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Reform in the European Union: the Need for Tighter Integration

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By:

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Table of Contents:

Abstract:

This report seeks to inquire about the European Union, EU, and its need to employ a higher degree of integration in light of recent events. As of late, the EU has faced a series of crises of whose policies are unfamiliar in handling them properly. Albeit the issues are numerous and the dimensions concerning them vary, this report will focus on three: the mass migration of refugees, most notably from Syria, the recent United Kingdom referendum which resulted in a majority vote for seceding from the EU, and the need to renovate its current foreign and security policies. This report will examine the three key points through a content analysis method of a variety of sources including books, research papers, and data on current events.

Introduction:

The world is fashioned and made up of a variety of international groups and organizations. The US, Canada, and Mexico form the North Atlantic Free Trade Agreement (NAFTA), further south there is the Union of South American Nations (UNASUR), and towards the East is the Association of Southeast Asian Nations (ASEAN). It is apparent that nations can no longer expect to “economically grow” without being part of an international grouping. The rise in the formation of international alliances are most notably a result of the success from one of the initial international and most integrated partnerships, the European Union (EU).

The EU, then, is a model for groups such as those mentioned above: every decision they make is examined by its global audience. Despite its success, the EU has recently undergone severe events that have put their union to the test. The mass influx of refugees from the Middle East and North Africa (MENA), particularly asylum seekers from Syria attempting to flee the ongoing civil war, and the surprising turnout from the United Kingdom’s referendum which resulted in withdrawing from the EU are EU’s two greatest challenges.

Additionally, the EU is still mending the economic after-effects of the 2008 financial crisis that was felt throughout the union. Global economy was not prepared for a crisis of the magnitude and EU was no exception. The way in which it was handled, or mishandled, validated the need for a more integrated union; moreover, it is necessary for the EU to implement a fiscal union to develop an enhanced monetary union.

Finally, there is the issue of defense or more specifically a common foreign security policy (CFSP), that the EU must address. The recently elected American president, Donald Trump, has mentioned in several occasions his uncertainty of US participation in the North Atlantic Treaty Organization (NATO). A rise in defense spending should also be considered inside the union as well, with the recent rise in terrorist attacks, such as the Bataclan massacre in 2015.

Accumulating these issues only asserts the rising pressure confronting the EU in regards to achieving a deeper integration among the remaining 27 members. It is crucial that these nations adhere to giving up a larger share of their national power to the supranational authority of the union and increase their level of cohesion on many elements. Failing to do so may result in dire consequences including additional member states voting to secede from the union, being unprepared for another global financial calamity, or find themselves without property security policies.

A background and history of the European Union

Although the European Union is a complex organism to dissect, it is vital to grasp the fundamental elements in order to understand the situation it is in. This section will provide the necessary details required to perceive this. The end of WWII left European nations with a high amount of skepticism among one another but above all in a dire need of economic repair. This distrust got in the way of rebuilding Europe; furthermore, conducting business with one another was costly with trade barriers and exchange rates.

Cooperation between past opponents was unthinkable, until said out loud by Winston Churchill during a speech at the University of Zurich, calling for a need of a “United States of

Europe". Churchill, though, was to remain a spectator behind the lines of what was to come five years following his statement.

During this time a powerful and developed nation was determined by their access to and production of coal and steel. Additionally, the obscurity of who will have access to these resources lead to fear of the possibility of attacks or another war(web). As a means to control this the French foreign minister at the time, Robert Schuman presented a solution: rather than have multiple countries operating the coal and steel production, it should fall under the control of one supranational authority. Insinuating that if a group of countries shared an economic interest, the probability of going to war would be lowered while commercial prosperity would rise and be facilitated, explain Peet and La Guardia (7-8). With the aim of forming a more economically and politically united Europe along with establishing peace, the European Coal and Steel Community (ECSC) was formed in 1952.

The Coal and Steel resources of six countries were now controlled by this new community: France, Germany, Italy, Belgium, the Netherlands, and Luxembourg. The first President of its high authority of the ECSC was a French diplomat Jean Monnet. In June of 1950, the Korean war launched, evoking the Communist threat that lay East of the ECSC (web). In response to this, Monnet submitted a proposal to the French National Assembly in the Fall of 1950, advocating for a European Army, with eventual German involvement, that was to be administered under a supranational European authority. Unfortunately, the attempt in establishing a European Defense Community (EDC) was rejected by the assembly in August of 1954. With no defense alliance, the focus was shifted to economics and trade.

Realizing the economic gains when steel and coal trading was liberalized, ECSC members decided to extend the parameters of free trade, leading to the Treaty of Rome. This agreement was signed in 1957 and came into full effect the beginning of 1958, establishing a European Economic Community (EEC) and allowing for a common market among the six original countries to exist. Additionally, four institutions, which operate to this day, were established: the European Commission, the Council of Ministers, the European Parliament and the European Court of Justice (ECJ).

In summary, the EEC allowed for six different nations to integrate and establish easier access to trade amongst each other in order to achieve economic efficiency (web). The original intent of this treaty was that in exchange for sacrificing limited sovereignty, a unified Europe would lower business costs and the economy of participating countries would flourish as a result through creation of a Common Market. Although the majority of barriers to trade were eradicated, the issue of multiple currencies remained.

