

EDITORIAL
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EU law offers control of costs in the sector of Public Health

As several statutory health insurance companies have announced their intention to increase contributions, control of expenses in a system of statutory health insurance has once more become a matter of discussion. In searching a satisfactory solution, the Federal Government should not be led exclusively by economic considerations, but ought to consider the general framework of European Community Law when it plans new measures to achieve cuts in costs.

The great influence of EC Law on national health systems is not only due to EC antitrust rules but also to the basic freedoms guaranteed by the EC Treaty. As recently as July 2001, the European Court of Justice once more decided that statutory health insurance companies must not refuse to refund the costs of medical treatment in other EU Member States unless certain strictly defined conditions are fulfilled.

In the long term, discussing the control of costs within the national health system will therefore not be enough. Rather, it is necessary to find a way of opening the system of statutory health insurance – hitherto confined to German national territory – to admit service providers from other EU member states.



Prof. Dr. Christian Koenig

Twinning or how to lend candidate countries a helping hand

by Krzysztof Jaros

Only few had illusions that the way to a membership in the European Union would not be a long and difficult one for the states in Middle and Eastern Europe. Not only did the candidate countries have to change into stable democracies and functioning market economies within a relatively short period of time in accordance with the economical and political criteria established in 1993 on the European Council of Copenhagen. They were also expected to harmonise their entire internal law with the primary and secondary law of the Community as soon as possible, thus creating the conditions for its effective implementation and application.

THE PHARE PROGRAMME

The importance of such a historically unique task for the future of Europe was already recognised and supported by the European Community in various ways at an early stage, in particular within the framework of the Phare Programme. After all, it is within the EU's own interest to ensure that the candidate countries are well prepared to fulfil their obligations towards the Community in the role of expectant Member States. Apart from reliable political and legal conditions, a modern and efficient administration is required above all that controls compliance with the binding rules in the European Internal Market and, if necessary, also enforces their observance. How-

ever, in practice, it is precisely this point that still causes massive difficulties for the candidate countries. This is where so-called twinning appears as the most efficient tool of the Phare programme. Since 1998, it has been aiming at giving support to the countries in their effort to fulfil the criteria mentioned and give them the necessary assistance in the preparation and implementation of legislative measures as well as in the training of civil servants. This is achieved by sending experts from the administrations of the Member States who co-operate with the authorities in the respective country and are locally involved in the training of personnel as well as by organising conferences and workshops within Member States.

THE TWINNING PROJECT WITH ROMANIA

Since August 2001 the research project group "Public Competition Law" at the ZEI,



The romanian delegation, headed by the President of the competition Council, Mr. Monteanu; from left to right: Mrs. Cobiaanu, Mr. Serdin, Mr. Patrulescu, Mr. Monteanu, Mr. Buda, Mr. Dodita. Photo: ZEI

whose main focus is on EC State aid law, has been participating in a Twinning Project with Romania. The objective of this project is to support the Romanian competition authorities – the Competition Council (comparable to the German Federal Cartel Office) and the Competition Office (a supervisory authority subordinated to the Ministry of Finance without the power to take decisions in competition cases) – in the elaboration of legal drafting in the field of state aid law.

Among the most urgent tasks in the field of legislation in addition to drawing up a regional aid map, the regulation on state aids to small and medium-sized enterprises (SMEs) and state aids for rescuing and restructuring firms in difficulty needs to be mentioned in particular. Furthermore, a special concern of the project is to intensively train staff members in administration and make them sensitive to the problem of state aid in a free market economy - a task that, at least in the case of regional authorities, should not be underestimated! For this purpose fellows of the research project group at the ZEI have composed a survey of the EC State aid law tailored to the needs of Romanian competition authorities. At present, work has started on translating the survey into Romanian where it will serve as a basis for teaching the Romanian officials EC government aid law in future.

