

**Conference on Regional Policy**

**Palacio Benigno Lopez, Ministry of Foreign  
Affairs, Paraguay**

**speech by**

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**Asunción, 12 July 2008**

## **Introduction**

Ladies and gentlemen, I am very pleased to have this opportunity to speak to you about the integration process in Europe and to draw comparisons with, and possible lessons for, the process of integration in Latin America, particularly under MERCOSUR. In particular, I wish to explain to you the role played by regional aid policy in underpinning economic integration in Europe. Through regional aid, the EU seeks to ensure that the benefits of integration are as widely spread as possible, and that development is as balanced as possible in geographical terms.

The origins of European policy intervention in the field of reducing geographical disparities and to improve 'cohesion' can be traced back to the original Treaty of Rome of 1957. The founding fathers of the European Union – representing 6 Member States - already at that time had the vision, set out in the Treaty, that "*the Community shall aim at reducing the disparities between the levels of development of the various regions*". This set the tone for subsequent policy. But determined action in this field, backed by real resources, did not begin until 1975, when the European Regional Development Fund (ERDF) for investment was created. Today, the ERDF operates in close liaison with the European Social Fund (ESF), which was originally created by the Treaty of Rome in 1957. The latter focuses on supporting social measures and training. Together, the two funds are generally referred to as the European Union's 'Structural Funds'.

Today, we in the EU are at the start of a new planning period, the fourth since 1989, which will last for 7 years from 2007 to 2013. A financial allocation for the Structural Funds was agreed in 2006 by the European Union's institutions, after long and difficult negotiations lasting over two years. The decisions on how to allocate this aid to each Member State or region have also been taken, essentially driven by objective criteria, notably with reference to statistics on levels of GDP per head. This means that today, around 80% of the resources go to 35% of the population living in the least developed regions.

Once allocated in this way, financial support finds its way to investment projects on the ground through the medium of integrated plans or strategies that have to have the prior approval of the Commission. These strategies are targeted either geographically on the region,

or, on a given sector, such as transport or the environment. Out of a total of 455 strategic programmes for 2007-2013, around half, some 225, are targeted on the regions.

### **The reform of cohesion policy 2007-2013**

While the importance of regional policy has been confirmed in the European Union with the financing decisions for the period 2007-2013, at the same time it is a policy that has to continually demonstrate its added value. It is perhaps the lot of all policies with a redistributive theme that they are continually called into question. Those who tend to protest most are naturally those called upon to pay. In a national context, this tends to be the population in the most prosperous regions. In an EU context, it is both the population in the most prosperous regions, *and*, the governments of the most prosperous states.

#### *What is this added value?*

While there are a number of ways in which EU regional policy contributes to the integration of the Union, four are particularly important:

- It ensures **respect for the rules of the single market**. The development of a free-trade zone in Europe has represented a motor for growth. Its success depends on respect for certain ground rules such as in the key fields of competition policy for businesses and open public procurement practices for government contracts. EU regional aid is granted on condition that these rules are respected. The rewards appear to be high and a measurable effect of this can be seen in the increase in intra-Community trade, notably between the least developed Member States and regions and the rest of the EU. In the case of cohesion policy, this means that around one quarter of expenditure under the programmes for these areas returns to the rest of the Union in the form of increased exports. In the same way, in the MERCOSUR context, projects that have been developed with the financial support of FOCEM in, say, Paraguay and Uruguay are likely to generate business opportunities for companies in Brazil or Argentina. So this relationship between those who pay and those who receive is not about charity, there is a real economic interest. It generates the kind of circular movement of income which is good for business, good for the single market and represents a good explanation as to why regional policy is important not just for the poorer parts of the EU or MERCOSUR but for the more prosperous parts as well. The different cross-

border programmes also help to improve the working of the single market in frontier areas and reduce hinterland effects;

- It **levers significant resources for strategic investment as a result of co-financing rules** that mobilise additional resources for new investment from national public and private resources. Each euro of expenditure from the Union's budget for cohesion policy levers in on average € 0.9 in the least developed regions and € 3 in the other regions.
- It helps to **underpin the Union's other key policy** priorities by making support for programmes and "conditional" on policies and rules such as those concerning the environment or the promotion of equal opportunities. The European Union is often described as having a triangle of priorities: the economy, the environment and the social dimension. At the present time, it is the economy which is top priority, partly because we appear to have been losing some ground internationally notably vis-à-vis the United States of America but also because we are losing our competitive position relative to countries such as, Brazil, Russia, India and China.

