



# The World in 2025

How the European Union  
will need to respond

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### Contents

<b>Foreword</b>	4
<b>Introduction</b>	5
<b>Executive Summary</b>	6
<b>I. Europe at Ease with Itself</b>	11
<b>II. The Global Challenges Ahead</b>	13
<b>III. Policy Options for Europe in Key Sectors</b>	17
Globalisation and the Digital Economy	17
Demography and Immigration	21
Terrorism and Security	26
Energy and the Environment	32
<b>IV. Implications for the European Union</b>	37
European Governance: Values, Identity and Frontiers	37
The Multi-polar World: the Critical Role for the Transatlantic Partnership	42
<b>V. Conclusions</b>	46

## FOREWORD

*"The World in 2025: How the European Union will need to respond"* represents a significant contribution to the policy-making process of the centre-right in European politics. It is a remarkable piece of work, drawing on the efforts of a large number of people across the European Ideas Network - the network think-tank sponsored by the EPP-ED Group to bring together elected political office-holders and advisers, academics, outside experts and representatives of civil society.

Over the past twelve months, the Network's members, think tanks and political foundations have worked in twelve themed Working Groups and in seven Task Forces to analyse in depth the issues raised and to consider possible policy responses. Meetings have been held across Europe - in Brussels, Paris, London, Berlin, Budapest, The Hague, Bonn, and Madrid - as well as Washington DC, culminating in the annual Summer University, held this year in Warsaw.

This discussion document is a major new EIN initiative to furnish Europe's leading centre-right decision-makers with fresh insights into future choices, challenges and opportunities over a longer-time horizon than is common. It is still very much open for discussion; the intention now is to attract comment from a broad range of contributors to develop and refine its analysis and conclusions.

I hope this paper will be widely recognised as an important and constructive addition to the debate and will stimulate a broad discussion on the key themes it explores.

*Joseph Daul MEP  
Chairman, EPP-ED Group*

# INTRODUCTION

It is often said that you can resist the invasion of armies, but you cannot resist the invasion of ideas.

As we move towards the second decade of the 21<sup>st</sup> century, the world becomes a place where messages are transmitted instantaneously between individuals; where news is passed through global media networks at the touch of a button and where frontiers mean less than at any time in recent history.

Over the past 500 years, Europeans have set the pace for ideas, exploration and democracy, with the rule of law underpinning our societies. But things are changing.

Ideas, whether scientific or political, have never moved more freely, leaving behind the 20<sup>th</sup> century with its massive upheavals caused through the conflicts of ideology.

The speed of this change is catching many unawares. Some like this environment, while others fear only its negative aspects resulting from it and feel excluded.

Increasingly, global problems are requiring global solutions. One cannot deny that these changes are taking place, nor that many are irreversible.

We have been successful in Europe over the past 60 years in finding ways to resolve our underlying differences and promote our common values and prosperity together.

What is now at stake is to have the vision to look into the future, which can be at best blurred when looking at specific long-term goals. But we should increasingly channel our energies over the next 50 years to help those who have remained outside the Western world and help them to join us. This will be mutually beneficial, assisting Europeans to remain prosperous and stable.

Looking to 2025 does not permit an accurate assessment of circumstances then. History is littered with those who have tried and failed to predict the future, like the Club of Rome or the Hudson Institute's famous report of 1967 which ignored the development of the micro-chip.

But, by pooling information and experiences, networks can help in suggesting what the best way ahead could be by simply encouraging the widest possible discussion of basic ideas, facts and options. In this way, decisions can be taken by governments and be widely understood by their citizens.

It is in this light that this discussion document attached has been drawn up by the Network, after wide consultation, to put forward ideas on the major policy challenges ahead and what the European Union should do about them.

*James Elles  
EIN Chairman  
October 2007*

## EXECUTIVE SUMMARY

During 2007, the European Ideas Network has undertaken a major project designed to identify the key challenges and choices which decision-makers within the EU and its member states will face over the next two decades, and to develop forward-looking ideas to address them. The exercise is intended to promote greater coherence in the ideas process on the centre-right in European politics.

This document raises the issues of what are the trends underway over the next 20 years which, when clearly identified, will enable us to take the decisions necessary to ensure that Europeans can remain prosperous and firmly in the forefront of global leadership. Looking at 2025 does not permit an accurate assessment of what conditions will be then. But, by pooling information and experiences, networks can help in suggesting what the best way ahead could be by simply encouraging the widest possible discussion of basic ideas, facts and options. In this way, decisions can be taken by governments and be better understood by their citizens.

It is in this light that this document has been drafted by the EIN Network to put forward ideas on the major policy challenges ahead and to underline what actions need to be taken by those responsible for political party programmes. Its six main conclusions are the following:

1. - There is a significant change of tempo underway in the issues under discussion, and a shift of focus from constitutional ones toward the global challenges ahead. Over the past 60 years, Europeans have been successful in finding ways to resolve their underlying differences and promote their common values and prosperity together. However, the speed of change is accelerating while issues are now becoming increasingly global and require global solutions. The impression given is that Europe is not reacting fast enough to these changes.
2. - These challenges ahead are hugely significant in breadth and depth. They are also long term in nature and cannot be resolved by short term fixes. Thus what is now increasingly at stake is to look into the future with a clear vision.
3. - In this evolving global environment, no member state is capable of solving these challenges alone. The EU and the member states must play a vital role to assist and develop the understanding of what such challenges will mean for EU citizens, encouraging them to look outwards with optimism and confidence.
4. - In a multi-polar world, Europe must keep in touch with all players, but closer Transatlantic ties will be essential to respond to such challenges, in particular relating to the economy, energy/environment as well as security matters. A new transatlantic partnership structure will be needed. These challenges will be better handled from a Western point-of-view if the transatlantic partnership is deepened to do so. Strengthened transatlantic cooperation on economic and regulatory policy-making and the removal of remaining non-tariff barriers in trade and investment will be required in order to complete the transatlantic market.
5. - In a globalised world based on the digital economy, the main unit of importance will be that of the individual. This being so, the bureaucratic ethos of the EU and its member states will need to adapt in order to update

European governance. The public is looking to the use of new technologies to hold political leaders to account, to debate ideas, and to campaign for policy changes.

6. - For the EU there now should be less focus on extending frontiers eastwards. Europe has lost time in the so-called constitutional process of the past 5 years, without paying sufficient attention to adapting faster to a world of fierce economic competition, vital strategic threats and sweeping technological and cultural changes. The frontiers of the EU should now be established and a substantial period of time agreed to consolidate the internal cohesion of the Union, thus enabling a real sense of identity to be felt by EU citizens. This would allow for a concentrated effort to be made to resolving the challenges ahead, without continual distraction of enlarging the Union and potentially weakening its ability to be a valid global partner. Such a definition of the EU's frontiers would not mean the end of the enlargement process, but it would put more of the onus on the EU to looking to its own interests first - its integration capacity - rather than allowing any state to join should it wish to do so.

More specifically, the document focuses on four major policy areas for which greater time and effort must be put on addressing urgent issues that can wait no longer:

- Competitiveness and the Global Economy

Globalisation is fast changing the global balance between countries. China and India are likely to account for 50 % of the World GDP by 2060. They did so in... 1820. This re-emergence of Asia as a world economic power will confront Europe with a radical challenge. It will depend on Europeans to decide whether this coming relative decline of Europe compared to the rise of Asia will remain, over the next twenty years, the consequence of a simple catching up exercise, or will mean that Europe is now in the process of being definitively overtaken by younger and more dynamic nations.

There is only one possible strategy to ward off from the disastrous political consequences that would result from such a course. Europe must move to the forefront of the Information Age. It must successfully master the Knowledge Economy, for information technologies now permeate every policy area. The task will not be easy. Reversing the trend will basically be a matter of education, innovation and entrepreneurial spirit. To that effect, Europe will have to get rid of the rigidities and mercantilist regulations that stifle the development of a dynamic entrepreneurial mentality. If Europe wants to benefit from all the opportunities continued globalisation will offer over the next twenty years, increasing competition within national education systems and on a global scale is imperative. This should be the Union's main priority for 2025.

- Demography and Immigration

The most fundamental and difficult problem in Europe is the low birth rate. In the world as a whole, there are currently 21 births per thousand each year; in the United States, there are 14; in Europe there are 10. Increasing the average number of births from 10 to 11 would at least stabilise the population in Europe, even if it would not off-set the decline in working age population. To prevent the latter decline would require an even bigger increase in the birth rate. Recent studies suggest that for each decade from now on if fertility remains at its present low level, there will be a further fall in the EU population of some 30-40 million people.

If maintained, such trends will have deep-seated effects on all aspects of European life - including pensions, transport, housing, etc.

To meet both the challenges and opportunities provided by demographic change, European policy-makers will need to encourage higher birth rates, raise retirement and pensionable ages, increase labour-force participation rates, promote greater productivity of existing workers, encourage part-time work and the adaptability of workers via legal and financial incentives.

Considering immigration, EU countries will need to rethink legal immigration policies that are biased towards unskilled workers and replace them, at least in part, by policies that facilitate immigration of qualified workers. Efforts should be undertaken to increase the qualification of long-established migrants and using their multilingualism and their insight into intercultural understanding. Actions will have to be taken to make Europe attractive compared to the rest of the world in order to attract and retain skilled workers and to reverse the brain-drain. Finally, the specific problems of the integration of the second generation will need to be addressed more thoroughly than before, in the interests of both immigrants and the native population.

- Terrorism and Security

Twenty first century free market democracy has opened up sources of information and devised new systems of communication, facilitating travel, international networks and student mobility on an unprecedented scale. Over the next twenty years, such trends will grow exponentially. These developments have created a new kind of enemy which abuses the freedom of access to information, easy communication and travel. The new threat reflects the diversity of the internet age. Democracy is being attacked through a 'cyber-mobilisation' with potential enemy recruits being called upon across the world.

Their tactics seek to undermine then destroy the moral superiority of the democracies, for example by seeking to force them to abandon the rule of law to defend the law. Rather than challenge them in a head to head conflagration, this amorphous enemy prefers instead to provoke the democracies into hypocrisy, to take action which will alienate moderate opinion in key regions and undermine support at home.

There is no quick fix in dealing with terrorism. It is political resolve, the determination of the public to resist, increasingly sophisticated and subtle anti-terrorist measures, the reduction of any legitimate underlying grievances and the marginalisation of the terrorist cause that may combine to create circumstances in which the terrorist threat can be eliminated. Yet the key to success in defeating the global insurgency may actually be to breakdown the attack by dealing with different theatres in different manners and developing effective law-based states able to deliver benefits to their citizens and establish democratic institutions. The Union must continue to prioritise the promotion of democracy and human rights across the globe.

All Europeans must be clear of the importance of fighting for their values and how these must be defended from all sorts of terrorist threat. Close cooperation amongst their governments based on this shared understanding is essential.



A key challenge for democratic societies in Europe will be to integrate politically and economically those social groups which currently feel excluded and resentful. Action will need to be taken to foster intercultural dialogue, to reinforce the position of moderate, mainstream Muslims and isolating extremists.

For all of this, leadership will be required to balance any additional security measures required with a commitment to democratic values and individual freedom.

- Energy and Environment

What makes this present period significant is the rapidity of change and the widely-held belief that climate change is not occurring naturally.

