The European Union Illuminated

Its Nature, Importance and Future

Ali El-Agraa

'Dr El-Agraa's book represents a gold old-fashioned piece of applied economics that combines elements of economic theory, political economy, statistical analysis, and institutional economics. There is a particular theme running throughout the narrative, often more implicit than overt, involving the economic pros and cons of the various political compromises that have inevitably been made in the creation of the Union, and in particular in the roles to be played by the individual members. It also takes this further by considering the possible paths forward within an ever-changing internal and external environment. Over the years the former European Coal and Steel Community has transmogrified into the world's largest economic unit, involving over 500 million people, and the author provides explanations for this, and for why it has largely been encouraged by outsiders. But it also sets this creation within larger economic changes that have seen the end of the Soviet Union and the rise of new mega-economic superpowers such as China, and more general trends in globalization. Thus he places the appropriate joint emphasis on internal economic integration within the EU, and the broader, global economic integration process that have been taking place. The book is an important addition to the study of the political economy of market structures and institutional challenges that underlie the ultimate outcomes. Europe is the central theme, but the analysis offered here has much broader connotations'.

— Professor Kenneth Button, *School of Policy, Government and International Affairs George Mason University*

'There is no shortage of books on the EU, but Ali El-Agraa's new text offers an up-to-date assessment from an economic perspective of the contribution and progress of the EU and where it is going. With a comprehensive coverage of the wide ranges of EU policies, it offers an excellent starting point for those who want to get their mind round the problems'.

— Professor David Geoffrey Mayes, *The University of Auckland*

'This book provides a good and comprehensive overview for the general reader interested to learn more about the EU and how it works. It effectively debunks some of the common misunderstandings and downright misinformation about what the EU is and does'.

— Professor Iain Beggs, *European Institute, London School of Economics and Political Science*

'El-Agraa offers a lucid insight into the past, present and future of the European Union (EU). He discusses many of the difficulties that the EU is faced with today. A veteran textbook writer, he has once again produced an outstanding book, fully up to date, written in a clear and accessible style — a must-read for anyone who wishes to understand the ins and outs of European integration'.

— Professor Amy Verdun,
University of Victoria, Canada

The European Union Illuminated

Its Nature, Importance and Future

Ali M. El-Agraa
Emeritus Professor of International Economic Integration,
Fukuoka University, Japan

palgrave
macmillan

Softcover reprint of the hardcover 1st edition 2015 978-1-137-53363-0

First published 2015 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

ISBN 978-1-349-50692-7 ISBN 978-1-137-53365-4 (eBook)
DOI 10.1057/9781137533654

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

El-Agraa, A. M.
The European Union illuminated : its nature, importance and future / Ali El-Agraa.
pages cm
Includes bibliographical references and index.
1. European Union. 2. European Union countries – Economic policy. 3. European Union countries – Foreign economic relations. 4. European Union countries – Politics and government. I. Title.

HC241.2.E4253 2015
337.1'42—dc23 2015012632

Contents

List of Illustrations

Boxes

Figures

Maps

Tables

Acknowledgements

In writing this book I had the privilege of relying on the help and support of several distinguished scholars with whom I have been collaborating in research over many decades. I would like to thank Emeritus Professor Harvey Armstrong of the University of Sheffield (UK) and Ian Barnes of the University of Lincoln (UK), and Professor Kenneth Button of George Mason University (USA), Ulrich Koester of the University of Kiel (Germany), Stephen Martin of Purdue University (USA) and Wolf Sauter of Groningen University (the Netherlands) – now with the Ministry of Finance (the Netherlands) – for thoroughly checking the sections on the EU policies in Chapter 4 that fall under their expertise and for offering comments and valuable suggestions. My special thanks go to Professor David Mayes of the University of Auckland (New Zealand) for his collaboration on Chapter 6 on the EU's European Monetary Union (EMU); he contributed a joint chapter with me on the development of the EMU and a full chapter on its operation in my book *The European Union: Economics and Policies*, the 9th edition of which was published in 2011 by Cambridge University Press. But he has done much more than that for this book by thoroughly checking a number of chapters and offering further helpful comments and suggestions. He and I have been collaborating since the early 1970s and have been close friends ever since.

I would like to acknowledge, but without in any way implicating, Brian Ardy of London South Bank University (UK), who jointly authored with me three full chapters on the European Single Market (SEM), the EU general budget and social policies in the above book. Here, I have updated simpler versions of the SEM and social policy chapters as sections of Chapter 4 on the EU policies, and the EU budget as Chapter 5.

