



# EIIW News

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

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## More than 10 Years of EIIW Research ...

■ *The European Institute for International Economic Relations*, founded in 1995 in Potsdam and now located in Wuppertal, has been an active interface between the researchers in Economics, the business community and policymakers. A recent event in this respect was the workshop "Financial Market Integration, Structural Change and Growth: 50 Years of EU Dynamics", organized by EIIW and hosted by Dresdner Bank in Frankfurt. This international workshop is one of a long series of workshops and conferences which we have organized in locations such as Potsdam, St. Petersburg, Moscow, Bangkok, Brussels, Wuppertal and Frankfurt. We are grateful to many leading international economists and policymakers who have participated in various events. Over the last decade, the EIIW has organized:

- more than 30 conferences and workshops
- many research projects with leading partner institutes and colleagues
- the dissemination of new research results
- support for dissertation projects – including four Ph. D. publications which (later) received a scientific prize
- hosting of guest researchers at the EIIW
- enhanced dialogue between academia, the business community and the political systems
- continuous debate within the civil society, namely on the dynamics of open economy market economies

We wish to continue our commitment to an open global society and peaceful scientific analysis as well as cooperation across coun-

tries and cultures. Restoring full employment will be crucial for the EU as a basis for economic and political stability. Member countries are mainly responsible for setting an adequate institutional framework and adopting consistent economic policy – with trade unions and employer federations largely responsible for the development of the unemployment rate. One should hope that the EU integration process will be continued and that the citizens and institutions of the EU will successfully cope with the challenges ahead.

*Paul J.J. Welfens, Jean Monnet Chair for European Economic Integration and Chair in Macroeconomics at the University of Wuppertal; Research Fellow at IZA, Bonn*



Chancellor Dr. Merkel at the IT Summit

Paul Welfens will be the Alfred Grosser Professor at Science Po in Paris, 2007/08

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Prof. Welfens (IT Summit, see p. 4)

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and a non-partisan Economics  
research institute which acts as an  
interface between science, the  
business community, NGOs and eco-  
nomic policymakers.

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## Editorial: 50 Years of European Union

■ On 25 March 2007, the EU will celebrate the 50th anniversary of the signature of the Treaty of Rome which marks the starting point of the Community. Since 1957, much has been achieved as the number of member countries has increased from six (Germany, France, Italy, Belgium, Netherlands, Luxemburg) to twenty-seven as of 1 January 2007. Moreover, the creation of a customs union – achieved in 1968 – has been reinforced through the creation of the EU single market at the end of 1992 as well as the European Central Bank as of January 1999. The eastern enlargements of the EU on 1 May 2004 and 1 January 2007 have added 12 more countries to the Community so that the Union looks to be a dynamic and expansionary institution. The EU's competitor in Europe, the EFTA, has almost vanished and indeed most member countries of the free trade area have joined the EU. The Union has also inspired integration elsewhere on the globe, including the Mercosur in Latin America – also a customs union (free trade area plus a common external tariff) – and the ASEAN in South-East Asia.

The EU has extended the single market within the European Economic Area which includes EU-27 as well as Liechtenstein, Norway and Iceland. Thus the four freedoms, namely free trade in goods and services, free capital flows plus free mobility of persons, have been extended to more than 500 million people in Europe. The EU has also been successful at anchoring Germany firmly in the integration club and helped to replace old-style rivalries within Europe through cooperation. While the costs in the form of contributions of member countries to finance the EU budget – slightly over 1% of GDP – are easily visible and reach (on a net basis) up to 120 Euro per capita in some countries, the benefits are less visible. Despite this, benefits clearly exceed costs in all countries and mainly arrive in the form of more product innovation, lower prices on millions of goods and more jobs.

### Economic Benefits

The European Commission has claimed in a rather conservative assessment that benefits from the single market within the first decade amounted to 1.8 percentage points of EU GDP, namely € 165 bill. or € 5,700 per household; exports into third countries have increased from 6.9% of GDP to almost 12% in 2002 and foreign direct investment inflows, relative to GDP, have more than doubled. It is also noteworthy that the European Commission has been a driver in the liberalization of network industries, including fixed-network telecommunications, gas and electricity.

Slow growth and mass unemployment in some EU countries are in marked contrast to high growth and low unemployment in other countries. The EU offers a rich variety of success stories upon which many other countries could draw. The Lisbon agenda set by the



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European Council has emphasized the need to achieve higher growth and employment rates across all EU countries; while the initially envisaged supranational approach did not work, the EU tried a renewed effort based on programmes developed by member countries; this seems to work, as peer group pressure has helped to mobilize successful projects (often dynamic small countries have encouraged some of the laggards among the large countries).

The fact that the EU turns 50 and has enlarged to include more member countries points to a success story, and there are certainly several fields within which one has witnessed considerable progress. However, there are also many serious challenges which concern developments in key member countries as well as problems with the institutional (or constitutional) architecture of the Community. There is also the topic of how the EU can effectively pursue its interests in the world economy and remain a reliable partner and intellectual bridge in a complex global system.

