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# Europe after the Shocks



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## Introduction

For a decade the continent of Europe – and the European Union as an institution – has been faced with a series of shocks. These shocks have been both economic, with the global financial crisis and the subsequent eurozone crisis; and political, with the rise of populist parties and the decline of mainstream ones; and also security, with unprecedented levels of Islamist terrorism in Europe, civil war and chaos in the Middle East, a migration crisis and a resurgent Russia's policies, particularly in Ukraine. The Brexit vote in the United Kingdom in 2016 has been seen as an integral part of this period of European crisis and its associated political trends.

In the spring and early summer of 2017 there was however a new optimism in Europe. The relative failure of the Freedom Party in the Dutch elections in March and of the National Front in France in May and June suggested to some that the populist advance had been halted. Better economic news, some decline in migration across the Mediterranean and retreat of so-called Islamic State in Iraq and Syria provided grounds for this optimism.

Six months on from M. Macron's victory, is that optimism justified? The shocks that Europe endured were profound, and their consequences are not yet fully known. In the light of the German parliamentary elections, when the Alternative for Germany (AfD) party for the first time won a substantial number of seats in the Bundestag, were the Dutch and French elections meaningful indicators of the political trends across such a diverse continent? To what extent do subsequent elections in Austria and the Czech Republic temper that earlier optimism? Do the positive economic data of mid-2017 support the notion that the European economy is at last moving from recovery to sustained growth? Is the security situation stabilising after years of turmoil?

The crises of 2007-17 have changed Europe and the European Union. The autumn of 2017 seemed a good point to examine what has happened so far and to look forward to what the future might bring. This background paper has been prepared for a joint seminar hosted by Regent's University London and the Senior European Experts group. It is published as a contribution to debate.

## Background: the shocks analysed

The shocks experienced in Europe can be broken down into three broad themes: economic, political and security. Inevitably, these themes are intermingled – for example, Russian intervention in Ukraine triggered EU sanctions in response, which affected the economies of Russia, Ukraine and the EU. Some of the shocks, such as migration, have social and cultural impacts too.

## The economic shock

The global financial crisis of 2007-09 was triggered by events in the United States but because similar conditions existed in Europe, it quickly spread across the Atlantic. Those conditions, a credit and property boom, over-leveraged banks, trade imbalances, excessive household debt and weaknesses in regulation, caused not just a financial crisis but the deepest recession since the 1930s.<sup>1</sup> World trade fell by 14 per cent in real terms in the last quarter of 2008 alone;<sup>2</sup> after that growth slumped and the financial system froze as the inter-bank lending system ceased to work for a time because of a dramatic loss of confidence in the financial system.

Inevitably this decline in economic activity caused a surge in unemployment in many European countries (to 27.5 per cent in Greece and 26.1 per cent in Spain for example).<sup>3</sup> Across Europe, governments had to bail out banks and reduce public expenditure as tax receipts fell whilst central banks adopted unconventional measures (such as quantitative easing) to keep the financial system liquid. Authorised state guarantees to banks amounted to a quarter of EU GDP by mid-2009.<sup>4</sup>

The eurozone was particularly exposed because lenders had failed to take account of the underlying condition of the economies of some eurozone countries when lending to them. The crisis was not immediate but by the middle of 2010 the markets had become very concerned about excessive debt levels in parts of the zone. The credit boom had fuelled unsustainable growth in property markets (most noticeable in Ireland and in Spain, where property prices fell by more than a third between 2007 and 2013<sup>5</sup>), and in government spending (particularly in Greece, Italy and Portugal). Countries with long-standing deficits, such as France, were also badly hit. The most serious problems were in Greece and eight years later these are not yet fully resolved. All this added up to what came to be known as the European sovereign debt crisis.

The economic shock of the global financial crisis has been all the greater because of its exceptional duration. The initial crisis has been followed by a prolonged period of wage stagnation and of austerity policies that have hit morale. Unprecedented low levels of interest rates have hurt savers too. The use of unconventional measures to reboot economies has been partially effective but the pace of the recovery remains painfully slow in many countries.

Just as Europe began to feel it was recovering, in 2016, the election of Donald Trump brought a new threat of global trade disruption. Trump's election was part of a wider populist trend and concern about trade imbalances, the impact of technological change and free trade on low income households and the fairness of globalisation were widely shared in Europe, as was seen partly in the difficult process of getting the EU-Canada free trade agreement ratified.

