THE NEW GERMAN-FRENCH FRIENDSHIP TREATY AND THE COHESION'S UTOPIA

Romeo-Victor Ionescu*, **Valentin-Marian Antohi**, **Monica-Laura Zlati**

Dunarea de Jos University
Str. Domneasca, nr. 47, Galati, 800008, Romania
E-mail: romeo.ionescu@ugal.ro
*Corresponding author

Biographical Notes

Ph.D. Professor **Romeo-Victor Ionescu**'s research interest covers regional analysis, economic modelling and forecasting. He is a member of the European Regional Science Association; member of the Regional Science Association International. He graduated from the Bucharest University of Economic Studies, Faculty of Planning, Statistics and Economic Cybernetics and obtained the Ph.D. title at the same university. He was Visiting professor at Flensburg University and Piraeus University. He is: Senior Vice President of the Romanian Regional Sciences Association (RRSA); Laureate of the Romanian Government Ordain for Teaching Activity as Knight; member of the Athens Institute for Education and Research (ATINER).

Ph.D. Associate Professor **Valentin Marian Antohi**'s research interest covers Knowledge Management, Financial and Economic Analysis, Accounting, Taxation, Health services, Rural and Regional Development, Developments in Agriculture and Information Technologies for Quality Safety Traceability in enterprises and farms with application in regional and rural development. His professional expertise: scientific research, member of the research project team - PN II, Capacities, China - Romania Bilateral Cooperation research projects focused on the introduction of Information Communications and Technologies in the management of the economic activities, economic manager.

Ph.D. Student **Monica Laura Zlati**’s research interest covers Knowledge Management, Financial and Economic Analysis, Accounting, Taxation.

Abstract

The paper deals with the idea that the new German-French Treaty will have a negative impact on the future economic development in EU27. In order to demonstrate this, the analysis is focused on four representative economic indicators and covers 2013-2025. The economic impact of this duopoly is analysed on three steps: a comparative analysis between duopoly and EU25, a regression analysis and forecasting procedures of the economic indicators during 2020-2025. The analysis and the conclusions are supported by pertinent diagrams and by dedicated software IBM-SPSS 25. The analysis takes into consideration the latest official statistic data. The main conclusion of the analysis is that the building of such duopoly will not support the cohesion across the EU27. Moreover, the economic performances of the duopoly are almost all weaker than those in EU25.

Keywords: Economic disparities; economic duopoly; economic gap; economic cohesion.
JEL Classification: R10, R11, R12.

1. Introduction

On January 2019, the President of France, Emmanuel Macron, and the German Chancellor, Angela Merkel, signed a new bilaterally treaty in Aachen. According to the official statements, this treaty represents an instrument against “the rise of populism and nationalism”. The main goals of the new treaty are the following: convergence of the economic, foreign and defence policies for both countries; trans-border regional cooperation; and a “common parliamentary assembly” formed by 100 German and French deputies. A distinct part of the treaty covers the idea of developing “a common military culture and a common arms industry” (Robert and Schulz, 2019).

The treaty was signed in a very difficult period for both political leaders and countries. Macron is maybe the most contested president across the Member States. The political crisis in France, supported by the yellow jackets is doubled by not the best economic performances. Merkel lost the political power and is criticized for her approach regarding the migrant crisis and economic development. As a result, two political leaders, who are fighting against losing more political capital, try to create a duopoly, at least from economic point of view, in order to obtain the control of EU in the context in which UK is leaving. This risky solution found by the above two leaders can lead to unpleasant and unexpected effects across the EU and on these both economies.

For the beginning, the German government cut the economic growth rates during 2018-2020. This decreased is caused by the global trade instability, threat of economic crises in Turkey and Argentina and slower German production in the auto sector due to difficulties adjusting to a new pollution standard (Heller and Wagner, 2018).

A more optimistic approach is that which consider that the German economy will return to consistent economic growth soon. On the other hand, German economy has to face to considerable risks and uncertainties. These challenges come from the trade war between EU and USA, from increasing political uncertainty in the Eurozone, including the new government in Italy, and from the uncertainty in capital markets (Kooths, 2018).

