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From the ringside

Europe's turmoil, India's chance

Geneva: The turmoil in Europe over the future course of its integration process has no ripples in Switzerland. Europe truly is in the throes of deep introspection following the negative outcome of the Referendum in France and Netherlands on the adoption of a new Constitution which would reinforce the process of political integration. The collapse of the negotiations in Brussels on the current rebate system enjoyed by the UK and unwillingness of France to whittle down its large farm subsidies are additional concerns.

Ever since the end of World War II Europe over the last 50 years, Europe made steady progress in substituting national sovereignty in seeking greater economic prosperity through what has come to be known as the European Union. The shared mutuality of benefits has been regarded as the biggest insurance against centuries of conflict afflicting nation-states of Europe culminating in the two World Wars. The real beginning of a united Europe came in 1950 by the announcement of a Schumann Plan which resulted "in surrender of power over coal and steel industries considered ingredients of European militarisation". It was, however, in 1957, through the Treaty of Rome, that decisive steps were taken for creating the European Economic Community primarily as a customs union. It was later in the 1960s that it took further shape with the emergence of the three institutional apparatus namely, the European Commission which represents and enforces the EU law, the European Council which represents Member-Governments and European Parliament which hold the two other bodies accountable to democratic scrutiny.

Over the years, the influence of the European Economic Community enveloped new areas like a single market, formal establishment of the European Union and by 2002, the hotly contested adoption of a single currency, the EURO. The benefits of the enlarged Union was expanded to include countries like Greece, Portugal and Spain in the 1980s and two years ago with the admission of the former nations of the Eastern Europe, resulting in a membership of 25 nations with a demography of 450 million. The admission of the ten new Members was already beginning to create tensions, particularly on labour movement leading to the nomenclature of "Old Europe" and the "New Europe".

A new Constitution to be adopted by all member-countries through parliamentary approval or a referendum was drafted under the stewardship of Valery Giscard d'Estaing which, on its adoption, would have altered the decision-making process, re-assigned votes and reposed greater powers in favour of the Union. Some countries like Spain and Italy have ratified the Constitution through parliamentary approval but the French rejection followed by Netherlands and indefinite postponement by UK has created long term uncertainties. Any analysis on the causes of dissatisfaction by one of the founding members of the Union, namely France, centre around the following:

- Confusion among the voters on what the new Constitution represents; given an unemployment rate of over 10% in France, it was perceived more as an indictment against President Chirac and his lacklustre Prime Minister Raffarin than a vote against Europe.
- More importantly, it is a vote against a certain model of global integration, a movement towards excessive competition of what is described as the Anglo-Saxon model compared to the Franco-German model, emphasising social security, persisting with farm subsidies labour protection — “a Social Europe” than a “Neo-liberal Europe”.
- The demographic profile of old Europe has an ageing population and a freer movement of people from Central Europe and elsewhere is an inescapable economic consequence. The present mood does not accept this reality.

In effect, the popular mood is the retention of powers with the sovereign which can guarantee social security, a more compassionate labour law, prevent rising unemployment and bury ghost of endless stream of migrants both from new Europe and possibly Turkey to name a few. Unemployment rates in France and Germany remain unacceptably high. Further, Spain (despite robust growth) and Italy have failed to meet the fiscal target prescribed under the Fiscal Stability pact. Italy is under recession with Prime Minister Berlusconi attempting significant tax cuts to revive the economy which would only exasperate fiscal problems. There is anxiety that further integrations may result in unchecked immigration of labour from “New Europe” and later from Turkey (a nation of nearly 100 million) adding to unemployment woes. Economic compulsions resulting in large outsourcing of divisible economic activity to Asia particularly India and China, add to fears. In fact, Christian de Boissieu, President of the Council of Economic Analysis, an advisory body to the French Government describes Europe’s plight as being “sandwiched between an innovative hi-tech US economy and low-cost but fast developing emerging economies such as China and India.”

What does this European introspection mean for India? Europe has begun to re-think the earlier paradigm of relentless market liberalisation regardless of its human consequences. The dictum that the cure for unemployment must lie in higher growth cuts thin even as growth remains sluggish and low cost migrant labour generates pressure on labour market. Some analysts in India would argue that the outcome of our last year’s general elections saw the “Indian introspection” on the neo-liberal model of growth, preferring employment fostering policies, renewed emphasis on public investment and redressing neglect of rural sector.

While the need for “inclusive growth” is unexceptional, we must not draw wrong conclusions from Europe’s current turmoil. In fact, improved infrastructure and conducive investment climate is not only necessary for high growth but for India to remain a competitive destination. Only this will enable us to take advantage of Europe’s current turmoil. Competitive outsourcing could be a partial answer for enabling them to retain core activities at home without excessive unemployment woes. A revival of growth process in the Euro-zone economies, based on reforms which look beyond its current transitional difficulties, is inescapable. Failure to do so will only result in what Dominique Moisi of IFRI describes as handing the 21st century to Asia when he argues that “today for reasons of demography and moral energy, the future lies more with Asia than with Europe. The future belongs, like victory, to those who desire it most, not to those who are doing their best, to defeat

themselves.’’

Thus while Europe prevaricates, India must consolidate its current economic strength. With this renewed vigour it must forge new alliances with European and Trans-Atlantic powers.

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