ANNAMARIA SIMONAZZI

European Union's Structural Vulnerability in a Changing Geopolitical Environment

After several decades of economic integration and enlargement, divergence has been increasing in the European Union (EU), with weaker member states and regions falling behind their stronger counterparts. This paper argues that the structural causes of this increasing divide are explained in terms of the divergent trajectories of interdependent economies with different productive capabilities. In the process of European integration, the Southern peripheral countries were exposed to macroeconomic policies and shocks that, although apparently neutral, generated different effects and ever increasing regional disparities. Since the formation of the EU's Economic and Monetary Union in 1992, events representing important milestones in the process of divergence include China's accession to the World Trade Organization, the eastward orientation of German industry, and the 2008 financial and sovereign debt crises and the ensuing austerity. In the final part, the paper evaluates whether new divides are likely to emerge in the new global context triggered now by the COVID-19 pandemic and the Russia-Ukraine war.

Keywords: center-periphery relations; Economic and Monetary Union; European integration; industrial policy; regional disparity.

1. Introduction

The constitutive purpose of the European Union (EU) was to promote the communion of peoples along with the convergence and harmonization across economies. Instead, the integration process has resulted in an EU that has become more diverse, unequal, and divisive, with a growing divergence between core and periphery, increasing inequalities within countries, and a mounting acrimony among peoples. This paper provides an analysis of what went wrong, considering the role of flawed institutions, external asymmetric shocks, and policy mistakes. To this end, it examines the paths of the core and peripheral countries, with a focus on their diverse productive capabilities and their interdependence. It is argued that the institutional features of the euro area were not such as to sustain the capacity of the Southern European countries to achieve convergence, i.e., a sufficient level of diversification and specialization in their productive structures. Moreover, since the inception of the European Economic and Monetary Union (EMU), the core and the southern periphery were differently affected by various shocks: China's accession to the World Trade Organization (WTO) and the eastward orientation of German industry, the 2008 financial and sovereign debt crises and the ensuing austerity, which rekindled the process of divergence.

The economic crises triggered by the COVID-19 pandemic and the Russia-Ukraine war highlighted Europe's structural vulnerability to external shocks, as well as the possibly diverse effects on its member countries. In the final part, the paper evaluates whether new divides are likely to emerge within the new global context, hinting at necessary reforms.

2. The Structural Roots of Divergence[1]

The principles that guided the European unification process were based on three critical assumptions.

i) The "monoeconomics" claim (Hirschman, 1981), which, disregarding the peculiar problems of latecomer countries, maintains that one policy suits all. In the specific case of the EU, it was posited that an austerity regime, associated with institutions close to those assumed to be prevailing in the core countries, would create the right environment for growth in the periphery (Simonazzi and Ginzburg, 2015).
ii) The mutual benefit claim, asserting that economic relations between core and peripheral countries "could be shaped in such a way as to yield gains for both" (Hirschman, 1981: 3).
iii) The shift from discretion to rules, that is, the attribution of "objective", and thus higher, knowledge to technocratic expertise.

In contrast to these assumptions, our analysis of the process of Europeanization is based on two main tenets:

1) The embeddedness of core-periphery relations in time and space. The paper provides a longer-term view of the divergent trajectories of the core and the peripheral European countries in terms of *interdependent* economies with different productive capabilities.
2) One size does not fit all. The effects of crises, policies and structural change differ with the level of development. Crisis after crisis, the periphery's different capacities to cope with change aggravated the divide.

The differences in the production structure between core and periphery were very considerable at the start of the Europeanization process and many economists had warned that opening the market to competition between

[1] The first part of this section draws on Simonazzi (2020).

countries at different levels of development without adequate countervailing measures would increase divergence. Disregarding the peculiar problems of latecomer countries, the EU institutions were shaped on the premise that all its members were on a level playing field, except for certain "less modern" institutions, individual values and attitudes. Thus, in the process of European integration, the southern peripheral countries were exposed to macroeconomic and industrial policy measures that, although apparently neutral, generated different effects and increasing regional disparities, both between core and periphery and within countries (Simonazzi and Ginzburg, 2015).

The new economic theory sanctioned the macroeconomic transition from a political project – a "politicized" management of economic policy based on discretion – to a "depoliticized" management based on the automatism of rules (Burnham, 2001), with the attribution of "objective", and thus higher, knowledge to technocratic expertise.

The institutional features of the euro area were not such as to sustain the capacity of the Southern European countries to achieve a sufficient level of diversification and specialization in their productive structures; indeed, they may even have contributed to worsening it. While powerful counterforces were slowing down the pace of the institution-building reforms required to complete the Union, the institutions and reforms already in place pre-empted any alternative policy.

3. Dissenting Voices: Cranks and Prophets

In the 1970s and early 1980s, when the foundations of the European institutions were being laid, concern for the creation of politico-economic hierarchies and dynamic (negative) interrelations was widely shared within the left and part of the mainstream (Simonazzi, 2020).

