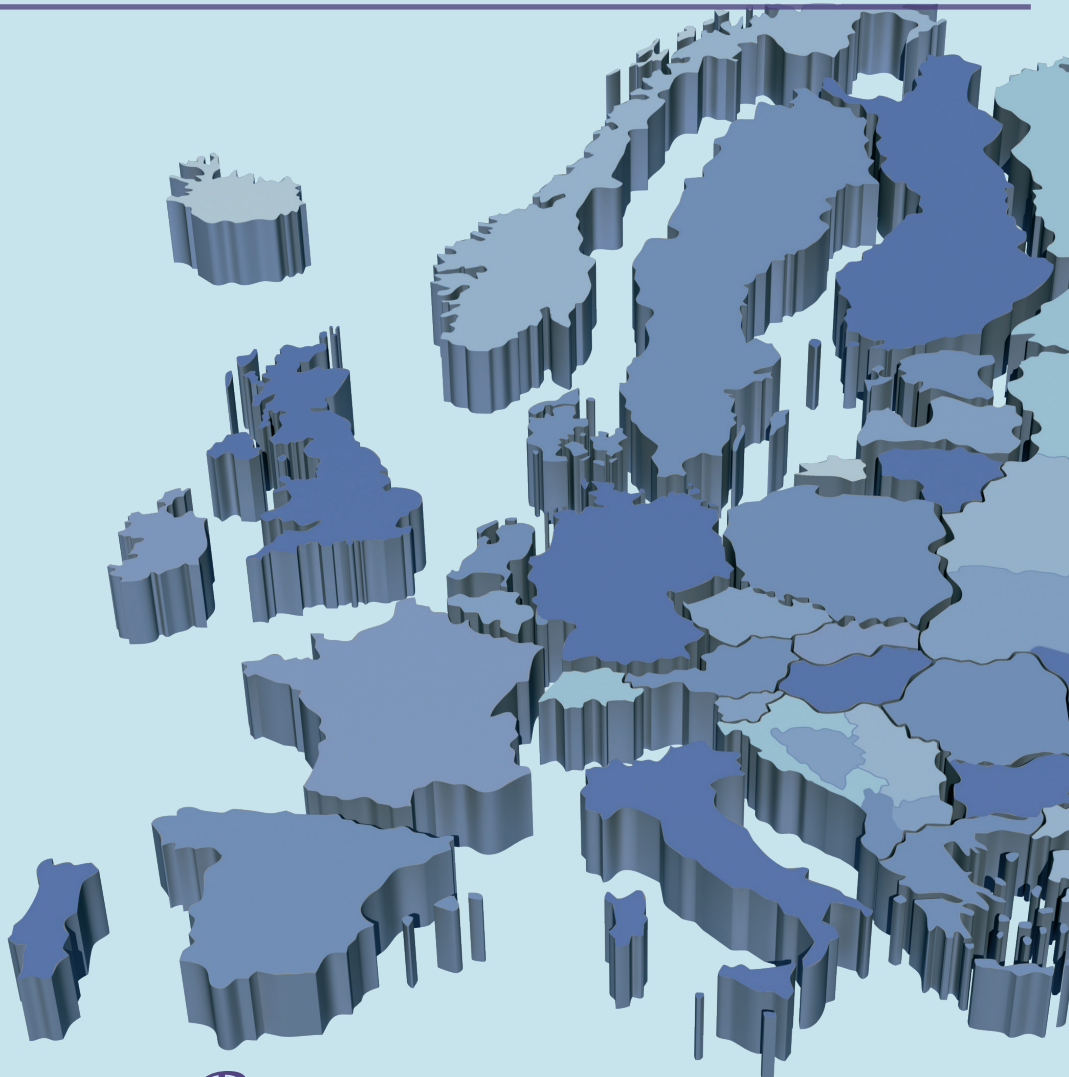


Post Crisis: Europe and the World in 2025

Four Foreign Policy Scenarios



THE *Rīga* CONFERENCE PAPERS 2013

© 2013 The German Marshall Fund of the United States. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the German Marshall Fund of the United States (GMF). Please direct inquiries to:

The German Marshall Fund of the United States

1744 R Street, NW

Washington, DC 20009

T 1 202 683 2650

F 1 202 265 1662

E info@gmfus.org

This publication can be downloaded for free at www.gmfus.org/publications. Limited print copies are also available. To request a copy, send an e-mail to info@gmfus.org.

About GMF

The German Marshall Fund of the United States (GMF) strengthens transatlantic cooperation on regional, national, and global challenges and opportunities in the spirit of the Marshall Plan. GMF does this by supporting individuals and institutions working in the transatlantic sphere, by convening leaders and members of the policy and business communities, by contributing research and analysis on transatlantic topics, and by providing exchange opportunities to foster renewed commitment to the transatlantic relationship. In addition, GMF supports a number of initiatives to strengthen democracies. Founded in 1972 as a non-partisan, non-profit organization through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has offices in Berlin, Paris, Brussels, Belgrade, Ankara, Bucharest, Warsaw, and Tunis. GMF also has smaller representations in Bratislava, Turin, and Stockholm.

About LATO

LATO is a non-governmental organization that was established on March 21, 2000 with the aim of bringing together like-minded individuals who will be promoting Latvia's membership in NATO. LATO informs the public about NATO and the various aspects of Latvia's membership in the Alliance, organizes informative events about Latvian and Euro-Atlantic security issues including the annual Riga Conference, promotes partnership with other countries with the objective of informing their citizens about Latvia as an active EU and NATO member state, lays foundations for Latvia's international role as an active member state of NATO.

About the EuroFuture Project

The German Marshall Fund of the United States understands the twin crises in Europe and the United States to be a defining moment that will shape the transatlantic partnership and its interactions with the wider world for the long term. GMF's EuroFuture Project therefore aims to understand and explore the economic, governance, and geostrategic dimensions of the EuroCrisis from a transatlantic perspective. The Project addresses the impact, implications, and ripple effects of the crisis — in Europe, for the United States, and the world.

GMF does this through a combination of initiatives on both sides of the Atlantic, including large and small convening, regional seminars, study tours, paper series, polling, briefings, and media interviews. The Project also integrates its work on the EuroCrisis into several of GMF's existing programs. The group of GMF experts involved in the project consists of several Transatlantic Fellows as well as program staff on both sides of the Atlantic.

Post Crisis: Europe and the World in 2025

Four Foreign Policy Scenarios

by Thomas Kleine-Brockhoff





Table of Contents

Project Design	2
Foreward	
H.E. Edgars Rinkēvičs, Foreign Minister of Latvia	3
Introduction	6
Complete Fragmentation: Divided We Fall	14
Partial Fragmentation: Europe's New Complexity	21
Partial Integration: More Europe, Step by Step	28
Full Integration: A Union Recast	36
Summary and Conclusions	43
Appendix I: Some Remarks on Methodology	
Karlheinz Steinmueller, Z_punkt – The Foresight Company	48
Appendix II: List of Riga Process Workshop Participants	52
Acknowledgements	55

Project Design

- No clear outcome of the Eurocrisis is in sight. Different pathways for Europe appear to be conceivable.
- Different pathways may have vastly different implications for European foreign policy.
- Based on four different assumptions about the future of European integration, four scenarios were developed in order to map the possible foreign policy consequences of the crisis.
- The four scenarios are:

(1) Complete Fragmentation: The European Union moves towards disintegration. On the world stage, a divided Europe declines as a global actor.

(2) Partial Fragmentation: Europe moves towards polycentricity. Several competing Europes emerge. The European Union becomes less reliable, predictable, and powerful as a foreign policy actor.

(3) Partial Integration: Incremental progress towards better policy coordination within the Eurozone re-establishes the European Union as a reliable partner for its neighbors. The transatlantic relationship fades, and NATO slowly withers away.

(4) Full Integration: The Economic and Monetary Union is completed in the European Union. It takes several years, but eventually Europe becomes a more ambitious foreign policy actor with a global outlook and an increased military capacity.

- A group of 25 experts from multiple European countries as well as the United States developed and discussed the scenarios during two workshops held in September 2012 and March 2013.

Foreward

by H.E. Edgars Rinkēvičs, Foreign Minister of Latvia

Riga is proud to host the 8th consecutive Riga Conference in September 2013. Over the years, the Conference has become one of the leading foreign and security policy forums in Northern Europe, attracting government officials, scholars, and intellectuals who engage in vigorous debate on international topics. In parallel to the Riga Conference, the Riga Process—an exercise to track and analyse foreign policy consequences of the crisis in Europe—was launched in close coordination between the Ministry of Foreign Affairs of Latvia, the Latvian Transatlantic Organization (LATO), and the German Marshall Fund of the United States (GMF). The Riga Process involves a group of foreign policy experts and economists from several European countries as well as the United States to examine the altered strategic landscape that will inevitably result from the Eurozone crisis. The group meets twice a year for two-day workshops, on the margins of the annual Riga Conference in the fall and on the margins of GMF's annual Brussels Forum in the spring. It is called the Riga Process in recognition of GMF's Latvian partnerships.

During our discussions at the first Riga Process Workshop in September 2012, we generated four different abstract scenarios on the possible future of the European Union as a foreign policy actor, based on four different assumptions about the consequences of the Eurozone crisis. Taking the year of 2025 as a point of departure, we attempted to model the possible developments of four different foreign policy dimensions. During the second Riga Process Workshop in Brussels in March 2013, participants found that Europe's role in the world, as well as its institutional foreign policy, might be dramatically different, depending on the level of European integration that the crisis will produce.

This publication consists of the four scenarios which incorporate the results from the first two Riga Process Workshops. The scenarios portray four possible states of affairs of European foreign policy in a mid-term future, the positioning of main actors, as well as persistent and new challenges. Together, the scenarios present valuable insight into the future role of the European Union as a foreign policy actor, and therefore will facilitate the debate, strategic planning, and policymaking processes at national, European, and global levels.

This September, the third Riga Process Workshop offers us the opportunity to reflect on the scenarios, deepen our analysis on the issues we discussed previously, and explore new ideas. Many developments have taken place since we first met in Riga last year and which, from my perspective, might have an impact on our discussion, namely:

The Eurozone continued to face challenges, but it remained united and committed to emerging from the crisis as a stronger entity. The debate over austerity versus growth unfolded, but the European governments equally understood the importance of setting fiscally responsible policies. Closer steps towards creating an effectively functioning banking union were made. The European Union managed to adopt a seven year financial framework which will repeatedly provide the opportunity to bridge the prosperity gap between different parts of the European Union. Great Britain continued to look for ways to find the best possible integration model within the European Union, which, according to many analysts, however, does not

imply leaving the EU.

Despite Europe's recent challenges, membership of the European Union and its institutions remained aspirations for many across the continent. On July 9, 2013, Latvia received an invitation to join the Eurozone, thus becoming the 18th member of the currency union. Latvia's success convincingly demonstrates that comprehensive, sometimes unpopular reforms are necessary to achieve growth. In addition, as of July 1, 2013, Croatia became the 28th member state of the European Union. Other Balkan states continued to declare their willingness to become a part of the European Union.

The European Union continued to build neighbourhood strategies with its partners in the East and the South. This year, Lithuania will become the first Baltic State to hold the EU Presidency, and it will also host the Eastern Partnership Summit in November 2013. At the Summit in Vilnius, crucial decisions regarding the deepening relationships with the EU's Eastern Partners will be taken. The Vilnius Summit has the potential to provide new perspectives for mutual trade and people-to-people contacts. However, the summit itself will not be the end of the process. It is important to create a clear road map and strategy for what comes after Vilnius. I hope that panellists of the Riga Conference will offer suggestions for these next steps.

Also in July of this year, the negotiations for the Transatlantic Trade and Investment Partnership commenced with a view of forming the largest global free trade zone. The European Union and its member states and the United States remained close partners on every essential foreign policy issue. We closely coordinated our positions and worked together on issues including Afghanistan, the Middle East Peace Process, the Arab Spring, the Eastern Partnership, and Russia.

The European Union continued to be the largest development aid provider, actively represented in every part of the globe. The EU worked towards finding a solution for the crisis in Mali, and continued to speak increasingly with one voice on the global arena.

The above-mentioned developments throughout 2013 helped to alleviate fears that the European project might collapse. On the contrary, the challenges which Europe faces have provided increased confidence and commitment by European societies and politicians to continue building an integrated Europe. Rather than creating a "European super state," we are at the stage of constructing a genuine political and economic European Union based on the sovereignty of individual member states.

The European Union, its member states, and its citizens have been working hard to put Europe on a stable and predictable footing. While Europe is confronting its internal challenges, the world has witnessed the emergence of new players in different parts of the globe. As a result, the combined GDP of Europe has relatively fallen at the expense of other countries and regions. The EU remains committed that these new developments ensure that the international political and economic system is based on clear and predictable rules and the respect of the principles of democracy, human rights, and free trade. To preserve these ideals, the European Union must act as a single and responsible player in the international arena by forging partnerships with other likeminded countries. By identifying and examining the foreign policy consequences of the European crisis, the Riga Process can offer valuable contributions to the debate over the EU's future as a global actor.

Latvia will hold its first EU Presidency in the first half of 2015, and the Riga Process serves as an important part of setting the right strategy for the Latvian Presidency. In addition, I am confident that the Riga Process might play an important role as a forum for discussing and identifying different elements of

future of EU foreign policy which brings an added value to governments, business people, analysts, and researchers.

I am looking for further discussions and deliberations.

Yours sincerely,

A handwritten signature in blue ink that reads "Edgars Rinkēvičs". The signature is written in a cursive style with a horizontal line at the end.

