

What is the state of the Union? Where are we headed?

1. First of all, about the political context.

In the midst of growing so-called euro scepticism, a surprising phenomenon occurs. Support for EU membership has never been greater for 27 years, especially among youngsters. A continuously increasing majority (62%) of Europeans think that being a member of the EU is a good thing for their country; only 11 % thinks it is a bad thing. 75% of euro area citizens are in favour of the euro, the highest level since the introduction of the euro.

This has a negative argument: an exit such as Brexit has created such an aversion for additional instability in the EU-27 that the EU is now seen as an anchor of stability. People do not want to add instability to a world they already experience as sufficiently unstable.

Anti-European parties, by the way, are no longer in favour of exit! Their ambition is to block and destroy the functioning of European institutions as much as possible from within, instead of leaving the EU. Because the vast majority of citizens are against exit, populists have had to change their strategy. A populist wants to be popular.

It is even easier to leave the Union than to leave the eurozone! The financial markets would punish that exit even faster and even more severely. The Brexit only refers to leaving the Union and this alone has already depreciated the pound by 14 %.

One of the explanations for the reluctance of national governments and parliaments to follow a pro-European course is the political instability at national level. Those leaders become risk averters. The fragmentation of the national political landscapes, the volatility of the voters and the extremist drift have made it more difficult to govern in most Member States. It is not surprising that there are 13 minority governments in EU-28, within the euro area and beyond. How can Europe be sufficiently strong when too many Member States are too weak?

Political instability also has to do with the role of social media. Not only is there fake news and external manipulation, but there is also a reinforced trend towards individualisation in our societies also due to social media. Each of us, as an individual, can be reached directly by social media without intermediate bodies, filters and without compromise builders such as political and social organisations. People hear one-sided messages and gradually only those they want to hear. All this strengthens the hardening of points of view and the polarisation. It sometimes leads to a blocked society and a blocked democracy.

Analysing the European elections reveals positive and negative points.

On the positive side, the sharp rise in the participation rate in elections from 43 to 51%. Poland: rise from 24% to 46%. Germany: from 48 to 61. France: from 42 to 50. Many American presidents were elected by no more than half of the potential voters. This figure underlines: Europe matters.

Europe has become part of domestic politics, sometimes in a negative way due to the multiple crisis, but also positively with a growing awareness that the problems of our time can no longer be solved at national level alone. The EU is not loved, but it is needed!

Many of main challenges require a European approach but euro-hesitating governments do not dare enough to strive for 'more Europe'. Trust in the EU (42%) is higher than trust in national governments on average (35%).

The Europeanisation of national politics also goes beyond the content. It also penetrates national politics as such. The Greek and British prime ministers resigned after May 26 and the German coalition was also shaken. The high participation rate in the European elections increased its relevance to national politics. That too is in some way a positive evolution!

What is also positive is that there is still a very large majority (almost 70%) of the four pro-European parties in the EP. The European institutions can continue to function. The populists have become stronger, up to 25% of those elected. Few are in favour of exit after experience of Brexit and the division between nationalists is great, but they are united around anti-migration.

The result of the elections shows the decline of traditional parties. Voter volatility in this European election is high also in all bigger countries, most of all in the UK! This does bring political uncertainty at the level of the Union institutions because three parties are already needed for a majority in the European Parliament. In practical terms, it means that each party will claim a position in the distribution of the main EU functions.

The next European Parliament will still have a strong pro-European majority, but that should not be the last time!

Without renewed confidence in national governments and EU institutions, the malaise will continue. We need to get to the heart of the matter. The results of the policies must give citizens the feeling that they are better protected by their local, regional, national and European governments against many real or perceived threats such as unemployment, insecure jobs, low purchasing power and growing inequalities, irregular migration, climate change, terrorism, all kinds of dumping and fraud, corruption, the Russian danger in the East. Protection is a key word. Despite the tangible results of national and European policies in terms of employment, climate change, irregular immigration and others, confidence is not returning yet, due to the multiple crisis of the last ten years that has eroded confidence. Trust runs away on horseback and returns on foot. If people feel inadequately protected, they will be less likely to support our open democracies, our open societies and open economies.

