Ministry of Education and Science of Ukraine
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THE GLOBAL AND EUROPEAN INTEGRATION

Lecture notes

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THE GLOBAL AND EUROPEAN INTEGRATION

Lecture notes

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Introduction

The purpose of the course "The Global and European Integration" is to give students the relevant knowledge about the global integration in general and European integration in particular.

The main tasks of the course are:

- to provide essential knowledge in the field of the key principles and challenges of global economic integration;
- to focus on the performance of the global actors;
- to provide basic knowledge on economic globalization and integration;
- to address introductory remarks dealing with the international economic activity of global actors;
- to make students apply relevant knowledge in the global economic environment.

After successful completion of the course the students **will be able to know**:

- an elementary understanding of globalization;
- positive and negative sides of globalization;
- how to overcome global challenges and risks;
- how the European Union has emerged;
- how to distinguish the European Union from the European area;
- how to join the European Union;
- how to reveal specific features of the law system of the EU;
- how the EU makes decisions.

After successful completion of the course the students **will be able to do**:

- to discuss and analyze the context of globalization and global integration;
- to reveal and discuss the paradox of globalization;
- to estimate the degree of global integration between choosing countries;
- to differentiate between mergers and acquisitions from global practice;
- to describe in general features the law of the European Union;
- to identify the most considerable contributors to the creation of the EU;
- to interpret the benefits of the single currency euro;
- to decide how the European institutions are related with each other;
- to use critical thinking skills to comprehend and discuss economic issues in the global policy and professional arena.

CHAPTER 1. GLOBALIZATION OF THE WORLD ECONOMY

1.1. Scope of globalization.
1.2. Driving forces of globalization.
1.3. Pros and cons of globalization
1.4. Global challenges and trends.
Key words: interaction, interconnectedness, global economy

1.1 Scope of globalization

Globalization is a very broad concept not only with respect to the diversity of regions, cultures, and actors, but also with respect to the diversity of analytical approaches that can be employed to study it. There are at least five distinct ways in which it is commonly understood [24]:

- as a historical period;
- as an economic phenomenon;
- as a triumph of American values;
- as a social and technological revolution;
- as an annihilation of distance.

Globalization as a historical period. Globalization began as soon as the world began to become connected at the beginning of human history (Table 1.1).

Table 1.1 – The growth of globalization levels in the historical process [41, 6]

Globalization levels	Period
Local links	Till the 7th – 6th millennium BC
Regional links	From the 7th – 6th millennium till the second half of the 4th millennium BC
Regional-continental links	From the second half of the 4th millennium BC to the first half of the 1st millennium BC
Transcontinental links	From the second half of the 1st millennium BC to the late 15th century AD
Intercontinental links	From the late 15th century to the early 19th century
Global links	From the early 19th century to the 1960s and 1970s
Planetary links	From the last third of the 20th century to the mid-21st century

Globalization as an economic phenomenon. This definition sees globalization as the latest events that have created a greater worldwide spread of sales, production facilities, manufacturing processes, and thus increased linkages between economies around the world. The characteristics of globalization include:

- liberalization and deregulation of markets;
- privatization of assets;
- retreat of state intervention in the economy (i.e. welfare);
- diffusion of technology;
- spread of manufacturing across nations (e.g. the production of iPhones in China for sale in the US);
- integration of capital markets – settings where foreign currencies, stocks, bonds, and bank loans are traded (e.g. the New York Stock Exchange).

It has only been in the last forty years that the world economy has become so structurally interdependent, that the term global, as distinct from international, has been coined and become widely used. As globalization is often used synonymously with internationalization, the former implicitly goes deeper to emphasize the minimization of the role of national actors and the decrease in the relevance of national borders [39, 259]. With the world becoming a global village or envisaged to be a big customs union, globalization implies increased integration of world markets for goods, services, and capital which is consequently increasing permeability of national boundaries to the flow of technology, trade capital, information and ideas.

Globalization as a triumph of American values (Americanization). This definition conceives of globalization as a global convergence of politics, economic practices, and culture around a specifically American way of development, and capitalism, in which consumption of goods and culture (film, music, restaurants, etc.) takes the place of cultural traditions. The result is a world that – at least in major cities – feels increasingly similar no matter where you are. The mainstream trends of Americanization are:

- Dollarization – a type of scenario whereby the dollar is used as legal tender by another country’s citizens because the dollar currency is more stable than the currency normally used in the domestic country [13].
- Macdonaldization – the process by which the principles of the fast-food restaurant are coming to dominate more sectors of the society [27].

Globalization as a social and technological revolution. This revolution is creating a new economy in which the globe is a single market and a new social order in which people take part in a global culture and economy that is more open and flexible. It is typified by:

- globally integrated production;
- specialized but interdependent labor markets;
- the privatization of state assets;
- new technological linkages (phones, the Internet, online markets) that transcend national borders.

The influence of technologies on globalization level is shown in the Table 1.2.

Table 1.2 – The correlation between globalization levels and levels of technology [41, 7]

Globalization level	Level of technology
Local links	Hunting and gathering principle, beginning of the agrarian production revolution
Regional links	The second phase of the agrarian revolution; agrarian production principle reaches its maturity
Continental links	Final phase of the agrarian production principle
Intercontinental links	The first phase of the industrial production principle and industrial revolution
Global links	The second phase of the industrial revolution and the final phase of the industrial production principle
Planetary links	The start and development of scientific information revolution which second phase is forecasted for the 2030s and 2040s years

Globalization became an increasingly used term with technological innovations – most significantly the World Wide Web, or the Internet – that made financial transactions and recordkeeping of international shipments quicker and easier. As improved communication networks brought far-flung businesses together, it also brought different cultures together expanding the concept of globalization which now intersects the media, ideas, politics, economics, the arts and other social artifacts across the planet.

Globalization as an annihilation of distance. If you have ever boarded a plane (in say New York), landed hours later in foreign city (Hong Kong), and been disoriented by the sudden shift, then you have experienced this form of globalization. The experience of space, it is argued, is intimately tied to the time necessary to connect distinct locations. Planes, cell phones, and the internet have combined to dramatically shrink that time, resulting in a fundamentally different human experience of space typified by:

- increased interconnectedness that lead distant events to have local impacts;
- the transcendence of local and national boundaries;
- the increased speed of social activity mediated by technology.

In general, globalization can be understood as the increasing integration and interdependence among countries resulting from the modern flow of people, trade, finance, technologies and ideas from one nation to another. The World Bank, a strong supporter of globalization, defines it as “the growing integration of economies and societies around the world” [23].

Globalization has two distinct features: scope (or stretching) and intensity (deepening). On the one hand, it defines a set of processes, which embrace most of the globe: in this sense the concept has a spatial connotation. On the other hand, it implies intensification on the levels of interaction, interconnectedness or interdependence between states and societies which constitute the world community. So, alongside the stretching goes a deepening process [39, 259].

Salient features of globalization [12]:

1. Liberalization*:* it stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

2. Free trade: it stands for the free flow of trade relations among all the nations. Each state grants most favored nation status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.

3. Globalization of economic activity: it stands for the process of integrating the domestic economy with the world economies.

4. Liberalization of export-import system: it stands for liberating the export-import activity and securing a free flow of goods and services across borders.

5. Privatization: implies keeping the state away from ownership for means of production and letting the free flow of industrial and trade activities across borders.

6. Increased collaborations: means the encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernization, development and technological advancement.

7. Economic reforms: it stands for encouraging fiscal and financial reforms

with a view to give strength to free world trade, free enterprise, and market forces.

Globalization accepts and advocates the values of the free world trade, freedom of access to the world markets, and free flow of investments across the borders.

1.2 Driving forces of globalization

The forces driving globalization can be divided into universal and specific ones. In general, globalization is driven by four **universal factors** [50]:

- costs,
- market,
- environment,
- competition.

Costs. Maximizing their investment is a motivator for many global companies. Single-nation markets might not be large enough to offer a company's country subsidiaries all possible economies of scale. The goal, then, is to get the most mileage from the investment cost. At the same time, advertising and promotion can bleed across borders, so it makes sense to make the product available where people are going to hear or learn about it. A realistic, objective assessment of global opportunities and costs will probably lead to tough decisions about which markets, customer segments, or product positioning to focus on and which ones to bypass as well as appropriate strategies. In pursuing price leadership, for example, the global marketer offers a product or service that is nearly identical to the competitor's, but at a lower price. This often means investing in scale economies and controlling costs that typically include overheads, research and development, and logistics. The alternative strategy, product differentiation, takes advantage of the marketer's real or perceived superiorities on value elements such as design or technical support. Cost leadership and differentiation are not mutually exclusive, of course, and should be balanced appropriately. Most global marketers combine high differentiation with cost containment so their global activities contribute to economies of scale in production and marketing.

Market. Consumers in advanced economies are becoming more similar in terms of education, income, lifestyles, aspirations, and their use of leisure time. Marketers of certain products find ready buyers in countries with high purchasing power and well-developed infrastructures. Still other products might fare best in markets that are less sophisticated. Having a global strategy does not mean that a company should serve the entire globe. Critical choices include deciding where to spend resources and where to hang back. The usual approach is to start by picking regions and then countries within them. Regional groupings might follow the organizational structure of existing multinational management or export offices, such as splitting Europe into northern, central, and southern regions that have similar demographic and behavioral traits. Market data might be more readily available in situations where the firm is grouping markets according to existing structures and frameworks.

Environment. Increasing consumer wealth and mobility, rapid information transfer across borders, publicity about the benefits of globalization, and technological revolutions continue to accelerate demands for global products and services. Newly emerging markets are benefiting from advanced communications by leaping over economic development stages that others slogged through in earlier years. A new group of global players is taking advantage of the increase in trading regions and newer technologies. These “mini-nationals” or “born globals” serve world markets from a handful of manufacturing bases rather than building a plant in every country as was the procedure in earlier years. Their smaller bureaucracies also allow these companies to move quickly to conquer new markets, develop new products, or change directions when the situation calls for it.

Competition. To remain competitive, global rivals have to intensify their marketing everywhere by attempting to sustain advantages that, if weakened, could make them susceptible to market share erosion worldwide. Competitive companies introduce, upgrade, and distribute new products faster than ever before. A company that does not remain ahead of the competition risks seeing its carefully researched ideas picked off by other global players. Leading companies drive the globalization process. German beauty products maker Nivea is driving its business in a global direction by creating global brands, a global demand for those brands, and a global supply chain that helps the company meet those demands.

The above mentioned four global drivers affect countries and industrial sectors differently. While some industries, including paper and soft drinks, are truly globally contested, some others, such as government procurement, are still closed. Commodities and manufactured goods are already in a globalized state, while many consumer goods are accelerating toward more globalization. Similarly, the leading trading nations display far more openness than low-income countries and that openness is advancing the positive state of globalization in general.

Key **specific driving forces** of globalization include [42]:

- developments in transportation;
- advancements in communication;
- expansion of transnational corporations.

These forces are shown in the Table 1.3.

Table 1.3 – Key specific driving forces of globalization [42]

Forces	Explanation
Developments in transportation	– improvements in this field has "shrunk" the world considerably; – less time is required to travel from place to place; – it greatly simplified the transfer of goods from one mode of transportation to another
Advancements in communication	– improvements in technology has made communications along people around the world faster and more convenient; – people can communicate via telephone, electronic mail, fax, and video conferencing; – satellite technologies has also enabled messages to be sent to different parts of the world simultaneously; – the Internet has enabled consumers to access information easily, as well as purchase item online; – TNCs can also coordinate and control their worldwide activities easily
Expansion of transnational corporations	– TNCs are large global firms that operate in a number of countries and have production or service facilities outside the country of their origin; – examples are Microsoft corporation and Toyota Motor corporation; – they set up their operation in different parts of the world; – some reasons are to source for new markets and lower cost of production; – they are coordinated by headquarters which are located in their country of origin; – they source for components from around the word before assembling their final product in another country; – they make the world economy more integrated via transnationalization

The way how a country combines economic, social, and political factors determines the level of its globalization. The relative success of globalization is evident in terms of increased foreign trade and capital flows, acceleration of growth rates and rising real per capita GDP in those countries that have opened up their economies. Top-25 highly globalized countries in 2017 are shown in the Table 1.4. The well connected and mostly small economies like the Netherlands, Ireland, and Belgium display especially high levels of globalization. Cross-country comparative analysis shows whether driving or restrictive forces are employed by a certain country on its way to the global integration.

Table 1.4 – Cross-country comparisons for Globalization Index [25, 26]

Rank	Economy	Globalization Index in 2010	Globalization Index in 2017	Growth rate, %	Driving (+) or restrictive (-) forces in use
1	Netherlands	91.90	92.84	+1.02	Driving forces
2	Ireland	86.92	92.15	+6.02	Driving forces
3	Belgium	92.95	91.75	-1.29	Restrictive forces
4	Austria	92.51	90.05	-2.66	Restrictive forces
5	Switzerland	90.55	88.79	-1.94	Restrictive forces
6	Denmark	89.68	88.37	-1.46	Restrictive forces
7	Sweden	89.75	87.96	-1.99	Restrictive forces
8	United Kingdom	80.18	87.26	+8.83	Driving forces
9	France	86.18	87.19	+1.17	Driving forces
10	Hungary	87.00	86.55	-0.52	Restrictive forces
11	Canada	88.24	86.51	-1.96	Restrictive forces
12	Finland	87.31	86.30	-1.16	Restrictive forces
13	Portugal	87.54	85.04	-2.86	Restrictive forces
14	Cyprus	82.45	85.00	+3.09	Driving forces
15	Czech Republic	86.87	84.88	-2.29	Restrictive forces
16	Germany	84.16	84.57	+0.49	Driving forces
17	Spain	85.71	84.56	-1.34	Restrictive forces
18	Slovak Republic	85.07	84.36	-0.83	Restrictive forces
19	Luxembourg	85.84	84.21	-1.90	Restrictive forces
20	Singapore	84.58	83.64	-1.11	Restrictive forces
21	Norway	83.53	83.50	-0.04	Restrictive forces
22	Australia	83.82	82.97	-1.01	Restrictive forces
23	Italy	82.26	82.19	-0.09	Restrictive forces
24	Croatia	76.85	81.39	+5.91	Driving forces
25	Poland	81.26	81.32	+0.07	Driving forces

The bulk of the highly globalized countries belong to the European Union. Nowadays Europe remains the world's most globally connected region. In 2017, Ukraine occupied the 45th place with 70.24 score [26].

1.3 Pros and cons of globalization

The world economy is becoming more deeply integrated along multiple dimensions: economic, cultural, and political. Globalization is such a complex phenomenon that there is a crucial need to dissect its pros and cons across three different angles [40].

Economic globalization. Economic globalization is a process in which the world becomes a single global market of individual consumers. These consumers are characterized by their material and economic self-interest. The expansion and dominance of global companies and brands is another key feature. These corporations contribute to deepen global interconnectedness not only by uniformly shaping consumption patterns across societies, but by binding economies together through complex supply chains, trade networks, flows of capital and manpower.

Pros of economic globalization:

- cheaper prices for products and services (more optimized supply chains);
- better availability of products and services;
- easier access to capital and commodities;
- increased competition;
- producers and retailers can diversify their markets and contribute to economic growth.

Cons of economic globalization:

- some countries struggle to compete;
- extractive behavior of some foreign companies and investors in resource-rich countries preventing economic diversification;
- strong bargaining power of multinational companies vis-à-vis local governments;
- problems of "social dumping".

Cultural globalization. It refers to the process of transmission of values, ideas, cultural and artistic expressions. In the era of the Internet and fast communications people can interact more easily with each other. Multiculturalism and cosmopolitanism are to some extent manifestations of cultural globalization. Communities are less insulated than ever in history, even those who cannot travel can have today a good understanding of other cultures and meet virtually people from other parts of the world. People change their views and lifestyle influenced by global cultural and consumption trends.

Pros of cultural globalization:

- access to new cultural products (art, entertainment, education);
- better understanding of foreign values and attitudes. Less stereotyping and fewer misconceptions about other people and cultures;
- instant access to information from anywhere in the world;
- capacity to communicate and defend one's values and ideals globally;

- customization or adaptation of global cultural trends to local environment.

Cons of cultural globalization:

- spread of commodity-based consumer culture;
- dangers of cultural homogenization;
- westernization, cultural imperialism or cultural colonialism;
- some small cultures may lose their distinct features;
- dangerous or violent ideals can also spread faster (note the international character of the terror group IS).

Political globalization. The political dimension is a newer feature of the globalization debate, as over the last 30 years there has been a rise in the influence and power of international and regional institutions such as the European Union (EU), Organization for Economic Cooperation and Development (OECD), the United Nations (UN), the World Trade Organization (WTO), MERCOSUR in South America, and the Association for Southeast Asian Nations (ASEAN). These international and supranational actors increasingly shape domestic politics.

Pros of political globalization:

- access to international aid and financial support;
- it contributes to world peace;
- international organizations are often committed to spread values like freedom and to fight abuses within countries;
- smaller countries can work together and gain more influence internationally;
- governments can learn from each other.

Cons of political globalization:

- state sovereignty is reduced;
- big countries can shape decisions in supranational organizations;
- countries can veto decisions and slow down decision making processes;
- coordination is difficult and expensive.

Supporters of globalization argue that it has the potential to make the world a better place to live in and solve some of the deep-seated problems like unemployment and poverty. The general complaint about globalization is that it has made the rich richer while making the non-rich poorer [45]. Policy makers have to take into account both positive and negative sides of the globalization.

1.4 Global challenges and trends

The World Economic Forum identifies five key challenges that require greater global attention and action for global cooperation [44, 61-62]: economic, societal, geopolitical, environmental, and technological challenges.

Global risks are arisen from global challenges. A global risk is defined as uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years [44, 61]. Economic global risks are shown in the Table 1.6.

Table 1.6 – Economic global risks and their description [44, 61]

Global risks	Description
Asset bubbles in a major economy	Unsustainably overpriced assets such as commodities, housing, shares, etc. in a major economy or region
Deflation in a major economy	Prolonged near-zero inflation or deflation
Failure of a major financial mechanism or institution	Collapse of a financial institution and/or malfunctioning of a financial system that impacts the global economy
Failure/shortfall of critical infrastructure	Failure to adequately invest in, upgrade and/or secure infrastructure networks (e.g. energy, transportation and communications), leading to pressure or a breakdown with system-wide implications
Fiscal crises in key economies	Excessive debt burdens that generate sovereign debt crises and/or liquidity crises
High structural unemployment or underemployment	A sustained high level of unemployment or underutilization of the productive capacity of the employed population
Illicit trade (e.g. illicit financial flows, tax evasion, human trafficking, organized crime, etc.)	Large-scale activities outside the legal framework such as illicit financial flows, tax evasion, human trafficking, counterfeiting and/or organized crime that undermine social interactions, regional or international collaboration, and global growth
Severe energy price shock (increase or decrease)	Significant energy price increases or decreases that place further economic pressures on highly energy-dependent industries and consumers
Unmanageable inflation	Unmanageable increases in the general price levels of goods and services in key economies

Societal global risks are shown in the Table 1.7.

Table 1.7 – Societal global risks and their description [44, 62]

Global risks	Description
Failure of urban planning	Poorly planned cities, urban sprawl and associated infrastructure that create social, environmental and health challenges
Food crises	Inadequate, unaffordable, or unreliable access to appropriate quantities and quality of food and nutrition on a major scale
Large-scale involuntary migration	Large-scale involuntary migration induced by conflict, disasters, environmental or economic reasons
Profound social instability	Major social movements or protests (e.g. street riots, social unrest, etc.) that disrupt political or social stability, negatively impacting populations and economic activity
Rapid and massive spread of infectious diseases	Bacteria, viruses, parasites or fungi that cause uncontrolled spread of infectious diseases (for instance as a result of resistance to antibiotics, antivirals and other treatments) leading to widespread fatalities and economic disruption
Water crises	A significant decline in the available quality and quantity of fresh water, resulting in harmful effects on human health and/or economic activity

Geopolitical global risks are shown in the Table 1.8.

