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THE EU POSITION IN THE WORLD ECONOMY IN THE CONTEXT OF CURRENT ECONOMIC CRISIS: REFLECTIONS ON THE G20 MEETING OF APRIL 2009

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Abstract

The article focuses on the changes in the economic balance of power in the world economy, particularly as result of long term trends related to globalization and in correlation with the implications of the current economic crisis. The analysis is done in the framework of the G20 meeting which is attempting to design a new system of international institutions, compared with a new Bretton Woods. The paper concludes that the position of European Union in the world economy is gradually declining and that steps are to be taken in order to change this trend.

Keywords: European Union, G20, economic crisis, Bretton Woods II, world government.

JEL Classification: F15, F59, O17

Starting mid 2008 the world economy has been confronted with a crisis that has been unanimously labeled as “once in a century” (1). Because globalization means universal interactions, both in positive and negative aspects, it is unavoidable that the crisis affects all countries and, as result, requires world wide actions (2).

It is in this context that an interesting phenomenon can be noted, the fact that Europe as an entity represented first and foremost by the European Union is somehow a secondary actor (3). This observation can be demonstrated by the increasing relevance of G20 as a debate forum on world economic issues (4). G20 which has been established a decade ago, in 1999, was until last year a rather obscure organization, at least for the public opinion. Nowadays it is mentioned with increasing frequency as the relevant organization that brings together the countries able to find a solution to the crisis. As the name shows, G20 consist of 20 entities, which are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the US and the EU. Out of the 20 entities, only 6 represent Europe (France, Germany, Italy, United Kingdom and

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the EU), while 14 represent other parts of the world. What is even more relevant is the fact that in various business or political circles there are people that speak about G2, that meaning United States and China.

This comment may seem just a speculation but it is backed by economic data. The share of Europe in world GDP declined from 19.5 in 1994 to 16 % in 2008.

This is the result of many years before the onset of the crisis when European economy grew much less than the economy of United States or than countries from the Pacific rim. European companies are bought by investors from India, China, Russian Federation or countries from Middle East and support for the difficult situation of banks are sought in China or other parts of the world. Examples can continue, and as economic crisis is the main subject, it is to be noted that while USA and China have taken massive fiscal stimulus packages which reached 12 % of GDP in the case of USA, in Europe the corresponding measures represent a mere 1.5 % of GDP (5).

It is in this context of the long term decline of the European role in the world economy that the G20 meeting takes place in London on April 2, 2009. The key objective of this summit is to restore global economic growth through enhanced international coordination. Based on previous discussions and analyses three commitments are required from the part of all participants:

- Implementation of all actions which are necessary to stabilize financial markets and thus to help economic actors get through the recession;
- Reform of the global financial and economic system in order to restore confidence and allow re-launch of economic activity;
- Generate sustainable growth, high levels of employment and poverty reduction in the global economy.

It is also interesting to note that the global scope of crisis and its depth has determined a reaction at the level of international organizations like United Nations. It is in this context that a greater role and greater funds have been assigned to the International Monetary Fund and that the Millennium Development Goals of the United Nations are somehow included in the objectives of the plan to rescue the global economy. One can say that global problems raised the importance of global institutions and this again means less role for the European Union.

As result, at the G20 summit, the main topics on the agenda may refer to (6):

1. The need of a fast completion of the current global trade negotiations, the Doha Round, in order to strengthen the commitment to refrain from protectionist measures;
2. The solutions to ensure that everyone has the skills they need for the jobs of the future;
3. The need to correlate economic recovery to a shift towards a low carbon economy;

4. The establishment of a strategic framework to stimulate investment;

5. Commitment to the Millennium Development Goals and therefore increase of development assistance. On this last topic it is to be mentioned the position of George Soros who said that the G20 meeting had to come up with concrete solutions to help the developing world in particular, which had been worst hit.

One reason why the G20 summit in April 2009 is relevant for the European Union is the fact that discussions refer to the reconstruction of the world financial system from its foundations up. Maybe the G20 Summit in April 2009 would not be exactly a Bretton Woods II but that would be the essence of the discussions. And at these discussions European Union would be far from a key player if any at all.

Just before the summit the UK Prime Minister called on world leaders to 'seize this time of profound change to forge for our generation a new internationalism, a new era of international cooperation that is both hard-headed and progressive.' (7).

Today 70 % of world economic growth comes not from the older industrialized nations but from the emerging and developing countries, and that is why there must be a new deal that includes every country and every continent.

As result of this new situation in the world the longer-term reforms of the international financial architecture may imply that, as Mr. Gordon Brown, the UK Prime Minister, said: 'The next head of the World Bank need not be an American. The next head of the International Monetary Fund need not be a European. We must make the governance systems of the World Bank and the International Monetary Fund more transparent, more relevant and more open.'

A similar view has been expressed by the UN Secretary General, Mr. Ban Ki Moon, who considers that the Bretton Woods institutions must reflect the current economic and political landscape: 'If we are asking rising economies such as India and China to support our global financial institutions, we must give them a broader voice in their management.'(8) The implications of this fact is that the position of participants in the world financial institutions which are giving less support (i.e. European Union) will decline.

Before the G20 summit consultations took place with leaders of countries not participating directly to the summit from Asia, Africa and Latin America. As a common denominator these leaders had two concerns: the maintaining of a global free trade system and the avoidance of a situation in which the G20 summit would generate a solution only for the participants.

Summing up these concerns one can say that in a global economy, faced with a global crisis, there is a need for a global system able to provide a global solution. That means, in other words the raising up of integration to a new, global, level. Such a level may be a sort of one world government in the making which may render obsolete the idea of continental integration. If such a case would be, then that can be a lesson that history does not move in uniform way, with an uniform speed, but rather jumps from one level to another.

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