Light at the end of euro tunnel

With the immediate crisis over, EU can focus on longer-term reforms

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THE European integration project has been severely shaken by the sovereign debt crisis in the euro zone area. Doomsayers are predicting the break-up of the euro zone with some even going so far as to predict the 'disintegration' of the European Union (EU). Some have even resurrected the old and discredited argument that the euro zone is not an 'optimum currency area'.

While we recognise that there are no easy solutions to the current crisis, we remain optimistic that our European friends will face up to the current challenges and prove the critics wrong. There are five reasons for this optimism.

☐ First, the euro crisis is not simply a debt crisis or currency crisis but is also a political and economic crisis. The collapse of the euro, according to the Institute of International Finance (IIF), could cost the EU more than €1 trillion (S$1.7 trillion). European leaders would never allow this to happen. The EU is an affluent region with ample resources to solve the crisis. What is required is political will. The political and economic cost of breaking up would be too much to bear. We are confident that European leaders will find the political will to protect the European integration project.

☐ Second, the EU has seen many setbacks and crises in the past. Each time, it has always managed to overcome those challenges by putting its long-term interests ahead of its short-term domestic interests. From the 1965 empty chair crisis, to the so-called euro-sclerosis of the 1970s, to the more recent cases of the rejection of the Constitutional Treaty by the French and Dutch electorates in 2005, and the rejection of the Lisbon Treaty by the Irish in their first referendum in 2008, the EU has managed to bounce back from each adversity and pushed European integration forward. Historically, the EU has a good record of recovering from crisis. As German Finance Minister Wolfgang Schauble has said, 'crisis represents an opportunity - Europe always moved forward in times of crisis'.

☐ Third, the EU is in far better shape than what the media and critics have portrayed. The EU's market share of global trade has remained more or less stable at around 20 per cent despite the current crisis and it is still the world's largest trading bloc. The EU has also enjoyed a surplus in the trade of goods and, overall, its trade is in balance with the rest of the world. Per capita growth in the United States and the euro zone is about the same. The fiscal deficit and debt level of the euro zone are lower than those of the US and Japan. For instance, the fiscal deficit for the euro zone is 6 per cent of gross domestic product (GDP) compared to almost 10 per cent for the US, and a debt level of about 90 per cent compared to 220 per cent in Japan. Private savings in the euro zone remain high.

☐ Fourth, the EU is moving in the right direction with its new fiscal compact.

☐ Twenty-five of the 27 EU member states have signed the Treaty on Stability, Coordination and Governance aimed at strengthening fiscal discipline and introducing stricter surveillance within the euro zone. The critics had said that it would not happen. With more credible fiscal rules and budget oversight regulations, the euro zone is moving towards stabilisation. Markets have reacted favourably and the euro has appreciated in recent days. With the immediate crisis over and with stability restored, the EU can now focus on the longer-term institutional reforms to strengthen the EU and the euro zone.

□ Fifth, the EU is pursuing a long-term growth strategy to revive European competitiveness based on a mix of structural reforms and investments in research and innovation. The current crisis has shown that a sustainable growth strategy cannot be based on consumption and excessive debt. Priority is being given to fiscal consolidation and budgetary rigour and, at the same time, rekindling growth and competitiveness.

The crisis has forced Europeans to embrace painful structural reforms. Steps to address these include the various austerity measures to bring down public expenditure, and to reform pension, wages and the labour market. The EU is also investing more in science, research and innovation as a strategy to build competitiveness. Despite current economic difficulties, all but four of the member states have increased their R&D budgets. The European Commission is also increasing the budget for research, innovation and science to €80 billion in a new framework programme for 2014 to 2020.

While the crisis in the euro zone is not over, we can see the light at the end of the tunnel. The signing of the Treaty on Stability, Coordination and Governance was an important achievement. It must now be ratified by the national Parliaments. The European Central Bank has been helpful in ensuring that the European banking system does not lack liquidity.

We are not prepared to predict whether Greece will stay or exit the euro zone. We are, however, confident in predicting that the euro zone will not collapse or break up.

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