CHAPTER 9

The European Union and the Global Political Economy

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Summary

This chapter charts the position of the European Union (EU) in the global political economy (GPE), identifies key dimensions of change and development, and evaluates the EU's impact on the operation of the contemporary GPE. It does so by outlining key ideas in international political economy (IPE), by relating these to the growth of the EU, and by assessing the EU's role in the GPE in three areas: European integration itself, the EU's engagement in the GPE, and the EU's claims to be a major economic power. The final part of the chapter brings these together an examination of global economic governance—in particular, the EU's role in the financial, multilateral state system with its principles of global governance, and pays some attention to recent crises (such as the Covid-19 pandemic) and the Russian invasion of Ukraine.

Introduction

The EU occupies a special position in the GPE—indeed, it could be argued that this area is the one in which the distinctive characteristics and resources of the EU have most shaped the contemporary world. Here it is easier than in other areas to discern the impact of the EU in the global arena. What do we mean when we refer to the GPE? In recent years, the term 'global political economy' has gained ground compared with the more established term 'international political economy' in the analysis and evaluation of the political dimension of international economic structures and processes. Essentially, the term GPE is preferred by some analysts to covers more precisely the content and phenomena to be evaluated when interactions are not only 'international' (i.e. initiated by national governments or occurring between nations) but also 'global' (i.e. transcending national boundaries and involving a wide range of other potential actors). The term 'global' implies that these interactions encompass the activities of a variety of actors, such as multinational companies, non-governmental organizations (NGOs), and traders on financial markets. It is not simply a question of actors, however. The challenges the world faces more often than not are global rather than international, such as those relating to climate change and environmental degradation, stability of the financial system, benefits and costs of free trade, migration, uneven economic growth, development and prosperity, and distribution of wealth among peoples and regions.

Despite the increasing focus on globalization and its manifestations, the academic literature that studies these matters is still usually referred to broadly as IPE (Helleiner 2021). First developed in the 1970s in response to turbulence in macroeconomic developments in the world economy and the growth of financial markets, IPE has since become a well-developed field (cf. Kindleberger 1970; Strange 1970, 1971, 1976; Krasner 1976; Cohen 1977, 1998; Keohane and Nye 1977; Cox 1987; Gilpin 1987, 2001; Lawton, Rosenau, and Verdun 2000; Oatley 2012; Cohn 2016; Germain 2016). This literature asks questions about how domestic economic and political factors as well as the structure of national economies affect their relative prosperity and their relationship with the GPE, and also explores the role of socioeconomic actors and institutions in influencing countries' stances towards the outside world (Frieden and Martin 2002). IPE scholars point to the fact that many of the possible stresses on a country could come from the international system rather than from purely domestic sources. They find that international or global economic factors may affect a country more than would be expected on the basis of the country's macroeconomic fundamentals, which is particularly the case with currencies and internationally traded assets (Helleiner 1994; Gilbert and Helleiner 1999). The areas most studied by IPE scholars are international trade and finance, monetary and exchange rate policies, and the role of international institutions and norms (often referred to in terms of international regimes) in determining how countries position themselves in the GPE (Stubbs and Underhill 2005).

One of the key concerns in IPE is the relationship between states and markets (Strange 1988): the degree of autonomy that states have to pursue national economic goals, but also to shape the regimes for trade, exchange rates, capital

controls, and other key international economic processes. It also increasingly reviews developments that are captured under the broad heading of 'globalization': a process of integration of markets across much of the globe, embarked on by governments, companies, non-governmental agencies, and everyday people, aided by technology that leads to closer interaction among them. Indeed, the IPE literature dealt with globalization before the term became mainstream from the late 1980s onwards. The globalization literature reviews a wide range of economic, political, social, cultural, administrative, and legal developments, with a focus on the growth of interconnectedness between societies and the issues of management, stability, and (in)security that can emerge from this intensification of exchange. It often also offers a normative assessment, assessing whether or not these exchanges can be considered a 'good' or a 'bad' thing (Hirst and Thompson 1999; Scholte 2005; Cohn 2016). Such blanket judgements are likely to conceal wide variations in specific sectors or regions of the GPE: the more sophisticated answer is usually that the results are mixed, with winners and losers within, between, and across national societies (Stiglitz 2002; Piketty 2014). This situation is very much a political one, with the resulting insecurities and demands for protection or redress making themselves felt on national governments everywhere.

Where does the EU 'fit' in this broad concern for the study of IPE? As an entity, the EU is neither a state nor an international organization. It has features of both, and also reflects the growth and increasing integration of one of the world's largest 'domestic' markets. Its hybrid form of governance reflects a peculiar institutional architecture that includes representatives of member states as well as supranational decision-makers, and which also responds to pressures from civil society groups at the European level (see Chapter 5). Decision-making on an increasing range of economic and commercial issues is channelled through EU level institutions, but has not eliminated the importance of the national level. Indeed, for many member states their national economic resources have been enhanced by membership of the EU. At the same time, the EU is inevitably and increasingly entangled with mechanisms of global economic governance. It is also noteworthy that the EU has experienced deepened integration in the very areas studied most by IPE scholars (see Jones and Verdun 2005): trade (both in goods and in services), monetary policies, and a wide range of regulatory policies.

As a result, the EU has developed a distinctive relationship with the GPE (Laursen 2009). European integration has from the beginning been a process that aimed at removing barriers to trade and exchange within the entity even if it was not quite so liberal in its outward orientation. European integration also sought to reduce the role of government protection of industries or sectors and reduce or dismantle monopolies. Both the creation of the customs union on which the EU's external commercial policies are founded, and the elaboration of internal policies with significant external effects, implied the need for a 'foreign economic policy' in key areas from the outset of the European integration project. The emphasis was much more squarely on economic rather than on political cooperation. We can point to competition policy—an area that is at once a driver of internal European integration as well as an important component of the EU's external regulatory

power. The EU has wielded considerable influence through competition policy not only over major European corporations but also over non-European world leading multinational companies, such as Apple and Microsoft. Furthermore, it even has had an impact on the development of competition policies at the global level, as more national and regional competition regimes draw on the EU experience rather than that of the United States (US) (see Pollard 2014).

Both in its early form of the European Community (EC) and its later form the EU has been a significant international economic actor. As early as the 1960s, especially after it completed the customs union in 1968, it shaped West European market development. In the 1970s and 1980s it increased its influence when, through various rounds of enlargement and expansion of policies, it was able to respond to external challenges and maintain the integration process, often with the support of the European Court of Justice (even though there was international scepticism about its success). At this time the EC was a minor partner to the US in a profoundly polarized world: the US had been instrumental in establishing the key post-Second World War regimes for trade and monetary relations and continued to dominate their development. The fragmentation of US international economic dominance in the 1970s and 1980s was thus a key element in the growing assertiveness of the EC, for example in trade policy and development assistance (see Chapters 10 and 13). The Community, and later the EU, experienced a further surge of influence (and expectations) once the Cold War ended. Its influence increased further with the Maastricht Treaty entering into force, in November 1993, which transformed the EC into the EU. One of the key aspects of the treaty was the initiation of moves towards a single European currency, the euro. Although the end of the Cold War is often presented purely as a process in diplomacy and security policy, it can equally be argued that it was a key stage in the development of the GPE and within that of the EU as a major actor.

Within this broad context of change, the EU has sought to strike a balance between regionalism and globalization. Regionalism in the EU has different meanings. The first meaning focuses on the development of regions within the EU; the second on integration of the larger integrated area as a region within the world economy. In part the EU has focused on using European-level policies to reduce the gap between the rich and the poor subnational regions within its boundaries—a gap given additional force during the early 21st century by the accession of 13 new member states, many of them still in need of economic as well as political development. The second meaning is its role in creating an integrated region on which to base action in the GPE, which has been quite successful according to numerous indicators (as we shall see). However, there are questions to be asked about the extent to which the EU has succeeded in transforming its economic expansion into a position in the global political arena proportional to its economic power. These questions are as much political as they are economic, since they reflect the fact that, except in certain areas of policy, the EU is not a fully integrated economic actor. For instance, it lacks the ability to pursue a coherent European interest and is deficient in the legitimacy that it might claim as a state actor. Although the EU has significant 'state

powers' and performs important 'state functions', and resembles a federation in some aspects, but ultimately it is not a state (Verdun 2016).

