

# The economic and financial crisis economics essay

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## **Introduction**

The economic and financial crisis that sweep across Europe since the turn of the decade raise the questions about how the future of European integration would look like and to what extent does the crisis affect the ambition for achieving political union in a continent that during first half of the 20th century staged two very destructive wars among fellow Europeans. This paper tries to answer to these questions in a comprehensive way in order to see whether the stated ambition of achieving a political union would one day be materialized. In doing so, it consults as many sources as possible in order to have a balanced view on the issue, however, it is also important to admit that due to the on-going character and constantly evolving nature of the topic in discussion many of the sources has to be found in the mass media in order to keep it up to date with the latest development. Before going deeper to discuss the future of the European Union and whether a political union is achievable in the long run, it is important to define the concept of political union itself. Many authors have attempted to come up with a definition of what a deeper political union in the EU would look like. For J. P. Rodrigue, a political union " represents the potentially most advanced form of integration with a common government where the sovereignty of the member country is significantly reduced" (J. P Rodrigue, 2003). In addition he ascertains that this could only be found in nation state that embraces federalism. Federalism itself refers to a system of governance where a country is ruled by two levels of authorities. One at the national level that would govern the whole nation while another at local level which can be comprised of various local government with certain degree of autonomy to exercise their authority

within their own geographical division and would deal mainly with local issues (Cornel University Law School, 1992). Examples of federal form of governance could be seen in the United States of America, Mexico, Brazil, Germany and many other countries across the globe. In relation to the EU, there could be choices between two levels of political union where one is deeper than the other. The first option is some sort of " limited federalism" that focuses more on strengthen the existing economic and monetary union by adopting common policies and legislations to achieve a genuine banking and fiscal union and create conditions for a full economic union. This would give EU the tools it needs to function more effectively in crisis situation and possibly preventing or decreasing the impact of the next ones, however it also means that its power projection will be mainly within economic domain. Based on the institutional economy, most integration schemes start with market/economic integration. This is because of the fact that market integration can proceed without too much demand on institutions and policy making. Moreover, once laid on treaties it connects governments, companies, and private persons and there is a little need for the parliamentary regulator or decision making machinery. According to William Molle in his book the Economics of European Integration (2006), the economic integration is mainly based on the welfare economics. This allows a free exchange of goods and it gives the chance to consumers to choose the cheapest and best good. " Free movement of products factors permits optimum allocation of labor and capital." To illustrate, sometimes some production factors are missing, in other places those production factors are very cheap. Hence the entrepreneurs tend to shift their capital from places of low return to other places where they can get promising results. The same <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

apply on the labor factor. To exemplify, employees will migrate to places where their skill is more needed and accordingly better rewarded (Molle, 2006). The second option sees a political union in its full length where more sovereignty would be transferred to the European institutions to be able to allow not only a full banking union, strong monetary and fiscal union but also common social policies and even a common foreign, security and defense policy to achieve what is stated earlier, a federalist form of government in Europe. This second option is certainly more ambitious. Having said that, due to so many conflicting interests among members states and a need for treaty change to achieve this, putting all the above mentioned elements together as the requirements for a full political union seems now to be an utopian vision however it is fair to admit that some meager steps have been taken towards that direction. Looking back on the journey that has been taken up to now, achieving European Single Market and common currency alone, as it is known today, have already required a lot of sacrifices in terms of transfer of sovereignty from member states to Brussels, however more political compromise still need to be done on sensitive matters that touch the very fabric of national sovereignty when issues like fiscal union for example comes into discussion. Currently with the EU economic and financial crisis, some sees it as a drawback for the integration process while others envision it as an opportunity for an ever deeper cooperation with a Federal Europe as the target in the horizon. In fact, the President of the EU Commission, Mr. Barroso emphasized it clearly during his 2012 State of the Union speech about the need for what he calls a " Federation of Nation States" (Europa Press Release, 2012). To understand all these trends, the coming chapters of this paper will try to firstly, look at how businesses

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operate within an integrated Europe and later will examine in detail the likelihood of achieving either Full Economic Union or Full Political Union by taking into close consideration the impact of EU economic and financial crisis on achieving the mentioned purposes. However, before starting an in-depth scrutiny on these delicate issues, it is seen as pertinent to review some of the literatures contributed by renown thinkers in the field to see how these issues lie within a theoretical framework.

## **Chapter I: Review on Theories about European Integration**

After defining the key concepts of this paper in the introduction, it is crucial to do a revision on some theories that have been developed throughout the years by various authors in trying to explain the sui generis character of an integration process that has been occurring in Europe for more than half a century. These theories try to explain how and why further integration develops. Neo functionalism is among the most prominent theoretical traditions trying to explain the matter. It was developed between 1950s and 1960s and pioneered by Ernst B. Haas (Jensen, 2010: 72) which focuses on the supranational character of the EU. The main driving forces of integration according to Neo-Functionalism are ' interest group activity at the European and national levels, political party activity, and the role of governments and supranational institutions' (Jensen, 2010). From this perspective it can be understood that EU integration is more elite-driven than people-driven. Neo-functionalists propose an interesting concept, which is the concept of spillover that is very instrumental to explain if economic integration will result, at some point, in political integration. According to Schmitter, spillover basically means that when cooperation in one sector is seen as

unsatisfied or insufficient would lead to more cooperation in another related sector to improve the previous one (Schmitter 1969: 162) and that could spread even wider and deeper as necessity demands. That way of thinking helps figure out how integration in economic domain could lead to more pressure and demand for political integration as well. However, despite its apparent logic in explaining the integration, this theory seemed to become obsolete during 1970s since it was unable to explain some resistance shown by member countries like France against European institutions (Jensen, 2010: 79). Thus, it demands different approach to understand the real world and it seems, the answer is found in Intergovernmental theoretical traditions. Intergovernmentalism is another theory which provides a conceptual explanation of the European integration process with Stanley Hoffman as its main theorizer. The main concept here gives emphasis on the role of national states and it sees integration as a win-lose situation that is driven mainly by the interests of each members (Cini, 2010). Just as Hix put it, "European integration is driven by the interest and actions of nation states" (Hix, 1999). This view is also shared by Alan Milward, a writer from the same theoretical background who sees member states as the core players in the process of integration (Theories of European Integration, 2011). In relation to transfer of sovereignty to the supranational level, for intergovernmentalism, the delegation of power to institutions sometimes is needed to make cooperation work better but institutions are there to serve member states and not the opposite (Cini, 2010: 90). This assertion might be true with the rich and powerful members of the Union but it might not be the case with the poorer and weaker ones as it is revealed during the on-going financial crisis. In a sort of follow-up to its predecessor intergovernmental theory, Andrew <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

