Europe in a Globalized World

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I. What is Europe in a Globalized World?

II. Projections of Demographic Change and Economic Growth of Europe in the World Economy

III. Within the EU: Divergence High Time

IV. European Countries' Record in Catching Up to the US

V. Europe's Future Assets in a Globalized World

VI. Conclusions: Tasks Ahead for Europe

I. What is Europe in a Globalized World?

1. A rule-making and rule-enforcing institutional entity for economic and social affairs? Yes, partly
2. The home of European companies subject to European company law? Except for very few, not yet. Companies are under national law and global or national actors
3. An homogenous economic region? No, with ongoing integration widening toward Eastern European countries, heterogeneity will rise (In 2007, after the Bulgarian entry, disparities in per capita PPP GNI will be at the NAFTA level (US vs. Mexico)

What is Europe in a Globalized World? (2)

4. An optimum currency area in which member states are subject to symmetric shocks? No, but it shares this destiny with the US.
5. A true free trade area? Not like the US. Service trade, for instance, is still nationally segmented because of different rules for treatment of local vs foreign workers within Europe.
6. A single voice in negotiating with non-Europe? No, not even the Euro Zone or EU speaks always with one voice (see national memberships in the IMF, G-8, World Bank, UN). The WTO seat of the EU is the exception.
7. An attractive host for foreign risk capital? Yes, but not as much as the US. Markets for long-term securitized capital, for instance, are still fragmented in Europe. Success in capital market integration is larger in short-term than long-term capital. Transaction costs for cross-border capital movements in retail banking are still high.

II. Projections of Demographic Change and Economic Growth of Europe in the World Economy

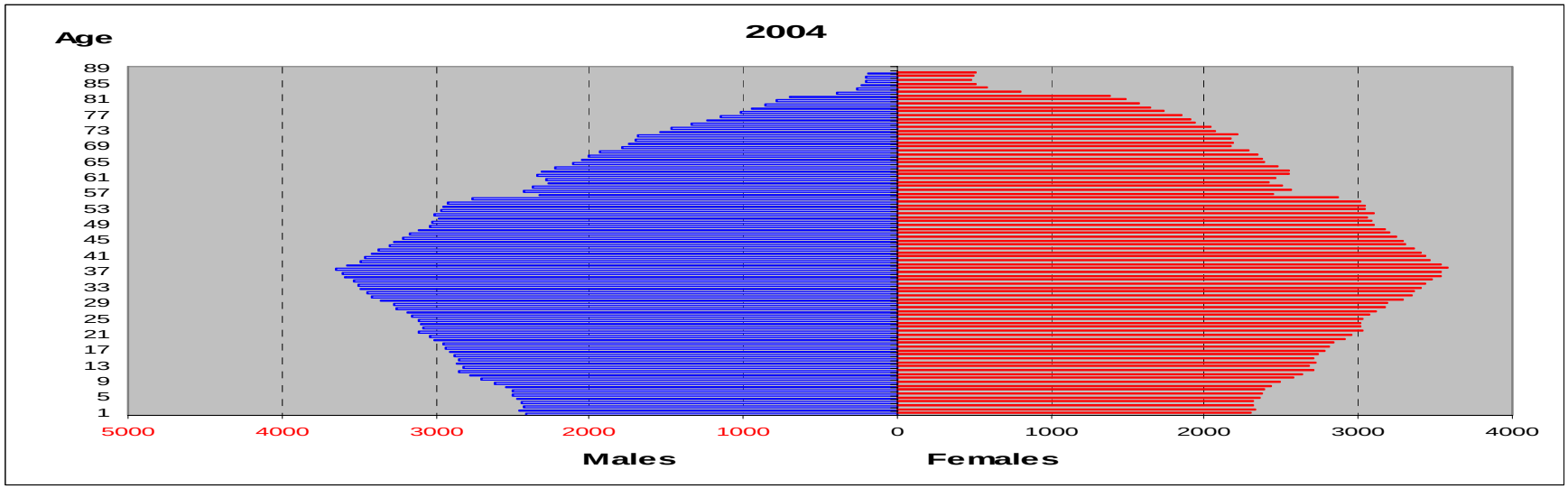
Underlying assumptions of baseline Eurostat population projection

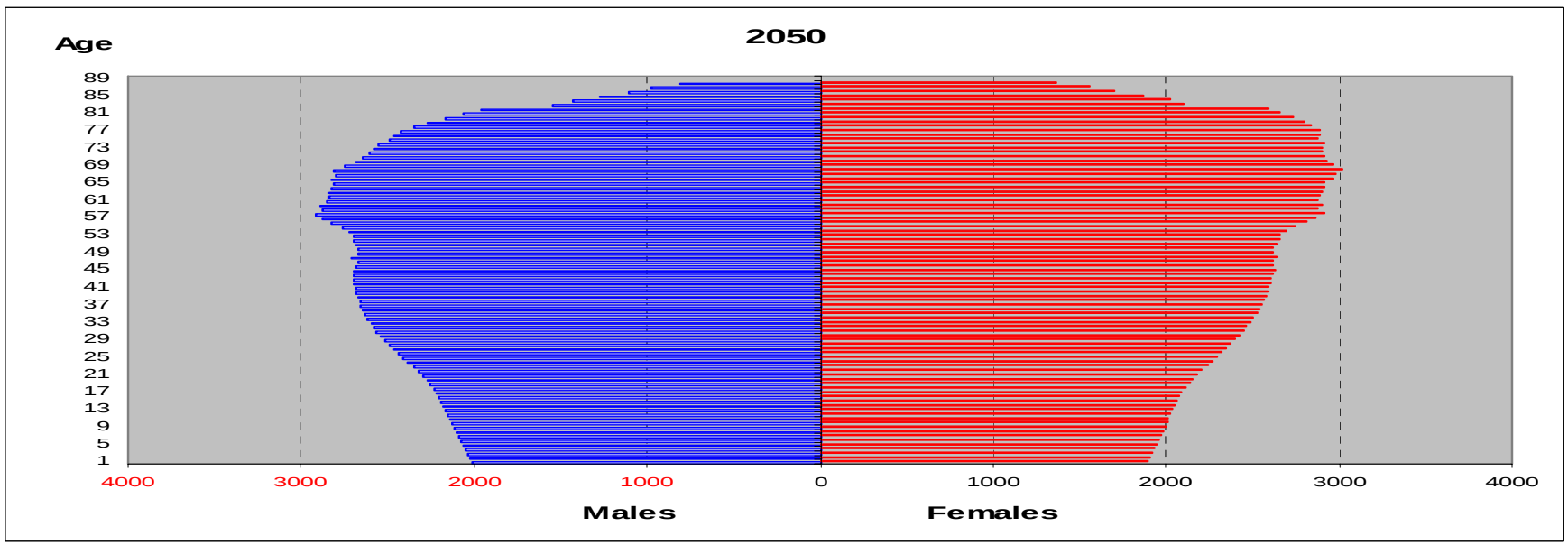
	EU-15		EU-10	
	2004	***2050***	***2004***	***2050***
Fertility rate	1.6	1.7	1.3	1.6
Life expectancy at birth				
- male	76	82	70.3	78.3
- female	81.7	86.7	78.4	84
Migration (per year)				
- thousands	1467	721	-3	101
- as % of total pop.	0.4	0.2	0	0.2

