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THE WORLD AND EUROPEAN INTEGRATION

Study guide

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The study guide provides students with essential knowledge in the field of the key principles and challenges of global economic integration, international economic activity of global actors and players. The special emphasis is made on the European integration which is an inevitable part of the world global processes.

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Contents

PREFACE

The purpose of the course “The World 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 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 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.

The course was published as part of research work 0120U102001 “Reforming the lifelong learning system in Ukraine to prevent labor emigration: a cooperative model of institutional partnership”.

CHAPTER 1. GLOBALIZATION OF THE WORLD 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 (Marekha, 2017). There are at least five distinct ways in which it is commonly understood (How to understand, n.d.):

- 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 (Sheffield et al., 2013, p. 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 (Marekha, 2017):

- 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 (Oksuz, 1998). 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 (Marekha, 2017).

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 (Dollarization, n.d.).
- Macdonaldization – the process by which the principles of the fast-food restaurant are coming to dominate more sectors of the society (McDonaldization, n.d.).

*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 (Marekha, 2017):

- 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 (Sheffield et al., 2013)

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 (Marekha, 2017).

*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 (Marekha, 2017):

- 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" (Globalization, 2002).

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 (Oksuz, 1998).

Salient features of globalization (Dinesh, n.d.):

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 (Marekha, 2017).

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* (What drives, n.d.): costs, market, environment, and 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 (Marekha, 2017).

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 (Marekha, 2017).

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 (Marekha, 2017).

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 (Teh, n.d.):

1) 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;

2) 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;
- the Internet has enabled consumers to access information easily, as well as purchase item online;

3) 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;
- they set up their operation in different parts of the world;
- 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 1.3.

Table 1.3 – Cross-country comparisons for Globalization Index (KOF Index, 2010, KOF Index, 2017)

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 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.

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 (KOF Index, 2017).

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 (Pros and cons, n.d.).

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 (Marekha, 2017).

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;
- 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 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 (Marekha, 2017).

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 (The pros and cons, n.d.). 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 (The Global Risks, 2017, p. 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 (The Global Risks, 2017). Economic global risks are shown in the Table 1.4.

Table 1.4 – Economic global risks and their description (The Global Risks, 2017)

Global risks	Description
1	2
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

Continuation of the Table 1.4

1	2
Unmanageable inflation	Unmanageable increases in the general price levels of goods and services in key economies
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

Societal global risks are shown in the Table 1.5.

Table 1.5 – Societal global risks (The Global Risks, 2017)

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 1.6.

Table 1.6 – Geopolitical global risks (The Global Risks, 2017)

Global risks	Description
1	2
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

Continuation of the Table 1.6

1	2
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 1.7.

Table 1.7 – Environmental global risks and their description (The Global Risks, 2017)

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 1.8.

Table 1.8 – Technological global risks and their description (The Global Risks, 2017)

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 (The Global Risks, 2017). Global trends in 2017 include (Marekha, 2017):

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 1.9.

Table 1.9 – Top 5 global risks in terms of likelihood, 2007-2017 (The global risks, 2017)

	Economic	Environmental	Geopolitical	Societal	Technological
	1	2	3	4	5
2007	Oil price shock; China economic hard lending; asset price collapse	–	–	Chronic diseases in developed countries	Breakdown of critical information infrastruc-ture
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	–

Continuation of the Table 1.9

	1	2	3	4	5
2011	–	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 consequen-ces	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 1.9, 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 (Marekha, 2017). Economic risks, in comparison to environmental ones, are easier to manage. Nowadays, geopolitical, societal, and technological risks are topical questions for the global society.

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.

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CHAPTER 2. ECONOMIC GLOBALIZATION AND GLOBAL INTEGRATION

2.1. 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 (EUROSTAT, n.d.):

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 (Marekha, 2017):

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 (Marekha, 2017):

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 (Marekha, 2017):

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 global integration indicators are shown in the Table 2.1.

Table 2.1 – Global integration indicators (Global integration, n.d.)

Indicators	Notes
1	2
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

Continuation of the Table 2.1

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 (Marekha, 2017). The estimation of the degree of global economic integration is represented in the Table 2.2.

Table 2.2 – Estimation of the degree of global economic integration between partner countries, 2015 (Global integration, n.d.)

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 (Marekha, 2017).

2.2. International Organizations and Unions

The key important drivers for globalization are international organizations and corporations.

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" (Draft articles, 2011, p. 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 (Marekha, 2017):

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 (Marekha, 2017):

- 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 (United Nations Organization, n.d.):

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 (Marekha, 2017):

- 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 (United Nations Organization, n.d.):

- 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 (Charter, n.d.), 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 (United Nations Organization, n.d.):

- 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 (United Nations Organization, n.d.).

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 (United Nations Organization, n.d.).

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 (United Nations Organization, n.d.).

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 (Marekha, 2017):

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.

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.

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 role do international organizations play in global integration?
6. Carry out a comparative analysis of two international economic organizations.

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CHAPTER 3. THEORETICAL FOUNDATIONS OF EUROPEAN INTEGRATION

3.1. Federalism Theory of European Integration

Analysis of the European integration processes is impossible without studying the development of the idea of the unification of the European peoples and the main theoretical directions that have evolved over several centuries of the European history. Therefore, the study of theories and concepts of creation of a united Europe is essential for understanding the essence of those processes that took place on the European continent.

Historians note that the idea of Europe as a special world began to form in the early Middle Ages. It is the medieval European thinker J. Althusius who is considered to be the founder of one of the first integration concepts which laid the theoretical foundations for the European unification – federalism theory, and had a practical embodiment in the Dutch union of seven adjacent provinces in 1579 (Panchenko, T.V., 2011, p. 35). Among the most well-known projects of European peoples' unification, one can distinguish: the treatise "The Return of the Holy Land" (1305) of P. Dubois, plan of the unification of European powers (1464) by the Czech King George of Podebrad, “Grand Plan” (1617) of Duke of Sully, the Westphalian treatise (1648) which for the first time recognized the right of all European states to equality and provided guarantees of peaceful coexistence.

The idea of the traditional federalism concept is to unite Europe on the basis of a federal notion that involves the subordination of national and regional governing bodies to a common supranational structure at the initial stage of integration.

Among the supporters of a united Europe are well-known Englishmen – the philosopher J. Locke, Quaker V. Penna, the French philosophers J. J. Russo, A. Saint-Simon and the anarchist P. J. Proudhon, the famous German philosopher E. Kant, the French writer V. Hugo who at the International Peace Congress in Paris (1849) called for the creation of a United States of Europe.

1. The key determinant stages of the development of the federalism are the results and documents of the Vienna Congress of 1815, the Berlin Congress of 1878, the Hague Conferences of Peace in 1899 and 1907 (Makarenko, M. I. and Khomutenko, L.I. (ed.), 2014, p. 12).

Despite the diversity of European projects and views of the XV-XIX centuries, they were largely abstract and theoretical, guided by the idea of creating a secure space on the continent. At the same time, the political, economic and social realities were not taken into account at all.

2. At the beginning of the XX century famous federalist theories of Ukrainian origin belonged to M. Hrushevsky, R. Laschenko, S. Shelukhin. They substantiated the possibility of federal unions of Ukraine with other states, with which it maintained historic ties. They considered the Federation primarily as a way of autonomous development of Ukraine within the federation of certain Slavic peoples: M. Hrushevsky considered Lithuanian, Belarusian and Russian, R. Lashchenko – Russian, S. Sheluchin – Czech, Slovenian, Serbian, Slovak, and Croatian (Kamins'kyj, Je. and Troshhans'kyj, V. ,1991, p. 15).

The discussion of united Europe's projects became much more active after the end of the First World War. The reasons for this were: the growth of economic and political influence of the USA, October Revolution in Russia, post-war devastation and the economic crisis in Europe.

Attempts to provide a practical embodiment to the federal idea were carried out by Pan-European movement whose founder was the Count of Coudenhove-Kalergi, Richard Nikolaus Eijiro. In his works, “Pan-Europe”, “Fight for Pan-Europe”, and others, the idea of the creation of the United States of Europe was promulgated. According to his opinion, the political world was divided into Pan-Americas, Pan-Britain, Pan-Japan and Pan-Russia, which created an urgent need for the formation of Pan-Europe from Portugal to Poland (Poshedina, O.I. (ed.) 2008, p.15). In 1926, the First Pan-European congress was held in Vienna bringing together participants from 24 countries. The congress defined the main directions of the European Confederation's development: the military alliance, formation of a customs union, single currency, cooperation between European and other states within the League of Nations.

