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"The EU as a vehicle for European development: are there lessons for other countries and regions?"

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Ladies and Gentlemen,

It is really an honour and a pleasure for me to be here today. The topic of my speech today is broad and I would like to start by giving an overview on how different EU policies have shaped the Union's economy, then discuss in greater detail my portfolio, EU Cohesion Policy, before looking beyond the Union's borders to finally draw some more general lessons.

You will be aware that the European Union is far from being a federal state: many of its citizens (though by no means all) would not want this. Especially, when it comes to the levers of economic power the Member States are in charge of most of them and the powers of the Union are strictly circumscribed. For example in the field of taxation policy, foreign policy or investment incentives the Member States retain sovereign authority, as we shall see in a moment. The Union is allowed to do what the Member States see fit to allow it to do and for many years, up until the reforms instituted by President Jacques Delors, we operated at the margins of the European economy, spending most of our budget on agriculture and suffering ridicule for the trade or standards harmonisation measures we tried to introduce. The British will remember the row about standards for motorised lawn mowers, intended to even up the market but resulting, like so many of our initiatives, in vicious attacks on the part of a British press determined to show all our actions in the worst possible light.

Despite these limitations, over the past 50 years, and particularly in the past 15, the EU has achieved remarkable success in leveraging opportunities arising from globalisation and in achieving economic prosperity and stability on a continental scale. The EU has become one of the world's key economic engines, accounting for about 30% of global GDP and 20% of global trade flows, while the Euro has emerged as a key international currency. Indeed, in future years we will look back on Europe's achievement in introducing the Euro, seeing it adopted in more and more countries and keeping it strong, as one of the most remarkable results of the European Union in a period of remarkable results.

Although we have seen a rising level of growth throughout the Union we also see a rising level of disparity in personal incomes, between the richest and poorest members of society (from 1 to 3 before the war to 1 to 30 now) and we continue to have disparities between the regions, which increase as we enlarge. Our recent Report on Cohesion, the fourth in the series, showed that the range of disparities in Europe (from about 28% of average GDP to 264%) is as extreme as anywhere in the world and can be directly compared to China or India.

Starting as a free trade area of six members the EU has expanded to become a federation of 27 sovereign states, with at least 6 more queuing up to join. Five waves of enlargement hedged with tough conditions for new entrants have kept the EU relevant and made it ever more influential. Since the fall of the Berlin Wall, the prospect of EU accession has been the driving force behind a spectacular economic and democratic transformation of Central and Eastern Europe. The process of integration has brought more variety to the Union and has required a set of policies to support it. The Union of 27 Member States needs close policy coordination to answer some of the key challenges of the 21st century, such as globalisation, climate change, energy security and sustainable development. European leadership in this respect is a successful example of democratic governance in a globalised world.

Additionally, as you know, the system of governance in the EU is based on the principle of subsidiarity. Policy functions are allocated to the lowest level capable of dealing adequately with imminent problems, because the quality of information and therefore of decisions is likely to be superior when decisions are taken close to those affected by them. Policy issues are dealt with at the EU level only if their rationale has an essential cross-border dimension, like the environment or sustainable development, otherwise they are left for Member States.

On the European macroeconomic policy regime: It is embodied by the European Monetary Union with a clear division of tasks between the European central bank and national governments. The micro-economic policy regime consists of the internal market, the economic core of the EU, and its support policies in the areas of competition, trade and cohesion. The internal market relies on the Community method with well defined roles for the Commission, the Council and the Parliament. The Commission has extensive powers for handling policies supporting the Internal Market.