Among the success stories of the EU is the fact that regional trade integration has been coupled with global liberalization under the auspices of the GATT/WTO – with US pressure playing a useful role. The EU has been innovative in applying market-oriented instruments to new areas as well, including CO<sub>2</sub> emission certificate trading. To some extent it is surprising that Europe in this field has been bolder

than the US, which has a long history of institutional and financial market innovations but has not fully seized the opportunity for being a leading actor in the fight against global warming.

The EU has not only absorbed most original EFTA countries but also several countries from the former socialist integration scheme in Europe, the Council of Mutual Economic Assistance led by the Soviet Union. Facing the disintegration of the CMEA and the former Soviet Union, the EU is looking for a concept to develop relationships with the new Russia and other countries in the former Soviet Union. Energy has become a major topic on the bilateral trade agenda EU-Russia, but it is a thorny issue as Russia apparently would like to use the political leverage as an energy supplier to the EU. At the same time Russia has become increasingly nervous, as there has been NATO eastern enlargement parallel to EU eastern enlargement, which to some extent undermines the security of Russia (as perceived by the Russian government). There also has been some pressure from the US that Russian cuts of oil and gas supplies to Western Europe should be considered as triggering active NATO solidarity.

### Constitutional Issues

The EU, however, has a serious problem in terms of politico-economic sustainability since the EU constitution failed in the referendum in both the Netherlands and France. While the case of France might be interpreted as a political mishap related to French voters saying No to the EU while mainly expressing their discontent with the national government, the Dutch No is too strong to suggest a similar excuse for the case of the Netherlands. There had been full consensus in the EU that the Treaty of Nice must be replaced by a new Constitution, since the Community would be unable to act in an effective and efficient way once the EU eastern enlargement of 2004 would have raised the number of member countries strongly. In 2007, a second eastern enlargement has already taken place and there is hardly a perspective for an EU constitution. In retrospect one may wonder whether the EU is not suffering from "integration overstretch". The Prodi Commission bears partial responsibility for the failed EU referendum in the Netherlands as this Commission emphasized the project of bringing in Turkey as an EU member country – the Dutch population obviously was afraid of an uncontrolled further enlargement of the EU (there also was a serious policy blunder in the Netherlands itself as the parliament took a vote on the Constitution before the referendum had taken place, and this strange sequence naturally stimulated an enlarged share of no-voters).

The debate about costs and benefits of EU integration must become more sober for many reasons. For example, one should emphasize



that EU integration no longer enjoys the previous glue provided by the common fear of the Soviet Union. Thus people in the EU more vigorously start asking about costs and benefits. With some 45% of the EU budget still allocated to agriculture, one also must raise the issue whether budget priorities in favour of the agricultural sector are adequate for an economy in which employment accounts for less than 4% of GDP; here France and Germany have been rather inflexible with respect to British proposals on cutting back EU agricultural subsidies. Moreover, agriculture in the EU (and the US) is likely to be the stumbling bloc for the Doha trade liberalization round. Cutting this expenditure bloc and spending more on innovation and human capital formation should be natural for the EU. It goes without saying that large countries with high unemployment rates – such as Germany, France and Italy – should adopt adequate reforms for restoring full employment; more wage differentiation and higher expenditures on training/retraining as well as some form of negative income tax seem to be important reforms required.

It would be useful to fully exploit the opportunities of the European Economic Area, which offers an option for linking Balkan countries, Turkey, Iceland, Norway and Liechtenstein to the EU; even the Ukraine, Russia and Belarus could become a member of the EEA. If the EU25/EU27 should turn out to be unable to become a strong actor in international economic relations – as became visible for the first time in a shocking way during the Tunis World Summit on the Information Society in 2006 – one might want to consider making

the Euro zone the relevant area of European integration leadership. One might indeed consider a Euroland Constitution and closer political and economic cooperation in the Euro zone which is much more compact than the EU27. Once Lithuania – not admitted for the moment – has followed Slovenia in Euro membership, there is a majority of EU countries in Euroland. If one considers willingness to join the Euro zone as a signal of a comprehensive willingness for political cooperation and if the EU27 constitutional crisis is not overcome, one should indeed consider the Euroland options as an opportunity for fostering deeper sustained integration in Europe. This then could lead to a variable geometry of European integration shaped by Euroland (inner circle), the EU (2nd circle) and the EEA (3rd circle). It is up to the Barroso Commission, the European Parliament and the EU summits to find answers to the issues raised. Let us wish for Europe and the world that EU integration successfully continues for many decades to come and that it remains a valuable role model for liberalization and peaceful cooperation in many regions of the world.

