

Third Edition

European Integration

Methods and Economic Analysis

Jacques Pelkmans



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Third Edition

JACQUES PELKMANS



E200604162



Prentice Hall

FINANCIAL TIMES

An imprint of **Pearson Education**

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Pearson Education Limited

Edinburgh Gate
Harlow
Essex CM20 2JE
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First published 1997

Second edition published 2001

Third edition published 2006

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ISBN-13: 978-0-273-69449-6

ISBN-10: 0-273-69449-9

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data

A catalog record for this book is available from the Library of Congress

10 9 8 7 6 5 4 3 2 1
10 09 08 07 06

Typeset in 9pt Times Roman by 71

Printed and bound by Bell & Bain Limited, Glasgow

The publisher's policy is to use paper manufactured from sustainable forests.



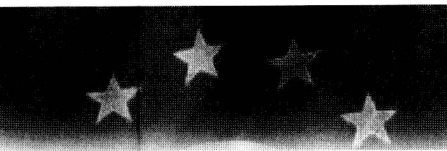
European Integration



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Preface

This third edition has been drastically revised, indeed so much so that a good deal of the text is new or heavily amended. The revision responds to the rapid developments of the European Union and, to some extent, to expressed preferences of many attentive and supporting readers who have suggested improvements or somewhat different priorities. In some sense it is, therefore, a new book. Yet, at the same time, readers familiar with the structure and the combination of integration methods and economic analysis so characteristic for this textbook will recognise that much of the structure has been retained.

Let me summarise the changes.

First, several chapters are completely new: Chapter 4 on EU regulation and Chapter 19 on the EU budget. In addition, the old Chapter 15 on equity in the Union has been split into two separate ones on social equity (Chapter 15) and on cohesion (Chapter 16), both with significant revisions and additions. The former Chapter 2 on how economic integration emerged after the war and how deepening, widening and enlargement developed over five decades has been deleted in order to make space for other topics – a regrettable but unavoidable choice. Appendix 1.3, though, provides a very brief summary of deepening, widening and enlargement. Secondly, several chapters were almost entirely rewritten and updated where applicable: the subsidiarity chapter (now Chapter 3), the one on EMU (now Chapter 18) and the chapter on Enlargement (now Chapter 20). Thirdly, another group of chapters was significantly revised, constituting around half of the text: Chapter 6 on goods market integration, where the entire second half is new; Chapter 7 on services market integration (now including a systematic treatment of horizontal liberalisation via the so-called Bolkestein directive); and Chapter 11 on the CAP. Fourth, other chapters contain parts that have been substantially revised, such as the chapters on network industries (Chapter 8), on EU trade policy (Chapter 13), the two on factor market integration (Chapters 9 and 10), and the monetary cooperation chapter (now Chapter 17), where the Mundell/Fleming model has been replaced with an open economy model with asset markets.

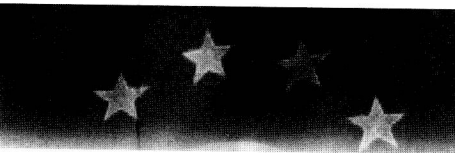
Fifth, a number of case studies have been deleted or amended and quite a few have been added. With regard to graphs, a few flowcharts have been constructed to substitute for tedious text and some of the more difficult diagrams have been made a little more reader-friendly.

I have decided to refer to the new numbering of the treaties, without mentioning the old numbering any more, except in a few instances. Throughout the text, references are made to the draft constitutional treaty (still to be ratified, with considerable uncertainty after the French

and Dutch ‘NO’ votes in 2005) because this can often be insightful for specific issues.

I am indebted to many colleagues who have helped me to improve this book, including no less than four referees requested by Pearson Education. I specifically wish to thank the following colleagues and friends: Andres Rodriguez Pose, Gerrit Meester, Marko Bos, Bart van Riel, Jean Pierre Casey, Filomena Chirico, Iain Begg, Nicholas Kikidis, Henri Olivier, Dana Greceanu, Niall Bohan and Eric de Souza. Eric is also the co-author of Chapters 17 and 18, for which he wrote specific segments of the new text. Jessie Moerman has skilfully, swiftly and patiently dealt with the entire manuscript, ensuring it would meet the demanding requirements of the publisher in every respect. My wife Annette has once again produced all the new graphs and changes where they were needed. Readers are welcome to suggest improvements or make other comments; e-mail me at jpelkmans@coleurop.be at the College of Europe in Bruges.

Even if it goes without saying, it is worth emphasising that all errors and omissions are the sole responsibility of the author.



