Prosperity through Cooperation – How Deglobalization and the War in Ukraine are Destroying Prosperity and How the EU Should Respond

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I Introduction

Since the end of World War II, material prosperity has increased in all regions of the world. One reason for this is the rules-based international division of labor, which gives rise to specialization gains that increase consumption opportunities in all participating countries. Since the global financial and economic crisis, however, this form of welfare-enhancing international cooperation has come under pressure. Punitive tariffs and other trade-dampening measures have increasingly left their mark on cross-border trade. Russia's attack on Ukraine represents a new level of disruption to the international division of labor. The physical disruption of trade flows and massive economic sanctions on an unprecedented scale are causing economic damage worldwide – not to mention the human suffering in Ukraine.

Regardless of how Russia's war of aggression against Ukraine ends, there can be no return to the international division of labor as it existed before February 24, 2022, when the war began. The global division of labor will decrease, i.e. deglobalization will occur. The question for the EU is how it should shape its future foreign trade relations and how it can minimize the disadvantages stemming from deglobalization.

II Prosperity Gains through the International Division of Labor

In recent decades, the international division of labor and international trade have increased all around the world. One reason for this is the considerable reduction in customs duties. Shortly after the end of the Second World War, cross-border trade in goods was subject to tariffs of 40 percent on average. Since then, duties on imports have declined markedly, amounting to less than 4 percent at the beginning of the 1990s.[1] Globalization received another boost when the Iron Curtain fell in 1989, which allowed the economies in Eastern Europe to be integrated into the international division of labor. In 2001, China joined the World Trade Organization (WTO), which further increased globalization since it made the People's Republic a more integral part of the global economy.

The international division of labor can increase an economy's material prosperity through various channels. When countries specialize in the production of those goods and services in which they have production advantages, then all participating countries experience specialization gains – and an increase in their gross domestic product (GDP). When there is international mobility of labor and capital, the production factors available worldwide can be deployed in those places where they make the greatest contribution to overall value creation. For the world as a whole, this means that a larger quantity of goods and services is available, for which consumers pay a lower price.

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1 Busse, M. Transaktionskosten und Wettbewerbspolitik, HWWA Discussion Paper No. 116, Hamburg, 2001.

GDP and Prosperity

GDP is the traditional indicator for measuring economic performance and a country's material prosperity. It represents the value of all goods and services produced in a country in a given year. Even if using GDP to measure a country's economic performance has its shortcomings, it remains the most commonly deployed tool in economic policy discussions. A high GDP is considered desirable since it has a variety of positive consequences. It means, for example, that people have access to numerous consumer goods, such as housing, clothing, food, transportation, leisure activities, hospitals, schools and much more. Better nutrition and better living conditions improve people's health and increase their life expectancy. Moreover, a high GDP means high revenues for the state, which can then be used for public infrastructure, for example in the areas of education, health and safety.

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A greater international division of labor thus leads to an increase in real GDP – i.e. GDP adjusted for inflation – for all participating economies.[2] Economists call this a win-win situation. That does not mean, however, that everyone in society benefits as a result of globalization; there are certain groups and regions whose income has declined due to the world's global interconnectivity.

Change in real GDP per Capita between 1990 and 2021

Constant prices, purchasing power parity, 2017 international dollar

Country group/contry	1990	2000	2010	2020	2021	Change
China	1,409	3,431	8,836	16,226	17,531	+ 1,144%
Emerging and developing Asia	2,011	3,387	6,735	10,942	11,658	+ 480%
Emerging and developing Europe	17,036	13,295	20,491	25,560	27,259	+ 60%
United States	40,382	50,145	54,437	59,803	63,018	+ 56%
European Union	30,008	35,026	39,497	42,111	44,374	+ 48%
United Kingdom	31,467	39,060	42,305	42,976	45,866	+ 46%
Germany	37,168	43,572	48,148	51,719	53,138	+ 43%
Latin America and the Caribbean	10,933	12,575	15,048	14,291	15,132	+ 38%
Sub-Saharan Africa	2,936	2,771	3,658	3,806	3,879	+ 32%

Source: IMF World Economic Outlook Database – April 2022 Edition (data accessed May 10, 2022). Note: In international comparisons, GDP is usually expressed in US dollars at purchasing power parity (PPP). The concept of PPP accounts for the fact that a given number of dollars will purchase a different amount of goods in different countries.