The most radical way to respond to the climate challenge is to try to stop climate change altogether by applying Kyoto. But there is a potentially more productive alternative policy which is to choose an "adaptation strategy" based on the concept that the solution to the challenges of climate change will come through technological progress. Research and investment are needed which will help to find new technologies that can improve the way we in the West, and our neighbours across the globe, live in and with our environment. A more promising strategy lies not in undermining the market sources of economic growth and technological success, but in capitalising on the Knowledge Society to which globalisation is giving birth.

Concerning energy, in the medium term, the only proven energy technology which can make a significant impact on energy provision is nuclear power. Alternative solutions such as windmills or biofuels can only make a small contribution to increasing energy supply. They can only be useful local supplements. Bans on nuclear energy development will therefore have to be lifted. The fundamental challenge is to rebuild a popular consensus around nuclear energy.

The European Union and its member states should provide generous tax credits and incentives to industry, small business, local regions and municipalities, as well as to homeowners and consumers, to encourage both research and development and early adoption of renewable energies and hydrogen fuel cell related technologies. But the great challenge for the EU over the next two decades will be to foster the kind of competitive spirit and deregulated environment, along with improved skills and education that will offer Europeans the best chance to be among the first ones to take full advantage of these new technological opportunities.

The document ends by reminding that all these challenges and solutions are closely interrelated. For example, innovation is linked to demography and immigration, but, in turn, immigration is linked to terrorism and security, while security is linked to environmental and energy issues. Consequently, should this exercise have been useful for alerting policy-makers to dangers ahead, it must be emphasized that regular updates will be needed in order to keep track of all the changes that will surely affect these relationships as events take their course.



## I. EUROPE AT EASE WITH ITSELF

European life in the Autumn of 2007 looks good. Seen from outside its frontiers in the US, Latin America or Asia, Europe looks stable, prosperous, based on the rule of law and with democracy as its fundamental premise.

By any account, the progress of Europe and its member states since the end of the Second World War has been nothing short of remarkable. Broken by the experience of two World Wars within a 30 year time span, post-war leaders resolved that they should do whatever possible to avoid such destruction occurring ever again.

Starting with a small membership of six European countries, with a population of 170 million in 1957, the European Economic Community (now the European Union) has expanded to 27 countries with nearly 500 million people. The 50th anniversary declaration of the European Union recognised this unique process and its great achievement.

The European Union, by far-sighted leadership, has developed its ability to resolve the problems of its member states through evolving the concept of a network society of states<sup>1</sup> capable of realising their ambitions by pooling their efforts together in specific fields.

From these decisions, the peoples of Europe have never been more prosperous, with the principles of the single European market facilitating their lives by supporting the unimpeded flow of goods, services, people and capital across the old frontiers of Empire.

The European economy is currently in good shape with more jobs created in the Euro zone - 13.1 million since 2000 - than in the United States in the same period. The picture is even better if non-Euro zone members such as the UK are included. In the East, the EU's newest members are growing at rates that match those in the Far East. For example, Poland's current growth rate is equal to that of India, while the Czech economy is growing faster than Taiwan's or Malaysia's. And the Euro zone is running a trade surplus unlike the United States, with its \$830 billion deficit, and has an economy of comparable size.

The recent success of the German Presidency in gaining a mandate for a reform treaty, which could be ratified within the next year, is an important step to take the Union into the 21st Century. The treaty breaks the institutional deadlock which has hampered the Union since it enlarged to 27 members and will allow the EU to concentrate on more important issues such as energy security, climate change and relations with the outside world.

The increased cooperation in the field of Justice and Home Affairs will help to meet the security threats which Europe now faces. However, action against terrorism cannot be completed without the support of the US. Indeed, the joint threat that the EU and the US face from terrorism has been a significant factor in the strengthening of transatlantic cooperation in recent years.

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<sup>1</sup> Manuel Castell's Network Society, 1996

However, vocal criticism of Brussels remains. It is under fire for legislating in areas which result in unnecessary interference and increased bureaucracy. In addition, both the apparent lack of visible accountability of EU officials, as well as the widely held assumption of weak control structures for its funds, give the strong impression that the 'democratic deficit' remains a broad one to bridge.

The period of intense constitutional debate is drawing to a close. But the debate about the global challenges ahead is beginning to quicken. These encompass such subjects as the need for innovation and skills with the rapid pace of globalisation; demographic change and immigration; terrorism and security, and last but not least, energy security and climate change.

Europeans are rightly content with successfully dealing with the problems posed by the 20th Century. But the increasingly urgent question to answer is: are we being too complacent? How capable are we of dealing with the global challenges ahead in the 21<sup>st</sup> century, which can only be resolved by effective cooperation at a European and international level? What are the trends underway over the next 20 years which, when clearly identified, will enable us to take the decisions necessary to ensure that Europeans can remain prosperous and firmly in the forefront of global leadership?

## II. THE GLOBAL CHALLENGES AHEAD

From the fall of the Berlin Wall in late 1989, Europe has lived through a period of revolutionary change, fortunately of a peaceful nature. Major changes have occurred to the structures of the European Union, both in terms of its membership as well as its competences, culminating in the proposed reform treaty to be finalised by the end of 2007.

While, in most respects, changes to the policy-making process have been concentrated within its frontiers, significant developments have been taking place in the global system to which the EU has responded sporadically, giving the impression of reacting to events rather than trying to shape them with a carefully thought-through strategy.

The rapid spread of global media networks has meant that problems once taking place far away in unseen locations are now brought instantly to people at home. We cannot remain indifferent to the plight of others or the challenges to the human race as a whole. Europe, where possible, must be capable of lifting its sights to help two-thirds of the world's population not fully engaged in the global system.

In undertaking this exercise, the EIU is greatly indebted to work done by the Fondation pour l'innovation politique which initiated a process to discuss major prospective reports on the World in 2025 issued by the National Intelligence Council, a consultative body to the CIA, and the European Union Institute for Security Studies.

For the sake of this analysis, the global challenges ahead, which are long term in nature, are analysed below under the titles of Security, Political and Economic dimensions, with the obvious proviso that the balance between these different elements could be altered by unpredictable events.

### SECURITY DIMENSION

The certainty, but uncomfortable situation, of the Cold War has now been replaced by the uncertainty, but more relaxed nature of the post Cold War world. Although a war won comprehensively by the Western powers, both militarily and economically for freedom, the first decade of the 21 Century is now dominated by different concerns, seeing different countries emerging to take control of the global agenda.

Our mindset in the West has been shaped by the threat of invasion from the East. Now the challenges are more varied and elusive. Terrorism is a principal concern, to prevent Western societies being destroyed by jihadist groups pursuing a radical agenda, using the freedom of the internet to communicate and devise attacks pointed at the weakest and most vulnerable parts of our systems.

Linked to this is the threat of nuclear proliferation, also made easier by the easy access to information provided by the internet. The stakes of the current stand-off with Iran are very high. Should Iran succeed in its aim, it is difficult to predict how many countries will become nuclear powers by 2025.

The question of failed states will have to be focussed on with greater urgency. It is unacceptable that nearly 50 out of the world's 200 odd countries are still incapable of governing themselves, most of their peoples trapped in meagre living conditions. By 2025, they must have been brought effectively into the international system.

The hunger for natural resources will accelerate with potential implications for European security and defence policy. The Chinese are well in the lead in securing future resources, signing long-term deals with the Iranians and the Sudanese for oil and other African countries for raw materials. The Russians, endowed with huge resources of oil and gas, are re-emerging as a global power, happy to use that power in pursuit of its interests – more wanting to rely on territorial assertion than on spreading IT knowledge among its peoples?

Just because the military threat appears to have diminished in recent years, it does not mean that this will not resurface in the future. Note, for example a recent publication documenting 'China's New Great Leap Forward, High technology and Military Power in the Next Half-Century'<sup>2</sup>. Russia and China, together with Central Asian States, have recently formed a regional organisation, whether for military or economic reasons is not yet clear (the Shanghai Cooperation Organisation).

A multipolar world is emerging before our eyes. Europe must engage with all the leading actors, even if we have little political will to finance the military means necessary to be a major player. But, in these circumstances, the enduring value of the transatlantic partnership will need to be reasserted, with changes to current structures, including NATO, to enable the partners to be more effective in handling global challenges together such as the Middle East, Afghanistan, China and Russia.

## **POLITICAL DIMENSION**

Over the next 2 decades, much greater attention will be paid to the following 3 policy areas:

**Demography and Immigration:** As a result of rising life expectancy, the number of European citizens in retirement will almost double by mid-century. The shrinkage of the working population relative to the non-working population will be particularly problematic. Policy implications will range from labour shortages and slowing growth rates to increasing pressures on pensions systems and rising public health care expenditures. Questions relating to current migration patterns, the role of immigration in the policy response to demographic change, and the challenges of integrating immigrant populations into our societies will also have to be addressed. The global population will be increasingly urban, with a majority living in large conurbations, with profound consequences for policy-makers in addressing poverty, crime and community relations.

**Energy and Environment:** Solutions will have to be found to the dual challenges of energy security and climate change. Both of these have rightly come to be viewed as two sides of the same coin. Our dependence on energy imports is to rise significantly by 2030. Competition for energy resources will increase. At the same time, the recent UN report on climate change has served as a wake-up call on the limits of fossil fuel-based growth.

**The Upholding of Democracy:** Victory for Western beliefs in economics will not necessarily be followed by unremitting success in encouraging all countries to adopt parliamentary democracy as in the West. Furthermore, at home, forces such as fear of terrorism, fear of cultural differences and fear of immigration will mean that current social harmony could be put at risk by authoritarian, xenophobic and security conscious movements<sup>3</sup>.

## ECONOMIC DIMENSION

Globalisation is also upon us. It is here to stay. It may be controversial to comment, but it has been a strong instrument for the creation of wealth. It is a threat to those mostly who refuse to respond to it. In the next 20 years, countries which isolate themselves from world markets will be those with the greatest problems.

Globalisation itself is not dividing society. It is the fear of globalisation that is dividing society. We should not be afraid of globalisation, we should be afraid of those who made us afraid of globalisation. In truth, the remaining poor today are not suffering from too much globalisation: but from too little.

If you compare the richest people in the world and the poorest, the gap is widening. But when you compare GDP per capita in the US, or in the EU, with China, and compare it with many years ago, you would find that GDP per capita in China has risen much more than in industrialised countries. In 1960, the so-called middle class – those who make between 20 and 40 dollars a day – accounted for only 6% of the world population. Today it is 50%.

Furthermore, globalisation is indeed changing the global balance between countries. China and India are likely to account for 50% of the World GDP by 2060. They did so in 1820. What we are seeing now is a shift to Asia. But this is not new in history. What we are witnessing is a re-emergence of Asia. Not that this will necessarily be a smooth passage. In their course to first world status, they will encounter painful infrastructural problems, water and power shortages as well as a lack of essential skills.

Last but not least, the stagnation of the Doha Development Round negotiations and the rise of bilateral agreements shows that the existence of the multilateral framework cannot be taken for granted unless a strict code is agreed within the WTO for such agreements by all the major trading partners.

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<sup>2</sup> Hudson Institute, 2005

<sup>3</sup> European Union Institute for Security Studies, *The New Global Puzzle: What World for the EU in 2025*, 2006

In order to assess in more detail the evolving global environment in which the EU and member states will be operating, to identify important long-term economic and social trends, to analyse the key policy challenges flowing from these, to spell out the principal options and choices in each policy field, and tentatively to suggest best strategies for future policy solutions, the EIN has selected four main major policy areas drawn from the works of its working groups and task forces:

- 1) **Globalisation and the Digital Economy**
- 2) **Demography and Immigration**
- 3) **Terrorism and Security**
- 4) **Energy and the Environment**

These four major policy challenges entail two related aspects that have to be addressed by the European Union:

**European Governance:**

To meet these challenges, the European Union has to be able to formulate common policies and implement its actions effectively. It is therefore vital that the Union be structured in such a way as to have efficient **governance**, ensuring political accountability and the financial resources necessary to be effective. Inextricably linked with this theme is the question of both Europe's **values and identity**, as well as the Union's **frontiers**.

