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COMMISSION PREDICTS HIGHER EU GROWTH AND EMPLOYMENT

Despite the sluggish start to the year, the EU economy has moved into higher gear in the second half of 1999 due to an improved international environment and resilient domestic demand. In fact, in the European Commission's **Autumn 1999 Economic Forecasts,** real GDP growth in the EU and the euro area (EUR11) is expected to accelerate from 2.1% in 1999 to 3% (2.9% for EUR11) in 2000 and 2001.

The 1999 outlook is consistent with the Commission's previous forecast (see EURECOM, April 1999), but the 2000-2001 projections represent upward revisions.

Leading indicators, such as companies' export expectations, now show a high degree of optimism with favorable spillover effects to the domestic economy. And fixed capital formation and private consumption have remained robust, which helped pull the economy out of the late1998/early 1999 slowdown. Underlying the healthy growth rate in private consumption expenditure (around 3% per year) are the increases in real wages of around 1 to 1.5% a year, less precautionary savings and, notably, further job creation.

Given these favorable domestic demand conditions, and the high (and rising) capital profitability, **investment in machinery and equipment** is likely to gather pace. Nevertheless, the recent interest rate hike and the still relatively low levels of capacity utilization will contain the growth rate of investment, which is projected to be 6-7% annually over the forecast period.

GDP at Constant Prices
(annual % Change)

1998	Forecast 1999	Forecast 2000	
2.9	1.8	2.7	B
2.7	1.5	1.9	DK
2.2	1.5	2.6	D
3.7	3.4	3.8	EL
4	3.6	3.6	E
3.2	2.5	2.9	F
8.9	7.8	6.9	IRL
1.3	1.1	2.2	I
5	5	5.3	L
3.7	3	3.2	NL
2.9	2.1	2.8	A
3.5	3.1	3.3	P
5.6	3.9	4.0	FIN
2.6	3.7	3.5	S
2.1	1.8	3.4	UK
2.6	2.1	3.0	EU-15
2.7	2.1	2.9	EU-11
4.3	3.8	2.8	US
-2.8	1.3	1.6	JAP

Over the past two years, there has been some divergence in the member states' economic performance. This is attributable in part to the different exposure of member states to the international economic and financial crises in 1997 and 1998. Further, domestic factors, like real interest rate differentials and labor market conditions, have also played a role. For example, growth in Germany (1.5% in 1999) and in Italy (1.1%) has flagged, while Ireland (7.8%!), Finland, Spain, Greece, Portugal, Luxembourg and Sweden have turned in strong performances, all with growth rates above 3%. The French economy (2.5%) resisted the external shocks better than expected, thanks to labor market measures favoring job creation. These recent differences should gradually dissipate over the forecast period, however, as the presently lagging countries within the euro zone catch up in terms of GDP growth.

According to the forecast, **total employment** should grow by 1.2% this year and next, and by 1.1% in 2001, both in the EU and in EUR11. This means that nearly 5.5 million new jobs could be created over the 1999-2001 period, which would take EU unemployment down from 9.2% this year all the way to 8% in 2001.

Average annual inflation will tick up slightly from the extremely low 1.2% in 1999 to 1.5% in 2000 and 1.6% in 2001. Here too, there are some differences among member states. In some EU countries (Germany, France, Austria and Sweden), inflation is projected at around 0.5% for 1999, which has raised concerns about deflationary risk. In others more advanced in the economic cycle (Spain, Ireland, Portugal and the Netherlands), inflation rates will exceed 2% in 1999.

This relatively benign development of domestic prices, despite a more adverse international environment (e.g. higher oil prices), is partly due to more competitive supply side conditions, including telecommunications and energy sector liberalization and its stabilizing impact on prices.

On the budgetary front, the forecast is also positive. Even with the economic slowdown early in the year – and less restrictive budgetary stances – total net borrowing in the EU in 1999 is forecast to be only 1% of GDP. With higher economic growth expected through at least 2001, the average EU deficit should continue to narrow.

The overall favorable nature of the Autumn Forecasts is apparently well supported by current economic indicators, but it could be jeopardized if the international environment turns out more adverse than expected, i.e. a "hard landing" of the US economy, or wage developments less moderate than at present. On the other hand, the forecast period has considerably more upward than downward risk, as both domestic and foreign demand are pointing in the same upward direction. Coupled with a clearly more stable macroeconomic framework, EU growth rates in 2000 and 2001 could well exceed 3%.

For complete details of the Autumn 1999 Forecasts, please visit: *http://europa.eu.int/comm/dg02/document/ecofore/index_en.htm.*

LAMY'S POST-SEATTLE POST MORTEM

"We have a clear conscience: we came to Seattle with an open approach and agenda."

Thus spoke EU Trade Commissioner **Pascal Lamy** in Seattle after the World Trade Organization (WTO) Ministerial meeting failed to launch a new trade round. At a press conference upon his return to Brussels on December 6, he said that the EU returns with open eyes, too.

