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REGIONALIZATION AND REGIONAL ECONOMIC COOPERATION *EUROPEAN INTEGRATION*

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Abstract

At the time of writing this article, the European Union (EU) is fifty years old. With its 27 member states today, and with Croatia and other countries to join in the future as well, the EU is no doubt one of the most successful economic integration blocs in the world. Nevertheless economic integration or regionalism always will remain a second best solution compared to multilateral trade liberalization. In the Treaty of Rome (1957), the customs union was chosen as the basic option for economic integration, and not the free trade area which was adopted for instance by NAFTA and EFTA. The choice for the customs union relies more on political than on economic arguments. Since the achievement of the customs union in 1968, the EU became over the years a common market, an economic union, and a monetary union limited to the countries that adopted the euro in the meantime. The EU as a market economy requires free interaction between producers and consumers. There is however in customs union theory some built in bias in favor of the producers. This tendency is confirmed by many producer oriented policies in the EU, and these are not sufficiently compensated by the soft policy on consumer protection. The performance of the EU is not optimal in fields such as efficiency, effectiveness, representation, and accountability. The Constitution offers a regulatory framework for a better performance of the EU. Unfortunately, the Constitution has been rejected in 2005 by the negative referendum in France and the Netherlands. On 23 June 2007, the heads of state of the EU decided to go ahead with a scaled down version of the Constitution. Implementation of this Reform Treaty is expected in 2009.

Keywords: *economic integration, customs union, producers, consumers, politicians, Constitution, Reform Treaty*

INTRODUCTION ¹

The first step towards European economic integration was initiated by two small countries in Europe – Belgium and Luxembourg – through the signing of the Belgian Luxembourg Economic Union (BLEU) in 1921. During the second world war (1944) the Benelux Treaty was signed in London between Belgium, the Netherlands and Luxembourg. The real start-up of this small customs union followed soon after the war in 1948.

The successful Benelux, which still exists today, acted as an incentive to incorporate more European countries into economic integration. In 1951, the Treaty of Paris was signed, creating the European Coal and Steel Community (ECSC), involving six members: the Benelux countries together with Germany, Italy and France. Later these countries signed the Treaty of Rome (1957), constituting the agreement to create the European Economic Community (EEC) and the European Atomic Energy Community (EAEC), better known as EURATOM.

The success of the EEC, the ECSC and EURATOM – together called the European Community(ies) or EC since 1967 – attracted in 1973 the first new member states : the UK, Ireland and Denmark. This new group of 9 member states was joined by Greece in 1981, by Spain and Portugal in 1986, and in 1995 by Austria, Sweden and Finland. The most challenging enlargement that ever happened in European history took place on 1 May 2004. Membership increased from 15 to 25 countries. Except for Malta and Cyprus, all new member states are located in Central and Eastern Europe: Poland, Hungary, the Czech Republic, Slovakia, Slovenia, and the three Baltic States (Estonia, Lithuania, Latvia). Romania and Bulgaria joined on 1 January 2007. Depending on the positive outcome of the negotiations, Croatia and Turkey (Tezcan, 2004, p. 569-575) could become member as well. An important problem for Turkish membership is the official recognition of the Greek part of Cyprus. Similarly, when peace and political stability are ever established in the Balkans, all these states eventually are expected to become part of European integration in the future. Whether the EFTA countries – Norway, Switzerland, Iceland, Liechtenstein – could join the EU will depend on the appropriate political decisions of these countries. It cannot be excluded that in the long run the EU would cover the entire geographical area of Europe.

¹ This article is an adapted and updated version of Roosens, P. (2001), Reflexions on 50 Years of European Economic Integration, written for the Centro de Investigaciones en Educación y Negocios Internacionales (CIENI), in *The Anáhuac Journal*, Universidad Anáhuac del Sur, Mexico City, vol. 3, nr. 2, p. 148 – 159.

Over the years, the Treaty of Rome has been amended to adapt to the changing economic, political and world environment. The first change occurred in 1986 with the Single European Act (or Unity Act), followed in 1992 by the Treaty of Maastricht, the Treaty of Amsterdam in 1997, the Treaty of Nice in 2000, and finally the European Constitution in 2004 (Official Journal, 16 December 2004). The European Constitution failed to get unanimous approval by the member states, as it got rejected in 2005 by a French and Dutch referendum. Consequently the Treaty of Nice is still applicable at the time of writing this paper. On 23 June 2007, the European Council decided to substitute the Constitution by a new Reform Treaty. Expected time of implementation is 2009.