Source: Eurostat (2005) baseline EUROPOP2004

Changing age-structure of the EU25 population

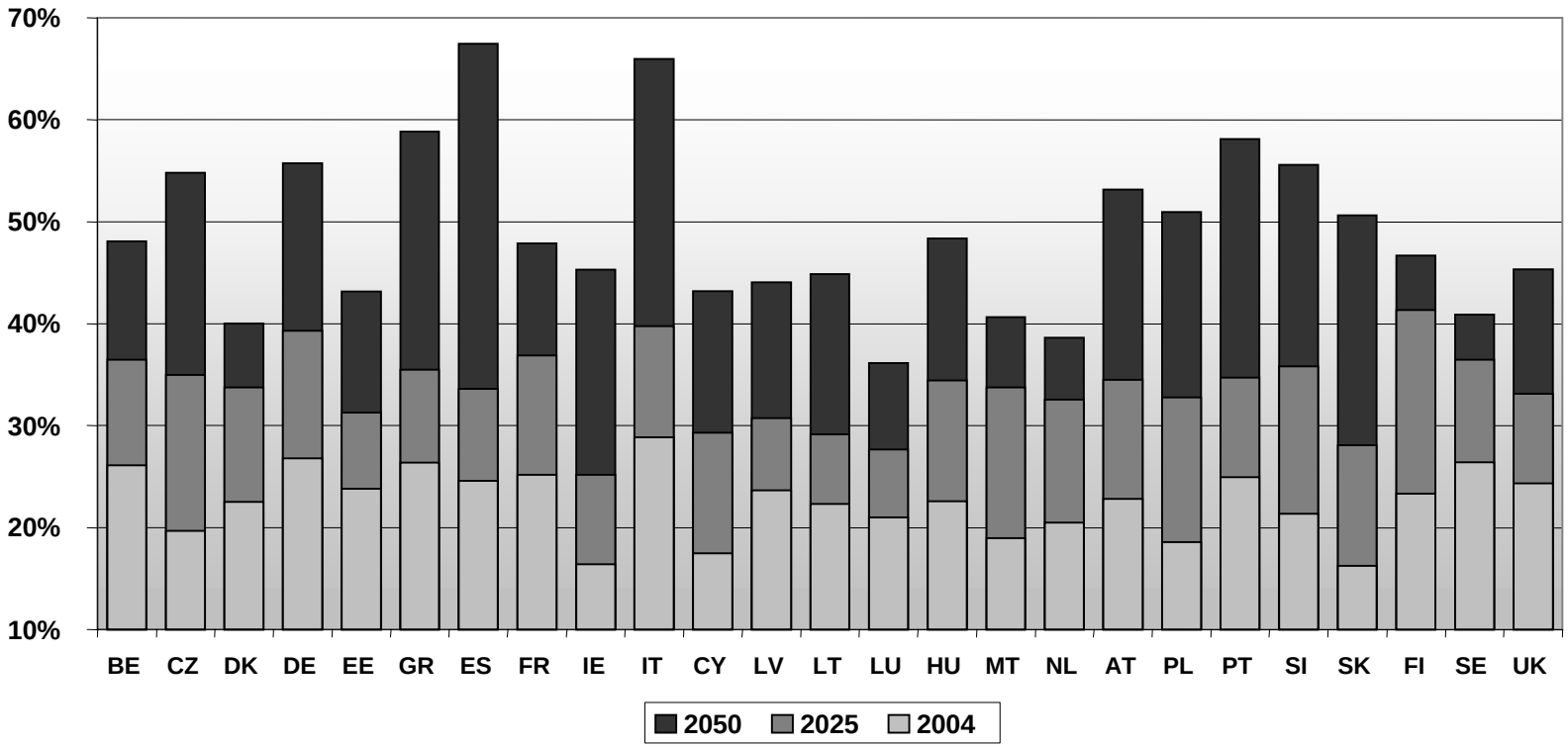
thousands of persons





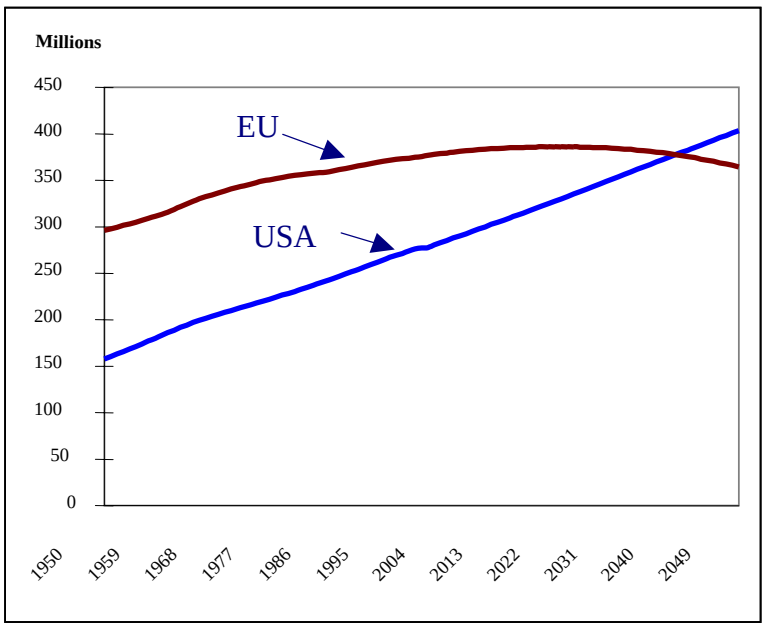
Old-age dependency ratio, 2004-50

population aged 65 and above as a percentage of population of working age (aged 15 to 64)

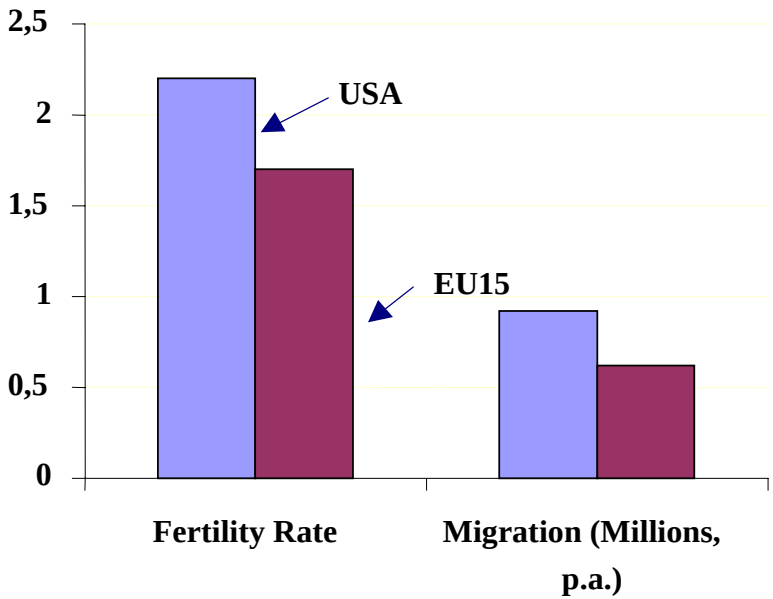


Contrasting trends between EU15 and US

Total population (1950-2050)

