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Subject: "The Unified Europe".

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The European Union is right now undertaking one of the greatest feat of political engineering ever attempted: The unification of Western Europe with Central- and Eastern Europe. It will reshape and change the political landscape in Europe. The single market and the EURO will be strengthened. Europe will face the challenge and at the same time the opportunity to ensure peace and stability in this part of the world. This new situation will confront the EU with the expectation of an European voice in the international arena.

This is a tall agenda. How did we get there, how was it achieved and where will we go from here?

Let me address five points one after another to explain what has happened, why it did happen and make some forecasts.

First point. When the Soviet Empire and the Russian Empire crumbled in 1989-1990 it came unexpected. No blueprints were available to tell the Europeans on how to handle a completely new constellation of changing economic and political parameters in the European theatre.

Most observers would have put their money on strong economic, political, and social upheavals in Central- and Eastern Europe making what happened in Yugoslavia look like a picnic. From Estonia in the North to Slovenia in the South, we find about ten nation-states but more than 25 different peoples and languages and at least four main religions. Traditionally the minorities in one nation-state could be expected to call upon their brothers/sisters in an adjacent nation-state to escape cultural imperialism exercised by the government in the nation-state where they lived. Civil wars with interference from outside were a realistic threat. Quite a few predicted major bloodshed. History has not been kind to this part of Europe. It has been chosen as a battleground for major wars through centuries. Germany and Russia competed for 200 years for influence in transforming Central- and Eastern Europe into a buffer zone.

None of these calamities materialised. Twelve years later we can look back upon strong economic growth combined with peace and stability. The reason is that the potential conflicts were kept at bay by the prospect of joining the European Union (EU). At an early stage farsighted statesmen in the EU put forward this as along term objective for all Central- and Eastern European countries. But there was a condition. And that condition was respect for minorities and human rights in the candidate countries. The message was quite clear. The EU would stand by the pledge given during the cold war to receive the Central- and Eastern European countries as full members provided that these countries managed to solve their conflicts among themselves by themselves.

I do not hesitate to proclaim this policy extremely successful. It was a brilliant piece of foreign policy. We often tend to forget the risks and problems so obvious in

Central- and Eastern Europe in 1990. We do not always realise how fragile the newborn democracies actually were and how painful the restructuring of their economies away from centrally planned economies toward market economies turned out to be. If the EU had hesitated, if the prospect of future EU-membership had been in doubt, it is possible - I will even say that it is likely - that the courageous political leaders master minding the transformation of their countries in extremely difficult circumstances would not have succeeded. They might well have succumbed to non-democratic forces more or less as it happened in the inter-war period for most of these nation-states.

Second point. The EU and the Central- and Eastern European countries got there by a step by step process and not by a big bang.

The EU used its panoply of measures and policy instruments and tailored them to the new circumstances. Trade agreements were transformed into what was labelled Europe-Agreements. That was an Association agreement with the prospect of membership in due course and in the early/middle part of the 1990's country after country filed an application for membership.

Two steps need to be singled out. The first one was the meeting of the European Council in Copenhagen in June 1993 where the Central- and Eastern European countries were promised full membership provided they met three conditions. Their political systems should be democratic, based upon the rule of law, stability of institutions and protection of minorities. Their economic systems should be market economies. Their administrative systems should be able to cope with the rules and regulations of the EU including the objectives of political, economic and monetary union. The second one was the laborious not to say cumbersome examination of each country undertaken by the European Commission to see whether they fulfilled the conditions. Again country after country were listed on the positive side. There were doubts, of course, but the reports were all giving the same message: They were eligible for membership but the timetable was up for discussion. The momentous decision was taken in the middle of 1990's to start negotiations with all ten Central- and Eastern European countries more or less at the same time. This was done without promising to finish the negotiations not to say fix entry into the EU at the same time. This recipe kept the door open for all. It responded to the basic political fact that they all wanted to join but was individual sovereign states to be treated as such. Or in other words: They were given the same chance. It was up to them to grab it or lose it. The EU did not discriminate. It would have been disastrous if some of these countries had been singled out as worthy ones while others would have been rejected without even given the chance to present their case.