In light of these reflections on the position of the EU in the GPE, this chapter addresses a number of key questions: how does the process of EU integration 'fit' in the GPE, and how does it challenge approaches to IPE? How does the growing presence of the EU in the GPE affect key processes of exchange and issues of growth, development, and crisis? Can the EU be considered as a 'power' in the GPE, and what is the effect of the peculiar characteristics of EU power? How does the EU contribute to the governance of the GPE and what does this tell us about the linkages between EU integration, EU presence in the GPE, and the EU as a power? The structure of the chapter broadly follows this set of questions. The first section examines integration in the EU and its implications for the GPE. The second section reviews the EU presence in the GPE, while the subsequent section examines the EU as a power in the GPE. The penultimate section looks at the EU's role in global economic governance, and particularly at the Union's role in pursuing international competitiveness and in responding to the recent crises, including the Covid-19 pandemic. The final section concludes by reassessing the position and roles of the EU in the GPE and provides some comments on how the EU's economic might was used as an instrument in the opposition to the Russian invasion in Ukraine.

Integration in the EU and the global political economy

The creation of the EC in the 1950s took place in a different international economic world from that which characterizes the recent era of globalization. The prevalent mode of governance was hierarchical, with the government playing a central role in society (see Tömmel and Verdun 2009). Pervasive controls existed on international movements of capital as well as those of traded goods. The integration process in the EU aimed at adopting a more liberal stance internally by reducing barriers to trade and enhancing market principles but also facilitating a mixed economy. Throughout the 1950s and 1960s individual EC member states also created and expanded their national welfare states. In many countries, government was a large stakeholder in various industrial sectors, either through direct nationalization or through partnerships with private corporations. In terms of the language of IPE a number of policies were Keynesian (the member state government looking after its own issues by taxing and spending, running a budgetary deficit and public debt to pay for these public expenditures, and in this manner enhancing growth and prosperity, particularly in areas such as welfare state development and industrial policy). In other areas, policies were liberal, in particular those that related to market integration—and those in which the EC came to play a major role.

That the EC started with integration of production and regulation of coal and steel was part of the zeitgeist of the immediate post-war period—the underlying aim was to create such mutual entanglement of national enterprises in heavy

industry that mobilization for war became costly and in effect unthinkable. Similar reasoning dictated that a key initial area of policy integration at the European level was agricultural policy. Food security was one reason to choose this policy as a matter of common concern. Another was that this sector still represented a fairly large proportion of society. At the end of the Second World War about a quarter of the population in the original six EC member states was involved in agriculture. The choice of a centralized policy for agriculture was in part also inspired by a federalist ideal, which in the case of some of the founders lay at the heart of the creation of the EC (see Skogstad and Verdun 2009). Both the focus on coal and steel as well as on agriculture were to have major implications for the EC's international economic involvement, since they related to key areas of international trade and competition.

Other EC policies were not quite as top-down or centralized. At first the EC sought market integration and rules harmonization by agreeing to common standards—for example, in transportation or public procurement. Harmonization was very time consuming and often politically difficult. The European Court of Justice offered the solution to this conundrum. Following the 1979 Cassis de Dijon case, the principle of 'mutual recognition' was adopted to allow goods from different countries to be sold in other member states (Schmidt 2007). This principle served as one of the key foundations of the programme to 'complete the internal market', which became a key driver of European integration in the late 1980s and early 1990s.

Regional policy was another area of policy that had major implications for the political economy of the EC. Here we see some elements of fiscal federalism: the principle of collecting tax revenues centrally and then disbursing them to areas in the federation that need them most according to agreed indicators. The EC defined areas that were weaker and thus deserving of 'structural funds' (or regional funds) to enhance their development; increasing their ability to benefit from the opportunities offered by the integration process. There was always the risk that national authorities would no longer invest in these areas unless the EC had paid up as well. In terms of the IPE model, this policy was one that kept a strong role for the EC and later the EU as a centralized actor that taxes and spends (albeit on a scale that is dwarfed by the governments of EU member states)—it also had important effects on the incentives to invest in certain regions and, by implication, for the movement of capital and other resources in the global arena (Tömmel and Verdun 2013).

These policies with centralized components had not always secured the growth and the internal integration that had been envisaged. By the mid-1980s following more than a decade of difficulties in the international context caused by turbulence on foreign exchange markets and by shifting patterns of international competitiveness, these elements of internal stagnation gave rise to a new impetus for internal reform of the EC's political economy. The 1985 White Paper 'Completing the Internal Market' by the end of 1992 gave new life to the European integration process. The 1986 Single European Act (SEA), ratified in 1987, facilitated the adoption of rules to complete the single market by qualified majority voting and which was buttressed by the 'mutual recognition' system. One of the key policies exploited for this purpose was competition policy. The Single Market Programme (SMP) though

opening up the market, was still subject to state intervention. Even in the Single Market there are complex rules and regulations for many aspects of economic activity.

Another area in which the SMP had important implications was international trade. EC actors were dealing with others in the international arena via the General Agreement on Tariffs and Trade (GATT)—since 1995 part of the World Trade Organization, (WTO). Since the EC was a customs union, EC supranational actors (primarily the Commission acting on a mandate from the Council of Ministers) had the authority to negotiate international trade agreements. Although often cumbersome and tedious, the EC managed to participate as one actor on behalf of its member states. A traditionally difficult area was the clash between the international trade regime that increasingly sought to move towards more free trade (a liberal regime) and the area of agriculture, but also leading counterparts such as Australia, Canada, Japan, and the US, which kept a more protectionist stance (see Chapter 10). The SMP, by contrast, gave the EC a direct interest in international liberalization in areas where it was expected that the EC would be best placed to compete (e.g. trade in services or a number of areas of regulatory policy). The resulting tensions, between 'fortress Europe' and 'world partner Europe' during the late 1980s and mid-1990s, were a key policy problem for EC decision-makers.

Finally, in the area of monetary and exchange rate policy, the EC started off with an informal system. In the early years the EC member states were part of the Bretton Woods system of fixed but adjustable exchange rates in which national currencies were pegged to the US dollar, which was convertible to gold (Triffin 1978). The EC did not need to set up its own system of fixed exchange rates. EC countries still coordinated short- and long-term economic policy objectives through an informal set of EC committees (see Verdun 2000). As the 1960s proceeded, the US dollar convertibility to gold became less credible, as the US was issuing more dollars (e.g. to pay for the cost of the Vietnam War). Towards the late 1960s the broader international monetary system showed cracks, and a number of major asymmetries became apparent—for example, the weakness of the pound sterling and the strength of the Deutschmark (the West German currency), as well as the instability of the US dollar. Therefore, the EC countries became keen to create their own system, a measure of integration and as a means of insulating themselves from the fluctuations of other major currencies.

During the monetary crises of the late 1960s and early 1970s that led to the demise of the Bretton Woods system of fixed exchange rates in 1971, the EC countries sought to deepen economic integration. A first blueprint for Economic and Monetary Union (EMU) was created through the Werner Plan in 1970, but insufficient agreement could be reached on the degree of transfer of sovereignty over economic and monetary policy to a centralized authority and on what would be the appropriate policy mix between monetary and fiscal policies. The so-called 'snake' (later the 'snake in the tunnel') was set up to keep exchange rates stable within narrow limits. Not all EC countries participated. Those that did were sometimes forced out by the pressures of international financial flows. During the 1970s some countries experienced high inflation and exchange rate volatility, while the broad asymmetries persisted

and were exacerbated by such factors as the impact of successive oil price crises. The European Monetary System (EMS) set up in 1979 to keep exchange rates stable met with mixed success. With hindsight, however, one can trace back to the early 1980s a change in paradigm regarding two main economic concerns that were at the core both of European integration and of the broader emerging GPE. The first of these was the relationship between state and market. From the early 1980s, the tendency at national and European levels was to give a larger role to the market and a smaller role to the state (the latter becoming more of a regulator, less a stakeholder/investor). The other shift related to the role of monetary policy. Neoclassical economists such as Milton Friedman suggested that economic growth would benefit from cheap money—meaning low inflation and stable money—and thus that the key role of government was to control the money supply. Added to these points was the view that fixed exchange rates were important in a system in which the constituent parts were increasingly trading with one another. The result was a shift towards low inflation and currency stability, giving an increasing role to market principles and reducing the role of state intervention in industry (Hall 1986). This paradigm shift that took hold of Europe but also of the US and other countries, took some years to sink in completely. It led to considerable instability in international financial markets during the 1980s. Eventually it became a key driving force behind the push to complete the single market and to relaunch the idea to create a monetary union.