## The political shock and the rise of populism

A recession on this scale inevitably had considerable political impact. Governments fell in Iceland and Latvia in 2009 and elections in other countries saw incumbent governments

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<sup>1</sup> European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses*, 14 September 2009, pp. 8-16

<sup>2</sup> Joseph Francois & Julia Woerz, 'The big drop: Trade and the Great Recession', *CEPR Vox blog*, 2 May 2009

<sup>3</sup> Eurostat, 'Unemployment by sex and age - annual average', 2 October 2017 (2013 peak figures)

<sup>4</sup> European Commission, *op. cit.*, p. 62

<sup>5</sup> See International Monetary Fund, *Spain: 2013 Article IV Consultation*, IMF Country Report No. 13/244, 2 August 2013, p. 28

turned out in, for example, France, Greece, Portugal and the UK. The austerity that followed the recession may have been necessary to enable structural economic reform to take place but it further increased unemployment in most Eurozone countries except Germany. The weakness of the job market suppressed wage levels and consumers were further hit by higher taxes, as governments sought to reduce deficits.

Fifty-five per cent of Europe's citizens said their country was going in the wrong direction at the beginning of 2009. In the autumn of that year the percentage believing their country was headed in the wrong direction was in the majority in 22 of the 27 Member States. In 17 of them, fewer than 30 per cent of voters thought their country was heading in the right direction.<sup>6</sup> Trust in governments fell, with fewer than half of citizens in 20 out of 27 Member States saying they tended to trust their government.<sup>7</sup> This dissatisfaction manifested itself in a growing challenge to mainstream politicians who didn't seem to have the answers to Europe's problems. Other factors encouraged this trend, including a marked distrust of globalisation (two-thirds of Europeans believed it increased inequalities for example).<sup>8</sup>

In 2009 immigration was the top national concern of nine per cent of voters; five years later it had doubled.<sup>9</sup> By the autumn of 2015 it was seen to be the most important issue facing the EU by 58 per cent of those polled and also at national level by 36 per cent.<sup>10</sup> The increase in migration, both within the EU after the addition of 10 new Member States in 2004 and from outside it, had raised fears for employment, concern about identity and, with the rise of Islamist terrorism, security concerns as well.

Populists filled the gap left by the deterioration in standing of mainstream politicians. Invariably populist parties were aggressively negative towards globalisation and socially conservative on culture, migration and the nation state. This combination proved effective in appealing to disgruntled voters across Europe.

This phenomenon could be seen in a wide range of European countries. The True Finns won 19 per cent of the vote in the 2011 Finnish Parliament elections, making them the third largest party; four years later, they were the second largest party and joined a coalition government.<sup>11</sup> In France, the National Front had been founded over 20 years earlier than the True Finns and had had success in the past but the new mood of scepticism in the country after the financial crisis enabled the party to gain ground. In the 2012 Presidential election it took 17.9 per cent of the vote, its best ever result at that time.<sup>12</sup> Five years later its leader, Marine le Pen, was able to reach the second round of the presidential election, achieving an unprecedented vote share of 33.9 per cent against Emmanuel Macron.<sup>13</sup>

There were many other examples of populist party successes. In the UK, the United Kingdom Independence Party took advantage of the proportional system of election to the

<sup>6</sup> See European Commission, *Standard Eurobarometer 71: Public opinion in the European Union*, 23 September 2009, pp. 67-68

<sup>7</sup> *Ibid.*, p. 73

<sup>8</sup> *Ibid.*, p. 184

<sup>9</sup> *Ibid.*, p. 54

<sup>10</sup> European Commission, *Standard Eurobarometer 84: First Results*, 22 December 2015, pp. 13-16

<sup>11</sup> Statistics Finland, 'True Finns the biggest winner in the elections. Coalition Party the largest party in the Parliamentary elections 2011', 29 April 2011

<sup>12</sup> 'Francois Hollande wins French presidential election', Angelique Chrisafis, *The Guardian*, 6 May 2012

<sup>13</sup> 'French election results: Emmanuel Macron says France facing 'immense task' to rebuild European unity as he defeats Marine Le Pen', Rory Mulholland *et al.*, *Daily Telegraph*, 8 May 2017

European Parliament. It won the 2014 elections, becoming the largest UK party with 27 per cent of the vote and 13 MEPs; this was a significant improvement on its second place five years earlier when it had obtained 17 per cent of the vote.<sup>14</sup> Despite this, UKIP did not become a significant force in the House of Commons (achieving a maximum of two seats) but its campaigning was an important factor in the decision of David Cameron's Conservative Government to hold a referendum on EU membership.