Edgars Rinkēvičs
Foreign Minister of Latvia

Introduction

Why European Foreign Policy?

Four years into the Eurocrisis, the debate about its consequences takes on more urgency as longer-term effects start to emerge. What began as a financial market crash and turned into a sovereign debt crisis, later emerged as a double or triple dip recession, a crisis of competitiveness, of confidence, of trust, of democracy, of Europeanism. The list goes on.

Given these ripple effects, it is not surprising that Europe's foreign policy has been identified as another victim of the crisis. Not mincing words, Russian Prime Minister Dimitry Medvedev voices the increasingly popular view that "Europe is in decline in the 21st century."¹ But even inside the European Union, analysts use the question whether "Europe is a spent force on the global stage"² as a starting point for a more nuanced discussion.

The answer to this provocative question is complex. It is not trivial to identify exactly what the transmission mechanism from the field of economics and governance to the realm of power and influence really is. Europe's recent foreign policy activism even seems to contradict the verdict. However, one observation seems indisputable: in the eyes of others, Europe's reputation has taken a hit. And what others think about Europe and its power is as important as what Europeans themselves think. Perception matters.

For the first time in half a century, the idea that Europeans will form an "ever closer union" is being challenged. Different European futures for different European nation states have begun to emerge; at the very same time, the crisis is forcing increased integration upon Europe – this is a potentially fateful gap that is opening up. This development has a significant impact on foreign policy: on the relations between European nation states, on their joint foreign and security policy within the European Union, and on their global relationships.

This cleavage might close or it might grow, depending on whether the crisis will eventually lead to fragmentation or further integration of the EU. The consequences for foreign policy will be significant. And they will be complex. There is a significant degree of uncertainty attached to them. Multi-perspective analysis will be needed to discover and understand these repercussions.

Anticipating and mapping possible changes triggered by the crisis are therefore essential for foreign policy planning. Scenarios can be a valuable tool to this end. Since the advent of the crisis, different groups have conducted scenario exercises about the future of Europe. They have focused on the governance structure, but – to our knowledge – not on foreign policy. "Post Crisis: Europe and the World in 2025" endeavors to address this dearth.

¹ Andrew Rettman. "Russian PM Lectures Barroso on Cyprus." March 21, 2013. EU Observer. <http://euobserver.com/economic/119525>.

² Giovanni Grevi and Daniel Keohane, eds. Challenges for European Foreign Policy in 2013: Renewing the EU's Role in the World. January 2013. <http://www.fride.org/publication/1090/challenges-for-european-foreign-policy-in-2013>.

Why Scenarios?

Scenarios are one of the basic tools of foresight. They are of significant practical value when a problem is complex, ill-structured, volatile, and afflicted with a considerable degree of uncertainty – as is the case with most mid to long-term political questions.

Scenarios allow for an integrated look at framing conditions as well as actors in a variety of thematic spaces. They require a comprehensive mapping of relevant factors and important actors—including the actors' interests and options. Scenarios are different from static analyses in that they force us to think about possible future developments: How could a situation evolve? Which potential course of action could the main protagonists pursue—and for what reasons? In addition, scenarios demand some degree of imagination about how things could develop and about what strategies the actors could use. Realism and creative thinking are both necessary for this intellectual exercise.

Seen from this perspective, scenario processes can be regarded as a collective learning process, or, more precisely, a collective journey of discovery. They combine the advantages of a thoroughly structured multi-stage approach with insights from expert debate. They:

1. Discourage groupthink

Scenario processes ideally bring together experts with diverse backgrounds: policy makers and researchers from different disciplines, and, if possible, adherents of different schools of thought. Groupthink is discouraged. Debates about drivers, game changers, and possible outcomes help to establish transparency about the world-views and hidden assumptions of participants.

2. Celebrate dissent

Whereas political processes are usually aimed at identifying a compromise or building a consensus, scenario processes celebrate well-argued dissent—leading to a more comprehensive picture of possible options and developments. With their open and informal setting, scenarios are intended to inspire imagination. They encourage “out of the box thinking” by doing something that might seem paradoxical: they provide “boxes” (i.e. templates or matrices) to be filled during the generation of the scenario. Blind spots—in other words: factors, circumstances, implications, and perspectives that are usually not considered—can therefore be identified and addressed. Scenarios help participants to fathom the contingency space of the future.

WHAT SCENARIOS ARE

Scenarios – Principles

What Scenarios Are

- Scenarios map existing expectations about the future.
- Scenarios focus on uncertainties and decision points.
- Scenarios help clarifying thinking about the future.
- Scenarios allow “thinking out of the box.”
- Scenarios allow to spot developments and to take actions early – if monitored regularly.

What Scenarios Are Not

Scenarios are not forecasts:
The future will not look exactly like one of the scenarios. At best: in approximation.

Scenarios Need a Focus



3. Focus on the big picture

Scenario processes provide for a stringent yet flexible structure to integrate and assess arguments and perspectives. They help distinguish game changing and less relevant factors as well as actors. They permit us to focus our attention on what is important, on what can be influenced, and on what must be accepted as a given. By deliberately disregarding certain detail, scenarios allow us to generate focused “big picture” views of possible future outcomes that are based on present developments.

4. Present more than one future

Scenarios present images of different futures, including both desirable ones and less desirable ones. They are aimed at promoting thinking about choices in a structured, comprehensive way: What options have to be anticipated? How can preferred outcomes be advanced and undesired ones avoided? How can contingencies be prepared for?

THE SCENARIO APPROACH

Character and Usage of Scenarios

THE SCENARIO APPROACH

Character and Usage of Scenarios

Scenarios

... neither represent the “absolute truth” nor predict the future,
... but paint a picture of the range of possible futures,
... as they offer to focus on uncertainties and interactions,
... and therefore allow to spot trends and take action early – if monitored on a regular basis.

Reference Scenarios

- High probability
- High consistency



- Serve as basis for the discussion on strategic decisions

Disruption Scenarios

- Higher disruption potential
- Lower probability



- Challenge the strategy (“robustness test”)
- Support the development of alternative strategies

What to Expect?

This publication is the result of a comprehensive scenario process that brought together a diverse group of experts from multiple European countries and the United States. Participants came from various backgrounds and included representatives of the academic, think tank, and business communities, as well as practitioners including former and current government officials and a sitting cabinet member from a European Union member state. The exercise was part of a larger initiative called “The Riga Process— Pathways towards a Euro-Atlantic Future.” Inspired by Latvian Foreign Minister Edgars Rinkevics and organized by the German Marshall Fund of the United States (GMF) as well as the Latvian Transatlantic Organisation (LATO), this initiative tries to track and analyze foreign policy consequences of the crisis in Europe. The broader line of GMF’s analytical work on the euro-Atlantic consequences of the crisis is supported by the Foreign Ministry of Latvia, the Compagnia di San Paolo (Italy), and the GE Foundation (United States).

The task that the group set for itself was to outline possible pathways for European foreign policy in the aftermath of, and influenced by, the crisis and its repercussions. The experts agreed not to confine their attention to the common foreign and security policy of the EU, since much of Europe’s foreign relations is conducted by nation states. Depending on how much integration is foreseen for Europe, the reach of the Union’s common foreign and security policy might increase. In the case of fragmentation, on the other hand, the European Union’s tools might be of diminished importance, while foreign policy by European nation states as well as between them might gain relevance. The group debated the target date of the scenarios

and, upon suggestion from one of its members, settled on 2025. This time horizon reflects the belief that the crisis will have faded as a major influencer of policy and that the actors will have changed by then. But this choice of time horizon also seems to ensure that the focus can be kept on the repercussions of the crisis itself.

During two workshops in Riga and Brussels, the experts generated four scenarios around four baseline assumptions that focus on the possible future economic posture and governance structures of the EU:

- *Complete fragmentation*
- *Partial fragmentation*
- *Partial integration*
- *Full integration*

No assessments were made about which of the four assumptions is more realistic, more plausible, or more convincing. Rather, the assumptions are abstract options that mark potential outcomes of the crisis: the polar extremes just as the intermediate ones.

The scenarios describe what kind of foreign policy landscape might emerge in and around Europe. For the purposes of structured debate, these implications were initially broken down into four dimensions:

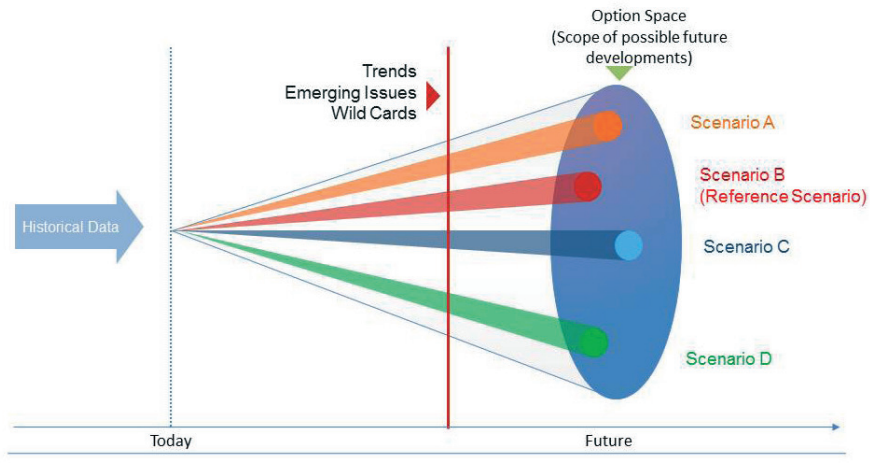
- *Relations between EU member states*
- *EU accession and neighborhood policy*
- *Transatlantic relations and security*
- *The EU in the global arena.*

The experts shared and discussed their insights about these policy areas and mapped possible foreign policy challenges arising from the different baseline assumptions. They elaborated on possible actions and reactions on the national, European, and global levels; they identified and clarified inconsistencies across the policy areas; and they brainstormed “future news items” in order to imagine what their scenario might mean in concrete terms.

As the result, the scenarios portray the state of affairs in a mid-term future, the positioning of main actors, as well as persistent and new challenges specific to the scenario. Some challenges and elements of the strategic environment remain the same in two or even three of the scenarios. On occasion, similar text elements have been used to underline the parallelism. The interpretative part of this paper focuses on the implications: What are the commonalities and the differences between the scenarios? What can we learn from them about the future of foreign policy making in Europe?

SCENARIOS: MAPPING POSSIBLE OPTIONS

The “Scenario Funnel”



The scenario group owes a debt of gratitude to two organisations: the Friedrich Ebert Foundation and the foresight experts of Z_punkt: The Foresight Company. The Friedrich Ebert Foundation had conducted a related scenario exercise throughout 2012 and 2013. This study, titled “Mapping Future Scenarios for the Eurozone,” did not focus on foreign policy, but on possible economic and governance consequences of the crisis. The time horizon was 2020, and the scenarios focused on the Eurozone rather than at the whole of the European Union (published at <http://library.fes.de/pdf-files/id/ipa/09723.pdf>). Since this scenario exercise used a similar methodology and asked related questions about the future of Europe, the GMF-LATO group was able to use the results of the Friedrich Ebert Foundation experts to develop its own baseline assumptions about the economic and governance future of Europe. These assumptions were used as a starting point for the conversations about foreign policy. Z_punkt, a leading strategy and foresight consultancy, agreed to collaborate with the GMF-LATO team and lend the company’s considerable experience with scenario processes to this project. Team leader Karlheinz Steinmueller, the company’s co-founder and scientific director, provided strategic and methodological guidance, facilitated the workshops, and co-authored the introductory chapter of this report.

How to Read Scenarios?

Scenarios are not forecasts. They do not describe “the future” as it will be, but they are consistent and plausible images of possible futures, or rather of alternative future options: “This is the way it could happen.” It is uncertain which option will become reality. It is entirely possible that the future will combine elements of different scenarios, surely not in any balanced way, and that new, unknown elements will contribute to the future—trends and developments that no one foresees, as well as innovations and impacts of disruptive events.

However, this acknowledgement of the exercise's limitations does not devalue scenarios. They are primarily aimed at telling stories about the future. Their narratives and specific messages inspire thinking about the future and encourage participants to conduct mental experiments. Scenarios are intended to contribute to public or internal debates about guiding strategies, policies, tools, and instruments. They exist to inform and direct action, preferably long-term, robust, "future-proof" action.

For this reason, scenarios can be described as "wood-cut" images that (seemingly) exaggerate present developments. They tend to carry present policies to extremes, to something that is barely considered to be inside the realm of the plausible. Scenarios draw conclusions: "What if. . .?" At first glance, some assumptions may even seem counterfactual, since they contradict tacit hidden convictions we all hold. One of the most important advantages of scenario studies is that they make such assumptions visible and open to debate and critique.

