

Check against delivery

Address by David O'Sullivan
Director General for Trade
European Commission

on

The European competitiveness agenda

At the
NCC Conference 'Re-conceptualising Ireland's
Competitiveness', Farmleigh House

Dublin, 9 January 2008

The political debate on competitiveness

The French always put on a good Presidential election campaign, but last year was a particularly instructive one. Instructive, because all three major candidates explicitly raised the issue of European competitiveness in the global economy. They all raised the role of the EU and the single market in preserving European prosperity. In doing so they reflected a wider European debate about globalization, and Europe's response to it. Obviously France is not Europe, but it is a sign of the way the political wind is blowing.

Unfortunately, these questions tend to be conditioned more by anxiety than by confidence – and the French campaigns were evidence of that. Globalisation has produced huge aggregate economic benefits in Europe but it has also brought rapid economic change and a heavy burden of adjustment.

As with almost any social change, the first political question most people ask is: why? And the problem with globalization is that the answer is often a politically complex one. One part of our economy will lose, but another part may gain. Consumer prices and inflation will be pushed down by global competition. Our openness to imports sustains our supply chains and the outflows of foreign exchange that stimulate our export markets. On aggregate, we emerge economically stronger. However, these arguments don't exactly set the political debate on fire.

And more importantly, behind the aggregate benefits are the effects of change on individuals: farmers adapting to CAP reform and Brazilian competition; manufacturing workers feeling the pressure of Chinese competition; a whole society making the transition to a more services-based economy, which is as difficult in many ways as the changes that accompanied industrialization in the 19th century.

Nobody has ever run an election campaign on the need to keep our markets open to Chinese imports, and I doubt anybody ever will. It is easy to understand why not. The economics of competitiveness in Europe and the politics of rapid economic and social change are often an uncomfortable match. Attitudes to the European Union itself have become an integral part of that debate. It's clear to me as a policymaker that sustaining Europe's openness to globalization is a political challenge as much as an economic one.

The positive picture on competitiveness

However, let us start with the facts. The EU is competing much better in a global economy than the pessimists would suggest. Over the last decade a strong European economy has created more than one job for every job that the EU has lost to technological change or outsourcing. This led to the net creation of 18 millions new jobs over the past ten years (from 196 millions in 1997 jobs to 214 millions in 2006). Hundreds of millions of new jobs in the developing world

haven't cost us a single job on aggregate. A relative decrease in Europe's weight in the global economy against the rise of Asia has not translated into falling living standards or a weakening export performance.

Europe is still the world's biggest exporter of both goods and services. We enjoy a \$150bn surplus in manufacturing and it has constantly increased since the end of the 90s. We account for more than a third of the world's services trade and more than a third of the global market for high-end goods. Despite the intense pressure of structural reform on European farming and textiles manufacturing we are still the world's biggest agricultural exporter and the world's second largest textiles exporter.

The size of the single market has been a powerful centripetal force for global regulation and standardization – we are the number one export market for more than 100 countries in the global economy. This has in turn benefited European exporters. High wages haven't stopped economies like Germany, Finland, and Ireland becoming

three of the most effective export-driven economies in the EU. Even a relatively strong euro is still not exerting serious downward pressure on our export growth. We are the world's biggest investor abroad. We are also the biggest magnet for inward investment in the global economy. US investment in Belgium generates more profits for US companies than US investment in the whole of China (\$6.5bn in Belgium against \$4.8bn in China – 2003 / last available figures).

The foundations of European global competitiveness

Three things continue to underwrite this positive picture. The first is the EU itself. The second, closely related, is an open European Single Market and the economic reform that makes it work. The third is an open global economy.

The EU acts as a multiplier in our foreign economic policy. It gives our single negotiator an incredibly strong voice on trade issues. We exert much more influence collectively when we sit down opposite a billion Chinese than we ever

would as individual nations. The most important players in the global economic landscape for the foreseeable future are continental powers: the EU is how we develop that continental capacity and voice for ourselves.

This argument looks compelling from Dublin, but is in fact no less true in Berlin or London. It is pretty telling that up until very recently the only place where US National Security Strategy papers made any reference to the ‘European Union’ was on trade. For the rest of the US geo-strategic agenda, the EU simply did not exist. Needless to say, the logic runs far beyond trade policy, especially into areas such as climate change and energy security, where a single European voice is imperative if we are to shape the global agenda in a way that reflects the values and interests of Europeans.

The Single Market can and should function as an expression of that collective weight. Access to that market is obviously the biggest chip that the EU trade negotiator

carries, and it is a very powerful one. Its sheer size helps us shape the global regulatory agenda.

But the single market is also a platform for building strong businesses than can prosper in the global economy.

Companies that cut their teeth competing in a continental market are better equipped for global competition. The cost benefits of that competition are passed on to European consumers.

That open global economy is also central to our economic success. Globalization has injected a billion new workers into the global economy in the last two decades, which has created intense downward pressure on labour costs. But it has also created two, perhaps two and a half, billion new consumers. India and China already have a middle class the size of France, Germany the UK and Spain put together. Their estimated consumer spending will top a trillion euros annually by the end of the decade and European companies are well positioned to exploit this. This new demand is now

integral to a healthy global economy and an important engine for European production and exports.

By way of illustration, look at the Irish experience. In 1960 almost four fifths of Irish exports went to the UK. Now less than one fifth do. 60% of Irish exports go to the EU, 20% to the US. Ireland's productivity levels were also dramatically transformed by single market membership.

