

The European debt crisis and Asia in global economic governance

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Asia and Europe have no choice but to listen carefully to and learn from each other in dealing with the repercussions of the European sovereign debt crisis.



There is much at stake. The debt crisis in Europe epitomises the paradox underlying 21st-century global governance: we increasingly rely on governments and regional and global institutions at a time when their authority to deliver is severely eroded. While regional integration in post-World War II Europe has demonstrated the potential of pooling state sovereignty in order to lower transaction costs and maximise Pareto-benefits, the European crisis clearly illustrates the limits of collective problem solving among liberal democracies.

The debt crisis is arguably, first and foremost, a regional problem for the European Union (EU), but the [potential repercussions are global](#) ^[1], given the complex interdependence of the international economy. As the IMF recently stressed, China's economic growth would be almost halved should Europe's crisis worsen. The stark juxtaposition of [East Asian regionalism against globalism](#) ^[2] is therefore not helpful. Economic regionalisation in East Asia has been remarkably open and externally oriented, which strictly limits the prospect for any '[closed regionalism project](#)'. ^[3] Consequently, any changes at the regional level will be deeply interwoven with governance reforms at the global level.

In Asia, China is especially concerned about the perceived perils and pitfalls of complex EU decisionmaking. One prominent Chinese economist at the Development Research Center of the State Council recently noted that EU leaders appeared more nationalistic than ever, which

stood in stark contrast to the vision of European integration that leaders of the older generation had been devoted to. According to the same observer, this was compounded by the mixed messages Beijing received in bilateral talks with representatives from different European capitals — such as Berlin, London and Paris — with detrimental effect. The perception of a disunited Europe would foster a tendency among Chinese policy makers to exploit the differences among EU member states. In a nutshell, what is at stake is the ability of the EU to provide coordinated solutions to issues of collective concern on common grounds.

Furthermore, despite the potential negative repercussions of the European crisis for the region, East Asia may not necessarily wish to [assume greater collective responsibility](#)^[4] for key problems in the global financial system. East Asian countries may want more [global governance](#)^[5] to stabilise the international economy and address risks in the euro zone. But, at the same time, these countries also want less global governance if that comes in the form of stricter or more intrusive regulation in areas like current account imbalances and sovereign wealth funds, which go to the heart of domestic political economies.

In Europe, the prevailing perception is that the EU has now reached a fork in the road. There is a clear understanding that the real economy needs further structural change. Public finances need to be put under control in countries that are breaching the public debt threshold of 60 per cent of GDP. Better governance is still needed in the banking, fiscal and economic areas. The EU is currently making progress in all these areas and is focusing on implementation. Consequently, the debt crisis can also be seen as a healthy catalyst for improving economic governance in Europe. Throughout its post-World War II history, crisis has been the engine of progress in European integration.

Yet the debt crisis comes with a heavy price tag, because it is consuming too much of the EU's energy. As a result, the EU has become predominantly inward-looking. There is a lesson here that Europe may want to learn from Asia. After the Asian financial crisis of 1997–98, ASEAN took a different approach by opening its doors to wider and deeper cooperation in the Pacific Rim. The EU has a unique opportunity to be a catalyst for democratic transition in its strategic neighbourhood, such as the Balkans, the 'newly independent states' of the former Soviet Union or the countries that recently went through the Arab Spring. The EU is a unique project in history. With its normative approach based on clear rules and shared sovereignty, the EU can serve as a laboratory at the global scale. This does not mean it should serve as a model. Rather, the EU can offer its experience on how to overcome narrow, national and sectoral interests and the procedures needed to make progress.

In sum, it is high time to start a frank discussion on global economic governance that will engage Asia and Europe on a more equal footing. The European debt crisis illustrates that the Western liberal model is deeply contested in the absence of any alternative. There is no Beijing consensus emerging on how to steer the global economy; there is also no consensus on the dos and don'ts of Asian financial and economic integration. While Europe needs to listen harder and learn from the Asian experience, Asia needs to develop a better understanding of the *political* dimension underlying the euro zone crisis. As former German chancellor Helmut Kohl once put it in rather stark terms when pressing the case for monetary union: adopting the euro is ultimately a question of war and peace in Europe.

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[3] 'closed' regionalism

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