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# **EU INTEGRATION: PRESENT CHALLENGES AND PROSPECTS. ANY LESSON FOR LATIN AMERICA?**

*Pierre Defraigne*

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Ifri

27 rue de la Procession

75740 Paris cedex 15 France

Tél. : 33 (0)1 40 61 60 00 - Fax :33 (0)1 40 61 60 60

Eur-Ifri

Avenue d'Auderghem, 22-28

1060 Brussels - Belgium

Tél. : 32 2 238 51 10

# ***EU INTEGRATION: PRESENT CHALLENGES AND PROSPECTS. ANY LESSON FOR LATIN AMERICA?***

## **1. EU Integration is a Singular Success**

Geography and history make every integration move very unique. European Union (EU) initial membership was made up of neighbors who were peers in size and in development level: France, Italy, Federal Republic of Germany (FRG) and a trading block, Benelux (i.e. Belgium, the Netherlands and Luxembourg). In the aftermath of World War Two indeed, Germany's economic weight did not translate yet into political power which made her, later on, the indispensable regional taxpayer.

Yet, contrary to the myth of EU origins, integration was not the product of an inner move (the founding fathers and the Franco-German reconciliation), but such move came as a response to US pressures for containing the Soviet threat and for creating new outlets for American industrial overcapacities inherited from the war. The United States of America (USA) played also the role of the initial benevolent taxpayer, but the benevolence was less in the sheer size of the aid package than in the conditionality attached to it, namely intra-European financial cooperation and trade liberalization, forcing the European governments to overcome the post-war trauma and the reluctance of their respective public opinions to move towards cooperation with the former foe.

The genuine European contribution to the success of this originally imported scheme has been the institutional framework, the so-called "Monnet method", i.e. the interaction between a body, the European Commission, with an exclusive right of initiative and a very effective enforcement power who was in charge of the EU common interest, and the Member-states sitting in the Council of Ministers who were taking the decisions. This institutional setting proved decisive not only for securing the right political decisions and for ensuring their timely implementation, but it proved instrumental as well in generating an integration dynamic of its own, leading paradoxically to a growing autonomy vis-à-vis Washington.

But the whole policy-making and institutions building process was successful mainly because it fit in with a strong micro-economic rationale: it met indeed the needs and expectations of two business constituencies: on the one hand the European business one seeking, on their domestic market, the economies of scale necessary for competing on a par with the US, and on the other hand the US multinational companies (MNC's) themselves settling massively in the nascent common market in order to circumvent the common external tariff.

It is indeed important to bear in mind that in those years, the global context was very different from the one prevailing today: tariffs and non-tariff-barriers were still pretty high whereas the Bretton Woods system was still alive and well; in particular it meant that controls on capital movements were still the rule and were contributing to the stability of exchange rates.

Against such a background, the EU was able to enjoy the privilege of the prime mover in the regional integration trend: the so-called "community preference" was significant enough to provide the emerging European champions—versus the old national champions—with a significant competitive edge vis-à-vis the rest of the world... but vis-à-vis their

American competitors which had invested heavily in the EU market in particular in high tech sectors. By the way, here might lie one of the main explanations of the existing technological gap between US and EU firms in fast growing industries today.

## 2. EU's Achievements so far

EU is the most advanced regional integration scheme in the world, short of a federal state. Over half a century, it has been successful both at deepening its institution and enlarging its membership:

- from a customs union to a single currency;
- from 6 to 25 countries totaling a GDP larger than the US;
- from an economic union to a political power:
  - on the global economic scene (World Trade Organization [WTO], Kyoto, financial and technical normalization) and on the bilateral one: largest world donor of Official Development Assistance [ODA] and trade preferences;
  - on the political scene: joint votes in UN (but on Iraq war!) and common positions on numerous issues;
  - in the strategic field: euro-corps and peace keeping police forces in Kosovo, Central Africa and last week in Indonesia.

So, EU has become a global power, if only a "civilian" one.

## 3. Yet There are Cracks and Divides

EU's unity is far from being completed!

Yes, there are no more internal borders! There is indeed free movement of goods, capital and people across 25 countries!

But there exist different subsets in key areas:

- Eurozone comprises only 12 out of 25 members, although the most important ones, but United Kingdom (UK), are using euro and make up a large share of EU gross domestic product (GDP).
- The Schengen regime (free movement of non residents) does not extend to UK
- The free movement of labor with new members is seriously limited for lengthy transition.
- With regard to strategic options: there are neutral and non neutral countries and among the latter, North Atlantic Treaty Organization (NATO) and non-NATO members.

And most importantly, as the French and Dutch no's to the Draft Constitution have made clear there are irreconcilable views among the membership about where the EU should go; a referendum in UK would have indeed more than likely ended up with a no... for reasons opposed to France!

## 4. EU is a Crossroads

EU has reached an unstable equilibrium: the limits of hybridity!

- either too far down the road of economic integration
- or rather too short on political integration: too much intergovernmental top-down and not enough citizen bottom-up.

