

## ***The Decline of Europe and the US: Shifts in the World Economy and in Global Politics***

Robert Kappel

The world is facing a dangerous power vacuum which may last for decades. This vacuum is developing because Europe and the US are currently in a phase of relative decline while China, India and Brazil are claiming international standing without being able to fill this role.

### **Analysis**

A close look reveals several significant changes in global politics and the world economy:

- China, India and Brazil are becoming global actors and are gaining relative strength. Together with other regional powers (e.g. Turkey, South Africa, Indonesia), they are influencing global energy, climate, security, trade, currency, and development policies.
- At the same time, however, the aforementioned nations are too weak because they – despite strong economic growth – are unable to eradicate poverty in their own countries, and an extremely imbalanced distribution of income and wealth prevails, resulting in massive social problems. The weak infrastructure, technological underdevelopment, and low levels of education of the majority of the population are characteristic of their economic and social situations.
- Their ability to effectively lead on a global level is limited as they do not yet provide enough global public goods (security, monetary arrangements, development aid). Furthermore, they are often not recognised as leading powers in their own regions.
- Their alliances, such as IBSA (India, Brazil, South Africa), BRICS (Brazil, Russia, India, China, soon South Africa as full member) and BRICSAM (BRICS plus Mexico), show a low degree of institutionalisation and a large gap between rhetoric and reality. Additionally, the new regional powers disagree on many issues and thus do not constitute a counterpole to the West.
- There is a growing normative disconnect between the regional powers, Europe and the US.

*Keywords:* global governance, regional powers, global economy, world politics, US, Europe, China, India, Brazil, South Africa

## 1. Rise and Decline of Nations

The rise and decline of nations has always played a significant role in the more historically minded assessment of international relations. When the hegemony of a major power or world power is on the wane, the entire world order becomes unhinged, as exemplified by the Roman Empire, the Spanish Empire, the Ottoman Empire, and the British Empire (Kennedy 1987; Olson 1982; Hurrell 2010). Even though military and political circumstances usually play a decisive role, the decreasingly cohesive strength of widely accepted value systems and established economic relations are factors which should not be underestimated. The increasing debt of nations also seems to significantly contribute to their decline (Ferguson 2010).

In an era marked by accelerated globalisation, the decisive elements for maintaining a leading position or reaching one after a transition period are the mastering of economic and political tasks in the broadest sense and the ability to provide global public goods.

## 2. The Decline of the US as a World Power

Despite the vehemence applied by American politicians to the defence of the United States' imperial (to some extent) behaviour and the affirmation of the nation's leadership role, it is apparent that the United States has lost its status as a hegemon. Joseph Nye (2010) claims that the US is experiencing a relative decline, not an absolute decline. Even though the US clearly constitutes the world's strongest economic and military power, it is nevertheless struggling with severe weaknesses resulting from low economic growth and the prolonged decline of the processing industry (25% of GNP 40 years ago, now 12%) – particularly in the field of innovative technological products (see Graph 3). Additionally, gross investment has declined and technological progress has stagnated due to low educational standards. Industrial productivity and the increase of total factor productivity, which indicate technological progress, are growing far too sluggishly to maintain an internationally competitive leading position. The US's distinct loss of momentum has been going on for years,<sup>1</sup> leading to an overall decline in driving eco-

<sup>1</sup> Additionally, the US economy is characterised by a high state deficit, high unemployment, and a desolate property market.

omic force and appeal, and resulting in a loss of global acceptance. Surveys and regression analyses have shown that the size of the population, industrial value added and the ability to export are central criteria for leading powers, including the US. In recent years, the significance of the US has been marked by a decrease in these fields. However, of far greater importance is that the size of the military is no longer all-decisive (Kappel 2010): In an article in *Foreign Affairs*, former President of the Council on Foreign Relations Leslie Gelb (2010: 35) emphasises precisely this aspect. The development of the economy is more important than military strength. Countries unable to generate economic growth that become technologically weaker are thus less able to adequately meet global economic challenges, resulting ultimately in the loss of political and economic leadership. Gelb maintains that this is becoming apparent in the case of the US.<sup>2</sup>

American political scientists Joseph Nye and Anne-Marie Slaughter take a different perspective. According to Nye (2010), leadership ability does not depend exclusively on military and economic power, but also on *soft power* and ultimately on being able to establish and use diplomatic, military, economic and scientific networks (Slaughter 2009). As far as these factors are concerned, the US has suffered a loss of cohesive power while that of other countries has increased. The soft concept has made its way into American foreign policy under President Obama and Secretary of State Clinton. Despite the political assertions of the US government, its current *soft power* no longer suffices for creating peace in the Middle East (neither, however, does its former hard power), for defeating global poverty or for combating protectionism, to name just a few aspects. Furthermore, the US's (and also the EU's) ability to provide global public goods by means of their *hard and soft power* has decreased. This observation can be applied to the bringing of security, the combating of terrorism, the prevention of state disintegration, and to the fight against organised crime and the spread of piracy and mafia networks.

