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Asia Pacific Bulletin

Number 137 | November 9, 2011

Europe's Renaissance or Its Judgment Day?: The 2011 G-20

BY KERRY BROWN

"We still need to rely on Europe to resolve its debt issue, and we believe that Europe has all the wisdom and ability to resolve the debt issue," Chinese President Hu Jintao stated at a side meeting of the BRICS countries—Brazil, Russia, India, China, and South Africa—at the G-20 meeting, held in Cannes, France, on November 3rd and 4th. For the leader of a country famed for its hard-nosed realism, these were surprisingly brave words.

Kerry Brown, Head of the Asia Programme at Chatham House, explains that "For the Chinese, as for almost every dispassionate outsider, the most striking issue about the Eurozone crisis is that at heart it remains a political—not an economic—issue, and one that has exposed the profound, deep seated dysfunctionality within the very architecture of the European Union."

Indeed, even as Hu spoke, the Eurozone slid deeper into political disarray, and continues to do so. Greece's Prime Minister, George Papandreou, fresh from the bail-out package agreed the previous week, announced—then cancelled—a referendum on the stark terms of the deal, only to resign a week later. Italy's public borrowing debts rose to a record high on November 7th, with many forecasting Prime Minister Silvio Berlusconi would last for no more than a few more weeks.

The G-20 is meant to be about global issues, but this time the Eurozone crisis consumed everyone's time and attention. US President Barack Obama—a president famously accused of being detached from Europe—expressed frustration at the remarkable mess the key leaders in the Eurozone seemed to be enmeshed in, as he tries to work through his own domestic political and economic stagnation.

China has persistently asserted confidence that the EU can sort its house out, but these declarations of faith get fainter by the day. As Premier Wen Jiabao stated when the EU-China summit slated to be held in Beijing on October 24th had to be postponed, the idea of China being the "Good Samaritan" for wealthy EU Eurozone member states was not correct—only 17 of the 27 EU states belong to the common currency.

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Many observers have this idea because of the simple fact that the Greek economy is less that 1 percent of the Eurozone area, with the German economy over 40 percent. The EU imports as much as it exports. There is plenty of money within the EU, so why is there the need for it to go with a begging bowl to other nations? Its public debt situation, however dire, is far better than the United States. What was the problem, therefore, in putting together an EU package which would be able to stabilize Greece, restore confidence to the markets, and return the world's largest economic entity to growth?

As this G-20 meeting illustrated, however, European unity remains as illusive now as it

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ever did. When real political consensus and unity are required, the major EU states, in particular Germany and France, have been unable to deliver a united, timely response.

French President Nicolas Sarkozy and German Chancellor Angela Merkel have had to keep an eye on their domestic constituents, and the notion that the suffering and poor performance in one part of the Union needs to be paid for by sacrifices in another has been a toxic one. Sarkozy, in particular, with poor opinion polls and an election next year, has been even more frenetic in his behavior than before, trying to deliver heroic international performances to help curry some political capital for his dwindling domestic fortunes.

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Standing behind both these issues are two great shadows. One of these is the simple fact that Germany remains the one economy in Europe operating a trade surplus because of its export strengths. Symbolically, Volkswagen replaced Toyota as the world's largest car manufacturer this year. To many, Germany is guilty of the same mercantilist behavior as China, with the only difference that to protect its current account surplus it hides behind the Euro.

Over and above this is the shadow of history—a phrase used by Vice-Foreign Minister Fu Ying in Beijing just before the G-20 when she talked of the need for Europe and China to totally recontextualize their relationship. She meant no more hectoring lectures from the EU about human rights, proactive action on granting China market economy status, and less aspirational language on the need for China to undertake reforms when, as Wen made clear, the EU itself is in need of fundamental change.

For Europeans, the shadow of history is within living memory. The devastation of the Second World War, the immense stain of political extremism within Europe from this era, and for many in Greece and Italy at least the uneasy feeling that a kind of Germany *Imperium* was returning, and that the country's dominance was becoming excessive once again. The historic issue might be deeper, but is the easier one to deal with. Germany is a wholly transformed nation to the one that politically collapsed under the Weimar Republic in the 1930s.

The current political disarray is a matter of just how much influence and credibility Europe wants to see disappear at a time when China, India and other emerging economies are growing so strongly. Europe will not collapse into the horrific internal conflict of the past. The issue of just what the Union wants from its multilateralism, however, is much tougher, much more pressing, and way more significant for the future.

What lies at the heart of the crisis is a fundamental choice—for members of the Eurozone and those who are not part of it but still in the EU—and that is the political cost of greater economic integration. The choice is a stark one. To solve the problem, decision making will need to be more centralized, and sovereignty of individual EU members will be compromised. If this does not happen, the current muddle-through-approach will prevail, with the crisis potentially lingering over years, and eroding EU economic and political viability, perhaps disastrously.

It will be an immense challenge for national leaders, already with their credibility battered, to try to sell the issue of reduced state sovereignty to their various constituents. Beyond this, it will require the current EU governance structure—as the Chinese and others have politely suggested—to undergo fundamental reform because the current format is clearly not working.

Ironically, therefore, at the 2011 G-20 it was not just Hu Jintao who was preoccupied by issues of leadership change and looming political reforms—so are his EU and US counterparts.

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