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EU Enlargement between Economic and Political Criteria

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Abstract: The paper answers at two important questions: Is the EU able to support new adhering processes? and Is the Euro area able to enlarge in 2014? The comparative analysis in the paper covers four economic competitors: EU, USA, China and Japan, and is based on GDP growth rate, unemployment and inflation rates. The second part of the paper deals with an economic forecast during 2015-2016, focused on EU27, Euro area, Croatia and Latvia, in order to discuss the effects of the adhering to EU and Euro area. The results of the two-level analysis are supported by pertinent diagrams and annexes. The analysis uses a neutral statistical database – Eurostat – and dedicated forecast software. The main conclusion of the paper is that the adhering processes from 2013 and 2014 are based on economic and political criteria.

Keywords: adhering process; growth rate; unemployment rate; inflation rate; sustainable development

JEL Classification: R11; R12; R13

1. Introduction

The global crisis is the greatest challenge yet. All world economies implemented economic and social programs in order to start the economic recovery. Some of them succeeded in achieving better economic growth rates. On the other hand, EU27 was not able to obtain the same economic growth rates as its main global economic competitors: USA, Japan and China. Moreover, the economic recovery is worst across Euro area.

The economists became very interested when EU announced Croatia adhering to the EU27 this year and Latvia future adhering to the Euro area in 2014. The problem is that these two strategic movements have solid economic basis. The paper deals with comparative analysis during two levels. First step is an analyses based on latest official statistical data and covers 2011-2014 time period. Second level is that connected to a forecast for 2015-2016, in order to analyse the first effects of these two enlargements on EU and Euro area.

2. Global Economy under the Crisis' Impact

During 2011-2012, the main economic actors faced to great socio-economic difficulties. As a result, it is not easy to realise stabilisation and to support modest economic expansion, especially across the EU. The global economic evolution may be analysed using three pertinent indicators: GDP growth rate, unemployment rate and inflation rate.

According to GDP growth rate, there are great disparities between the most important global economic actors (see Figure 1).

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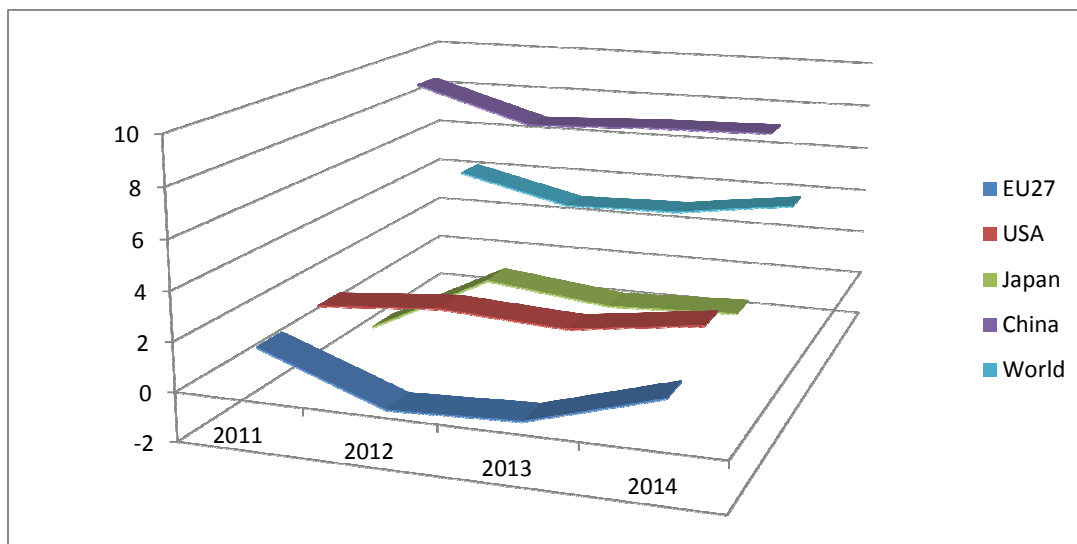


Figure 1. GDP Growth Rate (%)

Source: Personal contribution

According to Figure 1, there are great disparities between China and its most important competitors. Moreover, the world average economic growth rate is greater than in USA, Japan and EU27 (European Commission, 2013).

