

Prague 2007

PRACTICE DICTATION

1) For section C (speech 148 syll/min)

Europe's overall productivity growth has slowed down markedly, although performance across the Member States has been mixed for over a decade. A review of the key factors influencing European competitiveness paints a worrisome picture. The principal causes of the

slowdown are our reluctance in taking advantage of information and communication technologies as well as slow innovations/ in our work environment and development of new and relevant skills. Europe's economic integration remains far from complete.

1 min

In particular, the Internal Market benefits have not yet been effectively felt in those areas where there has been less reform, and consequently less competition, such as energy markets, transport and service markets. Europe's research and development efforts lag behind

those of the United States and Japan. Despite positive initiatives in some Member States, measures to increase the volume of research investment have been fragmented and sluggish. Taking under advisement a broad range of key indicators, large gaps remain between the European Un-

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ion and the United States. The European reluctance to seek patents persists, in particular in high-tech areas.

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2) For section B (speech 231 syll/min)

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3) For section A (speech 328 syll/min)

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yet been effectively felt in those areas where there has been less reform, and consequently less competition, such as energy markets, transport and service markets. Europe's research and development efforts lag behind those of the United States and Japan. Despite positive initiatives in some Member States,/ measures to increase the volume of research investment have been fragmented and sluggish. Taking under advisement a broad range of key indicators, large gaps remain between the European Union and the United States. The European reluctance to seek patents persists, in particular in high-tech areas.

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SECTION C

Europe must become more competitive. A competitive European economy will give us a means of ensuring a high level of consumer, health and environmental protection. These endeavours enable us to enjoy a high quality of life and to raise our stan-

dard of living. Clearly, decreasing industry and competitiveness are closely related. Policies supporting competitiveness will contribute to slowing the trend away from industry. Such policies will also contribute to the orderly transition towards a **modern in-**

1 min

dustrial economy. This transition will entail changes in the distribution of employment across all sectors. Historically, losses in manufacturing employment have been more than offset by employment increases in the service sectors. While these structural changes continue to take place, it will be-

come increasingly difficult for the low-skilled workers to regain employment. This segment of our labour force is particularly vulnerable in the adjustment process. Whereas it is undeniable that such changes can be onerous in local economies and in social terms, the **resulting better**

2 min

resource allocation will improve welfare. Policies that raise our innovation potential and our human capital base will also raise labour productivity and strengthen our comparative advantage internationally. Competitiveness is determined by productivity growth. A competitive economy is one

that experiences high and sustained productivity growth, which leads to an increase in standards of living. Many factors determine productivity. The European institutions and the Member States each have important roles to play as guardians of competitiveness. Their common aim is to put in place the best possible **conditions, which**

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will enable European companies to grow and compete successfully in a fiercely competitive global market. The emergence of strong competitors from South East Asia and La/tin America makes meeting this challenge all the more important. In order to ensure the European Union is on the right track, we must systematically monitor developments

and review the state of competitiveness of our economies and our enterprises. Europe continues to suffer from an entrepreneurial gap. Entrepreneurship is far/ more frequently considered as a professional option in the United States than in the European Union. It is essential to improve attitudes towards **entrepreneurship and**

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to strengthen the incentives for self-employment. Europe not only needs more entrepreneurs, but also needs conditions that support entrepreneurial growth. Lack of financial support, complex administra/tive procedures and lack of skilled labour are still the barriers to starting and expanding business. This finding is particularly true for technology-intensive sectors, where the number of new start-ups

has recently been larger in the Europe than in United States. Their growth is severely hampered by inadequate access to risk capital. Europe's competitiveness problems have been reflected in/ concerns about the risk that Europe might be facing as it decreases its industrial sector. In recent months such concerns have been raised in public debates and also at the highest political levels.

