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THE FUTURE OF THE 
EUROPEAN UNION IN A  
POST-PANDEMIC WORLD  

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I. INTRODUCTION

In recent years the identity of the European Union has come to be inextricably linked with the logic of crisis. As opposed to other polities around the globe, the EU does not just face recurring crises, but seems to exist in the very element of crisis. In a way, it welcomes crises. It has turned danger into opportunity with many of its defenders arguing that crises can be a way to move forward.

The main reason for this, of course, is that the EU is not yet concluded as a political construct. It is still developing. We learn this fact as we study its politics and law, its history and its institutional shape. We speak of the European project and, quite literally, even of the European construction. There are very few voices in Europe arguing that one should stop with the current institutional framework, that the current stage expresses what Europeans most deeply want from the EU. No one seems to think that the current state is stable. If there is disagreement, it is about the destination and, less obviously, about the kind of movement we should accept. Federalists want to lead us towards what they see as the obvious final destination. Many insist we have to move faster, while external conditions are still favorable. Conservatives believe in a more natural process, in the spontaneous development of a European demos over many decades.

“Leavers” in the United Kingdom also insisted the status quo was unsustainable. Many of them vaguely appealed to a mythical and improbable past where the EU was no more than a single market, forgetting that a single market is built with common rules and common institutions and must therefore acquire an obvious political meaning.
That the EU cannot exist in its current form – and that everyone seems to accept this tenet – explains why it is permanently in a state of crisis.
II. EURO-PESSIMISTS VERSUS EURO-OPTIMISTS: AN ESCHATOLOGICAL DEBATE

Over the past few years I started noticing that many debates in Brussels were increasingly taking place not between eurosceptics and federalists but between pessimists and optimists. Euroscepticism has changed. In what should no doubt be counted as a success for the European project, it is today much more difficult to directly attack the EU than it was two decades ago. Integration has deepened. Ambitious projects such as the eurozone or Schengen have survived. More, they have proven that they can work, if not prosper. A new generation has grown up much more used to traveling and living across Europe. In this world, stressing the political illegitimacy of the EU or appealing to a strong sense of duty towards the national state is increasingly impossible. Eurosceptics have therefore become pragmatists. More often than not, they will argue not that the nation state commands a form of moral respect and duty from its citizens but only that it can protect them or serve them and, crucially, that it can do this better than the EU. The nation state will be there in a crisis or an emergency. The EU is too fragile. It is destined to fail, while the nation state has already proven it can survive every crisis: invasion, war, poverty and disease. The word “crisis” does a lot of work here with eurosceptics trying to shift political allegiances by suggesting that the EU is not really prepared to weather a serious crisis. I suggest we replace the term euroscepticism with euro-pessimism because the judgment is clearly now more explicitly based on facts than on values, even if we might feel inclined to believe this is no more than a political gimmick.
Euro-pessimists will typically argue that they have nothing against the EU as a romantic ideal, but they cannot believe that it will survive in the contemporary world, a world afflicted by successive crises of mounting severity.

The operative word “crisis” is also present on the other side among the euro-optimists. In this case it is interpreted as a test and an opportunity, perhaps inconvenient but necessary. If the EU is an incomplete creation, it needs to be shaken off its natural comfort zone, so that it can keep developing towards its announced destiny. That no one has a very clear idea what this destiny might be is not necessarily a bad thing. It is part of being open to the future. Crises offer challenges, they help define a development path and, perhaps more important, they bring people together, an important element for a polity still sharply divided between its member states, but also between opposing interests and somewhat divergent value systems.

In some respects the change has not been welcome. As the debate on the EU is increasingly organized around euro-optimists and euro-pessimists, the tone becomes less analytical and more emotional. More and more turns on whether one has a genuine belief that the EU will be capable of overcoming its challenges. It is less important to defend a particular vision of what the EU should become. On one side, stand those who think that the EU system is inherently more resistant than any future crisis it can face. On the other, those who anticipate a moment still to come when the system will be overcome by the external environment. Much of the debate has become somewhat eschatological in nature.
III. HISTORY OF THE EU – A BILDUNGSROMAN