Third point. Another meeting of the European Council in Copenhagen finished the job. It took place in December 2002. The main results can be summarised in this way.

The EU envisages to welcome the following ten countries as new members from May 1, 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, Slovenia. The accession treaty will be signed April 16, 2003 at the forthcoming meeting in the European Council under Greek presidency in Athens.

The legal procedures imply ratification of the treaty of accession by the European institutions and by the EU-member states. It is unlikely that the EU and/or the member states will run into problems.

The majority of the new member states envisage a referendum. The date has been fixed in four of them. The opinion polls indicate a majority in favour of accession but it is by no means a foregone conclusion.

It seems obvious for an outsider that accession leads to tangible and visible advantages - economically and politically. But the debate in the new member states brings out in the open that not everybody thinks so. There is a certain amount of scepticism among farmers and especially among farmers in the largest acceding country also having the largest agricultural sector: Poland.

There is no reason to sweep under the carpet that a rejection by a country like Poland would not be a minor hiccup but constitutes a major set back for the EU and for the new member states. The whole philosophy of bringing all of Europe together would suffer a blow if the voters in one of the new member states rejected the offer saying with plain political language that they want to fend for themselves.

The precise implications would depend on circumstances: which country, what majority etc so an assessment of such a misfortune cannot be made beforehand.

And let us hope that the voters will be on the side of the angels!

Cyprus is among the acceding countries despite the fact that the island is divided. It is the hope and according to the latest development not totally unrealistic that accession to the EU will provide the framework for a settlement. If so the island will be reunited and join the EU as such. If not, the southern part of the island will join alone.

Negotiations with Bulgaria and Rumania continue looking for 2007 as the date for these two countries' membership.

Turkey is often being mentioned as a special case. That is not correct. And this is borne out in the conclusions from the meeting in Copenhagen. It says unequivocally that the same criteria will apply for Turkey as for other countries applying for membership. In December 2004 the EU will examine the situation in Turkey and decide whether the criteria are fulfilled and if so enlargement negotiations will start.

So this means that if all goes well ten countries will join in 2004, two more in 2007 and a third one a little bit later.

Enlargement with such a large number of countries require equitable transitional arrangements, taking into considerations the new member countries' economic, industrial, social and administrative problems. It is a misunderstanding often heard that negotiations running over a considerable length of time are about changes and/or amendments to the basic treaties. Wrong. The new member states accept the treaties as they are but they are granted transitional (temporary) derogations.

We do not need to be hypocrites. No reason to hide that such arrangements are also in the interest of the EU itself having to shoulder a burden in the slipstream of applying its arsenal of economic measures to newcomers many of which are on a different level of living standard than the existing EU.

And the working of the EU-machinery has to be adapted to a larger number of countries than 15.

It cannot be said too often and too clearly. This is being done to preserve the objectives and the working of the EU despite the enlargement. It was exactly the same in 1973 when UK, Ireland and Denmark joined, in 1980 when Greece joined, in 1985 when Spain and Portugal joined, in 1995 when Sweden, Austria and Finland joined. The new comers join a club. The club does not change its rules. The new member states adapt to conform to these rules as they are but they are granted time to do so.

Fourth point. Let me elaborate on this by explaining what the enlargement means for some of the vital parts of the EU. And by doing this I will shoot down a number of myths about the implication of the enlargement - for the EU and for the new member states.

