

Implications of the Eurozone Crisis for EU Foreign Policy: Costs and Opportunities

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1 June 2012

Europe, or more precisely the eurozone, has become a big problem for the world economy. This has profound implications for European foreign policy. Foreign ministers may turn the other way, with remarks like ‘not our fault’, and seek to get on with their business of making a better world with projection of European values into the international arena, no doubt stressing their continuing commitment to a normative multilateral order.

But this approach does not fly. The immediate consequence of the eurozone crisis is the degradation of the reputation of the European Union as a whole on two accounts: as a model of competent economic policy management and as a model of enlightened regional integration. The management of the crisis has been collectively incompetent, and the eurozone’s governance structure has proved to be systemically flawed. This reputational degradation heightens resentment in the rest of the world at the overrepresentation of European states in the major multilateral organisations.

None of this is just vague speculation, but concrete reality in three major institutions: the IMF, World Bank and UN Security Council. The voting weights in the IMF were last revised in 2010, with ratification still pending, and with further revisions normally due at five-year intervals. In 2010 Belgium and the Netherlands fought as their supreme national priority to retain their seats on the IMF Executive Board. They could only be pushed into giving some ground when the United States threatened to invoke a rule or procedure of the IMF, which meant that in the absence of agreement two states with the smallest quotas would be ejected from the Board, these two happening to be India and Brazil – what a triumph of European diplomacy that would have been. While pretending in speeches to be the champions of a vigorous multilateral order, these Europeans were engaging in mere bureaucratic protectionism.

The new IMF affair concerns the \$460 billion firewall recently agreed to protect against contagion from the eurozone crisis. The new emerging world powers, notably the BRICS (Brazil, Russia, India, China and South Africa), agreed to make major contributions, whereas the United States and Canada declined to make any. Upon making enquiries about the precise amounts of the contributions by the BRICS, we learned recently that at least some of them have so far declined to announce their offers until they first see progress on the revision of their voting weights. The conditionality tables are turned.

Now for the World Bank. The very recent election of a new President of US nationality, following the election of a European to the IMF in 2011, has renewed resentment over the continuation of this Western leadership preserve. The voting weights are such that if the old West votes together in mutual support, as they have just done in both cases, they cannot be outvoted by the rest of the world. But now the BRICS have begun to discuss the feasibility of setting up their own BRICS development bank, motivated at least in part by the slow and limited recognition by the West of their underrepresentation. The BRICS have ample capacity to do this on a grand scale. Brazil points out that its own development bank alone has a balance sheet twice that of the World Bank. Sidelining the World Bank would have major implications for the economic policy norms prevailing in

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global finance. The Europeans, in particular, supposedly multilateralism's best friend, would be fostering a structural development at the level of global finance over which they would have no voice at all. Hanging on to overrepresentation for as long as possible as the highest national priority thus becomes counterproductive.

Questions of reforming the UN Security Council have been debated for decades. The original P5 order (veto carrying permanent members: China, France, UK, US, and USSR succeeded by Russia), born of the outcome of the second world war 67 years ago, remains intact. France and the UK hold onto their P5 positions as diplomatic priorities. The claims of Germany, Japan, Brazil and India go on unanswered. Germany appreciates that its demand would only make the European overrepresentation worse, and has said it could agree to a seat for the EU instead, but France and the UK do not agree to this.

What to do? Consolidated representation with a reduced weight compared to the total weights of EU member states is the logical solution, most clearly for the IMF and World Bank. At the IMF there should be a single seat and voting weight for the eurozone, assuming its leaders can soon summon up enough wisdom to resolve the crisis before it is too late. At the World Bank there should be a single seat for the EU, which is the largest aid donor globally, with the Commission's programmes larger than any of the bilateral programmes of its member states.

For the UN Security Council, population weights are arguably more relevant than economic weights. On this score there are now five states with populations of over 100 million (i.e. double or more France or the UK) without permanent representation on the Security Council: billionaire India here in a class of its own, followed by Indonesia, Brazil, Japan and Mexico. In 2011, the EU secured improved status at the UN General Assembly, and at the UN Security Council the EU High Representative can be invited to speak on issues where there is an EU position. But this hardly solves the problem of reform demanded by the new major powers.

For how much longer can the now 67-year-old legacy of World War II prevail? Conservatives in France and the UK, whose populations are not even in the top 10 of the G20, want to hold on to the status quo as long as possible. It will require a strong strategic argument to induce them to shift their position, not just some vague appeal to fairness based on population and economic data. In fact, one such argument becomes evident, with the rise of the BRICS as a group determined to achieve greater power in world affairs as their only common interest. The BRICS divide on many accounts, but the most salient here is that three of them style themselves as vibrant democracies (Brazil, India, South Africa, of 'ISBA' as a group), whereas two remain semi-authoritarian states (China, Russia). These divergences in domestic political norms spill over into foreign policy norms. The question of global strategic political significance is whether adherence to the kind of political norms favoured by Europe can become predominant, to the point of persuading China and Russia to come closer to a normative global consensus. This scenario will hang on whether the West can increasingly converge with the ISBAs with whom it has much political ideology in common, inter alia supporting the claims of India and Brazil for permanent Security Council membership; or whether continued European conservatism over the status quo pushes the ISBAs into anti-Western positions with the other BRICS.

The voices that simply lament Europe's relative decline are overlooking the fact that the EU has in fact a huge opportunity, if only its institutions and member states can get round to exploiting it. Together the EU is number one in the world economy, and its population weight of 500 million puts in next in line after the two billionaires, China and India (see table below). The EU also has a clear doctrine in international relations, with its support for normatively ordered multilateralism. Salvation of the euro is going to require a federalistic strengthening of the economic competences at least of the eurozone, and probably in some degree for the EU as a whole. Europe's foreign policy planners should be at work on how to follow this through synergetically with rationalisation and strengthening of the EU's role as global actor.

G20, population and GDP

		Population, (millions)		GDP (\$ billions)	
1	China	1,399	1	EU	17,557
2	India	1,210	2	US	15,098
3	EU	501	3	China	7,298
4	US	309	4	Japan	5,869
5	Indonesia	237	5	Germany	3,557
6	Brazil	193	6	France	2,776
7	Russia	141	7	Brazil	2,492
8	Japan	127	8	UK	2,417
9	Mexico	112	9	Italy	2,198
10	Germany	81	10	Russia	1,850
11	Turkey	72	11	Canada	1,736
12	France	65	12	India	1,676
13	UK	62	13	Australia	1,488
14	Italy	60	14	Mexico	1,154
15	South Africa	49	15	South Korea	1,116
16	South Korea	48	16	Indonesia	845
17	Argentina	40	17	Turkey	778
18	Canada	34	18	Saudi Arabia	577
19	Saudi Arabia	27	19	Argentina	447
20	Australia	22	20	South Africa	408