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Growth for Europe: Resuscitating the Single Market

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Distinguished guests, Ladies and Gentlemen,

It is a great honour and privilege for me to have the opportunity to talk to you here at the London School of Economics and Political Science today. As an institution, the LSE's reputation reaches far beyond the borders of the United Kingdom. The school's academic community and excellent curriculum create a unique intellectual environment and an ideal place for reflection of the key issues we are currently facing.

Let me focus my speech on Europe. In the next minutes, I will mention five challenges which Europe needs to address, if it wants to secure its leading position in the world.

First, I am going to talk about Europe's changing place in the dynamic global system; second, about the benefits of open markets and free trade for the EU; and thirdly, about the need to increase competitiveness of our products. In the fourth part, I will concentrate on the Single Market and, finally, I will shortly touch upon the next Multiannual Financial Framework.

The current development in Europe leaves no doubt that the continent's position in the world is undergoing a radical shift. We are struggling to find a way to restore sustainable economic growth and to succeed amid the rising global economic competition. Europe seeks a new role in the changing geometry of global power and geo-economic and geo-political balance.

In this context, the present difficult economic development and turbulent financial markets pose a truly pressing threat. An economic crisis can destabilise and damage a country in these days more than anything else. Furthermore, it can increase the potential of other risks. If left unsolved, an economic crisis may spill over into a political one and in extreme cases even to a crisis of democracy.

It may be painful to admit it, but many of our long held assumptions and beliefs, confirmed in the past decades by economic development, are under threat today:

take, for instance, our belief that the world will always demand Europe's products; or that Europe has enough jobs for its people; or that our standards of living will always increase; or, above all, our confidence that European states will always be among the global economic and political leaders, whose values will be universally accepted. One by one, these views are being called into question.

Let me give an example: if the current trends continue, the leading EU states could fall out of the world's top-10 most powerful economies list by the middle of the century. The recession wiped out four years of Europe's economic growth, and our annual growth rates are now considerably lower than they used to be.

Without strong, sustainable growth, our future is less secure, and the European social model will become untenable in the long run. If we want a thriving and prosperous Europe, we need to concentrate on competitiveness and productivity.

We need to open our economies to the world and fully unleash the potential of global free trade. It is essential that we identify the bottlenecks and understand what is holding us back so that we can address our barriers to growth.

Protectionism and obstacles to free trade represent one such barrier. Many people worry in this regard about the flooding of Europe with cheap goods from all over the world, especially Asia.

A wave of protectionism is rising in many parts of Europe in response to this issue. Let me put it straight: Recourse to a protectionist policy and too strong orientation on domestic demand are not viable strategies.

Whereas, as it seems, the rest of the world can already live without Europe's demand, our stability and growth are dependent on trade interaction with other major world economies.

Autarchy, the isolation of European markets from the rest of the world would, in my view, inevitably lead to the continent's overall decline. Instead, we must diversify our exports and promote them more strongly.

If we open for new markets, and pro-actively and assertively access new sources of wealth, the benefits will soon be visible. Free, fair and open trade is a strong stimulus for growth and employment.

According to the European Commission, conclusion of all the ongoing trade negotiations between the EU and third countries could annually contribute up to 90 billion euro to the EU GDP. This year, the EU should conclude free trade agreements with India, Canada, countries of the Eastern neighbourhood and with a number of ASEAN states.

Free trade negotiations with Japan should also commence this summer. Nonetheless, more activity is needed still. For instance, in comparison with Russia and the USA, the EU pays insufficient attention to participation in the East-Asia-Summit. Moreover, a representative of the EU was missing at the last ASEAN summits. It is very important to show our presence and our interests for Asian markets also symbolically.

At the same time, economic co-operation and trade with the USA is equally important. We should therefore explore all possible options of strengthening our economic relations, including an EU-US free trade agreement.

And, finally, there is China. Given its contribution to global growth and its ever increasing role in the global system, China must not be left out from our strategic considerations. It is necessary to establish a consistent approach to our trade and investment relationship with China, with a view to strengthening our economic ties, while not completely forgetting other, political issues as well.

