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# Stages of the European Union Integration and its “Vertical” Dimension Towards Africa

## Abstract

*The paper is focused on the future of the EU, the lessons learned from its own experience, and its role in the geographical area of Africa, Mediterranean, and Europe. The conceptual framework is based on the Theory of Economic Integration, the Theory of Optimum Currency Areas, the Theory of European Monetary Unification, and the Economic Integration in the developing countries. The paper illustrates EU’s rich experiences on issues such as legitimacy and security, monetary union, real convergence, social cohesion, and fiscal union. Additionally, the paper argues that one of the main strategies of the EU is the development of the so-called “vertical” dimension, to build a strong regional integration North-South to ensure greater security and economic development.*

**Key words: Economic integration, European Union, Africa, Economic Development.**

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## Introduction

There are some lessons that can be learned from the integration process of the EU as a Common Market, as a Single Market and as an Economic and Monetary Union. They can be a source of inspiration for today's world, particularly in Africa. These integration processes are based on a model of society that a large majority of Europeans want to preserve and deepen, and that can be a source of inspiration for today's world.

Nevertheless, the EU has gone through a period of disorientation in the framework of the great recession of 2008 and of uncertainty, about the viability of the euro and the convenience and sense of the continuity of the same integration. This continuity depends on right answers to crucial questions related to the Monetary Union and the international dimension of the EU.

In this article, the main questions to be answered are related to the future of the United Europe (UE). In other words, it is important to ask about the need for a UE, and about the lessons that can be learned from its own experience to allow it to play a relevant leading role in the current global context (and more specifically, in the geographical area of the Africa, Mediterranean and Europe, AME).

The conceptual framework is based on the applied analysis of concepts of the Theory of Economic Integration (Balassa 1961), the Theory of Optimum Currency Areas (Mundell 1961), the Theory of European Monetary Unification (Eichengreen 1997), and the Economic Integration in the developing countries (Corea and Gosh 1984; Marinov 2014). That is to say, the main concepts used are price and wage flexibility, mobility of factors of production including labour, financial market integration, degree of economic openness, diversification in production and consumption, fiscal integration, and political integration.

Therefore, the structure of this paper is based on different, but deeply linked, issues. First, different scenarios of the future of Europe are briefly debated. Second, different stages of the EU are considered in order to extract lessons for the new EU international challenges; and third, arguments are proposed in order to show that the European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME).

## **1. Different Scenarios of the Future of the European Union: what Can be Learnt from it?**

The European Union (EU) is facing various future scenarios. It has to choose one of them. The first scenario is to follow as usual; that is, with social unrest, economic weakness and political blindness. It is called “current” multi-speed Europe, the “Europe of variable geometry”, making some and others what they can or want to”. The second scenario is a Europe in which all States make all decisions jointly; but it does not seem sensible, for not having a background in the history of the EU. The third scenario is the disappearance of the EU from the map, which seems neither logical, because (despite Brexit, and even Italoexit) the costs of the no-Europe would be gigantic and the challenges enormous. Therefore, what to do?

The EU has played an outstanding role in recent historical events on the continent (Molinas and Ramirez 2017: 161–173). The implosion of the USSR without the existence of the EU can hardly be understood. The reunification of Germany without it would not be understandable at all. The current generation of Europeans is the first in history without a war. They are lessons that must be taken into account to realize its importance for building African integration processes. They can contribute to the development of Africa, in the context of the rule of law, in a process of constant progress towards welfare, peace and conflict resolution. These enormous results of the EU should convince them of its value.

The lessons that can be learnt from the EU experience are placed in different fields: legitimacy and security, monetary union, real convergence among member states, social cohesion, and fiscal union.

## **2. Stages of the European Union: Lessons**

### **2.1. Legitimacy and Security**

We must also learn from the recent European experience of loss of democratic legitimacy and of the rise of populism. We must take into account changes in the political right direction, since the 2014 European elections, bearing in mind that

according to the Treaty of Lisbon, the European Parliament (EP) appoints the President of the European Commission (EC), on a proposal from the Council. However, the current President of the EC, Jean-Claude Juncker, is the head of the list most voted and named to the post by the EP; so the democratic legitimacy of the EU is increasing significantly.

