



# **New Pact for Europe**

## **National Report**

### **BELGIUM**

MAY 2017

[www.newpactforeurope.eu](http://www.newpactforeurope.eu)

## NEW PACT FOR EUROPE – Rebuilding trust through dialogue

### Project description

Launched in 2013 by the King Baudouin Foundation and the Bertelsmann Stiftung, and supported by a large transnational consortium including the Open Society Initiative for Europe (OSIFE), the Calouste Gulbenkian Foundation, the European Policy Centre (EPC), the BMW Foundation Herbert Quandt, and the Open Estonia Foundation, the New Pact for Europe (NPE) project aims to promote a European wide debate and develop proposals on how to reform the European Union in light of the manifold challenges Europe is currently facing.

After a first successful period in 2013-2015, which included more than 80 events in 17 EU countries and the publication of two major reports, which elaborated five strategic options on the future of the EU, the NPE project entered a new phase in 2016-2017. The ultimate aim of this new phase of the NPE project is to work out the details of a wider ‘package deal’ to equip the EU with the tools it needs to meet the internal and external challenges it faces. This proposal will contain solutions generated by connecting the discussions on the key policy challenges, and propose changes in the way the EU and its policies are defined to avoid future fundamental crises.

Building on the analysis and proposals elaborated in the previous phase, the NPE has in this period explored how the EU can better serve the interests of its member states and citizens, through a series of 30 national and transnational debates on key policy challenges (including the migration/refugee crisis, internal and external security, as well as economic and social challenges).

National Reflection Groups have been created and met specifically for this purpose in ten EU countries (Belgium, Estonia, Finland, France, Germany, Greece, Italy, Poland, Portugal and Slovakia), followed by transnational exchanges between these groups. This national report is the result of the work and discussions of one of these National Reflection Groups.

The discussions within and between representatives of the ten National Reflection Groups will be discussed by a European Reflection Group of eminent persons, which includes all the national rapporteurs. It will be tasked to produce a final NPE report taking into account the national and transnational debates, scheduled to be published at the end of 2017.

The project also benefits from the overall guidance of an Advisory Group of high-ranking policy-makers, academics, NGO representatives and other stakeholders from all over Europe. It is chaired by Herman Van Rompuy, President Emeritus of the European Council and former Prime Minister of Belgium.

For more information on the NPE project, please see the project website: [www.newpactforeurope.eu](http://www.newpactforeurope.eu)

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*The views expressed in this report reflect the result of the work and discussions of this National Reflection Group, enriched by exchanges with two other National Reflection Groups, but they do not necessarily represent the views of each member of the group.*



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# LIST OF ABBREVIATIONS

<b>CETA</b>	Comprehensive Economic and Trade Agreement
<b>EU</b>	European Union
<b>EMU</b>	Economic and Monetary Union
<b>MFA</b>	Ministry of Foreign Affairs
<b>NATO</b>	North Atlantic Treaty Organization
<b>NPE</b>	New Pact for Europe
<b>UK</b>	United Kingdom
<b>VAT</b>	Value Added Tax

## FOREWORD

This report is inspired by the discussions of the BELGIAN National Reflection Group enriched by exchanges with National Reflection Groups from FINLAND and SLOVAKIA. It reflects on the 'state of the Union' from a national perspective and discusses the main challenges the EU and its members are facing, taking into account both the European and national perspective. Finally, it proposes ideas and recommendations on how the EU and its members should react to these main challenges and sets out how the EU and European integration should develop in the years to come.

This paper is part of a series of ten national reports. These reports and the debates in the member states will provide a solid basis for the discussions in the NPE European Reflection Group. The latter will be asked to take the reflection a step further through in-depth and thorough discussions at the European level. The Advisory Group chaired by Herman Van Rompuy will provide input into this process. All these reflections will lead to a final NPE report that analyses the current 'state of the Union' and contains several proposals on how to re-energise the European project. It will be published at the end of 2017.

## EXECUTIVE SUMMARY

As a founding member state that sits at the crossroads of European cultures, Belgium has persistently advocated European cohesion and sought to act as a bridge-builder within the EU. This position is increasingly under pressure. The willingness amongst member states to strike compromises is in decline and the result is an existential crisis for the EU. The successive crises the Union has faced in recent years have accumulated into a strategic shock for the central component of Belgium's foreign policy. Drawing on the discussions held amongst the members of the NPE Belgian Reflection Group, the present report presents a set of conclusions on how Belgium sees the future of the European project and on how present challenges might be overcome. Above all, this will require restoring a sense of confidence that member states can and will live up to their commitments.

The prevailing consensus in Belgium is that the EU is in a bad state. The European sovereign debt crisis, the return of great power competition in the European neighbourhood and the migration crisis have cumulatively created the impression that the EU is a dysfunctional organisation that is unable to deliver on its promise to protect the wellbeing of its citizens. While Belgium was hardly a leading protagonist in how these crises developed, a growing sense of unease about European affairs took hold. In 2016, as terrorists struck at the heart of Belgium as an international hub, and the UK decided to leave the EU, a feeling of trepidation has become widespread. A strong consensus is emerging that frank discussions about both the nature and the limits of European integration are becoming unavoidable.

With respect to economic matters, a broad Belgian consensus has formed that the EMU is still incomplete. Trust is the single resource a currency cannot do without, and it must be restored within the eurozone. While the prescriptions contained in the Five Presidents' Report and the notion of introducing a European deposit insurance scheme receive widespread support, Belgium itself is somewhat of a laggard when it comes to the Fiscal Compact and the transposition of banking union-related directives. The upcoming elections in France and Germany constitute an opportunity to revisit key questions relating to the future of the eurozone. This requires a substantive Franco-German compromise, but also a renewed supranational effort to take the interests of other member states into account. Fiscal harmonisation arguably provides the greatest potential for giving a new impulse to macro-economic policy discussions.

