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Short Curriculum Vitae – Naoaki Okabe

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Born in Kochi Prefecture in 1947. Graduated from Waseda University School of Political Science and Economics and joined the Nihon Keizai Shimbun in 1969. After working as a reporter in the business news department at the industry section of the editorial office at Tokyo Headquarters, he served as Brussels special correspondent, New York branch manager, Director and chief editorial editor, executive chief editor operating officer and columnist. He also served as a Waseda University Graduate School Visiting Professor. His major works include “Challenge to the dollar - Rise and fall of currencies in the G-zero age,” “World without a lead player - Japan wandering interconnected global crises,” “Exchange - Political dynamics of the yen/dollar,” “Basic introduction to Japanese economics” (all of which are published by Nikkei Publishing), and “Can EU overcome its crisis? – Dynamics of intergration and fragmentation” (NTT Publishing), etc.

The EU – Fluctuates Not Sink

The European Union (EU) is facing its greatest crossroads since the end of the war. After being shaken by Brexit, i.e., the United Kingdom’s decision to withdraw from the EU, it is seeing the rise of far-right populism among its member countries against the background of problems related to immigrants and refugees. There is also pessimistic outlook, which refuses to disappear, that, if things continue in this trend, the EU may be

headed toward collapse. Nevertheless, this union of peace established in the wake of two world wars is not going to collapse easily. On the contrary, amid the storm of xenophobia whipped up by US President Donald Trump, the stature of the open, free, and democratic EU is rising. Under the leadership of Germany's Chancellor Merkel and France's President Macron, the EU will probably move in the direction of rebirth.

The United Kingdom – mired in confusion due to Brexit

The UK exit from the EU, which is set for March 2019, is creating extreme degrees of confusion. Although an agreement has finally been reached on payment of money owed and certain other conditions for exit, the details of the prospective free trade agreement (FTA) with the EU remain unclear. A decision has not yet been made on the schedule of the transition period and on handling during it. The confusion is such that, if things go wrong, we could even see a “sudden-death Brexit” without any agreement or a “Breturn” (return to the EU). Some observers are even of the opinion that UK Prime Minister May will never be able to bring the Brexit negotiations to a successful completion.

Under these circumstances, tremors are also shaking the pedestal of the City of London, which has long held sway as an international financial center. A succession of financial institutions are preparing to relocate from the City. The list is headed by Goldman-Sachs and other US financial institutions. Besides Frankfurt and Paris, the candidate destinations for this exodus include Amsterdam, Dublin, and Vienna. Various EU countries are vying with each other to attract these institutions, and the foundations of the City could be shaken even more.

Naturally, with its proud tradition, the City is not going to lose its position as an international financial center overnight. Nevertheless, precisely because the City's financial power is a key support of the UK economy, any blow to it is liable to have repercussions at the very core of that economy.

The UK economy depends on the EU market for half of its import and export, and has relied on foreign investment to such a high degree, that it is cited as an example of

the “Wimbledon effect.” If Brexit leads to the crumbling of this basic structure, it would deal a fatal blow to the UK economy.

The British pound is already falling, and there are apprehensions that, at this rate, the pound will go from a state of weakness to one of crisis. If this happens, a bout of stagflation (simultaneous economic stagnation and inflation) will be unavoidable. We would see the onset of a new “British disease.”

It took the United Kingdom a remarkable 12 years to join the European Community (EC). This was because de Gaulle, who was then France’s president, vetoed its admission. In light of this precedent, some think it will take the United Kingdom another 12 years to exit the EU.

There is also a rising possibility of calls for a Bretturn to escape from this uncertain situation. The obstacles would obviously be high to the holding of another national referendum or general election to this end. Even if those obstacles can be overcome, the EU may lay down some harsh conditions. The United Kingdom may be asked to abandon the pound, its once hegemonic currency, and join the eurozone. It would be questionable whether the United Kingdom, which has presided over the British Commonwealth, could cast away the “big power” mindset of the past.

Set in motion - revival of the EU under German and French leadership

While the United Kingdom is sinking as a result of Brexit, the EU is rising. The Trump’s inauguration is another example of what should not be done following that of Brexit, and is leading to a relative rise in confidence placed in the EU. Although it is saddled with difficulties in such forms as the refugee problem, the EU may be expected to move toward resurgence under the setup led by Germany and France.

The person who became the savior of the EU in crisis was Macron, the young French president. By defeating Le Pen, leader of the far-right National Front, and winning the election for president, Macron halted the spread of far-right populism in the EU. This was a wise choice by a mature French electorate.