The French economy faced to great economic challenges. Nowadays, it is under economic recovery, but the improvement is still limited. The specialists point out that the fiscal deficit and the unemployment rate decreased, but both indicators are still high. As a result, France's status was revised from "excessive imbalances" to "imbalances" in 2018 (Baudchon, 2017).

Even that the French President Macron raised the minimum wage and cut some taxes at the end of 2018, the economic status is not the best. As a result, the French government will cut 4,500 public jobs in 2019 and over 10,000 in 2020 (Fouquet, 2018).

The above element lead to the conclusion that France and Germany wish to eliminate their socio-political and economic challenges by creating a development duopoly inside the EU. The question is if such initiative is able to support the cohesion across the EU or will increase disparities between Germany and France, on the one hand, and the other Member States, on the other hand?

The paper deals to a complex economic analysis in order to point out the viability of the French-German strategy.

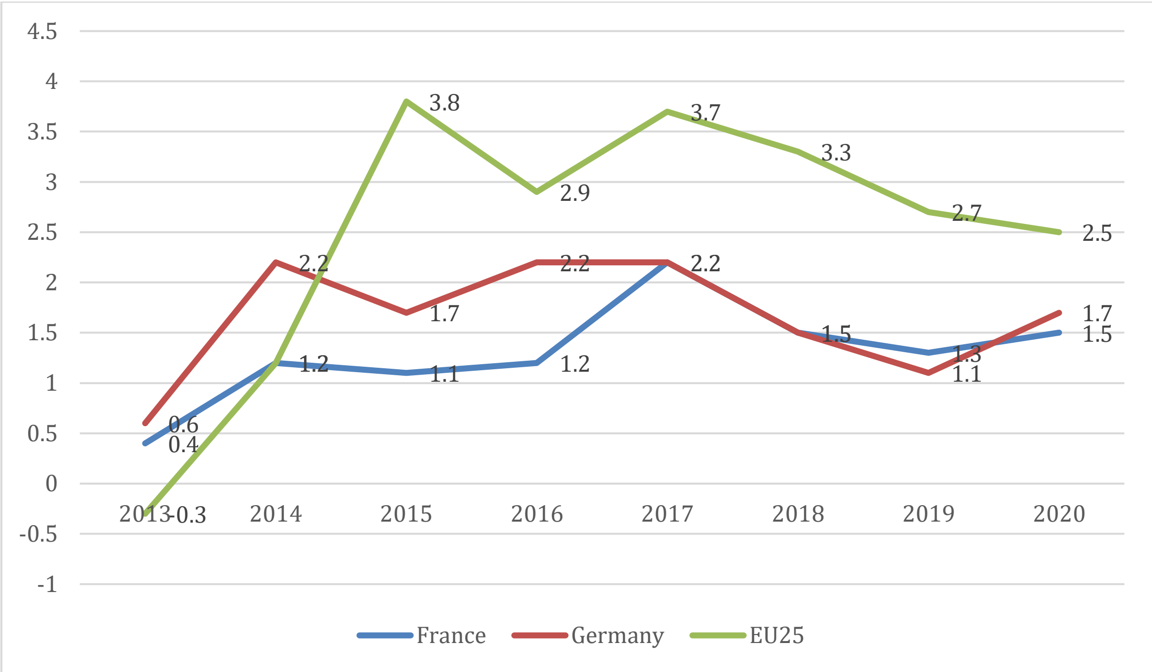
2. Duopoly vs EU25 Economic Performances

In order to realise a pertinent analysis, four economic representative indicators are selected: GDP growth rate, inflation rate, unemployment rate and government gross debt as % of GDP.

The GDP growth rate has a fluctuant trend for all three economic entities (France, Germany and EU27) during 2013-2020, as in Figure 1 (European Commission, 2019).