There is not official information about unemployment and inflation rates in China and across the world economy. As a result, EU27 faced with higher inflation rates than USA and Japan. This trend is forecasted for 2014, as well (see Figure 2).

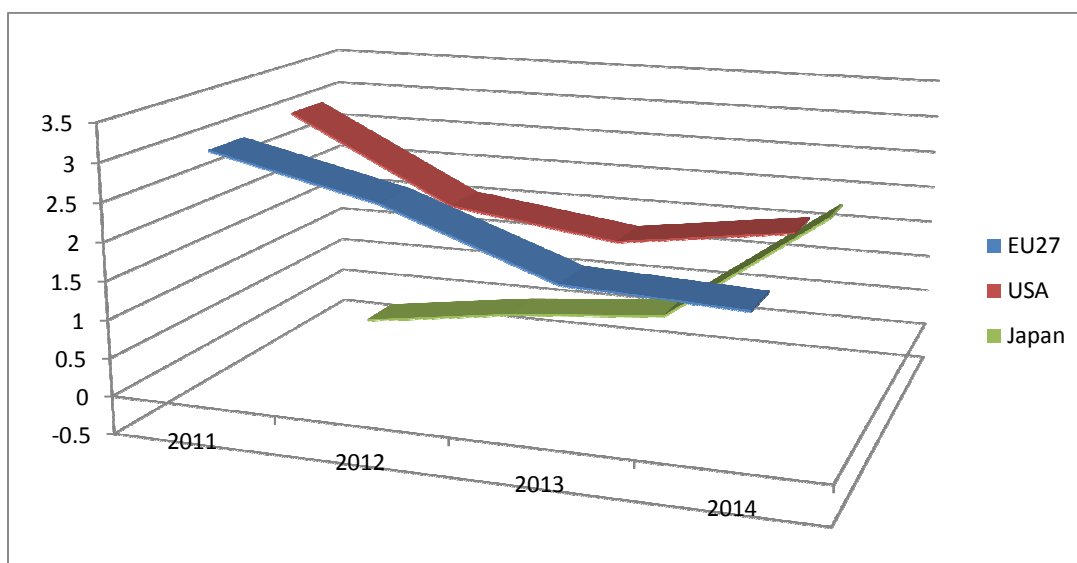


Figure 2. Inflation Rate (%)

Source: Personal Contribution

The unemployment rate increase in the EU27 during 2011-2013. The forecasted value for 2014 is about 11.1%, greater than in USA (7.2%) and Japan (4.2%). As a result, EU27 face to a great problem on the labour market (see Figure 3).

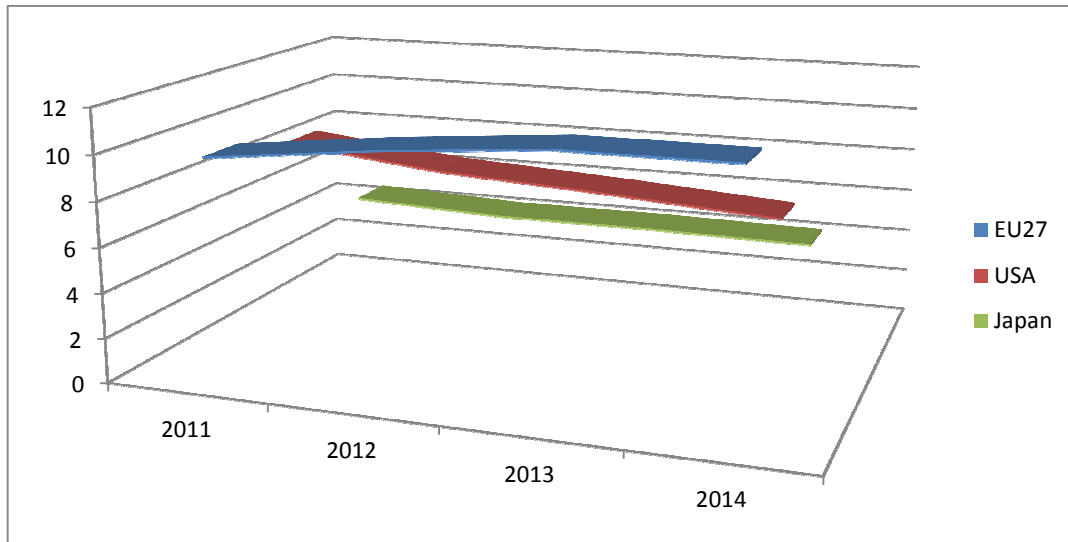


Figure 3. Unemployment Rate (%)

Source: Personal Contribution

During 2011-2013, the unemployment rate was practically the same in Japan and decreased in USA. The trend of this indicator was opposite in the EU27.

