

**Address by the Hon. Donald J. Johnston,
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**NEW EUROPE, NEW FRONTIERS, NEW
OPPORTUNITIES, NEW CHALLENGES**

Firstly, I should like to thank COMENIUS for inviting me once again to the European Banking and Financial Forum. This will be my last visit as OECD Secretary-General to this wonderful city, as I will be standing down in May this year. And I am delighted to talk about a subject on this occasion that is so near to my heart: New Europe, New Frontiers, New Opportunities, New Challenges.”

I should declare at the very outset that I have a bias. I firmly believe in the future of Europe as a major force in the pursuit of global peace and prosperity. I recognise that, currently, many people are less assured than I of such a positive and dynamic future role for Europe, but I would suggest that they may be focussing rather narrowly on current problems and challenges without placing these in the broader historical framework.

Many of you will be aware that Keynes suggested that we should examine the present in light of the past for the purposes of the future. When one takes such a perspective, it is impossible, in my view, not to be enthusiastically optimistic about the Europe of tomorrow, whatever the short term political pandering to patriotism, nationalism and protectionism that we are seeing in many parts of the continent today.

In my view the success of Europe is inevitable. But as a wise observer once noted: “It is amazing how much effort it takes to bring about the inevitable!”

Yet, a strong unified Europe is not only inevitable, it is highly desirable, indeed essential to the emergence of true multilateralism and the further evolution of globalisation so that it can truly benefit all human kind.

Of course, one of the challenges facing Europe and the world today is that we are currently living in a world dominated by just one super power: the United States.

The world is very fortunate that the United States has, by and large, a very open market and a growing economy. Indeed its current account deficit of 6.5% of GDP amounting to some 800\$ billion testifies to it being both the importer of last resort and the principal motor of global expansion.

But as the US rightly argues, others (including Europe) must take up the challenge to open their markets and stimulate economic growth.

Otherwise, we risk seeing the United States increasingly acting like the only 800lb gorilla, where its ambition might simply be to remain the world's only economic super power; a desire that would be understandable but, at the same time, short sighted.

Indeed, the global economic power of the United States affords it the luxury of being able to ignore the necessity of engaging in broad based multilateral trade agreements. When others seem reluctant to opening their markets and eliminating trade distorting subsidies, the US may focus increasingly on bilateral agreements that it can negotiate to its competitive advantage, as a result of its economic muscle. After all, it is logical for the largest gorilla in the neighbourhood to take on the competition one or a few at a time. Each country would behave likewise were it to have the negotiating strength of the US.

One risk of continuing inertia in the Doha Round is that the US may consider a basket of bilateral agreements as preferable to entering a multilateral ring of more than 100 capable of combining their collective interests into a powerful negotiating position on many issues in many areas.

Because access to the most significant market in history is critical for so many countries, the negotiating position of the USA is formidable even in a multilateral context. However, multilateral negotiations are, by their nature, rather slow and cumbersome process; bilateral deals to work around the multilateral process can seem very attractive. Witness that the USA is now party to around 17 bilateral and regional trade agreements.

That is the Real Politik of the world in which we live. Hence, it is essential that others, most notably Europe, must get their acts together quickly. When Europe does so, it will represent an economic force greater than the US. It will become history's record holder as the world's leading economic behemoth. There will be another 800 pound gorilla on the block to act as a counterweight to the US and, I believe, this will help to gradually move multilateralism forward. This will be especially true if Japan continues its current growth path and China rises, as we expect, to become the world's largest economic power, with India not far behind.

The world will witness huge economies, competing, trading, exchanging goods services and capital and driving innovation to ever higher plateaus in all areas of human endeavour. And in their wake all economies will prosper if multilateralism finds the role it should enjoy.

But Europe is the key to making this happen. Only Europe and Japan will be able to match the US in per capita GDP and hence consumer purchasing power. But one should recall at the same time that Japan's population will be declining more and more steeply, while an expanded Europe will have perhaps three times or more the population of the US. And if Russia moves towards European integration and away from a strong military and commercial relationship with China, Europe will become a power of gargantuan proportions.

But all this will happen only when the peoples of Europe achieve a consensus on what kind of community they truly wish to be. Currently, Europe is progressing on this question in fits and starts. The coordinated broad based visionary leadership of the kind that led Europe out of the chaos of WWII is not apparent at the moment. Instead, the current landscape seems dominated by an incoherent cocktail of patriotism, nationalism, protectionism and even racism. These are not the ingredients for the quick emergence of the powerful counterweight to the US which the world, including the US, needs.

Let me take you back to the year 1936 and the words of H.A.L. Fisher, historian and then Warden of New College, Oxford. They are found in the introduction to his History of Europe.

“These differences (in Europe) are unresolved. One by one the great attempts to impose a common system upon the energetic self-willed peoples of Europe have broken down...

Yet ever since the first century of our era the dream of unity has hovered over the scene and haunted the imagination of statesmen and peoples. **Nor is there any question more pertinent to the future welfare of the world than how the nations of Europe, whose differences are so many and so inveterate, may best be combined into some stable organisation for the pursuit of their common interests and the avoidance of strife”**

Fisher died during WWII before that vision was realised.

As is so often the case in human affairs, the move to a better world needed the horrors and devastation of war to bring Europe out of hell to what we see today. While we have passed the threshold of armed conflict, and moved to a Europe where the exchange of goods, services and peoples have replaced bombs and bullets, it remains work in progress. But as Fisher rightly predicted, Europe has already served as an example to the world.