- 1) It is often stated that the costs of the enlargement is enormous. This is clearly nonsense. I will spare you all the technical details - you will have to take me on my word - but the total cost over three years (2004 - 2006) is about 0,10% of EU's total Gross National Product. Less than one EURO out of every one thousand produced in EU every year. Calculated into tangible amount we get to about 25 EURO per year per capita in the existing EU comprising 15 member states. This is peanuts.. Just compare it with the so-called peace dividend in Europe after the end of the cold war. The peace dividend is the reduction in military expenditure. Most EU members states have seen a reduction of the magnitude of at least half a percentage point (and that estimate is in the lower range) every year - five times as much as the enlargement will cost the EU. Or let us compare with the cost of the well known - some will say famous, others will say infamous - Common Agricultural Policy gobbling up about 0,40% of total GNP in EU. The real problem is not the costs for the EU but that the EU in its endeavours to save money has been so parsimonious that some of the new member states or rather a majority of their population comes to the conclusion that the deal is not good enough
- 2) Some people fear that the enlargement will be the end of the Common Agricultural Policy. The gap between farmers in the existing EU and farmers in the poorer new member states is too large. If the existing rules are applied forthwith to the farmers in the new member states costs will skyrocket. If not the Common Agricultural Policy will drop the word common instead being a dichotomised policy. This explains why the EU and the new member states agreed on transitional measures year stretching to 2013 (ten years) But again. This is not the real problem. The real problem is that the Common Agricultural Policy badly needs an overhaul. It is not so bad as some people outside the EU insists. But the Europeans have to face the unpleasant fact that the CAP is too expensive and too costly. It takes about 40% of total EU budget while only about 4% of the EU population is employed in this sector. And the overwhelming part of the CAP expenditure goes to small and inefficient farmers not competitive and not

economically viable in the present global economy. Seen from a Singapore perspective the CAP is a very visible obstruction for a more liberal trade policy pursued by the EU to give the EU more credence among developing nations.

- 3) The fear is sometimes being voiced that the free access to the labour market inside member states will lead to an avalanche of migration from Central- and Eastern Europe to the present EU. I heard the same arguments in Denmark before 1973 telling wavering Danes that many Southern Europeans would start a mass emigration to the Danish welfare paradise. It did not happen. Instead a considerable number of Danish pensioners have migrated to the sunny south of Europe to enjoy living there. Three counter-arguments to put the problems in the right framework. First, transitional periods of up to seven years have been agreed but each EU member state can decide whether they wish to apply a transitional period or apply existing EU-rules vis-à-vis the new member states from day one. Second, the economic situation in Europe poses quite a different problem. Europe today needs more geographic mobility of labour to compete with the US, not less. A good many economists have pointed to the conventional wisdom of economics telling that EU as such cannot survive unless labour starts to move more freely around. Fortunately the EU in this respect is where the bumblebee is with regard to aerodynamics. You know according to aerodynamics the bumblebee cannot fly but as the bumblebee cannot read it does not know and just continue to fly regardless of what all the wise academics say! Third, Europe is seeing a new pattern of competitiveness already visible when Spain and Portugal joined in 1985. The labour intensive industrial production is being outsourced. Not to developing countries but to the Central- and Eastern European countries. For Europe it is good that we preserve jobs inside Europe even if the distribution of jobs become more and more lopsided with the highly skilled jobs in the existing EU and the low skilled ones in the new member states. It goes here as a respected economist in the special branch of developing economics once said: The only thing worse for a developing country being exploited is not being exploited. The alternative for EU and the new member states is not to keep the jobs in Western Europe or to create highly skilled jobs in Central- and Eastern Europe. It is that the jobs be moved out of the European economic space. That would be nice for some other parts of the globe but not for the Europeans.

Fifth point. It is a cliché that the EU will change after the enlargement but for once a cliché corresponds to the truth. Of course the EU will change. The original EU was designed for six countries but have managed to accommodate nine more members; that is the limit. Let us look upon the changes regarding economics, foreign policy and institutions.

There is no transitional period concerning the free movements of goods, there are some but not very important transitional periods concerning services and there is - with Slovenia as the exception - a transitional period from five to twelve years for movements of capital.

The single market in goods and for most of services will function after the enlargement without much delay. As the existing agreements signed since 1990 have already introduced a large measure of free movements of goods and services there will be few but not very substantial immediate repercussions on the European economy and on the economies in individual member (incl new) states. However, in

the long run the larger single market will work in favour of European competitiveness. As mentioned earlier exploitation of the possibilities to move production around will work in this direction.