While the economy is the priority, we also have the opportunity to use the regional aid programmes to promote the other priorities by seeking to ensure respect for environmental and social values and rules. We do not want the economic competition between the regions of the EU to be a race to the bottom. If the regions, and the businesses within them, were free of obligations with regard to the environment, then there is a risk that enterprises would go to those areas where the environmental rules are the most relaxed. The result would be a general lowering of standards. So, all regions, in order to draw down aid from the European Union, must respect environmental rules. In a similar way, regional aid is conditional on respect for rules with regard to equality of the opportunity between men and women, respect for minorities and so on. In short, the granting of regional aid according to conditions is a powerful positive instrument for the transmission of key societal priorities to the ground level.

- The contribution to **partnership and good governance**. Last but by no means least, we also use regional policy to help to improve governance. I know that this has been regarded as a major challenge in South America, in MERCOSUR countries, and in Paraguay. It is equally an important challenge in the European Union and even more

so after enlargement from 15 to 27 Member States after 2004. There are two things that are important for the success of regional economic development programmes in Europe. One is resources for investment. But just as important is the institutional capacity to use those resources. We have important challenges in Europe in this field to improve the quality of public administration and of the administration generally so that good projects are selected and implemented within reasonable deadlines.

In our case, the governance system is a multi-level one. We work with a policy transmission process that begins with the strategy for regional integration decided at the level of the European Union as a whole which is then translated into a strategy for each one of our 27 member countries. Each national strategy is then translated into a strategy for the regions or for certain sectors such as transport or the environment, as indicated, some 455 regional and sectoral strategies in all. The organisation of this multi-level governance system, that effectively connects the centre to the regional and local level, is a particular challenge, and is perhaps the area where we have tried to make the most progress in 20 years of the existence of regional policy in its modern form. The success of this unique system of multi-level governance involving Community, national, regional and local authorities and stakeholders is very important because it helps to ensure that projects are adapted to circumstances on the ground and that there is a genuine commitment to their success. In short, that there is 'ownership'.

In many ways, with the reform for 2007-2013 we believe that there has emerged something of a new paradigm in EU regional policy with the following characteristics:

- it has moved on from being seen as a purely redistributive policy to one that plays a key **allocative role** through long-term investment in programmes and projects essential to Europe's future.
- it is therefore a paradigm that **stresses the future**, and seeks to mobilise underexploited resources in pursuit of new opportunities rather than seeking to compensate for the problems of the past.
- it is also a paradigm where the policy that is considered **important for both the poorer and the prosperous regions of the Union** even if the resources are inevitably, and justly, concentrated on the poorest.

In sum, EU regional aid policy is far from a system for distributing cheques: it is about promoting strategic programmes for investment in order to improve the infrastructure, business formation and development and the quality of human capital in the regions. In our terms this concentration on investment means that our four historically biggest beneficiaries of the policy - Greece, Portugal, Spain and Ireland - have achieved over time growth rates that are above the European average. It is interesting that the smallest of the four has had the most success. I am speaking of Ireland, which has a population smaller than that of Paraguay at just under 4 million. In little over ten years the average per capita income of the Irish has doubled.

### **Challenges for the future**

In the context of the agreement on the regional aid budget for 2007-2013 - and the budget for other policies at the same time - the Member States asked the European Commission to immediately begin undertaking a review for 2014 of the Union's political challenges and the appropriate level of financing. There are clearly emerging challenges which the Union and its regions in particular to have to face:

- First, **demography**: Europe's population is projected to start declining by around 2020. In 2005, national population growth rate was less than 0.1% and 86% of population growth was due to migration. Already today, 85 regions of the Union (mainly in the new Member States) are experiencing absolute population decline, and another 76 maintain population growth due only to net immigration. These trends will have an impact on regional labour markets and the sustainability of regional growth. In general, though total employment is expected to continue growing up to around 2017 due to rising labour force participation, it will start declining afterwards.
- Second **globalisation**: many regions throughout the Union have an economic structure largely concentrated on sectors where competition from emerging economies is higher, particularly those regions with a high share of economic activity in textiles, clothing, and labour intensive trades. These are regions which need to engage in significant restructuring aimed at diversifying the economic structure into new, growing sectors, and modernising existing activities to move up the value chain.
- Third, **climate change**: it seems axiomatic that Europe will be increasingly confronted with the impact of climate change. This poses problems for regions that vary quite

considerably depending on the nature and dependence on certain sectors such as agriculture and tourism. There was speculation in the press last summer, for example, that Greece was becoming too hot to remain a summer holiday destination, while the problems of absence of snow in Europe's winter holiday resorts are well known. Linked to this are the challenges of energy provision and efficiency.