Within the European single market, people, goods, services and money move around as freely as within one country. The single market is the core of today's Union and the greatest achievement, now maybe comparable with EMU. We started the process in 1985 with the fragmented economies of 12 Member States and we now have the internal market which is home to 500 million citizens and over 20 million businesses. With trade barriers removed and national markets opened, more firms can compete against each other. Trade is a major vehicle and enhances growth to everybody's advantage. It brings consumers a wider range of products to choose from. Competition between imports and local products lowers prices and raises quality. For example, Chinese low costs have allowed us to keep prices down to our benefit. The disappearance of trade barriers within the EU made a significant contribution to its prosperity, by boosting growth and employment. Since its beginning in 1992, the Single Market has created nearly three million extra jobs. Yet to make it happen, the EU institutions and member countries strove non-stop for seven years from 1985 to adopt the hundreds of laws needed to sweep away the technical, regulatory, legal, and bureaucratic barriers that stifled free trade and free movement.

Recent enlargements have given a new impetus for the internal market. The economies of the countries which became members after 2004 are growing at greater pace than the economies of EU-15 but represent just 5% of EU GDP. This is bringing more prosperity to the newcomers, creating new jobs there while offering new markets for goods and services from the rest of the EU. New trade and investment opportunities help European firms to adapt to globalisation and compete with other economies.

The estimated macroeconomic gains from the internal market are sizable, amounting to approximately 1.8% of EU GDP and 1.4% of total employment[1]. However, implementing modern Single Market policy is a complex task. We live in a knowledge economy, where human capital, innovation and productivity matter most. The Single

[1] EMU@10 estimate

Market has the potential to strengthen the development of knowledge and innovation in the EU. For this purpose we need to promote free movement of knowledge and innovation as a "fifth freedom" in the internal market.

The Single Market programme is underpinned by a range of supporting instruments: anti-trust/competition, trade, monetary and cohesion policies. Contrary to national states the EU does not have a supra-national power in taxation.

Within the EU, national governments retain responsibility for levels of direct taxation – i.e. tax on personal incomes and company profits. EU taxation policy ensures that tax rules are consistent with the goals of the single market, the EU's competitiveness, and free movement of capital i.e. they do not distort trade, or hamper cross-border investment or job creation.

Member States set the rate of tax on company profits and personal incomes, savings and capital gains themselves. Value-added tax (VAT) rates are an exception as they are fundamental to a properly functioning single market. Nevertheless, there is considerable leeway for national differences in VAT rates. Moreover, VAT rules and rates are no exception to the EU rule which requires unanimity of all 27 member states for any decisions on tax matters. This rule safeguards national autonomy.

The European Commission nevertheless promotes co-ordination and coherence, particularly where more than one member state is involved in taxation issues. Otherwise, there is a risk that individuals or companies with taxable activities or income in more than one EU member state could be taxed twice, face discrimination or excessive costs from having to comply with the rules of more than one tax system, or might abuse their tax position to avoid or evade tax.

Where the single market, free movement of capital or individuals' rights are being undermined by tax rules, the European Court of Justice is the ultimate arbiter of what is right. It has issued many landmark rulings on taxation.

The Single Market Programme led to an increased openness of economies. Effective competition policy is central to an open market economy as it cuts prices, raises quality and expands customer choice. We are proud of our competition policy. Here the role of the Commission is essential. Competitive pressure is translating into price falls, for example the price of communication services in the Euro area has fallen by some 40% in real terms since 1996[2]. Competition allows technological innovation to flourish and makes firms more productive. The European Commission has wide powers to make sure businesses and governments stick to European Union rules on fair play in trade in goods and services, while allowing governments to step in if markets are failing consumers or business, or to promote innovation, unified standards, or small business development. Beyond its borders, the EU takes part in international discussions on preventing global players exploiting gaps in international coverage of competition law and enforcement.

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[2] EMU@10 estimate

The single market and European competition policy prompts the participation of European firms in today's globalised markets. I mentioned trade policy as a major European economic lever. Free trade among the EU members underpinned the launch of the Union 50 years ago. Today Europe is the world's biggest exporter, accounting for 20% of global imports and exports, the world's biggest investor and the world's biggest market for foreign investment. As EU countries removed tariffs on trade between them, they also unified their tariffs on goods imported from outside. The EU's average tariff on industrial imports has now fallen to 4%, which is one of the lowest in the world.