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SECTION B

These concerns are not new and are invariably strongest during periods of slow economic growth or in recessions. No person doubts the adjustment process associated with the changing structure of our economies can be very costly especially at the local level. However, good macroeconomic performance will provide not only the environment for the European Union manufacturing sector to

improve its productivity, but also the conditions that will enhance the growth of the service sector. Decreasing the industrial sector and outsourcing to foreign countries are issues that are emerging as part of a/ greater concern about the performance and future of the industry in the European Union. This development reflects an ambition that Europe remains a global power in industrial sectors **that are consid-**

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ered essential for strategic purposes. Moreover, this review could reflect an ambition to restore performance in areas where Europe has been weak. Industry in the European Union is, however, less specialized in techno/logy-based sectors than in the United States or Japan. It must retain its present strong position in traditional, mature sectors, even if this effort will not be enough to ensure long-term economic success. Decreasing the indus-

trial sector requires a structural change. The decline in the relative presence of the manufacturing sector in national income especially during the post-war II years mirrors the decline in the share of the primary sector/ in earlier years. Development of industrial competitiveness in recent years shows considerable diversity. Productivity growth in manufacturing began to decelerate in the mid-**1990s, and**

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it has since fallen behind the United States. The sectors that contributed to the widening of the productivity gap are mainly high-tech sectors. However, European manufacture of high-tech goods and services has been performed extremely well, but/ productivity growth in sectors that utilize high tech has not accelerated as in the United States. It is clear that high tech has been a key sector in all sectors of productivity performance. Productivity developments would play a key

role in any process of decreasing the industrial sector because they influence directly the competitiveness of enterprises. One should keep in mind that a gradual process of decreasing the size of the industrial sector has, indeed, been/ taking place throughout history. High productivity growth in the manufacturing sector has contributed to raising real incomes and to making manufactured goods relatively cheaper than goods produced in the service sectors. Thus, **inevitably, the share**

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of manufacturing in national income and employment will follow a trend of decline. This decline has already occurred, and it continues to occur in our economies. For a better understanding of the process of structural change, it is important to ask/ what the economic implications of some forms of industrial decline would be. Relocation of industrial activities internationally is a reflection of changing comparative advantages. International trade linkages ensure that such relo-

cations do not benefit exclusively the host countries. Increased exports from them will be matched by increased imports by them. It is clear that relocation implies that the European Union exports will inevitably increase as economic growth abroad accelerates, thus/ contributing to output and employment growth in our economies, although in other industries. Jobs will, therefore, permanently decrease in regions from which industries leave only if they are not matched by exports to the regions where industries have migrated. **This process will**

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take time to complete, and it will involve considerable adjustment costs. Therefore, the need exists for an adaptable labour force with skills that are continuously upgraded. It is also important to recall the nations towards which industries are likely to migrate are almost always/ less wealthy, developing nations. These nations need capital imports to develop their economies. This phenomenon implies they must fund for the foreseeable future trade deficits. These deficits will mirror the rest of the world's capital exports, or correspondingly, trade surpluses.

It is unrealistic to believe that the developing nations, where industries could be outsourced to foreign countries, would become major exporters of capital to the high-wage nations in the industrialized world. On the basis of the data reviewed here, there is no evidence the Euro/pean Union economy is showing signs of a decrease in the industrial sector. Nevertheless, it is possible that during a period of slow growth and poor productivity and innovation performance, conditions contributing to implementing such a **process might emerge**.

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SECTION A

Outsourcing to foreign countries concerns the transfer of production and of other manufacturing activities to locations outside of the home country. This outsourcing has already been taken place within the European Union and reflects the changing comparative advantage of different locations. Out/sourcing to foreign countries has created significant concerns among policy-makers, social partners and the public more generally. These concerns were expressed when discussions were first held about adding the countries of Central and Eastern Europe to the European Union. Now it has resurfaced in the con-

text of globalization. Clearly, better cost conditions abroad will inevitably attract industries that are unable to produce in the high-wage environment of modern industrial economies. Of course, this trend is contributing to the growth of less wealthy trading partners. Outsourcing to foreign countries has, indeed, been limited to low-technology, labour-intensive activities. However, relocation is often accompanied by the retention of or the creation of new jobs in Europe in service areas such as design, marketing and distribution. This emerging **specialization is**

