

Philip Caune: Education is Key to Moving Up the Value Chain

The wealth of countries is mostly directly correlated to the income structure of its population. To maintain competitiveness or secure profitability, companies from wealthier countries set up production sites in less wealthy European Countries to benefit from cost depression effects. Such initiatives lead to an increase of wealth in poorer European countries, with obvious benefits. Nevertheless, I am of the opinion that this growth is limited in sustainability.



The issue is that this growth is mainly driven by one out of a number of possible value adding levers. In industry, added value can be generated through production, through services but also through inventions. Companies are often limited to focusing on production as they face a lack of highly educated people in poorer countries. For example according to the OECD, the PHD rate in Hungary is only about one third compared to the German numbers. This difference is possibly driven through the correlation between parental and student educational achievement which is still very high in Hungary. Furthermore the well-educated sector of the population often goes for job opportunities in richer countries.

This leads to a war fierce competition for talent with the consequence that companies are bidding up the wages for specific educational backgrounds. This, in turn, eliminates most of the cost benefits that companies are searching for. The most significant effect is that many companies retain their center of competencies in the classic industrial countries and support or even substitute them through offshore centers in BRIC countries.

Consequently, companies miss the opportunity to benefit from European diversity and to generate through this asset a possible USP.

But how could this effect be eliminated? If we look at OECD reports on Eastern European countries, the correlation between parental and child education remain very high there. Even if exceptions exist in the Baltic States, this is an issue that needs to be tackled through a change of the mindset. Further, there needs to be enough choice for potential students to get the education they want and need. For this, the national education systems may not be sufficient.

I would therefore like to raise the idea of encouraging universities from wealthier countries to found branches or set up cooperation in those European states where an increase in standards of education is required. This model could also bring significant

benefit to students in wealthier countries as they could benefit from the diversity and intercultural insights.

Ladies and Gentlemen,
focusing solely on cost of production is short sighted. If we succeed in getting a larger number of young people in Europe a better education,, we can capture additional value in many fields, add to our value chain and improve both European competitiveness and financial opportunities for all stakeholders.

Thank you