At that time, in 1929, the first official propositions on the establishment of a European federation were also expressed, and a well-known plan by the French foreign minister, A. Brian, was made. However, it was never adopted, because fascist and militaristic regimes came to power in a number of European countries.

After the Second World War, there were many supporters of the theory of federalism. They united around the prominent British statesman V. Churchill who became a fierce federalist in the years of the war (the initiative to establish the Anglo-French alliance (1940), the Council of Europe (1943). His speech about the "tragedy of Europe" was acclaimed; pronounced on September 19, 1946 at the University of Zurich, it urged Europeans to end nationalist hostility, and to create the United States of Europe. The practical realization of the European federalism occurred during 1946-1947 through the creation of the Union of European

Federalists, the Socialist Movement for the United States of Europe, the European League for Economic Cooperation.

Analyzing the post-war stage of European integration, it should be noted that the priority was given to the federalist way of consolidation. It is believed that at the forefront of the creation of the European Coal and Steel Community (ECSC) were federalists. Of course, European countries also pursued economic benefits, but at the first stage of integration, the main objective was specifically security achieved through economic cooperation.

The main reasons that prevented the implementation of federalism theory in practice were, first of all, the dogmatic positions of the classical theory of federalism, which did not take into account all the objective factors and preconditions for possible integration development, besides, were detached from real life.

The disadvantage of classical federalism is the idealization of participation and role of supranational structures in building up European integration.

The content of the modern federalist concept conforms to the idea of creating a holistic federation of European states with the federal political structure, but through the gradual, evolutionary integration.

The creation of a fully-fledged federal state with its government, parliament and other attributes of statehood remains the goal of the federalists. However, unlike classical federalism where the initial element is the formation of institutional federal structures, neofederalists focus more on cooperation and joint intergovernmental decisions. The list of supporters of modern federalism from the beginning of the 80th includes A. Etzioni, P. Taylor, and D. de Rougemont, D. Sijansky.

The concept of the so-called "integral" federalism, in which the state is seen as the main reason for the inhibition of the economic progress of society, was developed in the writings of O. Mark, R. Aron, E. Meunier, A. Dandrew, D. de Rougemont. In their opinion, the solution of many economic problems at the national level can occur through the creation of supranational structures that can provide the interests and needs of each state (Panchenko, T.V., 2011, p. 42-43).

The main idea of the concept of "sectoral" federalism lies in the gradual expansion of federal powers in only certain areas, such as socio-economic, technical, health, environmental protection and transport, where more than 80% of issues are resolved on the basis of federal principles. An analysis of the evolution of the European integration shows the gradual extension of federalism principles to areas such as monetary and foreign policy. The transition to the last stage of the formation of the Economic and Monetary Union (EMU) testifies to the evolution of the Community in these matters in accordance with federal scheme.

Modern federalist concepts take into account the requirements and trends of integration processes, they are modernized and characterized by sufficient flexibility of their strategy and the ability to quickly adapt their federal practices.

Disadvantages of modern federalism: federalists do not pay enough attention to the economic factors of integration.

Practical implementation. The pioneer of the idea of European federalism was J. Monnet, who was at the roots of the development of European integration based on the functional principle, but considered the inevitability of the consistent evolution of the integration into federative Europe. Jean Monet's plan was to create a supranational institution authorized to implement a common economic policy for the member states of the ECSC.

The federalist tenets were developed by J. Fischer (German Foreign Minister and Vice Chancellor during 1998-2005). The idea of adopting the European Constitution was born among the supporters of federalism (Initiative of the President of Germany J. Rau and Chancellor G. Schroeder (April 2001); the German Chancellor A. Merkel also shares the federalist views on the EU. The increase in the number of EU members makes the federalism model more effective in deepening of integration, both in the economic and political spheres. Thus, analyzing the European integration, it can be argued that federalism laid the foundations of a united Europe (Merkel had vision, 2012; January, Speech by Joschka Fischer. Confederacy to Federation: Thoughts on the Finality of European Integration, 2000, May 12).

3.2. Functional Theory of European Integration

3.2.1. Traditional Functionalism

The main opponents of the federalists were the supporters of functionalism. Unlike the federalists, the functionalists believed that integration should take start around the economic sphere, and then move on to politics. The founder of the theory of traditional functionalism was a well-known English sociologist D. Mitrany who developed a strategy for creating a stable, permanent peace between states. He described his position in his writings: "A working peace system" (1944), "The prospect of integration: federal or functional" (1965).

Content of the functionalist theory: A functional approach to global politics and European integration policy is focused on the needs of mankind and the growth of well-being, while the status of the nation-state can be disregarded for the sake of achieving these goals. At the same time, the creation of suprastate structures with the respective functions is inevitable.

While federalists believed that European association should be formed on a political basis, the functionalists, in particular Mitrany, argued that such path would inevitably lead to failure. In his opinion, federalism contributes to the domination of the most powerful states in the union. According to the functionalist ideas, the need for technocratic management of the economy and social policy leads to the formation of international functional agencies. The created functional agencies, in turn, is given a control over a certain area of society, which provides economic prosperity, and in the long run evolves into international governments that are more capable of providing the welfare of citizens than national governments (Mitrany, D.A., 1995, p. 56-57; Chuzhykov, V. I., 2005, p.150). Cooperation and interaction were crucial in the issues of socio-economic nature, the solving of which is relevant to all states, and therefore, to a certain extent, can objectively be a unifying element.

Practical implementation. J. Monet's plan became a coalescence of both federalist and neo-functionalist theories. At the heart of the creation of the ECSC was the idea of the sectoral integration of Mitrany, which was adopted by the French government. The signing of the Rome Treaty in 1957 marked a new stage in the evolution of functionalism.

Disadvantages of functionalism: idealism, naivety, inability to predict and insufficient scientific substantiation, excessive technocraticism.

3.2.2. Neofunctionalism

One of the most common concepts of European integration is neofunctionalism, the theoretical basis of which has become traditional functionalism.

Neofunctionalism is a theory of managed integration at the regional level, which puts forward the aspiration for political cooperation, but through economic collaboration.

Neofunctionalism differed by the fundamental novelty of its tasks. And the most significant difference from classical functionalism was the fact that politics was put in front of economy. In this aspect, neofunctionalism is somewhat closer to the position of classical federalism on the subject of supranational structures. The only difference was that neo-functionalism regards it not as an integration necessity, but as the integration itself with the central institutions of the integration alliance (Kopijka, V.V. and Shynkarenko, T.I. , 2012).

The main fundamentals of the theory of neofunctionalism were developed in the late 50-ies of XX century by a well-known American political scientist, professor at the University of California, E. Haas. The further development of neofunctionalism and the improvement of its dogma are connected with the names of well-known theorists: F. Schmitter, L. Lindberg, S. Shinegold, P. Taylor (Tregub, O.I., 2013; Haas, E., 1968; Lindberg, L.N. and Scheingold, S.A., 1970).

In the early papers, "The Dynamics of International Relations" (1956), "The Uniting of Europe: Political, Social and Economic Forces" (1958), written under the influence of the real success of the Western European integration process, Haas laid down the basic principles of the neofunctional approach to regional integration (Haas, E., 1968):

1) "curve of cooperation experience" between countries: the experience of cooperation in the policy of "lower" areas (coal, steel industry) contributes to the development of cooperation in the "higher" (foreign, defense policy) sectors;

2) the supranational and political nature of the integration process: integration transcends the economic boundaries of cooperation straight into a political sphere;

3) the key element of the model is the concept of "spillover": constant gradual expansion of influence on adjacent areas of public life, cooperation passing from one sphere to another; manifested in functional, political, cultivated and geographical "spillovers";

4) important role of national governments is recognized.

One of the achievements of Haas was a detailed study of the preconditions of integration (general economic interests, similarity of economic systems, etc.), while other theories did not consider this aspect:

The institutional crisis of 1965 in the Community policy demonstrated gaps in neo-functionalism. Instigated by followers of the neo-functionalist concepts, such as L. Lindberg, S. Shinegold, F. Schmitter, major changes in the theory of neofunctionalism occurred in the late 60's and related primarily to "spillovers". "Spillovers" not only lost its automatic character, but also limited the scope of application and range of the main players.

