Erkki Liikanen: European integration in a global economic setting – CESEE, China and Russia

Opening remarks by Mr Erkki Liikanen, Governor of the Bank of Finland, at the Conference on European Economic Integration (CEEI) 2011: "European Integration in a Global Economic Setting – CESEE, China and Russia", Vienna, 21 November 2011.

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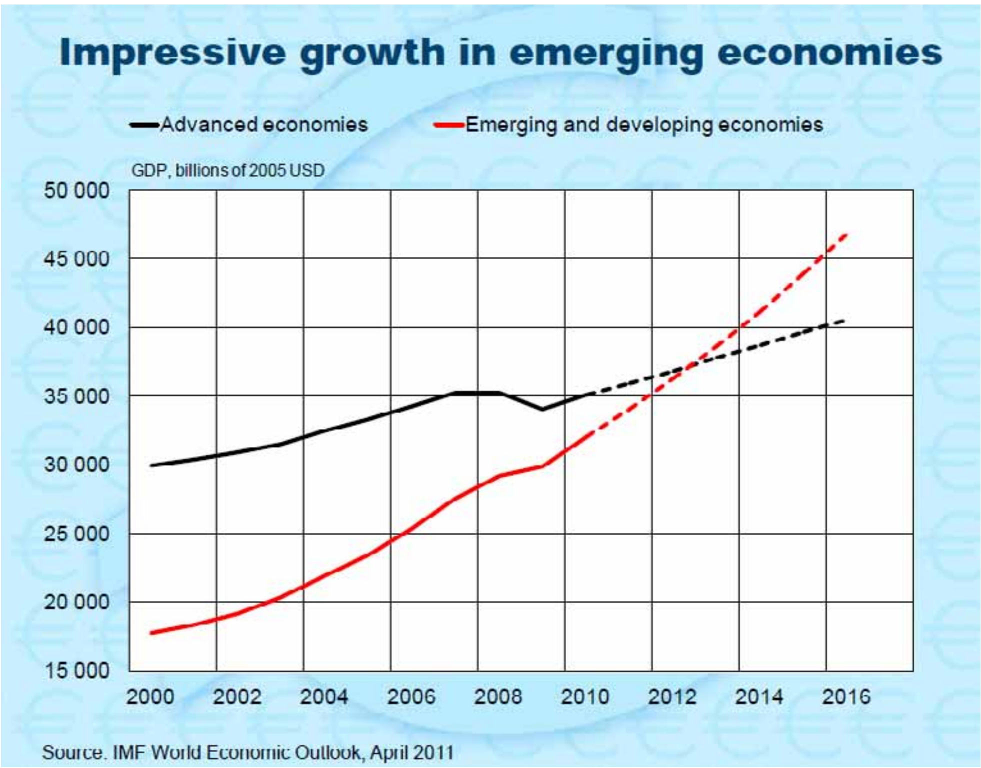
Thank you very much, Ewald! Let me start by expressing how much I and the whole Suomen Pankki appreciate the invitation to join the National Bank of Austria in organizing this exciting conference. This conference is a great example of cooperation between two members of the Eurosystem. I am very glad so many of you have been able to join us.

The topic of this conference is timely: The emergence of China has been one of the key defining trends of the past two decades in the global economy. Chinese manufacturing goods are competing at higher and higher levels of sophistication, and the effects are being felt all over Europe and the rest of the world.