Although populist parties tend to have centre-left economic positions and conservative social ones, it is their rejection of the allegedly failed mainstream parties which is the most common uniting factor. AfD offered an anti-euro, centre-right agenda when it was launched in 2012 as a reaction to the prospect of Germany having to bail out other eurozone countries. AfD quickly took advantage of the immigration debate in Germany which followed the refugee crisis (see below) and the campaigning rallies of the anti-immigrant Pegida group. Once it adopted more extreme rightwing views, with leading figures accused of anti-Semitism as well as opposition to Islam, the party began to split.<sup>15</sup>

The success of the Freedom Party in the Netherlands, which came second in the March 2017 Dutch parliamentary elections, was a further demonstration (after Pim Fortuyn in 2002) that even in the founder countries of the EU an anti-immigrant, Eurosceptic platform could be popular.<sup>16</sup> Platforms with some of these features have been adopted by the Five Star Movement in Italy, by the Law & Justice Party in Poland and by Fidesz in Hungary. The latter two parties would reject the claim that they are populist parties, seeing themselves as patriotic centre-right parties, and both now form the government. These parties share much of the populist agenda but like the Freedom Party in Austria derive their support from long-standing socially conservative attitudes rather than just a rejection of centrist politics.

Just as Law and Justice and Fidesz would reject the notion that they are populists, the nationalist parties in Catalonia and Scotland would deny that they were part of a wider concern about identity and culture in Europe. But these nationalist movements do share the sense that the people they claim to represent have been disadvantaged by being part of a larger whole and they commonly promote a political ideology which is critical of free market economics and globalisation. These movements are seen as a threat in the EU because the numerous border changes of the twentieth century have left grievances across the continent and there is a real fear that if one country breaks up (such as Spain or United Kingdom) others would follow.

### The security shocks: revolution and counter-revolution

The first security crisis that Europe faced was the wave of upheavals that constituted what was called the Arab Spring of 2011. The old certainties of the Middle East and North Africa were swept away in a swathe of Arab countries, upsetting established relationships and disrupting economies. At first there seemed a prospect of authoritarian regimes being replaced by democracy and the rule of law but soon there were counter-revolutions and the rise of Islamist groups often bent on violence. In some countries (for example in Egypt) this led to a counter-revolution by those who had been forced from office earlier. In Syria the authoritarian

<sup>14</sup> Oliver Hawkins, Lukas Audickas & Richard Cracknell, *UK Election Statistics: 1918-2017*, House of Commons Library Research Paper 17/7529, 23 August 2017, p. 50

<sup>15</sup> 'Anti-Semitism row splits Germany's AfD populist party', *BBC News*, 6 July 2016

<sup>16</sup> 'Dutch election: European relief as mainstream triumphs', *BBC News*, 16 March 2017

government of Bashar al-Assad resisted demands for liberalisation and the country rapidly dissolved into a bloody and bitter civil war. This provided an opportunity for so-called Islamic State (ISIL or *Daesh*) to fill the vacuum. The policies of the Shia majority government in neighbouring Iraq contributed to the advance of ISIL because they alienated Sunni Muslims.<sup>17</sup>

The EU was then concerned with the fact that that its southern neighbourhood had become an arc of insecurity. While there was agreement in the EU about the need to back the rule of law and democracy and to promote economic development in the Middle East and North Africa, there was disagreement too. An attempt by the British and French to persuade Germany to agree to military intervention in Libya was unsuccessful and they acted with the Americans and others instead under a NATO and UN mandate. Much later Russian intervention in Syria (from September 2015) undermined Western efforts to support anti-Assad rebels and led to divisions over how to respond to this new development.

The chaos that followed the collapse of the old regimes in the Middle East and North Africa led to a massive outflow of refugees to Europe on top of the already substantial pressures from economic migrants.<sup>18</sup> The appalling violence in Syria understandably caused many of its citizens to flee and they became refugees in neighbouring Lebanon and Turkey before trying to move to Europe. Violence and poverty in other countries also contributed to a tidal wave of humanity flowing across the Mediterranean. The number of people seeking asylum in the EU had last peaked at 672,000 in 1992 as a result of the Yugoslav wars but had then fallen back to below 200,000 in 2006. It jumped to 413,000 in 2013, before leaping to 1.26 million in 2015 and it stayed at roughly that level in 2016.<sup>19</sup>

The obvious suffering of people desperate enough to pay people smugglers for passage on dangerous, over-crowded vessels rightly attracted sympathy and EU action but the sheer scale of the problem overwhelmed the authorities and taxed the goodwill of Europeans. The decision of the German Chancellor Angela Merkel to effectively suspend the EU's so-called Dublin rule (that a refugee must apply for asylum in the first EU country in which they land) in the summer of 2015 was a remarkable humanitarian gesture but its consequences were politically damaging to her support in Germany and to the cohesion of the EU.

