

FONDATION ROBERT SCHUMAN

The European Union, a model for the future?

Speech by M. Jean-Dominique Giuliani
President of the Robert Schuman Foundation

Beijing
June 17, 2006

Seminar organised by Calyon Corporate and Investment Bank

I. What the European Union really is:	3
- A successful common market	3
→ The way it works	3
- Common policies.....	3
- Competition rules.....	3
- Common institutions	3
- Solidarity mechanisms	4
→ Many positive outcomes	4
- Despite non completed Single market, living standards increase	4
- Adapting to globalisation: old Europe?	4
- Despite the absence of a formal political Union, Europe has had political successes	5
- The Euro and its impact on EU integration	5
→ Goals of the Euro	5
- Low inflation	5
→ Advantages of the Euro	6
- Increasing Purchasing power and price stability:	6
- Savings due to the elimination of exchange rates add up to an increase in trade exchange within the EU.....	6
- The Euro: an established international currency?	6
→ Rules for the European Single Currency	7
II. The crisis in the EU: constitution and enlargement, what is to do be done?...	7
→ European questionings	7
→ A need for stronger political institutions	8
→ Economic challenge: bringing growth back to the EU	8
→ A need for limits	8
III. Is the EU a new model?	10
→ The EU: an "over regulatory" power?	11
→ The traditional European social model and globalisation: towards a new model?	11
→ Has the EU a future as a political superpower?	12
- Europe in the world	12
Conclusion	13

First of all I would like to take this opportunity to thank the Calyon Corporate and Investment Bank and the State Administration of Foreign Exchange for giving me the opportunity to be here and speak to you today.

The European Union probably appears to you in a deep crisis. Since the French and the Dutch have refused to ratify the constitution the debate hasn't stopped. The citizens of Europe have expressed fears and wishes which must be heard.

I would like to examine with you the state of the European Union today and ask myself: Is the EU a solid and stable partner? Can China count on the EU to be a good counterpart both on economic and political terms?

Does the EU represent stability and a certain ability to adapt to future conditions?

In fact:

1. What actually is the EU?
2. Will European integration continue in spite of the crisis?
3. What will the EU be in the future?

The history of our continent has taught us not to bear nationalist feelings and to trust in our neighbouring countries. This has enabled us to build a powerful free trade area and to set up the foundations of a sui generis structure both with political and economic powers.

I. What the European Union really is:

Since the Middle Ages Europe has been the continent of war. During the 20th century war has taken incredible dimensions. World War II is a peak: 20 million dead are witnesses to the fact that Europe has reached a maximum degree of ruin and division.

In 1950 Robert Schuman held a declaration announcing the creation of the European coal and steel Community which started the whole European endeavour between the founding member states: Germany, France, Italy, Belgium, the Netherlands and Luxembourg. In 1957 the same states signed the Rome treaty creating the European Economic Community which is the basis of the actual EU. Since then there have been four treaties which have all attempted to achieve this same idea: uniting these nation states which have always experienced conflict. The method: an economic one.

I would like to take two examples of the EU achievements and try to analyse the way they work: the Common market and the Single currency.

First of all the Common market:

- A successful common market

The single market was launched on 1 January 1993. It has enabled the member states to abolish inner borders and cut import obstacles. It has encouraged trade among member states.

→ The way it works

- Common policies

The EU manages common policies run directly by the European Commission. The Common Agriculture Policy (CAP) is totally conducted by the common institutions of the EU. So do some other products. The Union has the sole competence on these issues and the member states can only influence them through their membership in the European Council.

- Competition rules

Opening the markets and creating a Single market has required the creation of competition rules to regulate it. This is also a competence of the European Commission.

Giant businesses such as General electrics or Microsoft have had trouble on the EU market because of this powerful regulation obviously more harsh than in the United States.

- Common institutions

The EU is run by three main common institutions: the European Commission runs the common policies and makes policy propositions; it is the guardian of the treaties.

The EU Council is with the European Parliament the legislative power. It adopts directives and rules.

The European Parliament is elected through direct ballot.

The three institutions are controlled by a European Court of Justice.

