

yet, this state of affairs may prove to be short-lived. Sure, no country will be able to challenge American military supremacy in the foreseeable future. But we now also know that hard power on its own has many limitations: Iraq and Afghanistan, among others, provide ample evidence.

Europe has coped successfully with the unification of Germany and the transition of many former communist countries to democracy and market economy: EU membership provided the catalyst for Europeanisation. It was much less successful in dealing with war in former Yugoslavia, and it was hopelessly divided on Iraq. It has increased its peacekeeping missions in different parts of the world, but still remains largely impotent with respect to developments in its Middle Eastern neighbourhood. Soft power has limitations in a world that retains many of its pre-modern characteristics. And it surely does not help when European views happen to be different from those held on the other side of the Atlantic.

Europe has not been a passive observer in the process of globalisation. Regional and global economic integration have generally moved in parallel, although they still differ significantly in terms of intensity and governance; arguably, those two characteristics are mutually reinforcing. Europe's role and influence in trade policy matters has been much greater than in the area of finance for example, despite the adoption of the single currency. The difference can be largely explained in terms of the existence of legal and institutional provisions for a common external policy. A similar conclusion can be drawn with respect to other policy areas. Europe's influence continues to be much less than proportional to its collective size.

The relative share of European countries in terms of population, income and trade has been on a downward slope for some time. This trend is likely to continue in the foreseeable future due to a variety of factors, including demography and the rise of new powers in what we used to call the Third World⁵. Individually, (most) member countries of the EU carry little weight, although illusions of power die hard and there is also much institutional inertia to overcome. Their weight will be even less in the future. Until now, some have tried to reap extra benefits by following the leader. Others have acted as free riders.

A key question and challenge for European countries is whether they can define and defend collectively common interests and values in a globalising world where size matters. Does commonality of interests and values prevail over diversity? And is diversity more of an inter-country

⁵ Nicole Gnesotto and Giovanni Grevi, *The New World Puzzle: What World for the EU in 2025?* (Paris: Institute for Security Studies, 2006).

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nature, or is it more ideological and/or partisan? In other words, are the main differences between Greece and the UK, Poland and Germany? Or, are they between Left and Right, Green and less Green?

How is national interest defined and articulated in many areas of contemporary political economy? And, more provocatively, can we legitimately talk about national interest with respect to policy issues where global and regional interdependence tends to create more winners and losers within countries than between countries? In the EU, the Council is the vehicle for the expression of different national interests, while divisions in the European Parliament tend to be more along ideological lines. A shift in the balance of power between the two has political implications, while the Commission is expected to represent the European interest, whatever that may be.

Assuming that European countries decide to invest in their unity as a way of better defending collective interests and values, they will have to choose among different methods of decision-making and models of governance more generally, ranging from simple intergovernmental coordination all the way to centralisation⁶. Different models cater for different degrees of diversity of interests among other things; they also produce different outcomes. The choice will most likely continue to vary from one policy area to the other, although some analysts discern a long-term trend towards more *communitarisation* of decisions.

In a world where the economic forces of globalisation hit against resurgent nationalism, Europe risks being uncomfortably squeezed between the two. This is the pessimistic scenario. Risks are also opportunities for some. In an increasingly multipolar world with greater diffusion of power to non-state actors, the EU could serve as a model as well as a catalyst for more effective global governance and also as a vehicle for the defence of common interests and values. This is, of course, the optimistic scenario.

Managing or Adjusting to Globalisation?

Despite the rapid expansion of the European agenda, economics remains the backbone of regional integration. We have been living through dramatic changes in the global economic environment during the last two decades or more: rapid rates of growth of international trade and foreign direct investment, coupled with much faster growth of financial markets which have become truly global in their operation, if not in their structure of control, as well as major economic

⁶ See also the chapters by André Sapir, Benoît Coeuré & Jean Pisani-Ferry in A. Sapir (ed), *Fragmented Power: Europe and the Global Economy* (Brussels: Bruegel, 2007).