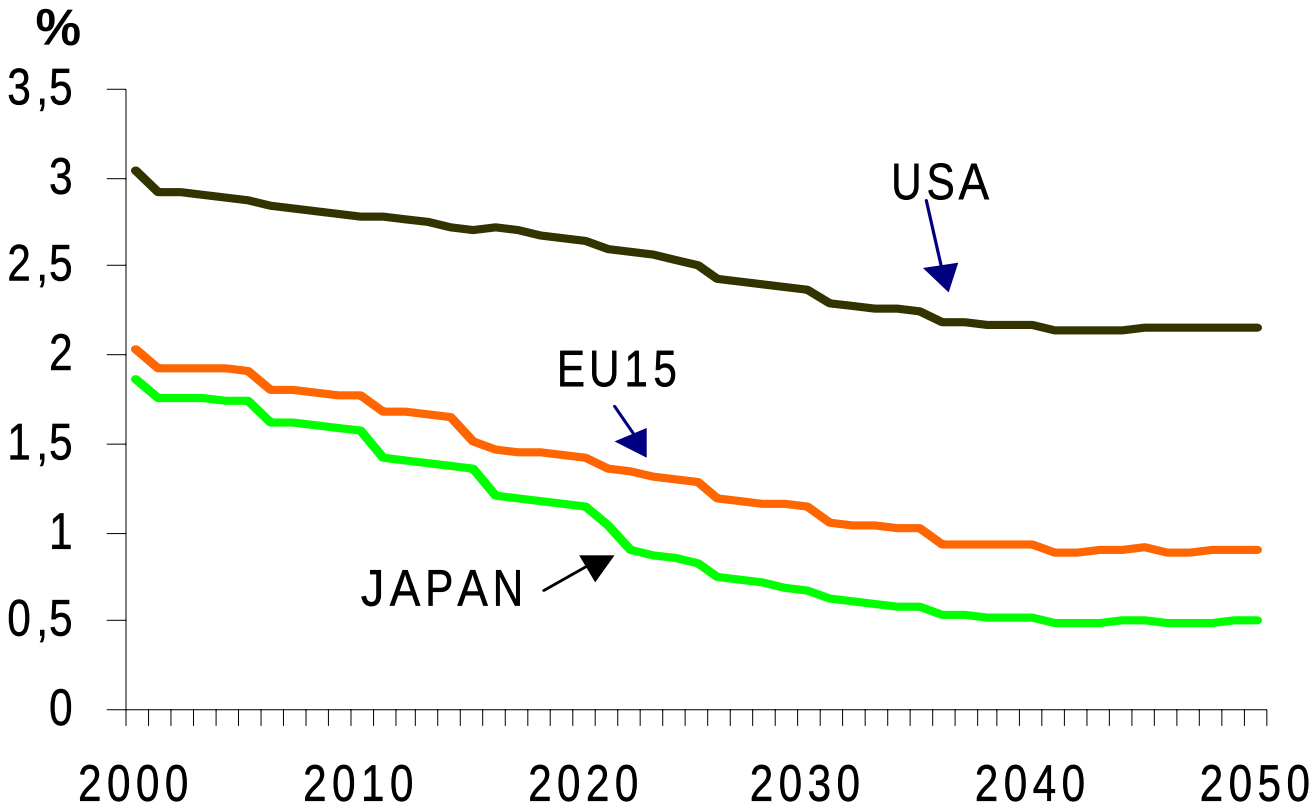


Average fertility rates + annual migration flows in millions, average 2000-2050