Moravscik came up with his contribution to the understanding of European integration through his Liberal- Intergovernmentalism approach. Like Intergovernmentalism theory, here member states are still seen as the main player of the integration process and that fundamental changes can be seen when the member states governments share the same goals and interests. Liberal-Intergovernmentalism gives emphasis on rational choices made by leader and conducted through negotiation and bargaining with other members instead of a centralized decision making authority by individual actors (Moravscik: 1998). This view is very relevant for the understanding of decision making process through negotiations which is a very common practice in the EU as a way for member states to pursue their interests. Institutions wise, this school of thought sees its importance only as a mechanism in place to ensure that an agreed decision or promise made among member states is kept (Wiener & Diez, 2009). Despite all this, from its critics point of view, this school of thought is focusing more on big decisions while giving less importance to the day to day policies and the multi-level character of the European Union (Cini, 2010). Considering that some important nuances to European integration were missed out by the classical theories of both Neo-Functionalism and Intergovernmentalism, new theoretical waves arise to offer their explanation to the phenomena and developing interesting point of view on how and why the single market and all the progress to monetary union came to being. The first wave of this so called new theories is the New Institutionalism developed between 1980s and 90s. Institutionalism emphasizes on the importance of institutions in the process of European integration. As Rosamond described in the book *European Union Politics*, there are three types of institutionalism: Rational

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Choice, Historical institutionalism and Sociological Institutionalism. The first type relates more on how international rule changing affect the shifting of the relative power of each actor. The historical institutionalism explains how irreversible course is taken as a result of choices made in the past. While the Sociological Institutionalism gives emphasis on institutional culture that brings about integration (Rosamond, 2010). The last theory to be examined is the Multi-level Governance (MLG) approach. As the previous one, this is also a new theory of European integration. MLG believes that due to the complicated nature of EU integration and policymaking process, static way of theorizing this phenomena does not seem to be adequate anymore (Rosamond, 2010). Multilevel Governance sees European policy as the result of a constant coordination across different territorial levels including a supranational, national, regional and local level (Hooghe and Marks, 2001). The limitation of other European Integration Theories is seen from this point of view as due to the lack of attention given to significant numbers of different actors from all of the different levels of governance in Europe. Lastly, after going through all these theoretical approaches for the understanding of the European integration, it seems obvious that due to its complicated nature and sui generis character, one theory alone is not enough to give a comprehensive explanation of the phenomena, thus it requires various. However for the purpose of explaining the current trend in the EU especially during this economic crisis where the organization and its members seem to be in a cross road incapable to decide which way forward to take, it is seen as more relevant to explain the pros and cons of the European integration at this moment in time by resorting to the classics, namely neo functionalism from one side to explain the positive behaviors

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pushing towards deeper integration and intergovernmentalism approach from another, to explain the growing skepticism and nationalistic sentiment demanding repatriation of power to national level. The clash between the two opposing power and intellectual tradition would determine whether a full political union will be the future of Europe somewhere down the line.

## **Chapter II: EU Integration and Its Impact on the Way Businesses Operate**

Regional integration has several layers, some are deeper than others. Back in the 60s, Balassa and Tinbergen categorized the different levels of integration from mild one such as Free Trade Area to Customs Union, Common Market and even Economic Union (Egan, 2010). In addition to those, Full Political Union represents the highest point in regional integration where a federalist form of government (Verdun, 2010) such as the United States of America could arise. Let alone political union to be discussed later, from business standpoint, EU is already very advanced in its integration process. Since achieving custom union in the late 60s with the introduction of common external tariff, today it has gone up to the level of Economic and Monetary Union. In order to have an economic union, aside of having free flow of factors of production and implementation of a common external tariffs in relation to third parties, it also requires common legislation on economic policies. In this regard the EU has further consolidated its internal market by a harmonised policies and legislations imposed from Brussels however there are still some challenges to overcome such as deeper fiscal and banking union as well as stronger service sector liberalization. Having said that, all these delicate efforts have given EU businesses an

incomparable free access to a market of 500 million consumers with relatively high per capita income. Within European Union, goods, capital and people can move freely inside its borders while protecting itself from third countries competition through common external tariffs on goods and services. Moreover, an European entrepreneurs have right to establish a company in any of the EU member states. Adding to all these achievements, in the turn of the century, 12 member states officially accepted Euro as their common currency with exceptions of Denmark, Sweden and the UK which decided to stay out of it with possibility to join later in time. Now Eurozone has 17 members altogether. This part of the paper will analyze how businesses operate within a more integrated European Union by looking at some of the characteristics of the Economic and Monetary Union such as free movement of capital, goods and services, competition policies as well as the common currency and common external tariffs.

## **Free Movement of Goods and Services**

The first point that can be looked at is the free movement of goods within the single market. The Treaty on the Functioning of the EU stated it unequivocally in the articles 34, 35 and 36 that export and import can be done freely within the common economic space as long as these goods do not contain anything that would be harmful for public interest such as, containing a risk to public health or constituting danger to the environment (Official Journal of the European Union, 2010). In addition to the above mentioned legislation, EU further adopted new laws in relation to standardization and harmonization of products, mutual recognition and better rules for market surveillance in order to make sure that the internal

market of goods can work more effectively (Your Europe, 2011). With these measures in place, entrepreneurs from any EU country can take their products across national borders in a responsible way to be sold in another member states more freely and that gives a huge boost to intraregional trade. The result is very evident, despite the financial crisis that threaten the survival of the EU, according to International Trade Statistics of 2012 compiled by The World Trade Organization (WTO) shows that the highest volume of intraregional trade of merchandise worldwide in the year 2011 was registered in Europe at 71 percent high (WTO Stat, 2012). On the contrary to the liberalization on the trade of goods that is already very advanced, businesses in the service sector have not enjoyed enough liberalization as it suppose to be due to complex administrative and legal barriers despite the fact that up to 70 percent of economic activity in the EU is within this sector (EU Commission, 2013). It is naturally the biggest contributor to employment in the EU-27 economy. According to Eurostat figures, services contribute as much as 17. 4 percent for the employment in the UK followed closely by Germany with 15. 3 percent (Eurostat, SBS, 2008). Historically speaking according to Pelkmans nothing major was accomplished in this sector in terms of liberalization until 1980s even though custom union was enforced since 1968. In addition, he argued that liberalization in service sector is harder due to its distinctive " characteristics, terminology and regulation" (Pelkman, 2006). Moreover, in an article written for The Wall Street Journal in September 2012, John Springford proposed that EU should start taking incremental steps to liberalize the service sector by focusing first on less complicated services and then moving on to the most regulated part of the sector (Springford, 2012). Heavy reliance in each country's own

