

14/11/14

Regional Organisations / Integration

EU as a regional integration model

Why regional integration is proposed?

It offers an alternative to traditional Balance of Power politics. ⁶

EU is the earliest & most successful model of regional integration.

Europe has seen many years of war.

WWI & WWII completely devastated

Europe. Hence leaders were looking for alternative type of system, reinterpretation of the concept of security and national interest.

Robert Schuman

Jean Monnet

R.S. - Father of EU (then Foreign Min. of France)

Philosophy of EU.

- It is based on ideas of Immanuel Kant and Victor Hugo.

Theory on which EU is based

Functionalism and Economic Interdependence.

& also sociological liberalism (concept of security community).

Introduction of EU as a regional organisation

- EU is an economic, political & strategic partnership of 28 European nations.
- EU has been consistently enlarged.

EU enlargement is also an issue of political concern.

No. of times EU has been accused of interfering in domestic affairs of countries wishing to join EU, thus forcing these countries to streamline their policies.

In 1990, after disintegration of Communism, EU expected major expansion. In this context Copenhagen Criteria has come into existence. Copenhagen Criteria has following requirements.

- Geographical

Any European country can become member.

- Political

It should be functioning democracy, respect for human rights, protection of minorities & rule of law.

- Economic

It should have free market economy & ability to take obligations of economic & monetary union.

Comparison with ASEAN

- 'ASEAN WAY' implies non interference in domestic affairs & often ASEAN is criticised for not giving adequate attention to democracy & human rights specially in context of Myanmar. However in recent times, ASEAN is also moving in direction of EU. Now ASEAN has a constitution of its own known as ASEAN Charter which commit countries to respect human rights.

master currency
Eurozone.

Lisbon Treaty - Management of EU.

guided democracy
partial military control

Expansion of EU

(Benelux)

- In 1952, 6 countries France, Germany, Italy, Belgium, Netherlands & Luxembourg (Benelux) founded European Coal & Steel community

First expansion 1973

- In 1973 Denmark, Ireland & UK joined Europophone nations European Economic Community.

These countries are known as Europophobic nations & they have not joined all treaties of EU, rather prefer an "opt-out clause".

- France & Germany are the core EU countries (Europephiles)
- UK, Denmark & Sweden have kept themselves out of Eurozone.
- UK, Ireland & Denmark have kept themselves out of EU's Justice & Home Affairs.
- Denmark has kept itself out of Common Defence Policy.

Second Expansion 1981

- Greece joined EU.

3rd expansion 1986

- Spain & Portugal joined EU.

Since then EU is also divided betⁿ core countries & peripheral countries. Core countries are economically advanced countries whereas peripheral countries are comparatively weaker economies.

4th Expansion 1995

- Austria, Sweden & Finland joined.

5th expansion 2004

- The largest expansion

- 8 countries from former communist bloc joined
Czech Republic, Hungary, Poland, Estonia,
Latvia, Lithuania, Slovakia, Slovenia.

- 2 Mediterranean nations also joined

Cyprus & Malta.

6th Expansion 2007

- Bulgaria & Romania joined

7th Expansion 2013

- Croatia joined EU.

Expected to join: following countries

- Albania

- Macedonia

- Serbia

- Montenegro

- Bosnia

- Kosovo

- Iceland

- Turkey

Question of Turkey's integration in EU

- Germany doesn't favour Turkey's entry into EU. Germany has some differences with US on foreign policy aspect. So Germany wants to adopt more autonomous approach and freedom from USA.

- Germany is apprehensive of Turkey as it may

weaken EU like UK.

- If Turkey joins EU, it will be the 2nd largest populated country & in the coming time it may become the largest in terms of population, thus impacting present status of Germany.
- EU countries are apprehensive of
 - Illegal immigration from Turkey
 - Movement of cheap labour
 - Turkey's dominant religion is Islam & EU countries think that it may impact EU's homogeneity
 - EU will be expanded to the troubled zone
 - It will enhance EU burdens

Nature of EU as a body

EU has mix of intergovernmental and Supranational bodies.

EU has 3 pillars

multitrack

- Economic Community

Deepest integration

Free Trade Area, Custom Union

Common Market - free movement

- Security & Defence Policy

Capital, people, goods, services

Decisions are taken with

Common currency

consensus though there is a possibility to take decision by double majority

Lisbon Treaty has created an office of High Representative representing EU's position on Security & Defence issues.

• Justice & Home Affairs

Issues like asylum, organised crime, human rights, labour policies.

Since Lisbon Treaty, integration in this sphere has also become deeper.

EU Institutions

1. European Union Council

Heads of state meet

It symbolises EU Summit

Topmost decision making body

can have many Summits in a year.

can appoint anyone as Presidents.

2. European Commission.

• This represents EU.

• Supranational body.

India - EU Summit

like SA

implement decisions of European Council

It also has its own President. Jean Claude Juncker

He represents EU.

3. Council of European Union

(Council of Ministers)

prepare groundwork for EU Summit

Presidency rotates for 6 months among countries.

4. European Parliament

751 seats

members are

Now directly elected by list system.