3.1. The European Dependency School

A group of scholars, known as the European Dependency School,[2] used the core-periphery paradigm to analyse the economic conditions and the process of integration in Europe. Focusing on the aspect of dependence in international relations, one based on the interrelations between countries at different levels of development and the crucial role of the productive structure, this approach was critical of the prevailing economic and development doctrines, and extremely pessimistic about the outcome of the European integration process. Stressing the diverse capacity of countries to tackle change, they argued that the EU institutional framework, geared to the needs of core

[2] See Logan (1985), Seers (1979), and Hadjimichalis (1994). See Weissenbacher (2018) for a review.

countries, would increase divergence. With great foresight, Hadjimichalis (1994) noted that, with the fall of the Eastern bloc, the southern fringes had lost one important political parameter in their negotiations to avoid disintegrative effects. The integration of Eastern European Countries within the EU would play one periphery against the other: plenty of cheap labor from the East would mean that German capitalists would no longer be willing to pay for the reproduction of cheap labor in the south (*ibidem*). Therefore, they called for domestic macroeconomic and "balancing" industrial policies to ensure self-reliance.

3.2. Opposition to the European Monetary System

Concern over the polarizing effects of the integration between economies with different productive capabilities and severe regional disequilibria was also shared by scholars who did not identify with the Dependency School.

Awareness of the dangers of integration between such unequal partners was very much in evidence across Southern European countries, which led most communist parties of the south to oppose successive steps of integration. The Portuguese Communists and the Greek PASOK both opposed their countries' applications for Community membership. The Italian Communist Party opposed Italy's participation in the European Common Market in 1957 and Italy's participation in the European Monetary System (EMS) in 1979.

Italy's low per capita income, high unemployment, fragile industrial structure, marked regional differences, and high cost and price differentials – all of which persisted despite the efforts made and the progress achieved – were the reasons that convinced Luigi Spaventa, an authoritative Italian economist elected as independent Member of Parliament of the Italian Communist Party to vigorously oppose Italy's participation in the EMS in the Italian Parliament in 1978 (Celi *et al.*, 2018). Voicing concerns widely shared not only within the left, but also by Keynesian and development economists, he pointed to the risks of a German union tuned to price stability and market discipline, and to the interdependence between countries at different levels of development, with structural imbalances feeding divergence. In addition, he expressed concern that the fixed exchange rate target would conflict with the objective of full employment, a concern made more real by the increasing globalization of finance. The high interest rates required to defend the exchange against "hot money", he noted, would conflict with the investment required to overcome the structural crisis caused by underinvestment. Finally, convergence required a fiscal policy targeted on reduction of the geographical divide, which was no longer adequately considered in the EMS project.

Again in 1980, in a report on "Problems of Lagged Development in OECD Europe", Fuà (1980) implicitly recalls Gerschenkron's theses in his observation that the structure and tendencies of latecomer European countries were different from those observed during the initial development phases of the older industrialized countries. The major differences concerned the technological gap, the demonstration effect on consumption, and the challenge of competition from more developed countries. These differences translated into strong internal productivity differentials across industries and regions ("dualism"), serious difficulties in providing regular employment to the potential labor supply, higher propensity to price instability and public deficits, and "a peculiar fragility of the balance of payments" (Simonazzi and Ginzburg, 2015: 108).

Political confrontation and suggestions to adopt safeguarding policies proved unable to prevent the choice of the alternative development path, which led to integration and premature liberalization. By the time the EMU was created, opposition was to be found only in a relatively small group of heterodox scholars and far-left politicians.

3.3. The 1970s' Debate Turned on its Head

Distributional conflicts (labor, commodities), saturation of consumer markets and stagflation changed the domestic and international context, marking the crisis of Keynesian theory and policies. The monetarist response, based on the assumptions that the private sector is inherently stable and monetary policy is unable to affect output also in the short run, conquered the field. While the 1970s debate on Italy's participation in the EMS took place within the (neo)Keynesian field, by the end of the 1980s the discussion on Italy's participation in the EMU was conducted entirely in terms of the new macroeconomic theory.[3] In a paper from 1991, Spaventa explains the U-turn:

> The economic debate that accompanied the launching of the EMS initiative was heated, but fairly simple in its terms: with the new classical macroeconomics still in

[3] The defence made by Andreatta, an eminent economist and minister of the economy at the time of the establishment of the EMS, in favour of Italy's participation was not yet based on the "credibility hypothesis", but rather on the role of the external constraint as a disciplining device over the distributive conflict (Simonazzi, 2020). See also Celi *et al.* (2018: 23-28) for an account of the theoretical and political U-turn of eminent Italian economists on the issue of economic and monetary integration from the 1970s to the 1980s. A notable exception is Modigliani (1993), who stressed the importance of safeguarding exchange rate flexibility to defend the autonomy of the monetary policy (and its independence from the Bundesbank). See also his letter to the *Financial Times*, in collaboration with other illustrious MIT economists, to recommend a postponement of the process of monetary unification to allow the country to make full use of economic policy to support the recovery of employment (Blanchard *et al.*, 1993).

> its infancy, a number of themes which later became relevant in the literature were then absent [...] As a corollary of these theoretical developments, the asymmetry issue was turned on its head. While the early debate considered the lack of symmetry as a major shortcoming of the system, in the new literature this is instead regarded as a virtue, as long as the n-th country, the one free to set monetary policy independently, pursues price stability as its major objective [...] these models have [...] provided Germany with a powerful justification for rejecting recurrent demands for greater coordination on the part of other members of the system. (Spaventa, 1991: 8)

3.4. Democratic Monetarism

Why, in Europe, did political leaders and economists of progressive persuasion, who did not consider themselves monetarists, come to favour restrictive monetary and fiscal policies strongly oriented by the monetarist doctrine?

