Tack så mycket! Rektor magnifice, amice, amicique.

Dear friends, I'd like to begin by simply thanking Sweden for everything Sweden has done for my country, for taking in so many of my countrymen, when we were occupied, including my mother and father, 67 years ago. But I most of all would like to say that I'm in Sweden on the 20th anniversary of the restoration of our independence because Sweden has done so much for us, and because I think we can do much more, and perhaps in a new role. And that's what my talk today will be about: a new way of looking at Europe. Tentatively the talk would be called "Old and New Europe in 2011".

The title is purposely ambiguous, because the dichotomy of "New Europe" vs. "Old Europe"Â h as served as an all-purpose vehicle for any number of discussions for the past 20 years. Only in the past decade it has meant so many things that to unravel what it means requires one to keep a tally of who is speaking, who is in power, whether it is a historical description of the post-Cold War settlement, security policy formulation or, in a complete category shift, a description of what we mean by fiscal responsibility in Europe today. And these meanings do not often overlap. But I will begin by briefly looking at what "Old" Europe has meant for the past 20 years and then, perhaps, suggest a new way of looking at it.

Back with the collapse of the Berlin Wall, the Yugoslav Federation and the Soviet Union, "New Europe" came to stand for the swathe of countries from Estonia in the north to Slovenia in the south that emerged from communist dictatorship and throughout the 1990s embarked on massive reforms and sought European Union and NATO membership. "New" meant, overtly or implicitly, among other things poorer, more corrupt, often criminal, less well governed, probably less democratic, in need of (often patronising) tutorials on ethnic and other forms of tolerance, compared to the established, rich, honest, safe, well-governed, democratic and tolerant "Old Europe".

The old didn't know quite what to do with the new. On the one hand, there was the understanding that those who, through no fault of their own, had suffered communist domination should be brought into the European fold (as indeed Germany did with the DDR). On the other hand, it was all a bit hard to take. The "News", as it were, were neither *comme il faut* nor *salonf ähig* , if you know what I mean.
Bringing them into the EU and NATO – the European structures that had served Western

Europe for four decades – meant there would be an overall decrease in wealth, CAP funds would decrease, while the anti-communist position of so many of these new countries struck Old Europeans as primitive, redolent of cold-war American attitudes, and besides, the real money was to be made in Russia. East Europeans in general, with their dubious attitudes toward ineffectual and costly social welfare networks (of which they had ample evidence) and their unsavory appreciation of the United States, struck many as a mixed blessing.

Old and New Europe became genuinely loaded terms after Donald Rumsfeld, who wanted to disaggregate the continent conceptually, distinguished between those countries that supported the United States' invasion of Iraq from those that opposed it. This was a shorthand description originally proposed by Robert Kagan in another influential essay called "Power and Powerlessness", in which he talked about Americans being from Mars, Europeans from Venus, and… by which he meant that Americans were Hobbesians and Europeans believed in the Kantian "perpetual peace", that could only be achieved through a federalised confederation of democratic republics. But he also said that the East Europeans were far more Hobbesian and therefore maybe they too, or we too, were from Mars.

But Western Europe was not always happy with this view and certainly not with the view of the Eastern Europeans, or the "New Europeans", because of this new Hobbesian view, because we didn't always see things eye-to-eye. The Kantian view saw conflicts to be resolved through long negotiations and discussions, with the goal of maintaining stability. Old Europe saw this as the way to do things; on the other hand, for many of us, Munich, Yalta and other city names simply don't have the same appeal as, or the same effect, or have an altogether different effect, as saying Lisbon. So with New Europe's experience with appeasement, beginning with 1938, continuing through history, meant that we had perforce a different *Weltanschauung*.

Old Europe sought "stability"; New Europe thought that stability was precisely stagnation and that we needed to change things. "Stability" in many cases was seen in New Europe as Western acceptance of oppression, as long as it was "nimby"*Â* oppression. And some, to this day, look at New Europeans' attention to violations of fundamental freedoms of speech and press and association and objections to aggression as being a case of "post-Soviet traumatic stress". We see it as fundamental values we have to stand up for.