Terrorist attacks have been commonplace in Europe since the 1970s but most have been committed by internal separatist movements (such as ETA and the IRA). In the last 16 years terrorist attacks by jihadi movements or individuals have become more common.<sup>20</sup> Those in Paris in 2015 and then in Brussels, Nice and Berlin in 2016 brought back the spectre of jihadi attacks last seen significantly a decade earlier in the Madrid and London bombings.<sup>21</sup> The ease with which terrorists could move across Europe undermined confidence in EU border control policies. The attacks in Paris and Brussels, along with the migration flows of the summer of

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<sup>17</sup> See Renad Mansour, 'The Sunni Predicament in Iraq', Carnegie Middle East Center, 3 March 2016

<sup>18</sup> Further information on the migrant crisis, including on its causes, see Senior European Experts, *Migration to the European Union: A Confusing Picture*, March 2017

<sup>19</sup> Eurostat, 'Asylum statistics', 19 April 2017

<sup>20</sup> Most of the 142 attacks in 2016 were separatist but the jihadi attacks were the deadliest, accounting for almost all deaths: see Europol, *European Union Terrorism Situation and Trend Report 2017*, 14 June 2017

<sup>21</sup> 'Terrorist atrocities in Western Europe', *The Economist*, 23 March 2017

2015, led to the partial suspension of Schengen on several borders. That in turn led to economic disruption which showed that terrorism had financial as well as human costs.<sup>22</sup>

As if European countries didn't have enough security challenges to deal with, another one dramatically emerged in the first quarter of 2014. Objections by Russian-speaking Ukrainians, and their supporters in Russia itself, to the revolution that overthrew the pro-Russian Ukrainian President Viktor Yanukovich in February 2014 led to civil war and Russian annexation of Crimea. This created a new threat from the East to the EU and NATO, not least because Russia blamed the situation in Ukraine on the EU's proposed association agreement with the country. The division between those in Ukraine who leaned west towards the EU and those who favoured closer ties with Russia to the east had become the focus of dispute because of President Yanukovich's last-minute decision in 2013 to reject the draft agreement with the EU.

The EU, supported by the US and others, imposed economic sanctions on Russia over the annexation of Crimea, which was a clear violation of Russia's commitment to respect Ukraine's borders.<sup>23</sup> But there was a wider trend in Russian foreign policy under Putin away from co-operation with Western countries, including the institutions of the EU and NATO, to a policy that portrayed Russia as embattled and under siege and did not flinch from brandishing Russia's nuclear weapons potential. The action in Ukraine, which included Russian military personnel being involved in the conflict in Eastern Ukraine, followed the 2007 cyber-attacks on Estonia that many blamed on Russia. A growing sense of insecurity on the EU's eastern borders was only heightened by belligerent rhetoric from Moscow about the Baltic States and claims of Russian interference in elections in Europe and the US.

In the summer of 2016 the EU adopted a new global security strategy that almost immediately was undermined by the British vote to leave the EU – the UK being Europe's (and the EU's) largest military power. Although this strategy posited an enhanced role for EU military action, it did so in the context of the majority of EU Member States being also members of NATO.

The long-standing relationship with the USA, important to Europe's economic as well as its military security, also appeared under threat with the election of Donald J. Trump as US President. His administration, with its emphasis on "America first", his erratic approach to foreign policy and, above all, Mr Trump's early reluctance to endorse the mutual defence clause in the NATO Treaty (Article 5) if European members did not increase their defence spending, alarmed European leaders. The fact that Mr Trump had endorsed Brexit and was clearly sceptical about the value of the EU, raised major questions about whether the support the US had given to European integration since 1945 would continue. US support for EU foreign policy positions in many areas could also be threatened and his sympathy for populist movements in Europe was a further de-stabilising factor.

