

The consequences for Europe of the global crisis

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The geopolitical power shift towards Asia that has been such a feature of recent years is going to be accelerated by the worldwide economic crisis, warns Rob de Wijk. He calls for greater honesty among Europe's political leaders about the consequences of the new multi-polarity

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How will future historians look back at this opening decade of the 21st century? Most likely they will see it as a turning point in geopolitics. Although it is still too soon to predict whether the current economic crisis is to be an updated version of the Great Depression of the 1930s, it is safe to assume that it will accelerate a number of trends. Because it is a systemic crisis it will have profound consequences for the distribution of power in the world, as well as for the European Union and the security of its member states. The financial crisis is also likely to increase the effects of two other looming systemic problems, the climate change crisis and that of global resources.

By the early months of 2009, last year's financial crisis had entered its third phase, the first having been the subprime mortgage crisis which began in the U.S. in July 2007, and the second being the collapse of Lehman Brothers in September 2008 which triggered stock markets crashes around the world. In this third phase, the strategic consequences of the credit crisis are becoming manifest; the financial and economic crisis has overtaken terrorism as America's prime security concern. In other words, the crisis marks a shift from the western power's relative decline to an absolute decline.

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Almost 20 years ago, the conservative American commentator Charles Krauthammer wrote about "the unipolar moment", arguing that despite the recent collapse of the Berlin Wall, America's dominant position would not last. America would not become weaker, he suggested, but emerging powers would become stronger. In fact it took another 18 years before unipolar moment was 'officially' declared to be at an end, when America's National Intelligence Council (NIC) observed in 2008 that "by 2025 the international system will be a global multi-polar one with gaps in national power". The NIC also said it did not foresee "a complete breakdown of the international system, as occurred in 1914-1918 when an earlier phase of globalisation came to a halt," but in my view their conclusion may prove too optimistic.

The U.S. and Europe increasingly rely on non-democratic governments for financing: that's because financial power has been shifting from west to east, because of course power accrues to creditors not debtors. In early 2008, the economic historian Niall Ferguson wrote: "We are indeed living through a global shift in the balance of power very

similar to that which occurred in the 1870s. This is the story of how an over-extended

empire sought to cope with an external debt crisis by selling off revenue streams to foreign investors. The empire that suffered these setbacks in the 1870s was the Ottoman empire. Today it is the U.S." He went on to say that as in the 1870s, the upshot of today's debt crisis has been the sale of assets and revenue streams to foreign creditors, with the resulting shift of power from west to east. The result is set to be geopolitical instability and the decline of the West's countries long dominant position in world affairs. This is indeed nothing less than the breakdown of the international order.

What will be the consequences of this breakdown? In the first place, a multi-polar system is by definition less stable than the bi-polar world order of the Cold War, and the brief unipolarity period of the 1990s. Theorists like Richard Haass, who leads the New York based Council on Foreign Relations, predict a non-polar world, but the consequences are much the same. Haass talks about non-polar disorder with negative consequences for the stability of the world, because with no powers dominating the international system alliances tend to shift and the risks of misjudgment, misperception and miscalculation increase. Multi-polar systems can sometimes be cooperative, such as the 19th century Concert of Europe, but historically they tend to be more violent. Competition among world powers such as China, Russia, the U.S. and to a lesser extent the European Union will increase, while regional powers such as Brazil, Iran or Saudi Arabia are less constrained to become regional hegemon. In the short run, the power struggle is likely to become manifest in such international institutions as the IMF and the World Bank, while others like the G20 become more important.

In the second phase, the financial crisis will weaken the West's "shaping power". International law at present reflects Western values and interests and for decades it has been an effective instrument to shape the behaviour of the rest of the world. But it is no longer; interpretations of international law such as "the responsibility to protect" that require the international community to act, if basic human rights are violated, are being questioned by autocracies that reject interference in their internal affairs. As resource security is a key objective of China's foreign and security policy, it is already increasingly difficult to reach consensus in the UN Security Council on resolutions aimed at problem states that are important resource suppliers to China. This friction has already been demonstrated by China's view of sovereignty, its behaviour towards the regimes in Tehran and Harare and its reluctance to work with the other permanent members of the UN Security Council.

Most of today's global institutions were established by the West to serve its own worldwide interests. But the G7, the grouping of the world's leading western industrialised nations, is now ceding its power to rebuild the world economy to the G20, which is composed of both industrialised and emerging powers. U.S. Treasury Secretary Timothy Geithner and European Central Bank president Jean-Claude Trichet have jointly observed that "it is the Group of 20 that occupies the vanguard responding to the financial crisis". The rising influence of non-western states has been underscored in recent years by the appointments of Margaret Chan as head of the UN's World Health Organisation and of Justin Lin as chief economist of the World Bank.