I have often compared the recent history of the European Union to a Bildungsroman, a classic coming-of-age story dealing with the formative years of the novel’s protagonist. The first part of a Bildungsroman – take the best exemplar of the genre, Goethe’s *Wilhelm Meister’s Apprenticeship* – is usually focused on the childhood and early development of the main character. One could argue that the EU has already gone through this phase, ending with the Lisbon Treaty, where its competences were expanded and it received a coherent institutional form. In the second part the hero or heroine goes out into the world and a moment of crisis emerges. This is when the world and the protagonist clash. There seems to be a complete incompatibility between the two and any communication is well-nigh impossible. The incompatibility has to be resolved, but it is unclear how. Will the world give way to the conquering will of the young hero, or will the protagonist turn inwards and renounce every possibility of worldly success? Perhaps a middle point can be reached with some concessions on both sides.

Since the debate on the future of the EU now takes place predominantly around the concept of crisis, much depends on the specific interpretation of the recurrent crises Europeans have been faced with. Are these crises ultimately benign in the sense that the EU is essentially endowed with the necessary resources to master its environment? In this case, crises would be by definition endogenous. Another view is that the EU is environmentally unfit as a political entity. It is not prepared to respond to an adverse environment. It will only seem to be able to do this while the crises facing it remain under a certain threshold. In a random distribution, a bigger crisis is inevitable in the future, even if no one can determine exactly
when it will hit. For this moment – for the moment of truth – the EU is fundamentally unprepared.

The story of the last decade has been inherently ambiguous. The eurozone crisis, Brexit, the refugee crisis, Ukraine – these were not the announced collapse so often announced by the Euro-pessimists, nor were they moments of constitutional creation where the EU brought its forces together in order to overcome its weakness and doubts. If anything, they were a draw between the forces of creation and the forces of destruction. The EU did come up with creative solutions - new monetary tools and bailout funds, sanctions against Russia, an effective agreement with Turkey – but they were solutions aimed at dealing with the immediate problem, not at ensuring that the same sort of difficulties cannot arise again in the future. Brexit was a similar stalemate. The EU was able to show a remarkable level of internal unity, but without changing the fundamental fact that it lost an important member state and will be forever poorer as a result.

Everything was postponed for the moment of truth, the moment when a larger crisis would either force the EU to finally take a decisive step towards a more perfect union, or then enter a state of more or less terminal decline. Over the past few years I often speculated about the specific form this larger crisis would take. It seemed to me obvious that it must be a geopolitical crisis in some sense because it was from the external environment that the sort of challenges the EU remains unprepared for could more clearly arise: challenges demanding a quick response or requiring a level of improvisation or adaptation. In several discussions I defended that energy security could become a real issue in the near term. Industrial decline in Germany was a problem. Trump and the future of NATO remained an evolving crisis point. Above all, the Syrian tinderbox, now intensified by Russian and Turkish geopolitical interests, had never been properly considered by Brussels. In January,
as Idlib seemed in risk of falling to the Assad forces, Turkey made it clear that it would no longer stop refugees from trying to reach the EU. The situation at the Greek border was approaching a critical point when China announced it was locking down the city of Wuhan in order to contain a dangerous new virus. Soon, a severe outbreak was registered in Iran. The megacrisis of previous discussions had finally arrived.
IV. CORONAVIRUS – AN EXISTENTIAL RISK

There were many reasons why the coronavirus crisis immediately posed an existential risk to Europe. First, it dealt a serious blow to freedom of movement. Borders were quickly closed, even within the Schengen area. They remained closed for months and it may now be difficult to entirely return to the situation before the crisis. The pandemic has made governments rethink their commitment to global value chains. Export bans were imposed. The World Trade Organization (WTO) is predicting that trade may fall by a record 32%. The EU, which is dependent on global trade and runs a persistent trade surplus, is especially vulnerable.

