

Waking Up to Globalization

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Granted, the European Union's annual spring review, when EU leaders discuss how much progress they have made in creating "the most competitive and dynamic knowledge-based economy in the world," is not the most gripping event in the political calendar. But last week's summit, by avoiding open controversy, did at least manage to float some interesting proposals.

The much-trumpeted "Energy Policy for Europe" may well be worth the hype if it really succeeds in creating an integrated European energy market and fostering more efficient energy consumption, reduces dependency on external suppliers and puts greater emphasis on renewable or bio-energy sources. The one-stop shop for small businesses is a neat idea, too, if it really did allow entrepreneurs to set up operations within a week, with all paperwork going through just one administrative office.

Other policy areas are less hopeful. Despite the leaders' promises, the freedom to provide services throughout the EU will remain restricted out of an irrational fear that older member states would be swamped by cheap labor from East Europe. The same populist fears have also led most of "Old Europe" to prolong a general ban on the free movement of workers from the East European newcomers. Europe's MIT, meanwhile, got the green light from EU leaders but has yet to generate much enthusiasm from European academic institutes, which would be required to pool their expertise. And the promise to boost employment among young and old people through guaranteed apprenticeships and active-aging policies would address Europe's looming pension crisis -- if member states could implement the necessary measures. But recent protests in France and opposition to structural reforms in Italy and Germany suggest there will be serious domestic backlashes.

Past experience tells us that nice words and promises have rarely translated into action. The question is: Will member states live up to their commitments this time, or will they renege on them before the ink is dry on the 36-page set of upbeat summit conclusions?

The tensions and pressures these past few weeks over protecting "national champions" from foreign takeovers were brushed under the carpet at the summit. But they have created a kind of tug-of-war between the European Commission and European parliamentarians on the one side calling for "more Europe" to respond to the challenges of globalization, and governments on the other side seeming to prefer "less Europe." It was essential that the leaders at this summit showed solidarity and unity to avoid re-enforcing the impression of Europe coming apart at the seams.

The problem is that some on the Continent are just now waking up to the reality of globalization, a reality not always in the best interests of Europe's traditional producers. But this is not a bad thing in itself. Globalization inevitably means more competition, which leads to better and cheaper products, a more productive allocation of resources and

higher economic growth. But our societies and enterprises have to face this challenge if Europe is not to lose, much less improve, its standing in the global economy.

According to last year's study by the Association of European Chambers of Commerce and Industry (Eurochambers), the U.S. economy is at least 20 years ahead of the EU in almost every key economic indicator. The current EU levels in income per capita, productivity, R&D spending and employment were reached by the U.S. already in the late '70s and early '80s. Eurochambers believes it will take decades for the Continent to narrow that gap -- and even then only if governments quickly introduce reforms. The International Monetary Fund estimates that if Europe were to raise its competitive level to the top position in the Western world, it could increase its prosperity by more than 10%. To realize this potential, governments must let competition work, let businesses innovate and let capital find the best opportunities for investment. Economic growth and jobs will follow naturally. Without prosperity there will be no welfare. This is what Europe's leaders have to acknowledge -- not just in words but in deeds as well.

Instead, economic nationalism is on the rise, a dangerous development. Public pressure for quotas and tariffs is mounting. Governments interfere in takeovers and have little political will to spend more on research and development, but plenty of political will to bail out businesses that are no longer competitive.

Globalization should be viewed as an opportunity. The European institutions should focus on those tasks that they do best, guarding the level playing field and promoting economic openness. Member states should finally implement the policies they subscribe to at summits like the one in Brussels every March.

A defensive strategy, on the other hand, will require endless protection of industries and businesses that are doomed anyhow. Such policies might be popular and even "save" some jobs -- but only in the very short term. In the long run, it will prevent Europe from putting in place the kind of policies necessary to compete globally. The result will be stagnation and social strife. The biggest threats to Europe's integration and future prosperity are not competition and globalization but the lack of political courage and vision to properly prepare for these challenges.

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