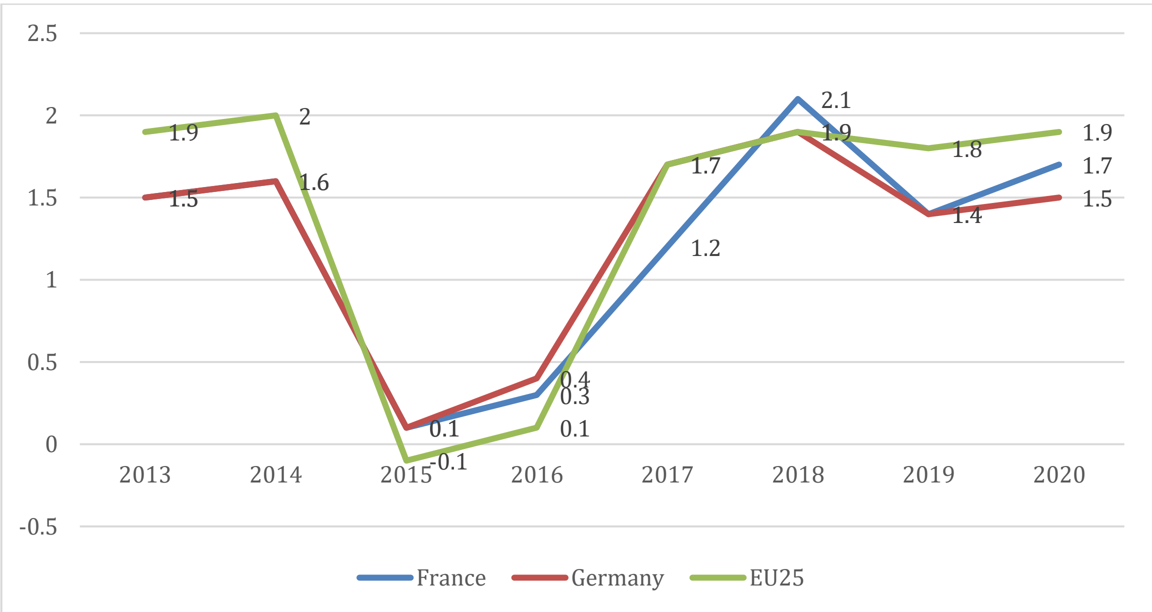
According to data in Figure 1, the GDP's growth trend is higher in EU25 than in other two economies during 2015-2020. The economic recovery in France and Germany in 2020 will do not lead to great differences in the economic growth rates of these three economic entities.

Figure 1. GDP growth rate (%)



The official data regarding inflation rate point out an increase in the forecasted values during 2019-2020. The bottom of the indicator was achieved in 2015, when many Member States faced to negative inflation rates (see Figure 2).

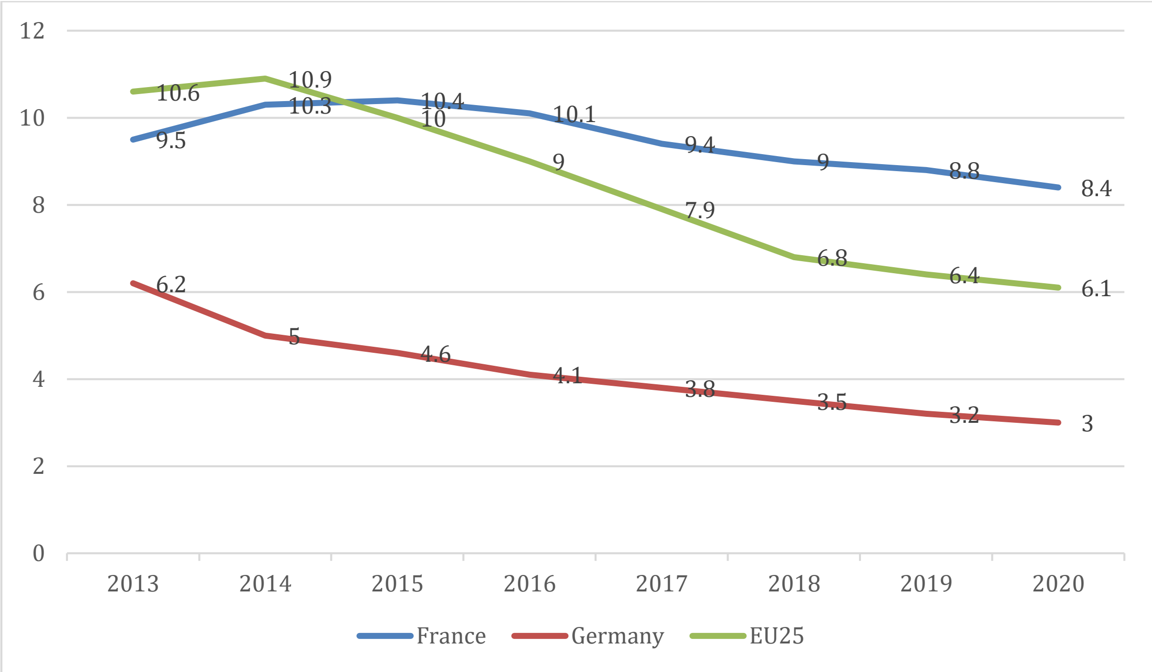
Figure 2. Inflation rate (%)



According to data in Figure 2, Germany and France will achieve lower inflation rates than EU25 during 2019-2020.

