

The Economic Crisis and the Emerging Powers: The EU's Place Within a New International Order

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Theme¹: The questions now facing Europe concern our chances of surviving the next decades without the continuing downward economic spiral that many countries are facing. The threat of a 'second wave' global economic crisis still looms over our heads. Even without such a second wave, what are the chances of economic recovery for countries whose debt reaches or exceeds the size of their GDP, and whose rates of interest keep rising even as the size of their debts increases and their income keeps going down? What are the chances of survival of the common currency in Europe, and what effect might its eventual failure have on the dreams of 'the European project' that seemed so close to realisation just a few years ago?

When saying that the world is moving towards a new international order, it is implicitly assumed that there was one kind of world order in place, which is now being replaced by a new one. My personal impression, however, is that there never was much of a world order in the first place, if by order we mean a rationally ordained system, based on universally recognised principles of justice and humanity. Instead, there has been a continuous flux of change, with intermittent periods of greater or lesser stability and with shifting centres of gravity as far as political or economic power is concerned. I would therefore agree with those who consider that we have only moved from one mode of international disorder towards another. I would only add that there has been definite progress in a great many ways, and that we should never lose sight of the ideal of a just and humane world order as our ultimate aim. In continuing with all that has been already accomplished to make the world a better place, there is no doubt that the EU should remain an important global player, whatever the shape of any new world configuration might be.

While change is the very essence of history, it does seem as if the rate of change has kept accelerating in modern times. The sum total of changes and upheavals experienced just within the lifetime of my own generation has been truly impressive.

Just to take my own personal experience as an example: born in the independent Republic of Latvia, I experienced a Soviet occupation as well as a Nazi German one before my parents took me into exile, fleeing before the returning Red Army. As a small child, I saw a Germany in ruins and ashes, humiliatingly defeated in WWII and divided in four by the occupying forces. For several years, I lived in refugee camps along with 7 million other refugees from communist rule and occupation. When the UNRRA (United Nations Refugee Relief Agency) decided to close down those camps, my parents reluctantly emigrated to North Africa, still hoping that they would return some day to a

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¹ This essay is a chapter from the book '[Globalización, crisis económica, potencias emergentes...Diez años decisivos para la transformación del mundo](#)' devoted to the 10th Anniversary of the Elcano Royal Institute.

newly liberated Latvia. They chose North Africa in preference to the other options open to them –Brazil or Australia– because it was as close as they could get to Europe, thus making an eventual repatriation less difficult.

As a teenager I went to school in Casablanca, in a Sultanate that was then a Protectorate of France, but soon after became the independent Kingdom of Morocco. In my geography classes I learned all about France and *la France d'Outre-mer* –overseas France– and memorised world maps with huge areas marked either in yellow or in pink, representing the two main colonial empires of France and the UK. School-children of my day were naturally taught as well about the colonies that Spain had once possessed, but that had been independent since the previous century. As a young girl I arrived in a Canada that was still a Dominion of the UK and did not even have its own flag. I lived through the period when both France and the UK were forced to relinquish their hold on one former colony or territory after another and the United Nations kept adding new names to their list of countries and new flags to their flagpoles. Whenever I was in New York, I would look at those flagpoles and wonder whether I would ever see the day when Latvia's red-white-red flag flew high among all the others. Meanwhile, school-children in Sweden, just across the Baltic Sea from Latvia and its Baltic neighbours, never heard a word about Latvia, Estonia and Lithuania as once independent countries, but now occupied and illegally annexed by the Soviet Union. Two generations of Swedes would grow up convinced that there was nothing but 'Russia' on the other side of the sea. But the Baltic nations, while more than decimated in their numbers, were still there! And so it came to pass that countries once lost were reborn and I, for one, could not just return to my native land but even become its President...

In my Canadian University courses on Spanish literature, I remember reading a poem by Rubén Darío that the Nicaraguan poet wrote in Madrid in 1905. It was an optimistic affirmation of pride in the Spanish cultural heritage, a call for courage and hope phrased in majestically rhythmic verse, with the famous opening line:

'Ínclitas razas ubérrimas, sangre de Hispania fecunda!'

