

Remarks on the Future of the European Union: Domestic and Global Challenges Ahead

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Abstract: *This paper** highlights the main consequences that the crisis has put on the European Union, regarding four major areas: financial, macroeconomic, social and mental-ideological. Also, it aims to tackle some key challenges for the European Union: the revival of international trade; the prevention of the rise of protectionism on the global scale; the need to find a solution to the dilemma between continued stimulus and financial consolidation in general, and between the ambitious goals of the Europe 2020 project and the current fiscal restrictions; the growth of public support across Europe for a financial consolidation strategy based on cutting spending; the impact of the financial and macroeconomic crisis on several sectors; and the deficiencies of the „European construction” indicated by the global crisis. Furthermore, it proposes four main questions for which EU has to provide clear answers in order to become a real global player. The questions concern the „European identity”, the „European values”, the EU strategy paper establishing its mission for the next period and the importance of a strong leadership implementing the strategy. In the end, the most important challenge seems to be how the EU can remain a global economic actor and become a more influential political player in the network of rapidly changing international power relations.*

Keywords: *European Union, crisis, challenges, sustainable growth, strategy, G-20, European integration.*

Although the European Union (EU) was not the main source of the global financial and economic crisis, as one of the leading economic players, it was fundamentally affected by the immediate and longer-term consequences of the crisis. Similarly, it is expected that it would play an important role in how to get out of the crisis (not yet clear, whether a passive or an active one).

The crisis consisted and still keeps on consisting of four major stages that are interacting but following each other with a certain time lag: financial, macroeconomic, social and mental-ideological. While the banking leg of the financial crisis seems to be under control at the end of 2010, there remain several open issues whether international financial markets can be stabilized or at least calmed down, and whether macroeconomic decline

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** This paper represents the speech of Prof. Dr. Inotai to the festive ceremony of *doctor honoris causa* award on September 16th, 2011 at Tallinn University of Technology.

bottomed out or it may return in some form as the consequence of managing the costs of crisis management. Adverse social developments focusing on unemployment, rising poverty, income differentiation, welfare loss, etc. just started to manifest themselves, when, at least in some parts of the OECD, including the EU, first but still unconvincing signs of recovery can be identified. The likely challenges of the ideological and leadership crisis related to the deep-rooted (protracted, still hidden) consequences of the crisis and to the future of shaping socio-economic strategies and returning to a renewed „balance“ between economic, political, social, cultural and environmental issues on the one hand, and between national, EU-level and global governance, on the other, are mostly still ahead of us.

The fundamentals of a sustainable growth that, at the same time would be able to successfully manage the costs of crisis management, remain weak and unpredictable, both in Europe and in the USA. In a positive case, a double-dip can be avoided but it would not automatically lead to sustainable and higher growth but, particularly and most probably in Europe, to a sluggish growth with continuing signs of stagnation (or even deterioration) in selected areas of the economy and the labour market. In the next paragraphs some of the key challenges will be shortly dealt with.

First: to be sure, an encouraging sign is the revival of international trade. Following a deep decline in 2009, international trade measured on figures submitted by the G-20 group recovered by 10 per cent that does not yet fully compensate the size of decline in 2009, but can be considered as a strong support to overall rebound. Beyond this favourable but short-term impact, this trend has two more important and longer-term messages. First, it seems to prove that the export-oriented development pattern of many countries, although highly vulnerable in crisis, should and **must not be** replaced by a high-cost and „adventurous“ attempt to turn fundamentally to domestic markets. This particularly holds for the new member countries (with partial exception of Poland) that are all export-oriented economies. During the crisis, some politicians, not without demagogic and populist instincts, have underlined that the crisis had rejected the reasons for export-oriented growth and a (re)turn to the domestic market has to be given priority to. In addition, production patterns based on export-oriented growth that proved to be more vulnerable in the crisis (electronics, cars, machinery, telecommunication devices) have to be re-examined and changed (whatever its impact on technological development, integration into global production and service networks may have been, and, more importantly, without offering any suitable alternative for competitive production specialization). Moreover, the well-known duality between highly competitive international companies and lagging behind domestic small- and medium-sized firms has to be overcome, fundamentally by restricting (or even forbidding) the activities of foreign companies. Fortunately, the rapid recovery of international trade has robustly refused this demagoguery, yet without drawing the necessary lessons by some politicians in the new member countries.

