

**WHERE DOES EUROPE END: A POLITICAL-
ECONOMIC APPROACH TO AN ENLARGING
UNITED STATES OF EUROPE**

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*Prepared for the International Student Conference: “The Enlargement
Process of EU: Today-Tomorrow”, Ege University, April 26-28, 2006.*

İZMİR, 2006

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Abstract

Originally created by 6 countries in 1957, the European Union(EU) will be enlarged up to 27 member states in 2007. This paper is to analyze the political-economic incentives behind the EU enlargement: Why Europe NEEDS to enlarge and where its boundaries end. The timing framework is 2020.

The introduction part clarifies the rationale behind the EU. The EU is said to be an economic integration type, but can economics and politics be considered apart from each other? A brief history of the EU is given and the political roots of the EU enlargement are emphasized.

In the second part, economic and political reasons for enlargement are being discussed, using the example of the Eastern Enlargement which took place in 2004. The advantages and disadvantages of enlargement and costs of non-enlargement are being defined in terms of economics.

The third part draws the framework of what the world might look like in 2020. The main point though, is the economic-political situation of the EU in 2020. Political and economic scenarios are being considered both for EU15 and EU25. In addition, scenarios for EU33 in some macroeconomic aspects are also included. The scenarios briefly stress the rationale behind the recent Eastern Enlargement and further potential enlargements. Finally, the question of where Europe ends is answered, using the economic-political framework of the World in 2020.

1. Introduction

“together we stand, divided we fall.”

"It is not true that the united part of Europe would suffer if it expanded. On the contrary: in the long run, it would suffer only if it failed to expand. In fact Europe, as a phenomenon of civilization, now has an historically unprecedented opportunity: it can remake itself on the principles of agreement among all those concerned, the principles of equality and peaceful and democratic cooperation. If it squanders this opportunity in the name of short-term, particular, or even exclusively economic interests, it will have to pay for it. It would

open the door, in both of its halves, to all those who prefer confrontation to dialogue, who would rather define themselves in opposition to others than neighbours. It is no good pretending that people of this type no longer exist.

To put it another way: if democrats do not soon begin to reconstruct Europe as a single political entity, others will start structuring it their own way, and the democrats will have nothing left but their tears. The demons that have so fatally tormented European history - most disastrously of all in the twentieth century- are merely biding their time. It would be a tragic mistake to ignore them because of technical preoccupations with transfer funds, quotas, or tariffs."³

The Rationale Behind the EU: Politics, Economics or Both?

As mentioned in Vaclav Havel's speech on the May 15th 1996 in Aachen, the EU should be considering enlargement in terms of its long-term effects. If not, the EU will suffer from *demons that have so fatally tormented European history*. Let us now see who these demons are. Are they foreigners, or actually Europeans themselves? From where do these demons arise from?

After 30 years of war between themselves, Europe had wished to enter an everlasting period of peace with the Westphalia Agreement on October 24th 1648. Unfortunately it hasn't led to a peaceful Europe mainly because of two points. Firstly, if a problem evolved between some countries, there was no higher authority to punish them. Secondly, the countries could interpret their sovereignty rights differently. To give an example, there might be a river which is born in a country and ends in its neighbouring country. What if the country, in which the river is born, cuts off the river and so the water supply of the neighbouring country? Or what if one country is being armed, and the other country starts feeling less secure? Westphalia hasn't been able to solve these points and so has increased the probability of war, instead of minimizing it. Therefore, there has been many other wars after Westphalia.

Accordingly, what could have been done to minimize the risk of war between countries? One solution could be that world's most powerful country would be the cop and punish the aggressive countries. This solution wouldn't and hasn't worked out as seen in the

³ Soli Ozel, "Turkey in Europe? CER-DGAP Conference on Turkey's EU Accession: Threat or Opportunity for Europe?," Berlin, 4th July 2005, http://www.cer.org.uk/articles/speech_ozel_4july2005.html, (4th March 2006) p. 1.

Iraqi war which was started by USA for oil. Another solution could be making agreements and so all sides would be arming to protect themselves. Even though this would minimize the risk, it still wouldn't work out because of nuclear weapons-in today's world- and inequality of the armies. A third and most successful solution would be somewhat like the European Union: a common sovereignty pool and strong economical bonds between the countries.

“The core of the concept of Europe after 1945 was and still is a rejection of the European balance-of-power principle and the hegemonic ambitions of individual states that had emerged following the Peace of Westphalia in 1648, a rejection which took the form of closer meshing of vital interests and the transfer of nation-state sovereign rights to supranational European institutions.”⁴

“One of the most striking facts about the EU is that it had started out with the main inputs of the Second World War: iron and steel. The European Coal and Steel Community (ECSC) in 1951 isn't only an economic bond, but also a political expression.”⁵ ECSC was signed between Belgium, West Germany, Luxembourg, France, Italy and the Netherlands. Within a few years, these same six countries decided to go further and integrate other sectors of their economies. In 1957 they signed the Treaties of Rome, creating the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC). As we all know, one of the most important reasons for the Second World War was being not able to share the world markets and differentiated trade policies, as this was the reason for an economical crisis in Germany. Also, the atomic bomb used by USA to bomb Hiroshima was still on people's minds. So these factors could be logical explanations for the EURATOM and EEC, though the reasons are highly simplified. In 1967 EURATOM, EEC and ECSC were merged. From then on, there was a single Commission and a single Council of Ministers as well as the European Parliament. Afterwards, the Treaty of Maastricht (1992) introduced new forms of cooperation between the member state governments - on defence, and in the area of justice and home affairs. By adding this inter-governmental cooperation to the existing community system, the Maastricht Treaty created the European Union (EU). In 1992 the EU decided to form a monetary union (EMU), which introduced a single European currency managed by a European Central Bank. 12 Countries (Belgium, Germany, Greece, Spain,

⁴ Joschka Fischer, "From Confederacy to Federation - Thoughts on the finality of European integration", Berlin, May 12th 2000, <http://www.auswaertiges-amt.de/www/de/infoservice/download/pdf/reden/redene/r000512b-r1008e.pdf>, p. 1.

⁵ Mehmet Uğur, *Müzakerelerden Üyeliğe, Türkiye AB Gündemindeki Sorunlar*, İstanbul, Agora Kitaplığı, 2005, p. 44.

France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland) started using Euro in 2002. A European Constitution was prepared, but rejected in French and Dutch Referanda in 2005, offsetting the United States of Europe.

From what has been stated above, the steps taken towards a United States of Europe can be interpreted with the motto “together we stand, divided we fall.”, in terms of both politics and economics.

2. Reasons for Enlargement

The EU has experienced five enlargements until today, and will have completed the sixth one in 2007.

1. 1973 Denmark, Ireland and The United Kingdom join
2. 1981 Greece joins
3. 1986 Portugal and Spain join
4. 1995 Austria, Finland and Sweden join
5. 2004 The Greek Administration of Southern Cyprus, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join
6. 2007 Romania and Bulgaria will join
7. Croatia and Turkey are negotiating countries

2.1. Political Reasons: Eastern Enlargement Case

After the collapse of Soviet Union from 1989 to 1991, many new countries emerged as independent states which were a part of the Soviet Union and thus Warsaw Pact. They used to be ruled by a communist regime and their economical structure consisted of autarky in foreign trade, common ownership by the means of production and land. Nevertheless, as stated by Frederic Bastiat "if goods don't cross borders, troops will".

The political structure of the Soviet Union was a single party regime and civil society was strictly prohibited because of the fear of “anti Socialist Revolution”. Government had a

strong control on the society by using Secret Police and KGB. The destiny of people who opposed the system, was a tragic death in Siberian working camps. So it can be said that the idea of democratic institutions like NGOs and political parties was just like a dream in that era.

Beginning from 1989, strong opposition and worker strikes took place in Soviet Union and especially in non-Russian parts. With the collapse of the Soviet Union, many countries declared their independence and new states emerged from the body of The Soviet Union. Even though declaring and gaining independence was a great step for these countries, there were too many problems to be solved. First things first, these countries faced confrontation on political arena. They declared their independence but the remnants of the Soviet Union were still in power. The “free world” did not wait too much to encourage these states and provide political and economic support. The collapse of the Berlin Wall, which divided Germany in two parts and separated people from each other-as Winston Churchill stated just at the beginning of the Cold War, “The Iron Curtain”-was no longer present. German reunification took place in 1990 and it was automatically in the EU under the name of Germany. Nevertheless, this action was a clear sign of the next enlargement waves. The question is, why has the EU decided on the fifth enlargement further to include the former Iron Curtain countries in terms of politics?

Until the end of the European and German division the enlargement and the integration of Europe was restricted to the western half of Europe. But as this division ended and even the whole Soviet empire collapsed there was the big chance to complete European integration.

There are moral reasons which were mentioned even by Robert Schuman in 1963. He said that a United Europe must be build also with the interest to be able to admit the people of Eastern Europe into the community, freed from constraints under which they are lived, they want to join and seek our moral support. Europe should owe them the example of a unified, fraternal Europe and that every step Europe will go along this way will give them more opportunities. He finally said: “ they need our help with the transformation they have to achieve. It’s our duty to be prepared.”.

In fact after the collapse of the Soviet Union the EU had to open to the east. Because if had left them alone this would have created a Europe with two systems in Europe. One in

West Europe with integration and in Eastern Europe the other using the well known systems of balance with its continued national orientation, constraints of coalitions and traditional politics of interests with the permanent danger of nationalist ideologies and confrontation. A possible result of this dangerous system could be seen during the years of Balkan War.

The rationale can also be very well found behind the fact that a stable and secure political environment in Eastern Europe was crucial for the future of EU. It is proved in the history that “political stability is a vital condition for economic development.” Collapse of Yugoslavia caused many problems. The internal war between the different groups in Yugoslavia resulted with the massacre of thousands of people and again serious refugee problems. These newly emerged states had the potential of becoming an area of conflict and instability. The first thing that had to be done was to encourage these countries on forming a democratic and a political system based on the respect of law. If not, instability and large waves of refugees would spread all across Europe and thus endanger the political-economical stability as well.

