

## 2008 - SOME GLOBAL ISSUES AND THEIR IMPACT ON THE PROSPECTS OF FURTHER EUROPEAN UNION INTEGRATION

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**Abstract:** *The paper analyzes the implications of some global trends and developments on the prospects of further European Union integration. The transfer of attributes from member states to community institutions is a long term process which confronted numerous set-backs and re-launches. The hypothesis discussed in this paper refers to the fact that current developments in the global arena require fast decision making mechanisms involving very sensitive issues and these developments tend to shift the balance towards member states institutions.*

**Keywords:** *globalization, EU integration, energy prices, food prices, Western countries' policies, banking sector, climate change*

Global issues and European integration evolution have been in close interaction. Globalization and technological change have already determined an ever higher connection among all participants in the world economy and the rise of prices for such elementary inputs as foods and energy put the issue of balance of power on the global arena in a new (and at the same time old) perspective. This is a time of change and this change will influence to a large extent the architecture of the European Union.

In this context, European integration understood as a deepening of the transfer of national decision making prerogatives towards community institutions has, in our view, much dimmer prospects than a decade ago. In the following analysis, we shall try to substantiate this statement and present it for debate.

Without any intent at covering all major issues of the world economy as of mid 2008, we can nevertheless list some of the essential ones<sup>1</sup>. After a brief presentation of these issues

an assessment of their impact on further European Union integration will be made.

The trends perceived as having the greatest impact in today's world are:

- Globalization and the need to deal with more competition and conflict;
- High energy prices;
- High food prices;
- Significant transfer of wealth to the Middle East and Pacific area;
- Need for a change in Western domestic policies;
- Need for a new approach regarding banking sector;
- Climate change;
- Technological trends and their implication for business.

### **Globalization and the need to deal with more competition and conflict**

As a result of some events which accentuated since the beginning of this

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<sup>1</sup> Irwin Stelzer, "Prepare for Change as World Tilts to the East", *Sunday Times*, June 22, 2008.

decade (such as the impact of US foreign policy in certain areas, the economic rise of China and India, the increase of energy prices, the re-consolidation of the Russian Federation's status in the global arena, etc.) the world is increasingly shifting towards a multi-polar structure characterized by international competition (almost in all respects) among great powers.

This new multi-polar structure brings about not only an economic competition but also a competition among ideologies. If at the beginning of the '90s, with the collapse of the centrally planned economic systems, the free market, minimal state and free enterprise seemed to become the only options tested and validated by practice, now, towards the end of the first decade of the 21<sup>st</sup> century, one can notice a diversity of approaches: liberalism, isolationism, nationalism and even autocracy in a modern sense (for instance in specific forms in Russia and China and, maybe, in a much different way, in Venezuela).

An issue which was far less present in the early '90s is the need of the Western countries to deal with radical Islam in the global arena.

A new development as of beginning of fall 2008 is the mentioning for the first time in decades of the possibility of a new "cold war" between the Russian Federation and the Western world. Even if the concept is currently mentioned only as a remote possibility, the very fact that it was used is a serious event in itself.

Dealing in an efficient and effective way with all these developments and trends increasingly requires fast decision making mechanisms, strategic thinking and unity of command. Whether such features can be found with existing European Union institutions and mechanisms is questionable, if only one considers the reactions vis-à-vis the conflicts in former Yugoslavia some years ago or in Georgia in 2008, the positions vis-à-vis

Iraq or Iran and the reactions towards the Russian Federation in today's context regarding energy supply.

The apparent conclusion from the all the above-stated is that a trend towards a multi-polar world, with more competition and conflicts, tends to strengthen the national governments approach and to make less relevant community positions and therefore such global evolutions do not favour, at least for the time being, a deepening of European integration. This conclusion can be further supported by the fact that the developments in the world arena often have different effects on the European Union member countries and therefore the national interests and reactions may not converge in all cases.

On a contrary note, one may say that the rise of serious threats (like a cold war, energy issues or climate change) may determine European Union member states to carefully consider being more united as a block, but our perception is that this situation will generate additional consultations among member states and more decisions taken at national level. It may seem paradoxical, but this may mean more individual decisions (i.e. less integration) and decisions made with more awareness as regards the position of the other member states (i.e. more integration in communication, negotiation, dialogue).

### High energy prices

The year 2008 in particular has been characterized by steep increases in energy prices although remarks and comments referring to the possibility of such trends had already been made in 2007. On medium and long term, this trend towards higher and higher energy prices has an objective component, as classic fuels are limited in quantity and their reasonable availability is decreasing fast.