Second, and connected to the previous statement, the rise of protectionism on the global scale could be prevented, despite the fact that multilateral negotiations in the Doha Round were paralyzed and the pressure to protect selected domestic industries (and jobs) is unlikely to be weakened for unemployment is expected to keep on rising despite the bottoming-out of GDP decline. This however should not hide the growing gap between intensive and evident inward-looking attitude of large part of the population and the

deeply-rooted incorporation of the respective national economies in global economic and financial business activities. While, fortunately, political leaders and key business representatives could avoid any sinking into national trade protectionism, large part of the population is not aware of this linkage but still nurtures the illusion of „getting rid of negative external influences“.

Third, it is an open question how the EU (and the member countries) will be able to solve the dilemma between continued stimulus and financial consolidation in general, and between the ambitious goals of the Europe 2020 project and the current fiscal restrictions. No member country seems to have a large fiscal manoeuvring room, let alone the Mediterranean members and Ireland in the Euro zone and the United Kingdom outside the Euro area. Most likely the next years, probably covering the first half of the EU 2020 strategy, will be characterized by the tasks of „management of the costs of crisis management“. Of course, some countries may be able to make progress in some areas of the EU 2020 objectives, but a general breakthrough can hardly be expected. It is more likely that, for social and political reasons, the tight fiscal consolidation plans will be watered down. This would lead to even less structural change and no meaningful improvement of competitiveness (particularly in those member countries, where global competitiveness had been a missing factor of economic development over one or even more decades).

Fourth: an ambiguous, partly encouraging, partly risky sign of the development of public opinion has to be mentioned. Indeed, although rarely observed in the past, one can observe growing public support across Europe for a financial consolidation strategy based on cutting spending. According to the latest opinion poll conducted by the Financial Times and Harris, the majority of citizens in the five largest countries of the EU oppose any rise in the national budget deficit. Fiscal consolidation (even conservatism) seems to be on the agenda not only in political and economic decision-making circles but in a growing section of the societies as well. This may create more elbow-room for the spending cuts (and partly also for structural reforms) of governments, if they are able to come up with convincing arguments why cuts, including in the social welfare net, are unavoidable. In addition, suggestions where deficits could be cut should not undermine longer-term factors of competitiveness. Sectors with the lowest level of cuts should include healthcare and education, while much higher cuts have been proposed in defence and in aid to developing countries. In sum, most European citizens start to understand that stable or increasing social benefits cannot be enjoyed without additional economic growth. The risky factor is the future of EU-wide solidarity and the priority of regional and cross-country cohesion, including the catching-up process of less developed members. In fact, the decade-long catching-up process, at least in statistical terms and most visible in the Baltic countries, has been dramatically stopped or even reversed by the crisis. Some new member countries find themselves suddenly at the level they started the catching-up process more than a decade ago (Baltics), while others have already been stagnating on a 62-65 per cent level of EU per capita average for years (Hungary). At the moment, the EU does not have any strategy to regenerate the catching-up process by a more supportive common budget. Just the opposite, fighting between net contributing and net beneficiary countries has already started concerning the shaping of the next seven-year financial framework between 2014 and 2020. The evident need for a fiscal

transfer union within the Euro zone and the running fiscal consolidation programs of most member countries would certainly not make budget bargaining easier.

Fifth: the financial and macroeconomic (and not less importantly, the unfolding social) crisis has a relevant generational impact in three areas. First, it has made clear (or will make it clear very soon) that, based on conventional incomes, the decades-long social welfare system cannot be financed in the future. It certainly does not mean the abolition of the current system, but serious cuts and structural shifts seem to be unavoidable. Second, the pressing requirement of global competitiveness has already created a double (or disrupted) labour market, with one part fully adjusted or adjustable to the rules of international competitiveness, but with another one lacking skill, personal capacity and attitude to become part of the „competitive world“. In order to avoid a dramatic marginalization of this growing share of the society, certainly not only for economic/fiscal but also for first-priority domestic security reasons, new employment strategies outside the competitive labour market have to be urgently shaped. Third, the crisis had clearly shown the limits to an „early-born consumer society“ in most of the new member countries, but also in some Mediterranean economies as well. How to deal with the multiple challenge of sudden collapse of consumption (and „social well-being“), the generation of domestic demand for additional and sustainable growth, cooperation between foreign and domestic firms, as well as the manageability of social tensions without giving room to extremist trends is probably the most important and still open issue at least in some countries of the European integration.