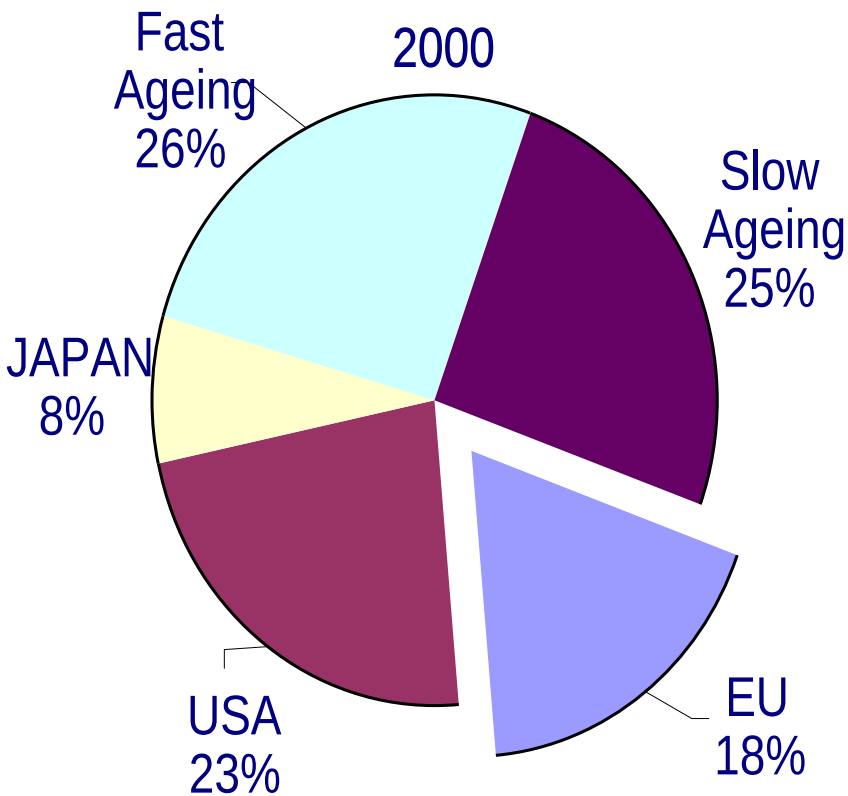


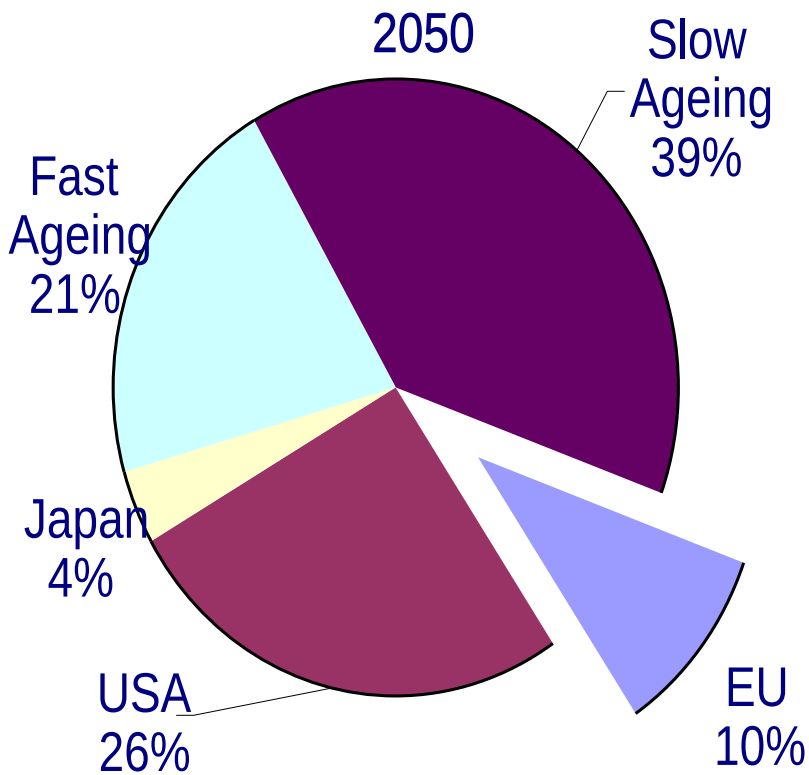
Source: Commission services and US Census Bureau

