

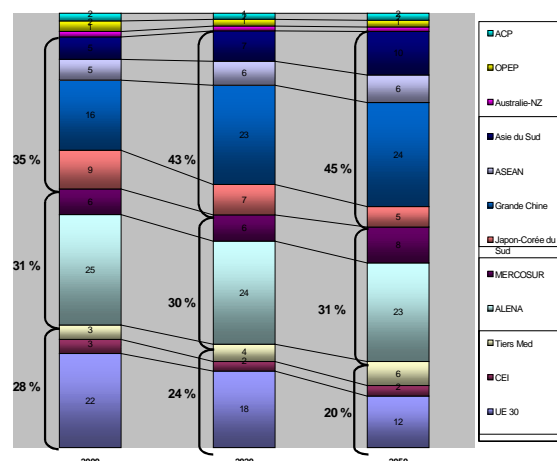
Two extreme scenarios can be constructed of Europe's place in 21st century world trade: either Europe allows current tendencies to follow their course and suffers a marked decline in economic power, and consequently its position in world trade; or it adopts a proactive strategy to reinvent itself as an economic and trading power and remains in the top flight of world powers.

The first scenario, entitled "Chronicle of a decline foretold" relies on a projection of broad trends in the working population, labour productivity and production which, based on assumptions of export and import elasticities in relation to GDP, enables an estimate of world trade in each region of the world.

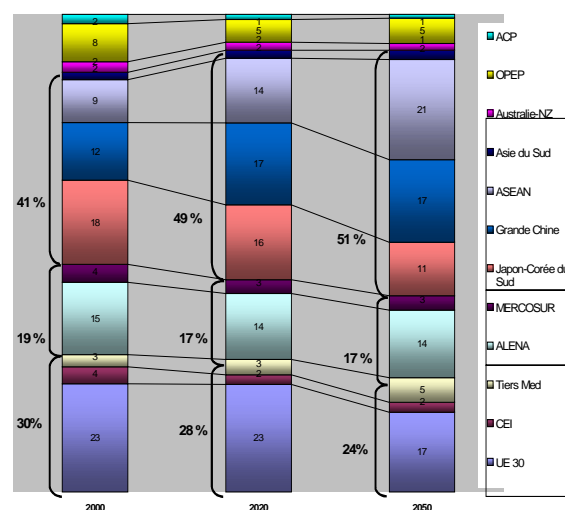
Under this scenario, by 2050 the centre of gravity of the world economy will have shifted to the Asia-Pacific region. In a return to the situation in the early 19th century, Greater China will account for almost one quarter of world GDP and Asia a little under half. The hierarchy of trading powers will have profoundly altered: ASEAN will become the number one export power thanks to the role of the Chinese diaspora in controlling and conducting most economic and trading activity in South-East Asia. The commercial importance of the EU of 30 will have declined sharply, putting it on a par with Greater China. The Japan-Korea region will see its position even further eroded, while NAFTA will retain its market share.

If this trend is confirmed, enlargement of the EU will not be enough to ensure its parity with the United States. The Union will have an ever-decreasing influence on the course of globalisation; its chapter in world history will draw to a slow but inexorable close.

**World GDP 2000 – 2050
Europe: chronicle of a decline foretold**



**Exports of goods 2000 – 2050
Europe: chronicle of a decline foretold**



The second scenario, entitled "European power reinvented" or "Europe Russia Mediterranean" is based on the assumption of the EU undertaking a major policy of "integrated development" with the countries of the Southern Mediterranean rim and Russia in a number of sectors (economic, technical, political). In this scenario, the EU will launch a huge programme of technical cooperation designed to improve the training of the local scientific and technical elite and tie them to their country of origin, in particular through a funding programme for local universities and research centres, professor and researcher exchanges and

financing for study trips to European universities.

The economic and social reforms in the CIS and Barcelona Process countries will help rebuild confidence and, in so doing, remobilise domestic saving. Output prospects are secured through predictable, stable economic policies, discussed regularly with EU multilateral bodies. Part of the financing requirement will be covered from European and world saving. The CIS (mainly Russia) and the Mediterranean countries will benefit from massive direct investment to help improve infrastructure and rationalise production.

The Mediterranean countries will benefit from the opportunity of an optimal demographic situation as regards the working population over the period 2000-2020. Russia will benefit from the modernisation of its infrastructure, helping it to found its development on an education and training system whose quality has never been in question, and on centres of excellence in advanced technologies and basic research.

