

European integration in support with political objectives essay

[Business](#), [Accounting](#)



It is although hard to determine the possible extent to which the political objectives have supported the European integration, nonetheless the discussion may give us an idea about the fulfillment of political goals. In recent years, the world economy has experienced a series of fundamental changes that has recast the underlying relationships on which it functions. The two principal dynamic forces that have driven this change are regionalism and increasing tendencies towards globalisation. Regionalism involves nation-states forming closer integrational links between them to varying levels of sophistication. These have been mostly formalised through regional integration arrangements (RIAs) or have evolved naturally or informally through a private sector led rise in intra-regional trade, investment and financial flows.

Regional co-operation is seen by some as another strand of regionalism which can consist of measures to link up infrastructures, improve the management of common resources or have more overtly political objectives than economic ones. Globalisation is more difficult to define but can be thought of as the highest form of internationalised economic activity. This has chiefly entailed a deepening and widening of corporate integration both within and between the operations of multinational enterprises (MNEs). Both these trends combined have produced an ever elaborate network of relationships that has simultaneously blurred the demarcations of national borders and the internationalised firm's true identity and origins. Consequently, these developments and continuing reactions to them have created an increasingly interdependent world economy.

Europe has been a major participant in these formative processes. The European Union (EU), which represents fifteen of some of the world's richest nations, is the most advanced RIA that has yet emerged. The EU has also made substantial endeavours both to assist the regional integration of other nations and develop its own inter-regional links with them. European MNEs are among the largest foreign traders and investors whose corporate presence has been well established in every global region. The size of the European market and progressive European integration has itself induced foreign multinationals to locate there in growing numbers. In trying to comprehend the position of the European economy within the framework of global and regional interdependence an equally critical examination of its contextual features needs to be considered. These comprise of trends and developments that, in unison with regionalism and globalisation, have affected the structural characteristics of the world economy and the conventional wisdom on which new modes of economic activity have been predicated. Hence, they are also reflective of the fundamental changes that have been engendered by the two dynamic forces.

Such features and the challenges that lie therein include: ? The triad structure of world economic superpowers: consisting of the EU, the USA and Japan which together still dominate world trade and investment flows and constitute the major poles of economic wealth. The gravitational pull of these powers has resulted in stronger regionalism, for example, EU enlargements, the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Co-operation (APEC) forum. The Europe-Japan/East Asia link in

triadic relationships remains, though, by far the weakest. The rise of the new competition: a number of developing economies, most notably from East Asia, have acquired newly industrialising country (NIC) status in post-war years. For some time they have undermined the competitive advantage of many European producers in labour-intensive, low-tech industries. ? The advent of new techno-industrial paradigms: the growth industries of the future appear to rest on the core technology clusters that have formed around information technologies, biotechnologies and new material sciences. The microchip revolution has brought about radical changes to how industrial activity is organised and coordinated, both in the workplace and on a cross-border basis.

A wider socio-economic impact is also associated with the emergence of the information society. ? Establishing more sustainable patterns of economic development: the planet has had to bear severe ecological pressures that have originated from an accumulation of environmental malpractices. Most current scientific studies suggest that new patterns of development are necessary to avert global ecological collapse. European and other industrial nations have up to now been largely responsible for these pressures, though developing countries are becoming increasingly answerable on a global scale. This is particularly pronounced where past established patterns have been emulated and growth rates are high. Lets now put some light on the trading issues of Europe.

The US has remained the EU's single most important trade partner, maintaining an average share for both exports and imports of just under 20

percent. However, EFTA, as a regional trade partner, has played an even more significant role up to 1994, taking a 22. per cent share of total extra-EU exports and 22. 9 per cent of imports in that year compared to a respective 17. 6 per cent and 17. 3 per cent shares for the USA.

From the EU's major trade partners in 1994, five EFTA countries were placed in the top ten imports table and four in the top ten exports table. Switzerland was the third largest importer into the EU with 7. 6 per cent of the total in 1994 (more than the CEE countries combined) while also being the EU's second largest export market at 8. 1 per cent (more than Latin America and China combined). In 1993, both Austria (6. 0 per cent of extra-EU exports) and Sweden (4. 9 per cent) were then larger individual export markets than Japan (4. 7 per cent).