According to Commissioner Lamy, the reasons for failure are both fundamental and circumstantial. Fundamental, because there is a gap between, on the one hand, the need to have a rules-based system governing multilateral trade and, on the other, the capacity of the WTO to take decisions. (In Seattle, Lamy characterized WTO negotiating procedures as "medieval"). As for circumstantial factors, while not blaming anyone, he cited the many comments about the influence of the US electoral calendar on the conference's work, recognizing the difficulty for any country to make concessions under such circumstances.

Lamy said that the EU had presented an open-minded and united front on the essential points, and had continually tried to bridge the obvious cleft between the US position (e.g. labor standards) and that of the developing countries. Negotiations stumbled less on issues proposed by the EU than on more traditional issues.

A multilateral system governed by rules continues to be necessary. This is why the WTO's functioning must be reviewed, so that it becomes, at the same time, more legitimate, more open, and more effective. In addition, developing countries must be shown that such a system is also in their interest.

To gauge the opportunity cost of the WTO's Seattle debacle, consider the finding in a recent Commission study on the economic benefits of a new WTO Round: further trade liberalization in a comprehensive Round could yield up to $400 billion in annual welfare gains – the equivalent of adding an economy the size of Korea or the Netherlands to world GDP each year.

For more information on the EU's "Millennium Round" preparations, as well as its participation at the Seattle conference, please consult: *http://europa.eu.int/comm/trade/2000_round/index_en.htm.*

LEGAL FRAMEWORK AGREED FOR ELECTRONIC SIGNATURES

In a major first step toward a European framework for the development of "e-commerce", EU telecommunications ministers have formally adopted a new legal framework guaranteeing EU-wide recognition of electronic signatures (see EURECOM, May 1999).

In the past, only hand-written signatures have been legally valid in the EU, but this legislation extends that recognition to electronic signatures, which allow someone receiving data over electronic networks (like the Internet) to determine the data's origin (identity) and to verify whether the data has been altered or not (integrity). And by laying down minimum rules concerning security and liability, the directive will ensure that electronic signatures are legally recognized throughout the EU on the basis of the single market principles of free movement of services and home country control.

"Doing business electronically is increasing rapidly both for companies and consumers. But without security and trust, there won't be a notable shift towards commercial and financial transactions on the Internet," said EU Enterprise Commissioner **Erkki Liikanen.** This directive will facilitate confidence in and growth of e-commerce, and it is a foretaste of the Commission's approach to develop the whole "sector".

The main elements of the new legislation (which is effective immediately) are:

- ***Essential requirements*** for electronic signature certificates, services and products to ensure minimum levels of security, allowing their free movement throughout the EU;
- ***Minimum liability rules*** for service providers, who would be liable for the validity of a certificate's content;
- ***Legal recognition,*** whereby an electronic signature would be legally equivalent to hand-written signatures – even as evidence in legal proceedings – as long as certain essential requirements are met;
- ***A technology neutral framework,*** providing for legal recognition of electronic signatures irrespective of the technology used (because it is changing so rapidly);
- ***Limited scope,*** so that closed user groups (e.g. corporate intranets, where a trust relationship exists) would not necessarily have to apply the directive;
- ***An international dimension*** to facilitate e-commerce at the world level on the basis of mutual recognition of certificates and on bilateral or multilateral agreements.

Just before EURECOM went to print, EU member states also reached a political agreement on an overall EU legal framework for e-commerce (see EURECOM, September 1999). It now goes to the European Parliament for approval under the co-decision procedure.

PRODI LAUNCHES *eEUROPE* INITIATIVE

Keeping with the same theme, the Commission has launched an initiative entitled *"eEurope – An Information Society for All"*, which proposes ambitious targets to bring the benefits of the Information Society within reach of all Europeans.

On December 8, European Commission

President **Romano Prodi** unveiled the *eEurope* project as one of his objectives and priorities for the Helsinki European Council on December 10-11, stating that "these (technological) changes, the most significant since the Industrial Revolution, are far reaching and global," and "they will affect everyone, everywhere." Managing this transformation represents one of the chief economic and social challenges facing Europe today. The *eEurope* initiative aims to overcome these challenges, thereby accelerating the European economy's modernization and contributing to employment, growth, productivity and social cohesion.

The key objectives of *eEurope* are: to bring every citizen, home, school, business and administration online and into the Digital Age; to create a digitally literate Europe, supported by an entrepreneurial culture ready to finance and develop new ideas; and to ensure that the whole process is socially inclusive, builds consumer trust and strengthens social cohesion. To achieve these objectives, the Commission has proposed **10 priority areas for joint action** – with ambitious targets – between the Commission, the member states, industry and citizens: bringing European youth into the Digital Age; cheaper Internet access; acceleration of e-commerce; faster Internet for students and researchers; smart cards for secure electronic access; risk capital for high-tech small businesses; access for the disabled; healthcare online; intelligent transport; and government online.

In its Communication, the Commission refers to the US experience, where Internet-related companies alone today account directly for 2.3 million jobs, which is up from 1.6 million in 1998.

According to Enterprise and Information Society Commissioner **Liikanen,** Europe needs to build on its strengths. "It (Europe) has a leading role in mobile communications and in digital TV. Yet the uptake of the Internet has been relatively slow. These industries are currently converging, giving Europe the opportunity to capitalize on its technical strengths…and to lead the next great leap to a wireless Internet world."

