European Union

Lecture 2

30 September 2024

Aims of Lecture

1. Understand the Origins and Purpose of the EU
2. Analyze the Structure and Functionality of the EU
3. Investigate the Economic Performance of the EU
4. Comprehend the Membership and Convergence Criteria

European Union

- The European Union (EU) is the most advanced example of economic integration
- The idea to make the European Union came after World War II.
- The fundamental reason for the creation of the European Union was to promote economic cooperation and ensure peace through political stability.

Geographical Overview

Members

- It was founded in 1951 after the World War II by six countries (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands).

- 27 current member states
  (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden)

- 9 candidate countries
  (Albania, Bosnia and Herzegovina, Georgia, Moldova, Montenegro, North Macedonia, Serbia, Türkiye, Ukraine)

Population

Population (Values in millions)

Year	Population (EU)	Population (USA)	Population (World)	EU % Share	USA % Share
1990	420.31	249.62	5293.50	7.94	4.71
2000	429.34	282.16	6144.44	6.99	4.59
2010	441.55	309.33	6969.89	6.34	4.44
2022	447.37	333.27	7951.60	5.62	4.19

Resource: World Bank, World Development Indicators

Urban Population as a Percentage of Total Population

Year	Urban Population (EU)	Urban Population (USA)	Urban Population (World)
1990	69.37	75.30	43.00
2000	70.83	79.06	46.66
2010	72.97	80.77	51.58
2022	75.47	83.08	56.90

Resource: World Bank, World Development Indicators

Perspectives on the Economy

Market vs. Redistribution

- Europeans are committed supporters of the free market, but
- they place a premium on the redistribution of wealth and opportunity
- and on the responsibility of government to help maintain a level playing field

Perspectives on the Economy

Collective Society

- Europeans prefer the collective society
- the idea that key services (such as education and health care) should be managed and offered by the government
- and paid for out of taxes

Economic Structure of the EU

Single Market

- The European Union operates as a single market
- Includes 27 EU countries
- Involves 4 non-EU countries (Iceland, Liechtenstein, Norway, Switzerland)
- Goods, services, capital, and persons can circulate freely
- No technical, legal, or bureaucratic barriers

Economic Structure of the EU

Single Currency

- The euro was launched in 1999
- Official currency of 20 EU countries
- These countries are referred to as the euro area
- The euro facilitates advanced European integration
- Enables residents of the euro area to benefit from the single market
- Most EU countries export between 50% and 80% of their goods to other EU countries.

Production / Income

GDP (constant 2015 US$) (Values in trillion $)

Year	GDP (EU)	GDP (USA)	GDP (World)	EU % Share	USA % Share
1990	9.12	9.79	36.04	25.29	27.14
2000	11.26	13.72	48.39	23.29	28.39
2010	12.90	16.34	64.91	19.87	25.19
2022	15.29	21.24	90.37	16.91	23.51

Resource: World Bank, World Development Indicators

GDP per Capita (constant 2015 US$)

Year	GDP per Capita (EU)	GDP per Capita (USA)	GDP per Capita (World)
1990	21700.78	39200.07	6809.12
2000	26229.12	48616.25	7875.17
2010	29208.52	52821.40	9312.80
2022	34169.43	63720.76	11364.97

Resource: World Bank, World Development Indicators

Trade

Exports of Goods and Services (constant 2015 US$) (Values in trillion $)

Year	Exports (EU)	Exports (USA)	Exports (World)	EU % Share	USA % Share
1990	1.82	0.66	6.12	29.74	10.79
2000	3.57	1.32	11.57	30.82	11.37
2010	5.13	1.90	17.83	28.76	10.64
2022	8.20	2.43	25.97	31.54	9.34

Resource: World Bank, World Development Indicators

Imports of Goods and Services (constant 2015 US$) (Values in trillion $)

Year	Imports (EU)	Imports (USA)	Imports (World)	EU % Share	USA % Share
1990	1.83	0.72	6.12	29.96	11.77
2000	3.43	1.76	11.20	30.63	15.69
2010	4.86	2.32	17.59	27.66	13.22
2022	7.62	3.54	26.03	29.29	13.60

Resource: World Bank, World Development Indicators

Investment

Foreign Direct Investment, Net Inflows (Values in billion $)

Year	FDI (EU)	FDI (USA)	FDI (World)	EU % Share	USA % Share
1990	64.51	71.23	239.41	26.93	29.70
2000	633.99	349.13	1569.24	40.45	22.27
2010	477.12	264.04	1840.41	25.92	14.35
2022	154.71	408.98	1796.64	8.61	22.72

Resource: World Bank, World Development Indicators

Inflation and Unemployment Rates

Inflation Rate (Annual %)