Yet, it must increase still more: in the field of foreign policy, immigration, defence and security policies. The great recession of 2008 has prompted greater financial integration, although there is still progress to achieve in other areas. Progress based on the existence and respect of multiple identities. This progress has to be accompanied by a feeling of belonging, which is failing due to a clear democratic legitimacy deficit. Ultimately, this lack of legitimacy damages the perception of Justice and erodes the willingness of citizens to comply with laws.

It seems that populism puts into question the legitimacy of Member States, since they are no longer perceived as problem-solvers. So the States should comply with two objectives: the satisfaction of the assumptions of the welfare State and the protection of citizens against terrorism, hostile neighbours and the massive immigration; i.e., they must ensure the welfare and security. In short, the EU must ensure freedom, human rights and the standard of living of its population.

## 2.2. More Integration

The euro needs to survive and thrive, to further political integration among its members. The Eurozone response to the financial crisis of the great recession of 2008 has been both extraordinary and surprising. Extraordinary, because:

- the Eurozone created a rescue Fund to help countries with funding problems,
- the Eurozone launched the Banking Union that has centralized supervision of large banks by the ECB,
- the Eurozone established mechanisms of bank resolution, common for the Eurozone, and a common deposit guarantee fund has been planned.

Surprising, because the pace of integration is frenetic and that is despite the “existential crisis” of the EU (Molinas, Ramirez 2017: 91–109). In fact, to move towards a political unity of the EU requires the creation of supranational bodies to strengthen its legitimacy and the sense of membership of European citizenship.

Nevertheless, the European heterogeneity needs a design of a multi-speed Europe, which is what it has actually been doing since the Treaty of Maastricht of 1992.

Heterogeneity of the EU is needed due to the existence of euro countries and non-euro countries; also because of countries with agreements such as the Euro Plus (to facilitate competitiveness, employment, financial stability and fiscal sustainability), the Fiscal Compact (Pact of Stability and Growth) and the Banking Union (Hungary just in the first two). Sweden entered only in the Fiscal Compact and the Czech Republic and Croatia only in the Banking Union. The United Kingdom is on its own way, called *Brexit*.

In any case, economists should not forget the theory of optimum currency areas (countries in which a monetary union would maximize economic efficiency of a customs union or a common market) (Mundell 1961: 116). As it is well known, an optimal monetary area is based on four conditions.

First condition, a monetary union (UM) must have a high degree of labour mobility to prevent very different rates of unemployment. Second condition, an UM should have freedom of movement of capital and flexibility of prices and wages, but it is difficult to meet them due to very different degrees of economic development among countries. Third condition, economic cycle synchronization between States, to enforce a single monetary policy, is needed. Fourth condition, solidarity between countries and regions, through monetary transfers of resources to areas affected by negative shocks, is required<sup>1</sup>.

As a response to the financial crisis of 2008, the Eurozone created a rescue Fund, launched the Banking Union, established mechanisms of bank resolution, and a common deposit guarantee fund has been planned.

### 3. Real Convergence

The origin of the troubles of the euro is this strong heterogeneity of member states and regions due to different levels of economic development, human and technological capital. In these circumstances, a single monetary policy – lax for some, restrictive for others – does not allow to regain competitiveness by currency devaluations. So changes have to be made – reducing costs and wages. As a result, the euro also acts against the least flexible countries.

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<sup>1</sup> But these transfers are banned by article 125 of the Lisbon Treaty, so that in the great recession of 2008 came to the rescue of countries (Greece, Ireland, Cyprus, Portugal and Spain) with credits very long term under favourable financial conditions.

The only solution is the real convergence of economies with greater flexibility, which is what is not happening in the EU – as seen in the divergence of GDP per capita. This lack of real convergence, in the absence of fiscal mechanisms of redistribution, only partially compensated by the ESM (European Stability Mechanism), causes crises to be most acute. Please note, also, that the European Structural Funds (FFEE) play an important corrective role of inter-territorial income imbalances.

These Funds are, in reality, the main instrument of the EU's cohesion, providing much more territorial balance, if a regional development policy is adequately implemented. The most obvious case is the investment of these Funds in Ireland, concentrated in human capital and vocational training, with better effects on the convergence than in the case of Spain, which focused particularly on transport infrastructure, but not on education and technology.

## 4. A New Social Contract

Analysts say that the inherited social pact of the twentieth century is in crisis. The main reasons for this crisis are the evolution of demography, the acceleration of globalization, the technological change resulting from the digitization and automation, and the immigration, especially by the exodus of refugees towards Europe.