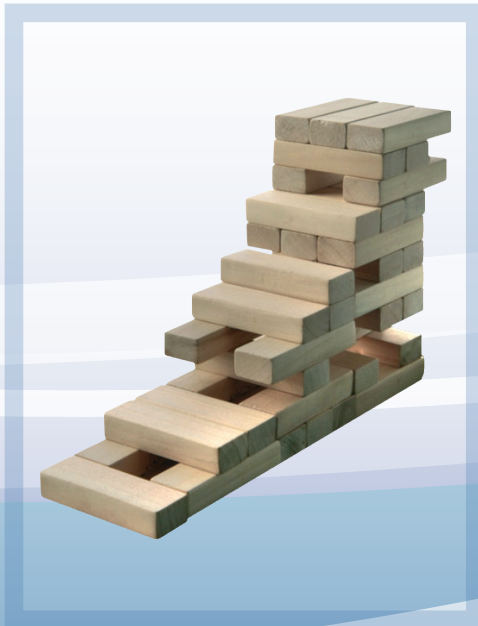
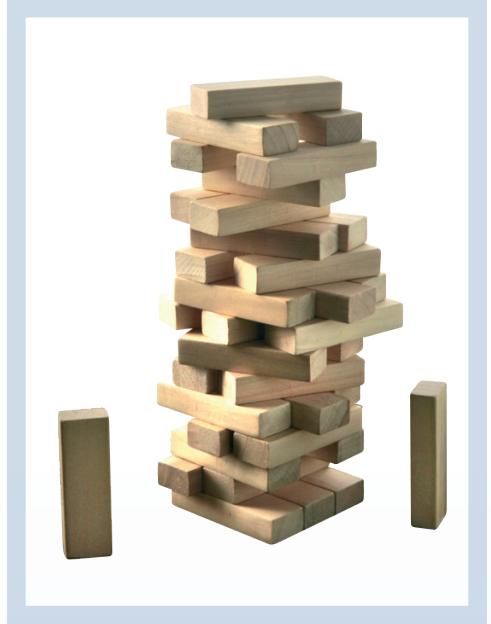
Scenarios include strategies, measures, and policies that—from today's point of view—may seem rather improbable or even outright undesirable. Even scenarios that describe a future which is not seen as desirable may lead to important strategic insights. As a rule, every scenario, even one that is dubbed "negative," combines desirable and undesirable aspects. There is always a bargain.

Scenarios may be used in different ways: to test the robustness of strategies, to design policies, to initiate debate, or, more generally, to stimulate thinking about the future. For a first encounter with scenarios, the reader may ask:

- *What is intriguing about the scenario?*
- *Which present trends and developments are addressed in the scenario and how does the scenario deviate from them?*
- *Are the lines of action taken by the main actors consistent with their present strategies, or are new strategies implemented?*
- *What makes the scenario plausible? Which elements of the scenario are implausible or rather far-fetched?*
- *Which aspects of the scenario are desirable? Which ones are not?*
- *What measures or actions could support the desirable aspects, and which ones could help avoid the undesirable aspects?*

Scenarios are tools that can lead to better decisions. Their main aim is to draw conclusions: "What do we wish to achieve and how can we achieve it?" Scenarios do not provide guidance on how we should act. But they help us to pose the right questions.

Four Futures for Europe's Foreign Policy Post-Crisis



Complete Fragmentation: Divided We Fall

Key Assumptions:

Pathway: The European Union moved towards disintegration.

Sovereign Defaults: Several disorderly sovereign defaults and exits from the Eurozone triggered a downward spiral.

Membership Status: None of the candidate countries joined the Eurozone; several left and only a rump Eurozone remained.

Centralization Level: European fiscal surveillance and coordination weakened further; EU institutions were continuously weakened. Macroeconomic surveillance was blocked by internal disagreement.

Debt: Borrowing costs increased in general and eased only over time and only in a few countries.

Deficits: Several member states failed to meet their medium-term objectives for fiscal consolidation.

Growth: Growth rates declined in all member states. Unemployment numbers increased, and they eased only over time and only in a few countries.

Europeanism: Economic deterioration led to increased populism, as well as anti-European and anti-Eurozone sentiments.



1. The future of the EU was not inseparable from the future of Europe

Fragmentation of the European Union was certainly a sea change. As a response to decades of war, European nations had spent half a century creating what they called an “ever closer union,” only to find their efforts frustrated in the wake of the European crisis. Increasing fragmentation was a dynamic that two generations of leaders had never experienced and for which they were not prepared.

However, the downfall of Brussels did not result in Armageddon, as several federalists had presaged. No Satan was placed in the bottomless pit of the abyss for a millennium; no one was thrown into a lake of fire burning with brimstone. The future of the European Union, it turned out, was not inseparable

from the future of European nations.

While the Eurozone collapsed and shrank to a tiny core of relatively homogeneous countries, this development did not trigger the return of conflict. No one picked up arms, nor did the ultimate battle for Europe occur. NATO did not fall apart because of the Eurocrisis. Europe itself did not turn into a global troublemaker. While the European Union and its currency zone largely disaggregated, some of the anticipated ripple effects did not take place.

2. Centrifugal forces took over

To be sure, the consequences of fragmentation were grave. Disintegration started with Great Britain and Greece leaving the European Union and the Eurozone, respectively. The effects of these exits were initially milder than anticipated, largely because all European countries worked hard to compensate for the dramatic change in regional architecture by preserving as much cooperation as possible. But when the “Brexit” and “Grexit” triggered additional exits, it became increasingly difficult for the weakened institutions of the now smaller union and the rump currency zone to balance the centrifugal forces and maintain cooperative structures. The dynamics of disintegration finally took over and the introduction of protective measures like borders, tariffs, and currency controls undermined the single market. This state of affairs created significant political grievances.

3. Disintegration became the starting point for lower level re-integration

As the European architecture continued to crumble, European nations began to doubt that continued disintegration would be desirable and sustainable. As they had done from the moment of the announcement of a British exit, European nations looked for compensatory mechanisms. Somewhat paradoxically, disintegration became the starting point for lower level re-integration.

During the Golden Age of the European Union, inner-European relations had largely been handled within the framework of the EU or as part of the common European aspiration. In a fragmented Europe, these relations became part of each nation’s sovereign foreign policy. This was one of the most dramatic changes that the crisis created. Not only did common decision-making largely cease to exist, so did transparency of decision-making and even transparency of intentions. Nations found that out in the cold, it was, well, cold. It was at this point that several nations started to question whether they could afford to live in a de-institutionalized Europe. They started to search for an alternative architecture to deal with shared interests and shared problems.

Once countries had left the Eurozone and/or the European Union and these institutions’ increasingly unpleasant enforcement mechanisms, new relationships between nations emerged. Yes, trust was an issue. Disintegration had been, among other factors, a result of a breakdown of trust. And trust was initially hard to regain on the European stage in the absence of many of the cooperative structures that the European Union had provided during the previous decades. But eventually the interest in cooperative relations prevailed, at least in some instances.

4. New groupings emerged

New informal and temporary groupings emerged to protect regional or group interests. Germany became the factional leader of the rump Eurozone which consisted of a few likeminded and economically similar countries. A continental industrial federation emerged. So did regional clusters based on historical ties. The Nordic countries were the prime example. The Benelux countries rediscovered their traditional ties. The Visegrad countries revived their cooperation. There was some overlap between the groupings around the German-led rump Eurozone. The overarching characteristic of these groupings was their informality.

In Great Britain, those who had predicted isolation upon exit were proven wrong. With exits from the EU and the Eurozone becoming a mass movement, isolation was no longer a concern for Great Britain. However, growth and decline remained pressing issues. After all, the transitional costs of the pan-European divorce were high. So were the spillover effects on Great Britain. It was small comfort to the Brits that, in relative terms, they fared no worse than the continental Europeans. At least they could utilize their traditional global strengths. London developed as a global services center even as the City lost its position as Europe's banking center. Militarily, Great Britain built on traditional strengths as well. It focused on its military relationship with the United States even as it became a less relevant partner to the U.S. And it continued its bilateral defense cooperation with France. However, Britain's military reach was much diminished overall. There was no denying that further decline was the price to pay for disintegration.

There was a countervailing tendency as well. One of the benefits of European integration had been regional reconciliation in the name of a higher goal. Now, the European Union could no longer absorb the historical conflicts. In some regions, these frictions reappeared. The Balkan countries were notable in this regard.

Also, soft counterbalancing appeared in Europe. Before the crisis, the European Union had mediated competition for power to some degree. In a world of informal groupings and de-institutionalized competition between nations, it became a goal to frustrate the ambitions of those who aspired to a special role. Several neighbors therefore tried to check Germany's ambition to lead the rump Eurozone.

Well aware of these dangers, European leaders turned to the one institution that seemed to have survived the crisis: NATO. It became an unlikely beneficiary of the crisis, and expanded its political role because it offered structures for cooperation while not interfering with national sovereignty. With the fragmentation of the European Union, NATO became the only institution that included all major western and central European nations.

5. The transatlantic trade deal failed

Although it had helped to draw and redraw the geographic as well as the institutional map of Europe for a century, the United States increasingly disengaged from Europe at the outset of the crisis. Consumed with domestic and international terrorism, the Middle East, and the rise of China, the United States had determined that Europe could solve the crisis alone and did not need America as its offshore balancer. Initially, the U.S. saw the crisis less as a geopolitical challenge and a threat to the foundation of the western institutional order, but rather as a threat to domestic recovery from the Great Recession. Advice and

policy towards Europe reflected this priority for several years. By the time the U.S. changed course, it was too late to halt the centrifugal forces. Negotiating a Transatlantic Trade and Investment Partnership (TTIP) became a last-ditch effort to incentivize the Europeans—and especially the Brits—to consider the advantages of a larger integrated (trade) order. But the effort failed. By the time the negotiations were undertaken midway through the second decade of the twenty-first century, European nations were so focused on their national interests that they were unable to strike the necessary compromises in the name of a larger goal. The failed TTIP negotiations became the signal fire of a crumbling post-World War II order.

6. NATO was reborn

As a consequence, NATO became the institution of last resort. All partners (including the United States) recognized it as such and put renewed effort into maintaining NATO's structures. Significantly, it was a political framework for cooperation as much as a military alliance. The Europeans saw NATO as the only way to keep the U.S. engaged in Europe and the best way to maintain cooperation among themselves. But none of the problems that stymied progress in the alliance prior to the crisis were solved during the crisis. In fact, the crisis exacerbated some of the key challenges, namely the lack of vision (or an enemy) and funds. The United States was supportive but did not want to play a role in the political and economic issues of the European nations. Consequently, a two-tier NATO emerged with the U.S. opting out of issues that were for Europe alone. It was a less than ideal construct, but the only one available at a period that was dominated by dynamics of disintegration.

Yet NATO was at least somewhat successful in deterring Russia, which had become more assertive in the Eastern Neighborhood as Europe's magnetism faded. The idea of a global NATO was a faint memory from the heyday of the alliance in the late 20th century. Europe was unable to engage in any of the global hot spots that the United States cared about. Given the scale of its internal problems, Europe looked inward. The economic problems created by a Eurocrisis-turned-disintegration crisis made it inevitable for most countries to continue to cut defense budgets. With military technology evolving at a seemingly exponential rate and emerging economies increasing their defense budgets, Europe fell ever further behind, creating a new sense of vulnerability. For the next few years, Europe was unable to overcome its plight. But the pan-European divorce had at least eroded the post-modern consensus that Europe was safe. In effect, Europe's disintegration accelerated the trend towards demilitarization but simultaneously altered the false sense of security of politicians and populations, thereby creating the conditions for a turnaround.

The splintering of the EU resulted in a multipolar Europe where large states and external powers competed with each other for influence over smaller states. States looked for alternative arrangements of a sub-regional or functional nature, and Europe's institutional order became a complex spaghetti-bowl of cooperative arrangements in which the rump EU was only one option amongst many.

7. A splintering EU created a splintering neighborhood

Enlargement as such became less and less relevant as the main prizes that it could bring (visa-free travel, free movement of workers, trade, common currency, financial transfers, agricultural policy)

were less attractive or had disappeared altogether. Often, former candidate countries no longer shared a border with the EU. Membership in the rump EU was no longer an aspiration. Consequently, these states did not see a need for meaningful political reform. As a result, they continued to underperform economically. Internally, they tended to destabilize. They suffered from a democracy deficit as well as ethnic and other conflicts.

Because the European neighborhood was perceived as the locus of instability, an inward-looking Europe tried to isolate itself from these external threats. Rather than trying to transform its environment, the rump EU as well as its former members focused on protecting themselves. Some feared that several former EU members would themselves be transformed by their outlying neighbors and become more like them.

Russia and other external players started to get involved in the internal rivalries within the former EU space. While the fragmenting EU became increasingly irrelevant to the partner countries, individual European nations or groups of nations took on more focused, country-by-country roles. Germany's strong bilateral relations with Russia were a relief to some in Europe, but a cause of concern for others.

8. Worldwide, EU-style integration was seen as a failed experiment

Even during its heyday, the European Union had struggled to convince its regional and global partners that it would one day become a single actor with a unified common foreign and security policy. Europe's sovereignty-sharing arrangements had always been a mystery to many of its partners further afield even as the European Union was seen as a model for regional integration. With renationalization, other global regions ceased to emulate this model. EU-style integration was now viewed as a failed experiment. The ripple effects in Asia, Africa, and South America were substantial. The negative costs of integration were now seen as outweighing the benefits. Only in this unflattering sense did Europe continue to be a global agenda setter.

9. Europe declined on the global stage

Europe's loss of influence in the international financial institutions accelerated with diminishing economic weight and lost cohesion. One round of quota renegotiation was followed by another. European nation states competed to be heard.

In one sense, Europe's disintegration simplified international relations. The world no longer needed to ask whom to call in Europe. Once again, government officials turned to their peers in the capitals of European nations, rather than Brussels-based Eurocrats.

10. Europe's "big three" retained limited global influence

Some European countries emerged quicker than others from the inward-looking phase following the disintegration crisis. This was especially true for France and Great Britain. In the new Europe, these countries played central roles because they had the capability and ambition to have an international

presence. With Europe diminished and disintegrating, both countries looked for alternative alignments further afield, using their old global networks, the vestiges of their colonial periods, to do so. Germany was the third power on the continent to emerge as a global player, though not in the “full spectrum.” Its restraint in military affairs remained unchanged, but—devoid of its role as a guarantor of Europe’s integrated system of governance—Germany seized the opportunity and moved towards becoming a geo-economic power committed to little else than trade and exports. Its small band of allies in the industrial federation-style rump EU benefited greatly from Germany’s commercial ambitions. Because of its lack of investment in national defense, Germany remained a NATO member. As its major global trade partners were no longer tantamount to its major strategic partners, Germany struggled to balance its global interests with its European interests.