Given the historical diversity of the European countries, half a century of integration is already an achievement in itself. The continuing enlargement process demonstrates without doubt the success story of the European Union.

However, questions could be asked about some fundamental choices made during the 50 years of European economic integration. What are the consequences of regional free trade (regionalism) in Europe versus worldwide free trade (multilateralism) and what was the reason in 1957 to choose for a customs union and not for a free trade area? Can we really say that the decision-making process in Europe is serving the best interests of everybody? What will be the evolution in the future? These questions will be the basis for some critical reflections in the next lines of this article.

1. REGIONALISM VERSUS MULTILATERALISM

A lot of academic attention has already been given to the debate about 'regionalism' versus multilateralism' (Bhagwati, 1999). It cannot be denied that the multilateral activities of the GATT (WTO since 1994) have reduced worldwide protectionism since World War II, thereby substantially increasing global consumer surplus and welfare. The global negotiations during the Kennedy Round, Tokyo Round and Uruguay Round contributed to more freedom in international trade. However, the ideal of complete multilateral trade liberalization is still very far away, and the problems of the Doha Round do not offer a positive perspective for the future.

Many countries over the years did not have the patience to wait for the slow process of multilateral trade liberalization, but consequently decided to start up mutual preferential trade agreements (PTAs), known as economic integration or regionalism. Compared to multilateralism, PTAs only offer a second best solution, as free trade is created for members but protectionism is maintained against non members (Bhagwati, 1998 , p. 289). This makes PTAs even legally inconsistent with the principle of non discrimination of the GATT/WTO. Legal existence of PTAs is only possible by relying on a specific exception which is granted by article XXIV of the GATT agreement. Over the years regional trade blocs have become very popular as a substitute for multilateral trade

liberalization. Regionalism is considered to offer a quicker solution, to be more efficient and to produce a more certain outcome (Bhagwati, 1999, p. 21-25).

Regionalism can be considered as the melting together of separate national economies into one entity. It is a process of eliminating economic discrimination between the partners of the economic integration bloc. The lowest form of economic integration is certainly the *free trade area* (FTA). The partners aim at the complete abolition of trade barriers, but the previously existing import taxes of the partner countries are maintained against outsiders. Typical examples are the North American Free Trade Area (NAFTA) and the European Free Trade Association (EFTA). EFTA was started in 1960 by the Convention of Stockholm, and is still the second largest economic integration bloc in Europe. The members are Switzerland, Norway, Iceland and Liechtenstein. A specific administrative problem for all *free trade areas* are the certificates of origin, which are designed to prevent the import of goods from third countries into the zone via the zone-country with the lowest external tariff. A *customs union* is stricter since it provides a common external tariff and a common trade policy. If additionally free movement of factors of production becomes possible, the term *common market* is applicable. The *economic and monetary union* includes, furthermore, a common economic and monetary policy. The principle of *unification* has been complemented in the EU with the *subsidiarity* principle, which delegates lower-level decision-making into the hands of the national governments. Finally *political union* will be achieved when the political decision-making of the members is delegated to one supranational authority. For some policies, the European Union is now at the stage of *economic union*, and at a *monetary union* stage only for the thirteen² countries that adopted the Euro.

2. THE EEC BASED ON A CUSTOMS UNION

The EEC was created by the Treaty of Rome in 1957, explicitly based on the establishment of a *customs union*, and with the intention to reach higher degrees of integration afterwards. The option to build the EEC as a *customs union*, and not as a *free trade area*, was however not based on a solid economic justification. From the text of the treaty, it can be concluded that implicit positive economic results were hoped for, but there was no evidence that these results would be better or worse than in the case of a *free trade area*. Such a decision under rather uncertain circumstances can definitely be considered as an economic experiment.