3. The New European Union 28

Croatia became the 28th Member State at 1st of July 2013. It was the result of the transition from economic stabilisation to modest expansion across the EU27. Moreover, Latvia will adhere to Euro area in 2014. But these new adhering processes are supported by economic trends? In order to answer to this question, we will use the same above three economic indicators.

According to EU27 GDP growth rate, Croatia achieved lower performances during 2011-2013 and the forecast is not positive for 2014. On the other hand, Latvia has better economic growth trend than average Euro area (see Figure 4).

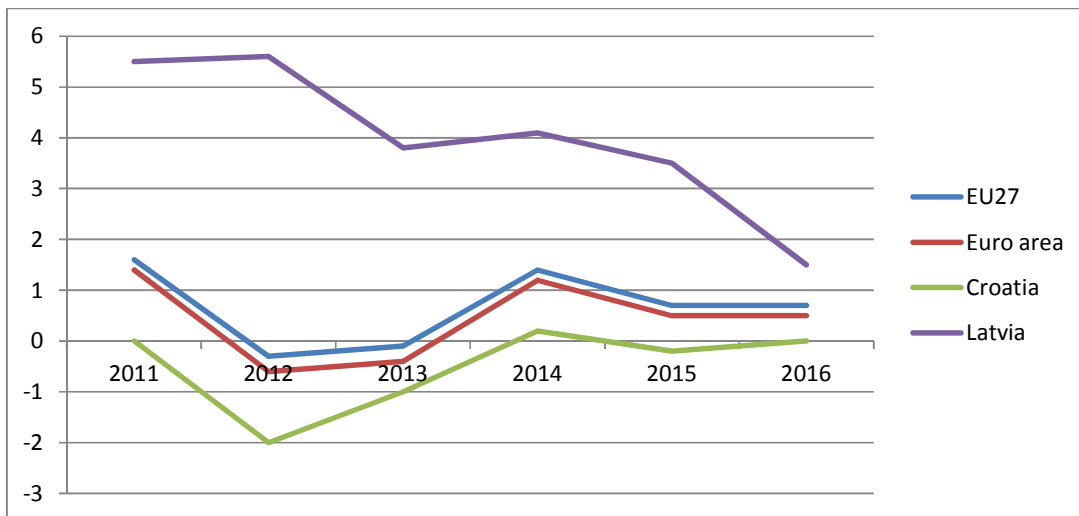


Figure 4. GDP growth rate (%)

Source: Personal contribution

The situation will become worst during 2015-2016. This is the result of the forecast realised using SPSS19 soft. Croatia will face to an economic decrease, while EU, Euro area and Latvia will stagnate (see Annex 1).

There are greater disparities connected to the unemployment rate. During 2011-2013, the unemployment rate increased in EU27, Euro area and Croatia, but decreased in Latvia. On the other hand, the unemployment rate in Latvia was 1.5% greater than the Euro area's average (see Figure 5).