Seats are allocated to proportion of population

to different countries.

Sp

Other bodies of EU are

- EU Court of Justice
- EU Court of Auditors
- European Central Bank

Note:

In Lisbon Treaty to address democratic deficit, powers of European Parliament have increased.

Functioning of EU

- Legislations are initiated by Council of Ministers
- Parliament can't initiate legislation but it can amend it reject it & consent of Parliament is necessary for acceptance of the proposal.
- Parliament approves allocation of EU budget.

Evolution of EU

- 1952 Treaty of Paris
 - It resulted into formation of European Coal & Steel Authority
 - According to Jean Monnet, purposefully coal & steel was chosen, the materials used for armaments. Same will be used for establishing lasting peace in Europe.
 - First body of ~~Created~~ High authority.
- Treaty of Rome, 1957
 - Within 5 yrs, members created new communities
 - At Now EU had ECSC (European Coal & steel Community)
 - European Economic Community
 - European Atomic Energy Agency (EURATOM)

- Single European Act, 1987 (SEA)
 - It took 30 yrs for the next development.
 - This act introduced qualified voting system & greater powers to European Parliament.

- Maastricht Treaty, 1992

Background

- Disintegration of Communism &
- Unification of Germany

From Maastricht Treaty, European Communities came to be known as European Union.

- It resulted into an agreement for creation of monetary union or Eurozone.
- It also expanded EU's involvement in domestic affairs and security & defence area.

- Treaty of Amsterdam, 1995

- Brought employment, working condition, legal issues under EU.

- Treaty of Nice, 2000

Purpose: To streamline EU institutions.

- Treaty of Lisbon, 2007

- Reason was enlargement of EU and before enlargement takes place, EU members wanted creation of EU constitution. However proposal for Constitution was rejected in referendums in Ireland & Denmark. So in place of Constitution another Treaty came into existence to streamline EU institutions.

L.T. Facts :

- It gives greater powers to Parliament
- It has increased the areas for qualified majority & reduced areas where consensus is needed to speed up decision making process in EU.
- It has strengthened EU's identity in intⁿ sphere by creating Office of High Representative. Vice President of E.C. Commission, Security, Foreign.
- It has introduced Charter of Human Rights & made it obligatory for all members to observe Human Rights.

Experiences From EU integration

- It shows the limitations of Realist approach that nations only think about national interest & intⁿ sphere is anarchical in structure.
- It also suggests that projects of such dimension may require extraordinary patience.
- The biggest role for success of EU is the political will shown by leaders of Europe. & it is an exceptional courage which France & Germany have shown.
- It has shown Germany's exceptional will to move under the leadership of France.
- There can be gaps in the process of integration but show must go on.
- As far as EU is concerned, external factors have also played role. EU
 - US has pushed EU against the threat of Communism. External factor also worked in case of ASEAN.
 - The external push factor has been missing in South Asia.

Eurozone

- Presently Eurozone has 18 countries, Latvia being the last country to join & Lithuania may be the next to join in 2015.

Conditions for Eurozone

- It is known as convergence criteria. So
 - Sound Public finance, means govt. should avoid excessive budgetary deficits.
 - Public debt can't be more than 60% of GDP.
 - Note: Pub. debt of Greece was 130% of GDP.
- Price Stability
- Exchange Rate stability
- Stability in long term interest rate

Advantages of single currency

- It is a natural culmination of single market.
- It reduces transaction cost.
- It results into stabilisation of exchange rate
- It protects from competitive devaluation.
- It is easier for the countries trading with EU
- It is beneficial for weaker economies as they can attract more investment.

Disadvantages of single currency

- In case of Current Account Deficit, country has no option for devaluation of currency to promote its export.

Exit Clause

- Lisbon Treaty for the first time introduces exit clause

6 pack of 5015
15/11/14

from membership of EU but does not mention exit clause from Eurozone purposefully.

- It will be difficult to maintain the discipline in fiscal deficit if exit clause is permitted.
- This is the reason EU also did not permit Bail-out package for countries to ensure fiscal discipline. However after Eurozone crisis EU has established a permanent facility in IMF known as "EU financial stability Mechanism" to provide emergency support to the countries in trouble.

EU since Eurozone Crisis

The crisis that impacted different countries of EU is primarily a sovereign debt crisis.

Ireland
Banking
crisis

Greece continued to borrow heavily from intⁿ markets to pay budgetary deficit and trade deficit. They were not providing correct data to EU. Different reports pointed towards the Greek Debt crisis. Investors lost confidence in the capacity of govt. to repay the debt. They demanded higher interest rate which further worsened the situation.

Crisis spread to other countries, So called Pigs PIGS. (Portugal, Ireland, Spain, Greece).

EU after Crisis

- Scholars predicted the breakdown of Eurozone as Greece was seriously thinking about exit.

- It showed some of the weaknesses of monetary union. Monetary Union without fiscal union & economic union may not be sustainable.

- EU leaders took long term & immediate actions to restore the confidence.

- Establishment of EU financial stability mechanism with IMF.

- A long term strategy for growth of Europe known as EU2020.