Second, the Covid crisis is placing a very heavy burden on already fragile economies, particularly in Southern Europe. The lockdown, the collapse in global trade, the devastating impact on tourism will result in the sharpest contraction in economic output in history. Economies such as Italy, France and Spain will suffer the brunt of the economic shock, but these were economies with deep structural problems before the crisis. Growth was slow and public debt levels never recovered from the eurozone crisis. There is a significant risk that they will need support, raising delicate distributional question within the EU. Countries such as Germany and the Netherlands will not be immune to the economic crisis, which by itself marks a significant difference from the years of the eurozone crisis.
Finally, there is China. Over the last few years doubts have been growing about whether the existing framework of relations between the EU and China can be preserved. Last year, the European Union published a new China strategy, which characterized China as a “systemic rival.” It marked a real change in the nature of Europe’s relationship with China. Back in 2014, the year after Belt and Road was launched, the EU inaugurated its own infrastructure stimulus plan and was courting Beijing to join the project. Today, the notion that Brussels would welcome Chinese investment seems laughable. In fact, it is doing nearly everything it can to keep the money out; two years ago, the EU even shoved through a new, tougher screening mechanism to make it harder for Chinese investment to flow in.

What happened? For the most part, the change came from Germany. As late as 2016, German officials were still sticking to the standard talking point: Globalization works, and Germany is particularly good at it. Starting around 2004, economic links between Germany and China had helped propel the German economy through one of its best periods in living memory, building a more stable international order in the process.

A year later, the mood had already changed. Politicians and officials were starting to hear alarm bells coming from German industry. Those actually dealing with Chinese companies could see the writing on the wall: China had used trade and economic links with Western partners to upgrade its own manufacturing processes. German companies were starting to feel the heat as their technological edge evaporated and they lost contracts to major Chinese competitors. The China shock was real.
Now the pandemic risks dramatizing this set of questions. Were Europe to enter a prolonged economic crisis, China would have a unique opportunity to expand its economic presence in Europe, acquiring strategic assets at depressed prices. The political resistance to these moves would likely disappear if parts of the EU were still battling with a sharp fall in investment and employment.

Here is a plausible scenario for developments in the global order as a result of the pandemic and how they can directly affect Europe. First, it is easy to predict that the United States will lose some of its capacity to influence global affairs, consumed as it is by the continuing human and economic cost of the pandemic. China, while losing some international goodwill, can gain along other dimensions. With many countries entering a deep economic depression, resistance to Chinese economic influence will diminish. This is likely to be the case in Southeast Asia, Russia and also parts of Europe. The EU will have to deal with a more expansionist China, at least in the economic domain. There are two main ways in which these developments can play out. On the one hand, and with the pressure from across the Atlantic less acute, European countries could reach a new understanding with China and even welcome Chinese investment as a form of economic stimulus. In this case, China will quickly become a dominant economic actor across large parts of Europe. Conversely, if growing concerns about such a scenario lead to a new policy of strategic autonomy - it could translate into stricter rules against Chinese investment - risks of entanglement will be addressed but there will be an economic price to pay, primarily by exporters and it remains unclear whether Europe will be in the best position to bear those costs.

In the meantime, the United States has announced it plans to cut its troop presence in Germany by more than a quarter. Some 9,500 soldiers who have helped keep peace on the continent are to leave within the next three months. There had been no warning, and even
today there is not yet an official notification. Many of the tensions between Europe and America go back to the end of the Cold War and a significant element in recent decisions must be attributed to the personality of president Trump, but the pandemic is also playing a role. The lack of cooperation or even of a common strategy between the two sides of the Atlantic is a new fact in a major global crisis. The response has differed, with the US being both more dismissive of the threat and readier to sacrifice every other interest in order to finally address it. More fundamentally, America has now appeared with a diminished global role - focused exclusively on its own problems - but for Europeans transatlantic relations were always seen as a partnership for global governance. If the US is less interested in steering global issues, then Europe will be much less interested in the USA.
VI. NEW RECOVERY PLAN FOR THE EU

As the European Commission has fully recognized, with the coronavirus Europe was confronted by a public health challenge that quickly became the most drastic economic crisis in its history. In a public document launching a new recovery plan, it added: “Now is the time for our European Union to get back to its feet and move forward together to repair damage from the crisis and prepare a better future for the next generation.”

An obvious problem is the way the impact and the potential for recovery looks very different in different member states. The single market itself would come under pressure. At the core of the concept is the guarantee of a level playing field for every company operating in the EU. But if some member states are in a better position to support their economies than others, the result is a form of discrimination based on geography. One solution is to forbid all kinds of state support and this is in fact the rule in normal times. During the most dramatic economic crisis in the history of the EU, that was untenable.