**Transatlantic Partnership:**

Undoubtedly, the European Union has a significant role to play in meeting these challenges. Capable partners, however, will greatly enhance its effectiveness. Here, the United States will be the indispensable partner. Closer **transatlantic cooperation** on a range of global issues will be vital in providing global leadership, drawing in other actors and devising effective responses - for example on climate change and energy.

Finally, and not least, it will be perceived from the conclusions of the following chapters that these four major themes are closely inter-related. No single power or institution will be sufficient to deal with these challenges, however necessary or indispensable they might be.



### III. POLICY OPTIONS FOR EUROPE IN KEY SECTORS

#### Globalisation and the Digital Economy

##### ANALYSIS

Globalisation is not a new phenomenon. According to the analysis of Thomas Friedman in his book 'The World is Flat', the first stage process began with the industrial revolution in Europe in the 18<sup>th</sup> century with **countries** as the main actors. The second phase – the era for the **large multinational corporations** - started after World War II when, under the US leadership, international organisations such as GATT, the International Monetary Fund and the World Bank undertook to reduce trade quotas and tariff barriers that had sprung up all round the world. That process got boosted during the seventies and eighties. But it reached its climax in the nineties as a consequence of two major events:

1. the fall of the Berlin wall, which released millions of hungry workers into the world economic system (followed by the injection of 750 million Chinese workers after China turned its back on its old Maoist communist experience);
2. the rise of a new technological revolution that made it incredibly cheaper and easier to move goods and information to nearly all corners of the world, and set the stage for the spreading of the Knowledge Economy around the globe.

Globalisation is not yet complete (the movement of goods and services is not yet as free as it might have been just before the World War I setback, even within the European Union). But we are now close to a globalised world where goods, services, financial capital, machinery, money, workers and ideas migrate to wherever they are most valued and can work together most efficiently, flexibly and securely.

Globalisation has thus triggered an incredible burst of worldwide productivity growth. Global productivity growth has nearly doubled, going from 1.2 per cent a year in the 1980s to 2.3 per cent a year in the past decade - except for Western Europe and Japan which did less well in the past decade than in the 1980s. Basically, globalisation has been a wealth creating machine for the world: never in history has poverty been diminished so rapidly and dramatically as in our lifetime.

There are many respected commentators who believe that increasing economic and social tensions, both at an international as well as at a domestic level, could lead to rising negative political perceptions that would derail the whole process before we get to 2025. But we believe that such fears are overestimated. Absolute differentials matter, but they are balanced out by the massive movement fuelled by global competition that is lifting millions of people every year into economic modernity...15 million Indians join the global jobs market every year.

Thus the same economic and technological forces that structured the world during the 1990s are likely to remain at work for the next twenty years. This third stage of globalisation will be that of the **individual**, empowered by access

to information through the internet. The dynamic growth of Information Technology (IT) makes it impossible to predict future directions, but the general trend is clear: processing speed, data storage and broad band connectivity will continue to develop at an unrelenting pace.

For example, in 2005, experts predicted that the amount of digital information in the world was doubling every 1100 days. In 2007, that time has shortened to 11 months. A new study by IBM predicts that by 2010 the amount of information will double every 11 hours. Another report from analyst firm IDC suggests that by 2010 the amount of information created and copied will surge more than six-fold to 988 exabytes, which represents a compounded annual growth rate of 57%.

Even more impressive is the IPv6 Case, the next network layer protocol for packet-switched internetworks. IPv6 is the designated successor of IPv4, the current version of the Internet Protocol, for general use on the Internet<sup>4</sup>. The sobering fact for both Europe and the US is that Asia is moving much faster to IPv6 than we are. By 2025, the intellectual property rights of much of the technological innovation required to make this move is likely to be owned in Asia.

The most reasonable and likely forecast is that globalisation will continue at an unabated pace and will even keep accelerating. Consequently, by 2025, the world will be made of many more large economic powers than was previously the case. China, India, Japan, Korea, Malaysia, Indonesia will take on greater significance in the global economy. China is commonly supposed to become the major world exporter in 2025 and South Asia alone could produce 38 % of world wealth at that time, compared with 24 % now. Such a jump forward would put the new Asian economic pole at a par with OECD countries which should produce about 40 % of world output by then.

It is also expected that the continuing globalisation process will move one step further entailing a qualitative change. In 2025, the competitive advantage of Asian economies will no more be limited to producing goods with cheap labour and abundant resources. Globalisation is already spreading beyond manufactured goods and rapidly moving up the value added ladder to other segments of the economy, such as the services sector that was up to now largely isolated from it (medicine, data processing, software development...). As a consequence of the revolution in communication technologies, which allows knowledge to overcome the traditional impediments of distance, by 2025 Asian competition will also extend to the far reaches of the value added realm.

This reemergence of Asia as a world economic power will confront Europe with a radical challenge.

Competition from newly emerging nations is not a zero sum game so long as research and technology open new markets and create new opportunities for future development in yet unexploited economic areas. This is the case in the United States where, over the last ten years, and thanks to its leadership in technology and innovation, for every one job lost to overseas competitors, 1.2 jobs have been created in the domestic market (with services now accounting for more than 80% of its domestic production). But this is not, unfortunately, the case in Continental Europe (where the ratio is 0.8 job for every job that migrated away).

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<sup>4</sup> IPv6 (Internet Protocol version 6) will increase tremendously the number of addresses available for networked devices, allowing, for example, each mobile phone and mobile electronic device to have its own address. IPv4 supports  $2^{32}$  (about 4.3 billion) addresses, which is inadequate for giving even one address to every living person, let alone supporting embedded and portable devices. IPv6 will support  $2^{128}$  (about 340 billion billion billion) addresses, or approximately  $5 \times 10^{28}$  addresses for *each* of the roughly 6.5 billion people alive today.

The roots of this situation are well known. Europe is loaded with labour and market regulations and rigidities that prevent mobility, reduce competition, impede innovation and discourage risk-taking entrepreneurship. As a result, today European productivity is growing at one percentage point below that of ten years ago, before the full impact of the latest stage of globalisation had been felt. Economic growth lingers at below 2% a year while it has moved up to more than 3 % on average in America. No wonder that globalisation is negatively perceived by most European public opinions.

It will depend on Europeans to decide whether this relative decline compared to the rise of Asia will remain, over the next twenty years, the consequence of a mere catching up effect, or will mean that Europe is now in the process of being definitely overtaken by younger and more dynamic nations.

## **POLICY OPTIONS**

There is only one possible strategy to ward Europe off from the disastrous political consequences that would result from such a course. To be prepared for the next round of global competition, to harness it and ride it with continuing prosperity, Europe must move to the forefront of the Information Age. It must successfully master the Knowledge Economy; for information technologies now permeate every policy area, including other key growth areas such as nano and bio technologies.

The task will not be easy, as may be shown by one example. Out of the three hundred corporations in the world with high R&D spending ratios, 130 are located in the US while about 90 are European companies. This does not look bad. However 53 of the American ones were created after 1960, whereas among European ones the number is only...two. This means that European companies which spend a lot on R&D belong mainly to older industries, not to the new IT economy. This is not in itself a mistake as these industries need to modernise and innovate too, not least to capitalise on the digital revolution; but this is not enough.

Reversing the trend, closing the gap is basically **a matter of education, innovation and entrepreneurial spirit**. These are the three fundamental options which Europe must choose if it wishes to remain among the top world economic and leading political powers of the next decades.

Simply increasing money poured into R&D projects (for example public investment) will never be sufficient since what is needed is not merely more invention, but better 'innovation' which is something very different. Too often in Europe the focus on 'research and development' becomes simply an interest in research. 'Development' requires the application of ideas to the real world, where research can lead to innovation - and innovation implies a culture that values entrepreneurs and risk taking individuals who know how to turn knowledge into money, and do not limit themselves to turning money into knowledge , which is not in itself sufficient to help the European economy. In the digital economy, a knowledge-based society is essential but that knowledge must be deployed in an economically productive manner. To that effect, Europe must get rid of the rigidities and mercantilist regulations that stifle the development of a dynamic entrepreneurial mentality.

Today even Education is being globalised. American universities are far ahead in this new field of activity. This is the biggest threat now facing Europeans since it means that many people who presently live on a 5000 €/month income will have to respond to the competition of other workers (from India for example) with similar academic and work backgrounds but who will ask for only 500 € to do the same jobs. To respond to that challenge, Europe will need not just one big government-funded European Technology Institute, but a network of many smaller competing institutes that help to adapt Europeans to a new environment. Furthermore, universities should be open more broadly to competition for the services they provide.

To ensure the effective use of Information Technology underpinning the productivity improvements in manufacturing and services which are essential to sustain Europe's global competitiveness, top priority will be needed to ensure that Europeans have the management and workforce with the right skills to grasp the opportunities and to understand and apply the technology. Special care and attention will need to be given to skills and qualifications in IT, particularly in the SME sector, a key driver in the creation of new jobs.

If Europe wants to benefit from all the opportunities continued globalisation will offer over the next twenty years, increasing competition within national education systems and on a global scale is imperative. This should be Europe's main priority for 2025.

# Demography and Immigration

## ANALYSIS

Europeans are living longer: life expectancy in Europe in 1900 was just 47 years; it reached 77 a century later. By 2050, if not earlier, it will rise to 81 for men and 86 for women - and in Japan it will be 92 years. This is a global trend, although on a time-lagged basis: life expectancy at birth in India is now 64, and in China, 72; the global average is 63. The proportion of the world population aged over 60 will increase to one in five by 2050, from just one in 12 in 1950. By 2050, over ten per cent of Europeans will be over 80 years old.

At the same time, fertility rates have declined. At the moment, 29 countries globally have fertility rates below the level required to maintain their populations. In the European Union, this is an acute problem: 12 EU member states have fertility rates lower than a stable-state ratio. The European baby boom - which peaked in 1964, with births in the EU15 of over six million - has been followed by a 'baby bust'. In 2002, births in the EU15 fell below four million. The total fertility rate declined from above the replacement rate - defined as 2.1 babies per woman - in the 1960s, to around 1.5 now.

With these twin trends, the working-age population in Europe will decline sharply, both in absolute and proportional terms. Between now and 2050, the number of people aged 15 to 64 in the EU will fall by 48 million (a drop of some 20 per cent), and the number over 65 will rise by 58 million. Europe will move from having four people of working age for every elderly citizen, to a ratio of two to one. The OECD predicts that by 2050, for every person in retirement in the industrialised countries, there could be only one person actually in work.

On current trends, the EU27 population will rise from 490 million in 2005 to 499 million in 2025, but then fall back to 470 million by 2050. The largest population increase will occur in Luxembourg, Sweden, Ireland and UK, where populations will grow by 41, 18, 14 and 12 per cent respectively by 2050. The biggest falls will be in Bulgaria, Romania, Slovenia, Croatia and the Czech Republic, which could all lose some 20 per cent of their populations. Yet the US population should increase from 296 to 420 million (or by 42 per cent), due to larger birth and immigration rates. The population of North Africa will rise from 194 to 324 million (or by 67 per cent) in the same timeframe, and Turkey will increase from 73 million to 101 million by 2050 (a rise of 38 per cent with a fertility rate of 2.4). This will have reached 90 million by 2025. In the context of the enlargement debate, it should be noted that even these growth levels Turkish membership would not solve the labour force shortages of the Union.

