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The Balance of Payments: Enabler or Inhibitor of EU Actorness?

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1. Introduction

The balance of payments (BoP) as a whole, similar to some of its components such as the balance of trade or FDI flows, is merely a measure of the cross-border transactions of a given economy. While it does not directly yield normative guidance, it is often used for detailed analysis of the domestic economy and its interconnection to foreign actors. It is evident that such interconnectivity creates dependencies and power inequalities when it comes to negotiations in the international arena. However, the analysis of such dependencies and their implications is not entirely straightforward. While e.g. the potential impact of an imbalance in some of the BoP's key accounts, such as the current and financial account, on GDP growth and the value of the domestic currency, and thus FX rates, has been sufficiently researched, the resulting changes in actorness are not necessarily obvious. To assess whether a large current account imbalance is beneficial or detrimental to actorness it is imperative to dive deeper into analysis of individual positions and identify which of these are supporting actorness and under which circumstances. The outcome of this BoP analysis when applied to e.g. the EU may shed light on and provide substance to the view on dependencies and ultimately allow for more targeted policy responses.

In order to address the research questions, roughly three separate steps of analysis are performed in the following thesis. Firstly, a substantial discussion of underlying concepts regarding actorness, as well as clear definitions of BoP accounts and methodology are necessary to set the foundation for further analysis and create a sound methodology. This part relies heavily on reviewing existing literature dealing with actorness and international standards surrounding the BoP to establish terms and models before using these to conduct the dedicated assessment and drawing conclusions. Secondly, an initial general assessment of the BoP seems advisable to determine all relevant positions and draw preliminary conclusions about their impact on actorness. Thus, insights are generated that can potentially be applied to any international actor and serve as the foundation for a more detailed analysis of individual cases. The last step is then to transfer the results of the theoretical assessment to the contemporary situation of the European Union. The results of this case study might generate insights for both policy makers and researchers into how actorness is hindered or driven by

economic and trade developments and how to potentially steer towards stronger EU actorness.

Drawing actorness implications from the BoP is truly a balancing act, as the following assessment will show. Imbalances in many positions have both positive and negative implications for actorness. Even though there are some overall positive underlying factors for actorness to be expected when realising e.g. a sustained export surplus, the negative implications tend to outweigh any positive effects once imbalances become to large. This is particularly true for the financial account, where even small sustained imbalances can be seen as mostly limiting actorness. While thus individual positions in themselves balance driving and inhibiting factors, an additional level of balance is introduced via the interdependence of BoP accounts. By means of double-entry bookkeeping no position changes without consequences in other accounts. Any positive implication in one position might thus be met by a limiting factor in another position. Taking these correlations into account and weighing potential benefits and drawbacks of shifts in individual positions against each other is a key challenge when it comes to drawing conclusions from the assessment or even making predictions on future developments. In shedding light on some preliminary implications and connections, this thesis provides a starting point for a range of potentially interesting research into how the concept of actorness combined with the BoP as a measure could be utilized to greater effect in political decision-making and economic steering.

2. Actorness as a concept

In order to arrive at meaningful conclusions on the potential impact of certain elements of the balance of payments on actorness, it is first necessary to define the concept of actorness being applied, discuss its relevance and sharpen the understanding of factors that either enable or limit actorness.

2.1. Defining actorness and effectiveness

The academic discourse around actorness is typically traced back to Gunnar Sjösted, who conducted research on topics around power and influence in the 1970s (The Exercise of International Civil Power: A Framework for Analysis, 1977) and first introduced the term of actorness in the context of the European Community as "capacity to behave actively and deliberately in relation to other actors in the international system" (Sjöstedt, The External Role of the European Community, 1977). The term actorness has since been very closely linked to the EU framework and of particular academic interest in explaining developments around continuous European integration. While it is important to take this context into account, fundamentally actorness is evidently not a purely European concept but should rather be understood in the broader context of studies on international relations. Until now, limited research and publications have been published using actorness outside of the EU context, one example being Hulse (2014). The following review of the actorness concept and related models will thus make an effort to provide this abstraction to the global stage.

Sjöstedt's initial actorness concept, incorporating both discussions on external independence from other actors as well as internal cohesion, naturally being of special concern in the case of the EC/EU, has subsequently been developed further by various authors, bringing forth several different, albeit overlapping concepts that focus on different aspects of actorness. In the 90s, Hill (1993; 1998) discussed the prerequisites to being an actor as having a joint stance and instruments available, which was later expanded by Jupille and Caporaso (1999) by introducing the narrower term authority, i.e. legal competence to act, and wider autonomy, i.e. having the means to act. Beyond these internal factors they further discuss recognition by both internal and external

parties as fundamental to actorness. Bretherton and Vogler (2000; 2005) focus on the terms coherence and consistency in the case of the EU, describing its ability to coordinate internally and to use its instruments consistently. Klose (2018) adds to the discussion by introducing the necessity of opportunities for action as fundamental to the actorness concept.

In recent years significant efforts have been made in order to provide structured, comprehensive analytical frameworks and models to the actorness concept. Kratochvíl, Cibulková and Beník (2011) have described such a framework, which was then built upon by Jakob and Teebken (2020). In particular, the latter acknowledge that a comprehensive view on actorness can only be achieved by including the effectiveness of actions, i.e. their capacity to reach intended outcomes. Effectiveness has been discussed by several authors in the context of actorness, such as Peters (2015), Oberthür & Groen (2018), and Delaere and Van Schaik (2012), among others. The main concern of these authors regarding previous actorness models was the lack of an assessment of the quality of action. The comprehensive actorness and effectiveness model of Jakob and Teebken will be briefly summarized and slightly adjusted below, as it shall serve as a basis for the further assessment of actorness in the following subchapters.

Table 1 illustrates the dimensions of actorness as deduced by Jakob and Teebken (2020), including relevant effectiveness variables. Due to their relevance for the assessment of the balance of payments further down the line, all of the shown dimensions will be briefly described, especially focusing on any important deviations from the model developed by the aforementioned authors.

<table>
<tr><th></th><th>Internal</th><th>External</th></tr>
<tr><td>Legal Competence</td><td>Authority</td><td>Recognition</td></tr>
<tr><td rowspan="3">Power Relations</td><td>Autonomy</td><td>Attractiveness</td></tr>
<tr><td>Cohesion</td><td>Policy Arena</td></tr>
<tr><td colspan="2">Credibility/Trust</td></tr>
</table>

Table 1 - Dimensions of Actorness, based on Jakob & Teebken (2020)

Firstly, legal competences refer to the legal grounds from which an actor derives their right to act on a certain matter. Internally, this takes form in the constitutional and

legislative framework that defines the acting authority of e.g. a government. For most state actors this is not a big limitation, it can however be in the case of some federal structures and most notably intergovernmental organisations, where treaties and agreements transfer power to the primary actor. Externally, legal competence requires recognition of the primary actor by other actors of the international system as a legitimate partner for e.g. negotiation. Most evident examples of actors that are restricted in this way are states or governments that are not unilaterally recognised, such as Kosovo, but this issue extends to other actors, e.g. NGOs or societal groups. At first glance, legal competence might seem as a natural prerequisite for actorness, preventing any action entirely if absent. While this holds true for many cases in which legitimacy is clearly defined and undisputed, it does not necessarily for cases of dispute around e.g. legal competencies or international recognition. Thus, even if allowing for action, legal competences could still hinder the effectiveness of measures taken. It is however noteworthy that legal competence and legitimacy are very much at the foundation of all effective actorness.

With the further dimensions summarised by Jakob and Teebken under the term Power Relations, issues of effectiveness become even more visible. Even barely existent power might already allow an actor to take action, but will not effectively lead to meaningful outcome due to lack of e.g. internal cohesion or willingness of external actors to cooperate. Autonomy is described as the capability to act and exert power, meaning the availability of means and resources. This is quite evidently a core part of any actorness assessment and ties closely into some of the other dimensions, as resources might be used to facilitate international cooperation, increase credibility etc. Cohesion is another purely internal dimension, which is of particular interest to discussion surrounding loose formations of actors, such as the European Union, where a lot of decision-making power is retained at member state level. Cohesion is defined as the capacity of any actor to “speak with one voice”, i.e. have a cohesive stance that is backed by internal units and actors. The EU remains the most prominent example showing how Cohesion or the lack thereof influences the effectiveness of actions in the international arena. The external dimensions of power relations are attractiveness and the policy arena. Attractiveness is the willingness of other actors to cooperate with the primary actor, i.e. relates to the perception of the actor. Naturally, willingness to cooperate might be

driven by soft power such as incentives and mutual interest or by hard power through e.g. means of coercion. Often a mixture of interlinked and changing reasons will determine the attractiveness of an actor. The given policy arena is very much linked to the specific circumstances of the issue at hand, including the temporal dimension. It incorporates factors driving the complexity of an issue, such as existing policies and regulations, as well as the prevalence of opportunity or necessity to act. The importance of the policy arena can thus not be understated, since even in an environment of high autonomy, cohesion and attractiveness the timing of action might be crucial to its effectiveness. The last actorness dimension is no less important, being the presence of credibility and trust in the actor, both internally and externally. Without going into too much detail, this topic is clearly linked to the other dimensions, particularly the perception of actorness by other parties, such as the capability to act autonomously, and influenced by effective signalling and communication.

These described dimensions shall lay the ground for any of the following considerations, particularly regarding the main scope of this work, being the evaluation of components of the balance of payments regarding their desirability from an actorness perspective. However, some further sharpening of the concept seems advisable before applying it for assessment purposes.

2.2. The relevance of actorness in foreign policy

Firstly, it is important to understand the role actorness or related concepts currently play in foreign policy, in order to get a first grasp on the indicative power it has in explaining context, connections and developments. Due to the context of its development, actorness has largely acquired relevance in the application to the European Union. However, the concept has increasingly gained popularity and significance beyond its original scope of application, which shall be part of the following discussion.

In their book, Freire, Lopes, Nascimento, Simão (2022) provide a comprehensive contemporary analysis on actorness application in foreign policy by dividing actorness along key fields of EU policy, as well as giving example-based assessment of actorness vis-à-vis selected (neighbouring) countries. Due to the scope of this thesis with its heavy focus on the balance of payments, naturally some fields of EU policymaking like e.g.

trade are important to look at. However, it is noteworthy that actorness derived from the world of trade and cashflows might well be visible in other areas of EU action, such as in democracy and human rights promotion as well as matters of security. The literature on actorness tends to focus particularly on issues around either security and defense, trade and economics or international governance, as will be shown below.

Looking first at the security and military dimension, which evidently is the means to exercising the hardest of powers. It comes to no surprise that actorness is a concept that very much resonates in this policy field, which historically was and contemporary remains a key aspect of international politics. Especially in the case of Europe conventional war has returned to the consciousness of the population with the Russian aggression towards Ukraine. In this light the EU's military actorness and its capability to defend itself are back on the agenda (Borrell Fontelles, 2023). In a globalised world every conflict between developed nations has significant implications beyond the direct devastation caused by use of arms. Disrupted supply chains highlight the connection of policy fields and how e.g. military actorness depends very much on actorness in policy fields such as energy and agriculture. These relations are particularly amplified in the case of Ukraine and have triggered significant developments in European foreign policy (Borrell Fontelles, 2023). Naturally, while actorness or the lack thereof is most visible in times of contest, the research of military actorness is not without interest even during times of relative peace. Akbaba (2009) previously discussed EU actorness in its Common Foreign and Security Policy, describing the union as a civilian power that struggles with actorness particularly due to its lack of political identity. It is then even more noteworthy that for a civilian power like the EU the discussion around topics of actorness in military and security have gained such momentum.

A policy field that has historically seen even more attention of actorness debates is trade and economics. This comes to no surprise since the concept of actorness has been developed in an environment of relative peace where development and change were driven mostly by globalisation and its economic implications. This once again is particularly evident in research on the EU, e.g. on the impact of further integration and expected treaty changes on actorness in trade and related fields (Woolcock, 2010). With its system of competences of various degree over different policy areas, the EU naturally is an interesting subject of research when it comes to actorness. While trade is

traditionally an area of exclusive competence, this does not hold for all economic policy fields. Topete (2016) discusses the case of exclusive competence on foreign direct investments and the implications for actorness. The author argues that contrary to common believe, an increase in competence does not necessarily imply an increase in actorness but might actually weaken it. While these discussions on the case of the EU will be picked up again later, it should be mentioned at this point that there is research being done in applying actorness concepts outside of the EU. One example in the area of trade policy is Hulse (2014), who makes an effort at abstraction of actorness from the EU context and application to trade on the African continent.

Beyond security and trade as core fields of foreign policy, actorness has a significant impact on discussions around the functioning of international institutions and governance. Examples are the discussions of Jupille and Caporaso (1999) when it comes to the EU as an international institution and Delaere and Van Schaik (2012) when understanding the EU itself as an actor within broader institutions. While these considerations are the main part of actorness discussions, the concept can equally be applied to other fields of foreign policy such as diplomacy, culture, environment, and technology, as well as their developments (Westlake, 2020).