The Common Trade Policy will have to take into account the interests of a larger number of member countries. Some will ask for more protection than the existing and more competitive member states. It is an open question how that will influence the EU's trade policy. The same concern was voiced when Spain and Portugal joined in 1985 but did not really materialise.

There are no transitional measures for the Economic and Monetary Union. This does not necessarily mean that the new member states will join the EURO from day one. As mentioned earlier, there will be transitional measures for some capital movements. With UK, Denmark, Sweden outside the EURO the same possibility is open for the new member states even if it is not said explicitly. I do not buy the argument that an economic and monetary union cannot work properly unless the regions included are more or less of the same economic nature. Experience from economic and monetary unions around the world (examples: USA, Australia, China and in South East Asia Malaysia) indicates that different economic structure and different economic level among the various region are compatible with such a Union.

Nor do I buy the argument that the costs of integrating the Central- and Eastern European economies in the EU will be so large as to undermine future economic prosperity as it happened in Germany after 1990. First of all the subsequent development of the German economy was in the cards before the German unification and would have taken place during the 1990's even without the unification. Second, the size of the economies in Central- and Eastern Europe is manageable for the EU. Thirdly as outlined above there are also advantages for the European economies associated with the enlargement. My own assessment is that in the short run the enlargement will not make much change in economic power but that the European economies will benefit in the longer run from the larger market and better possibilities for outsourcing inside the single market

The changes will be more visible for foreign policy. Two things have happened in Europe after 1990. Territorial defence is out. Soft side of security policy is in. It could be rephrased in more conceptual form by saying two other things: First. Security in Europe has become indivisible meaning that either Europe as a whole is secure and peaceful or Europe as such faces a security problem. Security in one part of Europe is a concern for all of Europe. Second. Threats to security in Europe if any does not any longer appear in the form of potential aggression from one European country directed at another European country. Either it arises inside nation-states or from outside Europe.

In today's world, EU faces a threat and a challenge. The threat consists of the minorities inside individual nation-states. They can destabilise the political environment. EU faces a challenge by having to shoulder a responsibility for security in adjacent geographical regions and assume some responsibility for the global development.

The enlargement should and hopefully will mean that the problem of minorities in Central- and Eastern Europe will not weigh down the political agenda. The European model having served Western Europe so well since the 1950's will now also apply to Central- and Eastern Europe: Economic internationalisation and cultural decentralisation. This model implies that the key to participation in the international economy does not any longer rest with the central government but have moved to the EU. And the EU does not demand allegiance to the culture of the majority in the nation-states as a quid pro quo for opening the door to the global economy. The minorities will have a free run to pursue their own culture without trepidation of cultural imperialism exercised by the central government. This is what has solved or rather prevented potential conflicts inside the Western European nation-states. Witness the Scots in Britain, the Bretons in France, the Catalans in Spain, the Lombards in Italy – the list is almost endless. The same lies in the cards for Central- and Eastern Europe.

But the enlargement also means that the EU has got some new neighbours. Russia, Ukraine, the Balkans while we have North Africa just outside our doorstep and the Middle East still asking for our attention.

In some of these countries the main security problem is exactly the same as it was in Western Europe and still is in parts of Central- and Eastern Europe: Ethnic and/or religious minorities. Such internal problems cannot be confined to the countries directly involved. Exactly because security in today's Europe cannot be divided they will destabilise Europe as a whole if allowed to run their course. EU will be forced to apply preventive diplomacy. We will thus see a more active and engaged EU in adjacent countries exercising security policy, not to pursue its own interests per se, but to maintain stability and security in Europe as a whole.

What happened first in Western Europe, then in Central- and Eastern Europe and now being tried in adjacent countries are a remarkable and unique example of foreign- and security policy focusing upon the soft instruments and that are: Economics, trade and culture.

Europe cannot escape however the inevitable and uncomfortable question of bang for the bucks - a common defence and military policy. I do not see EU projecting power abroad more or less in the same vein as the US. Not now. Not in a foreseeable future. May be never. My reading is that Europe and the Europeans have crossed the line. We may still see and may be increasingly so European military forces participating in - in some cases even being the major shareholder so to speak - international military intervention but we will not see a major European military action far away from Europe.