It went on with strangely prophetic lines about what the coming century had in store:

*'... Siéntense sordos ímpetus en las entrañas del mundo,
la inminencia de algo fatal hoy conmueve la Tierra:
fuertes colosos caen, se desbandan bicéfalos àguilas,
y algo se inicia como vasto social cataclismo
sobre la faz del orbe...'*

I also studied the poems of Federico García Lorca, whose blood, spilled by his own compatriots on the soil of his own '*madre patria*', joined that of so many other great talents that Spain lost in its Civil war. Indeed, if one looks at it closely, there are few places in Europe that are not drenched with the blood spilled through a never-ending succession of battles and massacres. Europeans might do well to keep this in mind whenever they are tempted to look down with contempt on what is happening in some other part of the world. The only reason they have to keep their heads high is the progress they have made in humanity and in democracy, the lessons they have managed to learn from a less than exemplary past.

If the rate of change was impressive enough in the decades immediately following World War II, the upheavals seen within the last 20 years are equally impressive, even more fast-moving, and some of them are still very much in process. To list just the ones that have made a major impact on the existing world order, I would start with the rejection of State Communism by those countries of Central and Eastern Europe on whom it had been imposed by force, followed by the collapse of the Soviet Union as a world power. The acquired or renewed independence of a whole string of formerly captive nations now forms a sort of *cordon sanitaire* of independent countries around the Russian Federation – the heart of the former ‘Evil Empire’–. A second historical wave of change was the creation of the EU in its present guise, the reunification of Germany and the enlargements to the East which erased the last political traces of an Iron Curtain that had cut Europe in half. The third tsunami of change was the financial crisis of 2008 and the ensuing economic crisis, which continues unabated right up to this moment. This threatens to weaken the formerly rich and developed nations, while several former Third World nations not only remain untouched, but continue to grow and thrive. And last, but not least: two decades after the popular uprisings that overthrew communist tyranny, we are now seeing a series of popular uprisings in one Arab country after another, where decades-long authoritarian regimes are being either successfully overthrown or seriously shaken. The nature of these four classes of phenomena can be reduced to two major dimensions. The first is the politico-economic one, whereby the collapse of communism at the end of the previous century is being followed, at the beginning of the new millennium, by the serious tottering of capitalism as we knew it. When the State fails to provide its citizens with the basic necessities of life, sooner or later the people will react. The second is the ability of modern media of communication to reach wide masses of populations as crucial events unfold. Where documentary film and TV images, in my opinion, played a crucial role in the overthrow of communist totalitarianism, the process is being repeated throughout the Arab world through the much more efficient means of individual communication available today. We have seen throughout the year 2011 how quickly authoritarian regimes could be toppled, after decades of rule by leaders who had been kept in power internally thanks to repressive state structures and externally thanks to collusion from either or both of the communist and capitalist power centres of the world.

As a person who has been both a European and a North American, in addition to having spent formative years in an Arab country, I find myself looking at the world from a perspective that by now is emotionally Eurocentric, but intellectually remains cosmopolitan (hopefully in the positive sense of that term). Having lived on three continents under half a dozen different political systems, I find myself looking at Europe with the double sight of all former exiles –a strong emotional attachment tempered by the perspective of looking at it from outside in as well as from inside out–. This double vision may be what makes me question the oversimplifications of certain presumptions that seem to colour recent European political rhetoric. They appear to stem from an understanding of the current situation that suffers from blind spots and an understanding of modern history that suffers from lapses of memory. Addressing and analyzing them openly is not just a question of finding a common European narrative for what is undoubtedly a very chequered past. It is a matter of finding common ground on which to build an analysis of our current situation, which in turn will influence the common strategies we might develop for our future. Europeans need to better understand where they come from, if they are to keep the place they have won so far on a rapidly changing international scene.