A blueprint for EMU was in place by April 1989. The project gained further political momentum with the fall of the Berlin Wall in autumn 1989 and became one of the two central pillars in the plan to revamp the EC treaties, through the intergovernmental conference that was established in 1990. EMU was incorporated as a goal in the Treaty on European Union with a view to being created before the turn of the century. The model of EMU was different from the currency regimes of national states. The EU plan would transfer sovereignty over monetary policy to a European System of Central Banks with a European Central Bank (ECB) at its core. Yet it would not feature an increase in the very small centralized budget to spend beyond that contributed already by member states to existing Community policies, nor a unified system of taxation. Therefore, there were few stabilizing mechanisms to counter the kinds of asymmetries a single monetary policy might produce or to balance against major external shocks to the European system (Verdun 1996). Throughout this time there was a cap on the EU budget of 1.27 per cent of EU gross national income. Thus, in the terms used earlier in this chapter, there was no fiscal federalism of any significance to accompany EMU.

The movement to the single currency and to monetary union entailed major domestic reforms for those EU member states that committed themselves to entering the system at its inception. After intense efforts on the part of the member states, most met (or came close to) the so-called convergence criteria that stipulated the rules on the extent of member state budgetary deficits, public debt, inflation, and exchange rates. Aspiring members of the euro also had to commit themselves to major institutional changes, and especially to ensuring that their national central banks were independent. Eventually, 11 member states were approved to join the third stage of EMU on 1 January 1999 (see Box 9.1). Banknotes and coins started

BOX 9.1 The path to the euro and EMU

October 1970	Werner Plan (report): three-stage approach to EMU is presented; it fails a few years later due to the difficult economic situation of the 1970s, and the different national responses thereto
1972	European system of fixed but adjustable exchange rates ('snake') set up; experiences mixed results throughout the 1970s
March 1979	Launch of the EMS, which consisted of Exchange Rate Mechanism (ERM) and the European Currency Unit
February 1986	SEA signed in 1986 in Luxembourg with an objective of establishing the single European market by the end of 1992
April 1989	Presentation of the Delors Report, which provided a blueprint for the establishment of EMU in three stages
July 1990	First stage of EMU launched with capital liberalization
February 1992	Maastricht Treaty signed, laying down the convergence criteria and the timetable for EMU
January 1994	Second stage of EMU launched; European Monetary Institute (predecessor of the ECB) created
December 1995	Naming the single currency 'euro' at the Madrid summit
June 1997	Amsterdam summit; agreement on the Stability and Growth Pact (SGP); agreement on ERM-2
May 1998	Launch of the third stage of EMU on 1 January 1999; 11 member states fulfil the convergence criteria
June 1998	ECB starts operating
31 December 1998	End of this day, exchange rates of the 11 member states adopting the euro are irrevocably fixed
1 January 1999	Third stage begins: launch of the euro as the currency for 11 member states; the euro is still only a virtual currency
1 January 2001	Greece meets the convergence criteria and joins the euro area
1 January 2002	Introduction of the euro banknotes and coins in 12 member states
May 2005	Lithuanian application for euro area membership is denied
1 January 2007	Slovenia joins the euro area
1 January 2008	Cyprus and Malta join the euro area
1 January 2009	Slovakia joins the euro area
October 2009	Start of the 'Greek crisis' when the new Greek government announces a budgetary deficit of 12 per cent
1 January 2011	Estonia joins the euro area
26 June 2012	Four Presidents Report 'Towards a Genuine Economic and Monetary Union'

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BOX 9.1 (Continued)

October 2012	Treaty amendment to Article 136 of the Treaty on the Functioning of the European Union allows for the creation of a permanent support mechanism for the member states (based on an international treaty) to support the stability of the euro, establishing the European Stability Mechanism
1 January 2014	Latvia joins the euro area
1 January 2015	Lithuania joins the euro area
22 June 2015	Five Presidents Report 'Completing Europe's Economic and Monetary Union'
July 2015	Third bailout for Greece—marking the 'close' of the Greek crisis
March 2020	The Council activates the general escape clause of the Stability and Growth Pact (SGP) in response to the outbreak of the Covid-19 pandemic; the ECB initiates the pandemic emergency purchase programme (PEPP)
17 December 2020	Adoption of the long-term EU budget which included the NextGenerationEU with 2 trillion euro in stimulus package
Summer 2021	European Central Bank launches a 'strategy review' which changes for the first time since 2003 the inflation target, making it 2% in the medium run.

Source: Verdun (2000); European Commission (2010, 2021*g*); European Parliament (2022).

circulating in 2002. More member states joined and since 2015 the euro area counts 19 member states. It can readily be seen that the creation of an integrated monetary zone including a number of the world's more powerful national economies could have important effects on the GPE; indeed, the creation of the euro was accompanied by predictions that the global monetary system would become 'bipolar' between the dollar and the euro, and that the euro area might become a more important focus of investment than the US. The UK, although inside the EU for most of this period, remained outside the euro area. Yet even that country could not avoid being profoundly influenced by what went on in the euro area, as it the new currency led to a significant change to the global monetary regime.

What does this review of the IPE of European integration tell us about the ways in which the EC (later the EU) processes have changed the landscape of the GPE? We can conclude that the process of integration in the EC/EU has led to a mix of winners and losers. Especially after the initiation of the SMP in the late 1980s, the winners were and are those that could do well in an increasingly integrated market; those that would thrive in a competitive environment. A number of state monopolies were broken up and new entrants were allowed into the market. Consumers benefited from a reduction in prices for utilities, that increasingly competed with one another, leading to a downward pressure on prices. Also, the cost of other

goods that used to be dominated by one or a few suppliers was affected by increased competition; for example, the cost of telecommunications and transportation (air travel in particular) came down dramatically in the EU.[1] Workers who were mobile, or who had international appeal, benefited from the single market. The market for financial services increased, and workers and investors in that sector for the most part prospered.

The losers in this integration process were those that had been dependent on government support or other forms of protection. As the decades progressed, national governments were unable to protect ailing industries from decline. The automobile and airline industries needed to find partners to survive. Others, such as those in the textiles industry, more often than not shut up shop or relocated outside the EU borders (or to Central and Eastern Europe as part of the consequences of the 2004–07 enlargement). As the labour market liberalized, workers faced a different set of support structures. In many EC member states in the 1960s, 1970s, and 1980s employees had lifelong employment and would not change jobs much in their lifetime; generous unemployment benefits were given to the unemployed without too many demands being made on them. By the 2000s these benefits had been reduced and more came with more strings attached. Furthermore, increasing numbers of workers were employed on a contract basis without a clear guarantee of permanent position or long-term benefits, and they would change jobs many times in their lifetimes. These were trends in the EU, but they are by no means exclusive to the EU. Indeed, one conclusion from this discussion is that the EU has become in some ways a microcosm of globalization trends, with increased interconnectedness and volatility and resulting problems of 'societal security' in the face of rapid economic change.