There are differences regarding the unemployment rate in Germany and France compared to EU25 (European Commission, 2018). Starting to 2015, the unemployment rate decreased in all three economic entities. Germany succeeds in achieving the lowest forecasted unemployment rate (3.0%) in 2020, but it will face to the challenge of too low unemployment and a distortion on the labour market. France will have a greater unemployment rate, but more connected to the economic environment. The unemployment rate will decrease faster in EU25 compared to the other both economic entities (see Figure 3).

Figure 3. Unemployment rate (%)

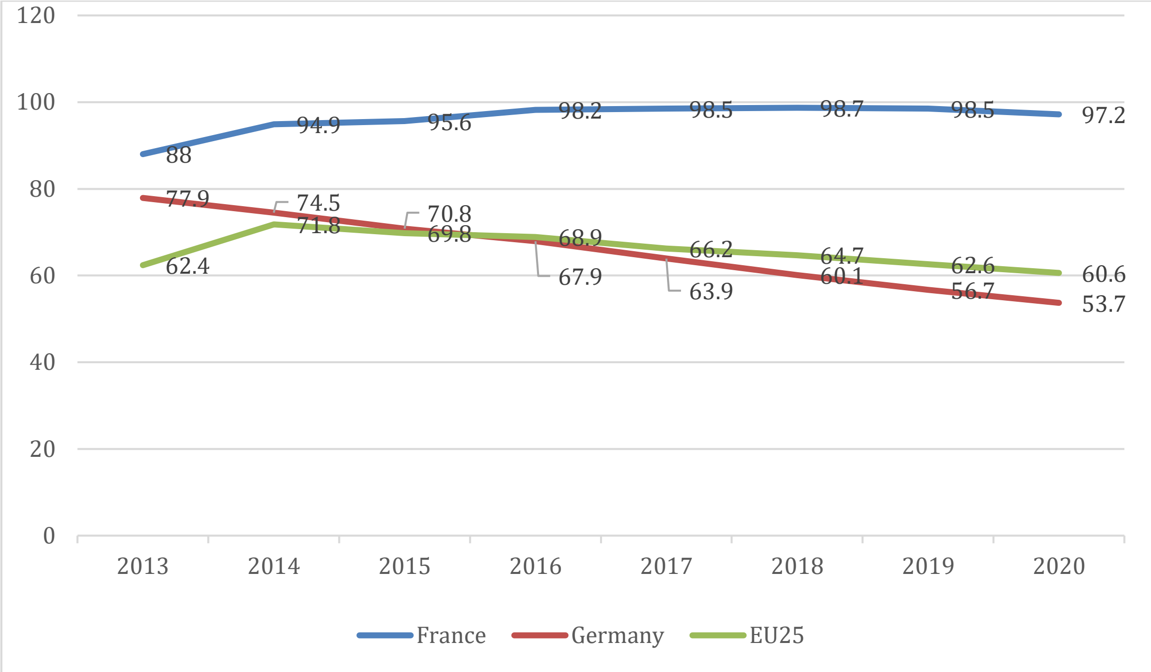


As a result, the unemployment rate in EU25 will achieve a realistic 6.1% in 2020, even this value takes into consideration Member States with two-digit unemployment rates as Greece, Spain and Italy.

Finally, the government gross debt evolution's analysis leads to the same situation as that related to unemployment rate. Germany and EU25 succeeded in decreasing government gross debt during 2016-2020. Moreover, Germany decrease this debt during the whole analysed period. On the other hand, France faced to an increase in government gross debt during 2013-2018. The decreased of the indicator started in 2019, but its forecast level is too high in 2020 compared to the other two economic entities (see Figure 4).