It was only in later stages that the empirical studies of Balassa, Truman and others proved that the beneficial effects of trade creation were substantially

² In alphabetical order: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, Spain. Cyprus and Malta will join the euro zone on 1 January 2008.

larger than the negative effects of trade diversion (El-Agraa, 2004, p. 134). But once again, it remains an open question whether these effects would have been exactly the same or less in the case of a *free trade area* (Helmer, 2007, p. 81 – 85). The choice of a *customs union* instead of a *free trade area* can only be explained from a historical-political background. It was common belief during the post-war period in Europe that new conflicts could be best prevented by some sort of European political unity. But there was a general awareness as well that direct political unification was impossible – witness the failure of the European Defense Community. At the same time, indirect political unification through the merging of different European economies by means of partial sector integration (like the European Coal and Steel Community) seemed too limited to yield significant results. Hence it was considered politically necessary to realize a comprehensive economic integration.

Compared to a *free trade area*, countries are more tied together in a *customs union* via the common external tariff and the common external trade policy. This could be a sensible explanation why a *customs union* is preferred over a *free trade area* in the European context.

New members joined the *customs union* over the years. Although it is demonstrated in economic integration theories that a *customs union* can only function properly when the partners have a comparable level of economic development, nevertheless countries lagging behind economically were accepted into the *customs union*, like Greece, Portugal, Spain, and the Central and Eastern European countries that became member on 1 May 2004. Here again, the economic justification is overshadowed by the political motive.

Indeed, Europe has always been interested in having full free access to the Mediterranean Sea, and in getting stronger borders in the Eastern part of Europe and in the direction of Russia. The economic price for such a political strategy is constituted by the huge money transfers that are given to these countries from the structural funds and the cohesion fund (de Perthuis, 2004, p. 10-17). In this way, Europe tries to stimulate the economic performance of these countries and to bring these closer to the European average. After reaching sufficient convergence the *customs union* could function in a more efficient way.

Artificial constructions sometimes try to ‘justify’ the distortion between economic reality and political ambitions. A good example is the old Tindemans Report of 1975, willing to accept a *two speed Europe*. In recent years this idea came to life again in the growing demands for an *avant-garde* or *inner core* of EU countries that can go ahead with deeper integration if they wish. A similar construction is the European Monetary Union with only thirteen countries today. The common monetary policy of the European Central Bank is not applicable to the UK, Denmark, and Sweden, and it remains to be seen whether ever all recent new member states will be able to introduce the euro. The European Constitution accepts officially a *two speed Europe* between the euro-zone and the non-euro members (article III-194).

3. THE IMPLEMENTATION OF THE CUSTOMS UNION

After the Treaty of Rome, the *customs union* was quickly achieved, at least formally speaking. By mid-1968, the last internal tariffs between the six original member states were eliminated. Proponents of the EEC proudly pointed out that this was accomplished ahead of the planned schedule. However, at that time it was not realized that the member states were substituting import tariffs with new forms of protectionism having similar effects, the so-called non-tariff barriers (NTB s). So, eventually, the *customs union* had not been fully realized, and since the Summit of Luxembourg (1985) the new target date became the close of 1992.

The most obvious types of NTB s disappeared after 1992, and were turned into mandatory food-labeling practices, minimum technical standards, CE-marks, marketing directives and the like. After all, it is easier to create new NTB s than to eliminate existing ones. And last but not least, there is still the exception of the old article 36 in the treaties, changed into article 30 since the Treaty of Amsterdam, and mentioned under article III-154 in the Constitution. This exception makes it possible to restrict imports from partner countries based on arguments such as protection of consumer health, public morality, national safety, and so on. This exception has been used on several occasions, for instance to keep out British beef during the BSE crisis, to ban imports of Belgian food when it was suspected of dioxine contamination, etc.

Although NTB s still exist, and the use of article 36 (30) is still applicable, they do not cause a significant distortion anymore in the internal free trade system of the EU since the Cassis de Dijon case (1979). The conclusion of this case was that products legally produced and distributed in an EU country automatically have to be accepted in the partner countries. It can therefore be stated that – besides some minor imperfections (Kelemen and Menon, 2007, p. 80 – 85) – the *customs union* is fully accomplished in the European Union.

Another question, however, is whether the *customs union* delivers better economic results than a *free trade area*. The scope of this paper is not to run a full analysis into this matter. But it can be said that the macroeconomic results of the EU countries do not outperform those of EFTA (EFTA Facts and Figures, 2004), which after all is a less sophisticated form of economic integration. So there is no solid macroeconomic justification to prefer a *customs union* over a *free trade area*.