In terms of EMU, those in the euro area benefited from cheap money (low interest rates and easy access to credit for government, consumers, and investors) and a reputation built on that which had its origins in the policies of Germany. But there were also costs associated with EMU. Specifically, in order to reap the fruits of the single currency, member state governments had to keep their fiscal house in order and ensure that they met the convergence criteria even when in EMU. These fiscal rules reflected the fact that there was no central EU government (or 'economic government', an idea supported by the French) that could bail out a country if it were deemed to be borrowing too much (which would be necessary if its debt-to-GDP ratio or budgetary deficit was high). Given that there was no such EU-level economic government, the EU Treaty, backed up by the SGP strongly supported by Germany, stipulated a no-bailout clause: no country was to be given EU funds if it was unable to pay off its debt. Being in EMU, with irrevocably fixed exchange rates and a single currency, also meant that if a country was uncompetitive, it could not use devaluation as an instrument. Instead, it would have to improve competitiveness either by reducing the cost of labour and prices or by increasing productivity. In a GPE where intensification of competition (and the emergence of new competitors) could almost be taken as a given, the potential for major economic shocks and dislocations was built into European monetary integration.

The EU's presence in the global political economy

The status of a country in the GPE is often measured by its economic size and wealth. In the early days of European integration, when the EC consisted of six member states, the EC could not yet claim a strong position in the GPE. As the EC, and later the EU expanded, especially with the falling apart of the Soviet Union and the Warsaw Pact, the US was the only remaining superpower in political and security terms. Yet US hegemony was increasingly challenged in the GPE, both because of its internal economic and political weaknesses and because of the rise of new competitors, such as Japan in the late 1980s. As we have seen, the EU came onto the stage more seriously for three key reasons: first, because of the increasing size and resources brought by successive enlargements, second, because of the increasing freeing up of the single market, which had beneficial effects on competitiveness, and third due to its commitment to regulation and the rule of law. From an early stage, as noted previously, the EU was also an important actor because it united within itself a number of the largest economies in the world. This was reflected in the EC and then the EU relationship to key international economic institutions; in the late 1990s when the G8 was meeting, the countries around the table were the US, Japan, Germany, France, Italy, the UK, Canada, and Russia. In other words, four of the eight were EU members. In the meetings of the G20, which has in some respects replaced the G8 as a global economic forum since the 2007 financial crisis, besides these eight and various other industrialized and emerging market countries, the EU also takes its place as a separate entity. In some international economic organizations, the EU constitutes a majority of the membership; for example, the Organisation for Economic Co-operation and Development, with currently 38 members, has been dominated numerically by EU member states (27 members) since the EU enlarged at the start of the 21st century.

With the growth of the size and scope of the EU, it thus has also increased its presence in the GPE. Today it has the largest internal market in the world and represents an area with more than 440 million people (compared to 330 million in the US). The EU of 27 member states (EU27) is a power similar to the US in terms of its GDP based on purchasing power parity share of world total GDP (per cent).

There have been 'winners and losers' in relative terms within the EU itself and the benefits of integration are often unevenly distributed. Many of the larger EU member states have experienced a recent decline in GDP per capita compared against an index of the EU27. The EU15 (the countries that made up the EU of 15 member states between 1995 and 2004) on average saw their GDP per capita decrease slightly over that period. At the same time, their GDP per capita remained well ahead of the less developed new members of the EU27, whose entry in 2004–07 (and Croatia in 2013) had the effect of marginally reducing the GDP per capita for the EU as a whole. Within this general picture, there were significant variations; for example, the Netherlands and Luxembourg did better than the average, while Germany, France, and Italy did worse, and the UK (which was a member until 2020) stayed at approximately the same level. In comparison, over this same period the US experienced a gradual slight decline, while Japan declined

more substantially, reflecting its lengthy period of economic stagnation. The US remained significantly ahead of the EU on this measure throughout the period. It is also important to remember that a number of large emerging economies such as China, India, and Brazil achieved spectacular growth rates throughout this period, with significant increases in wealth for large parts of their populations—a fact that has had important implications for the EU's position in the GPE (see Chapter 18).

Another indicator of success is economic growth rates. During the 1960s the countries that made up the EC showed spectacular growth rates of 4 or 5 per cent annually. Most EC countries maintained similarly strong growth rates in the 1970s (if one excludes the recession years of 1974–75). In the 1980s, 1990s, and the first decade of the 21st century, growth slowed somewhat (especially because of the 2008 financial crisis and its aftermath). Furthermore, almost a decade after the onset of the financial turmoil in 2007, EU member states are once again, or should one say, 'still' confronted with low economic growth. Though spectacular in the 1960s and 1970s, the pattern of growth in the 1980s in EC countries and in the 1990s and 2000s in EU member states was somewhat similar to that experienced by other advanced industrialized societies (e.g. Canada, Japan, and the US). In other words, the EU could not really claim an exceptional overall economic performance in terms of annual growth rates over the long term, except in the early years of the post-Second World War 'economic miracle'. This result may simply reflect the 'maturing' of economies and thus an inevitable process. The EU still could command authority as it contained some of the largest economies in the world. It commanded attention from other countries in the GPE for being the largest and most sophisticated markets in the GPE, and with extensive social safety nets in most of its member states.

In terms of the EU's presence in the GPE, its role is particularly noteworthy in the area of trade (see Chapter 8). Another area in which the EU dominates is in setting international standards. Because the EU has a competition policy and other regulatory policies that seek to ensure that there is a level playing field for all those who wish to enter the market, but also to discourage those who would take advantage of differences between national standards, the EU formulates international standards for its market. Given the size of its market, others that want to enter the large EU market find themselves in a position where they have to adapt even where EU standards are not favourable to them. As a result, the EU is potentially in a position not only to create standards for its own market but also to 'encourage' the adoption of EU standards as international standards.

The picture, however, is not uniform. The EU has different levels of competence and resources in different areas of policy. In areas closely related to the single market and to common policies, e.g. steel and agriculture, there is a strong basis for the EU to pursue global influence—or at least to resist attempts to limit its influence. In other areas it is much less clear how the EU operates as a collective actor, mostly because the EU member states are often involved as the main actors or there is a sharing of competence between the Union and its member states (e.g. environmental policy, see Chapter 10, and external development assistance, see Chapter 11).

How much does the EU manage to 'capture' or to encompass the collective action of its member states in the GPE? From an IPE perspective, it gives rise to another fundamental question: why do governments transfer sovereignty to international institutions? Scholars such as Moravcsik (1998), following Hoffmann (1966), have emphasized that states really only want to cooperate at the supranational level when there is a clear and immediate trade-off that will secure returns in the short run. In the 1980s and 1990s it became apparent that the composite parts of the EU (its member states) were willing to give up some sovereignty, or to be more precise, 'pool sovereignty' (cf. Keohane and Hoffmann 1990) so as to create a better order that would benefit most of the sum of its parts most of the time. As such the EU has been for some time on track to becoming more deeply integrated and in practice en route to increased federalization; on this basis, it would be possible to argue that it is a 'quasi-federal state' even if falling well short of being a fully-fledged federation. But this means that in terms of its participation in the GPE, the EU remains an uneasy hybrid, with the capacity for comprehensive collective action in only a few sectors such as trade and broader commercial policy.

Events since the early 2000s, in particular the extended and troubled negotiations over the 2003 Constitutional Treaty and the 2009 Lisbon Treaty, and their ratification processes, as well as the responses to the financial crisis of 2007–08, the subsequent 2009 economic crisis, and the 2010–15 sovereign debt crisis, have led to a renewed examination of this quasi-federalist view of the EU. The assumption that the EU is deepening as well as widening (and by implication that this adds to its international status) may be hard to sustain, as there have been so many clear challenges to deeper integration in recent years—not only this, but the increased number of member states may make it more difficult to make efficient decisions. The EU has, of course, integrated in various areas of policymaking, but not in all. The national responses to the 2007–08 financial crisis and the subsequent economic crisis, and the sovereign debt crisis, brought to the fore not only divergence in views among member state governments but also the struggle to find the right balance between collective decision-making and maintaining state sovereignty. Recent developments in the EU surrounding difficult issues, such as the questions of how to care collectively for the streams of asylum seekers that have entered Europe in large numbers, the subsequent threat to the Schengen agreement, the shock to the European psyche caused by terrorist attacks in Paris, Brussels, and elsewhere, but also the impact of the UK referendum on membership of the EU, confirm the general conclusion that the EU is struggling to find the balance between collective action and maintaining state sovereignty. Given this fluctuating struggle within the EU, there is a strong possibility that uncertainty will be transmitted to the broader GPE, in key areas such as economic and financial management, investment, and trade. However, the EU has responded much more forcefully to the Covid-19 pandemic. Some argue it is a 'Hamiltonian moment', with the EU having borrowed large sums of money from financial markets to support member states to deal with the fall-out from the pandemic.