At the OECD we try to replicate that experience (in which the Marshall Plan, the OECD's very foundation, played a crucial role), in other parts of the world where conflict has shredded societies. Our investment work in South Eastern Europe and work on governance and investment in the Middle East and North Africa, or MENA region, are examples.

In fact, in a greater context, the post war commitment to multilateral globalised trade which now awaits the completion of the Doha Round is an extension of the same principles. Territorial acquisition which drove the war machines of the past has no *raison d'être* in the 21st century, where the expansion of commercial interests dominate and where strengthening, not shooting, your customers is the best strategy for good business. That is why the creation of economic interdependence amongst former warring states is the best means of achieving peace and security.

Returning to Europe, what is the way forward? Where is the higher vision to come from to achieve what is visible but not yet within reach?

The answer is in balancing the various goals of Europeans, what I would call "the three Ms", namely: minimising frictions; maximising synergies and maintaining sovereignty.

Some apparently believe they can achieve the first two with a minimal dilution of sovereignty. This is not possible.

On the other hand, from my Canadian experience with Quebec I know that it is possible to minimise frictions and maximise synergies while maintaining cultures and national identities. In the case of Quebec, the French language, civil law, religion and culture have been protected since the Quebec Act of 1774 which is why separatist movements have never succeeded. I see this as an example for Europe to emulate.

Indeed, to lose the distinctiveness of the various languages and cultures of Europe would be to change the character of the continent and move it more in the direction of the United States. In my view, historical evolution and the nature of the “self-willed” peoples of Europe make that path neither feasible nor desirable.

On the other hand, to become the powerful force of unity that Fisher envisaged and which would so well serve the interests of Europe and the world, Europe must develop into a strong federation with an appropriate allocation of powers between the central authority and the nations to maximise synergies and maintain sovereignty in those areas necessary to protect national identities, language and culture.

The failure last year to adopt the minimalist constitution may not portend well for that prospect in the near term, but this evolution must and I predict, will happen.

To spur on this critical exercise, the incoherent political positions of numerous voices within the Union must be addressed.

Non European observers, especially those coming from federal states, should be amazed at the resistance to some cross border mergers which would only strengthen Europe's hand; and the absence of a Union wide stock exchange supported by a Regulatory Body equivalent to the SEC; and the lack of a Food and Drug Agency which has the necessary authority; and the presence of regulatory requirements impeding the free movement of peoples.

What are today's strategic industries that need protection? And why should they be defined by national authorities in any event? Why should there be resistance to the acquisition of Arcelor by Mittal but no outcry against Arcelor gobbling up a Canadian steel maker or St. Gobain taking over British Plaster Board. Why did this same reasoning not apply to Alcan's acquisition of Pechiney? Is steel so much more a strategic sector than aluminium?

Irrational incoherence at the political level is clearly holding back progress at the moment. The merger of GDF and Suez to shut out Italian interests is one more example; and this political disease may even be taking hold in this part of the continent, as we witness the stand off between the Polish Government and the independent central bank over the merger between two foreign owned subsidiaries.

Some seem to forget that ownership must operate within a regulatory framework. A foreigner driving his car on the streets of Paris has no more liberties than a French counterpart. So it is with business and industry whether in manufacturing or services.

Europe is not alone in this. The recent brouhaha over the acquisition of some American ports by Dubai interests is an even more ludicrous example, with senior politicians pandering to the ignorance and prejudices of an ill informed electorate. Who would regulate and supervise and secure the operations of the ports? Dubai?

The term “Europe” in this context is somewhat unfair. The UK stands out as an important exception and a good example for others to heed. Financial services, manufacturing, even the media have welcomed foreign direct investment and no one has seen the disappearance of what makes Britain British.

The real challenge for Europe should not only be the integration of foreign commercial ownership, but also the integration of peoples. Immigration is the only apparent way of arresting the demographic decline underway in all European countries, with Italy, Germany and Spain leading the way.

In today's world human capital is the most important ingredient of economic success which translates into greater wealth and rising standards of living for all. Migrants should be welcomed, educated and integrated so that they are comfortable and not alienated from the society they have elected to join. This is where the real challenge lies for much of Europe. By comparison, debate over foreign economic ownership is trivial.

It is sad to read of young Muslims in France who consider themselves French in every way but feel excluded from the French society into which they were born and raised. That must change, not just in France, but in all the countries of Europe. That is one of the great strengths of the United States, Canada and Australia, where the vast majority of citizens has identifiable immigrant origins.

In this context, Turkey must be seen as a tremendous opportunity for Europe. One of few countries with a young population and a higher than replacement fertility rate, Turkey is not only demographically important for the future of Europe, in the near term it is also strategically critical. So there is a strong coincidence of interests for Europe which the peoples of countries so far dubious about

Turkey's Union membership must be convinced to accept. When they see the quite extraordinary advantages of Turkey as a member, hopefully they will shrug off their reservations and welcome Turkey with open arms and open hearts.

I repeat: Europe's role as a unified economic giant in keeping with the ambitions of the Lisbon Agenda while maintaining the richness of languages and cultures, is in my view inevitable.

Unfortunately, bringing about the inevitable sometimes requires incredible levels of work and dedication which must find itself in strong Europe wide coordinated leadership.