The centrepiece of co-operation so far was the first workshop at ZEI from November

19-21 2001, in which high-ranking representatives from Romanian competition authorities participated. However, its aim was not that of training the staff members. Rather, it was meant to create a discussion forum and hence enable a fruitful exchange of views between the highest Romanian arm of competitive law on the one hand and evidenced experts from science and practice on the other. Under the chairmanship of Prof. Dr. Christian Koenig, Director of the Department for "Political, Legal and Institutional Issues" at ZEI, as well as Prof. Reimer von Borries, the German pre-accession advisor in Romania, and under participation of Dr. Claus-Michael Happe from the Federal Ministry of Finance, Prof. Dr. Piet Jan Slot of the University of Leiden, Dr. Jürgen Kühling from ZEI, as well as the two lawyers Dr. Andreas Bartrosch and Dr. Ulrich Schnelle, controversial questions of EC government aid law were discussed during the conference and practical solutions could be found for a number of them.

COMPETITION LAW PROBLEMS WERE OF SPECIAL INTEREST

During the workshop much time was devoted to discussing how to handle problems in the field of competition law that Romania is currently struggling with. The Romanian guests showed special interest in the solutions developed by Prof. Koenig and his assistants concerning the state aid problems connected to the sale of state-owned indus-

try assets. The procedures used for assessing the adequacy of the market price achieved (an independent expert evaluation or an unconditional bidding procedure) in order to exclude the presence of a state aid pursuant to Art. 87 (1) EC were discussed intensively and analysed critically. Further topics were, in particular, the possibilities under EU government aid law to grant rescue and restructuring aids to airlines which, against the background of current problems of Sabena, Swissair and the Romanian airline Tarom, was of considerable interest to both sides, as well as the existing possibilities for giving investment incentives for foreign companies in conformity with EU government aid law. Altogether, the exchange of views was taken into positive account by all participants.

A GLANCE AT THE FUTURE

In 2002, co-operation within the Twinning Project will be expanded further. ZEI is going to organise additional workshops - the next is planned for 25th to 28th March and will address the expert level in the Romanian competition authorities and send research associates and Senior Fellows to participate in workshops and expert rounds in Romania.

Dr. Krzysztof Jaros is a research fellow at ZEI, department "Political, Legal and Institutional Issues". ■

NEW PUBLICATIONS

ARTICLES AND PAPERS

Koenig: Die Versteigerung der UMTS-Lizenzen auf dem Prüfstand des deutschen und europäischen Telekommunikationsrechts, K&R 2001, Heft 1, pp. 41-55.

Koenig/Kühling: Reformansätze des deutschen Telekommunikationsrechts in rechtsvergleichender Perspektive, MMR 2001, Heft 2, pp. 80-86.

Koenig/Neumann: Telekommunikationsrechtliche Optimierung künftiger Lizenz- und Frequenz-Versteigerungen, ZRP 2001, Heft 6, pp. 252-257.

Koenig/Neumann: Gemeinsame Infrastrukturnutzung beim Aufbau eines UMTS-Netzwerks und das Ge-

bot „wettbewerblicher Unabhängigkeit“, K&R 2001, Heft 6, pp. 281-288.

Koenig: Bestimmung des passivlegitimierten Adressaten einer Beihilfenrückforderung nach der Veräußerung eines begünstigten „Unternehmens“, EuZW 2001, Heft 2, pp. 37-46.

Koenig/Pickartz: Stolpersteine in Brüssel umgehen: Genehmigungsfähige staatliche Umstrukturierungsbeihilfen müssen gut vorbereitet sein, Betriebsberater 2001, März Heft 13, pp. 633-640.

Koenig: EG-beihilfenrechtliche Anforderungen an Unterstützungsmaßnahmen eines öffentlichen Mutterunternehmens zugunsten seiner Tochtergesellschaften, ZIP 2001, April, Heft 15, pp. 629-635.

Koenig: EG-rechtliche Beurteilung der Zulassung von Sportwetten-Anbietern - ein gemeinschaftliches „rien ne va plus“? EWS Beilage 1 zu Heft 4, 2001, April Heft 4, Beilage 1, pp. 1-19.

Kühling: Von den Vergütungspflichten des Energieeinspeisungsgesetzes bis zur Deckungsvorsorge des Atomgesetzes: Die deutsche Energierechtsordnung im Koordinatensystem des Europäischen Beihilfenrechts, RdE, 2001, Heft 3, pp. 93-102.