I would like to describe this tension between openness and protection in a different way. I use the metaphor of space and place. The more people experience space such as globalisation and Europe as threatening and insufficiently protective, the more people long for a place where they feel at home and more protected. The place is not so much the national state as the

region and the municipality where their house is located. We lack a human dimension in our democracies and in the market economy. We are losing that proximity in a world where scale, efficiency and rationality are the only yardstick.

A double movement is needed: to make space more humane and to give the place a more important role in the governance of the country.

This greater involvement of citizens must be more direct and physical. Social media are not enough. On the contrary, they can dehumanise even more and diabolise the others through polarisation. This proximity will require a great deal of effort on the part of the leaders at all levels.

This human dimension must not prevent us from taking the necessary measures to make our economies competitive, to save the climate, to lift mobility out of the impasse, to consolidate budgets, to distribute purchasing power more evenly for all, and so on. These difficult and courageous measures are inevitable, but they will be better accepted if they are better understood and if they are regarded as fair and equitable. Also, if the concerns and fears have been addressed included in the areas of migration and integration.

The space should think more of the place and those responsible for the place should involve themselves in a larger project that is necessary to solve the problems of the people.

We must not get stuck halfway where we have too little Europe and, at the same time, too little proximity. Too little space and too little place: the worst of both worlds.

In turn, the local authorities must also check whether they are close enough to the people. At the political level, we must avoid setting the so-called bad 'space' against the 'place' that would, by definition, be good. We live in a difficult phase of our democracy and we must all ask ourselves whether we are doing the right thing.

What with Brexit in these days with growing fall back on oneself?

Most members of the European Council accept Brexit as a fact of life but do not understand the phenomenon. Why?

Brexit does not offer any economic advantage. The UK saw only a market and an added value in the EU, but in Brexit there is only negative added value. A paradox. Brexit would therefore primarily offer an immaterial advantage: more national sovereignty or rather the return of a supposedly lost sovereignty. But in this interdependent world, in the world of value chains: is it still possible to be truly independent in economic and financial terms? Of course not. Not even the US or China. France and Germany, two countries that were rivals of the UK in the past, have no desire at all to regain 'control'. One has to keep in mind that the UK is the least integrated country of the EU as it is only a member of the single market and not of the eurozone and the Schengen area. They are much more sovereign than France and Germany!

In today's global world, by the way, the scale and the numbers count much more than before. What does a global Britain mean in that context? What is the specific weight of a country with less than 1% of the world's population and 2% of global GDP?

Nor do we understand that, three years after the referendum and after the draft agreement with the EU on the withdrawal, there is still no definitive accord in Westminster, not even a prospect of it. There is no agreement on nothing in the UK today, unless it is not allowed by the British Parliament to leave the EU without a deal. And yet it can still happen. The EU showed its good will by reaching a compromise with the British government. However, the limits for a compromise were reached for the EU. The 27 will stick to the text also when there is a new Prime Minister in Downing street 10.

The Irish question and thus the avoidance of a visible border on the island of Ireland, will make it very difficult for the UK to remain outside the customs union and the single market, if an agreement is sought.

On the other hand, a no-deal will make a border on the island of Ireland necessary, to be organised by the republic of Ireland! But that would risk a return to violence. Europe brought peace also on the Irish island. In addition, a no deal implies a new and perhaps successful referendum in Scotland. Another immaterial loss. But all this can happen.

In the EU-27 today there are different schools about the near future. A first group of nations wants an orderly separation, and was and is still prepared to postpone the exit in order to retain all chances of reaching an agreement. A second group is tired of waiting and thinks that the protracted negotiations and the uncertainty, weigh on the EU's agenda, which has priorities other than Brexit. This group also believes that the longer the negotiations drag on, the more there is a chance of internal division within the EU. Those EU-27 countries even want to run the risk of a no-deal. The third school thinks that Brexit's postponement leads to the end of Brexit. Delay gives annulment. They hope for a return of the 'prodigal son'.

