

European Integration and Market Economy Europe – A New Economic Order

PhD(C) Zurub Hosney¹ PhD(C) Brânzaș Benjamin Viorel²
PhD(C) Ionescu Alexandru Cosmin³ PhD(C) Bob Natalia⁴

The Academy of Economic Studies Bucharest, Romania

Email: haszurub@yahoo.com (Corresponding author)

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Abstract

The world is changing around us fast again, the end of world war two which founded the first European integration work which yielded finally to the European Union in 1951 can be now the same reason for further integration. The global economic competition for domination world markets from several world powers transformed globalization into a war. For the EU the challenges as a union are increasing and are not stopping but also becoming harder, 2012 was mostly about stopping European bank system from collapsing even with Mario Draghi's success on that boiling situation. Very little has been done to address debt legacy and social tensions which are worsening every month effecting EU stock markets. This paper aims to illustrate some aspects regarding the European economic integration through aspects related to major area fields such as energy, banking, fiscal regulations, FDI (Foreign Direct Investments) and demographics. The paper will also try to describe the concepts of market economy and European business integration models as solution to reduce costs and the effects on EU market, and also will focus on understanding the mission of European integration in public sector development, and the benefits on European community.

Keywords: European Integration, Market Economy, European Complexity

JEL Classification: F60, G38

Introduction

World War II ended and closed the page of decades of instability in Europe as countries have always invaded each other (McIver, 2011). WW II proved the potential of the European people especially in heavy industry and other sectors. The leaders of Europe in that time tried to find a solution for once and all for the instability to secure peace and prove Europe potentials and joined up the technological evolution of the US.

History shows us that EU was finally established in 1993 by the Maastricht treaty, before that the 'EU' was called the European Economic Community (EEC) within 1957- 1967, then from the European Community (EC) within 1967- 1993 (Rosamond 2000, Potts, 2008). After the Lisbon Treaty, the EU has been awarded with legal personality (EU, 2007), and this fact is providing full rights in negotiating and establishing partnerships with other international organization among the world. That means thus, that the EU is part of the complex

international relations environment with everything that this involves. Although the EU is having this official acknowledgement, there still occurs the concerning related to internal integration process. So far, the main EU leaders expressed an antithetic message during the last decades, in terms of optimism and results. As a proof, the examples of Cyprus and Greece are relevant for defining integration problems, even if Greece is part of EU 15 (first 15 EU State Members). Eventually, most recent global evolutions still consider the EU as one of the most well-fare political and economic organization among the world. In this regard, the number of immigrants might be relevant for measuring the attractiveness of the EU among other parts of the world: 434.160 asylum applications were registered in 2013, while 317.840 people were banned for entering the EU, this being a record for the entire planet (EC, 2105).

Literature review and hypothesis

Economic and political integration means that the member states must make decisions in a united form for any matter. As an example towards this, there are common developing policies for that five administrative institutions that were formed to set policies in several fields such as agriculture, consumer affairs, competition, environment and energy, transportation and trade (Brou, Ruta 2007), and a union constitution formed in 2007 that started to work within 2009.

Another question that arises from this integration process refers on how an international crises and an EU's member government bankruptcy could collapse EU in the long term? On this question there are many opinions towards how the EU community would react at a governmental bankruptcy, as this will definitely lead to a chained reaction (Spolaore, 2013). Many economists consider that the EU is about commercial integration and this configuration is just fundamentally economic in its core, which is not completely correct. And this is because the EU set an example in how to engage political social engineering to gradually eliminate geopolitics in the end so economy here is just a tool serving that, Georgetown University Charles Kupchan (2010) argues. Europe severely shackled by the recent economic crises causing some times doubts about the integration process itself explained by the lack of coherent response to the euro crises in last several 4 years. So that, these moments called into a question regarding the stability of euro integration and the functionality of its economic system (Conti, 2014). Starting with 2010 to present, the EC developed a plan for deeper integration between its members as a solution (EC, 2013), namely for reinforcing economic governance in the EU. The plan came in every critical moment of the crises after the State Members agreed of safety package of 750 billion Euros to prevent the government debt crises in Greece to spill over other members. The plan had 4 key elements 1- reinforced compliance with stability and growth, the second point focused on border surveillance of economic imbalance. The world economic shape changed in the last 25 years dramatic changes in the global economic order involves a relative decline of the EU and United States and a rise of new powers Asia, India and Brazil, and now Russia. The new world trade adjustments are already threatening social cohesion and political stability in Europe. The crisis has temporarily weakened the EU's status as a model for regional integration, but as the EU recovers its confidence, as it always has after previous crises, it will continue to be the leading example for other efforts at regional integration (EC, 2014b).