Year	Inflation (EU)	Inflation (USA)	Inflation (World)
1990	6.15	5.40	8.06
2000	3.15	3.38	3.43
2010	1.53	1.64	3.33
2022	8.83	8.00	7.97

Resource: World Bank, World Development Indicators

Unemployment Rate (Annual %)

Year	Unemployment (EU)	Unemployment (USA)	Unemployment (World)
2000	9.82	4.00	6.13
2010	9.85	9.63	6.39
2022	6.15	3.65	5.26

Resource: World Bank, World Development Indicators

Governance Structure of the EU

EU has many of the typical features of an intergovernmental organization

- governance referring plays down the role of institutions and focuses instead on processes.
- membership is voluntary
- the balance of sovereignty lies with the member states
- decision-making is consultative
- the procedures used to direct the work of the EU are based on consent rather than compulsion
- financing of the EU is limited by the willingness of the member states

Governance Structure of the EU

EU has become more supranational

More than a standard international organization

reasons

1. involved transfer of authority than membership
2. decisions taken as a result of negotiations among the leaders of the states
3. a form of cooperation results in the creation of a new level of authority and separates from that of participating member states

Governance Structure of the EU

EU has become more supranational

More than a standard international organization

reasons (cont.)

4. its institutions mainly carry out the wishes of the member states
5. its institutions making laws and policies that are binding on the member states

Crisis as a Catalyst for EU Development

The EU has been built on crisis

- Jean Monnet warned in his 1978 memoirs that "Europe would be built through crises" and would be "the sum of their solutions"
- "People only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them"

Impact of Globalization on the EU

1. Globalization creates more frequent and more severe shocks economically than Europe has experienced since World War II
2. It is precisely the ability of economic institutions in the EU to respond effectively to the shocks of globalization that concerns European policy makers and citizens

Globalization: Emerging Threats

A growing backlash against the effects of globalization in the EU

Threats

- increased economic interdependence
- advances in technology, specifically in telecommunication and transportation
- the rising power of multinational corporations

Globalization: Emerging Threats

A growing backlash against the effects of globalization

Threats

4. the growth of international markets
5. the spread of a global culture
6. the harmonization of public policies in the face of common problems such as terrorism, pollution, and the spread of disease

Immigration: Emerging Threats

Immigration sparking a reaction against the weakening of international borders in the EU

Complex new patterns of migration have been driven by

- economic need and personal choice
- political instability
- mass international tourism

Regionalization: Accession to EU

As globalization reshapes economies and societies, the criteria for EU membership become increasingly important for regionalization.

- **Adapting to Global Standards**: Candidate countries must align their political and economic systems with EU norms to thrive in an interconnected world
- **Copenhagen Criteria: Ensuring Readiness for Integration** To effectively engage in the regionalization process, candidate countries must meet the Copenhagen criteria
(Political Criteria)
- **Maastricht Criteria: Economic Stability in a Globalized Economy** The Maastricht criteria focus on economic stability and convergence among EU member state (Economic Criteria)

Regionalization: Accession to EU

Before joining the EU, candidate countries must meet the Copenhagen criteria established in 1993.

Copenhagen Criteria:

1. **Functioning Democracy:**
    - Rule of law
    - Respect for human rights
2. **Market Economy:**
    - Capable of withstanding EU competition
    - No extensive subsidies or protective measures
3. **Administrative Capability:**
    - Ability to implement and enforce EU laws
    - Competent civil service

Meeting these criteria ensures candidates are prepared for EU membership and integration.

Maastricht Criteria (Convergence Criteria)

Each member state is required to meet the Maastricht criteria for Economic Stability

Five Maastricht Criteria

1. inflation rates within 1% of the three lowest inflation rates in the EU
2. interest rates within 1% of the lowest long-term government bond rates in the EU
3. the exchange rate within 2% of parity with the euro (ECU prior to 1999) for at least two years

Maastricht Criteria (Convergence Criteria)

Each member state is required to meet the Maastricht criteria for Economic Stability

Five Maastricht Criteria (cont.)

4. government budget deficit of less than 3% of GDP
5. government debt to GDP ratio of less than 60%

Maastricht Criteria (Convergence Criteria)

The Maastricht criteria were designed to ensure that each member state is committed to, and capable of, achieving price stability on its own.

Comparison

- The first three criteria measure price stability
- The final two measures aim to prevent pressures for increasing the money supply to finance excessive government expenditures.

Copenhagen and Maastricht Criteria: Foundations for Regional Integration in a Globalized World

- By adhering to Copenhag Criteria, candidate countries ensure they are politically stable and socially cohesive, which is essential for fostering cooperation within an interconnected Europe
- By meeting the economic benchmarks in the Maastricht Criteria, countries can enhance their competitiveness and resilience in the global market, facilitating smoother integration into the EU's single market and contributing to a more unified regional economy.