Politically it can also be stated that in a long lasting integration process no real dangerous situation would occur. Situations which may lead into war, mostly created by extremist group in a country can be avoided. The reason might be that a rather stable economic situation would make the people not to switch their votes to radical parties. Even if an extreme nationalist party came to power, it would have to face the fact that they are dependent on the EU and have an ongoing integration process. And so they would be forced to share the goals of this united Europe, because the economical and financial stability would most probably be dependent on the integration process, which currently is the case in Turkey. EU Process and IMF are the two anchors in the Turkish economy, and if they are moved the whole ship may be sunk.

With the close cooperation between Eastern European countries and the rest of the Europe, those countries started to adapt themselves to EU norms. In the formation of Czech Republic and Slovakia for instance, EU’s guidance has led to a peaceful solution. An example of the economic guidance provided to Central and Eastern Europe countries is the Phare Programme⁶ financed by the EU. Originally created in 1989 to assist Poland and Hungary, the

⁶ “Phare,” *EUROPA-Gateway to the European Union*, <http://europa.eu.int/comm/enlargement/pas/phare/>

PHARE programme currently covers 10 countries: the 8 new Member States: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, as well as Bulgaria and Romania, assisting them in a period of massive economic restructuring and political change. Until 2000 the countries of the Western Balkans (Albania, Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia) were also beneficiaries of Phare.

Phare's objectives are:

1. Strengthening public administrations and institutions to function effectively inside the European Union.
2. Promoting convergence with the European Union's extensive legislation (the *acquis communautaire*) and reduce the need for transition periods.
3. Promoting Economic and Social Cohesion

“The Phare Program may actually been a sign-like the sign from German Unification- for the Eastern Enlargement which took place in 2004. This enlargement, of course, was a win-win situation and so these 10 new member states wanted to join the EU as well. “In the 1990s, the Central and East Europeans were driven by an overwhelming desire to ‘return to Europe’ ...The East Europeans wanted EU membership as much for security reasons as much for economic ones. NATO membership looked at a distant prospect in the early to mid 1990s so the candidate countries hoped that joining the EU would give them some kind of guarantee against the return of Russian domination. In the minds of many Eastern Europeans, the alternative to EU membership was a return to the Soviet past and they were willing to pay almost any price to prevent that. ”⁷

2.2. Economic Reasons

“According to the British historian Timothy Garton Ash, the EU has decided that the EU enlargement shall be carried out, but nobody is prepared to pay for it. Ash mentions a survey in *The International Herald Tribune*, which shows that the EU's budget for enlargement for the years 2004-2006 covers about 25 billion euro. It can be compared with the USA's costs for the Marshall Plan 1948-51 at about 97 billion euro (in today's value of

⁷ Katinka Barysch, “The Economics of Turkish Accession,” CER Publications, 2005, http://www.cer.org.uk/pdf/essay_economics_turkey_july_05.pdf, (March 18th 2006), p. 3.

money) or West Germany's costs for the reunification with East Germany at the cost of about 600 billion euro.”⁸ Why would Europe want to carry this burden in terms of economics?

2.2.1. Advantages of Enlargement

- **“Economic growth.** Enlargement will generate economic growth in both 'old' and 'new' member states: in the new states the reform of economic systems to a market economy will generate increased productivity and efficiency and allow them to be able to take advantage of the Single Market through increased trade; in the old states as trade and investment opportunities increase with the new states. Estimates suggest that job totals could increase in old member states by 300,000.
- **Stability.** Membership of the EU will bring with it political stability to the new democracies of Eastern Europe as they reform their legal and government institutions as part of the accession process. Such stability is important in generating investment not only from within the EU but from outside it, thus contributing to further economic development
- **Global Presence.** The EU has a stronger global voice, as its enlargement has brought the population to over 500 million (more than the USA and Russia combined), so giving more weight in international negotiations such as trade policy
- **Business Confidence.** Companies in existing Member States will have more confidence with those in the new Member States, as they will be operating on a level playing field in terms of EU legislation. Again, business confidence is an important factor in generating investment and encouraging enterprise and initiative.
- **Foreign Direct Investment (FDI).** Membership of the EU and the euro will increase the amount of Foreign Direct Investment in the New Member States.
- **Structural Funds.** The regional aid which attempts to redistribute funds from the wealthier regions of the EU to the poorer ones will be made available to the New Member States. This will help develop these countries and improve infrastructure. Improvements in infrastructure will again be a benefit to trade and in theory, all countries involved will benefit - the new member states from improved internal

⁸ Ditte Staun and Henrik Dahlsson, “Implications of EU Enlargement,” TEAM Working Paper, 2002, <http://www.ljudmila.org/team/working%20papers/wp-enlargement.pdf#search='implications%20of%20eu%20enlargement'> , (March 18th 2006) p. 4.

infrastructure and the old member states from the extra revenues earned from new trade.

2.2.2. Disadvantages of Enlargement

- **Migration.** Enlargement could produce high levels of migration as workers move from the new member states such as Poland where unemployment is high at 16.7% to those old member states where it is low such as the Netherlands at 3.6%. It was anticipated that workers would be able to move freely as the EU operates on the principle of the Single Market - one of the 'four freedoms' inherent in the Single Market is the free movement of labour. However, the old member states have created restrictions on the entry of labour into their countries for at least the first two years of enlargement
- **Common Agricultural Policy.** The controversial Common Agricultural Policy will be extended to the new member states, many of which have predominantly rural economies. The CAP includes measures such as subsidies and income guarantee schemes for farmers, which could prove to be hugely expensive if extended and a drain on the economies of old member states.
- **Regional Aid.** The difference in GDP per capita between the old member states and the new member states is stark. This is also reflected in the ranking of each set of countries in the UN Development Programme's Human Development Index (HDI), which combines indicators of life expectancy, education, literacy and GDP. This difference in wealth and standard of living could be another drain on old member states in two ways - firstly, old member states may need to contribute more as the demand for regional aid increases, and secondly, old member states currently receiving regional aid such as Spain and Greece find their aid reduced as money is channelled elsewhere.
- **EU Standards and Systems.** There are concerns that some New Member States will not have the necessary standards and systems in place, e.g. in meeting standards in food hygiene, and regulations on agricultural production. Meeting environmental standards may be too high a cost for some, while bringing public services up to standard will mean increased taxation for many citizens of the New Member States.

- **The Legacy of the Soviet Economy.** In some of the states of the former Soviet bloc, certain areas of industry may not have had time to catch up with those of the EU and find they are forced out of business when these countries join the Single Market.”⁹

2.2.3. Costs of Non-Enlargement

“Non-enlargement, or a delay in enlargement, would have costs both for the Union and for the applicant countries:

- Delay in enlarging the single market, and lower economic growth in the applicant countries, would deprive member states of economic benefits.
- For the applicant countries failure to join the Union would weaken the incentive for economic reform, discourage foreign investment and reduce economic growth.
- It could thus create political instability in Europe, and even undermine the process of democratisation, with potential repercussions for the Union.
- Without enlargement, the Union would be less able to combat the problems of organised crime, illegal immigration and terrorism.
- Disillusion with the Union in the applicant countries would feed Euroscepticism in the member states”¹⁰

3. Scenarios for 2020

“A lot can happen in 15 years. At the start of the 1990s, China was largely a planned economy, and the Soviet Union still existed. Few people had heard of the Internet and e-mail seemed closer to science fiction than reality.”¹¹ When we come to think of the facts such as China’s rise, population shifts and so the aging Europe, increasing demand for oil and for other energy resources, technological developments and the new knowledge based economy, globalization, international brands becoming much more important than price competitiveness etc., we clearly see that it’s everyday becoming much more difficult to conduct forecasts about the economic future of the world.

⁹“EU,” *Biz/ed*, <http://bized.ac.uk/learn/economics/international/eu/notes/>

¹⁰ “Enlargement,” *EUROPA-Gateway to the European Union*”<http://europa.eu.int/comm/enlargement/arguments/>

¹¹ Economist Intelligence Unit, “Foresight 2020: Economic, Industry and Corporate Trends,” 2006, http://www.eiu.com/site_info.asp?info_name=eiu_Cisco_Foresight_2020, (March 27 2006), p. 3.

The term “scenario”¹² refers to an account or synopsis of a projected course of action, events or situations. Scenario development is used in policy planning, organisational development, and generally, when organisations wish to test strategies against uncertain future developments. The “economic scenarios for 2020” in this paper covers forecasts of basic macro-economic indicators and thus provides a foresight for the future of EU economy with and without Turkey and EMU in 2020. The first section draws the future framework of 2020’s EU within the assumption of EU15. The second section relies on the assumption that

3.1 Political Scenarios

As there are economical reasons for enlargement there are also political reasons, this paper tries to outline just two of them. This chapter will start with a short outline of the political situation within the EU itself as well as the foreign political situation; giving an overview of what possibly can happen in the next 15 years. Going on with discussing the question of energy supply and finishing with the question of security.

3.1.1 Foreign Affairs Within the EU and Outside the EU

The EU is on a very important way concerning its future. Some people see a single currency as being sustainable in the long run only in the context of a single European government with a significant federal budget and an increasingly harmonised pan-European corporate tax system. The latter issue has already been the subject of much debate as the prospect of tax competition eroding revenues has led to proposals for harmonisation of withholding tax rates for savings across the EU. Levelling up tax rates to Franco-German levels could tend to increase EU unemployment.

