

**José Manuel Barroso**

President of the European Commission

**"The EU in the global economy:  
perspectives and challenges"**

Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Brussels Economic Forum

**Brussels, 31 May 2007**

Ladies and gentlemen,

Thank you, Klaus Regling, for your kind words. I'd also like to congratulate you and Commissioner Almunia for inviting me to address this 8th Brussels Economic Forum - in a year that marks the 50th anniversary of the Treaty of Rome.

Earlier this year, European leaders celebrated this anniversary with a declaration in Berlin. We have reaffirmed their commitment to a project that has paved the way for peace and prosperity in Europe.

And we believe that economic integration is central to this European success story.

A gradual elimination of economic barriers over the last half-century, and the adoption of a common currency, have helped to raise living standards, ensure a fairer deal for consumers, create new opportunities for investors and foster closer economic and political ties among Member States. As the Berlin Declaration says, "the common market and the euro make us strong".

This is particularly true in today's increasingly integrated global economy. Globalisation is bringing new economic and social challenges.

Implementing our framework for macroeconomic stability and our structural reform agenda is essential to deal with these challenges. The renewed economic vigour in the EU offers an excellent window of opportunity for Member States to accelerate their reform efforts.

Over the past year, the EU's economic recovery has gone from strength to strength. Real GDP in the EU grew by some 3% last year – its fastest growth rate since 2000.

Employment growth in the EU accelerated to around 1.6% in 2006, creating close to 3.4 million new jobs. Between 2006 and 2008, 9 million new jobs are forecasted. Inflation remained around 2% in 2006 but it came down towards the end of the year as energy prices eased.

This positive growth performance partly reflects the current cyclical upturn, of course. But it also suggests that structural reforms are beginning to bear fruit. The fact that in the European Union we offered Member States a common framework for those reforms – through the renewed Lisbon Strategy for Growth and Jobs - is certainly helping this progress towards an improved economic situation in Europe.

The employment effect of recent growth has been particularly intense. By February 2007, the unemployment rate had dropped to 7.4%, its lowest level in 15 years. Labour productivity growth in the EU averaged 1.2% in 2006, compared with an annual average rate of 0.6% between 2001 and 2005. As I said, much of the recent increase is no doubt cyclical in nature. Yet, taking a longer-term perspective, we have seen real structural gains in the labour and product markets, and the long-term decline in trend productivity seems to have come to a halt.

Overall, these developments confirm that the Commission was right to send clear signals in favour of reform, and the urgent need to adjust to a more competitive environment. They also confirm that Member States are now being rewarded for their structural reform efforts.

Over the past two decades, the economic environment has undergone a fundamental transformation. The integration of China, India, Russia and other developing or emerging countries into the world economy is bringing new economic and social challenges. Today, China, India and Russia are – in purchasing power parity terms – among the six largest economies in the world together with the EU, the US and Japan.

This makes some people uncomfortable. But I believe globalisation presents huge opportunities for EU economies.

Firms in the EU now have direct access to new and expanding markets, where purchasing power is increasing rapidly and consumption needs are expanding. Consumers in the EU benefit from cheaper and more diverse goods and services through imports.

But globalisation also involves important challenges for European economies.

First, the emergence of India as a global power in services production and the consolidation of China as a manufacturing powerhouse means adapting to new and formidable global competition. This can be done only by shifting production and trade structures in the EU into new areas of comparative advantage and by moving up the value-added chain.

Second, in particular for unskilled labour, the unprecedented growth of the global labour pool might adversely affect incomes and employment, as a result of production relocation and competitive imports. This means investing in our labour force to give them the skills they need to keep up with technological change and innovation. It means shifting the EU further towards a knowledge-based, flexible economy. It means learning to benefit from, and not run away from, technological innovation.

Third, there is growing pressure on global resources and the environment. Protecting the environment is essential for the quality of life of current and future generations. The challenge is to combine this with continuing economic growth in a way which is sustainable over the long term.

Adapting to all these new challenges – and adapting fast – is essential. And the European Union has a key role to play in this.

The framework and policies of the EU are very powerful tools, not just for responding to the economic challenges of globalisation, but for shaping it, according to our own European interests and values.

First, the Single Market offers European companies unrestricted access to nearly half a billion citizens of the European Union. EU internal competition enables companies in Europe to achieve economies of scale and makes them fit to compete in global markets.

Second, as a complement to the Single Market, the single currency acts as an anchor of economic stability and shields us against external shocks and financial turbulence. Supported by the euro area's weight in the global economy, the euro has emerged as the second most important international currency behind the US dollar.

The single currency is now widely used as an anchor or reference currency in foreign exchange arrangements, and as an official reserve currency. Strengthening the external dimension of the euro will bring benefits not only to the euro area, but to the EU as a whole.

Third, Economic and Monetary Union – which is the most advanced stage of integration to date – has encouraged sound macroeconomic policies within the EU. Since the euro was launched in 1999, EMU has delivered a high degree of macroeconomic stability, and promoted closer trade and investment ties and deeper financial-market integration in the euro area.

The figures are clear: in the early 1990s, some euro area countries were still suffering from double-digit inflation. Today, inflation is around 2%. The average budget deficit was nearly 6% - in some countries, close to 10%. Today the average is 1.6%, and for 2007 as a whole, we forecast an average deficit of around 1%.

These and other benefits represent strong incentives for countries to sign up to the euro.

But that is not the full story. As emphasised by EU leaders at this year's Spring European Council, the Lisbon economic reform agenda is critical for boosting growth and jobs in all 27 EU Member States.