Along with Japan, Europe is at the forefront of what is likely to be a global trend. Over the next half-century, developing countries will account for about 90 per cent of the rise in world population. Their populations will continue to increase for several decades. Moreover, although fertility rates have fallen in East Asia and Latin America,

they too will remain younger than the developed countries for many years to come. However, fertility rates in developing countries are expected to drop to the replacement rate by 2050 and then to continue below that rate. The challenge of an ageing and declining population will start to be a global one by 2070. So whilst the world's population will grow by a quarter between now and 2025 - from 6.4 billion to 8 billion - it should peak at 9.3 billion in 2050 and then fall back.

## European Issues

The EU and its member states have begun addressing some of these pressing issues in the last five years. Whilst many of the issues remain largely the responsibility of national or regional levels of government, the EU dimension has become more pronounced. The most obvious area of activity is in relation to the labour market: the EU and member states are committed to trying to increase both the proportion of the adult population in employment, for example, and the age at which those in work retire. Many European countries have comparatively low rates of adult employment. The Lisbon European Council set the goal of increasing the overall employment rate from 64 to 70 per cent of the adult population during this decade. Four member states already enjoy rates like this and three are close to it, so the objective, although ambitious, is not impossible. (In the US, the rate is currently 72 per cent). The Green Paper "*Confronting demographic change*", published by the EU in 2005, shows that by 2030 there will be a shortage of 20.8 million employees.

With the EU **employment rate for women** on average some 18 per cent lower than for men, there is a specific Lisbon target for raising the female employment rate from 55 to 60 per cent. (In Sweden, some 70 per cent of women work). This is more than just an economic and social policy challenge. There is a moral dimension too where attitudes need to change. In some countries, for example Germany, Ireland and Italy working mothers are considered 'bad mothers'. The same is true for fathers who take parental leave and face both obstacles in their career and the image of being 'soft'. Therefore, additional programmes to foster the return of parents to employment after childcare leave are increasingly necessary. Some progress on this front is being made, especially in the former Communist countries, where many women used to work before 1989-90. Indeed only working mothers were considered "emancipated" and enjoyed social recognition as a result. Today countries with high rates of female employment, like France or Sweden, have high birth rates as well. That demonstrates the desire of women in many countries to have both a career and a family. From a political perspective it seems advisable to shape the social framework in a way that allows for women to be mothers and employees at the same time.

Equally important is reducing **youth unemployment** and getting younger workers into jobs earlier than at present. Older workers are likewise being encouraged to stay in work longer. The average length of retirement in 1900 was just over a year. By 1980 it had risen to 13 years, and by 1990 to 19 years. In the future, retirement will regularly span two to three decades.

The European Commission has estimated that if the **average age of retirement** in Europe can be raised by five years, then public expenditure on pensions could at least remain static, despite demographic change. The EU has a specific target of raising the employment rate for 55-64 year olds from 39 to 50 per cent. In a number of countries,

retirement ages for workers in the state sector are being increased. Early retirement schemes are being unwound, 'flexible' retirement age ranges introduced, and the strict linkage between retirement ages and pensionable ages broken. Several member states are attempting to reform pensions systems to reduce the financial burden on the state - especially by lengthening contribution periods, tying the value of pensions to prices and not earnings, and moving away from 'defined contribution' to 'defined benefit' schemes. In parallel, citizens are encouraged to contribute to 'funded' schemes, alongside public provision, and to build up savings, often through tax incentives. Greater portability of pensions is also being promoted, to encourage mobility between jobs. France, Poland, Britain and Sweden have all been moving in one or more of these directions recently.

Another means of meeting labour market shortages would be to tap the full **potential of the immigrant work force** already present by fostering education for immigrant families and improving opportunities in education. Often, the parents of immigrant children undermine their chances unwittingly due to a lack of knowledge of the local school systems. This is of course damaging to the ambitions and aspirations of the children themselves, but for society as a whole, it is foremost an economic problem. Because of the decrease of the working-age population, it is essential that each citizen is to be educated and employed as effectively as possible.

Possibly the most fundamental and difficult problem in Europe is the low **birth rate**. In the world as a whole, there are currently 21 births per thousand each year; in the United States, there are 14; in Europe there are 10; in Japan just nine. Increasing the average number of births from 10 to 11 per thousand would at least stabilise the population in Europe, even if it would not off-set the decline in working age population. To prevent the latter decline would require an even bigger increase in the birth rate. Recent studies suggest that for each decade from now on that fertility remains at its present low level, there will be a further fall in the EU population of some 30-40 million people.

Yet low birth-rates can be understood as women's reaction to economic and social conditions and do not necessarily result in the 'collapse of the family' in a demographic and sociological sense. Seldom is the desired number of children consistent with the actual number of children born to a family. Rather, the desire to have children as such may remain constant over time, but cannot always be fulfilled due to financial or social obstacles. In terms of public policy, attention should be given to removing perceived social and employment barriers to having children. Governments are looking at measures that might have a direct or indirect effect, although inevitably there will be a long lag before these would increase the size of the workforce. "Family assistance" has become an increasingly important policy goal in many countries. Most obviously, taxation and social-security systems can be adjusted to reward larger families, rather than be neutral towards them - the fiscal incentives for, and actual provision of, day-care facilities can play an important role here too. The success of France and certain Scandinavian countries in halting their decline in fertility rates is potentially instructive.

## POLICY OPTIONS

To meet both the challenges and opportunities provided by demographic change, European policy-makers will need to:

- encourage higher birth rates via financial incentives, measures to make it easier for working women to raise children, enhanced day-care provision, and a stronger legal framework and social status of families;
- increase labour-force participation rates, especially for women and younger workers, including encouraging part-time work;
- raise retirement and pensionable ages, discourage early retirement, and combat workplace 'ageism';
- increase the financial provision made by those in work towards their pensions and encourage more flexible savings and pension schemes;
- promote greater productivity of existing workers, so that increased output offsets the deflationary effects of falling populations;
- encourage the adaptability of workers, so they possess skill sets that enable them to move between jobs and professions during the course of working life.

Considering immigration, the following proposals should be put forward:

1. EU countries need to re-think legal immigration policies that are biased towards unskilled workers and replace them, at least in part, by policies that facilitate immigration of qualified workers. The potential benefits of a points system (a "Blue Card" perhaps along the lines of the Canadian model), that could be adapted to the national or regional context and also to labour market developments, need to be considered thoroughly. By this means the economies of EU countries would benefit from a 'brain gain'. A variation on this scheme, which would have benefits for the countries from which they come, would be a circular migration of professionals from developing countries who are trained and employed in industrial countries for a defined period, eventually returning to their home countries and applying their new skills and experiences.
2. This approach needs to be complemented in return by helping poor countries develop their economies.
3. Efforts should be undertaken to increase the qualification of long-established migrants and using their special potentials of multilingualism and their insight into intercultural dialogue. Specific programs to foster second-language acquisition and programmes to support migrants at school and during vocational training



should be considered. The integration and education of immigrants can lead to an enormous benefit for the accommodating societies if the immigrants' special potential skills are fostered and used. Due to their multilingual skills and their insight into the social and cultural traditions of their respective home-countries, they can play a key role in fostering intercultural links, which is particularly important in our globalising world.

4. Common EU solutions to problems of illegal immigration need to be found as actions by individual countries, for example giving legal status to clandestine entrants, have repercussions on other EU members due to the mobility of labour within the EU.
5. Action needs to be taken to make Europe more attractive compared to the rest of the world in order to attract and retain skilled workers and to reverse the brain-drain. These policies may include, for example, a greater facility for skilled workers to move across European borders with a special visa for researchers in Europe.
6. A specific migration policy is not sufficient to face all the issues of immigration. It has to be backed up with an integration policy which includes, for example, compulsory courses on the language, culture and history of the host country.
7. The specific problems of the integration of immigrants and the 'second generation' (children of immigrants) in several member states need to be addressed more thoroughly than before, in the interests of both immigrants and native populations. Education in this process is essential. The curriculum in schools, for example, should serve to pull communities together, not pull them apart. Along with social mobility this is a key tool for integration.

# Terrorism and Security

## ANALYSIS

The security situation of the west may face renewed traditional threats in the future. But one area where it already faces a key challenge is from jihadism. It is not the only terrorist threat but it is the most lethal, and the most far reaching in its aims.

Liberal democracy has come under attack throughout the world by an amorphous and disparate enemy. This is not a 'clash of civilisations' - it began as an internal struggle within the Muslim world - but a clash between the civilised and the barbaric jihadism. Jihadism is an attack on all those who, regardless of religion, believe in the rule of law, human rights, pluralism and democratic government. It rejects the very foundation of democracy on the grounds that any system of government based on the will of the people rather than the will of God, conveniently mediated through themselves, to be blasphemous. This is not so much a 'war on terror' as a war of ideas: a battle for democracy. The scale of the challenge must not be underestimated; it is a battle that cannot be won by offering a few concessions. Whilst traditional terrorist groups tended to be created to draw attention to their cause and highlight grievances, to force governments to negotiate and to extract concession, the jihadists, in the words of Hussein Massawi of Hezbollah in 2003,

*"are not fighting so that you will offer us something. We are fighting to eliminate you."*

## Jihadism

Initially this was an internal struggle within Muslim society. Extremists rejected the modernisation of their communities and the adoption of what they perceived to be 'western' social, economic and political practices. At the outset such debate between 'Islamists' and mainstream Muslims was of an academic nature. But the Islamists grew increasingly militant and ultimately violent by building organisations, developing networks, and recruiting converts to subvert the Islamic world. Muslims who were perceived to be 'westernised' or who supported democracy were deemed traitors to the faith.

The jihadists have now opened a second front in attacking the west head-on to weaken their opponents, strengthen their own campaigns and begin the next stage in their struggle for global supremacy. They might fight to remove American soldiers from Iraq - or previously Saudi Arabia - and to create a Palestinian state and to oppose Israel. But for jihadists these are just causes which can be manipulated to justify their actions and motivate supporters. They seek to undermine or discredit those trying to establish viable states in the Muslim world, as in Iraq or Afghanistan, as their long-term goal is the unification of all Muslims in a fundamentalist state, their interpretation of a new 'caliphate', as a decisive step on the road to dominate a world based on their interpretation of 'sharia' law and theocratic government.

It is hard to overstate the ambitions of their challenge to the democratic world. This war of ideas "is occurring and has become the overarching framework of the twenty-first century"<sup>5</sup>

### **The new weaponry: modern communication tools**

The new threat is of a new order. As with the struggles against Nazism or Communism the scale of the threat is global, but as with terrorism the methods are local, unpredictable and terrifying. It seeks to undermine the democratic world by using its very freedoms and wealth as weapons, and by so doing turning its strengths to weakness. Twenty first century free market democracy has created wealth and empowered individuals. It has opened up sources of information and devised new systems of communication, facilitating travel, international networks and student mobility on an unprecedented scale. Over the next twenty years, such trends will grow exponentially. These developments have created a new kind of enemy which abuses the freedom of access to information, easy communication and travel.