The newly established market allowed economies to grow, but one barrier remained that was impeding against markets achieving optimal results: the costly exchange rates between EEC members. Higher integration, in the form of a common currency was the next step. The first ideas began in the 1950s from French economist Jacques Reuff. Since then, arguments for the adoption of a single currency began, one of the first notable works was the Werner report in 1971. Unfortunately, with the breakdown of Bretton woods, the onset of the Arab-Israeli War, the oil shock, and the global recession of the 1970s interrupted these plans (Peet and La Guardia, 10). Other measures to stabilize currencies were taken, but it wasn't until the Delors that progress was achieved.

A former French Finance minister, Jacques Delors, was elected as President of the European Commission in 1985, with the goal to make the previous plan of a single currency a reality. The outcome was the Delors report, advocating for a monetary union through three stages: Complete the single market, prepare for the creation of the European Central Bank (ECB), ensure economic convergence, and fix exchange rates for the launch of the Euro (Peet and La Guardia, 11). The Delors commission additionally provided crucial support for laying the foundations of the establishment of the Common Market, in overseeing the Single European Act (SEA) of 1964. As the first major revision of the Treaty of Rome, SEA prompted the exchange from an unanimity, where everyone must be in agreement, to qualified majority voting, thus speeding up the process of European integration (Dinan et al., 24).

This report later culminated the basis for the Maastricht Treaty, finalized and signed in December of 1991. This treaty laid the foundations for the EU we recognize today, beginning the process for integrating financially and progress towards more of a political union. There were many important reasons for establishing a single currency: France wanted to secure the rising influence of the German Deutschmark, Germany desired currency stability, others wanted political union, but the British request was to opt out. The implantation of a monetary union and a single currency appeared beneficial to the newly established European Union, but was carried out in a flawed manner that would later exacerbate when the global financial crisis hit in 2008.

One of the largest shortcomings was the way the ECB was established. Following the ratification of the Maastricht Treaty, the ECB, which was modeled after the strong Bundesbank, the central bank of Germany, was put in place. To start with, the ECB, whose goal was to promote price stability among all Eurozone members, was not given a single government or finance ministry to convey with. In simple terms, a supranational monetary union was formed for the eurozone, while fiscal policy remained at a national level; additionally, there was no democratic legitimacy monitoring the ECB and the actions it took.

One final treaty of importance is the Lisbon treaty of 2009 which dealt with the development of external affairs handled not in the supranational form that was accustomed to the EU, but in a way that every member state retained the right to voice their opinion. (Yeşilada et. Al, 5). Further it laid out foundations for the establishment of the Common Foreign and Security Policy. Most important of all, given current events, was the introduction of Article 50, which gives members the right to withdraw from the EU.

The EU, as it stands today is the most integrated political and economic international group at the moment; regardless, it still faces a series of challenges and issues it needs to review. A monetary policy is controlling the Eurozone, but with fiscal policy at a national level without a strong authority to monitor their actions. The remaining 27 members are integrated but nevertheless, lack a common foreign security defense policy. The rise and unfortunately successful terrorist attacks, such as the 2016 Berlin attack, could have been prevented had there been stronger and a more shared common source of security. Finally, with the secession of the UK, the EU is limited in their military, causing a higher reliance on NATO than ever before. On this, German chancellor Angela Merkel herself has voiced her concerns regarding transatlantic relations, NATO, raising awareness of the increasing need to improve “security in the passport-free Schengen travel zone” as well as the control of its borders or risk the structure to fail completely (web). A large remaining section of the EU is still to be convinced of this.

This thesis will analyze the mentioned issues the EU faces by examining the available content and data found in reputable news sources, current research, and from the nations and governments of the EU itself along with what its leaders have stated regarding the matters. Economic models and graphs will be used in order to support the theories mentioned in this report.

The Flawed Architecture of the Maastricht treaty

The establishment for a common currency was inevitable for the ever-closer union, this step was accomplished with the Maastricht Treaty. Unfortunately, there were significant flaws in its design, ultimately plaguing the EU in later years when the global financial crisis hit. It is critical to take a step back and examine these flaws as well as examine the economic health of specific countries before the arrival of this crisis.

A significant report to consider is Canadian Economist Robert Mundell's *A Theory of Optimum Currency Areas.* This analytical framework expresses the pros and cons of instituting a common currency; furthermore, it was a driving force for the launching of the common currency (Peet and La Guardia, 12). Mundell was well in support of a monetary union among different countries and believed that this was a possibility so long as the benefits outweighed the costs. The costs, Mundell explains, of implementing a monetary union, is the shift from a flexible exchange rate to a fixed exchange rate system. In an economy with a flexible exchange system, in the case of an asymmetrical financial shock, it would be treated by a change in the exchange rate or devalue their currency. When nations share the same currency however, this action is impossible.

Instead, the solution is to allow for the mobility of labor and capital: the common market of the EU. Should an economy begin to degrade, the labor force should have the ability to migrate to a higher economic performance in order to avoid nations with high levels of employment (web). Only through this would the benefits be higher than the costs of having diverse nations use the same currency. In theory, this meant that the EU would have a small risk of experiencing economies of low performance as stability of prices and employment should be maintained. However, despite the removal of trade barriers cultural barriers will always sturdily remain. Despite the freedom for workers to transfer, they are limited by their linguistic ability: someone who only speaks Greek, is unlikely to find employment in an environment dominated by Lithuanian. This blocked the ability of economies to stabilize as they normally would in a single nation. A political authority with power was needed to make up for this lack of auto-stabilization, as with additional flaws.

