

THE EU AFTER BREXIT

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The EU has experienced a succession of big crises in recent years. It has survived with more powers than ever before. However, its economic performance has been relatively poor while the crisis of democracy goes deep in many countries, albeit not only in Europe. In a rapidly changing and increasingly threatening world, the challenges ahead for the EU and Europe as a whole loom large. They are of an existential nature.

The year 2016 was truly an *annus horribilis* for Europe with the Brexit referendum and the election of Donald Trump. European political leaders were in shock and advisers of the incoming US President were calling Brussels asking who will be next after the UK on the way out. It didn't happen though. Instead, Brexit became a strong unifying factor for the EU27. The subsequent negotiations between a united EU27 and a disunited UK forced successive governments in London to learn a hard lesson about the balance of power.

It was an altogether different experience dealing with the first Trump administration. Faced with a US President who treated the EU almost as an enemy organisation, who flirted with far-right parties in Europe and replaced diplomacy with bullying, Europeans were divided. Political leaders in central and eastern Europe in particular felt they had no choice but to try to curry favour. For them, the Russian threat was real and the US remained their protector of last resort.

Immigration, on the other hand, is an example of a damage limitation exercise, at best. Because of demography, European countries need a steady inflow of immigrants. But flows need to be regulated because external pressures are strong while resistance at home is rising. The trouble is that regulation of immigration flows is easier said than done. As a result, anti-systemic parties have been making big political capital throughout Europe, thus forcing a more hardline approach on immigration. A true common policy for the EU still looks like an unattainable goal.

The pandemic took a big toll in human lives, as well as jobs and output lost. But European governments reacted in a big way and, rather unexpectedly, the pandemic became the accelerator of European integration. The Commission in Brussels bought and distributed vaccines to member countries. And most importantly, an extremely ambitious recovery package of approximately €800bn was adopted in 2020 with a strong redistributive bias in favour of weaker members and common borrowing in the name of the EU. This is precisely what political leaders had refused to do a few years earlier during the Eurozone crisis,

which meant that the European economy paid a heavy price back then - it was a real disaster for the south of Europe.

Luckily, European political leaders sometimes learn their lesson. The financial crisis led to the creation of a banking union and new common instruments. A few years later, the economic aftershocks of the pandemic forced the EU to do the erstwhile unthinkable. It was not exactly Europe's 'Hamiltonian moment' but still a remarkable act of European solidarity and far-sightedness. France and Germany were responsible for the conception and the Commission served as the midwife. Would such an agreement have been possible if the biggest veto player of them all, the UK, still had a seat at the European Council table? Perhaps, but only through another opt-out for the UK.

Russia's invasion of Ukraine in 2022 forced the EU to do more unthinkables. Waves of new sanctions on Russia, large amounts of financial and humanitarian aid to Ukraine, including military aid which until then was a taboo. True, member countries have struggled to preserve their fragile unity on matters that mostly require unanimity. But they did deliver, although at a high economic cost that also included higher inflation combined with recession. Europe has reduced drastically its heavy dependence on imports of Russian gas - and less importantly oil. But switching to alternative sources has come at a big price. The biggest shock was for Germany, the economic powerhouse of Europe, and Germany has not recovered from it yet.

It looks like the end of an era. With two wars (Ukraine and the Middle East) next to its borders, a highly unstable neighbourhood all around, a revisionist Russia and an increasingly unpredictable protector of last resort in Trump's 'America First', as well as with growing protectionism and the weaponisation of economic interdependence, some of the fundamental premises of European integration are no longer. The EU needs to add a security dimension to what used to be essentially a peace project. It needs a common industrial strategy to deal with new technological challenges, lagging productivity, the green transition and unfair play from its main trading partners, notably China. Europe has already lost the digital revolution and it cannot afford to lose the next one in AI, robotics and more.

All the above requires a very different mindset, closer policy integration and lots of money. But where will they come from in today's increasingly fragmented political landscape, with the rise of anti-systemic parties reflecting deep public discontent? The 'system' is failing to deliver the goods for large sections of society in Western democracies. Beleaguered at home, national leaders do not easily afford the luxury of thinking and acting European. And faced with ever growing demands on the public purse from many different directions, will they

pluck the courage to call for new taxes and/or new common borrowing? Hope may die last, but surely it will be difficult.

In a hostile international environment, security can be the factor that brings the EU and the UK closer together. Europeans will be forced to take more collective responsibility for their external security and the UK will be an indispensable partner in this effort.