Then, in the third place, the weakening of the West's economic and military credibility – despite President Obama's pledge to boost U.S. combat troops as distinct from defence spending – will undermine its soft power too. For non-democratic governments around the world, autocracy and state capitalism will become yet more attractive. In this way, the economic crisis is sparking a power shift from resource poor and credit hungry democracies to rich non-democratic autocracies with huge natural resources or financial reserves. In the short run, China will be able to use its sovereign wealth funds to buy political influence in strategically important countries. And international distrust of Beijing's political system can also be allayed by policy announcements like the Hu Jintao's doctrine of "peaceful development", and China's non-paternalistic development policies in Africa. In 2006, China promised \$5bn in loans and credits there and said it would double its development aid by 2009. But instead it has used its assistance to secure energy and raw materials.

China's efforts to secure oil, gas and raw materials, point to the looming global resource crisis. The rise of China and India has already had a profound effect on energy and raw materials demand with important systemic implications. Although the scarcity debate at

present focuses almost exclusively on energy, it is key minerals reserves that are alarmingly low. If consumption remains static, world reserves of iodine are just 13 years, silver 29 years, antimony 30 years, tin 40 years, lead 42 years and zinc 46 years. Minerals will be a major source of geopolitical strife, putting the stability of the international system at risk. And with fewer available financial resources, the present credit crisis is likely to increase the challenge. Of course, substitutes are available. But developing them requires huge investments and may take years. During the time needed to develop those alternatives, the economic crisis could be followed by an unprecedented surge in oil, gas and raw materials prices and perhaps violent strife for what is left.

Political leaders around the world may find the temptation of mercantilist policies difficult to resist, further reinforcing the danger of resource nationalism and great power struggles. Protectionist policies have already begun to mushroom in both the U.S. and Europe, with "Buy American" requirement of the U.S. economic stimulus package raising worldwide concerns. Within the EU, there is anxiety that the Single Market will be threatened by national measures of the sort already taken in Ireland, the Netherlands, France and Germany.

Serious as these immediate concerns may be, the longer term consequences for the European Union are potentially devastating. Geopolitical changes to the post-World War II international order mean that power politics and remilitarisation to protect national interests are likely to become dominant features of international relations. This will be in contrast to the past decades in which the EU has developed into a post-modern construct that rejects power politics and emphasises soft power. As this will no longer be sustainable, the Union has no choice but to invest in a credible Common Foreign and Security Policy based on realism and pragmatism rather than on idealism and wishful thinking. This also means that the EU must give more substance to its European Security and Defence Policy and enhance its military capacities accordingly. In short, the economic crisis is a strong argument for Europe to develop a genuinely common defence.

If the EU's free trade zone is endangered enough to weaken the foundations of European integration, a further threat is the possible collapse of the euro. This could result from the de facto bankruptcies of member states with the biggest economic problems, such as Ireland, Portugal, Italy and Greece. No longer able to use monetary policy as a cushion, they are dependent on capital injections from other EU member states who may well prove increasingly reluctant or unable to provide funds.

Roughly a quarter of the world nations have already experienced low-level instability – mainly changes of government – as a result of the current slowdown. The start of this year was marked by the collapse of the Icelandic and Latvian governments, and by mid-year there had been crisis-related social unrest in Bulgaria, France, Germany, Greece, Iceland, Lithuania, Russia Switzerland and the UK. As the crisis continues to deepen, social unrest will probably increase, while also being accompanied by bank runs, threats of violence to those held responsible for the crisis, strikes, extreme anti-globalisation protests and a rise of criminality and extremism. Depending on the severity of the recession, EU member states could be on the threshold of transition to a new equilibrium of less prosperity and thus less effective welfare states. Such a transition is by definition likely to go hand in hand with social and political instability, partly because populist leaders and political parties on the extreme left and right will gain more support. As unemployment rises, "foreigners", including first and second generation immigrants from Muslim countries, will be the first victims. This is going to demand determined and courageous leadership by politicians, who must explain to the public the true nature of the challenges and the way forward.

Just as the financial crisis will accelerate a geopolitical power shift, the resulting instability will also undermine confidence and thus deepen and prolong the current economic crisis. The implications for the EU are potentially devastating, and certainly they demand the kind of leadership that in Europe has been significantly lacking. History also tells us, though, that crises often throw up new leaders who eventually solve problems. For the present, the most important thing is that our political leaders should be honest about the consequences of a multi-polar world that could trigger geopolitical strife, and of economic stabilisation that will inevitably mean lower levels of prosperity and welfare.