These institutions have competences they have acquired because the member states have slowly surrendered these competences to the common institutions. This of course is not always easy as the states are often very hostile to each and every loss of their sovereignty. However the EU states have acknowledged that their better interest is to run together policies which can give them weight in the world: rather be a big power together, than a small one alone.

- Solidarity mechanisms

Solidarity mechanisms between members of the European Union have played a major role and are at the heart of the European project. After each enlargement the new members benefited from the structural funds that brought them nearly 1% of additional growth per year. In 1973 the standard of living of the Irish represented 40% of the GDP/per capita; today it is 115%! Greece, Spain and Portugal have practically caught up with the EU average. Within the Union itself, the Common Agricultural Policy and the Regional Policy have encouraged the conversion of entire regions and economic sectors. They have enabled Europe to achieve independence and to modernize its manufacturing sector.

Solidarity mechanisms have been a good instrument for the poorest regions of all the member states.

→ Many positive outcomes

- Despite non completed Single market, living standards increase

The EU is the biggest common market in the world, 456 million consumers. The GDP amounts to 12 700 billion dollars (PPP 12 000). In comparison China has a GDP of 1 600 billion dollars (but 7 000 in PPP \$). The 27 members of the enlarged EU are projected by the IMF to have a gross domestic product of \$14,290bn (€11,133bn, £7,584bn) in 2007, bigger than the US, at \$13,943bn.

In 2004 the EU represented 45% of global exports. This means that the EU in its reunified form is the main actor of world trade.

The Single market has had very positive consequences on several levels. Standards of living have improved on average by 2.5% per year between 1970 and 1990, or over 60%. More than 2.5 million jobs were created as a result of this integration.

France, for example, which emerged from the Second World War as a country that was relatively protectionist and which had a massive public sector protected by strict regulations, would never have experienced the growth it has without the Community: France's GDP grew by 5% on average between 1950 and 1973, which was a higher growth rate than that of the USA.

Between 1998 and 2005 the volume of trade in goods inside the Euro area has risen from 26.52 to 31%. Trade in services between states of the Euro area has experienced a raise from 5% to 6.5% between 1998 and 2005.

- Adapting to globalisation: old Europe?

The opening of the European economy to global commerce increased the competitiveness of its economies, boosted growth and promoted the creation of global companies.

The collapse of the Bretton Woods monetary system, the first oil crisis and the emergence of ITs have all slowed Europe's economic growth. Although there has been much success, Europe is unwilling to call into question its generous systems of social protection and healthcare. Therefore it is discussing other ways to keep this social structure and at the same time adapting to globalisation.

It has often been said that Europe is tired and cannot meet the challenges it is confronted to.

It is probably a fact that the citizens will have to make some sacrifices to be able to keep their overall quality of life and social protection. However the Europeans are ready to do so as long as the governments explain this necessity to them.

- Despite the absence of a formal political Union, Europe has had political successes
The European Union has also experienced some political success. Most important of all: the EU member states are at peace since the Second World War. Sustainable peace has been established and is guaranteed by interconnected interests, common institutions that have been provided with supra-national powers and peaceful diplomatic relations between States. No longer can we imagine disputes arising between the countries of Europe, serious enough to degenerate into conflict. The "European model" developed in the wake of five successive treaties that strengthened integration. The Union has great influence over its neighbours and its model is well-regarded throughout the world. This influence notably contributed to the fall of the Iron Curtain and to the promotion of liberal democracy. It has proved to be the miracle by which the old continent found the path of reason and wealth. The EU has known some successes in the implementation of a Common Foreign and Security Policy (CFSP). This policy which was started after the Maastricht treaty proves the EU wants to play a major role in international relations. The Common Security and Defence Policy is also an attempt to give a military response to the defence needs of the EU.

Because of all these achievements, this has become the continent's "golden magnet" to which everyone wants to belong. The economy was at the base of maintaining peace in Europe; it became its best argument and therefore its greatest supporter. Requests for accession are continuously being presented.

Nonetheless this success is more of an economic nature and it is questionable whether the Euro area will stand the absence of a political union for very long. The premises of a Common Foreign and Security Policy are a good sign that the EU is heading toward a political union.

- The Euro and its impact on EU integration

The other major achievement of the EU is the Single currency.

The Euro is a widely applauded and popular success. It started on January 1, 1999 and became the everyday life currency in 2002. It is the accomplishment of an endeavour started long before.

