The 2nd Allianz-CER Forum
Brussels, October 24th 2011

The EU and emerging powers

Speakers included Pascal Lamy, Carl Bildt, Peter Sutherland, Michael Diekmann, Feng Zhongping, Fyodor Lukyanov, Nader Mousavizadeh and Pramit Pal Chaudhuri

On 24 October 2011, Allianz and the Centre for European Reform brought together 80 invited policy-making, high officials, experts and editors to discuss the how the EU should structure its relationships with 'emerging power' – or, high-growth markets, a term now preferred by many to refer to China, Brazil and other countries that are large players on the world scene.

Panel 1 **Can the EU develop strategic partnerships with emerging powers?**

In his opening speech, Allianz CEO **Michael Diekmann** argued that that especially at a time of crisis, when narrow national interests tend to take prerogative, Europe needs more coherence and joint action, not less. The Europeans will only retain their influence in the ongoing discussions about a more effective global architecture if they speak with one voice – and preferably occupy one seat at the tables where decisions about global issues such as climate change, finance and security are made. The EU urgently needs to get its act together, it cannot afford to fail. To remain a global player, the EU needs to find a way to deleverage its economy (reduce the amount of debt) without triggering a prolonged recession. During the first Allianz-CER Forum in March 2011 (which focused on the eurozone debt crisis), Paul Achleitner, a member of the Allianz board, proposed a European sovereign insurance mechanism, such as has now been included in the latest agreement among eurozone leaders from October 28th.

In his keynote speech, the Swedish Foreign Minister **Carl Bildt** reminded us of the conclusions of the EU reflection group led by Felipe Gonzalez (which failed to get much attention since they were published when the Greek debt crisis broke out). Gonzalez and his colleagues warned of the EU's marginalisation in a new, multipolar world unless the following things happen: first, the EU needs to get its own house in order. In an age where power no longer equals nuclear weapons, the EU has considerable resources. It is by far the world's largest market, giver of aid and both source and destination for foreign investment. It is also a regulatory superpower. Yet high-growth countries in Asia, Latin America and elsewhere see the EU as a faded power. Second, the EU's ability to use its soft power depends on its ability to overcome internal divisions and develop effective policies. One way for the EU to make sure that it keeps its transformative powers, in particular in its eastern and southern neighbourhoods, is to widen and deepen the single market. The EU also needs to show that it is thinking ahead by developing a proper European space policy and a cyber strategy. Third, the EU needs to continue streamlining its foreign policy machinery. EU member-states have 3,100 diplomatic missions around the world which employ 55,000 diplomats and 40,000 local staff – who probably spend a lot of time attending each other's receptions. The European External Action Service

(EEAS) provides a huge opportunity to streamline European foreign policy and eliminate duplication and divisions.

In the following panel discussion chaired by Wolfgang Ischinger, head of Allianz government relations, **John Kerr**, deputy chairman of Shell, argued that the EU's strategic interests vis-à-vis high-growth (or emerged) countries consists in convincing them that their own interests are best served in a world of open markets and strong rules. The way to do this is for the EU to practice what it preaches. The EU needs to keep its own markets open and resist protectionist pressures – even if these are meant to impose 'reciprocity' on less open partner countries. The EU also needs to be open to immigrants and keep the option of further enlargement, including to Turkey, on the table. Equally important, the EU needs to accept that it no longer has a monopoly on rule-setting. It should support more radical reform of the IMF and other international organisations to reflect global power shifts and stop preaching high-growth countries about the superiority of EU approaches to fighting climate change or democracy. It is for each country to decide which trade-off it wants to strike between effectiveness and democratic legitimacy. The EU is in no position to judge that the Chinese model is better than the Indian one. Finally, the EU must be careful not to become too introspective. With hindsight, 2011 will be viewed as the year when the Europeans missed the enormous potential and risks associated with the Arab Spring because they were entirely focused on domestic economic problems.

François Godement, a senior research fellow at the European Council on Foreign Relations, dispelled some wide-spread views about 're-emerged' (his preferred term) powers. First, global power shifts are often over-estimated. Japan looked so strong in the 1920s that nine powers signed an agreement to contain it. The Asian crisis of 1997 interrupted the prevailing optimism about the 'Asian century' and set back regional integration in Asia by at least a decade. Second, the impression that the new multipolar world will be dominated by autocracies is wrong. The majority of high-growth markets are democracies. Where they differ from the developed democracies is in their reluctance to interfere in other countries and the importance they attach to global rules and leadership. High-growth countries can more easily live in a fragmented international order where sovereignty is king.