The academic application of actorness concepts clearly demonstrates its relevance and capability to facilitate the understanding of e.g. dynamics of power across policy fields, yet its use is still very limited to the EU, with non-EU applications being barely represented in the literature.

2.3. Key factors enabling/limiting actorness

To conclude the elaborations on actorness as a concept, two main goals shall be addressed. Primarily, the defined framework shall be sharpened towards its application in the economic context, to allow for deriving implications from an analysis of the balance of payments as intended in this thesis. Secondly, while in its application the framework shall focus on the European Union as a case study, it shall at the same time retain a sufficient degree of abstraction to where it can effortlessly be applied for economic analysis across the globe.

Following the actorness model introduced in 2.1 based on Jakob & Teebken (2020), some actorness dimensions require further attention when identifying specific economic factors that have an impact on actorness. A first observation to be derived is that the legal competences, being authority and recognition, are not directly affected by factors from the economic field. In the case of authority, i.e. the existence of legal competences to act, comparable to input legitimacy, this seems evident. In terms of external recognition, views might be much more driven by considerations of output legitimacy. These effects shall however be summarised under the concept of attractiveness, in order to keep the legal competences clean of any economic influence. As such authority and recognition remain fundamental to actorness, but will be considered as given in the context of this thesis and particular its application to the EU. On a similar notion a further detailing of the last of the aforementioned actorness definitions, i.e. Credibility/Trust, shall be largely omitted. Not to say an actor's credibility is not of significant importance, but rather acknowledging the fact that issues of credibility are widespread throughout all actors of international relations. These issues are however mostly not directly linked to economic factors, but rather of political, legal or governance nature.

The remaining four power relations, i.e. autonomy and cohesion internally and attractiveness and the policy arena externally, are then the ones that are most directly impacted by economic factors and deserver further examination.

<table>
<tr><th></th><th colspan="2">Internal</th><th colspan="2">External</th></tr>
<tr><td>Legal Competence</td><td colspan="2">Authority</td><td colspan="2">Recognition</td></tr>
<tr><td rowspan="3">Power Relations</td><td>Autonomy</td><td>Resource Independence
Transformation Independence
Decision Making Independence</td><td>Attractiveness</td><td>Market Access
Investment Opportunities
Investment Outflow
Resource Access
Technology Access
Financial Aid</td></tr>
<tr><td colspan="2">Cohesion ~ Homogeneity</td><td colspan="2">Policy Arena</td></tr>
<tr><td colspan="4">Credibility/Trust</td></tr>
</table>

Table 2 - Economic Dimensions of Actorness

When thinking about economic power and by extension actorness, the availability of means and capability to act, i.e. autonomy, is largely the first dimension that comes to mind. Autonomy is thus the starting point for any economic analysis of actorness, since any economic factor or development will almost inevitably affect the means an actor has for action, such as budget, material and resources. Autonomy over material and budget further necessitates the capacity to transform these resources into tangible action. An actor with abundant resources might still be of weak actorness and prone to exploitation if it lacks the infrastructure and processes to utilize these resources efficiently. A third aspect to autonomy is the capability to independent decision-making. Even if an actor has the resources and means of utilization, it might still lack the room to decide for itself how to best use tools and resources at its disposal. An actor that is not independent in its decision-making can hardly be considered of great actorness. These three aspects of autonomy are therefore key to understanding factors impacting actorness and will be at the core of the proposed assessment of the balance of payments in this particular case.

Cohesion has previously been introduced as the capacity to formulate common goals and interests, which heavily depend on the heterogeneity and fragmentation of any given actor internally. The creation and interaction of goals, needs and interests of groups that constitute the primary actor are an entirely separate field of studies that shall not be the focus here. For the purpose of this analysis a simplified relationship between Cohesion and homogeneity shall be the foundation, i.e. that Cohesion is weaker wherever subunits are less homogenous and therefore more likely to have diverging interests and vice versa. Any economic factors highlighting significant differences across subunits can then be understood as indications for weaker Cohesion.

Attractiveness has many facets, covering culture, ideology, stability, security, as well as social and governance models. From an economic perspective the focus is on opportunities the actor can offer to incentivize cooperation. Key economic assets are for example access to lucrative markets, resources and technology, as well as opportunities for in- and outgoing investments and financial or development aid. It is needless to say that attractiveness is therefore of fundamental importance when assessing actorness implications. Keeping all non-economic factors equal, the quantification of the aforementioned economic aspects is naturally not always straightforward. However,

there are several macroeconomic indicators that can yield relevant insights into some of the key components of economic attractiveness, which at the same time is a field of intensive study.

The Policy Arena and other related circumstances can be of critical importance when discussing actorness on any given issue. Opportunities or necessities to act in many cases drive the agenda of international relations and therefore have to be studied closely when addressing any single topic specifically. For a more general discussion of actorness, underlying causes and implications, discussing the policy arena is less relevant. That of course means that any actor who is considered of high general actorness might find itself unable to act on a specific topic due to the circumstances summarized under the term Policy Arena. A weak actor might simultaneously have unforeseen actorness if the circumstances favour it.

Via the above considerations the actorness model has been sharpened for use in an economic context. To assess the implications of economic developments or circumstances on any given actor it is therefore necessary to comprehend all the expected effects on the subdimensions of Autonomy and Attractiveness, while keeping an eye on the homogeneity of units constituting the primary actor. This approach will be used in later chapters to assess the implications of the balance of payments on actorness, particularly in the case of the EU.

3. Defining key concepts around the balance of payments

Having established a framework for actorness, the target is to apply this model to the balance of payments in order to deduce any possible insights into the explanatory power of the balance and its components on actorness. To properly be able to make concluding statements, it is necessary to establish the relevance of the balance of payments as a measure, as well as gain a comprehensive overview of components that make up the overall balance. Finally, a discussion of some core principles of the BoP is the bridge towards the targeted actorness evaluation.

3.1. The relevance of the BoP

The origins of the balance of payments can be traced back to mercantilism in the 14th century, making the underlying principles one of the oldest forms of economic analysis (Badger, 1951). A first version of the modern understanding of the balance of payments can be found in Sir James Steuarts book "An Inquiry into the Principles of Political Economy" (1767). While the focus was originally on the trade of tangible goods, Steuart already discussed the differences between the balance of trade and the balance of payments and the existence of intangibles (Badger, 1951). An approach to a comprehensive balance was however not undertaken before the later part of the 19th century. The League of Nations was the first to publish a set of statements on the balance of payments of selected countries in 1924 (League of Nations, 1924). The BoP gained increasing relevance as a tool during the 1920s and 1930s, partly as response to large-scale movements of capital as reparations for WWI and partly as means of studying and testing economic theory (Badger, 1951). This development occurred concurrently with the rising significance of studies around the GDPs, which further promoted the need for data collection and analysis at a macroeconomic level. After its foundation in 1944 the International Monetary Fund became the main institution pursuing an extension of statistics and data sets around the balance of payments. Member states are directly obligated to contribute the necessary data, which the IMF collects and uses for the publication of its statistics and reports, most notably the

Balance of Payments Manual, which was first published in 1948. The most recent version of this manual will be elemental in establishing a common understanding of the balance of payments and breaking it down into its components in the next chapter.

The balance of payments today is a much researched measure and finds applications across various policy fields. Policy makers refer to BoP statistics to identify trends and developments in both the external and domestic sector and respond with appropriate policy action. Particularly affected are monetary authorities that use the BoP together with the international investments position (IIP) to monitor imbalances and steer e.g. currency reserves (Sixteenth Meeting of the IMF Committee on Balance of Payments Statistics, 2003). In all its applications the BoP is always considered in combination with other macroeconomic indicators in order to construct a most comprehensive picture.

In terms of the overall relevance of the BoP it is evident that the increasing degree of globalisation has been a main driver in the popularity of the BoP as an analytical tool. It gives form to discussions around international dependencies and economic sustainability. However, the same may not hold true for the future. Viñals (2004) brings up the argument that the value of BoP statistics will eventually decrease with progressing globalisation. The main argument is that the BoP generates its largest value in an environment of strongly interconnected, but independent sovereign states. A perfectly globalised world that has evolved beyond national borders and sovereignty does not any longer have much use for internal balances of payments or trade. While that state is far from today's reality, it illustrates that the increasing relevance of statistics such as the BoP might at least face diminishing added value.

Over the course of history different approaches and definitions of the balance of payments have been developed, targeted at the varying analytical purposes. In the process the BoP has become a central tool for policy making on a macroeconomic level for both governments and central banks. As a result, there are many ways in which the BoP or some of its components influence decision-making in foreign policy, some of which are more, some less evident. It is the main motivation of this thesis to shed some light on these connections by providing a structured and comprehensive framework of analysis. The following chapters will create the foundation for this assessment by

breaking down the balance of payments into its components, assessing them individually and drawing preliminary conclusions on how the BoP is affected by foreign policy shifts.

3.2. BoP components and core principles

In order to evaluate the balance of payments in more detail, the IMF provides a fundamental framework to the BoP, as well as the International Investment Position (IIP), another significant metric that will be explained in this chapter. The following descriptions therefore for the most part follow the manual published by the IMF (International Monetary Fund, 2009). Fundamentally, BoP and IIP are aimed at a similar objective for countries and their accounts to what cashflow statements and balance sheets are for companies. They basically record financial assets and liabilities of a country's residents towards non-residents, in the case of the IIP, and changes in these positions over a certain period of time, in the case of the BoP. Following this understanding of the BoP from an accounting perspective, there are three primary accounts that constitute the BoP.

Firstly, and likely most significantly, the current account entails flows of goods, services and income between residents and non-residents. It is itself subdivided into three accounts being the goods and services account, the primary income account, and the secondary income account, see figure 1. The goods and services account records exchanges of goods and services, both of which are considered products of production activities, i.e. the transformation of inputs, such as labour, resources and intermediate products, into suppliable outputs by enterprises. Primary income are cashflows generated in the context of production activities, like e.g. salaries, taxes and subsidies, as well as income as compensation for providing financial assets, i.e. investment income, or renting out natural resources. The secondary income account reflects financial movements due to redistributions of income by e.g. governments or charitable organisations by means of current transfers, which are one-sided transfers that are not met by items of economic value in return.

Current account
Goods and Services
Goods
General merchandies on a BOP basis
Net exports of goods under merchanting
Nonmonetary gold
Services
Manufacturing services on physical inputs owned by others
Maintenance and repair services
Transport
Travel
Construction
Insurance and pension services
Financial services
Charges for the use of intellectual property
Telecommunications, computer, and information services
Other business services
Personal, cultural, and recreational services
Government goods and services
Tourism-related services in travel and passenger transport
Primary income
Compensation of employees
Investment income
Direct investment
Portfolio investment
Other investment
Reserve assets
Other primary income
Taxes on production and on imports
Subsidies
Rent
Secondary income
General government
Current taxes on income, wealth, etc.
Social contributions
Social benefits
Current international cooperation
Miscellanous current transfers of general government
Financial corporations, nonfinancial corporations, households and NPISHs
Personal transfers
Other current transfers
Adjustment for change in pension entitlements

Figure 1 - The current account, based on the IMF's BoP & IIP manual (International Monetary Fund, 2009)

The balance of the overall current account in itself is a relevant measure, as it shows the difference between exports and income receivable on the one side versus imports and income payable on the other side. By extension, the current account balance also reflects the saving-investment gap of the domestic economy, which is a significant finding that will be referred to in following chapters. For the sake of completeness this relationship can be derived from the basic composition of the gross domestic product as sum of household consumption C, government consumption G, investment I, and net exports $(X - M)$.

$$GDP = C + G + I + X - M$$

Adding the net balances firstly on primary income BPI and secondly on secondary income BSI, one arrives at the gross national income GNI and finally at the gross national disposable income $GNDI$.

$$GNI = GDP + BPI = C + G + I + X - M + BPI$$

$$GNDI = GNI + BSI = C + G + I + X - M + BPI + BSI$$

Simultaneously, the $GNDI$ itself is a measure for the income available for domestic consumption and savings S.

$$GNDI = C + G + S$$

Combining the previous two equations immediately yields an expression of savings in terms of investment, net exports, and income balances.

$$S = I + X - M + BPI + BSI$$

With net exports of goods and services being the first subaccount of the current account, the overall current account balance CAB can be substituted via

$$CAB = X - M + BPI + BSI,$$

yielding finally the introduced relationship.

$$CAB = S - I$$

The capital account, i.e. the second account of the BoP, covers mainly two positions. One are all transfers of ownership of so-called nonproduced, nonfinancial assets, examples being land, rights to exploit natural resources, licences, goodwill and other intangible assets. Notable restrictions are e.g. temporary lease of rights to resource exploitation as this is already recorded as rent in the current account, or the transfer of land ownership, which by definition occurs mostly between residents and is thus not part of the BoP, except for land acquired by international organisations or foreign governments. Second part of the capital account are capital transfers, which are similar in nature to current transfers recorded in the secondary income of the current account, being one-sided transfers without direct compensation. The technical distinction between the two accounts will be omitted at this point in the interest of brevity, more detailed definitions can be found in the IMF manual (International Monetary Fund, 2009). Main examples of capital transfers are debt forgiveness and investment grants

made by governments or international institutions, which are recorded as other capital transfers, see the following figure of the capital account.