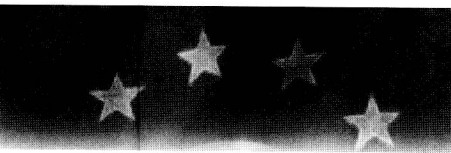
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Philippe Martin; Figures 16.2 and 16.3 from the *Third Report on Economic and Social Cohesion – COM (2004) 107 of 18 February 2004*, Figs 1.3 and 1.4, p. 11, © European Communities; Figure 16.4 from Puga, D., ‘European regional policies in light of recent location theories’ in *Journal of Economic Geography*, 2002, October, 2, p. 377, by permission of Oxford University Press, originally taken from a paper by Duro, J. A., ‘Regional Income Inequalities in Europe: An Updated Measurement and Some Decomposition Results’ with kind permission of Juan Antonio Duro; Figures 17.1, 17.2, 17.3, 17.4 and 17.5 Asbjørn Rødseth, *Open Economy Macroeconomics*, (2000), Figures 6.1, 6.2, 6.4, 6.5, Cambridge University Press; Figure 17.7 from *Economics of Monetary Union*, 4th edition, Oxford University Press, Fig 5.10. page 113, constructed on market exchange rates from the European Commission (1993), (De Grauwe, P. 2000) by kind permission of the author; Figure 17.8 adapted from *Economics of Monetary Integration*, Oxford University Press, Fig 6.2, page 136, (De Grauwe, P. 1997) by kind permission of the author; Figure 18.3 Begg, 2005. Reproduced by courtesy of Iain Begg; Figure 18.4 adapted version of figs. 4.2 (p.79) and 4.3 (p. 81) from *Economics of Monetary Union*, 4th ed. by De Grauwe, P. (2000) by permission of Oxford University Press; Figure 18.5 adapted version of fig. 4.4 (p.82) from *Economics of Monetary Union*, 4th ed. by De Grauwe, P. (2000) by permission of Oxford University Press.

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How to Read this Book

This is a textbook about European economic integration. It combines economic analysis of integration with an understanding of the integration methods employed in the European Union. Such a combination is demanding for students and teachers because methods and economic analysis are often dealt with in separate courses.

Economics courses may characterise integration methods as institutional, legal, administrative, political or overly practical. As a result, little attention is given to methods. The present book provides economic integration analysis in a well-defined regulatory or policy context of the Union. This context deserves its own analytical questions as well. One crucial question is how to design proper regulatory and policy frameworks for various intensities of economic integration. Moreover, for policy makers and business, assessing the costs and benefits of alternative integration methods requires an adequate understanding of the methods in the first place.

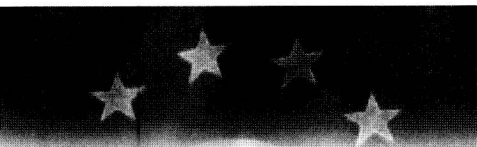
On the other hand, integration methods as taught by European law or (political) integration courses are far too elaborate and technical for economists. The point for the economics student is to master the economic essence of a regulatory method, of a policy at EU level and of the main concepts of economic integration as practised in Europe. These essentials should be outlined, and details and legal technicalities should be avoided, so that the economic logic and impact can be understood. The present textbook aims to provide exactly that.

In this text, economics students are likely to be confronted with more economic regulation and policies than they are used to. Readers with a 'practical' or legal orientation towards methods are likely to find the book more economic than most other surveys of methods. In combining methods and economic analysis, both types of readers will gain.

Nevertheless, there is a lot of variation possible when reading the book. Many chapters have parts which are facultative readings going into greater detail of methods or of economic analysis. These are indicated by the heading 'Additional reading'. Furthermore, there are many case studies throughout the text, elaborating practical examples or special issues.

Reading the book is facilitated by brief introductions to each of the four parts, as well as by introductory text and summaries within every chapter.

This text aims to enhance understanding and insight, in addition to the inevitable transmission of knowledge. It is not a reference book for data, empirical descriptions, trends, statistics and the like. The student cannot 'learn' these.



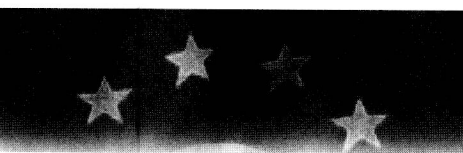
List of Abbreviations

ACP	African–Carribean–Pacific (countries with special trade and development cooperation with EU; also called Lomé, and recently, Cotonou group)
AFTA	Asean Free Trade Area
ALS	agro-levy system
ASEAN	Association of South East Asian Nations
ATM	automated teller machines
B2B	business to business
B2C	business to consumer
Benelux	Belgium, Netherlands, Luxembourg (economic union)
CAP	common agricultural policy
CCITT	Committee for Broadcast Standards of the International Telecom Union
CEDEFOP	EU agency for comparison of educational curricula for technical and other schooling, so as to facilitate diploma recognition and entry in labour markets
CEFTA	Central European Free Trade Area
CEN	European (non-electrical) standards body
CENELEC	European electrical standards body
CER	Free trade area of Australia and New Zealand
CERN	particles accelerator in Geneva
CET	common external tariff
CFP	common fisheries policy
CFSP	common foreign and security policy (of the EU)
CM	common market
CRS	computer reservation system (airlines)
COMECON	(former) organisation for trade and economic cooperation of the communist countries (mainly in Europe)
COREPER	Committee of the Ambassadors of the EU Member States, preparing Council decisions
CU	customs union
DIP	deficiency income payments (farmers)
DM	Deutschmark
DPS	deficiency payments scheme (in agriculture)
EBA	everything but arms
EC	European Community
ECB	European Central Bank
ECOFIN	Council of Ministers for Economic Affairs and for Finance
ECSC	European Coal and Steel Community

