Starting with the general analysis of competition dynamics and interdependencies of energy markets they analyzed the electricity market's liberalization processes in the EU-15, in particular in Germany, Austria, the Scandinavian countries and in the Eastern European countries. Clear conclusions were drawn in favour of reinforcing competition (EIIW working paper No. 123).

## From Theory to Practice ....

■ After four years of successful collaboration with the European Institute for International Economic Relations Jaroslav K. Ponder (see [www.ponder.ch](http://www.ponder.ch)) has moved to the International Telecommunication Union, Market Economics and Finance Unit (Geneva based specialized United Nations agency). He has been involved in several projects. The most important include: a) analysis of tools and models to conduct economic forecasts, simulations and sensitivity analyses, b) seminar on telecommunication market analysis for the CEE and Baltic States, and c) intensification of existing and establishment of new links with universities and other scientific institutions specialized in identifying trends in the finance and economics of telecommunication/ICT networks and services. Moreover Mr. Ponder conducts his research on economic and technical aspects of the telecommunications sector with a special focus on countries with economies in transition as well as developing countries. His last paper discusses the problems of E-Government in transition economies. Jaroslav K. Ponder stresses that consolidated knowledge as well as the international experiences he gathered during the collaboration with EIIW in connection with other skills gained during his professional life in Poland are a great advantage in the development of his career in the international arena.

## Guest Researchers

■ Professor John Addison from the University of North Carolina came to EIIW/the University of Wuppertal and presented a series of lectures on the US and EU labor market topics. On his recent research see also the new EIIW Paper 115.

## Recent and forthcoming EIIW Papers

### No. 100

**Gavrilencov, E.** Macroeconomic Situation in Russia – Growth, Investment and Capital Flows, October 2002

### No. 101

**Agata, K.** Internet, Economic Growth and Globalization, November 2002

### No. 102

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**Wuppertal:** EIIW International Workshop on Economics Dynamics in the Digital Economy (mid-September; in combination with Jean Monnet activities).

**Wuppertal:** EIIW Summer School on Telecommunications and Internet Dynamics (mid-September)

**Potsdam/Berlin:** EIIW International Economic Roundtable on the German Economy (October)

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