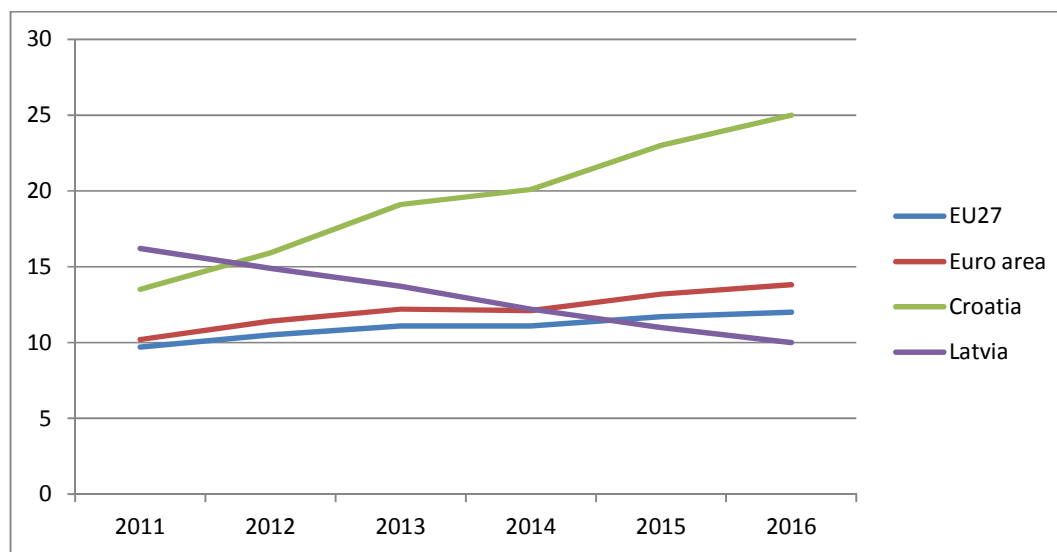


Figure 5. Unemployment Rate (%)

Source: Personal Contribution

The same forecast software talks about worst unemployment rates during 2015-2016, excepting Latvia, even that it will face to double-digit rates (see Annex 2).

All four above economic entities succeeded in decreasing the inflation rate during 2011-2013. On the other hand, the inflation rates in EU27 and Euro area and Croatia are higher than in Latvia in 2013 (see Figure 6).

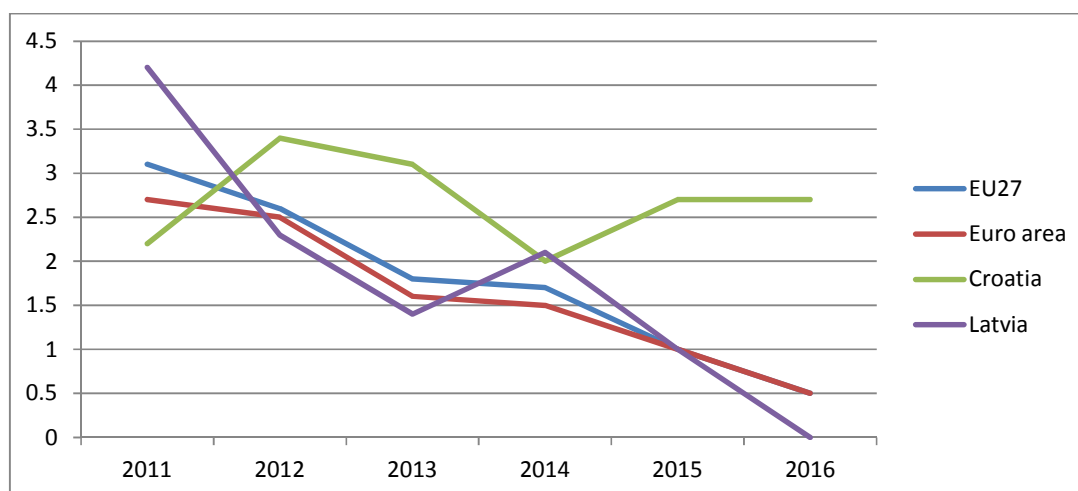


Figure 6. Inflation Rate (%)

Source: Personal Contribution

During 2015-2016, EU27 and Euro area will have the same economic trend. A better trend will have Latvia, but Croatia will face to a higher inflation rate (see Annex 3).

4. Conclusions

Recession marked the year 2012 across the EU27 and the Euro area. A low economic recovery started in 2013 and will continue in 2014. The same trend has the global economy, but USA, China and Japan will achieve better economic results (Ionescu, 2013). As a result, EU27 presents an economic lag related to its main global economic competitors (Vogel, 2011).

The new Member State – Croatia – is not able to support better economic growth in the EU28, at least during 2015-2016. Moreover, Croatia will face to a worst economic situation – related to the EU average – at least on short time. As a result, Croatia's adhering to the EU was not an economic decision. It was a political signal in order to present the EU as a dynamic organisation, able to face the global crisis' challenges and able to support a sustainable economic recovery. The political and economic costs of this strategically decision will be counted on medium term.