L. Lindberg and F. Schmitter acknowledged that with the development of integration processes, the complication of their nature and the elaboration of tasks, conflicts that were previously proclaimed as a temporary phenomena would not decrease, but, on the contrary, would probably grow as they are intrinsically peculiar to the development of the EU and its political integration; the settlement of these conflicts can be called "the essence of integration dynamics." It is during the search for a compromise that the parties develop common approaches and formulate a coherent policy on questions of common interest (Lindberg, L.N. and Scheingold, S.A., 1970).

Starting from the '70s, supporters of neo-functionalism considered the external factor as one of the central components of the development of integration. J. Nye, American political scientist, was one of the first, who revealed the influence of an external factor on the integration process through the concept of "active" and "passive" external factors that promote regional integration. The neo-functionalist concept of the externalization of F. Schmitter, who introduced the concept of "externalism" that embraced both favorable and negative external factors of influence on integration processes, became prominent. In his view, integration may lead to a negative reaction from non-member states, which, in turn, may force the regional group to move to new forms of cooperation. Some third countries may apply for membership, associate membership or simply trade relations with the EU on a contractual basis to reduce the negative impact on their economies. Thus, functional "spillover" acted as a stimulating factor in Europe, on which other countries was oriented, assessing the benefits and losses from non-membership in the EU.

Practical implementation. The theory of neofunctionalism was proven to be universal. The political "spillovers" were intended to create a supranational government whose representatives would be independent of national governments and could objectively direct the further process of European integration. In April 1965, the Brussels Treaty was signed on the institutional merger of the executive bodies of the ECSC, the EEC and Euratom, thus creating a political foundation for further European integration.

Cultivated "spillovers" contributed to the development of common policies, the creation of specialized agencies and common European symbols. Eventually, the geographical "spillovers" are connected with the territorial expansion of the European Union. However, differences in the key positions in decision-making that arose after the first expansion showed the disadvantages of the neo-functionalist theory (Tregub, O.I., 2013, p. 151).

The enlargement process showed that neo-functionalism underestimates the national dimension and the growing role of national governments in the EU, with no clear predictability of the prospects for integration.

3.3. Communication Theory

The founder of the *communication theory* was the American political scientist K. Deutsch, who suggested that intergovernmental integration is aimed, first of all, at creating a common security space for a group of states that have reached a certain level of development, and their relations are based on mutual preferences, trust, collective consciousness, mutual respect, as well as the establishment of institutions and practices to ensure "peaceful change" among the population (Gorjunova, Je.O., 2013). K. Deutsch's communication theory was one of the first integration theories which, beyond the growing popularity of supranational approaches, recognized the viability of the national state and its role in contemporary international life (Deutsch, K., 1953p., p. 16).

The theory of communications (transactionalism) – the theory of integration, which explains processes of unification by presence of active communicative links between them.

The claim that the sense of community between states depends on the establishment of a network of relationships is confirmed by the experience of the European Communities. Furthermore, this experience also shows that the institutional structure is developed before the informal relations and, accordingly, the spirit of the community necessary for effective multinational integration. K. Deutsch considers integration primarily as an opportunity to ensure peaceful coexistence of states through such measures as trade expansion, free movement of people, development of cultural exchange, political consultations, etc.

Proponents of this theory believe that in a competitive struggle to defend its interests, it is easier for a state to be in an alliance with other countries. However, such coalition between states, above all, depends on the level of communication between the parties, on the number of different connections in society (transactions), through which a sense of community and trust is formed. That is, communication helps to create relations between states that minimizes the risks of war and other conflicts and promotes the creation of a common safe space.

The most important achievement of this theory is that it takes into account socio-psychological and socio-cultural aspects in shaping communities that form the harmony of social and cultural values, communication features. Thus, transactionalism demonstrates the dependence of the depth of an integration process on the level of trust between the participants, which is formed through social interaction. However, this theory is not yet fully implemented in practice, especially in the field of security.

3.4. Liberal Intergovernmentalism

With the development of the European integration and the process of enlargement, the conflict of interests between the member states becomes more salient, first of all, due to the reluctance to get rid of its own national sovereignty in favor of the Community. The most well-known integration theory defending the need to preserve national sovereignty is *intergovernmentalism.* According to it, member states are a more important factor for the development of the European Community than its institutions.

Intergovernmental approach – the theory that considers an active interaction between national states carried out by the national governments to be the basis of the integration process.

The list of adherents of intergovernmentalism includes the British political scientists A. Milward and H. Wallace, the Anglo-German philosopher, political scientist R. Dahrendorf, the American researchers S. Hoffmann and E. Moravchik (Ovcharenko, N., 2014).

R. Dahrendorf and H. Wallace diverged from assumptions about the supranational future of Europe. The state is perceived as the central subject of the integration process, and all interactions during the convergence of economies and policies are carried out through intergovernmental channels. Non-governmental subjects, transnational relations and supranational bodies do not play a significant role. Integration is directed and regulated through the foreign policy of national states. Based on real facts, they came to the conclusion that since 1965, European integration has steadily evolved along the trajectory of intergovernmental cooperation. Particularly, the role of the states increased with the accession of Great Britain, Ireland and Denmark to the Community in 1973. The governments of these states expressed a clear position about the lack of intentions to disregard their sovereignty in favor of the Community, while the method of intergovernmental cooperation has become the dominant method of decision-making in the European institutions.

The most thorough and detailed intergovernmental approach to studying of European integration was laid out in the works of S. Hoffmann. While recognizing that the governments of the states are the main agents of foreign and domestic policies, S. Hoffman did not deny the importance of other players in decision-making (Hoffmann, S., 1998, p. 6.)

One of the new and improved theories was the liberal intergovernmentalism of E. Moravchik. At the heart of this theory is the assumption of the rationality of the state: the main interest of any government is the maintenance of their own power. For this purpose, some of the national interests of the state are imposed on the international level:

governments have to take into account the conditions of the international community. The basis of the process of developing EU policies is interstate negotiations. The positions of supranational institutions by itself are weak and dependent on changing national interests and play an ancillary role. E. Moravchik described the experience of the EU development in the 1990s as "the successful development of an intergovernmental system designed to regulate economic interdependence through negotiation and political coordination."

In particular, it is impossible to explain the phenomenon of supranational legislation, which makes it feasible to force member states to comply with communitarian norms, by intergovernmental approach (Khomutenko L.I. and Khomutenko A.V. , 2019).

However, the main advantage of this approach is that it made it possible to reveal some exaggerations of other concepts and their tendency for wishful thinking.

3.5. Theories of Regional Integration

In the middle of the twentieth century, theory of regional integration permeated through scientific circles. The researchers focused on issues of international trade, customs unions, international investment as factors of efficiency and maximization of welfare of countries involved in the system of economic integration. The most well-known researchers of the problems of economic integration are J. Viner, J. Mead, R. Lipsey, J. Tinbergen, B. Balassa, G. Myrdal, and others.

Researchers of the integration aim at assessing the processes taking place on the market of goods and services, as well as the factors of production, leaving aside institutional and political factors of integration and considering, first of all, the socio-economic consequences of this process.

The theory of the customs union, analyzing the market of goods, seeks to reveal the socio-economic implications in terms of the development of trade, its diversification, and the terms of trade. The most complete justification for the theory was made by J. Viner in the "The Customs Union issue", who analyzed the effectiveness of the activities of customs unions and their influence on the development of the national economy.

The attempt to determine the effect of European integration was made in the 1970s by the Dutch economist J. Tinbergen, who distinguished between "negative" and "positive" integration. It was the latter that followed the idea of the phasing out of customs barriers, the adoption of relevant laws and the creation of institutions (supranational structures), which then transformed into the main postulates of the theory of European institutionalism (Rosamond, B., 2000).

A special contribution to the systematization of the main stages of the development of regional economic integration was made by Hungarian researcher B. Balassa in the well-known work “The Theory of Economic Integration” (1961), which proposed the following forms: free trade area, customs union, common market, currency union and political union. In his writings, Balassa considers integration as a process and a state of the economy. Integration is based on measures of elimination of discrimination between economic entities belonging to different nations.

Considering the diversity of concepts of the economic essence of international integration, it should be noted that an important impetus for its practical implementation is the desire of countries to have a higher level of economic development.