The EU as a power in the global political economy

In political economy terms, the EU possesses exclusive power over some policy areas, and shared competence over other areas. This situation reflects the varying degrees to which member states have been willing to transfer control over specific policy sectors to the Union so as to provide it with the resources to undertake collective policymaking and implementation in key areas of economic activity. The question is: how do these 'internal' powers created by the integration process translate into the EU's role as a 'power' in the GPE?

Looking back at the 1950s and 1960s, most of the European integration process focused on cooperation in the area of economics rather than deeper political integration. Economic cooperation, as opposed to, say, defence cooperation, was less politically controversial and promised to create recognizable returns in the form of economies of scale and scope over the medium term. Economic integration in this context was a way to divert attention away from the whole notion of nation building and the question of who has the power—or as it was once put, 'sneaking up on sovereignty'. Economic cooperation also focused on mid-range results from which all could reap the benefits (see also Verdun and Tovias 2013). The focus in the first instance on issues that could be considered low politics (technical and professional issues) rather than high politics (foreign policy matters, issues that are politicized, and considered at the core of national sovereignty), was at the heart of the so-called 'Monnet method'. This strategy developed by Jean Monnet aimed at avoiding putting too much attention on who has the power, who is giving it up, and who is controlling the rules of the game. Monnet himself may have been inspired by the experience in the New World (Canada, for instance) where he observed the importance of the integration of people from different backgrounds and the value of economic integration (Ugland 2011) as a step towards deeper political integration.

Though EC power initially was in the area of low politics, market integration, and technocratic issues, high politics remained with member states. In particular, security or defence matters remained with member state governments. They were unwilling to hand over power to the supranational level in these areas (although they also collaborated on an intergovernmental level through organizations such as the North Atlantic Treaty Organization, where the US played a major role). The EC was thus powerful only in being a market maker—an entity focused on setting standards and norms for market integration. This situation inexorably shaped the extent to which the Community could assert itself as a power in the global arena. While from the early 1960s onwards it was an increasingly influential participant in trade negotiations under the GATT, and influenced patterns of international development assistance through the Lomé Conventions from 1975 onwards, it was not yet a real economic power to reckon with, especially given its lack of control over macroeconomic and monetary policies (see Chapters 8 and 11). In this area, the national monetary authorities still held sway, especially the German Bundesbank, which controlled the Deutschmark as a leading international currency (Kennedy 1991).

The creation of the EU in 1993, followed by the accession of three new member states (Sweden, Finland, and Austria) in 1995, marked a key moment both in the

internal political economy of the Union and in the development of the EU as an international economic 'power' (see also Chapter 3). The growing demand for membership from the countries of Central and Eastern Europe was also a significant element in the changing internal and IPE of European integration, reflected especially in the so-called Copenhagen criteria (see Chapter 13). These criteria spelt out the economic, judicial, and political conditions that countries had to meet in order to be considered eligible for EU candidacy status. This period signalled a potential increase in the power of the EU as a reflection of moves towards reinforced institutions, with ambitious goals (monetary integration, ever closer union, in time a common defence, and so on), and with the potential to control significantly larger parts of the GPE. The EU extended its power base through enlargement. Furthermore, through treaty reform it could arm itself with new powers that gave it additional international economic influence.

This coming together of internal institutional reform and expansion of the EU must be evaluated in terms of the long-term development of the EU's role in the GPE. The EC started to have more economic clout in the international arena during the 1960s through the development of common policies in the area of agriculture and trade cooperation. Agricultural policies had been transferred to the supranational level, and prices were set centrally, with imports into the Community controlled in the cause of ensuring security of supply and the competitiveness of European production. It was only a short step from this to accusations of protectionism from major competitors (e.g. the US), accompanied by charges that the Community was dumping agricultural goods in world markets, often at the cost of developing countries. Similar to other developed nations, such as Australia, Canada, Japan, and the US, the EC protected its own domestic farmers at the expense of those abroad. This meant that agricultural issues were often kept out of international trade agreements. To the extent that this gave evidence of a kind of negative power in the GPE, the Community was clearly beginning to have an impact, not only on individual sectors but also on the management of the system more generally.

This trend continued through the 1970s and 1980s. The internal integration process advanced in a number of areas, even though it was difficult for the Community to translate this internal process into coherent and constructive international economic action. The Community in global trade negotiations appeared as more of a 'taker' than a provider of leadership—anxious to protect its interests, and increasingly able to do so. Yet it was not at all eager to take on the burden and the potential costs of reshaping not only the global system but also its own internal processes. The fact that the Community was also preoccupied during much of the period with absorbing new member states, and with solving knotty problems attending its own internal financing, increased this impression of introspection and defensiveness.

The SMP, the creation of the EU, and the 1995 enlargement coupled with the prospect of further expansion to Central and Eastern Europe, created the possibility of a genuine increase in the EU's leverage within the GPE. One way in which to conceptualize this process is in terms of the elaboration of a specifically 'European' model of IPE, based on the creation and expansion of a 'social market economy' embodying not only liberal market practices but also the provision of high levels of welfare and

state intervention to ensure social consensus. This European model was contrasted by some to the 'Anglo-Saxon' free market model of which the major example was the US and was advocated as a solution to at least some of the problems of political transition after the Cold War and the insecurities created by increasing globalization. The location, proximity, and accessibility of the EU next to the countries of the former Soviet bloc that now had to reorient themselves, meant that the EU was attractive to the many countries that were no longer aligned with Moscow after the dissolution of the Soviet Union. Many were interested in closer ties to the EU(see Chapter 13). It could be argued that this was a major demonstration of two types of power within the GPE: on the one hand 'soft' power and the power to reward conforming behaviour in the political economy, and on the other hand 'structural' power and the power to get under the skin of the former Soviet countries to reshape their institutions, their legal systems, and their modes of production.

The EU not only widened at this time, it also deepened and increased the scope of its interventions in the political economy of Europe. Through various treaty changes it expanded the scope of 'European' policymaking. These processes intersected to produce a new surge of interest not only in market integration (especially through the process of regulation, both deregulation and re-regulation), but also in the EU's role as a key player in the international arena. Increasingly, the EU became capable both of setting credible rules for those operating inside the Union and of contributing to the generation of more effective international rules and regimes. The EU has influence in the process of standard setting across the globe, indirectly because producers want to be able to produce for the EU market and thus change their patterns of compliance, but also directly when international cooperation on standard setting is discussed. US observers were quick to point out that in the International Organization for Standardization the EU even before the 2004 enlargement had 16 votes, compared with the one possessed by the US. Although numbers are not everything in such areas, the impression was a powerful one.

The pursuit and achievement of monetary unification in part of the EU occupied much of the late 1990s. Although the EMU agenda was largely shaped by the desire for competitiveness and stability within the EU, it inevitably had an international dimension. In the case of the EU, the model was to institutionalize the way in which monetary and fiscal policies had been conducted in Germany on the eve of monetary union, and to modify the behaviour of euro area member states through the development of a strong monetary discipline. Externally the EU had created a currency that, in one way or another, could measure itself with the leading currencies of the world (see, inter alia, Verdun 1997, 2009; Cohen 2003, 2007). Clearly, if this currency could establish itself and, for example, achieve a significant role in major countries' currency reserves and international bond markets, this would be a major addition to the EU's power in the GPE.