The new threat reflects the diversity of the internet age. Democracy is being attacked through a 'cyber-mobilisation' - an 'electronic *levée en masse*'<sup>6</sup> - with potential enemy recruits being called up across the globe. The resources required to exercise global leadership of such a campaign are small: a video recorder and access to the internet can make any speech, and any atrocity, kidnapping or murder a weapon in the armoury of the jihadist. It is the dark side of the IT revolution. As David Kilcullen, the Australian counter-insurgency specialist, has said about Osama Bin Laden: "If (he) did not have access to global media, satellite communications and the internet, he'd just be a cranky guy in a cave".

Their tactics seek to undermine then destroy the moral superiority of the democracies: they seek to force them to abandon the rule of law to defend the law, to use imprisonment without trial to protect the free, to use torture to prevent violence, to kill the innocent to protect the individual, and to impose increasingly demanding security measures at the expense of freedom. They create mutual suspicion and fear within communities, creating more tensions which can be exploited further. Rather than challenge them in a head to head conflagration, this amorphous enemy prefers instead to provoke the democracies into hypocrisy, to take actions which will alienate moderate opinion in key regions and undermine support at home. They believe their successes will win converts from those with a grievance - whether legitimate or not - whilst weakening public resolve.

These enemies of democracy have new tools at their disposal, underpinned by a virulent and radical ideology, with many potential recruits across the world.

### **The key terrorist threats**

Four strands to this coalition of the disaffected can be identified which will shape this debate over the years ahead:

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<sup>5</sup> Phares, Walid, *The War of Ideas*, Palgrave Macmillan 2007

<sup>6</sup> Cronin, Audrey, *Cyber-Mobilization: the New Levée en Masse*,  
[http://ccw.politics.ox.ac.uk/publications/cronin\\_parameters.pdf](http://ccw.politics.ox.ac.uk/publications/cronin_parameters.pdf)

- Firstly there are the States hostile to democratic values. Currently two of the principal adversaries are Iran and Syria. They have so far largely avoided challenging the west head on. Their interests are in local or regional crises and in the projection of their power in their immediate neighbourhood. They therefore offer covert backing to specific groups in volatile regions such as Palestine and the Lebanon ultimately making a source of regional tension a global concern.. Iran's new militancy over nuclear capability could represent a new direction. Whilst it cannot be safely predicted how Iran or Syria may evolve over the next twenty years, it is likely that they or similar states - some theocratic, some authoritarian albeit secular - will continue to pose a threat.
- Highly organised groups, often ultimately funded by western consumers through payments for oil, have established schools for extremists, training camps for terrorists and the means to strike at western targets. Wahibist-funded madrassas have provided a breeding ground for terrorists, particularly in Pakistan, but also in Europe. They nurture potential recruits and then channel them into their systems.
- These organised groups have been able to amplify their power and extend their reach by establishing networks associated with their hard core. A variety of disparate groups with different grievances and targets have been connected to each other by the internet and cheap travel, sharing resources and knowledge.
- Beyond these networks, others who feel alienated are inspired to launch campaigns of their own against local targets with home-made devices all in the name of the wider cause.

There is no quick fix in dealing with terrorism. As examples across the world from Peru to Northern Ireland demonstrate, many factors must come together to mount a successful resistance to terrorism and ultimately eliminate the terrorist threat:

- a strong political resolve;
- the determination of the public to resist this threat to democracy;
- increasingly sophisticated and subtle anti-terrorist measures;
- the reduction of any genuine underlying grievances; and
- the marginalisation of the terrorist cause.

Some trends seem clear. Whilst action to date appears to have put the terrorist organisations on the defensive, there is going to be no immediate end to the terrorist threat and Europe must be prepared for the next outrage. It appears the threat is becoming increasingly decentralised and 'spontaneous'. The ultimate fear is of terrorists acquiring biological agents or nuclear material to move terrorism onto a new plane<sup>7</sup>.

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<sup>7</sup> National Intelligence Council, *Mapping the Global Future: Report of the National Intelligence Council's 2020 Project*, 2004

## POLICY OPTIONS

At the macro level in dealing with this 'global insurgency' in the war of ideas, the democracies may have to plan for a 'long war' of an unconventional kind, exploiting counter-terrorist and counter-insurgency skills combined with military efforts for stabilisation and reconstruction. Steps need to be taken now which undermine the ideological foundations of the terrorist threat and degrade its capacity to act with any impact. If effective, they may succeed in ensuring that by 2025 the threat has been reduced to an insignificant level.

And yet the key to success in defeating the global insurgency may actually be to breakdown the attack by dealing with different theatres in different manners, removing legitimate grievances, and developing effective law-based states able to deliver benefits to their citizens and establish democratic institutions. Such a strategy of 'disaggregation' would focus "on interdicting links between theatres, denying the ability of regional and global actors to link and exploit local actors, disrupting flows between and within *jihad* theatres, denying sanctuary areas, isolating Islamists from local populations and disrupting inputs from the sources of Islamism in the greater Middle East"<sup>8</sup>

### Domestic context

All Europeans must be clear of the importance of fighting for their values and how these must be defended from all sorts of terrorist threat. Close cooperation amongst their governments based on this shared understanding is essential.

A key challenge for democratic societies in Europe will be to **integrate** politically and economically those social groups which currently feel excluded and resentful. Action will need to be taken to foster intercultural dialogue, to reinforce the position of moderate, mainstream Muslims and isolating extremists. At the same time, western government must demonstrate that policies of integration and cultural understanding are signs of strength not weakness. There can be no question for example of tolerating practices, which some proponents try to claim arise from 'sharia law', in parts of our cities which fly in the face of traditional values. Considerable further research is required into determining the causes of extremist tendencies amongst some parts of the Muslim population.

These efforts will need to be redoubled as there is a risk that terrorism will create a backlash - as the terrorists no doubt intend - and lead to increased intolerance.<sup>9</sup> So far western societies have on the whole demonstrated considerable political maturity in their reaction to terrorist atrocities and this has had minimal impact on community relations. But there is a risk that long-term an ongoing terrorist campaign will erode this situation.

There will be pressure to take measures which will reduce freedom and increased tensions, perhaps heightened by an ageing population and economic change causing fear and insecurity. Leadership will be required to **balance any additional security measures required with a commitment to democratic values and individual freedom**. In principle there is no conflict between good security and individual freedom. Western governments must not be provoked by the terrorists into taking steps which whilst feeling right simply fuel the underlying causes of terrorism.

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<sup>8</sup> Kilcullen, David, '*Countering Global Insurgency*', page 46; <http://smallwarsjournal.com/documents/kilcullen.pdf>

<sup>9</sup> European Union Institute for Security Studies, '*The New Global Puzzle: What World for the EU in 2025*', 2006

A key debate is the role of regulation and the role it can play in mitigating the abuse of the new technologies. Further efforts in making the internet a secure and well-regulated environment are required.

As experience from Northern Ireland and elsewhere demonstrates, the security services must invest heavily in **intelligence**, infiltrating terrorist networks in order to break up and counter terrorist initiatives. As jihadist terrorism is more decentralised than many previous terrorist threats, this will require considerable effort and resources. The national intelligence and security agencies of the member states must cooperate more effectively in this field, and the financial and political backing must be given to those responsible for leading this effort. These agencies must be on their guard against infiltration. Following the flow of money, as well as people, is a key means of effective counter-terror policy. Close attention must also be given to suspicions that the jihadist terrorist networks are seeking connections with existing European terrorist groups and the criminal underworld to maximise the impact of their operations.

**Security on essential infrastructures** must be enhanced. Sophisticated western economies are very dependent on large-scale infrastructure to provide basic needs such as energy, water, and food. Such networks and distribution patterns need review and improvement to ensure their reliability and ability to withstand concentrated attack.

A potential problem with the so-called 'war on terror' is that it appears to be losing public backing. Launched as a reaction to a specific atrocity, it had widespread **public support** initially but its aims have become increasingly unclear in the public mind. Is it about defeating al-Qaeda? If so, how does the war in Iraq fit in? What about other theatres? Afghanistan? Somalia? More needs to be done to explain the nature of the threat and the fact that this is a 'battle for democracy', if western governments are to maintain public support for a fight which has profound implications for resources and ultimately for human life. Political leadership is required to resist those who favour appeasement and those, often in the media, with short-term memories.

### **International context**

In following a policy of '**disaggregation**' to break up the jihadists networks, efforts must be directed to remove specific legitimate sources of grievance in order to isolate extremists within their own communities, cutting off the flow of recruits and funding, limiting the logistical support given by host communities, and reinforcing the standing of moderate Muslim leadership. This is a key area where a close transatlantic partnership is vital. It has been suggested that considerable more resources should be spent on political, economic and psychological operations than on armed intervention, although currently European states spend too little on traditional defence.

**Palestine and Israel:** The West must continue to support efforts to reach an agreement between the state of Israel and the Palestinian Authority, including the creation of a Palestinian state, as set out in the Quartet roadmap, as a high priority. A viable Palestinian state which commands sufficient legitimacy at home and abroad to minimise this historic conflict as a cause for hostility is now in the vital interests of Europe and the USA. It is important to emphasise that the jihadists will not be appeased by a settlement - they are certain to reject whatever is achieved - but it will be an important contribution towards isolating them from mainstream Muslim opinion.

**Iraq:** If the coalition is perceived to have been defeated in Iraq, the long-term interests of the West will have suffered a serious body blow. Despite the profound errors of the coalition troops in the 'golden hour' following

their successful invasion, the political will must be summoned to stay the course. The cost of fighting on will be high both financially and, more importantly, in terms of human life. But this battle is vitally important in the long term fight for democracy. The resolve of the Iraqi moderates and western allies, must be strong enough to resist the radicals and develop a viable Iraqi democratic state? The parallel with the Soviet invasion of Afghanistan is important to note. The jihadists believe they defeated the Soviet Union in Afghanistan and that they, as a result, brought down the Soviet bloc. They must not be given a similar 'victory' in Iraq.

**Afghanistan:** Here too there is a battle that cannot be lost. The Taliban threat is being contained and the situation is far removed from that in Iraq. But the civilian population will need to see the economic and social benefits of the new situation if they are to find the courage to stay the course in backing western support for their new democratic government.

**Middle East:** The West must prioritise the evolution of strong states which embed the rule of law and constitutional government, protecting human rights and facilitating economic development. Reform must then be encouraged to broaden the basis of democratic government. There are risks. Moderate undemocratic governments may be threatened by radicals but the threat can either be addressed proactively now or allowed to fester to cause even greater problems in the future. The west must encourage economic development and policies which reduce unemployment, particularly amongst the young. There is no direct connection between poverty and terrorism - on the contrary many terrorists come from affluent backgrounds - but the lack of economic progress contributes to a sense of alienation. The nations of the Middle East should be helped where possible to play a full part in the process of globalisation. It must pursue policies of dialogue which encourage the development of 'Islamic democracy' following the example of 'Christian democracy' in reconciling religious belief and democratic principles, building acceptance amongst their religious constituency for constitutional government and respect for the rights of others and facing down the assertion that democracy is a decadent western imposition. Such a dialogue requires serious investment of the necessary resources. Few Middle Eastern countries are connected to networks for democracy and good government such as the Commonwealth. There is no Middle Eastern or Mediterranean equivalent of the Council of Europe to promote human rights.

**North Africa:** As the Union's near neighbours, this area is of particularly important for Europe's security. In developing programmes of economic cooperation and political exchange, the Union must prioritise the relationships around the Mediterranean.

**The wider Islamic community:** A key objective must be to support other states with large Muslim populations, such as Pakistan and Indonesia and the nations of central Asia, so they are able to follow the lead of countries such as Malaysia and India in developing relatively stable and liberal government with growing economic prosperity.

