

New Europe in the New Europe

Today I'd like to talk about the New Europe and its different meanings. There's one meaning of New Europe which is given by Rumsfeld and there's the New Europe that we don't think about enough—the way Europe is today. I'd like to talk about both.

The new members of the European Union, the ones that joined three years ago in 2004, and the two that joined this year, long before they became members were being characterized in ways we hadn't asked to be: on the one hand, a United States Secretary of Defence thought we would be the new vanguard of a muscular pro-American European Union. On the other hand, when we did support the United States, a European leader said we were badly brought up children who didn't know when to shut up. And in Russia, New Europe is understood as poorly as the European Union itself is understood there.

But there are even greater generalizations about what Europe is about today: the kind we see in some U.S. newspapers, who have an obsession with the EU being something it is not: a failure, ineffectual and doomed to collapse, and the kind we see in some parts of the British press: a looming Orwellian super state not with black UN helicopters ready to swoop down on John Bull, but that's because the colours of the choppers have not been determined yet.

As always, simplistic generalizations are wrong but heuristically allow us to put our finger on something that we sense is there. As it is all more complex, I would try to draw in broad outline changes in Europe that have taken place after such a profound renewal or change as admitting 12 new members totalling over 110 million new citizens, almost a 30 per cent increase in population in 2004 and 2007 enlargements, with importantly a much smaller increase in GDP. And after that, I will explain, why it's all irrelevant.

Each country is of course unique, so you will forgive my own broad generalizations about what's going on. It is, however true that:

A. New members of the EU do not share the almost knee-jerk anti-Americanism that had

become *comme il faut* if not *de rigueur* for those who have wished to be *salon-fähig* since the late 1960s in much of Western Europe. But this should not be surprising given the differences in the positions of Western Europe and the U.S. during the Cold War.

There is a difference, a profound difference between Western Europe and the new member states in regards to trans-Atlantic relations. When Poland came under martial law, a German Chancellor praised General Jaruzelski as a true Polish patriot. When Ronald Reagan called the Soviet Union the evil empire, most of us silly bumpkins with empirical knowledge of how the Soviet Union operated, thought it's a pretty good description of the state of affairs in the Soviet Union. To think about what attitudes people had towards Ronald Reagan's description of the Soviet Union and Western Europe you see that there are fundamentally different views of what the United States thought as well as fundamentally different views regarding Western European attitudes towards developments in Eastern Europe.

As I said, maybe some people have forgotten what the German Chancellor said about Jaruzelski being a Polish patriot, but you can bet the Poles have not forgotten. I think that Estonia has been extremely pro-European on issues such as the constitution; we don't share the views of some Western European countries regarding Poland precisely, because we also remember that it wasn't just World War Two that got the Poles down. We also remember that as late as 1981, if you're a Pole and you hear that the head of the military occupation is a genuine patriot in the views of the Western political leaders, you might understand Polish reluctance in some issues.

But all of this is going to change, because young people who have grown up without communism will mimic their western anti-globalisation counter-parts in the rest of Europe, new Europeans will probably follow the same path of development in the next 30 years as the generation of Western Europeans who in the 1960's and 1970's were different from those with the fond memories of the Marshall Plan, the Berlin Airlift liberating GI-s in the 1940s and so forth. Things will change; attitudes will change towards trans-Atlantic relations.

B. New Europeans are definitely more capitalist. Many of the new members have flat-rate income taxes, whose main benefit is dramatically increasing compliance payment. We are more free-trade oriented, we believe in competition and that if you have fully free movement of capital it results in major distortions if you don't have free movement of services or labour.

C. We do have a different attitude towards Russia. Again, this will change; I certainly hope it will

change. In some quarters it has already changed, but having empirical experience with that empire means, new Europeans do see developments in our East in ways that those with a romanticised view of mass deportations, Gulags, the KGB, long lines to buy shoes, Trabants and often no meat do not.

I don't mean to be flippant. If you have risen up against Russian imposed rule and tanks in Poznan, Berlin, in Budapest and Prague, later in Vilnius, Riga and Tallinn, there will undoubtedly be a different view from that in capitals that rose up against no one. I think it is appropriate to point out that the only genuine uprising against NAZI rule took place in Poland, what is now a new member state.