Capital account
Gross acquisitions / disposals of nonproduced nonfinancial assets
Natural resources
Contracts, leases, and licences
Marketing assets
Capital transfers
General government
Dept forgiveness
Other capital transfers
Financial corporations, nonfinancial corporations, households, and NPISHs
Dept forgiveness
Other capital transfers

Figure 2 - The capital account, based on the IMF's BoP & IIP manual (International Monetary Fund, 2009)

The third and final account of the BoP is the financial account, which complements the current and capital accounts, i.e. balancing out the BoP by means of doubly-entry bookkeeping. Where items recorded in the first two accounts create a need for funding, the financial account tracks precisely the source of these funds. The most straightforward example would be the sale of a specific good A by a resident to a non-resident for the price X, which is credited in the current account as a good export with the value X, and simultaneously the inflow of X currency is recorded as acquisition of financial assets, i.e. debited in the financial account. As such, the amount of foreign currency held domestically increases by X, which could e.g. be held in cash by residents or in forms of FX-reserves by the central bank. Beyond the recording of such transaction of currency, the financial account also records important factors such as flows of Foreign Direct Investment (FDI) as well as investments into derivatives etc, as shown in Figure 3.

Financial account
Direct investment
Portfolio investment
Financial derivatives (other than reserves) and employee stock options
Other Investment
Other equity
Currency and deposits
Loans
Insurance, pension, and standardized guarantee schemes
Trade credit and advances
Other accounts receivable/payable
Special drawing rights
Reserve assets
Monetary gold
Special drawing rights
Reserve position in the IMF
Other reserve assets

Figure 3 - The financial account, based on the IMF's BoP & IIP manual (International Monetary Fund, 2009)

As will be further discussed in the next chapter, the financial account and its components are of crucial importance, particularly due to their offsetting nature, i.e. in balancing the BoP. In doing so, the financial account provides important information about the interaction of the domestic economy with non-residents, which is easily overlooked when focusing only on the balance of the current account or the balance of trade.

Before moving on to the more detailed assessment of key BoP components, it seems advisable to recall two core principles of the BoP, which are fundamental when drawing conclusions based on BoP figures. Firstly, opposed to other measures such as the International Investment Position (IPP), the BoP does not measure any accumulated stock, but only flows, i.e. transactions over a given period of time. As such the impact of any position in the BoP on the domestic economy has to be understood in the context of its historic development and visible tendencies. Particular attention should thus be given to the sustainability of trends highlighted by certain BoP components. Secondly, the BoP itself is a balance of balances in the sense that all of its components are recorded in net terms, i.e. credits and debits offsetting each other. Naturally, the net balance does not necessarily contain information on the absolute magnitude of credits and debits. In order to draw meaningful conclusions any net position of the BoP therefore has to be assessed in the context of the underlying gross positions. These two principles are essential to keep in mind for the assessment that will be provided in the following chapter.

4. Assessment of desirability of BoP components

The previous chapters set the fundament on which an assessment regarding the desirability of individual BoP components can be conducted. In a first step this chapter therefore provides a brief description of the framework used for assessment, before going into the actual evaluation of individual positions. In the joint interest of author and reader and by means of being pareto-efficient, this chapter will focus on those components of the BoP that typically are the largest drivers of imbalances or are most clearly regarding their desirability. Needless to say that in many cases the actual desirability depends on various factors and circumstances outside of the scope of the BoP and might thus not always be conclusively described in the following. However, circumstances and factors influencing desirability shall be listed as accurately as possible.

4.1. Assessment framework & relevant BoP components

In order to establish a sound assessment framework regarding the desirability of BoP components, some fundamental issues have to be addressed. Firstly and quite obviously, a definition of desirability has to be provided. Secondly, provisions will be made to discuss how assumptions and external circumstances affect the assessment of individual components, particularly to establish a sense for the explanatory power of the assessment framework. Thirdly, the BoP shall be distilled into the main components relevant for the desirability assessment with the overall goal being to achieve sufficient comprehensiveness while maintaining pareto efficiency.

To address the definition of desirability, henceforth a given state of (im)balance of any position of the BoP shall be considered desirable if it gives rise to or indications for positive effects on actorness. Going back to the actorness model introduced in chapter 2, the core dimensions to be examined are then Autonomy, Attractiveness, Cohesion and the Policy Arena. For each relevant position it thus needs to be assessed how it affects these four dimensions as depicted in Table 3. In doing so one needs to realise that actorness effects may be driven by the mere existence of certain (im)balance, the relative size of the surplus/deficit against underlying flows, as well as the relative size

of the individual BoP position compared to e.g. the overall GDP. Employing a surplus on natural resource exports as an example, a certain surplus of 5% might be considered desirable as natural resources are generally seen as an asset, but if resource exports make up a too high portion of GDP that might indicate unfavourable dependencies on these limited resources. This example further highlights some additional considerations that have to be undertaken. Whether a resource driven economy has a positive or negative impact on actorness largely depends on the global market for said resources. Factors such as the producers market power in regulating prices and supply are crucial particularly for resources that are critical to the function of the global economy such as oil, gas and rare earths. These considerations fundamentally reflect how a single position of the BoP will often have different impacts on the aforementioned four dimensions of actorness that will be the focus of the following assessment.

<table>
<tr><th></th><th colspan="2">Internal</th><th colspan="2">External</th></tr>
<tr><td>Legal Competence</td><td colspan="2">Authority</td><td colspan="2">Recognition</td></tr>
<tr><td rowspan="3">Power Relations</td><td rowspan="2">Autonomy</td><td rowspan="2">Resource Independence
Transformation Independence
Decision Making Independence</td><td rowspan="2">Attractiveness</td><td rowspan="2">Market Access
Investment Opportunities
Investment Outflow
Resource Access
Technology Access
Financial Aid</td></tr>
<tr><td colspan="2">Cohesion ~ Homogeneity</td><td colspan="2">Policy Arena</td></tr>
<tr><td colspan="4">Credibility/Trust</td></tr>
</table>

Table 3 - Economic Dimensions of Actorness

Another important aspect of the assessment framework, which will be applied going forward is how interdependencies between different BoP positions are treated. Already by means of double-entry bookkeeping it is evident that any movement in individual BoP positions automatically triggers movement also on other accounts. For a comprehensive overall assessment it is thus absolutely essential to understand these interdependencies. In order to establish an effective and efficient assessment framework that takes all aforementioned issues into account, a step-by-step approach seems thus advisable. The first step is the identification of key accounts and positions of the BoP that will be part of the actual assessment, including a clear description of their scope.

Secondly, these positions will be assessed as if they were independent with special focus on mutual exclusivity of factors, in order to avoid double counting of effects. Lastly, the comprehensive picture is constructed by combining and weighing the actorness implications of different positions in accordance with expected interdependencies.

In order to provide a first abstract assessment of key accounts, three fundamental thoughts and assumptions should be made. Firstly, and as previously mentioned, any individual position might become an impediment to actorness if the actor relies too heavily on this position. Therefore, in the next chapter any position will be assessed under the assumption that it does not surpass this criticality threshold, i.e. the actor is not overly dependent on a given export/import. Secondly addressing the issues around market power in global trade, it shall be assumed initially that international markets are competitive and do not give rise to significant power of individual states to influence overall availability and prices for any given good. Quite obviously this is a strong assumption that will not hold true in many cases, but it allows for a first evaluation and better comparison of e.g. goods and services. In the application of the framework to individual actors these assumptions have to be challenged however on a case-by-case basis since market power constitutes a big factor for actorness. Lastly, the assessment shall be focused solely on the existence of imbalances in the BoP positions and not take into account the overall size or relevance of underlying credits and debits. This is an important principle to remember since it makes the assessment much more targeted and avoids reiterating discussions and results that have been made by other authors.

The key positions can be identified by going through the main BoP accounts as described in Chapter 3 (International Monetary Fund, 2009). The balances of goods and services are naturally key to understanding the actorness of a country, yield much information about the domestic economy and require a dedicated assessment. Balances on primary and secondary income seem less important, particularly where this income stems from investments made, which are already accounted for in the financial account. Therefore such income to corporations and individuals shall not be assessed further as part of the current account. Some income flows are however directed at the domestic government, e.g. due to taxes, international redistribution mechanisms, or linked to social systems. As such these positions might have some assessment value in explaining

actorness with regards to the government and its position both domestically and in the international community. Compared to the size of the current account, positions in the capital account typically seem rather negligeable. As such, no major implications can be drawn from this account, which are not covered in one of the other positions being assessed. Lastly, in the financial account there are several positions worth looking at in more detail. Firstly, investment flows, especially FDI, are of very high significance in today's economy when it comes to assessing the desirability of locations and at the same time allow for some insights into issues related to technological development, regulatory practices and stability. Another particularly important position is that of currency, debt and equity held by residents and reserves of the central bank. These positions act as balancing factor to many other positions, as it is directly linked to the flow of currencies. At the same time it portraits the connectivity of the domestic financial system and possible actorness influences of the domestic currency. The following chapter will try to provide an initial assessment of these key positions and potential implications regarding their desirability.

4.2. Actorness assessment split by key positions

Based on the aforementioned assumptions and preconditions and using the established assessment framework, the further analysis shall specify the impact of deficits and surpluses in the selected BoP positions. The previous discussions and thoughts already highlight however, that any such assessment can only be the starting point of a more circumstantial and detailed analysis taking into account the comprehensive situation of any actor and challenging underlying assumptions. Nonetheless, it is crucial to understand the very substance of these BoP components and establish some ground for application of the evaluation to specific case studies. This chapter shall be structured along these selected positions, which are in order: Firstly the trade balance, then the secondary income directly linked to government action, thirdly direct investments, and lastly changes in currency held by residents and central bank reserves.

4.2.1. Current account – balance of trade

The balance of the current account in general and the balance of trade in goods and services more specifically are subject to many discussions in academic literature and often referred to even in mainstream media etc. Most commonly, an export surplus is seen as favourable, as it drives economic growth via GDP and salary increases, which is evident using the previously introduced definition of the GDP:

$$GDP = C + G + I + X - M$$

However, this general perception might be biased and taking an exporters point of view (Frankel, 2006). While there are several countries that have very successfully maintained a trade account surplus, e.g. China and Germany, there are other examples of countries that have no less successfully sustained a long-term trade account deficit, like the US and the UK. Evidently, the mere existence of an imbalance in the trade account does not necessarily have direct implications on actorness, it is rather mandatory to provide a more circumstantial analysis. Devadas and Loayza (Devadas & Loayza, 2018) go into some depths assessing under which circumstances a deficit of the current account is harmful. Deficits are particularly unsustainable, if they create the need for future policy adjustments. It is important to realize however, that any such analysis always takes into account not only the impact in the current account directly, but also indirect effects on the capital and financial account by means of double entry bookkeeping. In an effort to be as concise as possible the following analysis will focus only on the current account for the time being and address effects in the other accounts later.

When looking then at exports and imports of goods and services without considering compensating transactions of assets or cash, it is immediately evident that there are big differences in implications depending on the type of good or service being exchanged. For example, the transfers of consumption goods, raw materials or machinery have fundamentally different impacts on both the exporting and the importing economy. The United Nations (2006) have published a comprehensive framework for the classification of goods called Standard International Trade Classification (SITC). In line with the application of these classifications in the EU, Table 4 - Classification of goods according to EU and UN serves as foundation for the following assessment.

EU application	UN - SITC
Food, drinks and tobacco	Section 0 - Food and live animals
	Section 1 - Beverages and tobacco
Raw materials	Section 2 – Crude materials, inedible, except fuels
	Section 4 - Animal and vegetable oils, fats and waxes
Energy products	Section 3 - Mineral fuels, lubricants and related materials
Chemicals	Section 5 - Chemicals and related products, n.e.s.
Machinery and transport equipment	Section 7 - Machinery and transport equipment
Other manufactured goods	Section 6 - Manufactured goods classified chiefly by material
	Section 8 - Miscellaneous manufactured articles

Table 4 - Classification of goods according to EU and UN

As previously established, the assessment of actorness implications will be based on the four dimensions Autonomy, Attractiveness, Cohesion and Policy Arena. Starting with the effects of trade imbalances on **Autonomy**, i.e. the capacity to independent action, incorporating resource independence, the ability to transform these resources into action, as well as decision-making independence. Two fundamental statements are true across all product classifications. Firstly, an export surplus expresses the abundance of a certain good compared to domestic demand, while a trade deficit indicates a lack of domestic production to satisfy demand. Secondly, any good that leaves the domestic country cannot further contribute to growth, while imported goods will. An abundance of goods is generally beneficial for actorness as it demonstrates the capacity of the economy and companies to produce goods that are competitive on the international market and ensures the domestic availability of such goods even in times of international crisis. This is particularly relevant in discussions around strategic autonomy on critical goods. Following this argument, an export surplus demonstrates both resource and decision-making independence. Adversely, a trade deficit might indicate dependencies that limit actorness. Different product groups are however affected differently and shall be briefly discussed individually, as per Table 4.