Robert Cooper, counsellor at the European External Action Service, explained that for the EU a 'strategic partnership' means that the strength of the partnership itself is the main objective of policy and is worth making investments in. Good examples are the Franco-German partnership or that between the EU and the US. He detects five major changes that should guide EU foreign policy today: 1) the world is less violent; 2) imperialism is dead and some former colonies are now great powers; 3) globalisation is the prevailing trend; 4) the nature of power is changing: financial strength and natural resources count as much as military power; 5) leadership depends on bringing about consensus among major players.

Fyodor Lukyanov, who edits the magazine 'Russia in Global Affairs', warned that Europe is disappearing from Russia's radar. First, Europe no longer guides Russia as an idea. For centuries, Russians believed that Europe was more advanced and worth emulating. Today, Russians look to Asia for inspiration and as a source of modernisation. Second, the EU is too complex for Russia to deal with. It is also the least predictable of the global players. Third, as a potential partner in dealing with global power shifts the EU is not much use. Russians do not believe that the Europeans know how to deal with China in ten years' time. The main foreign policy event of the Medvedev presidency was Russia's refocusing from Europe to Asia. Russia did not do this to get more 'respect' from the Europeans but simply because it cannot afford not to have a strong relationship with Asian powers.

Feng Zhongping, who runs European studies at the China Institutes of Contemporary International Relations, explained that China likes to take a long-term view. Despite the current eurozone crisis, the Chinese value the EU as their biggest market and trading partner. China, as the world's biggest economy, realises that it needs to assume more global responsibilities and hopes that it can share some of these tasks with the Europeans. Moreover, China knows that Europe will not compete with China for geopolitical power. In this rather positive picture, there are also challenges: the political dimension of the EU-China relationship is underdeveloped and there is little trust between the two partners. For example, the Chinese are suspicious of European foreign policies if these involve intervention in other countries, as was the case in Libya in 2011.

The subsequent discussion partly evolved around the question whether obvious weaknesses in global governance could be compensated for by stronger regional structures. It is not clear whether the EU could still serve as the model for regional integration efforts around the world – it could be torn apart by the euro, supposed to be crowning achievement of 50 years of integration. In the Middle East and Northern Africa, the absence of any kind of regional security arrangements now poses huge risks for regional stability. Although Asian regional integration is weak, there are propelling reasons for it to accelerate. The US's inevitable withdrawal from global responsibilities (American will have to cut $1 trillion from its defence budget in coming years) means that Asia needs stronger regional security arrangements. Some doubted the feasibility of these, given that Asian countries are arming themselves against each other. Also, the absence of strong Asian economic institutions encourages countries to pile up huge foreign exchange to be prepared for future crisis. In Eastern Europe, Russia has just proposed the creation of a 'Eurasian Union', which some regard as a Russian ploy to gain more influence over smaller neighbours while others see it as the first serious attempt to integrate the region based on mutual interests.

Panel 2 **How can Europe and the emerging powers best promote trade and investment?**

In the second panel, moderated by the CER's Katinka Barysch, **Peter Sutherland**, a former head of the World Trade Organisation and now member of the Allianz supervisory, gave a stark warning about the imminent disintegration of the global trading system. The WTO used to the guiding force for economic reforms in countries such as China and has thus helped to lift hundreds of millions out of poverty. Today, trade is seen as boring and global trade is not part of national economic debates. Global leaders, at the G20 and elsewhere, have repeatedly promised to complete the Doha round of multilateral trade negotiations. In practice, they have engage in creeping protectionism (especially the high-growth markets) and undermined the global trading system by concluding more and more bilateral free trade deals (here the EU and the US are at least as guilty). Unless the G20 sets a firm deadline for the Doha round, it will have to be declared dead. All countries, but in particular big export nations such as China, would suffer. Also countries such as India and Brazil should see it as being in their self-interest to take more responsibility for the development and maintenance of the global trading system.