Perhaps a better explanation can be found in the common external tariff of a *customs union*. It was proved a long time ago that the common external tariff can be used by the *customs union* as an international instrument of negotiation (Johnson, 1965, p.256-283). Sometimes the EU behaves in a liberal way, other times as a protectionist.

The liberal attitude appears in the considerable lowering of external tariffs in the framework of the GATT/WTO tariff negotiations. Moreover, the EU provides in its external tariff many exceptions according to the clauses in free trade and preferential agreements. Good examples are the full free trade agreements with South Africa and Mexico.

However, the EU does not hesitate to use its common trade policy for the defense of its European interests, if such a defense seems necessary. This defensive strategy takes place mainly in the interest of the *producer* and to a lesser extent in the interest of the *consumer*. It is after all much easier for producers than for consumers to get organized in powerful lobbies, hence the former can safeguard their interests more efficiently by applying pressure on politicians and bureaucrats (Lepage, 1982, p. 35).

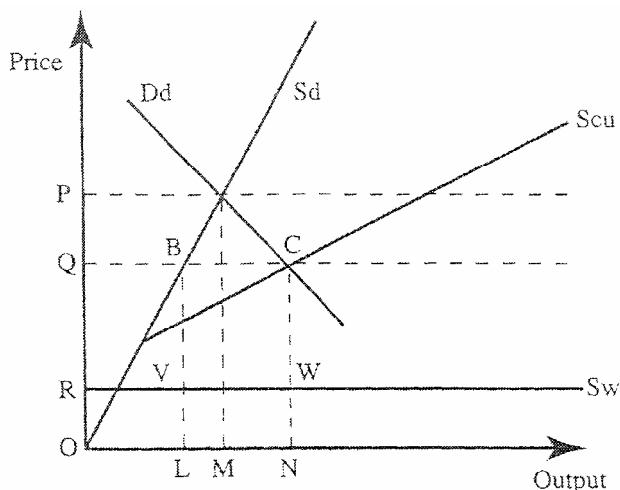
4. EUROPE IN FAVOR OF THE PRODUCERS

Is there in the EU any further bias in favor of the producers? Without doubt it can be said that there was no explicit consumer policy in the articles of the Treaty of Rome. An explicit consumer policy was intentionally introduced through the Single European Act (article 100), and in a more detailed way in 1992 by the Treaty of Maastricht (article 129a). This is by any measure very late, and the Constitution does not deliver any drastic changes for the future (article III-235).

The efforts that are currently being made are anyway highly ineffective. Most actions have been taken in the form of directives related to food safety and some marketing practices, like food labeling, consumer credit, dangerous imitation, doorstep selling, and such like. Directives –in contrast to regulations – are not considered to be European law. They cannot be implemented as long as they are not incorporated into national law. Consequently, the way they protect the consumer can look different from one member state to another. This makes cross border protection of the consumer in the EU very difficult.

More confusing even are the numerous consumer organizations that are active at the EU and national levels. Although the EU started up the so called European Consumer Consultative Group in October 2003, this group only has advisory power. Last but not least, consumer protection is hidden in many other policies of the EU, like competition policy, environmental policy, etc. In effect, however, this does not contribute to transparency in consumer protection.

Moreover, customs union theory provides in many cases a negative built-in bias against the consumer. This can be illustrated by referring to graph 1.



Source: Roosens (2001), p. 152

Graph 1.

D_d represents the domestic demand curve and S_d the domestic supply curve. When a customs union is realized the supply curve shifts to the right and becomes S_{cu} . S_w represents the worldwide supply, provided the home country and the customs union are considered to be price takers. Let us first analyze the case of trade diversion. In the absence of a customs union, we assume initially that the home country imposes a non-preferential tariff RQ . This results in a consumption level ON , of which OL is supplied by the domestic producers and LN is imported from the world market. The customs revenue for the government will be $BCWV$.

Starting from this situation, assume the home country gets engaged in a *customs union*. This does not improve the situation. The consumption level remains ON . The imports from the partner countries in the customs union are represented by LN , which means that the import LN of the world market is substituted by import from the partner nations of the customs union. This reflects the economically less efficient allocation of factors of production that will occur under trade diversion, since the lower cost supplier from outside the customs union is substituted by the higher cost supplier from within the customs union. The home country will have to give up the customs revenue $BCWV$, which can be considered as the protection cost in favor of the higher cost producer in the customs union.

