

**Edinburgh University
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**Enlargement, Neighbourhood Policy, and Globalisation
The need for an open Europe**

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European integration over the last 50 years has confirmed what economic theory has always taught: economic integration promotes prosperity, and thereby contributes to peace and stability. Enlargement of the EU has progressively extended these benefits across the continent, most recently to central Europe. The next great challenges will be to do the same for the Western Balkans, a region torn by instability in the 1990s, and for Turkey. While the 'end point' of the enlargement process is difficult to define, the EU is determined to avoid new artificial divisions arising between an enlarging Union and its neighbours. For 16 countries to the east and south of the Union, neighbourhood policy aims to establish a privileged form of partnership now, irrespective of the exact form that the relationship will take in the future. Looking further afield, globalisation also promises significant economic benefits, and should be considered an opportunity as much as a challenge. Europe must keep its doors open to global trade, and not just compete, but co-operate increasingly with its trade partners. While the benefits available in these three areas far outweigh any negative impacts, the changes and adjustment which they cause require policy support: first to ensure that our economies are sufficiently flexible to adapt, and second to ensure that those who are most immediately affected by change are also able to benefit.

Ladies and Gentlemen

It is an honour for me to be here today. It is not my first time in Edinburgh – before the accession of Poland to the EU I was here for discussions at the Royal Society on the prospects for enlargement. Now that I am the European Commissioner responsible for regional policy, I am a bit of a globe-trotter. One of the major advantages of this, is the contact and communication I have with Europe's citizens. I am very fortunate to meet

countless people in national, regional and local authorities. I meet even more people 'on the ground' as it were, who are committed to implementing our policies and investing European funding to bring about improvements in their areas. These meetings are always extremely positive about the contribution that this European policy is making to people's lives.

I also consider myself fortunate every so often to find myself outside the strictly regional policy environment. And given my long experience in the academic world, it is always a particular pleasure for me to return to a university environment – and especially so when it is one as distinguished as Edinburgh. I am very aware of the fact that today I am in front of a group of experts on European policy. You understand well what it is that we do in Brussels, you are familiar with the jargon. And the views that you hold – positive or negative – are most likely the result of long reflection and study. In short, you are probably less in need of better explanations on Europe than are many people I meet!

Nevertheless, today I want to do my bit for communication, and to present my views on three issues which often get a negative press. The areas are: enlargement of the EU; our neighbourhood policy - an area that is possibly less well known than the two others; and globalisation. Each of these is a complex area in itself, and I will try to be brief so that we have time for discussion. But my key message is simple – these developments are overwhelmingly positive for all of us Europeans. And given that this is very often not the popular perception we have to do two things. First we have to communicate the benefits more clearly and convincingly. And second, given that some of the concerns are real – the benefits are not necessarily evenly distributed across the economy and

society – we must put in place appropriate policies to facilitate and soften the necessary adjustment, thereby ensuring that we maintain broad support for continuing to move forward in these areas.

On enlargement.

The essential objective of enlargement of the European Union is to extend the area of peace, prosperity, and stability on our continent. This was clearly the case in the most recent enlargement of 2004 which consolidated the reunification of a Europe divided in 1945. But it was also the case for earlier enlargements, and it remains the case for those that will follow. My first point today is that this latest enlargement is bringing all of the benefits we predicted. The doomsayers – and there have been many of these - have been proved clearly wrong.

First, the countries which joined the Union in 2004 undertook extensive reforms prior to accession, and are fresh democracies with fully functioning market economies. They have not collapsed under the pressure of exposure to competition which some predicted. Rather they have brought to the Union a degree of dynamism that is badly needed. They have growth rates which are more than twice the average of the others, and a process of economic catch-up which is well underway. Growth in the countries in the accession process – Romania and Bulgaria - is just as impressive. This dynamism is the direct result of the spectacular economic and democratic transformation that has taken place in the last 15 years in central Europe, a transformation for which EU accession has been the main driving force.