The European elections brought with them an implosion on the part of the Conservative Party, which is much more serious than the long-feared split. The party lost the confidence of its voters because it could not keep its promise of Brexit. The Brexit negotiations were grossly underestimated. Trust is essential in life and in politics. Overpromising and underdelivering is deadly. The new Prime Minister will try to achieve Brexit at all costs by the end of October. A no deal is now more likely than ever. But the situation is more complicated than most British politicians think. Those who don't rule out a no deal and therefore a hard Brexit today should realise that the House of Commons can say no to a no deal. There is a majority for that. If that happens, there are only two possibilities: still accept the withdrawal agreement and leave the EU or ask for a new postponement. But France does not want to postpone it any longer, so there will be a hard Brexit, but on the initiative of the EU.

Personally, I am convinced that, after an abrupt withdrawal, a hard Brexit, the problems will force the UK to negotiate with the EU after all. A no deal is therefore not the end of the story. I even think that a Brexit itself is not irreversible. Within a few years after having left the EU,

the young generation will decide for themselves whether to stick to what the majority of their parents and grandparents have ever decided. Nothing in life is irreversible, not even Brexit. Nothing is definitive in history, either in one or the other sense.

But don't ask me what will happen in the short term. I don't know. 'Wait and see' is an overly phlegmatic British reaction.

The only positive thing about this saga is that the EU-27 are more united. They do not want to give up the *acquis*, the achievements that have been worked on for so long, and certainly not in order to reach an agreement with a country that wants to leave the Union.

In any case, the European caravan will continue to travel without the UK. We are further strengthening the eurozone and the Schengen area. It may be too slow, but nobody wants the way back. We will continue to conclude FTAs all over the world. The EU-27 is also in favour of a rules-based global trading system also without the UK as an EU member state.

2. What about the economy today?

After the spectacular growth of the number of jobs since 2014 (12.6 million), there is now a deceleration in economic growth in the euro area.

Mario Draghi said recently the ECB's new outlook for annual gross domestic product growth in the bloc was 1.1 per cent in 2019. In December, the ECB had forecast GDP growth of 1.7 per cent. In Germany the Bundesbank foresees even 0.6 % this year.

The reason for this weakening of economic growth in Europe is mainly political. The populist fiscal and economic policies in Italy, Brexit of course, the social tensions in France, the ongoing trade war between China and the USA and the still possible extension to the EU even after the decision to postpone auto tariffs on the EU and Japan for another six months; the internal debt problem in China: these are mainly political factors that explain the current situation.

The economic climate will therefore have to be cleared up mainly by solving political problems, which are the cause of the growth slowdown. A soft Brexit would also help a lot. An end must be put to the trade war. But I'm pessimistic about that. The current US President needs an enemy. Especially for internal electoral reasons. By the way, he mentioned the EU as an 'enemy' before.

Customs tariffs are used not only to achieve economic objectives but also purely political ones. That was the case with the linking of tariffs on Mexican imports to migration or with the ban on doing business with Huawei for security reasons. It is reminiscent of Russia, which used the price of gas as a political weapon.

Protectionism doesn't protect the economy and the people. We all lose. In the midst of rising global protectionism, the EU has concluded and started implementing new, balanced trade

agreements, of which the FTA with Japan – the EU's largest bilateral free trade agreement ever.

The EU wants to remain a defender of a rule-based multilateral system, although we seem to be the only ones! The EU want to solve differences with China and other nations by dialogue according to the rules themselves of the WTO. Not by a trade war. Firmness and dialogue is our method.

Protecting our interests without falling into protectionism, is our goal.

The digital and low-carbon revolutions are two of those mega-innovations of industrial history. Like the steam engine or electricity in the past, Artificial Intelligence is transforming our world, our society and our industry. The digital penetrates into all aspects of economic life, and of life all in all. A new kind of man, the digital man, is emerging.

In times of slower economic growth we need to work harder on structural reforms in the Union and in the Member States, especially in the economic sector, given the Union's large backlog of new technologies compared to China and the USA. Also Germany is affected by this. No European digital company in the top 15. There just aren't any 'European champions'.

The Union does not lack invention. Currently Europe is recognised as a world leader in research, and the EU has a considerable presence in science and research circles across the globe. But we are lagging behind global competitors when it comes to innovation; the development of the European Research Area has stalled. Shortcomings need to be addressed urgently. The European Commission is fully aware of this. More specifically, Europe has no lack of digital business ideas but few of our innovative European companies scale up and expand in Europe or shape these global markets.

