Introduction

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The globalised world of the twenty-first century has experienced the most severe economic crisis since the Great Depression as a consequence of a dramatic lack of adequate economic governance and supervision at the international and national levels, with both sides of the Atlantic bearing high responsibilities for this. The effects of the crisis are still being felt painfully in many countries, but in less than two years economic growth has resurfaced across the world, thanks especially to a return to the pre-crisis growth rhythm in the leading emerging markets. Conversely, the mature economies are still confronting sluggish economic performance and are lagging behind (with the Eurozone, in particular, lagging well behind).

This volume addresses these topical issues and identifies two main challenges. The first deals with the economic and political conditions under which sustainable economic growth can be triggered in the future. Such growth needs to be built on solid ground if new global crises are to be avoided over the coming decades. In other words, global economic governance providing new international norms and rules – including in relation to the problem of increasing global macroeconomic imbalances – has to be put in motion. This new architecture should also mirror the post-crisis economic balance of power if it is to be credible. Besides, a sustainable and more balanced world economic growth can make a significant contribution to political stability around the world by lowering social tensions, which may be particularly intense in the post-crisis period (as demonstrated by the recent dramatic events taking place in the Mediterranean).

In this changing global context, the role and power of the European Union and its member states have been called into question. A new place in the future international arena needs to be carved out for the European Union, which is still struggling with the consequences of its sovereign debt crisis. This is the second challenge that the volume addresses, by suggesting the new route – in terms of changes in both internal dynamics
and external representation – the EU has to take to escape the fate of a low growth area.

As far as the first challenge is concerned, Franco Bruni investigates the need for a new world economic framework in which monetary and financial stability are among the main pillars. In this regard, the author highlights the intimate relationship between financial stability and monetary policies. The former can be viewed as one of the objectives of the latter. The bankruptcy of Lehman Brothers demonstrated that overseeing the links between micro-risks of financial networks and systemic risks is key to avoid future crises. Provided that monetary policies can have a strong influence on (micro) financial risk-taking, such oversight of systemic risks cannot be located far from the monetary authority (as confirmed by the major financial supervision reforms introduced by the US and the EU in 2010). In addition, some forms of coordination of monetary policies are required to stabilize world-wide consumption prices and avoid new global bubbles in asset and raw material prices. More generally, a new global institutional setting should be put forward by scaling up coordination on a panoply of issues, including monetary and exchange rate strategies, adjustment of excessive current account imbalances, monitoring and regulation of a possible ‘global supply of liquidity’ (for example the creation of non-national currency instruments, such as the IMF Special Drawing Rights), budgetary rules, financial regulation and supervision, crisis management actions, and guidelines to manage unbalanced international capital flows. In a nutshell, a new Bretton Woods including, among other things, the re-definition of the mission and governance of the IMF and the G20, would be needed.

Jacques Mistral explores ways for the EU and the US to contribute to the governance of a multipolar and heterogeneous world. In particular, the author considers three major questions on the future of international cooperation: will the G20 continue to be a crisis management instrument or will it take a quantum leap toward effective policy coordination? Will bilateral interactions (especially in the form of the G2 comprising China and the US) overshadow multilateral efforts and, as a consequence, become a serious constraint to transatlantic relations? Should EU–US relations be revamped, and what should the goals of the new agenda be? Mistral points out that coordination of the two sides of the Atlantic can be expected to be satisfactory in the event of ‘standard’ financial turbulence in the future. But should the situation be more critical (due to another major banking crisis, a sovereign default threat or a mix of these) different views may emerge, and as a result issues should be better addressed at the G20 level. However, still in the G20 context, there is room for stricter cooperation between the US and the EU in some specific fields (including, for instance, development policies and aid to poor countries), where the two actors should attempt to
take the lead or at least make a significant contribution within the framework of multilateral intervention.

But this can be done only if the needs and requests of the largest emerging countries – China in particular – are taken into due account. In his chapter, Xiaozu Wang explains the links between political leadership and economic growth in China and attempts to define the international role China is supposed to play in the coming decades. The author underlines that the impressive double-digit Chinese GDP growth has been significantly led by exports so far. But China learnt a lesson from the crisis and the growing international complaints about its huge trade surplus: it has to support national demand and improve the living standards of its citizens. This should eventually lower pressures on the appreciation of the renminbi and respond to international preoccupations with its trade surplus. In particular, the author points out that the convertibility of the Chinese currency can be predicted in the future, although it is not clear whether it will be in the ‘near future’. In any case, a more balanced Chinese growth seems possible over the next decade, thus creating new opportunities for Europe and the US and making the growing international standing of China more acceptable.