11. Cooperation was still needed in Europe

In the final analysis, European disintegration did not exactly rock the world as many had feared. The gospel that European leaders had preached for decades (that proximity and the interconnectedness of the modern world would put a premium on cooperation) was true even under the conditions of institutional disengagement. Not even the sight of the crumbling edifice called the European Union could convince them that they did not need some system of cooperation in Europe. On the other hand, complete fragmentation was not just the emergence of another *modus vivendi* in Europe. Fragmentation accelerated the existing trend of the changing of the guard to the emerging powers. It represented a significant downgrade of Europe in the new world order.

Partial Fragmentation: Europe's New Complexity



Partial Fragmentation: Europe's New Complexity

Key Assumptions:

Pathway: Europe moved towards polycentricity – a multi-direction Europe emerged.

Sovereign Defaults: Disorderly sovereign default by Greece and at least one other peripheral country rattled the Eurozone.

Membership Status: Most candidate countries did not join the Eurozone. Greece and at least one other peripheral country left the Eurozone. Great Britain left the European Union. This marked the end of the concept of ever closer union for all. Yet, the remaining Eurozone did not fragment further, but stabilized.

Centralization Level: The Eurozone's fiscal surveillance and coordination was strengthened. Coordination within the larger EU weakened – and did not include Great Britain. Banking union was completed, but central oversight was limited to only the largest banks, and the resolution scheme was a network of national institutions rather than a centralized authority.

Debt: Borrowing costs in the core Eurozone converged at the lower end of the scale. In the rest of the EU, borrowing costs diverged with peripheral countries paying high premiums. There was no common debt issuance.

Deficits: The core Eurozone countries were on course to consolidate their debt situation in the medium term, while the "exit-countries" faced high debt loads denominated in a new foreign currency – the euro.

Growth: Initially, "exit-countries" plunged into an adjustment recession which reverberated in the core Eurozone and in Great Britain. In the medium term, devaluation improved the competitiveness of the "exit-countries," which sparked a steep recovery.

Europeanism: Anti-European sentiments and social insecurity remained. Anti-integration movements continued to be popular.



1. Several competing Europes emerged

Once the British people had voted to leave the European Union and Greece as well as Cyprus had left the Eurozone (vowing to return after recovery and reform), the EU stood at the crossroads. The remaining Eurozone countries found it too costly to succumb to a dynamic of disintegration. Instead, they moved to double down on integration. A slightly more homogeneous makeup of the Eurozone aided them. Very few countries had decided to join the Eurozone. The remaining candidate countries still considered joining the Eurozone as an option. British opt-outs or veto threats no longer bedeviled the Union and, with it, the Eurozone. A sense of increased clarity developed, even though several Europes emerged: a core Eurozone; candidate countries to the Eurozone; countries that had left the Eurozone; the larger European Union; and, finally, a detached Great Britain.

A complex web of relationships developed in the polycentric world of this new Europe. As the EU weakened, the Euro core strengthened, and exit countries went their own merry ways, rivalries and groupings emerged. Foreign policy increasingly became an inner-European affair. Due to some converging interests, a more homogeneous Eurozone found it somewhat easier to build trust among its members. The countries that had exited the Eurozone found themselves on the margins of Europe. Most candidate countries chose to remain in a waiting zone. Great Britain went off on its own.

2. In polycentric Europe, complexity was king

There were other ways of accounting for the lasting and sometimes overlapping new groupings of countries within Europe. The most obvious distinction was between the Euro-ins and the Euro-outs. As Eurozone countries integrated further, the threshold for entry increased, and the number of countries striving for entry decreased. Another dividing line distinguished Europe's north from its south. The Eurozone straddled this divide. It meant that the north-south friction was apparent even inside the governance apparatus of the Eurozone, thereby limiting further convergence of interests. Progress was made, including efforts to overcome the north-south divide in the remaining Eurozone, but unity this was not. None of the exits from the Eurozone had produced the type of cohesion usually observed in federal structures.

In this polycentric Europe, nations were just as dependent on each other as before. The necessity for trust-based relationships was in no way diminished. But the rules of engagement were even more complicated than in the past. And sometimes, there were no rules.

3. Britain went global alone

Britain went global alone. No argument based on economics or security could convince the nationalists to stay inside the Union. They tried to cultivate Britain's historic relationships to become a global services hub even as the City lost its position as Europe's banking center. Militarily, Great Britain built on traditional strengths as well. It focused on its military relationship with the United States even as it became a less relevant partner to the U.S. And it continued its bilateral defense cooperation with France. However, Britain's military reach was much diminished overall. Being a medium sized nation state alongside a

functioning European Union with a functioning Eurozone, reduced Britain's global influence since the global powers did not see London, but Brussels (and sometimes Berlin or Paris) as the key interlocutors in Europe.

When it suited Britain, it entered into issue-based coalitions with an ever-changing cast of fellow European nations. The relationship with the Eurozone suffered from what the Brits saw as a mediocre trade deal to which the European Union was willing to agree after the British departure. (The Europeans felt they had simply stopped granting the special treatment into which Britain had blackmailed the Union during its decades of membership.) London's financial center suffered from the fact that, given Britain's exit from the Union, the Eurozone was no longer willing to accept London as its offshore banking center and introduced regulation designed to frustrate the City.

4. Germany became the factional leader of the Eurozone

Germany became the factional leader of this marginally more homogenous Eurozone as well as the northern group of member states of the European Union. Germany's smaller (northern and Baltic) neighbors tended to agree with German policy and strategy for Europe. Through German leadership they hoped to increase their own leverage and could also hide behind larger Germany when conflicts with other partners arose. Still, Germany's leadership remained uneasy, complicated, and contested. The countries that had left the Eurozone clearly resisted German leadership. In fact, they blamed Germany's inept crisis response for their own exit from the currency zone. An outright anti-German sentiment consequently developed in these countries. Britain, now on the outside, competed with Germany for global markets and global influence while cooperating with Germany on topics like trade norms, development, and, insofar as Germany was willing, security. The southern European countries inside the Eurozone were ambivalent about German leadership. They credited German leadership for keeping a core Eurozone together, but criticized Germany for its alleged lack of European solidarity. They resisted being led by "Berlin" rather than by "Brussels." They tended to check Germany's power and sometimes worked to frustrate it.

5. France stabilized polycentric Europe

The pivotal power that allowed polycentric Europe to remain at a steady state rather than descend into full fragmentation was France. The Eurocrisis had unearthed an uneasy truth: that France and Germany were no longer equals. France had three choices, the first of which was to become a follower of Germany. This option was seen as untenable, as President Sarkozy's second fiddle role in the "Merkozy" couple had shown early in the Eurocrisis. The second possibility was to build a southern alliance to counter-balance Germany. This option would have ultimately led to a rebellion in Germany and an eventual breakup of the Eurozone.

The third choice available to the French was to accept the challenge that the "new and enhanced Germany" posed and to find a fresh French-German equilibrium. This analysis held that a Eurozone break up was too costly for France; that France needed to improve its international competitiveness, regardless of its rivalry with other EU countries; that German dominance was unlikely to last given the country's demography and limited long term growth potential; and that France, in a polycentric Europe, would be the dominant

hard power, thereby balancing Germany's economic preponderance. This strategy was only accepted in France in view of no acceptable alternative. The relationship with Germany was rocky at times, especially when conservatives ruled in Paris and Social Democrats governed in Berlin. Things went a little smoother when there was ideological alignment east and west of the Rhine.

6. Divided Europe looked inwards

Polycentric Europe had limited capacity to turn outward. A divided multi-direction Europe was neither willing nor able to develop a strategic culture or joint approach to foreign policy. The core Union tried hard to develop joint policies, but polycentricity restrained these efforts. The Union's decreased resources were focused on its "new" borders. A partially disintegrated Europe could offer fewer carrots in order to get what it wanted and was less attractive overall.

7. The EU became more erratic and less reliable

Yet, the European Union was still rich, big and peaceful enough not to have lost its magnetism altogether. It continued to be a moderately attractive partner for many of its neighbors. However, its neighbors found their dealings with Europe increasingly complicated. First of all, there were several Europes. To the neighbors, large member states turned into nodes in a polycentric and sub-regionalized wider European space. Secondly, the EU became less reliable and more erratic in its neighborhood policy, causing frustration and even instability amongst neighbors. The fragmentation between core and periphery, geographical groupings, and the exclusion of EU member states from parts of the core's inner sphere made the prize of membership or close association with the EU less desirable to pay. Enlargement became an unpredictable process, depending on mutual bargaining between member states rather than performance and transformation. This alienated all but the most committed candidates in the Western Balkans. On the upside, the Europe did not generate a very strong hard-border effect.

8. Russia meddled in Europe

Russia played Europe's internal divisions to its advantage, establishing privileged partnerships with some member states at the expense of others. This made it impossible for the EU alone to effectively counterbalance Russia's influence in the Eastern partner countries. The EU needed help.

The groupings, divisions, complicated internal structure, Russian meddling – all of these factors created a renewed European interest in NATO, not just among its traditionally more hawkish or easternmost members. With the advent of a polycentric Europe, NATO was the only common western institution.

9. The U.S. tried to stabilize Europe

The United States had increasingly disengaged from Europe at the outset of the crisis. Distracted by the Middle East and China, the United States had determined that Europe did not need the United States

to overcome the crisis; it no longer needed America as its offshore balancer. Initially, the U.S. saw the crisis less as a geopolitical challenge and a threat to the foundation of the Western institutional order, but rather as a threat to domestic recovery from the Great Recession. Advice and policy towards Europe reflected this priority for years.

The debate about British membership in the European Union and Britain's eventual vote about exit made the United States increasingly concerned about European disintegration. The question in Washington was: would the British exit from the EU, as well as the Greek and Cypriot exits from the Eurozone, create a ripple effect that would eventually lead to complete disintegration? Or would these exits lead to a stable state of the remaining European core? And what could the United States do to bring about the latter outcome, thereby stabilizing its own alliance system?

To this end, stabilizing a fading NATO and negotiating a Transatlantic Trade and Investment Partnership (TTIP) became the tools of choice for Washington. Together, they seemed to offer an opportunity to reengage with Europe, rebalance the transatlantic relationship, and incentivize the Europeans—including the Brits—to consider the advantages of a larger integrated order.

10. A transatlantic trade deal was negotiated

In the end, a deal was struck on trade and investment. The remaining Euro core's trade authority was broad enough to strike such a deal and to negotiate the inner-European compromises that were necessary in order to get there. But the deal itself was far less universal than the Americans had aimed for. The British exit weakened the northern European alliance of free traders within the European Union. As expected, agricultural and cultural exceptions were demanded by the French. Eventually, Paris got what it had demanded because Brussels, Berlin, and Washington needed to strike this deal at all costs. The downside risk of failure (further disintegration!) was just too high.

11. Defense budgets were slashed, but NATO survived

NATO was the second pillar of Washington's effort to stabilize Europe. This required some rethinking in the United States. For years, the currency of NATO had fallen in Washington. During this period, it was all about capabilities and what the Europeans could bring to the table. "Ever less" was the answer, and as a result NATO became less relevant in the mind of America's strategic community. The Eurocrisis and the subsequent partial fragmentation of the continent required Washington to reevaluate NATO. Now, it was understood as much as a political framework for cooperation as a military alliance.

However, none of the problems that stymied progress in the alliance prior to the crisis were solved during or after the crisis. In fact, the crisis exacerbated some of the key challenges, namely the lack of a vision (or an enemy) and funds. NATO did fulfill the role of helping the EU to deter Russia from meddling in the neighborhood countries. The idea of a global NATO was a faint memory from the heyday of the alliance in the last century. Rarely was Europe able to engage in the global hot spots that the United States cared about. Defense budgets in nearly all member states of the EU had been slashed during the years of the crisis. The emergence of a multi-direction Europe added another level of complication for European defense.

12. The new Euro-outs were unable to invest in their militaries

Britain, now outside the EU, had changed its defense posture, giving priority to interoperability with the U.S. armed forces rather than EU defense collaboration. But it had not been able to reverse the downward trajectory of its military spending. The new Euro-outs, after having depreciated their currencies, were unable to invest in their militaries. Even recovery in the Euro core did not lead to substantial increases in the defense budgets of these countries.

13. The Euro core became the world's go-to entity in Europe

Europe's partial fragmentation confused the world. Europe's global partners struggled to come to terms with competing power centers in Europe as well as increasingly irrelevant peripheral Euro-outs. The Euro core established itself as the go-to entity for Europe's global partners and thus retained some agenda-setting power.

From the perspective of emerging nations, polycentric Europe was too complicated to deal with. Taking their own trade flows as a yardstick, they simplified things and treated the Eurozone as a "Germany plus" region – and all of Europe as a "Eurozone plus Great Britain" continent. Europe's global partners saw a polycentric Europe as an instable construction even as the remaining Eurozone stabilized. They perceived the trajectory of the continent's power, influence, and economic weight as pointing downward.

Europe itself, after having settled into its new multi-direction construction, had begun to look outwards again, though with a somewhat limited bandwidth. Great Britain was globally oriented, but too small to make a difference. The new Euro-outs remained self-consumed and had no global ambitions. The Euro core's ability to influence global norms faded, but was still considerable. The EU's weak foreign policy institutions continued to exist. Their reach was further limited in polycentric Europe, hampered by Great Britain's exit from the EU and the exit of two Eurozone members.