By the beginning of the new millennium, it appeared to many that the EU was established as a major 'power' in the GPE. It was continuing to exercise a major influence on international trade negotiations through the WTO (see Chapter 8); it had claimed a dominant position in the European political economy, which was about to be reinforced by enlargement to Central and Eastern Europe; it was

a major player in international development assistance (Chapter 11); and it was playing an influential role in a number of emerging areas of the GPE, such as environment (Chapter 10). Does this mean that in the 21st century, to date, the EU has been able to fulfil its apparent role as a leader in the GPE?

One element of an answer to this question is to be found in the continuing 'gaps' in the EU's role as an actor within the GPE. First, the EU is not a state: although it possesses a number of 'state powers' and pursues important 'state functions', it cannot act as efficiently and effectively as a state (in the next section we will see examples in which this lack of efficiency and effectiveness can be a real problem). Second, and as a consequence, it is weak in a number of factors associated with a strong state: specifically, it is deficient in centralized economic government, has a small centralized budget, and has only limited powers of taxation. Finally, since 2000 the EU achieved only a relatively slow rate of growth. Other industrialized countries out-perform the economic growth rates of EU countries, even per capita (although not necessarily in terms of output per hour worked—see Blanchard 2004; Alesina and Giavazzi 2006), and other emerging economic 'powers' such as Brazil, China, and India have outperformed the EU in terms of economic growth.

In summary, the EU's claim to be a major 'power' in the GPE is subject to debate. It is clear that the Union possesses the essential components in terms of economic 'weight', but it is not always clear that this weight is translated or translatable into dominance within the GPE. One reason for its ambiguous position in the GPE is the range of 'gaps' in the EU framework that reflect the uneasy institutional and other compromises that have been necessary in order to advance or secure projects such as EMU. It also begs the question, what would the EU do with its influence? For instance, the claim that a 'European model' based on the social market economy is appropriate for other regions of the GPE is difficult to sustain, not least because the emergence of new economic 'powers' has provided new models on which the developing world and other areas can draw. The contest is no longer with the 'Anglo-Saxon' model of free market liberalism; indeed, significant elements of the 'social market' model in the EU have been abandoned during the past 20 years as 'neoliberal' economic models have increased their influence in Brussels and elsewhere. Not only this, but the crisis in the world economy that first emerged in 2007 and wreaked havoc in the EU between 2009 and 2015 in various ways created problems of governance both within and outside the EU that threw into question the adequacy of multinational solutions to problems in the GPE. It is to these challenges that we turn in the next section of the chapter.

The EU and the governance of the global political economy: competition and crisis

The EU is part of a multilevel governance structure in the GPE. This structure is formed in part by the very fact that the EU is one of the main actors in the international arena on policies such as trade and regulatory policy. The EU's influence on processes of global economic governance is thus dependent in large measure on its

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ability to govern internally as well as its capability to project its views in the global arena. The EU's capacity to govern key areas of policymaking is not a constant: it fluctuates markedly between different areas of policy for a variety of political, institutional, and economic reasons. The EU (as opposed to its member states) can be said to govern policymaking areas such as agriculture, competition policy, international trade, and monetary policy. In other areas relevant to global economic governance—including, crucially, macroeconomic and fiscal policy—the EU has limited influence, because of the institutional and other 'gaps' we have identified.

In those areas in which the EU is a weaker actor, it can lay claim to a system of governance that still often works quite well at the EU level or at the international level, even if it does not make the EU as a 'conventional' actor look strong. This EU style consists of deliberation and consultation and seeking consensus. Sometimes the resulting policy is itself not a collective stance but allows multiple positions to occur at once. The EU seeks to reproduce at the global level the EU style of cooperation that it is familiar with at the EU level—deliberation and the search for consensus through the sharing of information and advice. The question is whether this style of governance is appropriate in a world where state policies and state interests still predominate and where there is a potentially very diverse constellation of participants ranging from states to private corporations and NGOs.

One area in which this question can be evaluated is the pursuit of economic competitiveness. In the late 1990s, the EU was being criticized for not being capable of establishing or enhancing its international competitiveness—a criticism not unconnected with the economic underperformance that we earlier identified as a key problem for the Union. The EU responded to these challenges by trying to develop a different way to govern EU prosperity. While it was not possible to underpin competitiveness policy with the full range of budgetary and other instruments that a state might deploy, it was possible to pursue greater transparency and sharing of information among member states and to establish EU-wide benchmarks for performance—the so-called open method of coordination, incorporated in the Lisbon Agenda. It aimed for the EU to become 'the world's most dynamic knowledge-based economy by 2010'. Most of the achievements would need to be reached via coordination of national policies, but this proved increasingly difficult in a period of economic turbulence; many of the Lisbon targets were therefore missed and others looked increasingly redundant as the deadline of 2010 approached.

The Lisbon Agenda was replaced in 2009 by the so-called EU 2020 strategy, in March 2010 renamed the Europe 2020 proposal (European Commission 2010). This plan combined the need to target sustainable development with a need to secure jobs and growth given the context of the financial and economic crisis. The core of the plan was to specialize and develop more of the economy based on knowledge and innovation and to enhance sustainable growth. This plan foresaw the promotion of a more resource-efficient, greener, and more competitive economy, while ensuring that the social dimension was safeguarded and that inclusive growth was pursued. The latter objective would be achieved by finding ways to ensure a high-employment economy but also by making sure there would not be too many discrepancies among various regions. The EU did not have many instruments

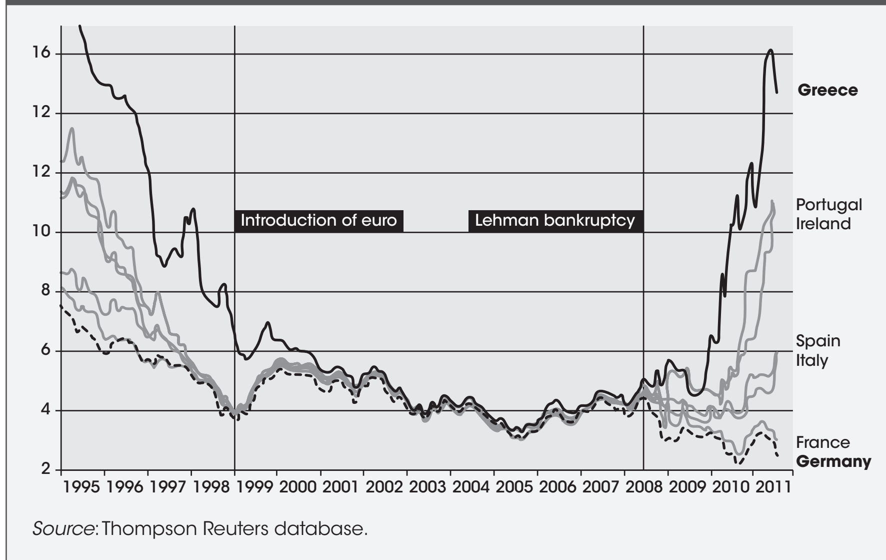
to enforce compliance or spend considerable funds on the Europe 2020 programme. It had the power to persuade, could set the agenda on the European and (to a certain extent) the global stage. But as in other areas of the EU's international involvement, it could not be taken for granted that the rest of the world will allow the EU to pursue its goals insulated from global economic trends or that the rest of the world would see the EU 'model' as one to emulate. Evidence for this assertion can be found in the ways in which the EU was challenged by, and responded to, the global financial and economic crisis and the sovereign debt crisis.

The EU sought to respond to the financial crisis when it emerged first in 2007 in the financial markets; then in autumn 2008 a new and greater challenge emerged when stock markets collapsed following the collapse of the Lehman Brothers US investment bank and many other banks were threatened with bankruptcy; and finally, the fallout of the financial crisis in 2010 led to Greece and other member state governments encountering problems refinancing their sovereign debt. Significantly, Greece was a member of the euro area, and thus its financial implosion threatened more than just the stability of financial markets; it challenged the entire system of monetary cooperation that had been established since the late 1990s and further exposed the inadequacy of specifically 'European' mechanisms to cope with disorder in international monetary affairs.