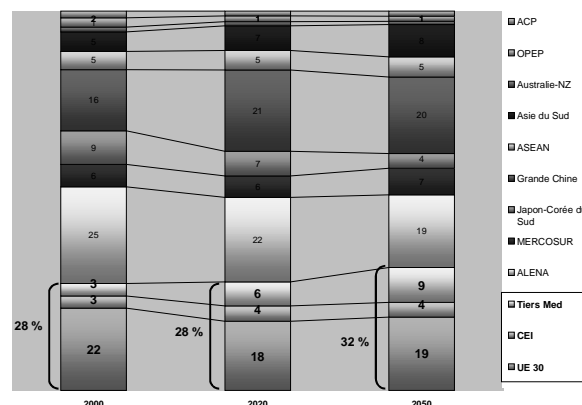
Meanwhile, the EU will pursue an active population policy and a more open immigration policy. The revitalisation of the European economy in this scenario depends solely on the growth of the working population, as the assumptions relating to labour productivity growth used in the first scenario are already very optimistic.

Over the period 2000-2020, a population surplus will result from a combination of a regulated immigration policy tailored to each Member State's situation and an active education policy. A total of no less than 30 million immigrants will enter Europe over the period. A pro-natalist policy will be implemented: the births per mother rate will be at or above replacement level. The renewed population growth will be reflected on the labour market over the period 2020-2050.

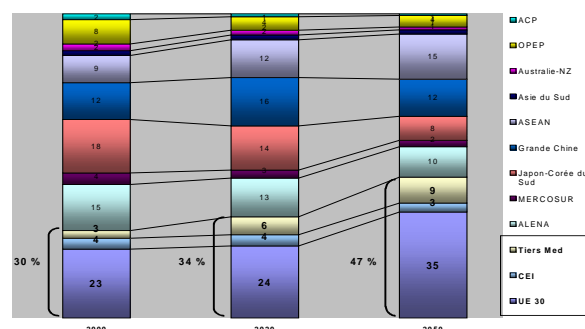
Under this scenario, the EU of 30 will be able to hold its own in the world economy: it will account for almost 20% of the world economy and be on an equal footing with NAFTA and Greater China. The

world will be divided into three poles: the "Europe, Russia, Mediterranean" bloc accounting for a third of the world economy, America one quarter and Asia a little under 40%. The hierarchy of trading powers will turn upside down (see figs). The EU of 30 will consolidate its position as number one world trading power, its exports accounting for almost 35% of total exports in 2050, far ahead of ASEAN (15%), Greater China (12%) and NAFTA (10%). The Japan-Korea region will be overtaken by the Mediterranean non-member countries (MNC). The Union will also rank first for international demand with approximately 30% of total imports, followed by NAFTA (22%) and the MNC (14%).

GDP 2000 –2050
Europe: a power reinvented



Exports of goods 2000 –2050
Europe: a power reinvented



21st century Europe will therefore face two major challenges:

- A risk of European disengagement vis-à-vis the US in the four key sectors of power (economic, technological, cultural and military), which will

inevitably lead to European decline in world trade and the quasi-imposition of specialisation through increased technological dependence. It will also lead to a reduction in Europe's capacity to defend or promote its collective preferences in an historical age when competitiveness will be more than ever dependent on the overall effectiveness of society and its capacity, as it were, to exist.

This relative decline will even occur in a Europe of 30 and will take place against a background of a shift in the centre of gravity of the world economy to the Asia-Pacific region, with China becoming the leading competitor of the US.

- The second challenge is of less direct concern but may cast a shadow on Europe's future: the disengagement of the developing from the developed regions. A number of regions are likely to experience a widening development gap to various extents (ACP states, MNC, enlarged Mercosur, OPEC, some Asian countries). This disengagement could give rise to troubles and international instability from which Europe, by virtue of its geographical proximity, is likely to suffer the most: population explosion (or implosion) in the countries where disengagement will result in increased poverty, mass migrations, retreat into religious or identity groups, xenophobia.

The same variables lie at the root of both disengagements – demographics and technical progress – but follow different patterns:

- Europe experiences an ever expanding technology gap and gradually enters a demographic winter threatening its economic vitality in the medium to long term;
- the countries of the South meanwhile possess an abundant labour force without the material means or human resources to train it, thus limiting their capacity to learn and absorb foreign technologies; this is at a time when the dissemination of technology at

international level is declining as a result of increasing privatisation of knowledge (software, life sciences).

Europe and the developing regions are confronted with a stark dilemma: the former will suffer from a shortage of labour, the latter from a shortage of capital and reduced access to technical progress.