*Paul J.J. Welfens  
(Jean Monnet Chair for European Economic Integration)*

Forthcoming book:  
Tilly/Heise/Welfens, eds.  
**50 Years of EU Economic Dynamics. Integration, Financial Markets and Innovations.** Contributors from ECB, Deutsche Bundesbank, European Commission, academia and banking community take stock of integration dynamics and major future challenges; Heidelberg and New York: Springer 2007



Berlin Summit of the EU: 50 Years after the Signing of the Rome Treaties

## Support for Research & Publications

■ As regards support for the scientific activities at the Institute in recent years (2000–2006), we are particularly grateful to:

- Alfried Krupp von Bohlen und Halbach Foundation, Essen
- AOL Deutschland, Hamburg
- Barmenia Insurance Company, Wuppertal
- Böckler Foundation, Düsseldorf
- BP Europe
- Deutsche Bank, Potsdam
- Dresdner Bank, Frankfurt
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- Fortis Bank, Brussels
- Global Insight, Frankfurt
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- Haniel Foundation, Duisburg
- RAG, Essen,
- Siemens AG, Munich

- Stadtparkasse Wuppertal
- Volkswagen Foundation, Wolfsburg
- Vorwerk Company, Wuppertal
- Wolfgang Ritter Foundation, Bremen

We also appreciate the support of and project financing from:

- the European Commission
- the Deutsche Bundesbank
- the European Parliament

As regards our international partner network, we particularly appreciate cooperation with

- AICGS/The Johns Hopkins University, Washington DC
- ARC-Sys, Vienna

- CASE research center, Warsaw
- Russian Academy of the Sciences, Moscow
- Higher School of Economics, Moscow
- Institute for World Economics, Budapest
- Center for European Studies at Chulalongkorn University Bangkok
- Center for European Studies at the University of Birmingham
- Leontief Center, St. Petersburg
- MERIT at the University of Maastricht
- Northern Dimension Research Centre at the Lappeenranta University of Technology



## Research on EU Integration/Award-winning Habilitation and PhD Thesis

■ Andre Jungmittag who has a long-standing top research record at EIIW will be commended with the 2007 scientific award of the Wolfgang Ritter Foundation, Bremen on April 23 for his habilitation thesis, "Internationale Innovationsdynamik, Spezialisierung und Wirtschaftswachstum in der EU". This further raises the number of scientific awards in our network – the Ritter Foundation has awarded a prize to EIIW members three times over the last 11 years. Three of the seven Ph.D. theses supervised by Prof. Welfens at Potsdam University obtained an award. This record finds a welcome continuation at the University of

Wuppertal, with the 2006 dissertation of Dora Borbély being honoured through the 2007 Ph.D. faculty prize at the Department of Economics, University of Wuppertal. Both books are available at Springer/Physica, Heidelberg. Dora Borbély left EIIW in spring 2006 and assumed a new position at a major bank in Frankfurt. She was a great member of our research group on Eastern Europe and was also been active in a research project on Russia. Her Ph.D. thesis, "Trade Specialization in the Enlarged European Union", was published at Springer Publishing, Heidelberg and New York.



Andre Jungmittag

## Meeting Policymakers: Peter Chase

■ Dating back to his research stay in the US, Professor Welfens has testified before committees in the political systems and international organizations as well as private companies and institutions related to trade unions. Particularly interesting was his testimony before the US Senate and several times at the European Parliament. The EIIW has also conducted research for the State Government of North-Rhine-Westfalia, the Dutch Ministry of Economic Affairs and major companies in the EU.

On 15 January 2007, the EIIW hosted a presentation by Mr. Peter Chase, the director of the U.S. State Department's office of European Union and Regional Affairs; he came with the consul general Mr. Matt Boyse and his deputy Ms. Desiree Humphreys from the U.S. general consulate in Düsseldorf. Mr. Chase, who belongs to the inner circle of advisors to the administration, presented his views on transatlantic relations in the light of the German EU-presidency. The American side has high expectations for the German government to tackle several political issues that are of importance for America as well as the EU. Mr. Chase first mentioned unsolved questions in the trade relationships within the framework of WTO negotiations. In his view, the European Union plays a key role in the ongoing Doha round. By reducing its subsidies in the field of agriculture, it can take a decisive step towards a major breakthrough. Secondly, the role of China in the world economy was discussed. Mr. Chase noted that China should not be overestimated. Until now, Italy is more important for the US as regards foreign direct investments, but surely the potential of China as a world economic power is high. Among other topics, the EIIW staff discussed several strategic questions in the field of energy supply with the representatives. Common goals and possibilities for cooperation were considered. With respect to the Kyoto protocol, there seemed to be more of a transatlantic dissent rather than consensus. The EIIW will be glad to continue its role as an interface between academia, the business community and the wider public.



Peter Chase at the EIIW

## ICT Summit in Potsdam

**National IT Summit on 18 December 2006 at the Hasso Plattner Institute at the University of Potsdam**

■ In Germany, information and communication technology has become the largest sector in terms of value added. However, as overall economic growth has been modest in recent years, and as the Lisbon Agenda has emphasized the relevance of the EU's knowledge society, the German government has adopted a broader initiative for a national IT summit. Some 150 representatives from industry, academia and the political system participated in this event. Government and industry have decided that several projects should be realized, E-government expanded and framework conditions for the ICT-sector improved.



Discussions with the Chancellor at the National IT Summit

## Jean Monnet Project: Financial Market Integration, Structural Change, Foreign Direct Investment and Economic Growth in EU-25

■ Professor Welfens is coordinator for Jean Monnet Project (for European Commission) "Financial Market Integration, Structural Change, Foreign Direct Investment and Economic Growth in EU-25" jointly with University of Birmingham, University of Madrid and Central European University in Budapest. The objective of the study is to

develop a theoretical and practical understanding of the dynamics of financial market integration and innovation dynamics in the EU25, to compile data on this topic and to show by comparative analysis how different types of financial markets affect innovation and growth. On the basis of these findings, policy proposals will be formulated and discussed with policymakers.