- Fourth, the sheer scale of **regional disparities in the enlarged Union**. It is important to recall our starting point in terms of regional disparities which remain very important. Despite impressive growth rates in the new Member States, and convergence on the part of many regions in EU15, there are still 70 regions with 123 million people with a GDP per head below 75% of the Community average. In addition, there are a number of regions (the majority of them among the most developed ones) which are losing ground: in 27 regions GDP per head declined in real terms between 2000 and 2004, and in another 24, growth was under 0.5% a year.
- Fifth, **the absence of territorial cohesion**: leading edge economic activities and talent are geographically concentrated in a few urban centres that are global players. This is creating opportunities, but also problems such as pollution, urban sprawl, congestion, and social segregation. At the same time, suburbanisation is a clear trend in the Union: in 90% of the urban agglomerations with more than 100,000 inhabitants, population in the suburbs grew more than in the core city. This is putting increasing pressure on the environment and causing decline of downtown areas.
- Sixth, **the need to continually upgrade skills**: regions will also have to cope with the skills needed to remain competitive in a global, knowledge-based economy. Variations in education levels are more pronounced between regions than between countries: in the less developed regions of the EU27 only 14% of population in working age had tertiary qualification in 2005 against 25% in the more developed regions.

The general conclusion that can be drawn from the preceding is that **the major challenges of the European Union require a regionally differentiated approach**, due to the very nature of the challenges themselves. Perhaps in particular, twentieth century growth based on cheap transport, based in turn on cheap oil, has contributed to a shrinking world when we measure it in terms of travel times. But expensive transport based on expensive oil could make the world 'bigger' again in the twenty-first century. While there are all kinds of adjustments that follow in the wake of these developments, one response is likely to be an increasing need to produce

more goods and services locally, closer to the final consumer. In other words, well-organised regional economies could become more important than ever.

But while this conclusion may seem obvious, once again, there is one thing about which I am absolutely certain about for the future which will, I believe, will be readily understood by those engaged in MERCOSUR negotiations: we will have an extremely complicated negotiation to persuade our member states to continue to support our regional aid and integration policy. Viewed from Latin America you may think that the European Union and its institutions represent a machine that effortlessly produces policy and legislation. However, behind this exterior there is much discussion, healthy discussion for the most part, where the added value of policies has to be demonstrated and where priorities are established and resources allocated only after often long reflection.

For regional aid policy, the demonstration of added value lies principally in showing results. Just like for the new FOCEM mechanism in MERCOSUR, the challenge is to absorb the resources that are available, to invest it in good projects that make a difference to people's lives, and last but by no means least, to communicate those results. I say that against the background of a generally recognised underperformance in Europe in communication. It is true in the European Union that a large number of our citizens, do not really know what has being done for them under regional aid and integration policy, although, I am happy to say that the situation is improving. This is something to which MERCOSUR will have to pay particular attention in the interest of ensuring a political consensus behind the project.

### **Concluding remarks**

As we in the regional aid policy department of the Commission prepare for this inevitably difficult debate on the future with the other institutions, it is somewhat ironic that at the same time we find that there is more interest than ever in the policy outside the European Union and much interest in learning more about how it works. At the present time, we have formal agreements with China, Russia and Brazil on exchanges of experience and cooperation on how to run integration policies. In China, where growth is among the highest in the world, in double figures at least until the most recent past, prosperity is very highly concentrated on the Eastern coast. Most of the big cities and more prosperous urban areas are located there, while the vast interior of the country remains relatively much less developed, giving rise to challenges such as rural-urban migration. Likewise in Russia, much of the wealth is

concentrated in a few regions and there is a problem of asymmetries in Russia that the authorities wish to deal with more effectively, including moves towards a greater decentralisation of political responsibilities to the regions. Likewise in Brazil, a vast territory some twice the size of the European Union, there are many challenges of asymmetric development as well as cross-border development issues. These cooperation agreements will contribute much to our mutual understanding on important issues for the well-being of our citizens.

But one of the principal reasons for my presence here in Asuncion is that we have understood in the Commission that there is an interest in Paraguay in discussing integration issues in more depth. This concerns both the supranational dimension – MERCOSUR and the FOCEM mechanism – and the national dimension as regards the asymmetries within Paraguay and how they can be addressed. We are very much willing to discuss these issues with as you put your new government in place in Paraguay. It is for this reason that while this is my first visit to Asuncion, I sincerely hope that it will not be my last.

Thank you for your attention.