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internal service provider inhibit necessary competition that would fuel innovation in the EU service sector. Therefore, it is certainly necessary for more opening up at member states level in this regard to facilitate companies in their provision of services across national border and promoting more competition. In addition to what has been mentioned, EU entrepreneurs, by law, are allowed to set up its business activities in any EU countries. This right is enshrined in the article 49 and 56 of the Treaty of the Functioning of the European Union (EU Lex Official Journal, 2008). Further to this piece of legislation, EU also developed a service directives to simplify procedures and formalities for the establishment of business and provision of services beyond a country's national border (Directive, 2006). One of the examples of this simplification of procedures is the establishment of the so called " point of single contact" in every EU member state where businesses can go through all the different procedures under the same roof instead of having to go to several offices to handle an issue (EU Commission, 2012). These simplification measures are worth having however if necessary action is taken to iron out national regulations and policies specially those at the service sector that are still heavily regulated, it would be very beneficial to such an important sector of the EU economy.

## **Free Movement of Capitals**

Free movement of capital is one of the four freedoms associated with the EU Single Market. A directive in this regard was introduced in 1988 with targets to liberalize this sector by first half of the 90s (Official Journal of the EU Communities, 1988) and later in 1992, the treaty of Maastricht came to consolidate it even more by stating in the article 51 (1) that " restrictions on

free movement of capital between member-states and members states with third countries should be prohibited" (White and Case, 2008). This measure gives many advantages to people, governments and businesses alike. From business perspective, a free movement of capital means having a huge possibility for businesses to invest their capital across border, in other EU companies and buying shares to be able to participate in the running of a company. On the other hand, it also allows companies to finance their activities with more choices in terms of loans across the union and be able figure out which one provides capital with better interest rates (European Commission, 2011). Having mentioned that, the current financial crisis has made EU reconsidering some aspect of the capital movement. It is important to point out the recent development in the EU about the proposal of the Commission to tax financial transactions such as bond, company's shares etc. For the EU this Financial Transactions Tax (FTT) would make sure that its financial sector would contribute more to the solution of the crisis because this sector until now has not been taxed fairly enough (Europa, 2013). However, for countries like Britain, where its Capital, London, is a very important financial centre in the world, is not really happy having this sector controlled even tighter by the rules coming from Brussels. Taking this to consideration, UK government decided to challenge this measure in court. As reported in the media, UK is not going to participate in this mechanism but afraid of the possibility that UK companies might face this charges when entering into transaction with any EU country that is party to this regulation (BBC News, April 2013). On the other hand, banking crisis in Cyprus has also driven the government to implement capital control in other to avoid investors taking their money out of the country (The Economist, 2013).

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## **Free and Fair Competition**

Competition wise, there are certain EU laws and policies that businesses need to comply with in order to create not only free but also fair competition in the single market. These measures are applied to EU companies and non-EU companies alike that are operating within the single market. Article 101 of the Treaty on the Functioning of the European Union states it very clearly that in the common economic space, companies have to follow the antitrust rules to constrain them from abusing their dominant position or making deals among themselves that would distort fair competition in the market (EU Lex Official Journal, 2008). Taking US software giant, Microsoft, as an example, this company lost an antitrust appeal in the European Court of Justice back in 2007 with a fine of 497 million Euro for abusing its dominant position. The core of the issue was the fact that Microsoft included its Media Player program in the package when selling its Windows Operating System (BBC news, 2007). This behavior would certainly harm other companies that would want to sell the same type of player to the market. Very recently, Microsoft was again fined with 732 million US dollar for another antitrust violation and this time was regarding its internet browser, Internet Explorer (NewYork Times, 2013).

## **Support for Small and Medium Size Enterprises**

As EU become more integrated the level of competition among businesses is also increasing. Without proper measures in place Small and Medium-Sized Enterprise (SME) may not be able to survive against the bigger and better established ones. Therefore, based on its size and the limited budget, coupled with its importance for the EU economy, the SMEs have special

treatment by the EU. Companies within this category can have access to what is known as eligibility support by different EU programs directed at supporting small and medium size businesses and also benefitting from less requirements and fees in terms of administrative compliance (European Commission, 2013). For a company to fall into the category of SME it has to be measured through the number of employees it has as well as its turnover as defined by EU Commission recommendation of 2003 (Official Journal of the European Union, 2003). These criteria would allow such a support be given to the SMEs since it falls within the so called Block Exemption Regulation that establish the conditions necessary to allow state-aid that otherwise would go against fair competition (EU Commission, 2012). These measures creates necessary conditions for enterprises in this category to thrive in such a competitive market and providing employment to those in need.

## **Common Currency**

The Treaty of Maastricht in 1992 laid the basis for a deeper cooperation in the EU specially in the domain of Economic and Monetary Union. The ' Maastricht Criteria', such as the need for a stable interest rates, low inflation and better public finances, was set out in order, for member states, to reach certain convergence in terms of their monetary and fiscal policy before Euro can be introduced (EU Commission 2013). European Central Bank has a very key role to play in keeping the purchasing power of Euro and price stability within the 17 countries that adopted Euro as their currency (ECB official site, 2013). For businesses, having a common currency enhance the way they operate. Aside of having more than 300 million consumers that can spend on their products, most importantly, companies do not have to suffer from exchange

rates fluctuations when trading with another euro business partners across the border since they all share the same currency, thus increases the flow of trade. A study published in 2010 comparing trading among some Eurozone members like French, Germany and Italy during the period between 1994 up until 2004 using Event Study Approach to analyze pre-euro and post-euro introduction shows that trade is enhanced 1.2 times more comparing to the period before Euro (Salim and Kabir, 2010). That gives a glimpse on the impact of having a common currency on the flow of trade and as a consequence the advantage that businesses can acquire from that.