An intermediate conclusion of the above analysis is that France faces to greater economic challenges than Germany and EU25. The inflation rate is the unique indicator with better value in France than in EU25.

Figure 4. Government gross debt (% of GDP)



As a result, the present economic evolution of the analysed three economies puts into discussion the role of Germany as economic locomotive in EU. Nowadays, France represents just a train wagon, while the EU25 represents the rail infrastructure. The quality of this rail infrastructure can support or not the future economic performances of the German-French duopoly.

3. The Impact of the Duopoly on EU25 Future Economic Performances

Under GDP growth rate, the forecasted data are those presented in Figure 5. All three economic entities (1. France; 2. Germany; 3. EU25) will achieve economic growth during the forecasted period. Germany will face to the lowest GDP growth rates, while EU25 will achieve the highest economic growth rates during the analysed period. The evolution in Figure 5 support decreasing economic growth disparities between the duopoly and EU25.

Figure 5. GDP growth rate forecasting (%)

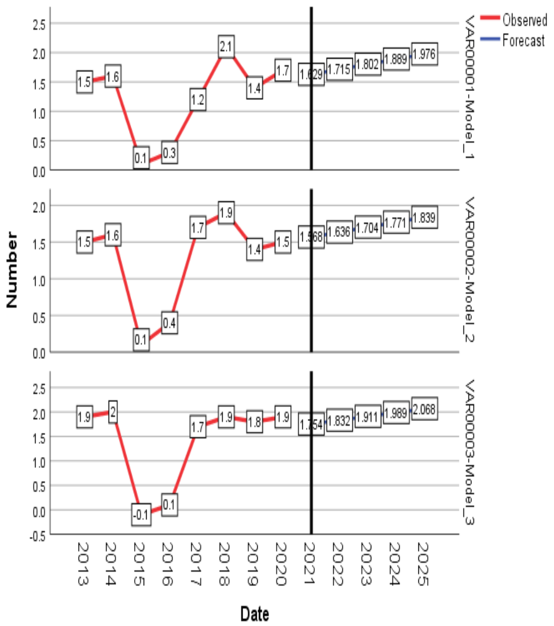
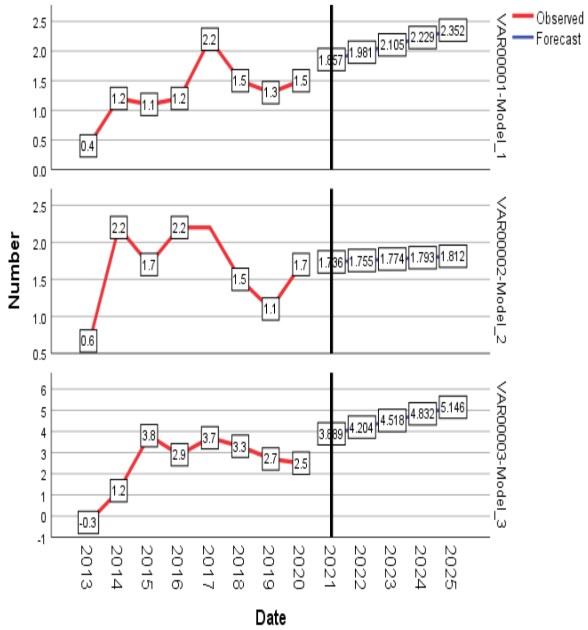


Figure 6. Inflation rate forecasting (%)



Germany will achieve the lowest inflation rate in 2025. It will be followed by France and EU25 (see Figure 6). From this indicator point of view, the duopoly will have better economic situation than the other 25 Member States.

The duopoly and the EU25 will succeed to decrease unemployment during the forecast period. The problem is that the unemployment rate will be too low in Germany and will be not able to regularise the labour market (see Figure 7).