There were issues regarding the convergence criteria as well but most important of all the Stability and Growth Pact (SGP), formulated from German concerns about the mixed level of economies committing to the same currency (Dinan et al., 133). The guidelines for EU state members were ceilings of public debt of 60% of GDP and on budget deficits of 3% GDP. Additionally, this was done in the hopes of limiting Eurozone members to a small core group who would be financially responsible; in other words, keeping Italy and other countries out (Peet and La Guarida, 15). Problems with this limit arose when it came to Belgium, and its public debt which had passed 100% of GDP. This prompted Germany and France to allow some flexibility in the original convergence criteria as Belgium was indispensable, thus allowing Italy, and Spain to join in as well so long as they make strong efforts in eventually meeting the criteria. The treaty, though, did not ensure the adoption of any economic reforms to address the criteria, thus allowing the Mediterranean countries to stay outside of the financial limits.

Finally, there is the case of the previously mentioned ECB. Despite taking over the monetary policy from national central banks, the ECB was under no obligation to act as a lender of last resort as it was not designed as such. This was particularly an issue when there was danger in the markets and no one to stabilize the economy by lending to governments. Additionally, limited provisions were given. The founders failed to foresee the potential of cross border banks excessively exchanging assets and liabilities (web). In the United States, regulations have restricted banks from growing too large or participating in high risk businesses. However, European governments encouraged national banks to engage in high amounts of activity, eventually leading to banks growing larger than their host economies (Authers, 23). They grew so large that in the case of one bank negatively performing, the destabilization travels throughout all banks in the union, and because of their extensive growth, would be difficult to rescue.

These cracks in the system were not straightforwardly noticeable in the beginning, in fact the euro and its financial integration was considered a success in its early years. EU citizens had adjusted to the new currency, macroeconomic stability appeared to have stabilized, cross-border trade had risen, and additional nations had opted for the new currency (Dinan et al, 133). It wasn’t until the financial crisis hit for the shield of the Euro to display its hidden flaws.

Financial Crisis

In September of 2008 the investment banking firm, Lehman Brothers, declares bankruptcy, thus sparking the worst global crisis in recent history. Despite its origins in the United States the financial consequences reverberated internationally, across the Atlantic to the financially integrated EU. Once on track, the political and financial failure of individual countries resulting from the single currency integration were unveiled.

Prior to the Eurozone, each member state controlled their monetary and fiscal policy at a national level. It is important to understand the difference between the two, and how they work with one another, or better yet support each other, in order to recognize the severity of how the Eurozone crisis came to be. Monetary policy controls the money supply of an economy and decides how high or low the interest rates are for borrowing this money. On the other hand, fiscal policy holds the power to decide how much a government collects on taxes and how much of that money will be spent. When governments require more money than what they have collected they must borrow it, this key term is called deficit spending.

Before the Maastricht treaty, each country was susceptible to a high interest rate and a limited amount if they were financially vulnerable, such as Greece. This maintained security and lowered the risk of bankruptcy from government. This changed once a country was part of the monetary union, members all shared a same low interest rates and were capable of borrowing large amounts that would have otherwise been impossible. Eurozone members were sharing the benefits from being under the same monetary umbrella, however each state still managed their fiscal policy with no supervision. A lack of fiscal discipline was a root cause of the financial crisis (Peet and La Guardia, 30).

The group that is the Eurozone is made up of various countries who diverge in multiple elements. Countries, such as Spain, rushed to convergence even though it was not ready, as its economy grew at 3 percentage points higher than Germany, the strongest economy in the Eurozone, and yet shared the same interest rates. The ECB matched Germany's interest rates and kept it at a low level while Spain suffered high amounts of inflation and although it needed high interest rates to stabilize its economy, the ECB continued to stay on Germany's level (Authers, 20). Similar situations caused imbalances and growing divergence between Euro holding members.

Similarly, member states lacked similar morals; moreover, the way in which they manage their finances greatly differs but deeply affect one another. Reckless amounts of credit were deeply entangled and flowed throughout all member states, so when the growing bubble burst, and there was no more credit, everyone was affected. Debtor countries such as Greece, Ireland, Spain, Portugal, and Italy had no money to pay back creditor countries like France and Germany, ultimately creating a domino effect, weakening all members. The possibility of a chain reaction throughout the eurozone, should one country default was a possibility.

The financial calamities were not able to be addressed individually, instead the costs were shared between everyone regardless of their position as a debtor or creditor country. Economic instability issues such as these would regularly be tamed via quantitative easing, but by giving up control of sovereign monetary policy Eurozone countries' monetary union constrain them from doing so (Authers, 14). Quantitative easing allows for a country to simply print more money and pump it back into the system in order to encourage market participants to spend more, and ultimately boost back the economy see figure 1 (web). Without any control to influence a currency, nations quickly fell into a quicksand of debt (Marsh, 33).