### **Common External Tariffs and Trade Diversion**

Deeper integration in the EU creates more advantages for EU businesses however this cannot be shared in the same with by those outside the union. As mentioned earlier, EU dismantle internal barriers for trade within the block but it also protects itself by raising an external barriers for those non-member countries unless they have a special arrangement, for example, like the one Norway has to be part of the economic area (Civitas, 2011). This is what shown in Jacob Viner study when he tried to analyze advantages and disadvantages of having a custom union which then gave rise to the term trade creation and trade diversion (1950). More trade for those within the block but less trade for those outside of it due to diversion created through application of common external tariffs. It is important to point out also the fact that, although theoretically, regional integration creates trade for some and diverting it from others, later studies conducted on the EU showed a varying result. From one hand, taking the example made by Czinkota et al. on Spain and the United States in terms of trade of wheat with the European



Economic Area (EEA). Before its membership, Spain was less competitive in the production and selling of its wheat to the common market in comparison to the United States, considering the same common external tariffs of 20 percent applied to non-members. However the situation altered when Spain became member because it was not subjected to any barriers anymore in order to sell its product. While for the US, its product now becomes less competitive in comparison to the Spanish one (Czinkota et al., 2009: 153). Thus more trade is created for Spain while diversion can be noted in the US side for being non-member of the trading block. On another hand, a study conducted by Allen Gassiosek and Smith (1996) has shown in its econometric results that the evidence for diversion of trade on the thirds countries are not that much. Moreover the study also pointed out that EU created more trade for EU businesses and the non EU ones alike. Later in 2006 another study carried out by Wilhelmsson from Lund University to analyze the impact of EU enlargement came to conclusion that it has boosted more trade creation with the new members while trade diversion, mostly import from middle-income developing countries and other OECDs countries, is also verified but still limited (Wilhelmsson, 2006). Going through each of the point made, it can be seen that many progress has been achieved since the inception of the EU back in the 50s. That allows EU businesses to enjoy a huge internal market with considerable high per capita income while in the same time having an external tariffs that could create trade diversion to those outside the union. Despite certain limitations it has, EU integration has impacted EU businesses in many positive ways, bringing prosperity to its citizens and inspire many other regions across the globe to follow suit. The next part of this paper will

look at how other regions see EU integration and what have been done in their part in terms of regional integration.

### **Chapter III: EU and the Integration Process in Other Regions**

What has been happening in the process of European integration for more than half a century has been followed very closely by the rest of the world. How a continent torn apart by brutal war could join forces to reinvent itself, promoting peace and creating high level of prosperity for its inhabitants is something that makes other regions look at it with envy and becomes source of inspiration for those that want to follow its footsteps. Looking across the globe nowadays is not easy to overlook the fact that many regional blocks have come into existence, cooperating closely within themselves but still in varying degrees of success, some are a little more advanced than others. ASEAN (Association of the South East Asian Nations), in the South East Asia, is perhaps the most advanced regional grouping outside Europe, Mercosur in South America, NAFTA (North America Free Trade Area) in North America, African Union, Gulf Cooperation Council (GCC) in the Middle East among rich gulf states, SADC (Southern Africa Development Community) in Southern Africa and many more just to give a picture of how this trend has spread throughout the world. However this paper will limit its analysis only on three regional blocs namely the ASEAN, AU and NAFTA. These are chosen because they represent very different geographical area with also different level of socio economic prosperity. Looking at ASEAN case, this is an organization of 10 member countries which are located in Southeast Asia and was formed on 8 August 1967. The aim of the ASEAN is to ' accelerate economic growth,

cultural development and social progress among its members and to protect the regional peace and stability as well as provide mechanism within which member countries can settle their differences peacefully' (ASEAN Official Website, 2013). With regard to regional peace, since its foundation, it has managed to keep its members out of any major warfare between one another although it has to be admitted that many potential armed conflict has always present mostly due to territorial disputes as recent Thai-Cambodia border clash in 2011 may suggests (BBC News, 2013). In stark contrast with the EU, its members states have appeared to settle all its territorial disputes after the war, thus creates a very good environment for further integration and co-prosperity in the continent. In some similarities with the former communities during European integration, ASEAN also has envisioned three communities that need to be built on as part of ASEAN integration process. They are comprised of ASEAN Political and Security Community, Economic Community and Socio-Cultural Community with their respective blueprint planned to be achieved by 2015 (ASEAN Official Site, 2013) but some members have not done enough progress in this regard yet. Trade wise, ASEAN Free Trade Area (AFTA) is also making considerable progress in lowering barrier for trade within 0 to 5 percent tariff range among the six most wealthiest member of the group (AFTA Council, 2013). Where ASEAN stand now in terms of its integration, as shown in the model of regional integration presented in previous chapter, since ASEAN has already had a free trade area, it is still the first stage of economic integration because it does not include establishment of a common external tariffs against third countries. In order to achieve deeper integration in that part of the world, the ASEAN can learn some lessons from the EU. First of all, the <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

concept of shared sovereignty for common gains has been seen as the key to an integrated community while in ASEAN, integration is pursued without yielding individual sovereignty of member states. Second of all, the EU has managed to get around delicate questions on unanimity basis while the ASEAN has always come across problems of non-interference principle and consensus requirement which make things harder. Finally, institution-building is a key feature of the EU's integration. As former Secretary-General of ASEAN rightly put it, 'institution-building can be considered as a national commitment to regional priorities which can build goals of regional peace and security as well as economic integration' (Severino, 2004). These are the paths that can show the way for the ASEAN members in order to further increase its integration, however, perhaps it is better to take EU only as inspiration instead of trying to copy what EU has been doing because here the discussion is on two different regions with their own history, their own challenges and their own problems. In the African continent, there are few trading blocs in different sub-regions have been created such as East African Community, Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Community consisting of 26 states all together. While continent wide, it is covered by African Union (AU) which was established in 2001 to replace the Organization of African Unity (OAU). African Union is a very huge and diverse group that consists of 54 African states and covers many different areas from politics, economics and military for the whole continent (African Union Official Website, 2013). From economic stand point, there is a huge plan for the future such as creation of common market and common currency in within the African Union ((African Union Official Website, 2013). In 2008, the leaders from the three

communities mentioned above met in Kampala, Uganda to discuss about merging the three trading blocs in order to move towards African Economic Community (AFP, 2008) There are also numerous of stumbling blocks that could drag back AU from progressing further in its integration. First of all, is still the sovereignty issue. Again looking at EU examples, its members states gave up of part of their sovereignty to be able to build supranational institutions while in African Union, it is still hard to materialize due to many reasons. Secondly, the EU and the AU are facing different context and realities. Lacking of funding of the AU makes it far less effective than the EU (Murithi, 2005). Meanwhile the EU has established in a relatively stable and peaceful context while the AU confronts grave conditions very endemic to Africa such as poverty and war, heavy indebtedness along with serious public health issues, such as HIV/AIDS and malaria. All these issues coupled with poor state infrastructures and the lack of a system of support like the Marshall Plan in Europe make it harder for the AU to achieve integration (McGiffen, 2001). Aside of what has been mentioned, it is clear that AU is lack of a leadership role to move the organization forward as what EU has with Franco-German axis which is very instrumental as the engine for European integration. In North America, expanding the previous US and Canada Free Trade Area, in 1994 gave birth to NAFTA to embrace Mexico as well into the trading bloc. NAFTA is only a free-trade area that eliminates tariffs and reduced non tariff barriers for trade flow between its participants (NAFTA Official Website, 2013) and at this moment, does not seem to have the ambition to go as far as what EU has achieved or the other two previous examples are trying to. One thing is obvious here is that, NAFTA is clearly less complicated because it comprises only of three countries but with huge