The relaunched Lisbon Strategy for Growth and Jobs is a step towards major economic adjustment, and establishes a far-reaching programme of reforms. It aims to tackle the broader structural weaknesses of the EU economy by its sharp focus on boosting productivity and raising employment rates. The strategy promotes innovation and investment in human capital, both of which are essential components for a knowledge-based economy.

Today, two years after the re-launch of the Lisbon Strategy, my impression is that it has indeed added momentum to Europe's reform process.

This process, it's true, has not yet received the credit it deserves. In reality, EU Member States have undertaken wide-ranging reforms in recent years. Reforms have covered some of the most difficult and politically sensitive topics such as the labour market, the welfare state - including pension systems, the liberalisation and deregulation of sheltered markets, and measures to integrate financial markets.

These reforms are intended to strike the right balance between security and flexibility of employment – or 'flexicurity' – which has already proved such a successful formula for reducing unemployment in several Member States. I really believe it is important to recognise this progress. It is true that not all Member States are making progress at the same rate. But there is now no leader of a Member State of the European Union who can continue a discourse against the reform process.

In addition, our Structural Funds – which encourage economic and social cohesion in the European Union – indirectly help address some of the globalisation challenges. By focusing on bridging the gap between more and less developed regions, and generating new opportunities for economically hit areas, the structural funds promote the successful integration of European regions into the global economy.

And to complement this, the EU is also providing assistance for adjustment through its European Globalisation Fund. The Fund acts as a useful shock absorber to the powerful motor of globalisation. Not to protect uncompetitive jobs, but to protect people - by giving them the help and training they need to get back on the job ladder.

But despite the clear progress made so far, there is still huge scope for improvement.

To this end – and as we are approaching the 10th anniversary of the euro – we are launching an ambitious programme of studies, under the leadership of Commissioner Almunia, to further our knowledge on how EMU has performed, and to propose concrete measures to make it work even better in the future.

We are also currently subjecting the Single Market to a thorough review.

We need greater integration of financial markets, as well as a genuine single market for innovation. Other important areas include enhancing competition in services, increasing incentives to work in the welfare system and making labour markets even more adaptable.

The bottom line is to avoid complacency, and to take advantage of the current good economic situation to accelerate, rather than slow down, the pace of structural reforms.

But many of the challenges today are global in nature and therefore require global solutions. It is important that we in Europe also focus on the responsibilities that globalisation brings.

I think these two things go together. It is impossible to have global solutions with closed minds. We cannot have a protectionist Europe. You cannot be in favour of globalisation and against European integration.

EMU and the euro are already delivering macroeconomic stability worldwide, and Europe is fostering closer macroeconomic and regulatory cooperation with new partners as well as with existing ones.

As the world's biggest trader, the EU is also a leading player in efforts to liberalise world trade.

In this respect, a successful conclusion of the Doha round of trade talks is crucial. Open markets benefit Europeans and European business; not only industry and services, but also agriculture – Europe is now a net exporter of agricultural produce to the US.

A multilateral trade round is the best way to support businesses with complex supply chains operating in many countries. It is the best way to support the poorest countries. It is the best way to ensure that China continues to develop as an economic giant within a rules-based, multilateral economic system.

So at the G8 Summit at Heiligendamm next week, I will urge G8 leaders to send three clear signals:

- of the potential benefits of an ambitious and balanced Doha deal;
- of the need for urgency. We have weeks, not months; and
- of the need for everyone to contribute.

Let me be clear. If this is a negotiation in which Europe pays and others do not, there will be no Doha deal.

Europe has put its cards on the table. We are offering substantial cuts in our agricultural and non-agricultural tariffs, and in our farm subsidies. Others have to offer real cuts as well. Real cuts for real cuts. The prize, a Doha deal, is worth going the extra mile. That is my message to the G8. That is what we need in the coming weeks from our main partners.

But there are other global responsibilities. We are also at the forefront of international efforts to promote sustainable development. Energy policy and climate protection have become key objectives, and we intend to make important contributions to both. Let me touch on these briefly.

At their recent Spring meeting, the EU has agreed on an outline for a new "Energy Policy for Europe". Its objectives are:

- to increase the security of energy supply;
- to ensure the competitiveness of European economies and the availability of affordable energy; and
- to promote environmental sustainability and combat climate change.

But we all know that bold political declarations are not enough. Therefore, EU leaders also adopted a comprehensive Energy Action Plan, which fixes ambitious, but achievable, targets. The main ones include improving energy efficiency by 20% by 2020, and increasing the share of renewable energies in overall EU energy consumption to 20% by 2020 as well.

Sustainable energy policies are not just a European problem. Therefore, in 2007 the European Commission will propose a new international agreement on energy efficiency.

On climate change, agreement was reached at European Union level an agreement to reduce EU greenhouse gas emissions by 20% in 2020 compared to 1990. In addition, we have made it clear that we will go further, cutting emissions by 30% by 2020, if other developed countries join us.

The G8 Summit is an important stepping stone on the way to achieving this global response. The EU will be looking for a strong signal from our G8 partners which could be the key that unlocks further progress later in the year.

Ladies and gentlemen,

Let me conclude. Nowhere is the old proverb "there is strength in unity" more true than when building a competitive economy for the global market. The framework and policies of the European Union are critical in responding to the challenges of globalisation.

I am sure that the next two days of the Brussels Economic Forum will contribute to a better understanding of these challenges and of Europe's role in resolving them. I therefore wish you every success and thank you for your attention.