But anyway, I don't want to belabour this, but in any case it did lead to all kinds of problems for us. As you recall there was a president of one country, currently under indictment for corruption, who called East Europeans "badly behaved children who did not know when to shut up". But we did in fact support the United States in the Iraq War, but there were reasons for that which I won't go into right now.

But I also argued at the time that the New European attitudes towards the United States would change with time. And clearly this has happened: on the one hand, the Old Europe of Sarkozy and Merkel is not the Old Europe of Chirac and Schröder. Moreover I think that we could all agree that Eastern Europe is no longer blindly accepting of the United States. That has changed, I would say. I think that what has changed is first of all a much more European attitude, as it were, of cooperation on the part of the new members; a certain loss of infatuation with the United States; as well as a fairly understandable change in the United States that sees its fundamental problems as lying in Iran and China, and not really paying that much attention to this part of the world.

That was then; this is now. The crisis – the economic crisis – in the world and especially in the European economy, I would argue here today, will result in a completely new definition of New and Old Europe. No longer will the dichotomy apply to countries that up till twenty years ago were under communist domination; it will no longer be a description of transatlanticist attitudes, or attitudes towards the United States. It is the European economy today that is currently leading to a fundamental reordering of how we see Europe, as well as what we mean when we talk about the United States as being different places, with the Unites States traditionally being all about freedom and free enterprise and a high Gini Index and no social welfare net and European social democratic cradle-to-grave welfare, either as the apotheosis of human development or alternatively the penultimate way-station of a Hayekian road to hell, or to serfdom, excuse me. But in any case those are the caricatures of Europe and the United States that we read on the one hand in *The Wall Street Journal* or in *Der Spiegel*, depending on which way you're looking at things.

But a similar re-ordering I think is taking place in Europe as well. A partly whimsical, partly dead-serious piece in the *Washington Post* in the fall of last year by Anne Applebaum maintained that the old east-west divisions in the European Union between rich Westerners with no history of communist rule vs the poor East Europeans from the old Soviet bloc is being replaced today by a north-south divide based on fiscal responsibility and your place in the Transparency International corruption index. It was a simplification of course, but it does illustrate that Europe too is in flux, and that the old perceptions and stereotypes are changing. In a far more systematic analysis, published recently, just a few months ago, titled
The Last Shall Be The First
by leading scholar of post-communist and transitional economies, the Swedish economist Anders Åslund, argues that post-communist countries in the European Union have responded far more vigorously than Old Europe to the challenges of the economic crisis. If you look at national indebtedness, size of the budget deficits, economic performance among EU countries, we note that old and new, and those kinds of categorisations, are no longer as simple as they were a decade ago. Just as we East Europeans are no longer knee-jerk pro-Americans, so too are they hardly the economic basket cases that they once were, with creaky infrastructure,

unreformed economies, and high levels of corruption and low levels of productivity.

Equally misplaced yet slow to disappear are comfortable but illusory Old European stereotypes. A mere six years ago, the EU constitutional referendum was voted down in France through a xenophobic campaign against the "Polish plumber", who stood *pars pro toto* as a synechdoche for all of the great unwashed cheap labour of the East.

In 2009 Poland was the only country to enjoy economic growth in all of the EU, probably the only democratic country to enjoy economic growth in 2009 in the world, and while Poland's GDP per capita – like Estonia's – is about 65% of the EU average, it is a growth not based on borrowing your wealth, but growth based on creating it. Eurostat's latest report (from a week ago, 7th of January) shows that in the third quarter of last year Sweden led year-on-year growth at 6.8%, second place was Estonia with 5.8% growth, Poland was in third place with 4.7% growth, followed by Slovakia at 4.2%, followed by Germany at 3.9. This is all real growth. It's also important to note that those are all countries that also managed to maintain fiscal responsibility. This growth is real, it is sustainable, and with Schumpeterian creative destruction going on in Europe, throughout Europe, today, I think we shall see in the coming decade, as a result of the crisis, a completely new ordering of Europe.