Marc Vanheukelen, head of cabinet for Trade Commissioner Karel de Gucht, defended the EU's trade policy. It is not that the Europeans do not realise the importance of global trade. But there are some new challenges that make global agreements harder. First, WTO rules crudely split the world into 'least developed countries' that enjoy much freer access for their exports and the rest. A 21st century trade policy needs to allow for more differentiation between countries at different stages of development. The EU does not expect full reciprocity from high-growth countries such as China but it does expect them to do more to open their own markets that the world's poorest countries. Second, it is right that the EU is concluding more bilateral free trade agreements (the one with South Korea has just passed the European Parliament, one with India is in the making). The challenge is to make sure that such FTAs contribute to global trade liberalisation rather than undermining it through a 'spagetti bowl' of trade preferences.

Pramit Pal Chaudhuri, the foreign editor of the Hindustan Times, explained why India did not regard it as its job to take the lead in global trade. First, India still has more poor people than sub-Saharan Africa so the government's main responsibility is an internal one. Second, India is currently obsessed with rising inflation, in particular food prices, that is eroding the purchasing power of hundreds of millions of poor households. Moreover, a country such as India simply does not have enough resources for bilateralism. While the US embassy in India employs more than 900 people, India's foreign ministry as a whole has less than 900 people and of these only five are working on US topics.

Nader Mousavizadeh, CEO of Oxford Analytica, thought that the debate reflected an inadequate understanding of how much the world has changed. Many still think that if only the US and the EU can get their act together, the WTO will be restored to its central role in the global economic system. The big difference is that the country that will soon be the world's biggest economy, China, also has low per capita income. The interests of China (and countries like it) are fundamentally different from those of the developed nations. Moreover, the shift of economic power from west to east is only part of a much broader process of fragmentation. In today's 'archipelago of interests' a global deal among over 150 countries is almost impossible. Calls for high-growth markets to become 'responsible stakeholders' are off the mark. These countries cannot be expected to defend an economic order that was created 50 years ago to defend the interests of the rich countries.

Gerard Lyons, chief economist of Standard Chartered bank, was more optimistic about the future of the global economy. The fragmentation of the trading system could also be seen in terms of growth-boosting new 'trade corridors' that result from a surge in trade within regions and among them. Bilateral trade deals are 'the new normal' so it is more important to ask how to structure these so that they do not damage wider trade dynamics. For example, through bilateral deals, Singapore gives better access to its market to banks from the US than to those from the EU. It is important that countries maintain a level-playing field for all their trading partners. Global imbalances – the growth of big surpluses in some countries and deficits in others – have the potential to lead to protectionism. Surplus countries such as China need to rebalance the economies away from exports and towards domestic demand, for example by constructing stronger social safety nets and helping small enterprises to create jobs.

Pascal Lamy, director general of the WTO, explained that the main problem with bilateral FTAs was not tariffs but regulations. Only 15 per cent of global trade is governed by bilateral FTAs. But they tend to lead to bilateral convergence of rules and regulations and preferential trade access – which then makes it harder for non-signatories to enter these markets. Faced with Doha stalemate and rising concerns about bilateral FTAs, the world's large economies need to explore completely new avenues towards multilateralism. As growth in developing countries continues to outstrip that of the richer nations, the world needs a trading system that is considered fair by all sides. The problem is that many people in the developed world see globalisation and the emergence of new economic power in zero-sum terms. They no longer see Asian countries as poor developing nations. When they think of China, they think of high-speed trains and India is identified with IT businesses. Meanwhile, the high-growth countries view the developed ones as incapable of reforming. All this complicates the current discussion about the right burden sharing.

In the subsequent discussion, it was questioned whether high-growth countries really had such good excuses for not assuming more responsibility for saving Doha. India, for example, claims that it cannot focus on international trade but it has concluded, or is working on, 33 bilateral trade deals. Representatives of businesses based in the EU explained that bilateral FTAs were good in addressing the specific issues that companies grapple with in high-growth markets. But they also resulted in too many different standards so made the operations of global businesses much harder. There was also a discussion about the importance of currency fluctuations for global trade. Some thought that measures were needed to stabilise currencies and thus avoid 'currency wars' while others thought that the focus on currency movements was only an excuse for those who did not want to admit that the global trading system was in trouble. Generally, there is a dangerous tendency for countries to blame others for their economic problems to deflect attention from their own inability to reform.

Katinka Barysch, deputy director, CER, London; Burkhard Ober, representative of Allianz Global Investors, Brussels; Herbert Woopen, representative of Allianz SE, Brussels