I am also deeply indebted to Dr Martin Westlake, Visiting Fellow, the European Institute, the London School of Economics and Political Science (UK) and former Secretary General of the European Economic and Social Committee, for his most thorough checking and extensive comments and suggestions on Chapter 3. I am also grateful to Professor Amy Verdun of the University of Victoria, Canada, and co-editor of the *Journal of Common Market Studies*, for her helpful comments on the Introduction and Appendix.

And I am equally grateful to Alain Lamassoure, a distinguished French politician and a member of the European Parliament, chairing the EP's Committee on Budgets, for reading chapter 2 and suggesting a valuable addition.

I owe a special debt to the staff of the London offices of the European Union and the European Parliament, especially to Jeffrey Lamb for promptly responding to my questions and for supplying me with the maps, data, charts and figures that I requested. And I am deeply indebted to Mr Petre Dumitru of the EU Budget directorate general for providing me with a specially designed figure for EU revenues.

Finally, I wish to acknowledge the enthusiasm for the book by Rachel Sangester (Publisher, Economics) and Laura Pacey (Assistant Editor) of Palgrave Macmillan and for their excellent editorial work. And I extend my greatest appreciation to Vidhya Jayaprakash and her entire team for their excellent production.

Without the care, understanding and support of Diana, my wife, it would not have been possible for me to write this or any of my other books. Diana and I are fortunate to have our son, Mark, and daughter, Frances, working in the City in London and living not far from us, so constantly entertaining us, making life easier for research and writing; we are grateful to both of them.

About the Author

Ali M. El-Agraa, a British citizen, is Emeritus Professor of International Economic Integration at Fukuoka University in Japan. His main research interest is international economics, with most of his research concentrated on international economic integration. During his career, Ali has acted as General Consultant for the Anglo-Japanese Economic Institute, Senior International Consultant for the United Nations and Member of the Committee of the International Economics Study Group, sponsored by the UK Economic and Social Research Council. He has held visiting professorships at the University of York, the International University of Japan, Fudan University in Shanghai and Vanderbilt University after Sangyo. He was also Adjunct Professor of EU Studies at Kyushu National University, Seinan Gakuin University and Kyushu Sangyo University (all in Japan), and has taught several intensive graduate courses at the Japan International Development Institute sponsored by the World Bank in Tokyo, and Chulalongkorn University, in Bangkok, Thailand. Ali was with the University of Leeds during 1971–92 where he was a senior lecturer and a member of both University's Council and Senate as well as University Advisor to Overseas Students.

List of Abbreviations

AAU	Arab-African Union
ACC	Arab Cooperation Council
ACM	Arab Common Market
ACP	African, Caribbean and Pacific Countries Party to the Lomé Convention (now the Contonou Agreement)
AEC	African Economic Community
AL	Arab League
ALADI	Associação Latino-Americana de Integração (Association for Latin American Integration)
AMU	Arab Maghreb Union
ANZCERTA	Australia and New Zealand Closer Economic Relations and Trade Agreement (also CER)
ASEAN	Association of South-East Asian Nations
AU	African Union
BENELUX	Belgium, the Netherlands and Luxembourg Economic Union
BU	Benin Union
CAA	Civil Aviation Authority
CACM	Central American Common Market
CAEU	Council for Arab Economic Unity
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Association
CCP	Common Commercial Policy
CCT	Common Customs Tariff
CEP	Common Energy Policy
CEPGL	Communauté Économique des Pays des Grand Lacs (Economic Community of the Countries of the Great Lakes)
CER	Closer Economic Relations
CET	Common External Tariff
CFP	Common Fisheries Policy
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CM	Common Market
CMEA	Council for Mutual Economic Assistance

COMECON	*see* CMEA
COMESA	Common Market for Eastern and Southern Africa
COREPER	Comité des représentants permanents (Committee of Permanent Representatives)
CTP	Common Transport Policy
CU	Customs Union
DDR	Deutsche Demokratische Republik (German Democratic Republic, now part of Germany)
DG	Directorate General
EAC	East African Community
EAGGF	European Agricultural Guidance and Guarantee Fund
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECB	European Central Bank
ECCAS	Economic Community of Central African States
ECHR	European Court of Human Rights
ECJ	European Court of Justice
ECMT	European Conference of Ministers of Transport
ECOFIN	Economic and Financial Affairs Council
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDC	European Defence Community
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EEZ	Exclusive Economic Zone
EFSF	European Financial Stability Facility
EFTA	European Free Trade Association
EIB	European Investment Bank
EIF	European Investment Fund
EIOPA	European Insurance and Occupational Pensions Authority
EMCF	European Monetary Cooperation Fund
EMF	European Monetary Fund
EMI	European Monetary Institute
EMS	European Monetary System
EMU	European Monetary Union, or Economic and Monetary Union
EP	European Parliament

