Volume 3
Issue 1 *Fall 2016*

Article 1

August 2016

The Economic and Geopolitical Effects of the European Union

Jacob S. Gordon
jgordon31@liberty.edu

The Economic and Geopolitical Effects of the European Union

Jacob Gordon

Liberty University

Abstract

The European Union (EU) is one of the largest trade unions in the world and has a substantial impact on the global economic system. This paper discusses the creation of the EU, the establishment of the Euro as the dominant currency, and the diversity between the member nations, comparing their similarities and contrasting their differences. Organizations that influence and shape the European Union such as the World Trade Organization, the European Central Bank, and the International Monetary Fund are also discussed. As an illustration of this influence, Greece’s declining economy is examined. A brief outline of the migrant crisis that the EU is currently facing is also covered, demonstrating issues related to the cost of and transportation for war refugees, as well as criteria for processing them. In conclusion, an examination of the European Union’s current capabilities of integrating into a political union is conducted, evaluating its level of political and economic cooperation, the capacity and willingness to create a central military force, and the recent developments in negotiations between the EU and Great Britain.

The Economic and Geopolitical Effects of the European Union

The European Union is one of the largest regional trade unions in the world. It encompasses most of the continent of Europe and has a significant impact on the global economic system. The EU member nations each have a remarkable diversity and uniqueness in their economic, governmental, and political systems and in their ability to move factors of production freely throughout member nations. While the current condition of the EU and its future direction are uncertain due to the economic volatility and instability in the region, the EU has undoubtedly had a significant impact on Europe and the rest of the world.

Overview of the European Union

In the wake of the devastation of World War II and the signing of the Treaty of Paris, the European Coal and Steel Community (ECSC) was founded, including France, Germany, Italy, the Netherlands, Belgium, and Luxembourg as its members (BBC News, June 27, 2012). The ECSC eventually evolved into the European Communities (EC), an organization focused on economic and agricultural cooperation that included Denmark, Ireland, the UK, Greece, Portugal, Spain, Austria, Finland, and Sweden (BBC News). The Masstricht Treaty, signed in 1991, officially created the European Union (EU), which not only included the EC's focus on economics and agriculture but also on coordinating policies about immigration, travel, and criminal laws (BBC News). The Maastricht Treaty also determined a timetable for when the economics and politics of the EU would eventually integrate further, leading to the establishment of the customs union that the EU currently employs. Today, the European Union consists of 28 member nations all across Western and Eastern Europe (EUROPA, 2015).

Currency

As with all customs unions, the EU employs a single, common currency amongst its member nations. This currency is the Euro, used in nearly every EU country. The development of the Euro as the accepted currency occurred in 1999, and was a crucial step in furthering the integration of the EU into the Economic and Monetary Union (EMU), an organization that all member nations now participate in (European Commission, 2015). Interestingly, Denmark and the UK have provisions in the EU treaty that allow them to opt out of certain aspects of the EU, keeping their own countries' currencies and not adopting the Euro (European Commission).

Diversity in the EU

The member nations of the European Union are extremely diverse in their cultures, economics, politics, and many other facets of society. A wide disparity of wealth distribution exists throughout the EU, with wealthy countries like Luxembourg having a GDP per capita of $111,716, while Bulgaria has a GDP per capita of $7,753 USD as of 2014 (IMF World Economic Outlook, as cited in Statistics Times, 2015). In addition, some EU nations have different forms of governmental structures and regulatory bodies that monitor and legislate activities within each country's geographic borders. These differences have caused challenges, especially when dealing with situations like the Greek economic crisis or the current migrant crisis (as will be examined later). While these differences can cause division and conflict in the European Union, the inherent cultural and economic diversity between member nations allows for a greater flow of factors of production between countries and provides an opportunity for countries to specialize in goods in which they possess a comparative advantage.

Organizations that Affect the EU

The operations and developments within the European Union are strongly influenced by a wide variety of organizations. The three most influential are the World Trade Organization, the European Central Bank, and the International Monetary Fund.