Analysis on Europe Union and strategic partners

As a factor in facing slow growth in Europe in the last decade is the immigration of production facilities outside its borders to Asia especially in China because it's cheap labor cost and lower

taxes. Multinational considers that away to minimize business complexity faces in their home country but in the same time, the Chinese are independent on the US and Europe to export their goods that they cannot sell domestically in China. This has been a real issue in the last decades, since there are many companies that decided to move large part of productive operations to China and Asia in general. The effects are quite bad for the EU, and there are more negative results after deploying domestic production to China or other large countries around the world. Since the average income gap is clearly massive between the EU and China, by exporting industry, the EU Member States are exporting jobs and growth. Figure no. 1 illustrates some relevant elements in the relation between China and the EU towards some macroeconomic indicators.

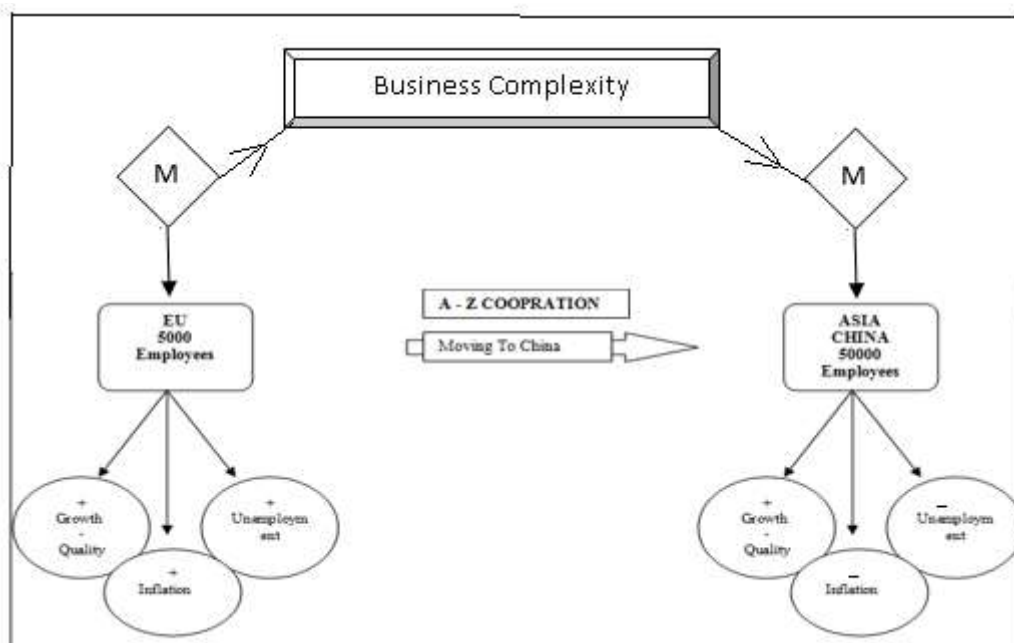


Figure 1 Business complexity influencing Macroeconomic indicators by exporting Multinational industries to China

