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Europe 2020

Competitive or Complacent?



***Europe 2020: Competitive or Complacent?*, Daniel Hamilton, Baltimore, Johns Hopkins University Press, 2011, 150 pp.**

In *Europe 2020: Competitive or Complacent?*, Daniel Hamilton, Johns Hopkins University's Center for Transatlantic Relations Executive Director, shows how the EU is connected to other continents, and what those ties mean for Europe's competitiveness in a G20 world. According to the report, the EU brings considerable strengths. It is a world-class trader and investor, and its health is sound despite the Euro-zone crisis. Five of the top ten and ten of the top twenty most competitive countries in the world are EU member states. As for investment, the EU is the largest provider and recipient of Foreign Direct Investment (FDI) in the world, with intra-EU investment increasing rapidly. The EU invested 35% more in the rest of the world than

vice-versa in the last decade and it records net positive income from FDI of around €75 billion.

Further more, "the EU is among the most networked regions in the world, with deep financial assets and many pockets of innovation and high skilled talent. It is either the most important economic partner, or among the most important economic partners, for almost all other regions. But in the G20 world it is losing ground or has failed to reposition itself in some key markets, has suffered major financial shocks, is plagued by persistently low growth, has a high degree of energy dependence, and acutely needs a steady stream of high-skilled migration"¹.

Indeed, according to Daniel Hamilton, "Europe's Achilles Heel" is its people, citing as justification its ageing population, shrinking workforce and an inability to attract skilled foreigners: "Europe needs to double current net immigration to halt its population decline, triple it to maintain the size of its working-age population and quintuple it to keep worker/elderly ratios at today's levels".

The EU is already home to the largest number of migrants in the world, almost 70 million out of a reported 164 million worldwide: 42.6% of the total, but it seems to have become a magnet for the unskilled. Highly skilled foreign workers account for only 1.7% of all workers in the EU, compared to 9.9% in Australia, 7.3% in Canada and 3.5% in the United States. A massive 85% of unskilled foreign labour comes to the EU, while only 5% goes to the US.

"Talented immigrants are crucial as the EU confronts acute skills shortages (...) The EU must tap the potential of its people to manage demographic challenges, sustain social models, and develop skills for a knowledge-based economy. A pan-European talent strategy must attract skilled foreign labor; ensure free movement of people; facilitate business-education links; improve labor market access; promote education in key technologies; and boost overall skills training"².

¹ Executive Summary, p. 1.

² Interview from Daniel Hamilton in *Europost*, "Europe is falling short of talent", Brussels, March 12, 2011.

Integration within the EU is far less than that within the US; trade between US states is two to three times higher than trade between EU Member States. Decision-making is often fragmented and ineffective. The lack of a European patent means that patenting an idea in the EU is 10 times more expensive than in the United States. EU Member States operate under a common trade policy, but their trade orientation and performance vary considerably. In areas such as agriculture the EU remains highly protectionist. “By and large EU leaders have failed to convey the relevance of the European project to rising generations in a new world. One result of this failure is that the EU itself is not a coherent competitor, but rather an often-ragged community of solidarity composed of an ever-more disparate group of European countries. Too often its sum is less than its parts”³.

In order to improve the state of the EU and make it successful, the book set out eight priorities and recommendations:

- Get the recovery right.
- Boost productivity to drive overall growth.
- Complete the Single Market.
- Break the link between wealth production and resource consumption by promoting energy efficiency and renewable energies.
- Innovate by investing massively in Research & Development.
- Power its people by creating a pan-European talent strategy.
- Become a critical hub in the G20 world.
- And last but not least, awaken “the Europe’s sleeping giant”: the services sector.

Indeed, the services sector is the “EU’s biggest untapped source of jobs and economic growth. The EU is the world’s

largest regional trader in services. The EU15 almost quadrupled their services trade balance over the past decade; the EU has a trade surplus in services with almost every world region. Services account for 70% of Europe’s output, but just 23% of Europe’s trade: there is room to grow. If the EU Services Directive were fully implemented, it could deliver more than 600,000 new jobs and economic gains ranging between €60-140 billion, representing a growth potential of at least 0.6-1.5% of GDP. It should also be extended to financial services, health, employment and social services. The EU should do more to capitalize fully on its strengths in trade and foreign direct investment in services”⁴.

To conclude, in his book Daniel Hamilton estimates that the European Union has a decade to “win the future” as Barack Obama phrased the same challenge faced by the US⁵. If, in the meantime, the EU is not able to do so, the resulting strains could challenge its construction. Policymakers urgently need to fix the financial system and advance fiscal austerity without undermining the EU’s fragile return to growth. The EU must raise its productivity, if it is to deal with its demographic challenges and sustain its social welfare model. Failure to do so will mean a period of low or no growth, which is likely to generate greater domestic and intra-EU conflicts while leaving the EU behind in a world of high-growth competitors.

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³ Cf. Executive Summary.

⁴ Interview from Daniel Hamilton in *Europost*, Brussels, *op.cit.*

⁵ Quotation from the *European Voice*, in “Can Europe win the future?”, March 16, 2011.