“If enlargement goes ahead, however, it will become increasingly difficult to bring all of the potential 25 EU member states along at the same pace on all issues. Per capita income levels are far below the EU average in most of Central and Eastern Europe, although Slovenia and the Czech Republic are not that far behind Portugal and Greece on PPP-adjusted figures. Enlargement will therefore put additional cost pressures on the Common Agricultural Policy and structural funds that will necessitate major reforms to these programmes. This will inevitably exacerbate tensions that are already apparent between net EU contributors such as

¹² “Scenario,” *Wikipedia*, ([wikipedia, http://en.wikipedia.org/wiki/Scenario](http://en.wikipedia.org/wiki/Scenario))

the UK and Germany and net recipients such as Italy, Spain, Portugal, Greece and Ireland, who may fear having to share an unchanged EU budget 'cake' with new entrants from the East.

More generally, with such a diverse set of countries, a multi-speed Europe, with different groupings of countries leading the way on different issues, seems more likely than a monolithic federal union. Reform of EU institutions to make them both more democratically accountable and more streamlined will also become even more pressing than at present if an enlarged European Union is to be seen as a legitimate and effective locus of political power.

Increased devolution of power to regional governments could also be the trend in a number of countries such as Belgium (Flanders), Spain (Catalonia and the Basque country), Italy (Lombardy) and the UK (with the creation of the Scottish Parliament and the Welsh and Northern Irish Assemblies). Nationalist movements in these countries could gain ground, possibly paving the way for full independence by 2010 in some cases.

Within the EU, the current dominance of centre-left governments could herald a revival of European social democracy on the lines of the Tony Blair's 'Third Way' or the Gerhard Schroeder's 'Neue Mitte'. In the event of perceived economic failure, however, some of the present incumbents could potentially be replaced by governments with a more right wing agenda encompassing radical pro-market policies, severe welfare spending cuts and perhaps also a more nationalist approach to issues such as immigration.

It seems unlikely, however, that there will be any significant reversion to widespread state ownership, although public/private partnerships are likely to become increasingly important in areas like transport infrastructure. Instead, effective and independent regulation will become the focus of attention in a wide range of sectors from energy and water to telecommunications and genetic engineering.

Looking East, relations with Russia could develop to the extent that full EU membership becomes a realistic proposition by 2010. They could also, however, deteriorate to the extent that a new Cold War develops, particularly in scenarios where current economic and political problems in Russia lead to a retreat from democracy.

Oil could also make the Caspian Sea area a new regional flash-point to rival the Balkans, while tensions between Greece and Turkey could always flare up again. Looking westward, most scenarios would still see NATO playing a key role in Europe's defence policy, but trading relations are less certain. An optimistic scenario might see a free trade zone encompassing NAFTA, Latin America and the EU by 2010. A pessimistic scenario might see growing trade tensions -notably due to a widening US current account deficit - leading to protectionist regional trade blocs emerging in Europe, the Americas and the Asia-Pacific region.”¹³

“By most measures—market size, single currency, highly skilled work force, stable democratic governments, unified trade bloc, and GDP an enlarged Europe will have the ability to increase its weight on the international scene. Its crossroads location and the growing diversity of its population particularly in pulling in new members—provides it with a unique ability to forge strong bonds both to the south with the Muslim world and Africa and to the east with Russia and Eurasia. The extent to which Europe enhances its clout on the world stage depends on its ability to achieve greater political cohesion. In the short term, taking in ten new east European members probably will be a “drag” on the deepening of European Union (EU) institutions necessary for the development of a cohesive and shared “strategic vision” for the EU's foreign and security policy.

Unlike the expansion when Ireland, Spain, Portugal and Greece joined the Common Market in the 1970s and early 1980s, Brussels has a fraction of the structural funds available for quickly bringing up the Central Europeans to the economic levels of the rest of the EU. Possible Turkish membership presents both challenges, because of Turkey's size and religious and cultural differences, as well as opportunities, provided that mutual acceptance and agreement can be achieved. In working through the problems, a path might be found that can help Europe to accommodate and integrate its growing Muslim population.

Defense spending by individual European countries, including the UK, France, and Germany is likely to fall further behind China and other countries over the next 15 years. Collectively these countries will outspend all others except the US and possibly China. EU

¹³ John Hawksworth, “Waving or Drowning? Four Scenarios For New Europe to 2010,” Price Waterhouse Coopers, 1999, pwcglobal.com/gx/eng/ins-sol/spec-int/eo/pwc_waving_or_drowning.pdf, (March 12th 2006), p. 8-9.

member states historically have had difficulties in coordinating and rationalizing defense spending in such a way as to boost capabilities despite progress on a greater EU security and defense role. Whether the EU will develop an army is an open question, in part because its creation could duplicate or displace NATO forces. While its military forces have little capacity for power projection, Europe's strength may be in providing, through its commitment to multilateralism, a model of global and regional governance to the rising powers, particularly if they are searching for a "Western" alternative to strong reliance on the United States. For example, an EU-China alliance, though still unlikely, is no longer unthinkable.

Aging populations and shrinking work forces in most countries will have an important impact on the continent, creating a serious but not insurmountable economic and political challenge. Europe's total fertility rate is about 1.4—well below the 2.1 replacement level. Over the next 15 years, West European economies will need to find several million workers to fill positions vacated by retiring workers. Either European countries adapt their work forces, reform their social welfare, education, and tax systems, and accommodate growing immigrant populations (chiefly from Muslim countries) or they face a period of protracted economic stasis that could threaten the huge successes made in creating a more United Europe.”¹⁴

3.1.2. Energy

One of the most important question for the future, for every country, is the question of energy supply. As Europe at a whole is a net importer of all important kinds of energy like gas or oil and even coal. It needs to secure its access to this resources as they are vitally important for the economy of the EU. Enlargement can play an important tole in this field, as there is the possibility to invite countries with natural sources of energy or the possibility to include transit countries or even countries which can advance relation to countries with resources.

3.1.2.1.What is the problem?

Many factors make predicting future production levels very difficult, from political instability to uncertainty over existing reserves. But recent forecast failures have also

¹⁴ National Intelligence Council, "Mapping the Global Future: Report on the National Intelligence Council's 2020 Project," 2004, http://www.eiu.com/site_info.asp?info_name=eiu_Cisco_Foresight_2020, (March 27 2006), pp. 56–57.

stemmed from miscalculations on the demand side of the equation. Very rapid growth in energy consumption, notably in China, has caught both markets and forecasters by surprise.

“The continued outpacing of supply growth by demand growth, driven largely by rapid economic development in emerging markets, will provide the industry backdrop over the next 15 years. Growth in developing countries will push their share of world oil demand up from an estimated 33% in 2004 to 41% by 2020, according to the International Energy Agency (IEA). China’s share of world oil demand alone is expected to jump from 7.6% in 2004 to almost 11% by 2020. The developed world will still consume more energy than developing countries in absolute terms but its share of world demand will fall. The OECD will also still account for more natural gas consumption in 2020- even though the volumes consumed by the developing world are expected almost to treble over the forecast period.

The market outlook to 2020 is therefore for high but volatile energy prices. The IEA thinks that oil prices will remain high in real terms through to 2020. In nominal terms, it forecasts that the average annual price of IEA oil imports will increase from US\$36/barrel in 2004 to US\$50/b in 2020. Other hydrocarbons energy prices, with the possible exception of coal, are likely to follow the oil price lead.

High prices are one source of concern. Security of supply is another. The current geographical disconnect between the world’s oil producing and consuming nations will worsen as China’s consumption levels rise and the importance of the Middle East as a production centre grows. More oil will be in the hands of national oil companies as opposed to independent oil firms. As a result the energy sector will remain highly susceptible to government intervention. Over 55 % of energy industry respondents to the Foresight 2020 survey regard political and security risk as posing a “high” or “very high” threat to their business between now and 2020; this compares with a share of just 40 % for survey respondents overall.

Such risk comes in a variety of guises. At its most drastic, it entails the threat of military action to secure supply. Less dramatically, price-management machinations among producing nations will continue: an OPEC-type organisation for gas producers is quite possible. Governments will also use economic policy responses to manage price and supply volatility. Energy price caps are one option, but these are difficult to apply or sustain,

especially in marketdriven economies. More subtle market distortions are likely to result from the increased use of energyrelated subsidies or tax breaks. These could be extended to protect groups in society (such as the burgeoning numbers of elderly people) that are particularly affected by higher prices.”¹⁵

3.1.2.2. EU’s Energy Policy

Originally the Community's energy policy concentrated on only two forms of energy: coal and nuclear power. In the 1970s there was also the need to alleviate the problems which had arisen as a result of the oil crisis. In the 1980s various limited initiatives were undertaken in conjunction with renewable sources of energy and energy efficiency.

In recent years the following areas have been of particular importance for EU energy policy:

- the white paper on energy and the energy framework programme
- completion of the internal market for energy (electricity and gas)
- promotion of the role of renewable sources of energy as well as energy efficiency within the Community's energy strategy
- security of EU energy supply.

The European Union is a key actor on the international energy market as the largest importer and as the second largest consumer in the world. Energy is a major economic and geopolitical factor. The European Union is, however, dependent on imports for half of its supplies, while this dependence could even reach 70% by the year 2030, if nothing is done. For natural gas, dependence could reach 70 %; for oil 90% and for coal even 100%. Most likely, enlargement will only reinforce these trends, despite the fact that certain candidate countries are producers of primary energy (e.g. Poland for coal and Romania for oil and gas).

This situation calls for various measures about which the European Commission has launched in 2001 a wide debate (Green Paper 'Towards a European strategy for the security of energy supply). Measures in the energy sector should aim at a more stable flow of energy,

¹⁵ Economist Intelligence Unit, pp. 37-38.

ultimately underpinning the Union's efforts to ensure peace, stability, security and prosperity. In this, the European Union's enlargement process has a key role to play.

The "acquis communautaire" must be adopted by the applicant countries. Implementing the acquis requires not only adequate legislation but also well functioning institutions (for example a regulatory body as required in the electricity and gas directives, a nuclear safety authority etc). Key elements of the acquis in the energy sector cover both primary and secondary legislation in the topics of EU energy policy listed above.