3.6. Modern Concepts and Models of European Integration

The emergence of new integration theories is due to the influence of two factors: existing theories do not fully cover all integrational interactions; in the late XX – early XXI century the circle of international subjects, the degree of their interaction and interdependence considerably expanded.

Institutionalism is a theory which considers the efficiency of the work of supranational institutions to be a guarantee of the successful integration of states.

Institutionalism emphasizes both the institutions and the mechanisms of their work: decision-making procedures, peculiarities of intergovernmental interaction on the formal and informal levels, and also takes into account the role of legal norms in the processes of integration. Institutionalism comprises historical institutionalism, sociological institutionalism and institutionalism of rational choice.

Many of the phenomena that are taking place in the EU are explained through the lenses of the institutional approach, but they do not provide answers to fundamental questions and cannot explain the very phenomenon of the EU. Therefore, the approach is more appropriate to consider as a method of analysis, rather than a theory.

Multilevel governance. The concept of "multilevel governance" (authors G. Marx, C. Blank, B. Kohler-Koch, L. Hug), which was formed in the 90's of the XX century and is directly related to the modernization of supranational institutions, is the most modern among economic-oriented concepts. In the EU, decisions are made and implemented at three levels: supranational, national, and subnational (regional), hence, the name –

"multilevel governance". As a result, within the EU, a system characterized by a network of actors participating in the decision-making process was formed, dividing the political activities between different levels of government.

Models of European Integration. European integration covers two basic vectors – deepening and broadening, which involves the formation of a differentiated approach to the participation of member countries in European integration. During the 90s of the XX century, three schools of thought on the correlation of processes of deepening and enlargement of the EU was formed, which are connected with the foreign policy interests of the three leading states of the community – Great Britain, France and Germany.

The British school insisted on further enlargement of the European Union by embracing the countries of Central and Eastern Europe (CEE) in order to overcome the split in Europe, which was laid down by the Yalta-Potsdam international system. The school's supporters believe that the financial and political costs caused by the inclusion of these countries in the EU are fully justified, as enlargement is intended to help stabilize economic and political transformations in the countries of the CEE, and the EU itself will be able to influence the further development of these states. Therefore, for Britain, the formula "expansion instead of deepening" was fundamental, which would help it to maintain its influence in the EU (Tinbergen, J., 1954).

The French school, on the contrary, aims to further deepen the integration without enlargement. The theoreticians of this course believe that the primary task for the EU is to create a strong political and economic union within existing boundaries. Therefore, not enlargement, but close cooperation and assistance to candidate countries within defined programs and instruments (European Neighborhood Policy, Association Agreements, etc.) should be the basis for EU policy on bordering countries.

The German school tried to combine the problems of enlargement and deepening, arguing that the deepening of integration is a process inseparably linked to enlargement, that is, it is a kind of way for enlargement.

On the basis of a differentiated approach to the integration and achievements of the three schools, five models of European integration were developed, within which attempts were made to harmonize the expansion and deepening of integration processes”: simultaneous development of several organizations, partial membership, "flexible Europe", "Europe of concentric circles", "Europe of the core".

Thus, the main direction of the development of the EU in the past and at the present stage is the optimal combination of political, economic and social progress, which is reflected in European integration theories.

End-of-Chapter Questions and Tasks

1. Describe the main political projects of European unification of the XIV-XIX centuries.
2. Carry out a comparative analysis of the main theories of European integration, assess the consequences of their practical implementation.
3. Name the shortcomings of classical federalism and the main reasons that hindered the implementation of federalism theory in practice.
4. What is the essence of the concept of “integral” federalism?
5. Identify the main features of federalism in the interwar period.
6. Schematically describe the common and distinctive features of federalism, functionalism and neo-functionalism.
7. What is the essence of Pan-European movement.
8. Describe the ideas of D. Mitrani on European integration.
9. Name the main scientific works of E. Haas and describe his vision of European unification.
10. What is the essence of the concept of "spillovers"?
11. Compare the approaches of L. Lindberg and S. Sheingold to European integration.
12. Describe new theoretical approaches of neofunctionalism concept of European integration
13. What is the essence of the theory of intergovernmentalism?
14. Identify the main features of each of the directions of institutionalism.
15. Give examples of integration models that allow to simultaneously implement the processes of expanding and deepening of integration.

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CHAPTER 4. ENLARGEMENT POLICY OF THE EUROPEAN UNION

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 (Marekha, 2017).

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.

Let's take a closer look at the history of the European integration. It includes seven ways (Marekha, 2017).

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"

(European Union, n.d.).

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" (European Union, n.d.).

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 (European Union, n.d.).

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 (European Union, n.d.).

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 (European Union, n.d.).

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 (European Union, n.d.).

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. (European Union, n.d.).

4.2. Joining the European Union

The European Union is a unique economic and political union between 27 European countries. A brief description of each country is shown in Appendix 1. Once an applicant country meets the conditions for membership, it must implement EU rules and regulations in all areas.

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 (Marekha, 2017):

- 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 (Marekha, 2017):

- 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 (Emmert and Petrovi, 2014). These common EU rules, represented in the Table 4.1, are divided into 35 different policy fields (chapters) to be negotiated.

Table 4.1 – Negotiated policy fields (Marekha, 2017)

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

Continuation of the Table 4.1

1	2	3
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
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 for participation in the common fisheries policy, which covers market policy, resource and fleet management, inspection and control, 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

Continuation of the Table 4.1

1	2	3
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
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

Continuation of the Table 4.1

1	2	3
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
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 (Marekha, 2017):

- 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 (European Union, n.d.):

- Albania;
- Montenegro;
- Serbia;
- the North 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 (European Union, n.d.):

- 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 (Marekha, 2017).

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 (Fontaine, 2010; Timeline, n.d.).

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 (Communication, 2005).

On the 23rd of June 2016, citizens of the United Kingdom voted in favour to leave the European Union. 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. On the 31st of January, 2020, the United Kingdom of Great Britain left the EU officially.

End-of-Chapter Tasks

1. Identify the most considerable contributors 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.

Recommended Literature

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CHAPTER 5. ABOUT THE EUROZONE

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 (Corden, 1972).

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 27 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 (Marekha, 2017).

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 (Eurozone, n.d.). The euro is the most tangible proof of European integration – the common currency in 19 out of 27 EU countries and used by 338.6 million people every day (European Union, n.d.). 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. *Country with an opt-out* is Denmark.

So, all EU Member States, except Denmark, 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 (Marekha, 2017).

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 (Marekha, 2017).

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 (European Union, n.d.):

- 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 (European Union, n.d.)

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 % 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 % 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 (European Union, n.d.).

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 (Marekha, 2017):

- 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 (Marekha, 2017).

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. The fixed euro conversion rates are shown in the Table 5.2.

Table 5.2 – Fixed euro conversion rates (European Central Bank, n.d.)

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 (European Commission, n.d.):

- 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 (Marekha, 2017).

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 (European Central Bank, n.d.).

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 (Marekha, 2017).

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 (Marekha, 2017).

The euro as an official currency is used in the following regions (European Commission, n.d.):

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 (European Central Bank, n.d.):

- 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 (European Commission, n.d.):

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 (Marekha, 2017).

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 (European Union, n.d.).

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" (European Central Bank, n.d.).

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 " (European Central Bank, n.d.):

- 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 (Marekha, 2017):

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 (Akrani, n.d.). 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 (Akrani, n.d.). 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 (European Union, n.d.).

*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 (Treaty, n.d.). 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 (European Central Bank, n.d.).

*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 (European Central Bank, n.d.).

*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 (European Central Bank, n.d.):

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 (European Central Bank, n.d.):

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.

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.

Recommended Literature

1. Milward, A. (2002) The European Rescue of the Nation-state. Cambridge University Press, Cambridge, 520 p.

2. Lapavitsas, C. (2012). Crisis in the Eurozone. Verso, 268 p.

3. Cardinale, I., Coffman, D., Scazzieri, R. (2017). The political economy of the Eurozone. Cambridge, 210 p.

4. Koyama, Y. (2016). The Eurozone enlargement: prospect of new EU Member States for euro adoption. Niigata University, Japan, 223 p.

6. HOW THE EUROPEAN UNION WORKS

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 (Marekha, 2017). It consists of 705 members (MEPs) who represent the interests over 440 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 (European Parliament, n.d.):

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. The distribution of seats in the EP is represented in the Table 6.1.

