

Opinion of the European Economic and Social Committee on 'An EU response to a changing balance of global economic power' (own-initiative opinion)

(2011/C 48/10)

Rapporteur: **Mr Brian CALLANAN**

On 18 February 2010 the European Economic and Social Committee decided to draw up an own-initiative opinion, under Rule 29(2) of its Rules of Procedure, on

'An EU response to a changing balance of global economic power' (own-initiative opinion).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 20 July 2010.

At its 465th plenary session, held on 15 and 16 September 2010 (meeting of 15 September 2010), the European Economic and Social Committee adopted the following opinion by 135 votes to 4 with 3 abstentions.

1. Summary and conclusions

1.1 European Member States have suffered their worst economic crises since the 1930's and the recovery remains patchy, fragile and vulnerable. After the deepest crises since the 2nd World War global balances have changed, Europe has to redefine its position and strategies within the new framework. As 85 % of Europe's trade is in its own market, some of the answers to the new challenges will be found internally. Expansion of internal demand is critical for a sustainable Union if it wants to meet the global challenges. The EESC has produced a number of opinions on this issue. This opinion explores the external dimension of the EU's response to the global economic crisis: the new positioning of Europe in the global market. It looks at changes in the economic performance of the EU in the global marketplace and the international effects of the recent rise of China and other developing economies; it asks questions designed to prompt analysis of these issues and discussion about their implications for the EU's political and trading relationship with the rest of the world; and it offers the thoughts and ideas of civil society to a policy debate whose conclusions will have far reaching consequences.

1.2 Europe faces fundamental challenges in responding to the seismic changes in global economic political and trade relationships that this Recession has accelerated. In doing so it must adapt by: stimulating growth; creating more and better jobs and making the economy greener and more innovative; achieving the 2020 Strategy's 75 % employment rate target and ensuring this includes at risk groups such as youth, women, middle aged and people with disabilities.

1.3 To date the European project has spent most of its energy looking inwards: building the Single Market, sorting out institutions, arguing about money, endlessly negotiating treaties. To emerge from this Recession and successfully reorganise itself to tackle the challenges of the 21st century the

coming decade must be marked by Europe looking outwards. In doing so the EU must be more aware and responsive to developments being determined by especially the new interplay between the US and China and the influence of powerful groups of developing countries such as the BRICs.

1.4 If it does then as Manuel Barroso, the Commission President, points out: Europe has 'the resources, the intelligence, the critical capacity, the history, the human, intellectual and cultural resources' to succeed.

1.5 The Commission in its Work Programme is committed to: reducing barriers to international flows of trade and investment; concluding current bi-lateral negotiations; improved enforcement of existing agreements; and initiatives to open trade to growth areas such as hi tech, services and environmental services.

1.6 A worrying trend is the fact that there is no hi-tech sector in which Europe leads the world nor does the EU have enough leading high-tech companies to adequately exploit the Key Enabling Technologies (KET) of the future.

1.7 The EESC points to the importance of issues outside the strict scope of this opinion's focus on damaging protectionism and responding to climate change such as: encouraging entrepreneurial, globally focussed, start up enterprises; supporting innovation in established industries; sustaining sectors strategically vital to Europe; considering the export potential of public services such as health care and education; and encouraging cities within the EU to 'team up' with counterparts around the world.

1.8 A consequence of the world recession has been the increased attraction of protectionist policies. The Director-General of the WTO, Pascal Lamy has warned that countries must avoid this temptation.

1.9 Externally the Doha Round needs to be brought to a successful conclusion, but this is proving to be difficult. In the meantime the EU is forging a new matrix of bilateral relationships and agreements with both developed and developing countries that will increasingly influence overarching trade policies.

1.10 Other important EU policy goals include: reciprocity in these new EU Bi-Lateral Agreements including where possible leveraging energy security; ensuring rules are flexible and adaptive to often rapidly changing circumstances; elimination of non-tariff barriers, including 'beyond the borders', transparency in labour and quality standards according to ILO rules; free trade agreements (FTA) for environmental goods and services.

1.11 Multilateral environmental agreements have to mesh smoothly with agreements in the international trading system so that they become mutually supportive, rather than disruptive.

1.12 Energy security is at the heart of the EU climate change challenge. For example by combining to: negotiate external supply agreements (as is already being done in the context of bilateral trade agreements); sell expertise and technology for infrastructure enhancements such as 'intelligent grids' or the new generation of electricity generating technology using feedstock's other than fossil fuels; share the new technologies being developed to help meet the EU's current '20 %' alternative energy targets; seek opportunities to export expertise to develop and deploy carbon reduction incentives.