Figure 7. Unemployment rate forecasting (%)

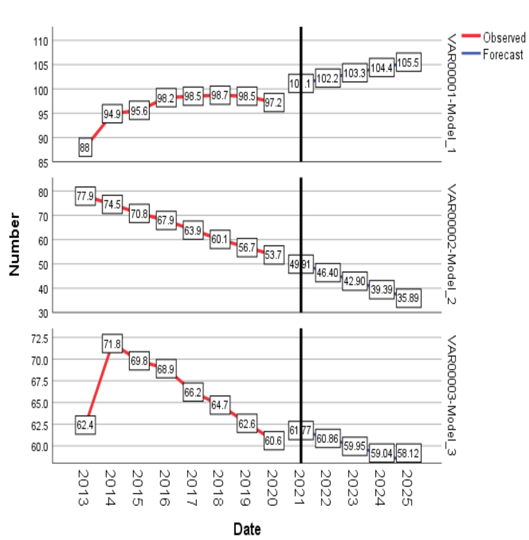
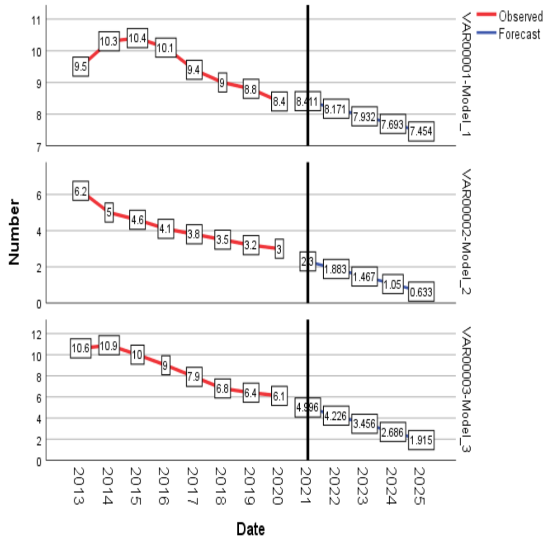


Figure 8. Gross government debt forecasting (%of GDP)

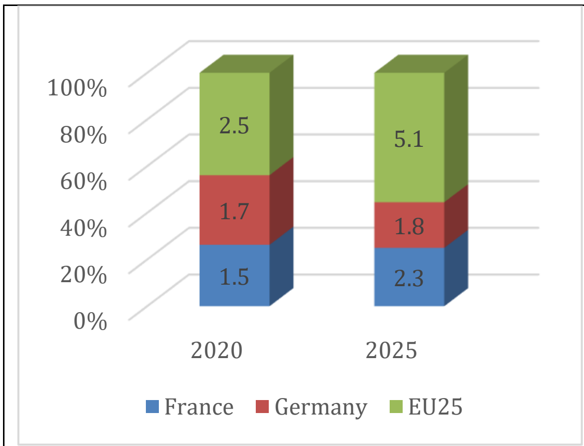


EU25 will face to low unemployment rates, as well, but their values will be a little higher than in Germany. As a result, the unemployment rate in EU25 will be at limit in 2025. France will decrease unemployment, but the process will be slowly and will lead to an unemployment rate of 7.4% in 2025.

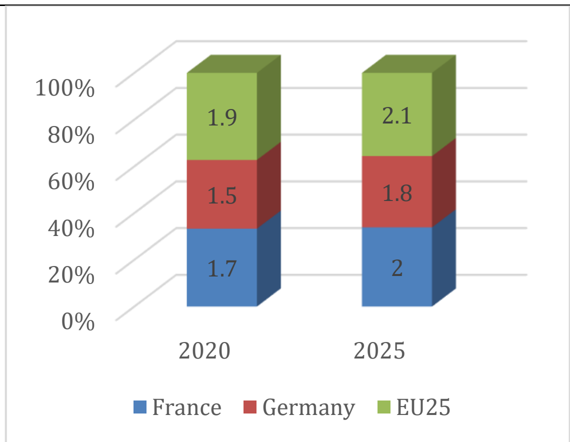
Finally, the government gross debt will decrease powerfully in Germany and slowly in EU25 during the forecast period. France will face to an increase in this rate up to 100% of GDP in 2025 (see Figure 8).

In order to support an adequate conclusion, the comparative analysis of the above indicators in 2020 and 2025 is usefully (see Figure 9).

