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To: Members of the Executive Board

From: The Secretary

Subject: Report on High-Level Seminar on "Western Europe in
Transition - The Impact of the Opening Up of Eastern
Europe and the Former Soviet Union"

Attached for the information of the Executive Directors is a report on the high-level seminar on "Western Europe in Transition - The Impact of the Opening Up of Eastern Europe and the former Soviet Union" held in Trieste, Italy on October 10 and 11, 1994.

Mr. de Fontenay (ext. 38848) is available to answer questions relating to this paper.

Att: (1)

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INTERNATIONAL MONETARY FUND

IMF INSTITUTE

Report on the High-Level Seminar on
"Western Europe in Transition: The Impact of the
Opening Up of Eastern Europe and the former Soviet Union"

Trieste, Italy

October 10-11, 1994

Introduction

This seminar, organized jointly by the Austrian National Bank, the Bank of Italy, and the IMF (EUR I, INS, and RES), was held in Trieste on October 10-11, 1994. The purpose of the seminar was to discuss with senior officials from various European countries the adjustment problems that Western Europe may experience as a result of the opening up of Eastern Europe and the former Soviet Union (FSU), and the appropriate policy responses. Apart from a series of studies on the broad implications of the opening up of Eastern Europe on trade and capital flows, employment, and factor incomes, cases studies on Austria, Germany, Italy, Portugal, and Switzerland were presented. The program of the seminar is provided in Attachment I. A list of participants is given in Attachment II.

Summary of the discussions

The seminar examined whether some of the fears expressed as to the potential disruptions in Western Europe resulting from freer trade and capital movements with Eastern Europe and the FSU were justified. The similarities with the debate on the North American Free Trade Agreement (NAFTA) were brought out, as well as the differences (such as the importance of direct and portfolio investment by the United States in Mexico). In both cases, the potential trade-off between emigration and market access was seen as very much in the background.

There was general agreement that, on average, the initial impact on Western Europe of the opening up of Eastern Europe and the FSU was likely to be small, given the size of the trade and capital flows involved, but that some countries and sectors may be affected to a greater extent. Interest rates in Western Europe were more likely to be influenced by global factors than by the East's demand for investment funds.

There was more of a debate on the potential impact on employment and wages in Western Europe from the competition of the well-educated but poorly paid labor force in Eastern Europe and the FSU and on the effects on

interest rates of the large and growing capital needs of the transition economies. Eastern Europe and the FSU clearly have a comparative advantage in producing goods and services which have a large component of skilled labor or are land and/or energy intensive. Would some of the desired improvement in living standards in the East come at the expense of real incomes in the West? Some speakers argued, by reference to recent work on the impact of trade with developing countries on industrial countries, that the effects of technological change, economies of scale, and terms of trade movements were likely to overwhelm the direct impact of economic integration on wage differentials. Others pointed out that individual sectors and countries could still be negatively affected by import competition and that if technological progress was endogenous, import penetration could over time cause significant adjustment problems even if, in the aggregate, welfare gains from trade were experienced both in the East and in the West. Conclusions based on trade patterns during a period when Eastern Europe was catching up with technological progress in the West could also be misleading. The relatively high rates of unemployment in most Western European countries made any necessary adjustment all the more painful. No one saw this, however, as a justification for protection. Decisions taken by the European Union on accession to membership for Eastern European countries will be an important factor in shaping trade and capital flows between the two groups of countries.

The case studies, although based on a relatively short period of time, brought out the differences between countries as to the impact of the opening up of Eastern Europe and the FSU, depending on their product specialization and their proximity to the transition economies. This impact was generally beneficial. Thus, in the case of Austria, it is estimated that over a six-year period real GDP would have increased by a cumulative 2 1/4 percent as a result of the opening up of Eastern Europe, and employment by 1 3/4 percent. However, in some sensitive sectors, adjustments in employment and production have been delayed by restrictive trade policies and practices. This has deprived Western Europe of some of the welfare gains that would flow from a more efficient allocation of resources across Europe and the FSU.

Finally, some participants in the seminar emphasized that the topic of the seminar was not a purely European issue and, in particular, that Western Europe's response to the challenge of Eastern Europe and the FSU would have an impact on the rest of the world.

Proceedings

The three institutions sponsoring the seminar intend to publish the proceedings of the seminar as a joint working paper.

AUSTRIAN NATIONAL BANK, BANK OF ITALY, AND
INTERNATIONAL MONETARY FUND

SEMINAR ON WESTERN EUROPE IN TRANSITION:
THE IMPACT OF THE OPENING UP OF EASTERN EUROPE
AND THE FORMER SOVIET UNION

Trieste, October 10-11, 1994

PROGRAM

OCTOBER 10, 1994

- 9:00 a.m. ▶ Welcoming Remarks and Introduction
to the seminar
Rudolf Klier, Deputy Chief Executive
Director, Austrian National Bank
Carlo Santini, Central Manager for
Central Banking Operations, Bank of
Italy
Patrick de Fontenay, Director, IMF
Institute

GENERAL ISSUES

Chair: Carlo Santini

- 9:30 a.m. ▶ Issues and Preliminary Conclusions:
The Lessons from the NAFTA Debate
Robert Z. Lawrence, J.F. Kennedy School of Government,
Harvard University
- 10:30 a.m. ▶ Coffee Break
- 10:45 a.m. Macroeconomic Effects on Western
Europe of the Opening Up of Eastern
Europe: Some Simulation Results
Leonardo Bartolini and Steven
Symansky, Research Department,
International Monetary Fund
- Discussant: Robert Holzmann, University of Saarland
- General discussion
- 1:00 p.m. Luncheon hosted by the Bank of Italy