### **A brighter future?**

By the end of 2016 the EU and its Member States had endured a decade of shocks. Morale was low. Both the UK Brexit vote and the election of Donald Trump seemed to symbolise a tide of

<sup>22</sup> The temporary reintroduction of border controls was estimated to cost Europe €15 billion a year: see 'New study plays down economic impact of Schengen border controls', Nicole Sagener (trans. Sam Morgan), *Euractiv*, 19 April 2016

<sup>23</sup> See the *Charter of Paris for a New Europe*, 1990

opinion that threatened to sweep away all that the leaders of the EU felt they had achieved over the last 60 years. Yet by the summer of 2017 the mood had changed. There was a new optimism. In the second half of this paper we examine the arguments for and against believing that the future is now brighter for Europe and the EU than it had appeared to be a short while ago.

### Has the European economy returned to stable growth?

Growth picked up in the eurozone in early 2013 after the European Central Bank undertook to buy the debt of member countries such as Italy and Spain in “unlimited quantities” if needed.<sup>24</sup> In fact, no such purchases proved to be necessary as the markets recovered their confidence after the ECB’s dramatic intervention. The UK was quicker to return to growth partly because it had adopted similar drastic tactics much earlier.

By the middle of 2017 the eurozone had achieved 17 quarters of continuous growth. After years of the UK outperforming the eurozone, the zone overtook the UK in 2017 with a growth rate double that of the UK.<sup>25</sup> With the eurozone achieving its fastest growth rate since 2011 in the second quarter of 2017, and solid growth in France and Spain, there was a feeling that Europe had finally turned a corner.

The good news about growth was supported by the decline in unemployment, which had fallen from a peak of nearly 20 per cent in the eurozone in the first quarter of 2013 to 15 per cent in 2017.<sup>26</sup> Markets were further encouraged by the fact that the threat of trade disruption from the Trump administration had so far failed to materialise after Chancellor Merkel had met the President and made clear that Germany would not reach any kind of separate trade agreement with the USA.<sup>27</sup> The prospects for economic reform in France after the election of President Macron have increased.

The recovery of the eurozone has been marked by the success of structural reforms in Ireland, Portugal and Spain. This has been uneven and painful for the countries involved but ultimately successful. Spain had to tackle a wide range of problems, including a bloated public sector, low productivity, excessive rates of early retirement and regional savings banks that were over-exposed to the now-collapsed property market.<sup>28</sup>

Despite the 2016 shock of the Brexit vote and the election of Trump, the EU has regained momentum on trade and competition. It succeeded in getting its Member States to ratify the important EU-Canada free trade agreement (FTA) in 2016 and it reached agreement in principle with Japan on an FTA this year. There is also the possibility that the long-stalled talks with Mercosur could be heading towards agreement. After fears that the Trans-Atlantic Trade & Investment Partnership, the ambitious EU-USA trade agreement on which talks had begun during President Obama’s administration, was a dead letter following Trump’s election, the US has now indicated that talks could restart.<sup>29</sup>

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<sup>24</sup> ‘ECB introduces unlimited bond-buying in boldest attempt yet to end the euro crisis’, Ian Traynor, *The Guardian*, 6 September 2012

<sup>25</sup> ‘Eurozone economy grows twice as fast as the UK’s, figures show’, Katie Allen, *The Guardian*, 1 August 2017

<sup>26</sup> Eurostat, ‘Unemployment statistics’, 31 August 2017

<sup>27</sup> ‘Angela Merkel ‘had to explain fundamentals of EU trade to Donald Trump 11 times’’, Lucy Pasha-Robinson, *The Independent*, 24 April 2017

<sup>28</sup> For an indication of the range and scope of its reform programme at an early stage in the crisis, see Government of Spain, *Reforms by the Government of Spain: Combating the Crisis with Determination*, 10 September 2012

<sup>29</sup> Wilbur Ross, US Commerce Secretary, quoted in ‘German government backs restarting TTIP talks’, *Euractiv*, 28 June 2017

Despite an increase in state interventions in the economy during the crisis as Member States stepped in to rescue financial institutions, the EU's competition policy has continued to operate effectively and while there was much talk of protectionism there was little evidence of it in practice.

But the clear evidence of recovery cannot hide remaining major areas of risk to the European economy. The Greek debt problem has not been resolved, partly because of the slow pace of reform in that country but also because of the reluctance of other eurozone countries (especially Germany) to recognise that at least part of the Greek debt will have to be written off. Italy has not resolved the structural problems of some of its banks, which are still at risk of collapse. Unemployment remains depressingly high, especially among the young. Even after the improvements of recent years, youth unemployment is at 47 per cent in Greece, 44 per cent in Spain and 37 per cent in Italy.<sup>30</sup>

Although the worst of the structural problems are in the Mediterranean Member States, other EU Member States need reform too. Even Germany, the most successful economy in Europe, has potential problems around its low infrastructure investment, a savings culture that arguably depresses domestic demand and 10 million people in work but on low pay.<sup>31</sup> Brexit poses a risk to the whole of the EU economy but the UK will be the biggest loser.