Potential GDP growth in EU15, US and Japan, 2000-2050

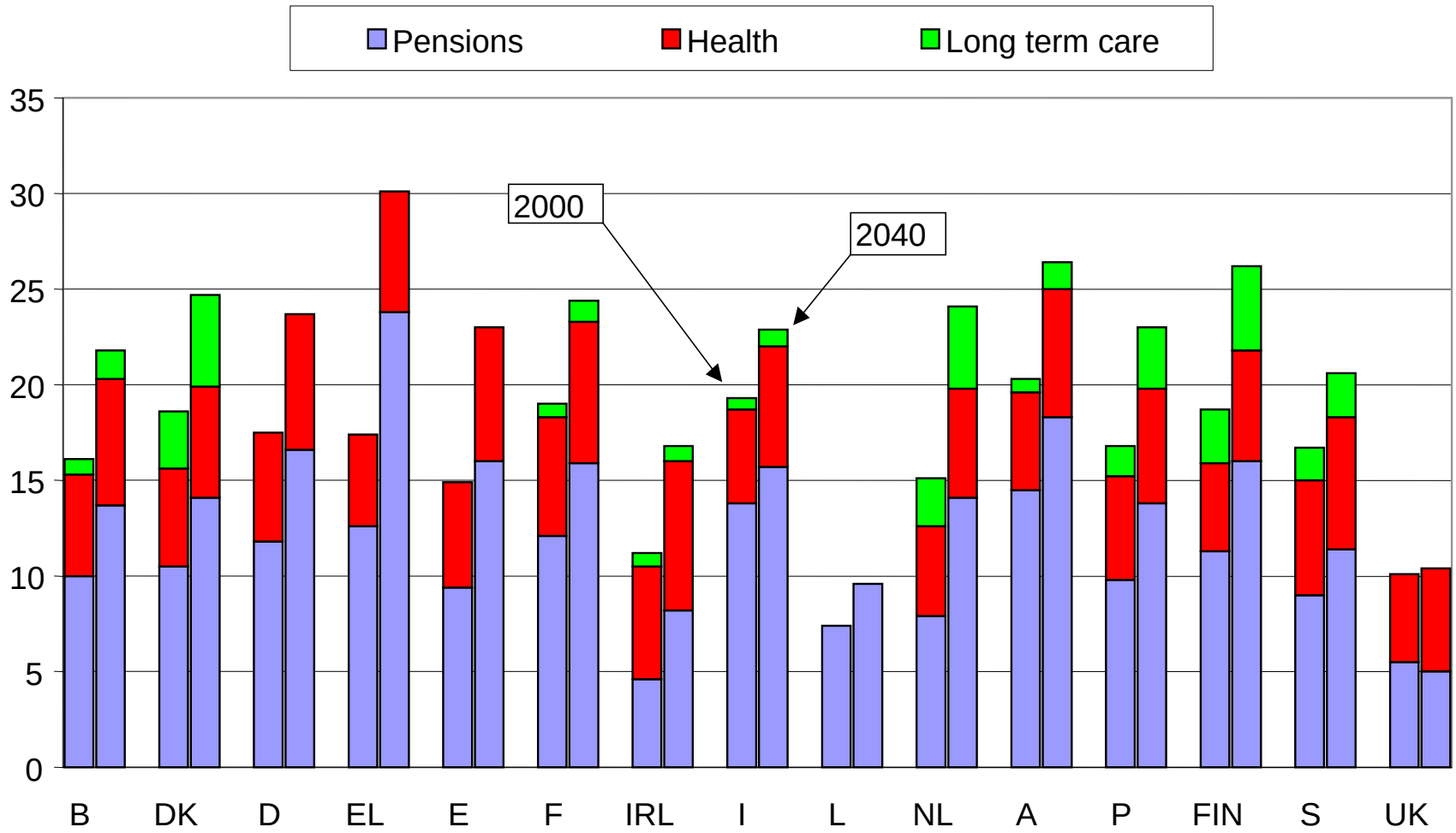


Global output distribution, 2000 & 2050





Age-related spending in the EU: 2000 and 2040



Conclusion:

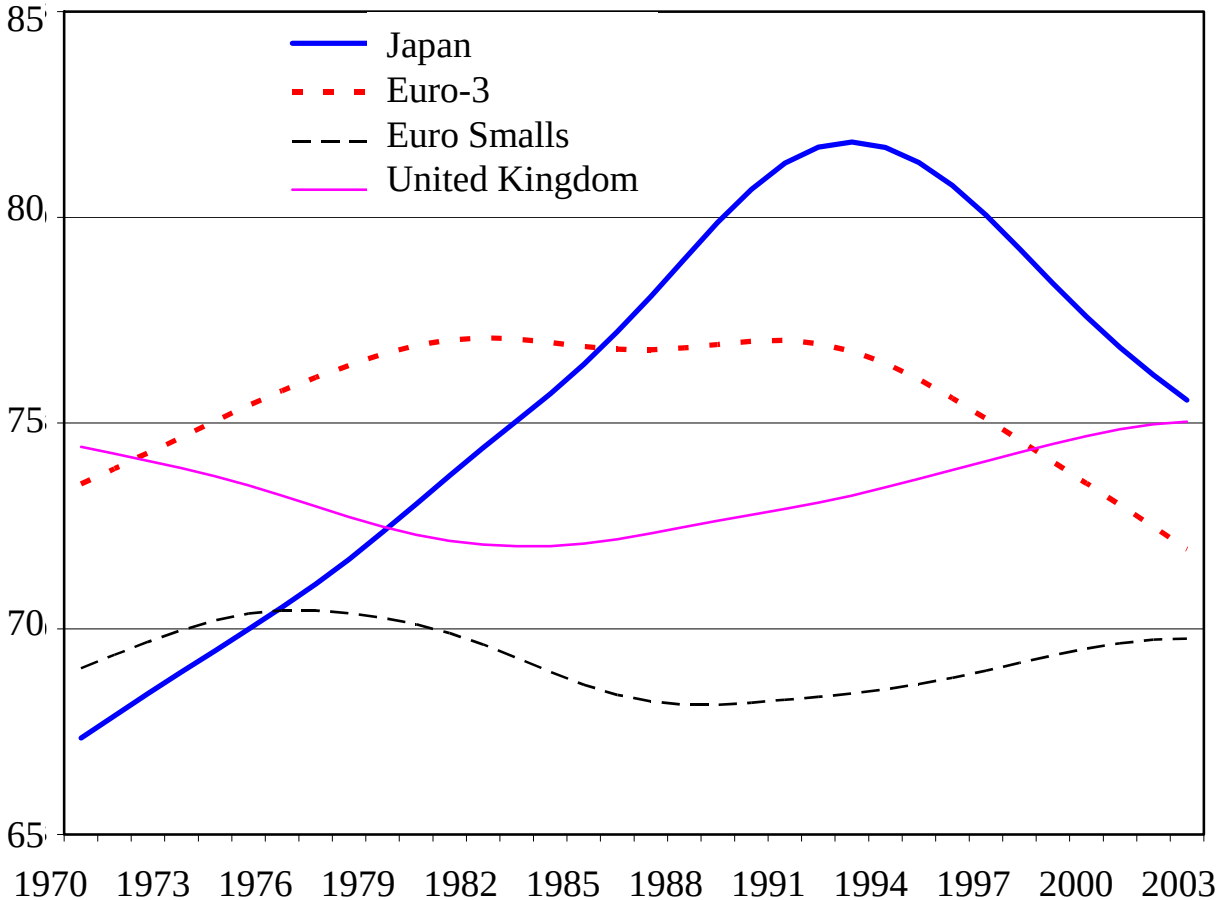
- Europe’s aging process will have profound effects on all its economic performance variables