These are big differences and will affect the way Europe will develop.

But these differences will be seen in very different ways and will be affected by very different factors that we can't quite predict yet.

The real issue for me that we have to face, with the New Europe in the broader sense of the Europe that is now 500 million people, is how Europe will compete in the future internally in the EU and how EU will compete in the world? If we look at long term trends in globalization we need to be grateful to Monnet and later Delors for creating the single market, back when globalisation was not a phenomenon. For it is only thanks to the creation of the single market in the 1980s that today we are able to compete in the global arena, because we faced up to genuine competition already in the middle 80s giving us a lead on the rest of the world, because we could compete within Europe. Opening up to competitive pressures within Europe has been the driver of our competitiveness world-wide.

But this is not enough. We need more courage; we need more of a vision and an understanding of where we and the world will be in 20 or 25 years. For even the economic powerhouse that is Germany today will be dwarfed by a rising India and China.

Today, an EU of half a billion can still with its quality of life, level of education and innovation compete with the US with its 300 million, China or India, each with about 1.3 billion. But we also have to keep in mind when we say that China or India is very poor, that only 8 per cent of India enjoys a West-European lifestyle. Well, 8% of India is 100 million people. That's larger than the

largest member state of the European Union. And it's going to be changing – the number of people in India or China who will rise up in their income, is going to increase. India and China are going to become ever greater players. They will have low labour costs and we have to think about this.

Current thinking in the EU is not a cause for optimism, and for two reasons: one, the failure of the EU's own well-intentioned programme for developing innovation and competitiveness, the Lisbon Agenda; and secondly the EU's increasing turn to protectionism, not only regarding the outside world but within our own borders as well.

Allow me to address these two issues in turn. Back when my own country had just emerged from 50 years of Soviet-imposed backwardness, I despaired over how long it would take to build the infrastructure necessary for Estonia to compete, for people to feel like they're living again in Western Europe. Fortunately, in a different area, the new infrastructure of information technology, Estonia could play on a level playing field, because in the early 1990s the Internet and computerisation were not phenomenon of development anywhere. So getting in right in the beginning allowed us to do a lot. Investment by both the public and private sectors in IT meant that by the middle 1990s Estonia was already above the EU average and by the turn of the century, we had achieved a level in government services and some sectors such as banking, a level enjoyed only by a few countries in Europe. Specifically Finland, Sweden and Denmark. This year already thanks to some very creative thinking, any place that has electricity in Estonia is on the web or can be on the web if we want it to be. So basically we have complete coverage of the Internet in Estonia.

Clearly a small and once developmentally challenged post-Soviet country can overcome huge obstacles. But I fear that in the larger EU, this may not be a welcome development. Increasing government efficiency as we have through Internet, through information technology means a smaller, leaner public sector.

So too in banking. Since the 1990s 97-98 per cent of all bank transactions in my country take place over the internet. This means that banks need fewer tellers, fewer branch offices. Large numbers of workers become redundant. Had we not experienced a very long period of expansion of 8, 9, 10 and last year 11 per cent growth, we would probably have been in serious trouble with all of the Internetisation and all the redundancy, but fortunately the massive growth soaked up these redundant workers and we do face at this point still a shortage of labour.

The emphasis in my country placed on IT paid off, allowed it to be more competitive. But this is not enough. Yes, we could partially offset our small size by having IT liberate people from tasks computers would do better anyway, but this is not sustainable if we do not begin to produce innovations. For even Estonia can no longer count on low-cost labour for its competitive advantage, just as Denmark for a long time now has not been able to count on low cost labour.

We, as the rest of Europe, need to generate new technologies, we need to innovate, for which we need more of technical intelligentsia. Yes, Estonians invented Skype, but in general my country as well as the rest of Europe is falling behind in innovations and in science. Innovations come first and foremost from the United States, which itself depends on brain-drain from Europe as well as from India and China to maintain its high level of intellectual and scientific competitiveness. In other words – we don't study enough math in Europe anymore. And that I think is a serious problem.

In Europe, including my own country, we are averse to immigration. Our children increasingly choose not to study math, science and engineering, and we are choosing to cut ourselves off from competition and not only in goods but even in services.