Second, the economies of the 15 Member States are not being destroyed by unfair practices of the new comers. As I have just mentioned these economies, while small, are growing rapidly. They are a dynamic addition to the internal market. Indeed on the transposition of legislation, the Commission's 'score board' shows that they are often better placed than the EU 15. Trade and investment between the EU 10 and the EU 15 has increased significantly creating a win-win situation for all involved. On the tricky issue of 'delocalisation' – that is the relocation of activities and of jobs to the new Member States, there is no bad news as many said there would be. Let me give you a few figures; in 2004 the share of total EU 15 foreign direct investment that went to the new Member States was 4%. 12% of the total went to the US. And 53% went from one of the EU 15 Member States to another. So in the overall picture, the new Member States are a small part and cannot be blamed for job losses and industry relocation. But the message here is a much more positive one than this. Foreign direct investment brings benefits all round. A large part of the investment that has taken place in the EU 10, for example, has been in the context of privatisation and development of services – it does not result in the substitution of activities previously carried out in the home country, but in new opportunities for doing business and increased competitiveness and profitability of European companies.

In short, these two points for me add up to a clear conclusion – enlargement is part of the solution to our economic problems in Europe, and not the cause of them. By creating a larger and more integrated internal market, enlargement has created the conditions for the whole European economy to become stronger and more dynamic, and

ultimately to be better equipped to deal with the increased global competition I will discuss later.

Being here in Scotland, I should mention another issue – that of the free movement workers across the EU. There was much discussion in the UK press over the summer on the number of people who have moved to the UK since the 2004 enlargement - 600.000, a figure which is much higher than had been predicted. In parts of the press, attention has focused on the pressure that this is placing on jobs, wages, housing, social services. In this context I have been greatly encouraged by the official messages that have been given: this has not been an uncontrolled rush; most people have come in response to a real prospect of finding a job; they are helping to fill gaps in the labour market, in areas such as administration, hospitality and catering, manufacturing and food; average wages have continued to rise across the economy and are not being depressed by flows of cheap labour. Indeed at the level of the economy as a whole – with the caveat that establishing causality on these issues is never easy – it is the Member States which have had no restrictions on mobility from the EU 10, the UK, Sweden, and Ireland, which have experienced the best employment performance in the past two years. Four other Member States have since followed this example, and six others have moved significantly in that direction as they realise the advantages that a policy of openness brings.

Finally let me turn to two more institutional issues where critics of the enlargement process predicted disaster. First, the budgetary expenditures for the EU for the period to 2013 were agreed by our political leaders at the end of last year. At just over 1% of European GDP, they are very close to current expenditures, and indeed are slightly

lower. Like many, I feel strongly that increasing needs in areas such as research and development, immigration and security, would have justified a higher figure. The point I want to stress here, however, is that enlargement has not led to an uncontrolled explosion in costs of the EU to be borne by European taxpayers.

The second point I want to make is that the Union's institutions have not been paralysed by the arrival of ten new Member States, more Commissioners, more MEPs, and more heads around the tables of Council meetings. And although I am one of those who argue strongly that our processes can and must be improved as soon as possible, I would even go so far as to say that enlargement has added a degree of vigour to our deliberations, rather than the reverse.

I said a few minutes ago that the core strategic objective of enlargement was, and remains, to extend the area of peace, stability, and prosperity in Europe. We have done this successfully over the last three decades to a very diverse group of countries. And I think the results provide us with a clear mandate to continue. So what are the next steps?

In the jargon of the business, there are three groups of countries. First, the acceding countries, Bulgaria and Romania. Next week (26 September) the Commission will adopt its monitoring report on these two countries in the context of their planned admission to the Union in January 2007. This is a process which has almost reached its conclusion. Second, there are 3 candidate countries, Turkey, Croatia, and the former Yugoslav Republic of Macedonia. And third, there are the potential candidate countries of the Western Balkans – Albania, Bosnia and Hercegovina, newly independent Montenegro, Serbia and Kosovo.

Switzerland, Norway and Iceland, of course, form a category apart, with their own ways of relating to the European Union.

