

## **Is Europe Dying?**

### **A presentation by Claude Smadja** **At the Lee Kwan Yew School of Public Policy**

No country or continent is supposed to « die » but what is now definitely dead is a European illusion or an “illusion about Europe”.

The present crisis is in fact the long-delayed coming to terms with realities for Europe.

What is dead is the illusion that the process of European integration could just continue to proceed as a top-down project in a manner exemplified by the way the enlargement was conducted – pushing it down the throat of the majority of the people in the core 15 member countries - and the very concept of the Constitutional Pact (an arcane mostly technocratic 300 pages document conceived as to be perfectly un-readable for the lay person)

What is dead is the illusion that growing economic integration would quasi automatically lead to political integration. The latest manifestation of that was the notion that the creation of the euro would be a major milestone towards the emergence of a “European government”. In fact on the one hand the people are very leery of the notion of a “European” government; they want the authority and the accountability to be much closer to home; on the other hand the governments of the “big” European countries are not really interested in a “European government” but rather a situation - or a structure - that would allow them to inflate their importance and role, as to become, or to be seen as, “the voice” for Europe.

What is dead is the illusion that the deepening and expanding of the EU could be evolving in parallel. The discrepancies between the members as such that it was the confusion between wishful thinking and reality and the typical avoidance of hard choices by politicians and technocrats to even consider that the two processes could be moved in parallel.

What is dead is the illusion that the French-German axis which had been the driver of the European integration could continue to play that role in an unchanged manner in a completely different context. The occurrence in 2004, when President Chirac and Chancellor Schroeder decided between the two of them that the Common Agricultural Policy would be renewed for the next 10 years basically unchanged, and presented the other members with this “fait accompli”, has presumably been the last time in the history of the EU when this kind of things could be done.

What is dead is - in fact - the perspective on which the process of European integration had been conducted over the last 10 years because the divorce between this process and the public had just become unsustainable. This process being Establishment-led had evolved in a complete disconnect from the real priorities, needs, perceptions of the public. The steady decline in the participation rate in the European elections was just explained by the “European democratic deficit” without any serious attempt at going to the root causes of the problem and addressing them. Every time the people were consulted on the European issue the results were either a No vote or a wafer thin majority but nobody was ready to draw the lessons from that because the conclusions would have been too destabilizing.

One has to realize that the process of European integration had always in the past been a defensive, reactive, process. It was a defense against the resurgence of German militarism, a

way of tying the hands of the Germans, then it was supposed to be a defense against the threat of US economic domination (“The American Challenge”); then one its rationale became the defense against the Japanese onslaught; recently, it was supposed to be a defense against the combined danger of US hyper-power and as of now some Europeans would like to see it as a defense against globalization and the “Chinese threat”. (PM Villepin: “Globalization is not our future”).

But after 10 years of rhetorical smokescreens putting the real issues behind the carpet, the pressure of realities is forcing the Europeans to address the question of what Europe wants really to be. This question cannot be escaped anymore because of the conjunction of three factors:

- ⇒ The endemic economic stagnation and the realization – at long last - that this is a structural problem, and not a question of economic cycles. In 2004, the best year of the global economy in the last 25 years, the Eurozone recorded an almost ridiculous 1.6% growth – and an increase of unemployment in the major economies of the zone. Europe trend growth rate which is was the same than the US 15 years ago is now half the US one.
- ⇒ The beginning of the impact of the ageing of the European population being felt and exposing the unsustainability of the present pension systems in most of the European countries. 2006 will be the first year ever in recorded history where the number of people aged 15 to 64 in France will stop growing and start declining. The inescapable need for higher contributions to pensions systems with the prospect of lower pensions at retirement age is having a dampening impact on consumption and is feeding a sense of pervasive sense of anxiety about the future – adding to the growing sense of insecurity about jobs.
- ⇒ The migration problem in Europe is now generating a growing unease and the perception that there is a real danger of a loss of identity. The Moslem population in Europe which is officially put at 17 millions is probably closer to 20 millions when taking into account the illegal immigrants. This population will be around 40 millions by 2020. In addition to that, and whatever the rational explanations about the fears being unfounded, there is now the element of the people from the 10 new member countries seen as a danger for jobs in the Western countries with their lower wages expectations and their good level of education and professional skills.

For some time the debate about what Europe wants to be had been obfuscated by the artificial issue of whether Europe would emerge as an ally of the US or as counterweight and even a challenger to US supremacy. But the real debate is much more fundamental because it is about a choice of society.

Many continental European countries had for the last 10 years attempted to escape that choice, they had indulged in the illusion that with some “adjustments” and with the EU serving as a kind of protective shield they could have enough growth to continue increasing their standard of living while preserving their way of life and their “social model”. But the moment of truth is now here.

So, the key issue today is who among the core member countries is ready to “bite the bullet” and wake up to hard realities, and who is desperately trying to prolong the illusion at whatever long-term cost. And even among those ready to bite the bullet, the question is whether they will accept to pay the social and political cost involved in that. And assuming the political establishment would be ready to take the risk, will it be able to get the public to realize and

accept the necessities of painful and difficult adjustments with more pain than gains in the first phase?

The European Union will be intensely absorbed in dealing with these questions for the foreseeable future with some sharp divisions among its members as, for many “core” Western European countries on the continent this will mean the undergoing of a major cultural revolution, a genuine change of mindset.