Consumption goods such as food, drinks and tobacco, as well as most other manufactured goods are generally speaking not crucially important in generating actorness since individual goods are highly substitutable and thus do not generate overly large dependencies. Naturally, a certain minimum level of food and other consumption goods must always be available to not hinder economic growth, human development, and ultimately autonomy. Due to the large number of suppliers and the wide variety of substitutable goods, this is however not an issue for the vast majority of countries, with the exception of a few "failed states".

The situation is fundamentally different for goods such as raw materials, energy products and chemicals, which are very relevant for economic development, maintaining industries etc. And, opposed to most consumption goods, in many cases the supply of such goods is rather limited to a few key exporting countries and the possibility to substitute are close to zero. This is particularly pronounced for oil and gas, as well as some minerals. A reduced access to these critical resources can have substantial adverse effects on the domestic economy and population, creating high risks for autonomy. Consequently, an export surplus in these goods indicates high autonomy on resources, while a trade deficit shows dependencies that strongly limit autonomy and thus actorness.

Lastly, machinery and transport equipment are goods that take a special role regarding their implications to autonomy. The production of these goods is strongly linked to the availability of resources and technological know-how. At the same time these goods are essential in driving further productivity through their use as economic facilitators. As such an export surplus in these goods has different implications on autonomy. At first, it is evident how producing an excess of these goods reflects a strong domestic industry particularly in crucial industries around medium and high technology. For many developed countries these goods are primary drivers of economic development. At the same time, the research and development of human resources linked to these industries are a strong basis for driving change and innovation. On the other hand, it is evident that an export surplus of these goods fundamentally means an outflow of means for productivity. Thus, maintaining a trade deficit or an import surplus on machinery etc. might in the short term indicate a lack of developed industry, but can fuel significant development in the long term. However, for the purpose of this assessment of autonomy

the focus shall be more on the implications on the current state of actorness, for which the immediate positive effects of an export surplus seem more pronounced.

Compared to the exchange of goods, services play a minor role in international trade. However, imbalances in the trade of services can still give some indications on autonomy. Particularly an export surplus in services that are commonly associated with a high degree of know-how, such as financial services or IT services, show the availability of educated workforce that is internationally competitive. Additionally, positions like e.g. charges for the use of intellectual property rights can further indicate strong autonomy in areas of innovation and development.

Generally speaking, when looking at autonomy generated by export surpluses of goods and services it can thus be concluded that these have a beneficial implication on actorness. Particularly in the short-term and more pronounced for some goods than others, the demonstrated availability of resources, know-how and production facilities are without a doubt key to driving the overall actorness of a country. Potentially adverse effects of export surpluses do not become immediately visible when looking at the mere exchange of goods, but might rather be linked to compensating flows, which will be discussed as part of the financial account.

Moving on to **Attractiveness** as second dimension of actorness, the picture is similar. Evidently, the availability of goods, knowledge and technology play an important role in incentivizing cooperation. Comparable to autonomy these effects are particularly strong linked to some product groups that have limited international supply, such as natural resources, or that are scarce due to their high complexity and technology requirements. Another aspect of attractiveness however are opportunities for investment domestically, as well as investment outflows. Since investments are generally part of the financial account, they will be discussed in more detail there. However, it should be noted that investment and trade are closely related. In one of the previous chapters it has been established that the overall balance of the current account just reflects the domestic investment gap:

$$CAB = S - I$$

An additional link is via FDI, since companies might be incentivized to create local production facilities in a foreign country rather than exporting their produced goods

directly. Such decisions are naturally driven by cost-benefit calculations, linked to e.g. transport costs. More importantly however, are trade barriers that impact these decision processes. A country might artificially increase barriers to trade on specific goods to promote investment into domestic production facilities. This is particularly visible in high-tech sectors as a creation of local production facilities facilitates knowledge transfer and creates high-value jobs domestically. As such an export surplus might be driven partially by restrictive trade policies on imports in favour of investment. These practices naturally do not contribute to the attractiveness of the country in terms of actorness and should thus be taken into account when assessing trade balances.

Regarding **Cohesion** there are only limited actorness implications one can draw from trade imbalances. Cohesion is fundamentally driven by how heterogeneous the domestic sphere is in terms of interests and how different groups are represented and involved in decision making processes. To the extent that export surpluses in a few selected industries indicate a focus of the overall economy on these, one could argue that this is a sign for greater homogeneity compared to a more diverse and balanced economy. However, particularly economies that are dependent on a few sectors may also create internal tensions due to the dominance of these sectors in the creation of the countries overall position and interests. Therefore, from the overall balance of trade it is hard to deduct any general effects on cohesion. In the actual assessment of an individual country, interesting conclusions might however be reached by comparing the overall BoP against balances of individual constituting entities, such as regions or provinces. This comparison might well give very strong indications of the difficulty or ease of reaching common positions, which will be particularly interesting in the analysis of the EU in the following chapter.

The last dimension of actorness, being the **Policy Arena**, focuses on the current circumstances and opportunities and necessities to act. While being of crucial importance in the case-by-case assessment of actorness, no general implications can be drawn on a theoretical basis when looking at the balance of trade in goods and services.

Overall, when isolating export surpluses on goods and services from offsetting transactions, the implications for actorness are quite positive. But it has been mentioned that in the assessment of individual cases the links to the financial account and policy

frameworks, as well as global circumstances have to be taken into account to complement the picture.

4.2.2. Current account – government income

The analysis so far has been focused on factors indicating the actorness of a country via the strength of its economy. This link is quite evident considering the government as main decision-making body of a country represents economic interests and receives the vast majority of its actorness from the power of its economy. Following this logic the country as a whole is the actor, represented by its government making steering decisions. An additional and even more direct source of actorness for any government are however the resources and budget it has at its immediate disposal. As part of the current account, and particularly the secondary income, some of these cashflows from and to the government are recorded, which allow for some interesting insights into the means of a government and its involvement in the international system. Thus, the secondary income attributable to the government, primarily driven by contributions to or funds received from international programmes / organisations / institutions and financial aid, shall be assessed in further detail below.

In terms of **Autonomy**, a deficit, i.e. net contributions to the international system, has mixed implications. Typically, these contributions are fairly stable over time and can be seen as a necessary toll to pay to be part of the international system, but typically do not greatly enhance domestic autonomy. On the contrary, there have been cases in which countries withdrew from organisations in order to use funds more effectively in their own countries. Particularly since a transfer of funds usually coincides with a transfer of power and responsibility to these international organisations, one could argue that net contributions are a sign of reduced domestic actorness. But this of course holds true independent of whether a country is net payer or receiver of funds from institutions, since international rules and law apply indiscriminatory. On the other hand, a net credit, i.e. receival of funds, can overall be understood as a sign of limited autonomy, particularly if it is sustained over a longer period of time. It reflects the reliance of the government on international support to cover its domestic expenses, which creates significant direct dependencies. Sometimes these dependencies might be very strongly

visible, e.g. if the flow of funds is linked to certain criteria and developments under the concept of conditionality. It is strikingly evident how such externally imposed guidelines limit domestic autonomy. And even if such criteria are not in place, any flow of funds is linked to expectations from international contributors and can potentially be used as leverage. There are many examples of funds being used as a lever to incentivize certain developments, one being the EU, both as part of its neighbourhood policy, as well as internally in cases of perceived rule of law infringements etc.

In assessing **Attractiveness**, the picture is a bit different, since net credits on secondary government income do not necessarily have consequences for attractiveness. It is quite evident that the least attractive countries are those that are not open to international collaboration and not properly integrated into organisations etc. These would however neither really contribute nor receive funds, opposed to net receivers who can be perceived as open to cooperation and development. For net contributors, i.e. countries with a deficit on secondary income, it is however clear that this indicates high attractiveness. On the one hand because of their mere integration in the international system, supporting cooperation, and on the other hand due to them being a source of funds and investment. Other actors are very much incentivised to cooperate with net contributors to potentially profit from their funds and investments. At the same time, countries that are net payers tend to use their influence to shape international decisions, making them even more attractive for cooperation.

Similarly to the assessment of the balance of trade for **Cohesion** it is unavoidable to understand the internal heterogeneity via e.g. the contribution of different regions etc. From the overall balance on secondary government income hardly any indications can be drawn for the domestic cohesion. One noteworthy aspect however is that for net contributors their transfer of funds can itself cause internal conflict. An example is the public discussion leading up to Brexit, which was driven by the perception that funds could be used to greater effect internally. But these effects are very situational and can not be seen as a general implication of a deficit on secondary income.

For the assessment of the **Policy Arena**, direct conclusions from sustained imbalances are not necessarily possible. However, particularly sudden changes or spikes in the secondary government income can be a good indication of drastic circumstantial

changes that impact actorness. Especially strong shifts towards increased government income via spikes in financial aid are typically aligned with the occurrence of crisis, particularly observable with the effect of natural disasters or outbreaks of armed conflict. Such events might significantly limit actorness in the short term through effects in the policy arena, since domestic decisions need to be targeted at the immediate crisis response, leaving little room for more strategic long-term manoeuvring.

It has become clear that there are some very direct implications on actorness stemming from the secondary government income. Overall, a net debit can be seen as beneficial as it promotes actorness via attractiveness, while a net credit tends to create dependencies that significantly limit autonomy and thus actorness.

4.2.3. Financial account – direct investments

Generally speaking, investments drive economic development and prosperity by creating jobs and production capacities, as well as foster innovation via technology transfer. As such, locations, regions and countries traditionally compete for investments, particularly also Foreign Direct Investments (FDI), in order to profit from these stimulating effects. In recent years potential disadvantages of FDI, such as an outflow of profits and potential loss of domestic control, have however become more and more apparent. Therefore, the actorness implications of imbalances in investment flows are not immediately evident and will be discussed in more detail below. It should be noted upfront that an inflow of FDI refers to the inflow of financial assets as compensation for the transferal of ownership over (physical) domestic assets. Therefore, a net inflow of FDI is reflected in the BoP as a net incurrence of liability on the direct investment position, i.e. a net credit on the financial account (International Monetary Fund, 2009).

There are mixed effects of imbalanced investment flows to **Autonomy**. Firstly, a net inflow of investments strengthens resource independence due to creating domestic production, developing skilled workforce and contributing to economic growth overall. However, net inflows could also be a sign of deficits of the economy to generate sufficient means and appetite for investment of domestic actors. Similarly, net outflows demonstrate a high availability of investment funds, but also a potential lack of sufficient domestic investment opportunities, leading to an exodus of technology and

resources. Thus, from a resource perspective, net FDI inflows might be favourable, but not without downsides. However, since an inflow of FDI means giving up control over domestic assets to foreign actors, net inflows have significant adverse effects on transformation and decision-making independence. At the same time net FDI outflows generate autonomy over foreign assets and could thus be seen as advantageous. This phenomenon is particularly pronounced with regards to the Chinese international investment strategies. This example also highlights how the effects on actorness depend on the level of control the government has over both domestic companies and international companies that are active domestically. Additionally the policy framework plays a crucial role in facilitating or restricting investment flows into the domestic economy. This includes for example investment requirements surrounding the creation of joint ventures with local companies. Furthermore, foreign control over domestic assets can be rather insecure as it requires a certain degree of international cooperation and an enforcement framework. Reciprocated sanction regimes between the EU and Russia following the Russian invasion of Ukraine in 2022 show how foreign control over domestic assets can be revoked in times of crisis.

In terms of **Attractiveness**, both net inflows and outflows can indicate positive implications on actorness. Rather than an imbalance, overall levels seem more important, since an imbalance just highlights that the country is more attractive as a source or destination of investment respectively. Since investment flows create connections between countries via the transfer of knowledge and funds, they also create incentives for cooperation on a high level and create room for cultural exchange. All these factors fundamentally drive attractiveness and therefore actorness. One aspect that reduces attractiveness are high levels of regulation and policies that restrict either inflows or outflows of funds. This is quite evident, as artificial barriers are constructed often with the direct intention of steering investment according to strategic domestic goals. Therefore, an imbalance in investment flows that is a result of imbalanced regulation will have a negative implication on overall actorness.