Table 6.1 – Distribution of the seats in the European Parliament (The European Parliament, 2020)

Country	Seats	Country	Seats
Belgium	21	Lithuania	11
Bulgaria	17	Luxembourg	6
Czech Republic	21	Hungary	21
Denmark	14	Malta	6
Germany	96	Netherlands	29
Estonia	7	Austria	19
Ireland	13	Poland	52
Greece	21	Portugal	21
Spain	59	Romania	33
France	79	Slovenia	8
Croatia	12	Slovakia	14
Italy	76	Finland	14
Cyprus	6	Sweden	21
Latvia	8	Total	705

Members of the European Parliament are grouped by political affiliation, not by nationality. Parliament’s work comprises two main stages (Marekha, 2017):

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 (The European Parliament, 2020, p. 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) (The European Parliament, 2020, p. 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 (Marekha, 2017).

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) (European Union, n.d.).

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 (Marekha, 2017).

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. 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 (The European Parliament, 2020, p. 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 (European Union, n.d.).

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 (Marekha, 2017).

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 27 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 (Marekha, 2017).

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 (European Union, n.d.):

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 (European Commission, n.d.).

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 (Functions, n.d.).

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 7.17.

Table 6.2 – Departments of the European Commission (European Commission, n.d.)

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
External relations	Trade
	International Cooperation and Development
	Migration and Home Affairs
	Service for Foreign Policy Instruments
	European Civil Protection and Humanitarian Aid Operations
	European Neighbourhood Policy and Enlargement Negotiations
Services	Eurostat – European Statistics
	Communication
	Historical Archives Services
	Informatics

Continuation of the Table 6.2

1	*2*
	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 (Marekha, 2017).

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 (European Council, n.d.).

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 (Marekha, 2017).

The functions of the European Council are as follows (European Union, n.d.):

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 (Marekha, 2017).

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 (European Council, n.d.).

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 (European Union, n.d.):

- 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 (Marekha, 2017).

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 (European Union, n.d.).

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 (Council of the EU, n.d.):

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 (European Union, n.d.):

- 55% of countries (15 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 (Marekha, 2017).

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

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.

Recommended Literature

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CHAPTER 7. CONTRACT LAW SYSTEM OF THE EUROPEAN UNION

7.1. Concept, Sources and Structure of the European Law

Undeniably, there is a rule of law in the European Union, in the interests of which Member States are increasingly restricting their sovereign rights. The law of the EU forms a certain unitary integrity, separated from the national legal systems and international law equally and thus forms a supranational legal system and a legal culture on the pan-European level. The EU law constitutes an organized and structured system of legal norms, with its sources, its own institutions, procedures for creation, interpretation and application, creating a kind of conglomeration of the norms of Member States and international norms, and has a special legal nature that separates it from international intergovernmental organizations and from the states. The law of the EU is a unique legal system in the world, functioning in parallel with the legislation of the Member States of the European Union.

In terms of terminology, "European Union law" is now used to define, in a narrow sense, all the legal norms within the Union, and in a broader – all legal concepts, categories, principles, and legal practices developed during the existence of the EU. To define EU law in the broad sense, the specific French term "acquis" is currently used, meaning the legislative developments of the European Union. It is worth paying attention to this term: among other things, it means "acquired", "that which was acquired". It is thus emphasized that the EU law is granted to the supranational institute by the Member States. Applicant countries are required to adhere to the acquis fully before the date of accession to the EU (Gerdegen, M., 2008).

The EU law system is constantly changing. Changes made to the legal status, organization and functioning of the EU are crucial. From 1993 to 2010, the legal system, which was laid down by the Maastricht Treaty, was based on the three pillars, which defined the areas of competence, and mainly differed in the nature of decision-making. The Maastricht Treaty distinguishes between the socio-economic sector (internal market, in particular labor conditions and consumer safety, competition policy, economic and monetary policy, trade policy, agriculture, fisheries, etc.) where the Communities were dominant (ECO, EEC, Euratom) (I pillar), the directions of political activity formed a common foreign and security policy (II pillar), as well as cooperation in the field of justice and home affairs (III pillar), with prevailing rules of intergovernmental cooperation.

Since December 2009, the Lisbon Treaty introduced a number of changes and innovations to the legal framework of the EU. If up until that time the European Community, its institutions, the presiding country had acted on behalf of the European Union, and the Union itself remained roughly a virtual entity, then afterwards, in accordance with the Lisbon Treaty, the EU was endowed with international and internal legal identity and replaced all its former components, absorbing them. The categorization into the so-called "three pillars" in a sense lost relevance. The Union replaced the European Community and became its successor (Article 46a of the Lisbon Treaty). The EU's acquisition of international legal identity means that it is able to enter into international treaties on its own behalf in all areas of its competence. Throughout the text of all the central treaties, the name "Community" was replaced by the word "Union". The Treaty establishing the European Community was renamed into the Treaty on the Functioning of the European Union. The Lisbon Treaty defined the following assignment of tasks after 2007:

1. Areas in which the EU independently makes decisions are called "Community competence" or "exclusive competence".
2. For the second group of tasks that are shared between the EU and Member States, the term "joint competence" is used.
3. The third group, when national or regional governments make their own decision, was called "supportive competence".

In accordance with such division of legal responsibility between supranational and national systems, the EU law institutes do not fully cover legal relationships in various spheres of legal regulation, but only supplement the respective branches of national law of the Member States.

The scope of EU law covers:

- sphere of economic relations (creation of a common market, economic and monetary union);
- common economic policies (agriculture, trade, transport, environmental protection, competitiion, anti-dumping);
- social policy (employment, social security, education, etc.);
- common foreign and security policies;
- police and judicial cooperation in criminal law (institutionalization of cooperation in the fight against organized crime and terrorism);
- freedom, democracy and the rule of law;
- improvement of the institutional structure of the Community.

Given the specifics of the organization and competences of the EU in the system of law, the following complex areas and institutes are distinguished. The EU law includes: a set of legal rules that define the legal status of the Union; regulation of the domestic market; commercial law; competition; protection of the environment; public procurement; labor law; international relations, etc.

As for the institutes of law of the European Union, we can distinguish two kinds. First, it is the institutes that are general to the entire EU system of law. These include recognition, succession and responsibility. Furthermore, separate institutions are formed in every field of law of the European Union. Within the legal framework of the internal market, there are such institutions as freedom of movement of goods, free movement of people, freedom of economic activity and provision of services, free movement of capital.

Principles and characteristic features of European law *(*Petrova, R. A., 2011).

The principles of the European Union's law are enshrined in the founding treaties, as well as in the rulings of the European Court, based on which the legal system of the EU must function and develop.

The supremacy of EU law principle means that the legal rules that are part of the European law have priority over the rules laid down in the legislation of the individual Member States. This principle covers not only the founding treaties of the EU, but also all other EU legislative acts (regulations, directives, decrees).

The principle of direct action means mandatory applicability of EU law throughout the territory of the EU and with regard to all subjects of European law. This means that EU law is binding on all Member States, EU institutions, as well as individuals and legal entities under the jurisdiction of the Member States. In other words, any EU citizen at any national court hearing can refer to the germane EU law.

Independence of European law. Member States, having created the Community, limited their legislative activity and, as a result, allowed the creation of a legal order independent of national and international legal systems. This procedure is equally binding on all Member States and their citizens.

Primacy over national law. The primacy of Community law over the national law of the member states governs how to behave in the event of a conflict between the rule of national law and Community law. In such circumstances, Community law has precedence over national norms.

Immediate application of law means that Community law takes a direct effect in member countries without the need for their ratification or incorporation into national law.

The principle of equality (prohibition of discrimination) means that no EU citizen can be discriminated against on grounds of nationality, racial origin, ethnic origin, religious beliefs, physical or mental disadvantages, as well as age or sexual orientation.

The principle of subsidiarity defines the division of powers between

Member States and the Community. With regard to relations between the EU and the Member States, the subsidiarity principle allows the Community to be granted powers necessary to resolve issues beyond national borders. The Community thus has the ability to rely on the legal acts and actions of the Member States, while Member States can, in their turn, rely on EU acts and actions that enable them to solve problems without waiting for new legal acts to be adopted.

Sources of law of the European Union

The foundations of the whole legal system of the Union, on which the whole complex of legal relations is based, are the sources of EU law. Most European researchers recognize two sources of the EU law – primary (or main) and secondary. There are also opinions on adding another type to this classification under the name of "supplementary" (case law and other sources of law).