We may recall that in the 1970s there were structural, socio-political bases for a "new" ideology as an antidote to the Keynesian view of the government's autonomy in the conduct of economic policy (Celi *et al.*, 2018). The attractiveness of monetarism resided also in its offering (wrong) answers to two important issues that progressive policymakers tended to underestimate. The first is the issue of inflation. Monetarism is not the only scheme capable of offering solutions, nor are its solutions the correct ones. In fact, according to monetarism, inflation is always a purely monetary phenomenon. Thus, a cost-push effect such as the oil price boost was explained by underlying monetary disorder and arguments in favour of a price stabilization policy were based upon a peculiar theoretical position that assumes a long-run vertical Phillips curve. However, the central bank's philosophy was more pragmatic and die-hard, as shown by Philip Lane's commentary on the European Central Bank's current anti-inflation policy, which well reflects the "price stability" policy followed by the Bundesbank before the euro: "the dampening of demand through the tightening of monetary policy means that price setters and wage setters are on notice that excessive price and wage increases will not be sustainable".[4] The theory has changed, but not the recipe.

The second issue relates to the exhaustion of Keynesian inward-looking policies in the 1970s and 1980s. The effectiveness of those policies, on which welfare policies were based, relied on the possibility to control the main variables (from raw materials to interest rates, to capital movements, to investment embodied technical progress). The exhaustion of the hegemonic

---

[4] See Lane, Philip R. (2023), "Underlying Inflation", *European Central Bank | Eurosystem*, March 6. Lecture at Trinity College Dublin. Accessed on 06.05.2023, at https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230306~57f17143da.en.html.

capacity of Keynesian policies, and of the social contract upon which they were founded, cannot be explained only by the monetarist offensive, but must also be attributed to the need to cope with the changes in the post--war overall picture that had made these policies possible. Both in dealing with the inflation problem and in addressing the issue of the need to adjust Keynesian policies in an outward-looking direction in ways compatible with the preservation of welfare state, recourse to monetarism was certainly not the only option (Ginzburg *et al.*, 2019).

According to a conception of the political effects of economic integration that nowadays seems rudimentary and naïve, European integration would have had the function to temper and correct old national vices, otherwise considered incorrigible, and bring the deviant countries into line. Capital markets would have operated as a threat or as a punishment for profligate behaviours. The external constraint, conceived "as a whip" on the production system (the exchange rate appreciation) or "as a bridle" on excessive debt expansion would have opened the way to a linear progress of growth. The expectation was that economic integration would have brought about benefits for the common good through automatic and linear progressions and without relevant drawbacks. Ironically, both in the United States (US) and in Europe, the attempt to replace explicit political decisions with technocracy and automatism eventually led, after drastic austerity measures, to the reappearance of politics in the guise of demagogy ("populism") (Celi *et al.*, 2018).

Was non-participation an option? Southern European countries were too weak to participate and too weak not to participate. For different reasons, the European project enjoyed great popular favour in all the southern countries. In regards to economic growth, it was believed that, given their economic and financial fragility, their currencies and public debts would have been much more violently exposed to international financial crises, even if, as experience has shown, the EMU did not provide protection when the *redde rationem* arrived.

Were there alternatives? While it is true that many of the southern countries' problems could not be postponed, they could still have been tackled with more political options open and within a vision that distanced itself from neoliberal models. At the time of the EMS alternatives were still open. Since then the international context (global production and finance) and domestic developments (redistributive effects of the inflation, reactions to the distributive conflict) made for a change in political coalitions. Deflation became politically feasible, and better conditions for a more sustainable institutional set-up were deemed non-negotiable. Not only did southern countries have extremely weak bargaining power, but the theoretical paradigm shift had also won over the elites of the periphery (Vianello, 2013). Lack of a credible alternative program and the inability to construct alliances between peripheral countries did the rest. The regime change of the 1980s – the single market, the abolition of capital controls and financialization, privatizations and retrenchment of state intervention, labor market reforms and monetary and fiscal discipline – built a straitjacket from which it was difficult to escape without an overhaul of the whole construction. Endogenous concatenation of actions, such that each turn calls for the next, made for acceptance of the neoliberal model. Two levels of de-regulation (global and European) and two role models (Germany's disinflation and the US's financial liberalization) inaugurated the new era of the monetary union and guided the "European way" to global finance and monetary integration.

To conclude, either through incapacity or through lack of will to change the underlying philosophy, the Europeanization process proceeded by muddling through or piecemeal changes.

4. The Embeddedness of Core-Periphery Relations in Time and Space

Three episodes can be said to clearly illustrate the interdependent and asymmetrical nature of core-periphery relations over time: the structural break of the 1970s, the creation of two peripheries within the EU, and the long crisis that went through the period 2008-2022.

