# European Union and Economic Development of Europe: Challenges and Prospects

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*Abstract: The European Union (EU) is a partnership in which member states have pooled sovereignty in certain policy areas and harmonized laws on a wide range of economic and political issues. The EU is the latest stage in a process of European integration begun after World War II, initially by six Western European countries, to promote peace, security, and economic development. The EU currently consists of 28 member states, including most of the formerly communist countries of Central and Eastern Europe. The aims of this researched is to assessed the achievements and challenges facing the European Union. This work adopted functionalist theory by David Mitrany also; the authors used secondary method of data analysis to carry out this researched. The paper recommended what European governments need to do is to reconnect with their increasingly restless electorate to be part of decision making regarding EU governing policies*

**Keywords: European Union, Economic Development, Europe, Challenge, Prospects.**

## Introduction

In the aftermath of World War II, leaders in Western Europe were anxious to secure long-term peace and stability in Europe and to create a favorable environment for economic growth and recovery. In 1951, six countries—Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands—decided to establish the European Coal and Steel Community (ECSC), which is regarded as the first step in the European integration project. The ECSC was envisioned as a single market in which sovereignty over coal and steel would be pooled and production controlled by an independent supranational authority. In embarking on this plan, the six founders hoped to greatly diminish the chances of another catastrophic conflict in Europe by binding their economies together, controlling the raw materials of war, and promoting political reconciliation (especially between France and Germany). The ECSC began operations in 1952; over the next five years, coal and steel trade among the six members increased 129% (The European Union, 2018).

In light of the ECSC's success, in 1957, the six ECSC countries signed two new treaties in Rome: one treaty established the European Economic Community (EEC) to develop common economic policies and merge the separate national markets into a single market for goods, people, capital, and services; the other created a European Atomic Energy Community (EURATOM) to ensure the use of nuclear energy for peaceful purposes. These two treaties, commonly referred to as the "Treaties of Rome," came into force in 1958. In 1967, the ECSC, the EC, and EURATOM collectively became known as the European Community (EC). The EC first added new members in 1973, with the entry of the United Kingdom, Ireland, and Denmark. Greece joined in 1981, followed by Spain and Portugal in 1986. The Single European Act modified the EC treaties in 1987 to facilitate the creation of the single market and ultimately resulted in the mostly free movement of goods, people, capital, and services (known as the "four freedoms") within the EC. On November 1, 1993, the Treaty on European Union (also known as the Maastricht Treaty) went into effect, encompassing the ECC and establishing the modern-day European Union (The European Union 2018).

 The EU was intended as a significant step on the path toward not only greater economic integration but also closer political cooperation. The Maastricht Treaty contained provisions that resulted in the creation of the Eurozone, in which participants share a common currency, a common central bank (the European Central Bank, or ECB), and a common monetary policy (there is no common fiscal policy, however, and member states retain control over national spending and taxation, subject to certain conditions designed to maintain budgetary discipline). The Maastricht Treaty also set out a blueprint for greater coordination on foreign policy and internal security issues. Since the mid-1990s, EU member states have worked to forge a Common Foreign and Security Policy (CFSP), including a Common Security and Defense Policy (CSDP), and sought to establish common policies in the area of Justice and Home Affairs (JHA). In the late 1990s, the Schengen Agreement of 1985—which established the framework for eliminating border controls among participating states—became EU law. With the end of the Cold War, the EU pursued further enlargement. Austria, Finland, and Sweden joined in 1995. Enlargement to Central and Eastern Europe was an especially key priority viewed as

fulfilling a historic pledge to further the integration of the continent by peaceful means and promote stability and prosperity throughout Europe. In 2004, eight formerly communist countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) acceded to the EU, along with Cyprus and Malta. Bulgaria and Romania joined in 2007. Croatia became the EU's newest member on July 1, 2013 (The European Union, 2018).

## Methodology

This paper adopted qualitative method of data collection; materials were derived from secondary sources like published books, journals, newspapers and internet materials on European Union.

### Conceptual clarification of Term

### The Concept of Economic Development

Economic Development"" as a key concept in this study. Importantly, the definition of Economic Development has become a bickering ground for scholars and commentators. Simply put, the concept is a multivariate one that has no satisfactory definition. Development and urban studies scholar Karl Seidman (2005)in his words opines that „"economic development is a process of creating and utilizing physical, human, financial, and social assets to generate improved and broadly shared economic well-being and quality of life for a community or region. Charles P. Kindleberger and Bruce Herrick (1977) point out that Economic development is generally defined to include improvements in material welfare especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition of inputs and output that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organization of the economy in such a way that productive employment is general among working age population rather than the situation of a privileged minority, and the correspondingly greater participation of broad based groups in making decision about the direction, economic and otherwise, in which they should move their welfare. Having looked at all these definitions, it is permissible to say that Economic Development is an effort that seeks to improve the economic well-being and quality of life for a community through innovative process leading to the structural transformation of the social system.

