EUROPE
Magazine of the European Union

Eastern Enlargement:

The View from Berlin

By Terry Martin **October 1, 2001**

Ever since Gerhard Schroder ousted Helmut Kohl from office in the 1998 election, a tour of Germany's eastern *Länder* (states) has become an annual ritual for the head of government. Part road show, part photo opportunity, the trip reinforces the image of the chancellor taking a hands-on approach to rebuilding a region ravaged by decades of communist neglect. It's a public relations blitz designed to give eastern Germans the feeling that the government is doing all it can to help them achieve western levels of economic prosperity. Generous cash transfers assured the chancellor a relatively warm reception in the past. But this year, Gerhard Schroder faced a hard sell. The reason was European Union enlargement.

That residents of Germany's eastern border states are concerned about eastward enlargement is understandable. The country's geography places it on the front line of EU expansion. Germany shares long land borders with Poland and the Czech Republic, two of six "first-wave" applicants (including Hungary, Slovenia, Estonia, and Cyprus) on track to join the EU in 2004. While German industry is looking forward to exploiting new markets and low production costs east of the border, workers in eastern Germany fear an influx of cheap labor could cost them their jobs.

The results of the EU's Gothenburg summit last June made the prospect of these countries actually acceding appear far more likely. In Sweden, delegates upgraded to an "objective" their former "hope" that first-wave candidate countries participate in the 2004 elections to the European Parliament. The summiteers also reiterated their intention of concluding accession negotiations with these countries by the end of 2002. If Germans ever doubted the chances of Poland and the Czech Republic joining the EU, they stopped doing so after Gothenburg. Enlargement was declared to be "irreversible."

With an eye on next year's general election, the German government is working to convince eastern voters that EU enlargement will not come at their expense. And those voters need a lot of persuading. Opinion polls show that in Mecklenburg-Vorpommern, Brandenburg, and Saxony--the lander bordering Poland--support for enlargement is extremely low. Only one out of three residents in the region is in favor of the move. That helps explain why the German government has announced with great fanfare that it will continue aid programs to eastern Germany for several years to come.

Eastern Germans are very familiar with the difficulties facing their neighbors in the transition to a market economy. Even after ten years of unification and cash transfers exceeding a trillion deutsche marks (more than $400 billion), Germany's eastern kinder still have an unemployment rate of 18 percent--twice as high as in western Germany. With few prospects for advancement, young people are leaving the region in droves. In Greifswald, the first of thirty-four locations visited by the chancellor on his eastern tour, the population has declined by 1 percent a year for the past decade. And other cities near the border, lacking Greifswald's advantages of a port and a university, are faring far worse.

What Germans fear most from EU enlargement is the pressure of competing with cheap labor. Wages in Poland are as much as six times lower than in Germany. The fact that eastern Germany boasts higher productivity rates (though still below western German levels) cannot offset Central Europe's competitive advantage of radically lower labor costs. If a manufacturer is looking to set up a new factory, the argument goes, he'll skip over eastern Germany and go straight for Poland, Hungary, the Czech Republic, or Slovenia. Alternatively, someone requiring labor-intensive services in Germany would be foolish not to hire a low-cost Polish firm. Various studies suggest free competition in the service sector could have grave implications for eastern Germany's already battered construction industry.

The East-West wage differential is what motivated Germany and Austria to press for an elective seven-year ban on the movement of labor from new EU member states. Hungary was the first to agree to the condition, followed by Slovenia. Poland and the Czech Republic have been slower to accept. Not surprisingly, the most vocal opponent of the ban has been Spain, which was subjected temporarily to the same constraint when it joined the EU in 1986. Madrid tried to make its approval for the current German-sponsored ban dependent on Spain's continued access to EU structural aid. That aid, which flows to the EU's neediest regions, would be redirected from southern Europe (particularly Spain and Portugal) to Eastern Europe in the context of enlargement.

However costly and complex eastward expansion may seem, it also offers Germany several key advantages. In the most general terms, it offers Germany the chance to extend its sphere of influence in Eastern and Central Europe. Having more stable and politically amenable partners on your eastern flank never hurts. The security benefits of a stronger political and economic alliance are not to be overlooked. As Chancellor Schroder never tires of saying, EU enlargement constitutes a "tremendous opportunity."

Finally, for those who worry about the economic impact of enlargement, it's worth pointing out that the German Chamber of Industry and Commerce(DIHT) is among the project's most vociferous proponents. The group's members see enormous potential for development of trade with the EU aspirants. Already Germany's trade with Eastern and Central Europe accounts for about 10 percent of its total foreign trade, falling just $1 billion short of trade with NAFTA counties. As a DIHT report saliently noted last year: "One in ten deutsche marks is earned in Eastern Europe." The amount has doubled over the past decade.

Anticipating an era of closer cooperation, Schroder's eastern charm offensive in 2001 included hops over the border to Poland and the Czech Republic. Slipping back to the German side he delivered the welcome news that federal tax revenues would continue flowing toward the border region. Meanwhile, back in Brussels, the European Union's enlargement commissioner, Gunter Verheugen, announced a [element of]214.5 million ($190 million) aid program for the EU's eastern border regions. "We hope it will enable us to win political support for the process of enlargement," the commissioner told journalists. Those trying to penetrate the opaque complexities of the enlargement dialogue couldn't hope for a clearer explanation of the link between financial subsidies and political consent.

Terry Martin, based in Berlin, is a contributing editor for EUROPE.