4.1. The Break of the 1970s: The Structural Roots of Divergence

During the "glorious 30s" all the European countries in the periphery recorded high-income growth, led first by investment and consumption, and then by exports. They all placed special emphasis on basic industry, deemed necessary for the creation of an industrial sector. The state supported accumulation either directly, through publicly owned companies, or indirectly, through subsidies and incentives to domestic and foreign capital. However, behind the apparent success in growth rates, the pattern of industrialization of the latecomers still exhibited several weaknesses (albeit in differing degrees across said countries). Their fragilities were linked to their narrow productive base, their unequal internal development, and an unsustainable demand pattern, which resulted in external disequilibria.

The crisis of the 1970s, associated with saturation of the major mass consumer goods in the advanced countries and the onset of globalization, marked a sharp break in the history of relations between the core and periphery of Europe (Ginzburg and Simonazzi, 2017). It led to profound transformations in demand, production, and competition, which came to be increasingly dominated by the quality of differentiated products rather than by price. The new situation would have required innovation in the state's capacity to guide and facilitate the reorientation of investment so as to respond to a rapidly weakening economic structure. However, on the one hand the structural breaks of the 1970s created extreme uncertainty about the future prospects of international specialization, with paralyzing effects on industrial policy decisions. On the other, the industrial policy in the periphery – based on state-owned enterprises, public investment, state aid, soft loans and subsidies to private firms – was more exposed to the scrutiny of the competition arm of the European Commission. Conversely, core countries could count on a thick network of firms, research agencies, public institutions, local development banks and could limit their action to ensuring the coordination of the system of production: their industrial policy operates "under the radar". The European industrial policy came to be conceived mostly in terms of market selection mechanisms, achieved by enforcing EU competition policy. Thus, precisely when the state should have been taking on new tasks to ease the process of restructuring, diversification and quality upgrading, these countries adopted across-the-board liberalization policies, implementing what might be called "plain destruction" of their capabilities to create new products, market niches, and markets.

As anticipated by the Structuralist School, these changes affected the core and peripheral economies in very different ways, while interdependence between core and periphery magnified the asymmetric costs of adjustment (Simonazzi *et al.*, 2013; Celi *et al.*, 2018). The restructuring of the core deeply affected the countries of the periphery which, in reorganizing their economies, struggled to adapt to the new environment, dominated by disinflation and quality competition. The fall in the relative prices of flex-price items hit their economies harder; their basic industries and "mature" products faced the competition of the developing countries, calling for drastic cuts in production. The restrictive monetary policies of the core country exerted asymmetric effects on the periphery because of different institutions (e.g., labor relations), its mono-specialization in commoditized products (price elasticities, input content), and the rapid return of capital to the safe-haven center countries – a phenomenon observed time and again (Ginzburg and Simonazzi, 2011), most recently in the Eurozone sovereign crisis (the "sudden stop").

Thus, over the twenty years of European integration as from the early 1980s, the Southern peripheral countries were exposed to macroeconomic and industrial policy measures that, although apparently neutral, generated increasing regional disparities, both between core and periphery and within countries.

Partly as a consequence of their policies, the southern countries' growth fell behind, and the crisis associated with deregulation opened a gap in aggregate demand that was eventually filled by welfare and construction expenditure. This "premature deindustrialization" – restructuring without industrialization – exposed the peripheral countries to stunted growth and persistent fragility in the face of external changes even before the formation of the EMU (Ginzburg and Simonazzi, 2017).

4.2. Two Shocks and Two Peripheries

In the period between the launch of the euro and the crisis of 2008, Europe (and, in particular, Southern Europe) represented the main market for German exports. After the 2008 crisis, when austerity crushed domestic demand in the South of Europe, China became Germany's key market. Celi *et al.* (2018) point out how China's entry in the WTO (strongly sponsored by the US) meant different things for Germany and Southern Europe: a huge expanding market for German capital and high-quality consumption goods (especially cars), a formidable competitor for the consumer goods of the southern countries in European and world markets. The increasing role of China as a market and competitor added to the East-ward enlargement and the redirection of German Foreign Direct Investment and trade to Eastern countries, which gave rise to the emergence of the Central European manufacturing network (Stehrer and Stöllinger, 2015) and to the formation of two peripheries: the Southern one, made up of the Mediterranean economies, and the Eastern one, with the prominent role of the Visegrad countries.[5] As a consequence, the middle income countries of the South were caught in a trap: they were not cost competitive with the Near and Far East, nor quality (innovation) competitive with the North. Price competition from the East, based on fiscal subsidies, wages and labor conditions, put further pressure on the South, partly crowding out its suppliers and enforcing a process of domestic devaluation. Threat of delocalization also put pressure on German wages. The once strong unions (in engineering and chemical industries) abandoned the defence of weaker unions (in services), allowing cross-sector real wages to diverge, thanks as well to the Hartz reforms. Lower costs of imported inputs and cheap services made wage compression bearable

[5] It is interesting to note that the companies' offshoring strategies differed across European countries: German companies offshored medium and low-value stages of productions, keeping home strategic phases, such as R&D and marketing, or, as in the case of cars, high brands/high price. Conversely, French and Italian firms relocated entire product segments. These different strategies possibly reflected a different type of competitiveness, based on quality for Germany, more reliant on prices for the French and Italians.

for manufacturing workers in core industries, while exporting deflation to the rest of Europe. In turn, increase in inequality and the working poor in Germany, along with the EU, diverted consumption from the goods produced in Southern Europe to cheaper imports from China, further increasing the pressure on their economies.