Koenig/Kühling: Das PreussenElektra-Urteil des EuGH: Freibrief für Abnahme- und Vergütungspflichten in der Energiewirtschaft, NVwZ 2001, Heft 7, pp. 768-770.

Koenig/Engelmann: E-Commerce mit Arzneimitteln im Europäischen Binnenmarkt und die Freiheit des Warenverkehrs, ZUM 2001, Heft 1, pp. 19-27.

Former Chancellor Helmut Kohl Guest of the "ZEI Europaforum"

by Rafael Biermann

No-one had anticipated such a response. More than a thousand guests, mainly students, struggled for room to at least stand in the auditorium of the "Rheinische Friedrich-Wilhelms-Universität", when former Chancellor Dr. Helmut Kohl spoke about "The EURO and the Future of Europe" on January 14, 2002.



"Another means of real identification with Europe" – with this phrase the former Chancellor characterised the introduction of the EURO on January 1, 2002. The smooth introduction of the new currency – in contrast to many pessimistic predictions – left "a strong mark in the history of Europe". The decision, he said, was definitive. European integration had become irreversible. The Germans, more than all others, would benefit most due to their sensitive location in the centre of Europe. The words of Konrad Adenauer, "German and European integration are two sides of the same coin", had "triumphantly" become reality today.

SETTING THE COURSE

Helmut Kohl emphatically rejected the allegation that he had bought German unification by sacrificing the D-Mark. He insisted

that the main decisions leading to the currency union had been made long before the start of the German unification process. He had already talked with Francois Mitterrand about the topic in the mid-eighties, in June 1988 both of them had proposed the project at the EC Summit in Hanover, and Jacques Delors' report of April 1989 had opened the door for the decisions of Maastricht and Amsterdam.

A BIT MORE REFLECTIVE

Apart from these optimistic tones, other parts of the speech were more reflective, draw-

ing lines of history, and including anecdotal and very emotional passages. Kohl had known how difficult it would be for the Germans, especially for the older generation, to give up the D-Mark. For the people in eastern Germany, who had got the D-Mark just ten years before, this would of course be problematic. For a long time, he had had no majority for this political decision, Kohl admitted. However, there was no alternative. "The world has changed," he said, and Europe had to act accordingly. He even predicted: "In five years time in London, and in ten years in Zürich, everyone will be paying with the EURO." But above all, Political Union had to be realised now, Kohl urged.

Dr. Rafael Biermann heads the "Task Force South Eastern Europe" at ZEI, department "European Value Systems, Cultures and Languages". ■



Photo left: Ex-Chancellor Helmut Kohl talking to the audience; above (from left to right): Associate Rector Matthias Herdegen, former Chancellor Helmut Kohl, Ludger Kühnhardt, Stefan Fröhlich, Jürgen von Hagen.

The 1st ZEI-VI Summer School on European Telecommunications

by Alexander Koch

In the natural sciences, co-operation between research and industry tends to be more the rule than the exception nowadays. But this does not apply to law. That collaboration is also possible and makes sense in this area was demonstrated by the 1st ZEI-VI Summer School on European telecommunications. The Centre for European Integration Research at the University of Bonn

(ZEI) and Viag Interkom (VI) joined forces to organise the event.

Telecommunications law is characterised by its considerable practical relevance, which plays a much greater role here than it does in other fields of law. In contrast, lectures are a rarity in this still new field of law. Often, the only opportunity for interested students, judicial service trainees and junior judges to get an introduction to the topic is practical training with telecommunications companies or authorities. At the same time, there is a lack of highly qualified telecommunications law specialists on the labour market, which is ultimately also detrimental to the companies working in the

branch. It was this situation that inspired the idea for the Bonn Summer School event.

From the 24th–28th September, just under 40 junior jurists had the opportunity to intensify their previous knowledge of telecommunications law. The organisers were initially surprised by the considerable demand the event met with. Although the number of seats had doubled (20 participants had originally been planned), not all of the applicants could ultimately be considered. The range of jurists attending the event stretched from students who had only just become acquainted with telecommunications law to junior professionals and scientific assistants at other universities.