## Activities as Jean Monnet Chair: Invited Lecture Series on 50 Years of EU

■ The EIIW had organized an invited lecture series in cooperation with the Chair of Macroeconomics/Jean Monnet Chair for European Economic Integration in 2006 with the focus of the 50th anniversary of the existence of the European Union. In celebration of the 50th anniversary since the founding of the European Economic Community, the EIIW invited several professors to give presentations closely linked to that historical occasion on 25 March 2007.

The first contribution was given by Claus Ahrens on 29 May 2006, who gave a speech on copyright problems and economic development in the EU. He holds the Chair for Civil Law at the University of Wuppertal. Erich Hödl, the rector of the University of Graz and the former rector of the University of Wuppertal, was invited for a farewell ceremony/lecture hosted by the faculty of Economics of the University of Wuppertal. On 19 June 2006, he gave his farewell lecture on the EU's knowledge-based society. The third lecture was held by Jürgen Kröger on 10 July 2006. He works for the Directorate General for Economic and Financial Affairs on macroeconomic problems and reform policies as a challenge for the Euro area. Martin Seidel from the Zentrum für Integrationsforschung (ZEI, Bonn) completed the series on 27 November 2006 with a preview of current and future constitutional challenges for the European Union combining economic and legal aspects. The EIIW has invited more academic researchers and professors to continue this invited lecture series in 2007/08. We look forward to welcoming Peter Bartelmus from Columbia University in 2008. A proceedings volume is planned for publishing in 2008.

## The Journal International Economics and Economic Policy

■ We are quite satisfied that International Economics and Economic Policy is now indexed in the Journal of Economic Literature and in several other index services. The Journal is a crucial piece of Economic Intelligence and enjoys a growing subscriber base in Europe, North America and Asia. Probably the most analytical value for economist and policymakers, the publication is offered for €199 annually (subscriber price). We are pleased that Prof. Eduard Hochreiter from the Oesterreichische Nationalbank and Prof. George Tavlas from the Bank of Greece are the editors of the special issue Regional and International Currency Arrangements. For further information, please see [www.econ-international.net](http://www.econ-international.net) or contact Mr. Christopher Schumann, the Editorial Assistant, at [editors@econ-international.net](mailto:editors@econ-international.net).

*Special Issue on Regional and International Currency Arrangements*

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# International Economics and Economic Policy

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Jürgen Wolters

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## Innovation, Regulation and Growth in Digital Market Economies: National and Regional Perspectives.

■ EIIW has conducted a research project for the regional government of North Rhine Westphalia. The project study comes up with remarkable findings based on theoretical and empirical analysis. The latter is mainly based on Data Envelopment Analysis according to which North Rhine Westphalia as well as the New Länder (federal states) of Eastern

Germany are falling back in terms of total factor productivity growth in the late 1990s. North Rhine Westphalia has certain sectors which show considerable dynamics, at the same time other sectors contribute rather to slowing down the growth of output and jobs. Major policy changes are needed.

The study by Welfens/Jungmittag/Vogelsang comes up with several other new findings and many policy proposals as well. For further information, please contact [welfens@eiiw.uni-wuppertal.de](mailto:welfens@eiiw.uni-wuppertal.de)

## Structural Change and Innovation Dynamics in the Context of EU Eastern Enlargement

■ EIIW also has completed a project for the Hans-Böckler Foundation. The study looks into recent theoretical developments in the context of trade and growth as well as the New Economic Geography with a special emphasis on EU Eastern enlargement. While there is convergence across EU countries, there seems

to be divergence within EU countries so that the welfare effects of EU eastern enlargement have a clear regional dimension. A summary of the findings of the study written by WELFENS/BORBELY will be on the EIIW website. For further info, contact Dora Borbély at [welfens@eiiw.uni-wuppertal.de](mailto:welfens@eiiw.uni-wuppertal.de)

## Significance of ICT Technology in the Context of EU Eastern Enlargement: Innovation, Diffusion, Outsourcing and Structural Change

■ This project has been conducted by WELFENS on behalf of the Böckler Foundation. ICT has facilitated outsourcing and offshoring; and since EU accession countries have strongly invested in the modernization of digital infrastructure, there is considerable potential for increased relocation of industry in the EU-27.

As regards individual sectors, one finds different patterns and relocation opportunities. In the field of standardized manufacturing products, there will be a rather strong tendency towards more outsourcing and offshoring.

## Looking Ahead to 2007/08

■ Much in 2007 will come under the heading of 50 Years of EU Integration. We intend to organize a workshop in Berlin in autumn 2007 and plan for another workshop in Brussels and Paris in 2008. A special website on EU topics and issues should be launched in late 2007.

Another analytical focus will be on financial market dynamics, innovation and growth. Transatlantic economic relations will also be analyzed, as will be world energy markets and North-South issues.

