

ENGAGING WITH MIDDLE AND GLOBAL PLAYERS

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Our honorary president Pascal Lamy calls for the development of a strategic vision of the EU external action and the strengthening of the place of Europe in the new global scene. This Tribune is based on the speech he delivered on the occasion of the presentation in Brussels on 15 May of the TGAE IV Report "[Think Global - Act European. Thinking strategically about the EU's external action](#)" directed by *Notre Europe - Jacques Delors Institute* and gathering the recommendations of 16 European think tanks.



Ladies and gentlemen,

It is not often that one sees such a powerful collection of European think tanks gathered around such a topical theme: how the European Union should think strategically about its external action.

In my last eight years at the helm of the WTO I have been a privileged observer of the great geopolitical and economic transformations under way. I have also been able to observe the first steps of the European Union's external action post the Lisbon Treaty. These transformations are still in the making, and therefore any prediction about "rises and falls" should, in my view, be taken with a pinch of salt. But there are tendencies, trends which point to a certain direction.

In my remarks this morning I will briefly examine a number of elements which must be taken into account to understand this "new direction", before sharing with you a number of considerations relating to the European Union's external posture in this new world.

1. The transformations in the structure and geography of the world economy

At the beginning of this 21st century, we are witnessing a seismic shift in the world economy. The year 2012 will mark the first time in world economic history when the GDP of developing countries surpassed that of developed economies.

This is both the product of the impressive growth registered by developing economies in the last decades, as well as the dismal growth rates experienced by advanced economies since the beginning of the crisis.

In the years to come, developing countries are expected to grow three times faster than advanced economies. We are witnessing a massive "catching up" by developing countries. In sum, the essence of world growth in the years to come will come from developing countries.

The trade forecast for 2013 which we released recently confirms this point. After a modest 2% growth in world trade last year, the volume of trade in 2013 is expected to grow by a sluggish 3.3%, well below the 20 year average of around 5%. The growth of trade by advanced economies will be around 1%, whereas that of developing economies will be around 5%. The essence of trade growth is therefore happening in the South.

The second most important trend is the growth in the middle class. By 2030, it will more than double in size, from 2 billion today to roughly 5 billion. Asia will take the lead, followed by Latin America. But it will also be in Africa, at the European Union's doorstep.

Africa is on the move and on the rise. Consumer demand by its growing middle class will be an engine

for economic and investment growth. According to a recent World Bank report, consumer spending accounted for more than 60 percent of Sub-Saharan Africa's recent economic growth, which it forecast to accelerate to more than 5 percent over the next three years, outpacing the global average.

The geography of trade is also changing. Twenty years ago, 60% of world trade was North-North, 30% was North-South and only 10% was South-South. By 2020, we expect South-South trade to reach one-third of world trade.

This change in the actors of world trade owes a lot to advances in technology and transport which have led to the expansion of "value chains". Through supply chains, developing countries have found an accessible means to insert themselves into the global economy. Trade is no longer about finished products or services. It is about trade in tasks. It is about adding value by contributing to a stage in the production of a finished product or by providing high quality services.

2. Diffusion of power dilutes responsibilities for global public goods

What all of this means is that the power once concentrated in a handful of countries, is now much more diffused. But diffusion also means a dilution of the responsibility for global public goods. Whether it is for trade, for climate, for environment conservation or for energy, the governance of our global commons has become more complex to craft.

Maybe it is matter of time before the growing middle class around the world demands cleaner air, the preservation of the environment and cleaner sources of energy. But maybe by then the damage would have become irreversible. It is therefore necessary to act now.

3. The place of Europe in the new global scene

The economic crisis hitting many European countries, the ensuing rise in unemployment, the continuous talk about the need for reforms and the deficiencies in the governance of the EU's economic integration project are all the ingredients feeding a Euro-pessimism on a scale not seen before in the history of the European Union. Worse even, the pessimism is turning into scepticism and even outright rejection of the European integration project.

