

Evaluation of benefits to the EU-15 countries resulting from the implementation of the Cohesion Policy in the Visegrad Group countries

Research objective

This study aims to estimate **how the EU15 economies benefit from implementation of the Cohesion Policy in the Visegrad Group countries** (i.e. Poland, Czech Republic, Slovakia and Hungary).

For the purpose of this research, we defined these benefits as the **value of additional exports from the EU15 to the V4 countries** resulting from increased demand in the V4 related to implementation of the Cohesion Policy. This policy is an impulse for development in the V4 countries associated with a significant increase in their output and hence their consumer, investment and intermediate demand; to a large extent this increased demand concerns goods and services from EU15 countries.

Additionally, we performed a qualitative analysis of other positive external effects on the EU15 resulting from implementation of the Cohesion Policy, first of all in the areas of **innovation, environmental protection and transport**.

The determination of benefits obtained by the EU15 from implementation of the Cohesion Policy is important both from the point of view of the goal of the regional policy, and the costs of its implementation. The fact that the Cohesion Policy has a positive effect on both the V4 and EU15 is in line with the objectives of **internal EU integration, contribution to the widening of regional economic cooperation, strengthening trade and the acceleration of overall growth**.

Methodology

In order to determine **macroeconomic benefits** to the EU15, we performed an economic analysis using secondary data from various sources. As a result, we determined **the value of additional exports of the EU15 generated in response to increased demand in the V4 related to implementation of the Cohesion Policy projects**.

Moreover, we determined which proportion of macroeconomic benefits is transferred directly to the EU15 economies in a form of **contracts for the execution of EU projects in the V4 countries obtained by EU15 companies**. These benefits are called **direct benefits**.

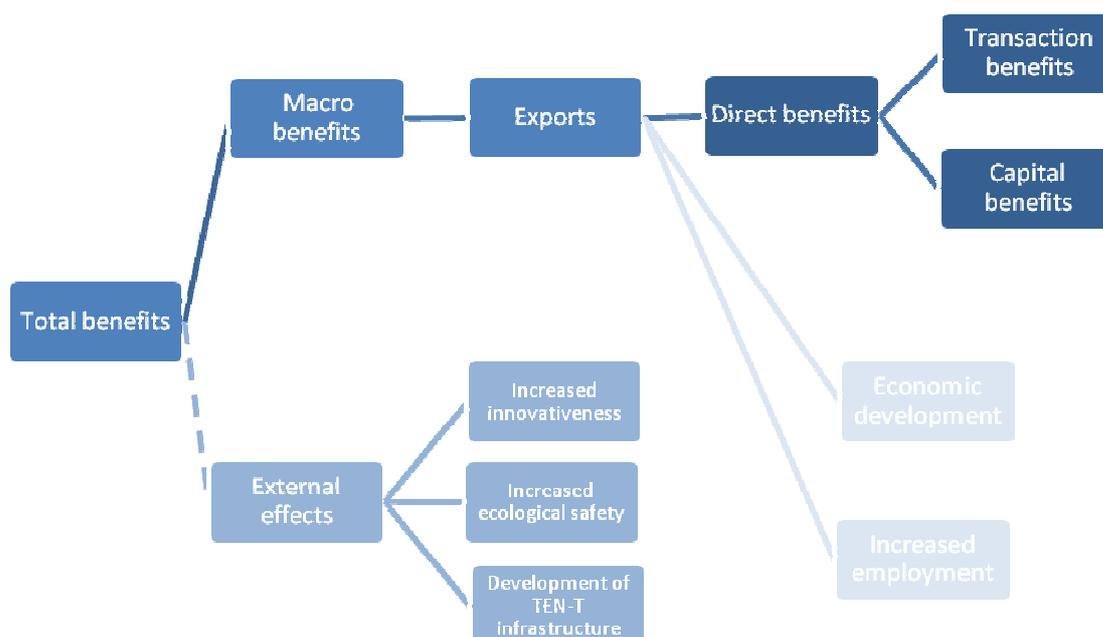
As macroeconomic estimations per se include the total effects of implementation of the Cohesion Policy, the estimation of **direct benefits should be treated as part of the macroeconomic benefits**.

Additionally, we divided direct benefits into **benefits related to obtained contracts** (i.e. incomes of EU15 companies that have EU15 based headquarters) and **benefits related to the ownership of capital** (i.e. profits provided by entities belonging to EU15 companies but with headquarters in the V4 countries).