The EU's trade policy is closely linked to its development policy. The Union has granted duty-free or cut-rate access to its market for most of the imports from developing countries under its generalised system of preferences (GSP). It goes even further for the world's 49 poorest countries, all of whose exports – with the sole exception of arms – enter the EU duty-free.

The EU has developed a new trade and development strategy with its 78 partners in the Africa-Pacific-Caribbean (ACP) group aimed at integrating them into the world economy. It also has a trade agreement with South Africa that will lead to free trade, and it is negotiating a free trade deal with the six members of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The EU has agreements with Mexico and Chile and has been trying to negotiate a deal to liberalise trade with the Mercosur group – Argentina, Brazil, Paraguay and Uruguay

It does not, however, have specific trade agreements with its major trading partners among the developed countries like the United States and Japan, although there would be some potential for economic benefit. Trade is handled through the WTO mechanisms, although the EU has many agreements in individual sectors with both countries.

The WTO framework also applies to trade between the EU and China which joined the world trade body in 2001. China is now the Union's second biggest trading partner after the United States.

The introduction of the Euro in 1999 was the crowning achievement of a complex political, legal and technical process of European integration. It also sent a political signal to the rest of the world that Europe was capable of taking far-reaching decisions to define a common future.

By joining European Monetary Union, 15 countries have replaced their national currencies with the Euro and given up their independent monetary policy to the European Central Bank. On the other hand, EMU participating Member States preserved decentralised fiscal policy within a common framework. This means that the Euro area does not have a fiscal transfer mechanism across its members like the United States. Alternative adjustment mechanisms (like labour mobility or responsiveness of prices and wages to the business cycle) were rather weak at the beginning of EMU in 1999. These concerns over the weak adjustment capacity of EMU members have led to a growing role for the European Lisbon Strategy to orchestrate structural reforms in product, labour and financial markets. That is why the Lisbon Strategy is essential.

The Euro has fast become the world's second most important currency. In parallel, the institutions of EMU have earned a high degree of respect and recognition. The EMU has anchored macroeconomic stability in Europe by putting an end to periods of internal currency turbulence within the Euro area and making it more resilient to negative external developments. The result has been a decade of low and stable inflation.

Fiscal discipline is ensured by the Stability and Growth Pact which helped to drive a renewed commitment to sound public finances. EMU members have now achieved the best structural balances since 1973 and the focus shifted from consolidation to the quality and efficiency of public spending. However, long-term fiscal sustainability constitutes a major challenge in view of demographic trends in Europe and is an issue we will continue to address.

The Euro has delivered new opportunities for the development of financial markets and has spurred their integration, fostering deeper and more liquid bond and money markets in Europe. The movement of cross-border capital towards its best use has been encouraged, as well as risk diversification and associated cyclical smoothing.

A major success story of the first ten years of EMU has been the significant growth in employment, boosted by measures taken under the Lisbon Strategy to reform labour markets. With almost 16 million new jobs created in the Euro area during the last decade, job creation has by far outpaced that of other mature economies, including the United States. In parallel, the unemployment rate has fallen to 7% in 2008.

In the absence of monetary policy and exchange rate tools, Euro area members depend more than other countries on flexible markets to adjust to changes in competitiveness. For this reason, EMU countries have a serious stake in implementing the reforms set out in the Lisbon Strategy to promote flexibility and enhance economic dynamism. It would help Euro area countries to face stiff competition from emerging economies and to manage the common external shocks we are likely to face in the future, and which to a large extent we are already facing now, such as high energy and commodity prices.

The benefits of EMU to member countries engaged in the catching-up process have been reinforced by EU cohesion policy, which operates in Member States and regions as a supply-side adjustment tool to face external competition and complement the single currency.