## Locational Dynamics in Wuppertal and the Bergische City Triangle

■ In the spring of 2007, we started a project on regional innovation and growth policies. The project is conducted by WELFENS/JUNG-MITTAG/PERRET.



*EIIW Team (2006)*

## Energy Policy in the EU: Developments, Climate Change Issues and Policy Options

■ 2007: This project will look into key issues of competition in the energy sector and innovations. For further information, please contact [welfens@eiiw.uni-wuppertal.de](mailto:welfens@eiiw.uni-wuppertal.de)



## How the EIIW Started

■ The starting point of the EIIW was at the University of Potsdam on 7 July 1995. Professor Welfens had obtained a Jean Monnet Chair for the University and was active in both teaching and research; given the many important economic policy topics, it was natural to create a network of researchers. We are grateful to several years of an excellent cooperation with the colleagues in Potsdam where EIIW successfully engaged in research on systemic transformation, topics of International Economics, development of network industries (energy and telecommunications) and EU integration. Dr. Natalja von Westernhagen was one of the first outstanding Ph.D. students who came from Eastern Europe/Russia to the EIIW; she left the EIIW after publishing an excellent thesis and joined Deutsche Bundesbank in Frankfurt. Dr. Ralf Wiegert also conducted top research – mainly with a project on Russia – and later joined a major international consultancy in Frankfurt. We gratefully acknowledge the commitment of our two treasurers in Potsdam, namely Dr. Cornelius Graack and Dr. Rainer Hillebrand

who also later pursued a career in the private sector and in the political system, respectively. EIIW is very grateful to the late Antje Wenk, our secretary in Potsdam, who supported all major activities of the Institute over many years.

As regards financial backing of EIIW, one should particularly mention the generous support of the Deutsche Bundesbank, AOL, Deutsche Telekom and Siemens AG, Munich as well as Deutsche Bank in Potsdam and the Landesinvestitionsbank in Brandenburg. The years in Potsdam were scientifically quite fruitful and brought many publications, including articles and award-winning books/Ph.D. theses (authors: Paul J.J. Welfens/Cornelius Graack/Lars Petzold/Andreas Schwarz). Dr. Andreas Schwarz has joined the European Commission.

In 2003 the EIIW moved to the University of Wuppertal. Professor Welfens obtained a new Jean Monnet Chair for European Economic Integration; he also has the Chair in Macroeconomics.

The modern University of Wuppertal has a dynamic Faculty of Economics and Business Administration with a strong international orientation; Wuppertal is 35 minutes from both Cologne and Düsseldorf Airports (non-rush hour time), and the city is close to Brussels and Frankfurt.



Seat of the EIIW at the University of Wuppertal (Campus Freudenberg)

## Selected EIIW Activities 2003–2006

### 2005/06: Project for the European Commission: Internationalization of European ICT Activities

■ Jointly with MERIT, University of Maastricht and ARC-Sys, Vienna, the EIIW researchers Andre Jungmittag, Michael Vogelsang and Paul J.J. Welfens have analyzed the dynamics of the sector information & communication technology in Europe. The final report for IPTS, Sevilla, will be published with Springer, Heidelberg and New York (MEIJERS, H.; DACHS, B. and WELFENS P.J.J., eds., forthcoming 2007)

### Project: Russia's Integration into the World Economy

■ The EIIW has completed a two-year research project on "Russia's Integration into the World Economy". The project has been funded by the Alfred Krupp von Bohlen und Halbach-Foundation. The results of the final workshops have been published in two conference volumes, "Internationalization and Economic Policy Reforms in Transition Countries" and "Economic Liberalization and Integration Policy Options for Eastern Europe and Russia". The proceedings volume from our workshop in Moscow also can be recommended.

### Project on EU Eastern Enlargement and Structural Change

■ The mid-term workshop of the EU 5th framework international project on "Changes in Industrial Competitiveness as a Factor of Integration: Identifying Challenges of the Enlarged Single European Market" (HPSE-CT-2002-00148) took place on 19-20 November 2004 in Brussels. All project participants met at the Center for European Policy Studies (CEPS) to share the first 18 months' research results and present them to the European Commission. Dora Borbély and Paul Welfens participated in the workshop. Professor Welfens stressed the interdependence of exchange rate developments and stock market dynamics both from a theoretical – and for Hungary, Poland and the Czech Republic also from an empirical – point-of-view. The findings show a considerable impact of stock market prices on the nominal exchange rates and suggest that problems of stock market bubbles in the US might strongly contribute to unstable exchange rates in Europe. Dora Borbély carried over the well-known concepts of beta- and sigma-convergence from the growth into the trade literature and found that most new EU member states and EU cohesion countries moved closer to the EU-15 average export specialization patterns in the time period from 1993 to 2001. At the intersectoral cross-country level, she found an overall tendency in industries towards de-concentration. The final

year of the project has started now, and the main research focus will be placed on drawing policy implications for the enlarged European Union both on the national and the supranational level. The proceedings volume will be published in 2007.