In view of the energy acquis, candidate countries need notably to:

- decide on an overall energy policy with clear timetables for restructuring the sector;
- prepare for the internal energy market (the Gas and Electricity directives; the Directive on electricity produced from renewable energy sources);
- improve energy networks in order to create a real European market;
- prepare for crisis situations, particularly through the constitution of 90 days of oil stocks;
- address the social, regional and environmental consequences of the restructuring of mines;
- waste less energy and increase the use of renewable energies such as wind, hydro, solar and biomass in their energy balance;
- improve the safety of nuclear power plants in order to ensure that electricity is produced according to a high level of nuclear safety;
- ensure that nuclear waste is handled in a responsible manner; and prepare for the implementation of Euratom Safeguards on nuclear materials.

“Concerning this energy acquis even the countries which are actual members of EU did not converted all the obligations. The EU is still some way off a single market in energy. Most countries have their own independent energy regulators; varying tax levels also mean that the cost of energy sold to the consumer varies widely from country to country. Regulatory costs are of greater concern to European energy survey respondents than energy

respondents overall.

Wholesale trade in energy between countries is complicated by infrastructural failings- most obviously in an inadequate natural gas pipeline network. The EU still plans to have full competition in energy household provision by 2007. But last year it had to refer several countries to the European Court of Justice for not implementing 2003 energy directives. And in 2005 the European Commission launched a major enquiry into anti-competitive practices in the energy industry.

One particular worry is that progress towards integration will be negated by an increasing concentration of power within individual countries' energy sectors. The prospect of sustained high prices may encourage national governments to build up "national champions", and to halt the "unbundling" of existing dominant suppliers or distributors."¹⁶

Political reasons for enlargement can be found in the assured access to energy resources. For example the Middle East and Caspian Sea. In special the accession of Turkey plays an important role in this topic because of its geographical position it is an important transit country for the transportation of oil and gas.

As there is the direct pipelineconnection with Iraq and the rest Middle East as well as the new planned Oil Pipeline from the Caspian Sea to the Mediterranean coast of Turkey. This constitutes an increasing independence from the Oil of the Middle East for the EU.

As Turkey was mentioned Algeria is another example. Algeria has the world eighth largest gas reserves and rather good relation to European countries like France. Algeria is now exporting 50 percent of its gas resources to the EU. And from the view of assured energy supply Algeria is a possible candidate for membership. Well knowing that there are much more things to be considered, this idea at least in France would find open ears. As than the EU would also have a member which is producing more gas than it self need and so is able to directly solve the Problem of energy dependence to 3rd countries.

¹⁶ Economist Intelligence Unit, p. 41.

3.1.2.3. Security Scenarios: Explained by the Example of Turkey

“Since the beginning, the EU has been a model of peace, welfare, freedom and solidarity in its region and has made differences stop being a source of conflict and placed them in a framework that generates mutual benefits. Today, there is an increasing need to carry this model to the global level. Through its members, the EU is in a position where it can reach out to the rest of the world and contribute to the model of a global order that could be useful for the entire humanity.

The fact that Turkey, which is a melting pot of civilisations, has firmly locked itself into its goal of EU membership at this stage of modernisation is an important gain for the entire world. With Turkey’s membership, the EU as a project of civilisation under construction will review its perspective of global relations, including especially the Turkic and Islamic world, and as a result an EU vision based on understanding, dialogue and cooperation, rather than conflict, lack of communication, and denial, will be created in the healthiest way with Turkey’s contributions.

Turkey’s goal is to join the developing cooperation and integration network of the changing EU in politics, defence and security and in the economic, social and cultural fields. This goal will also contribute to reducing the current tension between the West and the Islamic world. In this context, the experience that Turkey as a democratic and secular country has gained from the past to the present day is an important element.

Ensuring security, stability and welfare in Europe depends on an enlargement of the democratic geography. Therefore, the new European architecture must help peace, stability and common prosperity take root in the area that extends from the Balkans to the Caucasus, from the Black Sea to the Mediterranean, and must be based on modern and universal values. In this context, Turkey has a strategic position that will enable it to play a leading and determining role. Located at the crossroads of a wide region extending from the Balkans to the Caucasus and Central Asia, from the Black Sea and Mediterranean basins to the Middle East, Turkey is an indispensable element of stability in political, economic and cultural terms.

Turkey’s deep-rooted historical, cultural and social connections with and geographical

proximity to the Middle East result in its being directly affected by every positive or negative development in the region and this requires it to concern itself closely with problems in the Middle East. Acting as a gate in relations of Middle Eastern countries with Europe, Turkey is prepared for the maintenance of the existing cooperation and for the further development of it in every area so as to contribute to the establishment of peace and stability in the Middle East.

The fact that the Republics of Central Asia have gained their independence has added a new dimension to Turkish foreign policy. After gaining their independence, they found the opportunity to open up to the outside world through Turkey, which has been in a sense a window for those countries and become an important partner for them in the process of their integration with the world. In this context, Turkey has helped them accede to international organisations such as the United Nations (UN), the Organisation for Security and Cooperation in Europe (OSCE) and the Economic Cooperation Organisation (ECO) and join NATO's Partnership for Peace (PFP) programme and has given them assistance in many other areas. Over 1,000 Turkish companies of different sizes are operating in the region. The volume of direct investments and construction services of these companies in the region reached to a considerable size.

Together with the rapid increase of China's share in the world economy and with the introduction of the rich sources of energy in Central Asian countries, the fact that Eurasia is destined to become one of the central regions of the world economy raises certain opportunities for the EU. In fact, the agreements of cooperation made by the EU with countries of the region, and the projects it has jointly financed, show the importance attached by the EU to relations with the countries of Central Asia. The current state of Turkey's relations with Eurasia and the potential they hold are such as would provide important contributions also for the EU.

The Caucasus, a transit region between East and West and between North and South, is located at a point of intersection of the energy and transport corridors formed in Eurasia in the post-Cold War global order. With this strategic position, the region has an increasing importance for the establishment of stability and welfare throughout Eurasia. The Caucasus is a natural gate opening out to Central Asia for Turkey, which also has political, economic, social and cultural ties with the peoples in this region. The scope of the close neighbourhood policy being developed by the EU includes the countries of the Caucasus among others. The

close relations developed by Turkey with these countries thanks to its position and its cultural and historical experience will contribute to strengthening the close neighbourhood policy of the EU.

Having a strong democracy among the countries of the East Mediterranean, Turkey has a critical role to play in the region, where many uncertainties prevail. After the Cold War, the importance of the Mediterranean region for Europe's security has increased even further. Being able to put an end to conflicts between countries in this region requires the EU to take initiative and to act fairly as between these countries. Europe's security would be further strengthened by an atmosphere of peace to be achieved in the Mediterranean through the settlement of problems in the East Mediterranean. Turkey's accession to the EU, following Greece and the Greek Cypriot Section, would contribute to making the East Mediterranean a sea of peace and security.

Considering international interdependence, which has become stronger together with globalisation, and rising international threats such as terrorism, poverty and climate change, it is a necessity to take steps towards sharing responsibility in the international area. To achieve the ideals of sustainable development, security, peace and equality, the European Union must assume an effective role in these issues where the existing global order proves insufficient. Having grown further with the latest enlargement, the European Union will have the opportunity to develop its relations beyond its new borders by spreading stability, welfare and security. The EU, which, following Turkey's accession, will become a neighbour of countries such as Iraq and Iran which are at the heart of the Middle East, in addition to countries such as Russia, the Ukraine, Moldova, Belarus, Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Palestine, Israel, Jordan, and Syria, of which it is already a neighbour, will find the opportunity to play a more effective and even leading role in world politics.

It does not seem possible for the Common Foreign and Security Policy of the EU to be sufficiently developed without Turkey, which has an effective military force. With Turkey's accession, the EU would find the opportunity to transform itself into a more effective global power also in this area. Turkey, which has been a reliable and active member of NATO since the early years of its establishment, could help the EU make tangible contributions to world peace and security.

Turkey has also a strategic position in the field of energy. Turkey's position as a transit country in terms of reaching the countries having rich oil and natural gas resources will facilitate EU countries' utilisation of these resources.

In conclusion, Turkey's membership would enable the EU to play a more powerful and effective role in world politics. Turkey's membership of NATO, its strategic partnership with the USA, its cooperation with the countries of the Balkans and the Caucasus, and its ties with the Islamic world, are elements that would contribute to the achievement by the EU of its goal of becoming a global power. With all these relations and this capacity, Turkey would serve the deepening and strengthening of the EU's Common Foreign and Security Policy. Furthermore, Turkey as an EU member would rise to a more stable position in the area of security as in other areas and be freed to a major extent from the uncertainties caused by the post-Cold War environment. In a "Win-Win" relationship, both Turkey and the EU would enhance their security and influence."¹⁷

"Terrorism is a phenomenon which aims to achieve different objectives through similar destructive methods and which threatens world nations without discrimination. In this period when we have entered into the 21st century, terrorism has reached a destructive potential never seen before in any period of history in terms of both technological possibilities and the area it targets, and has gained an international and transboundary dimension.

The terrorist attacks that took place in the USA on 11 September 2001 showed what a serious threat terrorism is for humanity. The similar terrorist actions carried out in Turkey and Spain made it clear that no country is immune from terrorism. Even if actions of violence are undertaken within the boundaries of a certain nation-state, it is now agreed that every terrorist organisation depends on elements outside the boundaries of the state in which actions are staged, in matters such as recruiting members, obtaining logistic support, training its members, financing terrorist actions, and finding shelter. Therefore, the necessity for the international community to act in solidarity and together in the fight against terrorism has arisen once more.

For the fight against terrorism to be successful, it needs to be defined correctly.

¹⁷ State Planning Organisation, "The Likely Effects of Turkey's Membership Upon the EU", SPO, 2004, <http://ekutup.dpt.gov.tr/ab/uyelik/etki/olasi-i.pdf#search='likely%20effects%20eu%20dpt'>, (March 24th 2006) p. 13.

