

Speech by  
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"EU and Russia in the Age of Globalisation"  
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Ladies and Gentlemen,

I would like to thank you warmly for this invitation to address you today. The objective of this Institute, established one year ago and jointly financed by the EU and the Russian government, symbolises our recognition of the mutual benefit we derive from closer relations. It will serve both Russian and EU students and officials to improve their understanding of EU/Russia cooperation in the context of global challenges.

Let me first explain to you why I am in Moscow today. We have just opened a new chapter in EU-Russia co-operation. You seem to be the best placed audience to which I can announce the signing of an agreement on a new dialogue between the EU and Russia on regional policy. I am convinced that there is a huge value added in exchanging policy experience and that the EU and Russia can help each other in tackling the challenges, which are to a large extent our common challenges in the globalised world. I shall start my presentation by examining them in more detail.

Many people perceive globalisation as a threat. I am among those who see it first of all as an opportunity. Both Russia and the EU have been profiting from globalisation. Our economic interaction is itself a good demonstration of this. The trade turnover between Russia and the EU has grown substantially and Russia is now the third biggest trading partner of the EU after the United States and Switzerland. Between 2005 and 2006, the EU exports to Russia increased by 27% amounting to 72 billion Euros. EU imports from Russia grew by 25%. Foreign investments into Russia have multiplied during the past years and the EU represents a major part of these investments. In this sense, the EU is definitely part of the bigger picture when we assess Russian growth in recent years.

Globalisation is not a slogan. It is a reality characterised by the combined impacts of economic and technological change on our economies, societies and cultures. This change is taking place at a speed we have never witnessed in the past. Both, EU and Russia, have to find a right way to respond to it and to manage it.

Globalisation brings new market opportunities, cheaper products and better services. It has allowed Russia and, especially, new Member States of the European Union to grow at high rates while maintaining stable or falling inflation. In the Union we benefited from the globalisation also due to the fact that we are the world's largest integrated economic area and that we speak with one voice in global trade negotiations.

Of course, globalisation produces both winners and losers and its advantages are not evenly distributed across the EU's or Russian territories. Therefore, the policies we put in place must ensure that the benefits of globalisation are widely shared. And to benefit from the globalisation we have to manage the process of change – much in the way that we had to manage the process of industrialisation or the initial stages of internationalisation. This requires comprehensive structural adjustment of our economies but also changes in the nature of governance itself.

In the EU, structural adjustment over the last decade has been essentially driven by the need to ensure that our businesses stay competitive in world markets and that our citizens have necessary skills to be competitive on labour markets. We have to accept that there are many products in which we will simply not be able to compete with China and India – neither the EU nor Russia. We will however be able to compete and prosper in areas which are technically advanced or require highly skilled inputs.

Clearly, the economic performance of the EU could have been better in the recent years. But we seem to be back on the track towards longer term recovery. The innovation gap between Europe and the US has been decreasing since 2002 and is now roughly half of what it was then. Out of 6 countries which are world leaders in innovation performance 4 are EU Member States. The EU has been also extremely successful – much more than Japan or US – in the transition towards high value products, both in terms of

share (32% of world trade in these products) and evolution (increase by 3% between 1995 and 2003). The challenge is to be able to hold on to this position.

The promotion of innovation, which depends both on investment in R & D and on a stimulating business regulatory environment, also requires a highly educated workforce. Both Russia and the EU will find it progressively more difficult to find employment for unskilled workers, because of the competition from low cost economies. I am convinced that Russia's – and Union's – long term future depends on the quality of its people and this depends on the investment in education and training. And by providing our citizens with the skills which allow them to adapt flexibly to the constant changes in the economy, we are more likely to maintain their support for the process of globalisation.

If we now move on to the changes in the nature of governance, we can say that the impact of globalisation, on one hand, made modern governments increasingly involved in the workings of international institutions, such as WTO, while on the other these governments tend to devolve powers down to local and regional levels, for the sake of economic efficiency. Thus we witness the shaping of a new system of multi-level governance.

The first aspects of this process is the sharing of a part of our sovereignty with global institutions, through the maintenance and

development of the multilateral trading system. It is the best protection against the reappearance of growth destroying protectionist policies in the world. This is why the EU has confirmed at the last summit its support for Russia's bid for the WTO membership. It is also why we have been strong supporters of the WTO's Doha Development Round, which we hope will finally be approved in the not too distant future.

I know that some Russian experts have questioned whether there is any advantage for Russia in joining WTO. It is true that Russia faces only very low tariffs for most of its exports and therefore has little to gain from a purely mathematical point of view. It is also true that joining WTO requires Russia to adapt its legislation and to eliminate some legislation favourable to its own enterprises. If Russia wants to remain a supplier of primary products, there may indeed be little advantage. Yet if Russia wants to be competitive in international markets, continue its course of economic diversification and increase foreign investment even further, WTO membership is essential. And a more competitive and diversified Russian economy will unlock new opportunities to fully exploit the potential of our relationship.

The other element driving the evolution of modern economic governance is the tendency to delegate some competencies down to local and regional levels. Why are we witnessing this shift today?