While the consumer at first sight is not negatively influenced by this situation of trade diversion, it is not uncommon that governments will try to compensate the lost revenue $BCWV$ by higher income taxes, higher VAT and excise taxes. There is only one conclusion here: trade diversion has to be avoided

and *customs unions* with a lot of trade diversion should never be started up in the first place.

In the case of trade creation, assume as a starting point a non-preferential tariff RP. An amount of OM will be consumed and will be supplied by the domestic producers. In the process of establishing a *customs union*, consumption will increase from OM to ON, domestic production will decrease from OM to OL, and imports in the order of LN will occur between partners within the *customs union*. This is an illustration of trade creation. The consumer has an advantage in this situation: consumption increases and the price declines. Overall production in the *customs union* as well increases from OM to ON. Although the production in the home country itself decreases to OL, a reallocation of the factors of production should be expected in favor of domestic production in other sectors where more comparative advantages are available vis-à-vis the partner countries in the customs union. However, if such reciprocal comparative advantages are not available, then the *customs union* would be a meaningless construction. Reference can be made here to one of the important conditions for a successful *customs union*: before starting up the integration; the economies of the interested partners should be actually very competitive and potentially complementary (Swann, 2000, p.123).

Instead of a *customs union* with trade creation, we could consider a non-preferential lowering of tariffs from RP to RQ. The consumer is now as well off as under the *customs union* with trade creation, because consumption increases from OM to ON. The domestic producer supplies an amount OL, which is the same as in the *customs union*. The import LN, however, is not coming from the partner countries but from the cheaper world market. At the same time, the home country can enjoy again a customs revenue BCWV, which could serve as the basis for lower income taxes, VAT or excise taxes. In other words, a *customs union* with trade creation does not yield better economic results compared to a policy of non-preferential lowering of tariff levels. This conclusion was already reached in the early days of 1965 by Cooper and Massell, but later on challenged in research such as by Wonnacott and Wonnacott, Jones, El-Agraa (El-Agraa, 2004, p. 101-113). There is a strong theoretical case that many *customs unions* are not likely to eliminate all trade with outside countries. This point is very well demonstrated in the EU by the forty percent of all EU-trade which is related to non member states. Undeniably the more efficient producer in the global context will not always have access to the EU market, and this reduces overall welfare in the EU. A good example is the protective common agricultural policy of the EU, making the imports from more efficient food producers in the world very difficult.

5. A EUROPE OF POLITICIANS AND EUROCRATS³

An international organization, like the EU, can be likened to a club of countries. The purpose of such a club is to achieve by common action certain goals which are impossible or hard to reach by the individual countries. The necessary condition for members to join the club is the expectation about the achievement of a net positive result from membership. If this is not the case, entry into the club will not happen as is proven by the fact that Switzerland and Norway refrained from joining the EU, or by the refusal of the UK, Denmark and Sweden to adopt the euro. Membership can also be cancelled, as in the case of Greenland which decided to leave the EEC in 1984 (based on a referendum in 1982). The voluntary withdrawal from the European Union is explicitly provided for in article I-60 of the Constitution.

5.1. Efficiency

An efficient economic integration arrangement should generate higher total welfare than any other arrangement (Berglöf, p. 34). The bottom line is that at least one member of the economic integration gets better off and nobody else gets worse off. But as already discussed in paragraph three, it is not clear whether the EU as a *customs union* constitutes a more efficient solution than a *free trade area*. Some pessimist estimates claim that free trade in the EU contributes 1.8 % to GDP, but the complexity of the EU and its overregulation would cost around 5.5 % of GDP (Helmer, 2007, p. 83).

But the goals of the European Union are not exclusively economic (Constitution, article I-3). Consequently the overall net benefits to be expected can hardly be expressed in monetary terms only. Therefore, entry into the community is not only based on the net economic benefits of economic integration, but also on the other, non-economic dimensions connected with membership. Thus the considerable economic uncertainty about the economic usefulness of the entry of ten new member states on 1 May 2004 has to be considered as subordinated to the political, geographic and strategic aspects. It can be expected that these non-economic arguments will continue to be used in the future in favor of countries applying for membership⁴.

The focus on efficiency in the EU is estimated to be low for the Council, and only medium for the Commission and the Parliament (Berglöf, 2003, p. 43).