Terrorism cannot be associated with a certain religion, ethnic identity, race, colour, culture or geographical area. Therefore, fighting against terrorism has become a common concern for the entire world. Turkey's accumulation of knowledge and experience in the area of fighting against terrorism shows the need for states to cooperate at the national, regional and international levels to prevent and eradicate terrorism. Turkey uses every opportunity to state that it is open for all types of cooperation in this matter and is ready to share the knowledge and experience it has gained in its long-standing fight against terrorism.

In the present day, when important developments in the area of fighting against terrorism are taking place, the view of terrorism is changing and a joint fight against terrorism has been launched across the world, it has been realised that it is a grave mistake to connect terrorism to Islam or any other religion. Today, when the entire world is faced with a threat of terrorism on a global scale, Turkey is aware of the responsibilities that fall to it. As stated in European Economic and Social Committee's Opinion of 1 July 2004 "Turkey's accession to the EU would demonstrate the high level the EU has achieved in terms of its pluralism, of its ability to manage dialogue between cultures and religions, and of its role in promoting peace and justice in the world.

Turkey's accession to the EU would also provide a contribution to European integration with respect to terrorism, which now threatens mankind as a whole, and would demonstrate the resolution of the EU to combat terrorism. In an environment where, on the one hand, terrorism is being effectively combated and, on the other, efforts are being made for new moves forward in democratisation and economic development, the EU experience and the synergy to be created by Turkey would contribute to peace and stability throughout the world, starting in Europe and its vicinity.”¹⁸

3.2.Economic Scenarios

The scenarios in this section covers basic macro-economic indicators for EU 15, EU 25, and a more enlarged EU for the year 2020. Data for the economic situation for EU15 in

¹⁸ State Planning Organisation, p. 15.

2020 has been taken from a study¹⁹ conducted by OECD before the enlargement. The OECD classification of countries is shown on Table 2.

Table 2: Country Classification	
OECD	
USA	United States
Japan	
European Union	EU15
Other OECD Pacific	Australia, Canada, Mexico, New Zealand, Korea
Other OECD Europe	Czech Republic, Hungary, Iceland, Norway, Poland, Switzerland, Turkey
NON-OECD	
Brazil	
China and Hong Kong	
India	
Indonesia	
Russia	
Other Latin America	includes Caribbean Countries
Middle East and North Africa	
Sub-Saharan Africa	
Other Dynamic Asia	Chinese Taipei, Malaysia, Phillippines, Thailand, Singapore
Other Asia	
Rest of the World	includes Albania, Bulgaria, Romania, the Slovak Republic, the Newly Independent States of the former Soviet Union , the Baltic States and some micro states in the Pacific and Indian Ocean
SOURCE: OECD	

3.2.1. Shares of World GDP in PPP

Purchasing power parity (PPP) is an estimate of the exchange rate required to equalise the purchasing power of different currencies, given the prices of goods and services in the countries concerned. PPP exchange rates are used for a number of purposes, most notably to compare the standard of living of two or more countries. It is necessary because comparing the gross domestic products (GDP) using market exchange rates does not accurately measure differences in income and consumption. For example, if the value of the Mexican peso falls

¹⁹ Pete Richardson, "Globalization and Linkages: Macro-structural Challenges and Opportunities", OECD Economic Studies, 1997, <http://www.oecd.org/dataoecd/34/5/1864056.pdf>, (April 2nd 2006), p.33.

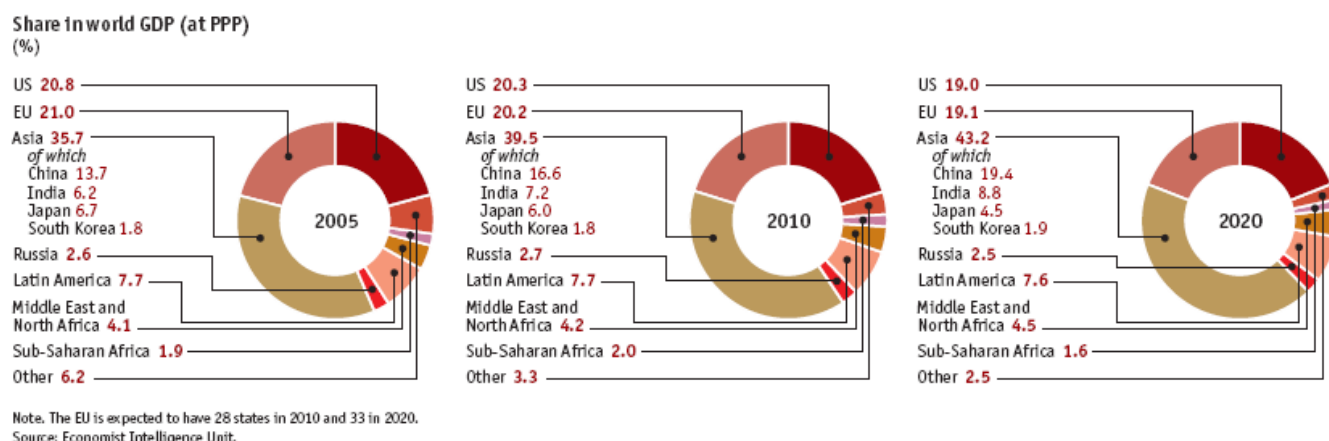
by half compared to the US dollar, the Gross Domestic Product measured in dollars will also halve. However, this exchange rate results from international trade and financial markets. It does not necessarily mean that Mexicans are any poorer; if incomes and prices measured in pesos stay the same, they will be no worse off assuming that imported goods are not essential to the quality of life of individuals. Measuring income in different countries using PPP exchange rates helps to avoid this problem.

3.2.1.1. Shares of World GDP in PPP for EU15

Table 3: Shares of World GDP in High and Low Case Scenarios (In PPP 1992)				
	1970	1995	2020 Low	2020 High
USA	24.5	21.9	16.3	12.7
Japan	7.6	8.3	6.3	5.0
EU15	25.8	21.5	15.7	12.3
Other OECD Pasific	5.1	6.3	7.4	5.7
Other OECD Europe	3.7	3.1	3.0	2.4
OECD Total	66.7	61.1	48.7	38.1
Brazil	2.2	2.9	2.9	3.4
China+Hong Kong	2.9	9.3	16.9	19.5
India	4.2	5.4	7.2	8.7
Indonesia	0.9	1.9	2.6	3.2
Russia	3.9	1.6	1.7	2.0
Other Dynamic Asia	1.4	3.6	5.4	5.8
Other Asia	2.5	3.4	4.5	5.0
Other Latin America	4.4	3.8	3.8	4.2
Middle East and North Africa	4.8	3.6	2.8	5.4
Sub-Saharan Africa	2.5	2.0	1.8	3.2
Rest of the World	3.6	1.5	1.6	1.5
Non-OECD Total	33.3	38.9	51.3	61.9
SOURCE:OECD				

On Table 3, the rapid growth of China, India and other Dynamic Asia is to be seen, whether it is the high or base scenario. EU15's GDP share of the world is below that of USA no matter it's the high or base scenario.

3.2.1.2. Shares of World GDP in PPP for EU33



In another scenario conducted by The Economist²⁰, the EU is expected to have 28 states in 2010 and 33 states in 2020. On the graph above, China and India continue to grow rapidly while the EU33's share of the world GDP exceeds that of USA.

Shares of Total World GDP in PPP for EU 25 within the Framework of Different Scenarios

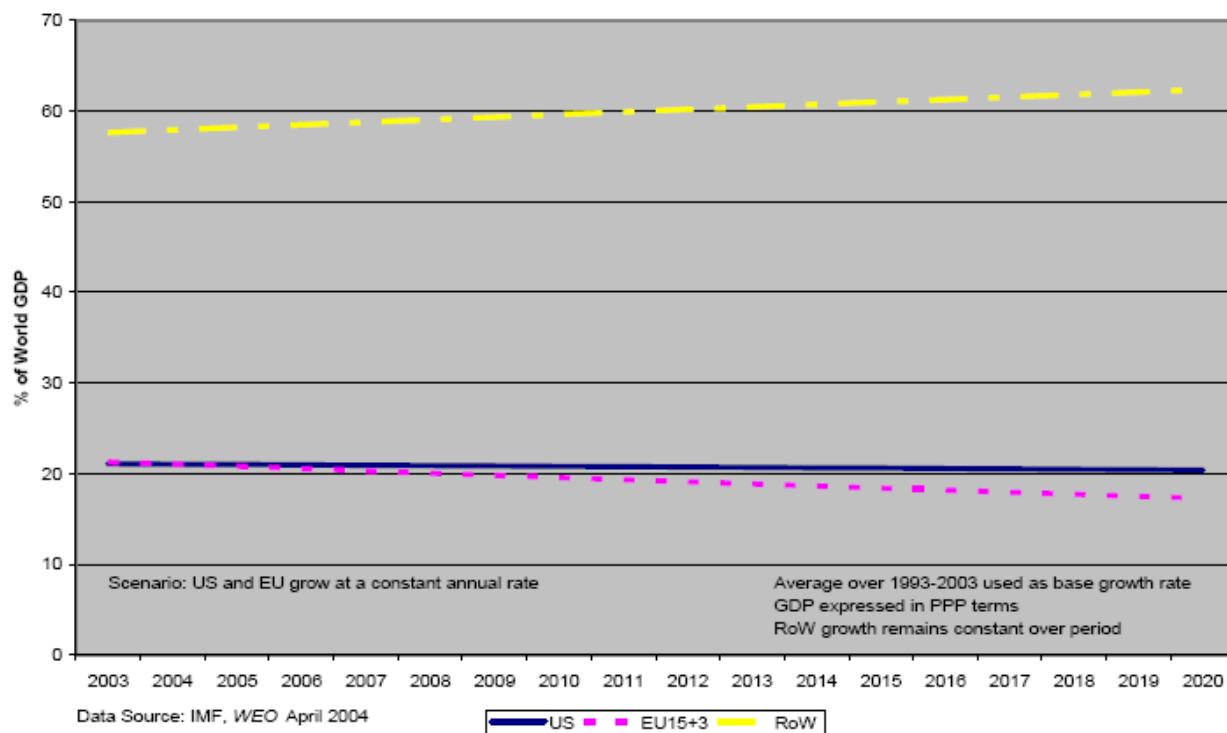
Baseline

“The United States, enlarged European Union, and RoW, are all assumed to grow at their annual average growth rates of 1993–2003. In this case, the U.S. share of global GDP is essentially unchanged by 2020, the EU share declines by over 3%, and the RoW adds 4%. The U.S. economy more than doubles in size to \$24.6 trillion, while the EU economy goes from parity with the U.S. economy in 2003 to \$20.9 trillion (15% smaller than the United States) by 2020.”²¹

²⁰ Economist Intelligence Unit, “Foresight 2020: Economic, Industry and Corporate Trends,” 2006, http://www.eiu.com/site_info.asp?info_name=eiu_Cisco_Foresight_2020, (March 27 2006).