Sixth: the global crisis pointed to several deficiencies of the „European construction“ (mainly regarding the Euro zone, institutions and the slowness and ambiguity of the Community-level decision-making process). As a consequence, the EU has to give more attention to intra-EU issues and work on the better functioning of internal mechanisms (particularly that of the EMU). On the other hand, the crisis – both with its risks and chances – found the European integration unprepared to develop and submit for international discussion its own global strategy for the 21st century. Although EU member states are still overrepresented in most international institutions, including the G-20, their impact remained from very low to ignorable. At the same time, the Commission was not able and entitled to speak on behalf of the member countries, because each of them (at least the largest ones) wanted to keep their „national independence“ and act according to its „sovereign status“ in a world globalizing at a dramatic speed and creating a new quality of international relations.

While focusing on the financial sector’s sustainability, drawing up the EU 2020 project and, as a result of the finally ratified Lisbon Agenda, working on future responsibilities within the EU bureaucracy, little attention and energy were paid to the necessity of elaborating a global strategy for the EU, with particular regard to the unfolding G-20 cooperation in general, and the very special G-2 contacts between the USA and China, in particular. As a result, and despite the continuous emphasis on „multilateralism“, the EU is threatened to be (self-) excluded from the emerging basic fora that are expected to shape the future of the international system. The underlying reason is by far not only the lack of intra-EU coordination and a common position in various areas of the international arena but, more importantly, the still surviving „supremacy“ and self-complacency feeling and attitude of selected (mainly ex-colonialist) EU member states. As a consequence, we

do not know about any EU-level project or proposal concerning the long-term role of the IMF or the EU's **active** role in and **genuine contribution** to the post-crisis new world order. Although the traditional „teachers' role" to some emerging countries (mainly China) started to change as a result of recognizing rapidly shifting geopolitical and economic realities, old reflexes are hard to die (such as „hidden protectionism" widely practised during the crisis not in form of trade barriers but in the context of state subsidies, stronger rules to control immigration, increasing nationalism, etc.).

If the EU wanted to become a real global player, both by keeping its current economic influence and enhance its political weight in the new world order, it has to give clear answers to four key questions, both for intra-EU communication as well as for global purposes.

First: it has to define what is "European identity" (exempted from colonialist and semi-colonialist reminiscences and prejudices that still seem to dominate the behaviour of politicians and the attitude of large part of the public opinion).

Second: a widespread and in-depth opinion poll should be started about the (so-called) „European values". Do they exist, and if yes, which are these values (in a positive, future-oriented sense and not just by telling that „we are different").

Third, and most importantly: the EU that, from the beginning of its foundation, was understood not only as an economic, but also as a political community (*finalité politique*), has to identify and communicate its expectations, priorities and potential role in the international system of the 21st century. For this purpose, reference made to historical documents does not suffice (in fact, in many times it does not matter at all any more). What the EU urgently needs is a strategy paper on its „**mission**" for the longer period ahead of us. There is no doubt that such a „**mission paper**" could be filled with highly relevant and challenging contents (from soft power over environment and migration up to international aid, regional development and global solidarity).

Fourth: this strategy should be implemented by a strong leadership that could represent the EU as a really global player and not a „soft and uncertain amalgam" (mixture) of mutually rivalling national efforts that regularly tend to weaken the basis for representing, protecting and implementing common interests.

The global financial, macroeconomic and social crisis had a serious impact on the European integration. Probably the most serious one following the break-up of the post-war „order" in Europe 20 years ago. It is broadly recognized that the European integration always needs internal and (mostly) external shocks for its further development (deepening). In this context, one could not have imagined a stronger external shock than the impact of the current crisis on the future development of the EU. In effect, short-term and immediate challenges seem to have been managed appropriately, although by far not always in the best interest of strengthening the integration process. However, some challenges that may substantially influence the future of the „European construction" remain unanswered. But let's be optimistic... However, the biggest challenge is global: how can the EU remain a global economic and become a more influential political player in the network of rapidly changing international power relations. It is probably the most urgent and, for its survival not a less important, literally „vital" task of the EU to tackle this issue. All other EU policies, from internal market through EMU to enlargement have to be „subordinated" to this challenge.