Fiscal integration of the Euro core allowed for consolidated representation in IFOs. But because the core no longer consisted of all of the major players in Europe, it was not able to increase its global clout. The Euro-outs were marginalized in the IFOs.

14. The model of EU-style integration was re-evaluated

Outside of Europe, the model of EU-style integration was reevaluated. It was not seen as a fully failed experiment, but the crisis highlighted the preconditions for and costs of integration. Partial fragmentation was seen as a powerful reminder that homogeneity within a currency union was a prerequisite, not an inevitable outcome, of monetary unification. The exit of peripheral Eurozone members was interpreted as underscoring these requirements.

Partial Integration: More Europe, Step by Step



Partial Integration: More Europe, Step by Step

Key Assumptions:

Pathway: With its piecemeal management of the crisis, the EU made incremental progress towards better policy coordination and better surveillance of rules within the Eurozone.

Sovereign Defaults: There was no disorderly default or exit from the Eurozone, but the risk remained.

Membership Status: Only a few of the candidate countries joined the Eurozone.

Centralization Level: European fiscal surveillance and coordination were incrementally strengthened, but were only marginally centralized. The European Central Bank continued to intervene as a crisis manager. Banking union was completed, but central oversight was limited to the very largest banks, and the resolution scheme consisted of a network of national institutions rather than a centralized authority.

Debt: While borrowing costs for some member countries stayed moderate, spreads remained. There was no issuance of common bonds.

Deficits: The medium term trajectory for fiscal consolidation diverged between countries.

Growth: Growth rates diverged but generally stayed low to moderate, while the average unemployment rate remained high.

Europeanism: Anti-European and anti-Eurozone sentiments based on lack of economic opportunity and social insecurity remained. Anti-integration movements continued to be popular.



1. Nation states reigned in the European Union

Slowly but surely, Europe overcame the immediate crisis. Confronted with the clear and present danger of seeing Europe tumble towards fragmentation, thereby ruining the multigenerational project of European unification, the continent's leaders moved towards incremental integration. But they only moved "on the brink," only when the markets did not leave them a choice, and only for as far as they thought they had to. The battle cry of "more Europe!" was redubbed early in the crisis as "a little more Europe!," and finally into "as little more Europe as possible!" Everything else was just too hard. In fact, it got ever harder as the crisis wore on and popular resistance to "more Europe" grew. It was the European Central Bank that, for a long time, remained to be a key crisis manager.

The continuing attachment of seemingly postmodern Europeans to national sovereignty was the ultimate barrier to further integration. Some countries in the south were concerned about their role in the process and did not want to be told by "Brussels," or worse, by "Berlin," how to reform their labor markets or their tax systems. "Berlin," on the other hand, resisted anything that officially smelled like continent-wide redistribution, out of fears that it would be the paymaster.

In the end, a compromise was struck. Policy coordination beat centralization, and intergovernmentalism was preferred over supranationalism. The "network approach" to banking union was a perfect illustration. This was the road on which Europeans were accustomed to travelling, and they could do so step by step. Progress was slow, but it was progress nonetheless. And, over time, the combination of incremental reform and ECB intervention was enough to regain the confidence of the financial markets. Structural reforms in many countries started to show effects and imbalances were reduced in most cases, though there were also sharp demand declines in the deficit countries. The debtor/creditor fault line receded as increased fiscal responsibility plus moderate growth helped the southern European countries to control their own destiny. A mutually acceptable way to organize explicit transfers was achieved, though the extent of the transfers remained strictly limited.

The fact that integration was gradual and minimal helped to retain an institutional balance between Eurozone members and those who chose to stay outside the currency zone. A revolution of Euro-outs against exclusion from the decision-making process never happened because it was not necessary in this age of integrationist minimalism.

The mere fact that the wave of crises had been beaten back instilled some confidence in leaders and populations. Inner-European cooperation had shown itself to be worthwhile and had proven to work. Trust in each other and the European system gradually returned, though the level of criticism, open opposition, and outright obstruction remained relatively high. The populist backlash against the elitist European project reverberated for years. It limited the political space in which politicians were able to maneuver.

2. Limited integration produced new frictions

It was impossible to overlook that even limited integration had the potential for producing new frictions among EU member states. Such "soft costs" of continued system maintenance turned out to be sig-

nificant. In order to reduce these costs, all kinds of flexible mechanisms and coalitions of the willing needed to be accepted as a part of the European toolkit, including the instruments for foreign policy. None of these developments were new, but the frequency of these instruments' usage increased.

3. Germany was first among equals

In this new European Union in which nation states remained the driving force, Germany was first among equals. Yes, size and competitiveness of its economy played a role. Another factor was the leadership vacuum at the outset of the crisis which Germany had reluctantly filled – and was equally reluctant to give up once it became accustomed to its new status. The lack of an alternative contributed to the elevated role of Germany. Continued European commitment by Germany somehow made German leadership inevitable, and those who opposed it had a harder time arguing their case. Yet, the decisive factor was Europe's preferred pathway of (limited) integration. In this partially integrated Europe with its few and weak central institutions, states mattered, and big states mattered more.

4. Germany faced soft counterbalancing

However, the German role was anything but uncontested. It was the subject of an endless stream of commentary and popular as well as populist scorn outside of Germany. Governments had to prove to their own voters that, from time to time, they were willing and able to stand up to what were perceived to be unreasonable demands by Berlin. Germany's smaller (northern and Baltic) neighbors tended to agree with German policy and strategy for Europe. Through German leadership they hoped to increase their own leverage and could also hide behind larger Germany when conflicts with other partners arose. Overall, smaller and medium sized countries felt an increased need to challenge or softly counterbalance the informal EU leaders, especially Germany (and, to a lesser degree, France). They applied several methods, including close cooperation in order to be involved in decision-making and to advance a single-issue agenda. Alternatively, they pursued hedging strategies and developed a network of relationships around Germany in order to counterbalance the emerging hub-and-spokes system with Germany at the center.

5. European integration followed a French game plan

France was in the most difficult position of all. In the course of the Eurocrisis, it became increasingly evident that the country had to make a strategic choice regarding its relationship with Germany and, for that matter, Europe. For decades, France had wanted to see Germany integrated into the structures of Europe in order to manage Germany's superior size and weight. To no small part, France agreed to the introduction of the Euro currency for this very reason, especially after German reunification. But the Eurocrisis had shown that the European Union was becoming a vehicle through which Germany could leverage its power rather than one through which France could handle German power.

At this point, France had three choices, the first of which was to become a follower of Germany. This course of action was seen as untenable, as President Sarkozy's second fiddle role in the "Merkozy"

couple had shown early in the Eurocrisis. The second option was to build a southern alliance to counterbalance Germany. However, such an effort would have led to a rebellion in Germany and an eventual breakup of the Eurozone. Finally, the French could accept the challenge that the “new and enhanced Germany” posed and strive to find a fresh French–German equilibrium. This analysis held that a Euro break up was too costly for France; that France needed to improve its international competitiveness for its own good; that German dominance was unlikely to last, given the country’s demography and limited long term growth potential; and that France—together with Britain—would be the dominant hard power in the European Union, thereby balancing Germany’s economic preponderance. In fact, as Europe’s foreign and security policy core, France and Britain could effectively sideline the uninterested Germans. That was easier than trying to get the Germans bought into joint endeavors.

Most importantly, the pathway towards a partially integrated Europe increasingly followed a more French than German game plan. In the early days of the crisis, the Germans had taken their old idea of a more federal Europe off the shelf and presented it as a solution. But as the crisis continued and fragmentation emerged as a real possibility, keeping everybody on board became an overriding interest. That could only be done through policy coordination rather than bureaucratic centralization. For the French, the latter had been the preferred route all along. The Germans abandoned larger designs for Europe in the face of the looming threat of a British exit. Confronted with the choice between (a) a more ambitious integration agenda and (b) a dynamic of fragmentation plus the loss of a German ally on vital policies, the Germans opted for a less ambitious, but more inclusive, Europe. German calls for more federalism had long become meaningless rhetoric as Europe, supported by Germany, had been progressing along the lines of the confederate model that the French had long favored. France, in turn, got more of a Germany that it was uncomfortable with, but within a European structure that it was willing to accept even though it provided for less “two-tier” and “two-speed” structures than France would have preferred. This new configuration of Europe also allowed France on occasion to assemble ad hoc and issue-based alliances against Germany.

6. European minimalism allowed Britain to stay within the EU

The minimalist agenda contributed to allowing Great Britain to stay in European Union. When it became clear that no Brussels super state was in the making, British voters—after years of debate—rejected the fashionable double proposition of “exit plus go-it-alone” internationalism. The majority of the electorate realized the economic and strategic downsides of exit and acknowledged the attempt of the Eurozone countries to combine rescuing their currency from a crisis with including non-Eurozone countries into the decision-making process. In British parlance, this privilege was called “fair treatment.” This deal amounted to a bargain about long-term British membership in the EU. Therefore, Great Britain continued to play a strong role in Europe’s common security and defense policy.

7. A slow-moving EU was seen as a reliable partner

Partial integration and a minimalist agenda also allowed for a “business as usual” approach to those European countries that remained outside the EU, as well as to countries within the European

neighborhood. Candidate countries responded with relief that the structure which they intended to join remained intact and kept moving forward, albeit at a slow pace and with a considerable level of friction and debate. Countries in the “near abroad” felt reassured that the EU did not pull up the draw bridge, but rather remained open to its immediate neighbors. Since the EU did not integrate in leaps and bounds, the hard border effect did not visibly increase. In fact, incremental integration allowed the EU to introduce some measures to alleviate the existing hard-border effect, such as border zones mobility agreements, deeper trade, and partial visa liberalization, making good relations with Brussels and the member states somewhat attractive for neighbors, even though Europe’s power to incentivize transformative reforms in the neighborhood had clearly taken a hit. A slow-moving EU that laboriously crafted consensus was seen as a reliable and non-threatening partner, but also an ineffective one, in particular for handling short-term political crises. The continued existence of several levels of EU integration made it easier to accommodate new member states. The threshold for membership neither increased nor decreased. Enlargement preceded gradually and according to the rulebook developed early in the century, most successfully in the Western Balkans countries.

8. On foreign policy, the EU lacked vision and ambition

Only the general outlines of a foreign policy vision for each neighborhood (Eastern Europe, the Caucasus, the Middle East and North Africa, Russia, and Turkey) were agreed upon. Considerable ambiguity remained. A more fragmented approach to foreign policy set in. Coalitions of the willing were needed to get things done.

On the issue of Turkish membership of the European Union, no consensus was reached. The post-crisis EU was not stable enough or ambitious enough to take this leap. Over time, Turkey itself had reoriented its foreign policy. In light of these realities, the idea of Turkish membership was abandoned. Instead, a “special relationship” with certain elements of integration with the EU was created. Given the spat over membership, this relationship was not very “special” for quite a while.

Tensions between those advocating the need to counterbalance Russia in the EU neighborhood and those who preferred to build a partnership with Moscow remained, resulting in a hesitant policy. This hesitancy allowed Moscow to exploit the differences inside the EU to its own advantage.

9. The transatlantic relationship faded

Europe’s “business as usual” approach to foreign policy in the post-crisis period applied to transatlantic relations as well. This approach guaranteed that the partnership between Europe and the United States continued on its slightly downward trajectory. At the outset of the crisis, the United States had disengaged from Europe for a few years. Consumed with terrorism, the Middle East, and the rise of China, the United States had determined that Europe could solve the crisis alone and did not need America as its offshore balancer. The U.S saw the crisis less as a geopolitical challenge and a threat to the foundation of the Western institutional order, but rather as a threat to domestic recovery from the Great Recession. Advice and policy towards Europe reflected this priority for years.

With the British debate about exit from the European Union, the United States had become concerned about European disintegration. The question was what America could do to reengage with Europe, rebalance the transatlantic relationship, and incentivize integration over fragmentation, thereby stabilizing its own alliance system.

As the Eurozone and European Union stabilized, this concern turned out to be unfounded. Ironically, the Eurocrisis was not enough of a crisis—and Europe was not enough of a problem—to fundamentally alter American perceptions about and policy vis-à-vis Europe. According to the mainstream view in Washington, Europe was still affluent and coordinated enough to solve its own problems. American intervention to help stabilize Europe was not warranted under these circumstances. Seen from Washington, a partially integrated Europe that made incremental economic progress became one of many actors on the global stage. Thus, it gradually lost some of its relevance as a strategic partner for the United States. The transatlantic alliance continued to exist, but it slowly ceased to be the dominant strategic partnership steering world affairs.

10. NATO withered away

NATO continued to exist, but faded away somewhat. It became less relevant in the eyes of Washington's strategic community. The continuing inability of European member states to come to unified positions led to growing impatience on the U.S. side. Defense budgets in nearly all member states of the EU had been slashed during the years of the crisis. After Europe's slow recovery, no turnaround was in sight. The capabilities gap increased further. Tight budgets on both sides of the Atlantic triggered the call for increased pooling of military resources, but public security concerns as well as internal tensions and differing visions among European member states continued to prevent serious military integration efforts. The idea of a global NATO was a faint memory from the heyday of the alliance in the last century. Rarely was Europe able to engage in the global hot spots about which the United States cared. Europe lacked vision, will, and funds.