To conclude, the geographical restructuring of European production led to the formation of a hierarchical interdependence (Celi *et al.*, 2019). The core became dependent for its growth on the pattern of specialization within the EU, with the Southern markets providing an outlet for its increasing surplus of manufacturing and the Eastern countries supplying cheap inputs for its industries. The two peripheries suffer from different fragilities, which descend from their common, albeit diverse, economic and financial dependence on the core. While the weakened industrial base of the South reduced its resilience, the Eastern European countries' integration in the core's value chains implied the risk of excessive specialization in few sectors, e.g., the weight of the automotive industry in their total value added, a risk which became evident in the current crisis (Pavlínek, 2023). This combination of structural divergence and economic interdependence lies behind the Union's fragility as well as the extremely slim likelihood of its disintegration, given the prohibitively high costs such a decision would entail for both the core and peripheries. It is important to underscore the mutual, although asymmetric, dependence of the two areas. On the one hand, the growing integration into the economy and institutions of the Eurozone, combined with the disastrous effects of austerity policies, has once again led the countries of the South into a dead end: too weak to leave; too weak to stay.[6] On the other hand, the core has also become increasingly dependent on the Eurozone, and even more so with the ongoing division of the world into two blocs. This helps to explain why Germany accepted or even tacitly promoted limited compromise solutions whenever it was deemed indispensable to avert disaster.

4.3. The Long Crisis: 2008-2022[7]

After a brief "Keynesian" spell, which followed the 2008 financial crisis, austerity took over, killing domestic demand across the entire EU area.

[6] The post-Brexit experience reveals how difficult it is to undo a union and how costly it is to untangle such closely interdependent economies, even for a relatively more developed country that had not joined the monetary union.

[7] Since this analysis focuses on the structural, long-term causes of the crisis, we will not deal with its immediate causes and subsequent developments here. We refer to Celi *et al.* (2018) for a discussion of these aspects.

In the South, demand, production, and income fell dramatically, feeding public and private debt. Nor could the Eastern periphery support demand; being basically a "global production platform", or enclave, trickle-down effects to the domestic economy were still very limited. As a result, since the financial crisis, the German economy and the entire EU area came to increasingly rely on world demand. In the austerity of the 2010s, a recurring criticism of the German model was that it is impossible for all countries to run a trade surplus because "we can't export to the moon". In fact, China was the moon for Germany. In Sandbu's words "China saved Berlin from the contradictions of its own European policy",[8] allowing its continuation even in the face of the manifest impoverishment of the South. More importantly, austerity policies made restructuring financially and politically difficult, thus contributing to further increasing the North-South divide not only in the short-run, as exposed by stagnation in Gross Domestic Product, but also in the long-run.

COVID-19 proved to be a game changer. The pandemic brought closures and production break-downs, exacerbated problems with or disrupted Global Value Chains, transport and logistics, inflation, food insecurity and migrations in emerging economies, and caused a collapse in world trade. The EU's response was much faster compared to the 2008 crisis, and above all it showed more cohesion. Monetary and fiscal policies reacted strongly; unconditional and extremely cheap monetary financing, temporary suspension of the Stability Pact and relaxation of state-aid regulations allowed national governments to run huge increases in public debt to subsidise firms, workers and households. The Next Generation EU (NGEU) was hailed as a Hamiltonian moment.

Then, the war in Ukraine changed the world. While the pandemic had highlighted critical weaknesses of European economies that dated back to before the pandemic, they have been made blatant by the war: vulnerability to energy supplies, worrying backwardness in the digital and green transitions, and soaring income inequalities. The sanctions against Russia affected European countries differently, but in ways that transcend the traditional core-periphery division. The degree of a country's economic vulnerability varies with its degree of dependence on Russian fuel, its economic and financial integration with the Russian economy, as well as the structure of its economy and the weight of energy-intensive sectors. In this respect,

---

8 See Sandbu, Martin (2022), "Europe Is Learning that You Can't Separate Trade and Politics", *The Financial Times*, November 6. Accessed on 10.12.2022, at https://www.ft.com/content/a1b97de4-b366-4a0e-aa58-93a6b6fa8b2a.

the manufacturing core and Italy, the southern periphery's major economy, share a significant degree of vulnerability (Celi *et al.*, 2022). Equally serious is dependence on Russian and Ukrainian key raw materials and intermediate goods (e.g. iron, cereals, fertilisers); key German industries such as the automotive industry are particularly vulnerable to the disruption of specific supply chains.

While the *direct* impact passes through lines other than core-periphery (with Germany and Italy equally hit), the *indirect* impact risks reviving the old division. Many factors – a more restrictive monetary policy to fight inflation, different levels of public debt, a different fiscal capacity to assuage the costs of the crisis for households and business, as well as different costs of restructuring – result in a diverse resilience to the secondary effects arising from the EU's and each member country's response to stagflation and the urgency to implement the digital and green transitions.