In order to determine direct benefits it was necessary to obtain information on the value of contracts obtained by the EU15 companies under projects implemented in the V4. In the study of direct benefits we thus conducted a **website interview** directed to all beneficiaries of these EU funds in all the countries of the Visegrad Group.

The results of this research refer to the period 2004-2015. Therefore, they include both the observed effects and a forecast for 2011-2015.

Figure 1. Identification and classification of channels by which the EU15 benefit from Cohesion Policy implementation in the V4



Source: IBS elaboration

Total benefits to the UE-15 resulting from implementation of the Cohesion Policy in the V4

According to our estimation, benefits that EU15 countries will obtain from the implementation of the Cohesion Policy in individual countries of the V4 will have totalled **EUR 74.69 billion** (in fixed prices of 2005) by 2015.

Direct benefits, totalling EUR 8.64 billion, constitute only 11 per cent of total benefits. A distinct majority of the benefits are therefore **a result of the indirect influence of economic development of the V4 countries**.

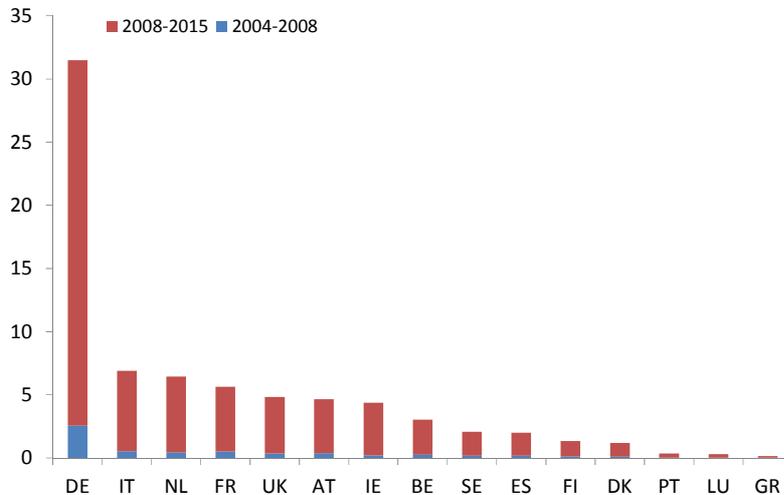
Table 1. Estimation of EU15 benefits (2004-2015)

Category	EUR billion (2005)
Spending on the Cohesion Policy in the V4	140.10
EU15 spending on the Cohesion Policy in the V4	130.06
EU15 net spending on the Cohesion Policy in the V4 (net contributors)	117.74
Total benefits to the EU15	74.69
including EU15 net contributors	72.21
Indirect benefits	66.49
Direct benefits	8.64
related to obtained contracts	7.38
related to the ownership of capital	1.25
Total gross benefits as a percentage of EU15 spending on the CP in the V4	57.43%
Total net benefits as a percentage of EU15 spending on the CP in the V4	61.33%

Macroeconomic benefits

According to estimates, **Germany will obtain the largest macroeconomic benefits due to increased demand for goods and services from the EU15 countries** (43 per cent of the total additional exports). This result is consistent with expectations arising from the fact that Germany is the largest trading partner of all four V4 countries. **Similarly, we may observe significant benefits for Italy, the Netherlands and France** which, after Germany, are the largest exporters to the V4. These four EU15 countries account for **68 per cent of the additional EU15 exports**.

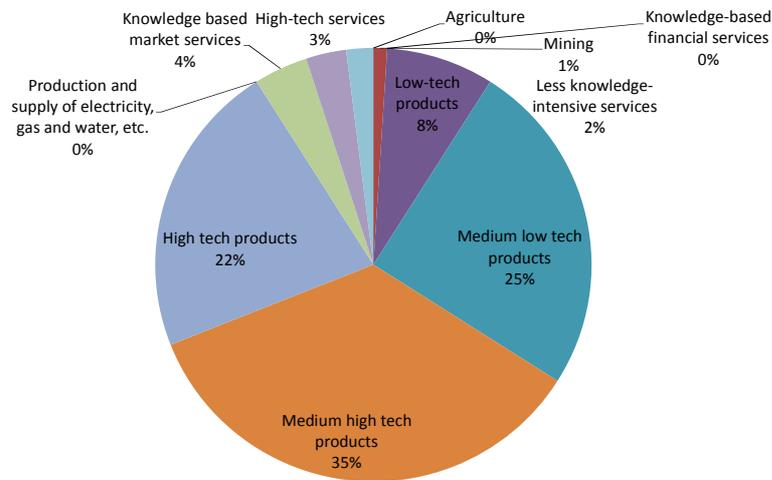
Figure 2. Estimation of the additional exports from EU15 to V4 countries as a result of the Cohesion Policy 2004-2015 (EUR billion at 2005 prices)