ECU	European Currency Unit
EDC	European Defence Community (defunct)
EEA	European Economic Area
EEC	European Economic Community
EEIG	European Economic Interest Grouping
EES	European Employment Strategy
EFTA	European Free Trade Area
EIB	European Investment Bank
EMCF	European Monetary Cooperation Fund (of the EMS)
EMI	European Monetary Institute (preceding the ECB)
EMS	European Monetary System
EMU	economic and monetary union (also European Monetary Union)
EOTC	European Organisation for Testing and Certification
EP	European Parliament
EPL	employment protection legislation
EPO	European Patent Office
EPU	European Payments Union (1950–58)
EPC	European Political Cooperation (intergovernmental; EC foreign ministers between 1971 and 1993)
ERC	European Research Council
ERM	exchange rate mechanism (of the EMS)
ESA	European Space Agency
ESCB	European System of Central Banks
ESF	European Social Fund
ESPRIT	EC research programme on information technology
ETSI	European Telecoms Standards Institute
ETUC	European Trade Union Confederation
EU	European Union
EUREKA	European applied research programme (pan-European)
euro	European single currency
FDI	foreign direct investment
FIFG	Financial Instrument for Fisheries Guidance (structural EU Fund for Fisheries)
FSAP	Financial Services Action Plan
FTA	free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GDR	German Democratic Republic (1949–90)
GNI	gross national income (new Eurostat. etc.)
GNP	gross national product
GSM	European standard for digital cellular mobile telephony
GSP	generalised system of preferences
HDTV	high definition television
HICS	Harmonised Index of Consumer Prices
horeca	hotels, restaurants and cafés
HOS	Heckscher–Ohlin–Samuelson (model in trade theory)
HS	Harmonised System (of tariff classification)

IBRD	International Bank for Reconstruction and Development (or World Bank)
ICAO	International Civil Aviation Organisation (UN agency)
IIT	Intra-industry trade
IMF	International Monetary Fund
IPR	intellectual property rights
IT	information technology
ITER	Newest generation nuclear fusion reactor
JET	Joint European Taurus (EU nuclear fusion research)
M&A	Mergers and acquisitions
MCA	monetary compensatory amounts (agriculture)
MEA	Mediterranean Economic Area (proposed in 1995)
MEIP	market economy investor principle
MERCOSUR	Southern Common Market (trading zone in South America)
MFN	most favoured nation (clause in the GATT)
MFA	Multi-Fibre Arrangement
NAFTA	North American Free Trade Area
NAIRU	non-accelerating-inflation rate of unemployment
NATO	North Atlantic Treaty Organisation
NCA	national competition authority
NRA	national regulatory authority
NTSC	US standard for (non-digital) colour TV
OECD	Organisation for Economic Cooperation and Development
OEEC	Organisation for European Economic Cooperation (1948–59)
OMC	open method of coordination
ONP	open network provision (in telecoms)
OPT	outward processing traffic (in textiles and clothing)
OSCE	Organisation for Security and Cooperation in Europe
PAL	European standard for non-digital colour TV
PCT	Patent Cooperation Treaty (worldwide)
PHARE	EU (and Group of 24) technical aid programme for central Europe
PSO	public service obligation
QMV	qualified majority voting
QR	quantitative restriction
R&D	research and development
R&T	research and technology
R&TD	research and technological development
RACE	EU telecoms broadband research programme
RETEX	EU programme for diversification of textile regions
RIA	regulatory impact assessment
SAA	Stability and Association Agreement
SE	Societas Europa (EU company, regulation since 2004)
SECAM	European standard for non-digital colour TV (France/Greece only)
SHEC	safety, health, environmental and consumer protection
SLIM	Simplification of Legislation for the Internal Market (an EC programme since 1996)

STABEX	financial facility by EU (in Lomé treaties) to stabilise export earnings for commodities
SYSMIN	financial facility by EU (in Lomé treaties) to stabilise export earnings for selected minerals
TCE	tonne-coal-equivalent
TEN	trans-European network (infrastructure)
TGV	French rapid train system
TRIPs	Trade-Related Aspects of Intellectual Property Rights (in WTO)
UCITS	mutual funds (officially, undertakings for collective investment schemes in transferable securities)
UMTS	Universal Mobile Telecoms Standard (2nd generation digital interoperability standard, operational by 2002 or 2003)
UNCTAD	UN Conference on Trade and Development
UNIX	standard in information technology (also, group of European IT companies promoting an 'open version' of the standard)
USO	universal service obligation
USSR	Union of Soviet Socialist Republics (defunct since 1991)
VAT	value added tax
VER	voluntary export restraint
VLPS	variable levy with price support (in agriculture)
WTO	World Trade Organisation
WTP	willingness to pay



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