ISEAS perspective

RESEARCHERS AT SINGAPORE'S *INSTITUTE OF SOUTHEAST ASIAN STUDIES* SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

Singapore | 29 Nov 2012

Lessons Asia Can Learn from Europe

By Joergen Oerstroem Moeller.

The European Union was born more than sixty years ago. From integrating coal and steel industries it has gone on to pool sovereignty[1] for most economic activities and a large number of other crucial policies such as immigration and domestic security. It has grown from six to 27 member states, which next year will be 28 when Croatia joins. Iceland, Serbia, and Turkey are all negotiating membership.

This is by any standard impressive. No observer watching the embryonic integration sixty years ago would have dared to predict such achievements. Recently the EU was awarded the Nobel Peace Prize and the following three reasons were mentioned: promoting peace, democracy, and human rights over six decades.

Some sceptical Europeans and some overseas observers disputed this award, but it is in fact true that the EU has delivered these priceless assets to Europe. The climax came in 2002 when the original Western European EU welcomed ten Central- and Eastern European countries who from 1945 to 1990 were under the heel of the Soviet and Russian empire.

And yet, it is difficult today to open a newspaper, access the web or tune into a news channel without hearing about crises threatening the EU. First of all, there is the debt crisis hitting the weak member states of the Euro-zone hard. Disagreement about the future budget for the Union comes next, with Britain insisting on its rebate and many other member states disputing it. Indeed there is a growing feeling in Britain and in particular among members of the Conservative party that the time has come to loosen Britain's ties with the Union, yes even go so far as taking Britain out of the Union. Foreign and security policy

1 Many observers talk about the surrendering or abandoning of sovereignty by members states. This is not correct. Economic integration means that a member state pools or transfers sovereignty to exercise it in common with adjacent nation-states pursuing analogous political goals.

decisions about Iraq and Libya even if they go back some years still remind observers that the Union failed to reach agreement on a common position. Institutionally the European Parliament has never developed into a genuine parliament and frequently voices its frustration, casting doubt on the strength and validity of the institutional set up and the decision-making process.

From an Asian perspective the time may be right to look at the European Union and analyse its strengths and weaknesses, and ask what went right and what went wrong, what the lessons are, and what works and what does not.

Economic integration is happening in one way or another in Asia. While the European Union is the only genuine example of such a development, it does not mean and should not mean that other regional integrations including what we are going to see in Asia should follow the European model. European integration is *European* while integration among Asian countries cannot but be *Asian*. The European model may provide a toolbox, from which one can borrow what one will, but any other model must be designed to handle the unique problems, challenges, and opportunities involved.

The starting point is to understand that economic integration is the strategy of domestic political systems to maintain or regain control over economic activity in the era of economic globalization. During the industrial age most economic activity was national – taking place inside a national framework. With economic globalization, trade increased and investment flows grew to an unprecedented size, pulling economic activities from the national to the international level. As the global financial crisis showed, they became so big, so powerful, and moved so fast that no nation-state – not even the US – can shield itself against the impact. The total value of the world's financial assets is estimated to Euro 160 trillion – about 3 ½ times bigger than world GDP. Most of these funds are in the hands of financial institutions operating globally and many of them make transfers at the speed of light to take advantage of differences in interest rates, growth rates, and inflationary trends. Phenomena like hedge funds or offshore financial centres are well known–and not for helping national policy makers in their endeavours to pursue domestic political goals either. They seek short-term profits and are not disposed to grant time to nation-states going through an adjustment process.

National/domestic political control over international economic activities has become ineffective, but voters still expect politicians to be in the driver's seat and prevent abuses & violations. Politicians thus respond by moving policy making above the national level, so that economic activities and political control are now both found at the international level.

Looking at the legislation found within the EU, the European experience points to a high degree of success in this respect.

Voters may not see it exactly that way, though. Economic globalization in the form of trade, investment, disruptive capital flows, and mergers & acquisitions are not always visible to the citizen. When mortgage borrowing costs go up, they may not associate it with hedge funds moving money out. What they see and feel in their daily life is legislation coming out of the EU institutions – from Brussels as it is called in the jargon – often disturbing their daily life and are seen as unnecessary bureaucracy. Often the outburst is heard 'why do Brussels have to do this or that'.

The EU institutions and indeed national politicians have not fully managed to get the message across that their aim is to maintain political control over economic activities influencing the citizen's daily lives. The alternative would be an unwanted degree of power in the hands of huge international or global corporations or financial institutions. European nations could not do their job individually because their power measured against the large conglomerations is too small.