The World Trade Organization (WTO) was created in 1995 to reduce trade barriers between countries and to foster international economic expansion and development (World Trade Organization, 2015). The WTO grew out of the General Agreement on Tariffs and Trade (GATT), expanding the foundation of GATT to consist of 161 member countries (World Trade Organization). The European Union is a key example of the WTO's fundamental ideas of reducing trade barriers, as each EU country is a member of the WTO. The WTO has power to control debates and disagreements between member nations and regulate certain aspects of the EU's actions. Fostering a healthy relationship between the WTO and the EU is key for the WTO in order to further their goals of minimizing international trade barriers and creating global economic cooperation.

As previously discussed, the Euro is the main currency for the European Union. The European Central Bank (ECB) oversees the task of maintaining "the Euro's purchasing power and price stability" in the European Union (European Central Bank, 2015). To this end, the ECB can control certain monetary policies such as interest rates. The European Union is heavily influenced by the ECB, as it has a significant amount of power to determine financial actions throughout the EU. The ECB has recently exercised its power to control interest rates by lowering the official interest rate below zero, with even lower negative rates expected in the near future (Blackstone & Buell, 2015). This means that the banks that want to store money with the ECB are being charged for doing so, which can have negative economic ripples throughout the EU. Other banks, including the national banks of Switzerland, Denmark, and possibly even the U.S. Federal Reserve, are contemplating similar moves (Blackstone & Buell). This illustrates the ECB's wide range of influence in monetary policy, not only as it pertains to the Euro and the EU, but also to other major financial institutions around the world.

Created in 1944 as part of the Bretton Woods Agreement, the International Monetary Fund (IMF) exists in order to promote economic stability and monetary policies, to reduce poverty, and to foster greater trade on a global scale (International Monetary Fund, 2015). The IMF has the ability to strategically provide loans and financial assistance to countries in need. With this ability comes the authority to attach requirements to the money that force the receiving nation to make certain economic, political, or policy changes in the governmental structure. The IMF's inherent power to demand changes from countries provides a strong platform from which to effect economic or even political changes.

Greece's Impact on the European Union

Greece is an important member of the EU to consider in order to illustrate the effects that the European Union has had on Europe while also serving as a device for evaluating its functionality and performance. A study of Greece also demonstrates the impact the aforementioned organizations can have on the function and operation of a particular country's economy and on the EU as a whole.

Greece was the twelfth country to join the Eurozone in 2001, casting aside its national currency, the *drachma*, for the adoption of the Euro (BBC News, 2001). In 2004 a new government was elected, and in 2005 the EU constitution was officially ratified (BBC News, August 11, 2015). Due to the extravagant lifestyle and cultural norms of Greek society, spending was high throughout the country. The level of debt began to rise, to the point that Greece's credit rating was lowered and the government implemented austerity measures in an attempt to stop the bleeding national debt from draining the life of the country (BBC News, August 11, 2015). Greece continued to plummet into debt, and even after multiple bailouts and debt write-offs, the country was still in dire financial straits.

On June 28th of 2016, the ECB froze all support towards Greece's national banks, forcing financial controls to be implemented by the Greek Finance Minister (Coppola, 2015). Under pressure from dominant EU countries like Germany and the UK, as well as bank closure and impending economic ruin, the Greek government's capability to deal with the crisis continued to erode. The combination of a lowered credit rating, a socialist government, and significant loans from the IMF meant that Greece was in an extremely perilous financial situation with little economic hope for recovery (Wearden, 2011).

While the government was in this fragile state, members of EU institutional bodies—such as the European Commission, the Eurogroup, and the European Council—imposed new economic conditions that severely limited the national sovereignty of the Greek government (Coppola, 2015). Faced with imminent financial collapse, Greece had no option but to comply. Even though it meant an increase in austerity measures, the Greek people chose to re-elect leaders that would take advantage of the EU's economic bailout in the hope of debt relief and restoring their economy (Coppola). A devalued Euro, the extremely fragile Greek economy, and Greece's overall volatile financial structure have been a contributing factors to the ongoing crisis in the EU economic system as a whole (Fleming-Williams, 2015). The complexity and consequences of Greece's poor financial management illustrate how the EU responds to crisis within its limits and how organizations such as the ECB and the IMF have the ability to leverage their power in times of economic distress.

European Refugee Crisis

The massive influx of Syrian refugees into the European Union has created additional stress on the underlying structure of the EU and brought certain problems to light, including the cost of processing refugees, the strain on transportation systems, and the difficulty of proving the status of refugees.

