Evolution of the European Union, the “euro” and the Eurozone Sovereign Debt Crisis

Brexit?

Dr. Julian Gaspar, Executive Director
Center for International Business Studies &
Clinical Professor of International Finance
Mays Business School, Texas A&M University.
## World’s Ten Largest Economies: US $ 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>GNI (billions)</th>
<th>% of World GNI</th>
<th>Population (millions)</th>
<th>GNI per Capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>17,601</td>
<td>22.5</td>
<td>318.9</td>
<td>55,200</td>
</tr>
<tr>
<td>China</td>
<td>10,097</td>
<td>12.9</td>
<td>1,364.3</td>
<td>7,400</td>
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<tr>
<td>Japan</td>
<td>5,339</td>
<td>6.8</td>
<td>127.1</td>
<td>42,000</td>
</tr>
<tr>
<td>Germany</td>
<td>3,854</td>
<td>4.9</td>
<td>80.9</td>
<td>47,640</td>
</tr>
<tr>
<td>France</td>
<td>2,844</td>
<td>3.6</td>
<td>66.2</td>
<td>42,960</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2,802</td>
<td>3.6</td>
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<tr>
<td>Brazil</td>
<td>2,375</td>
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<tr>
<td>Italy</td>
<td>2,102</td>
<td>2.7</td>
<td>61.3</td>
<td>34,270</td>
</tr>
<tr>
<td>India</td>
<td>2,028</td>
<td>2.6</td>
<td>1,296.3</td>
<td>1,570</td>
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<tr>
<td>Canada</td>
<td>1,835</td>
<td>2.4</td>
<td>35.5</td>
<td>51,630</td>
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<tr>
<td>World</td>
<td>78,324</td>
<td>100</td>
<td>7,260.7</td>
<td>10,787</td>
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</table>
# World’s Ten Largest Economies: PPP Basis

**World's Ten Largest Economies: Purchasing Power Parity (PPP) Basis**
(US$2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>PPP GNI** (billion US$)</th>
<th>% of World PPP GNI</th>
<th>Population (million)</th>
<th>PPP GNI/capita (US$)</th>
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<tbody>
<tr>
<td>China</td>
<td>17,967</td>
<td>16.6</td>
<td>1,364.3</td>
<td>13,170</td>
</tr>
<tr>
<td>United States</td>
<td>17,812</td>
<td>16.4</td>
<td>318.9</td>
<td>55,860</td>
</tr>
<tr>
<td>India</td>
<td>7,293</td>
<td>6.7</td>
<td>1,295.3</td>
<td>5,630</td>
</tr>
<tr>
<td>Japan</td>
<td>4,821</td>
<td>4.5</td>
<td>127.1</td>
<td>37,920</td>
</tr>
<tr>
<td>Germany</td>
<td>3,790</td>
<td>3.5</td>
<td>80.9</td>
<td>46,850</td>
</tr>
<tr>
<td>Russia</td>
<td>3,610</td>
<td>3.3</td>
<td>143.8</td>
<td>24,710</td>
</tr>
<tr>
<td>Brazil</td>
<td>3,213</td>
<td>3.0</td>
<td>206.1</td>
<td>15,590</td>
</tr>
<tr>
<td>France</td>
<td>2,623</td>
<td>2.4</td>
<td>66.2</td>
<td>39,610</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2,518</td>
<td>2.3</td>
<td>64.5</td>
<td>39,040</td>
</tr>
<tr>
<td>Italy</td>
<td>2,128</td>
<td>2.0</td>
<td>61.3</td>
<td>34,700</td>
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<tr>
<td>Eurozone (19)</td>
<td>13,197</td>
<td>12.2</td>
<td>338.7</td>
<td>38,959</td>
</tr>
<tr>
<td>World Total</td>
<td>108,412</td>
<td>100</td>
<td>7,260.7</td>
<td>14,931</td>
</tr>
</tbody>
</table>

Source: The World Bank, *World Development Indicators 2015, Table 1.1, Size of the Economy*

*PPP conversion factor is the number of units of a country's currency that is required to buy the same amount of goods and services in the domestic market that a U.S. dollar would buy in the United States.

