



Institute of Economic Studies UK-FSV and Czech Economic Society
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Invite for a lecture

***Globalization and Rising
Competition:
Challenges for the Czech Economy***

given by a very distinguished guest

***Angel Gurría
Secretary-General, OECD***

>> **On Thursday, April 24, 2008, 5 pm** <<

The event will be hosted by prof. Michal Mejstřík (IES UK-FSV).

Venue: Institute of Economic Studies, UK-FSV, Opletalova 26, Praha 1, aula 109

The event will be held in English. Its end is scheduled for 6:00pm.

Angel Gurría, OECD Secretary-General

Born on May 8th, 1950, in Tampico, Mexico, Angel Gurría took up the post of Secretary-General of the OECD on 1 June 2006 following a distinguished career in Mexico's public service, including two ministerial posts.

As minister of foreign affairs from December 1994 to January 1998, he made dialogue and consensus-building one of the hallmarks of his approach to global issues. As Mexico's minister of finance and public credit from January 1998 to December 2000, he steered Mexico's economy through a change of Administration without a repetition of the currency crises that had dogged previous such changes.

Mr. Gurría developed a close relationship with the OECD, overseeing the initial years of Mexico's membership and chairing the OECD's Ministerial Council Meeting in 1999. Previously, he was part of the team that negotiated Mexico's admission to OECD.

Mr. Gurría holds a B.A. degree in Economics from UNAM (Mexico), and a M.A. degree in Economics from Leeds University (United Kingdom).

He served as Mexico's Permanent Representative to the International Coffee Organisation, based in London, from 1976 to 1978, and held various roles in the financial area of Mexico's Federal Electricity Commission, National Development Bank (Nafinsa), Rural Development Fund, and the Office of the Mayor of Mexico City. Following a 14-year tenure at Mexico's Finance Ministry from 1978 to 1992, he became President and CEO of Mexico's export-import bank, Bancomext in 1992. In 1993, Mr. Gurría was appointed President and CEO of Mexico's national development bank, Nacional Financiera, specialised in supporting small and medium-sized enterprises.

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Charles University

“Globalisation and Rising Competition:
Challenges for the Czech Economy”

Lecture by Angel Gurría,
Secretary-General
OECD

Prague, 24 April 2008

Good afternoon Ladies and Gentlemen,

I am delighted to be at Charles University. It is a privilege to speak in an educational institution which has its origins in the 14th century; with one of the richest traditions in Europe in historical and cultural terms.

It is also a very interesting opportunity to talk about globalisation in the Czech Republic; a country that has experienced a remarkable transformation from a centrally planned economy into one of the most globally integrated economies in the world. I can think of very few countries where trade represents 150% of their GDP.

Let me start by telling you the main reason of my visit to Prague. We came here to release the OECD 2008 Economic Survey of the Czech Republic. I came to meet with key decision-makers to report our findings and policy recommendations. I am happy to report that the Czech Economy is making progress at a steady pace. With real GDP growth over 6% since 2005 and a manageable inflation risk, the country is one of the economic bright-spots in the region, and indeed in the whole of the OECD. Growth will slow down slightly this year but, so far, the global financial turmoil has not affected the economy in any significant way.

However, this is certainly no time for complacency. The Czech Republic still faces important domestic challenges, like ensuring fiscal sustainability; at a time when global turbulences demand constant policy adjustments. We are living challenging times indeed.

Globalisation is testing the quality of our policies and the efficiency of our institutions. The constant application of innovation to production, transport and communications has transformed the world economy into a constantly changing, highly integrated and competitive place.

We are witnessing the emergence of a true global economy; with new leading actors, and new challenges that can only be addressed through collective responses. The current financial crisis, the so called “silent tsunami” of rising energy and food prices, the threat of climate change, the deadlock of Doha or the burden of growing inequalities are demanding concerted solutions, deeper social engagement and better international frameworks and organizations.

Making the most of globalisation

Globalisation has produced many benefits. The world economy has experienced one of its most dynamic expansions ever, in the past 15 years, world trade has tripled and the global stock of foreign direct investment (FDI) has grown five-fold and the number of patents reached a record 5.6 million.