One of the most pressing problems in dealing with the crisis is the cost associated with processing incoming refugees. While countries like Germany and Austria are the primary destinations for migrants, Hungary and other eastern European countries have paid the costs. This discrepancy has strained relationships between the EU nations and negatively affected the overall geopolitical environment in the European Union.

The refugee migration has also placed a significant burden on the transportation and infrastructures of many European countries. Trains and buses have been extremely overcrowded and have become inefficient due to the massive amounts of people who want to travel. According to the International Organisation for Migration, over 680,000 migrants have crossed into Europe just by sea, with over 14,000 passing into Hungary in one day (Kent, 2015). After Hungary repulsed the migrants from their borders, the problem moved from Hungary to Greece, with the EU setting up shelters for over 100,000 migrants in that country (Stamouli & Pop, 2015). Many European countries have closed their borders outright as a result of the confusion and chaos, and relationships between EU countries have been damaged.

Another problem in dealing with the migrant crisis is establishing and proving the criteria for a person to be officially qualified as a refugee. While many of these migrants may indeed be fleeing from the ravages of war, there are many other individuals who would use the open travel policies of the European Union and the current geopolitical dynamics of the region to their advantage. Because of the high profile nature of the current migrant crisis, there is substantial pressure to provide suitable conditions for traveling refugees. This could also raise security concerns, as many of these individuals could have criminal histories or terrorist ties, but these characteristics may not necessarily be found out in time in order to stop their entrance into certain countries because of their perceived status as refugees. Criminal and terrorist organizations are aware of this fact and are actively exploiting the current socioeconomic and geopolitical conditions of the region to their advantage.

The most recent development in the ongoing migrant crisis relates to the deal Turkish and European leaders reached, which provides Turkey with monetary incentives for increasing its border control and keeping refugees within the country (BBC News, November 29, 2015). Turkey is one country of interest that is looking to join the European Union and benefit from its reduced trade barriers and intra-regional trade. The opportunity to aid in the refugee crisis will not only provide a buffer for stemming the massive tide of refugees into the EU, but also signals a critical deepening of the relationship between the EU and Turkey. Membership into the EU would be instrumental for Turkey's future trade capabilities and regional influence in Europe, and their strategic alliance with the EU could also potentially help solve the migrant crisis.

Further Integration of the European Union

Connecting all of Europe into one political union has been under consideration since the days of Winston Churchill, who, like many of the original founders of the European Union, was a strong proponent of the idea (The Economist, July 27, 2015). However, instead of moving towards a unified political union like the United States, the EU's founding treaty and integration since its creation have led it in a direction that is closer to that of the United Nations (The Economist). The level of unity required to integrate into a political union would require political and economic cooperation of all the member nations, a central military force, and the support of all of its members.

Political & Economic Cooperation

The United States, as some supporters say, is as an idyllic goal for the EU and a demonstration of the potential that the European Union has to integrate into a seamless political union. However, in the case of the US, this requires an extreme level of political and economic cooperation of the states therein. The perilous balance between the individual sovereignty of the states and the executive power of the federal government has been a source of tension since the foundation of the American constitution. This tension is a constant factor when evaluating legal, judicial, and economic issues that affect the whole of the U.S. Also, the U.S. is much more homogeneous than the EU, with one united language, one currency, and only two states that are not connected directly by land. Additionally, the United States was created with the intention of establishing a political union, and centuries of wars and conflict between multiple independent nation states clearly demonstrate the opposite being true in Europe. The national pride of each of the EU member nations, in addition to their extremely different religious, political, and social structures would be serious obstacles for integration the EU further into a connected political union.

The European Parliament, the political body that would seemingly be the ruling force in the new European political union, is a detached group of nationally elected officials with a minimal attachment to their member states, is characterized by loose affiliations and hasty alliances with other countries for the purpose of pursuing economic and political ambitions (The Economist, July 27, 2015). While the Parliament has had increasing levels of power since 2009, there appears to be no driving force or catalyst for the European Parliament to become the ruling body over a united European democracy (The Economist). This means that there will have to be significant political change or the development of other factors that will put pressure on the parliament before they will begin moving towards being a united European democracy.