The 1995 EFTA enlargement of the EU has thus raised the intra-EU trade ratio and effectively relegated EFTA as an EU regional trade partner. The EU's diminished trade position with both Canada and Australasia has been affected by two main factors. The first has arisen from the UK's accession to the Community in 1973, resulting in considerable trade diversion which affected the British Commonwealth countries. This entailed a subsequent denial of preferential treatment from the UK's own trade regimes and the imposition of an EU common external tariff (CET) on their exports after a transitional period had passed. New Zealand was particularly affected, with up to a third of its total exports destined for the UK market at the time.

Although by the 1970s Japan had already become the biggest market for Australian exports, the UK still represented its most significant source of imported goods. Both countries have been prominent members of the Cairns Group of agricultural producers who proved to be instrumental in pressuring the EU into reforming the Common Agricultural Policy (CAP) in compliance with the Uruguay Round negotiations. The concentration of their efforts within the Cairns Group has probably been the most logical strategy to pursue in trade relations with the EU, given their small trader status. For its part, Canada was less affected by the UK's accession on account of its exceptionally close trade relationship with the USA where around three-quarters of its trade is linked. However, the second and most important factor to affect EU trade relations with Canada, Australia and New Zealand has been greater alignment of trade relations on a more regional basis.

The recent dynamic growth of the Pacific economy has played a key role in nurturing these relations. Canada can expect to deepen its already extensive trade links with fellow NAFTA members in the future. Australia is currently contemplating severing some of the cultural and institutional ties with Europe by seeking to establish itself as a republic in its search for a more distinct Pacific-oriented identity. All three countries are members of the APEC forum, and thus could be fellow participants in a Pacific free trade agreement by the early twenty-first century. Japan's share of EU trade has consistently grown decade on decade in post-war years. The same could also be said of its considerable trade surpluses with the EU which have dominated the agenda of most trade discussions between both parties. As we shall discuss

later, certain initiatives have been undertaken by Japan in attempts to redress the imbalance in the relationship.

Moving onto the foreign trade investment (FDI), the stock of intra-European FDI inflows by 1991 were twice that of combined US and Japanese foreign investments in Europe. The former clearly predominate over extra-regional inflows in all countries with the exception of the UK and Ireland, both of whom have received significant US investments for some time. British companies were responsible for 41 percent of all European investment in the US and 17 percent in Japan, thus confirming the UK as the Europe's largest investor overseas. It is also the most important recipient of inward FDI, accounting for 40 per cent of all inward EU FDI during the 1980s (more than Germany, France, Italy and Spain put together), although recent evidence suggests that the UK's dominance is slipping in a growing number of sectors.

With respect to European investment outflows, European firms seem to have established only a limited direct presence in Japan. However, any evaluation must be tempered by the minimal penetration made by inward FDI in the country generally. Most recent US direct investment in Europe has consisted of mergers and acquisitions, with 85 per cent of its total value taking this form between 1985 and 1992. Japanese firms, on the other hand, have tended to engage in more greenfield FDI ventures. The notable growth of both inward and outward flows of European FDI from the mid-1980s has occurred during the time when deregulation, privatisation and other market liberalising policies-converging at the gradual installation of the SEM-were being pursued by most European countries.

This helped to create the favourable environment in which international competition between firms could flourish. The intensification of competition within the SEM has placed a greater emphasis on acquiring closer market proximity for both EU and non-EU firms alike, which has been mirrored by the increase in strategic alliances and FDI strategies being networked. Furthermore, outsider firms have also been drawn by the efficiency gains to be had from an insider SEM position. European nations are among the world's largest outward investors and most important hosts to FDI. Consequently, intra-regional investment flows in Europe by far outweigh extra-regional FDI.

The European integration process has added its own impetus. The SEM programme, though, served as a considerable spur to intra-EU FDI which has primarily taken the form of M; A. This carried forward the momentum of significant M; A activity that had already commenced in the 1970s from the efforts made by European firms to attain similar size and structure to US rivals. Horizontal M; As have been the norm, thus leading to increased levels of industrial concentration. Furthermore, intra-EC M; As between 1984 and 1991 were especially common in chemicals, food, construction, metals and paper, electronics, banking, insurance and distribution. Germany is the largest intraEuropean investor, with 21.3 per cent of total outward FDI stock across the region by 1991, ahead of the UK share of 15.

7 per cent and France of 13.4 per cent. Revealing patterns of intraregional investment emerge from a closer examination of the figures.

It has been approximated that between 29 per cent and 45 per cent of intra-EU FDI by German, French, Dutch and British firms is concentrated in only two countries. For example, UK FDI in the Netherlands represented 37 per cent of the UK's total intraEuropean total and France 18 per cent up to 1990. Two immediate considerations arise on the possible outcomes of intraEuropean issues. First, intra-firm transactions, further induced by regional integration, will tend to incur lower costs than those from using external market mechanisms, thus providing a positive contribution to the objectives of European integration.