SECTORAL AND EMPLOYMENT ASPECTS

Chair: Rudolf Klier

2:30 p.m. ▶ Sectoral and Employment Effects of
the Opening Up of Eastern Europe
Peter Dittus, Bank for International
Settlements

3.45 p.m. Coffee break

4:00 p.m. ▶ Trade and European Labor Markets
Charles Wyplosz, The European
Institute
for Business Administration

Discussant: Richard Jackman, London School of
Economics

CAPITAL MARKET ASPECTS

Chair: Patrick de Fontenay

5:00 p.m. ▶ Capital Flows in Europe: the Effect
of the Opening Up of Eastern Europe,
Ms. Ratna Sahay, Research
Department, International Monetary
Fund

Discussant: Dr. Giorgio Gomel, Department of Studies, Bank
of Italy

General Discussion

7.30 p.m. Dinner hosted by the Bank of Italy

OCTOBER 11, 1994

CASE STUDIES

Chair: Patrick de Fontenay

9:00 a.m. ▶ Implications of the Opening Up of
Eastern Europe for Italy's Foreign
Trade Structure and Performance
Alessandro Giustiniani and Valeria
Rolli, Research Department, Bank of
Italy

Discussant: Dr. Eduard Hochreiter, Austrian National Bank

10.00 a.m. Coffee break

10:15 a.m. ▶ Impact of the Opening Up of Eastern
Europe on Austria
H. Schebesch, Economic Division,
Austrian National Bank, and
Andreas Wörgötter, Institute of
Advanced Studies, Vienna

Discussant: Dr. Stanley Black, University of N. Carolina

11.15 a.m. The implications of the Opening Up
of Eastern Europe for Germany,
Portugal, and Switzerland Hari
Vittas and Paolo Mauro, European I
Department, International Monetary
Fund

Discussants: Heinz Handler, General Director,
Economic Ministry, Austria, and
Georg Winckler, University of Vienna

1:00 p.m. Luncheon hosted by the Bank of Italy

PANEL DISCUSSION

Chair: Richard Portes

2.45 p.m. ▶ Policy Implications for Western
Europe of the Opening Up of Eastern
Europe

Andreas Inotai, Institute of World Economics, Budapest

Rudolf Klier, Deputy Chief Executive
Director, Austrian National Bank

Val Koromzay, Deputy Director, Country Studies and
Economic Prospects, OECD

Richard Portes, Director, Center for Economic Policy
Research

Alexandre Swoboda, Director, Graduate Institute of
International Studies, Geneva

4:15 p.m. ▶ End of seminar

LIST OF PARTICIPANTS

Rita ANSELM	Banca d'Italia
Leonardo BARTOLINI	International Monetary Fund
Stanley BLACK	University of North Carolina
Carlo BOFFITO	Banca Commerciale Italiana
Carlo A. BOLLINO	Istituto Studi Programmazione Economica
Vitor A. BRINQUETE BENTO	Banco do Portugal
Anne BRUNILA	Bank of Finland
Werner CLEMENT	University of Vienna
Carlo CORICELLI	Università di Siena
Patrick DE FONTENAY	IMF Institute
Peter DITTUS	Bank for International Settlements
Jozef DROFENIK	Ministry of Economic Relations and Development, Slovenia
Christian EUGENE	Banque de France
Manfred FLUCH	Österreichische Nationalbank
Alessandro GIUSTINIANI	Banca d'Italia
Giorgio GOMEL	Banca d'Italia
Heinz HANDLER	Economic Ministry, Austria
Paul HILBERS	De Nederlandsche Bank
Eduard HOCHREITER	Österreichische Nationalbank
Robert HOLZMAN	University of Saarland
Andràs INOTAI	Institute of World Economics
Richard JACKMAN	London School of Economics
Jorn KLAER	Danmarks Nationalbank
Rudolf KLIER	Österreichische Nationalbank
Val KOROMZAY	Organization for Economic Cooperation and Development
Bogomir KOS	Bank of Slovenia
Giulio LANCIOTTI	International Monetary Fund
Robert Z. LAWRENCE	Harvard University
Jozef MAKUCH	Institute for Monetary and Financial Studies, Slovakia
Ruggero MANCIATI	SIMEST
Alistair MCGIVEN	Bank of England
Mieczyslaw NOGAJ	Ministry of Foreign Economic Relations, Poland
Panayiotis MOMFERATOS	Bank of Greece
Tadeusz PARYS	National Bank of Poland
David PERETZ	U.K. Treasury
Richart PORTES	Centre for Economic Policy Research, London
Valeria ROLLI	Banca d'Italia
Tanel ROSS	Bank of Estonia
Ratna SAHAY	International Monetary Fund
Agostino P. SANGUINETTI	Banca d'Italia
Javier SANTILLAN	Banco de España

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Charles WYPLOSZ

Banca d'Italia
Österreichische Nationalbank
The Graduate Institute of International
Studies
Bank of Latvia
International Monetary Fund
IMF Institute
Österreichische Institut für
Wirtschaftsforschung
Deutsche Bundesbank
University of Vienna
Institute of Advanced Studies
The European Institute for Business
Administration