I want to limit my comments today to the Western Balkans and to Turkey. For each of the potential candidate countries of the Western Balkans we are negotiating Stabilisation and Association Agreements which have three aims: first, to encourage regional cooperation; second to promote economic stabilisation and a swift transition to a market economy; and third to offer the prospect of EU accession. It is my view that this area, which witnessed such terrible instability in the 1990s, is a symbol of all the benefits that the EU can bring. The prospect of progressing on the road to EU membership is providing a powerful incentive for economic and political reform, and is encouraging reconciliation among peoples of the region who only recently were deeply and often violently divided. The region faces many serious challenges – the final status of Kosovo, constitutional reform in Bosnia and Hercegovina, problems of unemployment, social exclusion, discrimination – but I believe that the EU has a key role in helping to resolve them. Indeed, I am firmly convinced that by fulfilling the commitments we have made to these countries, we can make the difference between peace and continued instability in the region.

In the case of Turkey, perhaps the most different and talked-about of our potential members, I will limit myself to only a few words. I have no doubts that Europe needs a stable, democratic, and prosperous Turkey. And I have no doubts that Turkey will benefit immensely by integrating fully into our internal market, by adopting and implementing our values, rule of law, our policies and standards. We should seize Turkish negotiations as a chance to inject new dynamism and purpose into the

EU, and to confirm our core values of openness, tolerance and diversity, and to provide an anchor for Turkish reformers.

In November the Commission will report on the EU's enlargement strategy. The aim will be to facilitate a new consensus on EU enlargement, to focus on the concrete added value that it brings, and to take forward the debate on the Union's capacity to absorb new members. Let me conclude this section by saying a few words on this concept of 'absorption capacity', which is the new buzzword in this area. To me it boils down to two components.

First, there must be sufficient commonality of values and of interests of existing and new members so that the Union retains its capacity to implement common policies that function well and achieve their objectives. Here I would say that the burden is on prospective members to ensure that this is the case, and indeed it has always been a key function of the lengthy negotiation procedures that precede Membership to ensure that it is.

The second component is institutional and administrative. There will always be some who argue that the logistics of running the Union - budgetary aspects, the size of our institutions, voting rights in the Council, the logistics of meetings – put a limit on membership. I will argue clearly that these internal debates, these practicalities – no matter how complex – can never be a credible reason for not opening our doors to new members. It is our responsibility to ensure that the necessary reforms are put in place, and I believe that this can be done.

On Neighbourhood policy.

Let me turn now to the issue of neighbourhood policy. You will have noticed that I have not addressed the question of where the end of the enlargement process will be. I have done that quite deliberately. We could have a long discussion about "Europe as geography" and about "Europe as values". But I prefer not to. Instead I want to underline the approach which we have adopted with the European Neighbourhood Policy. This policy was developed in the context of the 2004 enlargement, and one of the aims was precisely to avoid the creation of new dividing lines between the enlarged EU and our neighbours. Rather we want to extend the prosperity, stability, and security enjoyed by the EU's members to our neighbours. We want to recognise in concrete terms that we share interests, ideals, and aspirations, and that we face common challenges in fields such as security, energy, the environment, jobs and migration.

The neighbourhood policy is designed to offer a privileged form of partnership *now*, irrespective of the exact form of the *future* relationship with the EU. And it seeks to do so through establishing a series of neighbourhood agreements – each of them specifically tailored to the needs of the country concerned - with the countries to the east and the south of the current Union. There are 16 in total. It is a long list but one which I feel is worth reciting because all too often we forget that these countries are indeed our very close neighbours. To the east there is the Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan. To the south, we have Algeria, Libya, Morocco, Tunisia, Egypt, Israel, Lebanon, the Palestinian Authority, Jordan and Syria. Some of you will have been struck immediately by the absence of our biggest neighbour from the list.

Let me assure you our relationship with Russia takes the form of a Strategic Partnership, rather than a neighbourhood agreement – a reflection of how we differentiate our relations with our neighbours, promoting our shared goals in ways which reflect their specific needs. Russia is the subject of another lecture on another day, but the approach we adopt is consistent in many ways with what I will say on neighbourhood policy.

So what does the policy consist of? There are political and economic aspects. On the political side there is more frequent and higher level political dialogue. This dialogue both reflects the importance we attach to these relations, but also aims to be a mechanism to help our neighbours to strengthen the institutions which underpin democracy and the rule of law. There will also be greater co-operation on foreign policy priorities of addressing common security threats, such as dealing with terrorism.