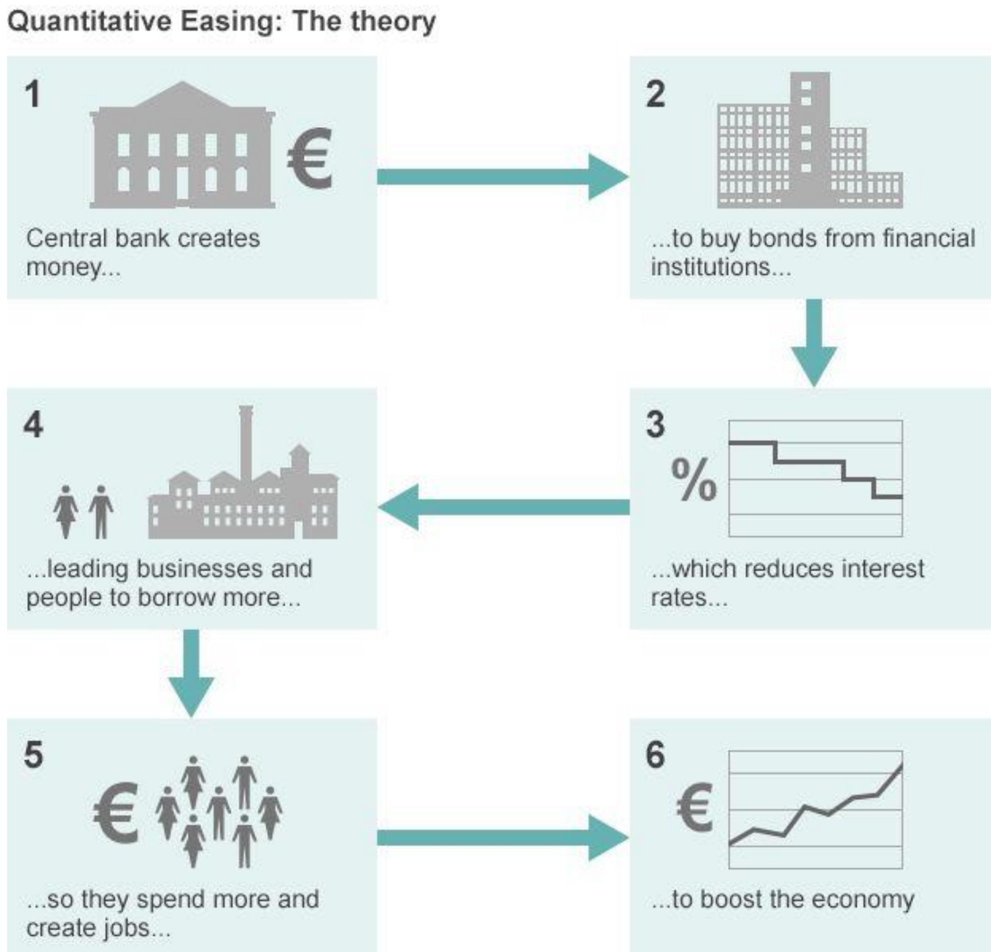

Figure 1 Quantitative easing has been performed by countries such as the United States and the United Kingdom to boost the economy in the past. Sourced from BBC.com

It did not take too long for the financial crisis to turn into a debt crisis, as several member states failed to repay or finance their government debt, (see figure 2). Regrettably, these figures reached a high amount before EU officials decided to act on the issue. European Union leaders focused their attention on bailing out banks affected by the global crisis and implementing new policies to act as safety nets and regulate the banks, insurances, and markets.

One notable work was the one written by a former IMF boss and French central bank governor, Jacques de Larosìere. The report provided a proposal to the European Commission, advising that supervision should not be limited to individual firms but on a macro level to all financial sectors. The submission was made in 2009 and eventually lead to the creation of four bodies in charge of regulating banks, insurance and markets as well as the establishment of the European Systemic Risk Board (ESRB) two years later (Peet and La Guardia, 41). The ESRB is responsible for overseeing the European Union’s financial system and preventing systemic risk, acting as a much-needed shield (web).

Meanwhile, Greece, was racking up national bond yields, continuing since 2007 (Peet and La Guardia, 42). The country was soon put under surveillance by the European Commission for going over the 3% deficit limit, at one point this figure reached 12.7%. Prior to joining the Eurozone, Greek finances were never well to begin with, and with the new access to large amounts of credit rather than invest in capital, heavier debt was accumulated. The Greek crisis was so severe, the possibility of Greece being kicked out of the Eurozone or the EU itself was a serious option (web).

A bailout was inevitable for Greece and would be the first country to undergo a bailout program from the newly formed Troika, made up of the International Monetary Fund (IMF), the European Commission, and the ECB. In an effort to prevent Greece from going bankrupt loans from the Troika began flowing in. The first bailout program was in 2010 with Greece receiving

110 billion euros. Two years later there was a second bailout of 130 billion euros. Greece did not simply receive this money: deficit reduction, tax raises, and other fundamental changes were necessary in order to receive these large sums of money. The third bailout came in the summer of 2015 for 86 billion euros, in exchange for even more modifications. The total sum of 326 billion euros was hoped to be spend in investment and boosting of the economy, instead the majority of it was spent in repaying the mass amounts of debt that still continues to grow (web). This leads to the assumption that debt reconstruction is what needs to be worked on in order to stabilize the economy and the euro.