For many years, Belgium has been promoting a stronger role for the EU in security governance while neglecting its own national security apparatus. This has now created a nasty surprise: a world that is rapidly turning more dangerous, while the EU is a long way from being prepared for the job. Widely perceived as a security free-rider, Belgium lacks the credibility to make the case for increasing European cooperation. While the hollowed-out Belgian security apparatus is forced to focus its limited bandwidth on defending the homeland, there is a growing awareness of the different threats to European security (from the east, from the south and from home-grown terrorism) and that more capabilities will be needed. The economies of scale promised in the European Defence Action Plan are most welcome, but Belgium will need to take responsibility to bear its fair share of the burden and increase defence spending accordingly.

The migration crisis resonated strongly in Belgium and throughout the EU. In 2015, the panic was palpable as the Schengen system risked full implosion. The reform of the Dublin system, in which shared responsibility and effective solidarity go hand in hand, has generally been welcomed and is seen as long overdue. Given the many uneasy questions the migration debate has raised about the legal framework as well as the moral values on which policies are based, the Belgian debate crystallized into support for an inclusive European approach geared towards reconciling competing interests. This also triggered a reflection on how to best safeguard the rule of law across the EU.

The departure of the UK prompts Belgium to carefully balance the need for European unity with its own economic interests. Being a loyal EU partner and a good friend of the UK should not be mutually exclusive, given what is at stake in the Article 50 negotiations. Brexit is also accelerating the debate on the future of the EU itself. In this context, Belgium is keen to team up with the Netherlands and Luxembourg and ready to consider options for increasing differentiation in the European architecture through a multi-speed arrangement. Whilst not ideal, this is an emergency solution to prevent the faltering of European integration.

If the future leaders in Paris and Berlin take the concerns of their European partners into account, the contours of a package deal can already be discerned. As a joint currency ultimately expresses a shared destiny, the EMU cannot remain limited to economic matters. In a world that is becoming more dangerous, German economic strength needs to be reinforced with French military experience and political confidence. The negotiations with the UK would then constitute an opportunity to establish a wider ring of trade and security partners outside the EU.

Negotiating the above constitutes a tall order. Belgium's own diplomatic position in the European debate is critically dependent on the credibility of its own policies and instruments, and the predictability of its negotiating stance. Both dimensions have come under significant pressure and criticism in recent years. If Belgium and its constitutive entities wish to avoid being treated as diplomatic *quantité négligeable* then it is imperative to put its own house in order. This would benefit all Belgian citizens, and by extension, the wider European interest.

# INTRODUCTION

The Kingdom of Belgium has always been at the forefront of European integration. As a founding member state, it has persistently advocated European cohesion and sought to bridge the differences between the larger European powers.<sup>1</sup> Over the past sixty years, a largely symbiotic relationship developed between an ever-larger EU and the increasingly federal state of Belgium, including its communities and regions. To some extent, this led to a situation of benign neglect, in which Belgium pursued pro-European policies largely on autopilot.<sup>2</sup> Yet the successive crises of the EU have accumulated into a strategic shock to what is the most important component of Belgian foreign policy. For several years now, but especially since the UK referendum on EU membership, the spectre of European disintegration has been prompting Belgian observers to wake up from their strategic slumber and reconnect with the fundamentals of European integration.<sup>3</sup> Drawing on a series of discussions held in the context of the New Pact for Europe project, the present report presents a set of conclusions on how Belgium sees the future of the European project and on how present challenges might be overcome.

Even a superficial look at its political and cultural history suggests that Belgium's European orientation is codified into the country's geopolitical DNA. Given its position at the crossroads of different cultures, one can say that Belgium simultaneously represents the northernmost edge of southern (Romanic) Europe and the southernmost border of northern (Germanic) Europe. Together with the Netherlands, Belgium also constitutes an outpost of the Anglo-Saxon world, strongly committed to the transatlantic relationship. From its inception in 1830, Belgium was created as a buffer state, the neutrality of which was guaranteed by the 1839 Treaty of London. Its dire experience with invasion and occupation during two world wars convinced Belgium to abandon its neutral stance and instead pursue a consistently multilateral course in favour of European cooperation. During their exile in London in the 1940s, forward-looking leaders started laying the foundations for what was to become the Benelux customs union. In the years that followed, Belgian diplomacy played a key role in concluding the treaties of Brussels (1948), Washington (1949) and Paris (1951). Foreign minister Paul-Henri Spaak hosted and presided over the final negotiations for the Rome Treaties. Sixty years later, New Pact for Europe reconvened in Val Duchesse castle for a transnational meeting between the Slovak and Belgian delegations. This heralded a day of discussions in which the relationship between East and West stood front and centre. Later in 2017, the Benelux countries will meet with the Visegrad countries as well as with the Baltic states in a joint format. As such, Belgian foreign policy is gradually developing greater links with central Europe.

It is worth remembering that Belgium's multidimensional engagement in Europe is the result of its external environment as well as internal pressure. As much as European integration is a geopolitical imperative for Belgium – driven by the idea that discord amongst neighbouring powers threatens Belgian national interests – cooperation has always been perceived as a force multiplier, making greater outcomes possible. In that sense,

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<sup>1</sup> Cf. e.g. P.-H. Spaak, 'The search for consensus: a new effort to build Europe', *Foreign Affairs*, 43 (2), 1965, pp. 199-208.

<sup>2</sup> See R. Coolsaet, 'The quest for vital interests and objectives in the foreign policy of Belgium', *Studia Diplomatica*, LXVIII (2), 2015, pp. 9-23, esp. p. 17.

<sup>3</sup> Cf. e.g. J. Holslag and T. Renard, 'Getting our way in a fragmented world: How a more competitive world order challenges our society to get its act together', Brussels: King Baudouin Foundation, Friday Group, April 2013.

