

THE EEAG REPORT ON THE EUROPEAN ECONOMY

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A fragmenting Europe in changing world

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After a strong 2017, the global economy recorded weaker growth last year and has entered a cyclical cooling phase. Some emerging markets also suffered the adverse effects of capital outflows triggered by more restrictive US monetary policy. The European economy also shifted down a gear at the beginning of 2018, with annualised GDP growth rates dipping below 2 percent. Each of the EU's four largest economies (Britain, France, Germany, and Italy) is expected to grow below 1.5 percent in 2019, which will weigh on overall European growth.	
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The EU's 'ever-closer-union' trajectory no longer seems realistic in the face of populist tendencies in many of its member countries. Tendencies towards disintegration are not only emerging at an EU level, but also within nation states. This chapter asks what went wrong? It traces structural change and reform patterns across the EU-15 countries and offers in-depth analyses of a selection of country experiences.	
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Joining the European Union imposes certain constraints on member states, which are even tighter for countries that adopt its common currency, the euro. This makes it difficult for member states facing asymmetric shocks to stimulate their economies and regain growth. In this chapter we discuss these constraints and consider ways in which EMU member states can potentially deal with them, cooperatively or otherwise.	
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The global environment for the European Union is changing fast. Its relations with the United States are now dominated by conflicts over defence and trade. Closer to home, there is lingering uncertainty over the final outcome of Brexit. But this chapter focuses on another key issue: the implications of the rise of China for Europe. China's emergence as a leading power in science and technology may threaten the competitiveness of European companies. We look at how policymakers can respond to the challenges that Europe now faces.	
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