

The Respekt Institute / British Embassy Seminar Series

'Europe's Global Dimension'

Background paper: The EU and Global Competitiveness¹

There is a vast body of literature dealing with the factors influencing competitiveness in the global economy. There is also large amount of writing addressing the specific aspects of European competitiveness including policy strategy agreed at the Lisbon Council in March 2000 to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion." Due to scope of available material, the goal of this paper is not summarise all current knowledge with regard to the European competitiveness in global settings. The aim of the author is to outline some key points with regard to the EU global competitiveness and more importantly set questions in order to support constructive and potentially rewarding debate.

Emerging economies challenge

Globalisation used to mean expanding business to developing countries or outsourcing production/services to the regions with lower labour cost. Today, a better characteristic of globalisation is "competing with everyone from everywhere for everything" (as put by the Boston Consulting Group in a new book "Globality"). The emerging economies are growing at unprecedented pace. Goldman Sachs, an investment bank which coined the BRIC acronym (Brazil, Russia, India, China) expects China's GDP to surpass America's before 2030. Before the fall of the Berlin Wall only 10 per cent of manufactured goods came from developing countries. By 2020 that figure is forecast to exceed 50 per cent.

Not only do fast growing countries compete for consumers in developed countries, but they are able to address growing number of consumers in developing countries with products which are profitable at much lower prices than in the developed countries (e.g. Indian Tata's Nano or Chinese Lenovo's cheap PC for farmers). The fast growing economies are ever more able to innovate in terms of their business models as well as products. Increasingly, emerging economies no longer compete on price alone but in highly skilled and value-added activities such as software production. The global competition in services, which accounts for over 70 per cent of GDP (as well as employment) in advanced economies, has also significantly intensified.

In addition, firms from emerging economies acquire businesses in both developed as well emerging economies (for example Indian Tata's purchase of Jaguar and Land Rover or Brazilian CSN's

¹ This paper was prepared by the Respekt Institute (Prague) as a background material to support expert debate in the framework of a series of seminars and events to consider global issues affecting the European Union held in partnership with the British Embassy in Prague. It is not a statement of UK Government policy.

acquisition of Corus, a European steel company) and open new production operations in developed countries, as they claim they need to be close to their customers.

On the one hand, European companies must grapple with additional burdens such as pensions, health-care liabilities, workplace safety standards, and traditional ways of thinking of workforce as well as many political/economic leaders. On the other hand, in general, they maintain advantage of management expertise and experience, and enjoy access to publicly funded research and education.

Demographic challenge

Europe's working population (15–64 years) is expected to fall from 67% of total population in 2004 to 57% by 2050. At the same time, the proportion of elderly people (65+) is expected to double from 16% in 2004 to 30% in 2050, an increase of approximately 60 million people. This will create twofold pressure on public finance as there will be higher pension and healthcare costs, and at the same time there will be less economically active to produce wealth and be taxed.

Human resources challenge

There is widely accepted evidence that a better qualified workforce means higher flexibility to deal with the speed of global economic change. However, only 20% of the EU population have reached tertiary education, as opposed to 40% for the US or Japan. Highly skilled workers accounted for more than a quarter of the workforce in only nine countries of the EU27.

Individual challenge

The pace of change and continuous adjustment leads to the situation where it will be increasingly rare for any individual to spend his or her working life with the same company or institution. Moreover, apart from the increasing need to move from one organisation to another, individuals will be more often required to switch carriers. One of the last securities, i.e. the internal security of occupation, has been gradually fading.

Where we need to get to?: Prague (Lisbon, Brussels, London...) Consensus

There is a shared understanding that today's competitive advantage of the European Union is knowledge. It seems there have been developed a general consensus where Europe needs to get in order to meet the challenges of this new global economy. There can be identified three key imperatives of the consensus. However, various actors/Member States might stress slightly different elements of the consensus.

- **Innovation** - an ability to commercialize ideas (R&D which leads to innovations, cooperation of universities with business, increase productivity, effective and efficient intellectual property rights protection, more competition to induce more innovation, availability of venture capital)
- **Life-long learning** - from kindergarten to retirement (increase proportion of population which reached tertiary education, increase participation in adult education, labour qualification to match market needs - review of skills, individual responsibility for personal skills development)
- **Flexicurity** - safety net which supports employees adaptability and mitigate negative impact of change (improving functioning of labour markets, moving more people into work, make work pay, social risk management)

It is also understood that Europe needs to tackle

- Adverse demographic development (blue/green cards, successful integration of immigrants, reduction of eligibility of early retirement together with flexible labour market arrangements)

We might well know WHERE we need to be, but we will not succeed unless we know HOW to get there. Although there might be generally shared views of priorities, the policy (change) implementation seems to be of crucial importance.

Potential debate questions:

What are the characteristics of successful innovation strategies?

What are the main barriers preventing better innovation in Europe ?

How to attract private resource to be invested in R&D?

How can we make most out of innovative businesses with regards to the overall economy and employment?

How to create “venture capital” for most talented students to remain in universities and engage in research?

How to ensure best transparency of public spending on R&D (research results, graduates employability, etc.)?

How to evaluate the use of R&D outputs?

How to encourage service innovations?

How to support the cooperation of universities with businesses?

How to engage universities in the economic and social development in their locality?

What are the best intellectual property rights arrangements in order to support innovation?

How can private spending on education be encouraged?

How to create platforms for 'just in time' rather than 'just in case' training?

How can we successfully incentivize individuals to take responsibility for continuous learning?

What are the human capital barriers European companies face?

Where is the right balance between employment flexibility and security?

How to make the European social model supportive to EU competitiveness?

How to prevent social exclusion of the most vulnerable Europeans?

What might be the role of advanced information technology such as web 2.0?

State aid vs. competition in case of public support of R&D and human resources development – how to ensure equal access of all (relevant) agents? How to ensure inclusiveness for all economic players?

Does competition inside the EU, e.g. through different tax regimes, support global EU competitiveness?

How can we motivate economic and political actors to follow this path to competitiveness?

What needs to be done specifically at the EU, national, regional, local levels?

How to communicate the needed changes and reforms to public? How to get public support?

Lisbon Strategy is in the heart of the EU response to global competitiveness. However, Lisbon strategy is based on Open Method of Coordination, i.e. no recommendations/measures are binding to the Member States. Do we need to employ different mechanisms at the EU level?

Last but not least, is the above outlined consensus a complete strategy, or do we leave some crucial parts out? Shall we employ significantly different approach?