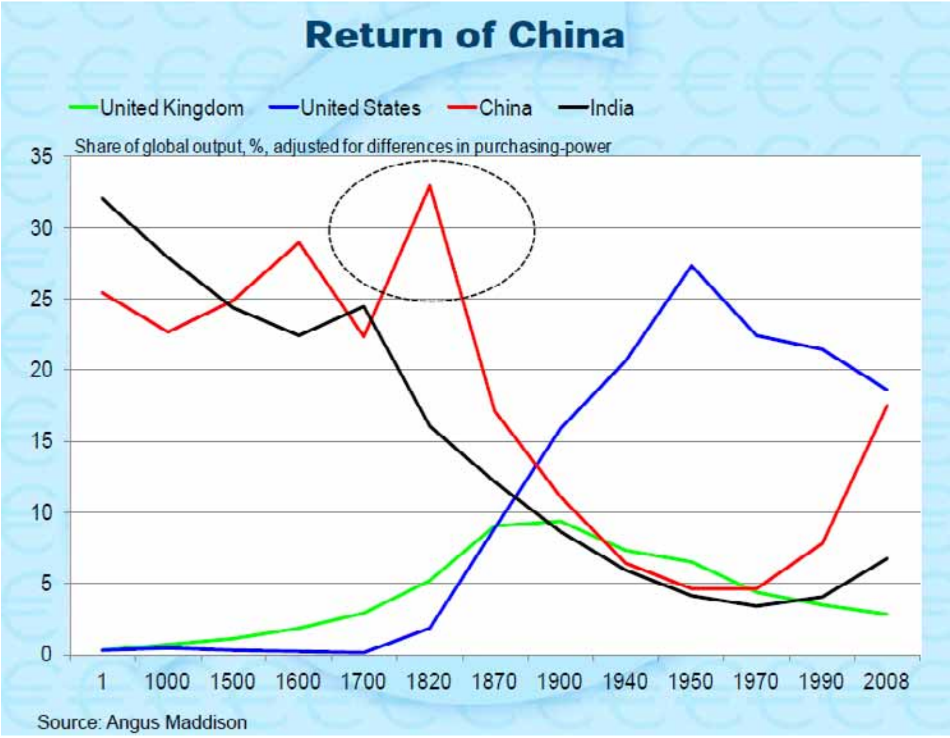
At the same time, Russia's economic growth has also been impressive, and the country has become even more important for us in Europe. Russia is particularly important as a source of energy and Russia's growing standards of living have enabled many countries – including Finland – to export more there.

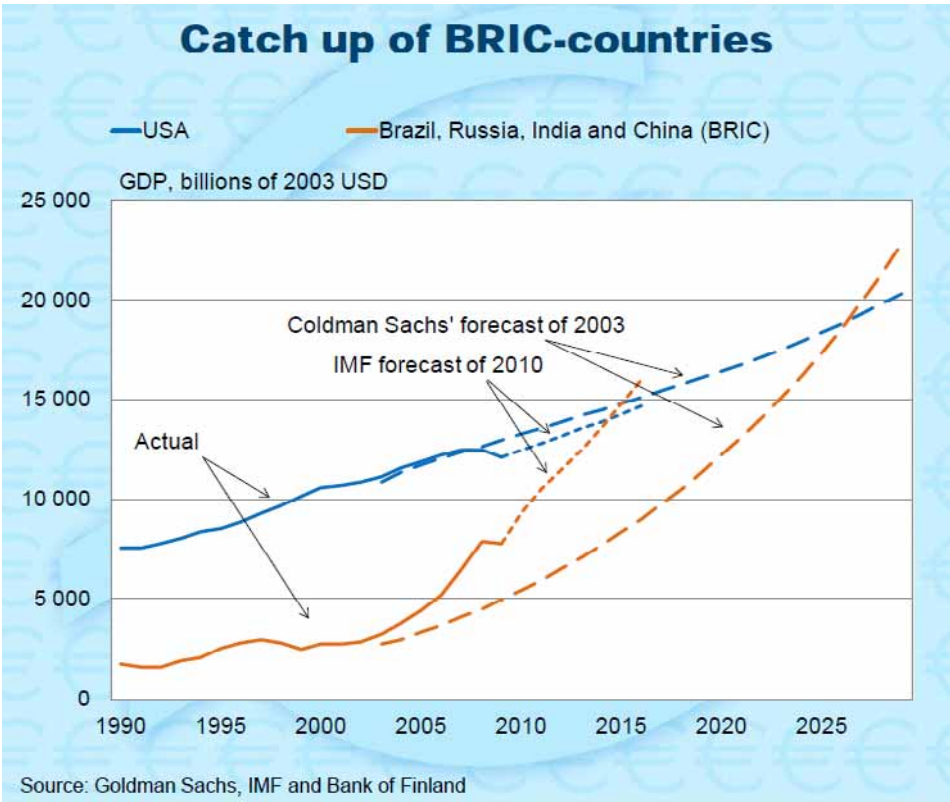
Furthermore, we should not forget the other emerging market and developing countries that have succeeded in growing at a rapid pace during the past years and even decades. During the "Great Recession" most large emerging market economies continued to grow, while advanced OECD countries contracted.