These figures translate into higher family incomes, millions of jobs and unprecedented scientific and human progress.

However, globalisation has also contributed to growing inequalities both in developing as well as developed countries. According to our forthcoming study “Growing Unequal”, most OECD countries have experienced a worsening of income the distribution during the past 20 years.

Globalisation has multiplied opportunities, but it has also increased competition for markets and investments.

How can a country like the Czech Republic make the most of globalisation? How can its companies best compete in such an integrated and competed world economy?

The answer is not very complex: by increasing its productivity and its competitiveness.

The art of raising competitiveness

Competitiveness is about creating the right environment, with effective and innovative policies, to boost the productivity of the companies operating in your country. Thus, we become alchemists; we combine policies, instruments and signals to produce intangible assets like sustainable growth, monetary stability or low inflation. This is why, in the words of Peter Senge, “decision-makers often have to think more as gardeners than as mechanics”.

At the OECD we have identified a group of key policy areas which can help create this environment.

Let me touch briefly on three of these.

1. Education

Raising the quality of our human capital is certainly one of the most important ingredients of a competitive economic policy. In a world of global digital networks and knowledge-based economies, education is the ultimate comparative advantage.

Globally-oriented firms seek internationally-competent workers versed in foreign languages and mastering inter-cultural skills to successfully interact with international partners.

The internationalisation of the labour market for the highly skilled also means OECD employers will increasingly need to look abroad for talent as new graduates will become insufficient to replace workers going into retirement.

The Czech Republic still faces important challenges in education; in spite of recent important achievements.

Spending on education, for example, increased by 45% between 1995 and 2004; but the share of students with tertiary education has barely increased —widening the gap with

the OECD average. The Czech Republic has one of the highest shares of population with upper secondary education in the OECD, but students still receive one of the lowest number of instruction hours in the OECD and the unemployment rate of those who leave the secondary education system without a diploma is considerably higher than the OECD average.

In the coming years, it will be crucial to increase the employability of those who leave the system without diplomas, to find new sources to finance an increase in the number of university students and to improve access to education for adults.

These and other improvements, proposed in our PISA studies and our 2006 Review on Tertiary Education in the Czech Republic, will help this country raise the quality of its labour and the research and development (R&D) capacity of its economy.

This takes me to the next crucial instrument to face the challenges of globalisation: innovation.

2. Innovation

Innovation is progress. Through promoting and strengthening innovation performance, countries become more competitive, more attractive for investment and more prepared to face the emerging economic, social and environmental challenges of globalisation.

The link between innovation and economic performance is becoming more widely appreciated in public policy. This reminds me of a quote in one of Michael Mandel's last books: "Politicians and economists that don't talk about technology when explaining economic expansion are "enemies of growth"". This could be put in more diplomatic terms, but it certainly touches on an important issue.

Modern economies are built with ideas and knowledge, as much as with capital and labour. At the OECD we believe the creation, dissemination and application of

knowledge will continue to be the main engine of national and global economic expansion for many years.

A key challenge is how to move economic activity further up the value chain and address growing competition from low-cost economies. Products and services produced by Czech firms that are currently regarded as innovative and competitive will ultimately end up as commodities that can be produced anywhere. The large presence of multinational firms in the Czech Republic makes this a particularly relevant concern.

A number of factors are determinant to strengthening the Czech Republic's innovation performance. Let me mention five of them:

- Of course, one of the main drivers of innovation is education. A well performing and accessible education system facilitates the adoption and diffusion of innovative activities. The Czech Republic is still one of the OECD countries with the lowest shares of population with tertiary education; this is not compatible with a long-term innovation policy.
- Improving framework conditions is fundamental. An efficient public infrastructure, a fair competition environment, a business friendly corporate tax system and a flexible labour market, are key factors to strengthen the Czech Republic's investment promotion capacity.
- Building a pro-innovation environment based on local strengths. Innovation builds on local capacities that can be fostered by a strong and vibrant research base, effective protection of IPR and a well-trained internationally oriented workforce.
- Strong international linkages are also crucial. Innovation grows through strong linkages to knowledge from abroad. Czech policy-makers can foster openness and global linkages by supporting the internationalisation of universities and public

research organisations and by facilitating the international mobility of researchers through appropriate migration policies.

