

## **EUROPEAN ECONOMIC INTEGRATION**

**Prof. Filip Abraham**

### **Advanced Studies in International Economic Policy Research**

**IFW, Kiel, class of 2003-2004**

The course deals with key aspects of the economic integration process in the European Union (EU). It is organized around four themes (i) integration (ii) liberalization (iii) localization and (iv) globalisation. Market integration implies the removal of barriers between EU countries. Liberalisation amounts to a combination of deregulation of dominant positions and the integration of EU markets. In the part on localization, the emphasis lies on the localization decision of companies and the implications for regional clustering and economic policy. Globalisation is a broad concept with many different interpretations. In this course, we will only deal with the trade relations of the EU with other trading blocks.

There are several high quality textbooks available on European Integration aimed at different audiences. In this course, I combine teacher handouts and journal articles with several chapters of the forthcoming textbook by Richard Baldwin and Charles Wyplosz, *The Economics of European Integration*. Drafts chapters of the book of available on the web.

In this outline, a distinction is made between core and background materials. If a reading material carries a \* it is considered as a core reading. If not, the article is optional and provides additional background for the discussions in class. At the end of this outline, I give an overview of commonly used textbooks and useful web sites.

Lectures will be given during the morning sessions. Students will have access to the slides used during the lectures. Problem sets will be handed out, which are the best preparation for the final exam. I will be available in the afternoon for questions and discussion.

For any problems and further information, I can be reached at Naamsestraat 69, 3000 Leuven, Belgium; ph (32) 16-32 68 33 or (32) 16-32 66 09 (secretary); mobile phone (32) 476- 23 05 28; fax (32) 16-32 66 10; e-mail : [filip.abraham@econ.kuleuven.ac.be](mailto:filip.abraham@econ.kuleuven.ac.be)

## DETAILED COURSE OUTLINE

### Part 1: Integration

#### *Introduction and the removal of barriers :*

- \*Baldwin and Wyplosz, chapter 2
- Baldwin and Wyplosz, chapter 3

#### *The effects of integration*

- \*Abraham, F. "From market Segmentation to Market Integration : An Economic and Business Perspective," teacher handout.
- Baldwin and Wyplosz, chapter 4

#### *Empirical Evidence*

##### Stylised Facts/Sectoral Studies/Partial Equilibrium

- Van Pelt, A., De Voldere I., Veugelers, R. and L. Sleuwaegen (2002) "Sources of Leadership in EU Manufacturing," Ernst&Young.
- Sapir, A. (1996) "The Effects of Europe's Internal Market Program on Production and Trade: A First Assessment," *Weltwirtschaftliches Archiv*, 132, p 457-475.
- Goldberg, P.K. and F. Verboven (2001) The Evolution of Price Dispersion in the European Car Market, *Review of Economic Studies*, 68(4), p 811-848.
- Deardorff, A. and R. Stern (2002) 'EU Expansion and EU Growth,' Ford School of Public Policy, Working Paper no 487.

##### The gravity approach

- McCallum, J. "National Borders Matter: Canada-U.S. Regional Trade Patterns," *American Economic Review*, June 1995, 85(3), p 615-23.
- Chen, N. (2003) "Intra-national versus international trade in the European Union: why do national borders matter? Forthcoming in *Journal of International Economics*.
- Rose, A.K. "One Money, One Market: The effect of Common Currencies on Trade," *Economic Policy*, April 2000, 15(30), p 7-33.
- Jarko and Jan Fidrmuc (2000) "Integration, Disintegration and Trade in Europe: Evolution of Trade Relations During the 1990s" Oesterreichische Nationalbank Working Paper no 42.
- Abraham, F, Buyst E, and S. Geysens (1997) "Trade Integration in the Twentieth Century: What does Belgian History Tell us?" *Weltwirtschaftliches Archiv*, 133/4, p 708-736.

## Part 2: Liberalization

### *Regulatory aspects*

- \*Doyle, C. and M. Siner (1999) “Europe’s Network Industries, Towards Competition” in *CEPR: A European Market for Electricity*. Monitoring European Deregulation 2. p 1-25.
- CEPR (1998) *Europe’s Network Industries : Conflicting Priorities*. Monitoring European Deregulation 1. Chapter 1.