Military Force

In order to integrate further into a political union, the EU would need to have a military force at its disposal. This idea has generated much discussion throughout the EU, and there are many countries in the EU that have supported the creation of an EU military force. Most notably, over a third of the British public would be in favor of such a move (Stone, 2015). The military force would be instrumental in controlling borders between EU nations and could begin supplementing or even replacing national defense forces of many EU member nations (Smith, 2015). The coordination of such defense forces into one, however, as well as issues related to how and when such a military force would be used are still unclear. It is also unclear who would lead such a military force, what the chain of command would be, who would have governmental authority to use the military to levy war, and other regulatory issues. While the notion of such a military force has support and the current presence of security forces in the area may suggest that this change is only a matter of time, the lack of any clear political ruling body and the current economic and geopolitical instability in the region demonstrate that it is unlikely that Europe will be able to unite under a common military force and resolve issues associated with the implementation and execution of such a militia in the near future.

Recent developments for Great Britain

Development of the EU into a political union would require the cooperation of all of its member nations and a strong level of commitment, in particular by its dominant participants, Germany and the UK. David Cameron, the prime minister of the United Kingdom, has been involved in an ongoing negotiation regarding Great Britain's continued membership in the European Union (Grey, 2015). Great Britain's continued involvement in the EU is uncertain and will depend on the outcome of these negotiations. Because the UK is such a major member of the

EU, its departure would have strong and profoundly negative economic consequences throughout the rest of the European Union (The Economist, October 17, 2015). While the UK could potentially have the opportunity to join other free trade agreements in the area that would allow them to continue trading with EU member nations, the resulting economic instability and readjustment would likely prove devastating for Europe's already shaky economic structure (Grey, 2015). Because of the economic volatility and geopolitical changes in the region, David Cameron is in a pivotal spot in his political career that behooves him to either make a strong persuasive case for continued EU membership, or to lead the UK decisively away from association with the European Union (Nixon, 2015). The independent currency that the UK employs is also a strong factor in the discussion. David Cameron has made it clear that as negotiations continue, all options are being considered, and that nearby Norway, who is notably not an EU member, may not be the model for the future of the United Kingdom (BBC News, October 28, 2015). Time will tell what resolve the government of Great Britain will implement in regards to the European Union, and what effects that this decision will have on the other member nations.

Consequences and Likelihood of Further Integration

If the EU has the political and economic backing to integrate further into a political union, it would become one of the largest and most diverse political unions in existence. Trade between its borders would be entirely unaffected by any trade barriers such as tariffs or quotas, and member nations would have an entirely new relationship between each other. While there may be elements of a framework that bear the appearance of a political union already or that would support its creation already, the flaws and deficiencies in the EU exposed by Greece's economic collapse and the current refugee crisis continue to grow more severe, pervasive, and serious. The economic instability in the EU, the massive confusion and power struggles surrounding the migrant crisis, and Greece's economic and political history do not appear to herald the deepening of integration within the European Union.

Conclusion

The European Union is one of the most dominant trade unions in the world. Its main currency, the Euro, is widely used throughout the region, and the remarkable diversity between member nations allows for strong international trade. The EU is heavily impacted by organizations such as the World Trade Organization, the European Central Bank, and the International Monetary Fund. By examining Greece's economic troubles, the effects of these organizations can be clearly seen. Currently, the EU is attempting to manage the massive influx of refugees into the region, and the strain from this has damaged relationships between member countries. However, the crisis may prove beneficial for Turkey, as recent developments may move Turkey closer to becoming a member of the EU. The case for the EU's further integration seems doubtful however, due to the high level of economic and political cooperation that is required to create a political union, as well as issues related to the creation and use of a military force and the UK's potential exit from the EU. In fact, the future of the EU is so convoluted, controversial, and complex that it is difficult to know how long it will continue to remain in existence. For the near future, however, it appears that the EU will remain intact, but current socioeconomic, geopolitical and governmental conditions amongst member nations make further integration of the EU into a political union unlikely.