11. A trade deal helped to rebalance the fading transatlantic relationship

The negotiations for a Transatlantic Trade and Investment Partnership (TTIP) were launched when U.S. concerns about the fragmentation of Europe finally became a relevant factor. Initially, the goals of the future treaty were economic as well as strategic. When the Eurocrisis receded, the economic and regulatory advantages gained the most attention. TTIP, when it was finally agreed upon, helped to balance the fading security relationship. The deal was relatively broad in nature. In a marginally integrating European Union, the authority of the EU trade commissioner remained formidable, and the commissioner used this authority to convince domestic and international skeptics of the advantages of the deal. Great Britain's decision to stay in the European Union strengthened the (mostly northern) group of free traders in the EU.

12. The world reassessed the costs to EU-style integration

Europe's global partners were relieved when the crisis was finally over. It was universally

recognized that, under difficult conditions, Europe had pulled off something remarkable. But the continuing difficulty of finding common ground, as well as the piecemeal nature of the crisis resolution, also left lingering doubts about Europe. The protracted nature of the crisis was seen as a warning by others. Europe's attractiveness was diminished even as the crisis faded.

For as long as the crisis lasted, the model of EU integration was questioned around the world. Once Europe overcame the crisis, other countries continued to assess the torturous and dangerous process by which success was achieved. The price of integration and the limits of the model of sovereignty sharing had become evident to others. This experience began to inform regional integration efforts around the world.

13. Europe's voice in the world weakened

Europe's voice in international organizations continued to weaken. Even though political and institutional incrementalism combined with decided monetary policy had succeeded in overcoming the worst of the crisis, pressure from emerging economies continued to reduce Europe's representation and voting shares in the IFOs. Internal disagreements prevented Europeans from consolidating their vote in the International Monetary Fund and other IFOs.

Europe's long road to partial integration had tested the patience of its global partners. The ever-changing components of European governance continued to confuse (and eventually bore) third countries. Their conclusion from the European crisis was that nation states still called the shots in Europe, and that a unified European foreign policy was less attainable than ever before. Consequently, other countries placed higher emphasis on their relations with Berlin, London, and Paris than on their relations with Brussels.

14. Europe's crisis response was seen to be insufficient

Overall, Europe's crisis resolution was not sufficiently decisive, nor was its economic rebound strong enough, to convince the rising nations of Asia that Europe had turned a corner and was back on the world stage as an axis in a G-3 world. But then again, these nations had always been convinced that they would soon live in a world which they dominated.

Full Integration: A Union Recast

Key Assumptions:

Pathway: The Economic and Monetary Union was completed in the EU, keeping membership open to all EU member states that wanted to join.

Sovereign Defaults: There were no disorderly sovereign defaults, nor any exits from the Eurozone.

Membership Status: The current Eurozone members completed the EMU. 8 of the 10 non-Eurozone members remained on path to join or had done so already (Poland, Latvia, Lithuania, et. al.). Outliers remained (Great Britain, et. al.).

Centralization Level: European fiscal authority was strengthened through the completion of banking union, Eurobond issuance, and partial common debt management.

Debt: Borrowing costs in the Eurozone converged downwards, as did sovereign debt ratings.

Deficits: The medium-term trajectory for fiscal consolidation converged downwards.

Growth: Growth returned, and unemployment numbers decreased.

Europeanism: Economic improvement reduced anti-European populism. At the same time, further integration sparked sovereignist sentiments.



1. Reformed Europe became the tide that lifted many boats

The crisis became a distant memory. During its worst period, Europe seemed to be tumbling towards fragmentation, thereby abandoning the multigenerational project of European unification. In retrospect, it seemed that financial markets pushed Europe towards “the brink” several times. And every time, European leaders responded. They averted catastrophe by doing something that seemed too hard

to do before each mini-climax of the crisis. National leaders paid a high price for the reforms they pushed through. Their governments were catapulted out of office by the force of public discontent. For a while, they were replaced by governments that were equally committed to fiscal prudence, structural reform, and European integration. At the same time, nationalism, populism, and anti-Europeanism increased in most European countries. The integrationists saw their legitimacy in doubt.

But before these increasingly potent political forces could start seriously influencing national publics in key countries, the effects of reform set in, thereby stabilizing the political and economic environment. Growth returned, though with an uneven distribution throughout member states. Unemployment trended downward, though not to the degree that full employment was in sight in most countries. Some regions were left behind, but a mechanism was in place to engineer transfers. Reformed Europe became the tide that lifted many, if not all, boats.

The key of the political effort was a cluster of reforms which, taken together, amounted to the completion of the European Monetary Union (EMU). At their heart was a full banking union, a partial debt mutualization regime, elements of a joint budget, and extensive labor market reforms. In the course of these reforms, sovereignty was transferred to Brussels. Some said the transfer of powers was substantial, others said it was just enough to create a minimal federalist core. While incrementalism on the road to partial integration would have strengthened intergovernmentalism and thereby the European Council, full integration meant more supranational governance. The European Commission was therefore strengthened.

2. Fiscal integration did not necessarily trigger a more ambitious foreign policy

As it became clear that Europe, under the threat of fragmentation, had gotten its act together and had completed what it had started in Maastricht, the question became: would a more integrated European Union simply be a more efficient and better governed market with a complete monetary union? Or would economic and fiscal integration transform European nations, as well as their Union, into more ambitious and powerful entities on the international stage? Would a set of more cohesive foreign policy actors be created?

When the crisis was overcome around 2015, experts envisioned three possible pathways: Europe would become a larger Switzerland, a larger Japan, or a larger Canada.

The larger Switzerland scenario assumed that Europe was simply exhausted. Integration was to be pursued at the price of renouncing broader joint ambitions in the international arena. Foreign policy would be the last redoubt of sovereignty in Europe. After having completed the EMU, European populations wanted no further integration, especially since markets were indifferent to the question of foreign policy. Therefore, Europe would regain its footing economically while not displaying any larger ambitions in the international sphere. It would be on course to become rich and inward looking. Economic progress and foreign policy ambition would be delinked.

The larger Japan model assumed that Europe would engage in selective globalism. Essentially, this was the German model of foreign policy: interested in some areas of international relations, not in others; a big player on economics and trade, but not on security. And if Europe engaged in security, it would confine itself to the immediate neighborhood. Europe would not be ready to underwrite global security wholesale.

The larger Canada vision foresaw a muscular globalism for Europe. Strongly committed to global governance and especially the UN system, Europe would become a key underwriter of the international order that included military missions to keep or enforce the peace abroad, not only in the European neighborhood, but globally. France and Britain would be Europe's leaders. They would pull the EU along and, in turn, benefit from the role that the European Union played.

3. It took years for Europe to develop a robust foreign policy posture

The debate between these three schools of thought waged for a few years. Eventually, it turned out that these pathways for Europe were not mutually exclusive. They only represented different phases of Europe's strategic posture, and therefore became part of a sequence. During and immediately following the crisis, Europe was simply exhausted from the hard work of overcoming it. The continent looked inward and was unwilling to engage in new joint endeavors. Over time it became clear that delinking economic progress and foreign policy posture was not a long-term proposition. Fiscal integration created path-dependency.

The success of integration improved Europe's reputation globally. Europe found itself confronted with expectations from global partners. Slowly but surely, the continent moved from larger Switzerland to somewhere between larger Japan and larger Canada.

4. Europe became a tougher negotiator

Another debate was about the type of foreign policy actor Europe would become after the crisis: would internal cohesion turn Europe in to a more hardnosed and aggressive power, a more realist and more assertive actor? Would it therefore be seen by others as a more problematic partner, a troublemaker rather than a problem-solver? A tit-for-tat player with a zero-sum mentality? Or would Europe simply display the same qualities and behavioral patterns to which the world had gotten accustomed? Would it remain a negotiating and mediating power, a consensus builder, and a multilateral-first actor? Here, too, reality turned out to position Europe somewhere in the middle: Europe did not transform itself into an easier partner for others. Yes, it did become a tougher negotiator, especially on issues that mattered to it, like Russia and trade. On the other hand, the continent did not change its posture completely. In essence, it remained the soft colossus that prided itself to be: a negotiator and bridge builder with global reach.

5. Europe's ability to set global norms was enhanced

Europe's use of economic reform and further institutional integration as tools to successfully overcome the crisis became a signal to the world. The depth of reform demonstrated to others that Europe had the will and capability to act decisively and largely in unison. It became harder to doubt the staying power of Europe's seemingly postmodern structure and its sovereignty sharing model. Europe had created cohesion through collaboration, however painful the process might have been. This very fact had global relevance. Europe's power post-crisis was the power of example. Clearly, Europe's ability to set global norms was enhanced. Its agenda-setting power, imperiled throughout the crisis, was restored.

However, the effort to overcome the crisis served as a powerful reminder of the high price, dedication, and sacrifices necessary to pursue deep regional integration. Pre-crisis European integration had been the gold standard for integrationists worldwide. This was no longer the case in the post-crisis era.

The integrative mode of overcoming the crisis made it easier for others to interact with Europe. Multiple non-European nation states had been somewhat skeptical of the complex power-sharing arrangements in Europe. They had expected Europe to move towards some version of federalism or break apart. Now they felt vindicated—and believed further integration was yet to come. The renewed belief in the future of European integration helped others to refocus on Europe. The continent's ability to act in unison was no longer in question.

6. Europe consolidated its representation in institutions

Completion of the EMU created pressure on the Eurozone to consolidate its representation in the international financial institutions (IFOs). After all, why should multiple representatives from the same integrated economic unit sit around the table, claiming outsized voting rights? The somewhat paradoxical outcome of the crisis was that Europe regained its footing on the international stage, but this very fact was used to push Europe to accordingly adjust its international footprint. Eventually, Europe succumbed to the pressure and moved towards a Eurozone representation in the IFOs. As it became clear that joint representation actually increased Europe's role despite the decrease of overall representation, the remaining European nations represented in the IFOs realized how marginalized they had become and sought to join the Eurozone. Thus, consolidated representation in the IFOs became a tool for Europe to better manage its relative decline, as compared with the rising powers.

7. Defense budgets increased, and Europe became a global military actor

Integration and recovery was the only conceivable outcome of the crisis that would put Europe back on the map as a global military actor. During the long resolution of the crisis, defense budgets in nearly all member states of the EU had been slashed. The resolution of the crisis had two effects, the first of which was that recovery led to moderate increases in defense budgets. Make-up effects were observable in several European countries. Another positive effect of the renewed spirit of integration was the fact that it finally enabled EU countries to use resources more effectively. Role specialization as well as pooling and sharing became a reality.

8. The transatlantic debate about burden-sharing continued

With recovery and integration, the debate about the future of NATO did not die down. The Europeans found themselves confronted with the paradox of finished business and asked: would a stronger Europe create a weaker NATO, just as a weaker Europe would create a stronger NATO? The Europeans wondered whether the Americans would see them as less of a problem and more of an equal partner, therefore investing less and asking more. For their part, the Americans questioned whether the Europeans would

agree to a new burden-sharing agreement and engage in areas where the U.S. disengaged.

These questions turned out to be valid intellectual categories describing extreme ends of the spectrum. But for practical purposes, they were too clever by half. The truth turned out to be somewhere in the middle. A Europe recast by integration eventually became more outward-looking, more globally engaged, and more willing to invest in NATO. That allowed for a new burden-sharing arrangement with the United States. The Americans, on the other hand, recognized the turnaround in Europe, but insisted that the Europeans still were not doing enough. Burden-sharing turned into an eternal debate.

As Europe gradually recovered and turned into a more self-confident and global actor, it became increasingly attractive to its neighborhood; on the other hand, the neighborhood became less attractive for Europe.

A more integrated EU had a clear-cut border, accentuating the differences between being inside and outside the Union (i.e. the “hard border effect”). Frictions at some of the EU’s borders were the result. Countries alongside that border, whether inside or outside the EU, had an interest in reducing the hard border effect. Coupled with the attraction created by economic success, the hard border effect became the driver of a new push to enlarge the EU. Reforms and other sacrifices in order to be closer to, if not inside, the European Union seemed worthwhile once again.

9. Europe went global

But further integration of the Eurozone and EU caused the threshold for joining the club to grow higher. Becoming a member was harder and more costly. Also, the EU began to set its sights farther afield. Global issues became more important than the immediate neighborhood. With more resources and renewed global influence, the EU became more involved in faraway places and topics. At times, the immediate vicinity had to struggle to attract attention and investment from the EU.

The revival of the EU also influenced Russia relations. Moscow did not simply respond negatively. Yes, it lost some easy entry points for a classical “divide et impera” strategy in Europe. On the other hand, Moscow welcomed the fact that it could deal with a more cohesive partner to the west.

10. Scandinavia and the Baltics became a regional power center

Increased integration also altered inner-European relations. The crisis has produced relatively durable and sometimes overlapping new groupings of countries (north/south; debtor/creditor; Euro-ins/Euro-outs/pre-ins). But successful mastery of the crisis set off a different dynamic: economic reforms gave the southern countries new leverage. New regional groupings emerged. Scandinavian and Baltic countries cooperated so closely that jointly they became a new regional power center capable of counterbalancing other big actors in Europe. This development increased the legitimacy of European integration in the eyes of the northern publics which, in turn, led to a northern enlargement push. It included Greenland, Iceland, and Norway. Overall, smaller countries felt that their interests were protected by a strengthened European Commission. During the crisis, the big nation states had led the way to reform. But integration allowed the system to rebalance. This reconfiguration was a condition for the smaller countries to support further

integration. The smaller countries used this change to their advantage. They now had access to common resources and could lead the EU on certain (foreign policy) issues that they deemed of high value.

