Regional Economic Integration: 
the European Union Process.

IAE - Paris, April 21st 2015
Marie-Christine HENRIOT
United in diversity
The European Union = UPO - Unidentified Political Object

Jacques Delors (Luxembourg, 9 September 1985) – President of the EU Commission from 1985 to 1994
The EU Economic Integration Process

1 – The economic context of Regional Economic Integration

2 – European Union : A climate for radical change

3 - First Steps

4 – The European Union now
1 – The economic context of Regional Economic Integration

World trade = context of severe competition, countries can have two opposite policies / behaviours
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Free trade  Or  Protectionism

For one nation, both have advantages. But in the long run, if you don’t want your country to stop its development, you need to trade…..
1 – The economic context

In that context of free trade, one reaction is to create international institutions to protect free trade principles.
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The GATT became the **World Trade Organization** in 1994 *(now 153 countries)*:

**Principles**:

1. To help the free flow of trade
2. To help negotiate further opening markets
3. To settle trade-disputes between members (Nations – not companies)
Different levels of REI (Balassa 1961):

Free Trade Area: removal of all barriers to trade on goods

Customs Union: free trade area with a common external tariff

Common Market: a CU with free movement of capital and labour.

Economic Union: a CM with harmonisation of economic and social policies to avoid any kind of trade distortion.

Economic and Monetary Union: an EU plus a common monetary policy.
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Benefits of REI

• Trade creation
• Greater consensus than in international institutions
• Political cooperation in international meetings
• Employment opportunities – higher wages
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Drawbacks of REI:

• Trade diversion from the non-belongings countries – that creates a force to join the EU
• Shifts of employment especially for low wages
• Loss of national sovereignty
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Figure 1: Trade/GDP Ratio of Major World Regions


Authors’ computations based on data sourced from: International Monetary Fund, Direction of Trade Statistics (June 2008); CEIC Data Company Ltd. (June 2008); and World Bank, World Development Indicators (July 2008).

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ASEAN : Association of Southeast Asian Nations
ASEAN + 3 : + China, Japan, South Korea
EAS : East Asia Summit
EU 15 : European Union – 15 Member States
MERCOSUR: Southern Common Market (South America)
NAFTA : North American Free Trade Agreement
Figure 5: FDI Inflows and Outflows, Intraregional Share

Authors' computations based on data sourced from United Nations Conference on Trade and Development, available: www.unctad.org
EAS = East Asia Summit; IA-16 = Integrating Asia-16: for a definition see note to Figure 2.
Europe—convergence machine

Economic growth has helped Europe rise from the devastation and misery of World War II to unprecedented wealth, technological sophistication, and the world’s best quality of life. Since the war, Western Europe’s output has tripled and Eastern Europe’s doubled. The European Union, itself an unprecedented achievement, is in many ways the world’s largest economy. European societies have developed market-based systems combining high levels of economic activity with equity and social inclusion.
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2 – EU: the start: a climate for radical change

Frankfurter Allee, 1945

Reichstag, 1945

Rouen 1943

London 1940
The prime question in 1945: How can Europe avoid another war?

What caused the war?
- Blame the loser
- Economic Crisis (29)
- Destructive nationalism

3 post-war solutions
- Neutralize Germany, Morgenthau Plan 1944
- Adopt communism
- Pursue European integration
Several difficult issues:

- A large **reconstruction process** was necessary.

- The **Cold War was developing**, dividing Europe in two opposite camps – (divided Germany as a potential flashpoint for renewed conflict in Europe).

- The **main powers in Europe were the USA and the Soviet Union**. The UK was the strongest European power, but was not prepared to create any supranational European agency.
In spite of these disputes there was a consensus that, in economic matters, institutions with strong connections to nations are the key to the development of Europe.

Europe fathers were Christian democrats, elderly people who lived through the two world wars, and who were in contact with European cultures for a long time...

They decided a strategy of small steps: Europe will advance step by step...
2- A climat for radical change

European Fathers

Konrad Adenauer (German)

Alcide De Gasperi (Italian)

Robert Schuman (French)
First Steps - the OEEC and EPU:

- 1948: OEEC (European Organisation of Economic Cooperation — OECD in 1961) and EPU (European Payment Union) set up in conjunction with Marshall Plan ($20 billion).

- 1950-58: EPU facilitated payments and fostered trade liberalisation.

New view: trade liberalisation could be pro-growth and pro-industrialisation.
3- A small steps strategy

- In 1949 creation of the European Council to support cooperation between Nations on health, protection of Human Rights

As Cold War got more war-like, West Germany rearmament became necessary - Many thought OEEC was too loose to avoid future war among Western European powers.

