Evolution of the European Union and the “euro”

« Implications to Business »

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# Strategic Competitors: Year 2020

## World's Largest Economies: PPP Basis (US$2006)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>13,233</td>
<td>2.5%</td>
<td>18,698</td>
<td>299</td>
<td>0.8%</td>
<td>334.3</td>
<td>44,258</td>
</tr>
<tr>
<td>China</td>
<td>10,153</td>
<td>7%</td>
<td>26,180</td>
<td>1,312</td>
<td>0.6%</td>
<td>1426.6</td>
<td>7,739</td>
</tr>
<tr>
<td>Japan</td>
<td>4,229</td>
<td>1.5%</td>
<td>5,209</td>
<td>128</td>
<td>-0.2%</td>
<td>124.5</td>
<td>33,039</td>
</tr>
<tr>
<td>India</td>
<td>4,217</td>
<td>7%</td>
<td>10,874</td>
<td>1,110</td>
<td>1.2%</td>
<td>1311.7</td>
<td>3,799</td>
</tr>
<tr>
<td>Germany</td>
<td>2,623</td>
<td>2%</td>
<td>3,461</td>
<td>82</td>
<td>-0.2%</td>
<td>79.7</td>
<td>31,988</td>
</tr>
<tr>
<td>U.K.</td>
<td>2,148</td>
<td>2%</td>
<td>2,834</td>
<td>60</td>
<td>0.3%</td>
<td>62.6</td>
<td>35,800</td>
</tr>
<tr>
<td>France</td>
<td>2,059</td>
<td>2%</td>
<td>2,717</td>
<td>61</td>
<td>0.0%</td>
<td>61.0</td>
<td>33,754</td>
</tr>
<tr>
<td>Italy</td>
<td>1,789</td>
<td>2%</td>
<td>2,361</td>
<td>59</td>
<td>-0.3%</td>
<td>56.6</td>
<td>30,322</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,661</td>
<td>5%</td>
<td>3,289</td>
<td>189</td>
<td>1.1%</td>
<td>220.3</td>
<td>8,788</td>
</tr>
<tr>
<td>Russia</td>
<td>1,656</td>
<td>5%</td>
<td>3,279</td>
<td>142</td>
<td>-0.5%</td>
<td>132.4</td>
<td>11,662</td>
</tr>
<tr>
<td>European Union (27)</td>
<td>13,965</td>
<td>2%</td>
<td>18,427</td>
<td>488</td>
<td>0.3%</td>
<td>508.9</td>
<td>28,617</td>
</tr>
<tr>
<td>World TOTAL</td>
<td>66,596</td>
<td>2.7%</td>
<td>96,702</td>
<td>6,518</td>
<td>-0.04%</td>
<td>6481.6</td>
<td>10,217</td>
</tr>
</tbody>
</table>

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Treaty of Paris (1951): Creation of the European Coal and Steel Community
Europe’s Founding Members

- **1951** Founding Members
  - (B) Belgium
  - (F) France
  - (D) Germany
  - (I) Italy
  - (L) Luxembourg
  - (NL) The Netherlands
Treaty of Rome (1957): Formation of the European Economic Community
Criteria for Joining the euro, Economic & Monetary Union

- **Inflation**: Not to exceed 1.5% points of the average of the best three performing countries
- **Interest Rates**: Not to exceed 2% points of the average of the best three performing countries
- **Fiscal Deficit/GDP ratio**: Not to exceed 3%
- **Public Debt/GDP ratio**: Not to exceed 60%.
The 15 “eurozone” Countries

[Map of Europe with countries colored in red and blue]

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Copenhagen Criteria (1993): Foundation of Enlargement Process

European Union

- European Community: customs union, internal market, Common Agricultural Policy, Economic and Monetary Union
- Common Foreign and Security Policy
- Cooperation in Justice and Home Affairs
Copenhagen Criteria I

- Applicant countries must have stable institutions that guarantee democracy, the rule of law, human rights, and protection of minorities (the political criteria)
Applicant countries must have a functioning market economy, and the capacity to cope with competitive pressures (the economic criteria)
Copenhagen Criteria III

- Applicant countries must have the ability to take on the obligations of membership (to apply effectively EU rules and policies -- acquis communautaire)
Fourth Enlargement: 1995 (15 countries)

1951 Founding Members
(B) Belgium
(F) France
(D) Germany
(I) Italy
(L) Luxembourg
(NL) The Netherlands

1973
(DK) Denmark
(IRL) Ireland
(GB) The United Kingdom

1981
(GR) Greece

1986
(P) Portugal
(E) Spain

1990
East Germany
Treaty of Amsterdam (1997): Established the beginning of a Common Foreign and Security Policy
Treaty of Nice (2001): Established a democratic voting system to accommodate EU enlargement.
Fifth Enlargement: 2004 (25 Countries)

- EU (15 countries)
- EU Membership 2004
  - Cyprus
  - Czech Republic
  - Estonia
  - Hungary
  - Latvia
  - Lithuania
  - Malta
  - Poland
  - Slovakia
  - Slovenia
- EU Accession planned for 2007
  - (B) Bulgaria
  - (R) Romania
- Candidate Countries
  - (T) Turkey
  - (HR) Croatia
- EEA
Sixth Enlargement: 2007 (27 Countries)

EU (15 countries)