Objective of EU2020 is to address the structural weaknesses of EU, promote employment, entrepreneurship & social cohesion.

- They launched EU bonds

- Launched 6-pack & 2-pack strategy for greater discipline among states, which is now known as fiscal compact. (It was proposed by Germany).

- Introduced European Semester to keep surveillance on budget of EU countries.

European Semester

- It will start in February. January.

- EU will publish Economic Survey & will decide the priorities.

- In February European Parliament & Council of Ministers will discuss the Survey and priorities.

- In March, final guidelines to be prepared & communicated to the states.

- In April, member states will finalize their budget & submit it to EU.

- In June/July, EU will approve the budget.

Δ give country specific recommendations.

- In June, the Council of Ministers will adopt it.
- In ~~August~~ July, govt will present the budget to their national Parliaments.

Analysts of developments so far

- Leaders have shown commitment to strengthen EU taking harsh measures.
- The recent elections to European Parliament show that people are feeling discomfort with EU. They are opposing austerity measures. There has been rise of Europhobic parties. There has been a rise of rightwing parties in France, Denmark, Austria, Finland, Netherland, Greece & Britain.
- Britain at present is thinking of coming out of EU. Present PM has proposed referendum.
- EU's prestige has also been impacted by the crisis in Ukraine & resurgence of Russia. Ukrainian crisis has shown division in EU, where Germany not willing to take stronger actions against Russia because of economic interdependence.
- Eurozone is ^{still} having still low or negative economic growth rate.
- European Union faces following challenges
 - Still EU institutional mechanism is quite unwieldy.
 - US support for EU at present is not as it was during Cold War.
 - Reformist energy is missing in EU.
 - Rightist nationalism is on rise.

Future of EU

Robert D Kaplan's view

- According to him above responses are more to do with situations and the cost & benefit analysis of staying together shows that it is better for EU countries to be together, both from economic, strategic & political perspective.
- He is hopeful that EU will emerge stronger.

India - EU relations

- Officially EU is India's Strategic partner.
- According to the analyst, India EU partnership is like "Loveless arranged marriage" and there is nothing strategic about it.

Content of India-EU strategic partnership

- Enhancement of economic relations is a strategic priority. In this context India & EU have been negotiating Free Trade Agreement for long, around 13 rounds of talks have happened but still not able to resolve the deadlock. Con

India - EU FTA

Scope of FTA:

- It covers trade in goods, services, investment, govt. procurement, IPR, labour laws, competition policy, trade policy & sustainable development.

- It will create free trade area of 1.7 billion people.
- India-EU FTA is strongly opposed by different segments of Civil society and corporate class. F
- FTA talks are being held in secrecy which itself is a reason for opposition.

- The major issues of dispute are

- Data security status

EU has not granted 'Data Secure Country' status to India despite enactment of IT Act & other provisions related to cyber security. Without this status European companies are reluctant to do business with Indian IT Companies & specially impacting BPO sector. It is estimated that if EU grants this status, BPO business may jump to \$50 billion/year.

- Automobile Sector

EU wants lowering of tariffs, but Indian manufacturing sector (automobile manufacturing associations) oppose liberalisation as it may impact investment in India's manufacturing sector & employment in this sector.

- Dairy Sector

Amul & other cooperatives oppose the lowering of import duties on dairy products specially on cheese. EU gives huge subsidy to dairy sector. EU does not allow import of Indian dairy products in name of sanitary & phytosanitary measures. (non tariff barriers). Govt does not need to lower import duties as cheese is consumed by the rich section of Indian society. It may impact 14-18 million

2 Towns
3 banks
M morent 7 person-

domestic dairy farmers.

- Pharmaceutical Sector

Indian Pharma Alliance & Drug Manufacture Association oppose EU demands.

→ EU demands stronger patent regime. As reported EU's proposal is seizure of companies, bank account & immovable properties on mere suspicion of violation of patents by Indian manufacturers. It also proposes actions against distributors & suppliers.

- Service Sector

EU is reluctant to liberalise more "mode-4"

Agriculture

India opposes export subsidy given by EU.

- Wine & Spirit sector

• EU wants more stable business climate in India

- FDI wants greater liberalisation of investment, insurance sector. Govt has gone for offering greater concessions in insurance sector.

Future possibility

- Unpredictable

Present environment

There are both challenges & opportunities.

Challenges

- US & EU entering into Trans Atlantic Trade & Investment Partnership. EU

- EU is still suffering from crisis, may not be in a position to offer more concession as demanded by India.

However, present Govt. of India is committed and is taking strong steps to promote economic growth.

Strategic partnership w.r.t. global issues

- India & EU both favour multilateralism, multi polar world order. They have convergence on Human Rights, democracy. However beyond agreement on values, India-EU strategic partnership lacks substance. When these convergences are applied in concrete situations we often find each other in opposite blocs.

EU expects India to align its positions in accordance to West. EU is not comfortable with India's policy of remaining non-aligned or asserting strategic autonomy.

- India & EU also have disagreement on Climate Change, Human Rights specially in context of Kashmir, Nuclear Non-Proliferation.