THE EUROPEAN UNION: PAST, PRESENT, & FUTURE

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ABSTRACT

Some extraordinary events have been taking place in the European Union in recent years. This group of countries has introduced a new currency, has expanded to a 25 member country single market, and is in the process of implementing a European Union constitution. Because these events will have an impact on the United States and on global business, it is important to monitor and evaluate activities of the EU. This paper briefly reviews the development of the European Union, then discusses recent events and the implications of European Union activities for business, and looks at future possibilities for the EU.

THE PAST

History

In 1952 six countries (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) joined together to create the European Coal and Steel Community when they signed the Treaty of Paris. The purpose was to create a unified market for coal and steel products, lift restrictions on imports and exports, and to create a unified labor market [11, 14]. In 1957, the Treaty of Rome was signed creating the European Community (aka European Economic Community). The Treaty of Rome created the common market and identified key objectives which were: the elimination of internal trade barriers, the free movement of labor and capital, free movement of goods and services through the harmonization of member country laws, and the establishment of common policies in agriculture and transportation. The Single European Act was adopted in 1987 and committed the EC to work toward the development of a single market by 1992. The Maastricht Treaty of 1991 set the European countries on a road toward full economic and monetary integration. So important was this step that the member countries changed their name from the European Community to the European Union. On January 1, 1999, the euro went into effect in 12 of the 15 European Union countries (Britain, Sweden, and Denmark have opted out of using the euro as their national currency) and coins and currency were issued on January 1, 2002 [9].

THE PRESENT: 2002-2005

The euro

It was expected that an economic and monetary union would provide greater macroeconomic stability and improve the efficiency in the euro area. After five years, an evaluation of the impact of the euro suggests there has been some success in achieving these objectives. In a report issued by Europa [10], the goal toward achieving macroeconomic stability has been successful. The economies of the euro countries have achieved a reasonable degree of nominal convergence. Short term interest rates are going down and inflation is at a level that is consistent with the European Central Bank's definition of price stability. However, GDP growth and productivity trends have been disappointing. Overall, the monetary policy of the European Central Bank has created a stable macroeconomic environment.

It was expected that the introduction of the euro would increase competition and change the behavior of firms. Evidence indicates that the single currency has increased the attractive of foreign investment in the euro area. There has been progress toward the integration of financial markets. Today there is greater access to capital, reduced risk, reduced costs of financing, and increased resilience of financial institutions. However, there are still some barriers (cultural, regulatory, legal, and technical) that will continue to obstruct financial integration.

Enlargement

On May 1, 2004, the European Union expanded its membership to include 10 new countries, for a total membership of 25 countries. The 10 new members are: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. The United States and Japan are the two largest markets outside of the EU for EU products and are the largest non-European suppliers [9]. Key statistics comparing the EU 25 countries with the U.S. and Japan are shown below.

Key Statistics

	EU 25	US	JAPAN
Population (2003 millions)	454.56	293.03	127.62
Unemployment rate (2003)	9.1%	6.0%	5.4%
GDP (2003, USD billions)	11,017	11,000	4,301
GDP per capita (2003)	$24,027	$37,756	$33,720
Inflation (2003)	2.0%	1.6%	-0.2%
Total Imports (2003 USD billions)	1,047	1,517	477
Total Exports (2003 USD billions)	1,250	1,021	597
World Import Share	14.0%	22.9%	6.8%
World Export Share	13.1%	13.8%	8.5%

Source: (European Union, 2005)

Positive and negative effects of the enlargement of the EU will be felt not only in the European Union, but throughout the world.

THE FUTURE

What events will occur in the European Union in the foreseeable future? How might current events affect the future of the EU? It might be appropriate to first discuss the future enlargement of the EU. As new countries become members there will be low-cost labor available for labor intensive industries for a number of years in the future. This will reduce costs of production and because all firms are located in the single EU market, shipping costs will be low and goods will not be subject to tariffs. This may result in greater efficiencies for EU firms.

- *Proposition 1: It is expected that the EU union will continue to enlarge to at least 33 members within the next 10 years. Additional growth may occur if EFTA countries, other European countries currently not members, microstates (Vatican, Andorra, Monaco, San Marino), and former soviet states are considered for membership.*

By May 2005, the European Constitution has been ratified by 9 countries and rejected by 2 countries. It is expected that England will postpone any vote on the constitution until 2006 and the remaining 13 countries still need to go through the approval process (by vote or referendum). Government officials of the EU and the 25 member countries place great importance on the constitution and will continue to work on gaining support from all member countries. France and the Netherlands could vote on the constitution again at some time in the future. However, the two ‘no’ votes have created a great deal of discussion about the concerns of the constitution. Many feel that the constitution is too cumbersome and has created a too centralized bureaucracy (which the people refer to as “Brussels”). Even if the new constitution is not approved by all 25 members, the EU can continue to function on the basis of earlier treaties [7, 16].

- *Proposition 2: There is limited expectation that the constitution, in its current form, will be approved by all member countries. The constitution needs to be re-written so that it is simpler and clearly defines the distribution of powers.*

Although the EU allows free movement of labor, there are numerous obstacles to workers moving from one country to another that decreases excessive immigration into western European countries. As a result, companies are beginning to move from Western Europe to the new member countries in the east in order to take advantage of lower wages levels, lower business tax rates, and other incentives.

- *Proposition 3: As a result of limited labor mobility, EU businesses will relocate to the ten new member countries to take advantage of lower labor costs.*
- *Proposition 4: Western EU countries will change incentives and tax structures in order to retain businesses.*

One goal of the European Union is to become a major political and economic entity in the global environment. However, enlargement of the EU will be costly as subsidies to eastern EU countries will be approximately $40 billion between the years 2004 and 2006 [6]. It would be expected that much of the EU’s energies will be focused internally rather than externally. In addition, there has been little cohesion among EU government officials in their views of recent political issues (one example is the war in Iraq).

- *Proposition 5: The European Union, as a single force, will have a limited role in world political issues but a greater role in business & economic issues as the number of potential consumers and workers grows and the business climate remains conducive to foreign firms.*

Many people and government officials throughout Europe held great hopes for the euro when it was launched in 1999. It was predicted that the euro would become strong currency in the world currency markets, would bring many benefits to businesses and citizens in the euro area, would create stability, and would compete with the U.S. dollar as a reserve currency. By 2005, we find there are some economic problems in Europe and the euro-area many of which are blamed on the euro. With the divergent business cycles, heterogeneous economic environments, and limited mobility of labor, it is suggested the current policies in place in the European Union may be insufficient to deal with the problems [8]

- *Proposition 6: The euro will not take its expected place as a strong currency in the world currency market within the foreseeable future. Continued economic problems will continue in EU countries and monetary actions taken by the European Central Bank will have limited results.*

REFERENCES AVAILABLE ON REQUEST