Promoting research and innovation at all levels of government remains a key objective. The draft program 'Horizon Europe', the biggest scientific program in the world, will be increased by 35 % for the upcoming seven years to a level of 100 bn €. The current program 'Horizon 2020' invested strongly in AI. These efforts have significantly contributed to Europe's leadership in robotics and automated/connected vehicles, but here too, tangible uptake and innovation remain low.

I would like to take this opportunity to pay tribute to CERN, which is older than the EU. It is a shining example of how only cooperation between nations can lead to global excellence, as in 2012.

Resources for AI will also increase very significantly at Member State level (Germany and France) and at European level. Public and private research and development investments in AI in the EU last year were estimated to total 4-5 bn €. The EU as a whole should aim to increase this investment to at least 20 bn € by the end of 2020. It should then aim for more than EUR 20 billion per year over the following decade. Overall, Europe is behind in private

investments in AI which totalled around 3 bn € in 2016, compared with 8 b € in Asia and 16 bn € in North America. China wants to become world leader by 2030.

A digital revolution will make it inevitably to join forces at European level. France and Germany are beginning to see this in a specific sector such as electric vehicles and, in particular, sustainable batteries.

European sovereignty here too is at stake. In the end, one dares to speak of a European 'industrial policy'. It is no longer a forbidden word, although all resistance has not yet been overcome. Not by a long shot. We can't miss the train of the electric cars. It proves once again that there are no acquired rights in the economy, not even for the so successful German car industry, the engine of export-led growth in Germany. Technology is forcing industrial structures and politics to adapt. Climate concerns add to this.

I mentioned the transition to a low carbon economy. The EU played a central role in negotiating the 2015 Paris Agreement on climate change. To meet its climate ambitions, the global clean energy transition needs to be dramatically sped up in Europe. The European climate policy produced results: the EU will decrease its GHG-emissions with 23% by 2020 whilst the economy will be 53% bigger than in 1990. A clear decoupling of growth and pollution. As part of our commitments under the Paris Agreement, the EU will cut greenhouse gas emissions by at least 40% by 2030. An ambitious zero-pollution strategy preferably by 2050 will spur innovation in cleaner alternatives and substitutes.

Technology alone will not be enough to meet the ambitious climate targets. We will also need policies that will not always be popular. Populists are already resisting this, sometimes as near-climate deniers. In general, populists oppose any bold policy, including budgetary policy. Populists want to be popular.

We had an investment gap after the multiple crisis. Investment embodies technology and enhances potential growth. The European Fund for Strategic Investments, launched in 2014 and known as the Juncker Fund, has triggered almost €400 billion in additional investments – exceeding its initial target by more than €70 billion. Public investments must respond to collective needs, otherwise there will be an imbalance between private and social needs. They have subsided too much over the last ten years. It is mainly a matter for the Member States and in particular its local and regional entities.

An economic slowdown must also make us continue to work towards stronger euro area, this means a larger banking, economic, budgetary and capital markets union within the euro area. A common currency requires more common policies. The construction of a Banking Union is under way, reinforcing bank supervision and crisis resolution. Across Europe, banks are better capitalised than before the crisis, and non-performing loans have generally decreased in recent years.

In any case, the euro area and the banks are more robust today than it was five or ten years ago. However, Italy is a concern, even if its economic and budgetary situation cannot be compared with that of Greece at the time.

The EU and the EMU have always been a 'work in progress' but now gradualism is too gradual. A bold French-German initiative could have broken through this. It is not the case.

We must prepare the EMU not only for a possible crisis coming from within but also for one coming from the rest of the world. The still sharp rise in global private and public debt of the most important countries, to levels well above those of ten years ago is very worrying (250% of global GDP in 2017 and 210% in 2010). The US, China and Japan are the three largest borrowers worldwide, accounting for more than half of the global debt. The IMF and so many others have already rightly warned against this.