Table 1.8 – Geopolitical global risks and their description [44, 62]

Global risks	Description
Failure of national governance (e.g. corruption)	Inability to govern a nation of geopolitical importance as a result of weak rule of law, corruption or political deadlock
Failure of regional or global governance	Inability of regional or global institutions to resolve issues of economic, geopolitical or environmental importance
Interstate conflict with regional consequences	A bilateral or multilateral dispute between states that escalates into economic (e.g. trade/currency wars, resource nationalization), military, cyber, societal or other conflict
Large-scale terrorist attacks	Groups with political or religious goals that inflict large-scale human or material damage
State collapse or crisis (e.g. civil conflict, military coup, failed states, etc.)	State collapse of geopolitical importance due to internal violence, regional or global instability, military coup, civil conflict, failed states, etc.
Weapons of mass destruction	The deployment of nuclear, chemical, biological and radiological technologies and materials, creating international crises and potential for significant destruction

Environmental global risks are shown in the Table 1.9.

Table 1.9 – Environmental global risks and their description [44, 61]

Global risks	Description
Extreme weather events (e.g. floods, storms, etc.)	Major property, infrastructure and/or environmental damage as well as loss of human life caused by extreme weather events
Failure of climate-change mitigation and adaptation	The failure of governments and businesses to enforce or enact effective measures to mitigate climate change, protect populations and help businesses impacted by climate change to adapt
Major biodiversity loss and ecosystem collapse (terrestrial or marine)	Irreversible consequences for the environment, resulting in severely depleted resources for humankind as well as industries
Major natural disasters (e.g. earthquake, tsunami, volcanic eruption, geomagnetic storms)	Major property, infrastructure and/or environmental damage as well as loss of human life caused by geophysical disasters such as earthquakes, volcanic activity, landslides, tsunamis, or geomagnetic storms
Man-made environmental damage and disasters (e.g. oil spills, radioactive contamination, etc.)	Failure to prevent major man-made damage and disasters, including environmental crime, causing harm to human lives and health, infrastructure, property, economic activity and the environment

Technological global risks are shown in the Table 1.10.

Table 1.10 – Technological global risks and their description [44, 62]

Global risks	Description
Adverse consequences of technological advances	Intended or unintended adverse consequences of technological advances such as artificial intelligence, geo-engineering and synthetic biology causing human, environmental and economic damage
Breakdown of critical information infrastructure and networks	Cyber dependency that increases vulnerability to outage of critical information infrastructure (e.g. internet, satellites) and networks, causing widespread disruption
Large-scale cyber attacks	Large-scale cyber attacks or malware causing large economic damages, geopolitical tensions or widespread loss of trust in the internet
Massive incident of data fraud/theft	Wrongful exploitation of private or official data that takes place on an unprecedented scale

Global trends are defined as long-term patterns that are currently evolving and that could contribute to amplifying global risks and/or altering the relationship between them [44, 63]. Global trends in 2017 include:

1. **Ageing population –** ageing populations in developed and developing countries driven by declining fertility and decrease of middle- and old-age mortality.

2. **Changing landscape of international governance** – changing landscape of global or regional institutions (e.g. UN, IMF, etc.), agreements or networks.

3. **Changing climate** – change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere, in addition to natural climate variability.

4. **Degrading environment** – deterioration in the quality of air, soil and water from ambient concentrations of pollutants and other activities and processes.

5. **Growing middle class in emerging economies** – growing share of population reaching middle-class income levels in emerging economies.

6. **Increasing national sentiment** – increasing national sentiment among populations and political leaders affecting countries' national and international political and economic positions.

7. **Increasing polarization of societies** – inability to reach agreement on key issues within countries because of diverging or extreme values, political or religious views.

8. **Rising chronic diseases** – increasing rates of non-communicable diseases, also known as "chronic diseases", leading to rising costs of long-term treatment and threatening recent societal gains in life expectancy and quality.

9. **Rising cyber dependency –** rise of cyber dependency due to increasing digital interconnection of people, things and organizations.

10. **Rising geographic mobility –** increasing mobility of people and things due to quicker and better-performing means of transport and lowered regulatory barriers.

11. **Rising income and wealth disparity** – increasing socioeconomic gap between rich and poor in major countries or regions.

12. **Shifting power** – shifting power from state to non-state actors and individuals, from global to regional levels, and from developed to emerging market and developing economies.

13. **Rising urbanization** – rising number of people living in urban areas resulting in physical growth of cities.

The most significant global risks estimated in terms of likelihood are shown in the Table 1.11.

Table 1.11 – Top 5 global risks in terms of likelihood, 2007-2017 [44]

	Economic	Environmental	Geopolitical	Societal	Technological
2007	Oil price shock; China economic hard lending; asset price collapse	–	–	Chronic diseases in developed countries	Breakdown of critical information infrastructure
2008	Asset price collapse; oil and gas price spike	–	Middle East instability; failed and failing states	Chronic diseases in developed countries	–
2009	Asset price collapse; slowing Chinese economy; retrenchment from globalization	–	Global governance gaps	Chronic diseases in developed countries	–
2010	Asset price collapse; slowing Chinese economy; fiscal crises	–	Global governance gaps	Chronic diseases in developed countries	–
2011	–	Storms and cyclones; flooding; biodiversity loss; climate change	Corruption	–	–
2012	Chronic fiscal imbalance	Rising greenhouse gas emissions; water supply crises	–	Severe income disparity	Cyber attacks
2013	Chronic fiscal imbalance	Rising greenhouse gas emissions; water supply crises	–	Severe income disparity; population ageing	–
2014	Unemployment and underemployment	Extreme weather events; climate change	–	Income disparity	Cyber attacks
2015	High structural unemployment and underemployment	Extreme weather events	Interstate conflict; failure of national governance; state collapse	–	–
2016	–	Extreme weather events; failure of climate change mitigation; major natural catastrophes	Interstate conflict with regional consequences	Large-scale involuntary migration	–
2017	–	Extreme weather events; major natural disasters	Large-scale terrorist attacks	Large-scale involuntary migration	Massive incident of data fraud/theft

As can be seen from the Table 1.11, the landscape of evolving global risks has changed in a certain way. Global economic risks were replaced, in the first turn, by environmental ones. The mankind has learned how to cope with economic risks and predict them. Economic risks, in comparison to environmental ones, are easier to manage. Nowadays, geopolitical, societal, and technological risks are topical questions for the global society.

Conclusions

1. Globalization is so complex phenomenon that there are at least five distinct ways in which it is commonly understood: as a historical process, as an economic phenomenon, as a triumph of American values, as a social and technological revolution, and as an annihilation of distance.

2. Globalization is driven by many factors which comprise universal and specific ones. Universal factors include costs, market, environment, and competition. Specific factors cover developments in transportation, advancements in communication, and expansion of transnational corporations.

3. Globalization is a contradictory phenomenon. It has both positive and negative sides. The supporters of economic globalization argue that it leads to cheaper prices for products and services, better availability of products and services, easier access to capital and commodities, etc.

4. Global risks arising from economic, environmental, geopolitical, societal and technological challenges require greater global attention and action for global cooperation. Due to the global economic cooperation, policy makers have managed to cope with the global economic risks and challenges.

End-of-chapter tasks

1. Define the term of globalization.
2. Describe driving forces of globalization.
3. List the pros and cons of globalization.
4. Give examples of the mainstream global trends.
5. Comment on the global risks matrix.
6. Reveal and discuss the paradox of globalization.

CHAPTER 2. ECONOMIC GLOBALIZATION AND GLOBAL INTEGRATION

1.1. Measuring global economic cooperation and integration.
1.2. International organizations and unions.
1.3. Global expansion of international corporations.

Key words: global integration indicators, the United Nation, mergers and acquisitions

1.1 Measuring global economic cooperation and integration

Measuring global economic cooperation is based on calculating economic globalization indicators. Economic globalization indicators provide an overview of the main trends in globalization. According to the Eurostat, there are five groups of global indicators [16]:

1. International trade.
2. Foreign direct investment (FDI).
3. Employment.
4. Research and development (R&D).
5. Value added.

International trade is the exchange of capital, goods and services across international borders or territories. Trade consists of exports and imports. Exports occur when goods or services are sold abroad. Exports make a positive contribution to the trade balance and to the GDP of a country. Imports occur when goods or services are bought abroad. Imports make a negative contribution to the trade balance and to the GDP of a country.

Foreign Direct Investment (FDI) is the category of international investment made by an entity (direct investor) to acquire a lasting interest in an entity operating in an economy other than that of the investor. The lasting interest is deemed to exist if the investor acquires at least 10% of the equity capital of an enterprise. There are such indicators on FDI:

1. Inward FDI reports the value of the investment stocks held by multinational enterprises in the economy of the reporting country. It is divided by GDP to allow comparisons across countries.

2. Outward FDI reports on the value of investment stocks held by multinational enterprises in the economy of countries other than the reporting country. It is divided by GDP to allow comparisons across countries.

3. FDI flows intensity is the average of the inward and outward flows of FDI in the reporting country divided by the GDP of the reporting country.

Foreign affiliate statistics deal with enterprises that control enterprises abroad or are controlled by foreign enterprises. In this context, enterprise A is deemed to be controlled by an enterprise B when B controls, whether directly or indirectly, more than half of the shareholders' voting power or more than half of the shares. Possible indicators representing the **employment of foreign affiliates** are:

1. Employment in foreign controlled enterprises as a % of total domestic employment shows how much of domestic employment is created by foreign controlled enterprises.

2. Employment development in foreign controlled enterprises.

3. Employment development in foreign affiliates of domestic enterprises.

Research and development expenditures in foreign controlled enterprises can be calculated as a share of total R&D expenditures.

Possible indicators representing the **value added of foreign affiliates** are:

1. Value added in foreign controlled enterprises as a share of total value added shows to what extent wealth in the reporting country is created by foreign controlled enterprises.

2. Value added development in foreign controlled enterprises shows if the importance of foreign controlled enterprises in the wealth creation of the domestic economy is increasing or decreasing.

The way how global integration indicators can be calculated for a particular country is shown below.

1. **Export ratio** measures the importance of the exports of goods and services in relation to the whole country's economic performance.

$$\text{Export ratio} = \frac{\text{Exports}}{\text{GDP}} * 100\% \tag{2.1}$$

2. **Import ratio** measures the importance of the import of goods and services in relation to the whole country's economic performance.

$$\text{Import ratio} = \frac{\text{Imports}}{\text{GDP}} * 100\% \tag{2.2}$$

3. **Export-to-import ratio** measures to what extent a country relies on exports rather than imports.

$$\text{Export} - \text{to} - \text{import ratio} = \frac{\text{Exports}}{\text{Imports}} * 100\% \quad (2.3)$$

4. **Foreign trade balance, or net exports,** shows to what extent exports exceed imports.

$$\text{Trade balance} = \text{Exports} - \text{Imports} \quad (2.4)$$

5. **Foreign trade balance-to-GDP ratio** is the ratio of the foreign trade balance to the GDP.

$$\text{Trade balance as persantage to GDP} = \frac{\text{Exports} - \text{Imports}}{\text{GDP}} * 100\% \quad (2.5)$$

6. **Normalized foreign trade balance** is measured as the foreign trade balance related to total trade.

$$\text{Normalized foreign trade balance} = \frac{\text{Exports} - \text{Imports}}{\text{Exports} + \text{Imports}} * 100\% \quad (2.6)$$

7. **Per capita exports** are measured as the share of total exports to the total number of inhabitants.

$$\text{Per capita exports} = \frac{\text{Exports}}{\text{Number of inhabitants}} * 100\% \quad (2.7)$$

8. **Terms of trade** indicate whether the increase in prices of total country's exports as compared with the base year has been larger or smaller than the increase in prices of total country's imports.

$$\text{Terms of trade} = \frac{\text{Index of export prices}}{\text{Index of import prices}} * 100\% \quad (2.8)$$

9. **Foreign trade-to-GDP ratio** is the ratio of the foreign trade value (sum of exports and imports) to the GDP.

$$\text{Trade} - \text{to} - \text{GDP ratio} = \frac{\text{Exports} + \text{Imports}}{\text{GDP}} * 100\% \quad (2.9)$$

10. **Import penetration rate** shows to what degree domestic demand is satisfied by imports.

$$\text{Import penetration rate} = \frac{\text{Imports}}{\text{GDP} - \text{Exports} + \text{Imports}} \quad (2.10)$$

The global integration indicators are shown in the Table 1.12.

Table 1.12 – Global integration indicators [21]

Indicators	Notes
Trade	
Total Trade	Total trade is the sum of the value of exports and imports
Trade share	Trade share is the percentage of trade with a partner to total trade of a country/region. A higher share indicates a higher degree of integration between partner countries/regions
Trade Intensity Index	Trade intensity index is the ratio of trade share of a country/region to the share of world trade with a partner. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade
Export Intensity Index	Export intensity index is the ratio of export share of a country/region to the share of world exports going to a partner. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade
Intra-regional trade share	Intra-regional trade share is the percentage of intra-regional trade to total trade of the region. A higher share indicates a higher degree of dependency on regional trade
Intra-regional trade intensity index	Intra-regional trade intensity index is the ratio of intra-regional trade share to the share of world trade with the region, calculated using total trade data. An index of more than one indicates that trade flow within the region is larger than expected given the importance of the region in world trade
FDI indicators	
Cumulative FDI inflows	Cumulative FDI inflows are the sum of foreign capital reported as balance-of-payments net inflows beginning 1995. A higher volume of foreign investment indicates higher capital mobility and integration in the region
Cumulative FDI share	Cumulative FDI share is the percentage of regional FDI inflows to total FDI from the investing region beginning 1995. A higher share indicates a stronger preference for the region and a higher degree of integration
FDI share	FDI share is the percentage of regional FDI inflows to total FDI from the investing region. A higher share indicates a stronger preference for the region and a higher degree of integration
Labour mobility	
Migrant-to-population ratio	Migrant-to-population ratio is expressed as quantity of migrants coming from a partner country to the total population of the reporting country
Net remittance inflows	Net remittance inflows are the percentage of remittances coming from a partner country to GDP of the reporting country
Net remittance outflows	Net remittance outflows are the percentage of remittances going abroad from reporting country to a partner country to GDP

Globalization is the complex means through which national resources become more internationally mobile while national economies become increasingly interdependent and integrated.

Table 2.13 – Estimation of the degree of global economic integration between partner countries, 2015 [21]

Reporter	Partner	Indicators	Results
United States	Eurozone	Export growth (%)	-2.04
United States	Eurozone	Export intensity index	0.58
United States	Eurozone	Export share (%)	13.41
United States	Eurozone	Import growth (%)	1.04
United States	Eurozone	Import share (%)	14.73
United States	Eurozone	Total trade growth (%)	-0.15
United States	Eurozone	Total trade, in million US$	532290.18
United States	Eurozone	Trade intensity index	0.60
United States	Eurozone	Trade share (%)	14.21

The degree of economic integration between the USA and Eurozone is quite high. Two open economies expand internationally through trading.

2.2 International organizations and unions

An international organization can be defined, following the International Law Commission, as an "organization established by a treaty or other instrument governed by international law and possessing its own international legal personality" [14, 1]. International organizations generally have States as members, but often other entities can also apply for membership. They both make international law and are governed by it.

International organizations can be classified in the following way:

1. By geographic scope:

1.1. Global organizations: United Nations Organizations (UNO), International Monetary Fund (IMF), World Trade Organization (WTO), etc.

1.2. Transcontinental organizations:

1.2.1. Eurasia: Asia-Europe Foundation (ASEF), Eurasian Economic Union, Collective Security Treaty Organization, etc.

1.2.2. Trans-Atlantic: North-Atlantic Treaty Organization (NATO), South Atlantic Peace and Cooperation Zone.

1.3. Regional organizations:

1.3.1. Europe: European Union (EU), Council of Europe, European Free Trade Association (EFTA), European Patent Organization, Council of the Baltic Sea States, Nordic Investment Bank, Benelux, Energy Community, etc.

1.3.2. Asia: Asian Development Bank, Asia Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC), etc.

1.3.3. Africa: African Union, Economic Community of West African states (ECOWAS), East African Community (EAC), Southern African Development Community, etc.

1.3.4. America: North American Free Trade Agreement (NAFTA), Organization of American States, Union of South American Nations, MERCOSUR, Central American Bank for Economic Integration, etc.

2. By sort of activity:

2.1. Economic organizations:

2.1.1. With focus on finance, taxes and insurance: IMF, World Bank Group (WBG), International Finance Corporation, International Bank for Reconstruction and Development, International Fiscal Association, International Investment Insurance Agency, etc.

2.1.2. With focus on trade: WTO, United Nations Conference on Trade and Development (UNCTAD), International Chamber of Commerce, Organization of Petroleum Exporting Countries (OPEC), World Custom Organization, etc.

2.1.3. With focus on economic cooperation: Organization for Economic Cooperation and Development (OECD), European League for Economic Cooperation, Organization for Economic Cooperation (OEC), etc.

2.1.4. With focus on intellectual and industrial property: World Intellectual Property Organization, International Association for Protection of Industrial Property, International Patent Institute, etc.

2.1.5. With focus on economic branches: United Nations Industrial Development Organization (UNIDO), International Air Transport Association, Food and Agriculture Organization (FAO), International Fund for Agricultural Development, International Telecommunication Union, etc.

2.2. Social and labour organizations: International Labour Organization (ILO), International Commission for the Prevention of Alcoholism, United Nations Educational, Scientific and Cultural Organization (UNESCO), World Health

Organization (WHO), International Organization for Migration, International Commission on Missing Persons, United Nations Children's Fund etc.

2.3. Environmental and energetic organizations: International Energy Agency, International Atomic Energy Agency, International Renewable Energy Agency, International Solar Alliance, International Association of Ecology, International Union for the Conservation of Nature and Natural Resources, World Wildlife Fund, etc.

2.4. Political organizations: NATO, BRICS, EU, League of Nations, Commonwealth of Nations, etc.

3. By governmental interests:

3.1. Non-governmental organizations: World Organization of the Scout Movement, International Committee of the Red Cross, Doctors Without Borders, etc.

3.2. Intergovernmental organizations: UN, WTO, OECD, Council of Europe, WHO, ILO, etc.

Depending on the level of economic integration, the international economic organizations can be classified as [29, 8, 4, 19]:

- monetary unions – two or more countries with a single currency, or different currencies having a fixed mutual exchange rate monitored and controlled by one central bank (e.g., Eurozone);
- customs unions – an agreement between two or more (usually neighboring) countries to remove trade barriers, and reduce or eliminate customs duty on mutual trade (e.g., Benelux, Andean Community (CAN), East African Community (EAC), Southern African Customs Union (SACU));
- common markets – group formed by countries within a geographical area to promote duty free trade and free movement of labor and capital among its members (e.g., ASEAN);
- free trade areas – geographical area formed by the national boundaries of two or more countries belonging to a free trade agreement (e.g., NAFTA, EFTA, Pacific Alliance Free Trade Area (PAFTA), Central European Free Trade Agreement CEFTA).

United Nations Organization (UNO). The United Nations is an international organization founded in 1945. It is currently made up of 193 Member States. The purposes of the United Nations are [38]:

1. To maintain international peace and security, and to that end: to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression or other breaches of the peace, and to bring about by peaceful means, and in conformity with the principles of justice and international law, adjustment or settlement of international disputes or situations which might lead to a breach of the peace.

2. To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, and to take other appropriate measures to strengthen universal peace.

3. To achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, gender, language, or religion.

The principal organs of the United Nations are:

- General Assembly;
- Security Council;
- Economic and Social Council;
- Trusteeship Council;
- International Court of Justice;
- Secretariat.

