Geoeconomic Power EUrope: The Rise and Decline of the European Union

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Abstract
Geoeconomic blocs use collective bargaining power to pursue a favorable position in the international economy, and to convert economic power to political capital. Geoeconomics laid the foundation for the EU's power and its subsequent ability to project values and norms. Elevating liberal ideals above a realist foundation represented by geoeconomics has put the cart ahead of the horse and instigated the decline of the entire edifice. The Single Market set the foundation for geoeconomic power by protecting domestic markets, opening external markets, and cementing internal cohesion. While the common currency and successive enlargements were intended to further augment geoeconomic power, they have instead fueled divisions among member states and intensified zero-sum relations with non-member states.

Introduction

What explains the impressive success of the European Union (EU) and its sudden fall from grace? Academics have explained the intricacies of the EU in various ideological terms, ranging from "normative power" to "transformative power" and "ethnical power." From a realist perspective, Hyde-Price (2008) countered these labels by referring to the EU as a "tragic actor" as policies determined by normative or ethical considerations would either diminish the relevance of the EU due to an inability to successfully pursue the interests of its members, or the EU would engage in destructive moral crusades (Hyde-Price 2008). Geoeconomics is largely based on realist assumptions about how the world works. This article will outline why geoeconomic theory explains the rise and the decline of the EU.

In the neoclassical realist tradition, values and ideology can be understood as being conducive to the extent that they support power interests and encourage states to act in accordance with the balance of power logic. The EU rose to geoeconomic prominence by building on a solid geoeconomic foundation that allowed it to also project values. Once the primacy of geoeconomics was neglected, the subsequent structural flaws condemned the EU to a rapid and possibly irreversible decline.

Geoeconomics replaced militarized geopolitics as a source of power due to more destructive weapons and a highly interdependent global economy. States intervene in the marketplace to restructure global value chains and convert the subsequent economic power into political influence. The balance of power logic is expressed as a "balance of dependence" as asymmetrical economic interdependence translates into political influence (Diesen 2017; 2021). States preserve their political independence by reducing excessive reliance on asymmetrical interdependent relationships and concurrently increasing the dependence of the other side.

The EU, the Eurasian Economic Union (EAEU), BRICS, the Shanghai Cooperation Organization (SCO), the abandoned Trans-Pacific Partnership (TPP), and, until 2020, the North American Free Trade Agreement (NAFTA), are vital tools for power in the era of geoeconomics. Geoeconomic blocs mirror the logic of military blocs as countries A and B cooperate for common strength against country C. Economic blocs enable states to collectively protect their strategic industries and obtain favorable access to foreign markets, control transportation corridors, and develop financial instruments such as trade regimes, legislation, standards, development banks, and trade/reserve currencies.

This article first outlines the theoretical assumptions about geoeconomic regions. Rather than "transcending realism" and power politics, geoeconomic regions must respond to the undercurrents of self-interested states seeking to maximize their security. Regionalism is a paradox as states have an incentive to pool sovereignty to collectively augment the ability to defend sovereignty. Regions must therefore provide economic benefits to member states that are denied to non-members while avoiding excessively zero-sum relations with external powers to prevent them from employing wedge tactics. Secondly, the article explores the rise of the EU. The Single Market and the Schengen Agreement contributed to developing a huge common market of western European states, with a strong gravitational pull in the wider region. The reduced barriers to trade among member states increased relative to trade and interdependence within the bloc, which translates into common interests and political loyalty. Stability and an internal balance of dependence within the bloc were stimulated, as the initial member states had similar economies with comparable sizes. The EU could protect the strategic industries of its member states such as agriculture, and simultaneously compel external powers from opening their markets. The demand to adopt EU regulations and political reforms as a condition for accessing the vast European market made the EU a regulatory power.

Lastly, the decline of the EU is explored. The rivalry between federalists and functionalists has continuously been deferred rather than resolved. Similarly, internal geoeconomic rivalry disrupts cohesion within the bloc as member states have pursued diametrically opposite development models of either economic growth by consumption and debt or by production and savings. The political objectives of successive enlargements and the common currency have not been based on sound geoeconomics and may lead to the demise of the EU. While both initiatives have expanded collective geoeconomic influence, they have also brought together vastly different economies and undermined both the economic and political attractiveness of the union. Furthermore, ideology has diminished the EU's ability to reform zero-sum formats with external powers, which has incentivized countries such as Russia and China to implement wedge tactics.