The fact that a country the size of Ireland can command almost 3% of global market share for trade in services and five percent of the global market for a sector like chemicals, is pretty impressive when you consider that Ireland has less than one tenth of one percent of the world's people. Ireland has the best FDI rates in the OECD and FDI directly employs more than 100000 people here, in largely high-skilled, high-paid jobs. All of these gains were only possible because of the multiplier effect of the EU, the single market and an open global economy.

The policy agenda

One of the results of this wider European integration with the global economy is the inevitable connection between our internal competitiveness policy and our external trade policy. The Commission's Global Europe foreign economic policy framework is based on the argument that the economic reform agenda and Europe's trade policy have to reinforce each other, because that is how it actually works in the real world.

Obviously, we are only as competitive in the global economy as our internal economic policy allows us to be. That is why the European economic and supply side reform agenda remains so important, and why it will be tied to our export performance, particularly if the euro remains strong.

As importantly, our deep integration in the global economy means that our internal economic strength is closely tied to an open global trading system in which European

companies have the best possible market access and in which they can compete fairly.

That is why we have taken such a proactive position in the WTO Doha Trade talks rather than allow our defensive interests in an area like agriculture alone to define our position. That is why we have launched a new generation of FTAs with are key export markets in India, Korea and South East Asia. That is why the EU continues to focus so aggressively on removing barriers to exports and addressing the huge problem of counterfeiting, especially in key markets like China.

As the single largest player in the global trading system our own openness to investment and trade underwrites, to a very significant degree, the openness of the system as a whole. That is why the EU has always been an unequivocal defender of the WTO and the rules-based trading system. The WTO now embraces 151 members; getting the remaining key economies – such as Russia – into the WTO is also an important policy objective. That is why we must

be careful to make policy on sensitive issues like foreign investment and agriculture with one eye on the global repercussions of any perceived shift towards European economic nationalism. We would have nothing to gain from a protectionist turn in the global economy.

Strengthening the EU and the Single Market – and ratifying the institutional treaty

We also need to continue to strengthen the effectiveness of the EU and the Single Market. For forty years, the single market was in some ways the end of the economic road for Europe. There was no real sense that the Single Market might have an external function as well as an internal one. It was an economic microcosm in which European reconstruction could take place.

It was a powerful idea, and successful in many ways and it still conditions the way many Europeans see Europe's economic policy. The creation and launch of the Euro as a single currency was the ultimate expression of the goal of

economic unification. Borderless free movement of people through the Schengen process is another telling example.

But it was also a reflection of economic reality. In the post-war world Europe's domestic demand needed to be rebuilt, its food supply secured. Economic nationalism and poverty had removed China, India and Russia – the Soviet Union - from the global economy.

But obviously that economic reality has changed. The single market is no longer just about creating a dynamic European domestic market, it is our key way of projecting European economic interests in the global economy.

In fact, I would argue that the most unfortunate aspect of the political debate on globalization in Europe is the extent to which concerns about globalization appear to be reflected in attitudes to the EU itself. And that may undermine attempts to strengthen the EU and the single market as a way of responding to globalization.

Although it is arguably the EU more than anything else that magnifies our capacity as European states to shape globalization and to benefit from it, it has nevertheless become for some Europeans a symbol of the very economic change and uncertainty that they fear. That is why the bulk of no voters in the French and Dutch referenda on the European constitution referenda three years ago were older people and manual workers. The people who consistently describe themselves as most distrustful of globalisation.

That is why next year's ratification debates on the new European institutional treaty will be so important, not least here in Ireland where the question will be put to a popular vote.

Most obviously the treaty would streamline and strengthen the Union's capacity to act in defence of its interests abroad by creating new areas where decision making would be governed by majority voting. It would create a single figure capable of being mandated to speak for the Union in foreign policy. It will increase the capacity of the EU to

negotiate collectively on the question of foreign direct investment, which will become one of the most important issues in trade policy in the decade ahead. It will increase the remit of the European Parliament in trade policy and deepen the oversight role of the Dail in the running of EU affairs. These are useful ways of increasing the effectiveness and the accountability of the European institutions at the same time.

Trade is the emblematic example of an area where EU member states get a better global result by working together, but there are many others: global warming and energy security being two obvious examples. Cross border health threats also.

It seems to me that the treaty is an important and necessary part of a future competitiveness policy for Europe – along with the political will to use the institutions it refines to their full capacity, of course.

Because the treaty itself is an attempt to equip the EU better to manage and shape globalisation, it would be deeply unfortunate, not to say ironic, if it fell victim to the anxious politics of globalisation in Europe.

Yet those are the stakes as I read them from last year's elections and the current climate in Brussels. If we cannot begin to do a better job of convincing Europeans that globalization is not operating against their core competitive interests then both the EU and an open European economy will increasingly be challenged.

The EU has been central to the peace and prosperity of the last fifty years largely through the prosperity and economic consolidation that it has built *within* Europe. In the next half century it will be central to projecting that strength globally and building *global* prosperity and peace.

For all of the uncertainty that surrounds the global economy at the start of 2008, we have little to lose in a global economy where the newly emerging economies of

Russia, China, India and Latin America can find their place in the sun. Certainly we should be committed to ensuring that the Least Developed Countries that remain isolated from the global economy can start on the path of growth and stability.

My basic message in conclusion would be this: Our relative weight in the world economy will inevitably decline, but our living standards need not. Global competition is not a zero-sum game where some can win only at the expense of others. We can all benefit.

ENDS