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## **Europe's political and economic challenges in a changing world**

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It is a pleasure to speak here in Zurich tonight, an illustrious city in enchanting Switzerland. I am glad to be here on my first visit to your country as President of the European Council, the body bringing together the EU's 27 Heads of State and Government.

I was here in Zurich for the first time in 1973 as a young trainee at the Belgian central bank. The big issue that time was the spectacular rise in the oil prices and the looming recession. So I have to be very careful coming to Zurich!

It is a special honour to speak under the aegis of the great British and European statesman WINSTON CHURCHILL: the man who led his country to victory in that most difficult struggle in history, the Second World War.

Notwithstanding this achievement, he lost the first British elections right after the war, in July 1945. His wife consoled him saying the defeat constituted a "blessing in disguise".

Well, CHURCHILL replied, "at the moment it seems quite effectively disguised"!

And yet Mrs CHURCHILL was right. Liberated from the duties of high office and with his newly acquired stature of global statesman, WINSTON CHURCHILL could now offer his experience and advice to the world-at-large.

He was among the first to warn about the Cold War. He was among the first, too, to plead for a political unity of Europe, in the ground-breaking speech delivered in September 1946 in this very auditorium. He concluded with the words: “Let Europe arise”.

It has been 65 years since CHURCHILL pronounced those words. And Europe did arise from the ashes of the world war. Back then one could see in Europe – and I am now quoting CHURCHILL in a poetic language – “a vast quivering mass of tormented, hungry, care-worn and bewildered human beings gape at the ruins of their cities and their homes”. (CHURCHILL won the Nobel Prize in Literature, as you know this!)

Today, some problems notwithstanding, Europe is by and large the most prosperous, the most secure and the freest continent on earth. CHURCHILL’s Zurich speech helped at the time to electrify a still rather unarticulated European movement. The hard-headed wartime leader lent poids, as the French say, to an idea which otherwise might have seemed utopian. It became ripe for timely decisions and democratic institution building. A process that continues today.

An ever larger number of European States, having joined today’s European Union, are discussing common affairs permanently, taking joint decisions and acting together, opening their markets, creating a space of free travel for their citizens. This common adventure, started in 1950, constitutes in itself a major contribution to the “arising” of our continent, as a phoenix out of the ashes. It has over time helped to consolidate democracy in Southern and Eastern Europe, shaping a stable European order which benefits all European states.

The achievements of the past are one thing, the challenges of today and tomorrow another. These are no less daunting. The world is changing rapidly and the whole of Europe – the 27 countries within the European Union and those like Switzerland closely linked to it – face new political and economic realities.

Presently the European Union is struggling with the aftershock of the financial crisis: the public debt crisis. But the fall of Lehman Brothers is not the only reason. The weaknesses in some countries come to the surface. We are dealing now with the remainder of an ill managed past.

All along this crisis we have a double duty: dealing with the current crisis, and preventing a new one from arising. Taking emergency actions, like the setting up of rescue funds, while also putting together, step-by-step, a new economic governance to help avoid future problems. The aim is to keep the Eurozone together with all the 17 participants on board.

In this work we feel a responsibility for ourselves, but also for the recovery of the world economy as such. This is the new reality of global financial and economic interdependence.

In Switzerland, economically so tied to the European Union – we account for 80 pct of your imports and 60 pct of your exports –, a neighbour of the Eurozone's three largest economies, you are fully aware of this interdependence. You, too, have felt the consequences of the turmoil, for instance when you were recently forced to adjust the overvalued Swiss franc.

Recently you must also have noted with interest – given your ancient democratic traditions – how deep democracy in our Union goes. Indeed, the EU never was the “bureaucratic beast from Brussels” its critics made of it: it is deeply embedded in the 27 national democracies. Newspaper headlines show how parliamentary votes on the euro in Berlin, Bratislava or Rome determine its course, alongside decisions taken by the European Council of the 27 governments and our directly elected European Parliament in Brussels.

This situation results for us, too, in a most serious political challenge: the tension between democratic institutions and economic policy-making in a globalised world. The markets have the luxury of moving at the speed of a click of a mouse. Political processes, even if they are working at their most rapid, cannot deliver so speedily. That's why the European Union has put in place rules and procedures that will both anticipate problems in the future and enable a more speedy and flexible reaction. We also have a real debate about the way forward: some Member States seem willing to accept a further pooling of sovereignty, in particular in budget oversight, in order to create a more stable financial environment for all of us.