The primary law of the EU encompasses founding treaties that play the role of main laws and solemnly referred to as the "constitution" of the Communities.

The founding treaties are the Paris Treaty establishing the ECSC of 1951 and the two Roman Treaties of 1957 on the EEC and Euratom, as well as the Treaty on European Union (amended and supplemented Maastricht Treaty on the European Union, 1992).

The primary law also includes treaties that make significant changes and additions to the founding treaties, together with all annexes, protocols, declarations and other supporting documents: the Single European Act of 1987, the Maastricht Treaty of 1992, the Amsterdam Treaty of 1997, the Nice Treaty of 2001, the Lisbon Treaty of 2007.

Moreover, the primary act of law comprehended the Convention on Mutual Institutions and the Merger Treaty of 1965, the decision to hold direct elections to the European Parliament in 1976 (in accordance with Article 9 of the Amsterdam Treaty integrated into the articles of the Treaty on the establishment of the European Community).

Moreover, constituent acts include all treaties on the accession of new states to the Communities and the European Union (Beschastnyy, et el., 2011).

Secondary, or derivative, EU law is a set of legal acts developed by supranational institutions in order to implement the provisions of the EU Treaties.

The classification of secondary sources of EU law is given in Table 7.1.

Table 7.1 – Classification of secondary sources of EU law

Standard acts	• resolutions; • directives; • decisions; • recommendations, opinions
Nonstandard acts	• acts on work of institutions; • decisions of the Council of the EU or the European Parliament, decisions of the Court of Justice of the European Union and the European Council; • Associate Membership Agreements; • general declarations and inter-institutional agreements;
Institutional acts	• acts of appointment; • White paper; • Green paper.

Supplementary sources of EU law are used mainly to assist the interpretation of EU law, enshrined in the main sources. These include the EU Court of Justice rulings and the general principles of law. The EU Court is not limited to the role of the EU law enforcement agency but creates a large system of Community law, which is a precedent law that complements and develops both primary and secondary EU law. Formally, the precedent rules have not been established, but there is a general consensus that the precedents of the EU courts are an important source of law.

Other EU law sources of intergovernmental cooperation include joint strategies, joint actions, positions on a common foreign policy and security policy (CFSP); framework decisions, rulings, agreements in the field of police and judicial cooperation in the field of criminal law.

Thus, the special nature of the law of the European Union also manifests itself in the diversity of its sources and the procedures of their adoption. The European Union's own sources of law complement the sources of international law and domestic law of the EU member states.

7.2. The Single European Act

The EU Intergovernmental Conference at the end of 1985 in Luxembourg adopted the document, the Single European Act (SEA), which for the first time in the history of the Community introduced amendments and additions to its legal foundation – the Treaty of Rome. The approved document contained a broad program of Community actions for the coming years covering various spheres of integration, from the creation of a single market of member countries and the "technological community" to the European foreign policy cooperation. The adoption of the SEA marked the solution to a number of problematic issues.

The SEA came into force on 1 July 1987 after ratification by national parliaments.

Main provisions of the Single European Act:

1. The legal basis of the European Community integration policy was consolidated and secured, and its institutional structure was further developed. The act legitimated the new Community institution – the European Council, which took the highest place in the Community management system. If previously, co-operation was conducted informally within the framework of the European Council, after 1986 it was for the first time to receive the legislative ground. A new legislative procedure for cooperation was launched, which expanded the powers of the European Parliament.

2. The SEA made an important strategic decision to establish, by December 31, 1992, "space without internal borders", the completion of the formation of a single internal market for goods, services, capital and labor. The notion of a "single internal market" replaced the previous notion of a "common market". The customs and tax barriers still remaining at that time was supposed to be eliminated, while legislation on direct and indirect taxation harmonized (The Single European Act., 1986).

3. The SEA recommenced the idea of the Economic and Monetary Union (EMU), which failed to implement in the 70's. The achievements of the European Monetary System, which provided a fairly high level of stability of Western European currencies, contributed to the restoration of the Economic and Monetary Union creation process in 1987.

4. The Community's research and technological policy was prioritized. Thus, the technological policy of the EEC for the first time obtained the legislative ground in the form of a special article in the Treaty of Rome.

5. Innovative provisions were those of the SEA on social policy, environmental protection and energy.

6. The principle of solidarity – the economic and social cohesion of the European Community (assistance to poorer regions and countries of the Community) is defined. The growth of economic and social unity between different countries and regions of the Community was achieved through reform and financial support of structural funds.

The SEA was a prominent event on the path to European integration, which outlined the strategic course and practical policy of the European Community for the future. The implementation of the provisions of the SEA created the prerequisites for the transition of European integration processes to the next important stage, initiated by the conclusion of the Maastricht Treaty.

7.3. Maastricht Treaty on the European Union

The Maastricht Treaty was of great importance in terms of both political and economic unity of the European states. ***The Treaty on the European Union (EU), signed in Maastricht on February 7, 1992, came into force on November 1, 1993***, after ratification by national parliaments.

The main provisions of the Maastricht Treaty:

1. The EU Treaty approved the tripartite structure of the EU, which included the creation of a Union based on the European Communities (the name of the European Economic Community was replaced by the European Community) supplemented by the policies and forms of cooperation introduced by the new Treaty: Common Foreign and Security Policy (CFSP) and cooperation in Justice and Home Affairs. The fact that the concept of "European Union" turned from the symbol into a legally established formula was of great significance. The European Union itself did not have a status of a legal entity, but the Communities had it, which are independent legal entities with independent competence, independent from the Member States (Pravo Yevropeysʹkoho Soyuzu, 1992)
2. The Treaty has deepened the Community's activities in the field of environmental protection, research and technological development; it expanded EU powers in areas such as industry, healthcare, trans-European networks, consumer protection, culture, education and vocational training.
3. The treaty paid significant attention to the policy of economic and social cohesion, established the advisory body, European Committee of the Regions, and also provided for the establishment of a Cohesion Fund aimed at supporting the programs of economic convergence of the poorest EU countries.
4. The Maastricht Treaty facilitated further economic and social progress through the creation of an area without internal frontiers, the introduction of the Economic and Monetary Union (EMU) and the emission of a single European currency within the EU. To this end, the contract established a program and a timetable for the implementation of the EMU.
5. The Treaty established institute of citizenship of the European Union, which, in accordance with the Treaty, complemented national citizenship and guaranteed the freedom of movement and residence on the territory of the Member States to every citizen of the Union.
6. The contract reasserted and modified the Community's institutional system. The biggest changes were related to the functioning of the European Parliament, which was entitled not only to act as an advisory body, but also to expand the legislative powers and control, in particular in the budgetary sphere.

7. The Maastricht Treaty introduced the fifth institute of the Community, the European Court of Auditors, in 1975, which contributed to the democratization of the EU's institutional system.

8. The Maastricht Treaty defined the principle of subsidiarity as a fundamental principle of the functioning of the EU (Article 5 of the Treaty).

9. The Treaty formulated legal concepts in the field of CFSP. It defined goals and main directions in which joint actions were applicable: the OSCE; maintaining peace and strengthening international security, supporting international cooperation, developing and consolidating democracy, as well as legitimate governments, and respect for human rights and fundamental freedoms, the development, control and non-proliferation of nuclear weapons; economic aspects of security (control over transfers of military technology to non-member countries; control of arms export).

10. The provisions on cooperation in the field of justice and home affairs were introduced. First and foremost, they concerned the problems connected with the development of "Europe without borders": protection of the EU's external borders, immigration policy, legal cooperation, cooperation of law enforcement agencies in the fight against corruption, drug trafficking, trafficking of human beings, arms trafficking, international crime, terrorism, etc. In order to combat these phenomena, the European Police Office (Europol) was organized.

At the same time, the creation of the European Union significantly increased the heterogeneity of the association. The Maastricht Treaty determined that decisions taken within the framework of the second and third pillars of the European Union are binding on the Member States, but they are not directly applicable and are not subject to jurisdictional control by the EU Court. They are binding on the states that have taken these decisions, and not by all members of the European Union.

However, there were certain gaps in the Maastricht Treaty. Although it defined in detail the chronological limits and content of the stages of the establishment of the EMU, it did not contain clear provisions on the issues and definition of a political union. The nature of the EU-NATO relationship was also unclear (Treaty of Maastricht on European Union., 2018, March 21).