The convergence of the various countries on an economic point of view has been large and the Euro Area is currently homogenous, giving stability and coherence to its monetary policy.

The 10 new member states will join if they meet the necessary criteria: now they have joined the EU, they must respect the convergence criteria to be then allowed to adopt the Single currency and gain from the advantages of the European Monetary Union.

The benefits of the Single currency have proven to be numerous:

→ Goals of the Euro

- Low inflation

The European Central Bank is an independent European institution. It is run by a council with all the Central Bank governors of the Euro Area.

It is an efficient institution to avoid both prolonged inflation and deflation. The Maastricht treaty establishes the maintenance of price stability as the primary objective of the ECB.

Thanks to the stability policy of the ECB the inflation rate has maintained itself at a low level, around 2%.

This stability establishes excellent conditions for investors from outside the EU.

→ Advantages of the Euro

- Increasing Purchasing power and price stability:

The Euro has proved its efficiency by raising the purchasing power of the population by 2.5% in 2002 and 1.6% in 2004.

It is a common but false impression that the Euro has inflicted inflation upon the consumers of the Euro zone. In fact most of the prices of day to day life which have increased have done so for completely different reasons. Cigarettes for instance may have experienced inflation but on the basis of an increased taxation on the part of the EU states. The price of other daily items such as fruit and vegetables maybe has increased but not because of the Euro; they are subject to variations due to the weather or other imponderable factors.

The problem is the people tend to blame the Euro and more generally the EU for what they perceive to be an unjustified inflation.

The price of oil is an example among others of the advantages of the Euro for the 456 million consumers of the EU. A Brent barrel used to cost 20\$ in the first term of 2002. It went up to 47.6\$ in the first term of 2005, that is 36.30€.

By the exchange rate of 1998, 5.90FF to a dollar, a barrel would now cost 42.8€ (18% more). By the average exchange rate of 1990-1998, the same barrel would now cost 39.8€ that is nearly 10% more.

Thanks to the Euro the price of a litter of oil is now 10 to 18% lower than it would be with the national currency.

- Savings due to the elimination of exchange rates add up to an increase in trade exchange within the EU

Experts assess that the immediate savings due to the elimination of exchange rate risks between countries have amounted to between 18 and 50 billion Euro.

This effect emphasizes the advantages of the Common market and adds to the benefits of a wide market which enables its players to take advantage of the economies of scale associated to this size. The increased competition attached to the completion of the common market by way of eliminating the exchange rates improves the conditions of free trade inside the EU.

Price transparency is evidently better and also contributes to the overall success of the Common market.

The interest rates have tended to converge to a low level supporting investment and therefore boosting growth and employment.

- The Euro: an established international currency?

The Euro is the second international reserve currency after the US dollar. Before the Euro, eighty per cent of the world's currency reserves were held in US dollars. Now there are no more than 66% in dollar.

There are now about 50 countries with an exchange rate regime linked to the Euro, including those EU Member States that have not yet joined the euro area. Non-EU countries that use the euro as an anchor currency are mainly located in the EU's neighbouring regions or are countries that have established special institutional arrangements with the EU or some of the EU Member States, like the CFA zone in Africa.

The Euro has established itself as an important international currency: created on

January 1, 1999, it accounted for 25 percent of total foreign exchange reserves in 2004 and 2005, higher than its average in preceding years but lower than the reserves in dollar which amount to 65.9% of total reserves.

In developing countries the percentage is higher with 29.2% of reserves in Euro for 59.9 in dollars.

→ Rules for the European Single Currency

The Stability and Growth Pact is the concrete answer of the EU to concerns on the continuation of budgetary discipline in Economic and Monetary Union (EMU). Adopted in 1997, the SGP strengthened the Treaty provisions on fiscal discipline in EMU.

Although most if not all the member states have been at some point warned for their public debt, it seems this flexible system can nonetheless care for a certain homogeneity in the EU. The coexistence of a single monetary policy and several budgetary policies calls for a system such as the SGP.

Many questions have arisen because France and Germany did not respect the SGP criteria. Although an understanding has been found it is very likely that the EU will once more be faced to the necessity of a reform of this pact.