The General Assembly (GA). The General Assembly may consider the general principles of co-operation in the maintenance of international peace and security, including the principles governing disarmament and the regulation of armaments. GA shall initiate studies and make recommendations for the purpose of:

- promoting international co-operation in the political field and encouraging the progressive development of international law and its codification;
- promoting international co-operation in the economic, social, cultural, educational, and health fields, and assisting in the realization of human rights and fundamental freedoms for all without distinction as to race, gender, language, or religion.

The Security Council. Under the United Nations Charter [9], the functions and powers of the Security Council are:

- to maintain international peace and security in accordance with the principles and purposes of the United Nations;
- to investigate any dispute or situation which might lead to international friction;
- to call on Members to apply economic sanctions and other measures (arms embargoes, financial penalties and restrictions, and travel bans) not involving the use of force to prevent or stop aggression;
- to take military action against an aggressor.

The Economic and Social Council (ECOSOC). The Economic and Social Council is the principal body for coordination, policy review, policy dialogue and recommendations on economic, social and environmental issues, as well as implementation of internationally agreed development goals. The functions and powers of ECOSOC are:

- promoting sustainable development;
- eradication extreme poverty and hunger;
- achieving universal primary education;
- promoting gender equality and empowering women;
- reducing child mortality;
- improving maternal health;
- combating AIDS, malaria and other diseases;
- ensuring environmental sustainability;
- developing a global partnership for development.

The Trusteeship Council. Trusteeship Council is authorized to examine and discuss reports from the Administering Authority on the political, economic, social and educational advancement of the peoples of Trust Territories, and their progressive development towards self-government or independence.

The International Court of Justice. The International Court of Justice is the principal judicial organ of the United Nations. The Court's role is to settle, in accordance with international law, legal disputes submitted to it by States and to give advisory opinions on legal questions referred to it by authorized United Nations organs and specialized agencies.

The Secretariat. The Secretariat carries out the diverse day-to-day work of the UN. It services the other principal organs of the United Nations and administers the programmes and policies laid down by them. The duties carried out by the Secretariat are as varied as the problems dealt with by the UN. These range from administering peacekeeping operations to mediating international disputes, from surveying economic and social trends and problems to preparing studies on human rights and sustainable development. Secretariat staff also informs the world's communications media about the work of the United Nations, and organize international conferences on issues of worldwide concern.

The UN system, also known unofficially as the "UN family", is made up of the UN itself and many affiliated programmes, funds, and specialized agencies, all with their own membership, leadership, and budget. The programmes and funds are financed through voluntary rather than assessed contributions. The specialized agencies are independent international organizations funded by both voluntary and assessed contributions.

Programmes and funds of UN

UNDP. The United Nations Development Programme works in nearly 170 countries and territories, helping to eradicate poverty, reduce inequalities and build resilience so countries can sustain progress. As the UN's development agency, UNDP plays a critical role in helping countries achieve the Sustainable Development Goals.

UNICEF. The United Nations Children's Fund provides long-term humanitarian and development assistance to children and mothers.

UNHCR. The United Nations High Commissioner for Refugees protects refugees worldwide and facilitates their return home or resettlement.

WFP. The World Food Programme aims to eradicate hunger and malnutrition. It is the world's largest humanitarian agency. Every year, the programme feeds almost 80 million people in around 75 countries.

UNODC. The United Nations Office on Drugs and Crime helps Member States fight drugs, crime, and terrorism.

UNFPA. The United Nations Population Fund is the lead UN agency for delivering a world where every pregnancy is wanted, every birth is safe, and every young person's potential is fulfilled.

UNCTAD. The United Nations Conference on Trade and Development is the United Nations body responsible for dealing with development issues, particularly international trade – the main driver of development.

UNEP. The United Nations Environment Programme established in 1972, is the voice for the environment within the United Nations system. UNEP acts as a catalyst, advocate, educator and facilitator to promote the wise use and sustainable development of the global environment.

UNRWA. The United Nations Relief and Works Agency for Palestine Refugees has contributed to the welfare and human development of four generations of Palestine refugees. Its services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance, including in times of armed conflict. It reports only to the UN General Assembly.

UN Women. UN Women merges and builds on the important work of four previously distinct parts of the UN system, which focus exclusively on gender equality and women's empowerment.

UN-Habitat. The mission of the United Nations Human Settlements Programme is to promote socially and environmentally sustainable human settlements development and the achievement of adequate shelter for all.

UN Specialized Agencies

The UN specialized agencies are autonomous organizations working with the United Nations. All were brought into relationship with the UN through negotiated agreements.

World Bank. The World Bank focuses on poverty reduction and the improvement of living standards worldwide by providing low-interest loans, interest-free credit, and grants to developing countries for education, health, infrastructure, and communications, among other things. The World Bank works in over 100 countries.

IMF. The International Monetary Fund fosters economic growth and employment by providing temporary financial assistance to countries to help ease balance of payments adjustment and technical assistance. The IMF currently has $28 billion in outstanding loans to 74 nations.

WHO. The World Health Organization is the directing and coordinating authority on international health within the United Nations system. The objective of WHO is the attainment by all peoples of the highest possible level of health. Health, as defined in the WHO Constitution, is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.

UNESCO. The United Nations Educational, Scientific and Cultural Organization focuses on everything from teacher training to helping improve education worldwide to protecting important historical and cultural sites around the world. UNESCO added 28 new World Heritage Sites this year to the list of irreplaceable treasures that will be protected for today's travelers and future generations.

ILO. The International Labor Organization promotes international labor rights by formulating international standards on the freedom to associate, collective bargaining, the abolition of forced labor, and equality of opportunity and treatment.

FAO. The Food and Agriculture Organization leads international efforts to fight hunger. It is both a forum for negotiating agreements between developing and developed countries and a source of technical knowledge and information to aid development.

IFAD. The International Fund for Agricultural Development, since it was created in 1977, has focused exclusively on rural poverty reduction, working with poor rural populations in developing countries to eliminate poverty, hunger and malnutrition; raise their productivity and incomes; and improve the quality of their lives.

IMO. The International Maritime Organization has created a comprehensive shipping regulatory framework, addressing safety and environmental concerns, legal matters, technical cooperation, security, and efficiency.

WMO. The World Meteorological Organization facilitates the free international exchange of meteorological data and information and the furtherance of its use in aviation, shipping, security, and agriculture, among other things.

WIPO. The World Intellectual Property Organization protects intellectual property throughout the world through 23 international treaties.

ICAO. The International Civilian Aviation Organization sets international rules on air navigation, the investigation of air accidents, and aerial border-crossing procedures.

ITU. The International Telecommunication Union is the United Nations specialized agency for information and communication technologies. It is committed to connecting all the world's people – wherever they live and whatever their means. Through its work, they protect and support everyone's fundamental right to communicate.

UNIDO. The United Nations Industrial Development Organization is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability.

UPU. The Universal Postal Union is the primary forum for cooperation between postal sector players. It helps to ensure a truly universal network of up-to-date products and services.

UNWTO. The World Tourism Organization is the United Nations agency responsible for the promotion of sustainable and universally accessible tourism.

Due to its unique international character, the United Nations can take action on the issues confronting humanity in the 21st century, such as peace and security, climate change, sustainable development, human rights, disarmament, terrorism, humanitarian and health emergencies, gender equality, governance, food production, and more.

2.3 Global expansion of international corporations

Choosing to pursue global expansion is one of the most critical decisions made by many growth-hungry corporations. There are a variety of factors that influence such decisions. Here are some of the top reasons why corporations choose to expand internationally [47]:

1. Global expansion remains a major driver of revenue growth. Expanding into foreign markets tends to enhance revenue growth while improving a company's return on capital and reinvestment rate. Revenue growth from non-domestic markets typically comes faster, while adding new revenue streams helps a company to maintain security and stability.

2. Businesses that expand internationally cultivate a broader customer base. In an era where global branding is more critical than ever before, the acquisition of a wider customer base and a broader brand footprint pays significant dividends. Additionally, companies with an international presence can leverage their specific understanding of global markets.

3. Expansion is being driven by the desire to increase market share and open new market. This is particularly true for European companies, and for businesses in markets that are underperforming economically. Companies can tap into higher profits and faster growth by entering overseas markets with more favorable prevailing conditions.

4. Expansion is frequently cost-saving strategy. Lowered production costs have long been a magnet for international growth. Western companies are fully aware of the labor cost savings they can achieve by outsourcing to China, India, Mexico, and several Eastern European countries. A factory worker in the United States or Europe typically costs between $15 and $30 per hour [22]. In contrast, a Chinese factory work earns less than $1 per hour, giving China a fifteenfold to thirtyfold advantage.

5. Companies are seeking what they can't find at home. Companies are using international expansion to fulfill needs unserved by their domestic market.

6. The takeaway. There are some broadly-shared rationales driving most of today's expansions. These include the desire to increase market share, lower costs, efforts to gain an edge on competitors and access to untapped sources of skill, technology, and capital.

7. International expansion is often a defensive maneuver. Companies can pursue overseas expansion as a counter to increased competition in their own market. Companies are also prompted to pursue international growth as a defensive tactic, gaining entry into potentially valuable markets before competitors can do.

Global corporations are integrated via M&A (mergers and acquisitions) mechanisms.

A merger is a voluntary amalgamation of two firms on roughly equal terms into one new legal entity [28]: Company A + Company B = Company C.

An acquisition is a corporate action in which a company buys most, if not all, of another firm's ownership stakes to assume control of it. An acquisition occurs when a buying company obtains more than 50% ownership in a target company [2]: Company X + Company Y = Company X.

Every day, Wall Street investment bankers arrange M&A transactions, which bring separate companies together to form larger ones. The main idea of M&A is the following:

$$1 + 1 = 3 \tag{2.11}$$

This equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies. Strong companies act to buy other companies to create a more competitive, cost efficient company. The companies will come together hoping to gain a greater market share or to achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone.

Table 2.14 – Classification of M&A [11]

Type	Characteristic	Example
Horizontal integration	Companies are in the same line of business, often competitors	Walt Disney Company bought Lucasfilm (October 2012)
Vertical integration	Companies are in the same line of production (e.g., supplier–customer)	Google acquired Motorola Mobility Holdings (June 2012)
Conglomerate integration	Companies are in unrelated lines of business	Berkshire Hathaway acquired Lubrizol (2011)

The reasons behind international mergers and acquisitions are [11]:

1. Improving company's performance.
2. Removing excess capacity.
3. Accelerating growth.
4. Acquiring skills and technologies.
5. Encouraging competitive behavior.

The field of mergers and acquisitions continues to experience dramatic growth. Without question, many companies still use deals to achieve economies of scale and improve efficiency. But increasingly, they're also trying to achieve transformation (Figure 2.1).

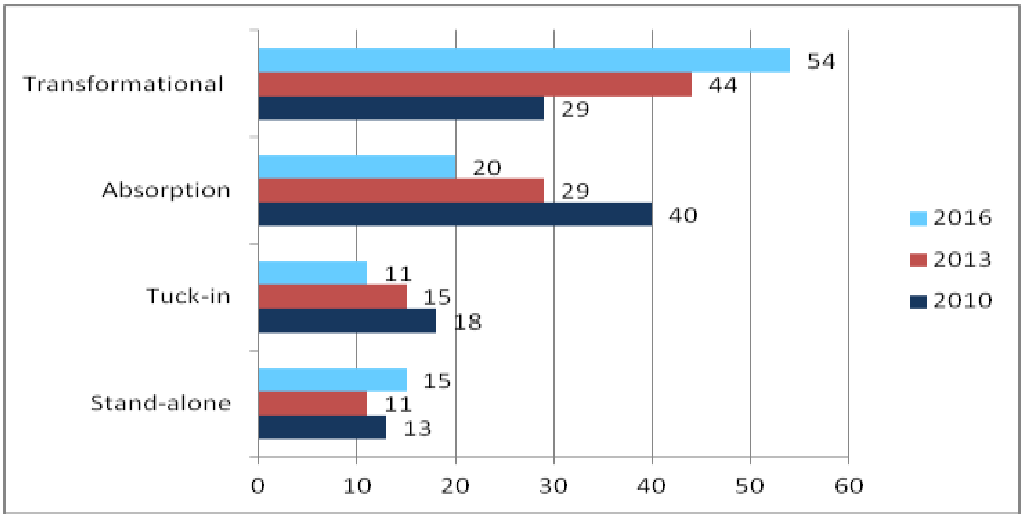

Figure 2.1 – Acquisition type of the largest deals [30, 6]

Transformational acquisition – deals that involve acquiring new markets, channels, products, or operations in a way that is transformative to the fully integrated organization.

Absorption – deals that involve acquiring and integrating similar companies as their own, such as industry competitors. This is sometimes called consolidation.

Tuck-in – deals that involve acquiring and integrating relatively small companies, generally to pick up key products or technologies.

Stand-alone – deals that involve acquiring but not integrating, and keeping the newly acquired entity operationally separate from the rest of the organization.

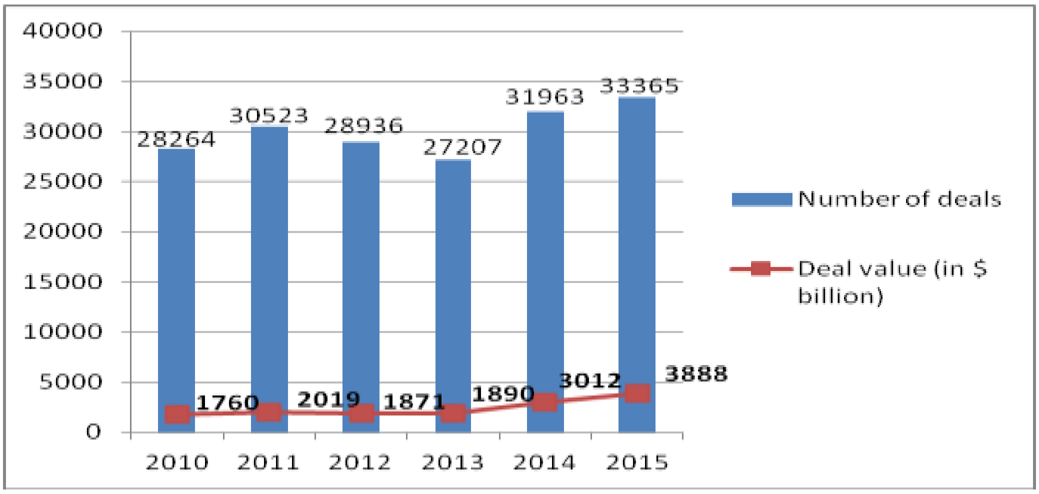

Figure 2.2 – Global M&A activity [31, 2]

The number of reported M&A transactions and deal value worldwide hit record levels in 2015. Capturing sustained economic value in a merger or acquisition is a significant challenge. Regardless the deal size, complexity, or geographic reach, some fundamental tenets are key to success for realizing deal objectives [30, 27]:

1. Accelerate the transition. There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value. Prolonged transitions slow growth, reduce profits, destroy morale and productivity, and lead to missed opportunities and loss of market share.

2. Define the integration strategy. Integration is a highly tactical effort, and the tactics must be implemented in ways that capture and protect the value of the deal. Integration priorities are easier to identify and execute when a clear integration strategy is well defined and communicated.

3. Focus on priority initiatives. Shareholder value must drive the allocation of resources for meeting those priorities. First, potential sources of value capture and value creation must be chosen. Then resources get allocated based on potential financial impact, probability of success, and timeline requirements.

4. Communicate with all stakeholders. Communicate early and often with all stakeholders, including customers, employees, investors, suppliers/vendors, and the general public. Communications should give the reasons behind the deal, specify the timing for key actions, and be candid in about what is known and also what is unknown.

5. Establish leadership at all levels. Integration efforts require significant, high-quality resources, including committed members of the executive team. It is critical to assign accountability, define functional authority, and establish role clarity.

6. Manage the integration as a business process. The larger the transaction, the more challenging the integration, and the greater requirement for a well defined process to focus resources and capital on the right activities at the right times.

Conclusions

1. The globalization of economic activity is known as economic globalization, a process driven by international trade and investments and maintained by international organizations and international corporations.

2. The general functions of international organizations comprise gathering, analyzing, and disseminating data; rule creating, such as drafting legally binding treaties; allocating resources; providing technical assistance; deploying forces; dispute resolution; settling criminal or civil claims.

3. International corporations use global expansion to achieve economies of scale and improve efficiency. The enterprises driving economic globalization tend to be the most economically potent: large, fast growing, dynamic, and innovative.

End-of-chapter questions and tasks

1. How to measure economic globalization?
2. Estimate the degree of global integration between choosing countries.
3. What international organizations do you know?
4. What are the functions and powers of the United Nation Organization?
5. What are the global goals of M&A?
6. Find the difference between mergers and acquisitions from global practice.

CHAPTER 3. INTRODUCING THE EUROPEAN UNION

3.1. Brief description of the Member States.
3.2. Symbols and values of the European Union.
3.3. The European Union as an international organization.

Key words: member states, peace, freedom, unity, equality, treaties

3.1 Brief description of the Member States

The European Union is a unique economic and political union between 28 European countries that together cover much of the continent. A brief description of each country is shown below.

An overview of Austria is represented in the Table 3.1.

Table 3.1 – Overview of Austria [37]

Capital	Vienna
Geographical size	83 879 km²
Population	8 690 076 (*2016*)
GDP	€ 349.493 billion (*2016*)
Official language	German
Political system	Federal parliamentary republic
EU member country since	1 January 1995
Seats in the European Parliament	18
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Belgium is represented in the Table 3.2.

Table 3.2 – Overview of Belgium [37]

Capital	Brussels
Geographical size	30 528 km²
Population	11 311 117 (*2016*)
GDP	€ 421.611 billion (*2016*)
Official languages	Dutch, French and German
Political system	Federal parliamentary constitutional monarchy
EU member country since	1 January 1958
Seats in the European Parliament	21
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Bulgaria is represented in the Table 3.3.

Table 3.3 – Overview of Bulgaria [37]

Capital	Sofia
Geographical size	110 370 km²
Population	7 153 784 (*2016*)
GDP	€ 47.364 billion (*2016*)
Official language	Bulgarian
Political system	Parliamentary republic
EU member country since	1 January 2007
Seats in the European Parliament	17
Currency	Bulgarian lev (BGN)

An overview of Croatia is represented in the Table 3.4.

Table 3.4 – Overview of Croatia [37]

Capital	Zagreb
Geographical size	56 594 km²
Population	4 190 669 (*2016*)
GDP	€ 45.818 billion (*2016*)
Official language	Croatian
Political system	Parliamentary republic
EU member country since	1 July 2013
Seats in the European Parliament	11
Currency	Croatian kuna (HRK)

An overview of Cyprus is represented in the Table 3.5.

Table 3.5 – Overview of Cyprus [37]

Capital	Nicosia
Geographical size	9 251 km²
Population	848 319 (*2016*)
GDP	€ 17.901 billion (*2016*)
Official language	Greek
Political system	Presidential republic
EU member country since	1 May 2004
Seats in the European Parliament	6
Currency	Euro. Member of the eurozone since 1 January 2008

An overview of the Czech Republic is represented in the Table 3.6.

Table 3.6 – Overview of the Czech Republic [37]

Capital	Prague
Geographical size	78 868 km²
Population	10 553 843 (*2016*)
GDP	€ 174.412 billion (*2016*)
Official language	Czech
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	21
Currency	Czech koruna (CZK)

An overview of Denmark is represented in the Table 3.7.

Table 3.7 – Overview of Denmark [37]

Capital	Copenhagen
Geographical size	42 924 km²
Population	5 707 251 (*2016*)
GDP	€ 276.805 billion (*2016*)
Official language	Danish
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1973
Seats in the European Parliament	13
Currency	Danish krone (DKK)

An overview of Estonia is represented in the Table 3.8.

