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# Development In World Bloc Formation: The Case Of The European Union (EU)

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## Abstract

*This paper is designed to analyze the development in the European Union. It examined the role of the Union in the field of International Co-operation. It identifies its contributions to the fields of: Human rights, health, financial aids to African, Caribbean and Pacific States (ACP), education, trade and tourism.*

*It has been revealed that no nation can absolutely boast of economic development without co-operating with other nations. That for democracy and political stability to thrive, there must be sustainable economic stability. That the Union has progressed far beyond the inter-governmental refuse of most international organizations and has incorporated many supranational characteristics into its structure and operation. Thus European Union comprises of member states which have voluntarily surrendered some of their national sovereignty and independence to collective institutions for the promotion of co-operation and sustainable development among member states.*

## Introduction

The European Economic Community (EEC) was founded by the Treaty of Rome in 1957, by six member states. Now, following the Treaty of Maastricht (1991), it is known since November 1993 as the European Union. Since January 1, 1995 the Union has fifteen member states. These include several major economic powers: Germany, France, Britain, Belgium, Denmark, Finland, Greece, Ireland, Italy, Luxemburg, Austria, Netherlands, Portugal, Spain and Sweden. It is the biggest trading bloc in the world.

The European Economic Community/ European Union had been of major importance for African and other developing countries in their trade with the industrialized countries of the world. The aim of this Union was to create a complete western European integration and with democratic and market-based systems being established throughout much of Eastern Europe. Thus this will emphasize the increasing need for unity and identity. However, such unity and identity as there can be said to exist- and, in truth, there is not very much if Western and Eastern Europe are lumped together – is of very recent vintage.

The reason is that throughout its history Europe has been characterized much more by divisions, tensions, and conflicts than it has by any common purpose or harmony of spirit. The differences could be caused by certain factors: language, religion especially with the Northern Countries (except Ireland) being mostly Protestant, and the Southern countries including France and excluding Orthodox being predominantly Catholic.

Until at least the second world war, and in some cases well war, and in some cases well beyond linguistic, religious and culture divisions between the West European State were exacerbated by political and economic divisions.

The political divisions took the form of varying systems of government and competing ideological orientations. For instance between the two world wars, parliamentary democracy found itself under attack and in some cases overthrown. In Italy 1922 by Fascism, in Germany in 1933 by Nazism, Spain 1936-39 by Conservative authoritarianism. It was not until the mid-1970s following the collapse of the dictatorships of the Iberian Peninsula and the overthrow of the military regime in Greece – that parliamentary democracy finally became general throughout Western Europe. The economic divisions were remarkable. From the beginnings of the Industrial Revolution until the middle of the nineteenth century, Britain was industrially and commercially dominant. But it was latter challenged by Germany, Belgium and France.

At the same time, the economics of the Northern Countries were increasingly differentiated from those of the South, because the former had substantial industrial bases while because the former had predominantly agricultural and underdeveloped.

Europe was thus long divided and many of these divisions provided sources for tensions, hostilities and wars. These found their expression in economic and ideological competition, in rives for national power and prestige, and in territorial disputes, and compounded by dangerous mixtures of assertive/weak/incompetent leaderships, the divisions ensured that until after the second world war rivalry and distrust governed the relationships between most of the states most of the time.

From time to time in the inter-war period, proposals for greater co-operation between European States were advanced but little came to them. The international climate –characterized by national rivalries and clashing interests was not favourable, and most of the leading advocates of closer linkages were seen as having specific national purposes in mind.

The lack of any real interest in European co-operation before the second world war is revealed in the functioning of the League of nations. Established in 1919 to foster unity dominated by the Europeans and had some potential as a forum for developing understandings and improving relationships between the European States. Unfortunately, the League failed.

With the above in mind, there was a need for a transformed agenda.

## **The Transformed Agenda**

International agendas became less centred upon traditional or 'high policy' issues and have increasingly focused on "low policy" issues. That is, policies concerned with the existence and preservation of the state (such as defence policy and balance of power maneuverings), have been joined policies concerned more with the wealth and welfare of populations (such as policies on trade, monetary stability, environmental protection and airline safety).

This change in the content of agendas was remarkable throughout the Western Industrialized World. Classic power politics have not of course, disappeared, but they are just not as dominating or as prominent as they were formerly. When representatives of the European Community states meet, it is normally to consider topics which a generation or two ago would not.

The changing agendas, changing forms of interstate communications have been taken further in the Western Industrialized world. Written communications, telephone conversions, telex messages, bilateral and multilateral meetings, have all become much more numerous. Contacts range from the ad hoc and informal to the regularized and highly structured.

As noted above, after the wars, states were co-operating, and even integrating, in a manner that would have been inconceivable before the war. Some factors were responsible;

- \* Political factors: There was a need for a larger and a more powerful body than the League of Nations.

- \* Economically, there was need for the creation of new international economic and financial arrangements. This gave rise to the European Economic and Monetary Union (EMU).