The necessary overhaul of the industrial structure is of the same magnitude as in the 1970s. Turning the existing "brown firms" into "green firms" will call for "deep" industrial restructuring within firms and across value chains and ecosystems (Andreoni, 2022). Once again, disruptions and opportunities will not be evenly distributed across sectors and regions, with the risk of a worsening of the gap between core and periphery. In fact, digital technologies are based on systems integration that operates at both the technological and the organizational levels and require a closely connected, technologically advanced network, often missing in late-comer countries and regions. It follows that the traditional industrial policy, based on granting subsidies, tax breaks or credit facilities, is not up to the task. Defence of "brown" (energy-intensive) industry may backfire, and even regional and national systems once thriving on incremental innovation can be put to the test. Moreover, the companies that are global leaders in their field and are at the head of value chains have complete control over technologies, production conditions, and location of production facilities. Their parts and component suppliers, often located in the peripheries, increasingly operate in a flex-price market and are left to compete with each other.

5. The EU in a Changing Geopolitical Context

Globalization, already affected by the US-China trade conflict and the disruption following the pandemic, may be in retreat, and we may see the formation of international economic blocs. This changing global context, where the main actors are shifting roles – with China moving from strategic partner to systemic competitor and the US from champion of free trade to flirting with protectionism – exposes the vulnerability of the EU export-led growth model. Germany, in particular, has been accused of short-sightedness, having based its growth model on a "strategic bet" on globalization and interdependence: it outsourced its security to the US, its export-led growth to China, its energy needs to Russia (Chazan and Nilsson, 2022). Economic interests, as well as the illusion behind the doctrine of *doux commerce* ("Wandel durch Handel"), may explain German policy towards Russia ever since Willy Brandt's Ostpolitik, which was first favoured then later opposed by the US. In the 1990s, the fall of the Soviet empire opened a new phase of rapprochement and new opportunities with the relocation of German industry to the East and the implementation of the classical doctrine of the "gains from trade" as in Russian gas for German technology. In its latest version, the Germany-Russia-China axis passing through the Central and South-Eastern European countries, Germany's competitiveness is linked to Russian resources and Chinese markets. Its political and financial links, however, are with the Atlantic alliance, a thorny ambivalence matched by the American position where the US needs a strong Germany to lead a united European front, but not too strong to jeopardize its foreign policy, especially with China. It is to be seen whether Germany will be willing to permanently subordinate its industry, its technology, and its trade to Washington.

Other serious hurdles lie ahead. The first of these are connected with the energy transition, where Europe runs the risk of moving from dependence on Russia for fuel to dependence on China for rare earths and other inputs for renewables. Not only is China leading in production and export of renewables, but it controls most of raw materials sources in Africa, Asia and Latin America, as well as their first transformation. Europe and the US must find a way to prevent a new "gold rush" from opening the door to a new Cold War over critical minerals.

In the new international context, there can no longer be any world champions in exporting. Germany and its EU fellows will now have to rethink their export-led economic model, at a time when spiralling energy costs and foreign protectionist policies push European firms to consider producing abroad.[9] While delocalization choices risk impoverishing large segments of Europe's domestic value chains, the prominence of Big Tech companies brings the competitive challenge directly to European markets, threatening the supremacy of its industry due to the diffusion of digital technologies in all sectors.

[9] BASF, for instance, announced that it would downsize in Europe (delocalizing to China) "as quickly as possible, and also permanently" (Chazan and Nilsson, 2022). Automotive companies, for their part, are considering investing in the US, to take advantage of Biden's IRA (Inflation Reduction Act) measures.

If the engine of growth falters, distributional conflicts within and between societies will intensify, fuelling a global trend towards "populism" and protectionism.

6. Time for New Institutions and Policies

Crises are times when old relationships crumble and new ones have to be constructed. Can the perception of Europe's dramatic vulnerability stimulate the necessary reforms of the European governance?

Faced with the challenges of the financial crisis, the pandemic and global geopolitical changes, European industrial policy has progressively changed, moving from non-intervention to a "horizontal" microeconomic approach, to the explicit attempt to intervene selectively on the structure of production, targeting technologies and supply chains considered of strategic interest (Guarascio *et al.*, 2023). A range of initiatives – from NGEU and REPowerEU to Fit for 55 and the EU Chips Act, from various "Alliances" to Important Projects of Common European Interest aim to facilitate large-scale European projects in the strategic value chain and promote the public-private partnerships to achieve energy autonomy, climate neutrality and digital sovereignty. The European Commission is finally becoming convinced that addressing the challenges of deep industrial restructuring while preventing the creation of new divides cannot be achieved with "horizontal" measures, or policies that are mainly based on the market mechanism, which performs poorly in allocating and committing resources under conditions of uncertainty, especially when other countries are subsidizing their industries.

However, despite this new, more active approach, several questions remain. The first issue concerns the quantity, quality and location of investments. The EU's resources are far from adequate to achieve its ambitious goals or simply to face the challenges of competition. Furthermore, in the promotion of new technologies, the authorities may find themselves faced with a difficult dilemma: whether to concentrate investments in areas of excellence, to beat competitors on the frontier of innovation, or to disperse them throughout the territory, to favour a more equitable diffusion.

The digital and green transitions will trigger a profound restructuring of the entire economy, with workers, businesses, entire industries being affected. It is important that the new industrial policy does not limit itself to promoting the transition towards new technologies or players, but rather take care of facilitating the exit and restructuring of incumbents (Andreoni, 2022). What is needed is a "strategic" policy approach, which does not act in silos, capable of anticipating economic change, directing innovation and its diffusion towards sustainable goals, crowding-in private investments by committing infrastructural investments and by creating demand. This requires coordination of initiatives within a common vision. Lack of coordination on investment decisions can mean letting states compete to attract investment, in a race to the bottom that leaves everyone worse off.