But, at the same time, if we refer to current

evolutions, there is a lot of subjective influence, be it from speculators or from implications of the evolutions in the Middle East, Russian Federation or Venezuela, or even from some meteorological phenomena that influence oil production.

This rise in energy prices also puts in question the structure of energy prices for end-users, particularly for oil, in most developed economies, particularly in the European Union. The increase of energy prices brought about a very sensitive discussion on the percentage of taxes in fuel prices; because if in the EU, an average of more than 60 % of the prices paid by car drivers to the pump goes to taxes (compared to about 29 % in the US), can that be still considered a market economy?<sup>2</sup> To be more precise, the taxes vary from 76 % in Great Britain, to 74 % in France, 73 % in Germany and 63 % in Spain. And can we speak about high prices when more than 60 % of the prices are not the result of the classic supply and demand ratio?<sup>3</sup> To go along with these questions would imply to question the very foundations of modern economies' finances, but it is not unlikely that this unpleasant exercise will have to be done quite soon.

Until then, higher energy prices have an impact on the automotive industry, on air transport, but also on accelerating research on new energy sources as well as on information technology & communication technology (by increasing the trend towards tele-conferencing and tele-working) and on management which has to rethink entire economic processes in order to accommodate the higher energy prices.

Higher energy prices mean sensitive issues with both industrialists and population

and therefore an increase of the role of local and national politicians. At least for the moment, this trend is not favourable to further European integration. Higher energy prices also affect farmers and from this point of view again the European Union member states present very different situations and therefore different positions.

An interesting observation is that higher energy prices may have as effect the increase of regional trade vs. global trade (a phenomenon which also took place in the '70s when US trade with Latin America increased due to higher transport costs) as well as an increase in the number of conflicts<sup>4</sup>. The rise of energy prices may lead to a redistribution of wealth, to more competition on resources, including in military form, and to an increase of nation state decision-making mechanisms.

### High food prices

The increase in food prices, particularly in 2008, took place, on the one hand, because of temporary problems in Australia, Ukraine and some other places, but, on the other hand, it took place because of long term problems such as: unequal rise of income in developing countries, increase demand for bio-fuels, trade/export restrictions on foods, etc.<sup>5</sup>

A particular point refers to the impact of the support provided for stimulation of production of technical plants used for bio fuels (an area championed by the EU) on the production of foods. According to several studies prepared in the last 2 years by international organizations, the biggest long term cause of increases in food prices is the use of agricultural products to make fossil fuel

<sup>2</sup> Data valid as of June 2008 according to [www.gaspricewatch.com](http://www.gaspricewatch.com)

<sup>3</sup> Peter Ford, "Gas prices too high? Try Europe", *The Christian Science Monitor*, August 26, 2005.

<sup>4</sup> Rana Foroohar, "The Coming Energy Wars", *Newsweek*, June 9, 2008.

<sup>5</sup> High food prices: Impact and recommendations, Paper prepared by FAO, IFAD and WFP for the meeting of the Chief Executives Board for Coordination on 28-29 April 2008, Berne, Switzerland.

substitutes<sup>6,7</sup>. While it is difficult to quantify exactly the contribution of this decision to the increase of food prices, the role of the EU in generating this issue is important and the lesson is that such decisions may require more careful consideration in the future. Until then, a reaction can be to rely less on European Community wide decisions and rather try to adapt them to the specific conditions of each member country.

At the same time, at a global level, this situation requires better policies in developing countries and better international cooperation. This in turn may resume debates on the issue of world population and migration since demographic trends are very different in developed and developing countries. And last but not least, the high food prices may put into a new perspective the issue of genetically modified organisms (GMOs) which were opposed for a long time by various EU institutions but which may represent a solution for fast increase of agricultural output in high population countries.

### **Significant transfer of wealth to the Middle East and Pacific area**

Globalization and the rise of new economic powers, as well as the revenues generated after the increase in price of energy and raw materials, have determined major shifts in the money flows world wide. This also determined the rise of sovereign wealth funds which originate to a large extent in oil countries and represent the interests of the national governments. As these funds own more and more of the debt and assets of

Western countries they have a higher say in decision making and this adds a global (and very different) dimension to policies, which is difficult to control and assess<sup>8</sup>.

In 2008, more money is being transferred to oil/energy producing countries. At the same time, more money is being generated and directed towards transnational corporations from China, India, the Russian Federation and some other countries, as well as more investors from these new economic powers are coming to Western economies, in the context of higher competition on resources with the new developed states and a much more complex situation in international negotiations and politics<sup>9</sup>.

The key word regarding the above developments is diversification (of economic powers, of origin of transnational corporations, and in essence, of interests). The diversification of centres of economic power and its implications on a global scale may also lead to the spreading of ideologies and values which are different than Western ones and which may require more tailor made approaches to various situations in comparison to a decade ago.