### Wuppertal/Birmingham/Bangkok: Project on EU-ASEAN

■ The European Commission has awarded special Jean-Monnet Funds to Paul J.J. Welfens (Jean Monnet Chair for European Economic Integration) and Franz Knipping, Jean Monnet Chair for Modern History at the University of Wuppertal, in order to enhance research on EU and Asia. EIIW has supported this project of the University of Wuppertal and international partners. Key partners of the research network include Suthipand Chirathivat from the Chulalongkorn University in Bangkok, and Cillian Ryan from the University of Birmingham. The Chulalongkorn University is one of Asia's leading universities. Two conferences, one in Germany and one in Bangkok are core elements of this project. The first workshop on "Integration in Asia and Europe: Historical Dynamics, Political Issues and Economic Perspectives" took place on 3-5 December 2004 at the University of Wuppertal. More than 40 researchers from four disciplines and over 10 countries participated in the conference. The first day focused

on the historical dimensions of EU-ASEAN economic development and integration processes. Furthermore it dealt with cooperative policy structures in EU and ASEAN, including problems of environmental issues. One panel focused on China and its interdependence within the world economy.

The second workshop with the title "EU and ASEAN Facing Economic Globalization" took place in Bangkok on 21-22 July 2005. For further information, see our special website: [www.eu-asean-jean-monnet.net](http://www.eu-asean-jean-monnet.net)

### Vilnius: From Theory to Policy – Rational Regulation of Telecommunications

■ On the occasion of the workshop „Economic Dynamics of Newly Liberalized Telecommunication Markets in CEE Countries and the Baltic States“ on 5-7 October 2004 in Vilnius, Professor Welfens shared his analysis and policy perspectives on Significant Market Power and Market Demarcations under the Conditions of Convergence with representatives from the International Telecommunication Unit (ITU) and leading representatives of regulatory authorities in Eastern Europe and Central Asia. Many partner countries of the EU are interested in improving policy design in the field of telecommunications regulation. The workshop was organized by Jaroslaw Ponder, a former staff member of the EIIW who now works for the ITU in Geneva. The contribution of Prof. Welfens is published in the EIIW Working Paper series.

### EIIW Workshop: The New Europe – Integration, Internet, Innovation and Investment

■ On 26 November 2004, the EIIW welcomed researchers, policymakers and representatives from the business community to a workshop on the New Europe. This workshop, conducted in German, put the focus on critical issues of Eastern enlargement and structural adjustment as well as innovation dynamics. There was a controversial discussion concerning the Lisbon Agenda, which was considered rather unrealistic. As regards EU enlargement, speakers voiced optimism about medium term growth in accession countries while insufficient adjustment dynamics in core countries of the EU were pointed out as a crucial challenge for policymakers. Mrs. Edeltraut Friese organized this workshop with great care and organizational talent. Further information can be obtained from [friese@eiiw.uni-wuppertal.de](mailto:friese@eiiw.uni-wuppertal.de)

### EIIW Summer Academy on Internet and Telecommunication

■ Education experts accentuate the need for improved knowledge transfer from the universities into practical application and stress the importance of lifelong learning. The EIIW took up these suggestions and organized the summer academy, "Professional Workshop – Internet and Telecommunication", in September 2004. The speakers of the Workshops were world-renowned researchers and experts from the telecommunications sector.

### Jean Monnet Research Workshop "Regulatory Changes, Innovations and Investment Dynamics in the Digital World Economy"

■ With the Workshop "Regulatory Changes, Innovations and Investment Dynamics in the Digital World Economy" from 19-20 September 2004, the European Institute for International Economic Relations (EIIW) at the University of Wuppertal once more proved its ability to align top-class workshops for scientists in ICT research. The participants were Mathias Weske, Hasso Plattner Institut in Potsdam; Anne Troye of the European Commission; Morten Falch of the Technical University of Denmark; Richard Tee of EC/DC Infonomics in Heerlen; Ernst Langmantel of the regulatory authority RTR, Vienna; Friedhelm Dommermuth of the RegTP; and Ivan Schmiege of the Institute for World Economics in Budapest. The proceedings volume WELFENS/WESKE was published in 2006 and is listed at the end of the newsletter.

In 2008, EIIW will host a Summer School on the Global Digital Economy. EIIW plans to offer additional seminars for industry leaders and policymakers as well as academic researchers in the future. For further information, please contact Mr. Vogelsang at [vogelsang@eiiw.uni-wuppertal.de](mailto:vogelsang@eiiw.uni-wuppertal.de)

### Neuss, November 10-11, 2005; International University Conference

■ T-Systems organized an international university conference under the co-patronage of Prof. Welfens. Participants from all over the world – plus internet-based live presentation by a German nobel prize winner in physics from MIT – contributed to this event. For the proceedings volume Digital Excellence, edited by Paul J.J. Welfens and Ellen Walter-Klaus, see the list at the end of the Newsletter.