Belgium has grown into a leading advocate of supranational institutions acting on behalf of the Union, bringing greater leverage and economies of scale. Perhaps unsurprisingly, this also resulted in a tendency to expect the EU to take over all roles of government with which the national (or regional) government(s) would struggle. With Belgium itself being a country notoriously difficult to govern, this led to a slippery slope. The consolidation of the EU's institutional architecture went hand in hand with the progressive federalisation of the Belgian state. From 1970 onwards, a series of constitutional reforms transformed Belgium into a federal state composed of three language-based communities and three economic regions. As time progressed, the regions and communities acquired more competences. At the same time, frequent calls could be heard – perhaps wishful – for the EU to take over in areas that would in most other member states be jealously regarded as matters of national sovereignty. As such, Belgium typically found itself in the *avant garde* of federalist thinking, often outpacing the European consensus, whilst simultaneously drawing criticism for its national-level policy implementation falling short of European standards.

With this background in mind, this report presents a bird's eye view of how Belgium relates to the European construction today and how it would wish to drive the project forward into the future. The discussion will proceed in three parts. The first section takes stock of the 'state of the Union'. The central idea here is that the EU is going through an existential crisis that is tied to the declining appetite for compromise amongst member states. The second part zooms in on some of the principal challenges the EU faces today, most notably related to economic governance, European security and migratory pressure. From the Belgian point of view, the imminent departure of the UK and the related risk of the European project unravelling also necessitates a broader discussion about the future of the Union. Such a debate goes beyond sector-specific policies, and as such may help strike a grand European bargain. The third part turns to the presentation of ideas and recommendations on how the EU and its member states could tackle the challenges mentioned earlier. Key elements in these discussions concern the need for balance between different views on macro-economic policies (including through fiscal harmonisation and European welfare insurance mechanisms), a sober analysis of the most cost-efficient reinvigorating of security policy instruments (in line with varying degrees of national decision-making autonomy) and the equilibrium between free movement of persons and strong external border controls. More generally, a model of differentiated integration in concentric circles may help the Union to accommodate centrifugal pressures.

An underlying thread in all these discussions is the need for credible compromises. The maximisation of European differences and the wish for increasing decision-making autonomy at national and subnational levels would eventually lead to the disintegration of the Union and member states losing sight of the common good. Yet, if cooperation is to deliver on its promise of making more possible by working together, this demands that member states honour their commitments and do not renege on the promises enshrined in the treaties. A future compromise is critically dependent on restoring confidence that member states will deliver their part of the bargain. The greatest challenge for Belgium will therefore not so much reside in changing the direction of its European policy per se, but in putting its own house in order and thus boosting the credibility of its own propositions. Perhaps not coincidentally, the key challenges for the EU are the same as for Belgium itself: delivering the key public services citizens demand whilst accommodating their diverse policy preferences.

# PART 1: THE STATE OF THE UNION.

## A BELGIAN VIEW

The prevailing consensus in Belgium is that the European Union is in a bad state. The multiple crises that have engulfed the EU in recent years gave rise to an image of a chronically dysfunctional organisation, unable to protect its citizens from the downsides of globalisation and the rise of new threats. This sorry state is much lamented in Belgium, as the trends towards European stagnation and potential fragmentation are deemed to be incompatible with the interests of Belgium and its constitutive entities. Much criticism is directed at the tendency of national governments to ‘blame Europe’ for national failures. In Belgium, the EU carries more political resonance as a cure-all than as a scapegoat. At the same time, there is a growing awareness that ambiguity on the political finality of the European project has become a destructive force. Belgium is correspondingly bracing itself for a period in which the spirit of cooperation and the idea of “ever closer union” must be defended above all else.

Ever since the European constitution failed to get ratified in the Netherlands and France in 2005, cracks have started to appear in the political architecture of the EU. The 2008 financial crisis soon morphed into a crisis of European sovereign debt. The latter prompted discussion on the viability of the euro as a common currency. Despite high expectations following the adoption of the Lisbon Treaty, the EU’s foreign policy hardly rose to the challenge when the Arab Spring set fire to the southern neighbourhood. The 2008 Georgia crisis, the 2014 annexation of Crimea and the ensuing proxy war in Ukraine drove home the message that geopolitical competition had made a decisive come-back in the wider European neighbourhood. The flow of refugees this generated, in combination with large numbers of economic migrants, led to a state of panic about the continuing viability of the Schengen system. Against the backdrop of economic stagnation and rising inequality, these developments created the impression that the EU unable to deliver on its promise to protect the wellbeing of its citizens.

While Belgium was hardly a leading protagonist in any of these developments, a creeping sense of unease about European affairs took hold.<sup>4</sup> The 2014 coalition agreement negotiated by the current federal government undauntedly called for a continuation of European integration, including the deepening of economic and monetary union by means of a balancing act between solidarity and responsibility, and the expansion of majority voting in the realm of foreign policy.<sup>5</sup> This position was largely supported by Belgium’s constitutive regions and communities. In 2016, the government of Flanders stated it wished to see “a strong, decisive and effective Union”.<sup>6</sup> Despite the theatrics complicating the approval of the CETA between the EU and Canada in francophone Belgium, reflecting the traditional sensitivities of political left vs right, its commitment to European integration remains strong. Yet by 2017, the Belgian Ministry of Foreign Affairs felt compelled to state that many worrisome changes in the world do not align with Belgian foreign policy,

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<sup>4</sup> Cf. B. Haeck, *Na de kater: hoe we ons geloof in de Europese Unie verliezen*, Kalmthout: Polis, 2017.

<sup>5</sup> See *Regeerakkoord / Accord de Gouvernement*, Brussels: 9 October 2014, pp. 182-187.

<sup>6</sup> Government of Flanders, *Vision of the Future of the European Union*, Brussels, 30 September 2016, p. 3.

principles and values, and therefore warrant a more pro-active response.<sup>7</sup> Should European cooperation grind to a halt, a more forceful defence of Belgian national interests may be warranted.