Source: made by authors

In the scenario that by exporting industry among the Asian countries, the EU unemployment rate will increase, the integration process should definitely aim at reducing these global transfers of industrial operations. Moving further from this particular example, Figure 2 and Figure 3 expose the evolution of FDI related to different regions or countries. In some opinions, FDI inflows are having a positive impact on manufacturing (Hanson, 2001), while on services it is not clear that this inflow would lead to a positive result (Alfaro, 2003). In this regard, there are still some scattered opinions among the effectiveness of FDI inflows, depending on the studied sample (Haddad & Harrison, 1993; Hausmann & Fernandez, 2000). As talking about the EU's example on this topic, the following graph is showing that the amount of FDI inflows is decreasing on long-run, hardly passing the quarterly € 100 bn. level. The main reason for these results consist of investor's predilection to push money on cheaper labor markets such as Asia.

Figure 2
 FDI inflows, Q3 2009 - Q3 2013 (USD billion)

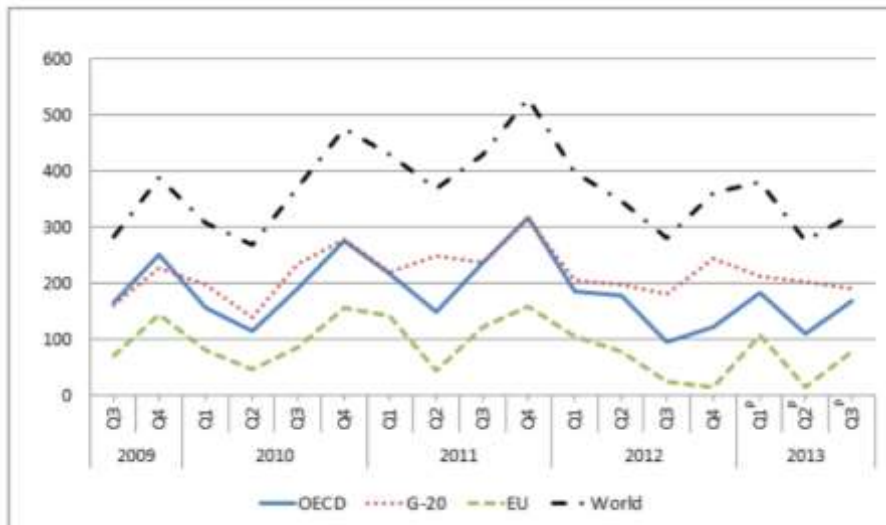


Figure 2 FDI inflows, Q3 2009 - Q3 2013 (USD billion)
 Source: OECD International Direct Investment database

In the same example, the following graph is revealing the stoppage of EU’s companies outflows starting with the last part of 2012. One explanation for this phenomenon might be the governmental aid and the banking support for local companies, in order to stop the FDI outflow. The results are still expected, since the EU unemployment rate is still high in most of its State Members.

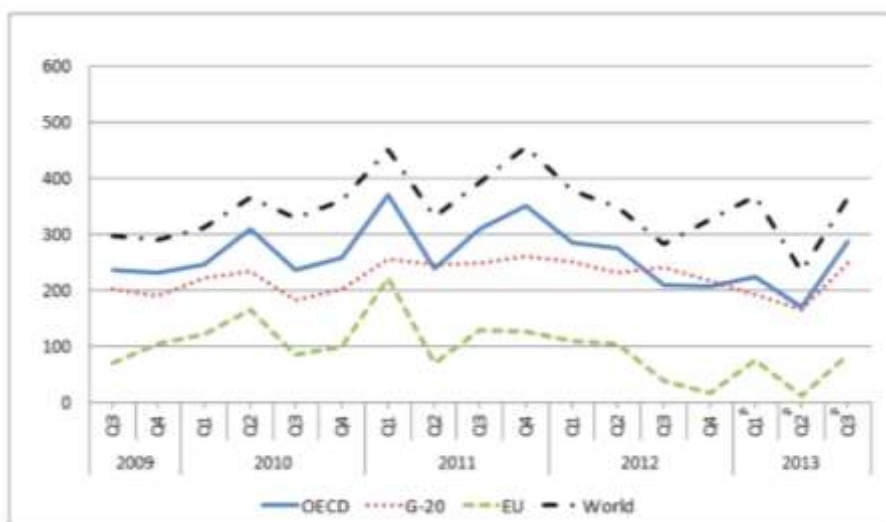


Figure 3 FDI outflows, Q3 2009- Q3 2013 (USD billion)
 Source: OECD International Direct Investment database