Source: IBS elaboration based on macroeconomic surveys

A considerable share of additional exports from the EU15 to the V4, resulting from increased demand related to the implementation of the Cohesion Policy, **is based on medium tech products (including medium high tech products) and high tech products** (60 and 22 per cent, respectively). Low tech products constitute only 8 per cent of additional exports.

Figure 32. Additional exports from the EU15 to the V4, 2004-2015 – by sector technological level

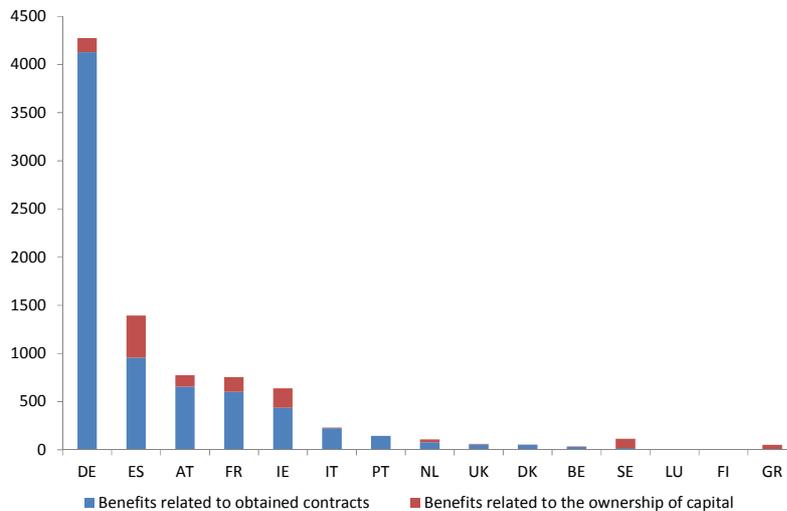


Source: IBS elaboration based on the results of macroeconomic surveys

Direct benefits

Among the EU15 a distinct majority of contracts (in terms of the number and value of contracts) were granted to companies with headquarters in Germany (56 per cent of value). This comes as no surprise as the trade and capital ties between Germany and the V4 countries are very strong - Germany is the greatest trade partner for the V4. Spain's benefits come second thanks to the strong presence of Spanish construction companies in Central European markets.

Figure 4. Direct benefits resulting from implementation of the Cohesion Policy in the V4 (in EUR million from 2005)



Source: own elaboration based on the microeconomic survey.

Direct benefits for the EU15 are dominated by two categories of tasks: **construction services** and the **supply of medium and high tech products**.

It is estimated that in the case of contracts with EU15 companies, **construction services** will amount to **44 per cent** of all resources spent in the entire examined period. It is also projected that another 44 per cent will be spent on high and medium tech products.

In the case of the capital channel, spending on construction will have accounted for as much as 84 per cent, due to the organisation of construction companies which are often international companies with complex structures.

In the area of direct benefits, the most crucial advantage of EU15 companies is therefore their ability to **manufacture technologically advanced machinery, equipment and other goods** which would be difficult to find in V4 domestic markets (at an appropriate price and quality) due to differences in development, structure of the economies, and input factors.

Figure 5. Sectoral structure of contract-related benefits obtained by the EU15 resulting from implementation of the Cohesion Policy in the V4

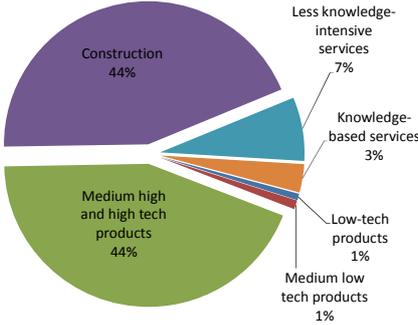
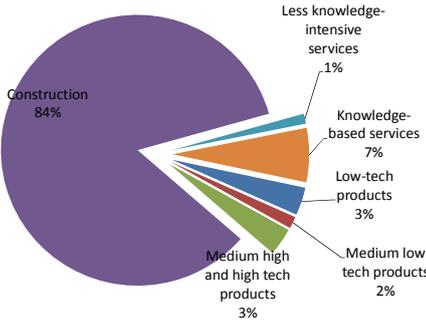