There are obvious causes for concern. No integration can be sustained without a common project, based on shared objectives, anchored in institutions capable of animating and leading the way, and showing tangible benefits for its citizens. And frankly, each and every one of these elements requires repairing in the case of the European integration project.

The original common project of reconciliation of the people's of Europe after two bloody wars has lost its appeal to the generations for whom this is as distant as the fall of the Roman Empire. And yet, it is often when I travel outside Europe that I am often confronted with a "reason" for the European Union: for many outside Europe it represents a model providing a good mix between economic efficiency, social progress and sustainability. As an Asian recently told me, "the world needs Europe to civilise globalisation". So Europe is seen as some sort of civilisational model. I am conscious that for the many who are hard hit by the ongoing economic crisis this may sound a bit hollow. But the short-term pain cannot deny the long-term benefits.

There is also a need to redefine the European Union's shared objectives. There is need to find a "new narrative" that will explain why we are together, what we want to achieve together, what is better left to each member state and what are the steps we need to follow to get there. We need to incarnate Europe into "concrete concepts" and "specifics" which talk to the people.

Finally, we also need institutions which provide leadership and vision, which speak for the common good, which think, propose and dare defend the common project.

By now you may think that I have prepared for the wrong conference since the topic I have been asked to outline is the European Union's external action. But I am intimately convinced that the ability of the European Union to be an external actor, strongly depends on its ability to be a stronger European Union inside.

Let me be frank. Europe as a "Union" has clearly lost a lot of credibility in recent years. Not because of diplomatic failures or lack of external engagement. But because Europe's partners in the world have started to question the belief they had built during five decades that the future of this continent was a united one. And we have seen this sentiment in the recent poll by the Pew Research Centre which shows a decline in support

for the European project by Europeans themselves of 15 percentage points.

4. A to-do list

Let me before I close offer a number of considerations of where I see a need for Europe to consider its strengths and weaknesses, focusing in particular on the economic front.

90% of the growth addressed to the European Union in the next ten years will originate outside Europe, with one third of it originating in China alone. An increased economic engagement with middle and global powers, and in particular emerging countries, will be a key lever for Europe's growth.

And the good news is that the EU is in a good place to benefit from this external growth. Europe as a whole is competitive in export markets - its market share has remained at around 20%, while that of the USA and Japan decreased. Europe's surplus in trade in manufactures has multiplied by five since 2000. Its internal market provides Europe a comparative advantage in global value chains.

But as highlighted in the report prepared for this event, there is a need for Europe to improve its competitiveness in the area of services, which make up around two thirds of European economies. There is here an untapped potential for growth and jobs.

I have mentioned the importance of China for Europe. I believe there is space and, indeed, a need for both to look carefully at articulating a positive economic agenda. Investment is an area of shared interests. Services are important sources of untapped potential. Climate

change is another. Financial and monetary stability is a fourth element. Managing the conflicts that inevitably come with greater economic intensity is one thing. Forging a common agenda is the preferred option.

But it is not only about large emerging countries. Harnessing globalisation requires building alliances across continents, spanning countries, whether big or small. Africa is a case in point. For Europe, it is a next-door neighbour. Africa represents a huge economic opportunity for Europe, provided Europe looks at Africa with eyes that no longer see through its old colonial legacy. Provided it sees in Africa a partner in growth, investment, opportunities and alliances, whether on climate, on energy or on the preservation of the environment.

Finally, I believe a closer partnership between Europe and advanced economies such as the USA, Canada and Japan can be beneficial for growth and jobs, provided they address the real obstacles to North-North trade, which are more and more about non-tariff barriers - regulations, standards, norms - than about tariffs or even subsidies. Only deep agreements will lead to big gains. Because only deep agreements have the ability to be both engines of structural adjustment at home and openers of opportunities abroad.

In these few minutes I have tried to summarise where I see the European Union's external action at play. But all of this requires Europe to stand up to its own weaknesses. It is only a stronger internal union that will allow Europe to play its role in the governance of our global commons.

Thank you for your attention.

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