Needs for deeper economic integration
3- A small steps strategy

- 1950: creation of an *European Coal and Steel Community*, suppression of tariffs on trade (coal and steel, iron..) among its 6 members:

Belgium, Netherlands, Luxembourg, Germany, Italy and France
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- 1957: Rome Treaty: Creation of the EEC
  European Economic Community -
  Belgium, Netherlands, Luxembourg, Germany, Italy and France
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Goals for the *European Economic Community*:

1. support a free trade zone without barriers or tariffs
2. develop common policies (agriculture, transportations, trade)
3. create some institutions to manage these tasks
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Example: the CAP (Common Agricultural Policy), from 1957 objectives:

1. ensure reasonable prices for European customers and fair incomes for farmers

2. set up single prices, financial solidarity and community preference
1973: Enlargement: from 6 to 9

U.K. after 2 French “no”
Denmark
Ireland
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To be applicant to the EU:

Which criteria?
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To be applicant to the EU: Copenhagen criteria (93) after the Yugoslavia war:

- Have institutions that guarantee **democracy**, the rule of law, human rights, and the respect of minorities

- Have a **functioning market economy**, able to deal with competition pressures, and market forces within the EU

- Adhere to the **aims of economic, monetary, political union** without discussion,

- Adopt the rules and regulations of the Union as they are = **acquis communautaire**
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To be applicant to the EU: Copenhagen criteria:

You are European or not – as you are pregnant or not.....Not a bit.....

But you can become a democracy, a state of law, a functioning market economy
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1981: from 9 to 10: Greece (the EU commission had said NO)
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1986 : from 10 to 12 : Spain and Portugal
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**October 1990**: Reunification of the two “Germanys”

East GER = 24 % of West GER in population - 16 million people East GER = 44 % of West GER size

**1993**: EEC became the *European Union* in the *Maastricht Treaty*: it is a political and democratically improvement

- creation of the European citizenship
- creation of monetary union and single currency – The EURO
- creation of the European defence
1995: from 12 to 15

Austria
(quickest
Enlargement
= 3 years)

Finland

Sweden
1999 - 2002:
Introduction of the EURO currency

11 member states

Criterias to apply: **Maastricht criteria** (interest rates, exchange rates, debt, deficit, inflation)
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2004: from 15 to 25:

Cyprus,
Czech Rep.,
Estonia,
Hungary,
Latvia,
Lithuania,
Malta,
Poland,
Slovak Rep.,
Slovenia
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2007: 25 to 27
Romania
Bulgaria

UE 27:
500 M of inhabitants (3rd place)
Total GDP: 9 610 billions of Euros (1st place)
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2007:
50th Anniversary of the EU

A. Merkel (President of the Council)
– J.M. Barroso (President of the EU Commission)
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Monday the 10\textsuperscript{th} of December 2012, The Nobel Peace Prize 2012 was awarded to European Union (EU) "for over six decades the EU contributed to the advancement of peace and reconciliation, democracy and human rights in Europe".

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2013 : 27 to 28 Croatia
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2014 : 28 EU member States

19 countries in the Euro zone : last entrance : Latvia (1-1-2014)

Formal agreements : Monaco, San Marino and Vatican City, Andorra

Unilateral decisions : Kosovo and Montenegro

However, these countries do not formally form part of the eurozone and do not have representation in the ECB or the Euro Group
The following members of the European Union use the euro:
Austria  •  Belgium  •  Cyprus  •  Estonia  •  Finland  •  Germany  •  Greece  •  Italy  •  Latvia  •  Lithuania  •  Luxembourg  •  Malta  •  The Netherlands  •  Poland  •  Portugal  •  Slovakia  •  Slovenia  •  Spain

The following members of the European Union do not use the euro:
Bulgaria, Czech Republic, Denmark, Croatia, Hungary, Ireland, Poland, Romania, Sweden and the United Kingdom.

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2014:

Candidate countries: Macedonia – Iceland – Montenegro – Serbia – Turkey

Potential candidates: Albania - Bosnia and Herzegovina - Kosovo
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The EU Economic Integration Process

<table>
<thead>
<tr>
<th>State</th>
<th>Status</th>
<th>Association</th>
<th>Applied for</th>
<th>Candidate</th>
</tr>
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<tbody>
<tr>
<td>Croatia</td>
<td>1 Negotiating</td>
<td>2001</td>
<td>2003</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>1 Negotiating</td>
<td>1963</td>
<td>1987</td>
<td></td>
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<tr>
<td>Macedonia</td>
<td>2 Candidate</td>
<td>2001</td>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>3 Applicant</td>
<td>2006</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Iceland</td>
<td>3 Applicant</td>
<td>1992</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Montenegro</td>
<td>3 Applicant</td>
<td>2007</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>Serbia</td>
<td>3 Applicant</td>
<td>2008</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>4 Associate</td>
<td>2008</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Kosovo</td>
<td>5 Early talks</td>
<td>–</td>
<td>–</td>
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</table>
### 3- A small steps strategy