11. German power was checked

In this more integrated Europe, big countries still played a big role, just not as outsized as during the crisis. As the Eurozone's largest economy, Germany was in a strong position. But its power was now constrained. The institutional framework and the large number of smaller and midsize nation states contributed to checking German power. The German problem, as feared by some in the midst of the crisis, turned out to be a mirage. While Germany continued the responsible stewardship of its own economy, its dominance faded. Demographic transition became hard to overlook. By 2030, France was just a few years away from becoming Europe's most populous nation, overtaking Germany. The median age of the German population continued to increase as the overall population declined, thereby limiting German growth rates. In addition, the reform cycle had finally caught up with Germany. It turned out to be the last country in Europe to have to go through a painful adjustment period. All of these factors limited the country's space to maneuver on foreign policy.

12. Britain remained an EU member for fear of being marginalized

After years of internal struggle and strife, the United Kingdom had decided to stay inside the European Union, primarily in order not to be marginalized. It continued to be deeply divided about membership in the EU. Once again, it was the sphinx of Europe. It did not support the steps that Europe took to centralize power, but nor did it attempt to block decision-making. The economic fall-out as well as the resulting political isolation seemed an unacceptable price to pay. With the ghosts of exit banned, a new discussion eventually emerged: would Britain now have to join the EMU in order to safeguard its interests? Just as the proposal of exit from the EU, the idea of joining the Euro core went nowhere.

13. France was key in the new Europe

In some ways, France became a key factor in the emergence of this new Europe. France struggled to accept that it had to undergo serious structural reform if it wanted to stay affluent and relevant. But once France swallowed this hard truth and implemented the necessary reforms, things changed for France—and for Europe. The nation's self-esteem improved, and the partnership with Germany was rebalanced and reenergized, which in turn helped all of Europe. Finally, France's global ambitions and capabilities could be put to use for Europe as a whole. The evident success of this new Europe helped France overcome its resistance to a European construction that had more federal elements than had been considered acceptable in France in the past.

Completion of the EMU, it turned out, was not the panacea that cured all ills. But it did have a series of positive effects: it rebalanced relations within Europe and inside the European Union; it helped to stabilize Europe on the global stage in an age of a shift of power; it stopped Europe's free-fall as a military actor; and it positively impacted both transatlantic and NATO relations.

Summary and Conclusions

The scenarios tell stories about the future, based on four assumptions about the outcome of the Eurocrisis. They depict future foreign policy environments for and inside Europe in a broad sense. Though certain aspects of foreign policy are projected to be similar in some of the scenarios, four distinctly different versions of a new world emerge. They provide context and insight into how the crisis has informed foreign policy experts' assessments of future options.

Following a summary of the four scenarios, some concluding observations will be presented.

Summary

1. Complete fragmentation: Fragmentation of the European Union certainly represents a sea change. It cements Europe's decline on the world stage and ushers in a new world order. Europe's loss of influence in the international financial institutions accelerates with diminishing economic weight and lost cohesion. Europe's disintegration has the potential to simplify international relations. The world no longer needs to ask whom to call in Europe. The major capitals, not Brussels, are the main actors. But rarely does anyone call. The small European countries disappear from the global scene all together. A disintegrating Europe creates a splintering and destabilizing neighborhood.

However, the downfall of Brussels does not result in Armageddon. The future of the European Union is not inseparable from the future of European nations. Even though the Eurozone collapses and shrinks to a tiny core of relatively homogeneous countries, this development does not necessarily trigger the return of conflict. NATO remains intact, and Europe itself does not turn into a global troublemaker. European policymakers consider non-cooperation in Europe as an unacceptable prize and see fragmentation as the starting point of lower level re-integration or regionalization.

2. Partial fragmentation: In this scenario, several Europes emerge. With Britain outside the European Union and Greece as well as Cyprus outside the Eurozone, polycentricity is the name of the game. A complex web of relationships and different new groupings develop within Europe: a strengthened core Eurozone; candidate countries to the Eurozone; countries that have left the Eurozone; the larger European Union; and, finally, a detached Great Britain that goes global alone. Germany becomes the factional leader of the new core. France acts as the key stabilizer of the core Eurozone. The countries that exited the Eurozone find themselves on the margins of Europe. Candidate countries remain in a waiting zone. In polycentric Europe, large states turn into nodes in a sub-regionalized wider European space.

3. Partial integration: Incrementalism is a proven method for European integration. Post-crisis, this translates into, "as little more Europe as possible." Policy coordination beats centralization. Intergovernmentalism, not supranationalism is preferred. The institutional balance between Eurozone members and those who chose to stay outside the currency zone is retained. Importantly, economic growth returns gradually, as does trust in European institutions.

Even such an unremarkable, step-by-step approach has remarkable foreign policy consequences. While integrationist minimalism allows Britain to stay inside the EU, weak central institutions put Germany into the position of becoming first among equals for an extended period of time. However, integration follows the preferred French, not German, game plan. This construction produces frictions within Europe, including soft anti-German counterbalancing. Limited integration is not enough to change Europe's trajectory on the global stage. The transatlantic relationship fades, as does NATO. Neither European integration nor Eurozone integration is deep enough to force joint representation in the International Financial Institutions (IFOs). Europe's voice in the world weakens.

4. Full integration: A completed Economic and Monetary Union within the EU with significant federal features triggers the question of what type of foreign policy actor Europe will be under such conditions: would a more integrated European Union simply be a more efficient and better governed market? Or would a set of more cohesive foreign policy actors be created? On its way to becoming fully integrated, Europe goes through different phases. Following the hard work of federalization, Europe continues to look inward and acts as a "larger Switzerland." After it recovers from this period of exhaustion, Europe begins to look outward and engages in selective globalism like a "larger Japan." Eventually, Europe chooses a path of muscular globalism as a "larger Canada." The path dependence created by full integration presents Europe with an opportunity to stem its relative decline on the global stage, yet it comes with new challenges and frictions inside Europe.

Conclusions

1. "Best case/worst case" scenario: From a foreign policy perspective, none of the identified outcomes of the Eurocrisis creates a dominant "best case" scenario. Full integration turns out not to be a panacea, at least not from a foreign policy perspective. Inside Europe, it provokes new frictions and new questions about the nature of Europe as a foreign policy actor, even as it enhances Europe's stature globally. And, perhaps surprisingly, disintegration creates at least limited new opportunities for cooperation within Europe. However, it is easier to identify a "worst case" scenario. Clearly, the extreme scenario of complete fragmentation puts Europe on a path towards decline in a global context, even if some of the ripple effects on the continent could be dealt with relatively successfully.

2. Proportionality: The absence of a clear "best case" scenario does not mean that there are no preferences or gradations. Foreign policy, it turns out, is not an independent variable. It is dependent on the economic and fiscal state of the European Union as well as on the status of European integration. In fact, there is an evident linkage between the progress of integration and European foreign policy. There may even be some proportionality between the two. Eventually, integration will likely create path dependency, or the phenomenon of "history matters." While it may take years to achieve and provoke debate as well as resistance or detours along the way, more integrated governance in Europe eventually leads to more integrated foreign policy. But "more integrated" does not always mean "better" as new frictions between less sovereign nations may arise.

3. Complexity: European foreign policy is characterized by a variety of actors and power centers. No scenario promises to significantly reduce the level of complexity. In most scenarios, new groupings and informal alliances emerge, either inside the European Union or outside. Clearly, both disintegration scenarios increase the level of complexity. A polycentric Europe and, even more so, a fully fragmented Europe, produce a complicated salad bowl of international relations.

4. Europe as a military actor: Economic recovery plus full integration is the only conceivable outcome of the crisis that puts Europe back on the map as a global military actor. During the long resolution of the crisis, defense budgets in nearly all member states of the EU are slashed. This is true in all four scenarios. In the case of complete fragmentation, the will to invest in national defense increases due to the multitude of new fault lines regionally and globally. But the economic consequences of disintegration are dire. Consequently, there are no means with which to invest. The two median scenarios promise continuity: there are ever more defense cuts in both partial fragmentation and partial integration. Bottom line: in three out of four scenarios, there will be few or no resources to significantly reinvest in the military.

5. Transatlantic relations: A weaker Europe creates a stronger NATO. As the EU and the Eurozone fragment, NATO becomes the joint institution of last resort. The Americans, troubled by European fragmentation, turn to NATO as a stabilizer. The Europeans, concerned with the new fault lines inside and outside of Europe, do the same. However, both fragmentation scenarios imply differing degrees of economic hardship across the continent, thereby preventing states from re-investing in their militaries. NATO, therefore, takes on more of a political than military role under the assumption of fragmentation in the EU and the Eurozone.

Conversely, the two integration scenarios bring about the paradox of finished business: will a stronger Europe result in a weaker NATO, just as a weaker Europe gives rise to a stronger NATO? This premise assumes that the U.S. will only pay attention to Europe when the latter is in trouble. Therefore, partial integration has unclear consequences for the transatlantic relationship: recovery and integration are not sufficient motivations for the U.S. to help Europe emerge as the global (military) partner that Americans have long wished for; conversely, there is no troublesome disintegration that would see the Americans spring into action to save their most important overseas alliance.

The Transatlantic Trade and Investment Partnership (TTIP) has become the means to rebalance the transatlantic relationship during an age in which the largest threat for both continents is not military, but rather economic. Yet the outcome and value of the deal differs between scenarios: In a completely disintegrated Europe, no significant trade authority remains with the European Commission, which results in a failure of the negotiations. In the partial fragmentation scenario, a deal is able to be struck, but it has limited reach and is saddled with exemptions and ugly compromises. The partial integration scenario offers the best chance for a far-reaching, comprehensive trade agreement, because the economic need to reach consensus creates the necessary political will.

6. Global Europe: Prior to the outset of the Eurocrisis, the economic success of rising Asia had started to put pressure on Europe to integrate further in order to deal with the consequences of this current

stage of economic globalization. Integration was supposed to avert relative decline. In post-crisis Europe, integration acts as a giant trend accelerator, depending on the scenario: Fragmentation speeds up relative decline, while integration reduces the power and speed of this global trend. However, there are relevant differences even between the integration and fragmentation scenarios. Full integration signals to the world that a combination of institutional integration and economic reform are adequate tools to overcome crises. The depth of reform demonstrates to others that Europe has the will and capability to act decisively and largely in unison. Europe's power post-crisis is the power of example. Clearly, Europe's abilities to set global norms and agendas are enhanced.

None of this is true in the other three scenarios. Even partial integration is viewed by others outside of Europe as maintaining the status quo. In three out of four scenarios, the pressure for Europe to consolidate its representation in the IFOs increases.

7. Neighborhood: From the viewpoint of Europe's neighbors, "partial integration" is a preferred scenario because it allows for business as usual. The EU continues to be attractive and does not change course. The hard border effect is limited, and so is the pressure to reform internally in order to integrate with the EU.

The other three scenarios create bigger change. In a full integration scenario, Europe is increasingly attractive to its neighborhood, but the neighborhood becomes less attractive for Europe. From the perspective of the neighborhood, fragmentation of Europe is undesirable. A multipolar Euro complicates foreign relations within Europe and enlargement becomes an unpredictable process limited to diehard candidates. A fully fragmented Europe tries to isolate itself from its increasingly unstable neighborhood.

8. Large member states: Simply by virtue of size, larger member states have more options – in all scenarios. In a highly integrated Europe, they lose a disproportionate amount of sovereignty as compared to their smaller neighbors, but they also gain more foreign policy influence and freedom of action. Even though all member states, regardless of size, lose in both fragmentation scenarios, larger states can better cope with this situation. However, with the exception of full integration, some version of soft counterbalancing re-appears in Europe in all of the scenarios, thereby limiting the maneuvering space even of the larger member states.

9. Smaller member states: Smaller member states benefit in the full integration scenario, as their leverage is more prominent in federal structures where proportionality constrains their larger neighbors. The smaller member states have high impact on a selected set of foreign policy topics about which they specifically care (often regional issues). In a partially integrated Europe that is more confederate than federal, smaller member states criticize the enhanced power of larger member states, but they have the option to seek deeper integration regionally, thereby counterbalancing the big players.

Fragmentation largely annihilates smaller countries from the world stage. They find themselves thrown back into a sub-regionalized environment with local or regional conflicts and little leverage.

10. Linear projections: The scenario exercises allowed participants to “think the unthinkable”. It turned out that examining one’s traditional or familiar thought processes is hard to do. During the first scenario workshop, the group concluded that their thinking was initially too conventional. At first, they did not question the traditional assumption according to which integration is good and fragmentation is bad—without much assessment of other options. Also, the group realized how much of their thinking was a linear projection of present circumstances. During the first workshop, participants were very concerned with the powerful role of Germany in a future Europe. Yet, confronted with the summary of their deliberations, participants felt during the second seminar that they had overemphasized the role of Germany. Instead, their thinking turned to the role of a marginalized Great Britain as well as France as a stabilizer or destabilizer of Europe. Again, these were linear projections guided by current events.

One of the main lessons that participants learned wasn’t what they think about Europe’s future, but rather about how they think about and conceptualize these ideas. What makes the scenarios even more valuable is that the participants realized that their thinking on any given issue can change dramatically within a relatively short period of time.

11. “Business as usual” scenario: Clearly, partial integration was seen as the “business as usual” scenario during the first workshop. When the group reconvened half a year later, partial fragmentation had become the “business as usual” scenario. To the participants, some of the consequences of partial disintegration were no longer as threatening as they seemed six months earlier. Given the increased likelihood of partial fragmentation, the group started to think about how to ameliorate the consequences of such an outcome. Here, too, current circumstances were drivers of projections of the future.