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III Diminished Prosperity for All Due to Conflicts and War

If the international division of labor and globalization increase prosperity for all participating economies then, in sum, deglobalization means a decrease in prosperity: The win-win situation becomes a lose-lose situation.

One example for this is the trade conflict between the US and China that took place while Donald Trump was in office. Methodologically, it is difficult to quantify the exact economic damage caused by this conflict. However, various studies agree that all countries have suffered economic harm as a result. Calculations made by the WTO in 2019 include the following estimates: Due to the trade conflict, GDP in the US will fall over the medium term, i.e. it will be between 1.15 and 1.7 percent lower in 2023 than it would be had there been no conflict. In addition to less trade activity, lower domestic investment will also result in decreased GDP. In China, the corresponding decline in GDP will be between 0.4 and 0.5 percent. Real global GDP is expected to be between 0.3 and 0.5 percent lower in 2023 than it otherwise would be.[3] At first glance, these losses seem to be small

2 Bertelsmann Stiftung. Globalization Report 2020, Gütersloh.

3 Bekkers, E. and S. Schroeter. An Economic Analysis of the US-China Trade Conflict. WTO Staff Working paper ERSD-2020-04, Geneva, 2020.

when expressed as percentages. Yet in absolute terms they represent considerable sums: 0.3 to 0.5 percent of global GDP in 2020 was equivalent to $255 billion to $425 billion.

Even greater are the global economic losses resulting from Russia's invasion of Ukraine. In its economic forecast of April 2022, the International Monetary Fund (IMF) significantly reduced its estimated growth due to the war. In January 2022, it still expected the global economy to grow by 4.4 percent in 2022. Three months later, it was forecasting growth of 3.6 percent (see Figure "Change in expected real GDP in selected countries"). That means GDP growth is 0.8 percentage points lower due to the conflict. That represents – compared to the situation without the war in Ukraine – an expected loss of global GDP of some $770 billion in 2022.

Change in Expected real GDP in 2022 in Selected Countries

Percent change

Country	April 2022 Forecast (in percent)	January 2022 Forecast (in percent)	Difference (in percentage points)
World	+ 3.6	+ 4.4	– 0.8
USA	+ 3.7	+ 4.0	– 0.3
Japan	+ 2.4	+ 3.3	– 0.9
Euro Area	+ 2.8	+ 3.9	– 1.1
Germany	+ 2.1	+ 3.8	– 1.7
France	+ 2.9	+ 3.5	– 0.6
Italy	+ 2.3	+ 3.8	– 1.5
United Kingdom	+ 3.7	+ 4.7	– 1.0
China	+ 4.4	+ 4.8	– 0.4
India	+ 8.2	+ 9.0	– 0.8
Russia	– 8.5	+ 2.8	– 11.3
Ukraine	– 35.0	n.a.	

Source: IMF World Economic Outlook April 2022.

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One particularly serious aspect here is the shortage of food. In 2020, Russia was the world's largest exporter of wheat, with a global market share of some 18 percent. Ukraine ranked fifth at 8 percent. In between were the US and Canada at 14 percent each, and France at 10 percent.[4] If Ukraine and Russia cannot export as much as in the past, the result will be reduced supplies and the threat of poverty and hunger in developing countries.

In addition, there is the destruction of homes, factories and infrastructure (i.e. roads, ports, power and water lines, etc.) taking place in Ukraine as a result of the war. Reconstructing these buildings and systems will require labor, machinery and raw materials from around the world that will no longer be available for the production of consumer goods. In coming years, it will no longer be possible to supply the global community with consumer goods to the same extent as would have been possible without the war.

Moreover, the uncertainty about future economic developments that has resulted from the war will lead to a decrease in investment worldwide. When businesses do not know how demand for their products is going to develop in the future, they invest less in their production capacities. This also means that they create fewer jobs.