Overall implications on **Cohesion**, are difficult to draw. Once again the focus should be on e.g. the differences in investment flows to different regions or locations. This could allow for significant statements regarding internal cohesion, since investment flows are good indicators for the structural development of a region and its infrastructure, the

availability of skilled workforce etc. and at the same time drive future prosperity. Differences in such economic development across regions are at the core of many problems regarding cohesion. One overall effect that could impact cohesion are overly imbalance flows vis-à-vis selected countries, which could cause internal conflict due to the perceived loss of autonomy and unfair international practices.

Lastly, the **Policy Arena** is generally not related to direct effects on FDI flows or the overall balance. Concluding, for international actorness it is crucial for a countries attractiveness to be open to inflowing and outflowing investments. Particularly FDI inflows and the respective transfer of control on domestic assets can however pose challenges to autonomy, especially when such inflows exceed FDI outflows.

4.2.4. Financial account – other investments & reserves

The vast majority of all transactions that have previously been discussed will be met with an offsetting transaction of currency, equity or debt as means of payment. Fundamentally, to the extent that transactions in the current and capital accounts are not balanced or offset by other positions in these accounts or by investments, they will create an imbalance in the positions of other investments and central bank reserves. Shifts in these positions have interesting and substantial economic implications that are linked to imbalances in e.g. international trade. It is needless to repeat that due to these links it is imperative to discuss the resulting effects on all accounts of the BoP when looking at individual positions. Since the immediate economic implications of other relevant positions have already been elaborated, the following assessment of actorness implications of compensating positions in currency and reserves complements any analysis of the BoP as a whole. It shall be noted that henceforth currencies are used as a broad term, referring not only to cash as its most liquid form, but including other forms of equity and debt that are summarised in the BoP as other investments.

Some fundamental thoughts around currencies and monetary policy will be the basis of the discussion below. Firstly, currencies are at the core nothing but claims on the issuing central banks and their value is linked to the trust in those respective institutions. Secondly, so far the actorness of a country has been understood as naturally being the actorness of its government. However, the level of control governments have over

central banks varies significantly across the globe. Going forward both implications for the actorness of a government or its central bank shall be considered as constituents to the respective country's overall actorness. Thirdly, increases in foreign currency held domestically, be it by residents or as central bank reserves, are recorded as acquisitions of financial assets, which are debits to the financial account (International Monetary Fund, 2009). Lastly, following the theory of the well-established impossible trinity of monetary policy, a central bank can only pursue an independent monetary policy if it either restricts the free flow of capital or allows for exchange rates to fluctuate freely. Independent monetary policy can be crucial in e.g. steering inflation, providing economic stability, facilitating investments and fostering economic growth. Additionally, it has significant impact on the solvency of states and political stability. The position of the domestic central bank within this impossible trinity has to be taken into account when applying the conclusions of the following assessment.

Looking first at implications on **Autonomy**, there are both advantages and disadvantages to the domestic accumulation of foreign currency, i.e. acquisition of assets in the financial account. Generally, independent of whether foreign currency is acquired by residents or the central bank, it facilitates the future financing of imports and servicing of foreign debt, contributing to the domestic resource independence. However, holding such reserves comes at opportunity costs, since this liquidity is not invested and thus does not contribute to domestic economic development. As such, increasing FX reserves can indicate significant gaps between savings and investments which have a long-term deteriorating effect on actorness, through effectively exporting savings. Additionally, holding foreign currency and thus claims on a foreign central bank comes at political risks, since the value of these financial assets is fundamentally driven by the trust in the respective central bank and its steering of money supply. While these effects manifest for all resident holders of foreign currency, there are some implications on monetary policy autonomy of the domestic central bank, which should be addressed separately. Even though FX reserves create dependency on foreign monetary policy, they are important assets for domestic monetary policy. As such, the central bank can use its reserves to steer supply of the domestic currency via exchanges creating levers to adjust both inflation rates and exchange rates, depending on policy goals. This is particularly important in times of crisis as it creates room for

manoeuvring. Such transactions conversely also affect the supply of respective foreign currency, which means that sufficiently large reserves of a single currency can provide political leverage on the respective country of origin. On the flipside, the incurrence of financial liabilities via an outflow of domestic currency, could potentially inhibit the decision-making independence of the domestic central bank via e.g. exchange rate manipulations by foreign actors.

Generally speaking higher international monetary connectivity reflects positively on **Attractiveness**, since it highlights access to the domestic market and the international demand for cooperation and exchange. Increasing FX reserves provide confidence in the monetary policy by international actors, while a net outflow of foreign currency could mean deteriorating confidence with potentially devastating long-term consequences for the actorness of the domestic central bank. Similarly, an outflow of domestic currency highlights the growing demand for and relevance of the domestic currency, being positive attractiveness implications. This is particularly pronounced for currencies that have a regional or global relevance as reference currencies with large amounts being held as reserves by foreign actors, such as the Euro and even more so the United States Dollar (USD). The actorness implications generated by such internationally relevant currencies cannot be underestimated as they show high unilateral levels of trust and provide significant international leverage to the originating countries. This is further exemplified by some countries giving up monetary sovereignty in pegging their currency to these references. Opposingly a net inflow of domestic currency resembles growing mistrust or a shrinking demand, which reflect negatively on attractiveness.

Regarding implications on **Cohesion**, there are some interesting points to make, particularly on imbalanced cashflows by residents not affecting central bank reserves. A net inflow to domestic actors that does not reflect in the central banks balance sheet but rather remains with other actors could mean a lack of trust of residents in the banking system or the central bank. This could potentially have devastating implications on actorness, as it undermines any efforts at monetary policy and shows significant dysfunction of the financial system. Similarly, a net outflow of currency could highlight tendencies by residents to transfer wealth out of the domestic economy to protect it from e.g. political instability, inflation etc.

Similarly, sudden shifts in inflow and outflow of financial assets can potentially have significant implications in terms of the **Policy Arena**. Particularly sudden decreases of central bank reserves can indicate the occurrence of a crisis or similar situation, which made immediate action necessary and thus forced the hand of the central bank.

Overall, taking into account the various different and partially opposing actorness implications, it seems advisable for a country and its central bank to maintain balanced positions on currency reserves in the long-term in order to not face adverse consequences economically or politically.

4.2.5. Concluding remarks on the general assessment

When summarising the considerations and findings stated above, it shall first be reiterated that the goal of this general assessment is to reach a starting point for further analysis. As such some initial deductions on the relation between BoP positions and actorness have been made, which however need to be understood in the context of their assumptions and complemented and further developed when applied to a selected actor. A rough example on how these initial findings can initiated a deeper analysis will be laid out in the next chapter on the case of the EU. Both in general terms, as well as in the application to a specific case study it is however hard to reach an overall judgement on whether the BoP indicated positive or negative effects on actorness, since this requires significant subjective valuation and weighing of different factors against each other. Table 5 is the try at a summary, breaking down previously discussed indications and simplifying them along a dedicated structure, resulting in the expected overall effects of net credits or debits in certain BoP positions on actorness. In an effort to maintain a high level of credibility, only fairly clear implications are shown, leaving many inconclusive statements and much room for more detailed analysis in the actual application of the framework.

BoP Position			Autonomy	Attractiveness	Cohesion	Policy Arena	Overall
Current Account	Goods	Food, drinks & tobacco	0	0	0	0	0
		Raw materials	+/-	+/-	0	0	+/-
		Energy products					
		Chemicals					
		Machinery & transport equipment					
		Other goods	0	0	0	0	0
	Services		+/-	+/-	0	0	+/-
	Secondary government income		-/0	0/+	0	-/0	-/+
Financial Account	Direct investments		0/+	0	0	0	0/+
	Currency & deposits	Foreign currency	0/-	-/+	-/-	0	-/-
		Domestic currency		+/-			0/-
	Reserve assets	Foreign currency	-/-	-/+	0	-/0	-/0
		Domestic currency	-/0	+/-	0	0	0/-

Table 5 - Expected actorness implications of imbalances in BoP positions (net credit / net debit); +: positive explected implication, -: negative expected implication, 0: no or inconclusive expected implication

On the side of the current account, it is first evident that overall a trade surplus is seen as positive for actorness, due to positive effects both on autonomy and attractiveness, while a deficit has negative implications. For secondary government income the inverse holds true, with reliance on the inflow of funds having negative effects, particularly on autonomy. The analysis of the financial account has proven to be quite difficult due to diverse offsetting effects that can be expected to manifest due to imbalances in these positions. In the case of direct investments the overall conclusion is then that effects are mostly inconclusive with slight autonomy advantages in case of FDI outflows, i.e. acquisition of financial assets, the extent of which however heavily relies on the policy environment. On other positions in the financial account, particularly regarding currency, deposits and reserve assets the initial assessment suggests that a balanced account is desirable in terms of actorness. While the effects on attractiveness are mainly

driven by the shown demand for currencies and the actorness related to the status of the domestic currency as international reserve, autonomy implications tend to be negative for sustained imbalances. Coming back to the principle of double-entry bookkeeping and the strong interdependence of current and financial account, one central concluding remark seems unavoidable. Any pursued positive developments of actorness via adjustments to trade and the current account are almost certainly met with costs in the financial account in the form of limiting effects on actorness.

5. Actorness assessment of the EU / Euro area

The purpose of this final chapter is to apply the previously made general actorness assessment to the concrete case of the EU. In doing so the some of the initial thoughts will be expanded upon and enriched with further comments on the specific situation and environment of the EU. This will also generate first indications on the explanatory power of the actorness model used and the initial deductions made in the preceding chapters. For the sake of providing a brief but mostly comprehensive analysis, the focus will be similarly put on the most relevant positions in the Balance of Payments regarding their actorness implications. The foundation for this case study will be an introduction to the EU and its BoP with particular emphasis on the Euro area, i.e. the 20 EU member states that have already adopted the Euro as common single currency. The actual assessment of actorness will follow two separate approaches. Firstly, in looking at the combined BoP of member states to assess the EU's autonomy and attractiveness, and secondly in providing a dedicated evaluation of cohesion via the BoPs of individual member states in comparison. Due to the circumstances, governance and policy framework that constitute the EU as a union of sovereign nation states, the analysis of cohesion has special significance. Lastly, an evaluation of historic developments shall be given to identify trends and a potential outlook on expectations for the foreseeable future.

5.1. Introduction to the Euro area BoP

With the UK leaving the European Union and Croatia introducing the Euro, currently 20 out of 27 EU member states are part of what is often referred to as the Euro zone. As such this area of the single European currency represents close to 80% of the EU's population and almost 90% of its GDP by the end of 2022. Apart from Denmark, all remaining member states have pledged to introduce the Euro as soon as the so-called convergence criteria are met. The six member states obliged to join the single currency are Bulgaria, Czechia, Hungary, Poland, Romania, and Sweden. Due to the dominance of the Euro as a currency of the EU and the connected economic area, the BoP of the Euro zone shall serve as foundation for the actorness assessment of the EU as a whole. However, particularly when evaluating the EU's cohesion, special focus shall be put on

the member states that still have their own currency, as these form a block of predominantly eastern European states that are crucial to understanding the decision-making processes and capabilities within the European Union.

Another factor that is worth mentioning upfront is the ever-evolving nature of the scope of the EU and the Euro zone. In line with data aggregation and reporting standards used by the IMF and the ECB, the composition of EU and Eurozone shall be fixed per year-end 2023 at 27 and 20 member states respectively. This is of particular significance when assessing historic developments in order to avoid shifts in the data due to countries joining or leaving the areas of aggregation. For example, the Brexit has increased the credit side of the EU's BoP by exports to the UK as a new third party, while decreasing it by the total amount of UK exports to non-EU countries. Due to the UK remaining a major trade partner of the EU, the actorness implications of distortions in the BoP are not immediately clear, with both positive and negative impacts present, while most researchers would agree that Brexit was overall detrimental to the EU's actorness.

2023 Euro Area Balance of Payments	Balance (Mio. USD)
Current account	**259'432**
Goods and Services	**398'792**
Goods	265'869
Services	132'922
Primary income	**30'065**
Secondary income	**-169'424**
General government	-109'157
Financial corporations, nonfinancial corporations, households and NPISHs	-60'268
Capital account	**40'415**
Financial account	**-289'552**
Direct investment	**-27'886**
Portfolio investment	**89'794**
Financial derivatives (other than reserves) and employee stock options	**-22'896**
Other Investment	**-340'685**
Reserve assets	**12'121**

Table 6 - Overview of 2023 Euro area BoP, based on statistics of the IMF (2024)

An overview of the Euro area's BoP can be found in Table 6. Fundamental observations are that a large surplus in the trade of goods and services, i.e. an export surplus, is partly compensated by net outflows of secondary income. The remaining imbalance is offset by a net debit in the financial account, representing a net acquisition of financial assets, particularly in the other investments position, taking the form of cash, equity or debt.