Our duty is not only to guarantee the financial stability of the euro area. It is also and at the same time to stimulate economic growth. Another major challenge. In the end only sustained economic growth can bring back confidence, create jobs and absorb debts. It is one of the important issues where the European Union and Switzerland can work better together.

The European Phoenix, arisen out of the ashes of 1945, needs growth to stay on course, to be able to continue to offer its citizens the prosperity and stability they expect for themselves and their children on this privileged continent.

Tonight in Zurich I should like, however, to look also beyond the European Union's immediate internal challenges and examine the place of our Union and our continent in the changing world.

I feel of course invited – if not obliged – to do so by the figure of CHURCHILL, the tireless and astute observer of international affairs.

A first striking element is the changed landscape. In 1946, on the eve of the Cold War, the contours appeared of a world divided in two: West and East, Washington and Moscow. After 1989 this changed. The fall of the Berlin Wall was no doubt the most momentous event in Europe in the last 50 years. It took place exactly 22 years ago tonight: on 9 November 1989. A day of German and European celebration. The Iron Curtain across the continent, which CHURCHILL had first perceived – remember his famous words “from Stettin to Trieste” – and baptised, came down. It put Europe in a new position. Before 1989, all Europe was, figuratively, behind a curtain. The world map only contained East and West in our minds. There was no role for Europe itself on the Cold War's conceptual globe. Only when the Curtain went up in 1989, did old Europe come from the wings and enter onto the world stage, aus den Kulissen auf das Podium. Step by step.

So to those who speak with complacency or masochism these days of a “decline of Europe on the world stage”, I just ask: where was Europe on this stage before 1989? We were relevant because we were part of the problem, or we were the problem in the Cold War.

It was in part an illusion: Europe seemed to be at the centre of things; however, we were not an actor, but rather the largest prize in the conflict between East and West. We won the Cold War – due also to the attractiveness of the European way of life on the people of Central and Eastern Europe. After this victory we became less relevant in world politics. Really a paradox!

Other changes are even more remarkable. The impressive economic and political shifts which we call “globalization” have not only lifted hundreds of millions of people out of poverty, in so doing they have also drawn a new

map. Many parts of Africa and Asia have risen from poverty and show new self-confidence, and so does South-America.

So let me mention the three main trends that affect us, plus 1 series of events.

*Trend 1* – The rise of the emerged economies. China, India, Brazil and Russia and South-Africa consider themselves as the 5 BRICS countries. Rather than emerging, these countries are in fact emerged economies by now. They have some of the world's highest growth rates. That's why, in our quest for economic growth, we in the EU should focus our attention and energies to engage their growth, creating opportunities for ourselves as well.

But there is more to the BRICS than just spectacular growth. These countries are increasing their political cooperation, for instance in the UN Security Council and in the G20, or in the climate debate. Certainly, the European Union has good, cooperative relations with all the BRICS countries: each of them is a “strategic partner” of the EU. Yet we should find a way to better engage these countries: from development strategies to climate change, from the challenges of access to resources and raw materials to certain political issues of global significance, we have numerous topics that could be discussed together.

In this regard, the accession of Russia to the World Trade Organisation is one of the most strategic issues for Europe. Opening up its economy, having to comply with international economic law and with international economic cooperation: this will strengthen the forces of modernisation in the country. Without Switzerland's hard work and creativity in mediation efforts between Georgia and Russia on this issue, this would not have been possible. An excellent result. From the side of the Union, we made a deal with Russia on trade, making their accession possible.

*Trend 2* – power and influence in the world are more and more a matter of economy, and less of weapons. The experiences of both Iraq and Afghanistan have clearly demonstrated that long-term stability cannot be achieved exclusively by military intervention but only through a long term and comprehensive commitment. This is a lesson learned that we should all keep in mind, by the way, against the background of our success so far in Libya – an intervention justified on humanitarian grounds and carried out in accordance with international law. Hopefully, emerging powers are also learning the lesson

that they cannot rely on their growing military muscle without the risk of isolating themselves.