The terrorist bombings of the Brussels airport and Maalbeek metro station – striking at the heart of Belgium as an international hub – constituted the most unmistakable wake-up call so far that security and prosperity can never be taken for granted. In many respects, the geographic expansion of European integration has effectively sheltered Belgium from the slings and arrows of the outside world. Paradoxically, its own comfortable position at the core of the European system has led Belgium to dramatically neglect its own state apparatus for shaping foreign and security policies. Simultaneously, it failed to pay sufficient attention to the increasingly divergent policy positions of other stakeholders in the European system. Intergovernmental bickering has now set loose powerful centrifugal forces that need to be brought back under control. As such, Belgium faces the twin challenge of rebuilding its own system of governance and bridging the cleavages that have opened up at the European level.

A strong Belgian consensus is emerging that a frank discussion about both the nature and the limits of European integration is becoming unavoidable. One frequent complaint is that national capitals all too often engage in taking credit for the EU's successes while blaming it for everything that is unwelcome. Making Brussels a scapegoat for unpopular policy measures – or national failures – is perceived as the easiest way of fomenting Euroscepticism. This trend is greatly facilitated by the fact that the Union (much like Belgium itself) has become an institutional maze in which citizens struggle to make sense of where political accountability resides. In that sense, the longstanding tradition of promoting constructive ambiguity with respect to the fundamental purpose of the European project may have reached its limits. Citizenship is critically dependent on having an institutional architecture that is relatively easy to grasp. The case of Belgium illustrates that political complexity eventually carries a high political price. As more and more member states adopt an unabashedly transactional approach to integration, Belgium finds itself increasingly isolated in its defence of “ever closer union”.

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<sup>7</sup> FPS Foreign Affairs, Foreign trade and Development Cooperation, *Annual Report 2016*, Brussels, March 2017.

## PART 2: KEY CHALLENGES FOR BELGIUM AND THE EU

If the European construction is under general attack, then the defence of the project must necessarily engage all policy areas in which major problems have been identified. The discussion about the continuing benefits of European cooperation must start with a diagnosis of the problem. This section zooms in on how Belgium relates to the major crises that have bedevilled the EU in recent years and that are likely to do so in the years to come. This includes the areas of eurozone economic governance, internal as well as external security, and migratory controls. Special attention is also reserved for the Brexit negotiation process, since this is likely to have important consequences for the political architecture of the European continent.

### ECONOMIC GOVERNANCE

While the debate on European economic governance has been relatively muted in Belgium, its larger importance is not to be underestimated. The monetary union was the most visible expression of European integration post-Cold War. Tying the economic futures of different member states irrevocably together constituted a quantum leap that had been decades in the making.<sup>8</sup> The realisation that the single currency itself could suddenly become an object of fierce contestation was therefore a greater shock than the bleak economic outlook itself. The debate on macro-economic policy carries great political symbolism. In this sense, the relationship that developed between creditor and debtor states, with opposing national interests in a narrow sense of the term, proved poisonous for the trust and cohesion within the eurozone. The key challenge therefore resides in the restoration of that trust – the single resource that a fiat currency cannot do without – and to put the eurozone on a more sustainable footing than before.

In Belgium, a broad consensus has formed that EMU is still incomplete.<sup>9</sup> Participants in the Belgian NPE reflection group frequently referred to the Five Presidents' Report and called for a completion of the banking union, including through the introduction of a European deposit insurance scheme.<sup>10</sup> In this respect, Belgium continues to play its traditional role of advocating euro-federal prescriptions, such as combining a eurozone fiscal capacity with a strengthened framework for macro-economic coordination. With a high ratio of public debt and a financial sector that is deeply interwoven into that of neighbouring countries, this comes as no surprise. Yet, this position is not just a tactical one. Belgian observers are strongly committed to the logic of integration because they value the idea that supranational institutions can act as constraints on selfish

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<sup>8</sup> For a historical flashback, see P. Werner, 'Perspectives monétaires européennes', *Chronique de politique étrangère*, XXIII (6), 1970, pp. 743-756.

<sup>9</sup> In the words of the Belgian Minister of Finance Johan Van Overtveldt: 'You can't be half pregnant — we need to finish the architectural structure of the single currency', quoted in J. Bruntsden, 'Europe faces unfinished business on the euro', *Financial Times*, 20 March 2017.

<sup>10</sup> See the report *Completing Europe's Economic and Monetary Union* authored by the presidents of the European Commission, the European Council, the Eurogroup, the European Central Bank and the European Parliament, available at: [https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report_en.pdf).

national policies. As Belgium only tends to reform its own national policies when forced to do so, the idea of macro-economic supervision is generally welcomed as a positive development. At least in theory that is.

In practice, however, Belgium is somewhat of a laggard. When it comes to the transposition of EU directives relating to the banking union, Belgium has often acted slowly. Despite its pro-deposit insurance stance, Belgium was the very last member state to transpose the (national) deposit guarantee scheme directive. Today, it still faces transposition delays with regard to the payment accounts Directive, the implementing Directive on the market abuse regulation and the Directive on disclosure of non-financial information. This has not strengthened the Belgian negotiating stance and has drawn explicit criticism from the European Commission.<sup>11</sup> The late adoption of the Fiscal Compact constitutes another case in which Belgium's own institutional complexity amplifies the problem. The 2013 cooperation agreement with respect to the implementation of the Fiscal Compact across the different layers of government in Belgium's federal architecture foresees a *binding trajectory encompassing all budgetary plans*.<sup>12</sup> The Belgian policy coordination mechanism so far never produced such a binding budgetary trajectory, despite the explicit and repeated country-specific recommendations from the Council of Ministers to do so.<sup>13</sup> As a consequence, Belgium's voice in the EMU debate is at risk of being ignored: diplomatic influence and policy credibility inevitably go hand in hand.

What explains this discrepancy between Belgian discourse and policy actions? Apart from domestic implementation problems, three substantial points of criticism have resurfaced repeatedly. Firstly, Belgium harbours a deeply-rooted unease with respect to the shift from supranational towards more intergovernmental cooperation in matters of economic governance. Various eurozone rescue mechanisms (most notably the European Stability Mechanism) have been designed according to an intergovernmental model. They relegated the role of the European Commission to that of a technical secretariat for enforcing rules that do not necessarily command widespread domestic political support in Belgium and elsewhere. Furthermore, a theme that resurfaced repeatedly in transnational NPE meetings was the perception that the Commission occasionally applies different standards in macro-economic surveillance. If rules are to be respected, it is imperative that they ensure a level playing field for all eurozone members, regardless of their size and regardless of the nature of the macro-economic imbalances (deficits or surpluses).