In order to stop the FDI outflow, the Commission established some financial plans that would refresh the industrial and productive sectors among the EU. The most relevant example related to this topic is the Juncker’s investment plan, the president of the EC (EC, 2014b). In accordance to this plan, every 1 euro invested by the Commission would lead to a total 15 euro engaged by private investors and PPP (Public-Private Partnerships). Figure 2 illustrates

the way how the Commission intends to gain the 15x multiplying effect throughout market's leverages.

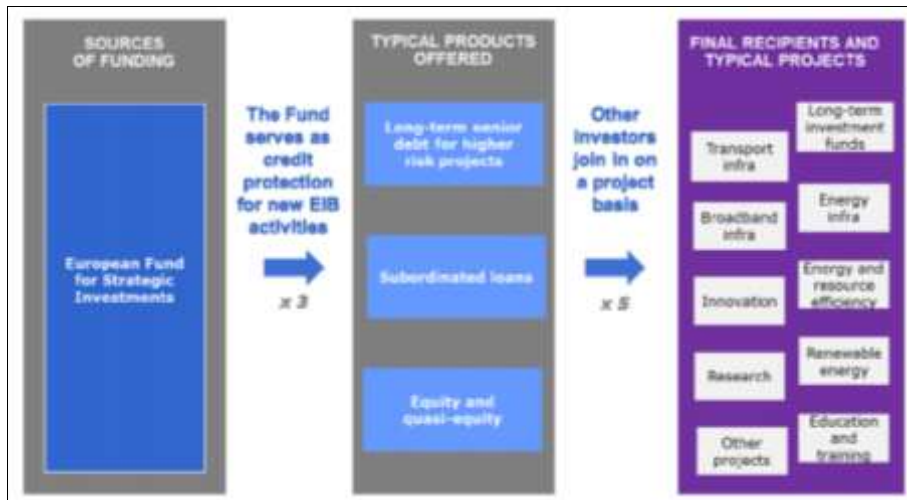


Figure 4 J.C. Juncker long-term investment plan

Source: EC, 2014

Anyhow, at this moment, at least in one part of the EU, there is available a certain set of aids in order to reduce the gap between the EU 15 and the State Members that joined the EU starting with 2004: ERDF (European Regional Development Fund), structural funds, agriculture, youth, research & development. As talking about the job exporting and increasing of unemployment rate within the EU countries, it is clear that Juncker's plan aims at reducing the value of these macro-indicators since these are already confirmed at an alarming level (EC, 2104b): the NEET rate (Not Employed, in Education, or other form of Training) among the 15-24 years old population is achieving a huge percentage in Italy, Belgium, Greece, Cyprus, Estonia, Croatia and Romania. That means these youngsters are not having literally any occupation every day, so that these are exerting an increased pressure on adults.