EPC	European Political Cooperation
Erasmus	European Community Action Scheme for the Mobility of University Students
ERDF	European Regional Development Fund
ERM	Exchange-Rate Mechanism
ESCB	European System of Central Banks
ESF	European Social Fund
ESM	European Social Model
ESMA	European Securities Market Authority
ESRB	European Systemic Risk Board
ETUC	European Trade Union Confederation
EU	European Union
EUA	European Unit of Account
Euratom	European Atomic Energy Community
EUROSTAT	Statistical Office of the EC/EU
FCO	Foreign and Commonwealth Office
FEER	Fundamental Equilibrium Exchange Rate
FEOGA (see EAGGF)	Fonds Européen d'Orientation et de Garantie Agricole (European Agricultural Guidance and Guarantee Fund)
FIFG	Financial Instrument for Fisheries Guidance
FSAP	Financial Services Action Plan
FSU	Former Soviet Union
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade (UN)
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFCM	General Fisheries Council for the Mediterranean
GNI	Gross National Income
GNP	Gross National Product
GSP	Generalized System of Preferences
IAEA	International Atomic Energy Agency (UN)
IATA	International Air Transport Association
IBRD	International Bank for Reconstruction and Development (World Bank) (UN)
IEA	International Energy Agency (OECD)
IEM	Internal Energy Market
IGAD	Intergovernmental Authority on Development
IGC	Intergovernmental Conference
IIT	Intra-Industry Trade

ILO	International Labour Organization
IMF	International Monetary Fund (UN)
LAFTA	Latin American Free Trade Area
LDC	Less-Developed Country
M&A	Mergers and Acquisitions
MEP	Member of the European Parliament
MERCOSUR	Mercado Común del Sur (Southern Cone Common Market)
MFA	Multifibre Arrangement (arrangement regarding international trade in textiles)
MFN	Most-Favoured Nation
MFP	Multi-Annual Framework Programme
MNE	Multinational Enterprise
MRU	Mano River Union
NAFTA	North Atlantic Free Trade Agreement (New Zealand Australia Free Trade Area)
NAIRU	Non-Accelerating Inflation Rate of Unemployment
NATO	North Atlantic Treaty Organization
NCB	National Central Bank
NEAFC	North-East Atlantic Fisheries Commission
NTB	Non-Tariff Barrier
OAPEC	Organization of Arab Petroleum Exporting Countries
OAU	Organization for African Unity
ODA	Overseas Development Aid
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
OMC	Open Method Cooperation
OPEC	Organization of Petroleum Exporting Countries
PAFTAD	Pacific Trade and Development Conference
PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Conference
PPP	Polluter Pays Principle and Purchasing Power Parity
PTA	Preferential Trade Area
PTC	Pacific Telecommunications Conference
QMV	Qualified Majority Voting
R&TD	Research and Technological Development
RCD	Regional Cooperation for Development
RIA	Regional Impact Assessment
RTA	Regional Trade Agreement
RTD	Research and Technological Development

SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Social Action Programme
SDR	Special Drawing Rights
SDS	Sustainable Development Strategy
SEA	Single European Act
SEDOC	Interstate Notification of Job Vacancies
SEM	Single European Market
SIAC	Special Immigration Appeals Court
SMEs	Small- and Medium-Sized Enterprises
TAC	Total Allowable Catch
TACIS	Technical Aid to the Commonwealth of Independent States
TARIC	Integrated Tariff of the European Union
TENs	Trans-European Networks
TEU	Treaty on European Union
TRIPs	Trade-Related Aspects of Intellectual Property Rights
TUC	Trades Union Congress
UDEAC	Union Douanière et Économique de l'Afrique Centrale (The Central African Customs and Economic Union)
UEMOA	West African Economic and Monetary Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UTR	Unilateral Tariff Reduction
VAT	Value-Added Tax
WEU	Western European Union
WTO	World Trade Organization

Introduction

The European Union (EU) is going through hard times. Some would even go so far as to claim that it is in the midst of a serious survival crisis. What are the reasons for such concerns? And to what extent are they justified? This book aims to analyse, discuss and illuminate such questions.