It will be concluded that the preparedness to use economic coercion to maintain internal solidarity can delay decline, although it will make the disintegration more rapid and uncontrolled once the entire edifice unravels. The solution, consistent with geoeconomic principles, is to accept a dual or multiple speed Europe based on different levels of economic and political integration.

The return of geoeconomics

Geoeconomics suggests that power derives from economics rather than military power and territory. The state intervenes in the market to develop a favorable position and to use the subsequent economic instruments to achieve foreign policy objectives. Economic interdependence is assessed as a relative gain as geoeconomics ascribes to realist theoretical assumptions about how the world works (Blackwill and Harris 2016). In an economically interdependent world, "economics is the continuation of war by other means" (Bell 2008: 330). Gilpin thus argued that the power politics that underpin economics suggest that 'realism today necessarily means neo-mercantilism' (Guzzini 1997: 134).

Geoeconomics was mitigated during the Cold War, as the main adversaries of the U.S. were communist states largely decoupled from international markets, while the bipolar conflict negated geoeconomic disputes between capitalist allies. After the Cold War, there was a gradual return to history as "the methods of commerce are displacing military methods—with disposable capital in lieu of firepower, civilian innovation in lieu of military—technical advancement, and market penetration in lieu of garrisons and bases" (Luttwak 1990: 17).

Geoeconomics can be divided into defensive and offensive policies. Defensive policies aim to create a privileged position for one's own companies and markets by providing favorable conditions (Raza 2007). This includes erecting artificial barriers to restrict access to one's own market, both tariff and non-tariff. Bureaucratic hurdles, and industrial, technological, environmental, and health and safety policies can be instrumental in impeding the ability of imported goods to outcompete domestic producers (Jones 1986; Raza 2007). Market access or technology transfers to foreign competitors can be restricted by protecting intellectual property rights or pursuing more ad-hoc restrictions on national corporations by linking specific technology to national security (Gilpin 2011: 139). Governments can directly subsidise technological developments, or indirectly by funding specific education, competitive infrastructure or, for example, by providing access to technology developed by the military (Luttwak 2010: 65). In the era of geopolitics, it was a common concern that civilian technology would be used for military purposes. In the era of geoeconomics, competitive advantage is attained by transferring government-subsidised military technology to commercial segments.

Offensive policies entail removing similar trade barriers erected by other powers. This can be achieved with anti-monopoly laws or by undermining local producers by dumping excess produce. Similarly, dependence can be enhanced with foreign aid and trade concessions that undercut local producers. The instruments of power in the economic competition include “productive efficiency, market control, trade surplus, strong currency, foreign exchange reserves, ownership of foreign companies, factories and technology” (Huntington 1993: 73). Governments can also manipulate capital availability and accumulation, labor input, and technological advances, as important sources of economic growth. Currency manipulation is considered a form of neo-mercantilism since devaluation protects local industries from imports and assists in penetrating foreign markets (Cwik 2011).

Geoeconomic blocs and the “balance of dependence”

Geoeconomic blocs are a key instrument of power as collective bargaining power creates a favorable position on global value chains and can then assist to convert the subsequent economic dominance into political capital (Baru 2012). States acquire power by developing asymmetrical economic interdependence to maximize both autonomy and influence (Hirschman 1945). Regional economic integration therefore spreads as “self-reliance was never viable on the national level” (Hettne 1993: 227).

The geoeconomic function of a trade bloc replicates the geopolitical utility of military alliances (Hurrell 1995: 340). Powerful states integrate with weaker states in economic and military blocs to strengthen their influence over the weaker member states, and to collectively attain an advantage over adversarial non-member states (Walt 1985: 6). The former German chancellor, Helmut Schmidt, suggested that economic regionalism imitates military bloc-politics since “the struggle for the world product” creates systemic pressures for forming alliances and counter-alliances (Gilpin 2011: 9).

The strength and durability of geoeconomic blocs depend on the cost-benefits assessment of states to pool sovereignty into regional constructs. States can stand outside economic regions to protect their sovereignty, albeit reduced economic competitiveness eventually undermines sovereignty. By pooling sovereignty and integrating into more powerful centers of power, the region can assist with favorable asymmetrical bargaining power to protect sensitive industries and gain privileged access to foreign markets (Milward 1992). Solidarity within an economic region therefore depends on the intrusive influence of the region being outweighed by material benefits that strengthen sovereignty (Milward 1992). The ability to provide economic benefit is therefore recognized as a key instrument by larger powers to construct regions where they institutionalize political influence (Kučerová 2014).