On the economic side we offer enhanced trade and investment relations, increased financial and technical assistance, gradual participation in a number of EU policies and programmes and, the most far-reaching feature of the policy, a “stake” in the EU’s internal market. What we are offering is a move beyond simple trade relations and cross-border exchanges to deeper economic and regulatory integration. This integration will include common technical norms and standards, intellectual propriety rights, competition rules, consumer protection, links to our communication, transport and energy networks. This may sound dry, but it is the basis of the internal market, and offers significant economic advantages.

This all sounds very good in theory. What about the practice?

First, we are clearly talking about processes that take place over a long period of time. Approximating legislation, developing regulatory frameworks, improving administrative capacities, linking up networks - none of these things happens over night. And we can be quite sure that progress will vary from country to country. Indeed, in the case of Libya, Syria and Belarus, we are still waiting for the right political situations before activating full participation in the mechanisms of the policy. On the other hand, on the 13 September the Commission adopted guidelines for a new enhanced agreement with the Ukraine on which negotiations should begin early in 2007. This will build on the positive progress that has been made with the existing Neighbourhood Action Plan, and step up co-operation in the areas I mentioned above. This will include the creation of a Free Trade Area.

Second, the neighbourhood policy is based on the same sort of positive conditionality which underpins the enlargement process. It is a two way process which requires significant willingness to change on the part of our neighbours. Only as they fulfil *their* commitments on the rule of law, democracy and respect for human rights; market-oriented economic reforms, and on foreign policy objectives, can we offer an even deeper relationship. There is no question of our forcing change or trying to impose reforms – we have sufficient examples around the globe of the problems with such an approach. Rather we will offer concrete support to our neighbours on their way towards shared prosperity, security and stability.

On globalisation

Let me look even further afield now to discuss the issue of globalisation. This again is a huge issue which covers not only economics but issues of international governance, culture, migration and so. I want to focus here

on the question of trade. There is no denying that the world is indeed experiencing great change. Globalisation is not a new process, but the rate and extent of the changes it is bringing about now are unprecedented. The current process is not a simple continuation of the past. Twenty years ago just 10% of manufactured goods came from developing and emerging countries. By 2020 it is likely that this figure will be 50%. And China and India – these immense and dynamic economies – are indeed a fundamental part of the challenge.

I believe very strongly, however, that our major sin in Europe is to look at globalisation as a disaster. For me, it is an enormous opportunity. As is the case with enlargement, you would easily conclude the opposite when reading the press or listening to some of our politicians. The opening up of the world economy is too often seen as a disaster, bringing with it unfair competition from low cost sources, destroying businesses and jobs. On the contrary, in my view, the opening up of our economies to global competition has been one of the major factors stimulating growth across the world and a reduction in poverty in the emerging economies.

Economic theory teaches us that increased trade and foreign direct investment promote prosperity. Estimates suggest that about one fifth of the increase in living standards in the EU over the last 50 years is the result of our integration into the world economy. It has brought European consumers enormous benefits – we are paying very low prices for an ever wider range of goods – not just textiles but electronic goods such as DVD players – which we used to produce ourselves but at significantly higher cost. This has allowed rising standards of living at a time when real growth has been relatively low. It has provided firms with new and expanding markets. The economic gains have of course resulted from a new pattern of economic activity and from changing

comparative advantage, and some sectors of our economies have come under extreme pressure – textiles and shoes spring most obviously to mind – as they have developed elsewhere. But in the last 5 years EU exports to China have increased by 69%, and while we may be losing out on shoes, we are selling planes by Airbus and cars by Mercedes.

In short, globalisation is not a zero-sum game. As I argued for enlargement, this is a win-win situation, and we should see the rest of the world – China and India included - as partners rather than rivals. For this reason we in the European Commission are not happy with the present situation on the Doha Development Round, and we will continue to push for a resumption of negotiations as the central priority of our trade policy.

Reality and Perception – why the difference?

