EU: Make up or break up?

Economists scholar Razeen Sally foresees the European Union (EU) eventually breaking up as the likelier scenario, even as some EU leaders were declaring last week that the bloc could climb out of the doldrums this year.

If the EU does implode, he said, it would affect different parts of Asia in different ways.

Singapore and Hong Kong will be the hardest hit as they are the region’s most open economies, and so would experience greater trade and financial shocks, he said. But they also have Asia’s best regulatory regimes and institutions to absorb the impact.

The visiting associate professor at the Lee Kuan Yew School of Public Policy and the Institute of South Asian Studies could not say the same, though, of China, South Korea, Taiwan and the rest of South-east Asia, which are greatly exposed to the EU too.

Leaders everywhere – especially in the EU – would do well to plan without any delay for the plausible, and not just the possible, unravelling of the EU, he said.

Lamenting the EU’s lack of a Plan B, Dr Sally said: “The EU leaders’ fallacy has been to think that their collective political will and blueprints for solutions are enough.”

Instead, he charged, they have been content with “a drip feed of EU bailouts in return for reform promises and buying of government debt by the European Central Bank (ECB)”.

He insisted that they should instead focus on cobbling together a contingency plan that smoothenes the transition from a single currency to many; that protects the real gains of its single market; and that pursues long-delayed structural reforms to keep Europe open to the rest of the world.

In all this, he added, the EU should refuse to bail out its financially unruly members any further.

The Catch-22 was that if the bloc still could not do so – Greece’s public debt is 900 per cent of its gross domestic product, and mounting – these members would leave the EU anyhow.

But EU ambassador to Singapore Marc Ungeheuer reassured delegates that EU leaders “would do everything” to prevent that. Noting that they had installed “strong firewalls, fiscal and banking unions”, Mr Ungeheuer said: “These are real results, not blueprints.”

Even so, Dr Sally said the EU was a ticking time bomb because it was still not quite a single market, especially in the energy and services sector, and it was not competitive enough.

But if the EU breaks up, the International Monetary Fund has projected that any growth in the area would shrink by a further 1 to 1.5 per cent in richer members like Germany, and by a further 6 per cent in debt-drowned countries like Greece.

CHEONG SUK-WAI

A photo illustration showing a €1 coin and a map of Europe. Dr Sally said the EU was a ticking time bomb because it was still not quite a single market and it was not competitive enough. PHOTO: REUTERS