1.13 As the world becomes more interdependent and inter-linked, policy makers' method of thinking must be joined-up. The mutual interaction of Europe's Single Market and trade policy has never been more important. Nor has ensuring the consultation required within the EU and between its Institutions and with its Member States underpins and supports the effective development, agreement and implementation of a more flexible trade policy.

1.14 On a more human level there is a need to tackle fear and insecurity that are generated by changes in economic power. Organised civil society has an opportunity and a duty to help people, politicians and economies through change.

1.15 The Commission's new 2020 Strategy is the EU's initial strategic policy response to Recession and the changing balance of global economic power. The success of the strategy requires a coordinated European response including social partners and civil society (quoted from Barroso in EU 2020 communication). In response to shifts in global economic power, the EU must rely on its partnership between State and organised civil society to achieve high economic performance and social cohesion.

1.16 However the Commission has few direct instruments to influence progress; responsibility remains largely with Member State governments who are now also experiencing increased domestic financial, political and social pressure.

2. Introduction

2.1 'European Member States have suffered their worst economic crises since the 1930's ...and the recovery remains patchy, fragile and vulnerable' (1). After the deepest crises since the 2nd World War global balances have changed, Europe has to redefine its position and strategies within the new framework. As 85 % of Europe's trade is in its own market, some of the answers to the new challenges will be found internally. Expansion of internal demand is critical for a sustainable Union if it wants to meet the global challenges. The EESC has produced a number of opinions on this issue (2). This opinion explores the external dimension of the EU's response to the global economic crises: the new positioning of Europe in the global market. It looks at changes in the economic performance of the EU in the global marketplace and the international effects of the recent rise of China and other developing economies; it asks questions designed to prompt analysis of these issues and discussion about their implications for the EU's political and trading relationship with the rest of the world; and it offers the thoughts and ideas of civic society to a policy debate whose conclusions will have far reaching consequences.

2.2 Europe depends on the global economy and currently dominates many of its markets, but for how much longer? In 1800 Europe and its 'New World' offshoots accounted for 12 % of the world's population and approximately 27 % of its total income. This dominance peaked in 1913 when these 'developed' economies represented 20 % of the world's population but accounted for more than half of its income (i.e. over 50 %). Today that population share is back to 12 %, and is continuing to fall, but we retain approximately 45 % of the world's income (3).

(1) Former President of the European Parliament Pat Cox, in a recent newspaper article 'Europe must raise its game now and not later': <http://www.irishtimes.com/newspaper/opinion/2010/0407/1224267827518.html>.

(2) Cfr among others: *The financial crisis and its impact on the real economy* OJ C 255, 22.9.2010, p. 10.; *European Economic Recovery Plan (additional opinion)* OJ C 228 of 22 September 2009 p. 149; *A European Economic Recovery Plan* OJ C 182/2009 of 4 August 2009 p. 71; *The post-2010 Lisbon Strategy* OJ C 128 of 18 May 2010 p. 3.

(3) Historian Niall Ferguson writing in the Financial Times (10.4.2010) on reforming the teaching of history at second level in the UK.

To deal effectively with the impact of the changes currently emerging in global markets the EESC believes that EU policy makers may need to give more focus and consideration to the new realities of Europe's trading relationships with the world particularly its export performance.

3. Background

3.1 European Trade

3.1.1 The total value of European exports is estimated to be in the region of \$1.3 trillion. Excluding trade between Member States, the EU accounted for 16 per cent of total world exports in 2008 when the EU's main export trading partners were the United States, Russia, Switzerland, China and Turkey.

3.1.2 In a globalised world where EU countries are major players in important markets, the policies that guide inter-European State relations must respond to global developments such as the impact on political relations of the increasing economic power of trading partners China, India and Brazil. But how should Europe adapt? By the EU taking a bigger role for itself in world affairs? Or by doing the opposite and accepting a different global paradigm is rapidly emerging – where the predominant influence is a new 'G2' of Washington and Beijing?

3.1.3 The Commission in its Work Programme recognises that International Trade is a motor of growth for employment and investment in the Union and is committed to: reducing barriers to international flows of trade and investment; concluding current bi-lateral negotiations; improved enforcement of existing agreements; and initiatives to open trade to growth areas such as hi tech, services and environmental services. A critical area will be the improvement of bilateral relationships with US, China, Japan, and Russia.