Figure 6. Sectoral structure of capital-related benefits obtained by the EU15 resulting from implementation of the Cohesion Policy in the V4



Source: IBS elaboration based on the results of the microeconomic study

Externalities

In the area of external effects, we focused on **innovation and R&D, environmental protection and transport networks**, as in these areas positive effects will have significance for the entire EU and should not be analysed only in the context of the EU15.

Benefits resulting from enhanced innovation and investment in R&D in the V4 will have a positive effect on innovation and knowledge across the entire EU, first of all through **scientific cooperation and the operation of commercial R&D centres**. Secondly, human capital will improve in the V4 countries, and some of the highly **skilled scientists and engineers will migrate to the R&D sector in the EU15**. Finally, an increased technological absorptive capacity of companies in the V4 will result in the **further development of the business market for technology exports from the EU15**.

In the area of environmental protection, benefits will include **reduced emissions and air pollution** (which degrade the environment not only in the V4 but across the EU, as well as globally), and the **preservation of unique natural resources**.

Finally, the development of transport infrastructure in the V4 under the Cohesion Policy will result in tangible benefits for other countries by **increasing the capacity of European transport networks and greater safety on the roads of the V4 countries**.

Summary

The Cohesion Policy is intended to provide economic, social and territorial cohesion to the continent, and is based on the assumption that the whole of Europe benefits from the reduction of development gaps across Europe.

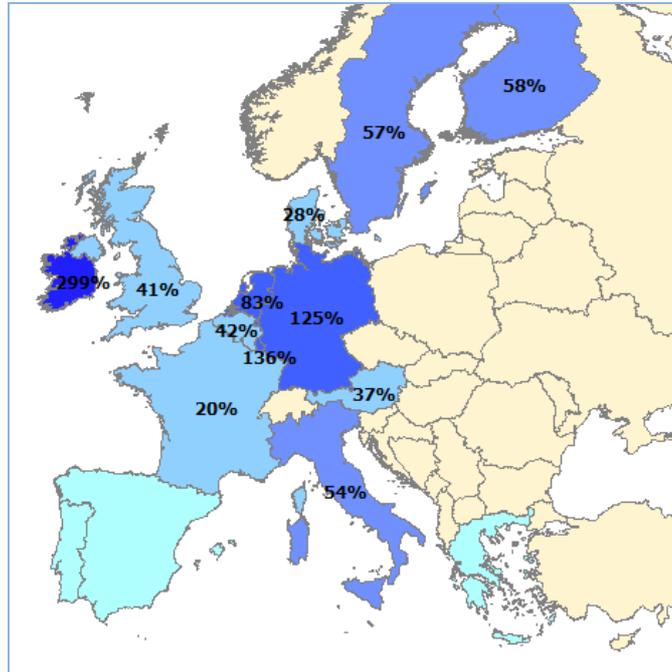
Our study confirms this assumption – **macroeconomic benefits, although estimated to appear in later years of the examined period (2010-2015), are a significant channel of EU integration – through the widening of trade and acceleration of growth in individual Member States and the EU in total**.

Benefits resulting from increased exports from the EU15 to the V4 significantly reduce the costs of the EU15 financing implementation of the Cohesion Policy in the V4.

Each net euro invested by EU15 countries in implementation of the Cohesion Policy in the V4 will have yielded additional exports of **61 cents**. In the case of **Germany, Ireland and Luxembourg, additional exports to the V4 related to the Cohesion Policy will be greater than the real costs incurred by these countries**.¹ For the main trade partner of the V4 – **Germany** – **this ratio is as high as 125 per cent**.

¹ For Ireland, the high ratio of benefits to the contribution for the Cohesion Policy, 299 per cent, is associated with a low baseline (the very low participation of Ireland in financing the Cohesion Policy) and relatively high exports.

Map 1. Comparison of total benefits for the EU15 to net contributions of individual EU15 countries, for implementation of the Cohesion Policy in the V4



Source: IBS elaboration based on macroeconomic research and data from EU budget spending reports