**The wider world:** Much of Asia is developing vibrant market economies, joining the global commercial network and set fair to catch up with western levels of economic prosperity, but what about the rest? Parts of east Africa, for example, have already provided a base for al-Qaeda operations. Trade and aid packages to nurture economic development are not just right for the immediate benefits that they bring to local people. They are in the long-term interests of the West and global democratic values and so require the political will and the commitment of resources consistent with their importance in the battle for democracy.

# Energy and the Environment

## ANALYSIS

### Climate change

The environment is changing. Many regions across the world are experiencing greater extremes of temperature and more erratic weather conditions leading to catastrophes such as flooding or drought. Ice caps are receding, glaciers melting and deserts growing. The world has experienced major changes in its temperatures and weather patterns throughout history. Europe experienced, for example, a 'little ice age' between 1500 and 1850 which had followed the 'medieval warm period'. What makes this present period significant is the rapidity of change and the widely-held belief it is not a natural occurrence.

The emerging consensus is that the current phase of climate change is caused by global warming, chiefly due to an unprecedented accumulation of CO<sub>2</sub> in the Earth's atmosphere, and is thus a by-product of our economic growth model and modern way of living based on the consumption of fossil fuel energy. Consequently, looking ahead at 2025, it is likely that our global environment will continue to deteriorate further, and that environment and energy issues will weigh heavily on policy making.

Economic globalisation at the current rate is expected to bring about a 60% increase in demand and consumption for fossil fuels over the next twenty years. The Earth will undergo a substantial increase in greenhouse gas emissions and climate change will be more and more perceptible. According to mainstream analysts, the effect of global warming, mostly limited for the time being, will begin to be clearly felt only by the end of the period, i.e. between 2025 and 2030, with the following features being observed: an increase in the mean temperatures on the Earth surface between 0.4°C and 1.1°C by 2025, the acceleration of thawing, the rise, warming and acidification of oceans, an increase in precipitation, more frequent natural disasters (cyclones, typhoons, heat-waves, floods...), and a growing scarcity of clean water along with the emergence of new pandemics threats. The consequences for growing seasons and crop yields could be serious. The Intergovernment Panel on Climate Change<sup>10</sup> argues that over 50% of the temperature changes recorded so far is highly likely to have been caused by human activity creating greenhouse gas concentrations<sup>11</sup>.

There are of course dissenting views. The IPCC has been criticised for its methodologies in both its forward projections of current trends and past analysis of global temperatures base on limited records and biological data open to different interpretations. The 'hockey stick' controversy for example focused on a simplified graphic in the IPCC's 2001 report which suggested that global temperatures had been stable between 1000 and 1900 before rising rapidly<sup>12</sup>. A number of scientists (mostly climatologists specialized in the study of clouds formation, the main determinant of weather evolution) now openly challenge the IPCC beliefs upon which present policies and ideas about Global warming are established. They do not dispute the fact that temperatures may have risen over the last

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<sup>10</sup> The Intergovernmental Panel on Climate Change (IPCC) was established in 1988 by two United Nations organizations, the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP), to evaluate the risk of climate change.

<sup>11</sup> IPCC Fourth Assessment Report: Climate Change 2007

<sup>12</sup> This is also referred to as the 'MBH98 reconstruction' devised by Mann, Bradley and Hughes.



20-25 years. But they challenge the long-term conclusions drawn from past observations. New climate models are being developed that considerably reduce the responsibility of CO<sub>2</sub> emissions and man-made activities in explaining recent warming trends by, for example, placing greater emphasis on the possible role played by natural phenomena such as the solar activity cycle.

The difficulty for public policy formulation is that by the time a definitive answer can be given to these questions it may be too late to take any necessary corrective action. Nonetheless, the thesis that the greatest cause of climate change is human activity is now widely accepted and public opinion increasingly demands action now. Governments must assess on the balance of probability and an assessment of risk whether profound public policy changes are required. It is clear that if climate change were ultimately to be proved not to be man-made, such policy initiatives might at worst reduce global GDP and possibly undermine technological innovation to cope with its consequences. If however they are man-made, the failure to act would be catastrophic.

## **Energy**

Today, EU member states consume 45 per cent less energy than they did in 1973 to produce the same unit of economic output. However, absolute demand for energy continues to increase with the EU-25 primary energy consumption rising between 1971 and 2003 by 41 per cent. Global consumption of fossil energy is forecast to grow by 60 per cent over the next twenty years. Two thirds of this rise will come from Asian countries, especially China and India. Oil will remain the most sought-after fuel source, whilst natural gas consumption should increase by 87% in the years leading up to 2030. Consequently Europe faces increasing competition for limited supplies while it is already the first world's largest importer of oil and gas.

The media like to focus on the danger of world fossil reserves being depleted before the end of this century. For example, it is estimated that there are only 60 years natural gas reserves left. Such predictions are always unrealistic and unreliable (remember the 'Zero Growth' forecasts of the 70s?). Most of these estimates underestimate the role of relative prices and induced innovation in ensuring a sustainable and adequate flow of resources. There are for example considerable coal reserves - three times more than oil or gas in terms of energy quantity - which, at an appropriate price, could be used to meet energy needs. One can reasonably forecast that even long after 2025 there will be no real problem of energy reserves.

This does not mean there may not be problems related to bringing adequate energy supplies to the market and avoiding dramatic increases in price. There is a danger in the medium-term that the infrastructure required to recover, transport and refine energy reserves is insufficient to meet demand. Many of these oil producing countries are run by governments which are short-term revenue maximizers rather than long-term economic optimizers. Furthermore, some key oil producers, such as Venezuela, Russia and Iraq are, for admittedly very different reasons, pursuing policies or facing internal problems that make them unattractive or unwelcoming to commercial investors.

According to the International Energy Agency, the investment required globally will be in the order of 20,000 billion dollars. This will mainly need to be funded by private investments so the private sector will have to take the lead to

tackle both energy security and climate change. Governments will have to craft the relevant framework to encourage investments in the appropriate direction.

In addition a key problem for the EU will come from its increasing dependence on external energy sources. Its dependency ratio has fallen from 62 % in 1975 down to 48% today, but it is expected to rise again to 70 % by 2030.

The problem is compounded by the fact that virtually all the major oil producers and the transit regions on which Europe is dependent for its imports are areas of great geo-political instability. Therefore recurrent relative shortages and price spikes cannot be ruled out as a consequence of regional political disturbances, or of a lack of modernisation and maintenance in local infrastructures.

## **POLICY OPTIONS**

### **Climate change**

There are therefore two ways to respond to the challenge. The most radical one is to try to stop climate change altogether. This is fundamentally the approach adopted in Kyoto. Maximum emissions quotas on polluting activities would be set so that CO<sub>2</sub> concentrations would be slowed, stopped and then reversed. Regulations would be imposed that induce industries and households to adopt new patterns of production and consumption allowing for greater use of clean energy technologies. Governments would intervene in the market, through taxation, to set prices so as to displace fossil fuels and to encourage the development of renewable energy sources. Electricity generation would be deliberately shifted away from fossil fuel based towards non-carbon alternatives such as nuclear or so-called sustainable energy sources.

An alternative and potentially more productive policy over the long-term is to choose an 'adaptation strategy' based on the concept that the solution to the challenges of climate change will be technological. Research and investment are needed which will help to find new technologies that can improve the way we in the west, and our neighbours across the globe, live in and with our environment. In other words, a more promising strategy lies not in undermining the market sources of economic growth but in capitalising on the Knowledge Society to which globalisation is giving birth.

There is a danger here that any progress achieved in one country or continent, at potentially a high economic cost, would in any case be undone by the activities of others not pursuing a similar strategy. China, for example, is currently planning over 500 new coal-driven power stations<sup>13</sup> which would quickly cancel out any progress made in the European Union. There is a fear in some quarters that if such a policy fails to deliver what it promises, there is a risk that ideological hysteria will lead to such regulatory and price constraints that it would destroy the very market incentives upon which investment, technological progress, and thus our ability to deliver high standards of living as well as ever greater energy efficiency and sustainability rely. And yet there is a case for global leadership. By

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<sup>13</sup> Susan Watts, BBC Newsnight Science Editor, 2005. <http://news.bbc.co.uk/2/hi/programmes/newsnight/4330469.stm>

pioneering remedial action the European Union is in a stronger position to change the terms of the global debate and encourage others to follow its lead.

A policy of constant monitoring and adaptation will be required as the data is refined and models improved. International cooperation is essential to coordinate the approach on a global level and to share information on emerging trends.

## **Energy**

In the medium term the only proven energy technology which can make a significant impact on energy provision is nuclear power. Alternative solutions such as windmills or biofuels can only make a small contribution to increasing energy supply. They can only be local useful supplements. Bans on nuclear energy development will therefore have to be lifted. The fundamental challenge is to rebuild a popular consensus around nuclear energy. In the longer term, the solution may lie with hydrogen fuel cell technology that will enable the transition to a fully renewable energy regime based on the ability of almost everyone to cater to their own energy needs and share their electricity production with many others. Hydrogen technology has the potential to end the world's reliance on imported oil, dramatically cut down on carbon dioxide emissions and mitigate the effects of global warming. The first major industrial region to harness its full potential will set the pace for economic development for the remainder of the century. However, despite recent important industrial breakthroughs, that technology is still far from being available at economic prices.

The dominant view shared by most experts, professionals and policy makers is that the market process left alone will be too slow at solving Europe's potential energy problems and ensuring a smooth transition to a future post oil era. Though market forces are continuously pushing in the right direction, granted the urgency, it is generally thought that markets cannot do the job by themselves and that Government must step in so as to set the directions and send strong investment incentives to the industry. For example, serious consideration should be given to increasing taxation on environmentally destructive practices and activities, the revenues to be earmarked to help subsidize the shift to renewable energies ('tax shifting'). The European Union and its member states should provide generous tax credits and incentives to industry, small business, local regions and municipalities, as well as to homeowners and consumers, to encourage both research and development and early adoption of renewable energies and hydrogen fuel cell related technologies.

The danger of such an approach, however, is that government direct involvement ends up by locking European energy choices into technological dead ends (such as happened for example in France with the famous Minitel). History is replete with examples showing how government industry regulations and subsidies do indeed slow down the process of adaptation and innovation which they are supposed to accelerate. Europeanizing industrial policy will not necessarily give it any chance of being any more successful.

Overall, looking ahead to 2025, there are good reasons to be optimistic. The fabulous rise of the Digital Society enables us to imagine future possibilities no one would have ever dreamed of not so long ago. For example, in conjunction with the hydrogen and fuel cell revolution, the Digital Society makes now technically feasible the

gradual emergence of a wholly new radical energy paradigm based for a large part on a complex web of decentralized production and exchange networks of clean energy that will work according to processes not so different from those which, in the telecommunications realm, gave birth to the internet.

The great challenge for the EU over the next two decades will be to foster the kind of competitive spirit and deregulated environment, along with improved skills and education that will offer Europeans the best chance to be among the first ones to take full advantage of these new technological opportunities.

In any case, whatever the final choices made, and even if the most pessimistic forecasts for climate change prove to be unfounded, our present environment and energy concerns will leave a strong imprint on what the 2025 world would look like. It is likely that society in 2025 will be based on a strong environmental ethic giving due weight to considerations of eco-discipline and sustainable development.