Economic growth is not enough. The social question is returning to the surface everywhere. We also need to look at its distribution. A key problem is: who benefits from growth. The persistence of high unemployment in a number of Member States and growing inequalities elsewhere are causing political and social tensions in many countries, particularly in Italy and France, where nearly 130 million people live together. This is a problem that affects almost all rich countries, but the European countries much less. Don't forget that in the USA, the median worker's real wage has barely increased in forty years, while productivity has almost doubled.

One of the many reasons for the inequalities is differences in education. The old definition of welfare state is: care from the cradle to the grave.

The new definition has to be: training from the cradle to the grave. For all.

4 in 10 Europeans do not have basic digital skills even though 90% of jobs will require some level of digital literacy in the near future. Work on updating the digital skills and digital literacy of Europeans must be ramped up rapidly. STEM education should be supported.

3. It's not only the economy

The Union must prepare itself for another long term threat on top of a possible financial crisis: the demographic explosion of Europe's neighbour, Africa (from 1 to 4 bn inhabitants by the end of this century almost as much as in all of Asia at the time.).

The euro area and the Schengen area are not fully ready to absorb future major shocks. We overcame two existential crisis but the structural reinforcement was too small.

The steep demographic decline in Europe – with an estimated population gap of 50 million people in 2060, 10 % of the current number of inhabitants - will force us to accept a lot more legal migration, even though the digital revolution will be much more labour-saving than generally assumed. The societal support for legal migration is stronger if illegal migration is

under control, where we also made great progress. The EU's agreements with Turkey and Libya has helped reduce dramatically the number of irregular arrivals to pre-crisis levels.

4. The world has changed.

The old world will never come back. Europe is looking for its place. Europe works in a global context that also is very shifting. Europe, like others, is seeking its way in this world full of paradoxes, in this a-polar world where nobody rules the world anymore.

If the famous quote 'it's the economy stupid' is right, China is in pole position. In terms of purchasing power parities, China represents 18,7% of world GDP, the US 15,2% and the euro area 11,4%. Just to compare: Japan represents 4,2%, the UK 2,2% and Russia 3,1%.

In my view, we are moving towards more unstable but not too dangerous international relations. In any case, nationalism is gaining ground also in the Western world, while interdependence, which is economic and digital, continues uninterrupted. Another paradox.

We need to increase our European sovereignty in many domains, including in the field of energy. In 2014 six Member States (Bulgaria, Estonia, Latvia, Lithuania, Finland, Sweden) were fully reliant on a single provider of gas. Now only one.

The EU-27 is not nostalgic. 'Make Europe great again' is not our slogan! Yes, European nation states were once world powers. But those times are over. With just 7% of the world's population, the EU represents one-fifth of world output and accounts for almost one quarter of global trade, but we know our limits. We are fully aware of our untapped potential. We could play a bigger role if we were more united.

But let us also look at the bright side of things! The structural handicaps of our Union haven't prevented it from speaking with one voice on the world stage or delivering a unified message on free and fair, rule-based trade (The Commission president negotiated with the US president on behalf of the 28; the EU is negotiating FTAs with many countries on all continents and an investment agreement with China). These structural handicaps haven't prevented the EU from having a common currency (the euro is the currency of 340 million people and the second one most used in the world with a share of 35.7 % of global payments). We were able to agree on an EU climate change policy and we spoke with one voice as we did in the Paris climate conference in 2015, and we agreed on large parts of foreign policy (Iran, sanctions on Russia, North Korea, deal with Turkey on migration, Brexit). On all those issues we have a common approach and they are at the core of global policies.

The EU is a global player but not a world power. We can only be that if we cooperate much more on defence and in the military-industrial field. Now that the British brake on European defence is gone, we need to increase our European sovereignty also in the field of defence.

Frictions in the Union are normal because there are 27/28 sovereign states. The main disagreements today are about migration. But in countries such as the US and the UK, migration is a very divisive topic as well.

That is why it is regrettable that we have to put so much political energy into internal problems like Brexit and the polarisation in many countries. Of course we have to overcome them but we do not lose sight of the fact that the economic caravan of the world is moving on, even without us.

However, I remain a man of hope. Our political and socio-economic model is more stable in the long term than that of other global actors. Europe has proved far more resilient than many people thought. But hope without work is dead. Hope is a verb.