Ladies and Gentlemen,

Some of you will say that I have come to you today wearing rose-tinted glasses. I don't think I have. I will admit quite openly, however, that I have painted a positive picture of three issues which often receive a negative press. And I have done so because I feel strongly – as I hope I have explained here – that this negative view is not justified. I should nevertheless conclude by trying to explain why, if the benefits outweigh the drawbacks, there is so much popular opposition to these processes. Let me give three reasons and then some policy implications.

First, as I stated at the beginning of my speech, we do not communicate well enough the advantages of being open, and we do not argue with sufficient rigour against the myths and misperceptions about enlargement and about the evolution of the global economy. As I also

said, this 'we' is not just the Commission, but all the European institutions, politicians at national and local levels, NGOs, and schools and universities. In my many contacts with the local press, I also urge them to report more frequently and more objectively on Europe. And I reiterate my invitation to you at the beginning of my speech to respond to the on-going consultation on our communication strategy.

Second, a great deal of resistance to change results from the relatively poor economic performance of the European Union in recent years, on high unemployment and low growth, and a general feeling of economic insecurity. Strong economic performance brings two benefits – citizens feel more secure, they are less defensive; and politicians have greater legitimacy and more scope for selling policies which are not necessarily instinctively welcomed by their citizens.

Third, and perhaps most importantly, my optimism with respect to the economic benefits of enlargement, to greater integration with our closest neighbours, and to openness to global trade, does need to be qualified in two important respects. First, we cannot take these benefits for granted. We must have the flexibility to adapt to the changing world around us. Second, these benefits are not always evenly spread across the economy, and we must find ways of ensuring that they are. Both of these issues must be tackled through economic and structural reform, by implementing policies that enhance growth and job creation, and by providing all of our citizens with the skills and opportunities to benefit from these changes.

The Commission is responding vigorously to these last two points. The Lisbon Agenda of economic reform which was launched in 2000 was frequently criticised for being too abstract, for being everything and

nothing, for having no driving force behind it. It was against this background that President Barroso relaunched the agenda for economic reform with a clear focus on jobs and competitiveness, and has made this the policy priority on the Commission's agenda. While it remains the case that it is the Member States themselves which control most of the levers for bringing about economic reform, we have involved them in a much more structured process of priority setting, reporting, and exchange of best practice. And I believe that we are succeeding in shifting up the policy agenda those issues which are central to regaining our economic dynamism – increased emphasis on education and training; more expenditure on research and development; unleashing the dynamism and innovative capacity of our SMEs by reducing administrative and regulatory burdens.

And I could not finish my presentation to you today without mentioning my own portfolio. One of my key priorities as Commissioner for Regional Policy is to ensure that my policy is at the heart of the growth, jobs and competitiveness agenda. There are good reasons for this - when factories are closed and jobs are lost – for whatever reason – it is at the local or regional level that the changes are most immediately felt. But it is also at the local level that we find the essential knowledge - and the motivation – for identifying problems and appropriate solutions. The reform of regional policy which I have introduced for the period 2007-2013 will adopt a more strategic approach which aims to integrate the growth strategies at European, national, regional and local level. At the same time we have reinforced subsidiarity to ensure that the right players are involved at all levels. And we have increased budgetary concentration on the priorities of R&D and innovation, entrepreneurship, human capital, ICTs, as well as accessibility of the regions.

Conclusion

Ladies and Gentlemen

In recent years we seem to be living in a period where global discussion is dominated by terrorism, regional conflicts, and illegal immigration, and where the response to these issues has been the use of military power, of sanctions, and of regime change imposed from the outside. I am convinced that these approaches rarely, if ever, achieve the results they aim for. And I think on the other hand that the European Union – in a rather quiet way which is rarely sufficiently acknowledged - is concrete evidence of the effectiveness of 'soft power'. The desire for Membership of the Union, to share in what we have achieved, has helped in the past to consolidate democracy in Spain, Portugal and Greece. It has been the main driving force in the dramatic process of transformation in Central and Eastern Europe. It is now doing the same in the not so long ago war-torn Balkans, and beyond that to our other neighbours. We have everything to gain by keeping our doors and our minds open, and by sharing as widely as possible the peace and prosperity which has been the hallmark of the European Union for almost 50 years.