Demography makes such aspects as the funding of pension systems due to the insufficient growth in the active duration regarding the passive duration of the population very difficult. Moreover, globalization redistributes in favour of the rich, relocates the production processes with little skilled labour to third countries and dooms less-skilled workers to unemployment in European countries. The digital revolution is a trend that replaces obsolete human labour, which reduces costs and increases production efficiency. All of this generates uncertainty, insecurity about employment and social inequality (Atkinson 2015: 215). The great flow of refugees from Africa and the Middle East are also economic migrants. They are a test for the social EU principles. Unfortunately, so far, the EU has not been able to manage those migratory flows.

Europe is undergoing a process of ageing of its population, with rates of active population falling. If Europe wants to maintain its standard of living and their economies to grow, it needs immigration flows. The closure of the borders leads to impoverishment.

The lesson on what has happened so far is clear. Much of the current refugee crisis has its roots in armed conflicts in the Middle East. Conflicts, incidentally, that are the result of decisions of non-European powers (United States, Russia, Turkey); but that is left to Europe to withstand the flood of refugees. This raises the need for integration of the EU's defence to be able to contribute to the stabilization of its neighbouring areas and a policy of cooperation and development aid.

In fact, Europe needs a new social contract. This contract has to encompass the trilogy of “market economy, social progress and liberal democracy” and make them compatible (Costas 2017, 34). This compatibility could carry out through:

- the defence of the social value of competition as an effective instrument against the logic of monopoly and concentration,
- the incentive for inclusive growth by activating the factors of development of productivity,
- a better functional distribution of income between salaries and benefits as with a more powerful redistributive tax policy and public expenditure;
- and the improvement of the quality of democratic systems (Costas 2017, 339).

## 5. Complete the EMU: a Roadmap

The EU is the most relevant supranational institution in the world today. And, as Rodrik says, the trilemma of supra-nationality, sovereignty of Member States and democracy is incompatible, which means that the three parts of the trilemma cannot exist at the same time. Given one of them, supra-nationality, for instance, you have to choose the other two: the EU Member States should cede sovereignty to govern economic and social complexity of a global world.

The complexity of the economic and Monetary Union (EMU) calls for a roadmap. Road map, which can be based on important European Union documents (Juncker 2015; Mogherini 2016; EC 2017). Obviously, this roadmap rests on increased democracy and transfers of sovereignty by Member States.

The EU countries faced the great recession without central banks' lenders of last resort and without the possibility of devaluation of their currencies. At the same time, the ECB is not designed to help Member States with financial difficulties. Therefore, many Governments of the Eurozone could not get finance in markets or through the purchase of bonds by banks of their countries. Risk premiums have soared and

the euro was threatened with immediate ruin. In that context, there was the famous phrase of the President of the ECB, Mario Draghi, “Whatever it takes”, that is say, the ECB will do everything to prevent the collapse of the Eurozone. Since then the ECB injected enough liquidity at low cost to the banks so that they continue buying debt issued by Governments. Thus the collapse of Governments and banks was averted. The ECB started buying public and private bonds. Why did it do all this?

The answer lies in a diagnosis that is based on excessive heterogeneity of the members of the Eurozone. Heterogeneity, of course, is referring to economic policies that led to excessive public deficits and unsustainable volumes of debt. Then, it is crucial to put the emphasis on the convergence of the budgetary and fiscal policies of different countries, and also to implement policies that affect the growth potential of the economies<sup>2</sup>.

However, the real causes of the lack of nominal convergence are due to the absence of real convergence among the countries of the Eurozone; that is, lack of convergence in growth capacity, competitiveness, human capital and employment.

The mutualisation of debt is difficult to adopt. It is recommended to go to other routes to finance projects of European interest and to obtain resources through borrowing, in order to invest in projects of education, vocational training and employability of the unemployed and technology with the aim of greater real convergence. The European Investment Bank (EIB) and the European Investment Fund (EIF) already operate in the same way.

The European Treasury could also issue for funding safe European bonds - European safe bonds (ESB) – so you would get two effects. One effect is on greater strength of the European banking system (the ESB would become the preferred collateral by the interbank market). Another effect is on States with excessive public debts (with increases in the interest rates for them and, on the other hand, greater demands regarding fiscal discipline).