<sup>2</sup> "Most nations today beat their foreign policy drums largely to economic rhythms, but less so the United States. Most nations define their interests largely in economic terms and deal mostly in economic power, but less so the United States. Most nations have adjusted their national security strategies to focus on economic security, but less so the United States" (Gelb 2010).

### 3. The EU's Lack of Dynamism

Europe remains the world's largest economic area with an approximate 20% share of the global GNP. The EU's per capita income and average productivity are far higher than those of China, India, Brazil or Russia. In the last three decades, having started at a high level, the EU's growth rates are on average lower than those of the regional powers. This indicates a lack of dynamism which gives rise to a creeping loss of economic significance. The following three aspects illustrate why the EU is ill-equipped for the future:<sup>3</sup>

- 1) The Lisbon strategy of 2000 stated that by 2010 Europe was to become the most competitive and most dynamic knowledge-based economy in the world. However, the implementation of this aim has failed due to single-minded actions of some nations, a lack of implementation mechanisms and incoherent strategies. Nowadays, declining productivity, weak growth, structural unemployment, lack of flexibility in the employment market, demographic decline and insufficient immigration are characteristic of the EU. These developments are supplemented by a very high deficit and political crises within several countries (e.g. Ireland, Portugal, Greece, Italy, Belgium), and of the European Economic Area as a whole, which remain unsolved.
- 2) The European Union lacks hard and soft power. In comparison with the US, the EU is relatively weak in the areas of military, diplomacy and foreign policy, as well as business-network policies and civil society activities, and is even unable to bring its political and economic weight to bear in the neighbouring Mediterranean area. Additionally, it is of no significance in the various conflicts in the Middle East and North Africa. Over the last 20 years, it has been unable to establish a coherent policy for Turkey, and its migration policy is highly controversial. Nu-

<sup>3</sup> There is a currently a debate on whether the EU is an attractive model and a global actor. Andrew Moravcsik makes it clear that the EU is a hard and a soft power. The EU's civilian and military power capabilities have increased: "In many ways Europe is optimally suited to project power in the contemporary global system" (2010: 153). Anne-Marie Le Gloanec (2011) emphasises that the EU is a regional power, and its soft power is backed by a formidable economic structure which attracts other countries to merge with it. Others point out inconsistencies of the EU's presence, capabilities and patterns of behaviour; for a critical discussion see Toje 2011, Whitman 2010, Howorth 2010.

merous other examples of a waning EU could be enumerated (Mayer 2008).

- 3) The final and most important argument is the fact that the EU is largely preoccupied with itself. The distinct navel-gazing gives the impression that European integration is a prerequisite for peace and stability in Europe itself, and that it is also a growth machine for development and prosperity or perhaps a democratising and stabilising power for the new member states. Yet in the period of globalisation, it no longer enjoys the former respect of others as a model. Eurocentricity prevents Europeans from playing a global role. The predominant inward gaze makes them substantially less appealing in the eyes of their neighbours (the Mediterranean states) and also less appealing for those African states strongly connected to Europe and in search of new partners (those new partners now including China, India, Brazil, etc.). In even more distant countries, Europe has an economic presence (for example, Germany as an investor and exporter) but has no significant political influence due to its inability to take on a "non-European perspective" (Mayer 2008; Howorth 2010). Hartmut Mayer speaks out in favour of a new perspective and a new foreign policy which bid farewell to exaggerated promises and focus instead on taking on global tasks.