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resources and quite a large market like the US, Canada and Mexico altogether. By looking at these three examples, despite its limitations, it seems obvious that what EU has achieved has inspired many other regions of the world to try to build also conditions that would allow closer cooperation and shared prosperity among them. However it has to be admitted that every regions have their own ambition, their own challenges and their own reality that contribute to shape what kind of integration they aspire to achieve. That also means that due to all these different realities, copying exactly what EU has done might not fit these realities therefore each one has to know what can be done and what cannot. An issue that hardly ever escape any regional integration debate no matter what realities it has and which region it is located is the issue of sovereignty. The difference is perhaps some are more reluctant to sacrifice it for common goals than others. However for a regional bloc to be able to closely integrated and function effectively, it does not seem like keeping the sovereignty intact is the answer for it. Before moving to the next chapter, it seems relevant just to point out also the fact that, the more trading blocs flourishing throughout the world, raise also the question of whether it would become a building block or stumbling block for multilateral trade liberalization through WTO. In this regard, two prominent thinkers in the field namely Professor Bhagwati and Gary Hufbauer are the two experts mostly cited for their contradictive view where Bhagwati sees it as a stumbling block since it multiples aggressively in numbers and causing systemic problems while Hufbauer considers it as viable alternative choice since liberalization at WTO level has been very slow (WTO Video debate, 2007). It seems obvious that one is right in theory but another is also correct at practical level.

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## **Chapter IV: The Impact of the Financial Crisis on Achieving Political Union**

After going through the last two chapters that are mostly showing positive achievement of the European integration and the example it sets for other regions, here it tries to highlight the problems and vulnerabilities that has been accumulated throughout the process of integration and start to reveal themselves to the surface with the current financial crisis in order to look far to the future, whether a Full Political Union is attainable in the continent somewhere down the line. The sovereign debt crisis that hit the Eurozone most vulnerable economies since 2010 re-launch the debate between Euro-skeptic and Pro-EU camp about the future of this regional grouping on whether deeper integration is the right way forward for the continent and its nation-states or vice versa. The clashes of ideas, policies and interests between the two opposing forces become even more intensified because as the crisis is deepening, EU seems unable to handle it effectively. From one hand, there is a demand for deeper integration in order to solve the problem and strengthen the EU through measures such as deeper Banking Union, Fiscal Union and ultimately could go as far as a Full Political Union as the way forward. While from the other hand, EU is seen as unable to solve the crisis, demanding too much solidarity with debt-ridden countries, imposing too harsh austerity measures that could damage economic growth, undermining national democracy, taking too much power away from the national level, ruled by unelected bureaucrat, no budget efficiency, hindrance to cheaper export due to common monetary policy and all the issues that give rise to an ever growing nationalistic sentiment throughout the continent. In addition to what have been mentioned, a deeper integration towards full political union

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require an EU that not only could function effectively within its border but also could work better in security issues as well as the ability to speak with one voice externally. The Treaty of Lisbon has given EU a High Representative for Common Foreign and Security Policy (HRCSP) which is headed by Catherine Ashton however, her function is still very much far from effective due to conflicting foreign policy and security interests of the member states, unanimity principal of the decision making process and still big role of European Council and the Council of the EU in relation to these matters (Official Journal of the EU, 2007). In other words, decision making on EU Foreign and Security Policies are still done at intergovernmental basis. From theoretical perspective the conflicting interest on the EU integration can be framed into two different scholarly traditions. On one hand, it is the neo-functionalism approach which was pioneered by Ernst Hass in the 1950s. This theory is based on three core way of thinking such as spillover effect, elite socialization and supranational interests group as the driving force for an ever-deeper integration. The spillover effect imply that integration in one area would press for more integration also in another (Jensen, 2010). In fact, looking at the process of European integration, the creation of custom union in the 60s was seen as insufficient therefore effort was put on harmonizing policies and regulations to create a common market and later even has gone as deep as Economic and Monetary Union as it is known today. While on the other hand, intergovernmental approach proposed by Hoffman looks at integration process from a win-lose situation where interests of the individual states and their need to retain national sovereignty has affected the way integration process is implemented (Cini, 2010). From this perspective economic integration is less controversial, thus it is less difficult to be carried

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out while full political integration is harder due to the fact that it touches the very core of the nations-states sovereignty. This approach is pertinent to understand growing demand of devolution of power to the national level such as what is happening in Britain, Finland and many other EU countries, rich or poor alike who think that EU has gone too far with its ambition for the continent. To have a better understanding of the scale of challenges that EU is facing on its move towards deeper political union, it is pertinent to analyze conflicting interest on issues that mark profoundly the debate during the current financial crisis such bailout and austerity measures, the need for more banking union, stronger fiscal union, Eurobond, growing nationalistic sentiment, regional disparities between the south and the north of Europe, budget discrepancies and EU enlargement. Among all these challenges, there is an issue that always present in each debate which is the national sovereignty because each steps taken towards deeper integration require more transfer of competence from member-states to the EU. To what extent are the member states willing to do so, in light of intergovernmental perspective, as soon as it touches the so called " high-politics" (Hoffman, 1960) the process will be coming even more difficult to succeed while on the opposite direction neo-functionalist would argue that there would be more pressure from the political elites and interest group to go even further with the transfer of competence to be able to improve on the existing mechanisms.

## **Challenges Facing the Road Towards Political Union**

Currency wise, Euro has been adopted as official currency by 17 member states while ten others, including the UK, are still remaining outside the

monetary union. Having Euro adopted is an important achievement for the European integration project because it facilitates travel from one member country to another, put an end to uncertainty caused by exchange rates fluctuations, facilitate business transactions between eurozone members, stabilize the prices and thus it is seen as important complementary element to economic union (EU Commission, 2013). The Eurozone debt crisis has heated up the debate about the Euro. From one side there are arguments that suggest that for debt ridden countries, abandoning the common currency is the way forward because it would free these countries from European Central Bank (ECB) tough monetary policy (Daily Mail, May 2012). However, The so called PIGS (Portugal, Ireland, Greece, Spain) countries, which were blamed to be the cause of the Eurozone crisis, found themselves in an ambiguous position. On the one hand, one of the solutions to overcome debt crisis would be the rejection of euro and devaluation of the national currency in order to stimulate exports and economic growth. On the other, Euro rejection could mean an exit from the Eurozone or possibly the EU altogether, which implies termination of the financial help from the EU specially in a time where they need it the most. The solution to huge debt has been implemented through tough austerity measures imposed by IMF, EU Commission and ECB as a necessary condition to access bailout fund. In conditions of the unfavorable competitiveness and low economic growth of those countries coupled with harsh austerity, PIGS countries appeared to be caught in a ' debt trap' (The New York Times 2011). However, as mentioned earlier that, leaving the Euro might also be a solution for the most vulnerable members of the Union, it is not the case for Germany which is by far the most powerful economy of Europe. For Germany, disappearance of Euro

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would force the country to return to a possibly overvalued Deutch Mark that would harm its export-driven economy and consequently its growth.