²¹ Adam S. Posen, “Fleeting Equality: The Relative Size of the U.S. and E.U. Economies to 2020,” U.S. Europe Analysis Series, September 2004, www.brookings.edu/fp/cuse/analysis/posen20040901.htm, (February 26th 2006) p. 2.

Share of Total World GDP - Base Scenario

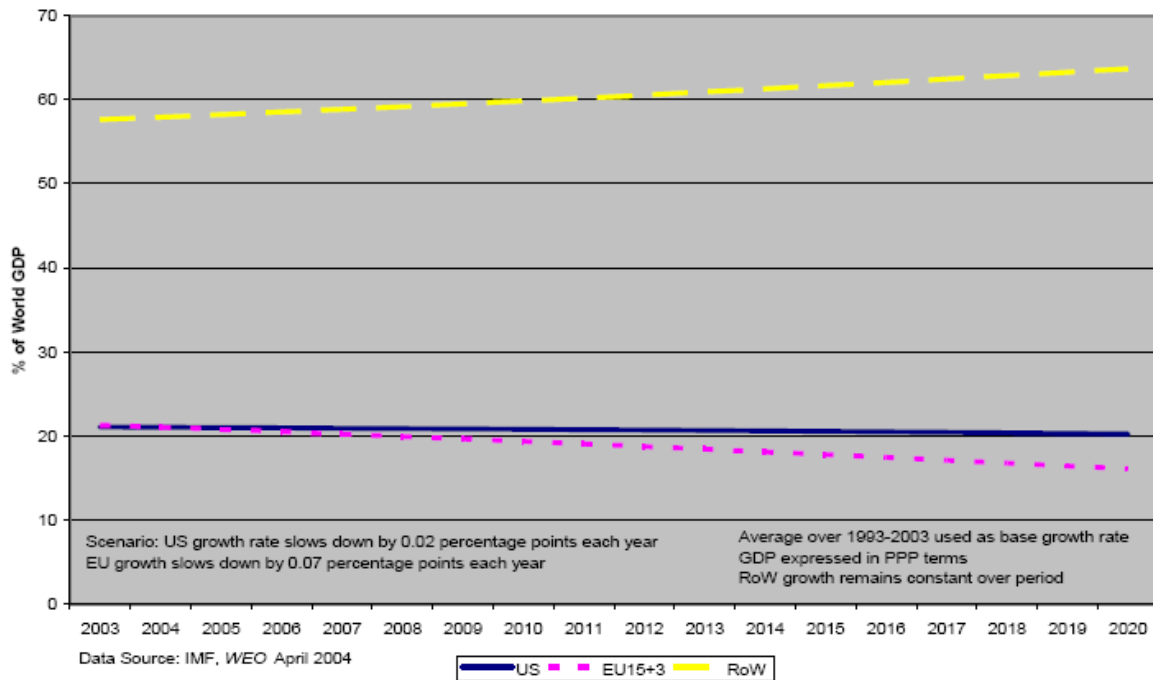


Demographic Determinism

“The U.S. growth rate is assumed to slow down by 0.02% each year due to declining birth rates, in part due to improved income of Hispanic- and African-Americans. The EU growth rate slows down by 0.07% each year due to rapid aging of the population, which is if anything exacerbated by the accession countries. Part of the growth decline comes from the effect of aging on government budgets, and on productivity growth of meeting those budgets through increases in interest rates and distortionary taxes, with the rest coming directly through shrinkage of the labor force. The U.S. share of world GDP declines slightly by 2020, remaining just above 20%; the enlarged EU share of world GDP declines by 5% (overall global GDP grows noticeably but not disastrously more slowly than in the baseline scenario). The relative gap between the U.S. and the EU economies in 2020 is wider than in the baseline scenario, with the U.S. national income worth \$24.0 trillion, and the EU economy \$19.1 trillion (a 20% difference).”²²

²² Posen, p. 2.

Share of Total World GDP - Demographic Determinism Scenario

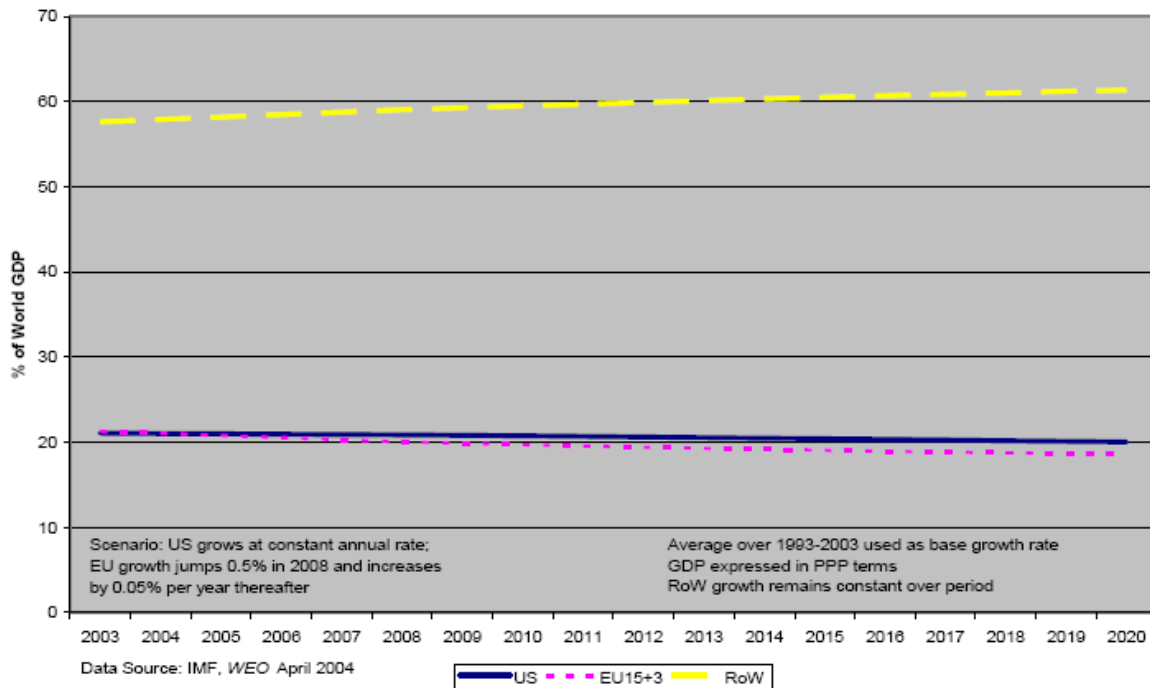


European Reform

“The U.S. is assumed to continue to grow at its average rate of 1993-2003, but the EU growth rate is assumed to jump by 0.5% in 2008, stay that amount higher, and gain a further 0.05% a year through 2020. Under this scenario, in 2020, the EU growth rate would catch up with that of the United States. The rationale for such a scenario is that productivity is boosted from integration of the accession countries’ low-wage labor forces or the results of a number of domestic reform efforts in core European economies following the upcoming election cycles. It is assumed that these benefits take a few years to be felt, but with ongoing beneficial effects. In this scenario, the U.S. and EU shares of world output decline at a slower but still noticeable pace by 2020 (the EU share from 21.3% to 18.6%; the U.S. share from 21.1% to 20.0%). The size of the EU relative to the U.S. economy goes up compared to the baseline scenario, reaching 93% of the U.S. size in 2020.”²³

²³ Posen, p. 2.

Share of Total World GDP - European Reform Scenario



3.2.2. GDP Growth Scenarios for EU15 and 25

“Our baseline forecasts assume that globalisation will continue, but the process will not be without setbacks. The baseline scenario that we call *controlled globalisation* implies a significantly less open world than at one stage, during the 1990s, seemed possible—before the bursting of the dotcom bubble, the September 11th attacks on the US, corporate scandals and the EU’s malaise dampened spirits and altered attitudes. The rise of China and the economic weakness within the EU have also strengthened protectionist forces. Still, the forces that underpin globalisation remain powerful, in the form of global business sentiment, the increased lobbying clout of developing markets and broad consensus about the benefits of trade liberalisation. The process could be stopped, however, just as previous eras of globalisation were reversed.”²⁴

Baseline scenario: Controlled globalisation (65% probability)

“Our baseline scenario assumes further gradual trade liberalisation that is in part constrained by security concerns and protectionist pressures. It envisages no major

²⁴ Economist Intelligence Unit, p. 17

international disruptions or conflicts over the next 15 years. The worldwide trend of liberalisation of foreign investment continues. Protectionist sentiment is on the rise in the US and in parts of the euro area. Periodic trade conflicts are likely. However, protectionism remains in check and the overall trend will be for further gradual liberalisation. The backlash against China will remain limited. Major US companies such as Wal-Mart, GM and Motorola have big stakes in China and, together with many other companies, are important lobby groups in the US pressing for good US-China ties. Two-thirds of the respondents in our executive survey believe that China's development to 2020 represents more of an opportunity than a threat to their businesses."²⁵

Within the assumption of a baseline scenario, as seen on Table 4, the real GDP Growth of neither EU 15, nor EU25 can exceed that of USA, but in terms of growth of GDP per head-which actually shows how richer the citizens will get-, EU15 would be below USA in 2020.