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4 Weltexporte. Die weltweit größten Exportländer von Weizen, January 1, 2022. https://www.weltexporte.de/weizen-export/, [retrieved March 6, 2022].

Finally, another factor that must also be considered is the potential loss of the peace dividend. Since the end of the Cold War, many countries have reduced their defense expenditures. For example, Germany's spending on its military fell from $60 billion (in real terms, i.e. in 2010 prices) at the beginning of the 1990s to $45 billion in the mid-1990s and then remained at that level. This reduction in defense spending is referred to as the peace dividend.[5] Even though military spending increases real GDP, it does not directly benefit the general public. On the contrary, the increased production of military equipment ties up capacities that are then no longer available for producing consumer or capital goods, and diverts government spending that could otherwise be used to benefit society at large. The peace dividend is thus disappearing as Germany increases its military spending in response to the war in Ukraine.

In sum, the war in Ukraine will occasion a long-term loss of growth and prosperity. The actual extent of this loss cannot yet be quantified, but the few figures presented here suggest that the entire global economy will suffer considerable economic damage.

Overcoming all of this damage will require having strong economies – first and foremost, because the global economy and community also face another task: the digital and ecological transformation. This dual transition will require capital and labor, i.e. production capacities that will no longer be available for creating consumer goods. Without the specialization gains that arise from the international division of labor, it will be difficult to realize the digital and ecological transformation. Moreover, at least parts of this transformation can only take place if countries cooperate individually or on the global level. One example is the use of green (i.e. climate-neutral) hydrogen. For instance, Germany will not be able to produce all of the hydrogen it is going to require. It is estimated that the country will have to import roughly 75 percent of its annual hydrogen supplies by 2050, which is why it needs a network of international partner countries.[6]

As the above shows, cracks have developed in the globalized economy which must be repaired – but how? A key prerequisite here is having a stronger rules-based world trade order.

IV The Division of Labor Requires Rules

An integral part of any competitively organized economy is the division of labor – both at the national and international level. This makes the specialization gains possible that increase people's material prosperity.

Division of labor presupposes coordination: Sellers must be sure that they will be able to sell the products they produce for others – i.e. for the market – as opposed to for themselves. Sellers must be confident they can find buyers for their products. And they must be confident that other economic players will offer them the products they themselves need but do not manufacture.

Cooperation is therefore required in that all market participants must agree on the fundamental aspects of an exchange economy, i.e. on the rules according to which products are exchanged, on what happens when products are not of the agreed quality, and so forth. Society thus needs rules

[5] Bardt, H. Deutsche Verteidigungsausgaben seit dem Ende des Kalten Krieges, in: Wirtschaftsdienst Vol. 98 (2018), pp. 680–682.

[6] Kruse, M. and J. Wedemeier. Potenzial grüner Wasserstoff: langer Weg der Entwicklung, kurze Zeit bis zur Umsetzung, in: Wirtschaftsdienst Vol. 101 (2021), pp. 26–32.

that organize and coordinate the division of labor and the ensuing exchange of items – and that do so at the lowest possible cost.

Examples for rules at the national level are contract law, clearly defined property rights, and regulations that prevent competition from being undermined (e.g. prohibition of cartels and monopolies). On the international level, conventions are needed that regulate and facilitate the cross-border exchange of goods and services (free trade agreements, reduced tariffs, bans on subsidies for domestic companies that give them a competitive advantage, etc.).

The point of these rules is to reduce the costs associated with organizing and coordinating the division of labor and the subsequent exchange of products. For example, if sales contracts did not exist that could stand up in a court of law, it would be hard to imagine anyone selling a product on account, since sellers could not be certain that they would receive the money promised them. If the money promised is not paid and there is a functioning institutional framework, sellers can sue for what is owed them in court and collect it with support from the state. Without this institutional framework, sellers would have to expend scarce resources ensuring they receive their money. If getting paid were to require too great an effort, then entering into an exchange of this sort would no longer be worthwhile. That would mean foregoing the specialization gains that result from the division of labor. Such rules are also needed on the international level.

An important point here is that making rules alone is not sufficient. They must also be enforced – and any infringements must be punished. This is especially true if breaking a rule is economically worthwhile for individual players.