Great Britain made a reservation that freed her from participating in the third phase of the EMU, refused to join the Community action program in the social sphere, and became the only member to refuse signing the Social Policy Agreements adopted in Maastricht. As a whole, the Maastricht Treaty was considered by its participants as a framework document, which needed further specification, additions and harmonization.

The entry into force of the Maastricht Treaty marked the beginning of a new stage in the development of European integration through consolidation into a united political, economic and monetary union of European states.

7.4. Treaty of Amsterdam

Since the mid-1990s, the EU has become aware of the need to revise the provisions of the Maastricht Treaty, in connection with the changes that have taken place in the world, and in particular in Europe. The collapse of the socialist system, economic and social changes in the post-socialist countries, and their desire to become members of a united Europe, forced the EU to develop a strategy for the future. In addition, the problems in the EU itself: the lack of common views among Member States on the development of the EMU, the common social policy, the strategy and the framework for political cooperation, the development of an updated decision-making mechanism within the EU created the prerequisites for revision of the Maastricht Treaty.

The final draft of the ***Treaty of Amsterdam*** was ***approved on October 2, 1997 and came into force on May 1, 1999***, after ratification by the Member States of the EU.

Basic provisions of the Treaty of Amsterdam:

1. The Treaty introduced amendments to the EU institutional framework. The mandate of the chairman of the Commission and the legislative powers of the European Parliament were broadened: its role in the formation of the European Commission was incremented, the procedure for the adoption of a joint decision was changed, except for issues concerning the EMU. The Treaty increased transparency in the decision-making process of the European Union, introduced the notion of publicity, which provided for open access of citizens and public associations to the legislative documentation of European institutions, which reduced the perceived distance between them and citizens (8 The Amsterdam treaty: a comprehensive guide).

The Treaty of Amsterdam has expanded the scope within which the Economic and Social Committee was entitled to provide consultations, besides, it expanded the social field of the Committee of the Regions.

2. The Treaty paid considerable attention to the strengthening of the CFSP mechanism. It introduced provisions on the active, unconditional, loyal and solidary support of the Member States for the common policy of the Union. The main objectives of the EU are: preservation of peace and bolstering international security, protection of common values, fundamental interests, independence and integration of the Union in accordance with the

principles of the UN Charter; support of international cooperation; development and consolidation of democracy, respect for human rights and fundamental freedoms. The Treaty contained new provisions aimed at strengthening the mechanism of the CFSP: Member States abstaining from voting are not bound to comply with the decision, but agree that the decision taken concerns the entire Union. If more than one third of a qualified majority abstains from voting, the decision shall not be taken. A new post of High Representative of the CFSP was introduced.

3. The Treaty of Amsterdam consolidated the protection of human rights and freedoms by providing for sanctions against Member States that violated the fundamental principles of freedom and democracy (EU basic principles), up to their expulsion from the Union. It also defined the mechanism for ensuring protection against discrimination in any form of expression.

4. The Amsterdam Treaty has expanded the scope of the EU's social policy, while The Maastricht Treaty did not contain a section on social policy. In fact, the Agreement on Social Policy was signed by all countries except the United Kingdom. The adoption by Britain of the Common Social Policy of the EU allowed for the introduction into the Amsterdam Treaty of a separate section on "Social policy, education, training and youth". The agreement reinforced the provisions on environmental protection, health protection and consumer protection.

5. In the Treaty, a separate section "Employment" was singled out, in fact a new common policy was established, the main objective of which was to achieve a high level of employment in the EU.

6. The Treaty of Amsterdam, through a separate protocol to the Treaty on the EU, integrated the Schengen agreements into the Union's legal system.

7. The Amsterdam Treaty developed the institute of European citizenship through the allocation of relevant articles into a separate section entitled "Citizenship of the Union" and determined that the citizenship of the Union complements, not replaces, national citizenship.

The Treaty of Amsterdam did not solve the problem of granting the EU a status of a legal entity, which would have enhanced its international prestige and the effectiveness of foreign policy. Member States did not want to lose, even weaken their control in areas of a predominantly political nature – in the CFSP, as well as in the area of internal affairs and justice. In addition, the Treaty did not introduce fundamental changes to such an important sphere of common policy as military cooperation. EU relations with the Western European Union and NATO remained largely unchanged.

The Treaty of Amsterdam deepened European unity, contained a number of innovative provisions that largely distinguished it from other founding treaties, brought the European Union closer to its citizens, enhanced openness and democracy in the functioning of its institutions.

7.5. Reform of the European Constitutional Law, the Treaty of Nice

In view of the future enlargement of the EU, the subject arose about the need for reform of European constitutional legislation. These issues were finally agreed upon at the European Council meeting in Nice (France) on December 7-11, 2000 and executed in the form of the ***Treaty of Nice***, which was ***signed on February 26, 2001 and came into force after ratification by all member states on 1 February 2003***.

The Treaty of Nice amended the institutional structure of the Community.

1. The scope of application of qualified majority voting in the EU Council was expanded to include issues such as EU election, budget control, financial services, and, starting from 2007, the distribution of EEC aid to disadvantaged regions. However, consensus-based voting remained prevalent for matters of taxation, social security, immigration policy, audiovisual product trade. In general, unanimous vote remained obligatory in 10% of all articles of the Treaty establishing the EU.

2. The Council of Ministers assumed a new distribution of votes in favor of countries with a large population, which should have come into force after the enlargement of the EU. For example, Germany, Great Britain, France, Italy, which had 10 votes in the Council of the EU, received 29 votes each. For the subsequent EU members, the voting quotas in the EU Council were also agreed upon by the quantitative composition of the population. For example, Poland received 27 conditional votes, Romania – 14, Czech Republic and Hungary – 12, Latvia, Slovenia, Estonia, Cyprus – 4, and Malta – 3 votes. After joining the EU, the 12 new states should have received at least 255 votes out of a total of 342 by a qualified majority, but only if they represent at least 62% of the total EU population (Treaty of Nice: A Comprehensive Guide, 2001).

3. The agreement introduced changes to the composition of the European Commission: after the enlargement of the EU, all Member States were supposed to have one commissioner in the European Commission. The President of the Comission and its members are to be appointed by the EU Heads of State and Government by qualified majority voting. The number of European parliamentarians increased to 738 people.

4. The composition and competence of the Court of First Instance were expanded. It became an autonomous judiciary and the number of its

members increased.

The declaration was added to the Treaty of Nice, which defined the main directions for further constitutional reforms in the EU.

Consequently, the Treaty settled institutional reforms that had to create conditions for the effective functioning of the enlarged EU and to secure additional opportunities for closer cooperation between individual EU members.

7.6. The Treaty of Lisbon

In view of the attaining EU membership in 2004, new Member States faced the need to revise the foundations of the EU constitutional framework. The Constitutional Treaty for Europe (or the euro constitution, the European constitutional treaty) should have become the main document of the European Union, replacing the system of previous several agreements with a single text. None of the extant treaties at that time provided sufficient regulation for the new enlarged European Union (Tyushka A., 2007; A Constitution for Europe).

Following the signing of the Treaty of Nice, the Laeken Declaration of 2001, which opened the debate on the future of the EU, confirmed the aspirations of the EU members to improve the legal framework of the EU (Laeken Declaration. European Convention. 2001). The declaration formulated four main areas pending for reforms: identification and allocation of powers, facilitation of treaties, institutional structure and the creation of a Constitution for EU citizens.

However, after an unsuccessful attempt to ratify by all Member States the Treaty establishing a Constitution for Europe (TCE), signed on 29 October 2004 in Rome, the Intergovernmental Conference of the EU Member States began to develop a new EU constitution on July 23, 2007. ***The official signing of the Lisbon Treaty occurred on December 13, 2007. The Treaty entered into force on December 1, 2009.*** The Treaty of Lisbon essentially transposed the main provisions and stories of the EU Constitutional Treaty into the EU founding treaties. Thus, unlike the TCE, which aimed at consolidating all EU constituent treaties, the Treaty of Lisbon just supplements them.

Main stipulations of the Lisbon Treaty:

1. Starting from 1 December 2009, the term "European Community" merges with the term "European Union", thus, rendering the EU a legitimate international organization.

2. Similar to the TCE, the Lisbon Treaty provides for the legal effect of the Charter of Fundamental Rights of the EU, proclaimed in 2000.

