

Is the enlarged EU an economic superpower?

Pascal Lamy, Oxford, 10 March 2004

Alexis, Timothy, ladies and gentlemen. Many thanks for those kind words and to La Maison Française d'Oxford and St Antony's College for hosting today's event.

It is sometimes said that you are invited to speak at Oxford for the first time when you are on your way up in the world. And you are invited a second time when you are on your way down. So it is with pleasure, tinged with not a little personal sadness, that I say how good it is to be back in Oxford today.

Given that I am going on to Hong Kong, Patten's former colony, where he is also not going to welcome me - I sometimes think I am not so much trade Commissioner as a tourist on the Christ Patten world heritage trail.

The European enlargement which will occur the 1st of May is an extraordinary achievement, and arguably Europe's most important ever. It is geopolitical in scale. In business speak, we are about to "merge" our fifteen existing member states with ten countries to our East and South. Enlargement will add 50 million inhabitants to the existing Union. To extend the business metaphor a little further, it is important to remember that this "merger" is a friendly act. Indeed, many of our new member states have experienced hostile takeovers, sometimes more than one, in the last century, despite brave "shareholder" opposition.

Enlargement will bring huge benefits in political terms - promoting peace, stability and democracy across a wider geographical area, expanding the EU's ideals of freedom, tolerance, plurality and diversity.

And, of course, the importance of enlargement should not be underestimated in economic terms. This "merger" will create a market of more than 450 million consumers - bigger than the US and Japan combined, sharing some very positive benefits.

And with economic power comes responsibility – the responsibility to make globalisation an opportunity for growth and development, both within and outside its borders. To harness globalisation, the enlarged EU has to confirm its stance for a better global governance.

For its first forty years, the main political *raison d'être* of the European unity was peace: first of all internally, by reconciling France and Germany.

But from the very beginning, there has also been an external dimension to this project: European integration has always also been about giving ourselves the means to influence the world. One of the driving forces behind European integration was the desire of our Member States to build a new future together, to build a definitely European way of life in a world dominated and divided by two superpowers.

The fathers of Europe clearly perceived that no nation state on its own could bring to bear the necessary weight on the world scene. They understood, fifty years ago, that Union was the way to build influence and, if necessary, power.

As regards peace in Europe, fortunately, we can say "objective achieved". Today it is inconceivable that the British or the Germans or the French or any of the other EU members could go to war against one another. Even if you read "The Sun", which I know is the newspaper of choice in the Senior Common Rooms of Oxford!

In historical terms, this is a major achievement, which enlargement will extend into Central and Eastern Europe.

But what about the rest of the world? Peace, stability and economic prosperity continue to be threatened by the dark side of globalisation. By the proliferation of threats such as environmental degradation, growing inequalities between rich and poor, the spread of disease and famine, illicit trade in drugs, money laundering, international terrorism, and proliferation of arms - these are problems that concern most European citizens.

And withdrawal behind national borders or recourse to political or economic protectionism are simply no longer options: the challenges of globalisation transcend state borders and the ability of individual states to manage them on their own. What is required is true multilateral co-operation - and the European Union is the only way for us to assert it.

In my view, the main role of the European Union in international affairs, both political and economical, must be to give teeth and to give bite to this multilateralism. The EU is key to achieving such an equitable global order.

This case for "more Europe" on the international scene is warranted on two counts:

First, in the age of globalisation, preserving our European social model, our own specific combination of market economy, welfare state and democracy requires action not only internally, but also at the global level, as the challenges of combining competition and co-operation, autonomy and solidarity are no longer confined to the national or even regional level, but present themselves on a global scale.

Second, faced with global challenges, Europe seems to be better placed to act than its individual Member States alone: to safeguard a democratic society and the rule of law at the continental level; to build a large, competitive market that fosters the emergence of companies that can withstand global competition; a capacity to resist external shocks and to influence economic and political developments in the rest of the world; the security and defence of Europe and the promotion of sustainable development in our neighbourhood and in developing countries as an element of justice and peace.

To become an economic superpower, we need to assure the ability of a united Europe to regulate globalisation and establish a basis for a new North-South partnership. In this area, through the experience of the internal market, we are experiencing in Europe an effective laboratory for harnessing globalisation.

This is, in my view, the principal relevance of global governance: it is about harnessing globalisation. Global governance is a description of how global rules are put together, how they are decided upon and how they are implemented.

I believe that today we are experiencing a deficit of global rules: that the globalisation of markets has progressed far more rapidly than the evolution of the institutions and mechanisms that are needed to shape them. Our governance system, internationally, is unbalanced in several respects:

First, the system of economic governance (the Bretton Woods Institutions and the WTO) is, for all its deficiencies, much better developed than social or environmental governance, where the required institutional framework is either absent or far too weak.