While this most recent BoP statistic will be the starting point of the following actorness assessment, it is naturally obligatory, to understand also the historic development of these flows. This becomes very evident when looking at the Euro area's financial account over the last ten years, as shown in Figure 4. While the overall balance of the financial account has been somewhat stable, the distribution of flows between internal positions has fluctuated significantly. This opens up the possibility to draw additional insights into actorness, which will be the last part of the analysis.

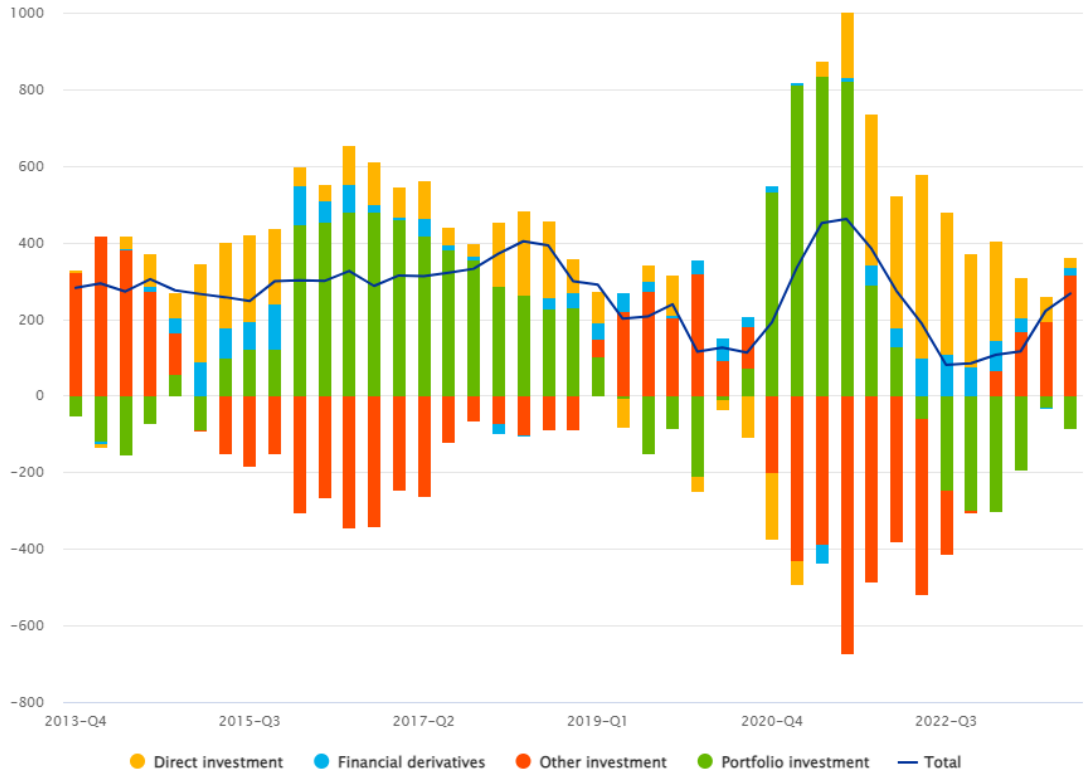

Figure 4 - Euro Area Financial Account Development in billion Euro, taken from (European Central Bank, 2024)

5.2. Resulting assessment of actorness of the EU / Euro area

As previously mentioned, the approach to analysing the Euro area's actorness based on its BoP will be focused first on the point-in-time impression of the 2023 BoP. The first analysis of the overall BoP will yield insights into particularly attractiveness and autonomy of the EU, while the view on differences in national contributions to the overall BoP will give an indication of the EU's overall cohesion. In both cases the focus shall be on the most relevant BoP positions as identified in previous chapters, making use of the general deductions made. Some further evaluation of past developments will conclude the analysis in an effort to provide a most comprehensive picture.

5.2.1. The Euro area as a whole

When analysing some of the overall actorness indications for the Euro area via implications on attractiveness and autonomy, the **balance of trade in goods and services** is the natural starting point. In 2023 the Euro area produced a surplus of almost 400 billion USD in goods and services, which contribute massively to the overall surplus in the current account. The export of goods is particularly imbalanced, making up two thirds of the overall trade surplus. As introduced in the general assessment of BoP positions, an export surplus can be seen as a very positive indication for autonomy, i.e. indicating the high capacity and competitiveness of domestic production, as well as attractiveness, due to the dependency of the international market on locally produced goods. However, it was also established that these effects do not manifest for all products equally, for which a more detailed assessment by product group is necessary. Following the data published by Eurostat (Eurostat - European Commission, 2024) and illustrated in Figure 5, some striking actorness implications can be deduced.

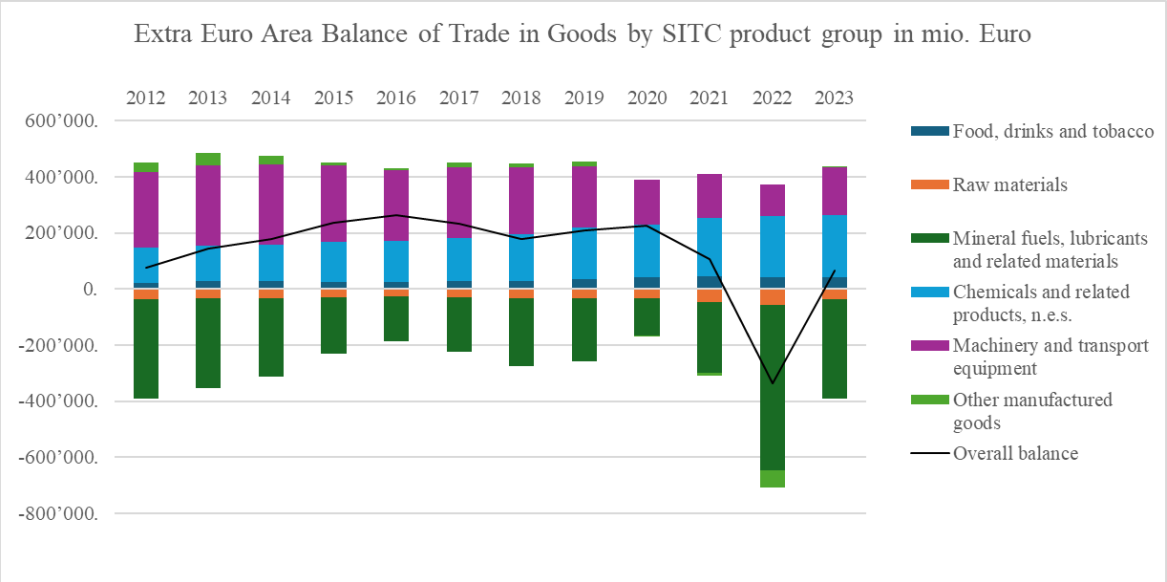

Figure 5 - Extra Euro area balance in trade of goods by SITC product group in mio. Euro, data from (Eurostat - European Commission, 2024)

It is evident that the trade balance of the Euro area is mainly driven by an export surplus in chemicals, as well as machinery and transport equipment and a trade deficit in energy products. The effect these three product groups have on the actorness of the EU as a whole cannot be understated. On the one hand there are chemicals and machinery, contributing to a fairly stable export surplus with chemicals increasing their share over the past years. These goods are processed products that require a high degree of industrialisation, technical know-how, specialised production facilities and sound infrastructure. As such the respective export surplus highlights the capacity of European industrial production to compete with international producers at the highest level and are the cornerstone of economic autonomy of the EU. The availability of infrastructure, skilled workforce and stable legal environments are additional advantages exemplified by these statistics. Furthermore, these products and the innovation linked to them are facilitators for further development and economic growth, making the European economy extremely attractive to other international actors.

On the other hand, there is the significant dependency of both the Euro area and the EU on energy imports. The negative actorness implications this entails have become painfully obvious to the EU member states in the course of the Russian invasion of Ukraine in February 2022 and the following escalation in international relations and cooperation. Fluctuations in energy imports, be it due to changes in demand depending

on e.g. the weather, or due to geopolitical reasons, drive the overall changes in the trade balance. It is however important to realise that a core factor behind these fluctuations are not the raw quantities of energy products imported, but rather strong shifts in prices. This is highlighted particularly in 2022, when the escalation of the conflict between Russia and Ukraine drove up energy prices significantly, further elevated due to substitution of relatively cheap Russian products with more expensive imports from e.g. the Unite States. With imported quantities fairly stable, the price-driven shock on energy imports finally resulted in a overall atypic trade deficit of the Euro area. Independent of these price fluctuations however, the consistently persisting surplus of energy imports constitutes a significant challenge to European autonomy and thus actorness. As previously discussed, the energy supply via dominant goods such as oil and gas is limited internationally and traditionally focused on a few exporting states. While technological advancements have led to some degree of diversification of supply, e.g. via fracking and the capacity to exhaust previously unreachable deposits, the power of suppliers to dictate prices for example remains extensive. The European dependency on such energy imports remains the largest limiting factor to the EU's autonomy and a significant challenge for actorness in the coming years.

On **secondary government income**, the Euro area records a high deficit of around 110 billion USD. For a monetary union of highly developed countries that are well integrated into the international system, this comes as no surprise. As previously discussed, the general implications of a deficit, i.e. a net outflow of funds, via contributions to international organisations, development aid etc., are inconclusive when it comes to autonomy. Understanding the European states as net contributors however has positive implications with regards to attractiveness as a dimension of actorness. It shows on the one hand, that the EU is a key player in international institutions, making it an interesting partner for collaboration. At the same time, particularly less developed countries are incentivized to appeal to the EU by implementing standards and values that are promoted by the EU in order to be eligible to receive development aid and other funds linked to the concept of conditionality, being often controversially discussed. The EU has thus established itself as a critical partner for many countries, particularly those with historic ties and those in the direct European periphery, being included in cooperation and association programmes such as the ENP. The focus of the EU on

development and cooperation beyond its borders, as indicated by the high deficit on secondary government income, thus contribute substantially to its international actorness.

Moving on to the financial account, the Euro area records a net debit on **direct investment**, i.e. an overall net outflow of FDI, or a net acquisition of financial assets. However, compared to other investment positions in the financial account, the total imbalance of around 28 billion USD in 2023 is not overly large. The general assessment conducted in Chapter 4 produced mixed implications on actorness and was overall rather inconclusive. The direct effect applicable is the expectation that a net outflow of FDI is more beneficial to autonomy than a net inflow. In a purely economic analysis, European companies and individuals have more funds available than the domestic economy can absorb, at least when it comes to attractive investment opportunities. While the abundance of funds can be seen as beneficial to autonomy and attractiveness, it also implies a net outflow of investment into production facilities, development and innovation, which create opportunity cost in the long term. An overall positive effect of net FDI outflows is rather linked to a geostrategic assessment, as previously discussed. Effectively, European actors acquire control over foreign assets in net terms. This generally creates decision-making autonomy over assets, which are beneficial to actorness. However, both for autonomy and attractiveness the general FDI framework, particularly in terms of policies and political control play an important role. For the EU, promoting values and standards of a liberal market economy, the level of governmental control over both FDI inflows, as well as domestic companies as owners of foreign assets is limited. Therefore, the effective increase of EU actorness via an increased level of control of domestic residents over foreign assets is rather indirect, if at all measurable. This is in stark contrast to a framework as set up e.g. in China, where the government retains much higher control both on domestic and foreign assets via domestic residents. This also explains the challenges of the European member states in dealing with FDI policies particularly vis-à-vis China. While these challenges persist, due to the aforementioned considerations there are overall no significant actorness implications to be drawn from the slight imbalance of direct investments in the BoP of the Euro area.

Moving on to the last relevant position of the financial account, which are **other investments**, i.e. various debt and equity transactions, as well as **central bank reserves**. In 2023 residents of the Euro area produced a large net debit of 340 billion USD worth of financial acquisitions in debt and equity, while central bank reserves reduced by roughly 12 billion USD, as shown by a net credit in the BoP. Based on previously made deductions, a net acquisition of financial assets, be it equity and cash, or debt vis-à-vis foreign parties indicates weaker actorness due to effects particularly on autonomy. While some positive effects are present around the future capacity to finance imports etc. the detrimental implications outweigh significantly. In particular two factors have a limiting effect on EU autonomy. The major factor being the export of savings and incurrence of opportunity cost associated with EU residence holding foreign equity and debt, since these assets are not contributing to the domestic productivity and represent an effective outflow of savings. Secondly, all these assets carry risk, linked to the stability of foreign economies and debtors, increasing the dependency of the domestic economic developments. This of course is a phenomenon that has become very visible in the past decades due to increased globalisation and the resulting interdependencies, making the EU and its economy very vulnerable to external crisis, as evidenced by the financial crisis of 2009 taking its roots in the American mortgage market. Additional risks are of political nature, yielding potential leverage to third parties. These developments are naturally facilitated by the EU's stance as a very liberal and largely open market economy, putting relatively little restrictions on goods and capital transactions. An important role also plays the attractiveness of the European economy and its single currency, being of international importance as one of the key reserves currencies. Another development supporting this argument is the net outflow of reserves assets from the Euro area. While the overall outflow is not large in absolute terms at around 12 billion USD, it is noteworthy that the total foreign currency reserves of the ECB have been valued around 80 billion USD in recent years (Statista, 2024). With these reserves being rather stable it can be assumed that the net outflow is generated by Euro reserves, which underline the demand for Euro on the international financial market. Therefore the evident flows in the financial account regarding currency and reserves highlight the high attractiveness of the Euro area, while creating

some concerns on autonomy, particularly regarding the long-term development due to the lack of domestic investments and productive assets.

