Europe must adapt to the reality that we are living in a world increasingly dominated by Asia

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Economic development in China and other Asian countries has an impact on the role of European states in global affairs. **Craig J. Willy** *argues that with the rise of Asian economies, the world is increasingly moving away from the model of free trade championed by Europe and other states in the West. Unless Europe becomes a more cohesive actor which is capable of convincing other nations to respect Western legal and commercial principles, it will find itself forced to adapt to the East Asian development model.*

Economic relations between the European Union and China are a classic example of what French sociologist Emmanuel Todd has called "asymmetric globalisation," characterised by unequal openness and chronic, unsustainable trade deficits.

The EU is a non-State, complex and uneven "Union" of 28 countries, which on most issues is incapable of decisive action because of the need for at least broad consensus and national implementation. Much of economic policy is prescribed in the EU treaties, almost always in favour of open borders and free trade, and is only modifiable with extreme difficulty. In contrast, China is a cohesive and authoritarian Nation-State with an economic policy in accordance with the East Asian development model of corporatist state capitalism.

Shanghai, Credit: Keith Marshall (CC-BY-SA-3.0)

Europeans repeatedly condemn China's development model, but this is usually without effect. The European Commission regularly cites China in its reports on the rise of protectionism worldwide and firms often complain of legal uncertainty in China. As the China report of the Asia study, recently released by the Bertelsmann Foundation's Sustainable Governance Indicators (SGI) project, states, "local administrations frequently make arbitrary decisions that contradict national regulations" and corruption remains an issue. In the SGI report China scores very poorly on corruption prevention (2 of 10 possible points) and legal certainty (3 of 10 possible points).

As the Bertelsmann report further points out, China's economic growth has been accomplished through unconventional policies and institutions, often deviating substantially from the Western marketisation-cum-privatisation paradigm. Indeed, China's economy is characterised by strategic State planning, capital controls, currency manipulation, closed public procurement markets, disregard for Western intellectual property (three-quarters of fake goods seized at EU borders are Chinese) and support to exporters and "national champions."

China: "the most ambitious planning polity of our times"

The role of the Chinese State as strategic planner of the economy is difficult to overstate. As the SGI report concludes: “China can be considered the most ambitious planning polity of our times with regard to the comprehensiveness and the intended domestic and global impact of long-term policy programs.”

In contrast, the EU and its member states are a strange mix of interventionism and *laissez-faire*: significant welfare spending and regulated labour markets coexist with open borders and hostility to any “trade-distorting” State action (“national champions”, industrial subsidies). There is total free movement of capital, the world’s most open public procurement markets, and no euro-exchange rate policy.

It is not surprising that this staggering asymmetry in economic openness coincides with asymmetric trade flows. The EU is China’s most important economic partner with trade in 2012 estimated at €433.8 billion. The EU has a €146 billion trade deficit with China or 1.13 per cent of GDP. This headline figure is significantly better than the U.S. ($315.1 billion deficit with China or 2 per cent of GDP), however it masks massive divergences within the EU.

Indeed, Germany is the *only* EU country with a trade surplus in goods with China, at €4.3 billion in the first half of 2012. In contrast, France had a trade deficit in goods over the same period of €4.7 billion, Italy of €8.3 billion and Britain of €13.6 billion. This situation is not sustainable, these flows will eventually adjust, either by diminishing European consumption or increasing exports.

Beijing-Brussels: An unequal struggle

However, the EU appears to be incapable of enticing China to adopt “free and fair” trade, or even of having coherent and self-interested trade or monetary policies in general.

This was particularly apparent during the solar panels dispute. After the European Commission imposed smaller-than-expected tariffs on China’s subsidised solar panel exports, China slapped tariffs on (very successful) French wine exports while Germany, fearing its “special” trade relationship with China would be threatened, broke with European solidarity and condemned the EU move. The Commission backed down shortly thereafter, cancelling the weak tariffs it had put in place. The British think-tank Open Europe argued: “China’s divide and conquer approach looks to be paying off in deal on solar panel dispute.”

Europe is trapped in a dangerous no man’s land: the Nation-States have largely been stripped of their economic powers, but no strong EU-level action is possible. Beside the power of the central Chinese strategic State, policymakers in Brussels are totally disarmed: with inconsequential budgets, an incredibly slow and consensus-driven policymaking process, the EU’s long-term planning (“Lisbon Strategy,” “Agenda 2020”) is simply not in the same league.

The EU will need to either revert to Nation-States or become a far more cohesive actor. Perhaps China will revert to Western norms of its own accord. The country is considering capital liberalisation and perhaps its economic elite will come around to seeing the benefits for itself of thinking in global instead of national terms.

It is equally possible, however, that the Euro-American globalist system will become increasingly marginal. China alone is, in the medium-term, big enough to be a bigger cultural and economic world than the EU and U.S. put together. In addition, China will no doubt continue not only to work in Western institutions (IMF, World Bank, WTO), but also to develop its own alternatives with emerging allies: the Asian Development Bank, a possible “BRICS bank,” or the Shanghai Cooperation Organization. The world is increasingly a non-Western one with powers like China, Russia, Brazil, Japan, or South Korea, which are distinctly uninterested in making a fetish of free trade.

How will Europe adapt to China?

Is Europe’s paralysis inevitable? One is tempted to be pessimistic. As they are saddled by ever-increasing debt burdens, interest payments and demographic ageing, many European nations appear destined to become glorified retirement homes and museums for global travellers. But Europe has many qualities: a peaceful continent, a largely healthier demography than East Asia, energy efficiency, a very high level of development and human capital, and a relatively high level of social cohesion and public services. However there is also a sense in which Europe has "peaked" as a force, that there is an economic débâcle, and that European nations are congenitally incapable of acting together.

The EU may explode, giving way to reborn Nation-States. The EU may become more effective as new decision-making mechanisms come into play: from 2014 most EU laws will only require a majority of governments representing 65 per cent of the population and 55 per cent of states. The experiment of "coalitions of the willing" through the enhanced cooperation mechanism is already occurring on things such as the pan-EU patent and an eventual financial transactions tax.

The EU may also become more cohesive, paradoxically, by its weakness. As the peripheral states of Europe are crushed by the debt burden, they may come to follow the orders of creditor states in exchange for continuously renewed financial solidarity (we've seen this with the Six-Pack, Two-Pack, Competitiveness Pact and the *Fiskalpakt*). Creditor states may come to a more proactive attitude as they find that they, too, are incapable of defending their social models and middle classes in the age of globalisation.

In any case, EU-China relations show two extremes in the age of globalisation: the passivity of openness and law vs. the activism of tightly-managed borders and *dirigisme*. In this highly unequal struggle a reversal may soon be underway. At the very moment when the Western nations are most completely embracing globalisation and the end of the Nation-State, the rapidly-rising East Asian nations appear more then ever wedded to the role of borders and the Nation-State in economic life. The West may believe they can impose free trade, but China's staggering size means this will not be possible coercively. Western globalisers must recognise that everything suggests this is indeed the Asian Century, and that if China ends up abiding by their Atlantic legal and commercial principles, it will have been by choice.

One way or another, it is Europe which will have to change, either achieving the cohesion to force China to respect Western principles or adapting itself to the East Asian development model.

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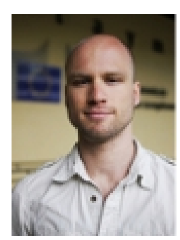
About the author

Craig J. Willy
Craig James Willy is an EU affairs writer and a journalist with the German Press Agency (DPA). He has notably written political analysis for the Bertelsmann Foundation and media analysis for the European Commission. His French-English blog is available here.



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