Diversification in the global power centers and in interests is likely to bring about diversification and not centralization of decision centres. Such a trend is, in our opinion, very likely to be less favourable to European integration.

### **Need for a change in domestic policies of most Western countries**

The realities of 2008 (economic slowdown, banking sector crisis, high energy prices,

<sup>6</sup> OECD-FAO AGRICULTURAL OUTLOOK 2007-2016, edited by OECD/FAO 2007.

<sup>7</sup> Rising food prices: Policy options and World Bank response, paper prepared in April 2008, [www.siteresources.worldbank.org](http://www.siteresources.worldbank.org)

<sup>8</sup> Nadeem Walayat, "Sovereign Wealth Funds - Saviours or Harbingers of Economic Apocalypse?", January 7, 2008, <http://www.marketoracle.co.uk>

<sup>9</sup> Enrique Portaluppi, "The Globalization Security Dilemma: How Globalization will Renew Great Power Competition", *American Chronicle*, September 2, 2008.

demographic trends, etc.), and most presumably of the coming years, require from the part of governments some long delayed and difficult actions.

In the spring of 2008 the perception in the EU Commission was that Europe finds itself at a crucial crossroads, facing both internal and external pressures and there is an urgent need to prepare European societies and economies<sup>10</sup>:

- for an economy based on knowledge rather than manufacturing;
- for an ageing and declining population;
- and for an intensely integrated and competitive global arena in which natural resources are declining.

As result of this situation, changes are required in several areas. Among them, there is a need for:

- a new approach to taxation (that will encourage investment and will discourage consumption);
- a new approach to transport of commodities in favour of less energy intensive means of transport;
- a new approach to incentives for research directed to bringing energy efficient technologies to large scale use;
- and last but not least, a new approach to education (as response to a need for a better educated work force as well as for a more energy and environment cautious generation).

As these necessary changes are to be decided and applied within the national contexts (which are different as level of development, structure of economies, levels and structure of taxation systems, etc.) One may expect a tendency towards a diversification of reactions and approaches

which will not eliminate a common position but rather be in favour of nuances and differentiation.

### **Need for a new approach regarding the banking sector**

The crisis in the banking sector that started in the US and spread out gradually in the global banking network requires some actions as result of the lesson learnt: not only commercial banks have to be more regulated, but also investment banks.

This new situation is characterized by the fact that the days of very high returns are over. At the same time, the presence of foreign investors will be higher. And the banks will have to look for stability in a period of change.

This trend is not affecting the European Union in a particular way, but because the banking and financing sectors are so integrated at a global level the impact is felt in all countries and the new regulations will have to be applied everywhere<sup>11</sup>. The major aspects in the years to come are related to both the increase of concentration (particularly for large intermediaries) and the higher presence of non-EU financial institutions as result of globalization and emergence of new economic powers.

The existence of the Euro zone and the gradual increase in the number of participating countries will determine an increase of integration but this will refer mostly to the relations between the European Central Bank and the Central Banks of the participating member states rather than to other EU institutions.

<sup>10</sup> Joaquín Almunia, European Commissioner for Economic and Monetary Policy, "Structural economic policy priorities for Europe", OECD Conference on Structural Reform in Europe Paris, 17 March 2008

<sup>11</sup> "The new challenges for the European banking system", Speech by Gabriel Quirós on behalf of Eugenio Domingo Solans, Member of the Executive Board of the European Central Bank, at a seminar organized by Ambrosetti and Getronics, Vienna, 12 April 2002.

## Climate change

According to the United Nations Framework Convention on Climate Change (UNFCCC), climate change refers to a change of climate that is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and that is in addition to natural climate variability observed over comparable time periods.

The risks posed by climate change are real and more and more people have felt its effects already. As a proof of the reality of this risk, the United Nations Organization estimates that all but one of its emergency appeals for humanitarian aid in 2007 were climate related. As a result, in 2007, the UN Security Council held its first debate on climate change and its implications for international security.

In its Fourth Assessment Report (AR4)<sup>12</sup>, published in 2007, the Intergovernmental Panel on Climate Change (IPCC) projects that, without further action to reduce greenhouse gas emissions, the global average surface temperature is likely to rise by a further 1.8-4.0°C this century, and by up to 6.4°C in the worst case scenario. Even the lower end of this range would take the temperature increase since pre-industrial times above 2°C - the threshold beyond which irreversible and possibly catastrophic changes become far more likely.

