

The World Economy Faces the Challenges of the Twenty-First Century

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If nothing is done, the sluggishness of the factors that determine economic growth will inevitably lead to a decline in the relative importance of Europe within the world economy. On that sense, in 2002, the French International Relations Institute began a forecasting exercise on behalf of the European Commission. Five scenarios were worked on, one of which, entitled «Chronicle of a Decline Foreseen», was based on the sluggishness of economic growth.¹ In this scenario, by 2050, the centre of gravity of the world economy will have shifted toward the Asia-Pacific region: «Large China» accounts for almost a quarter of worldwide GDP and Asia a little less than a half, representing a return to the state of affairs that was dominant in the early nineteenth century. If this evolution does in fact occur, the enlargement of the EU will be insufficient to guarantee parity with the United States. As globalisation continues, so the EU will become less and less important. From its twenty-two percent of worldwide GDP in 2000, Europe will drop to eighteen percent by 2020 and to twelve percent by 2050.

Over the same period, the figures for NAFTA² will drop from twenty-four percent in 2000 to twenty-three percent by 2050. These differences can be explained over the long term by two key factors that correspond to the most important determinants of long-term economic growth, namely the active population and technological progress (or labour productivity):

- The European population³ is stagnating. If nothing is done, the active population in Europe will drop from 331 million in the year 2000 to 243 million by 2050, whereas it will rise from 269 million to 355 million within the NAFTA countries. The average fertility rate - the number of children per woman - is 1.4 in Europe, while the population renewal rate stands at 2. The accession of new countries to the EU will do nothing to change this long-term trend. Only the accession of Turkey could «balance» the picture, but under no circumstances will it be able to compensate for the general slowing down within the EU. A return to a rate close to the renewal rate thus calls for policies that will encourage births,⁴ as well as solid policies on migration.
- Technological progress is at a virtual standstill. Despite its excellent results in the field of high techno-

logy, Europe, as a result of its lack of investment in research and development, is noticeably behind in comparison with the United States, and is allowing itself to be caught up by the emerging countries of Asia. Expenditure on R&D in the EU per head of population is half the figure of that in the United States or Japan. The impact on the number of researchers, of students studying for PhD qualifications, and of applications filed for patents is significant. In the end, it will be labour productivity that may be affected, as was noted in the period 1995 to 2000.

With the construction of Europe, population and technological progress are the great challenges to which the EU needs to respond in the twenty-first century. This calls for brave political decisions, if only to ensure that the «European social model» benefits from a rise in quality, a rise that is sufficient to meet the costs of increasingly burdensome social expenditure. In the end, if nothing is done to remedy demographic trends, the marked gap between the active population and the inactive population will become an unbearable burden on growth and balance in the economy.

However, as a complement to internal structural measures in Europe, an ac-

¹ The scenarios are structured on a solid macro-economic substrate derived from exogenous growth models. These theoretical models posit that the rate of natural growth in the economy (full employment of the factors of production) depends on the active population and on technological progress. In the continuation of the work of Arthur Okun (1962), the potential growth of an economy depends in the long-term on nothing more than the evolution that takes place in its most limited resource: the labour force.

² North American Free Trade Agreement.

³ People of working age (ILO-WB), between sixteen and sixty-four years old. (UN Statistics-World Population Prospect)

⁴ A Eurobarometer poll situated the «desirable number of children» at 2, whereas the average today stands at 1.4. There is therefore a margin for encouragement policies of between 1.4 and 2.

tive strategy on joint development with countries on the shores of the Mediterranean, and to a lesser extent the CIS, will make the emergence of a stable and dynamic Euro-Mediterranean pole possible.

In addition to the challenge of the accession of ten new countries from 2004, it is at its own peril that the EU ignores the risks of the growing imbalance between its domestic active population and the millions of new arrivals into the labour market from the Euro-Mediterranean arc that stretches from Istanbul to Marrakech.

A lack of determination in the implementation of imaginative policies with regard to Turkey, a country that aspires to join the EU, or the Arab countries on the shores of the Mediterranean, will do nothing except encourage the constant, and increasingly larger and uncontrollable, influx of immigrants, as well as the growth of extremist movements. In Europe, there is a risk that demagogic political currents will also exploit the fears of an aging electorate. A move in this direction would be counterproductive in at least two respects:

- It would stoke the prejudices held by many members of Europe's population, who wrongly associate Islam with Muslim fundamentalism. This discourages economic transfers from the north to the south. In this respect, the reinvestment in the South of the savings of residents in countries around the Mediterranean, who currently prefer to place them in offshore accounts, is another essential element of trust.
- It would shut the door on new waves of migration over and above the levels that we are seeing at the present time, while at the same time preventing a healthy awareness of the interdependent nature of the two regions of the world. The facts are simple enough: between today and

2050, the active population in the countries around the Mediterranean⁵ needs to be doubled, in order to number 280 million. If nothing is done to redress the demographic decline, over the same period the active population in the Europe of the twenty-five members, to which we can add Norway, Switzerland, Iceland, Bulgaria and Rumania, will fall by a third, settling at 243 million.

The EU has initiated a long-term partnership with Turkey, which if it finally leads to Turkey's membership, will have a noticeable effect on the demographic situation. At the same time, it is necessary to boost cooperation with the countries on Europe's eastern and southern borders, as highlighted by the «new neighbours» initiative, which was instigated by the European Commission in 2003.

A degree of audacity is undoubtedly required if the countries around the Mediterranean are to increase the average annual growth rate from 4.1 percent since 1980 to five or six percent, and the creation of around a hundred million jobs in the next twenty years will be essential to the stability of this region. Offering these jobs will make it possible to prevent the risks of the so-called «clash of civilisations», which at some point became the be-all and end-all of the geopolitical thinking of certain opinion leaders on both sides of the Atlantic.

Reaching such economic results is not beyond our grasp, indeed, far from it. Recent calculations show that if France were able to establish the same kind of relations with the three main countries of North Africa as exist between Japan and China, the gains in the average annual growth rate would be of the order of 0.75 percent for France and 0.6 percent for the Maghreb. Direct French investment would rise from 300 million to 1,300 million dollars per year.

Economic growth in the years 1980 to 2000 has essentially been due to the increase in the active population. In contrast, the apparent productivity of labour has remained weak, with an average annual growth rate of around only 1.2 percent, in contrast with 1.8 percent for Europe and 1.5 percent for NAFTA. In the decades to come, the demographic transition will be effective, in other words, the fertility rate will establish itself at around the generation renewal rate (2.2 children per woman), rather than maintain its current level of decline. There is, therefore, a «window of opportunity» around the Mediterranean, that specialists have termed the «demographic optimum». If the necessary investments and reforms are made, the apparent productivity of labour in the region could reach the rates that have established themselves in Asia, which vary between four percent in southern Asia and eight percent in China.

In combination with a demographic recovery in Europe, which would presuppose a return to confidence and a strategic partnership with Russia, such an evolution could enable the Euro-Mediterranean region to become a respectable presence in the world economy of the twenty-first century. This perspective further emphasises the pressing need for a dialogue between cultures and the fact that the logic of the so-called clash of civilisations, which strives to elevate itself to the status of a self-fulfilling prophecy, needs to be firmly countered.

Bibliography

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⁵ Excluding Algeria and Libya.