This means that – adjusted for purchasing power parities – the emerging and developing economies will overtake advanced economies, perhaps already in 2013.

While this is a significant shift in the balance of economic activity in the world, we need to also remember that we are witnessing a return to the situation that persisted for most of the past two millennia. China accounted for more than one quarter of global output until the beginning of the 19th century, and the country is now on its way to a similar share of total output.

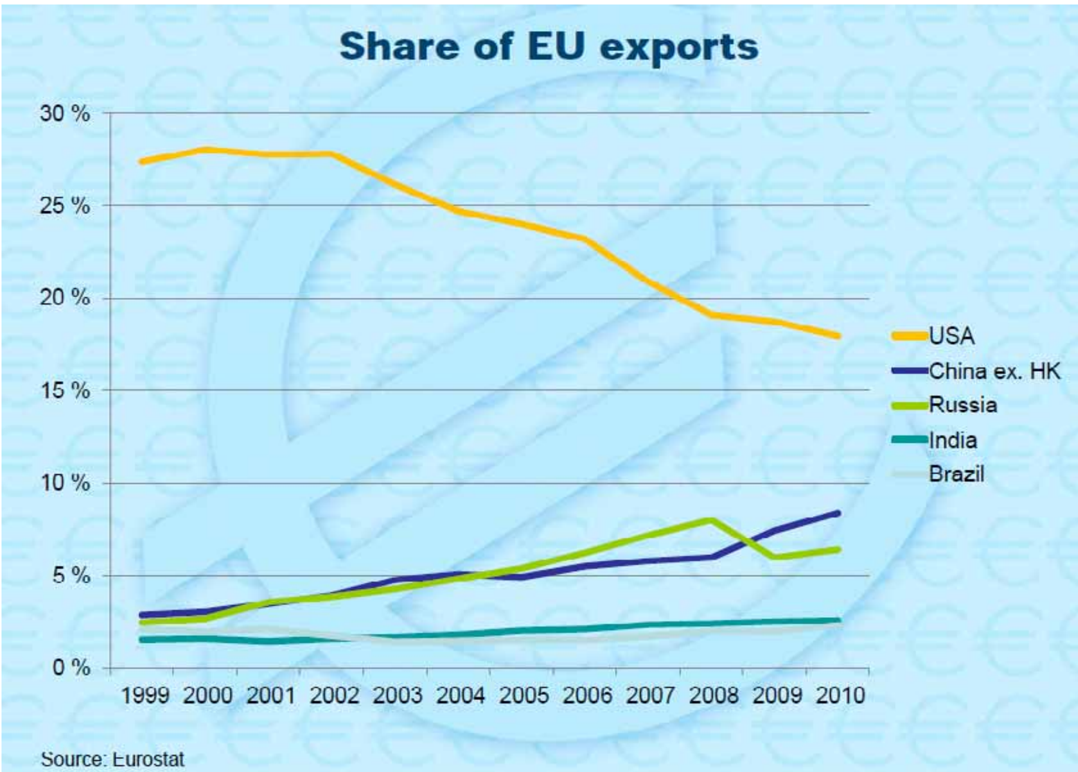




While this growing share necessarily comes at the expense of Europe and the US, we need to remind ourselves that the global economy is not a zero-sum game. A more affluent China also means larger export markets for European goods and services. Moreover, China is not alone.