Secondly, Belgium is vocally concerned about the methodology used in the European System of Accounts for incorporating public investments into budget plans. Belgian authorities argue that investment expenditure should be recorded differently from recurrent expenditure. They make the case for greater flexibility in spreading public investments over a longer budgetary time horizon. Arguably this reflects a rather lazy desire to fix Belgium's dramatic underinvestment in public infrastructure through changes in accounting methodology.<sup>14</sup> However, the need for spurring public investment in order to drive growth is not a uniquely

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<sup>11</sup> European Commission, *Country Report Belgium 2017*, Brussels, SWD(2017) 67 final, 22 february 2017, p. 21.

<sup>12</sup> For details, see L. Buffel and E. Vanalme, 'De omzetting van de nieuwe Europese budgettaire regelgeving in België', *Documentatieblad FOD Financiën*, 74 (1), pp. 87-155 (esp. pp. 102-103).

<sup>13</sup> See e.g. *Council Recommendation of 12 July 2016 on the 2016 National Reform Programme of Belgium and delivering a Council opinion on the 2016 Stability Programme of Belgium*, OJ 2016/C 299/09; cf. European Commission, op. cit., p. 17.

<sup>14</sup> On public investment shortfalls, see B. Biatour, C. Kegels, J. van der Linden and D. Verwerft, *Public Investment in Belgium: Current State and Economic Impact*, Brussels: Federal Planning Bureau, Working Paper 1-17, January 2017.

Belgian phenomenon, and transparent changes to the European System of Accounts may constitute a more palatable alternative to (less transparent) public debt-financed investment plans.

A third and more ideology-driven complaint is that the present configuration of the eurozone is hollowing out the welfare state.<sup>15</sup> With the euro having replaced the Deutsche mark-led currency snake, the criticism is that social welfare reform in Germany is now forcing adaptation measures in other eurozone states, especially with respect to limiting wage growth. As all eurozone members try to remain competitive, the fiscal anchor that Germany represents cannot help but export its policy preferences to the rest of the Eurozone, resulting in a downward spiral. The troublesome features of the Exchange Rate Mechanism that the creation of the euro was supposed to tackle are thus being replicated in the arena of fiscal and social policy. If the benefits of the monetary union are not perceived to be distributed equitably – both within and among member states – the long-term viability of EMU is increasingly uncertain. Belgian concern over social dumping is even more palpable, as the letter of like-minded ministers on the revision of the posting of workers Directive attests.<sup>16</sup> The principle of ‘equal pay for equal work in the same place’ is deemed to be of critical importance for maintaining public support for the single market.

The upcoming elections in France and Germany constitute an opportunity to revisit key questions regarding the governance of the eurozone. In line with Belgium’s geopolitical persona, the National Reflection Group is convinced that macro-economic imbalances need to be tackled in a comprehensive fashion. This requires not only a substantive Franco-German compromise, but also a renewed effort to take the interests of other member states into account. The drift towards the increased use of intergovernmental mechanisms risks satisfying the concerns of a handful of individual capitals at the expense of the European interest. Yet, if Europeans succeed in dividing themselves and refrain from putting the eurozone on a more sustainable footing, they will eventually lose out on all the advantages of scale the single currency can bring about and generate renewed financial turmoil.

## **(IN-) SECURITY AND (DIS)INVESTMENT**

Over many years, Belgium has been actively promoting a stronger role for the EU in security governance while simultaneously neglecting its own national security apparatus. This has now created a nasty surprise. Belgium has been caught off guard by a world that is rapidly turning more dangerous, while the EU is still a long way from being able to take over one of the core functions of a state. Being widely perceived as a security free-rider, it lacks the credibility to make the case for increasing European cooperation – despite the latter being overwhelmingly in the national interest. The net result is that Belgium faces these growing threats largely on its own, while assuming that European cooperation will prove to be a cheap panacea. Whether the March 2016 terror attacks will turn this situation around remains to be seen.

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<sup>15</sup> For an extensive discussion, see J. Cornillie, *Zonder links geen toekomst voor Europa: naar een Europese Unie van welvaartstaten*, Brussels: sp.a, December 2016.

<sup>16</sup> Lodewijk Asscher et al., ‘Letter to Marianne Thyssen on the posting of workers directive’, Luxembourg, 18 June 2015, co-signed by Belgian Minister of Employment, Economy and Consumer Affairs Kris Peeters, available at: <https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/brieven/2015/06/19/brief-aan-eurocommissaris-thyssen-over-de-detacheringsrichtlijn/letter-like-minded-ministers-posting-of-workers-def.pdf>.

The Belgian diplomatic position in favour of increased European cooperation in intelligence, defence, justice and home affairs is well known: it has been articulated by successive governments and has consistently received broad support. European security cooperation holds the promise of delivering major economies of scale. Less well known is the extent to which these same governments have hollowed out the national security apparatus, i.e. the armed forces, the intelligence agencies and the federal police. Driven by relentless budget cuts, the national security apparatus shrank both in size and in terms of the security output it could generate. Until Belgium became confronted with the imminent threat of domestic terrorism, increasingly dire warnings by defence chiefs and spymasters alike were repeatedly ignored.<sup>17</sup> The long-term downsizing of the armed forces and their level of ambition is the most concerning example of this trend: over the past twenty years, the personnel shrank from 45,000 to below 30,000 men and women in uniform. The demographic structure of the force suggests that the outflow of experienced personnel is set to accelerate in the coming years due to a coming retirement wave. A continuation of current budgetary trends points to a collapse of the force structure in the medium term.<sup>18</sup>