³ Eurocrats: bureaucrats working in the institutions of the European Union.

⁴ The strict political, economic and legislative criteria for membership are published in the Copenhagen criteria.

5.2. Effectiveness

In order to achieve the goals of the club, provisions have to be made for the vital organizational structure and the institutions, like the Council of Ministers, the Commission, the European Parliament, the Court of Justice, the Economic and Social Committee, the Committee of the Regions, and other. The question is now whether this group of European politicians and eurocrats is capable of defining strategic goals and of implementing economic integration in an effective way. In other words: are they able to state the practical goals needed for economic integration and to adopt the necessary decisions and actions? Some opponents have serious doubts about the effectiveness of decision-making in the EU institutions (Cihelkova, 2007, p. 149 – 150) and others consider the EU as guided by faulty mechanisms and surrounded by a cacophony of conflicting voices (Gillingham, 2003, p. 313).

The organizational structure of the EU could be compared to a production function. The efforts of the European politicians and administrators can be considered to be the inputs, and the integration results as the output. On the side of the output, it can be often observed that the EU is struggling with an inadequate perception of the nature, size and quality of the outputs to be produced. Examples of inadequate output results are numerous. A good case is the EU common agricultural policy (CAP): too expensive and harming consumers with food prices higher than world prices. The export subsidies and the variable import levies are a straightforward violation of the GATT/WTO rules. The reform of the CAP during the last years is mainly the result of the Uruguay Round.

Another example is the social policy, which even today remains too vague. The anti-global movement in Europe and several labor unions more than once complained that the *social Europe* is not yet satisfactorily implemented. At the same time, it is obviously much better for the producers that socially acceptable working conditions can be delayed as long as possible.

The energy and the environmental policy of the EU rely on one of the highest indirect taxes in the world, causing the EU final fuel prices to be twice as high as the world average. Consequently, the EU transportation system is more expensive than elsewhere in the world, causing a negative impact on the competitiveness of EU business life. On the other hand the EU is very ambitious about the development of a trans-European network based on the HST (high speed train). The fares, however, are at the level of an airline ticket and suit more the needs of business travelers. At the same time, the huge investment cost drains away funds from investment projects in the domestic railways, which are used mostly by everyday commuters and consumers.

The effectiveness in the field of many other policies is disappointing as well, such as the consumer policy, the protection of the environment, the asylum policy. The EU is not able to meet the goals of the Lisbon strategy (Bailly, 2004,

p. 425-429), and is lagging behind the US in economic growth, employment and level of competitiveness.

Generally speaking, as far as political and bureaucratic inputs are concerned, the widespread conviction has existed for a long time already that the political and bureaucratic apparatus has an inherent tendency to expand at the expense of society. As the EU keeps growing – both horizontally in terms of members and vertically in activities – more complex structures arise, causing inevitably a more sluggish decision-making process and a less effective implementation. The goal of a common Europe will not come closer with a proliferation of the political and bureaucratic machinery. More intervention and regulation could be an obstacle to create a better integrated Europe. A good balancing approach consists in the principles of *subsidiarity* and *proportionality*. *Subsidiarity* delegates some lower level decision making to the member states and goes together with the tendency towards more political autonomy for some larger regions in the EU. It could make however the EU less transparent. The best remedy against ineffectiveness in the EU could be the strict implementation of the principle of *proportionality*, which requires EU legislation to be no more than the strict minimum to achieve a particular objective.

Effectiveness in the EU becomes most visible at the level of the European political institutions. The score for effectiveness is indeed low for the Council and medium for the Parliament (Berglöf, p. 43). It is not surprising that the Commission gets a high score, as its staff is not political but expert oriented.

5.3. Representation

Are the interests of everybody in the EU taken care of in the same way? It is striking that in the majority of EU policies, the producer is taken into account in a much better way than the consumer. ‘Public choice’ theories offer explanations as to why politicians and administrators comply with the needs of producers rather than those of the consumer (Lepage, 1982, p. 81 - 106). European politicians and eurocrats feel they can protect their own existence by being cooperative vis-à-vis producer lobbies, while spreading out the burden and costs among consumers without meeting any significant resistance. Business lobbying is consequently an accepted fact of life in the EU (Gillingham, 2003, p. 264). Lobbying systems in the EU are complex (Broscheid & Coen, 2006, 19 p.) and lack transparency (Commission, 2006, 17 p.). Because of the high cost of information, the consumers cannot develop an efficient anti-lobby, and are hardly in a position to have a significant influence through the democratic voting process on the output provided by politicians and civil servants. As the Commission is involved in the daily implementation of the EU policies, they are more vulnerable to every day lobbying than the Council and the Parliament. Consequently the score for representation is low for the Commission, and medium for the Council and the Parliament (Berglöf, 2003, p. 43).