QUOTES

"The American challenge to Europe is twofold. First, can Europe create jobs as successfully as the US has done? Second, can Europe do it while maintaining a fairer distribution of opportunities and income than in the US?…But I also want to issue a European challenge to the US: can you match our social achievement in terms of the fair distribution of opportunities and income? European Commission President ***Romano Prodi.***

"The G-7 today seems to be redundant and at the same time inadequate. Redundant, because from the monetary point of view there are now three and not seven relevant entities – the dollar, the euro and the yen. Inadequate, because there are new protagonists in the world economy like China, Russia, Brazil, India and Mexico who want to participate in decisions." European Central Bank board member ***Tommaso Padoa Schioppa.***

"My vision for Britain is as a bridge between the EU and the US. The EU and the US standing together, coming closer, is the single most urgent priority for the new international order – for reasons of economic development and for reasons of global security." British Prime Minister ***Tony Blair.***

"Given its discomfort with the weak euro – actually, the strong dollar – Europe may want to create a benchmark other than the dollar for evaluating the euro. Otherwise, it will trap itself into viewing the world through American asset valuations." ***David Malpass,*** *chief international economist for Bear Stearns.*

The *eEurope* initiative will be implemented during the upcoming Portuguese presidency, and will be the centerpiece of an extraordinary European Council on Employment, Economic Reform and Social Change in Lisbon in March 2000. A text of the Communication is available at: *http://europa.eu.int/comm/dg13/index.htm.*

EU AND MEXICO CLINCH FREE TRADE ACCORD

On November 24, 1999, after just one year of talks (but following two intense weeks of negotiations), EU Trade Commissioner **Pascal Lamy** and Mexican Trade Minister Herminio Blanco reached agreement on the terms of a Free Trade Area (FTA) between the EU and Mexico.

The EU's first such agreement with a Latin American partner, the FTA is, at least in terms of coverage, "the most ambitious FTA ever negotiated by the EU," covering all areas of the trade relationship:

- an FTA covering industrial and agricultural goods;
- a preferential agreement in services;
- an agreement to open up respective public procurement markets;
- an agreement covering investments;
- rules on competition and intellectual property;
- and an effective dispute settlement system.

Commented Lamy: "We are confident that through this agreement, considerable economic and commercial benefits will be derived by both the EU and Mexico. Our trading relationship, which has declined over previous years, should improve markedly now that we will both be able to export to each other's markets on a level footing with other preferential partners."

This deal builds on the trade aspects of the existing Economic Partnership and Cooperation Agreement signed by Mexico and the EU in 1997, providing not only for free trade across the board, but also for a qualitative leap in the relationship, including a regular political dialogue and extended cooperation.

As with all international agreements the EU signs, the FTA must be ratified by the member states' parliaments *and* the European Parliament before it can take effect.

...IN BRIEF

...The European Council summit in Helsinki on December 10-11 had just gotten underway as EURECOM went to print. Preliminarily, the EU heads of state and government had agreed to extend formal accession talks to six more candidate countries along the lines proposed by the Commission in October (see EURECOM, November 1999). In addition, **Turkey** was deemed a candidate country for accession in the future. EURECOM will return to the landmark Helsinki summit in more detail in next month's issue.

...For the first time in seven years, **average annual unemployment in the euro-zone** fell below 10% (to **9.9%**) in October, compared with 10% in September 1999 and 10.6% a year ago. In the EU15, the rate stayed at 9.1% in October. **Luxembourg** (2.7%) and the **Netherlands** (3.0% in September) once again registered the lowest rates among the member states, while **Spain** remained alone at the top with 15.3% (next highest was France at 10.6%).

...As mentioned in last month's EURECOM, the Commission has issued its contribution to preparations for the Intergovernmental Conference (IGC) on institutional issues related to enlargement. In it, the Commission fully endorses the view that the IGC could be wrapped up successfully by the end of 2000 by focusing solely on institutional issues, and it sets out five areas for substantial reform: **1)** in decision-making, qualified majority voting within the Council should become the norm; **2)** the IGC should consider separating the sections of the Treaties that deal with fundamental issues from the implementing rules, to allow simpler modifications in the future; **3)** representation in the Council should reflect more closely the relative weight of the different member states; **4)** the other EU institutions also need reform; and **5)** the working methods of all the institutions should be reviewed.

...On May 31 – June 1, 2000, the United Nations, international development banks and leading CEOs will review the potential for increased business participation in all aspects of the UN's work at a high-level conference – **Aid & Trade 2000.** Among the topics for enhanced UN-business collaboration are: conflict prevention, post-conflict reconstruction, and procurement information for companies interested in bidding for UN and development banks' contracts. To register, or for more details, please visit *http://www.aidandtrade.com.*

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For additional information on any article in this issue, please write or telephone Christopher Matthews or Kerstin Erickson at (212) 371-3804.

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European Commission
3 Dag Hammarskjold Plaza, 305 East 47th St., New York, NY 10017
Telephone (212) 371-3804