Five years ago, when I moved from one apartment to another in Tallinn and I wanted to have the Internet in the apartment, I called the telephone company and I asked them to put in the Internet connection. The kind woman at the other end of the phone asked if they could come that afternoon at 1400, 1600 or 1730, which would be most convenient for me? Three years ago, when I was elected to the European Parliament I applied for an Internet connection in the apartment I had rented. After 7 weeks of no movement I called my landlord, who had kindly offered to help out if I ran into problems with the local bureaucracy. "Only 7 weeks?" was her response when I complained about the fact that I had not gotten the Internet. And then she added something especially funny for anyone from the post-communist world: "But maybe I can help, I have some connections on the inside".

I consulted with some of my former colleagues, the Estonian diplomats about how it was in the rest of Europe and this was not at all a rare response in what Donald Rumsfeld called Old Europe. It's unfortunate, because when it comes to competition on the global arena, there is no old or new Europe; there is only the European Union. If this is the quality and level of services in what the world knows as Europe, 7 weeks to get an Internet connection, then we are in deep trouble.

Competition or its lack within the community has security implications as well. Here I'm treading on dangerous ground, because I'm also going to criticise my own government, but a number of countries are opposed to liberalization of the EU energy market.

We all want our own companies to be shielded from competition, an understandable reaction... But—one of our largest sources of energy is a self-proclaimed energy superpower that not only is known to use energy as a foreign policy tool, but on its foreign ministry home page even says that energy is a foreign policy tool. Clearly in the future, if we are to avoid *divide et impera* policies and the internal bickering over energy that we already see within the EU, then a common energy policy with an energy commissioner with the negotiating heft of the trade commissioner is an absolute must. Even Germany is a small country when negotiating alone with Gazprom. But for us to develop a common energy policy, we need a common trade regime, we also need the

sine qua non

of external economic policy, and we need internal liberalization of the energy markets. I think that aside from the innovation issue with the big challenge that we will face in Europe in the next 10 years is how we liberalize energy markets. If we don't liberalise energy markets and we continue each to negotiate on our own private deals and separate deals for energy, we don't have a freely moving energy market. And then we're all open to all kinds of political pressures that sovereign countries within the European Union should not be open to.

Ladies and Gentlemen!

So, where are we when we look to the future? Koreans and Japanese enjoy rates of Internetisation far greater than most of Europe, with far cheaper rates of streaming; with Asia and the U.S producing far more engineers, scientists and mathematicians, than we do. We do our best to make sure we don't have free movement of services; we even do our best to make sure we don't have free movement of labour. We worry about our lack of engineers but do little to promote science education, and ultimately when we see that we have difficulty competing we resort to protectionism, which we are doing ever more in the European Union. We know where the protectionism leads. It leads exactly to the kinds of problems that the Chinese, the Indians and the Mexicans are trying to crawl out of, because they all imposed very protectionist regimes to protect themselves. The result was, the rest of the world bypassed them. We should not repeat that mistake. In one of the most important sectors for economic growth, the energy supply, we are beholden to a foreign power that explicitly uses its energy for foreign policy goals.

This does not look good. All of this will lead to a gradual decline of Europe and European

competitiveness in a globalised economy. Unless, of course, we do something about it. One of the things we can do about it, is the constitutional treaty or whatever we call it this week. We need to get the legal bases of the European Union in shape, so that we can move ahead to face the challenges of a globalizing and increasingly competitive world. Without the treaty or whatever you want to call it, our current foundering and inability to come up with effective policies will only lead to disillusionment with the Union. Globalization, to once again quote Donald Rumsfeld, is a known unknown. But unfortunately there are a lot of unknown unknowns out there. And the challenges that we face in the future we can fathom, but we cannot really know what they are.

Ladies and Gentlemen!

As you can see, when we start looking at the real issues facing the European Union instead of looking at the issue of New Europe and Old Europe and the new members and the old members, we see that the real issues are far more important than the kinds of I would say petty concerns about what kind of tax-rates should the new member states have. I would submit that as long as observers concentrate on what makes Old Europe different from New Europe, we will indeed find lots of differences, look for cleavages, advantages.

When, on the other hand, we look at New Europe as a whole, with its half a billion population, economic might and military dwarfism, we see things quite differently. I would submit here, that we all start looking less at Europe as new and old, but rather as a whole new Europe and in need of renewal.

Thank You!