

Can we overcome the European crisis?

**Speech given by Carl Bildt
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This has – so far – been a truly miserable year for Europe. Behind us lies six months of six major failures.

The first was the failure of the midterm review of the Lisbon process. With the Lisbon process obviously failing, this was the last chance to breathe some form of new life into a process that had been launched with great fanfare and great hopes five years earlier.

But the meeting achieved little more than slowing down work with the critical opening up of the service sector in the European economies, thus de facto further endangering what little that was left of the Lisbon process.

The second was the so-called reform of the Stability and Growth Pact. Although the original SGP was by no means handed down from above on stoned tablets, the new version signalled a significant loosening of fiscal discipline, and did so in a way that fuelled the suspicion that there were in reality different rules for the bigger and the smaller states in the union.

The third was the failure to achieve even a minimum consensus on reforming the long-term financial framework of the union into spending more for the future in terms of research and development and less for the past in terms of different schemes of subsidies.

The fourth was – obviously – the failure to secure ratification for the Constitutional Treaty in the referendums in France and the Netherlands. Whether this was a big or a small failure is dependent on whether you saw the Constitutional Treaty as a big or a small step forward.

The fifth – turning into the area of foreign and security policies – was the handling of the entire issue of the arms embargo with China. Whether one blames it all on the leaders of France and Germany – as Chris Patten does - or on something else it is difficult to avoid the conclusion that the result has been that we have lost credibility in Washington and face in Beijing.

And the sixth – although it stretches into the last few months as well – has obviously been the massively bungled up question of the liberalisation of trade in textiles with primarily China.

It has – in short – not been the best of our times.

Each in themselves we should have been able to handle these different setbacks. But when you add them together one cannot avoid the conclusion that Europe has lost its sense of strategic direction and, accordingly, a certain amount of its faith in itself.

The politics of Europe has turned defensive, inward-looking and status quo-oriented. It has lost that critically important feeling of creating something new and vastly better than the old.

I belong to those that fail to see the objective reasons for this state of malaise.

It is certainly true that in particular the major continental economies have lagged seriously behind in reforming their economies, but it is not true that you can paint a uniformly bleak picture about the state of either the economy or economic reforms in Europe.

In fact, there are parts of the European economy that in different international rankings consistently comes out in top in terms of either global competitiveness today or economic reforms for tomorrow.

And behind us lies a process of enlargement that has been a spectacular success in bringing the prospects of both peace and prosperity to ten nations and a 100 million Europeans from Tallinn to Sofia.

What has been achieved in these historically somewhat unstable and conflict-ridden parts of Europe during the past decade and a half borders on the miraculous. One thing is clear: it would not have been possible without the magnetism of the European Union and the model that it's different and often criticised regulations and mechanism represents.

Enlargement and the economy – and the interaction between the two – is at the core of the tasks that are now ahead of us.

What we are engaged in is the building of a Europe that is whole and free, democratic and dynamic, in a world undergoing a profound transformation as globalisation accelerates.

I am convinced that this the third phase of globalisation in modern history represents the best opportunity for Europe since more than a century and that our success in realizing this opportunity is dependent on our success in realizing the opportunity that our European enlargement represents

I am as convinced of this as I am worried by the voices that seek to put our common policies in opposition to either globalisation or enlargement or – often – to both. To me, such attitudes represent not only a failure to see where our true interests lay, but also a betrayal of the values upon which our Europe is built.

If we shy away from globalisation, enlargement or liberalism – and start treating them all as threats - then the future of Europe is clearly at danger. Then, the politics of Europe will amount to little more than the administration of decline.

Today, competitive pressures are building up stronger and faster in the European economy than in any other major region of the world, and this is starting to drive a process of reforms from below that has the potential for achieving much of what the process from above – perhaps even more – has so far failed to deliver.

If you look at the drivers for change in this accelerating third phase of globalisation, you find four major such.

The innovation potential of America, the production potential of Asia, the conflict potential of what might be referred to as the Grand Balkans and the reform potential of Europe.

Europe certainly has both the capacity to reform and the reservoirs of productivity that will make reforms succeed. While we have clearly been outperformed by the United States since the early or mid-1990's, we should not forget the three decades before that when we were outperforming the United States.

The single market program between 1985 and 1992 was a great program that inspired great changes and reforms. That it was not enough, and that we suffer from its only partial implementation, is obvious when we look at our performance since it was supposed to have been completed.

But now the single market is being transformed by its enlargement to the new member states. While only representing app 5 % of the total economy, I would argue that they becoming part of our integrated market is starting to drive towards 50 % of the rapid changes that we are starting to see on the corporate level, and which increasingly are driving reforms also on the political level.