Nor has the message filtered through that very little of EU legislation is unnecessary or bureaucratic. Seldom is it heard that many EU legislative acts replace national/domestic legislation, which means that 27 national rules are replaced by one single European rule or regulation. The most famous example of this was seen in the early 1990s when rules for the degree of curvatures for cucumbers were introduced. It is frequently brought forward as a symbol of waste, even madness – Eurocrats being paid to sit there measuring cucumber curvatures! But it is in fact a very sensible rule allowing cucumbers to be packed in boxes, transported across borders, lowering the price consumers pay while at the same time giving producers a better price. Everyone benefits. The regulation was a sensible one that followed what most member states had already done domestically, and the EU regulation was a simplification exercise meant to facilitate cross-border trade!

LESSON NUMBER ONE drawn from these experiences is to bring across to the public why the integration is there, and how it is solving problems faced by the ordinary citizen, and make sure that perception matches reality.

The ordinary citizen is not much interested in the Euro currency rate vis-à-vis the USD or Libya or Iraq, but sees the integration in the prisms of whether it improves the daily life. The former Speaker of the House of Representatives in the US Tip O'Neill once said 'all politics are local'. And so it is with economic integration. If integration cannot connect to the daily life of the citizen, it starts to lose traction because anti-integration arguments tend to attract voters who only see strange rules or regulations adopted far away from where they live.

Contrary to the domestic political system, citizens do not see EU decision-making as 'their' political system; it is much more 'them and us'. There are many reasons for that, such as history, geographical distance, and languages. The counterweight against criticism being a citizen's personal contact with the system does not exist, opening the door for all kinds of myths and unfounded criticism. The large number of Eurocrats is often mentioned despite the fact that all EU institutions employ around 50.000 persons whereof 1/3 is due to the use of national languages; necessary for the citizen to communicate with the EU institutions and to read the legislation passed and applicable for them. As comparison, suffice it to state that the City of Birmingham and H.M. Treasury & Customs in Britain each employ 50.000 persons.

This leads to the next observation namely that an economic integration is not a free standing enterprise, but linked to the current state of global economics and the role the member states want to play.

The EU was launched precisely at the moment in the late 1950s when the global economy was moving into higher growth. Under such conditions, dismantling trade barriers was not so difficult. When the oil price chock hit Europe in the 1970s, integration came to an abrupt stop and only got going again when the economy picked up. Judging from the example of the |US the benefits of a single huge market, in particular for high technology production, were too obvious to miss.

The next logical step was to agree on a single currency. In the early 1990s when a global currency crisis struck, the plan for an economic and monetary union (single currency) was torpedoed. But it stayed afloat. The common foreign and security policy was born when the fall of the Soviet Empire signalled that the NATO alliance could no longer be counted upon considering America's limited commitment to Europe's defence in the new situation it now found itself in, and America's growing commitment in other parts of the world. Immigration and domestic security followed the influx of foreign workers and the rising threat of terrorism.

At present, it is not difficult to appreciate the level of integration at its current stage, but it is less easy to argue the need for deeper integration. When the proposed constitution was put before voters in several European countries (France, The Netherlands, and Ireland) in 2005, politicians found it hard to explain why it was necessary to enact a constitution–and why now?. A very simple question was: What is it we can do with the proposed constitution that cannot be done with the existing treaties. This question had been easy to answer with the Single Act of 1984 and the Treaty of The European Union of 1992. In 2005 the voters drew the conclusion that it was not obvious why the treaties should be amended; so why support the change?

LESSON NUMBER TWO is therefore first that integration is much easier to forge under benevolent global economic conditions blessed with high growth than otherwise. Second that the integration must respond to a challenge or put forward solutions to problems that member states cannot solve on their own or where solutions defined in common are clearly better than if each member state had tried on its own.

Voters understand that participation in economic integration improve material living standard, but also feel that it exposes them to political decision making by institutions not close to them. In short: Voters sense that they trade in a part of their cultural identity and links to the well-known national political framework, for the prospect of a higher living standard. They are willing to do so as long as an unequivocal answer is arrived at where increasing living standard outweighs the pressure on cultural identity – which is more the case under high growth. They are far more sceptical when that is not the case.

My own personal experience as State-Secretary in Denmark where the majority of the population are for the European Union, is that ordinary people are basically steered by emotions, while policy makers follow logic and reason. That sours a dialogue even if both sides are interested, because they tend to speak different, even conflicting languages.

LESSON NUMBER THREE is to bring economic integration close to the citizen and avoid making it a remote academic or business-biased exercise. The EU has tried to square the circle by introducing subsidiarity, which stands for taking decisions as close to the citizens as possible – an admirable ambition. But even then, even when acknowledged as the right way, for many citizens it is just one more 'bureaucratic manoeuvre'.

This leads to the dilemma: Shall we start with and a focus on institutions and expect them to come up with relevant answers to the challenges or is it better to begin with the substance–what can integration do for member states, business, and citizens–and thereafter define the necessary institutional framework?