## **The Impact Of The European Economic And Monetary Union (EMU)**

The European Economic and Monetary Union (EMU) was scheduled to start on January 1, 1999. However, its members was not known as at the date. They were to adopt a single currency – the Euro. European Economic and Monetary Union was to create strong incentives for countries to dismantle the barriers between their domestic markets and work toward greater financial integration. The result could be the creation of the world's biggest financial market. At the end of 1995, the market value of bonds, equities, and bank assets issued in EU countries amounted to more than \$27 trillion. EMU compete integration of Europe's financial markets depends on many factors. Much remains to be done at both the national and EU levels to remove legal regulating, tax and other impediments.

## **Incentives For Change**

European Securities Markets have become more integrated over the past decade, driven by financial deregulation – a global phenomenon – changing investment opportunities and bank disintermediation. Large issues of sovereign debt have stimulated the development of efficient Secondary bond markets and caused yields on government securities to rise, making them attractive alternative to bank deposits. Capital mobility across EU countries has been facilitated by the convergence of macroeconomic policies. Against this by the background, the introduction of the Euro will alter incentives to encourage the securitization of European finance, harmonization of market prices and transparency in pricing. First the adoption of a single currency will reduce the cost of spot transaction. The Euro was to eliminate the foreign exchange risk in long term contracts.

In short the elimination of currency risk and the convergence of credit spreads and market prices may increase the depth and liquidity of European Security Markets. The barriers of cross-border investment will drop and some intra-EMU foreign exchange and investment restrictions.

Finally, once the advantages of currency diversification disappear, investors and financial institutions will diversify their portfolios with a greater range of Euro instruments as well as assets outside the 'Euro' instruments.

## **Interbank And Repo Markets**

The ability of these incentives to stimulate the development of deep and liquid short-term securities markets will depend, partly on supply and demand factors; cross-border competition between financial intermediaries; the removal of legislative, regulatory, and tax impediments to cross-border investment, and the institutional arrangements for the implementation of monetary and financial policy. That this could quickly lead to the creation of an efficient EMU, wide interbank market followed by the development of a private repo market. Large global financial institutions now rely on the London and New York Markets for liquidity management would become more active in short-term EMU markets.

## **Sovereign Bond Markets**

By reducing currency risk and reducing transaction costs, having a single European currency will lower the costs of issuing and investing in government securities. It is likely to drive both supply and demand to provide strong incentives for harmonizing market practices and making them transparent and cost-effective. EMU members will not longer be bale to take their "home currency" market for granted when investors can search among different sovereign issuers for their preferred risk-return profiles.

## Corporate Bond Markets

Although European Union financial market legislation and the fund-management industry have begun to chip away at regulatory and tax impediments to the development of European corporate debt markets, these markets have remained small.

EMU is likely to accelerate the development of corporate bond markets though the development of a Europe-wide corporate debt market will probably take some time because of excessive regulation and a narrow institutional investor base.

## Equity Markets

EMU is likely to accelerate the growth of competition, the consolidation, and the technological innovation that have characterized equity markets in recent years. In combination with computerization and the implementation of the European Union's Investment Services directive, the launch of the 'Euro' could lead to the development of a European-wide equity market for blue-chip stocks in the form of a single electronic exchange with a screen-based, automated order-driven system like IBIS. However, the trading cost of such a system would to be competitive with those of proprietary trading systems.

## Derivatives Markets

EMU will also effect Europe's 16 futures and options exchanges. With only euro interest rates, there will be fewer derivatives contracts. This will cause competition between the London International Financial Futures Exchange (LIFFE), the deutsche Terminbörse (DTB), and the Marche Terme International de France (MATIF).

The most direct impact of EMU on the structure of derivatives contract will be the elimination of currency derivatives between EMU countries.

## Problems Facing EMU

The problems of the European Union are numerous:

- \* By producing a single currency (Euro), member countries have suspected one another and have seen it as a blow to their national sovereignties, hence lack of proper integration.
- \* If the EMU begins with the core countries of the exchange rate mechanism, (in their derivatives markets), the negative impact on trading volumes will be muted, because trading in intra-core currency derivative is relatively limited.
- \* For bond market futures, it is difficult to know whether the market will demand a futures contract for each national bond or generic contract will emerge. This will depend on the volatility of credit spreads between the various national issues.
- \* The issue of interbank and repo-markets has raised another question. Whether interbank markets in individual countries will retain their distinct national characteristics or whether market pressures will force them to merge into a single EMU-wide market?

The above questions have created double in the minds of members states and have seriously

## **The contribution of the European union Vis-à-vis the African, Caribbean and Pacific states (ACP):**

The European Union has been of major importance for African and other developing countries in their trade with the industrialized countries of the world. From the start that trade has been the subject of special agreements between European Union and certain developing countries, notably former colonies of European States. The first Lome – Convention of 1975 covered trade export earnings compensation and financial aid among other cooperation between the European Union and African, Caribbean and Pacific States (ACP).

Successive Conventions similarly signed in Togo, have maintained, expanded and modified the arrangements put into force in 1975. The main elements of all the conventions are:

\* **Trade Concession**

Agricultural and Industrial exports of the ACP Countries enter EU markets duty free, while the ACP countries are not required to allow similar free entry for EU exports. Rules of origin are applied to distinguish ACP exports eligible for free entry, but these rules are flexible.