This re-ordering today is most evident in fiscal policy. There is a division today, perhaps even more important than the division between East and West, between those willing to bite the bullet, following the rules we ourselves have agreed to – deficits below 3%, national debt below 60% – and those governments accustomed to borrowing their wealth that fear to take necessary steps to fulfil the obligations they themselves have written into EU law. Today, differences in fiscal policies are reflected only in growth rates, but not yet in GDP per capita. But, let us keep in mind, divergent growth rates, however, over the middle and long term, will lead to a convergence between the richer and the currently still poorer (that is to say newer) members of the EU.

But I would argue, and this is really where I want to go with my talk, that fiscal responsibility is only part of the picture: that commonalities in a range of areas among certain countries are emerging, as is a divergence between groups of countries within Europe. These convergences and divergences will have the effect of erasing, slowly but surely, differences in levels of development stamped onto Europe by the Cold War and its divisions, that allowed part of Europe to enjoy fifty years of growth, and the other part of Europe to stagnate.

For the rest of this talk, I would like to focus on our own Baltic Sea region, precisely, or more precisely, on what I call the "Northern Baltic Rim", comprising, clockwise on the map, Denmark, Sweden, Finland, Estonia, Latvia and Lithuania. For I am convinced that not only are we witnessing a shift in our mental geography of Europe, but also that the sooner we recognise that the old categories no longer apply, the sooner we can begin to take concrete new policy decisions.

But to do this we need to forget our own "narcissism of small differences" – that's a term from Sigmund Freud – that we always look at the little differences, and that we make a big deal of it. We concentrate on what differentiates an Estonian from a Latvian, an Estonian from a Finn, a Finn from a Swede, a Swede from a Dane, and you all know what those differences are – let’s not kid ourselves, right! I mean, you can all tell a joke about the other ones, yes?

But let us focus rather on the commonalities among these countries, with the implicit understanding that these commonalities distinguish this part of Europe from the other parts. If we look at our commonalities, we can discern a clear "Northern Baltic Sea Rim" group characterised by first of all mostly small members – well, in fact, all small. Denmark, Sweden, Finland, Estonia, Latvia and Lithuania are all "small" countries, no matter what one or the other might think about its own size. Fiscal rectitude and a commitment to low deficits and national debt is another defining feature. Whatever the etiology of an acceptance of the need not to live beyond one's means – is it our peasant past, our northern climate that fosters our thinking ahead and saving? Whatever it is, it is clear that governments in this region of Europe are willing to take tough decisions to ensure that debt levels and deficits remain low, and are unwilling to take the easy road of just borrowing money in order to get re-elected.

Openness to trade in the EU is another defining feature of these countries. Litmus test here is provided by attitudes toward one of the fundamental but still unrealised freedoms of the union: free movement of services. While capital and goods can move easily within the EU, a strong protectionist streak remains that is most observable in attitudes toward services. You can buy a taxi or water company, a plumbing business or an internet service provider anywhere in the EU, but God forbid that someone from another Member State comes into your own country to set one up. And here again when it came to the discussion of the Services Directive in the European UnionÂ -Â virtually all of the countries who were clearly on the side of liberal trade were from the Northern Baltic Rim.

Another difference, or another commonality: a preference for transparency over opacity in both national and EU finances and decision-making. For this region of the world it is self-evident that we should know where our public moneys go. Elsewhere, attempts to bring transparency to, for

example, the Common Agricultural Policy or other large budget lines in the EU is met with stiff resistance.

Related to these last two, a willingness to pursue innovation in digital solutions, not only in e-governance, transparency and e-commerce, but also in innovation. And finally, well not quite finally, what we also share is a willingness to defend liberal rights and freedoms in foreign policy. We only need to look at the responses of the Baltic Rim countries to abuses elsewhere – to electoral fraud, to violations of freedom of speech and other rights, including the arrest and beatings of peaceful protestors, not to mention armed aggression. We do not remain quiet simply because we can make a deal, do business with countries that are not democratic. This is clearly another area where we are different.