Finally, the huge public and private investments required and the narrowing of geographical inequalities have to be reconciled with EU macroeconomic and fiscal rules. Industrial policy can only work in an appropriate macroeconomic context. The pandemic has only temporarily shelved the issues of debt and austerity. The definition of fiscal rules up to the challenges of the future is essential for the survival of the EU and require a high degree of solidarity or enlightened selfishness and foresight.

Inflation, debt, costs of restructuring, war and geopolitical turmoil are an explosive mix that is more likely to fragment than unite. Conflicts of interest within countries – small versus big business, industry versus finance, political factions – add up to conflicts of interest between member countries. Germany plays a decisive role in shaping the policies for the future. It cannot go it alone in the international arena, but it can walk hand in hand with the other member countries, taking care of the development of the whole European area, or as the leader of a weakened economic empire. Past experience has demonstrated the short-sightedness of the latter option.

Today we are facing a difficult, potentially disintegrative crisis. What Seers (1979: 29-30) wrote at the beginning of the Europeanization process is still relevant: "a policy of collective 'self-reliance' would strengthen European bargaining power, reduce dependence on the US and other outside powers, and lessen the risk of Europe being drawn into war". We can only hope that the prospect of the precipice will succeed in mobilizing sufficiently strong counteractive forces.

Edited by Scott M. Culp

Conflicts of Interest
The author declares that there are no conflicts of interest to disclose.

Funding
The author received no financial support for the research, authorship, and/or publication of this article.

Acknowledgements
This paper brings together reflections gained over many years of research on the Europeanization process in a core-periphery perspective.

Acknowledgment of this collective work can be found in the references in the text.

I would like to thank participants of the Political Economy of the European Peripheries – Varieties of Peripheralization Summer School, held in Avis, Portugal, on July 3-7, 2022, for useful comments and suggestions.

References

Andreoni, Antonio (2022), "Industrial Policy Reloaded: Shaping Industrial Ecosystems towards Sustainable Prosperity", *eu.boell.org*, April 21. Accessed on 07.12.2022, at https://eu.boell.org/en/industrial-policy-reloaded.

Blanchard, Olivier; Dornbusch, Rudiger; Fischer, Stanley; Modigliani, Franco; Samuelson, Paul; Solow, Robert (1993), "Why the EMS Deserves an Early Burial", *Financial Times*, July 29.

Burnham, Peter (2001), "New Labour and the Politics of Depoliticisation", *The British Journal of Politics and International Relations*, 3(2), 127-149.

Celi, Giuseppe; Ginzburg, Andrea; Guarascio, Dario; Simonazzi, Annamaria (2018), *Crisis in the European Monetary Union: A Core-Periphery Perspective*. London: Routledge.

Celi, Giuseppe; Guarascio, Dario; Reljic, Jelena; Simonazzi, Annamaria; Zezza, Francesco (2022), "The Asymmetric Impact of War: Resilience, Vulnerability and Implications for EU Policy", *Intereconomics*, 57(3), 141-147.

Celi, Giuseppe; Guarascio, Dario; Simonazzi, Annamaria (2019), "Unravelling the Roots of the EMU Crisis. Structural Divides, Uneven Recoveries and Possible Ways Out", *Intereconomics*, 54(1), 23-30.

Chazan, Guy; Nilsson, Patricia (2022), "Germany Confronts Broken Business Model", *Financial Times*, December 6. Accessed on 07.12.2022, at https://www.ft.com/content/50a462b3-0e8b-49e1-873c-9505760d4a66.

Fuà, Giorgio (1980), *Problems of Lagged Development in OECD Europe. A Study of Six Countries*. Paris: OECD.

Ginzburg, Andrea; Simonazzi, Annamaria (2011), "Disinflation in Industrial Countries, Foreign Debt Cycles and the Costs of Stability", *in* Roberto Ciccone; Christian Gehrke; Gary Mongiovi (eds.), *Sraffa and Modern Economics*. London: Routledge, 269-296.

Ginzburg, Andrea; Simonazzi, Annamaria (2017), "Out of the Crisis. A Radical Change of Strategy for the Eurozone", *European Journal of Comparative Economics*, 14(1), 13-37.

Ginzburg, Andrea; Simonazzi, Annamaria; Guarascio, Dario; Celi, Giuseppe (2019), "Secular Stagnation in the EU? The Weakening of the European Engine of Growth", *History of Economic Ideas*, 27(1), 89-114.

Guarascio, Dario; Reljic, Jelena; Cucignatto, Giacomo; Celi, Giuseppe; Simonazzi, Annamaria (2023), "Between a Rock and a Hard Place. Long-term Drivers of EU Structural Vulnerability", *Working Paper Economia Pubblica/Public Economics*, 237.

Hadjimichalis, Costis (1994), "The Fringes of Europe and EU Integration: A View from the South", *European Urban and Regional Studies*, 1(1), 19-29.

Hirschman, Albert O. (1981), "The Rise and Decline of Development Economics", *in Essays in Trespassing. Economics to Politics and Beyond*. Cambridge: Cambridge University Press, 1-24.