\* **Export Earnings Compensation**

Under two arrangements called Stabex and Sysmin, ACP member states are compensated by the EU for some of the losses due to falls in earnings from their commodity exports. Stabex (Stabilization of Export Earnings) covers agricultural exports and Sysmin (introduced under Lome II) solid mineral exports.

\* **Financial Aid**

Financial protocols negotiated separately from the conventions but in parallel with them. The EU's aids, disbursed from member states' contributions, is separate from those states' bilateral aid. The EU's regular loan and grants are also distinct from emergency aid which the EU sends to countries suffering from war or famine. Non emergency food aid, and some other aid, comes like emergency aid from the EU main budget. These aids are always administered by the European Development Fund which is replenished by each successive protocol.

Despite problems over Stabex and Sysmin, the ACP states have continued to value the commercial privileges they enjoy under Lome. For that reason they have expressed concern about the effects of the Uruguay Round Worldwide tariff cutting agreement reached in December 1993 and formally signed at Marrakesh (Morocco) in May 1994. Its provisions could, it is said, reduce the advantage enjoyed by the ACP on European Markets. Some ACP states have expressed concern over banana exports to Europe. Following the single European Market (January 1, 1993) preferential arrangements for access to EU countries by ACP bananas were threatened by cheaper Latin American exports. A quota system for EU imports was laid down in 1993 and modified in 1994.

\* **Respect for Human Rights**

EU concern with human rights led to a concerted stand against the apartheid regime in South Africa, followed, by active consideration of closer commercial links as soon as the major changes aimed at a multi-racial democracy began after 1990. However, the revised Lome IV convention provided for the suspension of aid to ACP in the case of violation of the principle of human rights, democracy and the rule of law.

Article 5 of the convention maintained that cooperation shall be directed towards development centred on man, the main protagonist and beneficiary of development, which thus entails respect for and promotion of all human rights. Cooperation operations shall thus be conceived in accordance with the positive approach, where respect for human rights is recognized as a basic factor of real development and where cooperation is conceived as a contribution to the promotion of these rights.

**Conclusion**

*Present Realities And Future Prospects*

The union should not be viewed in too narrow a content. Whilst many of the factors which have influenced its development have applied to it alone, many have not. This is evident in the way modernization and interdependence have produced similar effects else where in the international system. There has been a steady increase in the number and variety of international actors, and some corresponding weakening in the dominance of states. An increasing range of methods and channels are used by international actors to pursue their goals. Even the relationships between governments are no longer so controlled as they used to be by Foreign offices and Ministries of External Affairs. The range issues on international agendas has grown with, in particular, traditional "high" policy issues being joined by an array of "law" policy issues. And there has been a decline, in the Western Industrialized World at least, in the use of physical force as a policy instrument.

The Union must, therefore be set within the context of the rapid changes that are occurring throughout the international system. It is a system that is becoming increasingly multilayered and interconnected. Whether the purpose is to regulate international trade, to promote the efficient functioning of the international monetary system, to set international standards on packaging for the transportation of hazardous materials, or to control the hunting and killing of whales, states now come together in many different ways, in many different combinations for many different purposes. The development of many types of cross-border relations, in response to the different requirements and propensities of states, has also occurred within the Union. As the case with interstate relations in the international system as a whole, flexibility and diversity are thus key community characteristics.



Compared with other blocs, the European Union is in many respects unique:

- \* The Union has a much more developed and complex institutional structure than is founded in other international blocs.
- \* No other international organisation has anything like the policy responsibilities of the Union.
- \* The Union has progressed far beyond the inter-governmental nature of most international organizations and has incorporated many supranational characteristics into its structure and operation.

In areas of intergovernmentalism and supranationalism, the Union has made a remarkable progress. For instance, virtually all major decisions are taken by the European Council which brings together the political representatives of the member states.

Another distinguishing characteristics of the Union is the way in which the member states have voluntarily surrendered some of their national sovereignty and independence to collective institutions. In a few policy sectors, such as agriculture and external commercial policy, the states have been relegated almost to that of intermediaries.

The Union has not evolved as was envisaged by many of its early founders. The expectation that policy interests and responsibilities would grow, with achievements in initially selected sectors leading to developments in other sectors, has been partly borne out, but only up to a point, and certainly not consistently. The anticipation that national institution and political and economic actors would become progressively with one another has been similarly partially realized and has also been partially frustrated. The assumption that the focus of political activities and attentions would switch from national capitals to Europe has only happened to an extent since in most policy issues, national levels is still more important than the Union. Finally, the belief that a European spirit would emerge, based on shared perceptions of a common interest, has proved to be over-optimistic.

How, in the future, the Union will respond to these and other pressures will depend on a number of factors, the most important of which are perceptions, support and leadership.

When one looks at the many organizational changes which are taking place across Europe, one might conclude that what is required is a new Pan-European organisation bringing together all those states which wish to co-operate and integrate with one another. In the long term, such organisation may indeed emerge. It is hardly likely, however, in the foreseeable future.

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