### The theoretical framework

This work adopted Functionalism theory by David Mitrany (1975), The European Union is based upon a philosophy of International relations theory known as functionalism. The classic functionalist approach to world order is based on the assumption that states can create a peaceful world society through gradualist and pragmatic cooperation with one another in technical and economic sectors of activity. Functionalism offers an alternative model of international order to the power politics approach to international relations which is characteristic of realism. The idea is to eliminate nationalism which is seen as the root cause of war by attacking national sovereignty. Classic functionalist theory argued that cooperation between states in economic areas, such as agriculture, will undermine national sovereignty in an anarchic world. The classic functionalist believed that the idea was to pool the sovereignty of members of an international organization like the European Union, as they worked together to deal with a common task. The idea was to do away with the evils of nationalism as individual citizens would transfer their loyalties to a higher or supranational authority. It was hoped that economic and technical cooperation would "spill-over" into the political world.

### The structure of the European Union

The European Union is governed by several institutions. They do not correspond exactly to the traditional branches of government or division of power in representative democracies. Rather, they embody the EU's dual supranational and intergovernmental character:

- **The European Council** acts as the strategic guide for EU policy. It is composed of the Heads of State or Government of the EU's member states and the President of the European Commission; it meets several times a year in what are often termed "EU summits." The European Council is headed by a President, appointed by the member states to organize the Council's work and facilitate consensus (European Union, 2018).
- **The European Commission** is essentially the EU's executive and upholds the common interest of the EU as a whole. It implements and manages EU decisions and common policies, ensures that the provisions of the EU's treaties are carried out properly, and has the sole right of legislative initiative in most policy areas. It is composed of one Commissioner from each EU country, who is appointed by agreement among the member states to five-year terms and approved by the European Parliament. One Commissioner serves as Commission President; the others hold distinct portfolios (e.g., agriculture, energy, trade). On many issues, the Commission handles negotiations with outside countries (The European Union, 2018).

- **The Council of the European Union** (also called the Council of Ministers) represents the national governments. The Council enacts legislation, usually based on proposals put forward by the Commission, and agreed to (in most cases) by the European Parliament. Different ministers from each country participate in Council meetings depending on the subject under consideration (e.g., foreign ministers would meet to discuss the Middle East, agriculture ministers to discuss farm subsidies). Most decisions are subject to a complex majority voting system, but some areas—such as foreign and defense policy, taxation, or accepting new members—require unanimity. The Presidency of the Council rotates among the member states, changing every six months; the country holding the Presidency helps set agenda priorities and organizes most of the work of the Council (The European Union, 2018).

- **The European Parliament** represents the citizens of the EU. It currently has 751 members who are directly elected for five-year terms (the most recent elections were in May 2014; the next elections are due in May 2019). Each EU country has a number of seats roughly proportional to the size of its population. Although the Parliament cannot initiate legislation, it shares legislative power with the Council of Ministers in many policy areas, giving it the right to accept, amend, or reject the majority of proposed EU legislation in a process known as the "ordinary legislative procedure" or "co-decision." The Parliament also decides on the allocation of the EU's budget jointly with the Council. Members of the European Parliament (MEPs) caucus according to political affiliation, rather than nationality; there are eight political groups and a number of non-attached MEPs (Kristin, 2018).

- **The Court of Justice** interprets EU laws and its rulings are binding; a Court of Auditors monitors financial management (Kristin, 2018).

- **The European Central Bank** manages the euro and EU monetary policy; and advisory committees represent economic, social, and regional interests (Kristin, 2018).

## The Achievements of European Union

- **The common single currency:** the EU's currently have 28 member states use a common single currency, the euro, and are often collectively referred to as "the Eurozone." The gradual introduction of the euro began in January 1999 when eleven (11) EU member states became the first to adopt it and banks and many businesses started using the euro as a unit of account. Euro notes and coins replaced national currencies in participating states in January 2002. Eurozone participants share a common central bank—the European Central Bank (ECB)—and a common monetary policy. However, they do not have a common fiscal policy, and member states retain control over decisions about national spending and taxation, subject to certain conditions designed to maintain budgetary discipline (Ceri,2017)

- **It created one of the world's biggest single markets**. Along with labor market mobility, the free movement of goods, services and capital has made the EU one of the biggest single markets in the world. Major waves of expansion in 2004 and 2007 brought 12 new countries, mostly from central and Eastern Europe, into the fold. The GDP of the European Union last year was $16, 5 trillion according to the IMF, representing 22.8% of the world's total. Freedom of movement is one of the major principles of the EU's common market. However, it is worth remembering that in the EU today over 500 million people enjoy the right to live, study or work in any of the EU's 28 member states. Around 14 million EU citizens live in a different country, according to statistics from 2014 (Ceri, 2017).

