



European Union

Overview

- **Free movement of goods & people** is the core principle of the European Union.
 - No border controls of any kind between countries
 - No tariffs (import taxes) between member countries
 - Residents of EU member states can live & work anywhere in the EU
- In exchange for participation in this **common market**, member state agree to adhere to the rules of the **customs union**, a set of standardized regulations for all goods sold anywhere in the EU
- The EU sets **macroeconomic policy** such as interest rates
- Member states must have their budget approved by the EU every year and abide by strict fiscal responsibility requirements



How the EU Works | CFR

Why have one currency?

- Small business perspective
- Larger market
- Stability
- Offset weaker economies





Unemployment Rates in the EU



East v West

Eastern Europe

- Agrarian economies with less manufacturing
- Less developed infrastructure, fewer highways
- Fewer regulations so people have flexibility to make an income
- Brain drain as young, educated residents move to West

Western Europe

- Manufacturing & service based economies
- Highly developed infrastructure throughout country
- Tight regulations viewed as essential to health and safety
- Resentment of eastern migrants taking lower paid jobs, social welfare

North v South

Northern Europe

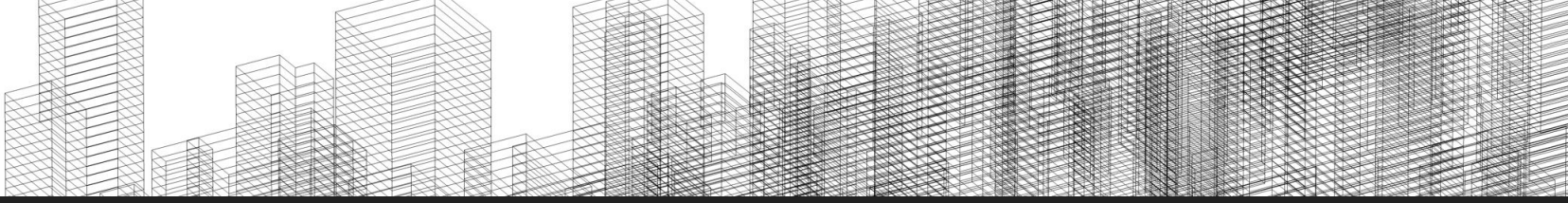
- More college educated
- More manufacturing
- Resistance to recessions
- Wealthier populations with fewer using social safety nets
- Provided bailouts during 2013 financial crisis

Southern Europe

- Less college educated
- More service (restaurants/retail)
- Susceptible to recessions
- Lower income populations with more using social safety nets
- Received bailouts during 2013 financial crisis

Political Nationalism

- Nationalism has been a major force in European politics since the end of World War I.
- Many ethnic groups that had been conquered and oppressed became independent countries when large empires collapsed.
- In the east, these countries lost their independence when they became satellite states of the Soviet Union.
- Some people feel the EU is dominating them the way the USSR did.



Migration Crisis

1. How many migrants came last year, and where did they go?
2. What is the EU-Turkey deal?
3. What is the Dublin regulation?



DEMOCRACY

Illiberal Democracy

EUROPE



Definition

A country in which elections take place but civil liberties are restricted, meaning that citizens lack full knowledge of the ruling government's activities, and leaders lack full accountability to the people.

Examples

- ★ **Russia:** elections are not free and fair, media largely controlled by the state [Source](#), [Source](#)
- ★ **Turkey:** parliament cannot introduce votes of no confidence in government officials, president cannot be investigated by parliament, president can appoint judges, president essentially rules by decree. [Source with Nice AGD](#), [Source](#)
- ★ **Hungary:** shady elections, diminished independent media, less independent judiciary, anti-Semitic (anti Jewish) propaganda [Detailed analysis](#)
- ★ **Poland:** ruling PiS party is attempting to seize control of the judiciary, claiming they need more authority to root out remnants of Communism [Source](#), [Source](#)

Hungary's Democratic Collapse

-
- Democratic transition characterized by a large economic & social division between urban and rural areas, with urban areas getting more \$\$\$
 - Many Hungarians, especially in the countryside, had borrowed money in Swiss francs because the interest was lower
 - During the global downturn following the 2008 recession, the value of Hungarian forints plummeted. That made paying back a mortgage in francs impossible.
 - The ruling socialist government had taken on debt, so it couldn't afford to intervene to help.
 - People voted in Viktor Orbán's conservative party and solidified behind it after the refugee crisis began around 2011

Poland: Economics over Democracy

-
- ❑ Income inequality grew during Poland's democratic transition. Rural areas once supported by Soviet factories struggled for jobs while cities grew wealthier.
 - ❑ Poland's liberal ruling party failed to address this problem, which grew worse during the global economic downturn.
 - ❑ Voters elected the socially conservative, fiscally liberal PiS (law and justice party) instead.
 - ❑ Its generous welfare policies have decreased child poverty from 11% to 2% and helped the economy grow by 4%. [Source](#)

Why does the EU care?

Democratic Peace Theory: no two democratic nations have ever gone to war with one another.

Checks and balances: EU law requires stringent financial management. Leaders who dismantle their country's system of checks and balances are harder to hold accountable to EU law.

Separatism: Many illiberal leaders have been elected on nationalist platforms that threaten core values of the EU.



Brexit

History

- A public vote (known as a referendum) was held in June 2016, **when 17.4 million people opted for Brexit.**
- Quickly created two sides
 - ◆ No deal vs. deal
- Debate quickly changed → no deal vs. remain
- Prompted debate around a revote late 2018
- Theresa May is replaced by Boris Johnson in July 2019
 - ◆ Johnson says that the UK has had “enough of waiting” for Brexit
- The UK leaves the EU on January 31, 2020
 - ◆ Transition period

Transition Period

The UK must continue to follow the EU's rules and regulations, while also remaining the same in terms of their trade relationship until December 31, 2020.

According to the Department of International Trade, 60% of trade for the UK is with EU countries or countries with trade deals with the EU.



Renegotiation

What happens if a free trade deal cannot be reached between the two parties?



A lot at the line



It's not just trade deals at the line here for the UK. Daily functions were impacted by involvement with the EU.

Providing electricity to residents, technology and medicine regulation, aviation rules, law enforcement rules, and data sharing are all under the EU.

All of these aspects need to be negotiated by the end of the transition period. If not....

After the transition period

Red Flags

- ❑ Recent negotiations between the UK and the EU lead to absolutely nothing
 - ❑ The EU chief negotiator believed the UK was lacking respect and engagement
- ❑ Even though the deal was supposed to be easy to achieve there is clearly a struggle to make it a success
- ❑ The EU compromised on the justice system → agreed that the UK criminal justice system would not intervene in the UK
 - ❑ Expected economic regulations under the EU to be followed by the UK, but it was unclear
- ❑ Big miscommunications between the two parties have indicated that the UK might have to prepare for a no deal situation despite recent negotiations.

Economic Ramifications

- ❖ Let's start with what we already know - trade
- ❖ Consumer confidence
- ❖ Foreign investment
- ❖ Growth rate





The EU After Merkel



Power Vacuum

- ❖ Angela Merkel is no longer Chancellor of Germany in 2021
- ❖ This creates two problems
- ❖ First, the leader that was seen as the leader of the EU is no longer clearly the leader
- ❖ Second, with the UK gone and Germany weakened, France seems to be the only option



Why is that an issue?

- ❑ Macron wants a more integrated EU
- ❑ Strengthen the defense of the EU, and no longer rely on the US
- ❑ Europeans worried because the EU needs to work with the world
- ❑ France is not doing so great either.