Richard Youngs, DIRECTOR, FRIDE, MADRID. THIS ARTICLE DRAWS ON HIS FORTHCOMING BOOK ON EUROPE'S DECLINE, FROM PROFILE BOOKS

It has been well known for some time that Europe's relative decline is the major challenge for future European Union foreign policy. The underlying trends are clear: the EU's share of world trade, production and population are all set to diminish, its political power already weakening. But in the last six months, this incremental decline seems to have accelerated alarmingly. The EU's international power appears to be in freefall.

THE EURO CRISIS BOTH REFLECTS and dramatically compounds the European Union's international weakness. Even in the best-case scenario of the 750 billion euro credit mechanism saving the euro, the associated austerity measures across southern Europe will make a huge dent in the continent's fabled social model. This has long been promoted as a primary source of the EU's aspirational pull or soft power.

Both analysis and policy have naturally focused on the immediate imperatives of the economic crisis and saving the euro. Crucially, however, there is also a relationship between the turmoil surrounding the Greek bail-out and the prospective descent in European political power. A key underlying problem is that no geopolitical strategy underpins attempts to stem the EU's international economic decline.

The crisis is already threatening to spill-over into Europe's international influence. With the EU so split between surplus and deficit states – and between French and German economic models – a common line on the much-needed rebalancing of the world economy looks a remote prospect. The EU has all but denied itself any significant role in the international currency diplomacy now led by the United States and China.

SAPPING VITALITY

The enormous amount of debt being run up in pursuit of recovery from the financial crisis will sap vitality and resources from a broad range of Europe's international policies. External resources are already being reduced, a significant number of member

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states are cutting back on both aid and military budgets. Germany, France, Italy and Ireland were the big aid-cutters last year; Spain has just announced the largest absolute reduction in external funds.

It is now commonplace to note how the G20 reflects a shift in economic and political power towards Asian and other emerging economies. But the nature of debates within the G20 are even more illuminating: Asian nations that emerged from their own financial crisis over a decade ago in robust shape say openly that they are not inclined to follow advice on financial regulation from Europe's floundering economies.

The last year has also shown that emerging powers are no longer desperate to sign trade agreements with the EU. Rather they have agreed a significant number of free trade accords between themselves, cutting out western powers entirely. This again has foreign policy implications, preferential and contractual agreements have long been the foundation on which the EU has built its political influence.

FOREIGN POLICY FUDGE

The Copenhagen climate summit provided a salutary jolt to EU faith in effective multilateralism. Contrary to the general view, European negotiators actually had good reason not to be in the room as the US and emerging powers haggled over details to block a progressive deal on climate change. But the symbolism of being excluded from the final deal-making was potent. The episode is now routinely referred to in Brussels as providing the shrillest wake-up call so far that the European vision of preserving power through rules-based multilateralism is treading water.

It has also become apparent that the Lisbon Treaty did not clarify EU decision-making or properly sharpen foreign policy instruments, so much as open another round of obscure institutional debates. The current design for the EU's planned diplomatic service contains as many elements that will complicate European international action as will improve it. Issues such as human rights, conflict prevention and coordinated external energy security have not been given priority.

HOW NOT TO RESPOND

It is important to retain a sense of perspective. While the EU's predicament is serious, relative decline need not be incompatible with dealing with deficiencies in economic and security provision.

The problem is that the strategies being pursued to adapt to a post-western world are drifting in the wrong direction. Behind the range of recent EU economic decisions lies a misplaced drift in political philosophy: the EU is exhibiting signs of 'Euro-nationalism'. The nationally centred responses to previous crises are being replaced with similar reactions coordinated at the European level. There is a striking absence of well thought out geopolitics on which to base European economic decision-making. In consequence EU reactions to the financial crisis have been ad hoc and defensive.

Attempts at short-term recovery are crowding out measures that are likely to be far more important in dealing with Europe's relative longer-term decline. The Greek crisis

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has diverted attention and resources away from the new EU2020 strategy, designed to boost long-term international competitiveness. European governments have encouraged their banks to turn inwards to national markets. Increasingly, national or European champions are being encouraged.

The EU has done nothing to resuscitate global trade liberalisation; indeed since the beginning of the financial crisis, emerging economies have resorted to less behind-the-border protectionism than European states.

The EU budget remains profoundly backward looking. Ten times more is allocated to agriculture than to research and development; twice as much is granted to boost social safety nets than goes on research and development. The EU's Global Adjustment Fund mainly offers remedial social protection.

This is not to argue for diminished social protection. But it does reflect Joseph Stiglitz's criticism that in the midst of economic crisis a lot of money has been spent on trying to preserve the status quo, rather than preparing western economies for the inevitable emergence of a fundamentally different international economic and financial world.

In so far as the EU has an international geo-economic vision, it is one of tighter regional blocs competing against each other. The Union is now racing to sign a plethora of preferential trade deals with other regional blocs and individual emerging powers. It is far too confident about the effects these are likely to have on multilateral rules. This policy trend reflects exactly the kind of ad hoc short-termism that is more likely to hasten than minimise European decline.

The EU also errs in its belief that the best way to retain influence is still to focus on exporting its rules and regulations. The fact that many states adopt EU technical standards might smooth commerce and investment. But it does not shore up European power in the world nearly as much as is presumed.

Exporting EU regulations does not find favour in many non-European countries. They complain they are pushed to divert resources into developing similar regulations in a way that can undermine local reform priorities.

Many commentators and policymakers have argued that the EU can regain international influence by spearheading a new model of financial supervision. But this is also a myth. The crisis has not convinced member states to converge their national financial regulation systems, so the weight and pull of any pan-European financial system remains illusive.

Justified and unavoidable measures to strengthen financial sector regulation risk being extended too far in a way that imperils the EU's broader international connections. The new Alternative Investment Fund Managers directive risks being so wide in scope it imposes restrictions on the whole range of well-established investment funds, whose actions had nothing to do with setting off the crisis.

An anti-market, regulation-heavy approach is not a good advertisement for the EU's international monetary diplomacy either. As the financial crisis broke, the number of euros in circulation outside the eurozone was about a quarter the number of dollars outside the US. With a risk of over-regulation, French diatribes against 'global financial capitalism' and the Greek bail-out crisis, the prospects of European power being assisted by a wider international role for the euro look slim; some might say, even laughable.

HOLDING FIRM

It is clear just how much current EU responses rely on defensiveness, regulation, negotiated alliance-building and exclusivity. This is the very stuff of geopolitical realism that the EU long ago rejected, and seems to be readopting through stealth and in the absence of a clear political vision for managing decline.

EU policies exhibit a doubly bad combination of economic introspection in defence of a mythical European model with a reversion to ill-thought through geostrategic realism. While the EU's rhetoric is positive – 'we help ourselves by helping the rise of emerging economies' – the reality is less enlightened. Many policies betray an attempt, if not to curtail the rise of other powers, then at least to manage trends in an over-controlled fashion.

After a bad 2009 and an abysmal early 2010, the EU urgently needs to recognise that a change of course is needed. Redirection is required not just in Europe's economic policies but also in the link between these and the more strategic dimensions of its international policies.

The EU must realise that dealing with decline cannot successfully be about defending a supposedly unique European model against a changing world. Rather, it should harness global change towards combined economic and strategic objectives.