Without the proper political structure to support it and the budgetary discipline of the EU members the monetary policy of the ECB will not be as effective as it could be.

Transition: Since the referenda in France and the Netherlands the EU is subject of to a large discussion both inside and outside its borders. There is no doubt that this crisis has its reasons. The EU has been used to moving forward in cycles with crisis and progress in turn. This crisis has revealed a profound aspiration on the citizen's part to give clearly defined limits to the EU both on a geographical basis - dealing with enlargement - and concerning European competences. On this subject the EU has a lot to accomplish.

II. The crisis in the EU: constitution and enlargement, what is to be done?

Since the two negative answers to the referenda in France and the Netherlands, Europe has been revealed that it is undergoing a triple crisis: institutional, economic and territorial.

- The EU constitution failure: how does the EU work currently, and what will the next steps be?

In France and the Netherlands the draft Constitution was put to a referendum. It did not find majority support. In June 2005, the European Heads of State or Government discussed the reasons and implications. They concluded that the results did not call into question the citizens' attachment to the European construction process. At the same time, they agreed on the need for a period of reflection.

→ European questionings

Europe is in a crisis. Not only because of the recently failed referenda on the European Constitution but also because a general atmosphere of uncertainty prevails about the finality of the European project.

In order to prevent the death of the Constitutional idea but also in order to reconnect the discussion with the people of Europe, political leaders at the Council had decided to launch a period of reflection that was hoped to clarify the contents of the European project and infuse it with political impulse to push reform forwards. The failure to come to a financial agreement at the Council in June 2005 had underlined a sense of crisis for the EU.

The ratification process was continued and the number of member states which have ratified the text amounts to 15. Finland will shortly hold a vote in parliament and probably become the 16th state to ratify.

In case the ratification process does not continue after this, it might be possible to try to save some parts of the Constitution. However, the difficulty of such an undertaking is great, given that the Constitution had been the result of a precarious political compromise. All the governments are aware that it could well have been the only compromise they could meet.

In order to make the period of reflection a success, it is necessary to take account of popular fears connected to issues such as enlargement, especially the membership of Turkey, unemployment and a general loss of identity in a globalising world. It would now be necessary to explain more fully the content of the Constitutional Treaty and develop a vision of the future EU. However, this would take time and change is not to be expected before the series of new elections had passed in the member states by 2007. The EU must always take domestic politics into account especially when large member states such as France or Germany are concerned.

The other alternative would be to continue on the basis of the Nice Treaty, but this would also be unsatisfactory, given the awkward mechanisms for an enlarged Europe of 25 it provides.

Enlargement will create an important challenge for the EU. Inevitably the process will slow down as a result of the current crisis and the criteria of new member states will be applied more carefully. The constitutional project has highlighted the incompatibility of parallel deepening and widening of the EU. Nevertheless, the EU would lose much of its moral credibility should it stop the enlargement process, which formed an important part of the European vision of stability and prosperity.

The EU is clearly experiencing a crisis on three levels: institutional, economic and territorial.

→ **A need for stronger political institutions**

Along with policy reform, however, the EU is also in need of stronger institutions to lead the EU forward. It is now the shared responsibility of member states and institutions to proceed in a constructive attitude.

A Constitution was drafted to lay down the appropriate institutions and political processes which would allow the enlarged European Union to act efficiently and transparently and assume an international role that is appropriate with its economic and political weight.

It is now time for action again. The EU has not stopped working while the debate was going on. In areas for which the EU enjoys full competence it has gone on with its work. The EU has the tools to go forward on certain strategic subjects where a coordinated action will most certainly prove to be of advantage. A common energy policy or the implementation of common rules on environment are among others topics which are both of crucial importance and have the need for concerted action.

→ **Economic challenge: bringing growth back to the EU**

The challenges which the EU is facing are more of economic than of political nature. Therefore most of the difficulties Europe is facing can be solved by economic transformation and financial reform.

The other major subject of concern for the citizens of Europe is the enlargement. A need to set some limits is growing in the EU and an adequate policy must be put into practice.

→ **A need for limits**

The issue of the borders of the European Union has become an important political debate that has mobilized public opinion in the Member States, especially amongst the founding

countries. It has been one of the most successful arguments used by the opponents of the Constitutional Treaty. Now it is at the heart of the political debate on the future of Europe, and is influencing diplomatic relations with its neighbouring countries, and debates on Europe's global role.