Table 3.8 – Overview of Estonia [37]

Capital	Tallinn
Geographical size	45 227 km²
Population	1 315 944 (*2016*)
GDP	€ 20,916 billion (*2016*)
Official language	Estonian
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	6
Currency	Euro. Member of the eurozone since 1 January 2011

An overview of Finland is represented in the Table 3.9

Table 3.9 – Overview of Finland [37]

Capital	Helsinki
Geographical size	338 440 km²
Population	5 487 308 (*2016*)
GDP	€ 214.062 billion (*2016*)
Official languages	Finnish, Swedish
Political system	Parliamentary republic
EU member country since	1 January 1995
Seats in the European Parliament	13
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of France is represented in the Table 3.10.

Table 3.10 – Overview of France [37]

Capital	Paris
Geographical size	633 187 km²
Population	66 759 950 (*2016*)
GDP	€ 2.225 trillion (*2016*)
Official language	French
Political system	Semi-presidential republic
EU member country since	1 January 1958
Seats in the European Parliament	74
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Germany is represented in the Table 3.11.

Table 3.11 – Overview of Germany [37]

Capital	Berlin
Geographical size	357 376 km²
Population	82 175 684 (*2016*)
GDP	€ 3.134 trillion (*2016*)
Official language	German
Political system	Federal parliamentary republic
EU member country since	1 January 1958
Seats in the European Parliament	96
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Greece is represented in the Table 3.12.

Table 3.12 – Overview of Greece [37]

Capital	Athens
Geographical size	131 957 km²
Population	10 783 748 (*2016*)
GDP	€ 175.888 billion (*2016*)
Official language	Greek
Political system	Parliamentary republic
EU member country since	1 January 1981
Seats in the European Parliament	21
Currency	Euro. Member of the eurozone since 1 January 2001

An overview of Hungary is represented in the Table 3.13.

Table 3.13 – Overview of Hungary [37]

Capital	Budapest
Geographical size	93 011 km^2
Population	9 830 485 (*2016*)
GDP	€ 112.399 billion (*2016*)
Official language	Hungarian
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	21
Currency	Hungarian forint (HUF)

An overview of Ireland is represented in the Table 3.14.

Table 3.14 – Overview of Ireland [37]

Capital	Dublin
Geographical size	69 797 km^2
Population	4 724 720 (*2016*)
GDP	€ 265.835 billion (*2016*)
Official languages	Irish, English
Political system	Parliamentary republic
EU member country since	1 January 1973
Seats in the European Parliament	11
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Italy is represented in the Table 3.15.

Table 3.15 – Overview of Italy [37]

Capital	Rome
Geographical size	302 073 km^2
Population	60 665 551 (*2016*)
GDP	€ 1.672 trillion (*2016*)
Official language	Italian
Political system	Parliamentary republic
EU member country since	1 January 1958
Seats in the European Parliament	73
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Latvia is represented in the Table 3.16.

Table 3.16 – Overview of Latvia [37]

Capital	Riga
Geographical size	64 573 km^2
Population	1 968 957 (*2016*)
GDP	€ 25.021 billion (*2016*)
Official language	Latvian
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	8
Currency	Euro. Member of the eurozone since 1 January 2014

An overview of Lithuania is represented in the Table 3.17.

Table 3.17 – Overview of Lithuania [37]

Capital	Vilnius
Geographical size	65 286 km^2
Population	2 888 558 (*2016*)
GDP	€ 38.637 billion (*2016*)
Official language	Lithuanian
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	11
Currency	Euro. Member of the eurozone since 1 January 2015

An overview of Luxembourg is represented in the Table 3.18.

Table 3.18 – Overview of Luxembourg [37]

Capital	Luxembourg
Geographical size	2 586 km^2
Population	576 249 (*2016*)
GDP	€ 54.195 billion (*2016*)
Official languages	French, German
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1958
Seats in the European Parliament	6
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Malta is represented in the Table 3.19.

Table 3.19 – Overview of Malta [37]

Capital	Valletta
Geographical size	315 km^2
Population	434 403 (*2016)*
GDP	€ 9.898 billion (*2016*)
Official languages	Maltese, English
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	6
Currency	Euro. Member of the eurozone since 1 January 2008

An overview of the Netherlands is represented in the Table 3.20.

Table 3.20 – Overview of the Netherlands [37]

Capital	Amsterdam
Geographical size	41 542 km^2
Population	16 979 120 (*2016*)
GDP	€ 697.219 billion (*2016*)
Official language	Dutch
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1958
Seats in the European Parliament	26
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Poland is represented in the Table 3.21.

Table 3.21 – Overview of Poland [37]

Capital	Warsaw
Geographical size	312 679 km^2
Population	37 967 209 (*2016*)
GDP	€ 424.269 billion (*2016*)
Official language	Polish
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	51
Currency	Polish złoty (PLN)

An overview of Portugal is represented in the Table 3.22.

Table 3.22 – Overview of Portugal [37]

Capital	Lisbon
Geographical size	92 226 km^2
Population	10 341 330 (*2016*)
GDP	€ 184.931 billion (*2016*)
Official language	Portuguese
Political system	Semi-presidential republic
EU member country since	1 January 1986
Seats in the European Parliament	21
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Romania is represented in the Table 3.23.

Table 3.23 – Overview of Romania [37]

Capital	Bucharest
Geographical size	238 391 km^2
Population	19 760 314 (*2016*)
GDP	€ 169.578 billion (*2016*)
Official language	Romanian
Political system	Semi-presidential republic
EU member country since	1 January 2007
Seats in the European Parliament	32
Currency	Romanian leu (RON)

An overview of Slovakia is represented in the Table 3.24.

Table 3.24 – Overview of Slovakia [37]

Capital	Bratislava
Geographical size	49 035 km^2
Population	5 426 252 (*2016*)
GDP	€ 80.958 billion (*2016*)
Official language	Slovak
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	13
Currency	Euro. Member of the eurozone since 1 January 2009

An overview of Slovenia is represented in the Table 3.25.

Table 3.25 – Overview of Slovenia [37]

Capital	Ljubljana
Geographical size	20 273 km^2
Population	2 064 188 (*2016*)
GDP	€ 39.769 billion (*2016*)
Official language	Slovenian
Political system	Parliamentary republic
EU member country since	1 May 2004
Seats in the European Parliament	8
Currency	Euro. Member of the eurozone since 1 January 2007

An overview of Spain is represented in the Table 3.26.

Table 3.26 – Overview of Spain [37]

Capital	Madrid
Geographical size	505 944 km^2
Population	46 445 828 (*2016*)
GDP	€ 1.114 trillion (*2016*)
Official language	Spanish
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1986
Seats in the European Parliament	54
Currency	Euro. Member of the eurozone since 1 January 1999

An overview of Sweden is represented in the Table 3.27.

Table 3.27 – Overview of Sweden [37]

Capital	Stockholm
Geographical size	438 574 km^2
Population	9 851 017 (*2016*)
GDP	€ 462.417 billion (*2016*)
Official language	Swedish
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1995
Seats in the European Parliament	20
Currency	Swedish krona (SEK)

An overview of the United Kingdom is represented in the Table 3.28.

Table 3.28 – Overview of the United Kingdom [37]

Capital	London
Geographical size	248 528 km^2
Population	65 382 556 (*2016*)
GDP	€ 2.367 trillion (*2016*)
Official language	English
Political system	Parliamentary constitutional monarchy
EU member country since	1 January 1973
Seats in the European Parliament	73
Currency	Pound sterling (GBP)

On the 23rd of June 2016, citizens of the United Kingdom (UK) voted in favour to leave the European Union (EU). On the 29th of March 2017 the UK formally notified the European Council of its intention to leave the EU by triggering an Article 50 of the Lisbon Treaty. In the present context, the United Kingdom remains a full member of the EU and rights and obligations continue to fully apply in and to the UK.

3.2 Symbols and values of the European Union

The European Union is recognizable by the following symbols:

- the European flag;
- the European anthem;
- Europe Day;
- the EU motto.

The European Flag. The European flag symbolizes both the European Union and, more broadly, the identity and unity of Europe. It features a circle of 12 gold stars on a blue background. They stand for the ideals of unity, solidarity and harmony among the peoples of Europe. The number of stars has nothing to do with the number of member countries, though the circle is a symbol of unity. The history of the flag goes back to 1955. The Council of Europe – which defends human rights and promotes European culture – chose the present design for its own use. In the years that followed, it encouraged the emerging European institutions to adopt the same flag. In 1983, the European Parliament decided that the Communities' flag should be that used by the Council of Europe. In 1985, it was adopted by all EU leaders as the official emblem of the European Communities, later to become the European Union.

The European anthem. The melody used to symbolize the EU comes from the Ninth Symphony composed in 1823 by Ludwig Van Beethoven, when he set music to the "Ode to Joy", Friedrich von Schiller's lyrical verse from 1785. The anthem symbolizes not only the European Union but also Europe in a wider sense. The poem "Ode to Joy" expresses Schiller's idealistic vision of the human race becoming brothers – a vision Beethoven shared. In 1972, the Council of Europe adopted Beethoven's "Ode to Joy" theme as its anthem. In 1985, it was adopted by EU leaders as the official anthem of the European Union. There are no words to the anthem, it consists of music only. In the universal language of music, this anthem expresses the European ideals of freedom, peace and solidarity. The European anthem is not intended to replace the national anthems of the EU countries but rather to celebrate the values they share. The anthem is played at official ceremonies involving the European Union and generally at all sorts of events with a European character.

Europe Day. Europe Day held on the 9th of May every year celebrates peace and unity in Europe. The date marks the anniversary of the historical "Schuman declaration". At the speech in Paris in 1950, Robert Schuman, the French minister of foreign affairs, set out his idea for a new form of political cooperation in Europe, which would make war between Europe's nations unthinkable. His vision was to create a European institution that would pool and manage coal and steel production. A treaty creating such a body was signed just under a year later. Schuman's proposal is considered to be the beginning of what is now the European Union. To celebrate Europe Day, the EU institutions open their doors to the public in early May in Brussels and Strasbourg. Local EU offices in Europe and all over the world organize a variety of activities and events for all ages. Each year thousands of people take part in visits, debates, concerts and other events to mark the day and raise awareness about the EU.

The EU motto. “United in diversity”, the motto of the European Union, first came into use in 2000. It signifies how Europeans have come together, in the form of the EU, to work for peace and prosperity, while at the same time being enriched by the continent’s many different cultures, traditions and languages.

The Treaty of Union proclaims the EU **fundamental values and purposes**. According to it [6]:

1. The European Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.

2. The Union’s aim is to promote peace, its values and the well-being of its people. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.

3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance. It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States.

4. It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe’s cultural heritage is safeguarded and enhanced.

5. The Union shall establish an economic and monetary union whose currency is the euro.

6. In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall

contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among people, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.

The EU as a guarantor of peace. There is no greater motivation for European unification than the desire for peace. In the last century, two world wars were waged in Europe between countries that are now Member States of the European Union. Thus, a policy for Europe means at the same time a policy for peace. More than fifty years of peace in Europe are proof of this. The more European States that join the EU, the stronger this framework of peace will become.

Unity and equality as topical matters. The present-day problems can be mastered only if European countries move forward along the path that leads them to unity. Many people take the view that without European integration, without the European Union, it would not be possible to secure peace, democracy, law and justice, economic prosperity and social security, and guarantee them for the future. Unemployment, inadequate growth and environmental pollution have long ceased to be merely national problems, and they cannot be solved at national level. It is only in the context of the EU that a stable economic order can be established and only through joint European efforts that we can secure an international economic policy that improves the performance of the European economy and contributes to social justice. Unity can endure only where equality is the rule. No citizen of the Union may be placed at a disadvantage or discriminated against because of his or her nationality. Discriminatory treatment on the grounds of gender, race, ethnic origin, religion or beliefs, disability, age must be combated. The Charter of Fundamental Rights of the European Union goes still further. Any discrimination based on any ground such as colour, genetic features, language, political or any other opinion, membership of a national minority, property or birth is prohibited. In addition, all Union citizens are equal before the law. As far as the Member States are concerned, the principle of equality means that no State has precedence over another, and natural differences such as size, population and differing structures must be addressed only in accordance with the principle of equality.

The fundamental freedoms. Freedom results directly from peace, unity and equality. Creating a larger entity by linking 28 States affords at the same time freedom of movement beyond national frontiers. This means, in particular, freedom of movement for workers, freedom of establishment, freedom to provide services, free movement of goods and free movement of capital. These fundamental freedoms guarantee business people freedom of decision-making, workers freedom to choose their place of work and consumers freedom of choice between the greatest possible variety of products. Freedom of competition permits businesses to offer their goods and services to an incomparably wider circle of potential customers. Workers can seek employment and change job according to their own wishes and interests throughout the entire territory of the EU. Consumers can select the cheapest and best products from the far greater range of goods on offer that results from increased competition.

Respect of national identity. The national identities of the Member States are respected. The idea is not for the Member States to be "dissolved" into the EU, but rather for them to contribute their own particular qualities. It is precisely this variety of national characteristics and identities that lends the EU its moral authority, which in turn is used for the benefit of the EU as a whole.

The EU [18, 9] wishes to promote humanitarian and progressive values, and ensure that humankind is the beneficiary, rather than a victim, of the great global changes that are taking place. People's needs cannot be met simply by market forces, or by individual countries taking unilateral action. So the EU stands for a view of humanity and a model of society that the great majority of its citizens support.

Europeans cherish their rich heritage of values, which include a belief in human rights, social solidarity, free enterprise, a fair distribution of the fruits of economic growth, the right to a protected environment, respect for cultural, linguistic and religious diversity and a harmonious blend of tradition and progress.

The Charter of Fundamental Rights of the EU was proclaimed in Nice in December 2000. It is now legally binding thanks to the Treaty of Lisbon. The Charter sets out all the rights recognized today by the EU's Member States and their citizens. Shared rights and values create a feeling of kinship between Europeans. To take just one example, all EU countries have abolished the death penalty.

3.3 The European Union as an international organization

The Yearbook on International Organizations defines an international organization as a body which is being based on a formal instrument of agreement between the governments of nation states (charter, treaty, etc.), includes three or more nation states as parties to the agreement and possesses a permanent secretariat performing ongoing tasks [46]. In this respect such definition is applicable in the case of the EU. The communities which represent the core of the European Union came into force due to a number of treaties.

A treaty is a binding agreement between EU member countries. It sets out EU objectives, rules for EU institutions, how decisions are made and the relationship between the EU and its member countries. Treaties are amended to make the EU more efficient and transparent, to prepare for new member countries and to introduce new areas of cooperation – such as the single currency. Under the treaties, EU institutions can adopt legislation, which the member countries then implement. The main treaties are:

1. Treaty of Lisbon.
2. Treaty of Nice.
3. Treaty of Amsterdam.
4. Treaty on European Union – Maastricht Treaty.
5. Single European Act.
6. Merger Treaty – Brussels Treaty.
7. Treaties of Rome: EEC and EURATOM treaties.
8. Treaty of Paris: Treaty establishing the European Coal and Steel Community.

Treaty of Lisbon was signed on the 13th of December 2007. It entered into force on the 1st of December 2009. The purpose was to make the EU more democratic, more efficient and better able to address global problems, such as climate change, with one voice. It implied such changes as:

- more power for the European Parliament;
- change of voting procedures in the Council, citizens' initiative;
- a permanent president of the European Council;
- a new High Representative for Foreign Affairs;
- a new EU diplomatic service.

The Lisbon treaty clarifies which powers: belong to the EU; belong to EU member countries; are shared.

Treaty of Nice was signed on the 26th of February 2001. It entered into force on the 1st of February 2003. The purpose was to reform the institutions so that the EU could function efficiently after reaching 25 member countries. It implied changes in the composition of the Commission and redefined the voting system in the Council.

Treaty of Amsterdam was signed on the 2nd of October 1997. It entered into force on the 1st of May 1999**.** The purpose was to reform the EU institutions in preparation for the arrival of future member countries. It implied such changes as: amendment, renumbering and consolidation of EU and EEC treaties; more transparent decision-making.

Treaty on European Union – Maastricht Treaty was signed on the 7th of February 1992. It entered into force on the 1st of November 1993. The purpose was to prepare for European Monetary Union and introduce elements of a political union (citizenship, common foreign and internal affairs policy). It implied such changes as:

- establishment of the European Union and introduction of the co-decision procedure;
- giving the Parliament more say in decision-making;
- new forms of cooperation between EU governments – for example, on defence and justice and home affairs.

Single European Act was signed on the 17th of February 1986. It entered into force on the 1st of July 1987. The purpose was to reform the institutions in preparation for Portugal's and Spain's membership and speed up decision-making in preparation for the single market. It implied such changes as:

- extension of qualified majority voting in the Council (making it harder for a single country to veto proposed legislation);
- creation of the cooperation and assent procedures;
- giving the Parliament more influence.

Merger Treaty – Brussels Treaty was signed on the 8th of April 1965. It entered into force on the 1st of July 1967. The purpose was to streamline the European institutions. It implied such changes as creation of a single Commission and a single Council to serve three European Communities (EEC, Euratom, ECSC). It was repealed by the Treaty of Amsterdam.

Treaties of Rome: EEC and EURATOM treaties were signed on the 25th of March 1957. They entered into force on the 1st of January 1958. The purpose was to set up the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). They implied extension of European integration to include general economic cooperation.

Treaty of Paris – Treaty establishing the European Coal and Steel Community was signed on the 18th of April 1951. It entered into force on the 23rd of July 1952. The purpose was to create interdependence in coal and steel so that one country could no longer mobilize its armed forces without others knowing. This eased distrust and tensions after WWII. The ECSC treaty expired in 2002.

The European Union has become a powerful international organization in terms of world trade and development aid.

World trade. The EU is the world's biggest trader, accounting for 16.5% of the world's imports and exports [37]. Free trade among its members was one of the EU's founding principles, and it is committed to liberalizing world trade as well. The EU is the world's biggest exporter of manufactured goods and services, and it is the biggest import market for over 100 countries. It is also the world's largest single market area. Both European and international consumers and investors enjoy the many benefits of a simplified system – in an area where people, goods, services and money can move freely. The EU negotiates agreements through its world-wide network of trade relations. It engages a huge range of partners, mostly through free trade agreements. These partnerships seek to create growth and jobs for Europeans by opening new markets with the rest of the world. Transatlantic markets, for example, represent transactions worth around 2 billion euros every day [37]. EU trade policy also aims at reducing child and forced labour, environmental destruction and price volatility. Schemes which ensure transparency and traceability in supply chains are one of the examples. For the world's poorest countries, EU trade policy looks to combine trade and development. Allowing lower duties, supporting small export businesses, and advising on improvements to governance are just some of the ways trade and development can work hand in hand to ensure the neediest benefit from trade-led growth. The EU cooperates closely with WTO.

International development and cooperation. Over half of all development aid comes from the EU and its members, making them collectively the world's largest aid donor. Most aid goes to low-income and least developed countries. EU development policy aims to give disadvantaged people in developing countries control over their own development. That means:

- addressing the causes of vulnerability, e.g. poor access to food, clean water, education, health, employment, land, social services, infrastructure and a healthy environment;
- eradicating disease and providing access to cheap medicines to fight epidemics like HIV/AIDS;
- reducing developing countries' debt burden, so they have more money for vital public investments, instead of paying interest to rich lenders in industrialized countries;
- promoting self-help and poverty-eradication strategies;
- supporting the democratic process;
- improving respect for human rights;
- encouraging a more stable economic environment in which businesses can grow and create jobs.