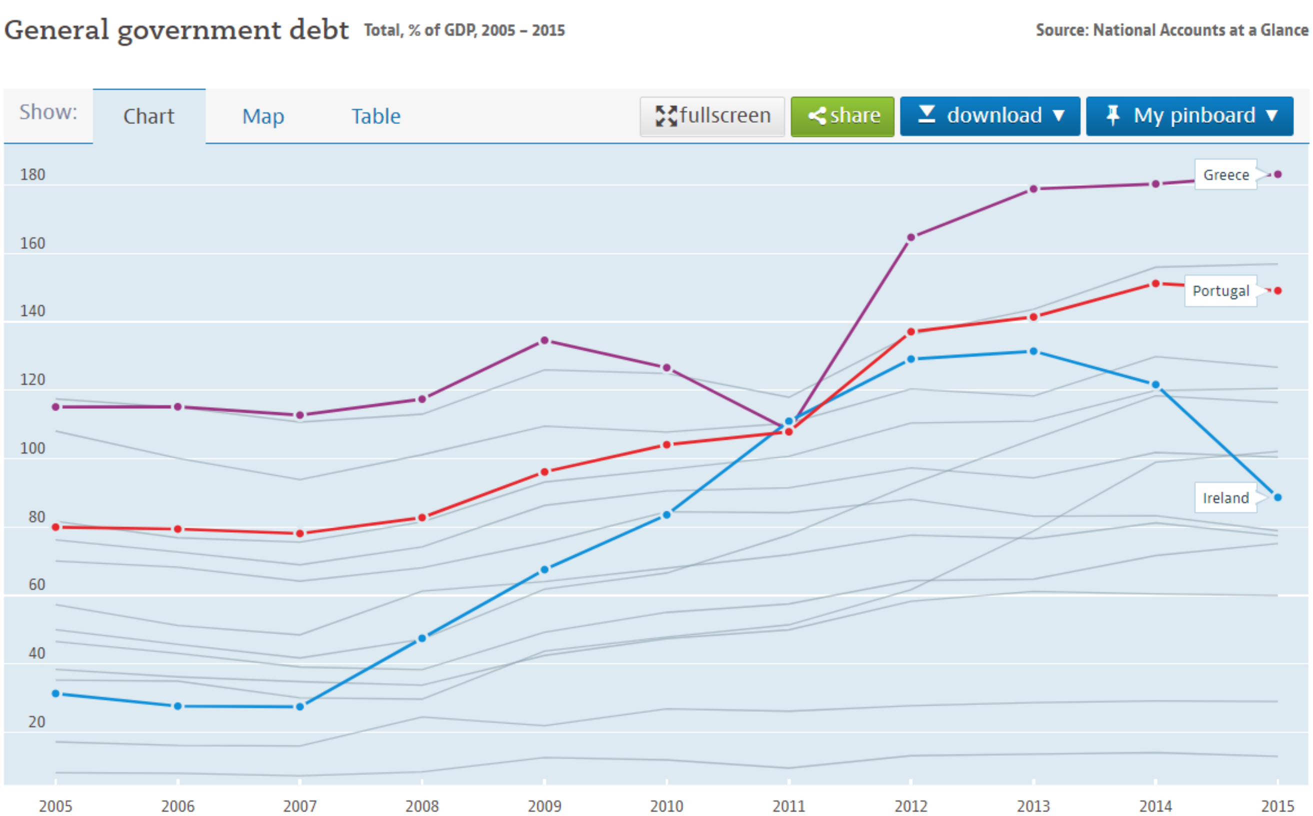

Figure 21The financial crisis turned into a debt crisis in the early 2010's. Sourced from: data.OECD.org

Germany was right to worry about the disparity among the economies of Eurozone members. One of the two flaws the European Monetary Union (EMU) failed to anticipate, state Dinan et al., is the high amount of capital flow among nations of different economic levels as well as the fact that these transactions went unchecked (134). The second flaw was the delay in prices and wages across the Eurozone, leaving these countries in long periods of imbalances and far from optimal allocation of its resources.

The aftermath of the Eurozone financial crisis raises the question: will the euro survive? On one hand, member economies have from the beginning been growing on different speeds and to this day maintain different rhythms with a divide between debtor and creditor nations. This point of dissention could potentially lead to the more powerful financially stable forming their own currency club, leaving the Southern countries to fend for themselves (Marsh, 23). On the other, there is still the possibility for political reformation and integrating even further one more time.

The Euro is capable of surviving, but only with the willingness of member states to sacrifice a greater share of their sovereignty. The main issue is that there is a monetary union, without a fiscal union, an economy cannot function as such. Issuing a fiscal policy does have the potential of higher taxes being imposed, but a democratic oversight will raise Europe's market credibility (web). Furthermore, member states are skeptical about giving up even more of their sovereignty, but in doing so greater financial efficiency will be assured.

Common Foreign Security Policy

The Eurozone crisis penalties have spread outside of the banking sector; further, the issue has reached a considerable size for an extended period of time that it has diverted the attention of other vital matters of the EU, consequently slowing down its potential progress. A number of advances have been cut short including agricultural and energy policies, and even the single market (Peet and La Guardia, 135). The section that can no longer hold off form being ignored, though, is its defense sector.

With the rise in terrorist attacks, a decrease in the military volume of the EU, border conflicts such as Russia's assailment to the Ukraine, and a new President in the United States, the need for a renovation in the EU's security is more than ever crucial. German Chancellor Angela Merkel has asserted this in January of 2017, stressing that it is Europe was "facing one of its biggest challenges for decades" (web).

Currently, the defense of the European Union is primarily made up of British and French forces. This means that once the UK finalizes its exit from the European Union, it will lose half of its military capabilities (Yesilada et al, 57). In doing so, this will pressure reliance on to the North Atlantic Treaty Organization (NATO), and the United States, but comes with concern. Merkel has public voiced these worries and the level of commitment from the US but more specifically from Donald Trump. The American President has openly criticized NATO on numerous occasions, leaving ambiguous feelings over his commitment to the treaty (web).

The way that CFSP is managed as of now, fails to achieve economies of scale; further, there are many defense resources in Europe but are allocated inefficiently. This is resultant of member states monitoring their own defense businesses. A coordinated Europe whose defense is operated by a more functioning CFSP will be able to hold its place along other global powers. Figure 3 displays where European military capabilities stand.