There are three official candidates to the EU: Croatia, Turkey and Macedonia. Apart from that most of the Balkan countries are already associated to the work done inside the EU. They are not yet official candidates. The EU arouses great hopes for states reaching towards the Black sea such as Georgia.

There is no definitive answer to the question of enlargement. The EU borders do not have to be definitive, at least because the European project is not yet achieved, and has still to be invented.

An answer to the uncertainty of the borders is probably in the definition of the European project. If the European citizens today question the limits of Europe, it is because they don't know what Europe is or means. If it is to be a big market, then it could easily include Turkey and Ukraine one day. If it has to become a political international actor with a common defense policy, maybe those two countries do not belong to this Europe. That is why the answer to the question of the borders of Europe lays in the core of the European integration future itself.

It may also be that the EU will become both: that is a smaller political union on the basis of the founding member states and probably a few other and at the same time a large market where free trade is guaranteed.

Nevertheless, since I am one of those who believe in a strong Europe, a Europe that is to slowly but surely become an international actor, I would like to make some remarks:

The specificity of the last EU-enlargement does not only refer to the number of candidates. It has mostly to do with two other factors:

- EU-Enlargement and EU-deepening were processed in parallel. Both interfered and have to be addressed together.

- The last enlargement has a strong symbolic meaning: the reunification of Europe. It has also to be seen as the end of a process that started in the 50's because the European integration project was also a way to address the soviet issue in Western Europe. The vocabulary itself has switched from enlargement to unification of Europe.

After this achievement, we have to question the nature of the borders of an enlarged Europe. For the first time in the history of the European Union, the Eastern borders of the Union are not anymore or at least not necessarily "borders of enlargement", as it had been the case during the last decades. The Union has to redefine the nature of its borders, which have to be thought in new terms, this is the task of a new neighbouring policy.

The external borders of the EU are of 3 kinds:

- Borders with future members: with Romania and Bulgaria, that is external borders that are expected to become internal borders soon.

- Borders with candidates or future candidates: See borders with Western Balkans and Turkey.

We have had a Westphalian conception of borders for a long time. It has now become more complex and subtle. The recent wars have created new borders between peoples and nations and the process is not over yet (see Montenegro and Kosovo). The future integration of those new states in the EU will contribute to weaken these news barriers and accelerate a process of convergence and reconciliation in the region. In other words, it may not be such a big deal to accept the creation of news borders between Serbia and Montenegro or Kosovo if we remember that once these countries will be EU

members, these borders will become weaker and weaker. This is why the prospect of integration has to be very clear and reaffirmed, in order to calm the current process of border creation.

In the case of future member states it is already noticeable that a certain convergence has taken place. On the subject of the Single European Sky the rules and regulations adopted by the EU has direct effect on its partners in the Balkans for instance. This creates a community on this particular level which is the symbol of what the EU might become: de facto communities around de facto common interests.

- Borders with countries that may never become EU-members (Belarus)

The challenges have not changed that much: it is still about stability and security but the tools to address these issues have changed. It won't (necessarily) be by integration in the EU. We have to be able to offer something new to our new neighbours (Ukraine, Belarus, Georgia...). It could be the possibility to take part in some political European decisions on issues that directly regard them for instance. It should not be a « classic » neighbourhood policy, but something politically more attractive for those countries, that allow them to give up a full integration in the EU.

The more the debates persist the more the word "borders" seems not to account for the reality of the European Union. We should rather talk of limits! There will almost certainly be different limits for the different aspects of Europe. Political Europe, cultural Europe and economic Europe: these entities do not have the same limits.

On the subject of enlargement the EU will certainly experience a break or pause in the process after Romania and Bulgaria become members. Negotiations will go on but public opinion needs time to accept new members.

Transition: In spite of all its difficulties and take-backs the EU is becoming a new model for the world. Far from all existing forms of political organisation it is opening the way for a new type of power. The EU is slowly taking its position as a major regulator and an innovator on the topic of international relations.