The rationale of **EU cohesion policy** has evolved in the light of worldwide changes. In a global world a mere redistribution of financial resources from one place to another is not sufficient to promote growth. What we need today is a policy which fully mobilises the potential of our regions and fosters their endogenous development.

Today regions must think about how to become competitive players on the global market and how to plug into the external world. Successful regions are those which have managed to internationalize their economies.

This global perspective alters the meaning of catching up. Regions need to be outward-looking, merely catching-up with the Union's average – be this as difficult as

it may - and reaffirming themselves within their own territory does not suffice. Regional policy needs to enable regions to find their place and their potential in world markets. Interaction with the global economy has considerable advantages, allowing regions to import ideas, technologies and know-how from the rest of the world. Accessing the elastic global market and thus generating a strong export sector are critical for catching-up.

It is with this view in mind that we implemented the last reform of EU cohesion policy. As we need to target the endogenous development of European regions, we have further oriented our policy towards investments providing the highest returns in terms of promoting the competitiveness of European regions. Thereby we have put competitiveness and cohesion objectives on the same track.

Competitiveness has of course manifold dimensions. What comes close to a universal recipe – or even truth – is that in a global economy we can achieve sustainable economic, social and territorial cohesion only through an investment policy which fosters the creation of knowledge-based, highly versatile and adaptable regional economies and the availability of skilled labour. But how to translate this general approach into the variety of European territories, let alone onto a global scale?

Let me talk about the European dimension first, but I think that our experience can be relevant for development policies in the world at large, notwithstanding differences in initial endowments.

Let me start by reporting on the cohesion policy strategies and programmes for the 2007-2013 period. To be honest, I am proud about the change that we have brought about. The change that we see is not only in terms of investment - Member States regions have promised to invest cohesion policy funds differently this time round (in 2007-2013), better and smarter than ever before. But the bigger and more profound structural change is that we have opened minds. Opening minds is certainly the key achievement of this negotiation process.

Let me first describe how we opened minds. The negotiation process was a real dialogue that helped to shape the policy – it was a catalyst for change. Initially, MS and regions were perhaps hesitant, if not outright reluctant, about being innovative. But, in discussion with the Commission, Member States and regions changed their outlook.

We stimulated the debate inside MS and regions. Over the last 2 years, we had hundreds and hundreds of meetings, involving a huge number of people. As a result, the quality of the programmes took a quantum leap, breathing life into a real 'jobs and growth' agenda and focusing on innovation and sustainable growth.

We involved regional and local actors, we included people from outside government, notably the civil society, the academic community, the business community and NGOs. This is how be put the partnership principle into practice.

And the partnership principle is what distinguishes EU cohesion policy form other EU policies. Partnership means ownership that empowers local people. Partnership means that people design and run successful regional development strategies by targeting local resources in a more efficient and effective way. Partnership means that people now identify more strongly with 'Europe', tangible in their own

neighbourhood. And they also identify with the growth and jobs agenda – which is no longer an abstract agenda from 'Brussels'.

Now, what are the results of negotiating with open minds? Compared to the past we see a big change in cohesion policy investments. It is clear to us now that MS and regions are really committed to catalysing growth and jobs – the Lisbon agenda. We see it in the way they have "earmarked" investment:

- Convergence objective: 65% of the funds (€ 183 billion). Note that not all convergence regions are in the new MS, as often assumed, many are in the EU-15 accounting for 39% (€ 111 bn) of total convergence objective investment (€ 283 bn) (EU-12: 61% or € 172 bn)

- Regional Competitiveness and Employment: 82% (€ 43 billion)

Let me now enumerate the major investment areas in 2007-2013, Member States and regions have committed themselves to:

- **Improve accessibility** (€ 82 bn, 24% of the funds), with key focus on TEN-T projects (€ 38 bn = 11% of cohesion policy budget or 46% of total transport budget) and sustainable transport (€ 35 bn = 10% of cohesion policy budget). To mention of few types of investments in this area: railways, clean urban transport, regional/local roads.
- **R&D and innovation** is now one of the major priorities in financial terms: € 86 bn, ¼ of the Fund. Hence we make substantial contribution to Lisbon target of 3% of GDP. Investment examples: R&TD infrastructure and centers of competence (€10 bn), measures to stimulate research and innovation in SMEs.
- **Prevent and combat climate change** (€ 48 bn, 14 %), investment in energy efficiency and renewable energies € 9 bn, many programmes include a specific evaluation system to monitor effects as to the Kyoto of CO_2 emission targets.
- **Improve environment in general** (€ 105 bn, 1/3 of budget), we help Member States to comply with the EU environmental acquis, e.g. in the area of waste water treatment
- **Help develop knowledge-based service economies** by investing in ICT services and infrastructure € 15 bn (4% of cohesion budget). Other investment example: service and applications for citizens (e.health, e-government, e-learning etc).
- **Help businesses,** notably SMEs, prepare for global competition, € 27 bn (8%). We work with them to plug them into the global market. Investment examples: technology transfer and improvement of cooperation networks between SMEs.

You will probably understand now why I am proud of what we have achieved in terms of structural change. MS and regions have indeed made impressive commitments. The foundations have been laid.

The big challenge now is delivery, as in all well-designed development programmes. But we have planned for that, too, and are now better prepared. Now we have better instruments to help these commitments become a reality. Seeing whether regions go into the right direction is now easier than ever, because: (1) We have better indicators, e.g. several programmes contain concrete target on reducing CO_2 emissions. (2) We worked together with MS on selection criteria that allow us to select the best projects. (3) We have become more transparent and publish the list of beneficiaries. This, too, will help us keep good projects.

Be this as impressive as it may, but we must not stop here. Our policy, as well as all EU policies, will have to evolve in the future against the backdrop of global changes. Now we must have the courage to take the next step forward. And we need to keep in mind that the choices we make today will affect the well-being of future generations – whether it is in mitigating climate change, addressing the demographic evolution of our society, dwindling energy resources or globalisation more generally.

Looking into the future, the goal of sustainable development yields three main policy implications. Firstly, more focus on European high growth sectors, such as business and financial services, which play a significant role in the convergence process within the Union. Secondly, we need policies, especially in the regions lagging behind, which would accompany still ongoing restructuring process, in particular in agriculture. Finally, we have to address the demands of more traditional industrial sectors, with the objective of encouraging the shift towards high productivity and high value added activities.

In order to foster the future convergence of our territories in a changed global context, we shall strengthen and develop our major achievement – the delivery mechanism built upon the principles of integrated approach, partnership and multilevel governance. The bottom-up approach optimises subsidiarity gains. Simply put, decentralisation is beneficial from an economic point of view.

Let me now move to the **cross-border dimension of EU Cohesion policy**. We all know that national borders remain an important hindrance to integration – even within the Union's, still incomplete, single market - due to the fragmentation of product and labour markets and the differences in the legal framework.

To overcome these obstacles, cross-border co-operation within the EU's Regional Policy has grown in importance over the last decade and a half. Having started as a successful Community Initiative called INTERREG, European Territorial Co-operation has now become a fully-fledged objective, and the budget for cross-border co-operation has grown from EUR 1 billion to over EUR 6 billion for the new 2007-2013 programme period.

Cross border co-operation has evolved. The early days saw local level, people-to-people actions arising from what they had in common despite language or cultural differences. Then, early INTERREG programmes started to introduce infrastructure projects such as bridges, road links, electricity and gas exchanges. The latest generation sees more sophisticated co-operation on health (like the organ harvesting project linking Denmark and Sweden and itself dependent on the part INTERREG

financed Oresund Bridge), the labour market and social security actions.