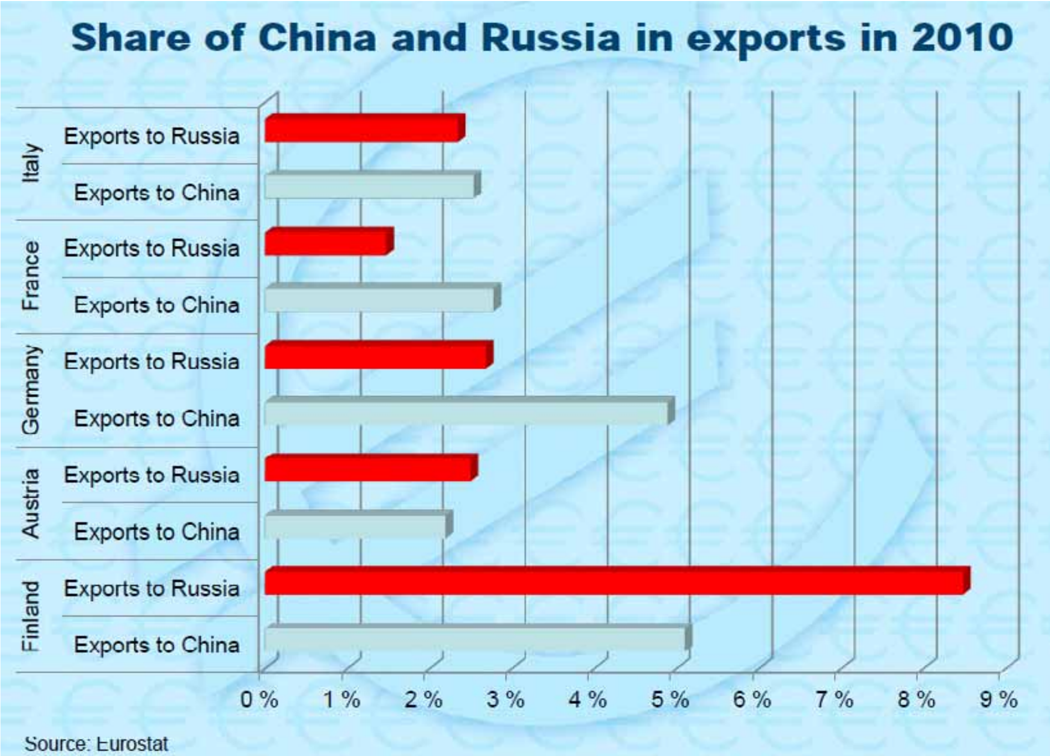
What's more, large emerging economies like Russia and Brazil have generally enjoyed rapid growth during the past years, partly because of their prudent economic policies, which have allowed them to utilize their catch-up potential to the fullest.

The catch-up has not been limited to the so-called BRIC countries, of course. Many smaller countries in Eastern Europe, Asia and Sub-Saharan Africa have become more integrated into the world economy, and – as a result – have been able to increase the welfare of their citizens. In many ways this conference is dedicated to discussing the results of this global shift of the balance of economic activity.



Given the importance of these rapidly growing economies, it is no surprise that that their share in the foreign trade of the EU countries has also grown. Last year, China accounted for 8.4% of all exports for the EU as a whole, while Russia's share was 6.4%. On the import side both countries were even more important, and China accounted for almost 19% of all imports to the EU. Russia's share was 10.5%. On the export side only the US was a more important trading partner than China, and on the import side China was clearly the most important trading partner, while the US and Russian shares were practically equal. It is obvious that we have become more dependent on the large emerging economies, especially China and Russia.

Given the growing importance of both Russia and China, it is interesting that within both the EU, and also the euro area, different countries still have different economic ties with these two emerging giants. Partially these differences are driven by geography, partly by economic structure.



For example, on the import side Russia is Finland's most important trading partner, accounting for some 18% of all imports. This is mainly due to the high level of natural gas and crude oil imports from Russia, together with the relatively high price for these commodities. The situation is similar in many EU countries in the Central and Eastern Europe, but even in Austria Russia accounts for less than 2% of total imports.

The emergence of China, Russia and other large middle-income countries as major global economic powers is one of the defining trends of the current century. I am very glad to be able to participate in this conference and to discuss various aspects of these changes with such esteemed researchers, policy-makers and representatives of the business community.

Before introducing Professor Andrew Rose, I would like to announce that the next Conference on European Economic Integration will be held in Finland, on November 26 and 27, 2012.

Now, let me introduce our first keynote speaker, Professor Andrew K. Rose from University of California, Berkeley. ***Andrew K. Rose*** is the B.T. Rocca Jr. Professor of International Business in the Economic Analysis and Policy Group, Haas School of Business at the University of California, Berkeley. He serves as Associate Dean for Academic Affairs, and Chair of the Faculty. He is also a Research Associate of the NBER (National Bureau of Economic Research, based in Cambridge, MA), and a Research Fellow of the CEPR (Centre for Economic Policy Research, London).

Professor Rose has published numerous articles in refereed economics journals, including the American Economic Review, the Quarterly Journal of Economics, the Review of Economic Studies, and the Journal of Finance. Rose is interested in the theory and practice of economic policy, and his research addresses issues in international trade, finance, and macroeconomics.