Economic interdependence between european countries

Why is economic interdependence necessary?

When we talk about economic interdependence between countries the first and foremostfactorthat comes to mind is the exchange of goods and services then the flow of labour, capital, technology, and finally the flow of funds. Helpman (2011) describes the economic fortunes of a country being intertwined "…via trade, foreign direct investment, and financial capital flows". Helpman also talks about how the global crises of 2008 illustrated the importance of this interdependency between countries when it caused the volume of international trade to fall by almost a quarter which then adversely influenced even the countries with a sound financial system. Coming to the first aspect of the exchange for goods and services (trade); it is indeed, essential to trade in order to derive maximum benefit from the efficient use of scarce resources available and as economic development and progression takes place resultantly because of globalisation, international trade is becoming increasingly popular particularly when it comes to European countries. Piggott and Cook (2006) talk about the need for international trade quite comprehensively: " exports and imports can smooth demand fluctuations in the domestic economy, and growth via exports could increase competition at home. Therefore basically trade allows firms to escape the confines of the domestic market, so reducing costs, improving quality and hopefully leading to higher sales and profits". Furthermore, this leads to the countries' then helping even their businesses or organisations obtain a competitive advantage through specialisation and giving them access to international markets which in turn helps boost the economy even more.

Europe's global economic position

Most of the countries in Europe have a significantly high GDP per capita and are considered to have extremelydeveloped economieswhen it comes to the Global market; examples of which include Germany, France, Netherlands, and so on. In fact, the International monetary fund in its latest report in 2018 places most of the European countries in the advanced economies' category whether it is in final domestic demand, stock building, or foreign balance. It is especially impressive that most of these countries progressed themselves post communism particularly with European countries like Hungary and Latvia undergoing financial crises asGrzegorz Ekiert(2012) puts it "…these countries' political and economic achievements have been in stark contrast to the failures seen in other post-communist states."

The most important role in economic development however, has to beacknowledged as well which is the economic interdependence between these Europeancountries.

Economic interdependence and its importance

" Economic interdependence is occurring due to specialization ofcountries, as they are dependent on others in the purchase of products whichare not manufactured nationwide." (Surugiu, 2015)

It should be of a common understanding that progress cannot be achievedby being alone or confining to a limited way of approaching desired economicobjectives and it proves to be true in the global economy as well. As morecountries pool in their share of different scarce resources and bring aboutextra demand as well from their economies they do in fact help in reducing thewastage of resources. Needless to say, this really does synchronise withefficiently allocating these available resources too. When we talk about globalisationand economic interdependence the most critical element to have are goodinternational relationships between countries due to the aforementioned factthat it is not only international trade that influences the countries'economies but also other economic factors such as the flow of labour, easing oftrade regulations or even financial tie-ups. These relationships are usuallyquite diplomatic and do involve a collaboration from both sides, it could evenbe argued that this relationship in itself is an exchange in order to achievemutually favourable growth thus, these can also be the difference betweenmaintaining peace and economic well-being. Paul Wilkinson(2007) talks about howparamount these can be in his book "… some of themajor problems and challenges of international relations reveals that we live ina very dangerous world, and that many of the most serious threats to our peace, security, and economic and social well-being are the result of human actions."

How and why European countries are economically interdependent

Being geographically close such as the countries within Europe givesthem an advantage to not only make trading easier and quicker but it alsoprovides them with a strategic advantage of achieving their political missionsand their businesses with a competitive edge in the international markets. Whencountries do intend to come together in order to achieve economic progressionthey usually end up forming an alliance/trading bloc or in Europe's case mostprominently a regional trading bloc (European Union) which overtime proved tobe of immense significance to their economicand political environment. This proved to be extremely pertinent in making surethat the countries involved not only maintained peace and excellent diplomaticties but also that they assisted each other's economies with regards to growthand exchanging of resources allowing them to specialise more distinctively andget an even higher trade advantage. This enabled the member countries tocontribute to the union financially and in return the union invested in itsmembers' economies accordingly. As stated by European Commission (2018) the EUadopted budget aims to invest (in its member countries) about EUR 160, 113. 52Min several areas including sustainable growth, competitiveness for growth andsecurity amongst others. The European Union could arguably be one of the mostpowerful economic integrations. Over the years, it has not only helped its membersin areas like capital accumulation, and technical progress but it has alsomaintained common and standardised policies for trade and as attested byEuropean commission(2018) itself the EU making one of its main aims to becomeeconomically interdependent and avoid any future conflicts between its members. Consequently, countries such as Germany, Spain and France who were at war forcenturies have now ensured that they now work in harmony to attain mutualbenefit (Mankiw, 2016, p. 528). Some other examples of European economicintegrations include the European Economic Area (EEA) with around 32 members, European Union Customs Union (EUCU) with 28 of the EU and 3 non-EU members(Turkey, Andorra, and San Marino), and European Free Trade Association (EFTA)with currently 4 members. The most compelling benefit however, is provided bythere being a single currencies' adoption by the European Union members whichbrings with it the convenience of eliminating transaction costs, reduction inprice discrimination and the stability of the foreign exchange rate (Mankiw *et al,* 2016, pp. 531).

Threats economic interdependence presents

While recognising the pivotal aspects of European countries having to beeconomically reliant on each other we must also look at the limitations itbrings with it. Some of these limitations include a 5% decrease in intra EUtrading during 2000-2014, Europe’s internal crises in 2015 which was triggeredby the euro crises a few years prior, not giving the countries involved to makeindependent political decisions without undermining their relationships with amajority of their trading partners, and it taking just one opposing country tothreaten a powerful alliance like EU as Greece tried to in 2015 against EUsanctions placed on Russia (The German Marshall Fund of the United States, 2016).

This can also cause a free rider problem as well which Mankiw, *Et al* (2016) explains by giving theexample of the Greek recession where the government borrowed more than theycould pay back and eventually the EU had to bail them out. Most impactfulthough, are the difficulties that arise because of there being a singlecurrency (Euro) adoption within the selected EU countries; these are includingbut not limited to fiscal federalism (Mankiw *et al* , 2016) describes it as the fiscal policy in the currencyunion working like that of a single economy, they also give up their right tohave an individualistic monetary policy, and finally the macroeconomicadjustment generating from the external value of their currencies also known asautomatic stabilisers (Investopedia, 2018).

In conclusion, it can be said as Monnet (1978) suggests; the process of economic integration in Europe has always beenincremental in nature, and often ‘ forged in crises’. The main aims of theseintegrations also keep changing with respect to the challenges the economicenvironment brings with it and that being said, as long as these aims are metand all countries feel like they are benefiting mutually they will alwaysunderstand that there are more pros than cons of economic interdependence forthem, if not then they can always choose to leave like the UK did with the EUin June 2016. It goes without saying that trading blocs are an integral part ofeconomic integration and political reasoning might also be a huge element inderiving its existence. However, as long as the collective European economiescontinue to prosper by depending on each other economically and theconsequences of abandoning this interdependence do not surpass the benefits ofremaining it would not make any sense for a country to be an independenteconomy.

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