PUBLICATIONS

ARTICLES AND PAPERS

Koenig/Engelmann: Rechtliche Bewertung des Standes der Wissenschaft und Technik im Hinblick auf Verfahren zur Gewährleistung der Virussicherheit von Blutplasmapräparaten, PharmR 2001, Heft 3, pp. 74-79.

Koenig/Sander: Kritische Anmerkungen zur Krankenhausbedarfsplanung aus der Sicht des EG-Wettbewerbsrechts, KHuR 2001, Heft 2, pp. 38-52.

Koenig/Sander: Die Positivlistenregelung des § 33a SGB V – Ein neuer Anwendungsfall für die gemeinschaftsrechtliche Staatshaftung? MedR 2001, Heft 6, pp. 295-300.

Koenig/Sander: Die Positivlistenregelung gemäß § 33a SGB V – Vereinbar mit europäischem Recht? EA 2001, Heft 1, pp. 1-8.

Following the Summer School's basic notion of combining science and practice, the event was divided into two large blocks. On the first two days, lecturers from ZEI, Viag Interkom, the Federal Ministry of Industry and Technology and the European Commission gave an introduction to telecommunications law. Nearly 20 lectures covered all the important areas of the German and European legal framework including the review process. In addition, the technical and economic background of the telecommunications industry was described. This first section was concluded with a panel discussion involving representatives of science, industry, the European Commission and the European Parliament on the further development of telecommunications law. And even after eight hours of the programme, there was still a lively interest among the participants in the discussion.

Three case studies formed the second part of the event. In a total of seven units, topical practical problems were discussed. Following the respective introductory lecture, the different positions had to be worked out group by group. Here, the emphasis was not merely on finding the "right" legal ap-

proach, but simultaneously on identifying the different economic and political interests of, for example, the Commission or a telecommunications incumbent. The aim of the subsequent discussion was to defend a position that was both legally and economically sound. In addition to these role plays, the programme also included a visit to a session of the RegTP labour court division for matters decided by order, after which there was an opportunity to talk to the president of the authority.

The broad selection of lectures ensured the meeting's high academic standards on the one hand. On the other, it offered the opportunity to learn about the economic and political background to certain decisions from practitioners. It was these details in particular that made the event so attractive to many of the advanced participants.

One – fully intended – side-effect of the Summer School was the personal exchange of views with the lecturers and the opportunity to forge links for one's own career.

Alexander Koch is scientific assistant at ZEI, department "Political, Legal and Institutional Issues". ■

Asset Prices and the Conduct of Monetary Policy

by Boris Hofmann

What role for asset prices, i.e. exchange rates and property and share prices, in the conduct of monetary policy? The exchange rate may affect aggregate demand via its effect on external demand for domestic goods and consumer prices inflation via its effect on import prices. Property prices and equity prices determine private sector wealth and the borrowing capacity of households and firms and may therefore also affect aggregate demand. Thus, a change in the exchange rate or in property or share prices may call for an offsetting response of monetary policy in order to stabilise output and consumer prices.

However, the analysis of optimal monetary policy for inflation targeting is still mainly based on models where property and share prices are not considered. In these models, optimal monetary policy is given by a Taylor-type interest rate rule, with the interest rate as a function of current and lagged consumer price inflation rates and current and lagged output gaps. In open econo-

my versions of these models, monetary policy reacts additionally to the real exchange rate in order to offset its effect on aggregate demand conditions. Monetary policy does not respond to property or share prices. But this does not obtain because a direct response of monetary policy to changes in property and share prices has been explicitly shown to be sub-optimal, but rather because property and share prices have not been taken into consideration at all.

There are certainly good reasons that have been brought forward in the literature for ignoring property and share prices in the conduct of monetary policy. The main argument is that property and share price movements are inherently hard to interpret and that the central bank should not claim to have better knowledge than households or firms of whether a change in asset prices reflects economic fundamentals or not.

While these theoretical concerns should certainly be taken seriously, they ought not lead to a complete disregard of property and share prices in the analysis of monetary policy. In the end, the question seems rather to be empirical than theoretical. A straightforward empirical test of the information content of asset prices for monetary policy is to test the significance of asset prices with respect to future excess demand conditions.