### *Effects of liberalization*

- \*Baldwin and Wyplosz, chapter 5
- \*Abraham, F. “Deregulation and Market Integration under Imperfect Competition,” teacher handout

### *Empirical evidence*

#### General equilibrium studies

- Smith, A. and A.J. Venables (1988) “Completing the Internal Market in the European Community: Some Industry Simulations,” *European Economic Review* vol 32, p 1501-1525.
- Allen, C. Gasiorek, M. and A. Smith (1998) “The Competition Effect of the Single Market in Europe,” *Economic Policy*, vol 27 October 1998, p 439-486.

#### Mark-up studies

- Roeger, W. and F. Warzynski, (2003) “A Joint Estimation of Price Cost Margins and Sunk Capital: Theory and Evidence from the European Electricity Industry. Mimeo.

## Part 3: Localisation

### *Theory and Empirical Evidence*

- \*Baldwin and Wyplosz, chapter 8
- \*Midelfart-Knarvik, K. H. and H.G. Overman (2002) “Delocation and European Integration: Is Structural Spending Justified?” *Economic Policy* no 35, p 323-359.
- Overman, H.G. and D. Puga (2002) “Unemployment Clusters across Europe’s Regions and Countries,” *Economic Policy*, vol 34 April 2002, p 115-148.
- Hallet, M. (2000) “*Regional Specialisation and Concentration in the EU*” Economic Papers, no 141, European Commission: Directorate-General for Economic and Financial Affairs.

*Policy Aspects: National Subsidies*

- Ganoulis, I. and R. Martin (2001) “State Aid Control in the European Union – Rationale, Stylised Facts and Determining Factors,” *Intereconomics*, November/December issue, p 289-297.

*Policy Aspects: EU Regional Policy*

- Martin, P. (1999) “Are European Regional Policies Delivering,” *European Investment Bank Papers*, vol 4 no 2.
- CEPR (2000) “Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization,” *Monitoring European Integration* 10, chapters 1 and 2.

**Part 4: Globalisation: EU trade relations***Multilateralism and the WTO*

For those who are interested, a useful book on the functioning of the WTO is: Hoekman, B.M. and M.M. Kostecki (2001) *The Political Economy of the World Trading System: The WTO and Beyond*. Second Edition. Oxford University Press, p 49-141.

A theoretical analysis of the economic foundations of the WTO is found in the work by Bagwell and Staiger. See for instance: Bagwell, K. and R.W. Staiger (2000) “GATT-Think” NBER Working Paper no 8005, November 2000.

*Regionalism:*

\*Lamy, P. (2002) “Stepping Stones or Stumbling Blocks? The EU Approach towards the Problem of Multilateralism vs Regionalism in Trade Policy,” *World Economy*, vol 25 no 10, p 1399-1413.

*Protection:*

- \*Messerlin, P (2001) *Measuring the Costs of Protection in Europe: European Commercial Policy in the 2000s*. Institute for International Economics, chapter 2.
- For an interesting analysis of a recent protection case between the EU and the US see Hufbauer, G.C and B. Goodrich (2003) “Steel Policy: The Good, the Bad, and the Ugly,” *International Economics Policy Briefs* no PB03-1.

## SOME USEFUL INFORMATION

### Textbooks about European Business

Perhaps the best-known textbook is : Artis, M. and F. Nixon (2001) *The Economics of the European Union*. Third Edition. Oxford University Press.

A more introductory textbook is: Molle, W. (2001) *The Economics of European Integration: Theory, Practice and Policy*. Fourth Edition, Ashgate Publishing Ltd: Aldershot.

### Websites with information on European and global issues

- The Economist; <http://www.economist.com>
- The Financial Times; <http://www.ft.com>
- The World Trade Organisation; <http://www.wto.org>
- The European Union; in particular check the website of the European Commission <http://europa.eu.int>
- The International Monetary Fund; <http://www.imf.org>
- Institute for International Economics: Washington-based think tank about international economics; <http://www.iie.com>
- National Bureau of Economic Research (NBER): US-based research institution in economics with interesting working papers on international economics among other fields <http://www.nber.org>
- Centre for European Policy Research (CEPR): London-based equivalent of the NBER for Europe. <http://www.cepr.org>
- Several articles in this reading list come out of Economic Policy, a policy-oriented Economic Journal with a keen interest in European matters see <http://www.economic-policy.org>