	GDP			GDP per head		
	2006-10	2011-20	2006-20	2006-10	2011-20	2006-20
World	4.0	3.3	3.5	2.7	2.4	2.5
EU25	2.2	2.0	2.1	2.0	2.0	2.0
EU15	2.0	2.0	2.0	1.7	1.9	1.8
Asia	5.5	4.5	4.9	4.5	3.6	3.9
Latin America	3.6	3.0	3.2	2.4	2.1	2.2
Middle East & North Africa	4.4	3.8	4.0	2.7	2.4	2.5
Sub-Saharan Africa	3.5	2.5	2.8	2.0	1.2	1.4
U.S.A.	3.0	2.8	2.9	2.0	1.8	1.9
SOURCE: Economist Intelligence Unit						

²⁵ Economist Intelligence Unit, p. 18.

3.2.2.2. Alternative Scenarios due to Globalization

Alternative scenario I: Globalisation in retreat (20% probability)

“Protectionist sentiment thrives in a climate of insecurity. There are worries over food safety, epidemics (avian flu) and the impact of technology. Throughout much of Europe, economic weakness and high unemployment breed insecurity. Fears about the outsourcing of jobs to China and India are out of all proportion to the real economic stakes involved: only a small proportion of the estimated 1.5bn service jobs in the global economy can be performed remotely. But the mere threat of jobs being lost to emerging markets keeps wages down in the developed markets and could yet provoke a major backlash against globalisation. This scenario would shave 1 percentage point off global growth in 2011-20, relative to the baseline forecast—cumulatively, a large amount of lost world output in the next decade. But the assumed changes in the drivers are by no means radical and illustrate how easy it might be to slip from *controlled globalisation* to *globalisation in retreat*.²⁶

Alternative scenario II: Globalisation sunk (5% probability)

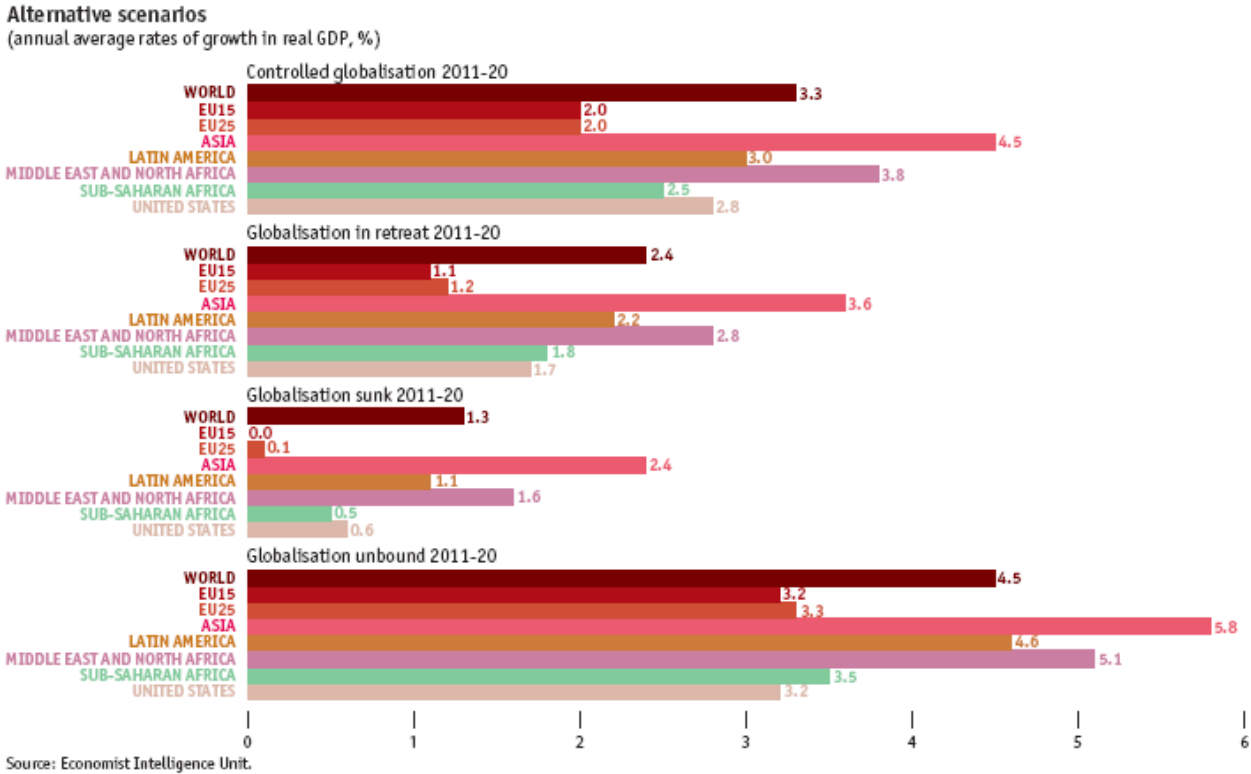
“Globalisation in retreat is not the worst-case scenario. Historians have observed some uncanny parallels between the world today and the world on the eve of the first world war at the end of the golden first age of globalisation that lasted from 1870 to 1914. That era was marked by a high degree of international mobility of goods, capital and labour and the dominance of a free-trade orthodoxy that was periodically challenged by protectionist sentiment. There was relatively free trade, hardly any limits on capital movements and freer immigration than today. The first world war wrecked all this. Global markets were disrupted, technical advances petered out, and stagnant consumption discouraged innovation. By the end of the 1940s most states in the world had imposed restrictions on trade, migration and investment. The consequences for growth of this scenario would be disastrous. Global growth in 2011-20 would drop to a mere 1.3%, implying essentially stagnant world percapita incomes. The hardest hit would be the emerging markets, especially the poorest ones.”²⁷

²⁶ Economist Intelligence Unit, p. 19.

²⁷ Economist Intelligence Unit, pp. 19-20.

Alternative scenario III: Globalisation unbound (10% probability)

“Under the most benign scenario we assume that trade barriers are progressively dismantled; there is accelerated technological progress and fast dissemination; financial markets become ever more integrated, fostering an efficient allocation of global capital; and freer flows of labour produce higher remittances and crossborder flows of knowledge, fuelling growth in many developing economies. Big increases in FDI would be driven by regional integration schemes, another wave of global merger and acquisition (M&A) activity, competitive pressures and the increasing sophistication of financial markets. Under our baseline forecast, annual global inflows of FDI amount to 2-2.5% of GDP. Under *globalisation unleashed* these would rise to about 4% of GDP, the rates of the late 1990s. By 2020 the world stock of inward FDI would amount to some US\$47trn, or more than 40% of world GDP—a rate of FDI penetration that is today matched or exceeded by only a few countries. As in *globalisation in retreat*, the consequences for world growth would be considerable, although in this case positive: 1 percentage point in additional growth per year relative to the baseline.”²⁸



²⁸ Economist Intelligence Unit, p. 20.

3.2.3. Demographics

The demographic structure plays a very important role in an economy, in terms of effective demand, labor market, GDP Growth, GDP per capita and a large number of other macroeconomic consequences.

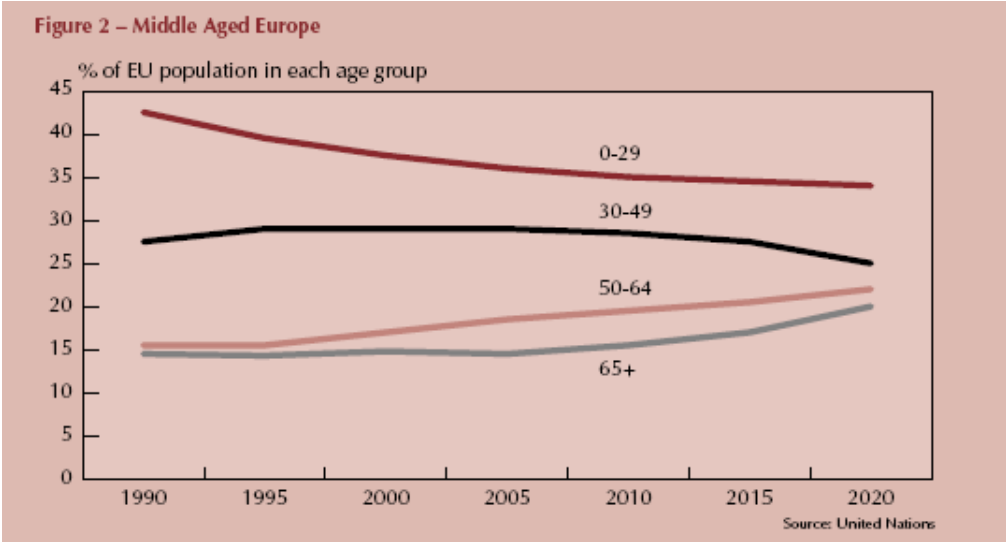
3.2.3.1. Population Dynamics

“The one development about which we can be fairly certain is that Europe will be a more middle-aged society by 2010. This will occur as members of the ‘baby boom’ generation, born between the end of the Second World War and the early-1960s, move into their late forties, fifties and early sixties. By 2010, a ‘grey dawn’ will be approaching, after which European welfare states will come under severe financial pressure unless reforms have been put in place which reduce the generosity of state pension schemes and/or encourage greater private provision. Healthcare costs will also rise significantly as the number of over-75s increases, although this will not become a serious problem until after 2010.