III. Is the EU a new model?

Let me now try to explain what the European Union is all about. Jacques Delors once referred to the EU as an "unidentified political object". And indeed it doesn't resemble any other organisation. The EU is based on "sovereignty share" a very strange concept to most sovereign States. It is the will to give up certain competences so that they can be dealt with on a higher level in a more efficient manner. This doesn't mean that the member states no longer are sovereign: in fact they recover sovereignty throughout their membership in the form of a better regulated and independent Europe.

The European Union also stands for a commitment of a new type on the international scene. It is a strategic partner in a multipolar world. It uses non-traditional security and soft power as a means of influence and pressure. Its institutional system cannot work without a great deal of compromise and discussion.

Like China, the EU abides by international rules and is very attached to them. In fact it is the source of many initiatives in matters of international regulation.

Like many unknown systems it stirs scepticism among certain people arguing that the EU doesn't guarantee security for the European continent. Not only is the EU yearning to do so but it is doing so in a totally innovative way. Shared sovereignty takes there again its part in the process.

The great novelty of the EU is its capacity to produce norms for its members and to influence its neighbourhood and partners with them.

→ **The EU: an “over regulatory” power?**

The EU is a regulatory machine, producing common standards to make the single-market function effectively, and allowing companies to exploit fully the economies of scale offered by a huge home market. Such rules are determined by majority voting, so the EU's expansion should not necessarily lead to legislative slackening.

In developing common standards for its member states, it imposes the same rules on companies wishing to trade with Europe, a fact that can give European companies a big competitive advantage.

For example, Europe's decision to adopt GSM as its standard for mobile communications gave a head start to companies such as Nokia of Finland and Eriksson of Sweden. The EU's role in opening national telecommunications markets to competition was vital and it has prescribed new standards to partners outside the EU.

In the globalised world the importance of trade negotiations is enormous. The EU can constantly use the size of its domestic market as a lever on its competitors. There are two ways the EU can influence rulemaking: it can either engage in an accession-process, forcing the neighbours to adopt European norms or it can entail conditions to enter the European market on its rivals.

Not only does EU end up in having a homogenous domestic market what norms are concerned but it also has the means to affect its competitors.

Europe's regulatory influence is particularly noticeable in the cars sector, where EU standards and norms are applied by countries across the world, including Japan, India, South Africa, Australia and China.

That means that European companies such as Fiat, Volkswagen and Peugeot can simply ship their cars to Japan and elsewhere without making costly tweaks to their models or getting the approval of foreign safety authorities.

“It is a huge advantage if you are the one setting the standards, because it is always better to make the policies rather than to follow them. That is also hugely important for our industry,” says Günter Verheugen, the EU industry commissioner.

The European Commission is able to deploy soft power at a high level because it has full powers to negotiate on commercial issues.

During a dispute over US steel tariffs in 2003, the Commission threatened trade sanctions against products from electorally sensitive states. “A market that big is why the Commission could credibly threaten to use trade sanctions to influence the 2004 US presidential election,” he writes.

The EU is playing this regulating role partly because it has a certain vision of society with high social standards it wants to defend.

→ **The traditional European social model and globalisation: towards a new model?**

The European model appears to be very archaic to its competitors.

But it is the continent with the best standards of living, where the biggest amounts are invested in and where the volume of trade is the biggest.

The best response the EU can give to the question of maintaining or not its social standard is by generating growth.

The Lisbon strategy is a first response to the challenges globalisation is setting for the European Union. This understanding was decided upon at the European Summit of Lisbon in the year 2000. It has set the goal that the EU should become the most competitive society based on knowledge in the world before the year 2010.

Innovations, R&D along with solid support of education are to give new breath to the European economy.

The programme has to be properly implemented. More political support for these concrete ideas has to be gained.

The European model suffers but the EU won't completely abandon the structure that can account for all of its successes. The EU is a clever mixture of liberalisation and solidarity. The one and the other are vital to the European construction. Without solidarity the EU would not be as homogenous as it now is.

The European national governments will have to undertake many reforms. This is a fact that must be acknowledged whether or not we want to. Globalisation implies that we adapt to certain constraints and it is anyhow better to act now in good conditions than to have a tardy reaction be inflicted on us with much more serious consequences for our social structure.

→ Has the EU a future as a political superpower?