3.2 European Trade in the Global Economy

3.2.1 Recession is reshaping global economic power. From 2000 to 2007 emerging economies, most notably China widened their investment base and are now leading global recovery, largely driven by export growth (e.g. 17.7 per cent in December 2009). In the same period the EU experienced uneven export performance and significant losses on some dynamic markets particularly in Asia and Russia.

3.2.2 An export led recovery for the economy as a whole is happening in China but remains largely an aspiration for the EU. The Commission projects EU exports to grow by 5 % in 2010 and 5.1 % in 2011, helped significantly by a reduction in

the euros value relative to our major trading partners, but this is not, nor is it being seen as, boosting 'national' economic recovery outside countries such as Germany and Ireland already significantly involved in international trade (4).

3.2.3 A European Commission report noted that the EU's performance in the exportation of high-tech products has been poor, raising concerns about Europe's capacity to keep its products at the cutting-edge of quality and innovation (5). The performance in services has also deteriorated showing a decline in market share between 2004 and 2006. This is a worrying trend as is the fact there is no hi-tech sector in which Europe leads the world nor does the EU have enough leading high-tech companies to adequately exploit the Key Enabling Technologies (KET) of the future.

3.2.4 Despite these weaknesses, the EU is the primary trading power in services, the principal exporter and second largest importer of merchandises and is a major source and host of world direct investments. Europe therefore has a crucial stake in maintaining and strengthening its position in the global trade arena but doing so will require new thinking firmly grounded in the realities of a different and very much more complex global trading environment.

3.2.5 The EESC points to the importance of issues outside the strict scope of this Opinion's focus on damaging protectionism and responding to climate change such as: encouraging entrepreneurial, globally focussed, start up enterprises; supporting innovation in established industries; sustaining sectors strategically vital to Europe; considering the export potential of public services such as health care and education; and encouraging cities within the EU to 'team up' with counterparts around the world.

3.3 Rebalancing of Economic Power and Politics

3.3.1 The bankruptcy of Lehman Brothers, one of Wall Street's oldest investment banks and the subsequent market chaos which included the world's manufacturing undergo its steepest decline since World War II sent the world's economy into freefall. State intervention prevented a domino effect through the global banking system but could not prevent capital flows declining abruptly and rapidly.

(4) European Economic Forecast Spring 2010 - European Economy 2 – 2010.

(5) European Commission Directorate General for Trade, Global Europe: EU Performance in the global economy see http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141196.pdf (accessed 4 Feb 2010).

3.3.2 The impact on trade was immediate as credit was restricted and consumer spending collapsed, forcing companies to reduce production. However the severity of this adjustment has varied significantly between the different trading blocks, with China recovering quickest, significantly assisted by their Government's decision to adopt a fiscal policy which pumped \$580 billion into their economy to stimulate its rapid recovery.

3.3.3 In March 2009 policy action was taken in Beijing, London, Washington and Frankfurt. G20 leaders pledged \$1 trillion of support from the IMF and the World Bank to replicate globally what had been done by individual states. This meeting saw the 'coming of age' of newly powerful and/or influential actors on the global stage representing a new world economic order and a seismic shift in economic relations with potentially profound implications for EU trade policy.

3.3.4 Over-consuming countries like the US were encouraged to scale back spending and countries with credit and currency reserve surpluses were encouraged to boost consumer demand. Pursuing sustainable and balanced trajectories in the global economy was highlighted and the EU's self-interest in cooperating more closely with the rest of the world emphasised.

3.3.5 Despite the recent return to growth, there are reasons to be cautious. Economists remain uncertain about the future direction of the world economy. There are questions regarding when and how to remove the fiscal stimulus, their effects to date and long term sustainability. While there may be some returns to growth there is also a 'human recession' ⁽⁶⁾. **High unemployment means it has become difficult for world leaders to defend liberal trade politically, intellectually and domestically.**

3.3.6 In response to this shift in the global balance of power EU decision-making is challenged to: quickly adjust to its implications; develop the new thinking needed to do so; act collectively in a more cohesive, reflective and expeditious manner; support opportunities for job creation such as the 'green economy'; help companies retrain staff; reequip those

who have lost jobs to adjust and adapt to these new possibilities as past structural adjustments have shown supporting individuals to re-adjust and adapt is the most effective policy response ⁽⁷⁾.

4. Two Key Issues

4.1 Protectionism

4.1.1 A consequence of the world recession has been the increased attraction of protectionist policies. The Director-General of the WTO, Pascal Lamy has warned that countries must avoid this temptation ⁽⁸⁾. The EU has gained most from transparent and enforceable rules that fairly and objectively underpin and facilitate a competitive trading environment. But according to EU Trade Commissioner Karel De Gucht, **280** trade restrictive measures have been introduced so far during the current economic crises by the Union's main trading partners. There is concern that these measures could become a new and permanent part of the overall trade framework.