### 4. The Rise of China, India and Brazil as Regional Powers

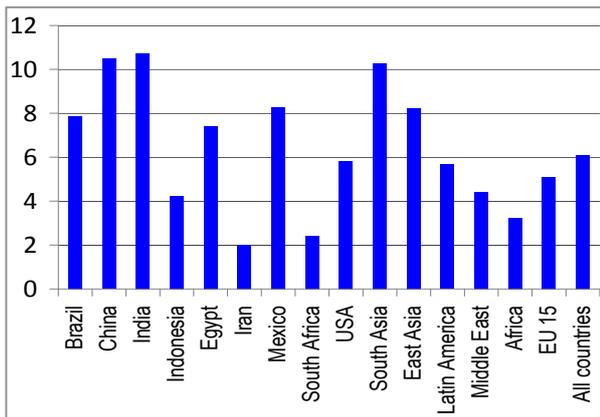
In the last decade, the global balance of power has changed significantly; a fundamental shift towards a multipolar world has been taking place (Bénassy-Quéré/Pisani-Ferry 2011). Even so, an increase in multilateralism can only be recognised in parts, as bilateral activities are taking shape between hitherto weakly linked states in parallel. Freshly burgeoning national protectionism and economic patriotism is replacing global governance. At any rate, it is becoming more difficult to reach multilateral agreements (climate agreements, world trade regulations, nuclear disarmament, et al.).

An overwhelming and unstoppable dynamism is predominantly shifting towards Asia and generating a significant increase of South-South cooperation. Many governments are turning away from the US and the EU toward the regional powers, new centres with global influence, in particular

China, India and Brazil; other states such as Turkey, South Africa, Mexico, Saudi Arabia and Indonesia also play a role.<sup>4</sup> Above-average growth characteristically prevails in these states (Kappel 2010).

*Export growth:* China and India have been growing at an average of 10% for the last 30 years (the EU and the US at less than 6%, though both started off at a very high level, see Graph 1).

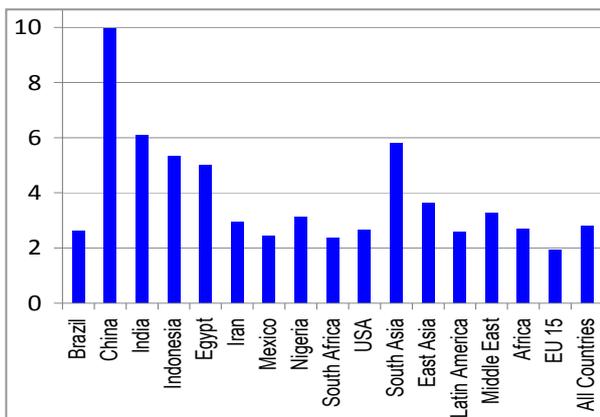
**Graph 1: Growth of Exports, 1980–2009 (in %)**



Source: World Bank Development Indicators, various years.

The *average growth of the GNP* of most regional powers is significantly higher than that of the EU or the US (see Graph 2). This, however, does not apply to Brazil, South Africa, Mexico, Nigeria and Iran.

**Graph 2: Average Annual Growth of GNP, 1980–2009 (in %)**

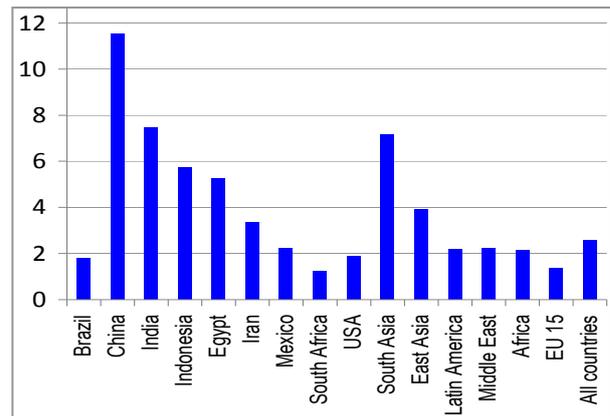


Source: World Bank Development Indicators, various years.

<sup>4</sup> Iran and Nigeria are at best weak regional powers with no significant economic dynamism, as illustrated by the three graphs and other analyses.

At the same time, per capita income has also shown above-average growth, however, mostly starting off at a low level. In China and India, *industrial value added* is growing at above-average rates, but Brazil's and South Africa's figures are significantly lower (Graph 3).

**Graph 3: Growth of Industrial Value Added, 1980–2009 (in %)**



Source: World Bank Development Indicators, various years.

The inadvertent economic rise of various regional powers is the result of a long-term process starting in the 1970s and 1980s, and not just the result of growth sustained in the last five to ten years. In his book *The Awakening Giants*, Pranab Bardhan gives a detailed account of how China and India had set the course 30 years ago by modernising their agricultural industries, expanding research and conducting market reforms.

The world economy is no longer led by the OECD. The dimensions have clearly shifted in a way beneficial to regional powers (Nel/Stephen 2010; Nenci/Montalbano 2011; Subacchi 2008). Their rise, particularly that of China and India, had already been predicted in the 1980s and 1990s, and in the last 20 years, it has become reality.