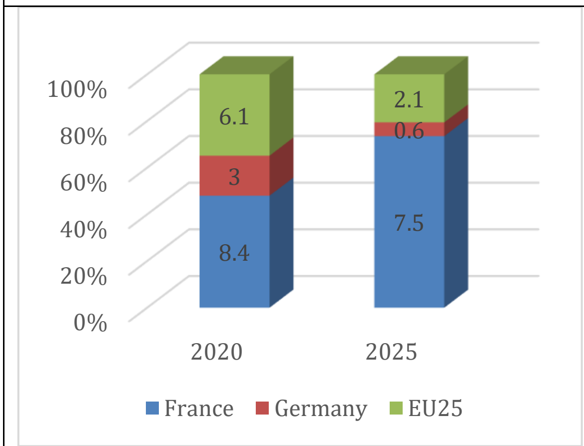
Figure 9. Comparative indicators in 2020 and 2025



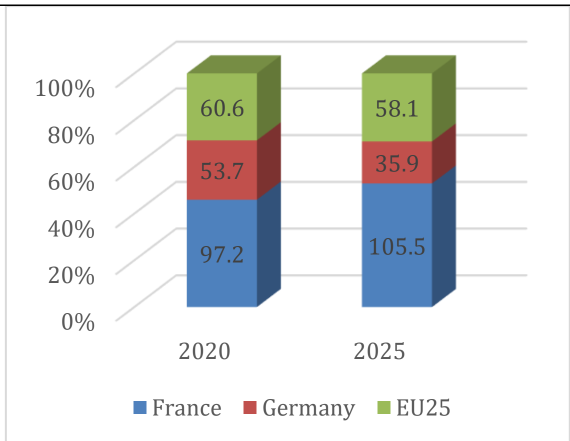
GDP growth rate (%)



Inflation rate (%)



Unemployment rate (%)

