

SUPERVISOR ASSESSMENT

of Mgs. Twana Salih Doctoral Thesis

„ *Topical Problems of European Integration Process* „

First of all I would like to express the pleasure that I have got the privilege to be the Mr. Twana Salih Doctor Thesis supervisor. I am ready to confirm the fact that the author this Thesis worked out quite independently and also that he accepted all my advices and recommendation during our nearly free years of consultations. Last but not least I estimate Mr. Twana Salih enthusiastic approach to the solution of problems that played the significant role in his research.

Assessing the structure of the Doctor Thesis I confirm that this 120 pages Thesis with free appendices composed of 10 tables it is logically divided into five chapters, the introduction and the conclusion. The author uses 48 references to informatik sources. The first part of the Thesis is concentrated to the explanation of the theoretical aspects of the economic integration as the extremely important contemporary international phenomenon. The author paid attention predominantly to following problems :

1. Making the review of the European integration enlargement and its economic effects on the old and new member states.
2. The analysis of the respected literature concerning both the theoretical aspects of the economic integration and the development of the European Communities as well as European Union.
3. Finding the optimal level of integration that trade links within this integration obtaining the equilibrium degree for share of member's trade structure .
4. Finding the model which can evaluate through it the level of European integration optimality till 2004 and after the EU enlargement .

Mr. Twana Salih rose also next free significant questions:

1. How the trade among „EU 15“ was developed?
2. How the entry of new members to the European Union affects their relationship structures and their optimality.
3. How to find the optimal position for each country in the European integration process.

The way - out of Mr. Twana Salih research is the analysis of the European integration as a complicated problem including, first of all, the exchange of goods and services, labour, and capital. His research is based on a detailed study of different significant theoreticians positions, first of all of following authors: Jacob Viner (1950), Meade (1955), Lipsey (1957, 1960), Mundell (1964), Johnson (1965), Petith (1977), Krugman and Hanson (1993), Hanson (1996, 1998), Rodrik (1998), Stiglitz (2002), Salvatore (2004) as well as Arribas, Perez and Tortosa (2006).

The international economic integration is defined by Mr. Twana Salih as the process of a formal unification of previously separate economic areas. He reminds the fact that this process has several significant aspects: the first one is represented by the canceling of tariff and non-tariff barriers that enabled the increase of the volume of trade among members of economic union as well as the generation of more economic activities. Mr. Twana Salih came to the conclusion that the economic integration refers to the trade unification among different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. As he says this fact lead in turn to lower prices for distributors and consumers (as no customs duties are paid within the integrated area) and to the increase of the trade. The another his idea is that the economic integration means the abolition of the various restraints of trade between nations. Analyzing the integration process Mr. Twana Salih stresses that „different types of integration can be identified depending on the width and depth of the resulting unification. Thus, a distinction can be made between sectoral integration, which includes only specific sectors of the economy, such as a particular industry, and general integration, which includes all sectors of the economy“.

The author of the assessed Doctor Thesis reminds that integration may be of different forms , as follow:

Free Trade Area (FTA);

Customs Union (which occurs when a group of countries agree to eliminate tariffs between themselves and set a common external tariff on imports from the rest of the world. The European Union represents such an arrangement);

Common Market (the European Communities were established as a common market by the Treaty of Rome in 1957);

Monetary Union (the Maastricht treaty signed by EU members in 1991 proposed the implementation of a single European currency (the Euro) by 1999)

and the *Economic Union*.

Mr. Twana Salih reminds that the theory of economic integration is anchored in the theory of customs union. The key feature of regional economic integration is represented - according to his opinion - by the fact that the component economies of a region or trading bloc came to the decision to undertake a progressive removal of barriers to free movement of goods, people, ideas and capital. The international economic integration is defined by the author of the Doctor Thesis as a process of a formal unification of previously separated economic areas. He reminds that this process has several aspects: the first one is represented by the canceling tariff and non-tariff barriers that increases volume of trade among members of economic union, generates more economic activity. The very significant regional economic integration is defined as a process whereby various economies of the region undergo a progressive removal of the barriers to free movement of good, services, capital and labour.