Foreign and security policy. EU foreign and security policy, which has developed gradually over many years, enables the EU to speak and act as one in world affairs. Acting together gives the EU's 28 members far greater clout than they would have if each pursued its own policies. The 2009 Lisbon Treaty strengthened this policy area by creating:

- the post of EU High Representative for Foreign Affairs & Security Policy;
- the European External Action Service – the EU's diplomatic corps.

The EU maintains partnerships with the world's key players, including emerging powers. It seeks to ensure that these relationships are based on mutual interests and benefits. The EU holds regular summits with Canada, China, India, Japan, and the United States. Its international relations encompass: education, the environment, security and defence, crime, human rights.

European Neighbourhood Policy. The European Neighbourhood Policy (ENP) governs the EU's relations with 16 of its southern and eastern neighbours.

To the south: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia.

To the east: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Designed to strengthen the EU's relations with its neighbours, the policy offers:

- political association;

- economic integration;
- increased mobility for people.

The Treaty on the European Union states that any European country may apply for membership if it respects the democratic values of the EU and is committed to promoting them.

Conclusions

1. The EU was not always as big as it is today. When European countries started to cooperate economically in 1951, only Belgium, Germany, France, Italy, Luxembourg and the Netherlands participated. Over time, more and more countries decided to join. The Union reached its current size of 28 member countries.

2. The European Union's fundamental values are respect for human dignity and human rights, freedom, democracy, equality and the rule of law. The main goal of the EU is to defend these values and promote peace and the wellbeing of the citizens. The EU works for social equality. It develops social security and tries to protect the weakest. It seeks to prevent social exclusion and discrimination.

3. The European Union is based on the rule of law. This means that every action taken by the EU is founded on treaties that have been approved voluntarily and democratically by all EU member countries. For example, if a policy area is not cited in a treaty, the Commission cannot propose a law in that area.

4. The European Union has more influence on the world stage when it speaks with a single voice in international affairs such as trade negotiations. In economic, trade and monetary terms, the European Union has become a major world power. Its importance as a trading power gives the EU considerable international influence.

End-of-chapter questions and tasks

1. Is European Union a country?
2. Explain the EU motto “United in diversity”.
3. List the fundamental values of the EU.
4. What makes the European Union an international organization?
5. Describe in general the law of the European Union.
6. Is European Union a political or economic union in the first turn?

CHAPTER 4. ENLARGEMENT POLICY OF THE EUROPEAN UNION

4.1. History of the European Union.
4.2. Joining the European Union.
4.3. European integration in dates.

Key words: founding fathers, Copenhagen criteria, negotiations, “acquis”

4.1 History of the European Union

European integration became possible due to the group of Founding Fathers. They were a diverse group of people who held the same ideals: a peaceful, united and prosperous Europe.

1. **Konrad Adenauer**. The first Chancellor of the Federal Republic of Germany, who stood at the head of the newly-formed state from 1949 to 1963, changed the face of post-war German and European history more than any other individual. A cornerstone of Adenauer’s foreign policy was reconciliation with France. Together with French President Charles de Gaulle a historic turning point was achieved: in 1963 the one-time arch-enemies Germany and France signed a treaty of friendship, which became one of the milestones on the road to European integration.

2. **Joseph Bech**. Joseph Bech was the Luxembourgish politician that helped set up the European Coal and Steel Community in the early 1950-s and a leading architect behind European integration in the later 1950-s. It was a joint memorandum from the Benelux countries that led to the convening of the Messina Conference in June 1955, paving the way for the European Economic Community.

3. **Johan Willem Beyen**. The international banker and businessman, Johan Willem Beyen was a Dutch politician who, with his “Beyen Plan”, breathed new life into the process of European integration in the middle 1950-s. Beyen is one of the lesser-known members of the group of Founding Fathers of the EU. Amongst the people who knew him he was admired for his charm, international orientation and social ease.

4. **Winston Churchill**. Winston Churchill, a former army officer, war reporter and British Prime Minister (1940-1945 and 1951-1955), was one of the first to call for the creation of a “United States of Europe”. Following the Second World War, he was convinced that only a united Europe could guarantee peace.

His aim was to eliminate the European ills of nationalism and war-mongering once and for all.

5. **Alcide De Gasperi**. From 1945 to 1953, in his roles as Italian Prime Minister and Foreign Affairs Minister, Alcide De Gasperi forged the path of the country's destiny in the post-war years. Time and time again he promoted initiatives aimed at the fusion of Western Europe, working on the realization of the Marshall Plan and creating close economic ties with other European countries, France in particular.

6. **Walter Hallstein**. Walter Hallstein was the first President of the European Commission from 1958 to 1967, a committed European and a decisive proponent of European integration. As President of the European Commission, Hallstein worked towards a rapid realization of the Common Market. His energetic enthusiasm and powers of persuasion furthered the cause of integration even beyond the period of his presidency. During his mandate, the integration advanced significantly.

7. **Sicco Mansholt**. Sicco Mansholt was a farmer, a member of the Dutch resistance during the Second World War, a national politician and the first European Commissioner responsible for Agriculture. Mansholt's ideas laid the basis for the Common Agricultural Policy (CAP) of the European Union, one of the most prominent policies since its founding days. Having witnessed the horrors of the Dutch famine at the end of the Second World War, Mansholt was convinced that Europe needed to become self-sufficient and that a stable supply of affordable food should be guaranteed for all.

8. **Jean Monnet**. The French political and economic adviser Jean Monnet dedicated himself to the cause of European integration. He was the inspiration behind the "Schuman Plan", which foresaw the merger of west European heavy industry. During both world wars he held high-level positions relating to the coordination of industrial production in France and the United Kingdom.

9. **Robert Schuman**. The statesman Robert Schuman, a qualified lawyer and French foreign minister between 1948 and 1952. In cooperation with Jean Monnet he drew up the internationally renowned Schuman Plan, which he published on the 9th of May 1950, the date now regarded as the birth of the European Union. He proposed joint control of coal and steel production, the most important materials for the armaments industry. The basic idea was that whoever did not have control over coal and steel production would not be able to fight a war.

10. **Paul-Henri Spaak**. “A European statesman” – Belgian Paul-Henri Spaak’s long political career fully deserves this title. Spaak was a leading figure in formulating the content of the Treaty of Rome. At the “Messina Conference” in 1955, the six participating governments appointed him the president of the working committee that prepared the Treaty.

11. **Altiero Spinelli**. He was the leading figure behind the European Parliament’s proposal for a Treaty on a federal European Union – the so-called “Spinelli Plan”. This was adopted in 1984 by the bulk of the members of the Parliament and provided an important inspiration for the strengthening of the EU Treaties in the 1980-s and ’90-s.

Let’s take a closer look at the history of the European integration. It includes seven ways.

1945-1959: a peaceful Europe – the beginning of cooperation

The European Union is set up with the aim of ending the frequent and bloody wars between neighbours, which culminated in the Second World War. As for 1950, the European Coal and Steel Community begins to unite European countries economically and politically in order to secure lasting peace. The six founding countries are Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The 1950-s are dominated by a cold war between east and west. Protests in Hungary against the Communist regime are put down by Soviet tanks in 1956. In 1957, the Treaty of Rome creates the European Economic Community (EEC), or “Common Market”.

1960-1969: a period of economic growth

The 1960-s is a good period for the economy, helped by the fact that EU countries stop charging custom duties when they trade with each other. They also agree joint control over food production, so that everybody now has enough to eat – and soon there is even surplus of agricultural products. May 1968 becomes famous for student riots in Paris, and many changes in society and behaviour become associated with the so-called “68 generation”.

1970-1979: a growing Community – the first enlargement

Denmark, Ireland and the United Kingdom join the European Union on the 1st of January 1973, raising the number of Member States to nine. The short, yet brutal, Arab-Israeli war of October 1973 results in an energy crisis and economic problems in Europe. The last right-wing dictatorships in Europe come to an end with the overthrow of the Salazar regime in Portugal in 1974 and the death of

General Franco of Spain in 1975. The EU regional policy starts to transfer huge sums of money to create jobs and infrastructure in poorer areas. The European Parliament increases its influence in EU affairs and in 1979 all citizens can, for the first time, elect their members directly. The fight against pollution intensifies in the 1970-s. The EU adopts laws to protect the environment, introducing the notion of “the polluter pays” for the first time.

1980-1989: the changing face of Europe – the fall of the Berlin Wall

The Polish Solidarity trade union and its leader Lech Walesa become household names across Europe and the world following the Gdansk shipyard strikes in the summer of 1980. In 1981, Greece becomes the 10th member of the EU, and Spain and Portugal follow five years later. In 1986 the Single European Act is signed. This is a treaty which provides the basis for a vast six-year programme aimed at sorting out the problems with the free flow of trade across EU borders and thus creates the “Single Market”. There is major political upheaval when, on the 9th of November 1989, the Berlin Wall is pulled down and the border between East and West Germany is opened for the first time in 28 years. This leads to the reunification of Germany, when both East and West Germany are united in October 1990.

1990-1999: Europe without frontiers

With the collapse of communism across central and eastern Europe, Europeans become closer neighbours. In 1993 the Single Market is completed with “four freedoms” of: goods, services, people and money. The 1990-s are also the decade of two treaties: the “Maastricht” Treaty on European Union in 1993 and the Treaty of Amsterdam in 1999. People are concerned about how to protect the environment and also how Europeans can act together when it comes to security and defence matters. In 1995 the EU gains three more new members: Austria, Finland and Sweden. A small village in Luxembourg gives its name to the “Schengen” agreements that gradually allow people to travel without having their passports checked at the borders. Millions of young people study in other countries with EU support. Communication is made easier as more and more people start using mobile phones and the internet.

2000-2009: Further expansion

The euro is now the new currency for many Europeans. During the decade more and more countries adopt the euro. The 11th of September 2001 becomes synonymous with the “War on Terror” after hijacked airliners are flown into buildings in New York and Washington. EU countries begin to work much more closely together to fight crime. The political divisions between the eastern and western Europe are finally declared healed when no fewer than 10 new countries join the EU in 2004, followed by Bulgaria and Romania in 2007. A financial crisis hits the global economy in September 2008. The Treaty of Lisbon is ratified by all EU countries before entering into force in 2009. It provides the EU with modern institutions and more efficient working methods.

2010-today: a challenging decade

The EU helps several countries to confront their difficulties and establishes the "Banking Union" to ensure safer and more reliable banks. In 2012, the European Union is awarded the Nobel Peace Prize. Croatia becomes the 28th member of the EU in 2013. Climate change is still high on the agenda and leaders agree to reduce harmful emissions. EU action helps bring about cleaner bathing water, much less acid rain, lead-free petrol, etc.

4.2 Joining the European Union

Becoming a member of the EU is a complex procedure which does not happen overnight. Once an applicant country meets the conditions for membership, it must implement EU rules and regulations in all areas. Any European country that satisfies the conditions for membership can apply.

Conditions for membership. The EU operates comprehensive approval procedures that ensure new members are admitted only when they can demonstrate they will be able to play their part fully as members, namely by:

- complying with all the EU's standards and rules;
- having the consent of the EU institutions and EU member states;
- having the consent of their citizens – as expressed through approval in their national parliament or by referendum.

The Treaty on the European Union states that any European country may apply for membership if it respects the democratic values of the EU and is committed to promoting them. The first step is for the country to meet the key criteria for accession. These were mainly defined by the European Council in Copenhagen in 1993 and are hence referred to as "Copenhagen criteria" (accession criteria). Countries wishing to join need to have:

- stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (political criterion);
- a functioning market economy and the capacity to cope with competition and market forces in the EU (economic criterion);
- the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union (legal criterion).

A country wishing to join the EU submits a membership application to the Council, which asks the Commission to assess the applicant's ability to meet the Copenhagen criteria. The candidate country has to adapt EU's legal system to become compatible with the common rules of the Union, the so-called "**acquis communautaire**". The acquis is the body of EU law, i.e. the Treaties, the legislative and administrative acts of the institutions, in particular the regulations, directives, and decisions, international agreements involving the EU, and various soft-law and other acts and instruments [15, 11]. These common EU rules are divided into 35 different policy fields (chapters) to be negotiated.

Table 4.1 – Negotiated policy fields [37]

Chapter	Title	Description
1	*2*	*3*
1	Free movement of goods	The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another
2	Freedom of movement for workers	The acquis under this chapter provides that EU citizens of one Member State have the right to work in another Member State
3	Right of establishment and freedom to provide services	Member States must ensure that the right of establishment of EU national and legal persons and the freedom to provide cross-border services is not hampered by national legislation, subject to the exceptions set out in the Treaty
4	Free movement of capital	Member States must remove, with some exceptions, all restrictions on movement of capital both within the EU and between Member States and third countries
5	Public procurement	Includes general principles of transparency, equal treatment, free competition and non-discrimination
6	Company law	The company law acquis includes rules on the formation, registration, merger and division of companies
7	Intellectual property law	Specifies harmonized rules for the legal protection of copyright and related rights
8	Competition policy	The competition acquis covers both anti-trust and state aid control policies

Continuation of the Table 4.1

1	*2*	*3*
9	Financial services	Includes rules for the authorization, operation and supervision of financial institutions in the areas of banking, insurance, pensions, investment services and securities markets
10	Information society and media	The acquis includes specific rules on electronic communications, on information society services, in particular electronic commerce and conditional access services, and on audio-visual services
11	Agriculture and rural development	The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement and control by an efficient public administration are essential for the functioning of the common agricultural policy (CAP)
12	Food safety, veterinary and phytosanitary policy	This chapter covers detailed rules in the area of food safety. The general foodstuffs policy sets hygiene rules for foodstuff production
13	Fisheries	It requires the introduction of measures to prepare the administration and the operators for participation in the common fisheries policy, which covers market policy, resource and fleet management, inspection and control, structural actions and state aid control
14	Transport policy	EU transport legislation aims at improving the functioning of the internal market by promoting safe, efficient and environmentally sound and user friendly transport services
15	Energy	EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment
16	Taxation	The acquis on taxation covers extensively the area of indirect taxation, namely value-added tax (VAT) and excise duties
17	Economic and monetary policy	Contains specific rules requiring the independence of central banks in Member States, prohibiting direct financing of the public sector by the central banks and prohibiting privileged access of the public sector to financial institutions
18	Statistics	The acquis in the field of statistics requires the existence of a statistical infrastructure based on principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics
19	Social policy and employment	The acquis in the social field includes minimum standards in the areas of labour law, equality, health and safety at work and anti-discrimination
20	Enterprise and industrial policy	EU industrial policy seeks to promote industrial strategies enhancing competitiveness by speeding up adjustment to structural change, encouraging an environment favourable to business creation and growth throughout the EU as well as domestic and foreign investments
21	Trans-European networks	This chapter covers the Trans-European Networks policy in the areas of transport, telecommunications and energy infrastructures, including the Community guidelines on the development of the Trans-European Networks and the support measures for the development of projects of common interest

1	*2*	*3*
22	Regional policy and coordination of structural instruments	The acquis under this chapter consists mostly of framework and implementing regulations, which do not require transposition into national legislation
23	Judiciary and fundamental rights	EU policies in the area of judiciary and fundamental rights aim to maintain and further develop the Union as an area of freedom, security and justice
24	Justice, freedom and security	EU policies aim to maintain and further develop the Union as an area of freedom, security and justice
25	Science and research	The acquis in the field of science and research does not require transposition of EU rules into the national legal order
26	Education and culture	The areas of education, training, youth and culture are primarily the competence of the Member States
27	Environment	EU environment policy aims to promote sustainable development and protect the environment for present and future generations
28	Consumer and health protection	The consumer protection acquis covers the safety of consumer goods as well as the protection of the economic interests of consumers in a number of specific sectors
29	Customs union	The customs union acquis consists almost exclusively of legislation which is directly binding on the Member States. It includes the EU Customs Code and its implementing provisions, the combined nomenclature, common customs tariff and provisions on tariff classification, customs duty relief, duty suspensions and certain tariff quotas, and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors, export of cultural goods as well as on mutual administrative assistance in customs matters and transit
30	External relations	In the area of humanitarian aid and development policy, Member States need to comply with EU legislation and international commitments and ensure the capacity to participate in the EU's development and humanitarian policies
31	Foreign, security and defence policy	The common foreign and security policy (CFSP) and the European security and defence policy (ESDP) are based on legal acts, including legally binding international agreements, and on political documents
32	Financial control	The acquis under this chapter relates to the adoption of internationally agreed and EU compliant principles, standards and methods of public internal financial control (PIFC) that should apply to the internal control systems of the entire public sector, including the spending of EU funds
33	Financial and budgetary provisions	This chapter covers the rules concerning the financial resources necessary for the funding of the EU budget ("own resources"). These resources are made up mainly from contributions from Member States based on traditional own resources from customs and agricultural duties and sugar levies; a resource based on value-added tax; and a resource based on the level of gross national income

Continuation of the Table 4.1

1	2	3
34	Institutions	This chapter covers the institutional and procedural rules of the EU
35	Other issues	This chapter includes miscellaneous issues which come up during the negotiations but which are not covered under any other negotiating chapter

Due to the huge volume of EU rules and regulations each candidate country must adopt as national law, the negotiations take time to complete. The candidates are supported financially, administratively and technically during this pre-accession period. Throughout the negotiations, the Commission monitors the candidate's progress in applying EU legislation and meeting its other commitments, including any benchmark requirements.

The process of enlargement involves 3 stages:

- a country is offered the prospect of membership;
- the country becomes an official candidate for membership;
- the candidate moves on to formal membership negotiations, a process that usually involves reforms to adopt established EU law.

When the negotiations and accompanying reforms have been completed to the satisfaction of both sides, the country can join the EU. Five countries are currently recognized by the EU as official candidates for membership with active accession bids. The **candidate countries** are:

- Albania;
- Montenegro;
- Serbia;
- the former Yugoslav Republic of Macedonia;
- Turkey.

These countries are in the process of integrating the EU legislation into national law. Candidate country status does not give a right to join the Union automatically. The Commission examines the application in light of the accession criteria and draws up an opinion.

Potential candidates (countries which do not yet fulfill the requirements for EU membership but are regarded as potential future candidates) are:

- Kosovo;
- Bosnia and Herzegovina.

For the time being, Ukraine doesn't have a status of either candidate country or potential candidate. Nevertheless, Ukraine has long been at work building closer ties with the European Union and its member states. In a sense, Ukraine is already very well integrated into Europe. For example, Ukraine is a member of the European Bank for Reconstruction and Development (1992), the Council of Europe (1995), the Organization for Security for Cooperation in Europe (1995), and the Energy Community (2006). Being on the road to European integration, Ukraine signed the political provisions of the Association Agreement, joined the Deep and Comprehensive Free Trade Area and successfully implemented visa liberalization.

4.3 European integration in dates

The EU views the enlargement process as an extraordinary opportunity to promote stability and prosperity in Europe. There are some key dates in the long process of the European integration [18, 46].

1950, 9 May – Robert Schuman, the French Minister for Foreign Affairs, made an important speech putting forward proposals based on the ideas of Jean Monnet. He proposed that France and the Federal Republic of Germany should pool their coal and steel resources in a new organization which other European countries can join.

1951, 18 April – in Paris, six countries (Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands) signed the Treaty establishing the European Coal and Steel Community (ECSC). It came into force on the 23rd of July 1952, for a period of 50 years.

1955, 1-2 June – at a meeting in Messina, the foreign ministers of six countries decided to extend European integration to the economy as a whole.

1957, 25 March – in Rome, six countries signed the Treaties establishing the European Economic Community (EEC) and the European Atomic Energy community (Euratom). They came into force on the 1st of January, 1958.

1960, 4 January – at the initiative of the United Kingdom, the Stockholm Convention established the European Free Trade Association (EFTA), comprising a number of European countries which were not part of the EEC.

1963, 20 July – in Yaoundé, an association agreement was signed between the EEC and 18 African countries.

