Regions of the Union: economic and social situation and development. 6th periodic report

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PURPOSE: to provide an update on the social and economic situation and development of the regions of the European Union. CONTENT: This report coincides with an important moment both for the European Union as a whole and for cohesion policies in particular. The transition to the Euro has already started and there is the prospect of enlargement towards Central and Eastern European countries. This occurs against a backdrop of increasing globalisation and a 'second industrial revolution' based on information technology. This report provides background information on social and economic trends in the regions, updates much of the information contained in previous Periodic Reports and the First Cohesion Report (1996), and also contains new data and analyses. In previous Periodic Reports and in the Cohesion Report, the first signs of real convergence of lagging regions were detected, but the message was mixed, with some indicators showing convergence while others were unclear. The evidence is now unambiguous: the GDP, or output, per head of poorer regions is converging towards the EU average. Over the 1986-96 period, the following changes are evident: - GDP per head in the 10 regions where this was lowest rose from 41% of the EU average to 50%; in the 25 poorest regions, it rose from 52% to 59%; - GDP per head in the 4 Cohesion countries rose from 65% of the EU average to 76.5% and, according to forecasts, to 78% in 1999. This unusually rapid pace of convergence has been driven largely by closer economic integration, but the Structural Funds have also played an important part. However, the above figures also show that significant disparities remain: even where catching up is occurring relatively rapidly, the full process can take a generation or more. In addition, although most regions are experiencing at least some convergence, their performance varies widely. The more favoured lagging regions (e.g. capital cities such as Lisbon and Dublin) are catching up more rapidly than their rural hinterlands. This shows the importance of reviewing the distribution of assistance periodically to ensure that scarce resources are concentrated in the regions that most need it. Although regional output is converging, the situation regarding unemployment is less good. Despite cyclical recovery since 1994, EU unemployment still stood at just under 10% in late 1998. Rising unemployment over the past 25 years or so has affected some regions much more than others: the 25 regions with the lowest rates of unemployment are much the same now as 10 years ago, whereas the rates in the most affected regions have climbed from 20% to nearly 24%. Of particular concern is the scale of long-term unemployment: 40% of the unemployed have been out of work for a year or more, 30% for at least 2 years. A closely related problem is the exclusion from the labour market, in particular, women and young people. In the 25 regions with highest unemployment, the long-term unemployed account for 60% of total unemployment (as against 30% in the 25 regions with the lowest unemployment). Moreover, only 30% of women of working age have a job andyouth unemployment rates average 47%. The resumption of growth alone will not resolve such problems: what is needed is an integrated approach combining a strengthening of the economic base with training measures aimed at improving the skills of those disadvantaged in the labour market and getting them into work. The regions of Europe can be roughly divided into three types: - large urban service centres; - industrial regions, the economy of which tends to be centred on medium-sized cities, which are often part of a network; and - rural regions, with relatively high employment in agriculture. Policy needs to be tailored to their different types of needs. Demographic trends are likely to affect the EU labour market substantially in the long term, and the report examines projections to 2025. Three main factors are evident: - low birth rates will mean an ageing of the population, with consequences for pensions as well as for healthcare; - the labour force will continue to age, raising questions about its future adaptability to technological change; - labour supply is projected to increase up to 2005, due mainly to increasing female participation rates, and, less so, to continued inward migration. From then on, declining population of working age should begin to have an effect and the labour force is projected to start shrinking from 2010 onwards. Competitiveness has two dimensions: productivity and employment. The EU is performing reasonably well on the former and badly on the latter. Income and output growth of just over 2% in the

last decade came mainly from increased productivity, which grew at almost 2% per year, while employment rose by less than 0.5% per year. There is, therefore, a need to increase the employment-intensity of growth. Lagging regions face the double challenge of catching up with the present, as well as adapting to the future. In regard to competitiveness, it should be noted that, although there has been some narrowing in recent years, the technology gap between the Cohesion countries and the other Member States far exceeds the gap in GDP per head (except in Ireland). The report examines the role played by SMEs play in job creation and the development of lagging regions, the role of foreign direct investment, disparities in transport infrastructure, the availability of reliable sources of energy at reasonable cost, disparities in human capital, and institutional factors (social capital or lack of it, efficiency of public administration). The report also looks at the role of EU structural actions: it would appear that the impact of the Structural Funds on assisted regions has been significant in the reduction of disparities across the Union. The report does, however, show that the effectiveness of the Structural Funds depends on other factors, such as sound macro-economic and other policies at the national level and the structure of economic activity in the region concerned. Lastly, the report looks at the Central and Eastern European (CEE) countries and Cyprus and their preparedness for accession. These countries face formidable structural problems in terms of unemployment, boosting output andregional disparities, as well as the challenge of globalisation. In addition to the economic challenges, the CEE countries still need a lot of investment in transport infrastructure and environmental protection. Despite major structural problems, most CEE countries have yet to develop regional policies. CEE regional policies are still weak, lacking a comprehensive strategy and a programming approach. Measures tend to take the form of limited projects, implemented through sectoral policies which are only loosely coordinated.