The EU was badly hit by the 2008 global financial crisis and its aftermath, so much so that in 2014 it was still in the process of weathering the storm, or rather the hurricane, with muted prospects for the immediate future. Indeed, a number of the Member States have yet to return to their 2008 pre-crisis gross national income (GNI) levels measured using the World Bank's *Atlas Method*: Croatia, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, Spain and the UK. Furthermore, despite 11 out of 28 EU Member States being a substantial number, almost all of the rest have only just managed to pass the threshold. As Table I.1 shows, this observation is more or less repeated using Purchasing Power Parity (PPP) GNI comparisons. Because the financial crisis wreaked so much havoc and many analysts and observers have blamed the euro for contributing to it, the appendix to this book is devoted to what was the real culprit: a combination of macro-imbalances and financial market developments and innovations. Because the euro was not the primary cause, this concern should not distract from the main message here, but the topic of the causes of the financial is necessary since it is referred to in several chapters of the book, especially in Chapter 6 on the EU's Economic and Monetary Union (EMU).

The Member States that have suffered greatly since the financial crisis blame Germany,[1] the richest and most populous EU Member State, for their misery, due to its running huge trade surpluses with them.[2] They also accuse it, together with the other larger Member States, of not offering sufficient gratuitous bailouts to help ease their pain. Moreover,

they are angry, again especially with Germany, for bullying them into submission,[3] due to the larger states' insistence that they cannot be bailed out unless they adopt appropriate austerity measures to attain sustainable fiscal positions and restore growth, and play by the rules of the EU game. In this regard, Greece stands out due to its having 'creatively' dealt with its national accounting in order to pass the criteria for joining the single currency,[4] for offering its people unrealistic and unaffordable pensions as well as earlier retirement, when life expectancy is on the rise, and for continuing persistently to deny that Greece is a culprit. All this has led to popular revolt and violent strikes, creating a culture of blame and shame. This has sown the seeds for uncertainty that threatens the cohesiveness of the club and encourages scepticism over the EU venture itself and what it stands for.

There has also been growing apprehension regarding whether the euro itself, and the EMU of which it is the jewel in the crown, can survive. That is because some Member States, and groups thereof, attribute the deep recession since 2008 to the consequences of the Eurozone membership ('Eurozone', being the general term, is used throughout this book or interchangeably with the EU jargon 'euro area'). Hence, they mourn the death of their previous national currencies for depriving them of the ability to conduct their own monetary and exchange rate policies to cater for their own unique economic problems. This they cannot do in the EMU because the European Central Bank (ECB) sets policy for the entire Eurozone. And, by definition, a one-for-all policy will not suit the particular needs of every single Eurozone Member State, unless all of them have precisely the same economic problems (being 'symmetric' in the economic jargon), which they have not. Others argue that the EMU would fare better provided some Member States exit the Eurozone, hence the popular term 'Grexit' for the case of Greece. But exiting was never considered an option when the euro was established in 1999. In fact there is not a EU treaty clause about leaving the euro, although, as shown in Chapter 2, there is such a clause in the Lisbon Treaty for those wishing to leave the EU. Indeed, if exiting were to become a reality, then those inside the Eurozone would have to take action to ensure that the EMU does not collapse altogether, and this would necessitate getting rid of the EMU's foundational failings, which are fully set out in Chapter 6: the lack of a common fiscal policy and a common banking union. But doing so would transform the Eurozone into more or less a single nation. Such further integration would leave those EU Member States outside the Eurozone regressing into second-tier nations, or even lower. This enhances the apprehension over the EMU as well as the EU itself.

Table I.1 EU Member States' population and GNI, 2008 and 2013

		GNI (WB Atlas Method)		GNI (PPP)	
	Population	**2013**	**2008**	**2013**	**2008**
Austria	8.50	411.7	390.1	371.3	330.9
Belgium	11.20	506.1	483.8	451.0	402.2
Bulgaria	7.30	51.1	43.4	110.4	100.8
Croatia	4.30	56.7	61.2	86.6	87.2
Cyprus	1.10	22.8	21.9	25.5	23.6
Czech Republic	10.50	190.0	186.0	268.7	257.2
Denmark	5.60	343.1	324.3	249.5	222.3
Estonia	1.30	23.0	20.1	32.1	28.1
Finland	5.40	256.3	254.9	209.3	203.2
France	66.00	2,789.7	2,699.8	2,481.2	2,229.8
Germany	80.60	3,716.8	3,487.3	3,590.7	3,083.4
Greece	11.00	248.6	304.3	282.7	321.8
Hungary	9.90	123.1	129.4	207.6	192.0
Ireland	4.60	179.4	223.1	161.0	164.2
Italy	59.80	2,058.2	2,139.8	2,040.0	1,974.9
Latvia	2.00	28.6	27.2	43.5	40.6
Lithuania	3.00	41.3	40.3	69.0	64.0
Luxembourg	0.50	38.1	40.9	31.7	32.6
Malta	0.40	8.3	7.7	11.3	10.0
Netherlands	16.80	797.2	802.8	726.0	690.8
Poland	38.50	499.5	452.4	859.1	670.7
Portugal	10.50	216.2	228.9	265.2	255.4
Romania	20.00	180.9	174.3	360.6	313.8
Slovakia	5.40	93.0	85.9	134.8	117.2
Slovenia	2.10	47.0	48.9	57.0	57.1
Spain	46.70	1,361.1	1,451.1	1,485.7	1,470.1
Sweden	9.60	567.3	483.0	428.4	378.0
UK	64.10	2,506.9	2,842.3	2,292.2	2,293.5
Total	506.70	16,444.2	17,455.1	17,332.1	16,015.4