Apart from accepting ever greater risks at the national level, the Belgian government faces growing problems in convincing its European and transatlantic partners that Belgium is a reliable partner that is ready to carry its fair share of the common security burden. Its preoccupation with domestic terrorism and the 'foreign fighters' phenomenon has prompted the Belgian security apparatus to dramatically refocus its limited bandwidth on defending the homeland. With most of the army being deployed on the streets of Brussels and other cities, its contribution to Europe's collective defence and expeditionary operations has been limited to token contributions. Beyond the dual-capable but ageing (and arguably overused) F-16 fighter fleet, the Belgian government is gradually realising it has hardly anything left to offer in the international frameworks of which it is part. This has not been lost on foreign observers and partners, which are painting an ever-bleaker picture of Belgium's role in security policy.<sup>19</sup>

Outside of the security community, many policymakers cling to the hope that increasing European cooperation will provide an answer to Belgium's security concerns. After all, Belgium is convinced its security is intimately linked to the European project, and seeks comfort in the idea that the problem of jihadist terrorism is one that is shared with neighbouring countries. In that sense, the transnational dialogues in the context of the New Pact for Europe project were most illuminating. The discussions with delegations from Finland and Slovakia revealed starkly differing appreciations of the regional security environment. The threat emanating from a revisionist Russia is much more acutely felt in central and northern Europe. While Belgium decided to make at least a minimal contribution to the defence of the Baltic states (as part of the German-led multinational battlegroup in Lithuania), Belgian awareness about the Russian challenge to European unity is only slowly rising. When taking the different security challenges together – both internal and external, coming from the east and the south – it becomes clear that modest efficiency gains from increasing European cooperation cannot substitute for acquiring hard capabilities in sufficient numbers. For this reason alone,

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<sup>17</sup> See e.g. J. Brunsden, 'Belgium security agency faced cut, says ex-intelligence chief', *Financial Times*, 24 November 2015; C.-H. Delcour, 'Le futur de la défense: horizon 2030', Brussels: Cabinet de la Défense et de la Fonction Publique, 2015.

<sup>18</sup> See A. Mattelaer, 'Een adaptieve krijgsmacht voor onzekere tijden', Brussel: Kabinet Defensie en Ambtenarenzaken, 2015.

<sup>19</sup> For a particularly gloomy analysis, see J. Schindler, 'Europe Is Again at War', *Observer*, 23 March 2016. Cf. also F. Matser, 'De Belgische bril', *Militaire Spectator*, 183 (6), pp. 316-317.

Belgium's diplomatic position will continue to suffer from its freeloader image and its national security will continue to deteriorate in the years ahead.

## **MANAGING MIGRATION FLOWS IN AN UP-TO-DATE FRAMEWORK FOR JUSTICE AND HOME AFFAIRS**

Rising numbers of refugees and economic migrants have provoked intense political debate across the European continent. In 2015, the panic was palpable. The migrant crisis also resonated strongly in Belgium. With some 39,000 asylum applications being filed in 2015 (representing 3.1% of the EU total and an increase of 178% compared to the previous year) Belgian authorities and non-governmental organisations struggled to cope with the dire situation they faced.<sup>20</sup> As public concern mounted, the Schengen system was deemed to be at risk of full implosion and calls for closing external borders became louder. Given the grave political risk the migration crisis posed to European unity, and being affected rather proportionally in terms of numbers, support for an inclusive European approach based on a reform of the Dublin system has been very strong. As such, the migration debate can be seen as an opportunity to consolidate the European governance of justice and home affairs.

The reform of the Dublin system, in which shared responsibility and effective solidarity go hand in hand, has generally been welcomed as being long overdue.<sup>21</sup> The idea that all member states must contribute to the overall effort in one way or the other is considered common sense. Sharing the burden of refugee management is a litmus test for European solidarity. At the same time, the refugee debate brought up many uneasy questions about the established legal framework as well as the moral values on which European and Belgian policies are based.<sup>22</sup> How can a Union founded upon respect for human dignity and human rights accept that large numbers of illegal migrants die in their search for a better life? Here it needs to be flagged that Belgium is a vocal defender of the rule of law in a broad sense of the term (including equality of rights, democratic institutions, separation of powers, press freedom, etc.). A strengthening of the rule of law framework – in which European institutions would regularly monitor the extent to which all member states respect these values (i.e. akin to macro-economic target monitoring) – is perceived as a useful way forward.

Oddly enough, the European debate on refugee quotas has reinforced the emerging interest in the policy positions of central European countries, hitherto very much a blind spot of Belgian diplomacy. While the debate on how to share the refugee burden equitably has often turned poisonous, common ground can be nonetheless found on the idea that the external borders of the Schengen area need to be well-guarded, and that the area of Justice and Home Affairs warrants continuing development. In that context, Belgium is a strong supporter of Frontex and its development into a European Border and Coast Guard, with all the financial commitment that entails. While only tangentially related to the migration debate, the establishment of a European Prosecutor's office repeatedly received positive comments by NPE participants. This suggests

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<sup>20</sup> Eurostat, 'Asylum in the EU Member States: Record number of over 1.2 million first time asylum seekers registered in 2015', Luxembourg: Eurostat Newsrelease 44/2016, 4 March.

<sup>21</sup> For a general discussion, see Tamara Tubakovic, 'A Dublin IV recast: A new and improved system?', Brussels: Egmont Institute, European Policy Brief No. 46, March 2017.

<sup>22</sup> Cf. e.g. Vluchtelingenwerk Vlaanderen, *Ceci n'est pas un demandeur d'asile: Eén jaar na de crisis, tijd voor een humaan asielbeleid*, Brussel: Vluchtelingenwerk Vlaanderen vzw, October 2016.

that a reasonably consistent policy line on Justice and Home Affairs remains in place, even if the Belgian judicial system is itself under severe pressure due to budgetary neglect and politicisation.<sup>23</sup>

Substantial concerns nonetheless remain about the long-term implications of migration. There exists a general awareness that demographic pressures may well persist over a generational time horizon. In this regard, it remains key to clearly distinguish between refugees and economic migrants, as the relevant legal frameworks starkly differ. Especially with respect to economic migrants, the mainstream view is that the EU cannot afford to neglect investing in a policy geared towards stabilising and developing the wider neighbourhood. As the controversial deal with Turkey illustrates, that may again give rise to difficult moral trade-offs and burgeoning requirements for different foreign policy instruments. As such, relations with the broader southern neighbourhood – including the Sahel and sub-Saharan Africa – deserve to feature prominently in future EU budgets.