Second, the existing institutions of global governance have functioned in the past as "clubs", where a small number of rich industrialised countries pulled the strings. All that has changed,

is changing, and must change. Developing countries are really beginning to exert an influence. For instance they now represent two thirds of WTO membership, and they have made it very clear that WTO working methods have to acknowledge this.

These imbalances and deficiencies have contributed to undermining both the effectiveness and the legitimacy of these international institutions. This has tended to leave the field entirely clear to anti-globalisation protestors to claim that the WTO, the World Bank and the IMF are all part of the problem, not the solution, and that the ILO (International Labour Organisation) or UNEP (United Nations Environment Programme) are toothless tigers.

I think we need to work much harder to strengthen and to rebalance the various pillars of global governance and to promote more coherence between them - in short, we need to work on some kind of political global order.

Global governance is of course more than just the major international institutions. There are a growing number of regional organisations, of which the EU is the most advanced model - but there are others such as Mercosur, ASEAN, NAFTA (North American Free Trade Agreement) or the Western African Economic and Monetary Union. With a combination of open markets and common rules, regional associations can provide a vital building block towards global governance. This in turn then can help upgrade multilateral co-operation, particularly where regional organisations function as caucuses at global level and can thereby facilitate decision-making and legitimization in multilateral institutions.

Let me turn now, if I may, to my own small part of the junction, if you will, between Europe and the outside world: that is to say, European trade policy, and how it positions the EU in the international economic system. And (while I do promise not to get too technical about it) there are two important areas to consider:

First, the policy itself; and
Second, the process, both within the EU and globally.

Starting with our policy, the first thing to note is that trade has become much more complicated in times of globalisation.

The first thing that globalisation shows is that we need a new trade policy, because trade touches every part of people's lives, from the goods we buy and the services we use, to the food we eat, the air we breathe, the kind of work we do.

The rules which determine trade policy - in a Member State, in the European Union, at the global level - have to reflect the competing interests and values of a broad cross-section of society. Trade policy is watched over, thought about - indeed fought over - by people from all walks of life: consumers, private companies, NGOs, trade unions, regulators, special interest groups.

It is our job to try to make sense of the cacophony of competing ideas and concerns and to make the different trade-offs between the different constituencies. And above all, we must be transparent - to explain to our British, European and world citizens what we are doing, and why. If we do not, in today's world, they will let us know about it.

The EU's trade policy is a key part of its overall international economic agenda. We are opening our own markets and encouraging others to follow suit. We want to remove obstacles to trade gradually, to avoid and to settle disputes peacefully, and above all, to build up a body of rules which prevent discrimination.

We believe in trade - indeed our economy depends on it. But we also need to harness the enormous power of globalisation in the interests of all, because our complex trade policy is not an end in itself. We want to improve our quality of life and promote European values, and we are (there is a consensus on that in Europe) determined to avoid a stark choice between economic growth on the one hand, and environmental and social protection, for example, on the other. Indeed, that is the basis to the model of sustainable development which we support, not just for Europe, but also for the world as a whole. There is no reason why we could not promote economic growth and the environment at the same time: but where we face difficult policy choices, it is my view that we have to focus on sustainable development objectives over and above purely trade-liberalising ones.

In essence, the challenge is how to balance increased access to markets (which help to drive the turbines of globalisation) with stronger and better rules (which help us manage and steer globalisation).

Let me now turn to the second part of how Europe interacts in the international economic system, and that is process. How do we play this role in international trade?

Fortunately, the EU is relatively well equipped in the area of trade policy, where we operate as a virtually federal system. Consider how the European Commission gets its authority to negotiate. The Commission makes a proposal to the Member States, who in turn mandate (if they agree) negotiating authority for the Commission, who duly negotiate (keeping the Council in touch with progress along the way). When a deal is struck, the Council decides whether they will approve the results, based on a weighted majority, known as "qualified majority" voting. It's a rather simple and transparent system.

This in turn helps formulate a clear policy line. One mouth to speak on the international stage, one policy line, eased by decades of internal discussion. My predecessors 10 years ago would have spent about two thirds of their time sorting out a policy line with the Member States, and only one third negotiating with third countries. This was out of proportion, and I'm glad to say that the balance has now shifted: I spend only one third of my time establishing a position with the Council, with the European Parliament and with the various constituencies I have to reconcile, and two thirds pushing that line with third countries.