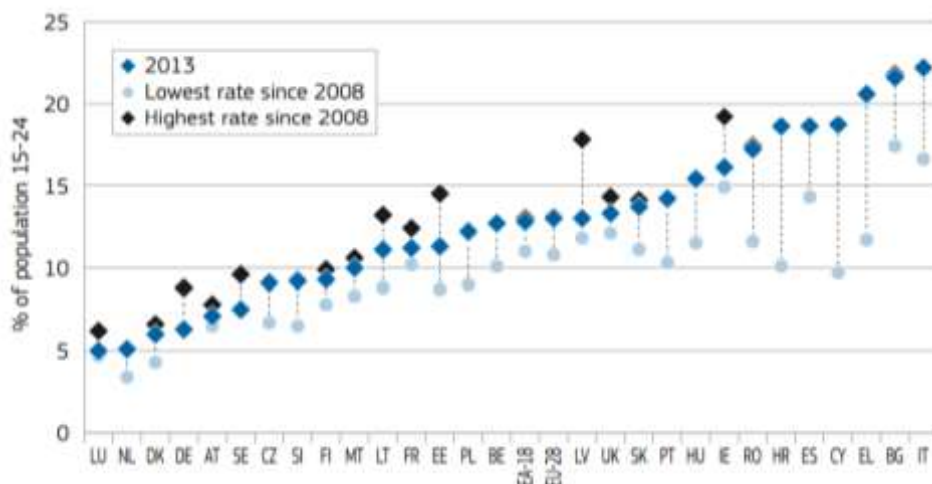


Figure 5 NEET rate for the EU, EA and Member States in 2013

Source: EC 2015

In the same time, the number of active adults is constantly decreasing in the EU states, since the indigenous natural increase is negative for most part of Europe (WB, 2013): for example,

in Central and Eastern Europe, the natural increase is calculated for 2013 at -1,82 with a clear negative perspective for 2014 and 2015. The clear consequence consists of a larger number of young people to ask financial support from a decreasing number of active adults (Zaidi, 2008), with the perspective of an emphasized pressure in the next decade. Still, there is considered that the immigration policies will reduce this pressure as the trend is still maintained.

Another relevant topic in this discussion is banking system integration among the EU State Members in the way that Mario Draghi intended to. Banking Unity between Euro members acting with as a single policy and regulation system can be one of the parameters to form a soiled European formation society. After the hit of the financial crisis in the latest several years, more procedures are going forward to fulfill this union, which can also avoid the collapse in the banking sector in a number of EU countries and Europe zone. The whole process led to an increase in government spending in a poignant and thus contributed to the outbreak of the sovereign debt crisis in the euro zone. Figure 6 illustrates an example of how the most relevant banking indicators emerged within a 10+ year's length. According to the graphs in figure number 6, we can notice during years 2007 till 2010, European banking funding model where shaking in terms of access and cost in front of the economic crises, (Rixtel A. & Gasperini G. 2013) effecting directly their own financial statement. European banks adopted a leveraging up their funding structures mainly from wholesale funding.