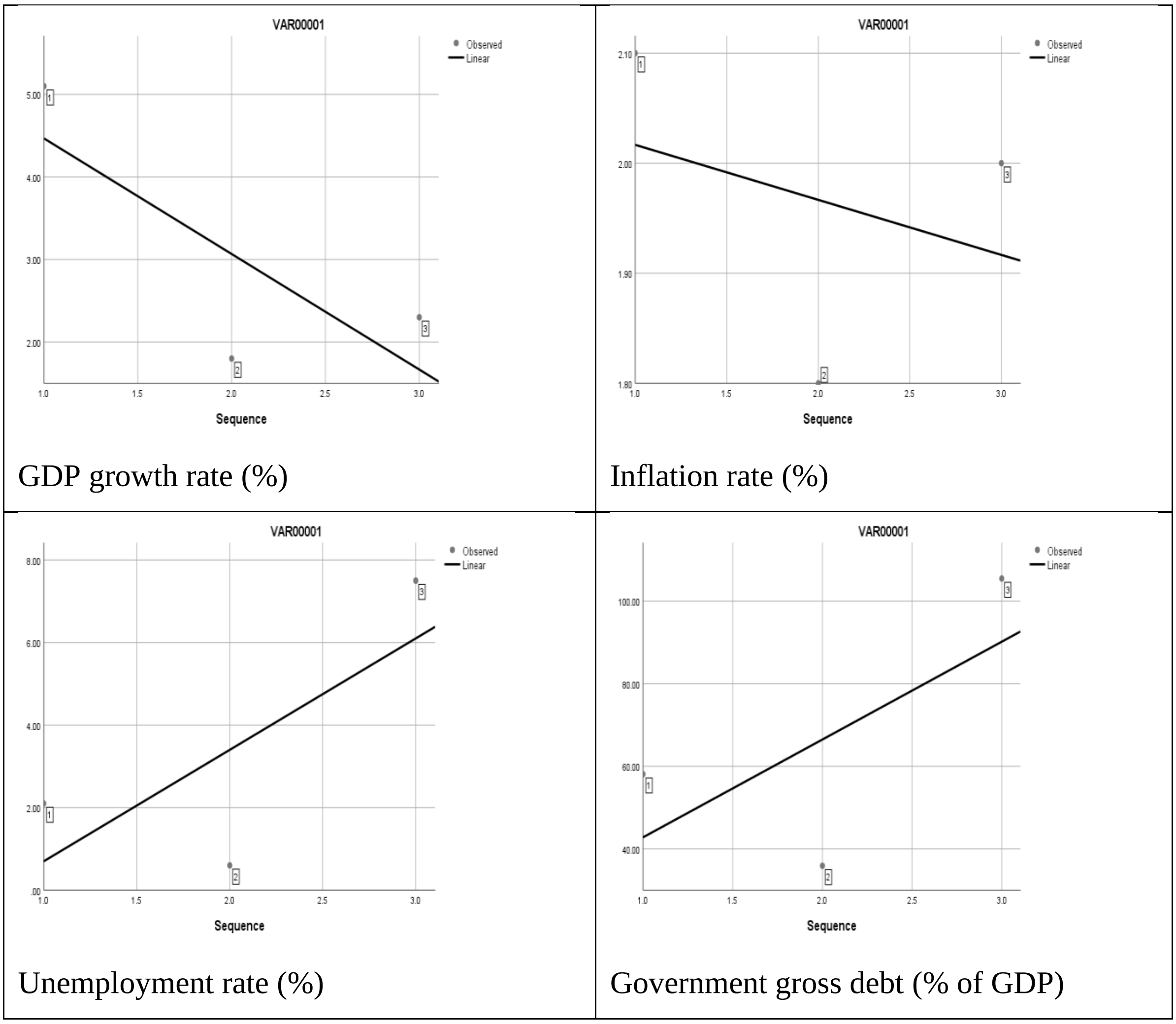


Government gross debt (% of GDP)

4. Conclusion

The future positive impact of the duopoly on EU27 cohesion is difficult to point out. The first question for all specialists is if this duopoly is able to generate economic prosperity for the other Member States. The regression analysis support the idea that the economic disparities between the above three economic entities will be not lower in 2025 compared to 2020 (see Figure 10). The analysis is realised under ANOVA conditions.

Figure 10. Economic disparities in 2025



Note: 1. France; 2. Germany; 3. EU25.

According to Figure 10, the economic gap between the average GDP growth rates in EU25 and the duopoly will be 2.43/1. The economic growth will become slowly across duopoly during the analysed period.

Inflation rate will be higher in EU25 than in the duopoly (1.4/1), but the gap is not too high. The unemployment rate in EU25 will achieve 2.1%. This rate is more different by those is Germany (0.6%) and France (7.5%). The labour market in Germany will face to a great challenge regarding the equilibrium mechanisms.

EU25 presents better situation regarding the government gross debt rate in 2025 that the duopoly (0.8/1). For the first time, France will face to a government gross debt rate greater than its GDP in 2025.

The duopoly will have weaker economic results than EU25, excepting inflation rate, during the analysed period. Inside the duopoly, Germany will have better economic results than France but will face to the challenge on the labour market.

Is very strange to create a duopoly in order to have closer economic, political and military relationships, while both economies are Member States. Such an example can lead to the idea that individual solutions can be better than EU policies.

References

Baudchon, H., 2017. Overview of the French economy. *BNP Paribas Economic Research,* 13 June, pp. 1-5.

European Commission, 2018. European Economic Forecast – Autumn, *Institutional Paper 089.* Luxembourg: Publications Office of the European Union.

European Commission, 2019. European Economic Forecast – Winter, *Institutional Paper 096,* Luxembourg: Publications Office of the European Union.

Fouquet, H., 2018. France Set for Economic Growth of 1.7% in 2019 as Cuts Deepen. *Bloomberg Business* [online] Available at: <https://www.bloomberg.com/news/articles/2018-08-26/france-set-for-economic-growth-of-1-7-in-2019-as-cuts-deepen> [Accessed 14 February 2019].

Heller, G. and Wagner, R., 2018. Exclusive: German government cuts growth forecasts for 2018 and 2019 – document. *Reuters*, [online] Available at: <https://www.reuters.com/article/us-germany-economy/exclusive-german-government-cuts-growth-forecasts-for-2018-and-2019-document-idUSKCN1MK12U> [Accessed 12 February 2019].

Kooths, S., 2018. German Economy: Temporary slowdown, boom not over yet. *Kiel Institute Economic Outlook Germany*, 44 (Q2), pp.1-22.

Robert, A. and Schulz, F., 2019. Treaty of Aachen: 'France and Germany have to show responsibility'. *EURACTIV,* [online] Available at: <https://www.euractiv.com/section/future-eu/news/treaty-of-aachen-france-and-germany-have-to-show-responsibility/> [Accessed 11 February 2019].