### EIIW Workshop: Technology Dynamics, Growth and Reform Policies in the US and Europe

■ On 3 February 2006, the EIIW welcomed several researchers and policymakers to the second transatlantic workshop in addition to the first which took place in Wuppertal on 8 July 2005. The first workshop dealt with topics on perspectives and reforms of labour markets and social security systems, growth and structural change in the EU and in the US as well as on topics on the digital economy. The second workshop started with a contribution by Charles Wessner from the National Science Foundation on strategies, issues and performance of innovation policy. Karl Pichelmann from the European Commission presented an updated report by the Commission that dealt

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with economic globalization, outsourcing and jobs from an EU Perspective. Ernst Helmstädter from the Institut Arbeit und Technik (Gelsenkirchen, Germany) presented several political strategies and economic issues in the field of the knowledge society. Paul J.J. Welfens pointed out some growth strategies for the German economy in the New Europe. Moreover the political perspective was covered by Martin List from the University of Hagen, who offered some insight into transatlantic political relations. Mario Villareal from the American Enterprise Institute reviewed the situation of the pharmaceutical industry in the context of intellectual property rights and investments under the influence of the WTO. Bernhard Iking from Zenit (Mülheim) presented the main results of the European Innovation Scoreboard for Countries and Regions. Finally a panel on energy technology policy in Europe and the US, consisting of Peter Palinkas (European Parliament), Fred J. Sissine (Congressional Research Service), Jochen Hierl (European Investment Bank) and Oliver Weinmann (Vattenfall Europe) led to a very intense discussion between the panellists and the whole audience. The last contribution was a dinner speech by Jake E. Jennings from the Federal Communications Commission, who presented a dynamic perspective of the telecommunications regulations in the US. The proceedings volume will contain all main papers from both workshops and will be published in the course of 2007.

For financial support of both workshops, we are very grateful to the Jean Monnet Action (European Commission) as well as to:

**HANIEL STIFTUNG**

 Stadtparkasse  
Wuppertal



Wolfgang Ritter Stiftung

If you have any questions please do not hesitate and contact Mr Martin Keim who organized both workshops with great care and organizational talent at:  
[keim@eiiw.uni-wuppertal.de](mailto:keim@eiiw.uni-wuppertal.de)

## EIIW and Dresdner Bank International Workshop: Financial Market Integration, Structural Change and Growth – 50 Years of EU Dynamics

■ The international workshop "Financial Market Integration, Structural Change and Growth: 50 Years of EU Dynamics" took place on 6-7 July 2006 in Frankfurt. The conference was organised by EIIW and hosted by Dresdner Bank. More than 30 participants from academic and financial circles played an active role at the conference as a lecturer or discussant. The main topics of the workshop were: The Impacts of EU Eastern Enlargement on the EU; Real Convergence and Price Level Convergence in the Run-up to the EU; Information and Communication Technology; Energy Markets and Climate Policy and the like. After the welcoming remarks by Prof. Welfens and Prof. Heise, Dresdner Bank's Chief Economist, the conference was opened by Prof. Tilly who held a keynote speech on the History of European Integration. We were pleased to have welcomed Mr. Hans-Helmut Kotz, Member of the Executive Board of the



Participants of the international workshop in Frankfurt

Deutsche Bundesbank, who made a keynote speech on Financial Market Integration and Monetary Policy. Werner Roeger (DG II) from the European Commission presented new insights on Ageing and Economic Growth, Ansgar Belke analysed the dynamics of the Eurozone, Horst Hanusch gave a Schumpeterian view of the integration process and Balasz Egert/Austrian National Bank focussed on price dynamics in Eastern European accession countries. Andrew Hughes-Hallett, Vanderbilt University, Alain Chappert, INSEE, Kees van Paridon, University of Rotterdam, Manuel Balmaseda, CEMEX, Daphne Nicolitsas, Bank of Greece, Christian Müller, ETH Zürich, Gert Brunekreeft, IUB, Andre Jungmittag, EIIW, Matthias Göcke, University of Münster, Volker Clausen, University of Duisburg-Essen, Axel Pols, Bitkom, Freddy van den Spiegel, Fortis Bank, Philipp Hartmann, ECB, Dora Borbely, EIIW/Dekabank, Frankfurt and Michael Frenkel, WHU-Vallendar also contributed to the workshop. There were two panels which discussed Banking, Financial Markets Structure and Growth in the EU as well as Growth, Jobs and Structural Reforms in France, the Netherlands, Spain and Greece. A highlight of the workshop was the dinner speech of Prof. Friedrich Schneider (On EU Constitutional Issues). The conference volume including the final papers will be published in March by Springer publishing. Mrs. Edeltraut Friese and Mrs. Zornitsa Kutlina organised this workshop with great care and organizational talent.

*Dr. Karen Horn, FAZ, Dr. Mark Schieritz, FTD and Dr. Klaus Engelen, Handelsblatt chaired sessions*

Further information can be obtained from:  
[Kutlina@eiiw.uni-wuppertal.de](mailto:Kutlina@eiiw.uni-wuppertal.de).