Source: Selected from the World Bank's World Development Indictors (2014).

Moreover, many people and governments, especially in Germany, the Netherlands and the UK, are unhappy with the increasing number of immigrant workers coming to them from the new Member States. Two UK political parties (the Conservative Party and the UK Independent Party, UKIP); the Dutch Party for Freedom, led by the outspoken Geert Wilders; and the French National Front Party, headed by the equally vehement Marine Le Pen, stand out in this respect. This is in spite of the fact that most EU immigrants come to perform the jobs that the local population shuns or for which it does not have the expertise.[5] And, for instance in the case of the UK, more than 2 million British citizens have

not only found it desirable to comfortably and happily settle down or work in other Member States, due to EU membership, but also to be welcomed there with open arms. Demands for restrictions on the rights of movement run against the major 'pillar' of EU integration discussed in Chapter 6: the Single European Market (SEM). Hence, naturally, the other Member States, especially those in Eastern Europe, from where most of the 'unwanted' immigrant workers originate, deeply resent this, and so too do the British, and their ilk, residing in the rest of the EU. Such resentment is aggravated when it is perceived that the UK has no qualms regarding the number of mostly rich, by profession rather than wealth, French citizens residing in the UK; it is now popular to state that the 600,000 French living in London make London the sixth-largest French city. Such demands and concerns undermine the EU.

Furthermore, the UK's Conservative Party wants to change the EU treaties in such a way that it can pick and choose what suits its purposes.[6] It also wants to opt out of the European Court of Human Rights (ECHR), although the ECHR is not in the EU lexicon, that is, it is not enshrined in EU treaties. Since the Conservative Party has promised a referendum in 2017 to decide whether the UK will exit the EU, if it is elected to rule in 2015 and the changes in the EU that it seeks have not been accommodated, such a referendum is highly likely to take place. This is because the other major UK political party, the Labour Party, may have to match this commitment if it is to stand a chance of being elected to govern in 2015. This is in spite of the fact that the leader of the Labour Party, Ed Miliband, declared (in March 2014 and reiterated in late May after the European Parliament elections between the twenty-second and the twenty-fifth, as well as later on) that he would only hold a referendum in the event that Britain has to transfer fresh powers to Brussels. The UKIP's political agenda has as its main aim to take the UK out of the EU. Although it is a small party, it is increasing in popularity with the EU-sceptic British voter, gaining 25 per cent of the vote for the European Parliament (EP) in 2014 and winning two by-elections in England. And the Liberal Democratic Party, now part of the coalition government, although fully committed to EU membership, did very badly in the 2014 EP elections and lost its £500 deposit on seven by-elections since the 2010 general election, after securing less than 5 per cent of the vote, so many analysts believe that it is set to do likewise in the UK general election, and hence cannot be a force with which to reckon. Of course, the EU will survive in the absence of the UK, as it did before the UK joined, but that would go against the EU's aspiration of encompassing the whole of Europe and even to go beyond it (for example, Turkey is

a candidate for membership). As argued below, the departure of the UK would also diminish the EU globally since it is one of its largest Member States in terms of both population and GNI. These are unwelcome prospects for the EU.

Additionally, Spain has persistently refused to recognize Kosovo as a nation since its declaration of independence on 17 February 2008. This is because Kosovo declared its independence unilaterally, an act which Serbia does not accept due to its being adamant that Kosovo is an integral part of Serbia. Spain's refusal is due to its realization that in recognizing Kosovo as a unilaterally independent nation, it would be setting a precedent that would lead to its own disintegration. This is because Catalonia would be encouraged to follow in the footsteps of Kosovo. What this amounts to is that the right of every European nation to apply for EU membership, the basic precept of the EU discussed in Chapter 2, would be threatened since Spain is not likely to endorse EU membership for a country it does not recognize. The admission of new member states requires unanimity. This enhances apprehension about the EU's future.