In this situation it was not surprising that EU member states and global financial institutions came to play a central role. In response to the financial crisis of 2007–08, individual EU member states had ended up bailing out their banks. While initially, in late September 2008, EU member state governments sought to coordinate their response, it soon became clear that the problems were sufficiently national and large that member states would take national decisions, for example by deciding to secure bank deposits and recapitalize the banks themselves through a variety of methods (Engineer, Schure, and Gillis 2013). As they did so one by one, it took savers away from those countries that had not yet secured those deposits, or in which the banks were less clearly guaranteed, clearly causing a problem within the governance of the EU (Verdun 2009). Because the EU only had the opportunity to coordinate, and could not itself offer any guarantees, this implied that, unless its power of persuasion was large enough, member states could just as well declare unilateral action. It took the Commission until well towards the end of November to coordinate and deliver an 'EU response' to the events of autumn 2008.

The Greek bailout crisis in its various stages was another case in which the limitations both of internal EU governance mechanisms and of its contribution to international governance efforts were exposed. Before EMU, long-term interest rates had fluctuated significantly among member states. But with the creation of the euro these rates started to converge, making it attractive for member states with lower rates to borrow more money (see Figure 9.1). Greece, started to borrow excessively. The EU Treaty contains a clause that forbids the EU from bailing out a member state if it is experiencing problems with the refinancing of its public debt. Given this clause, it was inevitably unclear what the EU was to do when Greece in various stages in the period 2009–15 came under severe pressure in precisely this area. The EU leaders—both within 'European' institutions and at member state level—had

FIGURE 9.1 Development in interest rates on 10-year government bonds (in per cent)



Source: Thompson Reuters database.

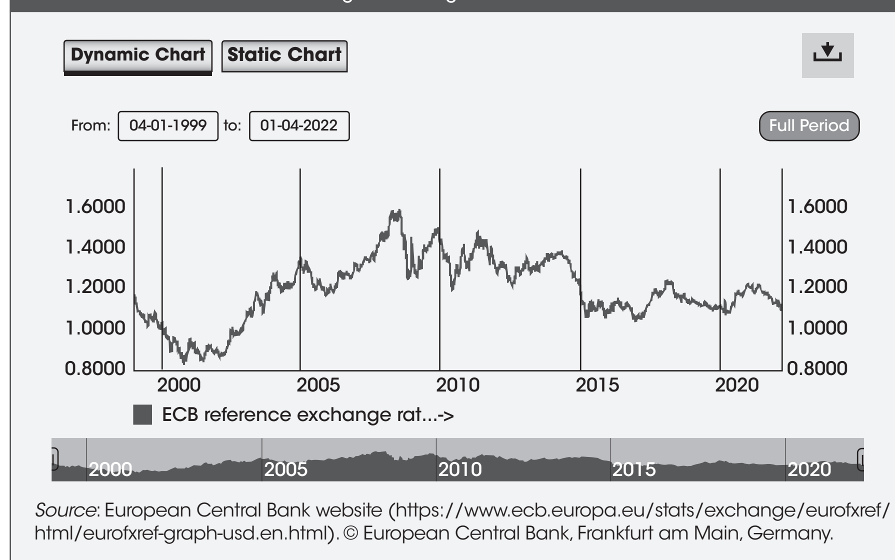
different views on what an appropriate response would be. If support was signalled too soon or too unconditionally, it could create a moral hazard problem, whereby Greece and other countries might get the impression that the EU would be there to help them any time they encountered market pressure on the credibility of their public finances. Germany was particularly concerned about this matter—and in Germany itself, the crisis evoked strong feelings about what had been given up when the Deutschmark had been sacrificed for the euro. The whole point of the no-bailout clause was intended to ensure discipline among member states. However, the longer the EU member states held off their support for Greece, the more costly it became for Greece to refinance its debt, and the more there was a danger of 'contagion' with the crisis spreading to other vulnerable euro area economies. In May 2010 a package was offered to Greece consisting of contributions from euro area member states coordinated by the EU and with support by the International Monetary Fund (IMF). The generous package of €120 billion seemed a major step towards securing support for Greece. A week later, following a tumultuous 5 days of nervousness on financial markets, the package was extended so that if other countries should need to draw on it, there would be funds for them too.

The turmoil in fiscal policy, government debt, and the lack of a timely collective response inevitably had an impact on the euro. Since its very inception it had appeared that the strength of the euro was an indicator, one could perhaps say a thermometer, of public and international financial market perception of the prevailing conditions in the European economy. When the euro was first introduced in financial markets in 1999, there was nervousness about the ability of the ECB and the national governments to keep EMU together and achieve strong growth.

At first the (virtual) currency depreciated dramatically against the US dollar, hitting a low around the time the banknotes and coins were introduced. Then, over several years, international confidence picked up and the currency strengthened. Over its first 10 years the euro experienced an upward trend against the US dollar, until the financial market crisis hit hardest—a time when many fled into US treasury bonds and other US stocks, which, in turn, led to downward pressure on the euro exchange rate vis-à-vis the US dollar. With the Greek crisis reaching its zenith, the euro exchange rate again dropped considerably (see Figure 9.2), reaching a 4-year low, but it has since bounced back and has stayed mostly stable in recent years.

The effects of the uncertainty in financial markets on the euro led to another effect on internal EU governance. The decline in the value of the euro in 2010, 2012, and 2015 as well as the more important pressures in financial markets and the risk of the effects of a possible Greek departure from the euro area (Grexit) put intense pressure on the member state leaders to act in concert, even if in reality they did not agree with one another. It forced leaders to decide whether they were willing to assist ailing member states or whether they wanted to play hardball and not support them. The choice was for cooperation and support, even if this was difficult to sell domestically in countries such as Germany. The internal divisions had another consequence—they gave the impression that the EU was unable to be a strong actor in the global economy, which was further underscored when it needed large loans from the IMF. Voices were heard that spoke of the demise of the EU, the disintegration of EMU, and member states contemplating leaving the euro area. The fact that the members of the euro area had been struggling to deal with Greece was an important factor that triggered the British referendum on EU membership, as did

FIGURE 9.2 Euro exchange rate against the US dollar, 1999–2022



Source: European Central Bank website (https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html). © European Central Bank, Frankfurt am Main, Germany.

a profound split in the political party in government at the time (the Conservative Party) about the place of the UK in Europe. The term used to label a UK departure from the EU is referred to as Brexit. These internal divisions cost the EU dearly in terms of its international reputation. Internal difficulties undermined EU external power and the perceived capacity of the Union to contribute to broader global governance in key areas. They undermined the image of the EU, of the euro, and of EMU as a stable institutional project. Eventually, on 23 June 2016, voters registered in the UK referendum on EU membership voted to leave the EU (52 per cent in favour of leaving, with 72 per cent of the registered voters having cast their ballot).

Following the UK referendum, the EU and UK negotiated their relationship. On 29 March 2017 the UK invoked Article 50 of the Lisbon Treaty, which provided the steps to take to leave the EU. The UK went through considerable political turmoil to determine the exact relationship it wanted to have once it had left the UK. On 31 January 2020, the UK formally left the EU. Both sides had agreed to continue the rules till the end of that year in order to buy time to come up with a new trade deal, which was agreed to on 24 December 2020. The EU–UK Trade and Cooperation Agreement (EU–UK TCA) set out the preferential trade agreement that the two sides set up, which facilitated less free trade than before but continued some arrangements—but notably not on financial services. At the time of writing it is not yet fully clear how the EU–UK TCA will impact the relationship of the UK to the EU-27.