Apart from that, the Economic and Monetary Union (EMU) does not work efficiently. The reason seems to be that the EU is incomplete (not integrated markets, neither mobility nor a common Government with a budget and a treasury). Additionally, the EMU does not have mechanisms of stabilization against asymmetric shocks. The national use of fiscal policy is particularly inefficient with the current

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<sup>2</sup> There are important initiatives to complement the Stability and Growth Pact with the Fiscal Compact of 2012 (definitions of excessive deficit and structural deficit, and reduction of public debt) and with the European Semester (Framework for the coordination of economic policies across the European Union).

prevailing restrictions. In the euro area, there is a monetary authority and 18 tax sovereigns. There is no State behind the currency or central bank behind the sovereign debt. There is not an integrated financial system, which facilitates credit and provides stability. It is unrealistic to think that the market and the internal devaluation can correct shocks, bearing in mind the productivity differences among Member states, and the implications in terms of unsustainable social and political costs. Therefore, fiscal institutions are as important as the monetary institutions.

The EMU needs a Fiscal Union (FU). This involves: A) A central Government with a significant budget, own fiscal resources and Treasury responsible for the debt; (B) Equalization transfer mechanisms; (C) Fiscal autonomy of sub-national Governments provided with their own resources; (D) Requirements of fiscal discipline. The advances of the European Stability Mechanism (ESM), progress to the European Banking Union (EBU), and the more imbalance monitoring are all insufficient. The principle of the balanced budget may not work, because the current crisis has little to do with the public deficit.

What matters is the private external debt, that is to say, the current account balance. So it is plausible to say: 1. There has been a great accent in the fiscal discipline of the Member States and a low accent in “central fiscal power”; 2. The EMU has become a crucial problem if it does not move towards the FU; 3. The FU is a problem if it does not move towards a Political Union (PU). Nevertheless, there is still some hope for the FU, if changes are carried out in the treaties to create a Fund for redemption of debt above the 60% of GDP and the issuance of euro-bonds; changes that have to be accepted by the Eurogroup, the Ecofin and the European Council.

One last question is essential. How to transform from a fundamentally disintegrating EU crisis to one prompting an integration project? It is obvious that, taking into account what was said above, to move towards the consolidation of the common currency implies firm and consistent steps towards political union. Those steps, in essence, are three.

First is to retrieve an idea of solidarity over borders and national sovereignty. Second is to closely link monetary policies with tax policies. And third is to link the single currency with a unified finance. It is absurd to think that it is possible to have a single currency with many national public debts denominated in the same currency.

At this point, it is worth paying attention to the American experience where the budget was increasing from 2% of GDP during the great depression to the current 25%. It is a journey accompanied by full freedom of movement of goods and factors in a process that should lead to political unity.

## 6. The “Vertical” Dimension of the EU Future

One the main strategies of the EU is the development of the “vertical” dimension. The European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME).

The EU must decide where it wants to go and what is the best strategy to achieve this direction. One of them – postulated here – is the development of the “vertical” dimension (Guigou 2017: 20).

The European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME). This region is currently representing 2000 million people and huge potential markets (Guigou 2017: 48). To the extent that the integration advances, global production value chains are not just East-West, but will be also North-South.

Economic, social, political and cultural relationships are complementary in order to meet the challenges of energy and food, to give solutions to uncontrolled migration problems and to look for new solutions to the European population ageing. Do not forget that in the year 2050 the great AME region will have three billion people, so that the role of the EU in the world relies on the interweaving of our relations with the South. They will, in fact, provide a way to deal with all kinds of radicalism, ensure greater security and greater economic development.

The benefit for the Europeans is that AME can help avoid the secular economic stagnation due to population ageing. That means having new growth factors, such as the large region of AME, which will have a huge demographic volume, most of which located in sub-Saharan Africa, where the middle class is growing and will expand even more in the future.

For Africans, the AME can transform its vast wealth to meet the challenge of employment and population explosion. It is crucial for them to not only enjoy security and access to markets, but above all to develop productive economies based on European technology and local innovation.

For the Mediterranean South, the AME puts in value in the abundance in the powerful sector of solar sources of energy. The AME has to be based on ports such as Tangier Med, to develop their ability to bridge between the North and Sub-Saharan Africa.

Therefore, it is not only to achieve an Association of free trade, but the integration of the whole productive and economic system, the laws and regulations and, finally, the integration of democratic values and the rule of law.