Within this last context, one is right to ask about the implications of the Spain-Kosovo stalemate for those promoting the independence of Scotland. Of course, had Scotland decided to go its own way on 18 September 2014,[7] this would have greatly impacted the UK itself, but not necessarily for economic reasons: Scotland accounts for only 8.3 per cent of the UK's population and 8.1 per cent of UK's GNI. What is important is that the break-up would have undermined the over three-century 'unity' (by the Act of Union in 1707)[8] that has served the UK so well both internally and externally. The internal, such as the stability of having one currency, is too obvious to dwell on. The external would vitally have included whether the UK would continue to be one of the most influential EU Member States. At present, the UK, with a population of 63 million, has roughly the same population as that of France (66 million) and Italy (61 million), both about 20 million short of Germany's (82 million), but without Scotland, it would have been reduced to a halfway house between them and Spain (46 million). Since the EU needs a diversified 'leadership', a diminished UK would have left France and Germany at the helm, with Italy (61 million) a close third. Of course, France and Germany have arguably done an excellent job in guiding the EU since the establishment of the European Coal and Steel Community in 1951, when the EU had only 'the original' six Member States. But today with 28 Member Nations and more to come, surely, the number of those at the helm needs to be increased in order to carry the EU forward: more ideas can be produced than from a mere

two leading members! One of the salient points, however, is that, had Scotland decided to go independent, this would have been as a result of the people living in Scotland having so decided as agreed by the UK government. Thus, Scottish independence would not have raised the same problem for Spain, since independence would not have been a 'unilateral' Scottish declaration as was the case with Kosovo. In short, Spain would have had no reason to stop an independent Scotland from joining the EU. However, if the UK were to decide to withdraw from EU membership in 2017, then Scottish independence should be most welcomed by all those who believe in the importance of the EU. But one should not lose sight of the second salient point: Scotland's decision to stay in the UK enhances the prospects for a 'yes' vote in case of a referendum on the UK's EU membership, thus ensuring that the UK stays a major player in the EU.

Then there is the constant complaint about Brussels dictating the rules and telling everyone what and what not to do, the so-called Brussels diktat. Although, as we shall see in Chapter 3, this is a misconception, it nevertheless undermines the integrity of the EU amongst many of its citizens and adds to the apprehension.

There is more along these lines, but for the sake of brevity it is vital to consider some external EU factors. These come mainly from the major developments in the Far East, especially in China and India, and from across the EU's eastern border with Russia.

The emergence of China, with about one-sixth of the world's population (1.354 million), as the second-largest global economy after the US (certainly the first by the time this book is published), would of course be most welcomed by all those who believe that US hegemony in this respect has not been very good for the world. This welcome would also be extended to India if it manages to catch up with China, since its population (1.27 billion) is not that far off China's. Of course, in terms of income per head, both China and India are still very poor nations (China, $5,720; India, $1,580; EU average, $33,510; US, $52,340), so perhaps most people would be happy if and when they manage to elevate themselves to the status of 'rich' nations. Japan, although it has lost its number two position in the league of GNI, and is now standing third after China, is still a force with which to be reckoned, especially since it is a rich and technologically advanced nation. And there are several countries in its neighbourhood that have caught up (Singapore) or are gradually catching up with the advanced world, including South Korea and Indonesia, not to mention neighbouring Australia and New Zealand. Thus, the (extended) East is becoming the focus of attention in

terms of market access, competition, the finding of resources overseas for further development (China is doing so all over the world), and foreign direct investment (FDI). In this sense, the developments in the East offer both a challenge (competition for markets and resources) as well as an opportunity (new markets and FDI) for the EU. Obviously, it is in the interest of the EU Member States to realize the 'opportunity', but as will be discussed in Chapter 7, they would achieve this more readily by acting together, since each acting alone is not likely to be so successful. Yet, this is precisely how the Member States have been behaving.