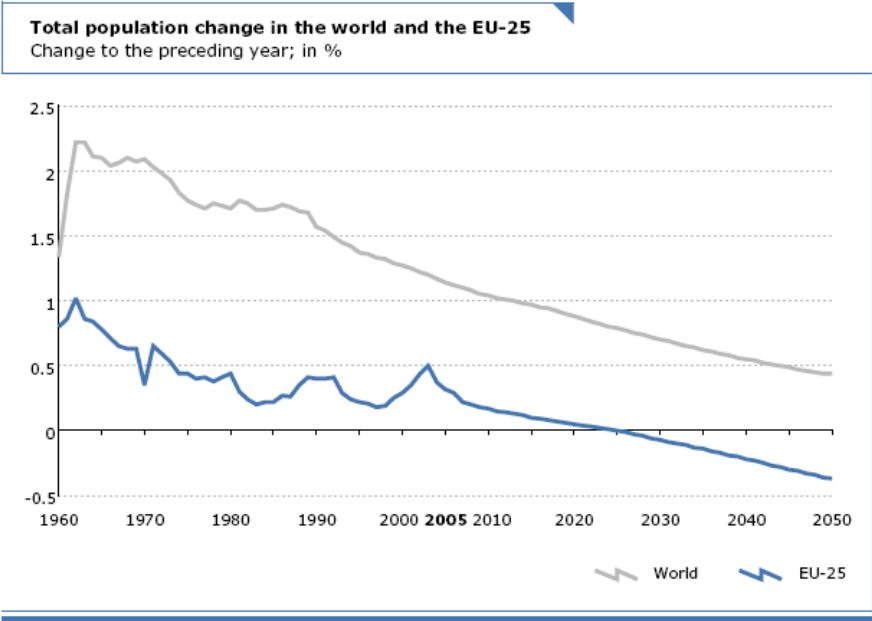
What we cannot be sure of is how the postwar generation in Europe will behave as it approaches retirement. For example, it may be that the baby boomers will follow their parents in saving heavily in middle age to fund an early retirement. Alternatively, they could aim to extend their working lives. This would reduce the need for higher savings in middle age, which may in any case be more difficult if many middle-aged families have relatively young children to bring up, delaying the onset of the ‘empty nest’. It is also unclear whether the long-established trend to later and lower birth rates (from an average of 2.7 per woman in 1960 to only 1.4 in 1996) will continue into the next generation of people currently in their late teens and twenties. Certainly it seems likely that the average level of female participation in the EU workforce, which has risen from just over 50% in 1980 to almost 60% now, will continue to increase as service industries and part-time jobs account for an ever-rising share of employment. This trend may be particularly marked in the more traditional Catholic countries of Southern Europe, where female participation rates are currently a long way below the levels already seen in Scandinavia and the UK. Higher female participation in the workforce is likely to be associated with gradual changes in working arrangements (e.g. more flexi-time, career breaks and demand for childcare provision by employers and/or the State).

There could also be some wider social implications, such as an increase in average EU rates of divorce and one parent families towards those already seen in Northern Europe.”²⁹

The figure below shows the demographic structure of EU15 in 2020.



The figure below shows the demographic structure of EU25 in 2020. It is clearly seen that the last enlargement won't be helping Europe in its aging problem. After 2025, the population in EU25 start decreasing.



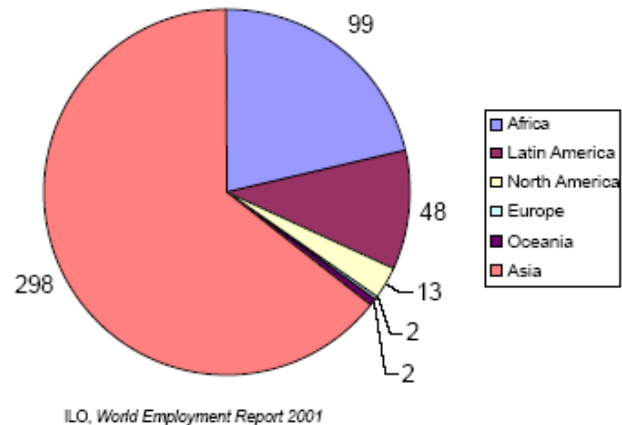
Source (excluding EU-25): US Census Bureau.
 2006 to 2050: forecast data.

²⁹ Hawksworth, p. 4.

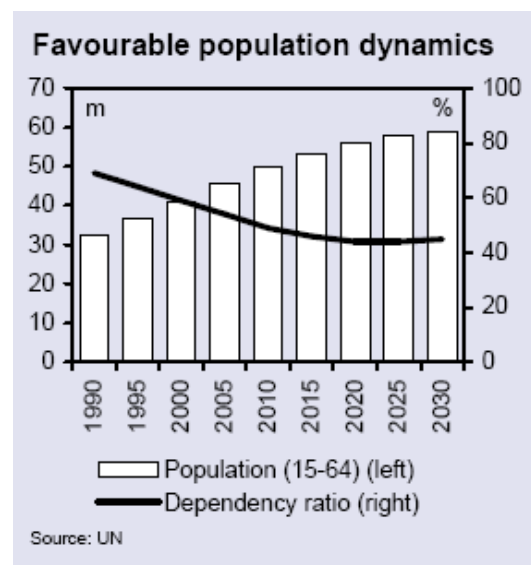
3.2.3.2. Labor Market

“In addition to a favourable political outlook, structural variables like labour force growth, falling dependency ratios³⁰, increasing savings and investment, an improving human capital stock and an increasingly open economy bode well for future economic growth, as predicted by standard economic growth theory.”³¹ On the figure on the right, the net increase in labor force for Asia plays the leading role, while the share of Europe is very low due to its aging population dynamics as indicated in the previous section.

Net Increase in Labor Force by region (millions), 2000-2010



Let’s now take a look at the population dynamics of Turkey in terms of labor force and its potential benefits for the European labor market and thus higher economic growth. “Overall, the demographic developments in Turkey are conducive to higher economic growth. The population will continue to increase, though the rate of population growth will slow over time. The UN projects an average population growth rate of 1.1% a year in its medium-variant scenario. More importantly, the population is fairly young and



around 70% (and rising) of the population is of working age (15-65 years old). A more rapid increase in the population of working age compared with the dependent population should

³⁰ The dependency ratio is a measure of the portion of a population which is composed of dependents (people who are too young or too old to work). It is equal to the number of individuals aged below 15 or above 64 divided by the number of individuals aged 15 to 64, expressed as a percentage.

³¹ Markus Jaeger, “Turkey 2020: on Course for Convergence,” Deutsche Bank Research Paper, 2005, <http://www.dbresearch.com>, (April 30th, 2006), p. 4.

help boost savings and investment from their currently modest levels (see chart). Labour force growth is expected to average around 1–2% over the next decade. As was the case in Asia in 1970–1994, this “demographic gift” will be a considerable factor in boosting Turkish GDP growth in the next few decades.”³²

4. Conclusion

Although the EU is not yet a political integration (due to the fact that the constitution was rejected), its roots and rationale have very strong connections with politics. Therefore the idea of enlargement depends more on political reasons than on economic ones. This idea can be supported with the example of the Eastern Enlargement, which prevented CEECs to return to Russian Domination and led to a more stable political and thus an economic environment in Europe.

The alternative scenarios depending on the future of globalization clearly show that globalization actually favors developed countries much better than the others. Often in articles and textbooks, it's stated that globalization started because of the fall of the Soviet System, but there actually is another reason: the rise of Asian economies. The EU has to convert its economy to a more capitalist structure to be able to compete with cheap Chinese products. If it can't manage to do that because of opposing citizens (like the protests of French students), it will have to find other ways for cheap production. If it moves its factories to countries like India, it will be faced with enormous rates of unemployment. On the other hand, if it keeps on enlarging and can achieve perfect mobility of production factors between its new member states, the European FDI will stay inside Europe and unemployment rates won't be too high. Companies like AUDI, ADIDAS, LOREAL etc will move their factories to the new member states, and the FDI that they will bring to these states will also help these states develop. As they develop, they will get richer and this will increase the prices of production factors. Therefore, the EU will have to keep on enlarging if it wants to keep its competitive power.

Another reason for the EU to keep on enlarging is the aging population. Even the last enlargement can't help Europe with this problem. The EU needs countries with young populations. Or else the labor demand will exceed labor supply, and this will increase the

³² Jaeger, p. 4.

wages and salaries. Enlargement therefore might play an important role as it diminishes the demographic problem of some current members or just enlarges the EU-Population which also means the widening of the internal market and increased trade within the EU. As EU may gain more growth and power through enlargement it will also gain more power in all supranational organisations like WTO or IMF, which may also lead to positive backlash to all members.

Considering the need to balance the economic and political power of USA, the EU slowly starts lacking this mission. In 2020, the world will be asking another question: who will balance the power of Asia? Nowadays USA and some countries in the EU are strategic partners (in terms of the Iraqi War), but in 2020s a cooperation between Asia and the EU is possible. For that to happen, the accession of Turkey, which means another enlargement, will play a very important role. Turkey can be a mediator between Asia and Europe and a bridgebuilder to the Islamic World and so the Middle East.

As there are these positive aspects of enlargement, there also are negative ones. This depends on the way the integration of the EU will go on. Now the EU consists of 25 member states using the regulations made for 6 Memberstates. As this works hardly even with 25 member states, how will it work with 30 and more? Now it's not only the question if a third country is able to be member of the EU due to the Copenhagen and Maastricht Criteria, it's also the question of whether the EU can handle these new members within its legislation and its parliamentary system or not. Many say that the EU has to slow down enlargement and has to deepen and concentrate on its own now.

Finally this paper won't be giving an answer to the question "Where does Europe end?" with geographical borders or any other fixed maximum enlargement range. If the EU can't break down its conservative barriers (questions like what is Europe and who is European), it will have to make some reforms within itself, integrate more and stick to its conservative European identity. However, an enlarging EU would more likely be beneficial both for the EU and the new member states. It can be concluded that the borders of Europe are in people's minds. Europe actually ends where conservatism starts.

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