- And, last but not least, policy coherence. As innovation draws on a wide range of factors and policies, co-ordination across various policy areas (education, science and innovation, but also macroeconomic, trade, fiscal, competition, development and employment policies) is essential.

A third key element which can help a country like the Czech Republic in raising its competitiveness in a globalised world is an effective migration policy.

3. Migration

International migration is becoming one of the most dynamic elements of globalisation. Migrants are turning into genuine engines of economic growth in many OECD countries.

Migrants are a growing source of global competitiveness, especially in countries where population ageing is starting to create important bottle-necks, or in countries with a low tertiary education attainment. The Czech Republic has both problems. Thus, policies to attract and integrate immigrants will be determinant for this country's capacity to make the most of globalisation.

The Czech Republic is, next to Japan, the country where the working-age population will decline the most over the next 10-15 years. The fertility rate (1.3) is one of the lowest in Eastern Europe. The latest population projections suggest that by the year 2050 the total population could be somewhat smaller than its current level of almost 10.5 million.

The Czech Government has taken various initiatives to promote immigration; particularly of highly skilled workers. However, the success of some of these initiatives has been rather limited so far; reflecting the difficulties of attracting immigrants that have the option of migrating to other OECD countries as well.

In several key sectors, the Czech economy is more a source of emigration than an attractive pole for immigration. The case of the health service is particularly important. According to a 2004 survey cited in our International Migration Outlook, 48% of Czech health-care professionals expressed their intention to work abroad. When your population is peaking and your educated youngsters want to work abroad you know you have a problem.

An intelligent migration policy is a strategic tool to ensure the Czech Republic's competitiveness, its fiscal sustainability and therefore its long-term economic prosperity.

Implementing effective and innovative policies in these three areas (education, innovation and immigration) will be crucial to enhance competitiveness and productivity in the Czech Republic. In parallel, our Economic Survey recommends other specific measures like: further liberalising the services sector to increase international competition; improving the overall stock-taking of the investment incentive schemes; developing further the support schemes for export-oriented SMEs; and ensuring an efficient and environmentally friendly regional transport system.

[The OECD is ready to help](#)

As a multidisciplinary organisation, the OECD is an ideal platform to support the Czech Republic's effort to better compete in a globalised economy. As I have told Czech government officials, both in Paris and here in Prague: you must consider the OECD as an extension of your own capabilities.

We are already supporting the Czech reform effort with our Going for Growth study and our periodic Economic Surveys. We are also providing tools to improve the educational system with our Education at a Glance, the Tertiary Education Review and the triennial PISA studies. A balanced regional development is crucial to make the most of globalisation and our Territorial Review of the Czech Republic can help achieve this objective. We have also worked on other country studies like ageing and employment, energy, social assistance and environmental performance.

And we can do more. The OECD Innovation Strategy should become increasingly relevant to the Czech Republic's concerns. The Competition Committee will be preparing for a peer review of the Czech Republic in June 2008. We are also exploring the possibilities of doing a Territorial Review of Prague. And we are looking at ways in which we can assist the Czech Republic to prepare for your presidency of the European Union starting January 2009.

Ladies and Gentlemen,

Globalisation can be turned into a great opportunity if we empower our economies and our people with the appropriate frameworks, infrastructure and knowledge. In the coming four decades, we will become a planet with 9 billion people, with 80% of the world's population living in today's developing countries.

What is the place you want to have as a nation in 2050? How will your future generations profit from that scenario? Only one thing is certain: to make the most of this emerging new global reality, you will need enlightened policies and enlightened ideas. Many of them will very probably come out of this prestigious institution. The OECD will be working with you to turn those ideas into realities.

Thank you very much.