At first sight, it may seem strange that, as a Prime Ministers of a relatively small country in the heart of Europe, I am calling for free trade regimes with third countries.

But the Czech Republic is a very open, export oriented economy with an export-to-GDP ratio of over 70%. However, 80 % thereof is heading to the EU, particularly into the euro area, which makes Czech economy extremely dependant on the development in the euro area and therefore vulnerable.

Hence, it is in our interest to diversify our exports in order to stabilise our economy; and this is true for the Czech Republic as well as for the EU as a whole.

We cannot boost our exports, if our goods are not competitive. Therefore the enhancement of competitiveness across the continent must be another key goal, along with orientation on high-quality products and cutting edge technologies. The currently predominant orientation in the EU on austerity and budgetary consolidation are indispensable and right indeed. Nonetheless, in and of themselves, these measures are not sufficient to restore economic growth. They need to be complemented by rational support of competitiveness and demand.

Of course, as the last months' experience clearly shows us, if the monetary union is to survive in the future, it needs to be transformed into a fiscal union. But even as a fiscal union, it cannot function properly, if the problems of many Member States with competitiveness persist. The next step will have to be the creation of a „union of growth and competitiveness“.

In this endeavour, the euro area will surely find a strong support among the non-euro area Member States. The competitiveness and growth agenda can actually be a uniting point in the relations between EU17 and EU27.

For it is, paradoxically, to a great extent the non euro area Member States which are today much more open to cooperation in competitiveness and growth issues, represented by the Single Market than the so-called „core“ states of the euro area. The internal market has proven a reliable and efficient tool for securing prosperity and economic growth.

Personally, I find it quite unfortunate that it is nowadays being overshadowed by various growth-enhancing declarations, pacts and bail-out mechanisms.

These replacements of a well operating Single Market, often presented under seducing names, are in many cases nothing more than hollow declarations expressing the politicians'

wishes for painless job creation and growth. We cannot build our prosperity from political declarations and never-ending summits.

Instead, we must concentrate our efforts on real measures and take concrete steps in removing the barriers to the proper and effective functioning of the internal market and its four freedoms. They form the very core of European integration.

What we certainly do not need are new taxes, limited to the EU, further petrification of social security systems or introduction of more and more antidiscrimination directives, which only burden entrepreneurs and rigidify our labour markets.

The EU today is not a monolithic structure of uniform states, but a community of members with diverse economic, social, cultural and other traditions and specifics. These interests correspond with various levels and methods of integration in different areas, preferred by individual Member States. The euro area, for instance, has, naturally, quite special needs and requirements. These interests are obviously different from those of Member States not participating in the monetary union. A multispeed Europe is a reality. Although, it would be perhaps better to speak about a variable geometry approach or about a Europe “à la carte” principle.

The word „speed“ is misleading here, as it presupposes that all States are going to the same destination at various speeds. But in fact, each state should be allowed to decide freely on a satisfactory level of European integration - whether or not to engage e.g. in a fiscal or tax union - provided there are solid enough common foundations on which to build.

The Single Market is and must remain such a common base, even though it is still far from being perfect. In this regard, I fully welcome the recent joint letter that the Czech Republic sent along with the United Kingdom and ten other Member States to the presidents of the European Council and the European Commission. The letter mentions concrete topics and measures in the internal market area to be taken nationally and at the EU level without delay. I hope that it will be reflected in the upcoming European Council's Conclusions and help return the internal market high on the EU's agenda.

First, we must liberalise the Internal Market in services, which at present account for almost four fifths of our GDP. Restrictions that hinder access to the services markets and competition need to be lifted rapidly. We must also improve the standards of implementation and enforcement of the Single Market acquis.

In this respect, it is absolutely necessary to fully implement the Services Directive and ensure its enforcement in all Member States. In my view, all of the restrictive practices that are permitted under the Services Directive should be subject to a strict new proportionality test. Measures that cannot be justified should be then abolished accordingly.

Besides services, the digital Single Market is another key agenda that requires our increased attention. Despite rapid expansion of the digital economy, there are still considerable obstacles hampering its full blossom, such as low cross-border trade or different national copyright regimes.