Concluding this assessment on autonomy and attractiveness of the EU as an international actor, it is clearly deductible from the BoP that the EU enjoys very high attractiveness, whilst struggling with challenges around autonomy, particularly in the long term. The demand for Europe's produced goods and services, its development aid, investments and certainly its currency are all very strong arguments supporting the claim of being an attractive, well integrated actor in the international system. However, promoting globalisation, international value chains and cooperation comes at a cost to autonomy, increasing the dependencies on foreign actors particularly in the field of energy supply, in acquiring foreign financial assets and exporting savings. This analysis has however taken the view on the EU as a single actor, so far ignoring cohesion effects. The EU particularly however depends on cohesion due to setup being still driven by intergovernmental considerations and decision-making procedures.

5.2.2. The question of cohesion

In evaluating the cohesion of the Euro area, it is evidently necessary to focus on those positions of the BoP that allow for significant national differences. These regional differences are particularly pronounced in the balance of trade and the net flow of direct investment. In the pursuit of economic prosperity these are also fields on which member states of the European Union continue to compete by means of policies and infrastructure development. It is clear that beyond the absolute contributions to the common BoP, any potential imbalances have to be analysed in relation to the size of the respective economy, as measured by its GDP.

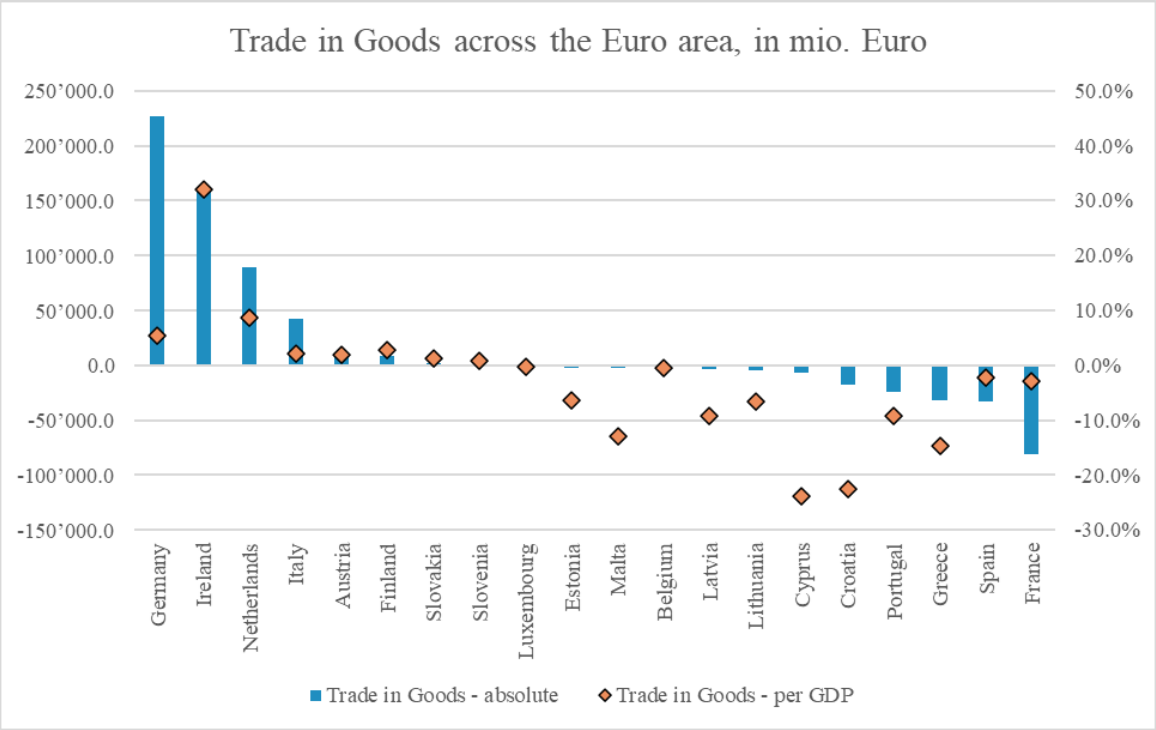

Figure 6 – Trade in goods across the Euro area in mio. Euro, data from (Eurostat - European Commission, 2024)

Figure 6 illustrates the trade balances in goods for all 20 member states of the Euro area. What is immediately evident is that the overall trade surplus of the Euro area is driven mainly by the net exports of three countries, being Germany, Ireland and the Netherlands, each having an export surplus exceeding 5% of their respective GDP. Ireland stands out as a particular case, reaching an export surplus of beyond 30% of its GDP. This outlying effect can be largely explained by Irelands position as a host country for international companies for commercial tax reasons. As such, the Irish Central Statistics Office (2024) states that a significant portion of exports are recorded due to changes of ownership on goods produced outside of Ireland by companies registered in Ireland, which never cross the Irish border. On the other side there are a range of countries with significant trade deficits when compared to their GDP, mostly small and medium-sized countries on the Mediterranean and in the Baltics.

Without going into the details of goods imported and exported by each country individually, already on the aggregate level some conclusions on cohesion can be drawn. Firstly, from the overall BoP of the Euro area one could deduce that the EU is an export oriented economy, which however holds true only for a selected few member states. It is needless to say that these countries make up a significant portion of the

common market, particularly due to the size of the German economy. However, if the EU were to adopt more export focused policies, this would benefit few, while potentially hurting many other member states. This circumstance naturally creates a lot of tension in defining the right approach to trade policies, which are part of the exclusive competence of the European Commission, aimed at benefiting the overall EU economy, while respecting national interests. Secondly, the case of Ireland demonstrates that the EU creates a framework in which individual countries can compete on tax regimes leading to potential distortions in the flow of goods to and from the EU and the access to the single market. It comes at no surprise that the harmonisation of taxes, particularly on commercial revenues, is a very controversially discussed issue with many member states in favour, while some staunchly oppose.

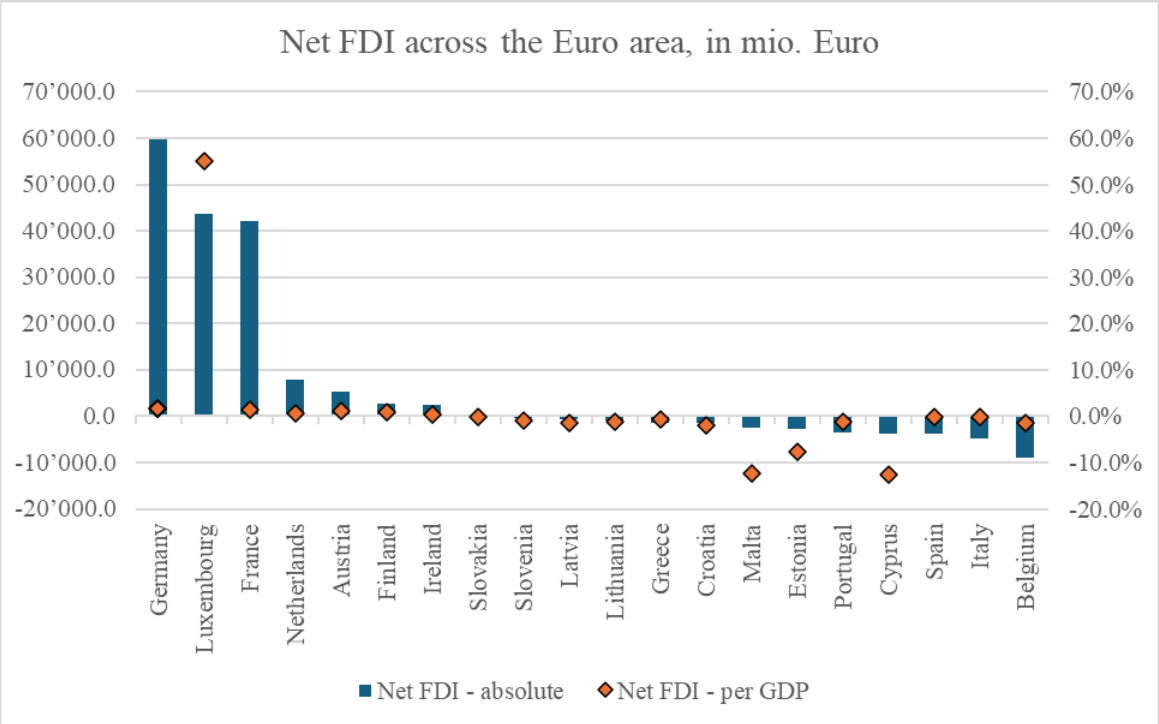

Figure 7 - Net FDI across the Euro area in mio. Euro, data from (Eurostat - European Commission, 2024)

As shown in Figure 7, net flows on direct investments draw a similar picture. It should be noted that in this graph positive absolute numbers represent the net acquisition of foreign assets, i.e. an outflow of FDI. The Euro area's overall net outflows are mainly driven by its large economies, Germany and France, as well as Luxembourg. While the overall imbalance on direct investment is relatively small compared to GDP for the first two, Luxembourg paints a different picture. The small country records a net outflow of

FDI at more than 50% of its GDP, representing the relevance of the country and its financial sector in the flows of direct investments. In fact, Lloyds bank (2024) estimates that the total FDI stock of Luxembourg is roughly 14 times its GDP. However it is apparent that many of these funds do neither originate in Luxembourg nor are intended for use in the country but rather travel through the financial sector as intermediary (Feuvrier, 2020). Looking at the other side of the spectrum, there are some smaller countries, like Estonia, Malta and Cyprus, recording significant net inflows of FDIs compared to their respective GDPs. It can however be questioned, whether these inflows contribute significantly to the local economic development, or whether these countries rather serves as a point of entry of funds into the EU.

A conclusion for the EU's overall cohesion can however be drawn, in that there are very different national approaches steering the flow of FDIs going in and out of the EU. These differences, in particular referring to small member states heavily relying on being a point of entry for investment, create challenges in finding common policy stances among heads of government. This reinforces the perception that, based on purely economic statistics drawn from the national BoPs, the overall cohesion of the EU seems rather fragile. Naturally, on other fields indications of strong cohesion can be found, e.g. in the EU's response to Russia's aggression in Ukraine. However, based on these purely economic indicators, the EU and even the Euro area internally remains a very heterogenous construct, inhibiting overall cohesion and providing a challenge to EU actorness.

5.3. Historic development and outlook

In the previous analysis of the Euro area and its BoP the focus was largely on the most recent statistics from the year 2023. While this view has generated significant indications of both positive and negative effects on actorness, it is unavoidable to look at the underlying developments to arrive at a comprehensive picture. The starting point for this evaluation of historic developments will be the current account as shown in Figure 8. Some observations follow very directly, particularly on the volatility of positions. Firstly, the secondary income account is extremely stable over time, which is in line with expectations for a group of highly developed countries that have not faced substantial political change or severe crisis in the last ten years with the potential of disrupting secondary transfers from or to the countries. Fluctuations in the overall balance of the current account have then been driven mainly by shifts in the trade of goods and services. These also highlight the two most recent crisis that the EU had to face. Firstly, the Covid crisis in late 2019, early 2020, leading to a sharp increase of travel restrictions impacting directly the trade in services, shifting to net imports for a whole year. The balance on trade of goods remained fairly stable during that time and inverted only in the course of the year 2022. As discussed earlier, this can mostly be attributed to the effect of rising energy prices due to the Russian invasion of Ukraine and the dependency of the EU on energy imports. In conclusion, times of crisis have a severe impact on the current account balance. However, the resulting actorness implications can be different. While the shoch to the trade surplus during Covid was mainly result of joint action and policy measures by all EU member states, thus highlighting fairly high actorness, the shock in 2022 was purely externally driven and made evident that significant dependencies on energy imports can limit European autonomy and actorness.