Empirical estimates for the G7 countries (United States, Japan, Germany, France, Italy, United Kingdom, Canada) based on quarterly data over the period 1972-1998 suggest that the future output gap and future CPI inflation in the G7 countries are significantly affected by the real interest rate and the real exchange rate, and also by real property and real share prices. Real property prices are found to have a substantially larger effect on the output gap than share prices and the exchange rate.

Thus, disregarding asset price movements would lead to a sub-optimal outcome for the economy in terms of inflation and output gap stability. This result obtains not only because the information contained in asset prices about future demand conditions would be ignored, but also because their omission from the model would introduce considerable biases into the empirical models used for policy analysis, so that monetary policy would be based on a mis-specified model of the economy. Monetary policy-makers should therefore pay sufficient attention to asset prices, especially property prices, in the conduct of monetary policy.

Dr. Boris Hofmann is senior fellow at ZEI, department "Economic and Social Issues". ■

E-Commerce with pharmaceuticals within the European Single Market

by Christina Engelmann

In the case of the Dutch Internet-pharmacy 0800DocMorris N.V., two courts held at the end of May 2001 that the distribution of pharmaceuticals via the Internet is prohibited in Germany. These judgements have been celebrated as a victory by the German associations of pharmacists.

Nonetheless, the debate about the development of cross-border trade in pharmaceuticals via the Internet is not yet over. On the basis of the judgement of the Berlin Court of Appeal and the Frankfurt Regional Appeal Court, the Dutch pharmacy is not allowed to sell drugs that are only available at a pharmacy to consumers in Germany. But since then the topic of e-commerce with pharmaceuticals within the European Single Market has been discussed even more intensively by the European Commission in Brussels. And in August 2001 the DocMorris case was forwarded to the European Court of Justice.

ZEI's research group on European Pharmaceutical Law has dealt with the crucial question of whether a ban on cross-border trade with pharmaceuticals via the Internet is compatible with EU law. In order for German legislation to conform to the principle of free trade, prohibition must be justified by the protection of human health. But that is not the case. Pharmacists are able to fulfil their advisory and controlling roles even if pharmaceuticals are ordered via the Internet. Exercising these roles can be guaran-

teed by special quality standards, and especially by an appropriate telecommunication information infrastructure. Therefore, the German ban is disproportionate and thus constitutes a measure contravening the principle of free trade.

THE GERMAN ACT ON THE ADVERTISING OF MEDICINES

On no account must ordering of pharmaceuticals from EU Internet-pharmacies be rendered virtually impossible by the German Act on the Advertising of Medicines (*Heilmittelwerbegesetz*). Therefore, online-pharmacies must for example be allowed to present digital order forms – which are indispensable to online-ordering – on their websites. In the context of a pharmacy's Internet presence, which is included in the E-Commerce Directive as a digital service, attention must also be paid to the principle of country of origin laid down in the Directive. This principle stipulates that it is only the law of the Member State the Internet-pharmacy is based in that applies to online advertising. In the area of application of the E-Commerce Directive, the *Heilmittelwerbegesetz* cannot be used as an objection to Internet-pharmacies in other Member States.

Summing up, it is crucial that online-trade with pharmaceuticals must not be bound up with health risks for consumers. In the face of the existing cross-border trade in pharmaceuticals, effective health and con-

ZEI CALENDAR

MAY/JUNE 2002

23rd May, 9 a.m. – 8 p.m., Conference on "Regulating Internet service providers" together with AOL Germany, to be held at the ZEI building.

On the 6th June, there will once again be a press conference on EMU Monitor in Frankfurt that will be attended by, among others, Professor Dr. Jürgen von Hagen, Director of the Department "Economic and Social Issues" at ZEI.

sumer protection cannot be achieved by maintaining national prohibitions. What is therefore required is the elaboration of a legal framework that must enable the use of the Internet for sales and marketing whilst ensuring a high level of health protection by laying down criteria helping consumers to identify reputable pharmacies on the web. Furthermore, if Internet-pharmacies that German pharmaceutical regulations do not apply to – for example the duty to offer the complete range of pharmaceuticals – are active in the pharmaceutical trade, a regulatory model has to be elaborated that serves to secure the provision of all necessary medicines within and outside normal business hours.