1965, 8 April – a treaty was signed merging the executive borders of three Communities (the ECSC, EEC and Euratom) and creating a single Council and a single Commission. It came into force on the 1st of July 1967.

1966, 29 January – the "Luxembourgish compromise": following a political crises, France agreed to take part in the Council meeting once again, in return for an agreement implying that the unanimity rule (when a legislative proposal is adopted by all Members of the Council) should be maintained when "vital national interests" are at a stake.

1968, 1 July – customs duties between the Member States on industrial goods were completely abolished and a common external tariff was introduced.

1969, 1-2 December – at the Hague Summit, the EEC's political leaders decided to move further ahead with European integration.

1970, 22 April – in Luxembourg, a treaty was signed allowing the European Communities to be increasingly financed from "own resources" and giving greater supervisory powers to the European Parliament.

1973, 1 January – Denmark, Ireland and the United Kingdom joined the European Communities, bringing their membership to nine. Norway stayed out, following a referendum.

1974, 9-10 December – at the Paris Summit, the political leaders of nine Member States decided to meet three times a year at the European Council. They also gave the go-ahead for direct elections the European Parliament, and agreed to set up the European Regional Development Fund.

1975, 28 February – in Lomé, a convention was signed between the EEC and 46 African, Caribbean and Pacific (ACP) countries.

1975, 22 July – a treaty was signed giving the European Parliament greater power over the budget and establishing the European Court of Auditors. It came into force on the 1st of June, 1977.

1979, 7-10 June – the first direct elections to the 410-seated European Parliament were held.

1981, 1 January – Greece joined the European Communities, bringing the number of members to ten.

1984, 14 and 17 June – the second direct elections to European Parliament were held.

1985, 7 January – Jacques Delors became a President of the Commission (1985-1995).

1985, 14 June – the Schengen Agreement was signed with the aim to abolish inspections at the borders among member countries of the European Communities.

1986, 1 January – Spain and Portugal joined the European Communities, bringing their membership to 12.

1986, 17 and 28 February – the Single European Act was signed in Luxembourg and Hague. It came into force on the 1st of July, 1987.

1989, 15 and 18 June – the third direct elections to European Parliament were held.

1989, 9 November – the fall of the Berlin Wall took place.

1990, 9 October – the German unification took place.

1991, 9-10 December – the Maastricht European Council adopted a Treaty on European Union. This laid the foundation for a common foreign and security policy, closer cooperation on justice and home affairs and the creation of economic and monetary union, including a single currency.

1992, 7 February – the Treaty on European Union was signed in Maastricht. It came into force on the 1st of November 1993.

1993, 1 January – the Single Market was created. It has led to significant reductions in the price of many products and services, including airfares and phone calls.

1994, 9 and 12 June – the fourth direct elections to European Parliament were held.

1995, 1 January – Austria, Finland and Sweden joined the EU, bringing its membership to 15. Norway stayed out, following a referendum.

1995, 23 January – a new European Commission took off with Jacques Santer as its President (1995-1999).

1995, 27-28 November – the Euro-Mediterranean Conference in Barcelona launched a partnership between the EU and the countries of the southern shore of the Mediterranean.

1997, 2 October – the Amsterdam Treaty was signed. It came into force on the 1st of May 1999.

1998, 30 March – the accession process began for the new candidate countries – Cyprus, Malta and 10 central and eastern European countries.

1999, 1 January – eleven European countries adopted the euro, which was launched on the financial markets, replacing their currencies for non-cash transactions. The European Central Bank took on responsibility for monetary policy. On the 1st of January, 2001, Greece became the 12th country to adopt the euro.

1999, 10 and 13 June – the fifth direct elections to European Parliament were held.

1999, 15 September – a new European Commission took off with Romano Prodi as its President (1999-2004).

1999, 15-16 October – the Tampere European Council decided to make the EU an area for freedom, security and justice.

2000, 23-24 March – the Lisbon European Council drew up a new strategy for boosting employment in the EU, modernizing the economy and strengthening social cohesion in a knowledge-based Europe.

2000, 7-8 December – in Nice, the European Council concluded agreement on the next of a new treaty changing the EU's decision-making system so that the Union would be ready for enlargement. The Presidents of the European Parliament, the European Council and the European Commission proclaimed solemnly the Charter of Fundamental Rights of the European Union.

2001, 26 February – the Treaty of Nice was signed. It came into force on the 1st of February, 2003.

2001, 14-15 December – Laeken European Council: a declaration on the future of the EU was agreed. This opened the way to the forthcoming major reform of the EU and to the creation of a Convention on the Future of Europe.

2002, 1 January – euro notes and coins were introduced in 12 euro area countries.

2003, 10 July – the Convention on the Future of Europe was terminated because of the draft of the European Constitution.

2004, 1 May – the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, and Slovakia joined the EU.

2004, 10 and 13 June – the sixth direct elections to European Parliament were held.

2004, 29 October – the European Constitution was signed in Rome by 25 heads of the countries.

2004, 22 November – new European Commission took off with José Manuel Barroso as its President.

2005, 29 May and 1 June – voters in France rejected the Constitution at a referendum, followed 3 days later by voters from the Netherlands.

2005, 3 October – accession negotiations began with Turkey and Croatia.

2007, 1 January – Bulgaria and Romania joined the European Union. Slovenia became the 13th country to adopt the euro.

2007, 13 December – the Treaty of Lisbon was signed.

2008, 1 January – Cyprus and Malta became the 14th and 15th countries to adopt the euro.

2009, 1 January – Slovakia became the 16th country to adopt the euro.

2009, 4-7 June – the seventh direct elections to European Parliament were held.

2009, 2 October – a referendum in Ireland approved the Treaty of Lisbon.

2009, 1 December – the Treaty of Lisbon came into force. Herman Van Rompuy became a President of the European Council. Catherine Ashton became High Representative of the Union for Foreign Affairs and Security Policy.

2010, 9 February – José Manuel Barroso was elected as the President of the European Commission for the second time.

2010, 9 May – a forerunner to the European Stability Mechanism was created, worth € 750 billion. This was one of the main steps designed to help Europe during economic and financial crisis.

2011, 1 January – Estonia became the 17th country to adopt the euro.

2012, 2 March – the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was signed by 25 countries. It came into force on the 1st of January 2013.

2013, 1 July – Croatia joined the European Union.

2014, 1 January – Latvia became the 18th country to adopt the euro.

2014, 22-25 May – the eighth direct elections to the European Parliament were held.

2014, 1 November – Jean-Claude Juncker was elected as a President of the European Commission.

2014, 1 November – Federica Mogherini was elected as a High Representative of the Union for Foreign Affairs and Security Policy.

2015, 1 January – Lithuania became the 19th country to adopt the euro.

2017, 17 January – Antonio Tajani was elected as a President of the European Parliament.

2017, 9 March – Donald Tusk was re-elected as a President of the European Council.

Enlargement is one of the EU's most powerful policy tools. The pull of the EU has helped to transform Central and Eastern Europe from communist regimes to modern, well-functioning democracies. It is vitally important for the EU to ensure a carefully managed enlargement process that extends peace, stability, prosperity, democracy, human rights and the rule of law across Europe. From the founding days of the European Coal and Steel Community, European integration has been designed as an open access model. The EU maintains that the enlargement door remains open to any European country that fulfills the EU's political and economic criteria for membership [5].

Conclusions

1. Becoming a member of the EU is a very complex procedure. It took decades to create a powerful union combating for peace and prosperity. The European Union started as an idea "to make war intentions unthinkable" and developed into a strong economic, monetary and diplomatic community.

2. There are strict conditions for membership in the EU to ensure that new members are admitted only when they are fully able to take on the obligations of EU membership. These conditions are known as the "Copenhagen criteria" and include a free-market economy, a stable democracy and the rule of law.

3. European integration includes compliance with all the EU's standards and common rules through negotiations. For the purpose of negotiating, these are divided into 35 different policy chapters. When final agreements are reached, a country can realize its interest in membership. The countries of the western Balkans and Turkey expressed their interest in the EU membership and are expected to be its future members.

End-of-chapter tasks

1. Identify the most considerable contributor to the creation of the EU.
2. Explain the history of the EU as a fight for freedom and independence.
3. List the accession criteria to the European Union.
4. Debate the role of negotiations during accession process.
5. Categorize the common rules of "acquis".
6. Suggest your own vision of future enlargement of the EU.

CHAPTER 5. ABOUT THE EUROZONE

5.1. Monetary integration.
5.2. Euro as a world currency.
5.3. The Eurosystem.

Key words: convergence, euro, the European Central Bank, monetary policy

5.1 Monetary integration

Monetary integration has two essential components. The first component is what might be called an exchange-rate union, that is, an area within which exchange rates bear a permanently fixed relationship to each other even though the rates may – in unison – vary relative to nonunion currencies. The second component is convertibility – the permanent absence of all exchange controls, whether for current or capital transactions, within the area [7, 2].

All European Union Member States are part of Economic and Monetary Union (EMU) and coordinate their economic policy-making to support the economic aims of the EU. EMU represents a major step in the integration of the EU economies. Launched in 1992, EMU involves the coordination of economic and fiscal policies, a common monetary policy, and a common currency, the euro. Whilst all 28 EU Member States take part in the economic union, some countries have taken integration further and adopted the euro. Together, these countries make up the euro area, or the Eurozone.

The **Eurozone (euro area)** is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency [17]. The euro is the most tangible proof of European integration – the common currency in 19 out of 28 EU countries and used by 338.6 million people every day [37]. The benefits of the common currency are immediately obvious to anyone travelling abroad or shopping online on websites based in another EU country.

Eurozone countries are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. *Non-eurozone countries* are: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, and Sweden. *Countries with an opt-out* are: Denmark and the United Kingdom.

So, all EU Member States, except Denmark and the United Kingdom, are required to adopt the euro and join the euro area.

By adopting the euro, the economies of the euro-area members become more integrated. This economic integration must be managed properly to realise the full benefits of the single currency. Therefore, the euro area is also distinguished from other parts of the EU by its economic management – in particular, monetary and economic policy-making. Monetary policy in the euro area is in the hands of the independent Eurosystem, comprising the European Central Bank (ECB), which is based in Frankfurt, Germany, and the national central banks of the euro area Member States. Through its Governing Council, the ECB defines the monetary policy for the whole euro area – a single monetary authority with a single monetary policy and the primary objective to maintain price stability. Within the euro area, economic policy remains largely the responsibility of the Member States, but national governments must coordinate their respective economic policies in order to attain the common objectives of stability, growth and employment. Coordination is achieved through a number of structures and instruments, the Stability and Growth Pact (SGP) being a central one. The SGP contains agreed rules for fiscal discipline, such as limits on government deficits and on national debt, which must be respected by all EU Member States, although only euro area countries are subject to sanction – financial or otherwise – in the event of non-compliance. Implementation of the EU's economic governance is organized annually in a cycle, known as the European Semester.

The European Union grows as candidate countries meet the conditions for entry and accede to the Union – this process is known as enlargement. Similarly, the euro area is enlarging as non-euro area EU Member States meet the conditions for entry and adopt the euro.

An accession country that plans to join the Union must align many aspects of its society – social, economic and political – with those of the EU Member States. Much of this alignment is aimed at ensuring that an accession country can operate successfully within the Union's single market for goods, services, capital and labour – accession is a process of integration.

Adopting the euro and joining the euro area takes integration a step further – it is a process of much closer economic integration with the other euro-area Member States. Adopting the euro also demands extensive preparations; in particular it requires economic and legal convergence.

Adopting the single currency is a crucial step in a Member State's economy. Its exchange rate is irrevocably fixed and monetary policy is transferred to the hands of the European Central Bank, which conducts it independently for the entire euro area. The economic entry conditions are designed to ensure that a Member State's economy is sufficiently prepared for adoption of the single currency and can integrate smoothly into the monetary regime of the euro area without risk of disruption for the Member State or the euro area as a whole. In short, the economic entry criteria are intended to ensure economic convergence – they are known as the "**convergence criteria**" (or "**Maastricht criteria**") and were agreed by the EU Member States in 1991 as part of the preparations for introduction of the euro.

Agreed in Maastricht by the EU Member States in 1991 as part of the preparations for introduction of the euro, the convergence criteria are formally defined as a set of macroeconomic indicators which measure:

- price stability, to show inflation is controlled;
- soundness and sustainability of public finances, through limits on government borrowing and national debt to avoid excessive deficit;
- exchange-rate stability, through participation in the Exchange Rate Mechanism (ERM II) for at least two years without strong deviations from the ERM II central rate;
- long-term interest rates, to assess the durability of the convergence achieved by fulfilling the other criteria.

The convergence, or Maastricht criteria, are shown in the Table 5.1.

Table 5.1 – Five convergence criteria [37]

What is measured	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

The exchange-rate stability criterion is chosen to demonstrate that a Member State can manage its economy without recourse to excessive currency fluctuations, which mimics the conditions when the Member State joins the euro area and its control of monetary policy passes to the ECB. It also provides an indication of the appropriate conversion rate that should be applied when the Member State qualifies and its currency is irrevocably fixed.

Participation in ERM II is voluntary although, as one of the convergence criteria for entry to the euro area, a country must participate in the mechanism without severe tensions for at least two years before it can qualify to adopt the euro. In ERM II, the exchange rate of a non-euro area Member State is fixed relating the euro and is only allowed to fluctuate within set limits. ERM II entry is based on an agreement between the ministers and central bank governors of the non-euro area Member State and the euro area Member States, and the European Central Bank (ECB). It covers the following:

- A central exchange rate between the euro and the country's currency is agreed. The currency is then allowed to fluctuate by up to 15% above or below this central rate.
- When necessary, the currency is supported by intervention (buying or selling) to keep the exchange rate relating the euro within the ±15% fluctuation band. Interventions are coordinated by the ECB and the central bank of the non-euro area Member State.
- Non euro area Member States within ERM II can decide to maintain a narrower fluctuation band, but this decision has no impact on the official ±15% fluctuation margin, unless there is agreement on this by ERM II stakeholders.
- The General Council of the ECB monitors the operation of ERM II and ensures coordination of monetary- and exchange-rate policies. The General Council also administers the intervention mechanisms together with the Member State's central bank.

According to the Treaty on EU, at least once every two years, or at the request of a Member State with "derogation" (Sweden), the Commission and the European Central Bank assess the progress made by the euro-area candidate countries and publish their conclusions in respective convergence reports.

In addition to meeting the economic convergence criteria, a euro area candidate country must make changes to national laws and rules, notably governing its national central bank and other monetary issues, in order to make them compatible with the Treaty. In particular, national central banks must be independent, because the monetary policy implemented by the ECB is also independent.

Within the euro area, there is only one currency – the euro – but there are EU countries outside the euro area with their own currencies. Avoiding excessive fluctuations of their exchange rates relating the euro helps to smooth operations at the single market. It is ERM II that provides the framework to manage the exchange rates between EU currencies and ensures stability.

5.2 Euro as a world currency

The euro was launched on the 1st of January in 1999. For the first three years it was an invisible currency, only used for accounting purposes, e.g. in electronic payments. Euro cash was not introduced until the 1st of January 2002, when it replaced, at fixed conversion rates, the banknotes and coins of the national currencies like the Belgian franc and the Deutsche mark.

Table 5.2 – Fixed euro conversion rates [33]

Euro	Currency	Conversion rate
1	Belgian francs (BEF)	40.3399
1	Deutsche mark (DEM)	1.95583
1	Estonian kroon (EEK)	15.6466
1	Irish pound (IEP)	0.787564
1	Greek drachmas (GRD)	340.750
1	Spanish pesetas (ESP)	166.386
1	Cyprus pound (CYP)	0.585274
1	French francs (FRF)	6.55957
1	Italian lire (ITL)	1936.27
1	Latvian lats (LVL)	0.702804
1	Lithuanian litas (LTL)	3.45280
1	Luxembourgish francs (LUF)	40.3399
1	Maltese lira (MTL)	0.429300
1	Dutch guilders (NLG)	2.20371
1	Austrian schillings (ATS)	13.7603
1	Portuguese escudos (PTE)	200.482
1	Slovenian tolars (SIT)	239.640
1	Slovak koruna (SKK)	30.1260
1	Finnish markkas (FIM)	5.94573

The benefits of the euro are diverse and are revealed on different scales, from individuals and businesses to the whole economies. They include [34]:

- more choice and stable prices for consumers and citizens;
- greater security and more opportunities for businesses and markets;
- improved economic stability and growth;
- more integrated financial markets;
- a stronger presence for the EU in the global economy;
- a tangible sign of a European identity.

Many of these benefits are interconnected. For example, economic stability is good for a Member State's economy as it allows the government to plan for the future. But economic stability also benefits businesses because it reduces uncertainty and encourages companies to invest, eliminating fluctuating exchange rates and exchange costs. Because it is easier for companies to conduct cross-border trade and the economy is more stable, the economy grows and consumers have more choice. This, in turn, benefits for citizens who have more employment and more qualitative jobs. A common currency also encourages people to travel and shop in other countries.

The single currency brings new strengths and opportunities arising from the integration and scale of the euro area economy, making the single market more efficient. Before the euro, the need to exchange currencies meant extra costs, risks and a lack of transparency in cross-border transactions. With the single currency, doing business in the euro area is more cost-effective and less risky.

Meanwhile, being able to compare prices easily encourages cross-border trade and investment of all types, from individual consumers searching for the lowest cost product, through businesses purchasing the best value service, to large institutional investors who can invest more efficiently throughout the euro area without the risks of fluctuating exchange rates. Within the euro area, there is now one large integrated market using the same currency.

The scale of the single currency and the euro area also brings new opportunities in the global economy. A single currency makes the euro area an attractive region for third countries to do business, thus promoting trade and investment. Prudent economic management makes the euro an attractive reserve currency for third countries, and gives the euro area a more powerful voice in the global economy. At the global level, the euro gives the EU more clout, as it is the second most important international currency after the US dollar.

Scale and careful management also bring economic stability to the euro area, making it more resilient to so-called external economic “shocks”, i.e. sudden economic changes that may arise outside the euro area and disrupt national economies, such as worldwide oil price rises or turbulence on global currency markets. The size and strength of the euro area make it better able to absorb such external shocks without job losses and lower growth.

The euro does not bring economic stability and growth on its own. This is achieved first through the sound management of the euro area economy under the rules of the Treaty and the Stability and Growth Pact (SGP), a central element of Economic and Monetary Union (EMU). Second, as the key mechanism for enhancing the benefits of the single market, trade policy and political cooperation, the euro is an integral part of the economic, social and political structures of today’s European Union.

The euro is used widely at the global currency markets. It is also used as an official or de facto currency as well as an “anchor” currency by a number of the third countries and regions outside the European Union. Certain parts of the euro area are part of the European Union even though they are not on the European continent, such as the French overseas departments of Guadeloupe, French Guyana, and Martinique in the Caribbean, and Réunion in the Indian Ocean. The Portuguese islands of Madeira and the Azores, and the Spanish Canary Islands, all in the Atlantic Ocean, are other examples. As part of the euro area, and because they fall within the legal rights, capacity, and supervision of the relevant European Union Member State, these regions use the euro normally. However, the euro can also be found in other countries and regions which are neither part of the EU nor the euro area. This is because the stable monetary system behind the euro makes it an attractive “anchor” currency. By linking their currency to the euro they bring more certainty and stability to their national economies.

The euro as an official currency is used in the following regions [34]:

1. The Principality of Monaco, the Republic of San Marino, the Vatican City State, the Principality of Andorra have concluded monetary agreements with the EU, granting them the rights to produce limited quantities of euro coins with their own design on the national side, but not to issue euro banknotes.

2. Certain French overseas territories, which are not part of the European Union have also signed agreements with the EU. They do not however issue their own coins: the Saint-Pierre-et-Miquelon islands close to the eastern coast of

Canada, the island of Mayotte in the Indian Ocean and the Island of Saint-Barthélemy.