After a brief review of the theoretical approaches Mr. Twana Salih concentrates his attention to the explanation of the regional economic integration problems and to its consequences on the member countries. He worked out and applied the model specially on the analysis of problems connected with the European integration enlargement. This model he applied for the evaluation of EU15 - optimality and also EU-25 optimality including changes which has happened in the connection of each new member states admission into the European Union.

The main aspects of the economic integration process is documented in the Doctor Thesis on the basis of the European Communities as well as the European Union activities brief analysis. Mr. Twana Salih explains - mainly in the third chapter - the development of the European enlargement process. He reminds the fact that the whole process started in 1946 by the former British Prime Minister, Winston Churchill who suggested some kind of cooperation among

the European countries. Five years after six countries signed the treaty of the coal and steel union: Italy, France, Germany, Belgium, The Netherlands and Luxembourg. In 1957 these six member states of the Coal and Steel Union broadened their mutual cooperation by the creation of the European Communities.

The author of the Doctor Thesis shares the idea that the integration structure can be perfectly demonstrated by matrices. He raised the questions in this sense whether or not these structures are uniformed or distorted, or whether the matrix represents the optimal relationship to the economic integration as well as whether there is any optimal condition for the matrix practical utilization, with an appropriate definition of the optimality. Therefore, Mr. Twana Salih raised other significant questions concerning the possible effective utilization of the matrix. One of them concerns the scientific evaluation of the relationships among integrated countries. His principal question is whether the European integration process represents an optimal case of economic relations both among the contemporary European Union member states and in the relationship towards other regions. In other words, one of the main targets of his research is to find whether the European Union is better off or worse off with twelve new member countries, first of all from the point of view of the optimality.

Assessing the methodology of the Doctor Thesis it is possible to stress that Mr. Twana Salih approach to the European integration process is based on the implementation of the Pareto-optimality matrix which columns reflect the imports coming from countries in the rows. The author utilizes the input-output model, with some significant changes, such as modification of using import - export and inflow-outflow approach instead of the input-output approach. He created this matrix with the aim to measure the integration position. The dissertation resolves the indicated research problem exclusively by taking only positions with balanced trade.

Approaching to the more detailed assessment I agree with Mr. Twana Salih approach based on topical problems of the European integration process specification. This research is followed by the explanation of the import-export model as well as an inflow-outflow model of labour and the same with the capital model. Statistical tests and econometrical approaches are used in all mentioned analyses. The another question raised by Mr. Twana Salih concerns the explanation of the European Union decision to expand to Central and Eastern European countries. He answers shares the idea that this decision had two principal dimensions. As he stresses „the first question was whether (and when) the EU should commit itself to Eastern enlargement in general. Simply stated, one group of member governments (the "drivers")

advocated an early and firm commitment to Eastern enlargement, whereas other member governments (the "brakemen") were reticent and tried to put off the decision. The second issue concerned the selection of Central and Eastern European countries for accession negotiations. Here, one group of countries pushed for a limited (first) round of enlargement focusing on the Central European states; others favored an inclusive approach of "equal treatment" for all associated Central and Eastern European countries“.

Mr. Twana Salih made several detailed analyses oriented to the European integration effects on the labour productivity and the unemployment, the European integration effects on the capital efficiency, the European integration effects on the economic growth in Europe and on the impact of the EU enlargement on the European economics as the whole. He reminds - among others - that numerous surveys confirm that in the long run, EU Eastern enlargement will have positive effects on the economic growth of the EU-15. Moreover, he underlines the fact that the Eastern enlargement of the EU will trigger the following economic effects:

- The fact that traditional trade effects may be positive (trade creation) or negative (trade diversion). The countries bordering on CEE (above all, Austria, Germany, Sweden and Finland) benefit more than the remaining EU member States.
- The fact that the factor of migration has different effects on target countries: immigration boosts growth in the EU whereas production outsourcing (direct investment in CEE) reduces it.
- The fact that dynamic effects (capital accumulation, improved access to new technologies, increased competition and gains due to increased returns to scale) possibly constitute the majority of the long-term effects of the economic integration. These dynamic effects of integration are asymmetric, with a relatively low impact on today's EU members and a possibly large impact on acceding countries.
- The fact that the so called „Eastern enlargement of the EU“ is generally not expected to have significant macroeconomic impacts on the EU-15. However, financial transfers to the new members could severely burden the EU budget by raising contributions for net payers and/or by diminishing transfers from the EU budget to net recipients. Moreover, the short-term adjustment costs caused by migration in addition to foreign trade might be quite substantial in some sectors.