In future we can expect to see a wider range of co-operative actions and types of co-operation. Much of this will arise through the 'mainstreaming of interregional co-operation into the Convergence and the Competitiveness objectives and the creation of a legal instrument (the Joint European Grouping on Territorial Co-operation) to make it possible for regions and nations to work together in many different formats.

Let me now extend the cross-border aspect and **look beyond the European Union's borders**. Let me start with the European Neighbourhood Policy (ENP), which was launched in 2004 to complement enlargement by offering our Eastern and Southern neighbours a privileged partnership, which neither entails nor prejudges an "accession perspective". The premise of the ENP is that the EU has a vital interest in seeing greater sustainable development and stability, and better governance in its neighbourhood.

Lack of sustainable economic growth, a vast informal economy and poverty are widespread concerns in most partner countries. Demographic constraints (population decreasing in the Eastern and booming in the Southern neighbours) are adding to these problems. All this is undermining sustainable development and putting stability in the EU's neighbourhood at risk. The way these challenges are met will considerably affect the EU, not least also in terms of migration.

It seems clear to me that in our EU's Mediterranean policy, cooperation just between states has shown its limits. It can establish structures to help boost economic growth, but without regional authorities it is impossible to achieve concrete results. Regional and national governance rules should be introduced to enable the regions and local authorities to work together. This is what is proposed in the European Neighbourhood Policy, part of which is devoted to cooperation between sub-national authorities.

The Communication of the Commission "A strong European Neighbourhood Policy" of December 2007 proposes indeed to promote the exchange of experience and bilateral dialogue on methods of formulation and implementation of regional policy, including multi-level governance and partnership. And, equally important, the Commission will seek to enhance interaction between national, regional and local authorities.

With respect to our southern neighbours, we need to develop the regional dimension within the Euro-med Partnership with a focus on the reduction of regional disparities in social and economic development and strengthen the regional development management structures.

EU regional policy has acted as a source of **inspiration** for other parts of the world because of the way it tries to address the issues of programming growth and reducing geographical disparities simultaneously.

There is an increasing demand among our international partners to discuss policies that aim to produce balanced territorial development. Particularly in countries that are experiencing rapid growth – China, Brazil and Russia – concern to ensure that the benefits are widely spread and all growth potential of the entire territory is mobilised has given rise to an acute interest in regional policy at the highest political level.

This international interest does not come as a surprise. I believe that there is a huge potential to unlock in EU international co-operation in this area, because the European territory shows wide variation in terms of GDP, similar to less developed countries. The ratio between the richest and the poorest regions in countries like Brazil, China or India is similar to that between the richest and poorest region in the Union. This is due to the Union having enlarged to poorer countries. Therefore it has accumulated a lot of experience in policies targeting relatively poor regions whose level of development resembles some developing countries.

To take this agenda forward, the Commission has concluded Memoranda of Understanding on regional policy cooperation with China, Russia and Brazil, each of them confronted with increased regional disparities and major challenges in terms of better governance, with further weight to be given to the bottom-up flows of information in the policy and decision-making processes.

China is now undergoing a major transformation in its system of governance. Yet many problems remain (high level of heterogeneity in local governance capacity, unclear assignments and management at sub-provincial level, important mismatch between revenue and expenditure assignments) which both contribute to the development of regional disparities and limit the capacity to implement efficient regional development policies.

Russia is also preparing an ambitious reform of its overall governance system to further strengthen the legal and economic foundations of local self-government and to give more financial independence and resources to regions.

Many other countries and organisations (South Africa, the West African Economic and Monetary Union, the Ukraine, MERCOSUR, African Union, etc.) have expressed strong interest in the EU's cohesion policy model. It is considered by them to be a most efficient mechanism given its limited budgetary scope as it represents a very low percentage of GDP but nevertheless delivers good results in terms of GDP growth and jobs). They are keen to develop further cooperation.

For example, we are currently discussing with the African Union the possibility of introducing an INTERREG-type initiative in Africa. Furthermore, we have been looking at sharing the lessons from the Peace and Reconciliation Initiative in Northern Ireland with other parts of the world which could learn from them.