3. Kosovo and Montenegro, in the Balkans, use the euro as a de facto domestic currency, as they have no agreements with the EU. This is keeping with an older practice of using the German mark, which was previously the de facto currency in these areas.

Different monetary systems are used to establish the links between the euro and national currencies:

- Non-euro area EU countries link their currencies to the euro through the Exchange Rate Mechanism (ERM II). This linkage is one of the conditions for joining the euro area.
- Countries, which are not part of the EU or do not wish to join ERM II, may decide to support an exchange rate relating the euro that is only allowed to fluctuate within defined limits ("currency peg"). The countries' monetary authorities support this exchange rate peg on their own by intervening in currency markets. The euro area has no agreements or obligations to support these currencies.
- Other countries organize a "basket" of currencies that includes the euro. In such cases, the link is less direct. The exchange rate of the national currency is linked to a fictitious exchange rate from a "basket" of other currencies, such as the euro, the US dollar, and the Japanese yen.
- An additional tool available to countries' monetary authorities implies euro-based currency boards in charge of supporting the fixed foreign exchange rate, to which the normal objectives of central banks are subordinated.

The widespread use of the euro in the international financial and monetary system demonstrates its global presence [34]:

1. The euro is widely used, alongside the US dollar, as an important reserve currency for monetary emergencies. In 2015, more than one-fifth of the global foreign exchange holdings were in euros.

2. The euro is the second most actively traded currency in foreign exchange markets. It is a counterpart in around 33% of all daily transactions, globally.

3. The euro is used to issue government and corporate debt worldwide. In 2015, the share of euro denominated debt in the global markets was around 40%, on par with the role of the US dollar in the international debt market.

4. The euro is also a currency used for invoicing and paying in international trade, not only between the euro area and countries outside the EU, but also between non-EU countries. It is used as trade invoicing currency for more than 50% of all euro area imports, and for more than 65% of all euro area exports.

5. Several countries manage their currencies by linking them to the euro, which acts as an "anchor" or reference currency.

The status of the euro as a global currency, combined with the size and economic weight of the euro area, is considered by international economic organizations, such as the IMF and the G-7, to be the euro area economy as one entity. This gives the European Union a stronger voice in the world. To benefit from this stronger position, and to contribute effectively to international financial stability, the euro area is giving one vote more often in important economic fora. This is done through close coordination between the euro area Member States, as well as the European Central Bank and the European Commission during the international economic meetings.

5.3 The Eurosystem

The Eurosystem is a central banking system of the euro area. The Eurosystem comprises the European Central Bank (ECB) and the National Central Banks (NCBs) of those 19 countries that have adopted the euro. The ECB was established as the core of the Eurosystem. Since the 1st of January 1999 the ECB has been responsible for conducting monetary policy for the euro area – the world's largest economy after the United States. The euro was launched when responsibility for monetary policy has been transferred from the national central banks of 11 EU Member States to the ECB in January 1999. The creation of the ECB was a milestone in the long and complex process of the European integration.

The main objective of the Eurosystem is to **maintain price stability**: safeguarding the value of the euro. The objective of price stability refers to the general level of prices in the economy. It implies avoiding both prolonged inflation and deflation. Price stability contributes to achieving high levels of economic activity and employment. The ECB's Governing Council has defined price stability as "a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area by below 2%. Price stability is to be maintained over the medium term" [33].

The Eurosystem is the monetary authority of the euro area. Its primary objective is the maintenance of price stability for the common good. Acting also as a leading financial authority, the Eurosystem aims at safeguarding financial stability and promoting European financial integration. The Eurosystem is responsible for [33]:

- defining and implementing monetary policy;
- conducting foreign exchange operations;
- holding and managing the euro area's foreign currency reserves;
- promoting the smooth operation of payment systems.

Monetary policy. The primary objective of the ECB's monetary policy is to maintain price stability. This is the best contribution monetary policy can make to economic growth and job creation. Monetary policy operates by steering short-term interest rates, thereby influencing economic developments, in order to maintain price stability for the euro area over the medium term.

The Eurosystem's instruments of monetary policy are:

1. Open market operations.
2. Bank rate policy.
3. Variations in the reserve ratios.

Open market operations (OMO). Open market operations play an important role in steering interest rates, managing the liquidity situation in the market and signaling about the monetary policy performance. Open market operations are initiated by the ECB, which decides on the instrument and the terms and conditions. There are four types of open market operations:

1. *Main refinancing operations* are regular liquidity-providing reverse transactions conducted by the Eurosystem with a frequency and maturity of normally one week. They are executed in a decentralised manner by the national central banks on the basis of standard tenders. The main refinancing operations play a pivotal role in fulfilling the aims of the Eurosystem's open market operations and normally provide the bulk of refinancing to the financial sector.

2. *Longer-term refinancing operations* are liquidity-providing reverse transactions with a longer maturity than the main refinancing operations. Regular longer-term refinancing operations have a maturity of three months and are conducted each month by the Eurosystem. The Eurosystem may also conduct non-regular longer-term operations, with a maturity of more than three months.

3. *Fine-tuning operations* can be executed on an ad hoc basis to manage the liquidity situation in the market and to steer interest rates. In particular, they are aimed at smoothing the effects on interest rates caused by unexpected liquidity fluctuations. Fine-tuning operations are primarily executed as reverse transactions, but may also take the form of foreign exchange swaps or the collection of fixed-term deposits. The instruments and procedures applied in the conduct of fine-tuning operations are adapted to the types of transaction and the specific objectives pursued in performing the operations. Fine-tuning operations are normally executed by the Eurosystem through quick tenders or bilateral procedures. The Eurosystem may select a limited number of counterparties to participate in fine-tuning operations.

4. *Structural operations* can be carried out by the Eurosystem through reverse transactions, outright transactions, and the issuance of debt certificates. These operations are executed whenever the ECB wishes to adjust the structural position of the Eurosystem vis-à-vis the financial sector (on a regular or non-regular basis). Structural operations in the form of reverse transactions and the issuance of debt instruments are carried out by the Eurosystem through standard tenders. Structural operations in the form of outright transactions are normally executed through bilateral procedures.

Bank rate policy. The bank rate policy (BRP) is a very important technique used in the monetary policy for influencing the volume or the quantity of the credit in a country [3]. The bank rate refers to rate at which the NCB rediscounts bills and prepares of commercial banks or provides advance to commercial banks against approved securities. The bank rate affects the actual availability and the cost of the credit. Any change in the bank rate necessarily brings out a resultant change in the cost of credit available to commercial banks. If the NCB increases the bank rate then it reduces the volume of commercial banks borrowing from the NCB. It deters banks from further credit expansion as it becomes a more costly affair. Even with increased bank rate the actual interest rates for a short term lending go up checking the credit expansion. On the other hand, if the NCB reduces the bank rate, borrowing for commercial banks will be easier and cheaper. This will boost the credit creation. Thus any change in the bank rate is normally associated with the resulting changes in the lending rate and in the market rate of interest. However, the efficiency of the bank rate as a tool of monetary policy depends on existing banking network, interest elasticity of investment demand, size and strength of the money market, international flow of funds, etc.

Variations in the reserve ratios. Minimum reserves are an integral part of the operational framework for the monetary policy in the euro area. The intent of the minimum reserve system is to pursue the aims of stabilizing money market interest rates and creating (or enlarging) a structural liquidity shortage. The reserve requirement of each institution is determined in relation to elements of its balance sheet. In order to pursue the aim of stabilizing interest rates, the Eurosystem's minimum reserve system enables institutions to make use of averaging provisions. This implies that compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over a maintenance period of about one month. The reserve maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled. The required reserve holdings are remunerated at a level corresponding to the average interest rate over the maintenance period of the main refinancing operations of the Eurosystem.

Foreign exchange operations. The Eurosystem conducts foreign exchange operations in accordance with Articles 127 and 219 of the Treaty on the Functioning of the European Union [48]. Foreign exchange operations include foreign exchange interventions and such operations as the sale of interest income derived from foreign reserve assets and "commercial transactions". In the absence of any formal agreements or general guidelines, the Eurosystem may decide, where necessary, to conduct foreign exchange interventions. The Eurosystem may conduct such interventions either on its own (i.e. unilaterally) or as part of a coordinated intervention involving other central banks (i.e. concerted action). Any intervention relating to another EU currency is performed without prejudice to the ECB's primary objective of maintaining price stability and is carried out by the Eurosystem in close cooperation with the relevant non-euro area NCB, particularly with regard to the financing of the intervention. Currently, only Denmark participates in ERM II. The other countries that joined the European Union on the 1st of May 2004, 1st of January 2007 and 1st of July 2013 are also expected to join it.

Managing foreign currency reserves. The objectives for the management of the ECB's foreign reserves are, in order of importance: liquidity, security and returns. The ECB’s foreign reserves portfolio consists of US dollars, Japanese yen, Chinese renminbi (CNY), gold and special drawing rights. The structure of the reserves changes over time, reflecting changes in the market values of invested assets, as well as the ECB’s foreign exchange and gold operations. The US dollar, Japanese yen and Chinese renminbi reserves are actively managed by the ECB and selected euro area NCBs (acting as agents of the ECB) that wish to be involved in this operational activity.

Payments and securities. The Eurosystem has the statutory task of promoting the smooth operation of payment and settlement systems. The Eurosystem fulfils its tasks by means of the following [33]:

1. It provides payment and securities settlement facilities, operating a large-value payment system in euro (TARGET2), as well as correspondent central banking model (CCBM). Moreover, the Eurosystem is also setting up a pan-European service (T2S, TARGET2-Securities) to allow central securities depositories to settle securities transactions using central bank money.

2. It establishes oversight policies and corresponding standards for large-value payment systems, retail payment systems and payment instruments, clearing systems, securities settlement systems and certain third-party service providers. It also conducts oversight activities for these infrastructures, assessing their compliance with such policies and standards.

3. It establishes business continuity requirements for market infrastructures and coordinates implementation work.

4. It acts as a catalyst for change, promoting efficiency in payment systems and, in the field of retail payments, migration to the Single Euro Payments Area.

5. It promotes an efficient securities market by fostering the harmonization of market standards and encouraging the removal of barriers to integration.

The European Central Bank is a key institution in international economic and financial affairs. It conducts monetary policy for the whole euro area. The functions of the European Central Bank are [33]:

1. It sets the interest rates at which it lends to commercial banks in the Eurozone, thus controlling money supply and inflation.

2. It manages the Eurozone’s foreign currency reserves and the buying or selling of currencies to balance exchange rates.

3. It ensures that financial markets and institutions are well supervised by national authorities, and that payment systems work well.

4. It ensures the safety and soundness of the European banking system.

5. It authorizes production of euro banknotes by Eurozone countries.

6. It monitors price trends and assesses risks to maintain price stability.

In short, the main tasks of the European Central Bank are to manage the euro, keep prices stable and conduct EU economic and monetary policy.

Conclusions

1. The Eurozone is the single currency area shared by the EU countries that have adopted the euro. To join the Eurozone, the 19 countries had to fulfill five convergence criteria. Some EU countries do not participate (Denmark and the United Kingdom through "opt outs") or have not adopted the euro yet because the convergence criteria to join the euro are not met (Sweden through "derogation").

2. A single currency offers many advantages, such as eliminating fluctuating exchange rates and exchange costs. Because it is easier for companies to conduct cross-border trade and the economy is more stable, the economy grows and consumers have more choice. A common currency also encourages people to travel and shop in other countries. At global level, the euro gives the EU more clout, as it is the second most important international currency after the US dollar.

3. The Eurosystem is a central banking system of the euro area. The Eurosystem comprises the European Central Bank (ECB) and the National Central Banks (NCBs) of those 19 countries that have adopted the euro. The main objective of the Eurosystem is to maintain price stability. Price stability is essential for economic growth and job creation – two of the European Union's objectives – and it represents the most important contribution monetary policy can make in that area.

End-of-chapter questions and tasks

1. Differentiate between the European Union and the Eurozone.
2. What is the role of convergence in the EU monetary integration?
3. Analyze the entry criteria to the Eurozone.
4. Interpret the benefits of the single currency.
5. How is the Eurozone managed in terms of monetary instruments?
6. Describe the possible economic effects of price stability.

CHAPTER 6. HOW THE EUROPEAN UNION WORKS

6.1. The European Parliament.
6.2. The European Commission.
6.3. The European Council and the Council.

Key words: institutions, law-making, legislation, qualified majority, co-decision

6.1. The European Parliament

The EU is based on the rule of law: everything that it does is founded on treaties, agreed by all Member States.

The European Parliament (EP) was established in 1952 as Common Assembly of the European Coal and Steel Community, in 1962 – as the European Parliament with the first direct elections held in 1979.

Nowadays, the EP is a unique example of multinational and multilingual democracy at work. It is the only directly elected body with legislative, supervisory, and budgetary responsibilities. It consists of 751 members (MEPs) who represent the interests over 500 million citizens.

The European Parliament is the EU's law-making body. It is directly elected by EU voters every 5 years. The EP is headed by the President who is elected for a renewable term of two and a half years, i.e. half the lifetime of a Parliament. The President represents Parliament to other EU institutions and the world outside and approves the EU budget. The President oversees the work of the Parliament and its bodies.

It is located in Strasbourg (France), Brussels (Belgium), and Luxembourg. The Parliament plays three main roles in the European Union [36]:

1. Legislative role:

- passing EU laws, together with the Council of the EU, based on European Commission proposals;
- deciding on international agreements;
- deciding on enlargements;
- reviewing the Commission's work programme and asking it to propose legislation.

2. Supervisory role:

- democratic scrutiny of all EU institutions;

- electing the Commission President and approving the Commission as a body;
- approving the way EU budgets have been spent;
- examining citizens' petitions and setting up inquiries;
- discussing monetary policy with the European Central Bank;
- election observations.

3. Budgetary role:

- establishing the EU budget, together with the Council;
- electing the Commission President and approving the Commission as a body;
- approving the EU's long-term budget, so-called "Multiannual Financial Framework".

The number of Members of the European Parliament (MEPs) for each country is roughly proportionate to its population, but no country can have fewer than 6 or more than 96 MEPs and their total number cannot exceed 751 Members (750 plus the President).

Table 6.1 – Distribution of the seats in the European Parliament [43, 16]

Country	Seats	Country	Seats
Belgium	21	Lithuania	11
Bulgaria	17	Luxembourg	6
Czech Republic	21	Hungary	21
Denmark	13	Malta	6
Germany	96	Netherlands	26
Estonia	6	Austria	18
Ireland	11	Poland	51
Greece	21	Portugal	21
Spain	54	Romania	32
France	74	Slovenia	8
Croatia	11	Slovakia	13
Italy	73	Finland	13
Cyprus	6	Sweden	20
Latvia	8	United Kingdom	73

Members of the European Parliament are grouped by political affiliation, not by nationality (Table 6.2).

Table 6.2 – Representing the structure of the EP by political groups [43, 15]

Acronym	Political group	Seats
EPP	Group of the European People's Party	217
S&D	Group of the Progressive Alliance of Socialists and Democrats	189
ECR	European Conservatives and Reformists Group	74
ALDE	Group of the Alliance of Liberals and Democrats of Europe	68
GUE/NGL	Confederal Group of the European United Left/ Nordic Green Left	52
Greens/EFA	Group of the Greens/ European Free Alliance	51
EFDD	Europe of Freedom and Direct Democracy Group	42
ENF	Europe of Nations and Freedom	40
NI	Non-attached Members	18

Parliament's work comprises two main stages:

1. Committees are needed to prepare legislation. The Parliament accounts for 20 committees and two subcommittees handling a particular policy area. The committees examine proposals for legislation, and MEPs and political groups can put forward amendments or propose to reject a bill. These issues are also debated within the political groups.

2. Plenary sessions are needed to pass legislation. This is when all the MEPs gather in the chamber to give a final vote on the proposed legislation and the proposed amendments. It is normally held in Strasbourg for four days a month, but sometimes there are additional sessions in Brussels.

Legislative powers. The EP decides jointly with the Council of the EU on laws that affect the daily lives of the European Union's citizens. These include topics such as freedom of travel, food safety and consumer protection, the environment and most sectors of the economy. Member States still have a veto right in areas such as taxation and foreign affairs/defense. Some areas require the Council to obtain the EP's assent before making a decision. However, even areas where the Member States decide alone — such as education and culture — are often the subject of EU support measures, such as the Erasmus+ programme, which provides young Europeans with opportunities to study, volunteer, train or gain work experience abroad [43, 9].

The European Parliament may approve or reject a legislative proposal, or propose amendments to it. In 2012, the EP famously rejected the controversial anti-counterfeiting trade agreement (ACTA) [43, 10]. This multinational treaty is aimed at establishing international standards for enforcing intellectual property rights. However, organizations representing citizens and non-governmental interests argued that ACTA could infringe a number of fundamental rights including freedom of expression and privacy. Furthermore, the secret negotiation of the agreement excluded civil society groups, developing countries and the general public from the process. The signature by the EU and many of its Member States resulted in widespread protests across the EU. Following pressure from civil society, which included five petitions, one of which had 2.8 million signatures, the European Parliament carefully scrutinized and finally rejected the agreement. This put an effective end to ACTA and meant that the text could not be adopted by any of the Member States of the EU.

The Treaty of Rome gave the Parliament an advisory role in the legislative process when the Commission proposed and the Council adopted legislation. The Single European Act and the Maastricht, Amsterdam, Nice and Lisbon Treaties successively extended Parliament's prerogatives. It can now co-legislate on equal footing with the Council in a vast majority of areas and consultation became a special legislative procedure used in a limited number of cases. This procedure is now applicable in a limited number of legislative areas, such as internal market exemptions and competition law. Parliament's consultation is also required, as a non-legislative procedure, where international agreements are being adopted under the Common Foreign and Security Policy (CFSP).

In case of legislative acts, a distinction is made between the ordinary legislative procedure (bilateral decisions), which puts Parliament on an equal footing with the Council, and the special legislative procedures, which apply only in specific cases where Parliament has only a consultative role. On certain questions (e.g. taxation) the European Parliament gives only an advisory opinion (the "consultation procedure"). In some cases consultation is obligatory and the act cannot be adopted unless Parliament has delivered an opinion. In this case the Council is not empowered to take a decision alone.

Budgetary powers. Budgetary powers are the key prerogative of every parliament – whoever allocates the funds has the power to set political priorities. At EU level, this power is shared between the EP and the Council. Together they adopt a multiannual financial framework every 7 years and scrutinize and approve the annual budget for the next year, as well as the spending from the previous year.

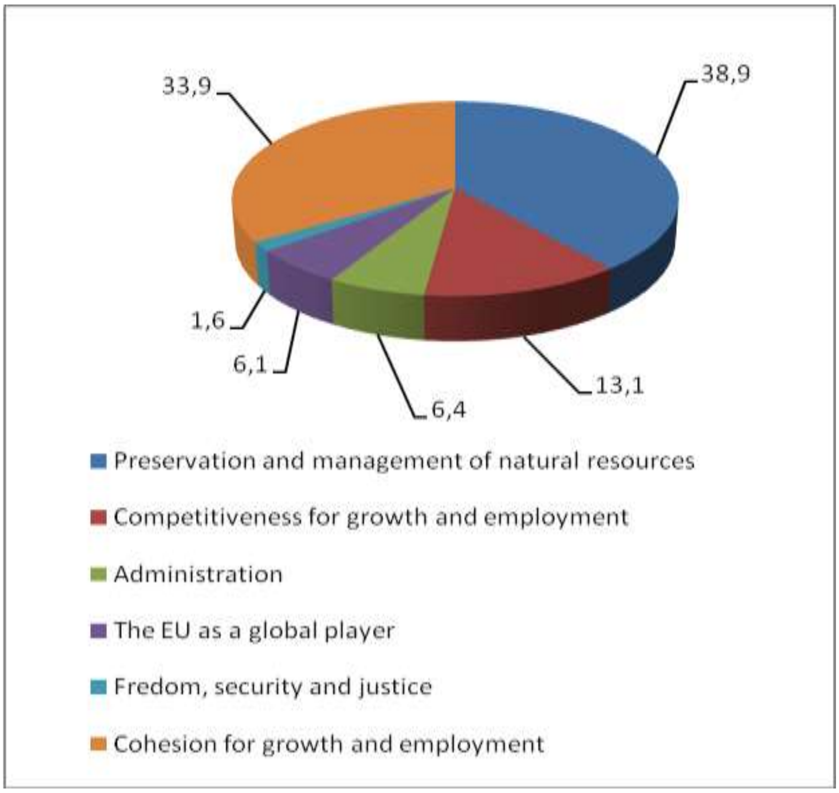

Figure 6.1 – The EU’s long-term budget for 2014-2020 [43, 11]

Total expenditures of the EU’s long-term budget comprise EUR 960 billion. The bulk of the budget money is directed into environmental sphere – EUR 373.2 billion [43, 11].