On the other hand, Latvia's adhering to the Euro area seems to be better. During the pre-adhering period, Latvia achieved an average inflation rate of 1.3% (less than the reference of 2.7%), a budgetary deficit of 1.2% of GDP in 2012 (less than the reference of 3.0%) and a public debt of 40.7% of GDP (less than the reference of 60%). The economic forecasts for 2015 and 2016 are good enough, as well.

On the other hand, Latvia's adhering is a political signal, in order to stop the voices who ask for going out Euro area in some Member States.

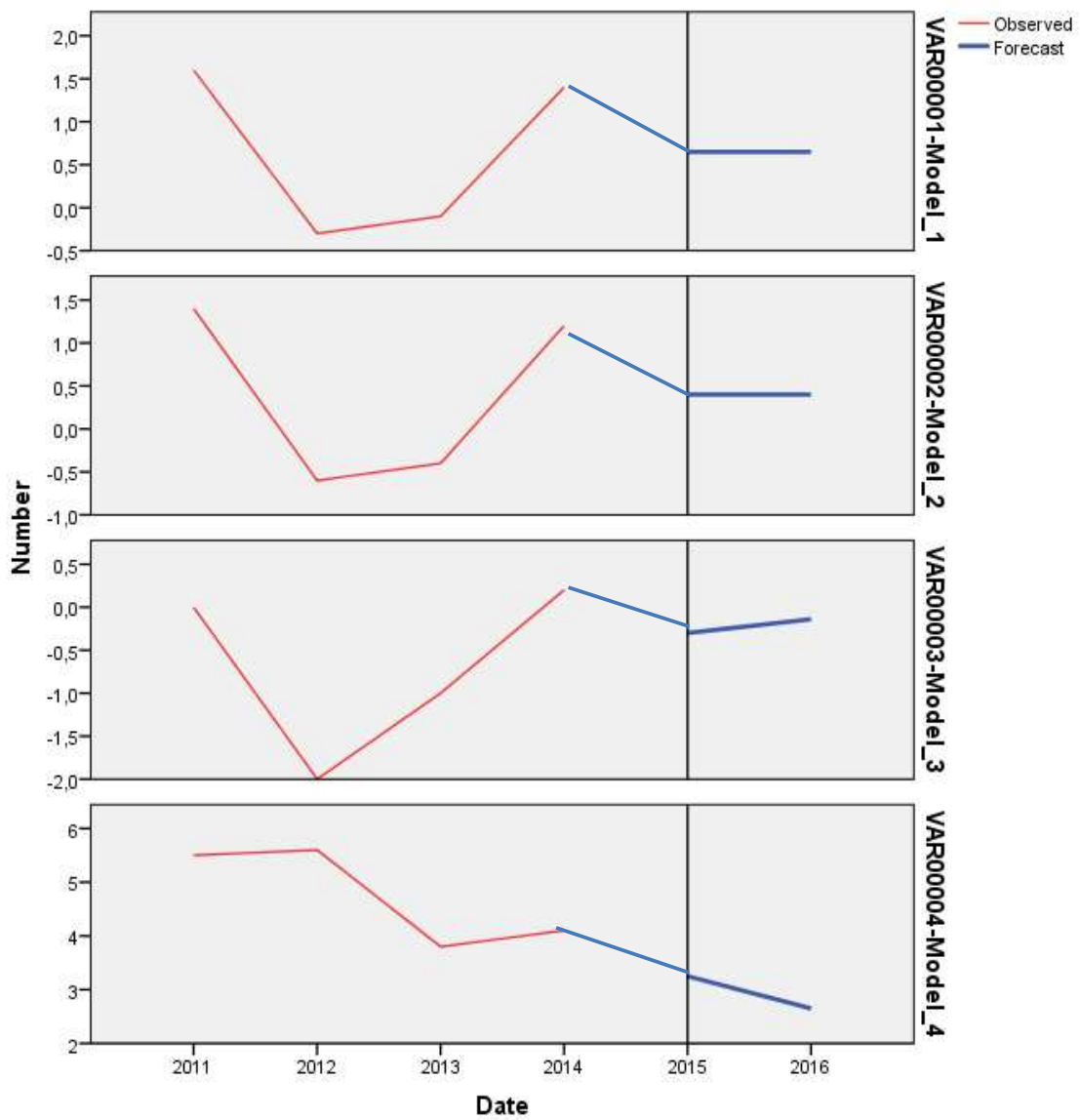
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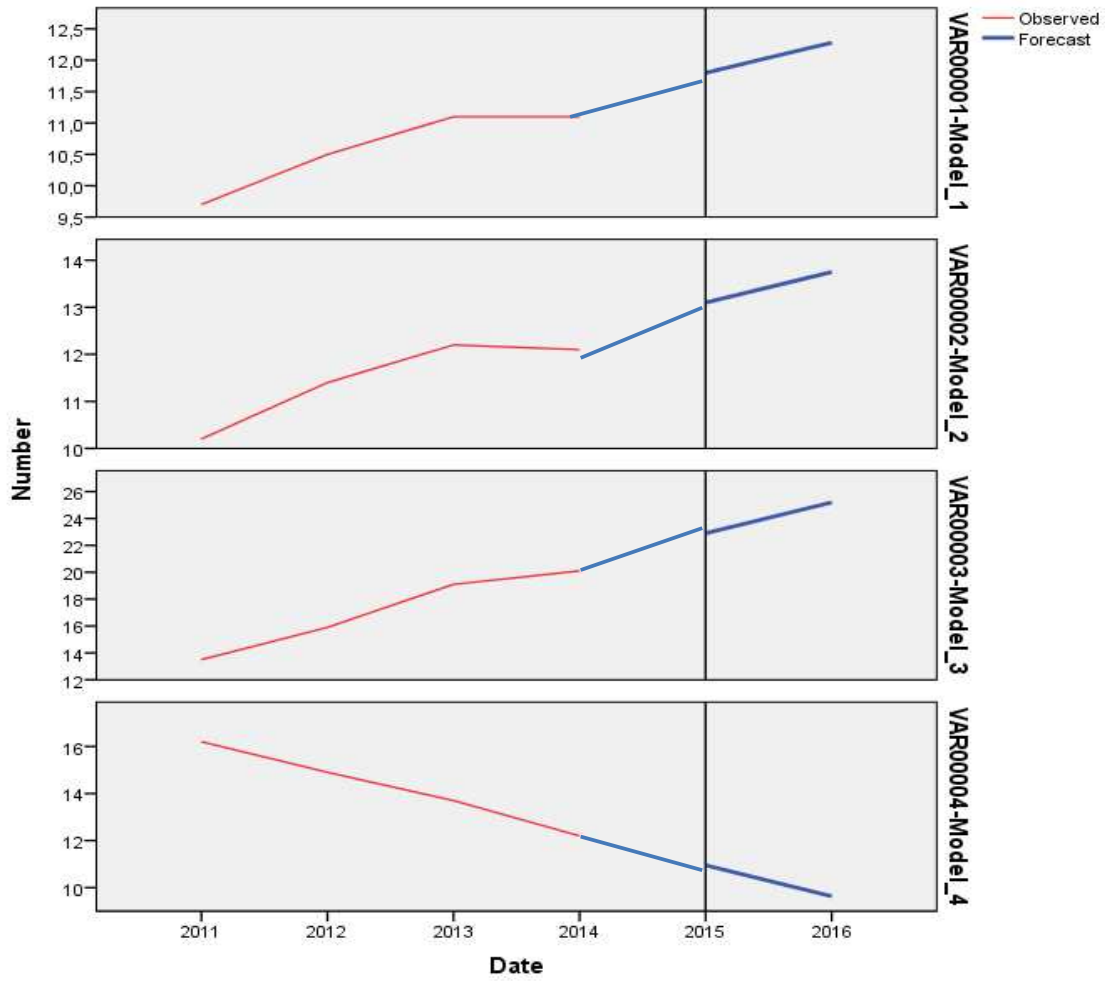
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Annex 1