Europe might consider an adjustment policy on Malthusian lines, designed to tilt its production mix in favour of capital to the detriment of labour in the short to medium term. But, in the long term, the two factors are not interchangeable, but complementary. Future industrial revolutions, notably "intelligent robotics", are sure to have a far-reaching impact on work, which will become increasingly intellectual and less and less manual. Notwithstanding, human labour, with its creativity and efficiency, will continue to drive growth.

The challenge facing Europe can be summed up as follows: the youth, education and research and development of today are the foundation of the economic growth and absolute and comparative advantages of tomorrow. Another key factor in the equation is security, either in its conventional meaning (public order and the management of external threats), or in a more general sense, which could be likened to the peace of mind inspired by confidence in the future and by the resilience and strength of the European project. It will be the accumulated knowledge, education, expertise and experience of the working population of tomorrow that will determine the form specialisation will take.

Absolute and comparative advantages must therefore be conceived dynamically, as advantages that have been acquired or gained.

This implies a long-term vision based on four key principles.

A demographic pillar: the need to reverse the European demographic trend

A new sort of policy mix will be needed to turn around the demographic trend in Europe: child policy and immigration policy.

Immigration is already on the policy agenda of the Member States and the Council of Ministers, but a European immigration policy worthy of the challenge has yet to be formulated.

How to regulate migration flows and integrate immigrants both economically and socio-culturally will be one of the major questions of the 21st century. From an economic viewpoint, their integration and contribution to European prosperity will depend largely on the ability of the European education system (schools and universities) to educate the newcomers. From a socio-cultural perspective, their integration will depend to an extent on the state of European demography. The most highly skilled human resources from the least developed regions (ACP, South Asia, MNC, Mercosur) will base their choice of host country on the vitality, creativity and dynamism of the European economy.

The question of immigration must therefore be linked to the more fundamental question of the vitality of Europe's demography.

Even if social issues of this nature are not the responsibility of the European institutions, in accordance with the principle of subsidiarity, the Commission could help ensure that they feature on the Member States' policy agendas.

But self-delusion is pointless: neither the expansion to 30 Member States, nor current immigration and asylum policies, nor the neo-Malthusian argument of adapting to ageing – e.g. in relation to pensioners – can provide a satisfactory response to the question. The lack of dialogue and critical analysis on this virtually taboo subject exposes this sphere of policy to xenophobic sentiment, ideological polemic and religious or sectarian attack.

A technological pillar: development of a European system of innovation

Our European scenarios were posited on optimistic assumptions of the labour productivity trend. A long term increase in labour productivity will be the result of a sustained effort in the areas of training and education, research and development, incentives for innovation and enterprise, on the one hand, and the development of a system for innovation based on coordination of the education, R&D and production systems, on the other.

Europe will have firstly to invest a substantial financial effort in order to stay in the technology race, let alone close the gap on the United States which is a distance ahead in most of the technologies which will determine the international division of labour in the 21st century (information technology, biotechnology, nanotechnology, etc.) The technology gap is widening in a number of fields (electronics, IT, telecommunications, software, biotechnology). Europe's progress in the lodging of patent applications is gradually being eroded, notably in the United States.

Secondly, Europe will have to improve the European system of innovation and attempt to dispel the "European paradox" in R&D: scientific excellence but weakness in innovation.

The European system of innovation consists of a combination of national innovation systems, each possessing their own history, institutional forms and scientific and technical specialisations. This diversity is an asset but much remains to be done to maximise synergies in the research and innovation sector. It presupposes in particular finding a fine balance between institutional convergence and national idiosyncrasies.

Improving coordination between the R&D system and the productive system requires a revision of the foundations of European industrial policy.

The history of economics shows that the Member States have often influenced their

productive system sustainably and carved out a national specialisation.

The United States, if only by virtue of its national defence policy, still indirectly affects their production structures today.

Europe cannot therefore afford to discount a proactive policy of organising the European production structure.

Openness does not depend on trade policy alone, however. Trade policy concerns the free movement of goods and services and optimising trade on the basis of comparative advantage; it is shaped in a given framework, notably in terms of productive resources; it often has a medium-term perspective. Industrial and innovation policy pave the way to the future; they contribute to the development of new absolute or comparative advantages; their perspective is long term and they are consequently dynamic by nature. They are more strategically oriented.