Closer to home is the case of Russia. It has been exercising its position as the major provider of natural gas to the EU in politically unacceptable ways. This is not in reference to Russia holding the EU Member States to ransom by threatening to shut down the pipelines carrying natural gas to the EU via Ukraine whenever Russia is unhappy about a political issue[9] between the two. Such action would cut both ways: Russia's economy is largely driven by the income from energy sales to the EU. What is of major concern, however, is how Russia is behaving towards countries like Ukraine. In Ukraine, there is support, some would claim overwhelming support, for closeness to the EU (as the Kiev November 2013 protests and the results of the 27 October 2014 parliamentary elections have shown), including future membership. In order to dissuade the Ukraine government from acceding to this popular sentiment towards the EU, Russia's president, Vladimir Putin, has declared that Russia would come to the rescue of the financially troubled neighbour by providing it with $15 billion in loans and a steep discount on natural gas prices. This is a sharp rebuff to the EU for offering a far less generous deal, and is aimed at encouraging Ukraine's sentiments in its favour. But, Putin's main objective is that Ukraine would join his customs union with Belarus and Kazakhstan to develop it into a political and trading bloc to be known as the Eurasian Union, a counterpart to the EU. What is of the essence, however, is that if Russia succeeded in enticing Ukraine and bordering countries away from the EU, then the EU's aspiration for a club of the whole of Europe, however geographically loosely defined, would be undermined. Russia's annexation of the Crimea in March 2014 reinforces the EU's concern in this regard and so does its support for the pro-Russian fighters in Eastern Ukraine.

All this necessitates the publication of a basic book on the nature and importance of the EU that offers an insight for those interested in the workings of this politico-economic unit. The 'nature', because some of the mentioned accusations regarding the EU are completely false, indicating that the general public is still not conversant with what the EU

stands for or how it operates. It is vital that EU citizens be aware of the nature of the EU, especially at a time when some major political parties are promising to offer referendums on EU membership and others are canvassing hard against staying in the fold. And, it is equally vital to know why the EU is important for its Member States and its citizens, as well as globally. Therefore, this book begins by looking at the EU within the international context of global economic integration in Chapter 1. This is followed in Chapter 2 by a narration of the journey taken by the Member States to reach the present EU. Then, to dispel the accusations that Brussels is dictating the rules, Chapter 3 explains how the EU reaches decisions. Chapters 4 and 5, respectively and briefly, deal with the vast number of EU policies and how they are financed. Chapter 6 is devoted to the EU's pride, if not complete joy, the EMU, with its single currency. Chapter 7 spells out why the EU is important both for its Member States and globally. And the final chapter is devoted to where the EU is heading in the future.

1
The EU within Regional Integration Worldwide

1.1 Introduction

The European Union (EU) is a voluntary association whose membership is open to all European nations, provided they have democratically elected governments. At the beginning of 2014, it comprised 28 such nations and it has been getting much closer to encompassing the whole of Europe. Moreover, the EU has decided that Europe's traditional geographical designation should not be sacrosanct, and so has extended the right to negotiate membership to Turkey.

As an association of independent nations, the EU falls under the general umbrella of what is termed 'regional integration', precisely 'international economic integration' (IEI). This is because IEI is concerned with the creation of 'clubs' between some nations, to the exclusion of others, and clubs, by their very nature, discriminate against the non-members, the non-participants. Hence, the United Nations (UN), established in 1945 to promote cooperation between all governments, does not constitute IEI since its membership is open to all countries. Nor does the World Trade Organization (WTO), since its membership is for all nations that meet its conditions. Nor does the Organization for Economic Cooperation and Development (OECD), since, as a club of the richest countries in the world, it is open to all such nations and is therefore non-discriminatory. Nor does the Organization for Petroleum Exporting Countries (OPEC), founded in 1960 with a truly international membership, with the aim of protecting the main interest of its member nations, petroleum.[1] Nor does the Organization for Arab Petroleum Exporting Countries (OAPEC), established in January 1968.[2] All such organizations are for intergovernmental cooperation rather than IEI; therefore, except where appropriate, they will not be mentioned in this book.

IEI is in contradiction to 'multilateralism', under which all nations are treated equally, extending agreed 'arrangements' between them to the entire world. The WTO is the body entrusted to deal with IEI, but the WTO is based on the principle of 'non-discrimination'; hence, any analysis of the nature and importance of the EU would be vacuous if it did not commence with a treatment of the EU within the context of IEI and what the WTO has to say about IEI.

Thus the first aim of this chapter is to provide a precise definition of IEI since what it means to those specializing in trade theory is very different from what one would expect on purely linguistic grounds. The second aim is to examine how IEI fits within the WTO guiding principles because there is a contradiction between its commitment to non-discrimination and IEI. The third aim is to briefly describe the various schemes of IEI that have actually been adopted worldwide and to set the EU within their broader picture. The fourth aim is to consider why most countries seek IEI, that is, to examine what economic and other benefits become possible as a consequence of IEI. The chapter ends by raising pertinent EU questions.