3. The Treaty introduces some changes to the titles of founding treaties and the titles and statuses of some EU institutions (European Comission. Lisbon Treaty Guide) :

- the status of official EU institutions were secured for the European Council and the ECB;
- the Council of Ministers in the Treaty appeared as a "Council" or "Council of Ministers";
- the ECJ was henceforth to be referred to as the "Court of Justice of the European Union";
- the Lisbon Treaty fixed the name "European Commission".

4. It was decided not to secure the signs of statehood in the text of the Lisbon Treaty, for example, the common EU symbols (flag, anthem, etc.). However, in fact, all the EU symbols have long existed and are being used. In addition, it was decided to reject the proposal to rename the acts of the secondary legislation of the Community to EU "laws" (Treaty amending the Treaty on European Union, 2007, January 1).

5. According to the Treaty of Lisbon, the field of foreign policy falls within the competence of the EU, where a unanimous decision of all Member States is necessary for an approval of a final decision.

6. As a step towards reduction of the number of members of the European Commission, the post of High Representative for the CFSP was combined with the post of European Commissioner for External Relations and European Neighborhood Policy and became Vice-President of the European Commission. The person holding the post heads the newly established European Foreign Policy Service.

7. The Lisbon Treaty significantly expanded the powers of the European Parliament, in particular towards the adoption of the EU budget.

8. The Treaty reinforced the role of the national parliaments of the EU Member States in carrying out any reforms in the EU, as well as in considering new applications for EU membership.

9. The Lisbon Treaty introduced a new voting system in the Council of Ministers and eliminated the famous EU tripartite system. Instead, as envisaged by the EU Constitutional Treaty, the Lisbon Treaty set out the exclusive, general and supportive competences of the EU.

10. The Lisbon Treaty introduced the post of President of the European Council, elected for a two and a half year term by a qualified majority of members of the European Council, without the need of the approval of the European Parliament.

11. A new requirement for EU membership was that the candidate country must share the common EU democratic values and meet the criteria for membership set by the European Council. The Treaty also provided for

the procedure for the exit of any Member State from the EU.

After the validation of the Treaty of Lisbon, the legal force of the Charter of Fundamental Rights of the EU was not fully extended to Great Britain, the Czech Republic and Poland. The governments of these EU member states did not agree with the legally binding force of the Charter of Fundamental Rights of the EU in order to protect national interests. Members of the European Council agreed to expedite the validation of the Treaty and settled for additional arrangements for these countries.

In the new Lisbon format, the European Union not only confirmed, but also enhanced the unique nature of its organization as a supranational entity of a special type.

End-of-Chapter Questions and Tasks

1. Describe the foundations of the EU legal system.
2. Which legal acts belong to the primary and secondary legislation of the EU?
3. What legal acts are classified as standard and nonstandard acts?
4. Name the economic and political preconditions for the adoption of the Single European Act.
5. Describe the main provisions of the SEA.
6. Name the reasons and consequences of signing the Maastricht Treaty.
7. Describe the three pillars of the European Union.
8. Analyze the main provisions of the Maastricht Treaty.
9. Analyze the main provisions of the Amsterdam Treaty.
10. What were the prerequisites for the adoption of a new founding treaty of the EU at the beginning of the XXI century?
11. What is the difference between the Treaty of Lisbon and the Constitutional Treaty for Europe?
12. What are the innovations of the Treaty of Lisbon in the field of regulating the activities of EU institutions?

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Appendix 1

European countries: a brief description (European Union, n.d.)
as of 31.12.2019

Geographical size, thousand km²	Population, mln	GDP, billion USD	Official languages	Political system	Seats in the European Parliament	Currency
Austria (Viena) – EU member since 1 January 1999						
83,879	9,013	447,718	German	Federal parliament-tary republic	19	Euro (since 1 January 1999)
Belgium (Brussels) – EU member since 1 January 1958						
30,528	11,591	517,609	Dutch, French, German	Federal parliament-tary constitutional monarchy	21	Euro (since 1 January 1999)
Bulgaria (Sofia) – EU member since 1 January 2007						
11,037	6,954	66,250	Bulgarian	Parliamentary republic	17	Bulgarian lev
Croatia (Zagreb) – EU member since 1 July 2013						
56,594	4,107	60,702	Croatian	Parliamentary republic	12	Croatian kuna
Cyprus (Nicosia) – EU member since 1 May 2004						
9,251	1,188	24,280	Greek	Presidential republic	6	Euro (since 1 January 2008)
Czech Republic (Prague) – EU member since 1 May 2004						
78,868	10,710	246,953	Czech	Parliamentary republic	21	Czech koruna
Denmark (Copenhagen) – EU member since 1 January 1973						
42,924	5,790	347,176	Danish	Parliamentary constitutional monarchy	14	Danish krone
Estonia (Tallinn) – EU member since 1 May 2004						
45,227	1,328	31,038	Estonian	Parliamentary republic	7	Euro (since 1 January 2011)
Finland (Helsinki) – EU member since 1 January 1995						
338,440	5,541	269,654	Finnish, Swedish	Parliamentary republic	14	Euro (since 1 January 1999)

Continuation of the Appendix 1

Geographical size, thousand km²	Population, mln	GDP, billion USD	Official languages	Political system	Seats in the European Parliament	Currency
France (Paris) – EU member since 1 January 1958						
633,187	65,255	2707,07	French	Semi-presidential republic	79	Euro (since 1 January 1999)
Germany (Berlin) – EU member since 1 January 1958						
357,376	83,872	3863,34	German	Federal parliamentary republic	96	Euro (since 1 January 1999)
Greece (Athens) – EU member since 1 January 1981						
131, 957	10,430	214,012	Greek	Parliamentary republic	21	Euro (since 1 January 2001)
Hungary (Budapest) – EU member since 1 May 2004						
93,011	9,664	170,407	Hungarian	Parliamentary republic	21	Hungarian forint
Ireland (Dublin) – EU member since 1 January 1973						
69,797	4,941	384,94	Irish, English	Parliamentary republic	13	Euro (since 1 January 1999)
Italy (Rome) – EU member since 1 January 1958						
302,073	60,481	1988,64	Italian	Parliamentary republic	76	Euro (since 1 January 1999)
Latvia (Riga) – EU member since 1 May 2004						
64,573	1,887	35,045	Latvian	Parliamentary republic	8	Euro (since 1 January 2014)
Lithuania (Vilnius) – EU member since 1 May 2004						
65,286	1,964	53,641	Lithuanian	Parliamentary republic	11	Euro (since 1 January 2015)
Luxembourg (Luxembourg) – EU member since 1 January 1958						
2,586	0,626	69,453	French, German	Parliamentary constitutional monarchy	6	Euro (since 1 January 1999)

Continuation of the Appendix 1

Geographical size, thousand km²	Population, mln	GDP, billion USD	Official languages	Political system	Seats in the European Parliament	Currency
Malta (Valetta) – EU member since 1 May 2004						
0,315	0,441	14,859	Maltese, English	Parliamentary republic	6	Euro (since 1 January 2008)
Netherlands (Amsterdam) – EU member since 1 January 1958						
41,542	17,131	902,355	Dutch	Parliamentary constitutional monarchy	29	Euro (since 1 January 1999)
Poland (Warsaw) – EU member since 1 May 2004						
312,679	37,857	565,854	Polish	Parliamentary republic	52	Polish złoty
Portugal (Lisbon) – EU member since 1 January 1986						
92226	10,199	236,408	Portuguese	Semi-presidential republic	21	Euro (since 1 January 1999)
Romania (Bucharest) – EU member since 1 January 2007						
238,391	19,238	243,698	Romanian	Semi-presidential republic	33	Romanian leu
Slovakia (Bratislava) – EU member since 1 May 2004						
49,035	5,461	106,552	Slovak	Parliamentary republic	14	Euro (since 1 January 2009)
Slovenia (Ljubljana) – EU member since 1 May 2004						
20,273	2,079	54,154	Slovenian	Parliamentary republic	8	Euro (since 1 January 2007)
Spain (Madrid) – EU member since 1 January 1986						
505,944	60,481	1397,87	Spanish	Parliamentary constitutional monarchy	59	Euro (since 1 January 1999)
Sweden (Stockholm) – EU member since 1 January 1995						
438,574	10,095	528,929	Swedish	Parliamentary constitutional monarchy	21	Swedish krona

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