V The Rationality of Rule Breaking

In the economic context, whether or not breaking a rule is worthwhile from the perspective of the rational individual largely depends on three factors: How great is the individual benefit that would accrue from violating the rule? How great is the probability that the violation will be discovered? How severe is the sanction that the perpetrator would face should the violation be discovered?

This logic also applies to governments faced with the decision of whether they should abide by the rules regulating the international division of labor and international trade. Since the application of punitive tariffs and sanctions is immediately visible, however, the decision for or against breaking the rules is reduced in theory to a rational consideration of the costs and benefits resulting from this decision.

In purely economic terms, the outcome of this consideration is clear: As shown above, punitive tariffs diminish the material prosperity of all participating economies – including that of the country imposing the tariffs. The same is true of trade sanctions. They hurt the sanctioned country and the country introducing the sanctions.[7] Finally, violating international law, as happened when Russia invaded Ukraine, is also not economically rational, since it results in sanctions. Figure “Change in expected real GDP in selected countries” shows that this breach of international law will be an economic disaster for Russia.

[7] Petersen, T. and T. Schwab. Handelssanktionen – Wirkungen und Nebenwirkungen, in: Wirtschaftsdienst Vol. 102 (2022), pp. 354–360.

When policy makers nevertheless decide to take such prosperity-reducing steps, it can only be for one of two reasons: They do not know or do not believe that their country will suffer the economic harm outlined here or they are pursuing other goals, beyond an increase in prosperity, whose attainment justifies – at least from their point of view – the economic costs.

In the case of punitive tariffs, the first reason is hardly likely to apply. The United States has many years of experience with protectionist measures and their negative consequences for the country's economy. One early example is the general trade embargo imposed under President Thomas Jefferson from December 1807 to March 1809. It is estimated that taking this step caused gross national income in the US to shrink by 5 percent.[8] A more recent example: the duties imposed by President George W. Bush in 2002 to protect the US steel industry. According to empirical estimates, the subsequent increase in the price of steel resulted in an overall loss of some 200,000 jobs in the US in the course of 2002. That was more than all the jobs present in the US steel industry at the time (187,500 in December 2002).[9]

If politicians in the US impose punitive tariffs and other protectionist measures despite knowing what the consequences will be, one potential reason is the desire to benefit from it at the polls. The governing party hopes to win the votes of those groups that have been disadvantaged by the international division of labor. In the case of the US, these are low-skilled workers who are losing their jobs due to competition from producers in low-wage Asian countries.[10] The economic goal of increasing overall prosperity is thus subordinated to the political goal of generating the maximum number of votes.

The motives behind the decision by Vladimir Putin and the Russian leadership to invade Ukraine are of a geopolitical nature. At a minimum, their reasons have to do with recognizing Crimea as Russian territory, recognizing the independence of both "people's republics" of Luhansk and Donetsk in the Donbas region, and the enshrinement of neutrality in Ukraine's constitution. It cannot be said whether other goals are also being pursued. Here, too, the decision makers are willing to accept considerable economic losses in order to achieve their goals.

VI What's Next for the International Division of Labor?

The answer to the question of how globalization will proceed in the future is largely dependent on the outcome of the war in Ukraine. Two basic scenarios are possible here:

- Ukraine wins: The Ukrainian army succeeds in expelling the Russian army from Ukrainian territory thanks to weapons supplied and economic sanctions imposed against Russia by the EU, US and other supporters. Reconstruction would thus take place in Ukraine with support from the EU and US. These efforts could be financed using the foreign exchange reserves and other assets owned by Russia that are held at central banks in the West and that the EU and US could thus access physically. At the end of 2021, Russia had international reserves worth $630 billion. France holds about 12 percent of these reserves, Germany and Japan about 10 percent each,

[8] Irwin, D. A. The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo, 1807–09, in: Review of International Economics Vol. 13 (2005), pp. 631–645.

[9] Francois, J. and L. M. Baughman. The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002. (Washington DC, 2003).