In terms of a better future for the European economy, the real prize would be agreement on a new fiscal management system for the eurozone. This could be made possible by the election of President Macron and Chancellor Merkel's re-election but talk of a radical new system for the governance of the eurozone is likely to prove overblown.

#### Has the advance of militant populism been halted?

In three significant elections in the first half of 2017 populists failed to take office. First, the Freedom Party of Geert Wilders failed to become the largest party in the Dutch elections in March. Then the much-anticipated surge of the French National Front did result in their candidate contesting the final ballot in Presidential election but she was defeated by a large margin and the party was routed in the subsequent Parliamentary election. Soon after, UKIP failed to win any House of Commons seats in the British general election and its vote share fell from 12.64 per cent in 2015 to 1.8 per cent in 2017, their lowest vote share since 2001.<sup>32</sup> These results were important because they signalled a loss of momentum.

Furthermore, France elected in Emmanuel Macron, someone who is the antithesis of the populist politician: a banker and former Minister in an unpopular government who then launched a new centrist, pro-EU party that offered economic reform in a pro-market direction. Other politicians defied the populist trend. In Spain, the reforming government of Mariano Rajoy was re-elected in 2016, seeing off the challenge from a new populist party, Podemos.

Until the September 2017 Bundestag elections, AfD's best result had not been in a national election but in the 2016 elections to the regional assembly in Saxony-Anhalt, where it became the second largest party with 24.2 per cent of the vote.<sup>33</sup> After that it appeared to

<sup>30</sup> Eurostat, *supra* n. 20 (2016 figures)

<sup>31</sup> These issues were discussed in 'The Germany economy is unbalanced – but Trump has the wrong answer', Barry Eichengreen, *The Guardian*, 12 May 2017

<sup>32</sup> See Hawkins, Audickas & Cracknell, *supra* n. 14

<sup>33</sup> 'German state elections: Success for right-wing AfD, losses for Merkel's CDU', *Deutsche Welle*, 13 March 2016

lose momentum but in the September 2017 Bundestag elections it took 12.6 per cent of the vote, entering the national parliament for the first time as the third largest party in the lower house with 94 seats.<sup>34</sup> This election saw historically poor performances by the CDU/CSU and the SPD, the two main parties of the right and left, and gains for four smaller parties, The Left, the Greens, the Free Democrats and AfD. The result was widely interpreted as a blow to the incumbent Chancellor, Angela Merkel, and a criticism of her decision to admit unlimited numbers of migrants in 2015. The longer-term consequences for German politics remain unclear, not least because in the days after the election the co-leader of the AfD, Frauke Petry, denounced the party and resigned.<sup>35</sup> But the result left the country with a more complex coalition-building challenge than ever before.

Support for populists has been declining partly because populist parties find it difficult to retain support when they participate in government and are seen to become effectively part of the establishment. Just like mainstream parties, populists face criticism when they appear to be less than competent in power. Such difficulties have dogged the Five Star Movement in Italy, where its success in winning control of four municipalities five years ago ended with defeat in three of them in this year's elections.<sup>36</sup> That result may well not translate at the national level (Five Star is essentially an online movement and is weak in terms of local organisation) but the allegations of incompetence tainting the Mayor of Rome, who was elected on a Five Star platform, demonstrate how difficult it is for populist parties to maintain support once they take office.

Another part of the reason for the populists' decline may be that the electoral salience of migration has declined in some countries. Immigration was the most important issue facing the EU according to voters in 2015 and 2016 but has now been overtaken by terrorism.<sup>37</sup> The election of Macron shows that pro-EU mainstream politicians can succeed when they have policies that seem credible and appeal to voters.

The reliance of populist parties on charismatic figures to achieve electoral success makes them vulnerable if that person withdraws from politics or loses support. The tendency of populist parties to split is another problem that they face. AfD, UKIP and the Five Star Movement have suffered repeated internal disputes.