Supervisory powers. The European Parliament has a range of supervisory and control powers. These allow it to conduct an oversight over other institutions, to monitor the proper use of the EU budget and to ensure the correct implementation of the EU law. The Parliament supervises all Community activities. It sets up committees of inquiry to investigate certain matters. It also plays a crucial role in supervising the European Commission. The European Parliament has the right either to approve or to dismiss the European Commission. The Commission must submit reports to the Parliament on its activities and must answer written or oral questions during Question Time. If the Parliament votes against the Commission, the entire Commission is forced to resign.

The European Parliament also has powers where enlargement of the European Union is concerned. The European Parliament monitors the negotiations between the EU and countries that wish to join the EU, such as, Turkey. At the end of the negotiating process the European Parliament has to give its assent. If the European Parliament says no, there is no appeal mechanism.

6.2. The European Commission

The European Commission is a key EU institution. It is the executive body of the European Union which promotes its general interest.

The European Commission was established in 1958. Currently, it consists of 28 Commissioners – one Commissioner from one country. This team, officially known as the College, is led by the Commission President. A new college of Commissioners is appointed every 5 years. The Commission is located in Brussels and Luxembourg.

The European Commission is the EU's politically independent executive arm. It is alone responsible for drawing up proposals for new European legislation, and it implements the decisions of the European Parliament and the Council of the EU. The European Commission is entitled to do the following [37]:

1. **To propose new laws**. The Commission is the sole EU institution tabling laws for adoption by the Parliament and the Council that protect the interests of the EU and its citizens on issues that can't be dealt with effectively at national level.

2. **To manage EU policies and allocate EU funding**. The Commission sets EU spending priorities, together with the Council and Parliament; draws up annual budgets for approval by the Parliament and Council; supervises how the money is spent, under scrutiny by the Court of Auditors.

3. **To enforce the EU laws**. Together with the Court of Justice, the Commission ensures that EU law is properly applied in all the member countries.

4. **To represent the EU internationally**. The Commission speaks on behalf of all EU countries in international bodies, in particular in areas of trade policy and humanitarian aid; negotiates international agreements for the EU.

The European Commission is held democratically accountable by the European Parliament, which has the right to approve and dismiss the entire political leadership of the Commission. The European Commission is also accountable for putting the EU budget into practice. Every year, the Parliament chooses to give (or not) its assent to the European Commission on the way it has managed the EU budget. This process is called the discharge.

The Commission is a supranational institution as its members seek to achieve what is in the best interests of the EU. The Commission's function consists of considering, proposing and legislating. Many policies are determined by the Commission and then it administers them whilst checking that the EU's other bodies are implementing them correctly. It drafts legislation and often, rather than legislating itself, passes it on to the Council or the Parliament to legislate. Two important sources of the Commissions influence derives from its ability to deliver opinions on any EU matter, and its obligation to publish an annual report on the activities of the EU as both of these give the Commission scope to influence policy debates [20].

Each Commissioner is responsible for their respective specific portfolio. The Commission can be split into three broad departments where its own Commissioner heads it. The policy department deals with economic, environmental, social, agricultural issues, etc. The external relations department deals with development, expansion, aid, trade, etc. The services department works on advising on informatics, infrastructure and logistics, legal services, administration, etc. The full list of the departments governed by the Commission is shown in the Table 6.1.

Table 6.1 – Departments of the European Commission [34]

Section	Departments
1	*2*
Policy	Agriculture and Rural Development
	Budget
	Climate Action
	Competition
	Consumers, Health, Agriculture and Food Executive Agency
	Economic and Financial Affairs
	Employment, Social Affairs and Inclusion
	Energy
	Environment
	Executive Agency for Small and Medium-sized Enterprises
	Financial Stability, Financial Services and Capital Markets Union
	Taxation and Customs Union
	Internal Market, Industry, Entrepreneurship and SMEs
	Health and Food Safety
	Human Resources and Security
	Justice and Consumers
	Maritime Affairs and Fisheries
	Regional and Urban Policy

Continuation of the Table 6.1

1	*2*
External relations	Trade
	International Cooperation and Development
	Migration and Home Affairs
	Service for Foreign Policy Instruments
	Task force on Article 50 Negotiations with the United Kingdom
	European Civil Protection and Humanitarian Aid Operations
	European Neighbourhood Policy and Enlargement Negotiations
Services	Eurostat – European Statistics
	Communication
	Historical Archives Services
	Informatics
	Infrastructure and Logistics in Brussels
	Infrastructure and Logistics in Luxembourg
	Innovation and Networks Executive Agency
	Internal Audit Service
	Interpretation
	Joint Research Center
	Legal Service
	Library and e-Resources Center
	Mobility and Transport
	Publications Office
	Research and Innovation
	Research Executive Agency
	Secretariat-General
	Structural Reform Support Service
	Translation
	Administration and Payment of Individual Entitlements
	Communication Networks, Content and Technology
	Data Protection Office
	Education, Audiovisual and Culture Executive Agency
	Education, Youth, Sport and Culture
	European Anti-Fraud Office
	European Personnel Selection Office
	European Political Strategy Center
	European Research Council Executive Agency

Weekly meetings of the Commissioners take place in the Brussels headquarters and in Strasbourg. Though there is one Commissioner from each EU country, their job is to defend the interests of the EU as a whole – rather than national interests. Within the Commission, they are the decision-makers. The European Commission prepares legislative proposals on its own initiative or at the request of other EU institutions (e.g. ECB) or countries, or following a citizens' initiative, often after public consultations. The final proposal is forwarded simultaneously to the European Parliament, the Council and national parliaments and, in some cases, to the Committee of the Regions and the Economic and Social Committee.

6.3. The European Council and the Council

The European Council is the EU's top political institution. It brings together EU leaders to set the EU's political agenda. It represents the highest level of political cooperation between EU countries. Under article 68 of the Treaty on the Functioning of the EU (TFEU), the European Council is responsible for defining strategic guidelines for the area of freedom, security and justice [41].

The European Council takes the form of (usually quarterly) summit meetings between EU leaders. It was established in 1974 as informal forum and obtained a status of official EU institution in 2009. The European Council is located in Brussels.

The European Council is made up of the heads of states or governments of all EU countries, the European Commission President and the High Representative for Foreign Affairs and Security Policy. It is convened and chaired by its President, who is elected by the European Council itself for a once-renewable two-and-a-half-year term. The President represents the EU to the outside world.

The functions of the European Council are as follows [37]:

1. It decides on the EU's overall direction and political priorities, but does not pass laws.

2. It deals with complicated issues that cannot be resolved at lower levels of intergovernmental cooperation.

3. It sets the EU's common foreign and security policy, taking into account EU strategic interests and defence implications.

4. It nominates and appoints candidates to certain high profile EU level roles, such as the ECB and the Commission.

The European Council is not one of the EU's legislating institutions, so does not negotiate or adopt EU laws. Instead, it sets the EU's policy agenda, traditionally by adopting "conclusions" during European Council meetings which identify issues of concern and actions to take. The European Council usually meets four times a year, but the President can convene additional meetings to address urgent issues. It generally decides issues by consensus, but by unanimity or qualified majority in some cases. Only the heads of states (governments) can vote.

At its meeting in Brussels on the 27th of June in 2014, the European Council agreed on five priority areas to guide the EU's work over the next five years. These priorities are set out in a document called the "Strategic agenda for the Union in times of change". This strategic agenda will be used to plan the work of the European Council and also acts as a basis for the work programmes of other EU institutions [35].

Priority 1 "**Jobs, growth and competitiveness**". The European Council outlines the need to encourage growth, increase investments, create more and better jobs, and encourage reform to increase competitiveness. Specific actions include:

- completion of the digital single market;
- improving SME's access to finance and investment;
- improved infrastructure investment;
- completion of the negotiations on the Transatlantic Trade and Investment Partnership (TTIP);
- increasing euro area governance and economic policy coordination.

Priority 2 "**Empowering and protecting citizens**". The European Council highlights priorities that would unlock opportunities for EU citizens, as well as deal with issues such as poverty and social exclusion. Particular actions include:

- keeping on driving against youth unemployment;
- action to deal with tax evasion and tax fraud.

Priority 3 "**Energy and climate policies**". The European Council underlines the need to decrease dependency on fuel and gas imports and to build affordable, secure and sustainable energy within the EU. The main priorities include:

- completion of the EU energy market;
- diversification of EU energy supplies and routes and the development of energy infrastructure;
- setting ambitious climate change targets for 2030 and keeping on leading the fight against climate change.

Priority 4 "**Freedom, security and justice**". The European Council emphasizes the importance of urgent EU cooperation on security issues like terrorism and managing migration flows. Specific priorities set by the European Council include:

- better management of all aspects of migration, including irregular migration, asylum and border management;
- preventing and combating organized crime, corruption and terrorism;
- improving judicial cooperation between EU countries.

Priority 5 "**The EU as a strong global actor**". The European Council calls on the EU to ensure its strong engagement in world affairs, highlighting in particular the following priorities:

- ensuring consistency between member states' and EU foreign policy goals;
- promoting stability, prosperity and democracy in the countries closest to the EU;
- engaging global partners on a wide range of issues such as trade, cyber security, human rights and crisis management;
- strengthening the EU's common security and defence policy.

As well as setting the EU's political priorities through the strategic agenda and through its conclusions, the European Council has a formal role to play in the EU's annual European semester process. This is the EU's yearly cycle of economic and fiscal policy coordination. The European Semester covers 3 blocks of economic policy coordination [37]:

- structural reforms, focusing on promoting growth and employment in line with the Europe 2020 strategy;
- fiscal policies, in order to ensure sustainability of public finances in line with the Stability and Growth Pact;
- prevention of excessive macroeconomic imbalances.

In its annual March meeting, the European Council assesses both the economic situation in the EU and progress towards the Europe 2020 targets. It then gives policy orientations on fiscal, economic and structural reforms. In its June meeting, the European Council endorses the final country-specific recommendations, which set out priorities for each member state for the next 12-18 months.

The Council of the European Union (Council of Ministers) is another body of the EU. It is made up of ministers from the EU's national governments. The member states take it in turns to hold the Council Presidency for a six-month period. Every Council meeting is attended by one minister from each EU country. Which ministers attend a meeting depends on which topic is on the agenda: foreign affairs, agriculture, industry, transport, the environment, etc. For example, when the Council meeting on economic and financial affairs (the "Ecofin Council") is held, it is attended by each country's minister of finance.

The Council was established in 1958. Together with the European Parliament (EP), the Council is the main decision-making body of the EU. The main functions of the Council are [32]:

1. It negotiates and passes the EU laws. The Council is an essential EU decision-maker. It negotiates and adopts legislative acts in most cases together with the European Parliament through the ordinary legislative procedure, also known as "co-decision". Co-decision is used for policy areas where the EU has exclusive or shared competence with the member states. In these cases, the Council legislates on the basis of proposals submitted by the European Commission.

2. It coordinates member states' policies. The Council is responsible for coordinating member states' policies in specific fields, such as:

- economic and fiscal policies: the Council coordinates member states' economic and fiscal policies to strengthen economic governance in the EU, monitors their budgetary policies and strengthens the EU's fiscal framework, and also deals with the legal and practical aspects of the euro, financial markets and capital movements;
- education, culture, youth and sport: the Council adopts EU policy frameworks and work plans in these areas which set out the priorities for cooperation between member states and the Commission;
- employment policy: the Council draws up annual guidelines and recommendations for member states, based on the European Council conclusions on the EU employment situation.

3. It develops the EU's common foreign and security policy. The Council defines and implements EU foreign and security policy on the basis of guidelines set by the European Council. This also includes the EU's development and humanitarian aid, defence and trade. Together with the High Representative of the Union for Foreign Affairs and Security Policy, the Council ensures the unity, consistency and effectiveness of the EU's external action.

4. It concludes international agreements. The Council provides the mandate to the Commission to negotiate on behalf of the EU agreements between the EU

and non-EU countries and international organizations. The Council also adopts the final decision to conclude the agreement, once the Parliament has given its consent and it has been ratified by all EU member states. These agreements may cover broad areas, such as trade, cooperation and development, or they may deal with specific subjects such as textiles, fisheries, customs, transport, science and technology, etc.

5. It adopts the EU budget. The Council adopts the EU budget together with the Parliament. The budget period covers a calendar year. It is usually adopted in December and starts running on 1 January the following year.

Most decisions in the Council are taken by "qualified majority", or so-called "double majority". It means that a decision must have a support of at least:

- 55% of countries (16 countries);
- Member States that represent at least 65 % of total EU population.

To block a decision, at least 4 countries are needed (representing at least 35% of total EU population). Vulnerable topics like foreign policy and taxation require a unanimous voting (all vote in favour of legislative proposal).

Decision-making at the EU level involves various European institutions, in particular the European Commission, the European Parliament and the Council of the European Union. EU policies and laws are carefully designed to bring benefits to citizens, businesses and other players in the EU.

In general, the Commission makes new legislation proposals, but the Council and the Parliament pass the laws. In some cases, the Council can act alone. Other institutions also have roles to play. The main forms of EU law are directives and regulations.

The rules and procedures for EU decision-making are laid down in the treaties. Every proposal for a new European law is based on a specific treaty article, referred to as the "legal basis" of the proposal. This determines which legislative procedure must be followed.

The three main procedures are "consultation", "assent" and "co-decision". This last is the procedure used for most EU law-making [10]. In the co-decision procedure, the European Parliament shares legislative power equally with the Council.

The co-decision procedure chart is shown on the Figure 6.2.

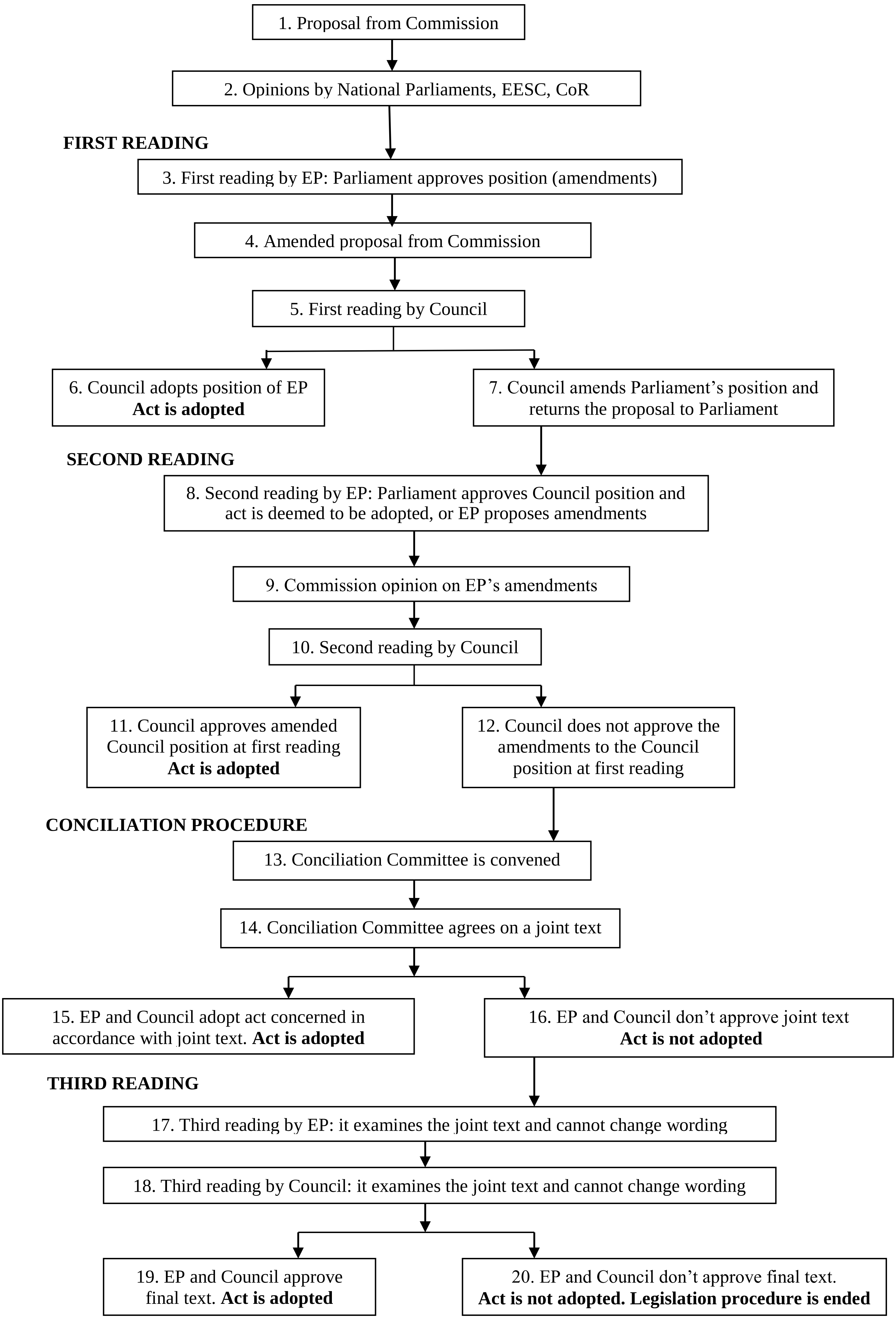

Figure 6.2 – The ordinary legislative procedure [1, 6]

Through the co-decision procedure, the European Commission, the European Parliament and the Council decide on regulations (which are obligatory, directly applicable and binding in their entirety) and directives (which are to be included into national legislation). The co-decision procedure is used to take many legislative decisions in the EU. The procedure has three phases, called readings, in which both the EP and the Council discuss the text and make common positions.

Conclusions

1. The European Union has an institutional framework which aims at promoting its values, advancing its objectives, serving its interests, those of its citizens and those of the Member States, and ensuring the consistency, effectiveness and continuity of its policies and actions.

2. The European Parliament tends to promote democracy and human rights – not only in Europe, but also throughout the world. The European Commission develops and implements EU policies by proposing laws, helping member countries implement EU legislation and allocating funding. The top priority of the Council is legislation, which it carries out together with the Parliament in the co-decision process.

3. The EU's standard decision-making procedure is known as Ordinary Legislative Procedure, or co-decision. The ordinary legislative procedure gives the same weight to the European Parliament and the Council of the European Union on a wide range of areas (for example, economic governance, immigration, energy, transport, the environment and consumer protection). The vast majority of European laws are adopted jointly by the European Parliament and the Council.

End-of-chapter questions and tasks

1. Discuss whether countries in the EP are fairly represented.
2. Decide how the European institutions are related with each other.
3. What European institutions belong to the legislative branch of authority?
4. Explain the nature of qualified majority.
5. How are the decisions made in the European Union?
6. Dramatize the plenary session in the European Parliament.

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