EU Membership 2004
- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

EU Membership 2007
- (B) Bulgaria
- (R) Romania

Candidate Countries
- (T) Turkey
- (HR) Croatia

EEA
Future of the European Union

The Lisbon Summit (2000): Goal of making the EU the most competitive and dynamic knowledge-based economy in the world by 2010
The Lisbon Treaty (2007)

• To streamline decision-making mechanism for the effective functioning of 27-member Union
• A meaningful full-time president for the EU
• Create a new foreign policy body and minister with increased political clout in global affairs
• Change European Commission voting procedures so that fewer decisions would require majority votes
## Business Opportunities (1):
### Economic Size

<table>
<thead>
<tr>
<th></th>
<th>EU 27</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (in $bn)</strong></td>
<td>13,965</td>
<td>12,487</td>
</tr>
<tr>
<td><strong>Annual GDP growth (Long Term)</strong></td>
<td>1.5</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Share of economy (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Industry</td>
<td>27.2</td>
<td>20.1</td>
</tr>
<tr>
<td>Services</td>
<td>70.7</td>
<td>78.6</td>
</tr>
</tbody>
</table>
Business Opportunities (2): Demography

<table>
<thead>
<tr>
<th></th>
<th>EU 27</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (in mn.)</td>
<td>496</td>
<td>301</td>
</tr>
<tr>
<td>% &lt; 15 years</td>
<td>16.4</td>
<td>21.6</td>
</tr>
<tr>
<td>% &gt; 65 years</td>
<td>16.5</td>
<td>12.7</td>
</tr>
<tr>
<td>Fertility rate</td>
<td>1.50</td>
<td>2.07</td>
</tr>
<tr>
<td>Infant mortality (per 1000 live births)</td>
<td>4.5</td>
<td>6.9</td>
</tr>
</tbody>
</table>
### Business Opportunities (3): Labor Market

<table>
<thead>
<tr>
<th></th>
<th>EU 27</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment January 2006</strong></td>
<td>8.2</td>
<td>4.5</td>
</tr>
<tr>
<td>(% of labor force)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unemployment under age 25</strong></td>
<td>18.5</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>Employment rate</strong></td>
<td>63.3</td>
<td>71.2</td>
</tr>
<tr>
<td>(% of 15-64 yrs old employed)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Business Opportunities (4):
#### Education and Research

<table>
<thead>
<tr>
<th></th>
<th>EU 27</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of population with higher edu. Degrees</td>
<td>20.4</td>
<td>26.7</td>
</tr>
<tr>
<td>Public expend. on edu. as % of GDP</td>
<td>5.22</td>
<td>5.35</td>
</tr>
<tr>
<td>Expend. on R&amp;D as % of GDP</td>
<td>1.90</td>
<td>2.59</td>
</tr>
</tbody>
</table>
**Business Opportunities (5): Information Technology and Digital Divide**

<table>
<thead>
<tr>
<th>Number per 100 inhabitants</th>
<th>EU 27</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars</td>
<td>46</td>
<td>77</td>
</tr>
<tr>
<td>Mobile phones</td>
<td>81</td>
<td>49</td>
</tr>
<tr>
<td>PCs</td>
<td>31</td>
<td>66</td>
</tr>
<tr>
<td>Internet users</td>
<td>48</td>
<td>55</td>
</tr>
</tbody>
</table>
Business Challenge: Lack of European Identity

« Now we have Europe!
What we need now is Europeans »

B. Geremek
Identity (1): Geography
Identity (2a): Religion
Identity (2b): Religion

**GO WEST**

Muslim populations in Western Europe, mid-2000 (millions)

- United Kingdom: 1.20
- Norway: 0.05
- Sweden: 0.20
- Netherlands: 0.60
- Germany: 3.65
- Austria: 0.18
- Switzerland: 0.20
- Italy: 0.67
- Greece: 0.35
- Spain: 0.20
- Portugal: 0.02
- France: 4.18
- Denmark: 0.07
- Ireland: 0.01

Muslim population (% of total population)

- 5% and over
- 2.5-4.9%
- 1.0-2.4%
- less than 1%

Source: World Christian Encyclopedia
Identity (3): Languages
Candidate: Turkey
Candidate: Croatia
Candidate: Macedonia
Candidate: Ukraine
**Business Challenge (1): Non-uniform Corporate Taxes: A race to the bottom? Sustainability?**

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporate Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>30%</td>
</tr>
<tr>
<td>France</td>
<td>33%</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>22%</td>
</tr>
<tr>
<td>Hungary</td>
<td>19%</td>
</tr>
<tr>
<td>Latvia</td>
<td>18%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>15%</td>
</tr>
<tr>
<td>Estonia</td>
<td>0%</td>
</tr>
</tbody>
</table>
### Business Challenge (2):
Non-uniform Value Added Taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>VAT Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standard</td>
</tr>
<tr>
<td>Austria</td>
<td>20%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>15%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
</tr>
<tr>
<td>Estonia</td>
<td>18%</td>
</tr>
<tr>
<td>France</td>
<td>19.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>16%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>15%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25%</td>
</tr>
</tbody>
</table>
Business Challenge (3): Immigration Policy

Two individuals seeking Asylum in Europe
European Union: Symbols of Harmony (1)
European Union: Symbols of Harmony (2)

1-Euro Designs by Country

Obverse (same for all countries)

- Austria
- Belgium
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- The Netherlands
- Portugal
- Spain
European Union: Symbols of Harmony (3)
THANK YOU!

Questions?