**GNI is the total value of goods and services produced by a country plus net receipts of employee compensation and property income from abroad.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>17,813</td>
<td>2.20%</td>
<td>20,297</td>
<td>319</td>
<td>0.9%</td>
<td>336.5</td>
<td>55,858</td>
<td>60,317</td>
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<tr>
<td>2</td>
<td>China</td>
<td>17,967</td>
<td>7.00%</td>
<td>26,964</td>
<td>1,364</td>
<td>0.3%</td>
<td>1389.0</td>
<td>13,169</td>
<td>19,412</td>
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<td>3</td>
<td>India</td>
<td>7,293</td>
<td>7.00%</td>
<td>10,945</td>
<td>1,295</td>
<td>1.2%</td>
<td>1391.4</td>
<td>5,630</td>
<td>7,866</td>
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<tr>
<td>4</td>
<td>Japan</td>
<td>4,821</td>
<td>1.50%</td>
<td>5,271</td>
<td>127</td>
<td>-0.3%</td>
<td>124.8</td>
<td>37,931</td>
<td>42,230</td>
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<tr>
<td>5</td>
<td>Germany</td>
<td>3,790</td>
<td>2.00%</td>
<td>4,268</td>
<td>81</td>
<td>0.2%</td>
<td>79.9</td>
<td>46,848</td>
<td>53,396</td>
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<tr>
<td>6</td>
<td>Russia</td>
<td>3,610</td>
<td>4.00%</td>
<td>4,568</td>
<td>144</td>
<td>-0.2%</td>
<td>142.1</td>
<td>25,104</td>
<td>32,149</td>
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<tr>
<td>7</td>
<td>Brazil</td>
<td>3,213</td>
<td>5.00%</td>
<td>4,306</td>
<td>206</td>
<td>0.7%</td>
<td>214.9</td>
<td>15,590</td>
<td>20,035</td>
</tr>
<tr>
<td>8</td>
<td>France</td>
<td>2,623</td>
<td>2.00%</td>
<td>2,954</td>
<td>66</td>
<td>0.5%</td>
<td>68.2</td>
<td>39,622</td>
<td>43,306</td>
</tr>
<tr>
<td>9</td>
<td>United Kingdom</td>
<td>2,518</td>
<td>2.00%</td>
<td>2,836</td>
<td>65</td>
<td>0.4%</td>
<td>66.1</td>
<td>39,039</td>
<td>42,923</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>2,128</td>
<td>2.00%</td>
<td>2,396</td>
<td>61</td>
<td>0.1%</td>
<td>61.7</td>
<td>34,715</td>
<td>38,860</td>
</tr>
<tr>
<td></td>
<td>Eurozone (18)</td>
<td>13,197</td>
<td>2.00%</td>
<td>14,862</td>
<td>339</td>
<td>0.20%</td>
<td>342.8</td>
<td>38,964</td>
<td>43,357</td>
</tr>
<tr>
<td></td>
<td>World TOTAL</td>
<td>108,412</td>
<td>2.70%</td>
<td>127,204</td>
<td>7,261</td>
<td>1.00%</td>
<td>7707.4</td>
<td>14,931</td>
<td>16,504</td>
</tr>
</tbody>
</table>

The world's biggest economies

This week the International Monetary Fund updated its data on the world economy. For the first time it ranks China's economy as the world's biggest in purchasing-power-parity terms. Historians, though, point out that China is merely regaining a title that it has held for much of recorded history. In 1820 it probably produced one-third of global economic output. The brief interlude in which America overshadowed it is now over.

World's biggest three economies, GDP at PPP* as % of world total
Historical output within the boundaries of modern countries

Sources: Angus Maddison; IMF; The Economist

*Purchasing-power parity
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 (EEC)
The European Treaties

- The European Union is based on “Treaties” and the rule of law
- This means that every action that is taken must be founded on some treaty or other
- The treaties are negotiated with member states, agreed and then ratified by respective parliaments
- The treaties are amended with time
The Single European Act (1986)

- Paved the way for completing the single market
- Going beyond free trade and customs union to free movement of labor and capital, essentially creating “a single European market” for goods and services

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
Criteria for Joining the euro (2000), Economic & Monetary Union

- Growth and Stability Pact (convergence criteria):
  - **Inflation**: Not to exceed 1.5% points above the average of the best three Eurozone countries
  - **Interest Rates**: Long-term (10-year) sovereign bond rates not to exceed 2% points above the average of the best three Eurozone countries
  - **Fiscal Deficit/GDP ratio**: Not to exceed 3%
  - **Public Debt/GDP ratio**: Not to exceed 60%.
The 19 “eurozone” Countries
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)
Copenhagen Criteria II

- 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

1995
(A) Austria (SF) Finland (S) Sweden
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 Membership 2007
- (B) Bulgaria
- (R) Romania

EU Membership 2013
- (HR) Croatia

EEA

24/02/2016
Sixth Enlargement: 2007 (27 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
Seventh Enlargement: 2013 (28 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
- (MK) Macedonia
- (UK) Ukraine
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 current 28-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
The Challenge: Lack of European Identity

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

B. Geremek
The EU: A United States of Europe?

“A la carte” European Union?

- Conflict between Federalism and National Sovereignty
- Limits to the European Union: Political Union
- British concern: Schengen Agreement (1985) eliminating border controls; free movement of labor; refugees and welfare payments; exemption from joining the Eurozone; independence of Bank of England from following banking reforms/regulations imposed by the ECB; and desire to adopt own foreign/defense policies --the Trojan Horse!
- British referendum on June 3, 2016
Identity (1): Geography
Identity (2a): Religion
Identity (2b): Religion

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

- United Kingdom 1.20
- Netherlands 0.60
- Denmark 0.07
- Germany 3.65
- Norway 0.05
- Ireland 0.01
- Austria 0.18
- Switzerland 0.20
- France 4.18
- Italy 0.67
- Portugal 0.02
- Belgium 0.36
- Spain 0.20
- Greece 0.35

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: Macedonia
Candidate: Ukraine
### Business Challenge (1): Non-uniform Corporate Taxes: A race to the bottom? Sustainability?

#### Corporate Income Tax

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax Rate</th>
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<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)
European Union: Symbols of Harmony (3)
THANK YOU!

Questions?