Brazil, China and India exert influence not only on a regional but also on a global level, owing to the fact that the G20's importance is soon to exceed that of the G7.<sup>5</sup> The dynamism is becoming particularly visible, not only as the global and regional actors are increasingly playing a role in shaping global governance (e.g. climate, energy, world currency, WTO, IMF), but also as their appeal in

<sup>5</sup> Ngeire Woods (2010: 12) accentuates that the G20 is an agenda-setter and perhaps a crisis-manager but it is "not an institution which can implement".

their respective regional organisations (MERCOSUR, SADCC, ASEAN) has increased due to their strong economic growth and the fact that they will eventually have public goods at their disposal. An increase of intra-regional trade and direct investments on their part contributes to more profound exchange and integration.

It is apparent that regional powers are catching up and that this process will also galvanise due to American and European investors wanting to participate in the growing markets with trade, investments and research (in order to bind scientists, engineers and a highly qualified workforce).

## 5. The Unsolved Problems of the Regional Powers

China's, India's and Brazil's own political and economic overestimation and weak "soft power" are, however, obstacles. India, for example, describes itself as a global power, although it is unable to take on real global responsibility or create "reliable" conditions in the region – for example, in terms of defence and security policies in South Asia and in ASEAN (Sisodia/Datta 2008). India's currency is not stable, the country is on a weak footing as far as the global economy is concerned, and its infrastructure is poorly developed. Its success in combating poverty is at best meagre. So far, India's "soft power competence" is small.

China is an exponent of a newly forming world order. Its growing self-confidence in foreign policy is a result of its economic success. So far, its regional activities and its activities in the international forums are not sufficiently directed at global governance and global public goods. China's relations with some neighbour states are of a more hegemonic nature. Despite close economic cooperation, there seems to be a higher degree of conflict than cooperation with India (Kashmir, Tibet, Pakistan). China does not yet have enough *soft power* and has not accrued sufficient esteem. Thus, it cannot yet assume a global leadership role. Additionally, the number of countries in the region that follow China's agenda is still relatively small and limited to internationally controversial states such as Zimbabwe, North Korea, Myanmar, Sudan and Nicaragua. Other states, such as Vietnam, turn away from China toward the US, as China seems to be becoming too powerful.

Brazil is important, but overrated. It is a middle-income country, which has gone through a period

of crisis (1981–1993), which was followed by a period of moderate growth and limited recovery. Brazil coped well with the financial crises (as did China and India) and has taken steps forward to become a global power. Economically, the country is in the process of catching up. But GNP growth rates and the industrial value added in the last 30 years were quite low compared to those of China and India. Nevertheless, its global and regional activities (MERCOSUR integration, climate policy) have been conducive to Brazil accruing great esteem in the "Global South" and in the G20.

The further rise of the new regional powers will certainly not be linear due to exceedingly inconsistent internal situations. Economic growth, the size of the population and the size of the country do not automatically entail regional, let alone global, leadership. The requirements are far higher: reliability, being trusted by one's neighbours, *soft power* and provision of public goods for the region and the world. Additionally, power is relational, meaning there are not just two but several actors aiming for hegemony, and there are also some neighbouring states that do not always comply. Thus, a group of 28 small countries, including Singapore, are exercising joint vetoes within the framework of the 3G (Global Governance Group). They aim to represent the interests of the non-G20 states vis-à-vis the G20 ([www.news.gov.sg/public](http://www.news.gov.sg/public)).

In the wake of these developments, the transition to multipolarity is quicker than the EU and the US would like. The strategy of integrating Russia and China into cooperative relations in order to eventually return to unipolarity – with the US as the leading power – has failed due to more balanced power relations between the US, the EU and the regional powers. The frequency of collisions between geostrategic interests and interests concerning energy and economic policies is increasing. China is demanding a multipolar currency order that will supersede the US dollar as the leading currency. It is precisely the weakness of the US dollar concurrent with the increase in significance of other currencies that leads to uncertainty and insecurity in the global economy (Subacchi 2008).

## 6. Risks Caused by the Relative Rise and Decline of Nations

The relative rise of Brazil, China and India concurrent with the relative decline of the West is by no means a constellation within which “coerced cosmopolitan solidarity” – as Jürgen Habermas calls the new forms of cooperation between the nation states of the G20 – will necessarily occur between China, India, Brazil, Russia, the US and the EU. In my view, it is simply a shift in global politics and the world economy. The extent to which many countries follow US- or EU-dominated decisions has reached an all-time low.