On integration of the productive system, it is important to take into account aspects such as social inclusion and environmental sustainability, according to the agreements of the Conference of United Nations on climate change (COP21).

For the regional integration of the AME, three instruments are required: a regional development Bank, a co-production and securitization of investment treaties, and a study of regional integration structure. The banks by sub-regions already exist (Europe, Arab world, Africa), but they are without coordination or a regional vision for the whole area.

There are also no economic integration agreements, which would encourage foreign direct investment, but there exist fragmented and limited treaties of free-exchange, which must be overcome with a treaty of co-production and the involvement of States, business and professional organizations.

There are no structures for joint studies of research, as this proposal of Jean Monnet network of universities, to foster a network of *think-tanks* on regional integration, according to the experience and the lessons learned from the EU integration process. These structures of research would have to exist to study the major sectoral issues (energy, water, power, finance, climate change and sustainability, governance...) and define development policies.

The return to the geopolitical and geographical proximity is needed (Guigou 2017, 64). It is necessary for innovation and the use of technology, the complementarity of the value chains of production and a greater economic and political cooperation. In this field, it is where the EU can deploy its full potential experience, given its formation as a single market and a monetary union process.

The EU has shown with clairvoyance that globalization cannot be understood without regionalization, i.e. without the constitution of sets of associating neighbouring territories. It is not only a matter of relocation for low costs, but above all for the quality of the products demanded by consumers, constant technical and organizational innovations and the development of bases for a collaborative economy (interaction between supply and demand). It is, in fact, essential to encourage cooperation between researchers, universities, institutions, training systems, employers, suppliers, markets and consumers.

The proposal of regionalization, on the basis of the experience of the EU, rests on economic proximity, knowledge and know-how bases, co-production to generate more added value, complementarity of climate calendars, taking advantage of the

benefits of a mature North, aged and technologically advanced and a South with young, increasing and labour-market expansion<sup>3</sup>.

Actually, today we can see how the failure of the Barcelona process (“Euromed”) has been the result of a merely commercial vision of regional integration, central part of the strategy of the EU towards the Mediterranean. Even though, it is necessary to go beyond this. A political and economic transformation in the South is needed within the framework of the African regional integration, and this with further integration with the EU. Otherwise, it is very difficult or impossible for the EU to play an important role in the global sphere.

Globalization and regionalization are evolving together. Regionalization is developed because the economic, social and political transformations require proximity. That is the basis of the development of the AME region.

International trade in goods is replaced by local production of goods and services in the importing countries, both in the South and in the North. The South is called to continue development, for economic reasons, but also for safety. Europe has the opportunity to collaborate with their South, Africa which has a great potential for growth. This opportunity had to be seen by Germany in the preparation of the G20 in the month of July 2017<sup>4</sup>.

Hence, there is a need for a large common AME region. Although hindering obstacles such as radical Islam and the aforementioned transition to greater integration, must be overcome by literacy and education, especially of women, together with the human rights of all populations.

North-South integration, in a common project, is the basis to avoid massive immigration processes, which allow capital flows in the direction of the South, an external openness of the EU and relations of co-production. This implies productive delocalization, the industrialization of the South, the promotion of safety (food, energy, and labour) and the construction of political systems based on law and good governance.

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<sup>3</sup> These North-South integration processes have happened and are happening in other parts of the world. The case of Japan during the fifties of the past century (with Singapore, Taiwan, Hong Kong, South Korea), without attracting immigrants but investing in capital y redistributing production in these countries, and in the eighties and nineties setting up the Asian Plus Three (Asia + Japan, South Korea and China) and the well-known cases of the American continent.

<sup>4</sup> Germany called this meeting “A new partnership for development, peace and a better future. Cornerstones of a Marshall Plan with Africa”. Federal Ministry for Economic Cooperation and Development, 2017.

## Conclusions

All process of economic integration creates a series of advantages in terms of greater specialization by utilization of comparative advantages, a better exploitation of economies of scale, greater competition and changes in the amount and quality of production factors through an increase in the mobility of labour, capital and technological progress.

All of those aforementioned factors contribute to economic and social development needed by European citizens and, mainly, for our neighbours of Southern countries, especially the Mediterranean and Africa.

Finally, it is evident that to face the European integration challenges and develop the “vertical” dimension of the EU toward the South, a strong political will is needed by the European and African leaders and authorities.

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