

Europe's failure to get to grips with its competitiveness problems is worrying, says Toomas Hendrik Ilves, Estonia's President. Looking at the example of how his country transformed itself to embrace the information age, he outlines the strategies the EU should pursue, however unwelcome they may be.

We can't predict the future, but we can identify and assess future trends. The two most discussed trends, of course, are the twin threats of global warming and increasingly scarce fossil fuels. Both are global issues, yet their resolution will certainly be impossible without the involvement of the European Union.

Then there are major long-term challenges to the Union that are particular to the EU, and which if unresolved may well mean that in a quarter of a century we won't be able to enjoy our present relative prosperity. These challenges all revolve around Europe's competitiveness.

So where and how do we Europeans compete economically – within the EU or worldwide? Clearly both. And if we look at the long-term trends of globalisation we should remember the debt of gratitude we owe to Jean Monnet and later to Jacques Delors for creating the Single Market, back in those days when globalisation was not yet a visible phenomenon. For the Single Market will enable us Europeans to be competitive in the global arena. Openness within Europe and the opening up of our own markets to competitive pressures has been the driver of our own efforts to be internationally competitive.

But that alone will not be enough. We need political courage and we also need to develop a greater vision and understanding of where we and the world will be in the years ahead. For even the economic powerhouse that is Germany will be dwarfed by the rising stars of India and China. Today, the EU of half a billion souls can still compete in terms of quality of life, levels of education and innovation with the US, China or India. But for how long? We are used to thinking of India, for example, as a poor country that Europe has little need to compete with, but we need to think again. The 8% of its population that enjoys what might be called a middle class existence already amounts to 100m people, more than in any single EU member state. So what about 25 years from now, let alone 50?

Current thinking in the EU offers little cause for optimism, for two reasons. First, there is the failure of the EU's well-intentioned programme for developing innovation and competitiveness,

the Lisbon Agenda. Second, the EU is increasingly turning to protectionism, not only with regard to the outside world but within our own borders too.

At that time, my own country, Estonia, was just emerging from 50 years of Soviet-imposed backwardness, I despaired over how long it would take to build the infrastructure needed for Estonian businesses to compete internationally. Fortunately for us, the world was just then entering the new era of the information revolution, so by opting for the new infrastructure of information technology, Estonia was soon able to play on a level playing field. Investment by both public and private sectors in IT permitted our country to reach by the mid-1990s a level that was above the EU average. By the turn of the new century Estonia's IT development had in government services and sectors like banking reached a level enjoyed only by a few other countries in Europe.

So a small and once developmentally-challenged post-Soviet country was able to overcome seemingly overwhelming obstacles. But I fear that for the larger EU the steps needed to emulate Estonia's achievements may not be very welcome. Increasing government efficiency, decreasing paperwork and the temptations of corruption through innovative computerisation would also mean a smaller, leaner public sector. And the same holds true for the private sector. This was especially noticeable in my own country's banking sector. Since the late 1990s, around 98% of all banking transactions in Estonia have been done over the internet, so the banks needed fewer tellers and fewer branch offices. Large numbers of bank employees were made redundant, and had we not enjoyed a sustained period of economic growth that last year reached 11%, we would have been in trouble. But it's worth pointing out, of course, that our high growth rate was fuelled by the country's rising productivity.

The emphasis Estonia placed on IT paid off by allowing it to become more competitive. We could partially offset our small size by having IT liberate people from tasks that computers can anyway do better, but this alone will not be sustainable unless we begin to produce innovations ourselves. Now that Estonia can no longer count on its own low-cost labour force for a competitive advantage, we need to generate new technologies. We need to innovate, and for that we need to develop more of a technical intelligentsia. Yes, Estonians invented Skype, but in general my country, like the rest of Europe, is falling behind in both innovation and pure science. Innovations come first and foremost from the United States, which itself depends on the brain drain in which its universities and laboratories attract the best and the brightest from Europe, and from India and China too.

It's time that we in Europe began seriously to analyse our own situation. We are averse to immigration, our children increasingly choose not to study maths, science and engineering, and

we are choosing to close ourselves off from competition within the EU in services, one of the most competitive sectors of the world economy.

I can offer two personal experiences to illustrate these trends. Five years ago, when I moved from one Tallinn apartment to another, I called the telephone company to install an internet connection. The woman at the other end of the phone asked which time that afternoon – 1400, 1600 or 1730 – would be most convenient to come and install it? Three years ago, after being elected to the European Parliament I applied for an internet connection for my Brussels apartment. After seven weeks with no sign of it, I called my landlord, who had kindly offered to help out if I ran into any problems with the local bureaucracy. "Only seven weeks?" was her response. She then added something especially funny for anyone from the post-communist world: "But maybe I can help, I have a connection on the inside".

My own unprofessional and unrepresentative survey of friends and colleagues showed that this was not an unusual situation in much of Europe. We should add that our computer connection and connection speed costs are much higher than in Asia, and I submit that if this is the quality and level of services even in part of Europe, we are in deep trouble.

The lack of competition within the EU also has security implications. Given the importance of energy in our lives, it is understandable that many EU countries want to shield their companies from competition, and so are opposed to the liberalisation of the energy market. This is an understandable reaction, but the reality is that Europe's single largest source of energy is a country that has proclaimed itself an "energy superpower", is known to use energy as a foreign policy tool and is increasingly willing to say so. It's worth remembering that in May of last year Viktor Chernomyrdin, the Russian Ambassador to Ukraine, said that Russia would be willing to reduce the price of natural gas if Ukraine adopted a less pro-Western orientation.

So if we are to avoid seeing the EU's member states subjected to divide and rule policies that lead them to jockey for better gas deals, then a common energy policy run by an EU Energy Commissioner with the sort of negotiating heft of the Trade Commissioner is an absolute must. Even Germany is a small country when negotiating on its own with Gazprom. But for Europe to develop a common energy policy comparable to our common trade regime, we also need the sine qua non of external policy, internal liberalisation.

Where are we then, when we look to the future? Koreans and Japanese enjoy rates of "internetisation" far greater than most countries in Europe, with far cheaper rates of streaming.

And with Asia and the US producing many more engineers, scientists and mathematicians than do we, our response in Europe so far has been to make sure we don't have too much free movement of services. We worry about our lack of engineers, but do little to promote science education. And when we do recognise that we are having difficulty competing internationally, we resort to protectionism.

None of this looks good. Taken together, these trends will lead to a progressive decline of European competitiveness in the globalised economy. Unless, that is, we do something about it.

*Link to the original article on [Europe's World webpage](#) .*