

# Comment on F. Sachwald: «The Impact of EU Enlargement on Firms' Strategies and the Location of Production in Europe»

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## The paper offers...

- an impressive wealth of data on the structure of trade between EU-15 and the accession countries since the early 1990s;
- a view on how FDI may have contributed to shaping the new patterns of pan-European specialization that have emerged, plus on the role of multi-national corporations in this process;
- three very interesting in-depth studies for specific sectors (well-chosen examples, because of their diversity):
  - automobiles: vertical & horizontal integration → higher competition
  - ICT: mainly vertical integration → complementarity within EU-25
  - clothing: cost advantages of ACs only transitory → production moves further East

## On the conclusions

- The paper is mainly descriptive – and very revealing!
- The impression it creates is that the consequences of Eastern enlargement are neither a horror scenario (definitely not for the EU-15 or EU-25 as a whole), nor that it's all business as usual.
- True, exaggerated fears may distract politicians in Western Europe from taking the real challenge: job creation in high-end sectors.
- But to avoid tax competition and to start a “race to the top” regarding investment in infrastructure and R&D requires some co-ordination that is not in current rules. Dealing with this *will* be difficult.

## An aside at the end: why worry?

- For a developed country, being an exporter of manufactured goods (with a high share of domestic value added) is ultimately a matter of how to pay for its imports.
- Exporting services is not really an alternative:
  - once they become tradeable, they may also be relocated;
  - UK as a benchmark of what can be achieved in this area.
- In order to remain competitive on a global level, labour markets and their flexibility are the key issue.