This is not a threat – it's an opportunity. A European economy reshaped on the basis of the very different competitive advantages in the different parts of Europe is bound to be a European economy that is globally more competitive than would otherwise have been the case.

Enlargement has given us a competitive advantage as globalisation is now accelerating.

I see few more important tasks for the leaders of Europe today than to grasp the opportunity of globalisation and present reforms as a way for making Europe the true winner of this process that it should be.

It's not a question of assuring 'the sustainability' of an alleged European social model, as it is defensibly said in the preparations for the informal summit next month, but of assuring that Europe becomes the winner in globalisation.

There is of course a correlation between these issues and the wider security issues as well as the standing of Europe in the world.

On the later point, there is no doubt that we have taken a beating by the failures of this year. Judging by my own experiences in different parts of the world during the past few weeks, it looks as if we in America are seen as a place with too few babies and too many Muslims and accordingly too bleak a future, while we in Asia are hardly seen at all.

At the core of our security mission remains the question of peace in Europe. The voters of Verdun did vote 'Non' to the constitutional treaty in the sure conviction that the issue of war and peace that brought so much horror to their city is now settled in this part of Europe. But voters of Sarajevo, Kiev and Istanbul are far less likely to feel certain on this point. And we share a continent with them as well.

In today's world of mounting challenges, it is indeed worrying that we are seeing a parallel deterioration of both the hard powers of the United States and the soft powers of the European Union.

American military power is seriously bogged down in the marshes, back alleys and deserts of Mesopotamia. And it is likely to remain so for some considerable time to come. No one will say it openly, but everyone knows that the world's number one superpower is seriously limited in its military and hard power options in virtually every other part of the world. The single superpower is a weak superpower.

If there has thus been a decline in the hard powers of the United States, the decline in the soft powers of the European Union is no less obvious.

Only a year ago we had reason to discuss how to accelerate the development of the hard powers of the European Union. Now, the most urgent question is suddenly how to arrest the decline in our soft powers.

The success story of enlargement from Tallinn to Sofia has contributed to a situation in which we can safely say that Europe has never been so free, so secure and so prosperous as it is today. Never throughout its entire history.

A continent that during the last century exported wars and totalitarian ideas to the rest of the world was gearing up to be ready to export stability, peace and democracy to its adjacent areas as well as to the wider world.

But then we suddenly lost faith in ourselves and strategic direction in our policies.

This loss of faith in the momentum of integration has already undermined the soft powers of Europe, and threatens to do so even further if action is not taken to restore faith in the momentum both of the process of enlargement and the process of strengthening the common foreign and security policy.

From Sarajevo to Istanbul to Kiev there is now a rapidly increasing uncertainty of where the entire thing is heading. There is a serious risk that reform processes in these countries – indeed in the entire very fragile near abroad of the European Union – will stall – to some extent it has already happened – or even go into reverse as the guiding light from Brussels is starting to faint.

In much the same way as we have seen a virtuous circle of integration and reform and stability in these wider areas during the past decade, the decline in the soft powers of the European Union might well read to a vicious circle of instability and tension within and between societies in that wide and strategically important area that is the neighbourhood of Europe.

Then, a profoundly dangerous combination of enlargement fatigue here and reform fatigue there will produce a Europe where peace might again be at risk in its more vulnerable parts.

This is far more than a problem just affecting the immediate interests of Europe. We border directly on the Muslim world in which the clash between the forces of reform and the forces of reaction is now played out, and this world in agony increasingly stretches right into our own suburbs and city centres.

Where Europe to give up its soft powers and de facto close the door to the countries of the Balkans and Turkey it seems unavoidable that this will have a negative effect on that clash within that wider and important world. We, as well as the United States, would suffer the consequences. Our common agenda of promoting political and economic reforms towards more of freedom and democracy is likely to suffer as well.

Looking ahead, there is no doubt that we at some point in time must come back to the different institutional issues. But today our crisis is intellectual rather than institutional. It is the lack of strategic direction, and lack of confidence in ourselves, that is the main problem.

To overcome this requires that we tackle the interrelated great tasks of the economy and of enlargement.

Just to speak about bringing issues closer to the voters doesn't solve anything at all.

What our electorates expect is to be given a sense of strategic direction and a commitment to actually achieving results. In the absence of this, we have very little to bring closer to our electorates, but if this is achieved it will immediately be felt by them. It's not therapy that is needed – it is actions that can deliver results.