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a reflection of a changing comparative advantage where the European Union retains those jobs that are human-capital and technology-intensive and characterized by high productivity and correspondingly high real wages. Today and in the future, Europe must develop and strengthen its competitive manu/facturing base. To achieve this goal, it is necessary to increase research and development performance to strengthen the human capital base and to develop conditions supportive of enterprise and of productivity growth. However, other aspects of outsourcing are related to research and development activi-

ties. This process constitutes a genuine threat to Europe's future. Companies are conducting a growing share of their research outside of Europe, particularly in high-technology, research-intensive sectors. These activities increasingly move to the United States to take advantage of more favourable conditions as/ well as the availability of skilled workers. Major European firms have warned that unless basic conditions improve drastically, most of their research and development investment would take place outside the European Union where they have already relocated forty percent of their research and development. **This warning should a-**

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Alert policy-makers about the risk that science- and knowledge-based activities that are important for our future standards of living may become marginal. Clearly, there are economic forces about which the European Union policy makers can or should do little. There are also other forces about which they should play an active role. For example, they should take into account the current practice of industrial transformation by facilitating the increasing osmosis between manufacturing and services. They should also be alert to the role that industrial economic conditions play in decisions to relocate. In any event, this situation would raise seri-

ous questions about Europe's ability to retain its leading roles in these sectors, which would have an important effect on the rest of the economy. An enlarged European Union, with its increased variety of wage structures and technological skills, will provide European industry with opportunities for competitive reorganization. Although a firm's competitiveness ultimately depends on the efficiency with which it combines various resources that are available to it, public authorities can play an important role in facilitating this process by helping create appropriate economic conditions. It is clear that **inappropriate ec-**

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onomic conditions and a poor business environment can act as significant burdens on business activity. Creating a business environment favourable to research, innovation and entrepreneurship is crucial. While it is essential to provide a regulatory framework that encompasses the entire Europe and is favorable to business, Europe still needs to do more to promote competitiveness. The research investment action plan aims to make Europe more attractive to private research investment. The total investment level would be three percent of the gross domestic product, and two thirds of this amount would come from the private sector. The action plan includes a coherent ensemble of measures that cross several

fields of policy. Strengthening research, fostering innovation and promoting entrepreneurship are, however, areas where progress lies totally in the hands of Member States. Their commitment to making the necessary decisions at the national level is of vital importance for everyone. Here as well, Member States should look at how well national policies interact and influence competitiveness. An open method of coordination can be a valuable tool by enabling the European Union to contribute to progress in areas where it has no legislative powers. Taking into account national differences, it helps to achieve a greater consistency and convergence of **national policies to-**

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wards agreed objectives. This method puts in place a mechanism for mutual learning that is based on the dissemination and exchange of good practices. It also provides for periodic monitoring of progress. The continuing structural transformation of our economies that provide for an ever-increasing role for the services sector is economically inevitable. With this, some outsourcing to foreign countries is bound to come, and society has to adjust itself to changes. These changes in employment cause social and economic hardship to those directly affected. The increasing importance of services in the economy does not imply that industrial output should decline. Indeed, this process has so far been associated with

a continuous growth in industrial output. At the same time industrial employment has been brought about by the steady increase of industrial productivity. The slowdown in Europe's productivity growth represents a loss of competitiveness. This change is a serious cause for concern because of the risks, which have implications for our industrial performance and for our capacity to deal with structural changes. The loss of industrial competitiveness and the loss of industry are opposite sides of the same coin. However, there is, at the moment, no compelling evidence that Europe is experiencing an industrial decline in an absolute sense. It is now essential to anticipate and to prepare for these **adjustment challenges.**

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