Germany's existing *Heilmittelwerbegesetz* must be amended as quickly as possible with a view to a regulatory concept that is both precise and compatible with EU law.

Christina Engelmann is scientific assistant at ZEI, department "Political, Legal and Institutional Issues". ■

AT A GLANCE

On the 21st-22nd January, the 10th Franco-German Economic Policy Forum on the topics of "Competition of European Stock Markets" and "Fiscal Federalism in Europe" took place in Berlin.

On the 25th January 2002, Prof. Dr. Christian Koenig gave a lecture explaining the European Supreme Court's ruling of the 13th March 2001 on the law on feeding electricity into grids at the Office of the Land North Rhine-Westphalia at the EU in Brussels. The lecture was part of the series on "Current Developments in European Energy Law".

On the 1st February 2002, an expert forum was held at ZEI on "Financing sports facilities – does current practice of Public Private Partnerships violate EU regulations on competition?". In addition to Prof. Dr. Christian Koenig, Dr. Ansgar Held of the EU Commission's Directorate General on Competition, Dr. Claus-Michael Happe of the Federal Ministry of Finance and Dr. Joachim Wichert of the Arnecke Siebold Law Office in Frankfurt gave lectures.

Dr. Gu Xuewu, Co-ordinator of ZEI's Europe-Asia Programme, has been

appointed honorary professor by the Centre for European Studies in Shanghai.

ZEI Director Prof. Dr. Ludger Kühnhardt has written a detailed analysis of the prospects and opportunities EU Enlargement offers. It has been published as a brochure by the Foreign Office and includes a foreword by Federal Foreign Minister Joschka Fischer and EU Commissioner Günter Verheugen, who is responsible for Enlargement. The brochure, titled "Die Europäische Union – Fragen zur Erweiterung", can be obtained from the Press and Public Relations Department of the Foreign Office, Werderscher Markt, Berlin.

VIEWPOINTS VIEWPOINTS

Interview with Egidius Vareikis,
Chairman of the European
Affairs Committee of the
Parliament of Lithuania for ZEI
report 2002



ZEI: The enlargement and membership negotiations for the European Union are entering their last round. According to your experience and perception, what are the remaining key problems in communicating the benefits of EU enlargement to the public in Lithuania and also to the public in the current EU Member States?

Egidius Vareikis: The reality is that we are now in the non-romantic phase of negotiations. We were very successful to catch up in the process in 2000 and 2001. We already caught the count of the first round. Primarily, we have the same problems as they have. I think a lot of things depend on the political decision as to how deep, how far the European Union can go with the – let's say – institutional reforms in the next period. I think that once the European Union has decided how far it is going, the enlargement process can go more easily. As far as public opinion is concerned, we are of course sailing towards the year 2004 – it is quite close to us. But we have to be ready. And in Lithuanian public opinion, the impression is that people are suddenly recognising that the European Union is a reality. In the year before it was still a little bit of a dream. In political discussions Europe is a reality. People are starting to think about what they will personally do in 2004. And generally, the mood is optimistic. So we are trying to keep up with developments, while at the same time we have to constantly show that our negotiations are progressing. Regressing would have a negative impact. So we simply have to progress.

ZEI: You talk about the European integration as a spiritual project. What do you mean by this?

Egidius Vareikis: For Lithuanians it is very important to feel that they are a nation of Western Europe. Under Soviet occupation, they were always fighting for being rescued and brought into Western Europe. So now, joining the European Union is going to promote a kind of spiritual understanding that we are finally getting ourselves properly established in Western society. Lithuanians

are even willing to make sacrifices if this overall good is achieved. Because of that, the technical side of the negotiations is a little bit boring for us sometimes. People are asking when we will be in the European Union. They are not asking what we are gaining or what we are losing. So the number of votes you have in the Council or how many people you have in Parliament is not so very important. What is most important is to be part of the EU.