The problem of correct representation was a hot issue during the negotiations for the Nice treaty. The French government was able to get as much voting power (29 votes) in the Council as Germany, while Germany is economically more dominant and counts 20 million more people. A similar calculation was not applied to Belgium, which got 12 votes compared to 13 for the Netherlands. Here Belgium was sanctioned because the Netherlands has 5 million more people.

The 27 actual member states have an accumulated total of 345 votes in the Council of Ministers. A decision which requires qualified majority will be accepted if 255 votes – this is 74 % - are in favor. Furthermore, a majority of member states should back the proposal and they must represent at least 62 % of the EU population. The Constitution replaces this requirement by a simplified system of double majority (Part I article 25). At least 55% of the members of the Council should be in favor, representing 65% or more of the EU population.

5.4. Accountability

Typical of any kind of government service, and also of European policy, is the lack of competition. Inadequate public management is not sanctioned by the corrective market mechanism (Lepage, 1982, p. 81 – 106). Lacking any market mechanism, accountability in the EU can only be based on the judgment of Europe's citizens. Such an accountability process is very indirect and hard to implement especially in the case of the Commission. Just once in the history of the EU has there been a major sanction: based on fraud perpetrated by some commissioners, the European Parliament opened an investigation, forcing as a result the entire Commission to resign in 1999 (Baldwin, 2004, p. 52-53). As the Parliament has to give prior approval before a new Commission can start its activities, they gave the new President Barroso and his group of commissioners initially a hard time. Unfortunately the approval or rejection by the Parliament can be politically biased. Sometimes the Commission can be morally sanctioned, especially when a decision is considered to be wrong and is publicly reversed by the Court of Justice. As a conclusion, accountability is generally low for the Commission (Berglöf, 2003, p. 43). Accountability for the Parliament and Council is medium because they are subject to a democratic voting process. The members of the Parliament are directly elected by the citizens of the member states, and the same applies for the ministers of the Council. The general public however gets less information in the media about the activities in the Parliament and the Council compared to domestic political life. Less transparency undeniably results in lower levels of accountability. This lack of information backfired on the EU in 2005 when the Constitution was rejected by the French and Dutch referendum.

6. THE EUROPEAN CONSTITUTION: A STEP IN THE GOOD DIRECTION

Any improvement in European accountability, representation, effectiveness and efficiency will have to rely on a system of more simplicity and transparency in the EU. This is one of the main reasons why the European Constitution was approved by the European Council on 18 June 2004, and signed in Rome on 29 October 2004 (Official Journal, 16 Dec. 2004). The final implementation however requires the unanimous approval of all member states, which unfortunately did not happen because of the negative referenda of 2005 in France and the Netherlands.

Between 2005 and 23 June 2007, EU politicians did a lot of brainstorming about the future fate of the Constitution. The solution could be an amended text, or to cancel the requirement of unanimous approval of all member states, or to accept a double geared EU with a cluster of countries following the Constitution and another cluster still relying on the Treaty of Nice.

The European Constitution introduces a lot of simplifications aiming at improving the complex organizational and bureaucratic structure of the European Union.

Some of the important changes are the following:

- The single legal personality allows the EU to sign international treaties. A minister of foreign affairs is responsible for the common foreign and defense policy of the EU.
- A restriction is introduced on the size of the European Parliament and the Commission.
- Most decisions are based on majority voting.
- The complex system of the six-month rotating presidency of the European Council is replaced by a president who is elected by the Council for a maximum period of five years.
- Members of the European Monetary Union (EMU) can enforce their own euro-zone rules. This allows Europe to run a double geared economic development: the euro-countries and the non-euro group.
- The possibility is provided for an EU wide referendum if a minimum of one million EU citizens ask for it.
- There is an exit clause giving clear guidelines for countries that want to give up their membership.
- National veto power is limited to sensitive issues such as foreign policy, taxation, national quotas for immigration.