But, as the German, Austrian and Czech elections have demonstrated, it is too early to say the populist advance has been definitively and lastingly halted. The Five Star Movement is likely to perform quite strongly at the next Italian parliamentary elections, in the spring of 2018.<sup>38</sup> Proportional systems of election – as in Italy and as used for the European Parliament elections – enable smaller or insurgent parties to break through in national politics more easily than first past the post systems, like that for the House of Commons in the UK and for the parliament in France. Several populist parties now have seats in national legislatures which give them a platform they can use to exploit the difficulties of the parties in power.

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<sup>34</sup> 'German elections 2017: full results', Seán Clarke, *The Guardian*, 25 September 2017

<sup>35</sup> 'German far-right AfD quits party whip hours after being elected', Jon Stone, *The Independent*, 25 September 2017

<sup>36</sup> Discussed in 'Italy's municipal elections: The beginning of the end for the Five Star Movement?', Fabio Bordignon, LSE Europp, 16 June 2017

<sup>37</sup> European Commission, *Standard Eurobarometer 87: Key trends*, 23 June 2017, p. 5

<sup>38</sup> See Fabio Bordignon, *op. cit.*

The truth too is that populists have influenced policies. Across Europe mainstream politicians have adopted tougher policies on migration alongside harsher rhetoric. The EU Member States were prepared to promise Turkey up to €6 billion to keep refugees from leaving that country and entering Europe.<sup>39</sup> Brexit, the shift towards suspending EU membership negotiations with Turkey, the French Government's move to reform the EU's Posted Workers Directive and the EU itself adopting a more cautious approach in FTA negotiations, are all examples of the influence of populist parties and groups.

As the challenges of low economic growth, high unemployment, fears of loss of identity and concerns about the pace of change will remain, populists will continue to have opportunities to exploit these trends and gain electorally from them.

The Law and Justice Party in Poland and Fidesz in Hungary have both strongly challenged the authority of the EU, most often over migration policy and fundamental rights. The reluctance of these and similar parties to accept the authority of the EU and the European Court of Justice (as seen in the Hungarian response to the Court's decision on refugee quotas for example) threatens the legal basis of the EU. Without shared institutions, a system of law and common policies, the EU would not exist. The EU has weathered internal challenges to its policies and ways of working before, and is likely to do so again but the success of populists has emboldened Eurosceptics in more mainstream political parties and this poses its own difficulties.

The rise of nationalism in Europe remains a threat to the cohesion of the EU. The independence movements in Catalonia and Scotland are especially strong but there are several other minorities within EU countries who are dissatisfied with their constitutional position. While these questions are for individual Member States to resolve, how they are handled could have implications for other Member States with minorities and for the EU as a whole.

### Is the security situation in Europe and its neighbourhood stabilising?

The defeat of ISIL in most of Iraq and Syria in 2016 and 2017 was an important step in returning some degree of stability to the Middle East. There have been some signs of progress in Libya too, with international attempts to persuade the various groups to support the internationally recognised national government. Migration has declined across the Mediterranean in 2017 because of action by the EU and the international community in Libya and North Africa. The EU's agreement with Turkey has held despite major policy differences, particularly following the attempted coup in July 2016 and the Erdogan Government's response to it (see below).

Russian aggression in Ukraine has to some extent been contained by EU and US sanctions. Ukraine is now going through a prolonged period of reform. To reassure its central and Eastern European Members, the NATO countries have agreed military deployments to Poland and the Baltic States. After some delay, President Trump has now made it clear that he backs the mutual defence clause in the NATO Treaty.

Jihadi terrorism in Europe has increased in the last two years but there is good co-operation between Member States and recent atrocities have provided a spur to increase such co-

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<sup>39</sup> The sum will be dispersed up to end of 2018: European Commission, *EU-Turkey Statement: Questions and Answers*, MEMO/16/963, 19 March 2016

operation. There is growing awareness that security measures are not enough with a clear need to focus on integration and opportunities for migrants.

While there have been positive developments, pointing towards an improved security situation in Europe and its neighbourhood, many problems remain. Syria is far from peaceful and the future form of its government has yet to be decided. The return of foreign jihadis from Syria and Iraq to their home countries in Europe poses a major challenge in the next few years. The number of arrests for jihadi-related terrorist offences rose in 2016 for the third year in a row. Of the 142 people who died in terrorist attacks in the EU in 2016, 135 were killed by jihadi terrorists.<sup>40</sup> The difficulties of preventing attacks by lone terrorists or those who were previously unknown to the authorities, and who may have been radicalised over the internet, are substantial.