Estimates suggest that the EU Gross Domestic Product (GDP) fell by some 15% in the second quarter of 2020 as compared to the same time last year. Overall, the EU economy is expected to shrink by more than 7% in 2020. However, a worst-case scenario of a second wave and extended lockdown measures could lead anywhere up to a 16% drop in GDP this year. Notably, the Commission estimates that the recession will be close to 10% for some countries, compared to an average of between 6-7.5% elsewhere. The needs assessment estimates that at least €1.5 trillion of additional public and private investment will be required in 2021 and 2022 to get Europe on the road to a sustainable recovery.
Responding to these challenges, the Commission proposed in May a new €750 billion recovery instrument, Next Generation EU, embedded within the EU budget. This was a cautious approach, to rely on the EU budget rather than creating new institutions, but other elements of the plan were bolder.

The money will be raised by borrowing €750 billion on the financial markets for Next Generation EU. A new Recovery and Resilience Facility with a budget of €560 billion distributed in grants and loans will form the main pillar of the recovery plan. This will support Member States as they implement investments and reforms that are essential for a sustainable recovery.

None of this is exactly revolutionary. The Commission has raised money in financial markets before to support temporary needs of member states, but the amount of money being considered vastly exceeds previous programs. No national debt is mutualized but the new EU debt being raised will be paid by future contributions from member states. A common political responsibility is assumed, although strictly speaking no debt liability is taken on by member states beyond what they are already committed to deliver in the current budget cycle. More importantly, perhaps, member states are not expected to repay those EU debts according to the same key used to apportion the initial grants. In other words, the plan envisages a form of fiscal transfer from wealthier countries to those most directly affected by the crisis.

Finally, there is the form of repayment. The funds raised will need to be repaid through future EU budgets - not before 2028 and not after 2058. If they are repaid using the regular contributions, then the existing areas of expenditure will be gutted. One alternative, which the Commission is already suggesting as a viable alternative, is to create a number of new
taxes, “own resources.” These could include a new own resource based on the Emissions Trading Scheme, a Carbon Border Adjustment Mechanism and an own resource based on the operation of large companies. The creation of new taxes to serve as “own resources” of the Union would indeed be a game-changer. It would increase the degree of autonomy and independence that the institutions enjoy in their relations to the member states. It could also vastly increase its powers of spending and policy options.
VII. STRATEGIC AUTONOMY FOR A POST-PANDEMIC EU

Global trade and its integrated value chains will remain a fundamental growth engine and will be essential for Europe’s recovery. With this in mind, Europe will pursue a model of open strategic autonomy. This will mean shaping the new system of global economic governance and developing mutually beneficial bilateral relations, while protecting itself from unfair and abusive practices. A new era of harder and more conflictual negotiations with China on economic matters is to be expected. As for the United States, strategic autonomy will mean less dependence on American power, but no one wants to close the door to future cooperation and many still expect a rebalancing with a new American president in the future. Transatlantic relations are likely to become less strategic. They can be deep and comprehensive in some areas, but they should no longer be taken for granted.

The main vulnerability of the recovery plan is the recurring weaknesses with sovereign debt. The level of grants being envisaged will do little or nothing to solve the problem. Countries in the south are increasingly unable to meet their debt payments without curtailing public spending. A new social and economic crisis would render them highly vulnerable to Chinese economic influence.

In 2019, the debt-to-GDP ratio of the euro area fell to 86.0%. However, the unprecedented economic recession expected in 2020 and the measures taken in response to the pandemic are set to derail this trend. The debt-to-GDP ratio of the euro area is projected to rise substantially, reaching a new peak of around 103% in 2020. In Italy, the government debt-to-GDP ratio is expected to reach a staggering 159% in 2020.
VIII. CONCLUSION

When publicly presenting the new plan, the Commission concluded: “This is Europe's moment.” We are already in full crisis mode, with the institutions hoping that the EU will come out stronger and its critics waiting, once again, for what they regard as an inevitable struggle for survival. Some commentators have argued the recovery plan constitutes a “Hamilton moment” where the EU acquires many of the fiscal elements of a federal state. That it is not, but it signals a first response to the crisis. Others will follow. The process will be a long and unpredictable one, as suits its historical importance.