The role of institutions can be defined in many ways, but to my mind they can do very little on their own. They transform political will, political preferences, and political objectives into legislations, rules, and regulations applicable for business, citizens, and society. At the same time they function as a channel for feedback from those affected by political decisions to those who make these decisions. A clutch pedal!

The European public, like people anywhere, is not interested in the institutional set-up. The public wants economic integration to focus on the substance – the deliverables! Under current circumstances, these are an improved economy, reduced unemployment, and better daily living conditions. They do not care very much if at all who it is who are behind the decisions that bring those benefits.

It is actually detrimental to the image of the integration process if institutions, once Europe and its citizens face a wide crisis, fall back on institutional infighting. The public does not feel compelled to understand such a situation, and it eats away confidence.

A couple of years ago, the EU agreed on changes to its Common Foreign- and Security Policy, appointing Catherine Ashton as High Representative of the Union for Foreign Affairs and Security Policy. This sounds good, but only makes sense if the EU has a common policy and even if some progress has been made to that effect in particular concerning soft policies such as climate change, the EU is still far away from a genuine foreign and security policy. A gap opens up between perception and reality. Ordinary citizens fail to see why institutional set-ups that encroach on limited financial and staff resources are necessary when the substance – a common policy – is not agreed upon.

In October 2012 the European Parliament rejected the nomination of Luxembourg's Yves Mersch to the European Central Bank (ECB) executive board on the grounds that insufficient effort had been made to find a suitable woman for the post. Gender equality is certainly a commendable objective, but it is a fair assumption that the 25 per cent of the population who are unemployed in several member states take the view that the European

Parliament should concentrate on helping and supporting the ECB to fight the economic crisis.

LESSON NUMBER FOUR is: First, to put substance ahead of institutions, we need to understand what has to be accomplished, and design institutions to do that. Second, to bring across to the institutions that the more serious the problems are, the stronger is the need to close ranks and work together. Third, to ensure that perceptions match realities in the sense that institutions are doing what they are supposed to do – making decisions.

The fifth observation is that public opinion does not always – far from it – move with the same speed as is the case for the political and technocratic elite plus business leaders. People find it difficult to adapt and adjust. They tend to see the world and economic surroundings as they used to be.

The elite may be tempted to move fast and far and there are many reasons for doing so, but if the public is not on board, growing scepticism may be the result. Under benevolent economic conditions, this scepticism may not surface, but if or when global conditions change, it will. People will vent their frustration – 'we were left behind'!

This has been felt by the European Union when, for good reasons from 1990 to 2010, it introduced the single currency and a number of other steps. When global growth was high and the global financial crisis was not haunting Europe, a large majority was on board. But when global growth turned to what has been termed the great recession in the slipstream of a global financial crisis, the support for these steps became less solid and robust.

LESSON NUMBER FIVE is that the public must be on board, and must support and understand why integration is being pushed, what necessitates the steps, and what results are expected. The European Union has over the last five years managed to stick together to prevent a break-up of the single currency, but it has been tough and sometimes it has looked as if the integration was on the brink of failure. Reading the European mass media, the feeling one gets is that politicians are not really conveying to the public why it is of paramount importance to bring the single currency through the financial crisis, what kind of policies are being implemented, why they have been selected, and the results they are to produce. Otherwise, one should not wonder why opinion polls show such high scepticism among Europeans.

THE MAIN LESSONS for politicians, business leaders, and the intellectual elite are:

- to communicate constantly to the public why economic integration is better than the alternative - standing alone;
- why economic globalization demands international institutions and why such institutions are the best way to safeguard domestic policies even if the instinct may be to look for domestic institutions;
- why domestic policy measures are not fully effective under economic globalization,
- explain the paradox that participation in international binding agreements increases instead of reduces the room of manoeuvre for domestic policy goals;
- and what may be most important of all, that economic integration is not an end in itself, but an instrument to pursue domestic political goals – 'all politics are local'.

It would indeed be a serious set-back if economic integration, in itself a demonstration of how to reach consensus and compromises by co-operation, seeking solutions in common, and reflecting political maturity; is stopped in its tracks just because communication of these fundamental and simple messages failed.

* * * * * * * *

Joergen Oerstroem Moeller is a Visiting Senior Fellow at the Institute of Southeast Asian Studies.

ISEAS Perspective is published electronically by the Institute of Southeast Asian Studies, Singapore.

Editor: Ooi Kee Beng

Institute of Southeast Asian Studies
30, Heng Mui Keng Terrace
Pasir Panjang,
Singapore 119614
Main Tel: (65) 6778 0955
Main Fax: (65) 6778 1735

Homepage: www.iseas.edu.sg