- **Common Foreign and Security Policy (CFSP)**.The EU has a Common Foreign and Security Policy (CFSP), in which member states adopt common policies, undertake joint actions, and pursue coordinated strategies in areas in which they can reach consensus. CFSP was established in 1993; the eruption of hostilities in the Balkans in the early 1990s and the EU's limited tools for responding to the crisis convinced EU leaders that the Union had to improve its ability to act collectively in the foreign policy realm. Previous EU attempts to further such political integration had foundered for decades on member state concerns about protecting national sovereignty and different foreign policy prerogatives. CFSP decision-making is dominated by the member states and requires unanimous agreement of all national governments. Member states must also ensure that national policies are in line with agreed EU strategies and positions (e.g., imposing sanctions on a country). However, CFSP does not preclude individual member states pursuing their own national foreign policies or conducting their own national diplomacy. CFSP remains a work in progress. Although many view the EU as having made considerable strides in forging common policies on a range of international issues, from the Balkans to the Middle East peace process to Iran (Kristin, 2018).

- **Common Security and Defense Policy (CSDP)** since 1999, with political impetus initially from the UK and France, the EU has been working to develop a Common Security and Defense Policy (CSDP), formerly known as the European Security and Defense Policy (ESDP).11 CSDP seeks to improve the EU's ability to respond to security crises and to enhance European military capabilities. The EU has created three defense decision-making bodies and has developed a rapid reaction force and multinational "battle groups." Such EU forces are not a standing "EU army" but rather a catalogue of troops and assets at appropriate readiness levels that may be drawn from existing national forces for EU operations. The criteria for European Union membership CSDP operations focus largely on tasks such as peacekeeping, crisis management, and humanitarian assistance. Many CSDP missions to date have been civilian, rather than military, in nature, with

objectives such as police and judicial training ("rule of law") or security sector reform. The EU is or has been engaged in CSDP missions in regions ranging from the Balkans and the Caucasus to Africa and the Middle East (Kristin, 2018).

- **Schengen area:** The Schengen area is a free movement area encompasses 22 EU member states plus four non-EU countries. Within the Schengen area, internal border controls have been eliminated, and individuals may travel without passport checks among participating countries. In effect, Schengen participants share a common external border where immigration checks for individuals entering or leaving the Schengen area are carried out. The Schengen area is founded upon the Schengen Agreement of 1985 (Schengen is the town in Luxembourg where the agreement was signed, originally by five countries). In 1999, the Schengen Agreement was incorporated into EU law. The Schengen Borders Code comprises a detailed set of rules governing both external and internal border controls in the Schengen area, including common rules on visas, asylum requests, and border checks The European (Kristin, 2018).

## Criteria for European Union Membership

To be eligible for EU membership, countries must first meet a set of established criteria, including having a functioning democracy and market economy. Once a country becomes an official candidate, accession negotiations are a long and complex process in which the applicant must adopt and implement a massive body of EU laws and regulations. Analysts contend that the carefully managed process of enlargement is one of the EU's most powerful policy tools and that, over the years, it has helped to transform many European countries into more democratic and affluent societies. At the same time, EU enlargement is also very much a political process. Most significant steps on the path to accession require the unanimous agreement of the EU's existing member states. Thus, a prospective candidate's relationships or conflicts with individual members also may influence a country's accession prospects and timeline. Five countries are currently recognized by the EU as official candidates for membership with active accession bids: Albania, Macedonia, Montenegro, Serbia, and Turkey (Colleen B., and David M.,2018). These countries are all at different stages of the accession process, and it will likely be many years before any of them is ready to join the EU. Bosnia-Herzegovina and Kosovo are regarded as potential future candidates for EU membership (Colleen B., and David, 2018)

## The challenge facing European Union

**Rise of Anti-European Union or Populism:** Over the last several years, many EU countries have seen a rise in support for populist, nationalist, anti-Establishment political parties. These parties are often termed "euroskeptic" because many have also been fueled by worries that too much national sovereignty has been relinquished to Brussels. Although not a completely new phenomenon in the EU, the uptick in support for such parties largely began in response to Europe's economic difficulties, austerity measures, and the eurozone crisis. For some voters, how Brussels handled the eurozone crisis renewed long-standing concerns about the EU's "democratic deficit"—a sense that ordinary citizens have little say in decisions taken in faraway Brussels (the European Union 2018 )