To sum up concerning foreign policy which is a hard core question. EU will for some time confine itself to the soft instruments of foreign and security policy and be relatively successful in adjacent countries. A genuine common foreign- security and even more military policy is in the embryonic stage. It will come. When it comes it will rely less much less heavily on military muscle than is the case for the present American foreign and security policy. Hopefully the world develops in a way compatible with such a reluctance to use force commendable in itself but relying on a similar attitude gaining ground around the globe.

Enlargement will force changes through with regard to the institutions and decision-making. No illusions. This is where the original and present EU will yield to a new and different Union. Few if any contests the statement that decision-making introduced for six countries cannot work for 25 countries. This acknowledgement has already paved the way for two changes in the treaty. One agreed in 1997 in Amsterdam and another one agreed in year 2000 in Nice. The institutional changes are not momentous but the reason behind signals a seminal change: The need to adapt the system to the enlargement.

Early summer the so-called convention under presidency of Valery Giscard d'Estaing delivers its report on precisely these questions and problems. The convention is expected to produce a blueprint for an European constitution.

All this augurs a fundamental change in the powers vested in the institutions and the balance between the member states. My own reading for what it is worth point to the following.

A weaker Commission because supranationality is not any longer in the vogue. A stronger Parliament because there is an obvious need for strengthening the links between the institutions and the people of Europe. The Council will probably be left without much change. The voting system will have to be adjusted to make it more difficult to block decisions. And a president chosen to lead the work of the Council to ensure better continuity and more political power than the present system of rotating presidency provides.

It has been a salient factor since the European integration was launched that the small member states were over-represented. Their voting weights far surpassed their share of population and/or Gross National Product. Excluding Poland all the ten new member states fall into the category of small or at best medium sized nation states. The small member states may not like to hear it but the forthcoming enlargement tips the balance in their favour. The larger member states will ask for an examination of the voting system, especially with regard to the small versus the larger member states. This question has been on the agenda at several occasions but changes always successfully resisted by the small member states even if the four enlargements since 1973 brought in two large members states and seven small or at best medium sized ones. We may now expect an amendment of the voting weights and what constitutes qualified majority becoming the rule rather than the exception. It may not be said explicitly but the objective will be to reduce the over-representation of the small countries. This is politically manageable. Among other reasons because it can with justification be said that the whole exercise aims at restoring the balance between small and larger member states to what it was in the early stages of the integration. The real battle will come over how to handle the balance between small and larger member states in cases, where not all member states are represented in an institution at least not at the same time. In this category falls membership of the future Commission, the rotating presidency and the ideas of replacing it with a permanent president. The flywheel will be whether the larger member states will open the door for a mechanism ensuring the smaller member states that they will be represented from time to time. Or whether they will insist upon some kind of voting system feeding and in some cases confirming the suspicion that they will use such a

mechanism to rotate representation among themselves keeping the small birds away from the institutional breadbasket.

Let me finish with a few personal remarks about the long term future of the European Union.

The EU is the greatest problem smasher ever invented. It does so for the member states and it does so without interruption. No member state has ever taken a problem to the EU without seeing it addressed by the EU-institutions and the other member states.

The integration will go and on. It will not stop. The sentence in the original treaty calling for an ever closer union is actually being implemented. All the sceptics have constantly being proven wrong.

There is no well-defined and/or known blueprint for where EU stops being it with regard to substance or institutions. We are in uncharted waters.

And that makes it exciting because the Europeans are inventing something new. The key concept exercising sovereignty in common instead of individually has never been seen or tried before. And despite all its shortcomings the European model has been an outstanding success.

It has brought economic prosperity, peace and security to first Western Europe and now to all of Europe.

It would be a grave mistake to under-estimate the drive and determination behind this international political and economic engineering.

Trying to make a forecast, my eyes fall upon five main topics.