III. Within the EU: Divergence High Time

In the large euro area countries per capita GDP relative to the U.S has receded

Trend indices, based on 2000 PPP's and 2000 prices[1]

Index US GDP per capita = 100

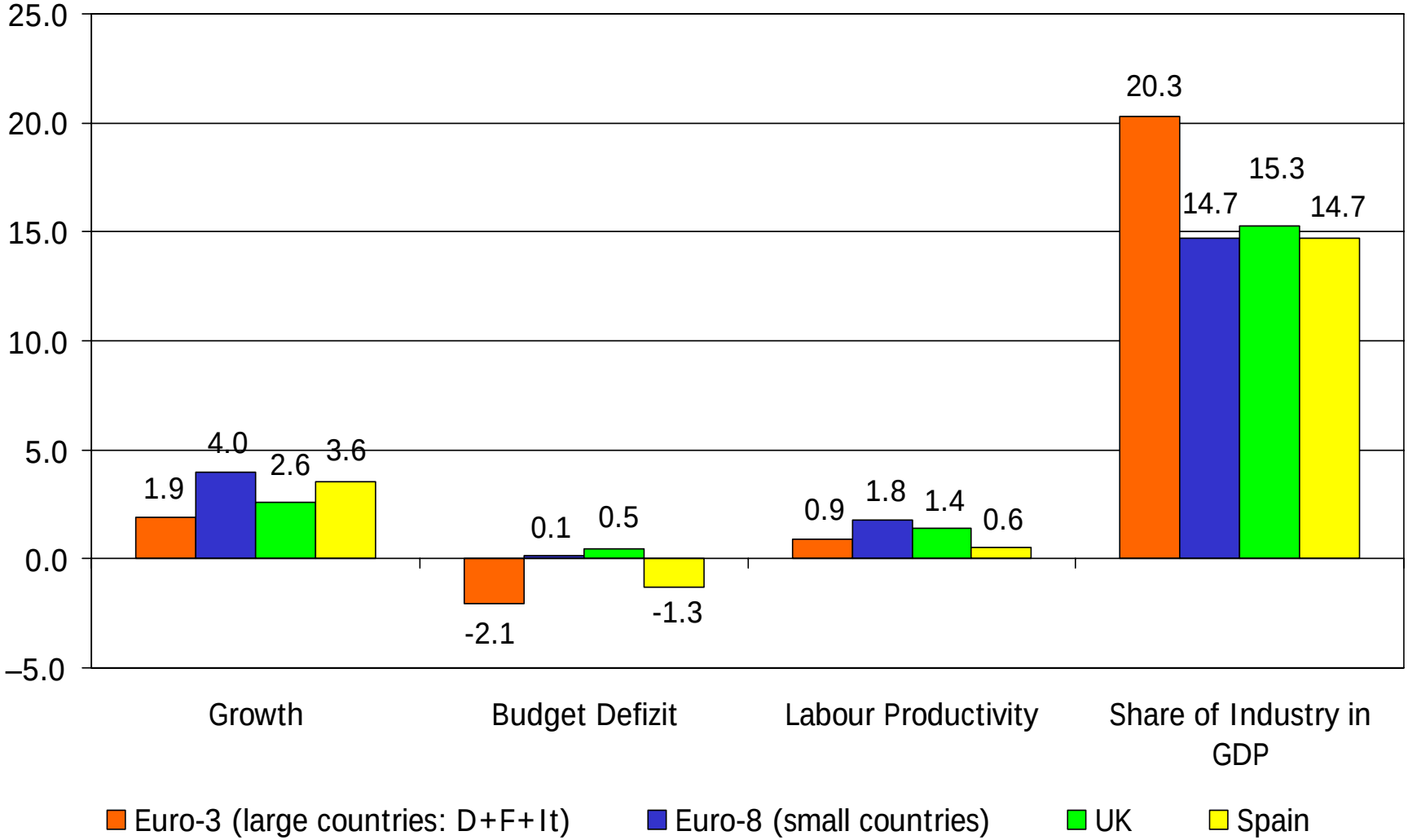


1. The trend is calculated using a Hodrick-Prescott-filter (smoothing parameter set to 100) over a period which includes projections through 2010.

Note: Euro-3 refers to Germany, France and Italy. Euro Smalls refers to Austria, Belgium, Finland, Greece, Ireland, Netherlands, Portugal and Spain.