	Overall Ranking	Active Personnel	Tanks	Aircraft	Nuclear Warheads	Aircraft Carriers	Submarines	Budget
United States	1	1,430,000	8,325	13,683	7,506	10	72	612,500, 000,000
Russia	2	766,000	15,000	3,082	8,484	1	63	76,600,000,000
China	3	2,285,000	9,150	2,788	250	1	69	126,000,000,000
India	4	1,325,000	3,569	1,785	80-100	2	17	46,000,000,000
United Kingdom	5	205,330	407	908	225	1	11	53,600,000,000
France	6	228,656	423	1,203	300	1	10	43,000,000,000
Germany	7	183,000	408	710	0	0	4	45,000,000,000
Turkey	8	410,500	3,657	989	0	0	14	18,185,000,000
South Korea	9	640,000	2,346	1,393	0	0	14	33,700,000,000
Japan	10	247,746	767	1,595	0	1	16	49,100,000,000
Israel	11	176,500	3,870	680	80-200	0	14	15,000,000,000
Italy	12	320,000	600	795	0	2	6	34,000,000,000
Egypt	13	468,500	4,767	1,100	0	0	4	4,400,000,000
Brazil	14	328,000	489	748	0	1	5	33,142,000,000
Pakistan	15	617,000	3,124	847	90-110	0	8	7,000,000,000
Canada	16	68,250	201	404	0	0	4	18,000,000,000
Taiwan	17	290,000	2,005	775	0	0	4	10,725,000,000
Poland	18	120,000	1,063	475	0	0	5	9,360,000,000
Indonesia	19	476,000	374	381	0	0	2	6,900,000,000
Australia	20	58,000	59	395	0	0	6	26,100,000,000
Ukraine	21	160,000	4,112	400	0	0	1	4,880,000,000
Iran	22	545,000	2,409	481	0	0	31	6,300,000,000
Vietnam	23	412,000	3,200	413	0	0	1	3,365,000,000
Thailand	24	306,000	740	543	0	1	0	5,390,000,000
Saudi Arabia	25	233,500	1,095	652	0	0	0	56,725,000,000
Syria	26	178,000	4,950	473	0	0	0	1,872,000,000
Switzerland	27	135,000	200	175	0	0	0	4,830,000,000
Spain	28	123,300	415	531	0	1	3	11,600,000,000
Sweden	29	14.000	280	216	0	0	5	6.215.000.000
Czech Republic	30	21,060	123	109	0	0	0	2,220,000,000
Algeria	31	512,000	1,050	404	0	0	6	10,570,000,000
Netherlands	32	47,660	0	160	0	0	4	9,840,000,000
Mexico	33	267,500	0	373	0	0	0	7,000,000,000
Belgium	34	33,000	52	166	0	0	0	5,085,000,000
North Korea	35	690,000	6,600	943	<10	0	78	7,500,000,000
	= World leader is indicated in grey							

Figure 2 With the loss of the UK, the EU will have to create its own independent military capabilities. Source: Global Power Transition and the Future of the European Union.

The need for a collective approach on security measures are barred by financial limitations no one is willing to Financial limitations are in the way of the EU and raising its defense force; moreover, the absence of the UK includes in monetary contributions. It is essential, though, for member states to overlook the costs in exchange for the benefits. The EU is advanced in many ways, though its military sector is not at the same level. It must not be left behind as global powers, notably China and India, continue to rise.

BREXIT

Being a member of the EU means that nations enjoy multiple benefits such as participating in the common market, but it also comes with a series of obligations to fulfill. These obligations, such as allowing other EU citizens to travel within EU countries, are put in place for a progressive and integrated Europe, and while most EU members are in agreement with many of the membership criteria there are nations who do not.

The United Kingdom has always had a bumpy relationship with the EU; moreover, there have been times where the UK has grumbled when it's their turn to take their share of the responsibility. While the past has shown instances where the UK displayed a lack in commitment to the EU, such as refusing to convert to the Euro. It was more apparent than ever, though, when the immigration crisis ascended. With UK citizen's discontent voicing louder, Former UK prime minister, David Cameron proposed a deal to the public. In exchange for re-election in 2015, the UK would renegotiate its membership by 2017 (web). David Cameron won that May of 2015.