We can see that there is a number of challenges which are common both to Russia and the EU – a necessity to adjust to the changing pattern of competitive advantage in a global world, an imperative of investing in human resources, education, research and innovation. To this one can add major demographic trends which can be best described as the combination of aging Russian and European societies and declining labour force with the massive supply of labour in emerging economies such as China, India or Brazil.

What is important is that the impact of these challenges – and this takes me back to the co-operation on regional policy – translates into increasing regional and social differences. For example, one aspect of demographic change is the long-term shift towards urbanisation and rural depopulation which aggravates urban-rural divide and leaves some rural regions with very limited prospects for catching up.

In a longer term these trends, if unchecked, result in the phenomenon of uneven development which constrains further development. And we will not be competitive if we accept a fracture in our societies that excludes whole regions, whole sections of population from seizing the opportunities created by economic growth. Our economies cannot be based on two distinct categories of citizens and regions: highly skilled citizens and regions well positioned in global networks of exchange, and

unskilled citizens and regions left in a permanent state of underdevelopment.

Today, Russia experiences one of the highest economic growth rates in the world, but at the same time faces a major challenge due to unequal distribution of economic growth benefits among the population and dramatic regional diversity. The share of the 10 wealthy regions (out of total 88) in the country's GDP increased from 41.5% in 1994 to 54.2% in 2002, and in particular from 10.2% to 21.1% in the case of Moscow. The GDP per capita in the richest region of Tyumen is 33 times higher than GDP per capita in the poorest region of Ingushetia.

Similar differences – although to a large extent resulting from recent enlargement – can be found in the Union. The richest of EU 268 regions, Inner London with 303% of EU27 average GDP per capita, is fourteen times more prosperous than the poorest region of Nord-Est in Romania, with 24% of EU27 average.

The consequence of the regional variations in the impact of major economic trends is that uniform development policy designed and implemented solely by capitals is inefficient. To be effective, our policies must be based on the concept of multi-level governance, involving both the centre and regional and local authorities, which play an essential role in implementing policies and in providing services.

The Union's regional policy does precisely this by involving in its design and implementation a large number of partners at vertical (European Commission, Member States, regions, cities) and horizontal (business, NGOs) levels. This approach results in a versatile policy which, on one hand, is tailored to specific needs of regions and, on the other, is a potent lever to push forward economic modernisation by mobilizing local and regional growth assets across the EU.

Speaking about global challenges and opportunities it is impossible to refrain from mentioning the impact of ICT. Its unprecedented explosion in the last decades means that our citizens are potentially better informed than ever before, even though it raises many new and challenging public policy issues. But ICT are also changing our competitiveness, by encouraging the emergence of new businesses and new ways of doing business. The "information society for all" should be the major component of our growth strategies, both in Russia and the EU.

But regional policy is just one example of how we can co-operate in the areas of mutual interest and benefit. Cooperation in the areas of education and training between Russia and the EU also hold out the promise of considerable mutual benefits. Possible routes to greater cooperation have been laid out in the Road Map for the Common Space on Research, Education and Culture. Russia is the most successful third country in the Research and Development Framework Programme and has participated

enthusiastically in the TEMPUS and ERASMUS MUNDUS Programmes.

This is not surprising given the high levels of excellence in R & D achieved by Russian scholars. The latest OECD Country Report on Russia from the end of 2006 concluded that: 'Given Russia's strong human capital endowments and its large science base, it probably has greater potential for innovation-based growth than most countries at similar levels of per capita GDP'. However for both the EU and Russia raising investment levels will be essential to build on these human resources in order to prosper in a globalised world.

EU and Russia would also have much to share in the areas of business creation and development and related regulatory reform. Russia's economy is characterised by the dominance of large firms and a growing state influence in the area of energy and raw materials. It is true that the Government has introduced measures aimed at stimulating the creation of new businesses. However, there is a risk that the prevailing regulatory system is not conducive to the development of a strong tissue of innovative small companies, which play such a vital role in the Union. These matters have been discussed in the Common Economic Space and we hope that a dialogue can be started soon.

A degree of regulatory convergence between us would be a considerable aid both to trade but also to business development. The Union has offered help to the Russian Government to review its business regulation and, when requested, to draft legislation which would align our two regulatory systems and give more stability and predictability to business environment.

Stability and predictability are what is also required if trade between us is to continue to grow. This is especially the case in the energy field. The European Union is the main consumer of Russian energy products. Any interruption of supplies in this sector can obviously be catastrophic for consumers. Equally risky is the inadequate investment in the extraction of energy resources and pipelines. So what consumers need is for supplies to be guaranteed. In this respect at the summit in Samara we made a step forward, by agreeing on the necessity of setting up an early-warning system so that other supplies can be brought in to fill the gap.

But predictability is also important to energy suppliers. The problems which were experienced last year with gas supplies in Europe led to a broad discussion on how to achieve further energy diversification. So let me express my hope that the problems which are holding up the negotiations of a new agreement to replace the current Partnership and Cooperation Agreement can be solved quickly. Many of the points which I have raised here today can be tackled through the new Agreement.

We have a great deal to learn from each other in many fields. Dialogues bring people together and promote better understanding of the problems confronting the partner country. In this mutual exchange of ideas and opinions, both sides make progress in steering their economies to prosper in a globalised world.

Thank you.