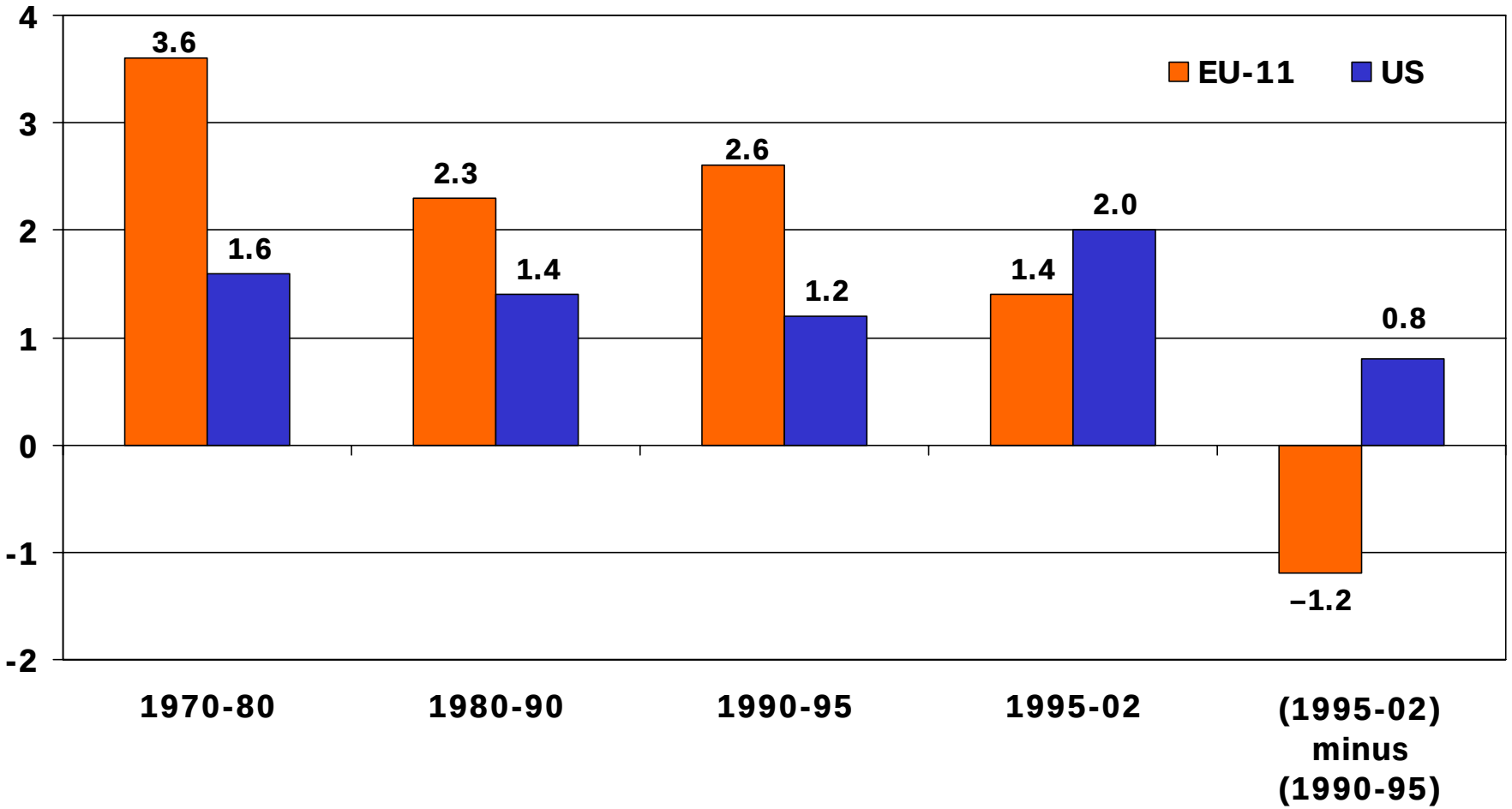
Source: OECD Annual National Accounts.

Small Beats Large (Average 1997-2002)

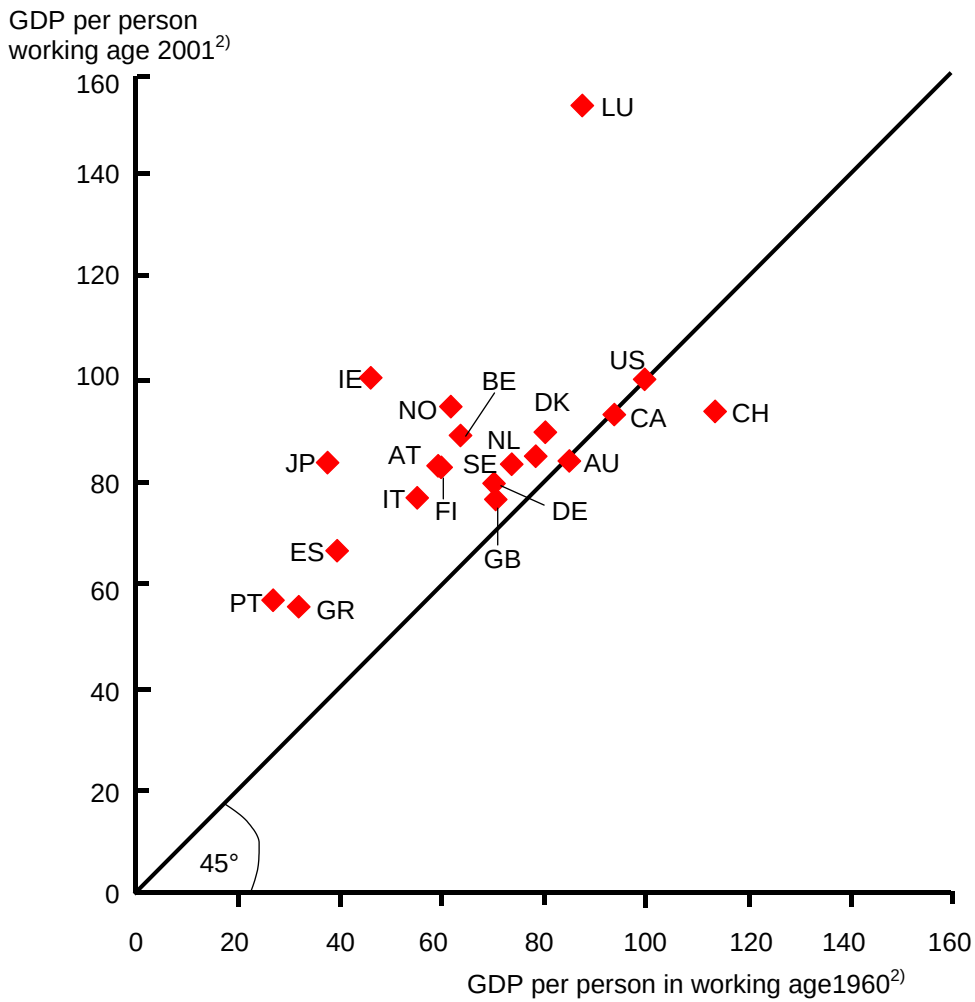


IV. European Countries' Record in Catching Up to the US

Growth of Labour Productivities (Growth of GDP per Working Hour) in EU and US



Income Convergence of Selected OECD Countries to the US in (1960 - 2001[1)] (USA = 100)