The geoeconomic strength of a region can be assessed by the compromise or polarization between functionalists and federalists. Functionalist integration suggests that *form follows function* as integration is only pursued in areas where it provides economic, political and security benefits for member states (Mitrany 1965). In contrast, 'federalist integration' infers that *functions follow the form* as the centralization of power and transfer of sovereignty to the region becomes the objective (Mitrany 1965). Pursuing federalist integration is a natural impulse to strengthen internal cohesion by systemically depriving weaker states of the ability to diversify partnerships and decouple from the region. Yet federalism is more likely to have the opposite effect, since power is centralized without demonstrating a clear function or benefit for member states to outweigh reduced sovereignty.

Geoeconomic regions are formed to collectively skew the symmetry of interdependence with non-members, yet the durability of the economic bloc depends on maintaining an internal "balance of dependence." The benefits of an integration project to its member states depend on the similarity of economic size (Sorhun 2014: 288). In the absence of power equilibrium within an institution, or without an external adversary to make the asymmetry acceptable, the weaker states will seek autonomy from the more powerful member of the bloc.

Economic coercion is only sustainable when used in moderation as excessive usage increases the incentives for weaker states to reduce their dependence. The advantage of the more dependent state is the willingness and preparedness to accept significant economic pain to obtain greater autonomy (Hirschman 1945). It is often neglected that the endurance of geoeconomic blocs is subject to the ability to reduce zero-sum formats by providing benefits to non-member states. There will always be an incentive for external powers to employ a wedge strategy to dilute the cohesion of a region that provides benefits and privileges denied to non-member states, and that can enhance collective bargaining power to the disadvantage of non-member states (Wagner 1988). External powers can undermine the internal cohesion of regions with "selective accommodation," which entails providing privileges for specific members on a bilateral basis (Wigell and Vihma 2016).

The geoeconomic rise of the EU: The Single Market and Schengen

The EU has aptly been recognized as the world's most successful regional geoeconomic project in terms of collectively enhancing bargaining power vis-à-vis non-members (Hettne 1993). The EU brings together 27 member states to skew the symmetry of dependence on other powers. The collective bargaining power of the EU improves the balance of dependence with the U.S. as a requirement for making the Atlantic partnership more tenable and durable in the post-Cold War era. The EU's asymmetrical relations with its neighbors have facilitated "collective hegemony" on the continent (Hyde-Price 2006: 227). Former French President Valery Giscard d'Estaing, a key architect of the rejected EU Constitution, posited that the new purpose of the EU was power:

> Over the decades, the basis of the EU's existence has changed. We've moved from seeking peace to seeking greatness. The goal is clear: we have to become one of the three main players in the world, so that in 20 years, the U.S., China and the EU will control the world's three most important currencies (Rettman 2013).

The same argument was put forth by former UK Prime Minister Tony Blair in his support for the UK's continued membership in the EU:

> The rationale for Europe in the 21st century is stronger than it has ever been. It is essentially about power, not about peace anymore. We won't fight each other if we don't have Europe, but we will be weaker, less powerful, with less influence (Scheuermann 2013).

The Single Market of 1987 and the visa-free travel of the Schengen Agreement were the greatest geoeconomic achievements of the economic bloc by integrating a region of similar economies. These initiatives had the functionalist purpose of harmonizing national and regional interests. Removing barriers to trade resulted in increased intra-EU trade, which translates into political loyalty and solidarity. Asymmetrical bargaining power vis-à-vis external powers enabled the EU to protect its own markets and compel trading partners to open their markets. Economic power could then be converted into political influence by setting political conditionality for removing trade barriers and attaining favorable access to the Union.

The EU can be characterized as a "regulatory power" as it extracts political power from its economic position by exporting its legal framework (Damro 2015). The role as a gatekeeper and negotiator of access for external actors to the Single Market has positioned the EU as a dominant player in the international political economy (Bretherton and Vogler 1999: 47). By establishing more specific political and legal conditionality for favorable trade agreements with its enormous market, Brussels has become a "regulatory power" (Eberlein and Grande 2005; Bradford 2012: 65), or even a "regulatory empire" (Zielonka 2008: 474). The EU can merely regulate its own markets to obtain influence beyond its borders since "the size and attractiveness of its market does the rest" (Bradford 2012: 65). With gradually more European states joining EU-centric structures through membership or partnerships, the costs of remaining outside the regulatory space of Brussels increases due to the economic perils of isolation. European countries such as

Norway and Switzerland which are part of the Single Market but opt to stay out of the EU are placed in a “pay-without-say” model as they must implement EU directives without having a voice in the decision-making.

The influence and geoeconomic power of the European Community (EC) grew immensely after the collapse of communism in the central and eastern European countries. Even before the demise of the Soviet Union, the EC initiated efforts in 1990-1991 to establish an agreement for trade with central and eastern Europe as the economies were opening up (Lane 2016: 49). Favorable trade agreements were conditioned on adopting a legal framework compatible with the Single Market. Conditionality was later formalized with more specific requirements with the *acquis communautaire* in preparation for granting membership. A core-periphery relationship was advanced as weaker states had to accept limited sovereignty under the influence of the strong. Conditionality was largely tied to democracy and good governance. Yet it also provided dual economic leverage for the western Europe core countries by enhancing the collective power of a larger EU and the core asserting influence over the periphery countries by taking advantage of cheap assets, labor, and capital (Lane 2016: 50). The EU uses regulatory power to advance both an offensive and a defensive agenda in terms of market access (Raza 2007). The EU has constructed a bureaucratic or regulatory empire by developing tariff and non-tariff hurdles for access to the market, disadvantaging especially weaker economies and smaller corporations that cannot afford to adjust to increasingly complicated regulations (Eberlein and Grande 2005; Bradford 2015; Damro 2015). Subsidies are utilized to defend what are considered to be sensitive or strategic internal markets. The Common Agricultural Policy (CAP) is the most contentious neo-mercantilist policy that absorbs approximately half of the EU budget (Raza 2007). Concurrently, the EU compels external powers to open up their markets and adapt EU regulations. A case in point is when the EU Commissioner for Energy, Günther Oettinger, threatened economic and political isolation: “whoever leaves the Energy Community indirectly leaves the partnership with the EU. It becomes the next Belarus” (Keating 2012).

Relations with large external powers

Towards the end of the Cold War, the U.S. had become more reluctant to accept the geoeconomics policies of Western Europe. The best example of this shift was demonstrated by geoeconomic rivalry in the airline industry. Western European airlines received formidable support from their governments in terms of subsidies, which allowed them to operate at a loss in order to conquer the U.S. market. European governments provided virtually interest-free loans to their airlines to develop new airliners until they became competitive vis-à-vis their American counterparts. Airbus Industrie GIE penetrated and rose in the U.S. market by running deficits at the expense of the taxpayer, at one time leasing out 23 of its A300 airliners to U.S. Eastern Air Lines for $1 a year (Luttwak 2010: 28). Luttwak (2010: 34) used geoeconomic language to explain the European march against the U.S.:

> Just as in the past when young men were put in uniform to be marched off in pursuit of schemes of territorial conquest, today taxpayers are persuaded to subsidize schemes of industrial conquest. Instead of fighting each other, France, Germany and Britain now collaborate to fund Airbus Industrie's offensive against Boeing and McDonnell-Douglas. Instead of measuring progress by how far the fighting front has advanced on the map, it is worldwide market shares for the targeted products that are the goal.

The free trade argument suggests that the U.S. was benefiting as the European taxpayer was effectively subsidising air travel for Americans and thus elevating their standard of living. However, the 'hidden hand' of the free market did not reallocate the excess U.S. capital and labor to high-skilled professions in dominant positions on the global value chain. Instead, industrial jobs were replaced with low-skilled and low-paid retail jobs. Within a relatively short time, European airliners had risen to the status of world leaders, while without government support, American airlines were pushed towards bankruptcy. Germany then began to apply the same strategy to their car manufacturers, communication industry, superconductors, and other strategic industries (Luttwak 2010: 34).

After the Cold War, there was a new impetus to harmonize interests. The EU had been instrumental in developing parity with the U.S., yet formidable efforts were made toward burden sharing. By harmonizing their interests, the U.S. and EU could collectively claim primacy in the post-Cold War world. Furthermore, the signing of NAFTA gave the U.S. enough economic muscle in response to the growing common market in Europe. Relations with Russia at that time were also to a great extent unproblematic and no major compromises were required to avoid conflict. Throughout the 1990s, Moscow was in a weak position and tended to view the EU as the "good West" in comparison with NATO as the "bad West" (Monaghan 2005). The EU was deemed to be more inclusive and more prepared to harmonize interests with Russia. The prevailing assumption in Moscow was that Russia would gradually be incorporated into a "Greater Europe," or as Putin proposed, an EU-Russian Union. Russia had neither the motivation nor the capabilities to employ wedge tactics against the EU.

The decline of the EU: Conflicting development models

Germany plays a dual role in the EU, as it is the economic locomotive that elevates the relative power of the bloc, yet the geoeconomics of Germany also disrupt the internal balance of power within the Union. The different economic models within the EU distort the symmetry between member states, which undermines the stability and durability of cooperation (Lucarelli 2012). While most EU member states have a so-called "debt model" for economic growth, Germany has taken a neo-mercantilist export-based approach. Culpability for the disharmony within the EU is commonly attributed to Germany's state-led neo-mercantilist practices, while Berlin tends to blame the absence of fiscal discipline on the debt-model of other member states. Much like China, Germany has pursued a "beggar-thy-neighbor" strategy by strengthening its own economy by accumulating account surpluses and thus compelling its neighbors to adjust (Baru 2012: 53). Focus is devoted to production and export at the expense of German consumers, and foreign producers principally in other EU member states. In contrast to the debt-model of its allies, Berlin encourages savings, discourages consumption, and minimises inflation. The divisions between the surplus and deficit member states have incrementally grown, making Germany the burgeoning economic powerhouse of Europe as the Mediterranean member states sink further into unsustainable debt.

Germany developed an export-based development model driven by wage suppression, akin to China, to acquire manufacturing power and accrue a large trade surplus (Stockhammer 2011). Berlin intervenes in the market by coordinating "constant discussions between labor, government, and industry to arrive at agreements on wages, investment, productivity gains, and prices that will assure continued competitiveness to producers based in Germany" (Prestowitz 2012). Domestic austerity and wage repression limit foreign entry to the German market while making German products more competitive abroad. Furthermore, low domestic wages reduce domestic consumption, which incentivizes German corporations to pursue markets abroad. Favorable loan conditions are also provided to these companies by German banks to prioritize foreign investments with a trade surplus.

Berlin has become increasingly comfortable asserting itself as the de-facto capital of the EU as economic power continues to concentrate in Germany. Subsequently, EU decision-making is being gradually made in Berlin (Brattberg and De Lima 2015). Germany acts per realist assumptions about "interdependence" as relative gain, with EU legislation being used to influence smaller member states without surrendering Germany's own autonomy. For example, the Stability and Growth Pact was intended to promote fiscal discipline with strict limitations on debt, yet Germany and France exempted themselves from the rules in 2003.

With production power and capital transfers from the Mediterranean to Germany, asymmetrical economic relations translate into political influence (Cesaratto 2010; Prestowitz 2012). According to Kundnani (2011: 41), the trade gap within the EU has contributed to a more assertive German foreign policy:

> The concept of geoeconomics now seems particularly helpful as a way of describing the foreign policy of Germany, which has become more willing to impose its economic preferences on others within the European Union in the context of a discourse of zero-sum competition between the fiscally responsible and the fiscally irresponsible. For example, instead of accepting a moderate increase in inflation, which could harm the global competitiveness of its exports, Germany has insisted on austerity throughout the Eurozone, even though this undermines the ability of states on the periphery to grow and threatens the overall cohesion of the European Union.

With economic and political power concentrated in Germany, hostility is growing among other member states. Animosity is strongest among southern and eastern member states that are disadvantaged by Germany's economic policies and/or the subsequent intrusive political clout. There is rivalry between the German-led federalist model for a post-national Europe and the British-led functionalist model for a Europe of nation-states. Nigel Farage (2015), the leader of the UK Independence Party (UKIP), who contributed greatly to Brexit, accused the EU of failing by facilitating rather than preventing a 'German-dominated Europe'.

Enlargements and the Euro

The common currency and successive rounds of enlargement of the EU have become the two main mistakes creating divergent interests, systemic decline, and possibly the EU's demise (Münchau 2015). The Euro and enlargements are important sources of collective geoeconomic power in the wider world. However, they have also disrupted the balance of power within the EU and further concentrated power in Germany. The Euro was intended to cement internal cohesion as an instrument for political integration, yet it is becoming a source of division as political utility undermines the economic kind.

EU enlargement was intended to enhance the collective market share of global GDP and unite Europe (Borocs 2015). However, enlargement predominantly benefited the German economy and thereby further upset the balance with France and the UK. Bringing together vastly different economies predictably encouraged the disruptive movement of capital and production across borders, and more importantly, the socio-economic consequences of the large-scale population movements from the east to the west. Rapid and extensive demographic changes have revived nationalist sentiments in both Western and Eastern Europe.

The Euro was primarily a federalist project, as unsound monetary decisions were made to promote political integration. A political union is required to develop a fiscal union, and a fiscal union is needed to develop a monetary union. However, without consensus and a mandate for a political union, the EU elites began at the other end by creating a monetary union first, which produced entrenched systemic flaws (Feldstein 2012). A monetary union would create demand for a fiscal union, which would be impossible without a political union. The common currency was therefore a deliberately unsound economic project that would set in motion a chain reaction for political union (Spolaore 2013). One of the architects of the monetary union, Padoa-Schioppa (2004: 14), explained that the common currency was intended to cause a 'chain reaction' towards integration:

> The road toward the single currency looks like a chain reaction in which each step resolved a preexisting contradiction and generated a new one that in turn required a further step forward. The steps were the start of the EMS [European monetary system] (1979), the re-launching of the single market (1985), the decision to accelerate the liberalization of capital movements (1986), the launching of the project of monetary union (1988), the agreement of Maastricht (1992), and the final adoption of the euro (1998).

Bergsten (2012) conceptualises the Euro as a "half-built house" since the inevitable problems emanating from the monetary union force additional integration and centralization of power. Monetary integration therefore created an all-or-nothing logic as a European superstate had to be created, or else member states would be compelled to return to national currencies (Stockhammer 2014).

The Euro provides Germany with a severely devalued currency, while other members struggle with an overvalued currency. Usually strong economies will have soaring currencies due to increasing demand and some balance will be restored as the weaker economies will have their currencies devalued and thus increase the competitiveness of their exports. In the EU currency trap, a core-periphery function emerges to the benefit of Germany and especially at the peril of the Mediterranean member states. Several observers therefore define the Euro as a German currency manipulation similar to that of China (Cesaratto 2010; Baru 2012; Krugman 2013). The currency "trap" has further strengthened German exports at the expense of the competitiveness of Europe's Mediterranean states (Lucarelli 2011). The Maastricht Treaty of 1992 set the initial fundamentals for the internal contradictions of the EU. When the peripheral countries were stuck in the fiscal straitjacket of the Exchange Rate Mechanism (ERM) they were unable to devalue their currencies to restore competitiveness. The European Central Bank (ECB) is compelled to set the monetary policy for the entire bloc, irrespective of the vastly different economies, and lean favorably towards Germany as the main economy (Feldstein 2012). Low-interest rates were designed for a deflationary German economy, yet they fueled a housing bubble in other parts of Europe that were inaccurately perceived as economic growth (Cesaratto 2010). The first chief economist of the European Central Bank, Otmar Issing, described the Euro as a "house of cards" that would inevitably collapse (Worstall 2016).

The Euro further enabled a state-centric neo-mercantilist policy by utilizing an export-led economic growth model and accumulating chronic surpluses. Budget deficits grow in the Mediterranean as production power transfers to Germany and the easy access to cheap money boosts consumption (Krugman 2013). The weak currency has benefited German exporters, while Berlin "has failed to deliver on its side of the bargain: To avoid a European depression, it needed to spend more as its neighbors were forced to spend less, and it hasn't done that" (Krugman 2013). The U.S. Treasury Report condemned Germany for strengthening its own economy at the expense of its neighbors:

> Within the euro area, countries with large and persistent surpluses need to take action to boost domestic demand growth and shrink their surpluses. Germany has maintained a large current account surplus throughout the euro area financial crisis, and in 2012, Germany's nominal current account surplus was larger than that of China. Germany's anaemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment. The

net result has been a deflationary bias for the euro area, as well as for the world economy (U.S. Treasury 2013: 3).

Responding to EU crises: from carrots to sticks

The chain-reaction thesis of the "half-built house" is paradoxical as further integration is expected at a time of economic and political upheaval. With voters increasingly blaming 'Europe' for causing the seemingly never-ending crisis, it is difficult to sell the argument that 'more Europe' is the answer (Spolaore 2013). Stiglitz (2016) posits that with fewer carrots and less excitement about the European project, Brussels has become more reliant on fear and threats to deter states from decoupling from the EU. Eliminating alternatives to the EU is imperative to its survival. However, the pressure to punish Britain following the Brexit vote or use economic coercion against Hungary and Poland further undermines important trade and the economic functionality of the EU.

While the concentration of power in Germany has been a source of the crisis, it also enables Germany to present itself as the solution by being the locomotive for economic recovery. The financial crisis inflicted both the debt-driven and export-driven economies of the EU, but the fiscally prudent export-driven economies such as Germany rapidly recovered and were presented with the opportunity of using the growing asymmetry to extract political concessions (Stockhammer 2014). Germany has used the crisis and weakness of the Mediterranean states to exert its influence by setting the conditions for saving the Mediterranean member states. As European states crumble under debt, Germany provides financial assistance with the conditionality of falling in line with Brussels. The concentration of power within the EU has thus reached what Brattberg and De Lima (2015) refer to as "Germany's unipolar moment" as the Greek debt crisis became virtually a bilateral affair between Berlin and Athens where the former could strongarm the latter. Similarly, Germany dominated the negotiations with Russia over the Minsk Agreement, and the EU's approach to the refugee crisis (Brattberg and De Lima 2015).

The possible fatal dilemma for the Euro has been that Greece cannot receive a debt re-structuring or a haircut, as this would have a contagion effect on the other debtor states, while not cutting Greek debt would only see it sink further into unsustainable debt and increase animosity towards Berlin. As the leaked emails of Hillary Clinton revealed, the German Finance Minister, Schauble "continues to believe that a complete collapse of the currency union is unacceptable for Germany, as the newly reconstituted Deutsche Mark would be considerably more valuable than the Euro; seriously damaging Germany's export driven economy" (ThePressProject 2016).

The IMF has recognised that the Greek debt is unsustainable, yet Greece is not allowed to default on its debts due to the contagion effect, and the German-led bail-out has mainly been used to repay German banks (Robins-Early 2015). With other Mediterranean states following the path of Greece, they would also expect debt forgiveness, as the economic burden of servicing the debt prevents a recovery. The sovereign debt crisis continues along the periphery in Portugal, Spain and Ireland, with Italy and France next in line. While Germany has more authority to push ahead with further integration, the resistance among the populations in member states has reached new heights. EU-scepticism has become the new normal, and it appears that saving the EU would require winding back several major projects, including the Euro. Reversal of an "all-or-nothing" project is however unlikely as the EU never conceptualized or formalized a format for reversing integration (Spolaore 2013).

External relations as zero-sum

The post-Cold War Atlantic partnership is challenged by the rise of Asia. Under the Obama administration, the U.S. already demonstrated that Europe was becoming less important. Under the economic nationalism of the Trump administration, economic regionalism suffered as the U.S. was concerned about the shifting internal balance of dependence within NAFTA, TTIP, and TPP. Collective power was argued to come at the expense of the internal balance of power shifting as manufacturing power and treasury gradually transfers from the U.S. to its allies. Trump subsequently put forward the controversial claim that the EU was established to "rip off" the U.S., and in reference to Berlin's neo-mercantilism he argued that "the Germans are bad, very bad." The common complaint from Brussels is that Russia and China engage individual EU member states bilaterally. Yet it should be axiomatic that bilateralism is favored as opposed to unfavorable asymmetries in EU27+1 formats. By comparison, the Russian-led Eurasian Economic Union obtained Chinese support by offering tangible economic benefits to non-members. The Eurasian Economic Union benefits China's Belt and Road Initiative by establishing one customs zone between Chinese and EU borders and making the small individual economies in Central Asia more accessible by harmonizing legislation and technical standards. Mutual recognition of regions is also a solution since the engagement of external powers can enhance the legitimacy of a region (Hettne and Söderbaum 2000: 469).

The failure to establish a mutually acceptable post-Cold War settlement with Russia has also incentivized Moscow to employ wedge tactics. The Charter of Paris for Europe in 1994 and the OSCE Budapest Document in 1994 committed all sides to create a Europe without dividing lines, based on "indivisible security" and "sovereign equality." Instead, the dividing lines were gradually moved towards Russian borders, the West expanded its security at the expense of Russian security, and liberal internationalism promoted a system of sovereign inequality. The rivalry over where to draw the new dividing lines eventually culminated in a major military conflict in Ukraine.

While Moscow initially perceived the EU as the "good" west, the enlargements to the east and unwillingness to harmonize integration efforts with Russia intensified the zero-sum structures of Europe. The EU's "Wider Europe" concept aims to organize non-member states along the periphery within the regulatory framework of Brussels. Similarly, the European Neighborhood Policy (ENP) in 2004 aimed to organize Europe around the EU. Moscow rejected the ENP as it was structured around bilateral formats between the collective EU and individual neighbors, which maximised asymmetry to the extent it became veiled unilateralism. To assuage Moscow, the EU and Russia instead signed the Common Spaces Agreement of 2005 that agreed to harmonize integration efforts towards the shared neighborhood:

> They agree to actively promote them [integration efforts] in a mutually beneficial manner, through close result-oriented EU-Russia collaboration and dialogue, thereby contributing effectively to creating a greater Europe without dividing lines and based on common values (Permanent Mission of the Russian Federation to the European Union 2005).

The EU undermined the Common Spaces agreement three years later by unilaterally launching the Eastern Partnership in 2008. The Eastern Partnership devotes focus to energy and transportation initiatives such as INOGATE and TRACECA, that aim to reduce reliance on Russia, which is why Russia was the only eastern neighbor not invited. The Association Agreements advanced in late 2013 similarly required the shared neighborhood to make a zero-sum civilizational choice between "us" and "them." The offer from Moscow and Kiev to establish a trilateral "trade commission" with Brussels and make integration efforts compatible was rejected by Brussels as Russian imperialism (Lynch 2013).

The EU's use of economic sanctions instead of accepting a mutually acceptable post-Cold War settlement that recognizes legitimate Russian influence in Europe has convinced Moscow to replace its former "Greater Europe" initiative with "Greater Eurasia." The growing strategic partnership between Russia and China is restructuring global value chains. The rise of Eurasian powers presents a challenge to the ability of the EU to ensure internal cohesion. The EU's share of global GDP is projected to continue a steep decline, which will limit its aptitude to set conditionality and act as a regulatory power. The relative trade with other member states is also declining, which results in economic interests shifting to other parts of the world. As individual member states have greater commercial interests in common with non-members, declining loyalty to the EU is expected to follow.

As German trade and economic interests continue to incrementally shift from the EU to the East, its definition of national interests and subsequently foreign policy will change (Szabo 2015: 69). While Germany's common identity and inter-subjective ties with the west function as an anchor against the geoeconomic wave to the east, the economic engagement with the east presents ideational continuity rather than change as a new "Ostpolitik." A division within the broader west is therefore also probable, as Berlin has never been completely comfortable with the U.S. approach of isolating authoritarian states, and rather subscribed to the belief it is serving liberal democratic values by gradually opening up the east by developing economic ties.

China's geoeconomics push to the west with the Belt and Road Initiative and new financial instruments has been welcomed and to a great extent been harmonized with Russia. Chinese trade and financial services with Russia are increasingly reducing Russia's reliance on the EU. This trend is likely to escalate as Russia had, in the past, reserved privileged access to its energy markets to the EU due to the political considerations of the Greater Europe project, while the new Greater Eurasia project will devote less significance to Europe. The growing presence of China is also swaying states away from Germany and the EU.

The strategic industries and specific regions of Chinese investment in Europe are indicative of a cohesive grand strategy. China engages Central and Eastern Europe separately from the EU which can elevate these states from playing second fiddle in Europe. Dividing the EU is not an objective in itself, rather a key purpose is to provide these states with greater agency to develop state interests in concert with China when it may be opposed by the rest of the bloc. With Greece being the main maritime bridgehead into Europe, China has bought its stake in the port. Following China's upgrades of Piraeus, it has begun complementing the port with rail projects for enhanced connectivity to Hungary through Serbia. Concerns about Chinese debt diplomacy within the EU are also growing, as China is financing the Hungarian infrastructure project, with Budapest skirting the mandated tender process. Chinese investment in Europe has in general increased rapidly, focusing on the acquisition of strategic industries such as agriculture and manufacturing. A key motivation with mass acquisitions is to obtain technology transfers, while Chinese staff often replace their European counterparts (Le Corre and Sepulchre 2016: 54).

Conclusion

The use of economic coercion to maintain internal solidarity and weaken external rivals may delay decline, although the foundations of the geoeconomic bloc, already starting to decay, will eventually bring about a faster and uncontrolled collapse once disintegration inexorably commences. The initial and extraordinary success of the EU's economic statecraft entailed delivering tangible goods to member states and using collective bargaining power to establish the EU as a regulatory power. Both the Single Market and the Schengen Agreement delivered tangible goods that translated into solidarity and collective bargaining power. Yet the widening and deepening of European integration by expanding membership and launching the Euro has undermined the ability to deliver public goods and disrupted the internal balance of dependence.

Furthermore, the internal solidarity of the EU is challenged by wedge tactics since it has failed to create incentives for cooperation by foreign powers. The U.S. has an interest in converting Europe's security dependence into geoeconomic loyalty to limit EU trade with China, Russia, India, and other U.S. rivals. Succumbing to such pressures disconnects the EU from important centers of power, which weakens the EU's economic prowess and the ability to provide tangible goods for its member states, while also fueling excessive reliance on the U.S. at the expense of the EU's strategic autonomy.

The best approach for the EU is a controlled reversal and return to the EU's geoeconomic fundamentals of the pre-Maastricht era that ended in 1992, and adjustment to the emergence of a multipolar world by adopting a swing strategy. However, reduced rationality remains a key impediment for the EU as is evident from the lack of appreciation of the economic foundations needed for its internal cohesion and bargaining power with external actors.

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