[10] Autor, D., D. Dorn and G. Hanson. The China Syndrome: Local Labor Market Effects of Import Competition in the United States, in: American Economic Review Vol. 103 (2013), pp. 2121–2168.

the US 6.6 percent, the UK 4.5 percent, and Austria and Canada about 3 percent each (as of June 30, 2021).[11]

- Russia wins (at least in part): Russia more or less occupies large parts of Ukraine. In the case of a Russian victory, a pro-Russian government would be installed in Ukraine. In the event of a partial Russian victory, the country could be divided in two, with pro-Russian "people's republics" in Luhansk and Donetsk and a Russian land bridge to Crimea.

If Russia should prove (partially) victorious, it would be inconceivable for the democratic states supporting Ukraine to resume trade relations with Russia. On the contrary, these states would probably impose permanent economic sanctions to weaken Russia and avoid further military attacks. Russia would then focus its trade relations even more on China than in the past. Economic blocs would form as a result:

- One bloc would consist of democratic, market-oriented countries from North and Latin America, Europe, Asia (especially Japan and South Korea) and Oceania.
- The second bloc would consist of autocratic states, above all China and Russia and their key trading partners.
- A third bloc could also arise comprised of countries such as India that try to avoid being clearly classified as belonging to one of the first two blocs and that trade with both.

The emergence of these blocs would make the international division of labor more difficult and thus advance the trend towards deglobalization. Given the size of its economy compared to China's, Russia would only be the junior partner in its bloc (see Figure "Economic power as measured by gross domestic product in 2021"). Yet it remains unclear if this division into two blocs will actually happen. Their economic power makes the US and Europe much more important to China as importers of its products than Russia. It is therefore questionable whether China would risk a weakening of its economic ties to the West.

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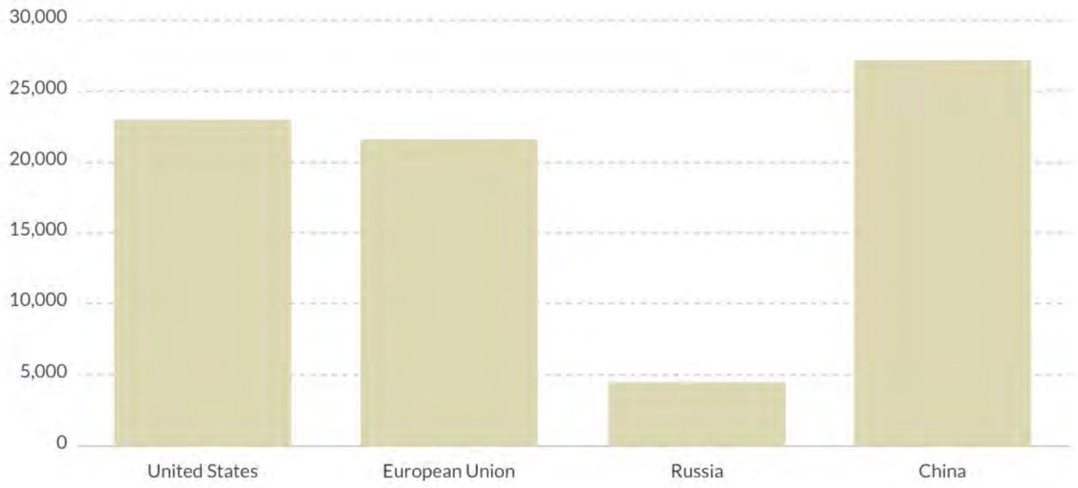
[11] Engerer, H. Sanktionen gegen die russische Zentralbank sind ein starkes Instrument, in: DIW aktuell Nr. 79 (2022), Berlin.

Economic Power as Measured by Gross Domestic Product in 2021

Gross domestic product, current prices, purchasing power parity; international dollars, billions



Source: IMF World Economic Outlook Database – April 2022 Edition.

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Even if Ukraine were to emerge victorious, Russia's reintegration into the international division of labor would be difficult or even undesirable. In addition to rules, partnerships also require trust, which Russia has lost. Why should the world's market-oriented democracies believe that Russia would not use the specialization gains arising from the international division of labor and the income it earns from its energy sales to prepare for yet another military strike?