## IV. IMPLICATIONS FOR THE EUROPEAN UNION

### European Governance: Values, Identity and Frontiers

#### ANALYSIS

In the light of the previous chapters concerning the challenges ahead, it is striking how fast the world is opening to a totally new era of endeavour. Not only does the European Union need the capability to act: for if the Union is incapable of functioning effectively, it scarcely matters whether it has the appropriate policies. The governance of the Union is therefore necessarily of critical importance. Not only does the question arise about the very nature of European values and identity, but also that of the Unions' frontiers. The following dimensions are therefore of relevance:

- the foundation for Europe's shared values and identity;
- the institutional machinery of the Union;
- the need for efficient administration and accountability;
- the limits of the Union's frontiers.

#### The foundation for Europe's shared values and identity

The foundation for European governance is the need for shared values and vision for Europe and its place in the world. No amount of institutional construction or administrative fine-tuning would be able to compensate for a lack of agreement on fundamental principles. This cultural inheritance informs the shared appreciation across Europe by all its peoples of the value of human dignity, freedom, pluralism, respect for human rights, the rule of law, justice, tolerance, the protection of minorities and the role of government. As the EPP's Rome declaration notes,

*"Europe's Judeo-Christian roots and common cultural heritage, as well as the classic and humanist history of Europe and the achievements of the period of the Enlightenment, are the foundation of our political platform".<sup>14</sup>*

The discussion about Europe's identity and values is not a static and final situation but a continuous task, a dynamic, open process in which members of our European society agree on common perceptions of themselves and others. By sharing culture and acquiring a deeper insight into how others perceive the world we can dismantle our prejudices, broaden our mind and develop synergies for further cooperation.

**Values:** Our European system of values is based on four fundamental root causes:

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<sup>14</sup> 'For a Europe of the Citizens: Priorities for a Better Future' ("Rome Manifesto"), adopted by the EPP Congress in Rome, 30-31 March 2006. [http://www.epp.eu/dbimages/pdf/encondoc310306final\\_copy\\_1\\_copy\\_1.pdf](http://www.epp.eu/dbimages/pdf/encondoc310306final_copy_1_copy_1.pdf)

- the political system of ancient Greece introduced the idea of direct democracy. In an era of globalisation, it is vital that citizens participate in the decision-making processes of the Union. Likewise, freedom of speech and pluralism make an important contribution to political stability;
- our legal system is profoundly influenced by Roman heritage. Judicial security, for example, equality before the law and the right to property remain indispensable conditions for the development of prospering economic systems;
- the legacies of the Christian values are more important than ever. Charity, tolerance, individual freedom, respect for human dignity and solidarity ensure political stability;
- finally, the Enlightenment marks the last cornerstone, where secularism emerges as the most lasting legacy. The freedom of religion, both locally and internationally, is a basic condition for the peaceful co-existence of people.

Although we do not have the right to insist that our values be recognised in the entire world, we should realise that our values are shared with others in the Western world. The role, in particular, of the US has been crucial not only making the defeat of Communism and the unification of Europe possible but also helping to develop a cultural community of values.

**Identity:** A European identity can be defined, broadly, as being in existence in cultural, historical, religious, political and geographic terms, while, at the same time, the EU (and its predecessors) have constructed a much more specific “Europe” with its institutions, discourses, rules and regulations. A pivotal aspect of cultural Europe is the nation state. For citizens, the nation is far more present, has a much wider range in transforming their activities, and thus generates a stronger identity. Based on these nation-states, a high level of internal cohesion amongst the Union's members is necessary if it is to function effectively.

### **Institutional machinery**

The Berlin Summit marked a key breakthrough for the Union. The deadlock arising from the two lost referendums in France and the Netherlands has been ended. Whilst talk of crisis may have been overstated - a key feature of the Union's success is its ability to continue to cope under difficult circumstances - there was need for reform following the two waves of the largest enlargement in the Union's history, virtually doubling its membership. Democratic improvements to its institutions were overdue, concerning both legislation and budgetary responsibility; the Council needed a more streamlined decision-making process to meet the needs of an expanded Union; and the Union needed to adapt to bring its ambitions of having a significant global voice within its reach. This was achieved in Berlin with a pared down reform package, focusing on the essential reforms contained in the Constitutional Treaty.

### **The need for efficient administration**

Most attention on European governance is given to the constitutional architecture of the Union but whilst this 'macro' issue is central there are other 'micro' concerns which must not be overlooked. The demise of the Santer administration raised serious questions about whether the Commission was fit for its purpose as guardian of the Treaties. An ambitious reform process was initiated as a result of investigations by the European Parliament and the

Committee of Wise Men (1999) and both subsequent Commission administrations have attempted to work through the agenda of the changes required.

One of the greatest dangers for the European Union is that the member states are constantly tempted to delegate new tasks to its institutions without necessarily providing them with the resources to implement them effectively. This leads to unfulfilled expectations, disappointment and resentment.

### **The limits to the Union's frontiers**

Frontiers create a feeling of belonging and identity, marking out possessions while offering protection. No society and no economy are possible without frontiers – they are an essential part of the political process. In the case of Europe, the frontiers have changed across the centuries: there is no clear definition of where Europe begins and where it ends. Whereas the frontiers are defined quite clearly towards the North and the West, there is no real consensus concerning the Eastern frontiers of Europe. According to the German scientist Hartwig Hummel, European frontiers are no eternal fixed points, but they became historical constructs, which can change and evolve.

In the case of the European Union and its definition of Europe's borders, the member states have a common interest that rests on shared European values based on common history and traditions. These create a feeling of belonging together; one cannot act jointly if there is no mutual comprehension of common values. It is therefore possible that the power of a shared vision can actually determine where Europe starts and ends in geographical terms: it is certainly the case for the European Union.

The arguments deployed so far show that the agenda of the EU is now swiftly changing from construction building to using the institutions to cope with global challenges. It could be stated that Europe has lost time in the so-called constitutional process of the past 5 years, without paying sufficient attention to adapting faster to a world of fierce economic competition, vital strategic threats and sweeping technological and cultural changes.

In fulfilling these aims, it would certainly seem that the time is soon approaching when the Union's frontiers should be established to enable a real sense of identity to be felt for EU citizens. This would also allow for a concentrated effort to be made to resolving the challenges ahead, without continual distraction of enlarging the Union and potentially weakening its ability to be a valid global partner. Such a definition of the EU's frontiers would not mean the end of the enlargement process; but it would put more of the onus of the EU looking at its own interests first – its integration capacity – rather than allowing any state to join should it wish to do so.

## **POLICY OPTIONS**

### **Changing attitudes to government**

In meeting these challenges the European Union will need to react to the way attitudes towards government bodies of all kind are changing.

- Political institutions are suffering as a result of an increasing loss of respect for authority. As a result of a general consensus over general policy direction the election results seem less significant and perhaps as a consequence elections, with very few exceptions, generate smaller and smaller turnouts.

- In a globalised world based on the digital economy, the main unit of importance will be that of the individual. This being so, the bureaucratic ethos of the EU and its member states will need to adapt in order to update European governance. The public is looking to use the new technologies to hold political leaders to account, to debate ideas, and to campaign for policy changes: blogs are increasingly used to spread ideas and recruit supporters; demonstrations are organised at short notice by means of email and text messages; 'virtual' pressure groups are replacing traditional associations as the main vehicles for political action.
- The identification of the majority of the public with the nation-states of Europe remains strong and they are likely to continue to be the main focus of the loyalty of their citizens and necessary for good government. There is, however,, increasing acceptance of the idea that political power can be dispersed between different levels of government where necessary - for example, the European level for some policies, regional/local bodies for others - or moved beyond the reach of government altogether and left to private bodies, either commercial or charitable, or individuals. As a result, government of all kinds is in a competitive market for influence and power.

### **The Enlargement Process**

Future enlargement poses an enormous challenge for the governance of the Union. It has major consequences for the four aspects outlined above of a well-run Union and should not be entered into lightly. The European Union must be wary of over-reaching - constructing a Europe so wide it becomes incapable of delivering on its promises. In no way should the operations of the EU be sacrificed on the altar of enlargement.

Well-managed enlargement still has the potential to broaden the area of the European rule of law and human rights, buttressing the democratic character of new members; it can expand the internal market, the largest single market contributing to greater economic stability and prosperity; it could reinforce the voice of Europe in the world. But undertaken in haste, badly prepared and entered into without common agreement on shared values or future objectives, it will incapacitate the Union irrevocably. A critical analysis of the merits of each application must include a careful consideration of the integration capacity of the Union at that time and for that applicant.

While recognising that European countries have, under the treaties, the right to apply to join the Union, a clear definition of the frontiers of the Union needs to be established so that the Union is able to meet the challenges it faces, maintain internal cohesion and integrate the western Balkans. Once agreed, it is suggested that a significant period, perhaps fifteen years be allowed to pass before further enlargement negotiations are concluded. A coherent and specifically focused policy for the Union's neighbours will need to be fully developed to maintain cooperative, prosperous and stable relations with all those countries concerned.

### **Institutional machinery**

Huge changes have been made to the structure of the Union in the past 20 years - no less than 4 major treaties, with a fifth to be finalised and then ratified by the 27 Member States over the next 12 months. No-one could have predicted these events or their outcome.



But for EU citizens, a respite from institutional changes would be welcome, not only so that they can understand what the EU is responsible for, but also what it is doing to meet the global challenges ahead. Thus, any future changes made to the institutional machinery of the Union should be made only because they will improve the efficiency and transparency to carry out its allotted tasks.

To assist the Union to become a more effective global actor, the use of a more flexible form of “enhanced cooperation” could increase workability and acceptability when new policies are drawn up. Enhanced cooperation of the willing and capable could allow countries to seek cooperation in those functions in which there is a real demand, not being forced into cooperation with respect to functions on which they want to stand alone.

### **Efficient Administration**

The focus on competent and efficient administration of the Union’s policies must be improved. While new Treaties being negotiated or new countries being admitted (like Bulgaria and Rumania) is a useful smokescreen to defer attention from day-to-day business, EU citizens want to feel that monies are being properly managed and be involved in debates and decisions taken by the Union.

Significant effort should be made to use new technologies, with the internet in particular, to ease the participation of Europeans in EU activities, both in terms of policy formulation as well as decision-making. The challenges ahead will enable the large issues to be addressed with involvement of all those who wish to be heard.

## **The Multi-polar world: the Critical Role for the Transatlantic Partnership**

### **ANALYSIS**

We have so far analysed the global challenges ahead and looked in detail at 4 major areas of importance over the next 20 years. New policies will have to be devised and different players will have to be accommodated in the global system as the world becomes more multi-polar in nature. Areas of continuing geographical importance will undoubtedly include China, Russia, India, the Middle East and Africa. If it is true that the policy challenges analysed are long-term in nature and will require intensive European cooperation, it is also certain that these challenges will be better handled from a Western point-of-view if transatlantic partnership is deepened to do so. What is the state of the current relationship and what can be its significance to 2025?

The bitter disagreement between the United States and some of its European allies over the Iraq war plunged the transatlantic relationship to unprecedented lows. The end of the Cold War and the demise of the Soviet Union, the widely-held belief went, had revealed stark differences in values and interests between both sides of the Atlantic that had previously been hidden beneath an overriding necessity to deter a common enemy. The transatlantic relationship was heading for gradual but inevitable divergence, if not divorce. The fear grew that Europe would engage in 'forum-shopping', neglecting its key relationship with the United States in favour of indulging in a 'pick and mix' policy of competing bilateral relationships.