Therefore it is in Germany's interests to make sure that Euro would survive the turmoil and that can be seen from its 27% contribution (BBC, September 2012), which is by far the highest, to the European Stability Mechanism (ESM) in order to save the common currency. The crisis has also intensify euroskeptic view and exacerbate even further nationalistic sentiment in rich and poor members states alike. Right-wing parties across Europe are growing in followers and sympathizers. In the poor member states, anti European sentiment among the population is largely due to the harsh austerity measures imposed by troika and a strong feeling of betrayal by their leaders who are seen as executing Brussels prescription without caring so much about the people's misery and despair. Surveys carried out between 2007 to 2011 demonstrate that Euroscepticism has increased a lot in countries which economies have been mostly damaged by the sovereign debt crisis to the levels that matching or exceeding the EU average, which have been traditionally registered in countries such as Austria, Denmark, Finland, Sweden and the United Kingdom (JCMS 2012). Putting it statistically, the increase of Euroscepticism during the mentioned period was at 23 percent in Greece, 13 percent in Portugal, 12 percent in Slovenia followed by Lithuania at 9 per cent, Spain at 9 per cent, Cyprus at 8 per cent and Ireland at 7 per cent (JCMS 2012). In the developed economy, interesting trend of euroskepticism can be seen in Britain and Germany. Britain has been traditionally an outspoken euroskeptic country. It joined the European project only in the early seventies and later refused to abandon Pounds to join the common currency. Very recently another episode of disagreement is <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

verified between London and Brussels in relation to the amount of EU multi-year budget that was seen as too much by Britain especially during time of tough economic crisis (UK Gov, 2013). To make things worse, the UK Independent Party (UKIP) which has an extremely anti-EU view, got a significant lead in local municipal election and became the third political force in Britain leaving Liberal-Democrat behind (BBC News, May 2013). This shift of allegiance on voters' side to UKIP that is verified in the recent polls prior to local election, apparently has triggered the need for Prime Minister, David Cameron, to strengthen its position among British voters by calling for a referendum that would determine Britain's future in the EU. In Germany's side, the country that traditionally has been the engine of the European integration, despite its dark history associated with fascist regime, a new right-wing party called Alternative for Germany was born out of the EU crisis to accommodate those who share the opinion that German's taxpayers should not have to pay for mess created by others and insists that Euro is not the solution (The New York Times, April 2012). While general election is just few months away, this surge of popularity of parties like this could affect the chance of Merkel's reelection and the future design of her policies towards Europe. Regarding budget issue mentioned earlier, despite the fact that the most of Europe has been widely in recession, the European Commission requested an increase of 4.8% for a multi-year budget for 2014-2020 with no offer of significant change in policies. Taking into account that the EU funds mostly consist of contributions from its member states' GNIs (Gross National Income), countries with the most GNI literally pay for those with the least GNI (Lelieveldt, 2012). In other words, net recipients such as Greece, Portugal, Spain benefit from the EU funds, while net contributors

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such as the UK, France, the Netherlands have to finance the budget. When it comes to spending, essential part of the budget goes to subsidizing the Common Agricultural Policy (CAP) and EU-wide regional development policy . The allocation of budget sparks contradiction between countries and contribute more for intensifying anti-EU rhetoric from right-wing politicians like UKIP leader, Nigel Farage to fuel nationalistic sentiment and demanding for repatriation of competence back to the member states. Figure wise, approximately 40% of budget spending goes to agriculture from which countries with small agriculture sector like the UK does not benefit much (Lelieveldt, 2012). As mentioned, another policy that spend nearly 40% of the budget is the cohesion policy which is aimed on balancing the economic disparities between EU member states. Most of the budget goes to countries in the southern and eastern part of the Union (EU budget 2009). As net recipients, these countries are highly supportive of the European Commission proposal for the budget rise. However, as the crisis deepens, even the rich countries found it hard to provide more contribution to the budget. That is the position held by The UK and shared by some other countries including Germany, the Netherlands and Sweden (BBC 2013). While on the other side, France and Italy, which benefit from the farm policies, had sought to protect spending. As the distrust on EU ability to solve the crisis grows, there are serious efforts being done to make EU becoming relevant again and for some, crisis is seen as a window of opportunity to go even deeper with the integration. Timid steps have been taken to strengthen Banking and Fiscal Union but certainly the road is long and the fight will be arduous. The President of the Commission, Mr. Duraao Baroso, in his 2012 State of the Union Speech laid down measures that would, according to him, <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

make EU becoming more democratically accountable while hinted also on the possibility of a Federal Europe as the way forward in what he calls as "the Federation of Nations States" because he added " member-state should not continue trying to solve European problems with national solution" (Europa Press Release, 2012). This demand for more integration as the solution for the crisis is, to some extent, confirming neo-functionalist view of the EU integration process since inadequacy of integration in one sector would demand for more integration on another sector as well in order to solidify the former one so that a supranational form of government can be achieved and it is driven more by the elites and interests group while less by the people. In the Banking sector, institutionally European Central Bank (ECB) is an independent body that plays an important role on the monetary policy of the Eurozone area (Molle 2006: 273). It has been very instrumental and proactive in dealing with the sovereign debt crisis through coordinating efforts with the EU Commission and the International Monetary Fund (IMF) however ECB still has many limitations and receives a lot of criticism on its ability to handle the crisis effectively (Wall Street Journal, 2013). In addition to that, there is also EU Banking Authority (EBA) whose function is, to some extent overlapping with those of ECB, to coordinate policies between the EU and all its 27 member states to look after the stability of the financial system, transparency, deposits insurance and investments (European Banking Authority, 2013). Considering the limitation it has, in December 2012, Eurozone Finance Ministers reached a deal to give ECB the power to supervise directly member states' banks with assets more than 30 billion Euro while each national regulator supervises those with less assets (BBC news, 2012). In relation to this move, EU Committee from the British House