Logan, John (1985), "Democracy from Above. Limits to Change in Southern Europe", *in* Giovanni Arrighi (ed.), *Semiperipheral Development. The Politics of Southern Europe in the Twentieth Century*. Beverly Hills, CA: Sage, 149-177.

Modigliani, Franco (1993), "Ciampi, occhio allo Sme", *Corriere della Sera*, May 5.

Pavlínek, Petr (2023), "Transition of the Automotive Industry towards Electric Vehicle Production in the East European Integrated Periphery", *Empirica*, 50(1), 35-73.

Seers, Dudley (1979), "The Periphery of Europe", *in* Dudley Seers; Bernard Schaffer; Marja-Liisa Kiljunen (eds.), *Underdeveloped Europe: Studies in Core-Periphery Relations*. Atlantic Highlands, NJ: Humanities Press, 3-34.

Simonazzi, Annamaria (2020), "The Embeddedness of Core-Periphery Relations in Time and Space", *Revista de Economia Contemporânea*, 24(1), 1-20.

Simonazzi, Annamaria; Ginzburg, Andrea (2015), "The Interruption of Industrialization in Southern Europe: A Center-Periphery Perspective", *in* Martin Baumeister; Roberto Sala (eds.), *Southern Europe. Italy, Spain, Portugal and Greece from the 1950s until the Present Day*. Frankfurt/New York: Campus, 103-137.

Simonazzi, Annamaria; Ginzburg, Andrea; Nocella, Gianluigi (2013), "Economic Relations between Germany and Southern Europe", *Cambridge Journal of Economics*, 37(3), 653-675.

Spaventa, Luigi (1991), "From the European Monetary System to the European Monetary Union: An Uneasy Transition", *Economie appliquée*, 44(3), 5-28.

Stehrer, Rober; Stöllinger, Roman (2015), "The Central European Manufacturing Core: What Is Driving Regional Production Sharing?", *FIW-Research Reports*, no. 2014/15-02.

Vianello, Fernando (2013), "La moneta unica europea", *Economia & Lavoro*, 47(1), 17-46.

Weissenbacher, Rudy (2018), "Peripheral Integration and Disintegration in Europe: The 'European Dependency School' Revisited", *Journal of Contemporary European Studies*, 26(1), 81-98.

Annamaria Simonazzi
Former Professor of Economics, Sapienza University of Rome
Piazzale Aldo Moro 5, 00185 Roma, Italia
Contact: Annamaria.Simonazzi@fondazione.uniroma1.it
ORCID: https://orcid.org/0000-0001-8861-5090

Received on 15.12.2022
Accepted for publication on 14.03.2023
https://doi.org/10.4000/rccs.14460

A vulnerabilidade estrutural da União Europeia num ambiente geopolítico em mudança
Após várias décadas de integração e alargamento económico, as divergências têm vindo a aumentar na União Europeia, com as regiões e os Estados-Membros mais fracos a ficarem atrás dos seus homólogos mais fortes. O artigo argumenta que as causas estruturais desta divisão crescente são explicadas em termos de trajetórias divergentes de economias interdependentes com diferentes capacidades produtivas. No processo de integração europeia, os países periféricos do Sul foram expostos a políticas e choques macroeconómicos que, embora aparentemente neutros, geraram efeitos diversos e crescentes disparidades regionais. Desde a formação da União Económica e Monetária em 1992, alguns acontecimentos representaram marcos importantes no processo de divergência, como a adesão da China à Organização Mundial do Comércio, a orientação da indústria alemã para Leste, a crise financeira e da dívida soberana de 2008 e a subsequente austeridade. Na parte final, o artigo avalia se é provável que novas divisões surjam no novo contexto global

La vulnérabilité structurelle de l'Union européenne dans un environnement géopolitique en mutation
Après plusieurs décennies d'intégration économique et d'élargissement, les divergences se sont creusées au sein de l'Union européenne, les régions et les États-membres les plus faibles accusant un retard par rapport à leurs homologues plus forts. L'article soutient que les causes structurelles de cette fracture croissante s'expliquent en termes de trajectoires divergentes d'économies interdépendantes aux capacités productives différentes. Dans le processus d'intégration européenne, les pays périphériques du Sud ont été exposés à des politiques et à des chocs macroéconomiques qui, bien qu'apparemment neutres, ont généré des effets divers et des disparités régionales croissantes. Depuis la formation de l'Union économique et monétaire en 1992, certains évènements représentent des jalons importants dans le processus de divergence, comme l'adhésion de la Chine à l'Organisation mondiale du commerce, l'orientation de l'industrie allemande vers l'Est, la crise financière et de la dette souveraine de 2008 et l'austérité qui s'en

desencadeado desta vez pela pandemia de COVID-19 e pela guerra Rússia-Ucrânia.
Palavras-chave: disparidade regional; integração europeia; política industrial; relações centro-periferia; União Económica e Monetária.

est suivie. Dans la dernière partie, l'article évalue si de nouvelles divisions sont susceptibles d'émerger dans le nouveau contexte mondial déclenché par la pandémie de COVID-19 et la guerre Russie-Ukraine.
Mots-clés: disparité régionale; intégration européenne; politique industrielle; relations centre-périphérie; Union économique et monétaire.