The main implicit assumption that I would like to question concerns the unabashed nostalgia for a bi-polar world, which, after all, was a world split between East and West, between communism and capitalism. This is more than a matter of ancient history, for it colours some of the discourse that concerns the enlargement of the EU and the integration of the newer, 'Eastern' member countries with the older, 'Western' ones. My basic argument will be simply a reminder that the cleavage between North and South is just as important as the one between East and West, this within Europe itself, as well as all across the world. This second cleavage largely overlaps with the one between the have and the have-not nations, which continues to be a major factor in the global equilibrium, although the locus of the lines of cleavage goes through various tectonic shifts.

According to a prevalent, but over-simplified line of argumentation, the world since WWII had been living in a quite acceptable state of bi-polar equilibrium, where the global influence of American power was constantly kept in check by the strength of the USSR as a mighty military machine, armed with nuclear weapons and acting as a counterbalancing world force. This state of equilibrium –which was quite comfortable and profitable for many– was destroyed by the collapse of communism as a state system in East Germany and the European satellite states, followed by the implosion and dismantling of the Soviet Union as an empire. Far from seeing the freeing of all the formerly captive nations (including Russia!) as the biggest thing since the abolition of slavery, this style of rhetoric bemoans the fall of the USSR as an unfortunate blow to the strongest bastion of anti-Americanism in the world. The world –so it is sometimes claimed– had now been reduced to a single global hegemony, a situation much to be deplored and to be remedied as quickly as possible by the creation of a truly multi-polar world.

I have no quarrel whatsoever with the call for a more multi-polar world. It is quite legitimate as such, apart from being nothing new, since the countries of the so-called Third World had been clamouring for it for decades. Nor would I quarrel with the idea that a newly enlarged and more powerful Europe should become one of the strong pillars of such a multipolar world. There would be nothing wrong with Europe regaining some of the world-wide hegemony that it had lost in the 20th century through two fratricidal World wars and several civil wars, its division by the Iron Curtain and the independence movements of its erstwhile colonies. Considering the sum total of European achievements in the strengthening of democratic forms of governance, improving levels of social justice and maintaining or increasing the health of its economies, the new EU of 27 might well claim to make a massive contribution to a more balanced and more just world order. Indeed, I think that the EU was well on the way to realizing just such a scenario, when the financial crisis of November 2008 came hurtling across the Atlantic Ocean to hit now one, now another of the European countries. The result has been such an economic and financial crisis as nobody had ever expected and that is proving extremely difficult to overcome. Draconian measures taken until now by any number of governments do not seem to have effected any lasting cure. The last dramatic proof of this was the unexpected plunge in world stock exchanges right after major declarations of reassurance by European leaders as well as by the American President in August 2011.

To return to our earlier argument: there is no reason to mourn the passing of a presumably bi-polar world, for it never was simply bi-polar, but formed a 2x2 matrix of four different cells: democracy versus dictatorship multiplied by rich versus poor. Nor is there reason to regret the fact, that only the smallest cell of this matrix enjoyed the benefits of democratic governance, human rights, the rule of law and open free-market economies.

This smallest part also included the richer and more developed countries, with a few exceptions like India, where formal democracy went hand in hand with grinding poverty for much of the population. The larger part of the late lamented bi-polar world remained subject to oppressive totalitarian rule, whether in the communist world or under Third-World tin-pot dictatorships, whose rule could be equally bloody and cruel to their peoples. This larger part was also the one where the average citizen had the lowest standards of living, as well as the fewest individual rights. There is no reason to mourn the lessening of the sphere of influence of totalitarian regimes of any stripe or colour. Instead, the world should keep moving ahead towards extending the areas where human rights and a life of human dignity can be found, without linking such progress to a feudal type of allegiance to one centre of world power or another.

From the Western European point of view, the international world order that was established during the Cold War and remained in place through the following decades may not have been ideal, but had a great deal to recommend it. It was a tense but relatively stable equilibrium, which remained in prolonged stasis because of a universal fear of the Armageddon of a nuclear war. True, the world was split in two by the ideological divide between communism and capitalism, whose leading champions for decades remained the Soviet Union on the one side (with China at that time as only a marginal player) and the US on the other. The onset of the Cold War had been a stimulus for Western Europe to join the US and Canada in creating NATO as a common defence system, so that the Alliance joined both sides of the Atlantic, but stopped in the middle of Europe, right at the edge of the Iron Curtain.