The turmoil in the Middle East since 2011 continues, with recent difficulties between Qatar and Saudi Arabia one manifestation of the deep divisions in the region, in particular those between Saudi Arabia and Iran. Those divisions partly reflect disputes between Shia and Sunni Muslims as well as between those Arabs who want to maintain absolute monarchies and those who wish to overthrow them. The EU cannot help but be affected by what happens in the region but it has limited scope to influence it.

The Mediterranean migration crisis is not over. There are still huge pressures on Greece and Italy and the EU's relationship with Turkey is fraught and unlikely to become less so in the short-term. Reducing migration means addressing its causes and while the EU has been active in supporting programmes to deter people trafficking, reduce poverty and raise standards of governance and security in Africa and elsewhere, this is a long-term agenda that requires co-operation and considerable resources.

The increasingly authoritarian government of Turkey, whose disproportionate clampdown on its opponents after the attempted coup of July 2016 has generated international as well as domestic concern, seems less and less interested in its relationship with the EU. After quarrelling with Russia in 2015/16, Turkey quickly mended fences. Although the flow of refugees from Turkey across the Aegean has slowed, it has not stopped altogether and the actions of the Turkish authorities imply that they have the ability to increase the flow when they wish to make their displeasure with the EU known. The increasing reluctance in the EU to accept Turkey as a member in future threatens the breakdown of the (admittedly often stalled) negotiations.

The EU has not so far succeeded in making defence co-operation work effectively. It has conducted some successful operations, such as that to deter piracy off the Horn of Africa. But that operation was led by the British and Brexit means a key European military power in the EU will be leaving. The remaining Member States other than France have limited capacity to tackle the wide range of defence issues in Europe and its immediate neighbourhood and have often lacked the will to do so. The shift in thinking implied by Germany's defence White Paper in 2016, which would allow the country to be a more active participant in overseas military operations, was a step forward but there is much opposition to the change in Germany.

The EU's new global security strategy is largely untested. The question is whether Member States will be willing to back the words in that document with action when it is required.

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<sup>40</sup> Figures from Europol, *supra* n. 20

The election of Donald Trump appeared to undermine transatlantic defence co-operation but it may have the effect of increasing European co-operation.

### **Looking forward**

The decade of shocks may for the greater part be over but the future will not be plain sailing. This paper has not addressed institutional questions but Member States know that the EU needs to modernise and reform to deal with the challenges it faces.<sup>41</sup> As recent speeches by the President of France and the President of the European Commission have acknowledged, that is about more than just eurozone management. Organisational changes within the EU, such as combining the post of President of the Commission with that of President of the European Council (as proposed by President Juncker) or starting to establish a common eurozone budget (as suggested by President Macron) show a willingness to debate controversial ideas but as the reaction to these particular proposals demonstrated, there is a long way to go before the EU as a whole would adopt such radical changes. It is unlikely that these ideas will materialise in any recognisable form.

There are positive signs in the European economy and the new trade deal with Japan is a good example. The EU needs to find a way to revive the trade talks with the US and to reach agreement with it. Brexit will cause some economic disruption, even with a transition period and a “deep and special partnership” (to quote the Prime Minister’s Article 50 letter) will not be easy to negotiate. Europe’s ageing population and the potential turbulence caused by the fourth industrial revolution are rising issues which its politicians have yet really to address.

While the populists may be on the wane they are still a significant force in some EU Member States and mainstream politicians will only recover credibility when they show they are listening to widespread public concern and are capable of delivering successful alternative policies. Concerns about culture and identity, which are at the heart of the success of populist, socially conservative and nationalist parties, will continue and mainstream politicians need to find more effective ways to respond to them.

Security may be the biggest area of difficulty. Russia’s leader Vladimir Putin has shown his capacity for surprises. Nuclear proliferation is still a threat, despite the agreement with Iran, as the on-going international dispute with North Korea demonstrates. The fight against terrorism is a long-term battle that needs political progress in the Middle East and North Africa to match military action if it is to be defeated. Whatever the policies of the Erdogan government, Turkey will remain important to EU and to NATO. The EU is still not as effective as it could be in preventative work, such as strengthening the economies and the rule of law in Africa to deter migration.

The sky may not be as dark over Europe as it appeared to be even a year ago, but there is no case for complacency or for unqualified optimism about the future.

**October 2017**

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<sup>41</sup> The President of the European Commission drew attention to this in his 2017 State of the Union Address: European Commission, *President Jean-Claude Juncker’s State of the Union Address 2017*, SPEECH/17/3165, 13 September 2017



## Senior European Experts

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