Finally, there is a tendency towards transatlanticism and an openness toward continued enlargement of the European Union. When it comes to the direction of the EU in the future, the countries of the Northern Baltic Rim prefer to see a Europe whole, free and integrated rather than divided: a Europe that is inclusive rather than exclusive.

So I think that we should start thinking about ourselves and our commonalities in this regard, because it is very different from attitudes that we see elsewhere in Europe. And when we recognise that our differences are minor, our commonalities are great, we can begin to effect policy in a far more serious way.

But although we have much in common, the small countries of the Northern Baltic Rim are not yet fully integrated to the degree that would enable us to work out common views. In two areas, institutional arrangements inhibit forging a stronger, more encompassing set of positions. First, one area is security. Sweden and Finland are not in NATO; nor is there currently a strong desire to become allies. And in the case of Denmark, it opts out of ESDP, so this means that we in fact have a hard time coming up with common positions on the Northern Baltic Rim. And secondly one other area where we don’t share everything quite yet is the European common currency. Currently only two countries – Finland and as of two, three weeks ago Estonia – use the euro, and hence enjoy the strong institutional arrangements that are afforded to us, as well as the additional responsibility demanded of Eurozone regions. Thus, while fiscal rectitude is characteristic of all the countries of the Baltic Sea Rim, only two are in a position to demand following the rules, at least in the Eurozone core. And it doesn’t look like that's going to change for a while.

The Northern Baltic Rim, of course, is not that unique, which is why I prefer to use the term "cluster" to describe our group. There are a number of overlaps as well with other countries: the countries of the Northern Baltic Rim share with Germany and the Netherlands a commitment to fiscal rectitude; openness to liberalised trade and to transparency in the EU and to innovation is shared quite clearly by the Netherlands and by the United Kingdom; a willingness to take strong positions in defence of liberal rights and freedoms is shared by the Netherlands, the UK and Poland; and transatlanticism is something we share with the UK, with the Netherlands, with Germany and with Poland; and of course an openness to continued EU enlargement is something that is also advanced by Poland and the United Kingdom.

Accustomed as we are to look for and focus on differences between us and our neighbours, we might in fact try to look at the bigger picture. A broader view of the European Union's Member States' responses and behaviours during the crisis and indeed over the long term, even before the great recession, shows that the old categories by which countries were grouped – old members vs. new members, transatlanticist vs. middle-grounders, Martians and Venusians – make less and less and less sense.

Perhaps we are not yet aware of this shift in Europe. If there is any awareness of changes, then it is of larger developments in the world, like a rising China and a rising India. The tectonic shifts within Europe seem minor at this point still.

You might ask: "So what? These commonalities are interesting, but what of them? What difference do they make?" Well, I would argue that as these commonalities are beginning to emerge, we only have hazy contours of where Europe is going. But if we are smart enough and recognise emerging trends and proclivities, we will be in a better position to proceed – we'll know what we want. And I believe it is time now for the small countries that share similar viewsÂ to get together and to co-ordinate our policies in the European Union far more closely than we have done up to now. To work together to develop in those areas where we share fundamentally the same view.

There is one area, and here I'll try to get more specific, where this is already happening, and I'd like to draw your attention once again to something which is little noticed about in Europe. We do have the mechanism to co-ordinate at least some policies in the European Union: it's called the Baltic Sea Strategy of the European Union. Six years ago, as a member of the European Parliament, I wrote a short report for the Baltic Intergroup in that parliament arguing that after the enlargement in 2004 the Baltic littoral had become, for all intents and purposes, an internal EU lake; a new *Mare Nostrum*, if you will, to use the old Roman term for the Mediterranean. This was a report presented to the president of the Commission; I left the European Parliament;

a new report, or a follow-up report was written by my colleague there, Alex Stubb; then Mr. Stubb left the Parliament to become Foreign Minister of Finland; and the report then was adopted during the Swedish Presidency and has become an official part of the EU policy.

