

Economic historian Valerio Castronovo has reflected on the reasons for Europe's decline and explains that the main problem is the European inability to realise that conquests do not last forever. Only a cultural re-

Castronovo: Europe's road to decline

EUROPE 3

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volution will therefore make it possible to reverse the trend, starting from an awareness that the competitiveness of Asian markets contrasts with quality

The date has already been established. The Asian economy will outstrip Europe's between 2015 and 2020. It is hard to try and reverse the trend. Drunk on well being, Europe no longer produces anything significant and, most importantly, does not seem to be fully aware of its own decline. Professor Valerio Castronovo is convinced of this: in his latest book, *Un passato che ritorna* (Editori Laterza), he explains in no uncertain terms that Europe has already lost the match, with extremely serious consequences for the euro zone economy. "Until imperialist times, when Europe dominated Asia, China and India accounted for 70% of the manufactured goods of the time and the trade balance was decidedly in their favour. Looking at China and India's growth rates, not only in terms of industrial production but above all as regards the training of young talent, it seems to me that Europe's future is settled and that the moment when it will be overtaken in terms of GDP is around the corner: maybe not in 2010, but certainly between 2015 and 2020", the historian explains in this interview to **east**.

So, Professor, Europe has lost its driving force. What are the consequences?

Yes, I'd say so. There is a cultural problem in Europe: being unaware that once some goals have been achieved, they do not remain forever; they have to be implemented. This means we must get back into the game, get cracking and set ourselves new objectives. Training is crucial for Europeans. If we see how the Chinese, the Indians and the South Koreans are specializing abroad and if we also look at the figures from scientific publications in international magazines, we will realise that, proportionally, South Korea beats the United States; then come the Indians and the other Asian countries. Europeans are not in the first few places.

What is the situation in Italy like?

Italy has now lost its bet on training and research, but countries that have invested more than Italy in training and research are doing no better. In fact, if we compare the rate of investment in training in India with that of the U.K. and Germany the figure is higher for the Asian giant. It is extremely hard to get into an Indian university: only one of a hundred applicants is admitted.



What are the risks for European countries in the light of what is happening?

We risk stagnation, i.e. a situation in which we keep living on what has been accumulated, but which will lead to decline. I am not saying that this is inevitable, but if things continue this way... Europe has always recovered in the wake of the U.S. locomotive. The German wagon would start up immediately after the U.S. and then all the European wagons would follow suit behind the German locomotive. I do not know if this situation can repeat itself infinitely. The U.S. also has its problems. First they had to tackle competition from Japan and now competition from China. As for Europe, recent events involving the EU countries have shown that if we cannot manage to create a political Europe, the economic Europe will not work either. Energy issues too, and the lack of raw materials that is increasingly leading European countries to depend on Russia, must not be underestimated. Finally, if the decline does come about it will be our own fault. The point is to be aware. It seems to me that there is no social and shared perception of the risks we are incurring. This is the greatest danger. The political class has some degree of awareness, but does not take coherent decisions to provide a solution to the problems.

And yet it is not as if products that really meet standards are coming in from China, as recent events concerning the production of Mattel toys have shown. Before that there was the issue of Colgate toothpaste containing toxic substances and mini bikes with technical defects. And the list could go on.

It is true that they do not conform to standards, but sooner or later they will have to respect them. Trade relations with other countries are in China's interest: otherwise the flow of exports will stop. And anyway, I must emphasise that, contrary to the common view, in the long term it is India that has the greatest possibility of emerging, for a series of reasons: first of all because English is spoken there, and besides Indians are used to having a legal system and courts that work in a certain way. The middle class is better educated, in the British way – young people study in English medium universities and colleges – and the legal system has also been influenced by British colonisation. Finally, India is focusing on intangible assets



_A middle class educated in the British way makes India competitive on international markets, playing not only in intangible goods, electronics, IT and telematics, but also in traditional industry, as the examples of car maker Tata or Mittal, the world leader in steel, show (above: Aditya Mittal)

and the new frontier of electronics, telematics and informatics. But traditional industry is also doing well: just think of automotive company Tata, Fiat's Indian partner, or Mittal, the world leader in steel.

So if Asia does not always export quality products, Europe should react by focusing precisely on this area to attempt to reverse the trend.

The key point is to increase added value. In Italy, tourism, for example, should be geared towards quality, like production that exploits established and new marks: although it should be said, to be honest, that sooner or later it will be hard for common manufacturing to compete with Chinese or Indian production. Besides, many people forget about Japan, South Korea and Singapore, and Hong Kong and Taiwan as regards financial services. With China's



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powerful performance, we have forgotten about the rest of Asia and Japan. The Land of the Rising Sun goes through periodic crises but then recovers. Today, Japanese industry has beaten everyone else in the automotive sector. Then there are the South Koreans. One day the South will reunite with the North, which is extremely rich in raw materials that South Korea does not possess: the South, however, has industrial experience.

If this is the scenario that we will be faced with, going back in time it can be said that Europe's supremacy over Asia was a historical parenthesis that is destined to close.

Historically, Europe had nothing to sell Asia, apart from the fact that there was a limited market with, as is the case today, very low purchasing power. It is estimated that there are 30-40 million middle class people in China (*editor's note: out of a population of about 1.3 billion,*) and hence possible buyers. We once imported everything from Asia: spices, porcelain and silk. The dominant Asian classes had no need to go and buy these products in Europe because they had them at home. Then colonialism started and lasted for 150 years.

It's not all roses for the Chinese either. The way they work, with no union rights, certainly cannot be a model for us.

Certainly their big problem has to do with living standards. China risks implosion. If it goes ahead with these growth rates it will have to sell its products to some country or the other. It can inundate Europe, but it has to build an internal market and this means raising living standards, therefore creating a more adaptable and flexible political system in which a clear improvement in people's living standards can be seen through the training of the middle class. And if a middle class is created it will also claim political freedoms. There are similar problems in India too. The scourge of illiteracy must be wiped out, although they have a cultured English-speaking middle class. In both cases it must be seen how they will manage to combine economic growth with a minimum level of political freedoms in China and social equity in India.

To conclude: is there absolutely nothing that Europeans can do to turn the situation around?

Europeans have lulled themselves with laurels. In other words, we did not believe it would happen. Now we must achieve a kind of cultural revolution of our mentality and realise that the goals we have achieved are reversible. The concept of going backwards does not exist in the common mentality because we are used to thinking that tomorrow will be better than today. Instead, we must get to work and get back into the game. That is the point. How? By continuously increasing the standards of our production and our services. However, there is another problem: Europe has an aging population and people have few children, whereas Asians are younger and better educated.



_China's economic future is also entrusted to its future ability to combine economic growth and political freedoms, not forgetting respect for the rules (above: Mattel toys produced in China, which do not respect standards)