## External PhD Students

■ *Ekaterina Markova* has been a Ph.D. student at the European Institute for Economic Relations since October 2002 and has been a scholar of the Friedrich-Naumann-Foundation since September 2004. Before her scholarship, she worked in the research project "Integration of Russia into the World Economy" at the EIIW. With financial support of the Friedrich-Naumann-Foundation, she participated at the EUROCPR conference in Potsdam, Germany in March 2005 and presented a joint paper with Jaroslaw Ponder "Bridging the digital divide in transition economies". For further information, please contact Mrs. Markova at:  
[markova@eiiw.uni-wuppertal.de](mailto:markova@eiiw.uni-wuppertal.de)

We are pleased to have *Zornitsa Kutlina* as external member at the EIIW. Mrs. Kutlina studied Economics at the Economic Academy, "Dimitar Zenov", in Bulgaria and was an exchange student at the University of Münster. After this, she obtained her Master's degree at the University of Aachen in "European Studies". She won scholarships for both her graduate studies and Ph.D. research project. Ms. Kutlina, who has a Ph.D. fellowship from the Friedrich-Ebert-Foundation, analyses the link between financial sector development and economic growth in selected EU accession countries with an emphasis on Bulgaria and Romania. For further information, please contact Mrs. Kutlina at: [kutlina@eiiw.uni-wuppertal.de](mailto:kutlina@eiiw.uni-wuppertal.de)



## Fund Raising

■ EIIW is interested in obtaining additional funding from leading international companies as well as small and medium-sized firms and individuals interested in supporting European Integration and critical independent research in International Economics. EIIW is a non-profit organization and as such, donations are tax deductible under German law. On the topic of sponsoring and membership, please contact: Mrs. Edeltraut Friese at [friese@eiiw.uni-wuppertal.de](mailto:friese@eiiw.uni-wuppertal.de) or Mr. Paul J.J. Welfens at [welfens@eiiw.uni-wuppertal.de](mailto:welfens@eiiw.uni-wuppertal.de).

According to Professor Welfens' analysis, the private sector can benefit remarkably from links with the scientific community, and some companies have indeed reported higher price-

earnings ratio as a consequence of increased demand for the respective stock in the market. A highly recommend investment in economic intelligence is a subscription to EIIW research papers (almost all of which are in English); twelve papers annually for about € 500 is a decent investment given all the analytical insights which are offered. A major German bank reported that it has used research results of Professor Welfens for major transactions in international markets.

We are particularly interested in financial support for a future project, **Economic and Medical Aspects of Fighting Malaria and Poverty**.

## Interns at the EIIW (including Jean Monnet activities)

■ Eva Gregova, Deniz Erdem, Samir Kadiric, Christian Schröder as well as Max Brüggemann have joined EIIW as new interns. In January 2007 Lars Jasper who has worked for EIIW for several years and contributed much to improving the organization at the Institute has left EIIW, assuming a new position in the private sector.

We very much appreciate editorial support by Michael Agner, University of Odense; and Ben Standing, University of Birmingham. Christian Schröder will work in the new Jean Monnet project on a PhD topic in 2007/08.

## Analytical Reflection: Dynamics of Two-Sided Markets

■ The videoportal *Youtube* was founded in February 2005. In November 2006, the company was acquired by Google Inc., a search engine provider, for Google shares worth US\$ 1.65 billion. The German student platform *StudiVZ* was founded in October 2005 and was bought by the German publishing house Holtzbrinck in January 2007. According to Spiegel, a German news weekly, the price of the purchase was € 85 million. The revenues of both companies, Youtube and StudiVZ, are small and very much below cost.

Business newspapers have explained these phenomena with the "Web 2.0 hype". "Web 2.0" is a collective term for internet-technology advances in browser-server-communications and for sociological changes, since students (*StudiVZ*) and video-amateurs (*Youtube*) are ready to publish private details in the internet today. Technologically the improvement is described by AJAX (Asynchronous JavaScript and XML), which is new but not revolutionary from the technological point of view.

Not mentioned by the newspapers was an economic interpretation of this phenomenon. A new strand of literature, pioneered by ARMSTRONG (2005) and ROCHE/TIROLE (2005) may help in this respect. They describe two-sided markets where cross-group network effects occur. The benefit enjoyed by a user on one side of the platform (e.g., advertisers for school books) depends upon how well the platform does at attracting users on the other side (e.g., students). In two-sided markets it may be the rationale (profit-maximizing) for platform providers to subsidize one side of the market.

New EIIW research now analyses the dynamics of such a two-sided market combined with an approach of industrial economics, describing a monopolist's strategy to deter market entry of a competitor. As a result, the monopolist in the two-sided market initially invests an entry impeding level of initial set-up and marketing efforts into its service. Then the two-sided-network effects lead to fast enough growth of the platform, so that at the end not only can

the technology and the customer base be sold to an investor, but also leadership in the sense of Stackelberg (e.g., that the platform provider remains a monopolist or – at least – can significantly influence or disrupt the business model of a potential competitor).

*Michael Vogelsang*  
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Welfens, P.J.J.: Savings, Investment and Growth: New Approaches for Macroeconomic Modelling, February 2005

No. 129

Pospiezna, P.: The application of EU Common Trade Policy in new Memberstates after Enlargement – Consequences on Russia's Trade with Poland, March 2005

No. 130

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No. 131

Welfens, P.J.J.: Significant Market Power in Telecommunications: Theoretical and Practical Aspects, May 2005

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Libman, A.: Russia's Integration into the World Economy: An Interjurisdictional Competition View, June 2005

No. 135

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**Dora Borbély**

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**Andre Jungmittag**

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