

Finn Laursen

JEL-No: F1, F2, F5, F6

Comparative Regional Integration

This article compares the North American Free Trade Agreement (NAFTA), the Common Market of the South (MERCOSUR) and the Association of South East Asian Nations (ASEAN) with the European Union (EU). How do we explain the different approaches to regional integration of the four organisations as well as their different achievements? It is argued that the different institutional choices can be explained by different interests (degree of interdependence), power (degrees of asymmetry), and ideas. A high degree of interdependence creates demands for integration. Supply depends on power and political leadership. It is further argued that creating credible commitments can be done either by creating independent supranational institutions (the EU approach) or by agreeing on a very detailed treaty – a complete contract, including dispute settlement provisions (the NAFTA approach). MERCOSUR and ASEAN are incomplete contracts and they have not created supranational institutions. This explains their relatively poorer achievements.

Peter Hilpold

JEL-No: K33, F1, F4, F5, F6

Regional Integration Agreements in the GATT/WTO system

The conflict between multilateralism and regionalism is as old as the GATT system itself. Originally, Article XXIV GATT was nothing more than a concession towards regionalist forces that threatened to reject the multilateral system were they not given the possibility to agree upon particular rules that should not be extended multilaterally. Over the years, many hopes and expectations were primed in Article XXIV that could not be fulfilled, in particular in the field of development cooperation. Article XXIV remained also in many senses an unclear provision that was often circumvented. Many existing Regional Integration Agreements (RIAs) are of doubtful WTO-conformity. Nonetheless, these agreements were overall of great importance for the multilateral economic order. Important impulses for the further development of the multilateral order came from the regional level. At the moment, a new generation of RIAs is entering the scene. They do not deal exclusively, and not even primarily, with trade liberalization but they concentrate on investment, on regulatory measures, on competition and on new forms of dispute settlement. It is argued here that this process, if properly steered, might be of great benefit for the multilateral order.

Erika Günther/Hartmut Sangmeister

JEL-No: F150, O54

Mercosur or there is still life in the old dog: The difficulties of integrational process in the southern cone

In 1991, Argentina, Brazil, Paraguay and Uruguay came together to establish the Common Market of the South (Mercado Común del Sur, Mercosur), which after nearly a quarter of a century has become nothing more than a selective preferential trade alliance.

At present, complete free trade and the creation of a common market seem to be objectives that are far out of reach. Although there were clear achievements at the beginning of its foundation, the development of economic interrelations between the member states of the Mercosur have been very limited in nature. Also as a global economic player, the Mercosur is of minor importance. Despite the numerous negotiations over the years, about a comprehensive trade agreement with the EU, there have still been no effective results so far. In all Mercosur member states, the tendency to protectionism of nationalistic economic policies is highly visible. Moreover, rivaling regional integration processes in Latin America makes it difficult to evaluate the future perspectives of the Mercosur.

Fritz Breuss

JEL–No: C54, E65, F15, F45, 052

Austria in the EU – a success story

In 1995 Austria became a member of the EU. The initial EU euphoria was soon replaced by scepticism and disillusion. Nevertheless, Austria profited considerably from 20 years of EU membership. These positive integration effects lasted until the global financial and economic crises in 2008/09 and the following Euro crisis. Due to EU membership Austria gained an “EU bonus” amounting to around ½ to 1 percentage points annual GDP growth. Since the numerous crises in Europe (Great Recession in 2009; Euro crisis since 2010; uncertainty due to the Ukraine-Russia crisis since 2013/14 the “EU growth bonus” flattened. New impulses to Austria’s economic growth must now be created internally by structural reforms.

Waldemar Hummer

JEL–No: F15, F150

Austria’s Endeavours to Partake in European Integration from 1948 to 2015 – A Taking Stock of Neutrality and Constitutionality

The current article examines the perplexing question of how a 1960 Austria was able to join the EFTA, a mere free-trade-area, not however, a customs union, due to it being bound by constraining autarkic principles of public international law. Today, the EU Member Austria, is not only a member of a customs union (Art 28 TFEU), an internal market (Art 26 para 2 TFEU) and an economic and monetary union (Art 119 ff TFEU) – including a common currency (the Euro) – but also of a common foreign and security policy (Art 23 ff TEU), respectively of a common security and defence policy (Art 42 ff TEU). It remains unfathomable that all these aspects have seemingly not been hindered by the country’s policy on neutrality. What therefore has changed in the last 55 years, public international law’s institute of permanent neutrality or Austria’s interpretation thereof? It is this question which this paper shall delve into, particularly from the vantage points of neutrality, politics and the constitution.

Christiane Krieger-Boden

JEL–No: F15, L16, R12, R58

Regional structural change and cohesion

Structural change in the EU in the last decades resulted in an increasing structural similarity of all countries and regions. As can be shown by way of decomposing dissimilarity

measures, tertiarization and intrasectoral change embraced all countries and regions. This change was fastest in those countries and regions that lagged behind most strongly. Similarly, the income distribution has become more equally, at least between the countries of the EU, and at least up to 2007/2008. The new entrants from Central and Eastern Europe that used to be quite backward caught up considerably, though within-countries disparities changed little. It is, however, not very likely that EU cohesion policy though pursuing the objective of reducing disparities contributed significantly to the convergence trend, due to inefficiencies and an only small budget. All in all, the integration process seems to have favoured structural cohesion in Europe.