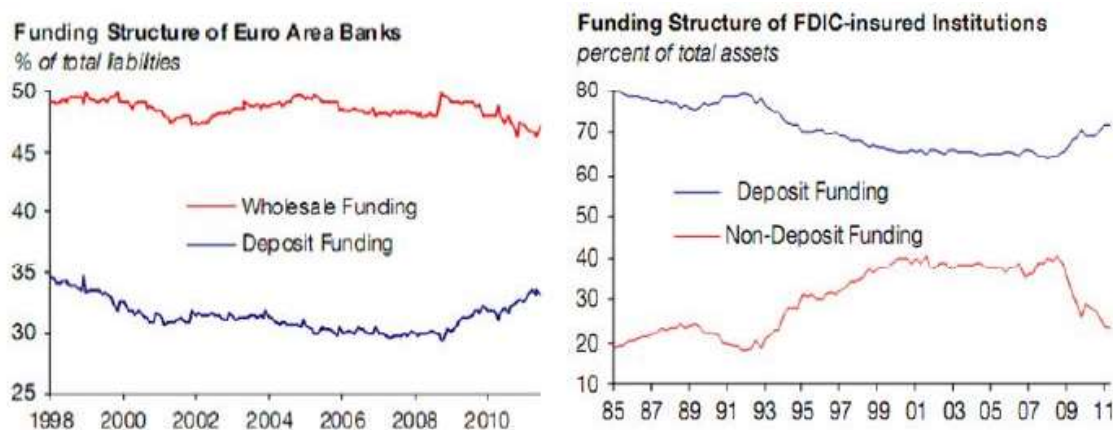


Figure 6 Funding structure, deposit vs. wholesale

Sources: ECB, 2011

The 8300 Europe Banks as a whole, according to the European Commission (EC, 2014a) being united under one system umbrella will help to form new mechanisms based on bank capital size, liquidity ratios and reserves, which are items agreed on by Europe zone member countries in global Basel and Europe area further amendments conventions. The mechanisms in the banking union need to tap the management of banking institutions, ensuring diversity in management positions, with strict limitations on bonuses granted to administrators in these institutions (Berger, 2007). In addition, the new framework of the European Union banking needs to insure guarantees on deposits up to € 100K, in the event that these banks severe of a certain crises. Such measurement reassures depositors in the first place to boost confidence and stabilize the financial sector, and avoids panic and drags excessive withdraw deposit operations in an event of crises. The new EU rules also provide may also allow legal necessary intervention for authorities in financial institutions which is crucial before any crisis trigger and ensure the existence of different arrangements to address potential problems.

Also, such a unity system may allow the authorities to intervene, temporary appoint administrators in banks for a limited period until critical situations are passed. The union banking system must create a special joint fund, a component financed through deductions by every and each bank in the system, Germany in particular is supporting a such model and pressure to be generated such a specific fund to each individual country (Engel & Middendorf, 2009), financed through deductions from its banks, then merge in a joint fund after 10 years to contain approximately € 55 bn., the current debt situation of a number of European banks threats such effort, but started already to be practiced on a country or two.

Along with the banking union, the integration EU process requires an additional process, namely the integration of fiscal policy. The fiscal policy is another parameter from our opinion to further full integration in the EU zone. Finding the right united taxation system is a key to eliminate underground economy between the State Members, to stabilize inflation rates and to ensure an appreciated transparency for business activity between the autochthonous companies. Such a system can provide anti-monopoly regulations in several sectors within the EU, resulting in an encouragement for competitiveness and innovation. A united code for fiscal policies can influence the decrease in the budget deficits of the EU zone countries, can support exportation increase and encourage domestic industry. Figure 7 is relevant for how the EU is harmonizing its fiscal policy towards Euro zone and the US, the graph below shows similar movements trends in the euro zone and the US. The US is the first main importer from the Eurozone, the graph shows that crises effected the fiscal balance for the same reason in the same way and that's go for the interconnections of both economies.

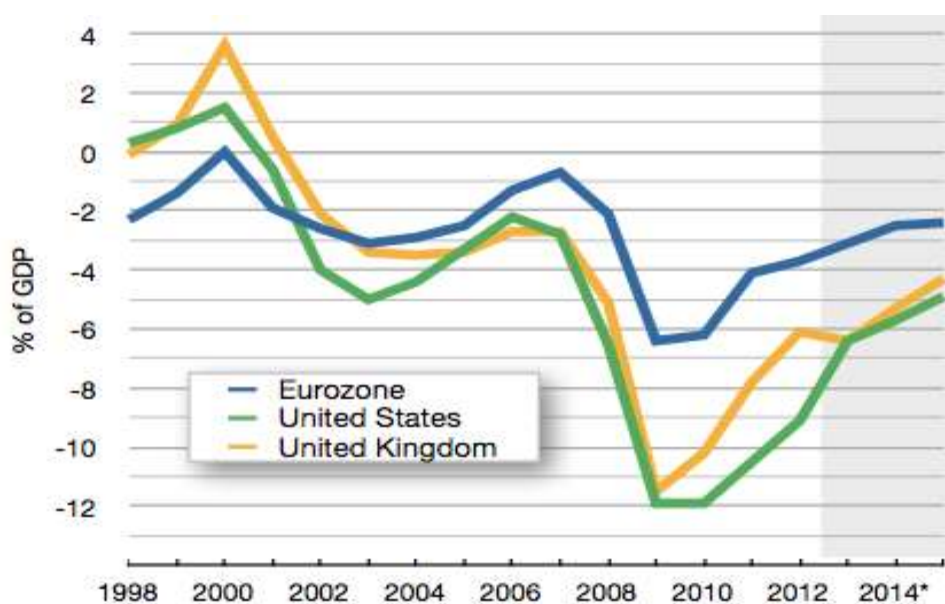


Figure 7 Fiscal balance

Source: Eurostat and OECD

* Eurostat estimates from November 2013

As a short additional glimpse on the energy market, an edifying element to the EU integration process is the liberalization policy. Analyzing some particular aspects regarding the liberalization of EU's energy market exposed the fact the energy security is the main path of having long term competitive advantages towards other large and developed economies such as US or China. In this regard, the struggle of Russia to split the EU members into dependent and non-dependent might be the hardest challenge in the next decade (Umbach, 2010), since

