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"Competitiveness of the European economy in a globalised world"

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Ladies and gentlemen,

It is an honour for me to be here today. 2007 is a year of European anniversaries. Today we are celebrating the 60th Anniversary of the Economic Commission for Europe, whose broad definition of 'Europe' I have always so much admired. March 25th 2007 marked the fiftieth anniversary of the Treaty of Rome, which set in motion the process of European integration, helping to secure an unprecedented period of peace and prosperity for our continent. We owe a lot to the founders of European integration who, back in the 1940s and 50s, understood so well that there would be others knocking on the door over time – those who could not be in Rome in 1957.

Over these past decades, this process of ever closer integration of Europe has demonstrated an enormous capacity to adapt to the dramatic changes brought about in its immediate neighbourhood and by a globalising world. The most successful policy has been that of enlargement. The Union has enlarged to new countries with different political systems and levels of economic development. Two other key policies - the creation of the single market and the introduction of the

euro - fostered growth and competitiveness in Europe and are envied by other regional integration groupings around the world.

Globalisation in the last twenty years has forced continuous economic adjustment on Europe. While the benefits of globalisation have been most apparent in the upper part of the labour market, the negative effects of this restructuring has been felt most on lower paid jobs,. To some extent the same holds true for European integration and the Single Market. The overall result is more growth and more employment, but new jobs are created in services or in modern sectors of the economy while the losers are concentrated in less qualified occupations.

With the economy moving up the value added chain, we see reinforced social divisions and a broader gap between two segments of the labour market - high skills/high salaries and low skills/low salaries. This is taking place against an environment where traditional social security institutions – which might have softened the impact - are being eroded. Today we have not seen all the social consequences of this process, but to me it seems clear that the issues of poverty and social exclusion will continue to figure highly on our agenda in the years to come.

The political consequence of this is that fear of competition from abroad is becoming endemic, whether next door or a continent away. Those who are losing perceive the Union - and European integration in general – as a Trojan horse of globalisation. They want the EU to be a protecting shield against change. The social group which is most affected by globalisation and economic integration are manual workers – and they

were a large group among those who voted against the European constitution.

Will we gradually fall into populist temptations and turn our backs both to further integration and to globalisation? Is there a way out of this temptation? Well, there is thankfully good news to take note of. Let me say with some regret that the economic performance of the EU in recent years could have been better. But today we seem to be back on the track of longer term economic recovery. The innovation gap between Europe and the US has been decreasing since 2002 and is now roughly half what it was then. Out of 6 countries which are world leaders in innovation performance 4 are EU Member States. The EU has also been extremely successful – much more than Japan or the 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 whether we will be able to hold on to this position. My view is yes, providing that Europe will be inclusive for its citizen, and efficiently governed through a system of multi level governance. To explain what I mean by this we have to look more closely at some impacts of globalisation which have a specifically European context.

Successful policies in the age of globalisation 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 changes the nature of governance itself. Modern governments are devolving powers down to local and regional levels and up to international institutions. Thus we are moving towards a new system of

multi-level governance. In addition to national governments, the Union gives us the capacity for continental action in the global world, while regional and local levels are becoming increasingly involved in economic policy making. It is to this model that we need to turn to build Europe's capacity to remain ahead in the global game.

The advantages of the upward evolution in decision-making are self evident. Europe benefits from multilateral trade arrangements because we have real bargaining power. But let us look at the downward trend which gives more weight to local and regional levels, and which is reflected in changing patterns of public expenditure. Between 2000 and 2005 public expenditure at those levels has been increasing annually by 3,6%, faster than GDP (1,7%) and total public expenditure (2,4%). As a result, the share of local and regional authorities in public investment increased from 25,4% to 26,8%. In some countries, such as Spain, Finland or Denmark, this proportion has increased by 10 percentage points over the last decade.

In my view this evolution brings greater efficiency and growth for two reasons. First because of subsidiarity gains – investment is implemented by local and regional authorities who know best their constituencies and their needs, and who are more sensitive to local growth factors than central governments can be. Empowering all those with relevant expertise in the design and implementation of policies at local level, creates ownership, responsibility, and hence greater efficiency. Simply put, decentralisation makes sense from an economic point of view.

The second reason is that economic development today is dependent on the complex co-ordination of different activities such as financial

engineering, public private partnerships or research consortia. This cannot be managed efficiently from remote capitals. It requires geographical proximity to institutions, authorities, capital, research or labour. Only then can governance put in motion key drivers of economic growth - involvement of private capital, clustering and innovation. Regions have become the primary spatial units where knowledge is transferred, local innovation systems built and where the competition to attract investments takes place. Michael Porter summarised this when he observed, to quote, that "paradoxically the most enduring competitive advantages in a global economy seem to be local". This growth from below has triggered across Europe strong networking of local and regional actors, co-operating and sharing their best practices on the challenges they face.

This takes me to the area of my responsibilities as European Commissioner – European regional policy. This policy has developed a powerful multi-level governance method involving a large number of partners at vertical (European Commission, Member States, regions, cities) and horizontal (business, ONGs, etc.) levels. It is a potent lever to push forward economic modernisation in the Union by mobilizing local and regional growth assets across the EU. And it concentrates its resources in those areas which enable Europe to compete globally. It is also a policy which is anchored in each European territory. I emphasize this because too often we tend to forget that Europe is a small continent. We are too small to afford to waste any of our assets - and here I make specific mention of the need to increase female participation in our labour markets; and we must help exploit underutilised economic resources in all territories by proactively building capacities and creating

competitive advantages. We might be impressed by recent migration flows in the EU but the reality is that the propensity to migrate within the EU is and will remain very low. And we have to be able to offer something to those which will stay at home.

To conclude - we will not be competitive if we accept a fracture in our societies that excludes whole regions, whole sections of population from being active players in the global age, from seizing the opportunities created by globalisation. 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. The policies we put in place must ensure that the benefits of globalisation and of economic integration are widely shared, and that the vision of the Berlin declaration - harmonious development based on tasks shared among the European Union, the Member States, their regions and local authorities - can be realised.

Thank you for your attention.