Jörg König

JEL-No: F15

Tapping the potentials of the Single Market – Results from the EU-Index of Integration Efforts

The EU Single Market is a great success story for its member states. Meanwhile, more than 500 million people benefit from the liberalization of goods, services, capital and labour markets. However, the common market still leaves room for more integration and its potentials are not yet fully exploited. More liberalization efforts are needed – especially with regard to the tendency of rising economic heterogeneity within the EU. This is also shown by the here discussed “EU-Index” that measures the individual integration efforts of the EU member states. Austria’s level of EU-integration illustrates that more efforts can be undertaken in the degree of its foreign direct investments. Also a reduction in labour costs could lift the Austrian economy to a next integration level. Nevertheless, Austria is well integrated in the EU and belongs to a “core group” of countries with regard to European integration.

Klaus Weyerstraß

JEL-No: F15, H63, H87

Fiscal and monetary aspects of European Integration

In a monetary Union, monetary and financial policies are closely linked. In addition, an unsustainable fiscal policy of individual Member States can exert harmful side effects on the partner countries. The fiscal rules which had been enacted with the creation of the EMU should prevent such spillover effects. But the sovereign debt crisis has shown that the existing rules and regulations were not sufficient to limit macroeconomic and fiscal imbalances. In recent years the rules have been strengthened. Whether they are now sufficient to prevent similar imbalances as in the past will show up only in their concrete implementation. A further development of the euro area towards a comprehensive fiscal and transfer union, as demanded by some economists, should be avoided due to the negative incentive effects.

Theresia Theurl

JEL-No: E42, F33, F45

European Monetary Union – Finally arriving in reality

The European Monetary Union started as a big success. But in the following years problems secretly piled up, that were caused by the Monetary Unions governance mechanisms containing incentives for governments and individuals to pursue individual inter-

ests at the expense of the euro zone as a whole. The external shock of the global financial crisis in the years 2007 ff made these excessive misallocations and unsustainable government debts with their harmful effects on the banking system evident. The subsequent actions taken to fight the crisis fundamentally changed the Monetary Union's governance by applying new rules of transfers and liability. Now, it has to be decided whether the European Union's integration shall precede towards a political union or whether the original concepts shall be refocused. The recent development of the European Monetary Union exhibits typical patterns of former currency unions.

Carsten Hefeker

JEL-No: E58, E61, F33, H63

From Rules to Institutions? The Further Development of European Monetary Union

The present paper looks at the development of rules and institutions in the European Monetary Union. It argues that the fiscal rules have been violated from the beginning and are thus not credible. To make monetary union viable, further institutional steps such as a banking union and fiscal integration are necessary. A mechanism to solve the debt overhang in some countries is needed to support credible fiscal decentralization.

Ulrich Brasche

JEL-No: F53, O52, H63

The future of European integration – reform and finality

The stars in the EU-flag are shining less brightly nowadays. The crisis as well as future global challenges press for a “next EU” – however this might look like. Necessary reforms of the monetary union and of the allocation of the budget are constrained rather by political resistance than by a lack of concept. Crisis-driven, ad-hoc reactions and measures might lead to an erosion of the foundations of democracy. The Community must solve their problems at home quickly in order to set free the potential and resources needed for shaping her future role on the global stage. It all depends on the readiness of all groups in society for starting the discussion and be on the way accordingly.

Michael Frenkel/Rolf J. Langhammer

JEL-No: F15

The Transatlantic Trade and Investment Partnership TTIP: A Discussion of Possible Effects and Policy Implications

Apart from very few “outliers”, estimates of the effects of TTIP are within expected boundaries. Short-term static effects on income and trade determined by removing tariff barriers are relatively small, yet sizable in absolute terms due to the economic size of the two partner regions. Estimates of long-term dynamic effects on investment and capital flows are higher but subject to larger uncertainty. Seen from a global policy perspective it will be decisive, whether and how different norms, regulations, and legal provisions in the US and the EU will cooperate and eventually converge and whether the transpacific agreement TPP which is simultaneously negotiated may weaken the EU bargaining power.

Has the attractiveness of the EU been lost? Or: How big is the risk of Brexit?

We examine why the exit option agreed in the Treaty of Lisbon is now considered to be a quite serious alternative for UK. In addition to the general reasons for the attractiveness of the EU on the one hand and for political separatism on the other hand, the specific aspects are discussed, which could explain the above-average skeptical attitude of the British towards the European Union membership. Although most studies on the consequences of a withdrawal from the EU predict certain losses for the UK, the risks seem quite manageable. The UK also faces risks remaining in the EU, particularly when no viable solution to the problems of the euro zone is found and a transfer of instability to the entire EU is feared. If – as by a Grexit – the stability would be recovered within the euro zone and therefore also in the EU, this could reduce the risk of a Brexit.