References

BBC News. (2001, January 1). Greece joins Eurozone. Retrieved from http://news.bbc.co.uk/2/hi/business/1095783.stm

BBC News. (2012, June 27). *Profile: The European Union.* Retrieved from http://news.bbc.co.uk/2/hi/europe/country_profiles/3498746.stm

BBC News. (2015, August 11). Greece profile – Timeline. Retrieved from http://www.bbc.com/news/world-europe-17373216

BBC News. (2015, October 28). *EU referendum: David Cameron attacks Eurosceptic case ahead of summit.* Retrieved from http://www.bbc.com/news/uk-politics-34654797

BBC News. (2015, November 29). Migrant crisis: Turkey and EU strike deal to limit refugee flow. Retrieved from http://www.bbc.com/news/world-europe-34957830

Blackstone, B., & Buell, T. (2015, November 29). Divergent paths for U.S., European Central Banks. *The Wall Street Journal.* Retrieved from http://www.wsj.com/articles/divergent-paths-for-u-s-european-central-banks-1448830021

Coppola, F. (2015, October 24). *The fallout from the Greek crisis threatens European democracy*. Forbes Magazine. Retrieved from http://www.forbes.com/sites/francescoppola/2015/10/24/the-portuguese-presidents-decision-shows-the-eu-is-becoming-like-the-soviet-union/

EUROPA. (2015). The European Union: EU member countries. Retrieved from http://europa.eu/about-eu/countries/member-countries/

European Central Bank: Eurosystem. (2015). *About.* Retrieved from https://www.ecb.europa.eu/ecb/html/index.en.html

European Commission. (2015). Economic and financial affairs: The Euro. Retrieved from http://ec.europa.eu/economy_finance/euro/index_en.htm

Fleming-Williams, M. (2015, October 14). *The hierarchy of the European mind.* Forbes Magazine. Retrieved from http://www.forbes.com/sites/stratfor/2015/10/14/the-hierarchy-of-the-european-mind/

Grey, C. (2015, October 7). *Here's what will actually happen if there is a Brexit.* Fortune Magazine. Retrieved from http://fortune.com/2015/10/07/what-will-happen-in-a-brexit/

International Monetary Fund. (2015). *The IMF at a glance.* Retrieved from https://www.imf.org/external/np/exr/facts/glance.htm

Kent, S. (2015, October 26). *European Union could collapse under migrant strain, warns Slovenian PM.* Breitbart News. Retrieved from http://www.breitbart.com/london/2015/10/26/european-union-collapse-migrant-strain-warns-slovenian-pm/

Nixon, S. (2015, October 4). *David Cameron risks digging bigger hole over EU.* The Wall Street Journal. Retrieved from http://www.wsj.com/articles/cameron-risks-digging-bigger-hole-over-eu-1443982860

Statistic Times. (2015). List of European countries by GDP per capita. *International Monetary Fund World Economic Outlook (October-2014).* Retrieved from http://statisticstimes.com/economy/european-countries-by-gdp-per-capita.php

Stamouli, N., & Pop, V. (2015, October 26). *EU plan to control migrant flow faces challenges.* The Wall Street Journal. Retrieved from http://www.wsj.com/articles/greece-put-to-a-test-under-eu-migrant-control-plan-1445883387

Stone, J. (2015, November 27). More than a third of British public supports creation of a European Union standing army, poll finds. *Independent.* Retrieved from http://www.independent.co.uk/news/uk/politics/the-british-public-support-the-creation-of-a-european-union-standing-army-poll-finds-a6751546.html

Smith, O. (2015, October 17). European leaders admit EU army developing 'much faster than people believe.' *Express News.* Retrieved from http://www.express.co.uk/news/politics/612710/European-leaders-EU-ARMY-close-to-reality-Juncker

The Economist. (2015, July 27). Everything you need to know about the European political union. Retrieved from http://www.economist.com/blogs/economist-explains/2015/07/economist-explains-20

The Economist. (2015, October 17). *The reluctant European.* Retrieved from http://www.economist.com/news/special-report/21673505-though-britain-has-always-been-rather-half-hearted-about-european-union-its?zid=309&ah=80dcf288b8561b012f603b9fd9577f0e

Wearden, G. (2011, June 21). Timeline: Greece's journey to the edge of Euro disaster. *The Guardian.* Retrieved from http://www.theguardian.com/business/2011/jun/21/timeline-greece-euro-disaster

World Trade Organization. (2015). *Overview.* Retrieved from https://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm