



Survival

Global Politics and Strategy

ISSN: (Print) (Online) Journal homepage: <https://www.tandfonline.com/loi/tsur20>

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To cite this article: Arlo Poletti (2023) Europe's Fragile Unity, *Survival*, 65:1, 71-80, DOI: [10.1080/00396338.2023.2172854](https://doi.org/10.1080/00396338.2023.2172854)

To link to this article: <https://doi.org/10.1080/00396338.2023.2172854>



Published online: 07 Feb 2023.



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Arlo Poletti

There is little doubt that the Russia–Ukraine war represents the hardest of the many tests that Europe has faced over the past few decades, one that could not just lead European governments to temporarily quarrel and vacillate, but also cause the European Union to disintegrate altogether.

Over the course of a year, the war has produced enormous economic strain. The escalating energy crisis has increased upward pressure on inflation, and is likely to throw Europe into a recessionary spiral with the possibility of stagflation. Entire economic sectors in key European industrial countries are facing existential challenges, with small and medium enterprises struggling to survive as production and borrowing costs have spiked and individual and household consumption has plummeted. Disruptions in the flow of electronics, raw materials and spare parts emanating from China and other emerging markets has diminished many European firms' global trade positions and forced them to recalibrate or reconsider their long-standing supply chains and partnerships.

Politically, the crisis is exacerbating some of Europe's long-lasting political cleavages and creating new ones. Differences in fiscal capacity and access to capital markets are reviving the north–south divisions that almost put an end to the eurozone. New geopolitical fissures over how to deal with

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the Russian threat are deepening between eastern and western member states, with the former group, including the Baltic states and Poland, calling for unfettered military support to Ukraine and the latter group, including France, Germany and Italy, more open to a negotiated settlement.

Notwithstanding these strains, many commentators remain optimistic about Europe's resilience. Two sets of arguments underpin this optimism. One is based on the observation that Russian President Vladimir Putin's invasion of Ukraine triggered a display of European and transatlantic cohesion that few could have anticipated before the war.¹ It has galvanised NATO, prompting it to add two new members, Finland and Sweden, one of which borders Russia and both of which stand to appreciably strengthen the Alliance.² So far, the EU has adopted, in close coordination with its partners, eight packages of sanctions, provided vast financial and military support to Ukraine, offered protection to millions of Ukrainians escaping from war and granted Ukraine candidate status in the EU.³ Moreover, the EU is gradually working towards a common position to deal with the energy crisis. While falling short of a united stance on the question of whether to cap gas prices, the European Council meeting on 20 October 2022 made significant progress in this direction by agreeing to move forward on joint gas purchases, work towards establishing a new gas-price benchmark that better reflects the market, and decide on a temporary dynamic price corridor on natural-gas transactions that would limit price spikes.⁴

The second argument is based on an analogy with previous EU responses to crises, which have demonstrated the Union's resilience and its capacity to turn problems into opportunities and to advance European integration.⁵ The most obvious example is the most recent: Europe's reaction to the COVID-19 pandemic. The economic and societal challenges associated with the pandemic were perhaps even more daunting than the ones Europe is now facing. Governments' radical measures to limit cross-border movements of goods and people within and across EU member states resulted in an unprecedented economic contraction in 2020, as the EU's real GDP fell by 6.1%, more than during the global financial crisis.⁶

Yet Europe managed this crisis with a display of political unity that many hailed as the materialisation of Europe's 'Hamiltonian moment'.⁷ After

years of resisting debt-mutualisation projects coming from 'southern' countries such as Italy and France, Germany acknowledged that 'exceptional events call for exceptional new methods' and in May 2020 gave the green light to the adoption of a massive €750 billion stimulus package (€360bn for loans and €390bn for subsidies) to be financed through collectively pooled debt obligations. In the event, the COVID-19 pandemic, with its massive health and socio-economic implications, proved an opportunity to move forward in terms of integration, ultimately stimulating EU member states to strengthen Europe.

Could the Ukraine crisis produce another display of European unity? Nathalie Tocci recently put forth a 'more pain, more gain' argument: the more acute Putin's external threat, the more unifying its effect on Europe and the higher the likelihood that European leaders would be able to adapt, react and bounce back.⁸ From a normative standpoint, this argument is unobjectionable, even inspiring. A stronger Europe emerging from the Ukraine crisis is a desirable outcome not only for Europeans, but also for those who believe that a united and cohesive Europe is a precondition for an international order that has appeared elusive.⁹ Analytically, however, there are several reasons for scepticism about Europe's ability to replicate the COVID success story.

Asymmetrical effects

The economic consequences of this crisis are more asymmetrically distributed across the member states than those of the pandemic. Of course, the pandemic too hit different member states in different ways and to different degrees. Divergences in fiscal capacity between northern and southern member states affected decisions about social-spending strategies to cope with the economic downturn. But the health challenges, measures of social containment, and magnitude and speed of economic collapse were largely the same across EU member states. The fact that the consequences of that exogenous shock were roughly symmetrically distributed among different member states was key to an efficient collective response. All governments could clearly see both that there was no unilateral way out of the crisis and that the collective gains stemming from cooperation in the form of a debt

mutualisation would be large and uniformly distributed. As game-theoretical models of international cooperation – in particular, the Prisoner’s Dilemma – suggest, this is precisely the kind of constellation of actors’ interests that facilitates cooperation: for all governments the potential gains deriving from unilateral, non-cooperative strategies were small or non-existent, while the gains from cooperative behaviour were large and obvious.¹⁰

The consequences of the current crisis, however, are more asymmetrically distributed, making cooperative strategies less attractive to all member states. For one, not all member states are equally affected by the energy crisis, because not all of them are high-energy-consuming countries. Countries where industrial production comprises a relatively large share of domestic GDP, such as France, Germany and Italy, are generally more vulnerable to disruptions of energy markets than countries whose economies have become more service-based, such as Belgium or the Netherlands. Furthermore, cleavages exist between industrial producers, with Germany and Italy being much more heavily dependent on Russian gas than France due to the latter’s heavy reliance on domestically produced nuclear energy. As noted, EU member states also have varying fiscal capabilities for addressing the economic challenges caused by the spike of energy prices. Germany’s unilateral decision to adopt a massive €200bn gas-price-relief fund contrasts starkly with Italy’s meagre fiscal measures to contain domestic energy prices. An east–west divide has also emerged on the severity of Russia’s threat to the European security order. Such cross-cutting cleavages make cooperative solutions more difficult to achieve, creating stronger incentives for unilateral action and making it harder to define a collective response acceptable to all.

A weakened stabiliser

As Charles Kindleberger famously argued, international cooperation is greatly facilitated by the presence of a stabiliser – that is, a country both able and willing to provide public goods, discourage free-riding and support collective action.¹¹ Germany played such role in the COVID-19 crisis, shifting from being a staunch opponent of debt mutualisation to a driving force behind the pandemic-recovery fund. Without Germany’s support, there would have

been no recovery plan and no success story. European solidarity materialised because German chancellor Angela Merkel decided it was worth transferring about €65bn in German tax revenue to other EU countries to save Europe.

Several factors suggest that Germany might not fully assume this responsibility with respect to the Ukraine crisis. Germany's economy entered a downward spiral as price hikes for electricity and gas reduced the purchasing power of private households and led to a decline in private consumer spending. As a result, the German economy is expected to lapse into recession, with its GDP estimated to decline by 0.7% in 2023.¹² German industry's manufacturing output — which accounts for more than one-fifth of the country's GDP — is estimated to have dropped by 2.5% in 2022, and is predicted to diminish by about 5% in 2023, according to Deutsche Bank.¹³ Driving the downward spiral are skyrocketing energy prices. They have risen nearly 400% in 2022, prompting some to consider that this is 'the starting point for an accelerated deindustrialization in Germany'.¹⁴ Obviously, rising energy prices have hit energy-intensive industries, such as chemical, glass and metal producers, and, critically, the automobile industry. The latter could experience a permanent shift. Some 85% of the officers of automobile manufacturers and automotive suppliers surveyed by Germany's automotive-industry association view the country as an uncompetitive location because of high energy prices and insecure supply, while 22% would consider moving production abroad.¹⁵

The Ukraine crisis places at risk Germany's model of industrial production. Since the 1990s, German producers have relied on a steady flow of inexpensive natural gas from Russia to fuel their factories. This source of cheap energy is likely to be absent for the foreseeable future. Indeed, EU–Russia relations probably would not be normalised even in the case of a negotiated end to the war. A country with such bleak medium- to long-term economic prospects is unlikely to be willing to take up additional burdens to help European partners and act as a stabiliser. German leaders could instead feel compelled to unilaterally secure the country's relative position within Europe's economy. Indicators include Germany's unilateral decision to adopt a €200bn energy package, as well as its resistance to an EU-wide mechanism to enforce a price cap on natural-gas imports and to proposals for energy-related joint EU debt issuance.

Populist nationalism

Nationalist, populist and anti-European parties across Europe are key challenges for the long-term stability of European integration, and such parties usually thrive when socio-economic conditions dramatically worsen.¹⁶ The current crisis has much greater potential than the pandemic did to stimulate support for these parties. As time passed, it became increasingly clear that the global nature of the pandemic could not be effectively tackled with merely national solutions, but required cooperation among states. This strategic interdependence muted populist and nationalist rhetoric.¹⁷ But the asymmetrical distributional consequences of the Ukraine crisis make those that are suffering the least and those suffering the most highly susceptible to such rhetoric.

In northern European countries with relatively sound budgets and high fiscal capacities, populists and nationalists are likely to champion the 'frugal north' against the 'profligate south'. In turn, southern European populists and nationalists would find it easier to marshal support against northern countries owing to the latter's perceived disregard for the south's struggles. Thus, strategic interdependence with respect to the Ukraine crisis only fuels populist and nationalist social grievances. The recent electoral successes of Jimmie Åkesson's Sverigedemokraterna in Sweden, Giorgia Meloni's Fratelli d'Italia in Italy, and Marine Le Pen's Rassemblement National in France are only the most visible indications of the crisis's potential to stimulate a populist and nationalist backlash across Europe.

Which peace?

EU member states shared views as to which fundamental goal they were pursuing when tackling the pandemic: developing and securing a vaccine that could be swiftly and widely distributed to the public with a view to restoring life as it was before as quickly as possible. As to the Ukraine crisis, while European governments share key objectives, such as reducing dependency on Russian gas and mitigating socio-economic disruptions, and have so far been able to maintain a united front in sanctioning Russia and supporting Ukraine, clear divisions are emerging concerning the terms of an acceptable peace.

There are two broad camps. Countries such as France, Germany and perhaps Italy are prone to espouse a minimalist definition of peace, which

broadly entails restoring the status quo ante, defined as the situation prevailing immediately prior to 24 February 2022, the date of the Russian invasion. Whether Ukrainian territory should include Crimea remains an open question, but for later disposition at an unspecified time. Countries such as Poland and the Baltic states, which are more directly exposed to Russia, are more inclined to subscribe to a maximalist definition of peace that calls for a long-term eradication of Russia's threat and could logically imply regime change in Russia. Divisions on this issue are a potential source of tension that could spill into internal discussions about how to cope with the energy crisis and how to strengthen European foreign and security policy.

The time factor

Finally, in the case of the COVID-19 pandemic, time worked in favour of a cooperative European solution. The relatively even distribution of the crisis's costs across Europe's member states was key in this regard. As time passed, it became increasingly evident that opposition to cooperative solutions implied forgoing large collective gains. In this crisis, time works in the opposite direction. Distributional consequences are becoming even more varied. Accordingly, as the crisis's time horizon expands, EU member states' policy preferences are likely to diverge and become more difficult to reconcile. For instance, EU member states that suffer less from rising energy prices may come to realise that while their economies may have worsened overall, their relative positions within the EU's internal market may have strengthened.

In particular, Germany will be less likely to step up. Its role as regional stabiliser has depended on the capacity of its domestic capital markets to deliver low inflation and its domestic labour markets to provide skilled personnel. These assets enabled Germany to remain a competitive industrial producer in the face of China's rise as the world's main hub for industrial production, and thus to consistently run current-account surpluses that produced sound and balanced budgets. Long-term prospects of rising energy prices risk the acceleration of Germany's deindustrialisation and imperil its status as Europe's stabiliser.

The economic strain imposed by the crisis on European firms, households and governments is already substantial, and the first winter since the war

began is far from over. The longer the crisis drags on, the more populists and nationalists are likely to be able to capitalise politically on popular discontent. Differences on the definition of an acceptable peace are also likely to deepen. Over time, EU member states facing relatively few economic challenges or overridingly determined to disempower Russia could intensify maximalist war aims, while those suffering the most increase pressure for compromise.

* * *

The tenuousness of Europe's resistance does not mean that Europe should leave Ukraine to its fate and seek swift accommodation with Putin. Such a scenario is not feasible because the decision rests primarily with Ukrainians, who are entitled to decide on the timing and content of any negotiated settlement, and with major powers such as the United States and China, which have economic and military resources that enable them to directly shape the arc of the war. It is not desirable because, to paraphrase Hedley Bull, considerations pertaining to the realm of order should not be disentangled from evaluations about justice.¹⁸ For Europe to sacrifice the latter in the name of the former would probably strike an even more fatal blow to Europe's unity. If Europe is to remain united, however, it must seek a solution to the crisis that is both just and prompt. This requires avoiding the temptation of pursuing maximalist aims and a broader acceptance of a calibrated definition of peace calling for a restoration of Ukrainian territorial integrity immediately prior to Russia's February 2022 invasion.

Notes

- ¹ See, for example, Nigel Gould-Davies, 'Putin's Strategic Failure', *Survival*, vol. 64, no. 2, April–May 2022, pp. 7–16.
- ² See William Alberque and Benjamin Schreer, 'What Kind of Allies Will Finland and Sweden Be?', *Survival*, vol. 64, no. 6, December 2022–January 2023, pp. 123–36.
- ³ See European Commission, 'Ukraine: EU Agrees on Eighth Package of Sanctions', Press Release, 6 October 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_5989.
- ⁴ See European Council, 'European Council Conclusions', 21 October 2022, <https://www.consilium.europa>.

- eu/media/59728/2022-10-2021-euco-conclusions-en.pdf.
- ⁵ See, for instance, Nathalie Tocci, 'Can Russia Divide Europe? Why a False Peace Could Be Worse than a Long War', *Foreign Affairs*, 5 August 2022, <https://www.foreignaffairs.com/europe/can-russia-divide-europe>.
 - ⁶ Maarten Verwey and Alan Monks, 'The EU Economy After COVID-19: Implications for Economic Governance', Center for Economic Policy Research, 21 October 2021, <https://cepr.org/voxeu/columns/eu-economy-after-covid-19-implications-economic-governance>.
 - ⁷ Christakis Georgiou, 'Europe's "Hamiltonian Moment"? On the Political Uses and Explanatory Usefulness of a Recurrent Historical Comparison', *Economy and Society*, vol. 51, no. 1, November 2021, pp. 138–59.
 - ⁸ See Tocci, 'Can Russia Divide Europe?'.
 - ⁹ See Arlo Poletti, Lorenzo Zambernardi and Dirk De Bièvre, 'Time for a New Atlanticism: The EU–China Comprehensive Agreement on Investment and the International Order', *International Spectator*, November 2022.
 - ¹⁰ See Duncan Snidal, 'Coordination Versus Prisoners' Dilemma: Implications for International Cooperation and Regimes', *American Political Science Review*, vol. 79, no. 4, December 1985, pp. 923–42.
 - ¹¹ See Charles P. Kindleberger, 'Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides', *International Studies Quarterly*, vol. 25, no. 2, June 1981, pp. 242–54.
 - ¹² IFO Institute, 'Joint Economic Forecast Autumn 2022: Energy Crisis: Inflation, Recession, Welfare Loss', 29 September 2022, <https://www.ifo.de/en/facts/2022-09-29/joint-economic-forecast-autumn-2022-energy-crisis-inflation-recession-welfare-loss>.
 - ¹³ Deutsche Bank Research, 'German Economy: Out in the Cold', 27 September 2022, https://www.dbresearch.com/PROD/RPS_EN-PROD/PROD000000000524797/German_economy%3A_Out_in_the_cold.PDF?undefined&reaload=~Nwf5DpvrxiX4QrvmKSpcZWGoaYkEWynIL7Ja~j/IG1Z3s3wUNvEOXTAAjjICQH.
 - ¹⁴ Anna Cooban, 'Rocketing Energy Costs Are Savaging German Industry', *CNN Business*, 28 October 2022, <https://edition.cnn.com/2022/10/07/energy/german-industry-energy-prices/index.html>.
 - ¹⁵ Verband der Automobilindustrie, 'Energy Prices and Security of Supply: Germany Lacks Competitiveness', Press Release, 13 September 2022, https://www.vda.de/en/press/press-releases/2022/220913_PM_Energy-prices-and-security-of-supply_Germany-lacks-competitiveness.
 - ¹⁶ See Italo Colantone and Piero Stanig, 'The Trade Origins of Economic Nationalism: Import Competition and Voting Behavior in Western Europe', *American Journal of Political Science*, vol. 62, no. 4, October 2018, pp. 936–53; and Helen V. Milner, 'Voting for Populism in Europe: Globalization, Technological Change, and the Extreme Right', *Comparative Political Studies*, vol. 54, no. 13, 2021, pp. 2,286–320.

- ¹⁷ See Bengt Johansson, David Nicolas Hopmann and Adam Shehata, 'When the Rally-around-the-flag Effect Disappears, or: When the COVID-19 Pandemic Becomes "Normalized"', *Journal of Elections*,

Public Opinion and Parties, vol. 31, supplement 1, June 2021, pp. 321–34.

- ¹⁸ See Hedley Bull, *The Anarchical Society: A Study of Order in World Politics*, 4th edition (New York: Columbia University Press, 2012).