

Is Europe Going Under?

The global balance of power has changed - and pulled the old continent into a deep crisis. How can the once biggest economic powers regain the trust of the world?

By Martin Greive

Alejandro Ramirez sits in the fashionable "Waldorf Astoria" hotel in New York and beams, although he lacks sleep. The 41-year-old chief of the Mexican cinema chain Cinépolis is a personification of success of emerging markets: his cinemas are now represented in almost all of South America and are even conquering the Indian market. And on behalf of the Mexican president, he was attending a promotional tour for the upcoming G-20 Summit - for himself. He excitedly talks about his latest trick: high-tech cinema in which viewers get rocked back and forth and get water sprayed in their faces during certain parts of the film. *Why did he not bring his chain into Europe?* Ramirez is clearly not prepared for this question. After a while he replies: "Greece has eleven million people, right? This small country has managed to bring Europe to the brink of collapse. In India, we are in a province whose name no one knows - and this province alone has 140 million inhabitants."

For decades, Europe was a shining example for many developing countries around the world. Europe stood for economic success: the standard of living was high, the social network closely knit. Europe was considered a stronghold of political stability and freedom. But this image has suffered deep cracks in the past decade. Europe's gradual loss of power did not begin with the euro crisis. This was a trend that began many years ago because other countries were growing ever stronger, while the Europeans began to rest on their laurels.

But the European debt crisis, it seems, accelerated the descent. Five years ago, speculative attacks on Spain and Italy would have been unthinkable. Politicians from the United States or the emerging economies would not have taken so offensively the issue of EU public economic policy advice. Now this has changed completely. "Before the outbreak of the debt crisis, Europe was already suffering a large decline in importance," says Rolf Langhammer, vice president of the Kiel Institute for World Economics. "Now it comes to the vital question: Will Europe get its act together - or is it marginalized internationally for decades?"

That the continent is losing influence in the world is indisputable. A few simple figures illustrate this: For two centuries until 1950, the Europeans made up more than 20 percent of the world's population. Today, it still comprises 10.6 percent. In the middle of the 21st Century, it will only represent seven percent. Europe's share of the global GDP will be reduced to about ten percent by 2050 - in 1950 it was still at 30 percent. Germany, the largest economy in the EU and the fourth largest in the world, can count itself lucky if it still remains among the ten largest economies in 40 years' time. Indonesia and perhaps the Philippines will have surpassed the Federal Republic. Already, two-thirds of global growth is now coming from emerging countries, while Europe is the slowest-growing economy in the world.

In recent years, Europe has repeatedly felt his waning influence. Unforgettable is the climate summit in Copenhagen in 2009, when U.S. President Barack Obama invited China's Premier Wen Jiabao to his hotel room to negotiate a breakthrough - while the Europeans had to wait outside the door in the conference center. Late last year, Obama declared the Asia-Pacific region as his new strategic focus. The transatlantic partnership was no longer so important. Europe threatens to get sidelined.

Europe has worked hard despite all this. But the Lisbon strategy, adopted in 2000, which aimed to

make Europe by 2010 the most competitive economy in the world, has failed spectacularly. The euro has not brought together its Member States closer economically, but rather divided them. And in many important issues Europe is submerged by the international stage. In the past years there was no serious initiative from Europe to lower global trade barriers and revive the Doha round, which has been faltering for 11 years. Moreover, in China, Europe is not well received. The People's Republic would like to be recognized as a market economy in order to avert anti-dumping complaints more easily. "At the end of the cold war, Europe thought it had reached "the end of history" and believed it had only to continue on autopilot," says political scientist Kishore Mahbubani of Singapore. "Its failure to adjust and adapt as history turned a corner and power shifted to Asia led to inevitable grief. The Eurozone crisis is only the first symptom of a deeper plight."

Given the poor crisis management in the euro area, many euro-skeptics see their words confirmed. "In the past year, when I was talking with the Chinese, Indians, or others, the message was always the same," Fiona Hill, head of the Europe program of the U.S. think tank, Brookings Institute. "Europe can no longer be trusted and has become an uncertainty factor."

Now you even have rich Europe, which has helped poor countries for decades, begging for money. The head of the European bailout fund, Klaus Regling, travelled during the crisis to China several times and begged investors there to buy European government bonds. These performances have caused some irritation in China. And as it went about in the spring to provide the IMF with more capital to rich Europe to bail out in an emergency, the project almost failed because of Brazil's resistance. A few years ago this would have been unthinkable.

Europe should grant more power to other countries, writes the foreign policy expert Eberhard Sandschneider in his book "The Successful Descent of Europe". This would be the only way for the realignment of global power to avoid conflicts that would originate in Europe.

But it is a big difference between granting new powers more power and disappearing into insignificance. If Europe wants a say in the future, it has to change its style. And the conditions are better than they appear to be. This week the United Nations published a study that measures the wealth of nations. In measuring wealth, the UN experts included the qualifications of the population, natural resources and physical capital in an economy – criteria which are not included in usual GDP calculations. The surprising result: The average prosperity of Germany and France between 1990-2008 was significantly greater than that of Brazil and India - because the workers in Europe are so well qualified.

The foundations are therefore not so bad. "In the short term I would not bet on Europe, but in the long term it may be a strong investment," says Ian Bremmer, president of Eurasia Group, a political consulting firm. The old continent has many strengths that may not be evident in the shadow of the crisis. "Europe has better institutions for political and economic challenges than any other region," says Bremmer. "And the painful structural changes that Europe is going through can yield enormous dividends in the future."

Especially since other countries do not stand a lot better. "The U.S. is adept at pushing their problems into the future," said Andreas Rees, an economist at Unicredit bank. This week the international banking lobby IIF warned that because of its high debt America could possibly be the next to come to the attention of financial markets. In a study, the U.S. investment bank Morgan Stanley wrote that the growth model of the emerging markets had reached their limits. "China currently provides less to Europe than to themselves," says Bremmer. And from a dreaded G-2-lap between China and the U.S. so far, little is seen to be expandable in the political and economic cooperation between the two countries.

Europe remains, despite all its problems, an economically interesting region. The share of the euro in the global world reserves has recently increased slightly despite the crisis. And Chinese investors continue to emphasize that common European government bonds would be an interesting alternative to U.S. bonds.

But the Europeans underestimate their chances, arguing that their internal conflicts are difficult for investors in China and Brazil to understand. In the view of many Asian politicians, Europe is burned out. "We are in the process of destroying what we have built up since the Second World War," said Thomas Straubhaar, head of the Hamburg Institute of International Economics. Nationalist currents in the EU are increasing. A collapse of the euro and a division of Europe would be a disaster. "More and more countries participate in international negotiations not individually but in some blocks. A fragmentation of Europe would only bring disadvantages to each individual European country," says Straubhaar.

The response, therefore, cannot be re-nationalization. If Europe does not want to fall behind in the future distribution of resources and influence in the world, it must create more than "gentlemen's agreements" to which no one holds. They need a tight deepening of European integration, or European countries will soon be sitting on the side table in international negotiations.