The EU should encourage businesses and consumers alike to trade on-line with confidence, by simplifying licensing procedures, building an efficient cross-border copyright framework, and establishing a secure and affordable system for cross-border on-line payments.

Another important component of the Internal Market is the market with energy. We must deliver on our commitment to complete it by 2014.

All Member States should therefore implement the Third Energy Package in full and without delay.

If Europe wants to remain competitive, it must pay particular attention to the area of innovation. Global competition is getting fiercer all the time and the only way to succeed is to focus on research and innovation. Europe has had the ambition to be a leader in this area but, so far, it lags behind. We should not give up this effort, but increase our commitment to supporting innovations.

The completion of the European Research Area should be our goal in this respect which would create the best possible environment for entrepreneurs and innovators to commercialise their ideas.

Additionally, we must put demand-led innovation at the heart of Europe's research and support small innovative businesses with creating accessible venture capital regimes.

Furthermore, there is one specific problem that hinders entrepreneurs and thus economic growth and that is excessive EU regulation. We need radical cuts in bureaucracy. It is good news that EU institutions made their commitments to reduce administrative burden on the smallest businesses. However, further and faster progress is required.

All legislative proposals should be scrutinised with regard to their impact on creating additional regulatory burdens.

In addition to cutting red tape, I find it equally important to act both at the domestic and EU level to promote well functioning and flexible labour markets which deliver employment opportunities. Finally, we should also foster labour mobility within the EU and take further action to reduce the number of regulated professions in Europe.

All the above mentioned issues should be solved rapidly, if we want to develop the internal market further. The approach to the internal market is an indicator. It shows to a great extent whether the EU truly wants to endeavour on the path of competitiveness and growth, and, in doing so, remain a significant world player, or whether it will isolate and wither.

Besides the internal market agenda, there is another important ongoing discussion which I would like to briefly mention here, namely the next Multiannual Financial Framework past 2013. The EU budget clearly needs reforming, it must be much more growth and competitiveness oriented. In the times of a crisis, all Member States must adjust their national budgets and adopt austerity measures and so should the EU.

Furthermore, the crisis has also revealed that generous payments from the Cohesion and Common Agriculture Policy funds have not always brought prosperity to its recipients. On

the contrary, in many cases, this money has acted as a “sweet poison” Instead of promoting competitiveness of the target Member State, the funds were often spent on profligate activities, sometimes distorting the ordinary functioning of whole industry branches or distracting domestic resources from the real problems.

I do not mean to say that Common Agriculture Policy or Cohesion Policy should be abolished entirely, but, under the new circumstances, they need to be much more efficient and focused on providing real added value and delivering results.

The administration of the funds should be better controlled and the cost-benefit ratio should be a major criterion in choosing particular projects.

Cohesion policy should concentrate only on the least developed regions and Member States and focus on projects that truly enhance competitiveness and growth.

We can no longer afford to build highways leading from nowhere to nowhere or maintain uncompetitive European farmers to produce subsidised food only to buy it back and distribute it to European poor.

Our main task is to reform the EU budget to correspond with the new challenges Europe is facing. [To give an example: You and I know perfectly well that the EU is no pre-industrial agriculture-oriented economy. But should an alien land in Europe and look at the EU budget, he would be very much inclined to think so, since the Common Agriculture Policy still represents over 40 % of the whole EU budget. This cannot continue. ]

The crisis has uncovered all the deficiencies built in the present institutional framework of the EU and, particularly, of the euro area. On the other hand, it is a powerful incentive to speed up or implement the long postponed measures, necessary to overcome the difficulties and emerge strengthened from the crisis. It is also an opportunity to rethink our priorities and return to the fundamentals of European integration, above all the internal market. I am glad to be here today in the United Kingdom, a country which has always been a vigorous advocate of free trade, of the Single Market and of the economic growth agenda.

I am convinced that this role of the United Kingdom is irreplaceable and that it will always remain a key actor in the EU to promote the abovementioned priorities.

Ladies and Gentlemen, this year we celebrate the 20th anniversary of the Internal Market. Let us not miss the opportunity to significantly develop it further. Together with the United Kingdom and other like minded Member States, I am convinced that we can succeed. It is high time for us to do so.

Thank you for your attention.