In the G20, regional powers often take positions in diametrical opposition to the ideas of the traditional powers, which is most obvious with regard to climate policy, economic protectionism, global supply of energy and, in particular, values. In this context, it makes no sense to pretend that the increase of wealth also entails the readiness to comply with the West on all issues. The opposite is the case: The un-unified West will have to learn that China, Brazil, India and other states will refuse to be given orders on how to conduct economic, political and cultural matters, etc., let alone simply adhere to Western values and norms, which often display ambiguities<sup>6</sup> (human rights and their application). Additionally, throughout history – even recent history – many European countries and the US tried to dominate and exploit small countries.

Indeed, regional powers are aspiring to a new order of global politics; they no longer want to be followers. They are forming new alliances, and particularly countries such as Turkey, Indonesia, Venezuela, Iran, South Africa, India and Brazil no longer want to be taken in tow by the US (Nel/Stephen 2010; Flemes 2010). To a hitherto unprecedented extent, they resent external hegemony. They themselves now try to lead, they clearly attend to their own interests, and they do not compromise at any cost (cf. agricultural negotiations,

world trade, currency, world health, membership in IMF, WTO and World Bank).

It is obvious what the new regional powers lack: the ability to lead globally, or even just regionally, and to make global public goods available. The lessons they will probably learn in the near future are plain to see; they too rarely take global and regional responsibility. Their policies are too unreliable for generating trust in the non-OECD world, and in the EU and US. The notion that the governments of smaller states would place more trust in the latter would be entirely incomprehensible if China, India and Brazil made a joint effort to guarantee global security and energy supply, to combat poverty, etc. However, the regional powers fall far short of global and regional solutions. So far, the regional powers have emerged as the new poles in the multipolar economic systems; they are hubs, but predominantly lack soft power.

Nevertheless, the trend is positive. China, India and Brazil have become more reliable and cooperative in some fields (e.g. world trade, international technological standards, sustainability and protection of the environment, combating poverty). However, this does not apply to democracy, international currency policy, the combating of terrorism, and joint actions against the destabilising policies of states such as Myanmar, North Korea and Iran. They have rejected compromises in climate policy, even though India, China, South Africa and Brazil are among those nations most severely affected by climate change.

## 7. Whither Europe?

Due to these developments, the world is currently in a fragile imbalance. The cause thereof is not only the relative weakness of the EU and the US but also the fact that the transforming regional powers have not yet been able to reliably act globally and regionally. A regional leadership gap, along with global and regional governance gaps, is already spreading. The world is drifting apart. Leadership, order, and global and regional governance are no longer guaranteed.

Currently, the West is not solving enough global problems. Europe makes many promises, but the incoherence of its foreign policy and security policy weaken its ability to act decisively. Despite NATO, despite strong positions in interna-

<sup>6</sup> For example, the West's embarrassing and notorious cooperation with leaders like Mubarak, Qaddafi, Assad, Ben Ali, Bouteflika, etc., and with undemocratic regimes such as Libya, Egypt, Tunisia, Saudi Arabia, Russia, China, etc. The conflicts in North Africa and the Middle East have made it clear that the European *realpolitik* supported authoritarian regimes, neglecting the needs of the people and their fight for democracy. The “Arab revolts” illustrate the closeness of European leaders to undemocratic power elites in almost all Middle Eastern and North African countries and the failure of European hard and soft power and network politics.

tional organisations, and despite high economic standards, the US and the EU are increasingly losing their abilities to lead and govern.

In many ways, Europe is succumbing to the belief that it can continue without adapting. But the rise and dynamism of the “new” is here. European foreign policy is inhibited. The tendency to act on single-state policies illustrates its weakness. In order to avert further decline, the EU must develop coherent European policies for foreign affairs, foreign trade, climate issues, energy, finance, currency, migration, technology, democratic values, and cooperation with civil society networks.

It will also have to learn to act and solve global problems with the regional powers in the context of a mutual (not a unilateral, one-sided) discourse on global obligations. This is absolutely essential for the successful reduction of the looming global and regional governance gaps.

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## ■ The Author

Robert Kappel is the president of the GIGA and a professor at the universities of Hamburg and Leipzig. His research focuses on regional powers, value chains and transnational norm-building networks.

E-mail: <kappel@giga-hamburg.de>; website: <<http://staff.en.giga-hamburg.de/hoffmann>>

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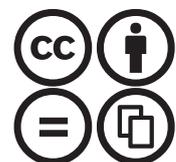
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