By 2005, however, some civility and humility was restored in transatlantic relations. Leaders on both sides of the Atlantic made efforts at putting the divisive episode of transatlantic travails behind them. Behind this rapprochement has been in part an attachment to transatlantic relations. Despite some undeniable divergences, the transatlantic partners continue to share more important values and interests than any other two regions in the world. Considering the many political and cultural affinities and ties, the United States and Europe remain each other's natural partners.

More importantly than such affinities, however, has been the dual recognition on both sides that Europe and the United States face similar challenges in a rapidly changing global environment and share significant stakes in whether these will be addressed successfully. Contrary to the popular picture of diverging interests, the broader political agendas on both sides of the Atlantic appear to be converging. Policy-makers, pundits and the publics on both sides of the Atlantic increasingly agree on the strategic challenges facing their countries in the 21<sup>st</sup> century.

Europeans and Americans, for instance, both continue to enjoy the benefits and see the opportunities offered by the process of globalisation. But they are equally uneasy about some of the 'dark sides' of this process. Americans and Europeans share the same concerns over the economic and social consequences of the ongoing changes on the global economy. The competitive challenges from China and India, for example, and related issues of employment, outsourcing and the need for reform in the welfare systems figured prominently in the 2006 Congressional elections as well as the French presidential election earlier this year.

Leaders on both sides are thus acutely aware of the need to better manage the process of globalisation and its ramifications. United States and the European Union share an immediate interest in co-opting emerging economic powers such as India and China in order to bring them within the framework of rules governing the global economy. They further agree that it is within both their interests to promote recognition of, and adherence to rules, norms and standards by emerging countries – be it in the area of market access, intellectual property rights or product safety.

One often cited area of transatlantic divergence is that of global security challenges. But while differences over prioritisation and approach such as the legitimacy and utility of armed force exist, both sides agree on the items on the security agenda: the need to curb the proliferation of weapons of mass destruction, to wage the fight against international terrorism more effectively, and to offer assistance to a number of weak or failing states around the globe.

Not only since the widely-discussed report of the Intergovernmental Panel on Climate Change (IPCC) do the publics on both sides of the Atlantic share a common concern about the consequences of climate change. Linked to that is an increasing awareness of the growing global competition for energy resources and the strategic importance of stable and secure energy supplies.

The list of challenges that are recognised across the Atlantic is long and further includes common interests in dealing with increasing volatility in the Middle East and making progress in the peace process between Palestinians and Israelis, advancing the global development agenda and resolving the current impasse over trade liberalization negotiations, and promoting democratic values and governance.

When discussing the scope for strengthened transatlantic cooperation, one aspect of transatlantic relations is often neglected. The United States and Europe have experienced an unprecedented period of economic integration since the early 1990s that has effectively created one transatlantic economy. Despite the hype about the emergence of China and India, the United States and the European Union today remain each other's most important sources and destinations of foreign direct investment. The US – EU economic relationship accounts for \$3 trillion annually and both economies are bound together by foreign investment and foreign affiliate operations (the deepest forms of economic integration) rather than two-way trade (a shallow form of integration). In fact, cross-border trade accounts for only 20% of transatlantic commerce.

Mutual investment flows remain significantly higher than US or EU investment in China, India or elsewhere. So do turn-over and profits derived by US and EU companies from operations on the respective other side of the Atlantic. And the transatlantic economy directly supports 14 million jobs on both sides of the Atlantic.

As result of the high degree of transatlantic economic integration, policy and regulatory decisions on one side of the Atlantic increasingly have an impact on businesses and consumers on the other. However, while a transatlantic economy exists for business, policy-makers have yet to catch up. A framework a strengthened EU-US policy and regulatory cooperation, however, is only evolving.

As Joseph Quinlan has argued, transatlantic markets are leading the process of globalisation. As a result of the level of transatlantic economic integration, the United States and Europe - quite literally - simply cannot afford a transatlantic split – their respective economic prosperity and security is increasingly tied to each other. Neither side can therefore take the transatlantic economy for granted. In fact, both the US and the EU share an interest in

advancing transatlantic economic integration which would not only serve to underpin economic growth and prosperity in the transatlantic area. It will also ensure both the US and the EU against greater trade imbalances with the emerging economic powers and volatility in the global economy which will accompany their ascendancy.

In order to maintain the primacy of the transatlantic economy and allow it to develop its full potential, strengthened transatlantic cooperation on economic and regulatory policy-making and the removal of remaining non-tariff barriers in trade and investment are required – completing the transatlantic market. The framework for advancing transatlantic economic integration which was adopted at the 2007 US-EU Summit represents an important step in that direction. However, for this long-term initiative to succeed, it will require sustained political leadership and oversight at the highest political level.

Given their common values and shared interests, their strong political and economic ties, and long experience of successful cooperation, the countries of the European Union and the United States remain each other's natural, and indispensable, partners in the face of the global challenges which they jointly face. Neither the United States nor the European Union can hope to succeed by acting on their own. Nor do their relationships with third parties possess the depth of the transatlantic partnership as to hold the same prospect of success.

The transatlantic partners are well positioned to jointly tackle the challenges before them. For the foreseeable future, the United States will remain the world's sole superpower with considerable political, economic and military power and global reach while the European Union today already represents the largest integrated economy in the world. Together, the EU and the U.S. account for over 40 per cent of world GDP and still enjoy pre-eminent positions and considerable influence in international organisations such as the United Nations, the World Trade Organisation, the International Monetary Fund and the World Bank. Where they agree on norms and regulations, they often create a new global 'gold standard'. And both regions are the two largest donors of development assistance and have important political leverage around the globe.

Against this backdrop, the scope for strengthened transatlantic cooperation, which is in the interest of both sides, is vast. Effective responses to the challenges set out above will depend on enhanced EU-US cooperation and indeed EU-US leadership. Important obstacles, however, exist on both sides which complicate cooperation.

Some of the key challenges for enhanced EU-US cooperation are directly linked to the issues discussed in the previous chapter. The European Union will be more effective if it increases its efforts at becoming a more capable global actor, and thus global partner for the United States. It will have to consolidate its institutional structures, decision-making procedures, capabilities and in particular foreign policy competencies. The United States, on the other hand, will have to share more authority in a partnership of equals. Most importantly, there is still a tendency among policy-makers in the United States to view transatlantic relations through somewhat narrow prism of bilateral relations and/ or the NATO alliance, centred on collective security.

Both these aspects point at a more structural deficit in EU-US relations. On the one hand, little progress has been made in resolving and restructuring the relationship between NATO and the European Union. On the other, and more importantly perhaps when considering the diverse challenges the transatlantic partners face, the EU and the US still lack a solid basis and overarching framework for structured cooperation. The 1995 New Transatlantic Agenda has proven to be insufficient in establishing effective cooperation, not least because of only partial implementation of its provisions, and is seriously outdated today. A plethora of ad-hoc or sector-specific dialogues

and other fora for exchange and collaboration exist between the United States and the European Union. Effective cooperation will depend on more permanent and well-structured modes of cooperation that ensure political oversight at the highest political levels on both sides.

Finally, some of the divergent interests and approaches between the United States and the European Union that undeniably exist will have to be managed more effectively. Some originate in different political cultures and geographical positions. For instance, while the EU perceives its relations with China primarily in economic terms, the US views China as a political and security challenge as a result of its regional role and its commitments to Japan and Taiwan. Other differences, however, are simply exacerbated by highly moralistic debates – be it capital punishment or GMOs.

## **POLICY OPTIONS**

Whilst other bilateral relationships between the European Union and third parties are important, not all bilateral relationships are equal and the Union must now ensure its partnership with the United States is fully reflected at all levels of activity. Working closely together, they can then develop close relationships with other key allies such as Japan or India to handle the challenges ahead.

To give effect to this fundamental approach to global affairs in the 21st century, specific measures are required. We must:

- recognise that a multi-polar world is emerging: the importance of the transatlantic partners working together to promote Western interests and values is stronger than ever, not least in finding common ground to deal with global challenges;
- ensure that the NATO/EU/US linkage is effectively structured - linking with allies on a global basis - to meet global challenges;
- promote joint EU-US action, wherever possible, not least in global and regional fora; establish a EU-US partnership treaty to underpin such actions;
- pursue the completion of the transatlantic market by 2015 to deepen bilateral exchange and encourage global economic growth;
- build strong cooperation on energy and the environment between the transatlantic partners to foster global action;
- the question of failed states should be a priority for joint EU-US cooperation - the development of such an approach could trigger an overhaul of EU foreign aid and US foreign assistance operations to create a more robust means for the projection of EU-US cooperation and engagement;
- formulate a draft joint security strategy based on existing texts (US 2006/EU 2003), linking this to revision of the NATO strategic concept;
- finally, recognize the need to promote substantive UN reform to reflect the different global balance of interests in 2025.

## V: Conclusions

Looking towards 2025 does not permit an accurate assessment of what conditions will be then. But this document clearly highlights a number of trends which cannot be ignored by European policy-makers. It is distinguishing the importance of each of these trends and then concluding what action needs to be taken when that must be carried out by those responsible for political party programmes. The following are the key points from the document:

- There is a significant change of tempo underway in issues under discussion, switching from constitutional ones towards the global challenges ahead; the speed of change is accelerating; the impression given is that Europe is not adjusting fast enough;
- These challenges ahead are hugely significant in breadth and depth. They are also long term in nature, not to be resolved by a short term fix;
- In the evolving global environment, no member state is capable of solving these challenges alone. The EU must play a vital role to assist and develop the understanding of what such challenges will mean for EU citizens, encouraging them to look outwards with optimism and confidence;
- In a multi-polar world, Europe must keep in touch with all players, but closer Transatlantic ties will be essential to handle such challenges, in particular relating to the economy; energy/environment as well as security matters. A new transatlantic partnership structure will be needed;
- In a globalised world, based on the digital economy, the main unit of importance will be that of the individual. This being so, the bureaucratic ethos of the EU and its member states will need to adapt in order to update European Governance. The public is looking to the use of new technologies to hold political leaders to account, to debate ideas and to campaign for policy changes.
- For the EU, there should be less focus on extending frontiers Eastwards: indeed, the frontiers of the EU should now be established and a substantial period of time agreed to consolidate the internal cohesion of the Union. Greater time and effort must be put on addressing urgent issues which can wait no longer. ...in particular in the following fields of policy:
  - Global competitiveness: the need for a radical IT revolution in the EU in education, innovation and entrepreneurial spirit, with particular reference to competition within the educational system;
  - Demography and immigration: there will be deep-seated effects on all aspects of European life with an ageing population - pensions, transport, housing etc; in particular the need to change the labour market for part-time work and greater selectivity for immigration policy must be recognised;

- Terrorism and Security: we must ensure the survival of Western democracy and highlight the nature of the radical ideologues, with particular attention to promoting intercultural links etc; the Union must continue to prioritise the promotion of democracy and human rights across the globe;
- Energy and Environment : we must rise to the challenge of climate change by encouraging research and investment to find new technologies that can improve the way we in the West live in and with our environment; there is an urgent need to develop new technologies such as the hydrogen fuel cell to provide greater European independence for the security of supply from the Middle East/Russia. Must rebuild a popular consensus around nuclear power;
- Appreciate that these challenges are all interrelated. Innovation is linked to demography and immigration; immigration is linked to terrorism and security; security is linked to environmental and energy issues;
- Last, should this exercise have been useful for alerting policy-makers to dangers ahead, it should be regularly updated as the relationship between the different issues will surely change as events take their course...2012?

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