Western Europe had had the good fortune of gaining its freedom in both World Wars with the military help of the US. It continued to rely on the US for its military security (albeit reluctantly, in some cases). In this geo-politically bipolar world, Europe and the US were close partners, united by historical links as well as by prevailing values and democratic governance. Yet there were voices in Europe (de Gaulle famously among them) who deplored the imbalance in this partnership, which had clearly shifted in the direction of increasing US power and influence. Even though both France and the UK acquired a nuclear *force de frappe* and sat as permanent founding members on the UN Security Council, the international clout of Europe as a whole had been severely diminished by the war. While Germany had been crushed and wiped out in both military and ideological defeat, the countries on the winning side had suffered serious losses as well. Thus, even though one of the victors, the UK still had food coupons years after WWII had ended, being little better in this regard than post-war Germany.

The younger generations may not be aware of it, but Europe took a number of years to recover from the damages inflicted during WWII. Once it did so, it continued to grow at an impressive rate, not least due to the input of the US and its Marshall Plan. From a devastated continent, it quickly turned into an economic giant, but one whose combined political influence in the world did not match its economic weight. The reasons for this state of affairs were double. First, Europe remained a collection of independent sovereign states, each with its separate internal politics, economic priorities and foreign policy stances. Thus it could hardly match the decision-making speed and efficiency of a centrally governed US. Secondly, Europe was politically less influential on the global scene for the simple reason that many of its countries had strong internal political divisions. In a 'push-me, pull-you' Europe, where the political Right looked to the US as a partner, while the political Left hung on the lips of the USSR, the US, with its consistent

political orientation, was clearly better placed to enunciate political positions as well as enforcing them.

The sharper Left-Right cleavage in the internal politics of many European countries had its roots in historical circumstances. While Nazism as an extreme right-wing ideology had been irremediably discredited by the fall of Hitler's Third Reich, leftist communist ideology continued to thrive in Southern and Western Europe. Engaged in active struggles against past or present indigenous right-wing authoritarianism (from Mussolini through Franco and Salazar to the Greek colonels), the European Left kept true to the Marxist ideology that had conquered the hearts and minds of so much of Europe's intelligentsia. Deaf, blind and indifferent to the real fate of the populations actually living under their imagined dream system, but acutely focused on the shortcomings or failures of their own right-wing political opponents, the European Left continued to enjoy all the benefits of the systems they had the luxury of freely criticising (no such luck, of course, for the dissidents in communist countries). They continued to ignore any number of inconvenient truths, starting with the fact that Hitler and Stalin had copied each other's methods of propaganda and of mass murder in the 30s, and had been formal allies for two years before Hitler broke the Molotov-Ribbentrop pact by invading Russia itself. The official communist parties of Western and Southern Europe made no secret of their continued belief in Stalinism and their loyal submission to Moscow, while in the US communism was officially declared to be un-American (much to the outrage of the European Left).

Not having experienced extremist right-wing rule since the end of the Civil War, the US could feel much more confident in the solidity of its democratic traditions. As a result, the ideological cleavage between Republicans and Democrats in the US was never as deep as that between the political Right and Left in Europe. The US was able to develop a coherent national ideology as defenders of democracy, proponents of market economy and leaders of the Free World, which remained unchanged in its basic principles, no matter which party was in power. This ideological coherence and continuity was matched by a superior level of productivity and continued economic growth and development. Europe might well continue to preen about its glorious past and its cultural superiority, as well as the superior level of its social security programs. The fact remained that the average US citizen enjoyed a much higher standard of living, even if not always a higher quality of life (as measured, for instance, by the respective length of the average yearly holidays). In the decades following WWII, it was 'the ugly American' tourist who could afford to travel throughout Europe on 'five dollars a day', not the other way around. It was the American middle class who could afford to buy lawn-enclosed homes in the suburbs, while those Europeans not living in ancestral castles or mansions, continued to languish in smallish apartments with old-fashioned plumbing facilities. Americans kept buying ever longer and wider cars, while Europeans continued to ride around in Minis or on Vespas. A highly-cultured French President might well scoff at 'this crude American cowboy' behind his back, but by then it was the American President who was *the* world leader, not the French one, nor the British Prime Minister. For half a century, American hegemony was something that no one could neither match nor seriously contest.