The second part of the volume specifically tackles the challenge of the economic prospects of the EU, and the Eurozone in particular, for the next decade, and the need for a change in the internal functioning and external dimension of the EU. Vanessa Rossi depicts three key scenarios whose likelihood is strictly related to the ability of the EU to detect not only risks but also growth opportunities in the post-crisis global economic context. Such opportunities mainly stem from the robust growth foreseen for emerging countries (at a rate close to 5 per cent) but also from the possibility for the EU to correct internal imbalances and set up economic cooperation to an extent that was politically unfeasible in the pre-crisis period. In particular, the three key scenarios (and their respective foreseeable growth rates) are the following: (1) ‘solidarity and discipline’ in which the EU proves itself able to overcome the limits of its Stability and Growth Pact and engage in a stricter economic cooperation leading to moderate growth; (2) ‘disorderly restructuring’ in which cooperative efforts fall flat due to a bank crash (leading to a sovereign debt default) or to a large economy failing to control its public finances; (3) a ‘new opportunity’ in which a stronger EU growth scenario emerges by exploiting the potential offered by the new international context and succeeding in implementing catch-up processes in weak European countries (both inside the Eurozone and in Eastern Europe).

As mentioned above, the likelihood of the proposed scenarios depends on the decisions the EU will be willing (or politically able) to take over the next months and years. Daniela Schwarzer sheds light on the current
reform of European economic governance which is emerging from the sovereign debt crisis. In particular, the author looks at the way the crisis has affected the EU and explains that the old East–West divide is fading while North–South divergence is increasing. Attention is given to the political and institutional impact of the crisis on the Eurozone reform proposals, and particularly to the sovereign debt resolution mechanisms. More generally, the author stresses the fact that the role and power of the EU in the evolving international context will ultimately depend on its ability to tackle internal matters (for instance by introducing a European liquidity fund, a debt restructuring procedure and joint EU bonds for a maximum of 60 per cent of GDP). But these measures may turn out to be insufficient if, at the same time, the problem of enhancing EU (and Eurozone) external representation in economic and financial matters is not properly addressed.

Shifting the attention from the current discussion on the changes in EU economic governance to a broader and long-term analysis, Altomonte, Passarelli and Secchi suggest some political economy decisions which may contribute to an economic growth consistent with the ‘new opportunity scenario’ (or at least the ‘solidarity and discipline’ scenario) presented by Vanessa Rossi. The authors point out that the emphasis of the current policy debate is mainly placed on the short-term aspects of the recovery (mainly focused on the financial stability of the euro area) but much more attention should be devoted to growth-enhancing ‘structural’ reforms. In order to solve the problem of the apparently inevitable trade-off between short-term and long-term objectives, viable options to complement policy actions needed in the short run with structural reforms of the economy (mainly involving labour and capital markets) are provided. The authors underline the risks of ‘one-size-fits-all’ recipes which may severely hamper economic potential in weak EU countries; rather they encourage policy responses which are tailored in such a way as to meet country-specific needs.

The long-term economic prospects of the EU and the problems it needs to face in the coming decade to meet the main target of the ‘Europe 2020’ strategy (‘smart, sustainable economic growth’) are further analysed by Fabian Zuleeg. The author identifies the following challenges for the EU as a whole and its member countries: globalization, scarcity of resources (be it energy, commodities or food), an ageing population (the elderly population will account for 20.1 per cent of the total population of EU-27 by 2020) and climate change. These challenges are aggravated by the fact that the pre-crisis potential growth rate was already low, mainly due to poor total factor productivity growth, especially in the Eurozone, with some significant exceptions (notably Germany). The author attempts to understand whether and to what extent the ‘Europe 2020’ strategy can help
address the issues of long-term growth, by focusing on two specific areas for action: a newly-enhanced European level investment mechanism (including reforms of the EU budget and possible Eurobonds) and a further development of the Single Market.

The analysis of the pros and cons of the ‘Europe 2020’ strategy is completed by Antonio Villafranca who tackles the issue of fighting climate change. The latter is included among the seven flagship initiatives of ‘Europe 2020’, thus confirming the European willingness to be a front-runner in curbing CO₂ emissions and promoting the use of renewables and energy efficiency (the so-called ‘20.20.20 by 2020’ targets). The failure of the Copenhagen Summit and the negligible results of the Cancún Summit (at least in terms of burden-sharing) are calling into question the current world governance model of fighting climate change, within which the EU targets had been set. In view of potentially unequal and unbalanced burden-sharing between the EU (the only region in the world with binding targets for the post-Kyoto period) and other major world emitters (including the US and China), requests for protection – for instance in the form of border tax adjustments – may emerge in Europe to re-level the international playing field. The compatibility of such measures with the current WTO rules needs to be carefully investigated. The author provides suggestions and comments which are not aimed at changing the overall 2020 strategy of the EU, but rather at adapting it to the emerging world economic governance of climate change, while avoiding possible conflicts in trade-related issues.

In summary, the volume provides analyses, insights and policy recommendations which attempt to match short-term interventions with long-term policies aiming at enhancing a sustainable and balanced growth. The quest for the latter must constantly rank high on the agenda of world political leaders over the next decade. As regards the EU in particular, the authors indicate tools and mechanisms which can enhance growth potentials in Europe, and in the Eurozone in particular. Their contributions help define the adequate place that the EU should take in the post-crisis international arena.

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