

A doomsday scenario for Europe's economy

John Vinocur/IHT International Herald Tribune
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French research group projects gloom

PARIS For a doomsday scenario, this one paints Europe heading for the dungeons of history as an economic force.

"The enlargement of the European Union won't suffice to guarantee parity with the United States," it says. "The EU will weigh less heavily on the process of globalization and a slow but inexorable movement onto 'history's exit ramp' is foreseeable."

By 2050, under this scenario, Europe's share of the world economy is only 12 percent, against 22 percent today, while the euro is a second class currency. North America maintains its "technological hegemony," Greater China, which includes Taiwan, grows to represent almost a quarter of the world's economy, and the Japan-Korea region's share of trade, along with the yen, declines sharply in importance.

Roughly a half century from now, goes the scenario, an EU of 30 member states will have a growth rate of 1.1 percent, the North American free trade grouping, 2.3 percent, and Greater China, 2.6 percent.

This vision of Europe's misery-to-come is projected in a new report called "World Trade in the 21st Century" by the Institut Francais des Relations Internationales (Ifri).

It is interesting because the research organization is not usually in the business of drawing grim perspectives for either France or the EU. Its tone also fits the register of a thesis advanced in the newspaper Le Monde that the current decline in the dollar does not reflect American weakness but a situation in which "the power of a country, in circumstances of low inflation and low growth, is reflected in its ability to depreciate rather than increase the value of its currency."

The Ifri report, of course, contains scenarios in which Europe does better. But they depend on exceptional changes in current political, social and economic trends. Rather, the report's basic projection, called the "reference or trend scenario," is calculated on a continuation of the current curve of world trade and economics.

For Ifri, Europe has two basic problems. The first is its dwindling population. From 2000 to 2050, the institute projects a decline in the EU's active population from 331 million to 243 million. Over the same period, the active populations of Greater China and South Asia move ahead, while the North American grouping rises from 269 million to 355 million.

The second involves technological progress and capital accumulation. In these areas, according to the reference scenario, North America "continues to suck in a good part of the world's savings," while Europe depends on "savings and domestic investment" for capital. North America remains "the locus of innovative activity," the projection says, even though Europe will make gains in productivity, cutting the size of its lag behind the leaders.

What can Europe do? If things go along as at present, according to the reference scenario, "the decline of Europe is confirmed and the EU with 30 members becomes a second rank economic power."

But in a more favorable second scenario, Ifri projects the creation of an area of "integrated development" that includes Europe, Russia and the south shore (the Arab countries) of the Mediterranean.

This involves launching in the target areas outside the EU "a vast program of technical cooperation reinforcing the creation of local scientific and technical elites and fixing them in their country of origin" - in other words, making sure they do not migrate to other competitive parts of the world.

At the same time, and in a somewhat contradictory manner, immigration to Europe is encouraged at the rate of at least 30 million persons by 2020. Then, in what might be called a burst of optimism, the report talks of improved economic conditions in the Mediterranean Arab partner countries, and - although they remain under "firm" governments - their introduction of "real" freedom of expression and greater emancipation of women.

Parallel to this, Ifri's scenario most favorable to Europe projects an improvement in Europe's own demographic situation, and "Russia's coming closer to the EU and vice versa."

At its most hopeful and ambitious for Europe, the reports projects creation of "co-prosperity space" with the countries in the Russian orbit and along the Mediterranean that would involve macroeconomic coordination at the government and central bank level. Ifri also provides a rather less miraculous but more politically realistic second scenario for co-prosperity if nothing is undertaken to increase Europe's levels of its own population growth and immigration into the EU.

The co-prosperity space - with its perhaps unfortunate World War II echo of imperial Japan's Greater East Asia Co-Prospersity Sphere - is itself based on some extraordinary assumptions: that Russia and the Arab countries of the Mediterranean could meld smoothly with the EU, or, given an acceleration of their development, that the United States, China and the rest of Asia would not be formidable rivals to Europe in steering or sponsoring Russian and Mediterranean growth.

Yet in both of Ifri's favorable projections, Europe's share of world trade declines.

In conclusion, the report said, the essential element in the EU's response to its prospect of decline is action involving a political project that would create a sense of involvement and responsibility in each of its citizens

"Without this tie, which supposes rather profound changes in politics and society," Ifri asserted, " the necessary elements for overcoming the European crisis of confidence will be lacking."

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