There are profound implications to be derived from this death of the “European illusion”

We have to expect **protracted paralysis** in the coming years as lines are being drawn in the sand. One just needs to see what has happened to the directive about the liberalization of services inside the EU, or the burial by the European parliament of the European law on IP protection. There will be no new move towards further integration and it is not even sure that the admission of Rumania and Bulgaria will proceed as planned in 2007.

Continental Europe will continue to be affected by **significant social and political volatility** as the nervousness and the anxiety of the public; the resistances to change, the ideological debate will take their toll on the conduct of policy. The failure of the political Establishment – so far – to provide any credible answers to the anxieties related to jobs, to the loss of identity, to the growing insecurity - and even to fully recognize these anxieties - has created a vacuum for populist forces all over Europe to expand their influence in an unprecedented way in recent history. The social and political climate has never been so bad in Europe.

We are quite clearly seeing **a surge of protectionist tendencies in Europe**. The new threat is of course the emergence of China and India. We have seen the recent developments with respect to textiles imports from China but the shoes industry is following up demanding also protection. In the same way, the prospects for significant changes in the European agricultural policy are not very promising in terms of the reduction of the heavy subsidies that have a distorting impact. To use Mr. Blair’s formula in his recent speech before the European parliament, “Europe prefers to subsidize cows rather than R&D”. Adding to that are the mounting concerns about the offshoring of activities which were so far the preserve of the new elite of services providers in Europe. According to some estimates, there will be the off-shoring of 700’000 jobs in the services and IT sector from Europe to lower cost countries between now and 2008. This might seem a relatively low figure. But this will affect the people who in the last decade had considered themselves as the “beneficiaries, the new elite” of the new economy. Many of them are not going to take in stride the loss of the threat to their position.

The European middle class has been the big loser of globalization and in the absence of the structural reforms which would have allowed to recreate a better competitive stance, it is in danger in remaining in that position. ***We have to expect that the greatest pockets of resistance to globalization will be in Europe in the coming period.***

**In that context, we can forget about Europe as an entity becoming a significant geopolitical actor in the years ahead**, whether or not there would be a European foreign minister or not. There have been a lot of illusions spread about the notion of “soft power”, and Europe benefiting from it and being able to exercise it. This is just nice wishful thinking. Soft power can be a useful complement to hard power – as is the case for the US – but it is definitely not a substitute for it. And the fact of the matter is that Europe does not have hard power to display, except when it comes to taming or intimidating some thug in power in an African country. The whole European military budget is just 40% of the US military budget, which incidentally, has also a negative incidence for European R&D efforts and the lead that the US is enjoying in that domain.



The European crisis which will take years to be overcome – and the inability of Europe to establish itself as a major geopolitical player, have a major implication: We are heading towards a **US-China condominium on the global economy**

In the years ahead the global economic Landscape will be characterized by the complementarity and domineering influence of the US and the Chinese economies, they will be the two driving forces shaping the evolution of world growth and setting the trends for the rest of the economies.

Taking at face value the figures reflecting China's present economic situation is misleading. It neither reflects the momentum acquired by the process of China's economic emergence, nor the international position China will be in by 2020: Never before in human history would a country have accounted so much - at this stage of its development - in terms of its manufacturing power, its share of the world population, its share of global trade, its growing role as a base for R&D activity, or as a destination for FOI, or as a source and destination of freight and passenger traffic as well as of financial flows.

As the US is expected to retain its global technological lead and productivity advances, and to remain the number one leader in the financial services industry as well as in services industries in general, China will have accentuated its position as the number one manufacturing base for the world. As US corporations are bound to continue and accelerate expanding their investment and activities in China, at the same time Chinese acquisitions in US will make China the second most important economic foreign presence in the US — behind Europe but ahead of Japan.

The dominant role that the US will continue to have on the global economy combined with the on-going momentum of China's economic surge — and the way it will influence global economic trends — will lead to the emergence of this de facto US-China co-leadership on, or co-driving of, the world economy. This, of course, does not mean that economic giants such as the EU as an aggregate entity or Japan, or India, will not be playing a significant role in the formation of the world's cumulative GDP. But the impetus, the origination of trends, the ups or downs with respect to the global economy will definitely be US and China made.

This growing economic interdependency between the two giant countries will develop in a very unique context: Over the next 15 or 20 years, the US will still remain the sole superpower in existence, but already there will be some erosion of this status as China - the other superpower in the making —will be well on its way in asserting its emerging status.

This co-driving of the global economy ***will definitely not mean any convergence in terms of values or cultures between the US and China***; it will not mean any kind of political “alliance” between the US and China. The political relationship between Washington and Beijing will be uneasy, marked by regular bouts of tensions and mutual suspicions about each other's ultimate objectives. This de facto “co-leadership” situation has the potential to be a force for good for the global economy as a major driver in sustaining global growth. But it could also turn out to be an important disruptive factor if the economic side of the US-China relationship were to be superseded by a growing geopolitical contentiousness.

This is where a Europe that would be able to put its act together could play an important role, alongside Asian countries. The combined efforts from both of them to assert a role and voice in the new global economic and geopolitical context that will be emerging over the next 15 to 20 years could be turned into a major positive factor to help make sure that the uneasy US-China situation and relationship that is emerging does not lead to major frictions and tensions.



In that respect if it is true that we are witnessing the death of a European illusion, it would be a tragedy not only for Europe itself but for the world if this demise were to lead to a continuous European irrelevance instead of a European revival.

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