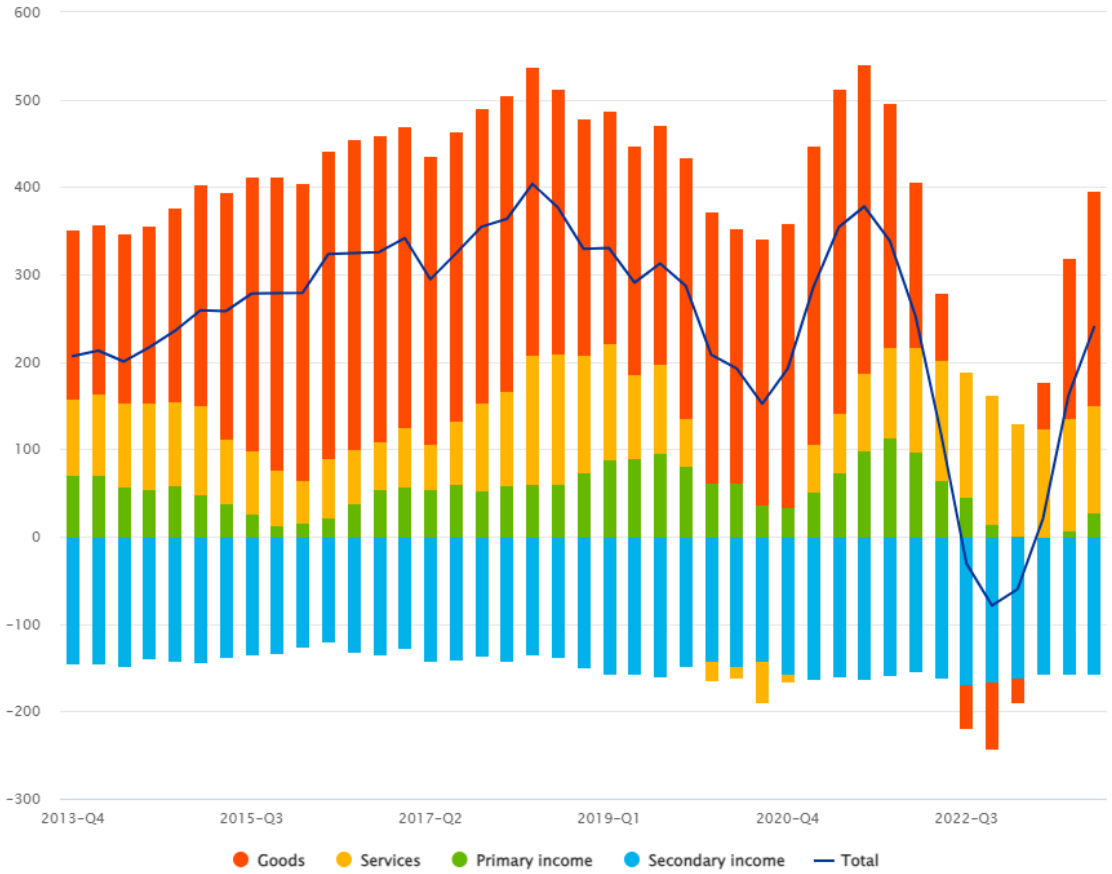

Figure 8 - Euro Area Current Account Development in billion Euro, taken from (European Central Bank, 2024)

The developments of the financial account, shown in Figure 9, are a bit more complicated. The overall balance is fairly stable, mirroring the impact of the aforementioned crisis in 2019/2020 and 2022. However there are stronger movements within the financial account. Immediately striking is that positions in debt and equity listed under other investments tend to offset to a large extend the subaccount of portfolio investments. This relationship however did not hold true in 2022, where large net outflows of FDI, likely linked to the situation on the energy market and increased sanctions against Russia and Russian investors, were offset by both portfolio and other investments. This shows that investment flows are particularly sensitive to changes in the political environment with potential impact on market access. In this particular case the shocks in the financial account can therefore be seen as indications of success of changes in geopolitical stances and policy adoptions. This would suggest a high degree of actorness, mainly driven by strong internal cohesion in the face of adversity.

However, this assessment is of course very situational and does not necessarily allow for deducting general effects of shifts in the financial account.

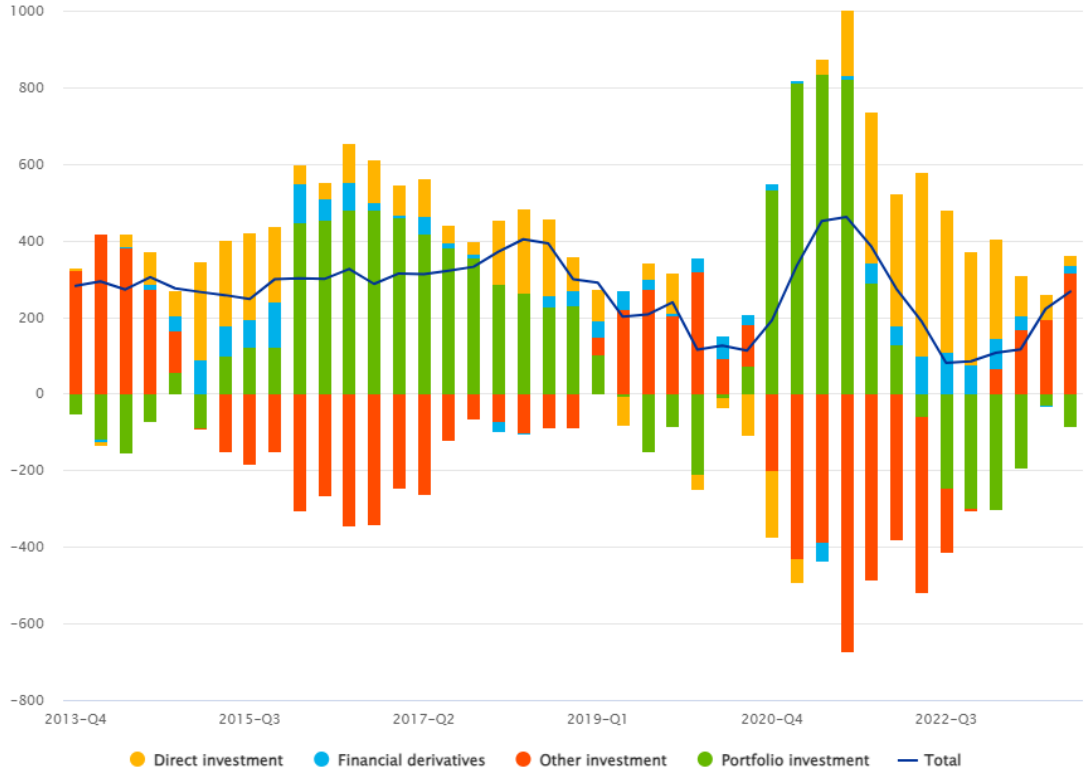

Figure 9 - Euro Area Financial Account Development in billion Euro, taken from (European Central Bank, 2024)

Finally, the analysis of historic events and connected developments on the key accounts of the BoP yield further insights into the specific environment of the European Union, and allow for interesting discussions of its actorness. Such analysis can however only be seen as complimentary to the fundamental assessments that have previously been made both theoretically as well as practically applied to the case of the EU and the Euro area.

6. Conclusion

The overall goal of this thesis was to shed light on the fundamental connection between the balance of payments and the concept of actorness, with particular focus on the indications that individual BoP positions provide. A large part of the work was then to define the key concept, terminology and standards around both actorness and the BoP that allowed for the construction of an assessment framework to achieve the aforementioned goal. Based on this foundation an initial theoretical assessment was conducted for key BoP positions, which was then applied to the case of the EU. The purpose of this final chapter shall be to summarise the key findings and achievements of the previous chapters in a structured manner and to provide an outlook on areas of potential further research.

Crucial to the work done as a whole was the initial discussion on the concept of actorness and its relevance. Reviewing various literature, the model introduced by Jakob and Teebken (2020) stood out as the most comprehensive and structured approach that would thus serve as a starting point. Their model was consequently developed further, particularly by clarifying some of the terms used and introducing a more detailed break-down, in order to create a model suitable for the purpose of a dedicated actorness assessment. While these modifications were made with the clear intention of application in the economic context of the BoP, the final model is by no means restricted to this purpose. The same goes for the applicability to different cases. Even though the very term actorness has largely been introduced and discussed in the context of the EU, it is relevant globally and the introduced model is set up generically enough to be applied to any international actor, potentially even including non-state actors. However, in the sake of being concise, some parts of the actorness concept received more attention than others. When thus applying this actorness model to non-economic environments, e.g. focusing solely on military capacity or public governance, an expansion or amendment of the model might be necessary to capture all factors that would influence actorness in these contexts.

Before applying the actorness model for the actual assessment, some definitions and clarifications were also necessary on the concept of the balance of payments. To avoid confusion, achieve a high degree of relevance and allow for the applicability of the later

assessment to publicly available data, the sixth edition of the balance of payments manual by the IMF (2009) served as a guideline. With the relevance of the BoP in the international system being undisputed, this thesis laid out the IMF's understanding of the BoP, as well as its main accounts and positions. In doing so some immediate observations were made regarding the explanatory power the BoP has for respective economies. The second key point was to introduce the main methodologies of the BoP, particularly around the double-entry bookkeeping and interconnections between the three main accounts, being the current, capital and financial accounts. These elaborations were essential to the following assessment approach as they were key to understanding how to structure a comprehensive assessment of the BoP and which assumptions and remarks were necessary to clearly set expectations and limitations of the eventual outcomes.

Feeding all the realisations on actorness and the BoP into the construction of the actual assessment framework was then crucial to allow for a targeted analysis that would yield relevant results. Having the goal of reaching a methodology that is most universally applicable, while maintaining a certain degree of explanatory sharpness of results, was a main challenge. In an effort to ensure that the assessment would be comprehensive, yet avoiding double counting of effects, some key positions of the BoP were selected that would cover the most relevant effects when analysed one by one, being conscious of interdependencies. Other considerations around e.g. the overreliance of countries on individual positions and the focus on actual imbalances rather than overall position sizes, complemented the framework of assessment. It is noteworthy that this methodology was clearly tailored towards the application in this thesis. As such some assumptions were made with the intention of creating an evaluation framework that would be able to be adopted in the scope of the thesis, while still producing meaningful results, and was appropriate in this regard. Any additional research conducted on the topic of actorness in the context of the BoP may well question the assumptions made and refine the model to fit a more detailed scope of research and discussion. In particular a more holistic approach, treating the BoP assessment not by means of constructing implications bottom-up for individual positions, but rather by looking at key factors driving change in the BoP and evaluating the impact on all relevant

positions jointly, might yield interesting results that could reaffirm or complement the above assessment.

Applying the assessment framework laid out previously to the defined key positions of the BoP lead to interesting insights both into the implications of the BoP on actorness, as well as in the necessity of conducting a circumstantial analysis for each specific case of application and a certain subjectivity in the weighing of results. Based on the foundational work done before, some implications were extracted that give form to an otherwise rather evasive discussion on actorness. Fixing these implications into a comprehensive picture, utilising the defined actorness model adds significantly to the previous absence of literature in this field. Beyond that and the details of the assessment, the key takeaway reinforces the initial discussion on interdependency between accounts, as any positive actorness implications of a trade surplus come at a potential cost to actorness in the financial account. As such a targeted steering of actorness relevant parameters using the BoP can only be done holistically, taking into account all possible developments and shifts. This also shows that a more top-down approach to the assessment, as described in the previous paragraph, might be an interesting addition to the research conducted in this thesis. A final note on the general assessment and potential ways to develop it further would clearly be around quantification. While certainly constituting a task far beyond the scope of this work, the quantification of actorness implications stemming from the, already quantified, data on BoP imabalance, would contribute significantly to the soundness of the assessment and its potential use in political steering.

Lastly, the application of general findings to the case of the EU and the Euro area put the methodology to the test. This approach allowed for the quick deduction of preliminary conclusions that already had significant explanatory value, while requiring further evaluation of the circumstances and a certain degree of subjective evaluation. The overall insights generated confirm the importance of already existing discussion on EU actorness, while providing some additional points to be considered further. Going back into the key dimensions of actorness, it became evident that the EU draws significant actorness from being an enormously economically attractive actor due to the size of its market, the high degree of industrialisation, know-how and innovation. This is further reinforced by the EU's openness to trade and foreign investment, as well as its

will to cooperate internationally and support the global development. However, it also faces severe challenges in the area of autonomy and cohesion. While the EU still has a high degree of autonomy overall, it certainly has been dwindling in the light of the EU being a key driver of globalisation and liberal trade policies. Particularly the balance of trade illustrates these developments due to increased dependencies on certain goods for example. The definition and implementation of a clear strategy on autonomy will be a key challenge for the EU in the coming decades. This however requires a certain degree of cohesion, being the second great challenge. It became clear through the conducted analysis that the EU's BoP positions are largely driven by the impacts of a few economies with large imbalances. The resulting implications for cohesion outside of acute crisis responses remain visible in day-to-day decision-making on the European level. In order to remain a capable international actor, the EU has to thus increase its cohesion via internal harmonisation of economies and reform of decision-making procedures. Beyond the results and insights generated in this thesis, it would be extremely interesting to apply the methodology and initial assessment results to other actors around the globe.

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