Russia is not having the best relations neither with China, nor with the Middle East, despite the official declarations.

Of course, in achieving this goal, there are some clear boundaries established even by EU's partners, in order to block or to slow down the progress of energy securing process. Even if these unlikely events would happen, the double-standard approach should not be canceled on long-run (Cooper, 2003), since the geopolitical power may be crucial in negotiating energy supply from outside. Anyhow, the international community have to admit that European Union is right now one of the most important energy actors among the world, with one of the highest capacity of consumption and development. Still, there are doubts in declaring an early success for EU's energy security, since the integration process is not completed yet.

Conclusions

The actual status of the European Union is considered to be a much developed one, comparing to the early 2000's. There are multiple macro-indicators that reveal how the European community persisted in gaining a converged result on long-run. This paper chose a set of four relevant areas that might describe the EU's integration progress in the last decade: FDI, banking, fiscal regulations and energy market. An addition to these factors, we considered demographic indicators as an independent variable that can lead to some evolutions for above mentioned factors. Figure 8 illustrates a picture of these factors and the major goals of the EU integration process.

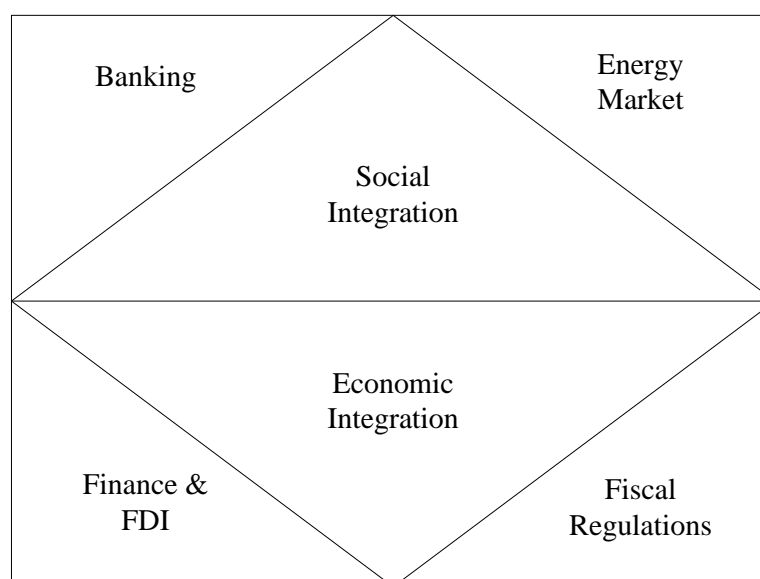


Figure 8 EU integration factors

Source: made by authors

According to this illustration, the main areas of integration target social integration and economic integration. Since the economic integration might be clear as a goal, as the EEA (European Economic Area) is one of the major EU communities established for the same purpose (EU, 1994). As about the social integration, this goal was established by the European Union within the Europe 2020 Strategy (EC, 2010), as a Europe that promote social inclusion on long-term. Bearing in mind these aspects, we consider that the paper is approaching in a linear approach the EU integration process through recent evolutions of these indicators. We considered those four areas are creating the highest impact both on economic and social integration process, promoting a complex interaction paradigm.

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Corresponding Author

PhD(C) Zurub Hosney ,The Academy of Economic Studies Bucharest , Romania Haszurub@yahoo.com ,6 Piața Romană, Bucharest 010374.

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