

Features



DYNAMICS OF DIFFERENCE

Australia could benefit as Europe's fortunes decline, **Oliver Marc Hartwich** writes

Globalisation, it is often claimed, has created a global village. The world has become smaller. Some commentators like Thomas Friedman even think it is now flat (that is, a level playing field for commercial competitors).

Contrary to this conventional wisdom, globalisation has left some countries more distant than they were before. Australia's relationship with Europe is a case in point. Where once Australia was a European outpost in the South Pacific, our recent love affair with China suggests Europe may no longer be important to us. Australian columnists dedicate reams of newsprint to intricate details of Australia's relationship with China: the implications of the Chinese takeover of OzMinerals, the consequences of Chinalco's failed bid for Rio Tinto, or the Prime Minister's personal dealings with Beijing officials are examined with a fine-toothed comb.

In comparison, European affairs are hardly discussed. To an Australian audience, Europe is only one among the many exotic destinations on Channel Nine's *Getaway* program and the host of the bizarre spectacle of the Eurovision Song Contest. Seen from Australia, Europe appears to be a giant Disneyland of old castles and churches. Maybe it is good for a visit, but in terms of its political and economic significance to Australia, Europe does not seem to matter.

Despite the vast geographical distance between them, Australia and Europe, and especially Britain, have had much closer ties. Think of prime minister William Morris Hughes, who claimed that Australia was as much a part of England as Middlesex, or Sir Robert Menzies, who felt "British to the bootstraps". It is easy to forget that Australia severed its last legal ties to Britain only a little more than two decades ago.

The world has changed dramatically since the Australia Acts 1986. The global economy has become far more integrated. China and India

have appeared as economic heavyweights on the world stage, and may soon play even more important political roles.

It is only natural that Australia had to change its strategic outlook. What happened in its relative neighbourhood became more important than dealing with more traditional political and economic allies. Globalisation has helped to estrange Australia and Europe. The world may have grown closer but, ironically, Australia's European cousins now look more distant than ever.

For a small commodities-exporting nation like Australia with huge growth potential in its region, the strategic choices are self-evident. However, Europe remains one of Australia's most important trading partners. In 2007-08 Europe had a share of 15.8 per cent of Australia's two-way trade, which was still slightly higher than China's 15.1 per cent, which raises the question of why Europe hardly appears on the Australian radar.

Perhaps the best explanation is the state of Europe itself. It may be an economic giant but it is a giant with feet of clay. The global financial crisis had its origins in the US, but it mercilessly revealed the weaknesses of many European economies and the European Union.

If everything had gone according to the EU's plans, Australia would probably pay more attention to it. The European Council had agreed at the 2000 Lisbon summit that, within a decade, the EU should become "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment". If you are wondering why we haven't heard about this European miracle, it is because it never happened. When former Dutch prime minister Wim Kok was commissioned to deliver an interim report on the Lisbon targets, his assessment was downbeat. "The overall picture is very mixed and much needs to be done in order to



prevent Lisbon from becoming a synonym for missed objectives and failed promises," the report said.

Even this grim statement was on the euphemistic side. Far from turning the EU into a dynamic region at eye-level with the US in terms of employment rates, labour productivity and research spending, the Europeans had fallen even further behind the Americans. The conclusions in Kok's report were so disappointing that the EU refrained from setting itself further targets for the coming years.

So what is more embarrassing: failing to reach targets or cowardly not setting any targets at all?

As more political power is being shifted from the nation states to the EU's bureaucracy, Europe appears like an increasingly inward-looking conglomerate of countries. European politicians are too busy with their affairs to care about anybody else. Meanwhile, Europe's citizens have turned their backs on the EU. Turn-out for the recent European elections reached a record low of just over 40 per cent. Europeans no longer see the EU as a force for good but as a largely anonymous organisation regulating everything from the size of condoms to intellectual property rights.

National politics in Europe does not give much reason to be cheerful, either. Most of Europe's national economies are battling severe problems. In many Western European economies, the state sector has become too big and the high taxes needed to feed it are sucking the lifeblood out of the economy. Public deficits have reached shocking dimensions. At the end of the economic crisis, Australia's total public debt will be about 13 per cent of GDP, but this is roughly how much Britain will borrow this year alone.



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So near yet so far: Australian Prime Minister Kevin Rudd and German Chancellor Angela Merkel at a press conference in Berlin in July this year. Photo: PENNY BRADFIELD
Illustration: JOHN SPOONER

Meanwhile, the economies of Eastern Europe are facing incredible amounts of foreign-denominated debt that they are struggling to serve. In the past, Europe's political class has not shown the leadership now needed to turn things around. In Italy, Prime Minister Silvio Berlusconi did not use his mandate (and his influence over the media) to consolidate the country's finances. In France, President Nicolas Sarkozy did not live up to the expectation that he would become the French equivalent of a Margaret Thatcher. In Germany, Chancellor Angela Merkel shied away from her reformist agenda after her pro-market campaign nearly cost her party the last general election. It is the Australians who could teach the Europeans something about economic reforms, not the other way round.

Europe is facing crises on many fronts and things look unlikely to improve in a meaningful way. On the contrary, we can expect a further deterioration of Europe's public finances, higher taxes, a substantial increase in unemployment, and weak economic growth for years to come. Its ageing population will be another millstone around its neck.

All this would not matter to Australia if Europe weren't one of our biggest trading partners. But since it is, Australians should ask how to react to the seemingly inevitable European decline.

We are well advised to pay even more attention to what is happening in other regions, particularly in Asia. But Australia could benefit from Europe's problems, albeit indirectly. Faced with further deteriorating economic circumstances, there could be a substantial number of well-qualified, mobile Europeans looking for attractive, alternative places to live and work. Is Australia ready to recognise this as an opportunity? Or will other regions be able to attract them?

Globalisation has estranged Europe and Australia but it may also lead to increased migration from one continent to the other. Perhaps the world is flat after all.

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