## **BREXIT AND THE FUTURE OF EUROPEAN INTEGRATION**

The UK referendum on EU membership has cast an ominous shadow over the debate on the future of the EU. This is perhaps more keenly felt in Belgium than in many other member states, not just because of the country's strong trade links with the UK, but also because of the historical depth of our bilateral relationship. The Brexit negotiation process is being followed with palpable trepidation, as Belgium will need to carefully balance the need for European unity with its own economic interests. An orderly departure of the UK may also offer a window of opportunity to revisit broader questions about the European political architecture. Proposals for increasing differentiation within the European project – articulated around a multi-speed construct – generate considerable interest in Belgium, even if such debates pose difficult political as well as legal questions.

Belgium has a lot at stake in the Brexit negotiation process. In economic terms, the UK accounts for 8,8% of Belgian exports, with the trade balance being very much in favour of Belgium.<sup>24</sup> A disruption of trade would be deeply harmful to the Belgian economy. Even if such economic pain would be unevenly distributed amongst the different Belgian regions, from a fiscal point of view it does not matter where companies are located. Through the mechanism of budgetary transfers, any economic pain will be redistributed across the different layers of Belgian government. Yet, the debate is about much more than economics. In the early years of European integration, Belgium was a leading advocate of UK membership. A wider process of fragmentation – in which NATO and the EU risk drifting away from one another or disintegrate – could have profound consequences for the broader geopolitical architecture of the European continent, and thus further increase the pressure on Belgium's position therein.

While most Belgian observers profoundly regret the prospect of the UK leaving, there is a strong consensus that the EU needs to remain unified in and beyond the Article 50 negotiations. This translates into strong support

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<sup>23</sup> Cf. V. De Muylder, 'La Belgique se rapproche d'un état voyou, pour le plus haut magistrat du pays', *RTBF*, available at: <https://www.rtb.be/info/dossier/les-decodeurs/detail-le-plus-haut-magistrat-du-pays-a-le-sentiment-que-la-loi-n-est-plus-respectee?id=9298612>.

<sup>24</sup> See e.g. Agentschap voor Buitenlandse Handel, *Impact van de Brexit op de handel tussen België en het Verenigd Koninkrijk*, Brussel, August 2016.

for the negotiating guidelines being drawn by the EU 27.<sup>25</sup> The need to maintain a level playing field when exploring future trading arrangements looms large in this regard. The idea that transparency in the negotiation process helps build confidence and helps maintain European cohesion is also noteworthy. While Belgium has a clear-cut interest in maintaining trade links with the UK, it also recognises that bilateral deal-making and sectoral negotiations are distinctly unappealing, as this would provide larger member states with comparative advantages. Being a loyal EU partner and a good friend of the UK should not be mutually exclusive.<sup>26</sup>

It is difficult to deny that Brexit is accelerating the debate on the future of the EU itself: some observers hope it will prompt closer integration, while others fear it could unravel the project altogether. Although the UK has always been a peculiar member, the triggering of Article 50 constitutes a precedent that the EU cannot downplay. It also leads to a host of questions about the future relationship between the UK and the EU. It is not far-fetched to assume that longstanding discussions about the proper role and future direction of the EU will flare up as different member states advocate different visions. In this context, Belgium is keen to team up with the Netherlands and Luxembourg. While these countries maintain their own perspective on the EU, they are nonetheless very close to each other and share most of their interests. The Benelux vision on the future of Europe suggests that “different paths of integration and enhanced cooperation could provide for effective responses to challenges that affect member states in different ways”.<sup>27</sup> As such, there exists a principled willingness to explore options for revisiting the institutional architecture in ways that meet the desires of different member states, on the condition that this process proceeds on an inclusive and transparent basis. While such ideas have hardly been fully developed, the message is clear: a fundamental debate about the future of the EU can no longer be postponed, however unpleasant it may be.

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<sup>25</sup> Council of the European Union, ‘Draft guidelines following the United Kingdom’s notification under Article 50 TEU’, Brussels 31 March 2017, doc. XT21001/17.

<sup>26</sup> For more in-depth thinking about how Belgium needs to approach the Article 50 negotiations, see the report of the Belgian High Level Group on Brexit chaired by Viscount Paul Buysse, *Towards a Belgian Economic Brexit Strategy*, January 2017.

<sup>27</sup> Benelux vision on the future of Europe, 3 February 2017, available at: <http://premier.fgov.be/en/benelux-vision-future-europe>. This position also has the outspoken support of Belgian business communities, cf. e.g. H. Maertens, ‘Europa mag niet gegijzeld worden door de minst bereidwillige’, *De Tijd*, 10 March 2017.

## PART 3: BRIDGING DIFFERENCES AND ADDRESSING THE PROBLEMS

What can be done to address the current state of affairs? Expectation management is key. Responses to this question must therefore necessarily differentiate between what is politically desirable and diplomatically feasible, and between the short and long term. The overall attitude of Belgium to the present state of the Union is that integration cannot be allowed to stagnate and falter. The process of integration is widely seen as a bicycle that needs to maintain forward momentum to keep from falling down. If this can be done with the EU 27, all the better; but if it requires multiple speeds, then so be it. Yet, policy debates about these issues need to be given substance. Given the risk of increasing political divisions and legal complexity, a tactical retreat to a core group arrangement built around founding and like-minded member states is an emergency solution rather than a sign of success.