What is at stake in the debate? There are mainly three divisive issues:

- The European—although diverse—social model. Two modernization options are in conflict:
  - either an aggiornamento of the social market economy, retaining its basic balance between efficiency and equity;
  - or the drift towards a more unegalitarian and therefore unstable society.
- The degree of independence of EU within the Atlantic Alliance:
  - either a partnership on a par with the USA (no arms race though!) so that Washington could not anymore divide and rule. But who is willing to pay for defense among the champions of independence?
  - or more strategic reliance on US military might, but there is also a price to pay (less policy space and margin for maneuver for EU in global economic governance and in its bilateral relations).
- The balance between intergovernmentalism and supranationality: it is the nature of the project which determines the necessary degree of federalism.

Those three issues are narrowly intertwined: it is the specific development model of the EU which justifies the need for more autonomy vis-à-vis the USA; this can only be done through more political integration!

## 5. What are the Options now?

- A second referendum in France and the Netherlands like in Denmark for the Maastricht treaty or in Ireland for the Nice treaty which reversed their votes? It won't work because a French no might just be larger next time whereas the British people would persist in their opposition to the Constitution as revealed by the polls.
- Picking some bits of the present Treaty and go through a parliamentary procedure as for all normal treaties? It won't work either because it will be impossible to work out a balanced deal which could satisfy all parties.
- Just amending the Qualified Majority Voting procedure which is the worst part of the Nice treaty (the distribution of votes among countries)? It could work, but it is tantamount to the present—unsatisfying—status quo;
- Forgetting about the Treaty and resuming business as usual, namely the controversial Lisbon Strategy? It might work for a while, but it will eventually deepen the divide in Europe.

## 6. So What are the Scenarios?

- Either an economic space within which not only business but also governments would compete, with the inherent risk of lowering social and environmental standards in a race to the bottom, coupled with a regional system of security covering the whole continent whose effectiveness would depend on NATO support. This scenario would be indeed unavoidable in an EU-30 without institutional change. Such evolution would mean a drift towards the inegalitarian American model as well as towards a higher strategic dependency on Washington; Europe would then be caught by the security syndrome prevailing now in America and be sucked into a confrontation spiral: either the clash of civilizations with Islam or the “West against the rest” including possibly China!
- Or a two-tier Europe with on the one hand a federal core built up around a modernized social model and more strategic autonomy and on the other an intergovernmental periphery which could then extend without weakening EU hard core not only to Romania and Bulgaria, but to the Balkans, Turkey and Ukraine as well. It would be for each country to decide where they want to belong according to each other collective preferences. Of course no country would be deprived from the rights nor dispensed from the obligations of the existing treaties.

If you ask me my own guess which is also my preference, it is the latter two-tier solution. But it will take time because it will not come right away from the governments who are presently very weak in Europe, but from the people themselves who, for the first time in the History of the EU have made themselves heard in the referendum campaign. We will never put the genius back in the bottle. But I am also confident that sooner or later the periphery led by UK, which is today paradoxically in the driving seat with the Franco-German core sitting in the back, will eventually come to terms with their Euroscepticism. The problem with the Brits is that they know better where they don't want EU to go than where it should go. This is the limit of pragmatism! The vision always came from the continent... for better and for worse though!

## 7. What Lessons for Latin America?

- Regionalization can ease the modernization of Latin America which is the real challenge of a continent which has so far missed the boat of globalization.
- But stop toying with shallow integration! Free trade arrangements (FTA's) dealing only with obstacles “at the border” are not worth the effort: there are too many of them because of the domino effect. They make business more complicated because of the spaghetti bowl of preferential rules of origin. They eventually cancel out each other. A positive outcome of the Doha Round would pay off for Latin America more than the present flurry of shallow FTA's.
- Go for the real thing, namely deep integration or “WTO+”
- No effective regional integration is possible without strong regional institutions. For only institutions ensure the irreversibility of the process, the supremacy of regional legislation, and the effective enforcement of the rules in such a way that economic operators play along the institutional process through engaging in regional strategies for their own business. Remember: It is eventually the market that turns regionalization into a reality!

- Regionalization is no substitute for the right domestic policies! But it can back them up through the pooling of best practices, benchmarking, peer pressure and cooperation.
- Don't rush in "hub-and-spokes" North-South regional trade arrangements (RTA's) and don't break up regional solidarity by moving into country-to-country deals with advanced third countries. A North-South RTA is only beneficial if it is:
  - asymmetrical in market access (transitions and exemptions);
  - negotiated as a region to region deal;
  - accompanied by financial and technical support both from the Northern Partner and from IDB or another International Financial Institution (IFI) common funding.

## 8. Conclusions

The EU will neither collapse, not fade away, but it will go through new transformations. It's too early to say what the final outcome will be, but Europeans won't their give up readily the only political framework that allows them to cope with the challenges of globalization.

Latin American regional integration schemes make sense only if they are based on a political ambition and such an ambition should obviously have to do with a specific social development model for the continent as well as with the place of the Latin America in a multipolar world. Shallow trade deals do not carry welfare gains commensurate with political efforts.

The EU-Mercosur deal should not be handled as a mercantilist deal, but as a strategic agreement through which EU would contribute to the development of the Southern Cone region as well as to the emergence of a new and independent pole, strengthening thereby the multilateral and multipolar system. The trade part of the agreement must therefore be consistent with the three conditions set up here above. I am confident that this vision is shared in Brussels.