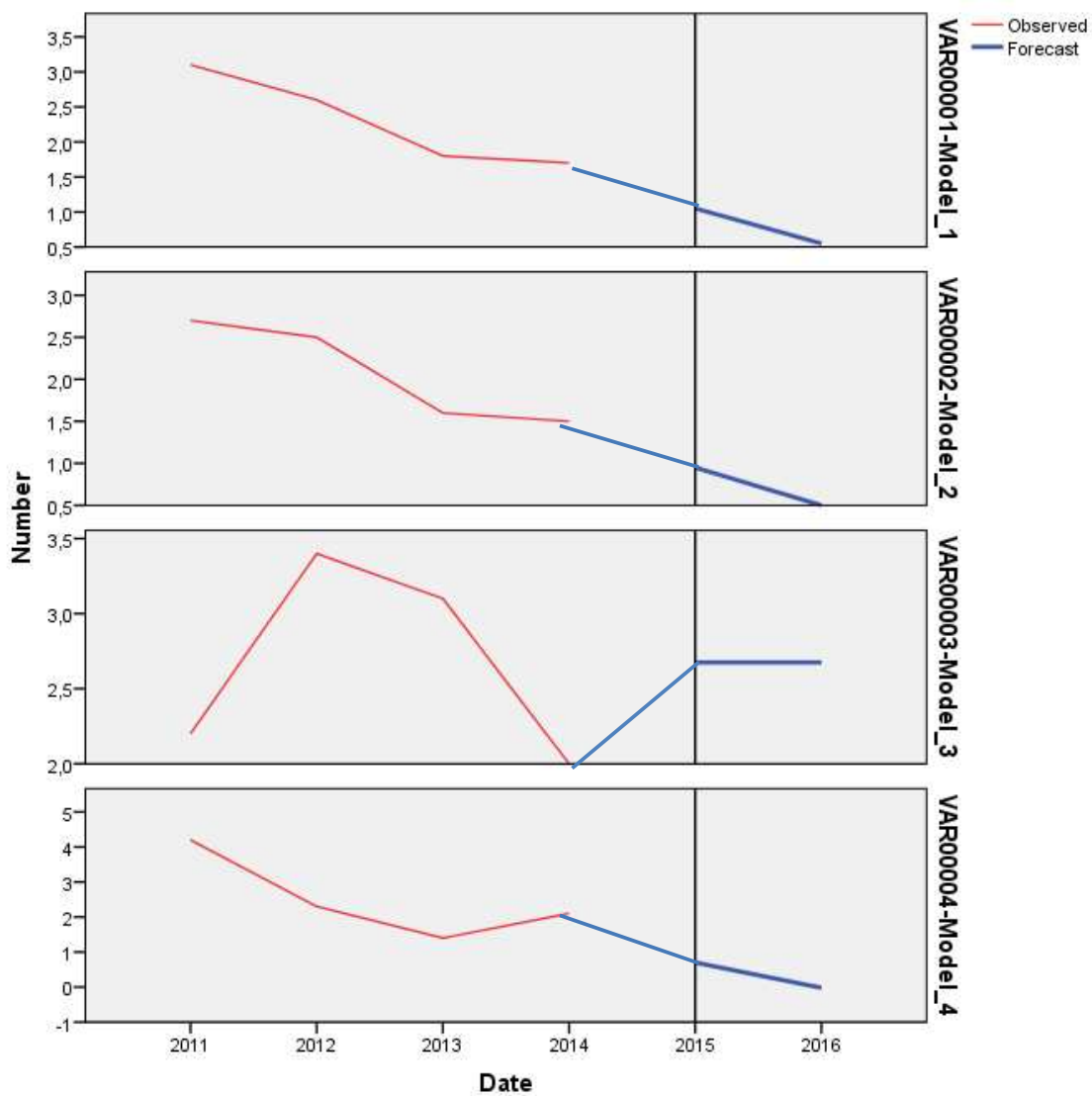
VAR00001 – EU27; VAR00002 – Euro area; VAR00003 – Croatia; VAR00004 – Latvia.

Annex 2



VAR00001 – EU27; VAR00002 – Euro area; VAR00003 – Croatia; VAR00004 – Latvia.

Annex 3



VAR00001 – EU27; VAR00002 – Euro area; VAR00003 – Croatia; VAR00004 – Latvia.