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of Lords published a report prior to that deal and pointed out that for the Banking Union to function effectively it has to have " a single supervisory mechanism, common deposit insurance and common resolution mechanism" while reaffirming also the need for British government to secure City of London as the most important financial center of the world (House of Lords Report, 2012). German is very much against the idea of common resolution mechanism because it does not want commit more of its taxpayers money as an obligatory effort to solve the crisis. However the deal was hailed by Mr. Barroso and Mrs. Merkel as an important step towards Banking Union while David Cameron said, it ensured also the interest of those members outside the Eurozone (BBC News, December 2012). After that meager achievement in the Banking Union, the recent crisis in Cyprus sparks again heavy criticism from all direction on the way the Banking Crisis in that Eurozone member is handled. The prescription given is for account holders of these troubled banks to contribute with their deposit for the bailout. A measure that put many Russians and British depositors with savings over 100 thousand Euros immediately vulnerable to the solution of the crisis (BBC News, April 2013) and definitely showing another proof of EU inadequacy in dealing with its member's problem. Even worse, the President of the ECB, Mario Draghi, agreed to the idea that Cyprus could sell its gold deposit to help curb the crisis (Bloomberg, April 2013). A move that certainly go against the existing EU Monetary Policy since selling gold reserves is considered also as printing money which is an exclusive competence of the European Central Bank but it becomes apparent that its inability to solve the crisis makes even unthinkable moves become thinkable. Another serious challenge that EU has to face is the issue of Fiscal Union where it has to intervene in the fiscal

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policy of each member states to exercise more control on their budget spending, deficit target as well as taxation system. So far the only achievement that EU could be proud of in this regard is the setting of the deficit target at 3% of a countries GDP but recent development suggest that even the richer member of the club cannot put up with this limit anymore while the crisis is deepening (Financial times, April 2013). These are delicate matters that touch the core of state's sovereignty. Despite the challenges, Mr. Joseph Daul who is the President of the EPP, which is the largest political group in the EU Parliament, stated in an interview given to the Sunday Times newspaper that he has " no doubt", member states would harmonize their fiscal policy (The Sunday Times, April 2013). This harmonization of fiscal policy is considered as the logical way to strengthen Economic and Monetary Union. One of the crucial issues related to this harmonization is the creation of Eurobond or debt-mutuality. Germany has been resoundingly against this move (European Voice, Dec. 2012) because it could force the country to borrow in the debt market with higher interest rate than what it is enjoying now.

### **Shortcomings on the EU Common Foreign and Security Policy**

Considering the fact that many in the EU are already calling for a full political union or EU as a Federation of Nation States, it is pertinent to look also at EU ability to handle foreign policy and security issues because without these EU is very limited in its power projection capability beyond its border. As mentioned earlier, the Treaty of Lisbon has abolished the so called three pillars of the European Union while creating the High Representative for



Common Foreign and Security Policies which is now headed by British national, Catherine Ashton, however, cooperation in this domain is still largely at intergovernmental level (EU External Action, 2010). Decision making is based on unanimity where the voice and interests of each member states are the determinant factors in every decision taken. All these matters have contributed to ineffectiveness of EU to speak as one voice to the outside world. Taking a deeper look at the reason why Foreign and Security Policy is still largely intergovernmental cooperation, comparing just Germany and Britain for example, Germany's attention is given more to its immediate neighbors to the East including Russia and other Eastern European countries that were formerly under Soviet influence and one of the primarily goals of Germany to the East is the secure supply of energy resources coming from those countries (Bloomberg, 2011) to meet its energy demands and fuel its trillion dollar economy. While from the British side, its transatlantic relations with the United States and the strong ties it has with its former colonies through Commonwealth Organization are seen as the priority in its foreign policy interests (Quin, 2013). These two example could give a little glimpse on the divergent interests that guide these countries foreign policies and ultimately affect the way EU suppose to function with the outside world. Security and defense wise, during the cold war, almost whole Western Europe was under the protection of the NATO (North Atlantic Treaty Organization) alliance led by the United States. With the collapse of the Soviet Union, although NATO decided to reinvent itself and lives on, Europe gradually loses its strategic importance and the United States started to pay more attention to threats coming from other regions of the globe. Facing this new reality, it is seen as crucial for Europe to have its own security and

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defense capability. According to data made available by European Union External Action, currently EU has 13 active missions abroad including a policing mission in Kosovo since 2008 called EULEX (European External Action, 2013). Its mission in Balkan had started as early as 2003 in Macedonia and Bosnia under code name Operation Concordia and Operation Althea however it worked with the assistance of NATO in terms of command structure and equipment (Civitas EU Facts, 2012). Currently EU is planning to send a civilian mission to help Libyan authority enhancing its border security (European External Action, 2013). However, despite the apparent success shown in the data, EU security and defense policy still faces serious constraints in terms of budgetary contribution from the member states as well the ineffective decision-making process based on unanimity as enshrined in Lisbon Treaty (EU Official Journal, 2007). According to EU security and defense white paper for 2010-2020, EU budget for this sector only covers 10 percent of the cost while the rest of it still comes from member states under the principal 'cost lie where they fall'. The same White Paper also pointed out the fact that, very often capabilities are deployed late due to lack of political will from member states (EU Security and Defense White Paper, 2010). Looking at all the facts that have been discussed it seems very clear that EU is still very far away from having a sound foreign and security policies.

## **EU Enlargement: The Choice Between Wider or Deeper Integration**

EU enlargement is a process of expanding European Union geographically by including new members into the club. When it began in 1951 its original

members were France, Italy, West Germany and the three Benelux countries who then decided to form European Coal & Steel Community by agreeing to unify their coal and steel markets as a way to improve their economic prosperity and also to avoid another war in the continent. Six years later in 1957, the six countries signed the Treaty of Rome creating European Economic Community (EEC). After that, the enlargement process has become part of EU agenda since the 1960s. The first enlargement was in 1973, when the United Kingdom along with Ireland and Denmark joined EEC and consequently increasing the number of members to nine (EU Enlargement, 2013). Few years later, Greece, Spain and Portugal joined during 80s. The biggest enlargement by far was in 2004 when ten countries of Central, Eastern and Southern Europe entered the EU all in the same time. At the moment, despite the crisis and growing euro-skepticism, on the 1st of July 2013, the number of EU member states will rise to 28 with the accession of Croatia. After Croatia, the next members are potentially be Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia or Turkey, which has applied for accession longer than any other members of the club (EU Commission 2013). With exception to Turkey's case where application was submitted since 1987 without any clear sign of moving forward, the enlargement process has been relatively less complicated for others. However, in recent years, the economic crisis makes EU decides to scrutinize new candidates more closely to make sure that no fraud or falsification of data is made to facilitate their accession. The reason is, Greece was discovered making up statistics about its public finances in order to be accepted as Eurozone member in 2001 and was again discovered in 2010 for falsifying data about the level of its deficit (Financial Times, <https://assignbuster.com/the-economic-and-financial-crisis-economics-essay/>