Regardless of how the war in Ukraine ends, a disruption in international economic relations should therefore be expected. This confronts the EU with at least three major economic challenges:

- Economic prosperity and performance will be permanently weakened if some of the specialization gains made possible by the international division of labor disappear.
- The EU's economic performance must increase, since Europe faces major investments if it is to help rebuild Ukraine in addition to realizing the digital and ecological transformation.
- The demands being put on its economic capabilities will increase even further since, given potential rule-breaking by other nations, the EU will have to reduce its exposure to political blackmail. Thus, the EU must augment its economic power as that is the prerequisite for political power. This means having an efficient production apparatus. Moreover, greater independence from foreign supplies is also required in those areas that are of critical importance to society – independence from oil and gas, for example. This, too, will require developing the relevant production capacities within the EU.

VII Five Options for the EU

The following five options show how the EU can compensate for lower levels of prosperity caused by deglobalization, and can strengthen its negotiating position on the international level by increasing its economic power. More economic power is what will allow the EU to provide benefits to potential partners, thus increasing their willingness to cooperate. More economic power would also increase the EU's credibility when it comes to imposing sanctions on uncooperative behavior. This would increase the price other countries must pay if they break the rules and could thus deter them from taking such a step.

1. Concluding New Trade Agreements

One option consists of signing new trade agreements with other regions in order to gain them as partners. Economic partnerships of this sort can also offset, at least partially, the specialization gains that are lost due to the deglobalization trends outlined above. The positive impact on economic performance would thus improve the EU's global negotiating position.

Potential partners are neighboring nations in Europe and market-based democracies further afield. The second group includes the US in particular, to which the EU already has strong economic ties. Further efforts are underway to strengthen transatlantic cooperation, for example the establishment of the Trade and Technology Council (TTC) announced in June 2021. The council serves as a forum allowing the US and EU to coordinate on key issues in the areas of trade, investment and technology and aims to deepen the transatlantic partnership.[12] Such initiatives are designed to promote international cooperation and the division of labor, and can thus provide the basis for additional specialization gains.

The EU should also consider strengthening such cross-border partnerships by offering financial assistance to build robust infrastructure in those less developed regions outside of Europe that might someday become trading partners. The creation of such infrastructure is crucial if the cooperating economies are to benefit more from the international division of labor. It would also be conceivable for the EU to provide grants for this purpose, since they would be an investment in stable economic partnerships. Given their regional proximity, neighboring European countries are the prime candidates for such assistance.

2. Strengthening Cohesion in the EU and the Single Market

In addition to establishing new international partnerships, it would also be necessary to strengthen cohesion within the EU. The UK's decision to leave the EU was one step in the process of deglobalization from which all the 28 countries involved continue to suffer. Further exits must be prevented, since they would eradicate the prosperity gains brought about by integration and weaken the EU's international negotiating position.

Cohesion in the EU could also be strengthened through other measures, such as achieving a better distribution within Europe of the economic benefits accruing from European integration. This applies to the distribution of globalization-related gains both between EU member states and within

[12] European Commission. EU-USA Trade and Technology Council: Strengthening Our Renewed Partnership in Turbulent Times, press release of May 16, 2022, Brussels.

individual states. The goal should be to ensure that those groups of individuals and regions participate more in the gains from integration whose income opportunities have decreased to due to the presence of more competitive players from the EU.

Carbon pricing is another lever for strengthening cohesion in Europe. The prices charged for greenhouse gas emissions are set to rise markedly in coming years as the EU tries to reach its ambitious climate protection goals. This will have economic consequences for all EU member states, with individual sectors and economies being affected to different degrees. In particular, the countries in Eastern Europe will face economic disadvantages since their production facilities generate above-average levels of greenhouse gas emissions.[13] To prevent social and political tensions, the EU member states in which carbon pricing plays less of an economic role should help offset the costs incurred by Eastern European countries.

At first glance, this is hardly an appealing option for those countries who must provide this financial assistance. Yet it can be seen as the price for maintaining the European single market – and therefore as a stabilization measure that will ultimately pay for itself.