#### The EU Economic Integration Process

A few statistics:

<table>
<thead>
<tr>
<th>State</th>
<th>Status</th>
<th>Population</th>
<th>%UE= 500 millions</th>
<th>Area (km²)</th>
<th>%UE = 4 376 780</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td></td>
<td>4 437 460</td>
<td>0,9%</td>
<td>56 542</td>
<td>1,3%</td>
</tr>
<tr>
<td>Turkey</td>
<td></td>
<td>74 816 000</td>
<td>15,0%</td>
<td>783 562</td>
<td>17,9%</td>
</tr>
<tr>
<td>Macedonia</td>
<td></td>
<td>2 114 550</td>
<td>0,4%</td>
<td>25 713</td>
<td>0,6%</td>
</tr>
<tr>
<td>Albania</td>
<td></td>
<td>3 639 453</td>
<td>0,7%</td>
<td>28 748</td>
<td>0,7%</td>
</tr>
<tr>
<td>Iceland</td>
<td></td>
<td>319 756</td>
<td>0,1%</td>
<td>103 001</td>
<td>2,4%</td>
</tr>
<tr>
<td>Montenegro</td>
<td></td>
<td>678 177</td>
<td>0,1%</td>
<td>13 812</td>
<td>0,3%</td>
</tr>
<tr>
<td>Serbia</td>
<td></td>
<td>7 498 001</td>
<td>1,5%</td>
<td>88 361</td>
<td>2,0%</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td></td>
<td>3 981 239</td>
<td>0,8%</td>
<td>51 129</td>
<td>1,2%</td>
</tr>
<tr>
<td>Kosovo</td>
<td></td>
<td>2 100 000</td>
<td>0,4%</td>
<td>10 908</td>
<td>0,2%</td>
</tr>
</tbody>
</table>

Source: Eurostats website, March 2014.
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The questions to come:

Unemployment - Growth
Balanced budgets for member States ? Versus Growth !
How to finance Debts ? Especially for EMU members
More Political cooperation ? Which means ?
More Enlargement ?
4 – Europe today

A- Organizational structure

B- The Institutions : the big 5

C- The new dream : EU 2020 strategy

D- Budget of the EU
a - Organizational structure :

The EU is based on 4 Treaties:

1951 : Treaty of the European Coal and Steel Community
1957 : Treaty of Rome establishing the EEC
1957 : Treaty of Euratom
1992 : Treaty of Maastricht establishing the EU
4 – Europe today

European Union

- Supranational decision making
- Intergovernmental decision making
- Economic integration
- Common Foreign and Security Policy
- Justice and Home Affairs
- Treaties on European Union

CAP, Single market, competition and trade policy
Collection of decisions made by EU institutions “acquis communitaire.”. 5 types of law:

1. **Regulation** applies to all member states, companies, authorities and citizens. Regulations apply as they are written, i.e., they **are not transposed** into other laws or provisions. They apply immediately upon coming into force!
2. Directive: may apply to any number of member states, but they only set out the result to be achieved each member states what needs to be done to comply with the conditions set out in the directive (e.g. new legislation, or change in regulatory practice).

3. Decision: is a legislative act that applies to a specific member state, company or citizen.
1. Regulation: they are not transposed
2. Directive: only set out the result - transposed
3. Decision: specific member state, company or citizen.

4&5 Recommendations and opinions: These are not legally binding, but can influence behaviour of, for example, the European Commission, national regulators, etc.
b- The Institutions : the big 5.

The European Parliament
The Commission
The Council of the European Union
The Court of Justice
The ECB

Group presentations
4 – Europe today

c – The new dream ? EU 2020 Strategy

Group presentation
4 – Europe today

d - Budget of the EU

A- Expenses

B- Revenues

C- Budget management
MFF 2014-2020 Overview

A- Expenses

Special Instruments outside the Multiannual financial framework 2014–2020

4 – Europe today

4 – Europe today

Figure 1: CAP versus Structural and Cohesion Funds as % of total EU budget expenditures

4 – Europe today

d - Budget of the EU - B - Revenues

d - Budget of the EU - Budget management

**Who manages EU funds?**

- Commission: 22%
- Commission and Member States: 76%
- Third countries: 1%
- Commission jointly with international partners: 1%

Thank you for your attention,