2010). Apart from that, the high unemployment level and lack of job opportunities within the EU has made many government across the member states becoming more cautious with Romania and Bulgaria by putting up restrictions on free movement of people (EU Commission, 2013). This worry is based on previous experience with massive migration from Poland and Lithuania in the immediate period after their accession in 2004 (BBC Newsnight, April 2013). After all, interestingly enough, while more countries are queuing up to enter the EU, the crisis also has sparked more skepticism among those already members like Britain, for example, is planning to hold a referendum to decide on its future in the organization. While, On the other hand, the longest candidate of EU membership, Turkey, starts to look at EU with less interest as its economy is getting stronger and EU is still struggling to bailout country after country. Considering the current economic crisis and limitations that EU has in order to cope with challenges facing its member states, perhaps the best way forward was to try to solve the crisis and deepen the integration process instead of widening it too much to embrace new members while the existing mechanisms are not able to deal effectively with the current problems. If the ultimate objective is to achieve a full political union perhaps widening too much integration and embracing more problems would not seem to be the right thing to do at the moment. In the end, after discussing many pertinent issues related to European integration and the prospect for political union throughout the paper, it seems obvious that EU integration has brought with it many advantages to EU businesses on the way they operate within an internal market of half a billion people with high per capita income. Its success was also seen by other regions as source of inspiration for their own regional integration. Efforts has been

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made in South East Asia, South America and even Africa and North America to follow suit with different degree of success in the process. Despite some success mentioned, it is safe to admit that the current economic crisis exposes also many weaknesses of the EU and trigger a lot of clash of interest either pro or contra. In every issues discussed there has been two opposing forces either for more integration or less integration with national sovereignty and democracy always at stake. Popular sentiment has sometimes forced politicians to reconsider their policies towards deeper integration however the political elites in many occasion also prefer to push ahead by ignoring the voice of the people. Strong countries like Britain and Germany seem to have more rooms to pick and choose what they want from the Union as shown in Banking regulation and Eurobond case while the weaker ones are more subservient and follow almost into letter prescription given to them to solve the crisis. Some see crisis as an opportunity to pursue a political union while others look at it with more skepticism whether being part of the EU is the right solution for their problems. Having said that, one thing seems certain that every steps taken towards deeper Union would be faced with resistance from the opposite side and all depends on where the interest lies at certain moment in time. To make things clearer on how the future might look like, before concluding, it is seen as relevant to project possible scenarios for the future of the EU based on the definition of political union given earlier in the paper.

## **The Possible Scenarios for the Future of Europe**

### **First Scenario: Limited Political Union**

The first scenario is for the EU to become a real economic superpower by having a Full Economic Union. Full Economic Union is understood by Verdum as 'implies the complete unification of the economies of the member states and common policies for most economic matter' (Verdum, 2010). This scenario requires EU to strengthen the existing Economic and Monetary Union by demanding more integration in banking and fiscal sector. This means member states would have to give away more of their banking authority and fiscal sovereignty to the EU. For a genuine Banking and Fiscal Union to exist, from banking side, it is crucial to have stronger cooperation to achieve Common Supervisory Mechanism, Common Resolution Mechanism and Common Deposit Insurance (House of Lords Report, 2012). Modest success has been made in Common Supervisory Mechanism among the Eurozone members however many member states, including the UK, are still not part of the Euro area. More than that, the prospect to achieve the other two conditions, which is Common Resolution and Deposit Insurance mechanism, are far more delicate because they demands even deeper solidarity among the members which most of the time is about the willingness of the rich members to help the poorer ones. While for the Fiscal Union, it is even more challenging because it concerns measures that states normally want to reserve for themselves such as the deficit target, the amount of the annual budget and its spending as well as the taxation system of a country. Some meager achievement has been made in relation to the deficit target however when it comes to budgetary control and taxation, if

these two are taken away then member states are having almost nothing left with its sovereignty. Despite this, many EU politicians are optimistic that the crisis would give an impulse and make member states realize the need to go down this path as a way to solve the current problems and prevent the next ones that might come in the future.

## **Second Scenario: Full Political Union**

Full Political Union is perhaps the best scenario for those who wants an EU that would function effectively as a political entity not only within itself but also beyond its border. Again as Verdum suggested, at this level, a true federal form of government will emerge as a result of a complete political unification (Verdum, 2010: 327). For the purpose of this paper, it is pertinent to describe also that a full political union implies going beyond full economic union to have a real political unification that counts with an effective foreign and security policies governed at supranational level. That also requires creation of common European identity such National Anthem and Flag as mentioned in previously rejected EU Constitution (EU Facts, 2011). Moreover, to be truly legitimate in its action and authority, it requires even more stronger democratic mechanism to ensure accountability of its officials by the citizens. Having said that, considering the challenges and problems discussed throughout the paper, dreaming of a real political union in a very mosaic Europe, with long tradition of nations states sovereignty seems to be an impossible dream for now. However whether it would materialize in the future, is something remain to be seen. But one thing is for sure that taking this path down the line will certainly require a treaty change because it is beyond what has been enshrined in the existing treaties.

### **Third Scenario: Collapse of the Euro and Consequently the European Union.**

Although many do not want it to happen but this third scenario and perhaps the worst case scenario of European integration process which implies the collapse of the Common Currency and possible dismantling of the European Union as we know it, is still an open possibility especially in a time where EU and its member states seem to run out of not only resources but also ideas to bailout country after country in a seemingly unfinished saga. The recent Cypriot episode where ordinary people and their savings were forced to contribute to help the failing banking system revealed exactly that (The Guardian, March 2013). While as previously discussed, from neo-functionalism theoretical tradition that pressure for more integration creates spillover effect to build an even deeper cooperation in other areas (Jensen, 2010), in this last scenario for the future of EU, there might be a spillover effect in reverse to dismantle what has been created so far. However one thing is for sure that, in the worst case scenario, Europeans may refuse or be unable to live together in some sort of quasi super state called European Union or even a United States of Europe as some may prefer to call it, they still certainly want a good economic cooperation that allow them trade with each other without any barriers and therefore, what might remain after the dismantling of the EU is a Customs Union. With this, aside of having a free trade area, they also can count with a common external tariffs to protect themselves from outside competition and with no need for further harmonizing their policies and legislation.