Increasingly, heightened fears about immigration amid a sizeable influx of migrants and refugees in Europe appear to be driving rising poll numbers for populist and/or euroskeptic parties. Fears about globalization and a loss of European identity also have been factors in the growth in support for such parties. Populist and euroskeptic parties, however, are not monolithic. Most are on the far right of the political spectrum, but a few are on the left or far left. The degree of euroskepticism also varies widely among them, and they hold a range of views on the future of the EU. While some advocate for EU reforms and a looser EU in which member states would retain greater sovereignty, others call for an end to the eurozone or even to the EU itself. Austria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, and Sweden are among those EU countries with prevalent populist, and to at least some extent, euroskeptic parties. A range of euroskeptic parties did well in the 2014 European Parliament elections (see text box), and euroskeptic parties have made significant gains in national and local elections in some countries. For example, parties with varying degrees of euroskeptic views lead the government or are part of coalition governments in Italy, Poland, Hungary, Austria, and Finland (The European Union, 2018)

In Denmark, a minority government relies on a euroskeptic party to provide parliamentary support. In Germany, the anti-immigrant and euroskeptic Alternative for Germany party secured enough support in federal elections in 2017 to enter parliament, becoming the first far-right German political party to do so since the end of World War II. Such euroskeptic parties are challenging the generally pro-European establishment parties and have put pressure on mainstream leaders to embrace some of their positions (The European Union, 2018).

The UK government's decision to hold the June 2016 public referendum on continued EU membership was driven largely by pressure from hard-line euroskeptics, both within and outside of the governing Conservative Party. Some euroskeptic parties may hope to influence the formation of EU policies and stem further EU integration. At the same time, opinion polls indicate that a majority of EU citizens remain supportive of the EU. According to one recent EU-wide survey, 68% of respondents believe their country has benefitted from being in the EU. Some observers note that many of the most stridently anti-EU parties did not do as well

as predicted in key elections in 2017, including France's former National Front party (renamed National Rally) and the Netherlands' Freedom Party, and are not part of their respective national governments (The European Union, 2018 ).

**The UK Decision to Leave the EU:** The UK has long been considered one of the most euroskeptic members of the EU, with many British leaders and citizens traditionally cautious of ceding too much sovereignty to Brussels. As a result, the UK chose to remain outside the eurozone and the Schengen free movement area, and it negotiated the right to participate in only selected justice and home affairs policies. Amid the challenges to the EU over the last few years, former UK Prime Minister David Cameron faced growing pressure from hard-line euroskeptics, both within his own Conservative Party and outside of it, to reconsider the UK's relationship with the EU. In response, the Cameron government announced it would renegotiate the UK's membership conditions with the EU and hold an "in-or-out" public referendum on the UK's continued membership in the EU. In February 2016, Cameron reached a deal with other EU governments on measures that sought to better guard British sovereignty and economic interests in the EU. The Cameron government set June 23, 2016, as the date for the referendum on the UK's continued membership in the EU. As noted previously, UK voters decided in favor of a British exit from the EU (or "Brexit") by a relatively narrow margin of 51.9% to 48.1%. Several factors heavily influenced this outcome, including economic dissatisfaction (especially among older and middle- to lower-income voters), fears about globalization and immigration, and anti-elite and antiestablishment sentiments (The European Union, 2018).

The "leave" campaign appears to have successfully capitalized on arguments that the UK would be better off if it were free from EU regulations and from the EU principle of free movement, which had led to high levels of immigration to the UK from other EU countries. The UK government, led by Prime Minister Theresa May, enacted the results of the referendum in March 2017 by invoking Article 50 of the Treaty on European Union—the so-called exit clause, which outlines procedures for a member state to leave the EU. The invocation of Article 50 triggered a two-year period for withdrawal negotiations to be concluded. The UK remains a full member of the EU until the withdrawal process is completed, and EU law continues to apply in the UK until that time. EU-UK negotiations on the UK's pending withdrawal, which is widely expected to occur in March 2019, have been contentious. In December 2017, the EU and the UK reached an agreement in principle covering main aspects of three priority withdrawal issues (the Irish border, the rights of UK and EU citizens, and the financial settlement). In March 2018, talks began on the UK's future relationship with the EU (The European Union, 2018).