4.1.2 One of the most important trade barriers currently is the artificially low rate of the Chinese Renminbi, or yuan, which the Government see as ensuring Chinese exports are more competitive. This is a serious obstacle to free and fair trade so recent moves to alleviate the situation are welcome, but long term and sustained changes to Chinese Government's exchange rate policies are also needed.

4.1.3 Stimulus packages aid economic growth by increasing demand but their primary aim is to help local businesses. A by-product of this could be the propping up of uncompetitive sectors. The Competition and State Aid rules put the EU in a strong position to coordinate efforts to prevent this happening and a fully functioning Single Market precludes potentially damaging protectionism.

4.1.4 Externally the Doha Round needs to be brought to a successful conclusion, but this is proving to be difficult. In the meantime the EU is forging a new matrix of bilateral relationships and agreements with both developed and developing countries that will increasingly influence overarching trade policies.

⁽⁶⁾ 'Falling Flat: More Evidence that America is Experiencing a Jobless Recovery' The Economist, available at http://www.economist.com/world/united-states/displaystory.cfm?story_id=15473802 (6 Feb 2010).

⁽⁷⁾ For example EESC Opinion European Economic Recovery Plan (OJ C 228 of 22.9.2009, p.149) proposes that 'in the light of expected demographic trends, intelligent restructuring of the economy is needed, with employees being kept on and trained rather than made redundant, so that sufficient skilled workers will be available once the economy begins to recover. Support for the unemployed should be linked with skills acquisition and retraining programmes.'

⁽⁸⁾ http://www.wto.org/english/news_e/sppl_e/sppl101_e.htm 'Lamy warns on protectionism' WTO news.

4.1.5 Other important EU policy goals include: reciprocity in these new EU Bi-Lateral Agreements including where possible leveraging energy security; ensuring rules are flexible and adaptive to often rapidly changing circumstances; elimination of non-tariff barriers, including 'beyond the borders', transparency in labour and quality standards according to ILO rules; free trade agreements (FTA) for environmental goods and services⁽⁹⁾.

4.1.6 With the adoption of the Lisbon Treaty, the Union's decision making processes are being reformed, including extending co-decision to the Parliament in key policy arenas including trade. It is important the modalities of these new processes involving Council, Parliament and Commission result in faster and more flexible responses that improve the Union's ability to react effectively and coherently to either high level strategic needs, or detailed 'day to day' minutia, of trade.

4.2 Climate Change

4.2.1 There is now consensus within Europe that climate change needs immediate action. A striking consequence of globalisation is the interdependence it fosters. Unbridled climate change will mortgage future generations and disrupt globalisation, causing price hikes in resources and environmental disasters, particularly for developing countries. Therefore climate change is an economic issue, and has a significant trade dimension.

4.2.2 The EU has taken the international lead in seeking to limit global warming under the Kyoto Protocol. The outcome of Copenhagen Climate Change Summit was a setback to Europe's efforts to strengthen international cooperation particularly with emerging economies whose emissions will have surpassed those of developed nations by 2020. The EU is also concerned that it's the world's poorest who will suffer most from the current phase of climate change to which the EU needs a comprehensive, realistic and practical policy response to avoid the risk that future generations will suffer avoidable negative social and economic consequences.

4.2.3 Integrating climate change into EU trade and development policies would incur costs and impose restrictions towards a goal that can't be reached unless other large trading blocks do likewise⁽¹⁰⁾. Multilateral environmental agreements have to mesh smoothly with agreements in the international trading system so that they become mutually

supportive, rather than disruptive. So is it prudent to lead if others will not, indeed cannot, be forced to follow? For example can China be forced to replace its 'consumer pays' model to secure carbon reduction with the EU's 'producer pays' one? ⁽¹¹⁾ Or the drive on Wall St halted that is seeking to secure, with support from Washington, the lead role in a significantly expanded international carbon trading market?

4.2.4 Energy security is at the heart of the EU climate change challenge. While individual Member States are to the fore in responding there is a real and substantial EU dimension, especially in a trade context. For example by combining to: negotiate external supply agreements (as is already being done in the context of bilateral trade agreements); sell expertise and technology for infrastructure enhancements such as 'intelligent grids' or the new generation of electricity generating technology using feedstock's other than fossil fuels; share the new technologies being developed to help meet the EU's current '20 %' alternative energy targets; seek opportunities to export expertise to develop and deploy carbon reduction incentives.