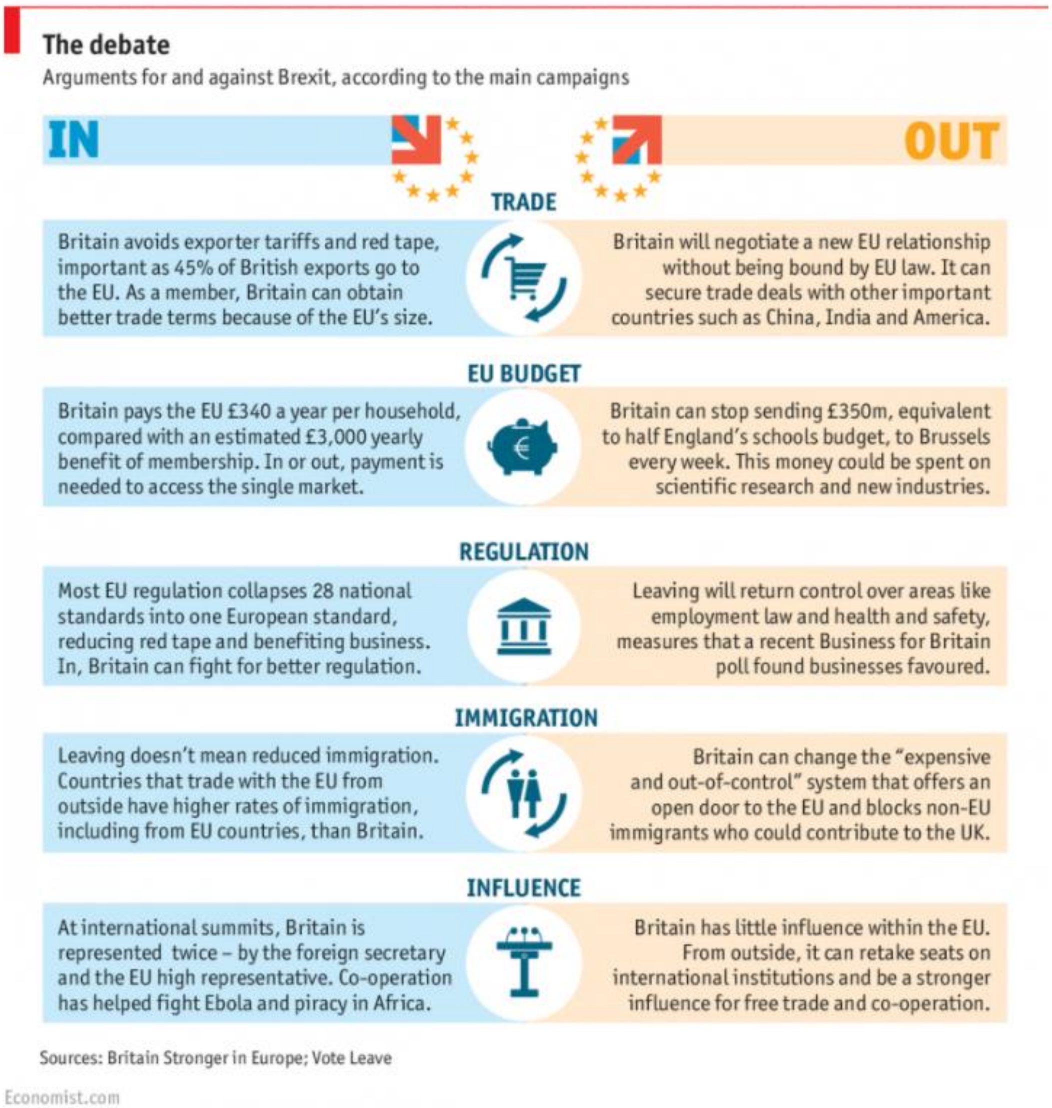

Figure 3 The UK will have to address the countries who wished to remain in the EU. Source: thepoliticalidealist.wordpress.com

Cameron retained his promise on renegotiations which quickly escalated to an all in or out situation. Cameron remained hopeful as he campaigned for a "Britain Stronger in Europe", but when the referendum results came in June 2016 with a 51.89% vote to leave, he was forced to resign. His replacement, Theresa May, who was also in favor to remain in the EU, is now the designated to oversee the BREXIT process, one which has never happened before. Although the remaining 27-member states were eager to begin the negotiations with the UK, May held off for almost a year as the nation needed all the time they could get to prepare themselves.

On March 29th, 2017 Article 50 of the Lisbon Treaty was triggered: the UK has two years to work out an agreement regarding its exit from the EU. In twenty-four months, all existing treaties between the UK and the EU must be reviewed until both parties establish new agreements (web). Although two-year period can potentially be extended through a unanimous agreement of EU members, if an agreement is not reached within the allotted time-frame, The UK will be forced to leave empty handed.

There are many negotiations to take place, but there are a few that are of more importance. The UK will have to face new trading relations with the entire world, new relations with the EU, they will have to deal internally with Scotland, Northern Ireland and Gibraltar whom voted to remain in the union, and immigration with the EU. The UK will not be able to pick and choose between what benefits they would like to keep and what obligations they wish to give up: access to the single market but refusing to allow refugees into their country. This quite possibly could be what can and has been delaying the negotiations to progress. The following sections will explain said issues and the potential outcomes of each.

Currently the United Kingdom's relationship to the majority of the world is as a part of the European Union. Once the time frame of Article 50 has expired, trading agreements as an individual nation must be established with everyone it currently trades with. The most prominent relationship it will have to reestablish is, of course, with the EU itself as both parties have grown to depend on the other for both trade and employment labor. The range of how the exit process might be handled ranges between what has been labeled as a “hard” exit or a “soft” exit (web). There is no definite explanation to either of these exits, but a “hard” exit could potentially be a situation in which no agreements are reached and the UK is treated as an outsider country from the EU with multiple barriers to trade. On the other hand, a “soft” exit is the opposite, where agreements similar to those currently in place will be applied (web).

It is not in the benefit of either party to reach a “hard” exit as both economies will regress. Despite the mutual dependency from both sides, the EU will have a higher influence in the negotiations. From 2011-2015 The UK the average in total trade was 23.1 percent of the UK’s economic output, reports Yeşilada et al. (53). The top three EU nations, however, do not have the same degree of reliance on UK trade relative to their individual GDP, where the highest is only 3.9 percent of its GDP. The UK will have to comply to many of the EU’s demands as a large portion of its economy relies on the current trade level with the EU, failure to do so will result in costly barriers.

New trading agreements are not limited to the EU, but similarly with the rest of the world; moreover, it must reestablish its status with the World Trade Organization (WTO) as an independent nation and not part of the EU. The WTO provides rules and guidelines for trade agreements among nations, additionally it is mediator who settles any trading disputes (web).