The UK government and public remains largely divided on whether it wants a "hard" or "soft" Brexit. As such, and despite the December 2017 accord with the EU, fleshing out many of the details related to the UK's withdrawal—including on customs arrangements and trade relations—has proved difficult. A key sticking point has been devising a "backstop" for Northern Ireland—a sort of insurance policy to guarantee there will be no "hard" land border (with customs and security checks) between Northern Ireland and Ireland. Although UK and EU officials have repeatedly pledged to avoid a hard border to protect the Northern Ireland peace process, reaching precise agreement on how a backstop would function has not been easy. The protracted negotiations have prompted fears of a "no deal" scenario in which the UK would "crash out" of the EU in March 2019 without settled arrangements in place. In mid-November 2018, UK and EU negotiators announced they had concluded a draft withdrawal agreement (outlining the terms of the "divorce") and a draft political declaration (setting out the broad contours of the future UK-EU relationship) (The European Union,2018 )

The draft withdrawal agreement includes a 21-month transition period in which the UK would no longer be an EU member but would continue to apply EU rules while negotiations continue on the details of the UK's future political and economic relationship with the EU. The backstop arrangement in the draft withdrawal agreement essentially would keep all of the UK in a customs union with the EU (with areas of deeper regulatory alignment between Northern Ireland and the EU) pending agreement on a more preferable solution in the forthcoming negotiations on the future UK-EU relationship. UK officials maintain that it will never be necessary to implement the backstop. EU leaders approved the withdrawal agreement and political declaration on November 25, but concerns are growing that Prime Minister May's government may not have sufficient votes to secure the necessary approval in the UK Parliament. The backstop and other elements of the draft withdrawal agreement face opposition from a diverse group of UK parliamentarians with varying concerns. Some critics argue that the proposed withdrawal agreement ties the UK too closely to the EU and leaves the UK in a "half in, half out" situation where it will be forced to accept many EU rules without having a say in EU decision making. Northern Ireland's Democratic Unionist Party (DUP)—which lends parliamentary support to May's minority government—and others worry that the potential backstop could ultimately threaten the constitutional integrity of the United Kingdom. Fears of a "no deal" scenario (James, 2018).

Thus some observers view the EU as taking a tough line in Brexit negotiations—refusing to allow the UK to "cherry pick" the benefits of the EU without assuming the required obligations—in part to discourage other member states and euroskeptic publics from contemplating a break with the EU that would further fracture the bloc. Euroskeptic parties, including in France, the Netherlands, Italy, and Sweden, have been encouraged by the British decision and called for similar referendums on either EU and/or

eurozone membership. Although conventional wisdom holds that most EU countries are simply too small to "go it alone," some EU officials worry that Brexit could undermine the EU if it prompts other countries to demand special membership conditions or additional policy opt-outs. Other experts note that the considerable difficulties the UK is facing in pursuing Brexit have served as a cautionary tale for publics in other EU countries and contributed to increased support for the EU in most other member states (Bruce *et el* 2018)

EU leaders maintain that "the Union of 27 countries will continue," but the departure of a member state is unprecedented in the EU's history. Brexit will have political and economic repercussions for both the UK and the EU. The UK is the EU's second-largest economy and a key diplomatic and military power within the EU. Along with Germany and France, the UK has long been viewed as one of the EU's "big three" and has served as a key driver of certain EU initiatives, especially EU efforts to forge more common foreign and security policies. Some experts suggest that given the UK's foreign policy clout and defense capabilities, Brexit could diminish the EU's role as an international actor. At the working level, EU officials are aggrieved to be losing British personnel with significant technical expertise and negotiating prowess on issues such as sanctions and dealing with countries like Russia and Iran. Brexit also might dampen prospects for further EU enlargement, in part because the UK had long been one of the staunchest supporters within the EU of continued expansion, including to Turkey. At the same time, some contend that Brexit could ultimately lead to a more like-minded EU, able to pursue deeper integration without UK opposition. For example, Brexit could strengthen the prospects for closer EU defense cooperation because the UK traditionally served as a brake on certain measures in this area. The UK typically sought to circumscribe EU initiatives (such as establishing an EU military headquarters) that the UK viewed as infringing too much on national sovereignty or on NATO's role in European security (also see "Possible Future Scenarios for the EU and Next Steps") (The European Union 2018 ).

## Recommendations

What European countries need now is not overregulation from Brussels. Above all, what European governments need to do is to reconnect with their increasingly restless electorates, by listen to the views before carrying out a decision from Brussels

## Conclusion

The humble origins of the EU date back to the creation of the European Coal and Steel Community in 1951, which aimed to create a "common" market for coal and steel among its member states. The Treaty of Rome, signed in 1957, took economic integration a step further. The European Economic Community (EEC) created a common market and a customs union for the six original EU members: Belgium, France, Holland, Italy, Luxembourg, and West Germany.

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