Climate change is often perceived as a threat multiplier which exacerbates existing trends, tensions and instability. The core challenge is that climate change threatens to overburden states and regions which are already fragile and conflict prone. The main

types of threats determined by climate change are<sup>13</sup>:

- Conflict over resources;
- Economic damage and risk to coastal cities and critical infrastructure;
- Loss of territory and border disputes;
- Environmentally-induced migration;
- Situations of fragility and radicalization;
- Tension over energy supply;
- Pressure on international governance.

Despite a number of evident effects in the area of climate change there is a need for a more consistent understanding of the phenomenon and for a better evaluation of the implications on food, health, economy, territory, etc. In this respect it is to be noted that some authors are more moderate in their evaluation, mentioning the existence of alternative sources of energy, the possibility of energy conservation and the numerous measures already taken to alleviate the effects<sup>14</sup>.

The financial and budgetary implications of climate change have been the subject of numerous studies, all characterized by complexity and great uncertainty. Such financial implications are related to average annual cost estimates ranging from 0.6% to 1.6% of total gross domestic product worldwide or between about €230 and €614 billion annually (based on global GDP for 2006). The estimated share of the EU in global costs is estimated to be at around €60 billion annually, and reaches up to €194 billion in the high-cost scenarios<sup>15</sup>.

The active role of the EU in the international climate change debates and negotiations has been significant up to now. Thus, the EU is committed to reducing its

<sup>12</sup> "Climate Change 2007", IPCC Fourth Assessment Report, <http://www.ipcc.ch/ipccreports/ar4-syr.htm>

<sup>13</sup> "Climate Change and International Security", Paper from the High Representative and the European Commission to the European Council, Paper S113/08 14 March 2008.

<sup>14</sup> Roy W. Spencer, *Climate Confusion*, Encounter Books, New York London 2008.

<sup>15</sup> Arno Behrens, Jorge Núñez Ferrer, Christian Egenhofer, "Financial Impacts of Climate Change: Implications for the EU Budget", CEPS Working Document No. 300/August 2008

overall emissions to at least 20% below 1990 levels by 2020, and is ready to scale up this reduction to as much as 30% under a new global climate change agreement when other developed countries make comparable efforts. It has also set itself the target of increasing the share of renewable energy use to 20% by 2020.

Due to its far reaching implications, climate change is one of the factors that may increase both consultations and common actions from the part of the EU member states and therefore it is a factor favourable to integration. The issue is more sensitive than it may appear at first sight because the initiatives taken up to now determined both food price increases and negative reactions from the part of automotive industry but also spurred research in energy conservation and renewable energy.

### **Technological trends and their implication for business**

The current global economic arena is re-shaped by some megatrends which are manifested in technology. In fact, these trends are so comprehensive that they include all points discussed above and have an impact on all components of economic, social and political life.

Among these trends that will shape the world well into the next decade, the following can be mentioned<sup>16,17,18</sup>:

1. A new level of technological connectivity wherein knowledge is increasingly available and, at the same time, increasingly specialized. Knowledge production itself is growing: worldwide patent applications, for example, rose from 1990 to 2004 at a rate of

20 percent annually. The most obvious manifestation of this trend is the rise of search engines (such as Google), which make an almost infinite amount of information available instantaneously. New models of knowledge production, access, distribution, and ownership are emerging. Due to the rise of open-source approaches to knowledge development communities, not individuals, become responsible for innovations.

2. New global industry structures are emerging. In response to changing market regulation and the advent of new technologies, non-traditional business models are flourishing, often coexisting in the same market and sector space. In many industries the new structures have a few big companies on top, very few in the middle, and a large base of smaller, fast-moving companies at the bottom. Corporate borders are becoming less clear cut and replaced by networks of suppliers, producers, and customers.

3. A global battle for skilled labour characterized by a change from the migration of jobs to low-wage countries to a global competition for high skilled labour.

The impact of these trends on the EU is complex because it creates a fuzzier picture in which both national and community structures are eroded and replaced by an informational, knowledge-based megastructure with a continuously variable geometry. Against this technological background EU institutions and mechanisms may regulate more and become less and less relevant.

Although these trends are all well beyond the control of the EU, they can be influenced by the EU to a certain extent, only if EU succeeds to manifest as a coherent economic actor.

<sup>16</sup> Ian Davis, Elizabeth Stephenson, "Ten trends to watch in 2006", *The McKinsey Quarterly*, January 2006.

<sup>17</sup> "New IBM Report Identifies Six Megatrends Reshaping Governments and Societies Around the World", *Market Wire*, June 2008.

<sup>18</sup> "The future of global government global mega-trends, eGovernment thoughts and speculations from an Australian perspective", July 22, 2008.

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