The relative inadequacies of European sectoral policies (Esprit programme, digital HDTV) should not however exclude the principle *per se* of a European industrial policy, which has otherwise proved its merits. Major projects might be envisaged in the high-tech industries, notably in life sciences; an extensive programme of research and development on "open source" software with a view to ensuring European software independence and the universality of certain computer products (alternative operating system, word-processor, spreadsheet, universal browser) requires careful study.

The real question is how to ensure the success of industrial policy.

At a more fundamental level, Europe needs to innovate in terms of public policy and not limit itself to a strategy of tit-for-tat in response to US initiatives. To recover the initiative, it must forge a forward-looking vision and a strategy incorporating in particular trade policy, industrial policy and competition policy.

This assumes a huge response capability by public authorities, notably in the competitive pre-research phase. The United States has already shown proof of

its speed of reaction in the technology race. For example, in order to close the gap on Europe (in particular, France) in the genome field, in the 90s it actively financed the Human Genome programme of deciphering the human genome and eventually overtook the Europeans.

The direction of industrial policy can sometimes clash with competition policy when a degree of concentration is required to take on the international competition. Large European businesses capable of competing with their American rivals may have to emerge. How this can be secured is yet to be decided.

The financing of the "demographic" and "technical progress" pillars will require substantial investment. Some budgetary adjustments will be necessary as new sources of expenditure become available: the budgets of the Member States will have to bear the financial burden of an ageing European population; social (pension) and health benefits will put even greater pressure on Member States' public finances, while the EU budget will have to finance enlargement and development in Eastern Europe.

An institutional pillar: the European market economy model

The European Union must also be able to set its own standards (intellectual property (European patent), commercial law, social, environmental, bioethical legislation). The most pressing matter is without doubt a doctrine on intellectual property rights. The establishment of these European standards requires greater institutional convergence as well political integration.

The first two pillars will enable Europe to be a leading power and to defend and promote the European institutional model on the international scene.

A strong Europe will also ensure a multipolar world based on a balance of powers and world governance based on law and multilateralism.

A trade policy pillar

A Europe-Russia-Mediterranean axis

A strong and politically integrated Europe will be in an even better position to contribute to the modernisation of the developing regions, particularly Russia and the countries of the Mediterranean. An enhanced strategic partnership with Russia and the Mediterranean in the areas of trade, culture, science, technology and education should be a priority.

To counter the disengagement of the developing regions, in particular their "exclusion" from the knowledge-based economy, Europe needs to guide world governance in two principal directions. Turkey is a key country in several respects.

Promoting an international open knowledge system

Two areas are now of major importance if an inadmissible North-South divide is to be avoided:

- Biotechnology: it is unacceptable that a few large bioindustrial firms should virtually appropriate part of the world genetic heritage. The genetic heritage should be elevated to global public property and its use for private purposes strictly circumscribed;

- Information technology and the Internet. Universal access to information products and to the Internet and a rich, free-access public domain should be another priority objective and give rise to the definition of a new global public good.

Towards a clear hierarchy of international laws

The international body responsible for trade matters has been given an ever larger mandate, leading it to increasing interest in what goes on behind borders. In the name of the right to trade freely, national legislation will be increasingly subject to WTO investigation in areas as diverse as environmental law, health law or consumer law, in time even labour law and social security. Countries will have to prove that their legislation is the least

restrictive possible on trade. With the extension to investment, to competition, to services and to public procurement, all legislation is now being seen through the prism of free trade. This leads us back to fundamental collective preferences. There is a real risk of trade law taking pre-eminence over fundamental rights. It is not the WTO's role to lay down social law, environmental law etc. This situation is all the more serious because contravention of WTO rules is punishable by economic reprisals.

The extension of the WTO's sphere of competence raises the question of consistency between international legal standards of different origin. The extension of prerogatives is likely to be to the detriment of the United Nations' standards agencies (UNESCO (education, science and culture), WHO (improving health conditions and access to care), ILO (labour standards), WIPO (intellectual property), UNEP (environment). Europe should strive to ensure compliance with the principle of speciality of international organisations and the precedence over trade standards of non-trade sources of legislation (health, social and environmental standards).

The essence of sovereignty can only find expression in a profound sense of belonging to a community of destinies among the people of Europe. This requires frontiers, a credible common defence, sound institutions, clear collective preferences, a single currency, industries, creativity. The Union's foreign trade policy can help mightily towards lighting the way. In the long term, only the Union's internal dynamic will enable it to survive in a world where nothing can ever be taken for granted. The Union can still choose between watching over its own decline or playing a leading and stable role in the 21st century world. That choice is a political one.