However, the SEM may well enable MNEs to accumulate greater concentrations of oligopolistic-monopolistic market power and bear the accompanying adverse distributional effects. In addition, any remaining barriers to the completion of a fuller functioning single market that owe their origin to MNE cross-border activity (e. g. discriminatory national dealership networks) may be the most difficult to eradicate. Moreover, multinationals already attempt to reduce inefficiencies caused by government intervention by arbitraging national differences in tax rates, interest rates, tariffs and exchange controls. It is implied that the potential gains from completing the single market will be reduced if MNEs already dominate in the RIA and pursue these practices effectively, although this will depend on the efficiency of existing transfer price systems. Other considerations for non-EU multinationals concern how the integration of their European activities affects the balance of the global strategies they wish to pursue and what

difference any redress of this balance could make to Europe's competitive position.

Decisions made by the firm regarding how the benefits originating from European integration are distributed between EU and non-EU stakeholders will also be of relevance. The EU's institutions and its member state governments are able to implement a range of policy initiatives aimed at helping EU firms compete more effectively against non-EU rivals, for example the Trans-European Networks, joint R&D programmes (e. g. ESPIRIT), consortia projects (e. g. Airbus). However, the ultimate success of these initiatives depends on the ability of EU firms to exploit the opportunities presented by the SEM to overcome structural market distortions and transactional market failures. As we shall note later, US multinationals were arguably better able to rationalise in accordance with these principles in the early stages of European integration than were their European rivals.

One of the key economic objectives of European integration is to improve the competitive position of EU firms at home and abroad. The European response to the challenge from the USA has taken different forms, each yielding varied degrees of success. Some larger EU firms, such as Philips, Hoechst and ICI, have tackled US rivals head on. Cross-border mergers, joint ventures and consortia have been formed between other European firms which have granted them the scale and concentration to compete more effectively against their generally larger American counterparts. Certain domestic merger activity was engineered by similar motives.

For example, in 1968 the UK's Industrial Reorganisation Commission fused together Leyland Motors and BMC in an attempt to compete against Ford and General Motors. Moving onto the performance of Euro, the euro-zone is bigger than Japan but not as large as the United States, with a larger population (291 million against 269 million for America and 126 million for Japan). In its first year, however, it struggled to establish itself as a major currency against the dollar and yen, at one point even falling below parity with the greenback. A lack of confidence in the euro became apparent.

Throughout 1999 European investors tended to move out of euros into overseas markets. By February 2000 the European Central Bank was becoming concerned at the impact of the euro's continued weakness on price stability and sought to address this by increasing the key-refinancing rate. The inherent problem of the impossibility of arriving at an interest rate to suit all eleven euro-zone members soon manifested itself.

In April 1999 the ECB cut its base rate to accommodate German calls to stimulate their struggling economy, only to face accusations from prospering countries of ignoring their requirements. By October 1999 the ECB had changed tack and began raising interest rates with a view to strengthening the euro. So in conclusion to all my discussion, the study of the European Union (EU) seems doomed to fall between two stools. As an intergovernmental organisation, the EU originally belonged to the field of international relations. However, more than half of all legislation in domestic parliaments now stems from EU politics in one way or another, making the EU a central part of domestic politics best studied in comparative politics.

Making the choice to deepen European integration is often grounded in domestic political economy, but at the same time deeper integration reshapes that domestic political economy, thereby transforming domestic politics in Europe. Ongoing debates over a constitution for the European Union (EU) underscore the degree to which the future of the European integration project remains up in the air.

The differences of opinion in this context are informed by the frames adopted by policy-makers when thinking about the purpose of the EU. The literature in international and comparative political economy increasingly recognises the importance of ideas held by policy-makers, but has found it difficult to operationalise this insight and to use it to derive testable implications. Policy-makers may see the EU as serving to improve the security of their state, to aid its economic growth, to fulfill the historic ideal of European unity, and so on.

These frames are not mutually exclusive: the EU can simultaneously improve security and fulfill historic aspirations. However, their mutual compatibility does not imply that they are all equally powerful. Instead, their relative importance is likely to vary systematically, both over time and across countries. Combining the efforts, it is yet hard to presume every thing in EU's favour as it is obvious on the basis of visible facts discussed.