What is most interesting for our partners are the elements of decentralisation and the enforcement of regional structures and administrative capacity. European cohesion policy has improved the quality of many public administrations in the Union, by introducing an evaluation culture, stimulating strategic thinking, supporting partnership and co-operation, improving accountability and transparency. In other words, "cohesion policy" has become a brand for good European governance – this

is why countries like China, Russia and Brazil have taken formal steps to learn from it.

Moreover, EU Regional Policy favours an outcome based approach, whose main advantage is that it makes recipient governments accountable to their communities. Our experience is that this accountability has a wonderful effect on the appropriateness of projects selected, on the efficiency of project management and the transparency of the process so far as local citizens are concerned.

It should be noted that, through our regional policy dialogues, we effectively project a complete European model of development. This is because EU regional programmes are only delivered under certain key conditions. Assistance by the Funds is conditional to the respect of EU legislation, namely in the field of competition, public procurement, environment, etc. and multi-level governance.

National authorities are obliged to ensure full compliance with EU State aid rules, procurement rules, environmental rules and other conditions for co-financing.

Therefore, for the EU, the external dimension of regional policy represents a potential mechanism for the transmission of European values such as free markets (competition and state aid rules, public procurement), equal opportunities, sustainable development and participative democracy.

To wrap up, let me make an attempt to draw a few general conclusions:

1. With **strong political will and commitment** a group of sovereign states – such as the EU – can achieve incredible results. Take the zero probability of war within the Union as the most important outcome – certainly a result *hors categorie*.

   Another impressive result – and the Union's strongest move - is the European Monetary Union with the introduction of a single currency. It took some 30 years to materialize, and now 10 years after its start, the results are breathtaking.

2. This brings me to my second conclusion: **Setbacks are no reason to give up, nor is failure**. They are only a reason to try again and try better next time. Sometimes good ideas require patience, as they need to wait until time is ripe. Trying better also means to abandon bad ideas. The difficulty lies of course in telling them apart.

3. **Second best solutions are viable**. Although economically second-best solutions are suboptimal, politically they may be optimal. Let's not forget that the best is the enemy of the good. Politically it is often better to have an academically imperfect idea properly executed, than to have a perfect idea poorly executed. An excellent example is EMU with its sovereign, yet co-ordinated fiscal policy framework.

4. **Bringing about structural change is a constant process.** Change will remain a constant process as long as the world continues turning - with

globalisation it appears to be turning more quickly. That is why we need to bolster our capacity to adjust more speedily – our single most important tool.

5. The World changes, the EU too. **Hence, policies need to adapt too.** There is no greater enemy to development than sticking to a successful policy for too long. In the light of the major global challenges, policies need to **shift from responding to anticipating** needs more pro-actively. Take EU regional policy as an example. Since it was developed 20 years ago, it has experimented with a multitude of approaches, ranging from the promotion of innovation in highly developed areas to the basic but no less important investments in regions lagging behind.

6. **Bringing about structural change takes an integrated approach.** We learnt in the EU that a sectoral policy approach is not enough to promote development and competitiveness, as it tends to neglect interdependencies and certainly under-exploits synergies.

   An integrated approach is superior, linking supra-national policies with national and regional policies. This requires more complex co-ordination which at times might appear cumbersome. Yet, the outcome in terms of delivery is superior, as it extends ownership – and thus implementation - of otherwise fairly abstract policies.

7. **Crucial for triggering structural change is leadership and governance.** Leadership is important in the case of weak administrative capacity, i.e. during the time it takes to build up strong institutions. Good governance can and should replace leadership in a healthy democracy, once the institutional capacity has become strong enough.

8. **Finally, bringing about structural change requires partnership.** Long-lasting change cannot be commanded from above, neither can minds be forced ajar. Involving and empowering real people will persuade them to embrace and promote the required change.

Thank you for your attention.