During this same time period, an incomparably wider divergence existed between communist and capitalist countries in the health of their economies and the standard of living of their average citizen. It was not just Gorbachov's *glasnost* and *perestroika* alone that led to the eventual collapse of the Soviet Union, but the economic crash caused by its inability to match the expenses of the US in the global arms race. Meanwhile, the 'North-

South' gap between developed and developing nations, the haves and have-nots of this world, continued to widen as well.

The existing world order continued for a long time to be favourable to the growth, development and political influence of the developed nations of the Western world: the US, Canada, Europe, Australia and New Zealand, but unfavourable to the developing nations of the world, a great many of them former European colonies. This unequal equilibrium was robust enough to resist such calls for change as the 'Declaration for the Establishment of a new International Economic Order', adopted by the UN General Assembly as far back as 1974. It was also robust enough to dismiss any Marxism-Leninism-inspired arguments about economic imperialism, because of the demonstrably superior economic success of democratic countries following a free market philosophy over authoritarian or totalitarian regimes espousing various forms and degrees of state controlled economies. Even after the collapse of communism and the reunification of much of Europe, the lofty goals set in the Millennium declaration of the United Nations remain more as pious wishes than accomplished realities.

The relative stability of prevailing world-wide economic imbalances has been seriously shaken up within the past 20 years by a whole series of unforeseen events. First, the collapse of state-controlled economies led to long periods of dramatic economic downturn in all the post-communist countries, followed, however, by rapid growth by those able to effect the serious reforms needed. Then, the seemingly unshakeable banking systems of successful countries like Japan and Singapore suffered a serious crisis that swept in a domino effect across the Far East. The least expected and most serious upheaval of all came within the past four years, by an even worse domino effect of financial and economic crises. Starting in the US, supposedly only because of unwise policies in the sub-prime mortgage field, it quickly led to the collapse of the house of cards that was the field of reputedly clever financial derivatives (so clever, that they earned Nobel prizes in economics to some of their inventors). Because of the increasingly globalised nature of the world of finance, soon major European banks were shaken from their seemingly solid foundations, bankruptcies spread like a contagious disease and dramatic economic downturns hit not just the US, but also a growing number of European countries.

During this same time, the larger 'emerging nations', notably Brazil, Russia, India and China (ie, the so-called BRIC countries), have been much less affected by the economic crisis. For a variety of different reasons, such as access to fossil fuel resources in the case of Russia, internal reforms in the case of China or investment in education in the case of India, they resisted the crisis and continue on a path of sustained growth of their economies. Considering the enormous size of their populations (in the case of BIC) or the extent of their natural resources (the case of the Russian Federation), they are more than likely to pose increasingly serious challenges to the Western world in terms of relative world economic and political influence.

After the demise of State Communism in Eastern Europe and the economic and political implosion of the USSR in 1991, it now seems to be the turn for Classical Capitalism to show serious signs of morbidity. Those warning of the dangers of prevailing models of unlimited growth and ever-increasing demand for a finite quantity of resources on a planet of finite size, long remained voices crying in the wilderness. Hardly any serious warnings or meaningful predictions were to be heard from honours-laden economists or financial experts. Presumably reputable rating agencies gave top ratings of confidence to institutions such as Lehman brothers, virtually up to the last minute before their declared

insolvency. To this day, no one can offer credible explanations for why this country should now be hardest hit, or why that country should be spared by the crisis. Neither the International Monetary Fund nor the World Bank are able to offer socially responsible and politically viable recipes for economic recovery, except for pro-cyclical measures that increase the risk of a negative spiral of decreasing growth and increasing indebtedness in affected countries and the increasing pauperisation of their populations.