The top security threats facing Europe and the world today – whether terrorism, the proliferation of nuclear weapons, organised crime, regional conflicts or state failure – cannot be solved by military means alone. That’s why the EU champions a preventive approach: linking security, development aid and human rights, for instance.

That’s also why the European Union is committed to work for a diplomatic solution of the Iranian nuclear issue. It was in this spirit that on 23 October the European Council of Heads of State and Government on the one hand urged Iran again to enter into constructive and substantial talks leading to a comprehensive, negotiated and long-term solution, and on the other hand invited the EU foreign minister to prepare new restrictive measures if Iran continues not to co-operate seriously nor to meet its obligations.

We also use an integrated approach in the EU’s civilian and military crisis missions; Switzerland, by the way, has made a remarkable contribution to the EU operations in the Western Balkans (Bosnia and Kosovo in particular).

In short: power no longer only comes “from the barrel of a gun”. Stalin’s question: “The Vatican: How many divisions?” is no longer the central question.

*Trend 3* – The strategic shift from the Atlantic to the Pacific The twentieth century was an Atlantic century, while the twenty-first is going to be a Pacific one. It is a cliché, but like in every cliché, there is a truth in it. The tendencies go further than the well-known growth dynamics and demographics. Asia and the Pacific are quickly emerging scientific and research powerhouses, and the region’s competitiveness is the global standard.

Let me mention two Pacific-related issues. One is Europe’s relationship with the United States. Our fundamental values of democracy, human rights and a rule-bound international order remain common. Europeans and Americans are and were only recently peacekeeping, fighting and working shoulder to shoulder in Bosnia, Kosovo, Afghanistan and Libya. Yet with the disappearance of the common threat posed by the Soviet Union, Europe and the U.S. no longer automatically share the same hopes and fears, an encompassing political outlook. In a Pacific world, the concept of “the West” loses the

cohesive force it had. But there is still a “West” although there is no “East” any more.

The second Pacific-related issue is the region’s militarisation. Whereas Europe used to be the most dangerous continent in the past century – yes, the origin of two world wars – the focus of security analysts and hard power strategic planners has recently moved towards developments in Asia and the Pacific. They do not yet observe a full-blown arms race, but in terms of military spending and confrontational psychology, the premises of an arms race are there. It will thus be key to continue deepening economic relationships within that region, so as to make a war as it were “materially impossible”. As MONTESQUIEU noted in the 18th century, trade interests do most to defuse political tensions. I could summarise it “Trade, no war”. Remember the famous slogan “Love, no war”. The European Union is certainly not a player in the militarisation trends in the Pacific. But it is by far the single largest non-Pacific trade partner of each of the major economies in the region. For some of them we are actually the largest trade partner tout court. Therefore, the EU does not only have a significant stake IN regional stability, but itself is a potential major factor contributing TO this stability. This fact should also be reflected in higher political attention paid to and political activity shown in the region.

Let me mention a fourth factor: the Arab Spring. Twenty years after the political earthquake in the East starting with the fall of the Berlin Wall, Europe’s immediate neighbourhood is again undergoing fundamental change, this time in the South. It is too early to say whether we are dealing with a trend, an irreversible process, or rather with a series of events, which still can go in many directions, the scenarios varying from rosy to grey or even black. The European Union is doing its utmost to push the events in (what we consider to be) the right direction, helping those forces that work towards democracy and economic reform benefitting the people, but we frankly do not determine the end result – and we should not want to. But we have to help our neighbours in developing their economies. Without growth and employment, fundamentalism can conquer the hearts and the minds. We have to be aware of this. Whatever the outcome of what happens in Tunisia, Egypt, Libya, Syria and elsewhere: it will deeply affect all those on the other side of the Mediterranean – not only in, say, Italy or Malta, but also in coun-

tries like Switzerland. In this context, I very much appreciate Switzerland's active participation in the EU-Tunisia Task Force.

In the European Union we are well aware that our credibility as a global player ultimately will be judged by how we handle the neighbourhood. This is true for the Arab Spring, and it is also true for our Eastern Neighbourhood and for the Balkans. The European perspective offered to the latter region has contributed decisively to stability and prosperity. Even if we have not yet reached ultimate goals, the Western Balkans have a European vocation.

Tonight I just wanted to sketch some lines. The further steps are a matter of political debate among European leaders and within our countries. Yet I am personally convinced Europe needs a security approach on how to best engage the new trends and dynamics of global politics. This will require not just foresight, but also the virtues of courage and – I am again thinking of Churchill – stubbornness.