These episodes in European economic governance and the turbulence in financial markets reinforce key insights from IPE, namely that in an increasingly integrated and globalized economy, the erratic effects of global forces can have a more serious impact on an economy (small economy or a region) than would be expected based on fundamentals. A similar experience had hit various other areas of the world (Argentina, Mexico, South-East Asia, and Russia). IPE literature stresses the need for clear policies to avoid a run on these countries (whereby foreign direct investors and international lenders withdraw their funds from the country), but in the European context these were not easy to achieve. The euro in this regard seems to have had a double effect. On the one hand, the financial crisis of 2007–08 did not have the effect on European countries that would have been expected if all EU28 member states had different currencies—although there were clear tensions both within the euro area as well as between the euro area and other EU member states. On the other hand, as this implies, the Greek debt crisis of 2010–15 showed that an asymmetric EMU (a monetary union without some degree of fiscal federalism (Verdun 1996) but also insufficient banking supervision) runs the risk of being attacked when part of the union is unable to perform according to the rules. Both of these dimensions contribute to continuing uncertainty about the role that the EU and the euro area might play in the global governance of monetary and macroeconomic issues. In recent years, politicians (such as Herman van Rompuy, President of the European Council, and Jean-Claude Juncker, Commission President) and scholars (such as Matthijs and Blyth 2015; Jones, Kelemen and Meunier 2016; Chang 2017; and Howarth and Verdun 2020) have indicated the need for EMU to be completed in order for it to remain a stable force going forward.

When the Covid-19 crisis erupted in earnest in March 2020, EU member states needed to consider whether they had learnt lessons from the previous crises. They realized that if the EU was unable to support member states in need, especially given that the pandemic seemed to be a crisis that was hitting all member states, independent of their policies, meant that support was needed. The EU institutions in various stages developed possible plans to assist. In an unprecedented move, the EU offered its member states help in summer 2020 to support the economic and social effects of the Covid-19 pandemic. This support came from the EU long-term budget (2021–27) that was being discussed at that time. However, it also added a temporary support system called 'NextGenerationEU' (NGEU). In February 2021 the formalities of this new institutional structure were agreed upon. The 'Recovery and Resilience Facility' (RRF) is central to the NGEU. It supports member states with a combination of grants and loans (European Parliament and Council of the EU 2021). To finance these expenditures the EU issued debt. In so doing it made a major break with the past in terms of the size and scope of the support. Despite the extent of this concerted effort, not all scholars think the situation will mark a definitive change (e.g. Howarth and Quaglia 2021). Following the pressure of some member states, the European Commission required attaching strings to these funds, i.e. that they be spent on the digital transition, the energy transition, and on stimulating social and inclusive growth benefiting the next generation. Member states need to submit detailed national Recovery and Resilience Plans (RRPs) to access the funds.

Conclusion

This chapter evaluated the extent to which the EU is a putative economic superpower. It has power through various channels: considerable influence in global economic policies, in particular trade and regulatory policies. Furthermore, it has a presence in monetary policy by virtue of having unified monetary policies of 19 member states and having a supranational institution that issues a single currency and sets monetary policy for the euro area. It boasts strength in other economic indicators such as the size of the internal market, the GDP per capita in the EU27, and its share of international trade.

Yet the EU is far from a dominant economic actor. As a political actor it is weak, in part due to its distinctive governance structure that at times may serve as an obstacle to forceful and clear action in the global arena. The EU is an institution that on the one hand represents itself (the EU in its narrow sense) and on the other its component parts. It is often difficult to differentiate between what the EU does as an institution and what the EU does because the EU response is the sum of its parts. Nonetheless, because its member states include various major countries, and because coordination of key policy areas adds value to purely national efforts, the EU is an actor that has helped shape the international arena and international interdependence, in particular in the economic domain.

The EU established its claim to power in the global arena, in particular in the economic domain, starting from its modest origins in the 1950s through to having

the largest market in the world. The EU has been able to become such a leading economic power, while not being a state, in part because of the multilevel nature of EU governance. The EU has some 'state-like' capacities to negotiate and act on behalf of all member states, in particular in areas such as trade, and it is strong in those areas. In other areas, environment, energy, banking regulation, taxation, to name but a few, it either shares competence with member states or does not have the ability at all to speak on behalf of the whole.

Various crises have exposed this weakness. The financial crisis that started in 2007, worsened in 2008, the economic crisis that followed in 2009, and the sovereign debt crisis that raged during 2010–15 were not addressed easily because a forceful supranational economic government is absent in the EU. The crises touched upon many issue areas in which there is shared competence between the EU supranational actors and the member states. Speedy decision-making is a challenge in this institutional setting. Furthermore, with a limited supranational budget, the EU could do very little directly to avert the effects of the crises. What we have seen in the case of Greece, where the demand for emergency funds required cooperation of the member states, is that in such cases the EU member state leaders have to come together as a body of governments and coordinate among themselves—even with the support of global financial institutions such as the IMF. This process has tended to be slow and require multiple rounds of negotiation, with the slowness sometimes making the crisis worse. The Covid-19 crisis was addressed with ad hoc governing arrangements that are temporary and focus on crisis management. They have not addressed the incomplete institutional architecture that politicians and scholars have pointed towards. This weakness in the governance structure needs to be addressed in the short or medium term. A solution might be to federalize the EU further, something many have no appetite for and would require reform, or simply accept that EU governance needs a lot of deliberation and will be slow; hence the challenge of EU governance. The Brexit vote may serve as a catalyst in this process, even if it is thus far unclear in which direction it will push the EU (deeper integration or more Euroscepticism and/or push for more referendums).

IPE literature has focused on what policy choices there are for individual nations to position themselves in the wider global economy while choosing a regime that works for them (be that an open or closed economy, fixed or flexible exchange rates, degree of free trade, and so on). The EU offers an institutional structure that settles a number of these issues for its member states. As a member of the EU, a national government has limited room for manoeuvre left. Yet not all the space has been taken up; there remains some space for national policy. Ironically, though, when a crisis hits, a national government itself has only very limited choices and has to act very fast in order not to lose too much to financial market speculation. Thus, reflecting on the issues raised by IPE one can draw the following conclusions. By having joined the EU, a national government's room for manoeuvre has been reduced. Yet it is at once sheltered from global forces as well as exposed to a limited set of policy alternatives to choose from. This situation, in turn, affects how the EU positions itself in the global economy. In order to maximize its influence in

the GPE it would be well advised to coordinate a little better and faster when major economic challenges emerge; but thereby hangs a complex challenge of governance and collective action.

As this book goes to print, Russia is at war with Ukraine. EU member states have responded first and foremost with economic sanctions. These consist of actions such as the freezing of (1) the accounts of Russian oligarchs (wealthy business leaders) outside of Russia, (2) Russian commercial banks more generally as well as (3) the assets of the Russian central bank. Together with other allies of the North Atlantic Treaty Organization (NATO), such as the US, the UK, they have suspended Russia from the Bank of International Settlements (BIS) and have banned Russian persons and Russian businesses from using the services of the BIS. Finally, the west has imposed sanctions on the members of the Russian parliament. These measures fall short of protecting Ukraine or waging a war against Russia, but they are harsh measures that draw on the economic power of the EU. The longer-term effects of this crisis for the world economy, and for the EU's role within it, are likely to be profound, and to underscore the tensions identified in this chapter.

NOTE

1. Note that not all privatizations led to a decrease in prices; the UK rail privatization, for instance, did not deliver the desired results.

FURTHER READING

This chapter relies on work written by the author and reported, inter alia, in Verdun (2000, 2009) and Heipertz and Verdun (2010). An excellent political economy account of the creation of the single market can be found in Jabko (2006); the atmosphere around initiation of the single market can be obtained by reading Cecchini (1988)—a work that aimed at motivating the people and businesses to get excited about completing the single market. The economics of EMU are explained in detail in De Grauwe (2010), while an overview of 10 years of EMU from a political science perspective can be found in Enderlein and Verdun (2009) and a discussion of the regulatory arrangements surrounding EMU can be found in Heipertz and Verdun (2010). Further reading on the EU as a trading partner can be found in Young (2007), whereas a good book on EU and environment is Holzinger, Knill, and Arts (2008). Della Posta, Uvalic, and Verdun (2009) provides an overview of globalization including the relationship between European integration and globalization. The financial crisis is discussed in Helleiner, Pagliari, and Zimmermann (2010). The new EU institutions that have been created in response to the crisis are discussed in Verdun (2015) and Howarth and Verdun (2020). Finally, the Greek crisis is discussed in Featherstone (2011) and in Matthijs and Blyth (2015).