One major issue which drove many UK citizens to secede was the rising inflow of migrants, not only from the middle East and North Africa, but EU citizens as well, confirm Yeşilada et al. (53). As it currently stands, all citizens of the EU have the ability to participate in the freedom of movement: individuals are free to work, live, and attend schools in countries outside the one they were born in. both the EU and the UK rely on each other for filling gaps in the workforce and students. Yeşilada et al. explain that in 2015 roughly 5 percent of the UK population was made up by non-British EU citizens accounting for 7 percent of the workforce while the rest of the EU contained 1.2 million British citizens participating in its own workforce (53). Putting these figures into perspective, it is probable both the EU and the UK will attempt to reach an agreement that take into account the current workforce and students.

Additionally, the UK must address its own national issues, notably with Scotland, Northern Ireland, and Gibraltar. These countries had a majority vote to remain in the EU in the 2016 referendum, see image three. These regions could potentially be forced to resign from the EU when it was primarily the British vote who decided. Resultingly, the severity of having their

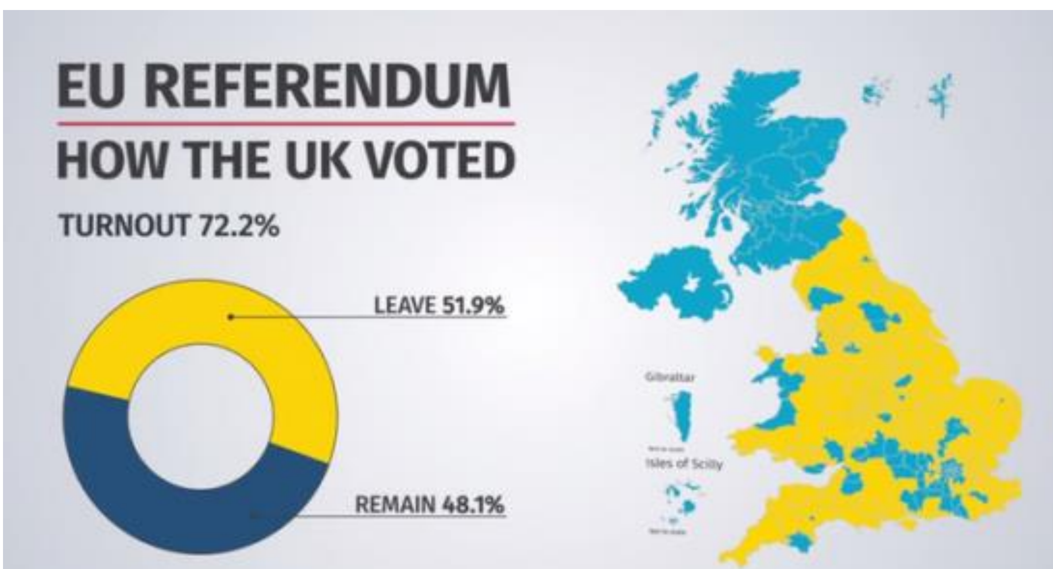

Figure 4 A divide in the referendum is evident.

voices heard has lead at least one country to threaten with a referendum of their own from Scotland. Although it is, currently the only country that has strongly enunciated this option, there is a chance of a domino effect from other UK regions.

Following BREXIT, the EU will have a series of new gaps and issues to tend to, explains Dinan et al. The UK is an influential asset to the European Union and losing this experienced resource will leave negative effects (94). Furthermore, there are financial repercussions for the EU: the UK's contribution to the budget which was roughly 8.6 billion pounds in 2016 (web). Perceptibly, the remaining 27 EU members will have to pick up the left tab or the EU will have to readjust its current budget.

Finally, there is the fear that additional EU members will follow BREXIT's lead or Scotland's threats. At the end of 2017, Catalonia held an unofficial referendum with the aim of seceding from Spain (web).

Conclusion

The European Union faces a series of issues all of which are put to test how united the group is willing to be. The three challenges discussed in this report are ongoing; furthermore, they are matters with no clear answers or leaders who have experienced it. The Euro is no longer at risk of defaulting, but the Eurozone debt crisis remains a puzzle for EU officials to ease. Too much time spent on the matter, though, hurt the potential progress the EU could have reached. The EU must now catch up, as other global powers continue to advance at rapid paces.

As much as the European Union is willing and ready to advance, a great deal of the deciding factors remains out of their hands. The CFSP is a matter that depends on third party factors: progress in the defensive sector will have to wait until the United Kingdom has made his exit from the EU. Following the withdrawal, the question of NATO remains: will Europe depend on the United States for assistance or will focus on strengthening its own defense? The largest question of all is how and when Brexit will end. Discussions over the existing treaties between the two parties remain in motion, but the agreements reached are few.

Now more than ever is the time for members of the EU to let go of the fear of transferring sovereignty power and immerse in order to progress politically and economically. There is still time to not only save euro but to strengthen the union, if quick measures are taken. It is important for them to come together and establish a supranational fiscal policy, the lack of one was the core reason European economies both in and out of the Eurozone collapsed.

The European Union has already advanced in its financial sector, implementing stronger measures to keep the Eurozone and its currency secured. However, the ongoing debt crisis has already created a divide among the creditor and debtor nations; moreover, this could lead to smaller divisions of Europe. While taking integration, unofficial disintegration has additionally followed.

The deeper one digs into the structure of the union the more complex it becomes. It is made up of a number of different languages and cultures that have to work together, although these differences are the reason for its success. Many of these issues are open ended questions of which there is no correct answer. It is only through working together that they will be able to properly address them, regardless of the outcome.

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