Let me quote what he said in 1931 about a political trend of his day: “I am told that I am alone among men who have held high office in this country in the view I take on this ... If I am alone, I am going to receive shortly an ally – a very powerful ally – an ally whom I dread – an ally with a sombre title. His title is the March of Events.”

We Europeans should also be frank with ourselves. The overall shift in power does not go to our advantage. Economically and demographically, our slice of the cake is shrinking.

More worrying maybe: our view and action for global solutions – think of Europe's vanguard role in climate change, development aid, the defence of human rights or free trade – is put under pressure. I am worried about the international agenda, which is more and more blocked. We are not yet going backward, but the progress is becoming very limited. This was very clear in Cannes last week.

But we Europeans are determined to live up to these challenges. It is our responsibility and our duty, vis-à-vis ourselves and our children, to continue to shape the world of tomorrow.

That is what the European Union aims to do and that is why our Member States have decided to work together, to pool their sovereignty to retain or regain their full capacity of political action.

Yet we still have very powerful assets. The European Union as such has substantial cards to play, such as access to the world's largest market. Although our range of "hard power" is limited, our "soft power" should not be underestimated. But the "hard truth about soft power" is that it is not easy and by no means automatic. Soft power is not about just being soft and handing out money. The effective use of soft power requires a consistent and comprehensive game plan addressing our objectives, our means, and the ways we apply them.

Trade is still our smartest form of power: Trade brings on economic growth that will ultimately prevent mass migration. Trade will engage us deeper with parts of the world that have the highest growth potential. And trade interests are the ones that can most convincingly create conditions to dissolve regional tensions.

Certainly, whatever we want to achieve in the world – defending our interests and promoting our values – a necessary first step is that we get our own house in order.

The Eurozone crisis has shown that the euro is no longer an exclusive topic for ourselves. It has become the world's second reserve currency. Its health directly influences the global economy. Therefore it has proven useful in my summit conversations with other world leaders, in Beijing, Washington or last week in Cannes, to engage our partners on our decisions. It is in the own self-interest of non-euro players that we put the Eurozone's difficulties behind us. But inversely, it is also in Europe's interest that the U.S. stabilises its public debt situation, or that China stimulates its domestic demand and make its exchange rate more flexible. Growth is a global responsibility. Some tend to forget this.

I should like to conclude with a few remarks on the relationship between the European Union and your country, Switzerland. This relationship is closer and more interlinked than ever. That's why we need to define together new institutional arrangements to better respond to the needs of our economies, of our societies and of our citizens, of course in full respect of the choice your country has made regarding the EU.

Moreover, we should view this relationship, too, in the context of the changing world around us. So it is not about moving into a house – whether it is

called EU, EFTA or other –; the situation is much more dynamic. It is more about either confronting the future together, as a club, or alone.

The Single Market, the Union's key to prosperity, has to be permanently adapted: to take into account new technological developments, to strengthen Europe in the worldwide competition with the BRICS and others. This permanent adaptation can only be done on the basis of European public law, guaranteeing legal certainty and the harmonious application of rules. In the European Economic Area, we have offered partners to be part of the decision shaping process. We would welcome a similar arrangement with Switzerland. Our 27 Member States consider that we cannot continue without adaptations on the road of sectoral agreements Switzerland has preferred.

The free movement of persons between the EU and Switzerland is a key achievement in our relations. It is of considerable importance for our economies. Thanks to this cooperation, our citizens can travel freely, work together, and do business together. Our students can sit in the same classrooms; our researchers can meet, cooperate and learn from each others' experiences. It is my hope that this will enhance mutual trust between our societies more than any agreements. The EU is not a threat, but an opportunity. We are not asking Switzerland to give up sovereignty.

The 27 Member States of the European Union – all of them after internal democratic debates, never light-heartedly – made their choice: at some point in their recent history they decided to voluntarily pool some of their sovereignty in order to gain more of it jointly.

These European states are deeply convinced of a simple thing: it was, it is, and it remains better to face the political and economic challenges of today's world in a Union.

My generation in politics is working hard to keep that legacy and to let Europe grow further after it "arose" 60 years ago.

CHURCHILL would approve it.