5. Response

5.1 Addressing Challenges and Seizing Opportunities

5.1.1 To create opportunities for European trade, it is important to be honest about the challenges that a different global environment poses to the EU, its institutions and its Member States. The institutional reforms introduced by the Lisbon Treaty must according to the EESC be implemented even more cooperatively and effectively to respond to the challenges of identifying new innovative ways of sustaining the EU's past accomplishments and achieving its future objectives⁽¹²⁾. Effective intervention requires a holistic view based on a high degree of contemporary knowledge, insight and understanding.

5.1.2 As the world becomes more interdependent and inter-linked, policy makers' method of thinking must be joined-up. The mutual interaction of Europe's Single Market and trade policy has never been more important. Nor has ensuring the consultation required within the EU and between its Institutions and with its Member States underpins and

⁽⁹⁾ Not on this agenda currently but worthy of consideration is a discussion on intellectual property (IP) rules.

⁽¹⁰⁾ The EESC Employers Group recently suggested for example that 'The increased number of rival centres of gravity among world actors has resulted in a highly complex interaction of bilateral and multilateral relationships (requiring amongst other measures) low-carbon and energy saving policies and the safeguarding of open markets against covert protectionism'. 'A New Phase Ahead: Need for a Political and Economic Impetus', pg 10. Brochure available at <http://www.eesc.europa.eu/?i=portal.en.group-1-statements&itemCode=9894>.

⁽¹¹⁾ In terms of pure logic the Chinese position is in fact hard to entirely reject: why should it accept a tax on producing goods that are then consumed in developed countries where they don't incur any carbon specific consumption tax?

⁽¹²⁾ A good example of the innovation required is the recent formation by President Barroso of a grouping of Commissioners to deal with research and development funding for which a number of different Directorates have their own separate but potentially overlapping and/or mutually supporting roles, budgets and responsibilities.

supports the effective development, agreement and implementation of a more flexible trade policy.

5.1.3 On a more human level there is a need to tackle fear and insecurity that are generated by changes in economic power. Organised civil society has an opportunity and a duty to help people, politicians and economies through change. Pursuing protectionist policies in light of shifts in global power may be akin to King Canute's attempts to hold back the tide. Helping individuals, companies and governments to adapt to new realities is an effective way to tackle fear and insecurity. For example Europe's low birth rate and aging population presents many deep and profound structural challenges to be overcome.

5.1.3.1 The most important policy is, in line with the goals in the EU2020 strategy, to increase the labour force participation rate. An obvious measure is to have affordable child care for all parents, who want it. In practice it means that more women can stay in the labour market. This should be combined with long and high enough parental leave payments. As a result the birth rate ought to increase when the economic burden on parents is reduced.

5.1.3.2 Moreover in the absence of immigration policies to sensibly expand labour supply, individual companies exporting outside the EU facing a serious dilemma: restrict their enterprises expansion or move its activities to where there is a plentiful supply? ⁽¹³⁾ For this reason consideration of a comprehensive and inclusive EU immigration policy response to Europe's demographic challenge would seem prudent, justified and urgently required.

5.1.4 The Commission's new 2020 Strategy is the EU's initial strategic policy response to Recession and the changing balance of global economic power. The success of the strategy requires a coordinated European response including social partners and civil society (quoted from Barroso in EU 2020 communication). In response to shifts in global economic power, the EU must rely on its partnership between State and organised civil society to achieve high economic performance and social cohesion.

5.1.5 However the initiative will encounter many of the same difficulties faced by the Lisbon Strategy: its priorities may be too diverse; implementation may be problematic; the Commission has few direct instruments to influence progress; responsibility remains largely with Member State governments who are now also experiencing increased domestic financial, political and social pressure ⁽¹⁴⁾.

Brussels, 15 September 2010.

*The President
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⁽¹³⁾ In fact many companies have already made their choices and those that have moved from Europe enjoy also its low tariffs on many goods imported to the EU, a factor that gives rise to suggestions that such tax/duty ratios need rebalancing.

⁽¹⁴⁾ As one of Europe's smallest, most open and trade dependent economies Ireland could be considered a laboratory for observing this response in microcosm because to support a trade driven recovery the Government's is encouraging: investments in third and fourth level education to drive science, technology and innovation; a globally competitive research system transferring knowledge from research schools to the market; improved competitiveness for companies who trade internationally from Ireland; a cut in CO₂ emissions by 20 per cent; support for developing countries who are coping with the effects of climate change.