1.2 What is IEI?

IEI is one aspect of 'international economics' that has been growing in importance for about seven decades. The term itself has quite a short history; indeed, there is no single instance of its use prior to 1942.[3] Since then, the term has been used at various times to refer to practically any area of international economic relations. By 1950, however, the term had been given a specific definition by international trade specialists to denote *a state of affairs or a process that involves the amalgamation of some separate economies into larger free trading regions* (author emphasis). It is in this more limited sense that the term is used today. It should be noted that IEI is also referred to as 'regional integration', 'regional trading agreements' (RTAs), 'preferential trading agreements' (PTAs) and 'trading blocs'. And one should hasten to add that IEI should not be confused with globalization, which is concerned with simply the increasing economic interdependence between nations.

More specifically, there are two basic elements to IEI. The first is the discriminatory removal of all trade impediments between at least two participating nations, discriminatory because such removal is not extended to the non-participating nations, the 'outside world'. The second is concerned with the establishment of certain elements of cooperation and coordination between the member nations. The latter

depends entirely on the actual form that IEI takes. Different forms of IEI can be envisaged (see Table 1.1 for a schematic presentation) and many have actually been implemented

1. Free trade areas (FTAs), in which the member nations eliminate tariffs among themselves but retain their freedom to determine their own policies vis-à-vis the outside world, the non-participants. Recently, the trend has been to extend this treatment to investment.
2. Customs unions (CUs), which are very similar to FTAs except that member nations must conduct and pursue common external commercial relations – for instance, they must adopt common external tariffs (CETs) on imports from the non-participants.
3. Common markets (CMs), which are CUs that also allow for free factor mobility across the frontiers of the member nations, that is, capital, labour, technology and enterprises should move unhindered between them, and services should be provided likewise.
4. Complete economic unions, or economic unions (EconUs), are CMs that also incorporate the complete unification of monetary and fiscal policies, that is, the member nations must introduce a central authority to exercise control over these matters so that they effectively become regions of the same nation.

Of course, the member nations may opt for a complete political union (PU), that is, become literally one nation, with the central authority needed in complete economic unions being paralleled by a common parliament and other institutions needed to guarantee the sovereignty of one state. But this would take IEI beyond the purely economic. Nevertheless, IEI has to be borne in mind since it has implications not just for the EU, and not simply because of the unification of the two Germanys in 1990, but also for other parts of the world, such as the pursuit of the unification of the Korean Peninsula. Also, one should naturally be interested in its economic consequences (see below). More generally, one should stress that each of these forms of IEI can be introduced in its own right; hence, they should not be confused with stages in a process which eventually leads to either complete economic or political union.

As a digression, it should also be noted that there could be sectoral integration, as distinct from general across-the-board IEI, in particular areas of the economy, as was the case with the European Coal and Steel Community (ECSC, see Chapter 2), created in 1951, and which is fully explained in Chapter 2. But sectoral integration is considered to be only

Table 1.1 Schematic presentation of economic integration schemes

Scheme	Free intrascheme trade	Common commercial policy (CCP)	Free factor mobility	Common monetary and fiscal policy
Free trade area (FTA)	Yes	No	No	No
Customs union (CU)	Yes	Yes	No	No
Common market (CM)	Yes	Yes	Yes	No
Economic union (EconU)	Yes	Yes	Yes	Yes

a form of cooperation because it is inconsistent with the accepted definition of IEI and also because it may contravene the rules of the General Agreement on Tariffs and Trade (GATT), which in 1995 began to be run by the WTO (see below). Sectoral integration may also occur within any of the mentioned schemes, as is the case with the EU's Common Agricultural Policy (CAP, see Chapter 4), but then it is nothing more than a 'policy'.

It has been claimed that IEI can be negative or positive.[4] Negative IEI refers to the simple act of the removal of impediments on trade between the member nations. Positive integration relates to the modification of existing instruments and institutions and, more importantly, to the creation of new ones so as to enable the market of the integrated area to function properly and effectively and also to promote other broader policy aims of the scheme. Hence, at the risk of oversimplification, according to this classification, it can be claimed that FTAs require only negative integration, while the remaining types need positive integration. This is because, as a minimum, they need the positive act of adopting common external trade, which entails long negotiations and compromises, and investment relations. However, in reality this distinction is over-simplistic not only because practically all existing types of IEI have found it essential to introduce some elements of positive integration but also because theoretical considerations indicate that no scheme of IEI is viable without certain elements of positive integration. For example, even the ECSC deemed it necessary to establish new institutions to tackle its specified tasks (see below and Chapter 2).

1.3 IEI and WTO rules

Given that IEI is a concern of the WTO, a few words on the organization and what it has to say about IEI are in order. Note that the WTO is the successor of the GATT. The GATT was signed in 1947 after the failure to