The EU is a new type of power. It has the ambition to become a new power with political weight and a strong economic basis. It cannot be compared with traditional models of nation or empire. It is a sui generis entity and therefore the path forward must be invented again and again and implemented.

Europe has the will to become a non aggressive power.

Nonetheless its actions reveal that it does have influence and not only in its immediate neighbourhood. (Independence of Montenegro, European forces in Congo, Solana in Iran...).

The EU's status as a major trading power gives it great responsibility for fighting world poverty and promoting global development. It seeks to use its influence.

It is also the world's biggest donor of official development aid. Development is a competence that is shared between the EU and its Member States. Together, they account for 55 percent of worldwide Official Development Assistance (ODA) – about \$43 billion in 2004 – of which more than one-fifth is managed by the European Commission itself.

- Europe in the world

Europe is currently shaping its role as a major actor of international relations.

It is attached to certain values which it defends on the world scene, it stands for the development of good trade relations among countries and most of all it shows engagement for a regulated globalisation.

This path isn't a traditional or even sometimes a popular one but the EU distinguishes itself through this endeavour.

Examples of this endeavour (military operations in Congo, humanitarian aid in Asia after the tsunami, influence on Tokyo understanding, Iran diplomatic discussions, etc.) show both success and failure. The EU is currently trying to find the type of procedure which could become the rule in the case of a crisis.

The relationship between China and the EU is symptomatic of the way the EU intends its relations with third states to be.

China has expressed its desire for a "strategic partnership" with the EU in its first EU-policy paper in October 2003, when anger over the Iraq War had reached its peak in Beijing and European capitals. A bitter dispute arose over China's demand to lift the EU arms embargo, imposed after the repression of 1989.

As a result, trans-Atlantic inequality has been reduced; the relationship between Washington and Brussels has become less unbalanced as the US has become more aware of the limits of its military power.

The EU on July 28, 2005 signed contracts with a group of Chinese companies to develop a range of commercial applications for Europe's planned Galileo satellite navigation system. Beijing has contributed \$ 230 m to develop Galileo.

Although the US and EU signed an agreement on the full complementarity and interoperability of the American Global Positioning System (GPS) system and Galileo, the Pentagon, which controls the rival GPS is concerned with the potential military implications of EU-China Galileo cooperation.

An EU troika dialogue, of Austrian FM Ursula Plassnik, Finland's Foreign Minister M Erkki Tuomioja, foreign policy Chief Javier Solana and commissioner for external relations Benita Ferrero-Waldner was held in February 2005 with Chinese Foreign Minister Li Zhaoxing.

The EU troika said the EU would make concerted efforts to achieve a lot to take concrete cooperation measures on trade, civil aviation, environment protection and tourism.

As the EU-China partnership needs a broader legal foundation to replace the 1985 Trade Agreement, negotiations on a New Framework Agreement have been planned for some time.

The EU requires a human rights clause in all major agreements and it remains to be seen whether such a clause will be fully acceptable to China.

The EU wants a good relationship with China. It sees China as a major economic actor. Nonetheless the EU is very attached to certain principles it wants to stand up for. China may rest assured that the EU will always have imperialistic views which would be totally foreign to the nature and history of our Union - we have outlived the conflict time. However the EU will always remain firm in matters of human rights and international law.

Conclusion

I would like to conclude on the subject of the relations between the EU and your country. I welcome the strengthening of our trade and financial relations which are to our mutual benefit. Policy challenges lie ahead for both of us, and the adjustment of current account imbalances globally is an important one. I am convinced that the euro area and China will pursue the appropriate policies to address the challenges we face effectively and, in this way, make this common future a better one.

Whatever the crisis in the EU and whatever the outcome of the ratification process, the stability of the euro will not be affected. The ECB will continue to fulfil its mandate and deliver price stability in the euro area, thus contributing to a macroeconomic environment in favour of growth and employment creation.

It is in China's best interest to regard the EU as an important partner for the future.

However the EU still has a lot of work ahead of it. Everything in the EU is evolving constantly. The establishment of a political Union will take both time and a great deal of efforts to achieve. My belief is that it will take place despite all difficulties even if it takes a century. I am convinced the EU will one day be an economic and political power.

It is already a much envied continent with high living standards; a democratic continent where freedom is the most valued principle. Europe will do everything to stay this golden continent.