ZEI: ZEI has always followed the development of Lithuania very closely. You have been working with us as Senior Fellow over the last few years. And we have always advocated early membership of Lithuania. The recent publication of ours – to which you have also edited a very valuable article – is another example of this. It seems to me that the open questions still lying ahead of us are that of possible NATO membership and the full anchoring of Lithuania in Euro-Atlantic civilisation. How do you see this issue developing?

Egidius Vareikis: We Lithuanians are working very hard to reach that goal. And no doubt, we feel that we are in the front line. The year 2002 can of course be very crucial. After September 11th, I think the prospects for enlarging NATO have been growing steadily. Just now, the main scenarios that are under discussion include at least some new NATO members. Of course we regard ourselves as an important contributor to European trans-Atlantic security.

The interview was conducted by Prof. Dr. Ludger Kühnhardt, Director at ZEI, department "European Value Systems, Cultures and Languages". ■

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European integration and regional specialisation in candidate countries

by Iulia Traistaru

Over the last two decades, a growing academic and political interest has been taken in the spatial impact of economic integration, related to a general concern that structural change accompanying economic integration is likely to result in increasing regional specialisation and concentration of industrial activity which may make regions vulnerable to asymmetric shocks.

Industry demand shocks may become region-specific shocks, and short-term adjustment costs may be high where firms are relocated. On the other hand, in the long run, industrial relocation allows gains from comparative advantage to be exploited, while clustering of industrial activities is expected to bring productivity growth.

Since 1990, Central and East European economies have experienced increasing in-

larisation? Has relocation of manufacturing activity taken place? What regions have experienced declining manufacturing activity and what new locations could be identified? These questions are being investigated in a joint research project initiated and co-ordinated by ZEI and funded by the European Community's PHARE ACE Programme.

Existing theory and empirical evidence from the experience of the North American Free Trade Area and European Union suggest that economic integration results in relocation of industrial activity as well as increasing regional specialisation and concentration of manufacturing activity.

A GLANCE AT SOME REGIONAL EFFECTS

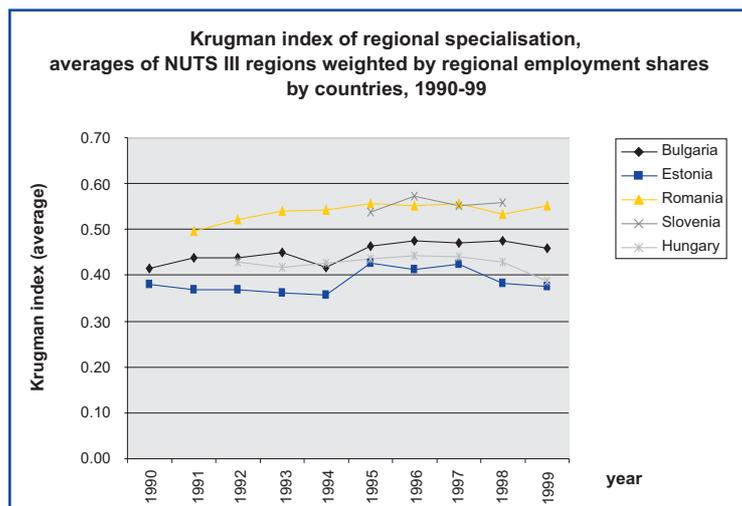
Using a special data set (REGSTAT) created with this project, we find evidence suggesting a tendency of increasing absolute and relative regional specialisation in Bulgaria, Romania and Slovenia and decreasing specialisation in Hungary and Estonia as shown in the figure below.

We also find evidence of relocation and increasing geographic concentration of manufacturing activity, albeit of different mag-

nitude, in all five candidate countries mentioned above. Bilateral differences between the industrial structures of pairs of countries indicate that Romania and Bulgaria became more similar in the period 1991-1994, but have been diverging since 1995. Also, the industrial structures in Ro-

mania and Slovenia and Bulgaria and Slovenia, respectively, are diverging. Industrial structures in Romania and Bulgaria are more similar to each other compared to Slovenia's.