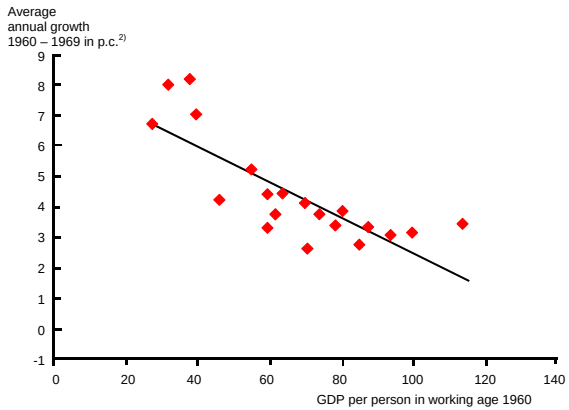


[1)]Selected countries:
Australia (AU), Belgium (BE), Denmark (DK), Germany (DE), Finland (FI), Greece (GR), Ireland (IL), Italy (IT), Japan (JP), Canada (CA), Luxembourg (LU), Netherlands (NL), Norway (NO), Austria (AT), Portugal (PT), Sweden (SE), Switzerland (CH), Spain (ES), United Kingdom(GB), United States (US).—
[2)] GDP per person in Working age (15-64 years) in PPP standards of 1995.

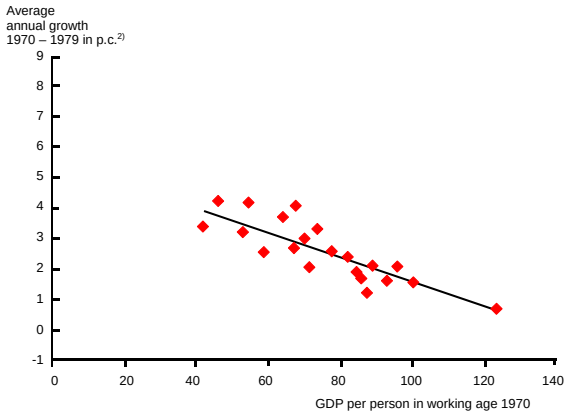
Source: OECD

Income Convergence Between Selected OECD Countries[1)] for different decades (US = 100)

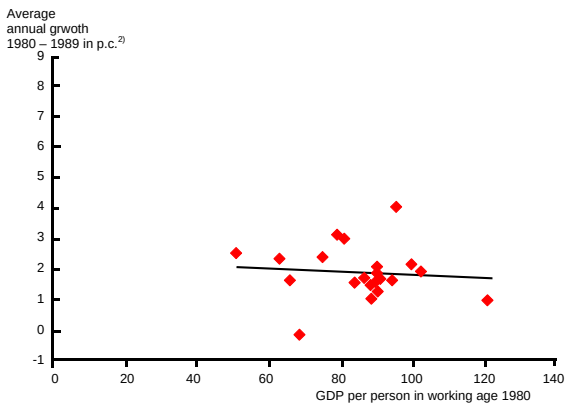
Convergence 1960 – 1969



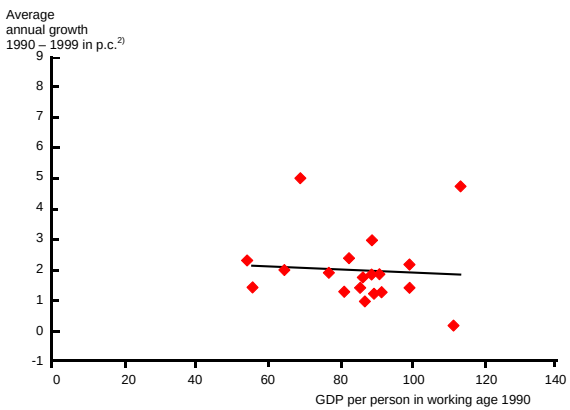
Convergence 1970 – 1979



Convergence 1980 – 1989



Convergence 1990 – 1999



[1)]Selected Countries: Australia, Belgium, Denmark, Germany, Finland, Greece, Ireland, Italy, Japan, Canada, Luxembourg, Netherlands, Norway, Austria, Portugal, Sweden, Switzerland, Spain, United Kingdom, USA.— [2)] GDP per Person in working age (15-64 years) in PPP standards.
Source: OECD

- Open question: Can we extrapolate this trend of declining speed of catching up and if so, what are the implications?

V. Europe's Future Assets in a Globalized World

1. Lack of volatility (see low impact of the 1997 Asian crisis upon Europe)
2. With cross-border political and economic problems ("cross-country externalities") on the rise, it is only Europe which can offer comprehensive blueprints for regional <u>cooperation</u> (not only regional integration!)
3. Europe will be the first region in which strategies for coping with the challenges of an aging society will be developed. This is a first-mover advantage.

Europe's Future Assets in a Globalized World (2)

4. Intra-European wealth and income inequalities will not reach the critical level beyond that social insta-bility could be triggered. Redistribution instruments are well developed. Excessive redistribution will be redressed.
5. Resource-saving and energy-saving technologies will find a more promising location in Europe than elsewhere.
6. Declining population growth and aging will induce European governments to see the inflow of migrants more as a chance than as a risk.
7. Europe will perceive the PISA shock as a timely wake-up call.

VI. Conclusion: Tasks Ahead for Europe

1. Europe will not match the US advantage of a balanced approach to economic and political integration but should try to minimize further imbalances between the two.
2. Europe will have to tackle the US leading role as the major source of new knowledge.
3. European policies toward third countries should be much more driven by its interests in augmenting the revenues from its capital invested in non-European countries than from its home bias to protect production inside Europe.