3. Strengthening the EU's Strategic Independence

One possibility for strategically strengthening the EU's independence is to introduce measures that reduce its need for imports from abroad. Various measures are conceivable here: diversifying the countries supplying products, intermediate goods and raw materials; creating additional production capacities in the EU; and increasing the productivity of energy and natural resources in order to import less. While these and other steps would lower the EU's dependence on supplies from abroad, they would come at a price: The products produced in the EU are more expensive than the intermediate goods currently sourced from Asia and low-wage countries in other regions. To the extent that Europe does not manage to lower these costs through technological advances, higher costs are the price the EU will pay for its reduced dependence on imports.[14]

Another approach to strengthening the EU's strategic independence is to strive for global technology leadership in key future technologies. Technological superiority, which includes having skilled workers in addition to the technology itself, is a key prerequisite for economic power, and economic power is the basis for political and military power. This would improve the EU's international negotiating position. It would also increase the EU's credibility if it threatens to impose sanctions should other countries prove uncooperative or break the rules.

It would also be conceivable to expand the euro's role as a global currency. If the euro were to become one of the world's reserve currencies along with the dollar, then the EU could pay for many transactions in euros, thus reducing its dependency on the dollar.

4. Advancing the Ecological Transformation through New International Partnerships

As a resource-poor region, Europe is particularly dependent on imports of fossil fuels. Expanding the use of renewable energies would be an effective way to reduce this dependence. Such an

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13 Mahlkow, H., T. Petersen and J. Wanner. Folgen eines höheren CO2-Preises in der EU – wer gewinnt, wer verliert?, in: Wirtschaftsdienst Vol. 101 (2021), pp. 870–877.

14 Haucap, T., T. Petersen and T. Stühmeier. Resilienz internationaler Lieferketten, Policy Brief Zukunft Soziale Marktwirtschaft 2020/05, Bertelsmann Stiftung, Gütersloh.

expansion would also increase Europe's competitiveness: Whoever masters the ecological transformation today will be a technology leader in the area of environmental issues, a key prerequisite for being competitive internationally in the future. This, in turn, is the basis for economic power – and thus political power.

Europe should also avail itself of products and services from abroad in order to keep the costs of the ecological transformation as low as possible. One possibility here would be importing renewable energies and climate-neutral hydrogen from countries rich in solar, wind and hydro power, e.g. countries in North Africa. This also means that Europe would have to help finance the necessary infrastructure abroad – either by investing itself or by providing loans and other financial means through national development aid programs. At the same time, such a step would involve entering into new dependences, which would mean taking protective steps such as cooperating with a range of suppliers from various global regions.

5. Strengthening a Sense of Community among EU Member States and the European Public

One measure for strengthening Europe's negotiating position is to impose tangible sanctions on countries that break international rules. Even if economic sanctions do not lead to the desired policy shift in the relevant country, they still send a strong political signal: They show that the countries imposing sanctions are willing to bear the costs of inducing the sanctioned country to change its behavior. This is a significantly stronger signal than merely issuing a policy statement.[15] Moreover, sanctions cause other countries to think twice before possibly engaging in similar undesirable behavior.

Past experience with sanctions has shown that they are particularly effective if the countries imposing them demonstrate unwavering resolve.[16] If the EU is to act as one, all EU member states must participate in the relevant measures. Since sanctions aimed at an uncooperative country outside of Europe also have negative consequences for the EU itself, there is considerable danger that individual EU governments will go it alone and not adhere to the joint plan. They could thus shield the public in their own country from negative consequences, thereby improving their chances of being reelected.

If, however, all citizens within its borders feel they belong to the EU, it is more likely they will accept these negative economic consequences. This, in turn, increases the probability that all EU governments will participate in joint sanctions. One crucial way of strengthening this sense of community is to emphasize again and again the benefits that people have as citizens of the EU. This not only refers to economic advantages in the form of greater material prosperity, which is the prerequisite for high levels of immaterial well-being (e.g. health, life expectancy, educational attainment, cultural diversity). It also refers to peace, democracy and stability, issues that people often only begin to reflect on once more when political instability – including military conflict – occurs in the EU's neighboring regions.

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