In Bulgaria, in the period 1990-1999, absolute and relative specialisation increased in 21 regions out of 28. Most manufacturing industries had become more concentrated. The most concentrated industry was



tegration with the European Union (EU) via trade and foreign direct investments. The envisaged accession of these countries to the EU motivates the need to assess the regional impact in these countries of their increasing economic integration with the EU. Have patterns of regional specialisation changed in the period from 1990-1999? Does greater specialisation imply greater po-

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Fuels and Chemical Products and the least concentrated was Food, Beverages, Tobacco. There was a relative decrease in industrial employment in the big cities (Sofia, Varna, Plovdiv, Gabrovo, Stara Zagora) and traditional industrial centres (South-West, South-Central and North-Central). GDP per capita was significantly and negatively associated with the regional unemployment rate, suggesting that poor regions are more likely to experience high unemployment.

FOR EXAMPLE ESTONIA

In Estonia, in the period 1990-1999, absolute and relative specialisation decreased in 4 out of 5 regions. Absolute concentration increased in 4 out of 13 manufacturing branches, while relative concentration increased in 6 manufacturing branches. The most concentrated industry was Motor Vehicles and Transport Equipment and the least concentrated Food, Beverages and Tobacco. Diversified regions had a higher GDP while specialised regions with a small number of manufacturing industries had the lowest GDP per capita. In the period analysed, relocation of manufacturing activity had taken place from the industrially developed regions to the periphery. A negative relationship was found between regional GDP and unemployment.

THE SITUATION IN HUNGARY

In Hungary, in the period 1992-1998, 12 out of 20 regions experienced an increasing specialisation in absolute terms but relative specialisation only increased in 8 regions. Western regions were more specialised compared with the rest of the country. Geographic concentration increased in 4 out of 10 industries. The most concentrated industry was Chemicals and the least concentrated Machinery and Equipment. Western and Central regions were more dynamic and were catching up with the European averages while increasing polarisation seemed to be the trend in Eastern and Southern regions.

WHAT ABOUT ROMANIA?

In Romania, in the period 1991-1999, absolute specialisation increased in 25 regions out of 41 while relative specialisation increased in 29 regions. The highest regional specialisation was found for Bucharest, North-East, South-West and South and the lowest in the Centre, West and North-West. Most manufacturing industries (10 out of 13) had become more concentrated. The most concentrated industry was Electrical Machinery and the least concentrated Food, Beverages and Tobacco. The evidence indicates a decreasing share of manufacturing employment in the capital city and an increasing share of manufacturing employment in the Centre region. Regional GDP

had a greater concentration compared to GDP per capita. However, while the degree of concentration of GDP remained almost the same in the period 1993-1998, the concentration of the GDP per capita increased, indicating a tendency towards income polarisation. Regional specialisation was found to be negatively related to regional GDP and unemployment rates.

SPECIAL CASE: SLOVENIA

In Slovenia, in the period 1994-1998, absolute and relative specialisation increased in 7 out of 12 regions. The lowest regional specialisation was observed in the largest regions (Osrednjeslovenska and Podravska) while specialisation was highest in the smallest regions (Spodnjejsavska and Zasavska) and in the Pomurska region. There was evidence of relocation of manufacturing activity between regions. Regions with initial big shares of manufacturing employment benefited more from economic integration with the EU while regions with low shares of manufacturing employment did not benefit from the relocation process. Econometric tests suggest that lower growth of GDP per capita is associated with higher unemployment rates.

This analysis will be continued in more depth in the next part of the project. The research team will focus on explaining in a comparative framework the underlying factors that determine the changing patterns of regional specialisation and location of industrial activity in the process of economic integration with the EU. These results will be used to draw policy implications for the economic convergence of regions in the candidate countries.

Dr. Iulia Traistaru is senior fellow at ZEI, department "Economic and Social Issues".

IMPRINT

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn
Walter-Flex-Str. 3
D - 53113 Bonn
Germany

ISSN: 1437-174x

Editorial staff:
Management IWB
Tel: 0228/73-7249
Fax: 0228/73-5097
E-Mail: zei@uni-bonn.de
Internet: <http://www.zei.de>

ZEIreport is published three times a year in English and German. It can be ordered free of charge from the above mentioned address.