So when it comes to promoting its arguments in the WTO or in bilateral or regional discussions, the EU has relatively good tools at its disposal. In trade, we are not a bad laboratory for global governance.

When we consider process in terms of Europe's engagement with the outside world, a key question is of course how our internal procedures permit the EU to play a major role. If we look at process from the perspective of the international economic system, a key factor must also be the role of developing countries.

The fact is that developing countries have a right to make their views count, and they are now rightly doing so. They have forced us to take development issues much more seriously than hitherto - whether this relates to giving them more time to implement previous trade agreements, whether its in addressing their concerns on access to the North's agriculture and textile markets, or finding a solution to the problem of access to medicines for the AIDS-ravaged countries of Sub-Saharan Africa.

In this respect, we have to particularly address their need for trade-related assistance so that they can not only negotiate more effectively, but they are more able to implement what has been agreed.

So, while we managed to “mainstream” development into trade, we also need to mainstream trade into development assistance programmes, by ensuring that these two policies go hand in hand.

But what is Europe's overall score in promoting and reforming global economic governance? Mixed. Unsurprisingly, our performance has been the strongest where we have been united and we managed to speak with one voice - in trade policy, for instance, as I have demonstrated.

It is less convincing when you turn to the area of financial governance. While we have occasionally been able to formulate ideas on the reform of the international financial architecture, these have fallen flat at the international level because we have been unable to push them in a unified manner.

In the international financial institutions, member states hold sway and rarely act as an entity, partly due to the system of mixed constituencies, a situation that will not improve with enlargement. Not even the arrival of the euro has so far led to greater EU coherence or to Member States demanding a single European voice in the international financial institutions. This is in my view an indispensable development if we want the euro to play its full role as an international currency.

What remains to be invented is a common vision of the world and the manner in which we can have a real influence on its evolution. With regard to this objective, the impact of enlargement remains an uncertainty. Will the new members push for the EU to punch its weight at the international level? What will be the sensitivity of their citizens to the effects of globalisation? Will the absence of a classical colonial past shape their attitudes vis-à-vis developing countries in a way distinct from older EU Member States? Will that result in a greater priority on relations with neighbourhood regions? Machrek and Maghreb, Russia, the Middle East? These remains open questions.

These are questions that we will have to debate together this afternoon. But before I close, a few words if I may on the future of Europe itself.

First of all, we need to put our internal affairs in order. Our citizens demand that we address Europe's own version of twin deficits – deficit in growth and deficit in competitiveness. Economic growth is now stagnant, and the long term pointers are ominous: an ageing population, and declining research spending, a lower level of innovation in industry. We need a real sustained effort to raise this endogenous level of growth of ours, otherwise interrogation of how to use our economic weight in the world is nonsense.

En passant, that may mean confronting unpalatable truths. We may need to recognise that the Lisbon Agenda for growth and competitiveness has not delivered. And as it is sometimes the case in politics, we have oversold expectations. We have underinvested in results.

So we need a new Lisbon. And we need to create the same level of urgency, interest, even political hype as we did for the 1992 project to create a single European market.

Prospect number two should be, to use an unfashionable word, solidarity. That means real, well-paying jobs in Europe and closing the gap between the richer and poorer regions of the continent, and notably between the current and new members of the EU.

Europe then needs to be more secure and free. The right to move freely within a borderless Union is a useless freedom if we cannot ensure security and justice and if we cannot make that clear to people. So we need, for instance, a common asylum policy, a common policy

on immigration (and let's not confuse the two, by the way), and improved policies on integration into society.

In my real job as Trade Commissioner, I spend more than 50% of my time outside Europe. It's a good vantage point, like seeing the world from outer space. And I am often asked whether Europe can be an effective laboratory and model of a harnessed globalisation as well as being an economic superpower.

My answer of course is yes, as long as we are prepared to learn from our mistakes as well as our successes. In some areas, like trade policy – and no credit to me, I inherited a good system – we have our strategy clear, and efficient organisation, even our communications clear. In other areas, frankly speaking, our contribution to global governance is rather less clear, rather less harmonious. The example of what we have been doing in trade should encourage us to punch our weight in other areas. We need to address this as a priority in the years to come.

Only by doing this can we fulfil the – literary - last will and testament of Jean Monnet, who died 25 years ago yesterday, and whose memoirs finish with the following words:

« Les nations souveraines du passé ne sont plus le cadre où peuvent se résoudre les problèmes du présent. Et la Communauté elle-même n'est qu'une étape vers les formes d'organisation du monde de demain ».

Ladies and Gentlemen, Jean Monnet's world of tomorrow is our world of today. So there is a bit of an urgency.

Thank you.