1) The future of the EURO. The notion of an Economic and Monetary Union first appeared in the Werner-Report from 1969. Since then EU 'Kremlnologists' so to speak have been divided into two groups. Those who thought the EURO could and would be implemented. Those who thought otherwise. I have all along thought it would happen. The EURO has come to stay. I harbour the suspicion that several Asian central bankers share this assessment. The rise of the EURO in recent months can be explained in many ways but one of the explanations is probably that some, may be many, of the Asian central banks is diversifying their currency reserves. In plain language: Substituting some of their Usdollar holdings with EURO.

But when will the EURO be a real international currency? We will have to wait a while. Confidence has to grow. The European economies and the enlargement have to stay the course. EU to show a bit more dynamics. The ECB (European Central Bank) to establish itself as a partner among the peers in central banking. But it will come. Just give it time. The world needs and wants an alternative to the Usdollar and there are not many candidates around.

2) The European economies need restructuring. Will it happen? Well, that is a good question. We still need mergers across borders, we still need the full exploitation of

the single market now being enlarged. The mindset of European businessmen and politicians are still too secluded. For some years I have been predicting a turn around – and events have proved me wrong!

The European economy is some kind of halfway house between the hitherto strong and buoyant American economy and the stagnating Japanese economy. Trends are working in both directions.

My own guess is that the European economies will get back to a growth pattern somewhat higher than what we have seen in recent years but not much above let us say 2,5% - 3%. The drive for reform and restructuring will not be sufficiently strong to push Europe back on the dynamic growth pattern but a little bit less can probably do it. Here as in other areas the Europeans will choose their own model. And that model means that a combination of lower growth and higher degree of social welfare/social security is preferable to a combination of higher growth pattern and less social welfare/social security. And this European preference has its merits. Among other things there are strong reasons to believe that it mobilises a large share of Europe's human resources while the American model does not do so but compensates by attracting human resources from abroad.

3) Will the integration encompass all member states to the same extent or will we see what is termed an Europe with several speeds that is not all member states taking part in all aspects of the union? One for all and all for one or take your choice and pay accordingly?

It is more likely than not that the vital parts of the treaty will emerge as obligatory and apply to all member states while other and less vital parts for the daily functioning of the union will be optional. This is in fact what we have seen for quite some time with UK, Ireland, Denmark, Sweden outside some chapters of the treaty. They have opted out of different chapters proving that such a model can work.

If this happens it will be supplemented by two policy prescriptions. First of all the member states being outside may accept that it is not forever. Secondly the said member state(s) will not have same rights as the other member states.

In other words: The convoy is still moving in the same direction and toward the same port of destination. But not all the ships move with the same speed.

It will be a difficult process and require adroit political management to implement such a model but the problem smasher can do it! Some may say that it will be easier to manage such a model than a model keeping all member states at the same level.

4) Relations to US. A difficult almost painful question especially right now. Let us face the facts. EU and US share the same basic principles with regard to political culture. There are a lots of arguments to be put forward supporting a continued alliance. But another fact is that the EU and US do not any longer face a military threat so obvious and lethal that it forces them to ignore and disregard the differences in opinions and policies which evidently are also present.

So we will stick together but not regardless of the issues and regardless of the costs. There will be policy differences and we may take different stands toward issues in world politics and economics not to speak of trade policy. The alliance will still be there but it will be less robust than it used to be.

It is no secret that UK is more favourably disposed toward US than France and Germany. If such a policy discrepancy remains in the long run and especially if it remains concerning the main question of EURO and common foreign- and security policy something will have to give.

5) EU-Federation. During the years there have been a lot of talk about EU as a federation or a confederation or something else.

I do not think that EU will fall inside one of the well-known and well-defined forms of statehood. EU is not going to be an European equivalent of the United States of America.

The European Union will find its own form based upon tradition among the European nations and the European peoples.

I am sure about one thing. It will be a relatively loose form of Union. And it may well be pretty messy too but if that is the price for working together instead of confrontation and conflicts, I for one, is ready to go along with such a model.

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