With respect to economic governance, the impression is that the emerging debate on fiscal harmonisation – framed as a fight against fiscal heavens and geared towards avoiding a race to the bottom – offers the greatest potential for providing the single market with a new impulse. As a growing share of the economy goes digital, fiscal frameworks need revisiting anyway: the debate on collecting VAT on digital services constitutes a good case in point. In a political sense, this offers the European Commission the opportunity to take the lead and instil a greater sense of fairness by reining in international fiscal competition – something that is clearly out of reach for nearly all national authorities. Finally, a debate on fiscal reform aligns well with the growing awareness that Belgium itself needs to rethink its fiscal system, which is widely seen as being overly convoluted and too reliant on taxing labour. Moves towards greater fiscal harmonisation are the most realistic because they deliver a common advantage (limiting intra-European fiscal competition) while still leaving substantial discretionary authority to member states when it comes to spending priorities.

More ambitious are ideas for strengthening the social dimension of European integration, and addressing the simmering tension between budgetary discipline and the financing requirements of the welfare states within the eurozone. Much is expected from the new governments entering office in Paris and Berlin later this year. Whether credible compromises on growth- and welfare-friendly eurozone reforms can be devised remains to be seen. Arguably the reinsurance of national welfare systems across Europe offers better prospects for gaining parliamentary support than contemplating social services provided directly at the European level. The harmonisation of social protection mechanisms with a view to preventing dumping practices constitutes another case in point, as the discussion on the posting of workers Directive illustrates. While these debates are very much alive in Belgium, they are also politicised along party lines. As Belgium currently has its first centre-right federal coalition government in a generation, criticism of globalisation and austerity is particularly loud on the left of the political spectrum.

With respect to migration and security challenges, a general awareness is emerging that the parameters of the debates are well known. The Schengen system can only function when the Dublin system reforms are carried through and strengthened further. This will require commitment and burden-sharing from all

member states. The stakes are high: if solidarity cannot be maintained, the principle of free movement of people across the single market will be constrained, be it by a definitive return of internal border controls or other constraints imposed as emergency measures. When reinforcing the control of external borders, the EU also needs to remain true to the values on which it was founded. In that context, proposals to establish a mechanism for reviewing the rule of law in all member states deserve to be developed in greater detail.

Increasing investment in security instruments is key, but a good case can be made that European cooperation constitutes a mechanism for delivering a maximum return on investment. While different member states have their own assessment of the security environment – informed by geography and historical experience – there is a substantial overlap nonetheless. In that regard the Commission proposals contained in the European Defence Action Plan are very much to be welcomed, as important advantages of scale could be gained in both defence research and technology, and in the acquisition of strategic-level capabilities. The key challenge in this regard is to ensure that EU budget contributions are of sufficient significance, and geared towards meeting common military requirements rather than the industrial interests of a handful of member states. The growing awareness of the implicit tension existing between the Fiscal Compact and defence funding requirements is also a positive evolution. At a national level, Belgium will need to significantly increase its level of defence expenditure to safeguard the security of its citizens and to contribute proportionally to the defence of the European continent.

The vexed question of whether the EU can carry on with its future development within the current treaty framework has no satisfactory answer. As long as all EU 27 member states continue to make full use of what the Treaty of Lisbon allows, the question of treaty change can be postponed. Yet, when lack of consensus forces member states to resort to alternative options, the conceptual need for revisiting the treaties increases. The adoption of the Fiscal Compact constitutes a case in point: in some respects, this constituted treaty change in disguise. The outlook for a next round of treaty change through intergovernmental conferences and subsequent ratification procedures is far from rosy: many Belgian observers fear this would open Pandora's box. The resulting preference for avoiding treaty change means that the need for maintaining European unity is overwhelming. The fall-back option is to deal with emerging legal requirements through creative engineering within the current framework. While this is a time-honoured tradition in Belgium, such an approach also carries its own limits in terms of public acceptability. Adding new layers of institutional complexity threatens to fuel the rise of Euroscepticism. As the EU faces a need to accommodate great stress on its various policy frameworks, the question of treaty change cannot be postponed forever.

## CONCLUSION

In line with its own geopolitical identity, Belgium positions itself as European bridge-builder. As the long-term consequences of enlargement continue to sink in, it faces the need to expand its diplomatic network, deepen existing relationships with longstanding partners and open new ones. As is customary in times of stress on the European stage, Belgium is keen to team up with its Benelux partners and other countries of a similar size with a view to ensuring that might does not make right. Despite the ominous outlook in Europe and beyond, opportunities for renewing European cooperation remain and must be seized.

With respect to the eurozone, a Franco-German package deal on economic governance and security may help unlock the present impasse. Doubts over the long-term sustainability of the currency union need to be overcome, and this will require economic reform. Yet monetary union cannot remain limited to economic matters. A currency ultimately expresses a shared destiny. In a world that is becoming more dangerous, German economic strength needs to be combined with French military experience and political confidence. The ingredients for expanding this into a wider European compromise are present, if the future leaders in Paris and Berlin take the concerns and legitimate interests of their European partners into account. A return to genuinely supranational institutions would instil greater confidence in a shared destiny than intergovernmental arrangements. The negotiations with the UK, furthermore, also constitute an opportunity to create a wider ring of trade and security partners outside the EU.<sup>28</sup>

Belgium's own diplomatic position in the European debate is critically dependent on the credibility of its own policies and instruments, and the predictability of its negotiating stance. Both dimensions have come under significant pressure and criticism in recent years. The episode over the ratification of the EU-Canada trade agreement, the lack of sufficient resources for the security and defence apparatus and Belgium's own behaviour as a laggard in transposing economic engagements into action all constitute examples of undermining our own position. If Belgium and its constitutive entities wish to avoid being treated as diplomatic *quantité négligeable* then it is imperative to put its own house in order. This would benefit all Belgian citizens, and by extension, the wider European interest.

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<sup>28</sup> For thought-provoking proposals in this regard, see J. Pisani-Ferry, N. Röttgen, A. Sapir, P. Tucker and G.B. Wolff, *Europe after Brexit: A proposal for a continental partnership*, Brussels: Bruegel, 29 August 2016.

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