The EU Strategy for the Baltic Sea Region, as it is properly called, focusses rightly on environmental issues that we all have to deal with. But those also necessarily involve non-EU countries: Russia, Norway. But the strategy also includes a number of other components that are maybe not that self-evident and obvious as the eutrophication of the Baltic Sea.

Within the framework of the EU, we can work in Northern Europe to do things that the rest of Europe has not been willing to do yet; to work on policies that other countries are not just simply ready for; policies in which we all have a stake. Obvious areas are transport, energy infrastructure – two areas where we really need to do a lot of work. More fundamental issues that will involve our competitiveness as a region in the 21st century, where we all are small countries, and we have a rising China, and these include pushing for greater transparency, for having more openness in trade, to eliminating impediments in cross-border trade and movement, to have more IT solutions, to have more transparency in the way we rule.

I think that the Baltic Sea Strategy is one place we can begin to realise this – the commonalities that we share. It is not a foreign policy programme of the EU, it is not an internal policy of the EU, it is a macro-policy in which we can accomplish all kinds of different things as a region which will allow us to, I think, shape the rest of Europe to move in the direction that I think most of us agree is the only way to go.

So I would ask our friends in Sweden, who have been kind enough to establish this as a policy within the European Union, but especially students, and everyone interested in the European Union, to work on this, to find ways to develop the commonalities between us so that we can in fact bring the genuine integration of Europe at least into some kind of fruition in our area, because the mechanisms are there. The areas where it is difficult to overcome in all of the EU we can do around here, to make it easy for people to move back and forth, to make it easy for goods to move back and forth, to make our innovative economies able to develop more rapidly. And if the rest of Europe is not interested in these kinds of solutions, well we all are interested and we can develop them here.

So I think that there are new opportunities that are ahead of us that we can realise if we get over our preconceptions of who's who, what's what, what's old, what's new, what East and West

mean, but rather focus on the genuine commonalities that we share. The old/new distinctions inhibit us. The old/new distinctions to this day exist in the European Union: old Member States get three times the amount of CAP moneys as new members, even though for new members, markets – we all are in the same internal market, where the price of seeds, the price of fertiliser, pesticides, farm equipment and fuel is all the same in the internal market, but just part of Europe gets three times as much money. Or when we look at hiring for the new European External Action Service we see that for some reason, until recently, of the 154 ambassadorial posts in the EU, only one of them went to an East European. We were told that this is because the EU only hires the most qualified people, from which we can deduce that the least qualified people are from Eastern Europe and that clearly they're not so bright either. But I think that we will have to get over these ideas.

The reordering of Europe that took place in 1989–1991, twenty years ago, by which Estonia came back as a country and is enjoying such good and close relations with Sweden today – for Sweden is the largest investor in Estonia, where Sweden is the largest export destination of Estonia, where the old ties, be it between Tartu and Uppsala, where Uppsala is the mother university of Tartu University; Tartu University after all is the second oldest Swedish university, for whom Uppsala is *mater alma matri*, the alma mater's mother.

All these changes in the past 20 years, getting over the old divisions, are leading us to a brighter future. It's really up to us. It's up to all of those people who are willing to work on these issues, but I think that those people in those countries that understand that things are changing and see the new opportunities will be the ones who benefit the most.

When we get over our stereotypes, when we allow free trade and common interests to dominate, then in fact the Northern Baltic Rim will become probably the most prosperous area in all of Europe.

So that's the thought I would like to leave you with. And I would like to thank once again the University of Uppsala, the wisdom of Gustav Adolf to found a university in Tartu in 1632, and to thank Uppsala for everything it has done throughout the years for our university. *Vivat*, *crescat*, *floreat*
!

Hear and watch his speech "The Baltic Littoral in the New Europe" .