This set of observations does not claim to be comprehensive. As work with the scenarios continues, they will be refined. Readers are invited to draw their own conclusions and share them with the scenario team at GMF and LATO.

Appendix I: Some Remarks on Methodology

By Karlheinz Steinmueller, Z_punkt – The Foresight Company

This scenario exercise followed an adapted scenario methodology. Exploratory scenarios usually are constructed by means of key factors, projections, and consistency analysis, but the main emphasis of this exercise was not scenario generation, but rather scenario implications: What type of European foreign policy landscape might emerge in the aftermath of, and influenced by, the Eurocrisis and its repercussions?

Generating scenarios on the backdrop of the socio-economic context, the general policy framework, or even the geopolitical setting would have required participants to delve deeply into possible financial and economic developments, policy reactions on these developments, and expert expectations on future economic pathways. Besides the risk of becoming bogged down with current events and getting lost in financial and economic minutiae, this approach would have shifted the focus away from foreign policy. The team decided therefore to build the scenarios on rather abstract baseline assumptions about the future European governance landscape. However, these baseline assumptions were not chosen randomly. The team used the results of a related study by the Friedrich Ebert Foundation (FES) which had conducted a scenario exercise titled “Mapping Future Scenarios for the Eurozone”. It had on possible economic and governance consequences of the Eurocrisis and had used a very similar methodology. It had identified key factors, used projections and consistency analysis. It was therefore safe to build the baseline assumption onto the fully fledged Friedrich Ebert scenario. The team was grateful to the Friedrich Ebert Foundation for allowing them to use their work as a starting point.

The project was designed around two workshops in Riga (September 13-14, 2012) and in Brussels (March 14-15, 2013), with experts from academic, think tank, and business communities, as well as practitioners including former and current government officials—all with a specific expertise in foreign policy. A group of these experts was further invited to participate in two online meetings in preparation of the workshops. These online meetings, which aimed to test the approach and to collect comments, hints, and first ideas, helped to fine-tune the workshop agendas.

Step 1: Stocktaking and Derivation of Baseline Assumptions

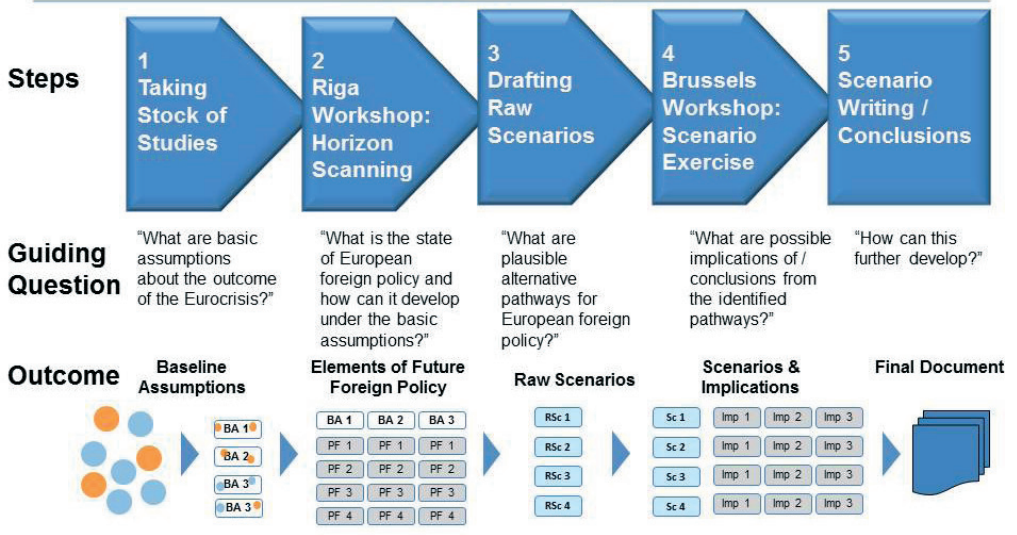
The project started with taking stock of existing studies: “What are conceivable long-term outcomes of the Eurocrisis?” About 40 pertinent studies and papers were identified and analysed according to perspective, focus, and main messages. It was no surprise that opinions, assessments, and projections significantly differed. The process of sorting and clustering the reports’ findings helped to focus on the Friedrich Ebert Foundation’s work and accept their key structure as a point of departure. The FES team had looked at European governance as a continuum between two poles: fragmentation vs. integration. To cover the whole scope, the team generated four baseline assumptions that focused on the possible future economic posture and governance structures of the EU:

- Complete Fragmentation
- Partial Fragmentation
- Partial Integration
- Full Integration

No assessments were made about which of the four assumptions was more realistic, plausible, or convincing. Therefore all assumptions had to be treated on level ground as abstract options that marked potential outcomes of the crisis.

Step 2: The Riga Workshop – Horizon Scanning

FROM SCANNING TO SCENARIOS The Process in Overview



The first Riga Process Workshop, held in Riga, Latvia, in September 2012, was aimed at bringing together the baseline assumptions and foreign policy: "What is the state of European foreign policy and how can it develop under the baseline assumptions?" Foreign policy was defined broadly, covering a combination of European nations' foreign policy as well as the instruments of the European Union. An underlying idea was that in any fragmentation scenario the relations between European countries would become an increasingly important element part of foreign policy.

In the workshop, the baseline assumptions were discussed in order to deepen the analysis level and to identify blind spots, hidden developments, critical uncertainties, and decisive questions. For the purposes of structured debate, the foreign policy implications were broken down into four fields or dimensions:

- *Relations between EU Member States*
- *EU Accession & Neighborhood Policy*
- *Transatlantic Relations & Security*
- *EU in the Global Arena*

Each of the four working groups concentrated their conversations on one dimension, but had some time to discuss the other topics as well.

During the working group sessions on day one (“Talking about the Present”), the groups discussed and established the status quo: What is the current state of European foreign policy in terms of actors and their interests, drivers (European and beyond), challenges, and obstacles?

On day two (“Talking about the Future”), the participants discussed possible future developments of European foreign policy within the four dimensions across all four baseline assumptions. Based on the results of the previous day’s conversations, they projected their policy area outward into the year 2025 by considering the four possible outcomes of the Eurocrisis.

The four group rapporteurs informed the plenary about the main insights and interpretations.

Step 3: From Riga Results to Raw Scenarios

In the time between the workshops, the GMF team integrated and summarized the results of the first Riga Process Workshop into four raw scenarios (“narratives”). These included a short description of the respective baseline assumption and the ideas from the conversations in Riga along the four policy dimensions. Because of time constraints, not all dimensions of Europe’s foreign policy were explored in equal depth in Riga. Therefore, while working on the overall summary, the GMF team added certain aspects in each scenario when they felt new analysis was faithful to the thinking of the participants. In the document, all of these additions were highlighted in italics so that they could be discussed and either approved or rejected by the experts.

Step 4: The Brussels Workshop – Scenario Exercise

The goal of the second Riga Process Workshop, held in Brussels in March 2013, was to further improve and expand the document with an eye towards developing it into a set of four full scenarios: “What are possible implications of, and conclusions from, the identified pathways?”

At this stage, the draft text contained inconsistencies, due to the nature of the results of the independent working groups from the September workshop. The GMF organizers felt it was not their task at this point to “polish” and “harmonize” the summary. Rather, it was one of the goals of the workshop in Brussels to have participants discuss and test the resiliency of the narratives.

On day one (“Thinking about the Future”), the experts refined the raw material, elaborated on possible actions and reactions on the national, European, and global levels, and identified and clarified inconsistencies across the fields. Guiding questions included:

- *What is surprising or intriguing in this raw scenario?*
- *Do the pieces fit together?*
- *What is missing? Do the pieces sum up to a whole?*
- *What type of Europe emerges from the specific raw scenario?*
- *What new alliances emerge in the raw scenario?*
- *What new conflicts emerge in the raw scenario?*

The participants were also invited to draft “future news stories” by imagining societal, technologic, economic, environmental, or political events leading up to 2025 that might occur in the raw scenario and which would warrant major headlines. Such items not only helped to flesh out the raw scenarios, they also served as analytical tools by providing a specific test for the consistency and resilience of each scenario.

On day two (“Drawing Conclusions”), each of the four groups worked across the scenarios on a set of very specific questions, including the posture of specific countries in the scenarios, transatlantic relations, EU-Russian relations, the role of trust between the countries, defense spending and NATO. Rapporteurs summarized the findings and presented these results to the plenary, and—on occasion—added their personal interpretations. In the final session (“What to Make Out of It”), the participants discussed whether their perceptions of the future of European foreign policy had changed and what conclusions they took from the workshop.

One result of the workshop was to set the target date of the scenarios at 2025, and not at 2030—as was initially discussed. Given the complexity of the topic and the many influencing factors, participants felt that shortening the horizon of the projections would serve the purpose of the project best.

Step 5: Final Document

Compiling the findings into a fully-fledged and coherent set of scenarios was the final (although perhaps not the easiest) task. As a result of the Riga Process Workshops, the scenarios portray four possible states of affairs of European foreign policy in a mid-term future, the positioning of main actors, as well as persistent and new challenges.

Appendix II: List of Riga Process Workshop Participants

The following individuals participated in the Riga Process Workshops in September 2012 and March 2013. They participated in their own capacity, not as representatives of their respective organizations, institutions, or governments.

While all of the participants contributed to the scenario exercise, they do not share in the authorship of this report and are not responsible for its content.

Toms Baumanis

Chairman, Latvian Transatlantic Organization

Hans Binnendijk

Senior Fellow, Center for Transatlantic Relations, Johns Hopkins School of Advanced International Studies

Matthew Bryza

Director, International Centre for Defence Studies

Marek Cichocki

Program Director, Natolin European Centre

Steven Everts

Advisor, European External Action Service

Mark Fischer

Managing Director, European Offices German Marshall Fund of the United States

Liene Freivalde

Head of Aviation Services Department, Riga International Airport

Heather Grabbe

Director, Open Society European Policy Institute

Giovanni Grevi

Director, FRIDE Think Tank for Global Action

Wolfram von Heynitz

Research Commissioner, Office of Policy Planning, German Federal Foreign Office

Fiona Hill

Director, Center on the United States and Europe, Brookings Institution

Anna Jardfelt

Director, Swedish Institute for International Affairs

Andres Kasekamp

Director, Estonian Foreign Policy Institute

Craig Kennedy

President, German Marshall Fund of the United States

Thomas Kleine-Brockhoff

Senior Transatlantic Fellow, German Marshall Fund of the United States

Hans Kundnani

Editorial Director, European Council on Foreign Relations

Emilio Lamo de Espinosa

Chairman, Elcano Royal Institute

Kristaps Lapsa

Aviation Customer Relations Manager, Riga International Airport

Göran Lennmarker

Chairman of the Governing Board, Stockholm International Peace Research Institute

Kadri Liik

Program Director and Senior Policy Fellow, European Council on Foreign Relations

Nicola Lightner

Director, Major Conferences German Marshall Fund of the United States

Heike MacKerron

Berlin Office Director, German Marshall Fund of the United States

João Marques de Almeida

Executive, H Plus Hakluyt

Andrew Michta

Senior Fellow, Center for European Policy Analysis

Alexis Morel

Director of Strategic Affairs, Thales

Zaneta Ozolina

Professor, Department of Political Science, University of Latvia

Yannos Papantoniou

President, Center for Progressive Policy Research; Former Greek Minister for Economy and Finance

H.E. Edgars Rinkevics

Latvian Minister of Foreign Affairs

Marcello Sala

Executive Vice Chairman of the Management Board, Intesa Sanpaolo S.p.A.

Janis Sarts

State Secretary, Latvian Ministry of Defense

Daniela Schwarzer

Head of Division, EU Integration, Stiftung Wissenschaft und Politik

Simon Serfaty

Senior Fellow, German Marshall Fund of the United States

Katarzyna Smyk

Deputy Director, Secretariat of the Minister, Polish Ministry of Foreign Affairs

Jan Techau

Director, Carnegie Europe, Carnegie Endowment for International Peace

Jordi Vaquer

Director, Open Society Initiative for Europe

Ramūnas Vilpišauskas

Director, Institute of International Relations and Political Science, Vilnius University

Kurt Volker

Executive Director, McCain Institute for International Leadership; former U.S. Ambassador to NATO

Thomas Wright

Fellow, Managing Global Order Project, Brookings Institution

Richard Youngs

Senior Associate, Democracy and Rule of Law Program, Carnegie Endowment for International Peace

Acknowledgements

This publication is produced by the German Marshall Fund of the United States (GMF), in collaboration with the Latvian Transatlantic Organization (LATO). It was written by Thomas Kleine-Brockhoff, head of the EuroFuture Project at GMF.

In addition to the Riga Process Workshop participants, GMF would also like to thank the numerous policymakers, analysts, and specialists who provided valuable input and advice in various ways. The following individuals contributed to this publication: H.E. Edgars Rinkēvičs, Andres Ortega, João Marques de Almeida, Thomas Wright, Jordi Vaquer, Daniela Schwarzer, Hans Kundnani, Karlheinz Steinmüller, Björn Theis, Jessica Prendergast, Emiliano Alessandri, Nicola Lightner, Simon Serfaty, Sandis Šrāders, Juris Poikans, Jennifer Diamond, and Javid Ahmad. The scenario illustrations were designed by Jonathan Fuhrken.





G | M | F

The German Marshall Fund
of the United States

STRENGTHENING TRANSATLANTIC COOPERATION



MINISTRY OF FOREIGN AFFAIRS
OF THE REPUBLIC OF LATVIA



RIGA INTERNATIONAL AIRPORT