Macron immediately embarked on a program of rigorous reform to reorient the EU, in which Germany had been characterized as the only winner, towards a tandem Franco-German leadership. Besides following Germany's suit and launching a reform of the labor market, he took steps to reduce the fiscal deficit by cutting back public expenditures. Although support for him has slipped in the public opinion polls partly because of opposition to the reforms, which entail some sacrifice by the electorate, it is probably essential for him to tackle the tough issues right away if he wants to hold the reins of government into the long term.

More than on the domestic scene, Macron enjoys an overwhelmingly high stature in diplomacy and international politics. He has become a man of justice at loggerheads with Trump, who makes a perfect "villain" due to his xenophobic and isolationistic statements. Of particular note was Macron's reaction after Trump announced that he was pulling the United States out of the Paris Agreement for prevention of global warming. With a twist on Trump's pet phrase, "make America great again," he declared a commitment to "make our planet great again," and was applauded for this around the world.

As compared to that of Macron, the presence of Merkel, who has reigned as the EU's champion thus far, has faded. Criticized for her magnanimous acceptance of refugees, Merkel's party lost many Bundestag seats in the federal elections held in September 2017, and was also abandoned by the Social Democratic Party, which had joined with it in forming the grand coalition. The talks aimed at a "Jamaican coalition" with the Free Democratic Party and the Green Party likewise broke down, and Merkel was forced to make a choice between two undesirable options: becoming an unstable minority ruling party or holding another election. But the grand coalition was revived, partly thanks to moves in its support by Macron and other EU heads of state. As things turned out, the life of the Merkel administration was extended, albeit after paying a price including the resignation of Schulz as head of the Social Democratic Party and the transfer of the former foreign and financial ministers. To begin with, a grand coalition headed by Merkel was the only way to check the rise of far-right populism driven by the refugee problem.

With this development, the EU acquired the configuration needed for movement

toward resurgence under German and French leadership. Thus far, the preeminent position of Merkel and predominance of Germany as the “sole winner” placing top priority on fiscal discipline have, on the contrary, made the EU’s road rockier. In the days when Sarkozy was the president of France, people talked about a “Merkozy” formation, and France was positioned below Germany. During the administration of Hollande, France faded so much that an observer in Japan punned “Where did Hollande go? He is not anywhere” (the pronunciation of the Japanese word translated “is not” resembling that of “Hollande”).

The “MM” combo of Merkel and Macron calls to mind another during the golden years of the New York Yankees, familiar to all fans of US major league baseball. The reference is to Mickey Mantle, one of the game’s greatest switch-hitters, and Roger Maris, who was the first to break Babe Ruth’s record for the number of home runs in one season.

Expectations of the skills of the EU’s MM combo are running especially high because of the growing uncertainty clouding the world economy with the bursting of the Trump bubble. The hopes are that the MM combo will display a presence in the international community on a par with or higher than that of the Franco-German combo of former West German Chancellor Schmidt and French President Giscard d’Estaing when they established the world economic summits of developed countries after the first Oil Crisis and created the European Monetary System (EMS), which preceded the euro as the uniform European currency.

The key to resurgence – eurozone reform

What holds the key to the EU’s resurgence is presumably reform of the eurozone. While the euro crisis has finally subsided and remarkable strides are being made in revival efforts in Ireland and other countries which had posed problems, the fact that the eurozone still has structural problems remains unchanged. Financial policy is centralized in the European Central Bank, but there is no uniformity as far as sovereign finances are concerned. Disparities in respect of interest rates on sovereign bonds are being targeted in the market. It goes without saying that fiscal integration is

indispensable. There is, however, deep-seated reluctance in Germany and certain other countries about fiscal integration, on the grounds that it could lead to relinquishment of national sovereignty. Some observers in Germany are also wary that integration could end up imposing an excessive burden on the country's finances.

In this situation, Macron is proposing fiscal integration through steps such as a common eurozone budget and eurozone ministry of finance. In Germany, the Social Democratic Party, a member of the grand coalition, is basically in favor of this proposal, which has been incorporated into the administration agreement. It would be one of history's ironies if the prospect of fiscal integration has moved a step forward thanks to the turmoil in German politics.

The weight of history - overcoming skepticism

Skepticism has always dogged the EU. Part of the reason lies in the deeply rooted skepticism in the British media. The British media have an extremely great communication reach around the world and far surpass their counterparts on the European continent in this respect. The skepticism about the EU which they spread gradually took hold as part of the normal worldwide perception. As one who has served as a press correspondent residing on the European continent, I often found this gap in perception irritating.

The weight of history, nevertheless, is behind this peaceful organization whose founding was advocated by Jean Monnet, the father of European integration, after the two world wars. The existence of the EU is a major factor preventing the outbreak of a third world war. In spite of repeated vicissitudes, the EU is steadily heading toward integration.

The slogan "Fluctuat nec mergitur" ("Fluctuates Not Sink") decorating the Hotel de Ville in Paris could be regarded as referring to the EU.