All these actions undoubtedly constitute a step in the good direction, but they became a missed opportunity (Barroso, 2006, 10 p.) since the refusal by France and the Netherlands.

Under the presidency of Germany, the 27 heads of state of the European Union had a meeting of the European Council in Brussels on 21 and 22 June 2007. The German chancellor Merkel tried to convince all member states about the necessity to agree at least about a scaled down version of the constitution. Finally an agreement was reached on 23 June about a new *Reform Treaty* as a substitute for the *Constitution*. The key dates are end of 2007 for the full official text and 2009 for the implementation. Many important parts of the *Constitution* are saved (Presidency Conclusions, 2007, 31 p.). A High Representative – the name ‘minister’ was abandoned- for Foreign Affairs and Security Policy will be appointed, making it easier for the EU to speak with one voice. A permanent President will replace the 6 months rotating presidency of the EU. National parliaments will be given an increased role, and the number of Commissioners will be reduced. The actual system of qualified majority voting in the Council of Ministers will be replaced by a double majority system.

CONCLUSION

The fact that European economic integration – called the European Union or EU in its current form – still exists after nearly 50 years of existence, is already a success in itself. The attractiveness of the EU is furthermore highlighted by the increasing number of new members: from 6 countries in the beginning to 27 members at the moment. Although worldwide multilateral free trade is theoretically superior to economic integration, its implementation is difficult and too slow. The process of trade liberalization is faster in the case of economic integration, but it tends to favor the producers more intensively than the consumers.

The choice of a *customs union* (CU) as the basis for European integration offers political advantages over a *free trade area* (FTA). Whether a CU yields better economic results than a FTA is still the basis for a lot of academic discussion.

It can not be denied that a *free trade area* is easier to run than a *customs union*. Higher stages of economic integration – *common market*, *economic union*, *monetary union* – become at each stage even more difficult to manage. This explains why the political and bureaucratic apparatus of the EU shows disappointing levels of efficiency, effectiveness, accountability and representation. This problem becomes worse each time when more states join the EU. The Constitution is offering the basis for a more transparent Europe. Its future implementation in 2009 is partly saved by the new downsized *Reform Treaty*.

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REGIONALIZACIJA I REGIONALNA EKONOMSKA SURADNJA EUROPSKE INTEGRACIJE

Sažetak

U vrijeme pisanja ovog članka Europska Unija (EU) navršava pedeset godina svoga postojanja. Sa svojih 27 država članica, i sa Hrvatskom te ostalim zemljama koje će se također pridružiti u budućnosti EU je bez sumnje jedna od najuspješnijih ekonomskih integracijskih blokova u svijetu. Ipak, ekonomska integracija ili regionalizam je uvijek drugo najbolje rješenje u usporedbi sa multilateralnom trgovinskom liberalizacijom. U Rimskom ugovoru (1957), carinska unija je bila izabrana kao temeljna opcija za ekonomsku integraciju, za razliku od područja slobodne trgovine koju su na primjer prihvatile NAFTA i EFTA. Izbor da to bude carinska unija više je zbog političkih nego ekonomskih razloga. Od osnivanja carinske unije 1968, EU je s godinama postala zajedničko tržište, ekonomska zajednica i monetarna zajednica ograničena na zemlje koje su u međuvremenu prihvatile euro. EU kao tržišna ekonomija zahtijeva slobodnu interakciju proizvođača i potrošača. Ipak, unutar carinske unije postoji teorija koja se donekle temelji na predrasudi, a ide u prilog proizvođača. Ova tendencija potvrđena je od strane brojnih EU politika orijentiranih na proizvođače, a koje nisu dostatno kompenzirane blagom politikom zaštite potrošača. Učinak EU nije optimalan u područjima kao što su efikasnost, efektivnost, zastupljenost i odgovornost. Ustav nudi regulatorni okvir za bolji učinak EU. Na žalost Ustav je odbijen 2005. negativnim rezultatima referenduma u Francuskoj i Nizozemskoj. 23. lipnja 2007. šefovi država EU odlučili su nastaviti rad sa skraćenom verzijom Ustava. Provedba ovakvog Reformskog Sporazuma očekuje se 2009.

Ključne riječi: ekonomska integracija, carinska unija, proizvođači, potrošači, političari, Ustav, Reformski Sporazum

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