Even the members of the growing Non-Aligned Movement of the BRIC (meeting since 2009, 40% of the world's population and 14,6% of GDP) plus the IBSA (India, Brazil and South Africa, trilateral collaboration since 2003) cannot agree among themselves as to what measures, and by whom, are most urgently needed to (a) maintain their current advantage, (b) decrease the remaining gap *between* rich and poor countries and (c) decrease the widening gap between the very rich and the very poor *within* countries (both developed and developing).

The world economy seems to be running on political expediency, in tandem with limitless, short-sighted greed on the part of large financial institutions and international corporations. The credit ratings not just of private corporations but of entire countries are calculated by only three private global rating agencies, strongly suspected of conflict of interest, whose dubious role in the US financial crisis is only now being more seriously investigated (curiously enough, only after they dared down-grade the credit-rating of the US). Economic forecasts are based on simulations involving mathematical models and these, in turn, represent stochastic processes that are probabilistic rather than deterministic by definition. The models are so monstrously complex, with so many parameters, that their interactions are impossible to predict and equally impossible to interpret. The variables included in a model do not always represent objective measurements, so that the economist Hayek (a Nobel Prize laureate in his day) was right decades ago in declaring economic simulations as essentially empty. Economic recommendations to private business as well as governments stem from simplistic rules of thumb for what measures and policies should foster economic growth and development, what others pave the road to failure. No sooner is one country set up as an example of success for others to emulate (eg, Japan, Singapore), than the recipe they followed can be shown to fail –either in that same country (Japan) or in another (Iceland, Ireland)–. The wholly unexpected financial difficulties experienced by one euro zone country after another, not to mention the catastrophic situation of Greece, have revealed serious flaws in both the logic and implementation of a common monetary zone without the solid foundation of at least minimally coordinated economic policy.

The questions now facing Europe concern our chances of surviving the next decades without the continuing downward economic spiral that many countries are facing. The threat of a 'second wave' global economic crisis still looms over our heads. Even without such a second wave, what are the chances of economic recovery for countries whose debt reaches or exceeds the size of their GDP, and whose rates of interest keep rising even as the size of their debts increases and their income keeps going down? What are the chances of survival of the common currency in Europe, and what effect might its eventual failure have on the dreams of 'the European project' that seemed so close to realisation just a few years ago?

In all of this, it is not just the currently growing countries that will pose a serious challenge to the existing world order (or disorder, if you like). No doubt their fate will affect the economic and political weight that the EU holds in the world, as well as the EU's chances

of preserving its still relatively privileged status. The US, as but recently the 'single hegemon', will have quite a task to preserve its positions as well. Yet this does not necessarily mean that the countries currently on an upward path of development are guaranteed to become the multiple hegemon of to-morrow. Some of the current global champions may indeed continue to thrive, while others might suffer the same fate as the Iceland or Ireland of but a years ago, who were so splendidly growing and thriving and could serve as models to emulate. Furthermore, several of the countries that are just now starting on the path to democracy and the dismantling of indigenous oligarchies, may hopefully rise –if they are fortunate– to take their place among the winners, rather than the losers of this world. On a visit last spring to Egypt during its time of turmoil, I witnessed the determination and hope with which its young people were resolved to forge a better life for their country than a decades-long dictatorship had been able to provide. They –as well as the educated youth of many other countries– will no longer tolerate the existing status quo. They repudiate the systems under which they have been living, and have some serious and legitimate complaints as well against the long-standing support of Western nations for authoritarian regimes of every ilk. Europeans no less than Americans have spoken a lot about supporting and spreading democracy in the world, while closing their eyes to abuses committed by their faithful partners in trade and in business.

In a world faced daily with natural disasters, political upheavals and economic uncertainties, many old truths have become obsolete, including the faith in stable hegemon and the belief in invincible powers. The only thing that is certain is that change can and does happen, including major and unexpected change. This should be good news rather than bad, for it gives hope to the disadvantaged and forces the advantaged to remain vigilant and creative. A great deal of good will and effort will be needed by all countries to navigate the shoals of future uncertainty and escape 'the slings and arrows of an outrageous fortune'. Yet surely it can be done –if we but keep hope as our beacon–.

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