Mr, Twana Salih also stresses that „economists usually assume that there are four channels through which enlargement can have an impact on the economies of the EU-15:

- Trade: the removal of the remaining tariffs and border controls lowers the cost of east-west trade flows;
- The single market: integration of new members into the single market increases competition which results in higher productivity and lower prices.
- The movement of factors of production: capital moves from west to east and workers move from east to west;
- Financial costs: transfer payments to the new members through the EU budget“.

The second Part of the Doctor Thesis is oriented to the application of the theoretical approaches to the optimality analysis of EU-15 and the entrance of new member states. Mr. Twana Salih comes to the conclusion that EU15 is a successful integration. All these analyses of each EU 15 states are based on the analyses of different outstanding theoreticians. The Pareto-optimality model utilization in the EU15 trade is demonstrated by numerous tables and figures. Optimum is linked with the level or balance of imports and exports of each member state towards the European Union as a whole. One of Mr. Twana Salih conclusions is that EU15 intra trade was more active than extra trade. Nevertheless, according to the Thesis model is seen that EU 15 was not achieving the Pareto-optimality during last decades. The next section I will analyze Pareto-optimality for each countries in the EU15.

What concerns the entrance of new member states effects Mr. Twana Salih reminds that „first of all, „the accession of ten new countries on 1 May 2004 constitutes a crucial stage in the construction of the European Union. This enlargement is the biggest ever in absolute terms-adding 74 million inhabitants to the population of the Union, which now totals 455 million-and involves countries whose demographic regime differs markedly from that of the fifteen existing member countries“. On the other hand „in eight of the ten new member countries-those of central and eastern Europe-population growth is negative or very low, and their fundamental demographic characteristics are a reminder that these countries belong to a region of the continent which was long regarded as "different“ „This conclusion is documented by many tables and figures. Mr. Twana Salih speaks about two groups of mentioned countries with relative variable effect to the EU trade optimality. The first one is represented by the Czech Republic, Poland, in lesser extent also Hungary, Slovakia and

Slovenia. Other new members without impacts because their links are relative small represent the second group.


In the conclusion of this assessment it is possible to point out have some principal results obtained during the research:

1. Mr. Twana Salih oriented his research predominantly to the finding and implementation of a new approach and concept for evaluating structures of any regional integration.
2. He also defined the phenomena and concept for the optimal Prato-optimality concept matrix utilization.
3. The author of the Doctor Thesis tries to find a new indicator for dependency country.
4. One of Mr. Twana Salih conclusions is that European integration enlargements was motivated more politically than economically as most of new members are adding very little to the EU economic life. The role of each new member state is explained in the sufficient theoretical level.
5. The another author's conclusion is that EU 15 did not achieve the trade optimal structure efore the Eastern enlargement .
6. The research shows that from the entrance of new members to EU have more beneficial than for the old 15 members, especially from the point of view of the trade exchange. Only free of these ten new members (the Czech Republic, Poland and Hungary) are benefithing in the trade with the European Union while other five members didn't even have any more signifiant impact on the EU trade structure.

Final recommendation:

I express my personal opinion as the supervizor - comming from my long-term experience concerning the cooperation with Mr. Twana Salih - that both the solved topic and the quality of its working out by the author answer the requirements for the doctoral dissertation. Mr. Twana Salih proved his professional competence in the scientific as well as in the research work. That is why I recommend to accept the assessed Thesis for the defence. I also recommend to appoint MSc. Twana Salih Doctor of Philosophy (Ph.D.) after the successful defence in accordance with the Higher Education Law of the Czech Republic.

Prague, 4th June 2010


Prof. PhDr. Karel Lacina, DrSc.