COMPETITIVENESS OF THE EUROPEAN UNION UNDER THE STRUCTURAL FUNDS FRAMEWORK AND THE LISBON AGENDA

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Introductory remarks

The Lisbon strategy goal to make the EU "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010" was adopted by the European Council in 2000. In 2004, the European Council and the Commission decided to prepare a mid-term review of the Lisbon process. Former Dutch Prime Minister Wim Kok was mandated by the March 2004 European Council to lead a group of experts with the objective of reviewing the Lisbon strategy. The Kok report concluded in November 2004 that little progress had been made over the first five years and recommended to refocus the agenda on growth and employment. It also underlined the need for real ownership by the Member States of the reforms needed.

While attempting to decode the significance of the Lisbon agenda and the revised Lisbon strategy for the concept of EU economy competitiveness, one can depict two important facets:

1. the endogenous[1] potential of competitiveness (absolute competitiveness) arising from the investments that the EU as a whole and its Member States are making in the field of research, innovation and development, human capital, physical capital etc;

2. the exogenous[2] facet of competitiveness (or relative competitiveness, more intimately connected to the idea of competition) coming from the correlated and integrated development trends at European and international level. This incorporates the characteristics of international trade, finance and investments on a global scale in which the European Union is a player together with other players.

On the background of these assumptions, it is relevant to analyze the extent to which the EU competitiveness is driven by this mix of factors as well as the response of the EU to the requirements of both categories of factors. In broad lines, the EU has aimed at responding to these requirements through the Cohesion policy (currently under the 2007-2013 financial framework) and the revised Lisbon strategy.

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[1] in this context the concept of "endogeneity" designates the characteristics of competitiveness arising from the EU macroeconomic model and the sub-models of the Member States in the framework of the social and economic cohesion policy, irrespective of the international trends and developments.

[2] in this context the concept of "exogeneity" designates the factors determining the EU competitiveness that come from outside its model of regional development and are thus unexplained by the model.

Regional development and internal competitiveness in the EU. Challenges of the endogenous competitiveness

Economic development disparities exist within the European Union, between Member States and regions. Following successive stage of enlargement, one of the policies of the European Union has been continuously strengthened – the economic and social cohesion policy. This has been an answer to the significant economic development disparities between Old Member States and some of the New Member States. The 2007-2013 cohesion policy is focused on three main objectives:

- the *Convergence objective*: under which EU regions with a GDP bellow 75% of the community average receive financial support from the European Regional Development Fund, the European Social Fund and the Cohesion fund;
- the *Regional Competitiveness and Employment Objective*: under which EU regions with a GDP above 75% of the community average receive financial support from the European Regional Development Fund and the European Social Fund;
- the *European Territorial Cooperation Objective*, fostering cross-border, inter-regional and trans-national cooperation between the EU regions.

In this way, the EU supports bridging the competitiveness gaps between its regions, thus boosting harmonized and sustainable development. Critics of this policy advocate that it is unfair for the competitive regions, contributing to a high degree to the community budget to receive less from the structural and cohesion funds as compared to poorer and less developed regions. Still this approach is tributary to the individualism of member states and not supporting the concept and process of European economic and political integration.

This is particularly important in order to adapt to the fast changing global economy, technological innovation, and demographic ageing, as is highlighted by the Lisbon Strategy for growth and jobs. Demographic ageing calls for new forms of solidarity among generations. This includes increased efforts to fully tap the labor potential of people throughout their lives, and related efforts to enhance quality at work, investment in human capital and equal opportunities, as well as to step up the modernization of social protection systems. Technological progress and globalization both accelerate the impact of economic and social change. They underline the need to adapt working patterns, anticipate and manage restructuring, invest in the skills needed in the knowledge economy, and to encourage social partners to strike a better balance between flexibility and security.

The Cohesion policy and the subsequent fiscal transfers from the EU budget through the structural funds support the EU regions to develop high quality human and physical capital, to locate and valorize knowledge for the well being of the regions. However, in the way it has been settled, the EU Cohesion policy focuses on bridging the development gaps between the richer and the poorer regions of the EU, rather than on supporting the EU regions' competitiveness vis-à-vis the rest of the world. It is without doubt that in the absence of an endogenously cohesive society and economy, the EU would fail to act as a genuine competitor on a global scale, but this is not enough. The Cohesion and regional development policies should be designed in such a way so as to provide and valorize the EU economic potential also in relation to other countries than its own member states.

The system of benchmarks as part of the Open Method of Coordination that is performed by the EU in several fields of activity should not be limited to benchmarks coming from inside the EU (from certain Member States or their regions), but also incorporate benchmarks that derive from best practices at global scale/international level.

Competitiveness of the EU economy in the global market

Global economic integration is currently quickening, driven by growing trade and capital flows, deepening financial markets, falling transportation costs, and the revolution in information and communications technology. We could name all these under the concept of „globalization" or, and we will, just analyze them as such. Rather than the name, it is the consequence that is the most important. All these changes are creating unprecedented opportunities for growth and development. But it is also putting new pressures on natural resources, in particular on the climate, and on traditional industries and livelihoods.

Economies, at macro and micro level, are responding to these changes, combining advanced technologies and foreign capital with large pools of increasingly educated labour in the developing world. Global supply chains are changing as companies outsource complex production and services to lower cost economies.

For Europe, knowledge, innovation, intellectual property, services and the efficient use of resources are now the keys to competitiveness. Trade policy and the whole approach to international competitiveness need to adapt. As the international competition is intensifying, the European Union's economy faces a double challenge: from the "traditional competitor" - the United States - and from a "newer, but rising competitor" - Asia.

More countries than ever before are seizing the opportunities of globalisation. In the second half of the twentieth century, the United States, Europe and Japan drove the global economy. Today they are being joined by increasingly open and expanding economies, in particular China and India, but also Brazil, Russia and others. China is already the 3rd largest exporter and likely to become the second largest national economy a few years from now. Within the same timeframe, India may become the 6th largest.

The potential rapid growth of the Chinese economy will create not only a new competitor to Europe, but also a vast and growing market. For Europe to take advantage of the opportunity, it needs to have an appropriate economic base, recognising that over the decades ahead competition in manufacturing goods at home and abroad, especially those with a high wage content and stable technologies, is going to be formidable.

Indeed China, industrialising with a large and growing stock of foreign direct investment together with its own scientific base, has begun to compete not only in low but also in high value-added goods. Although Chinese wages are a fraction of those in Europe, it is clear that the difference in quality of goods produced in China or the EU is already small or non-existent.

India's challenge is no less real — notably in the service sector where it is the single biggest beneficiary of the 'offshoring' or 'outsourcing' of service sector functions with an enormous pool of educated, cheap, English speaking workers. Asia's collective presence in the world trading system is going to become more marked.

Research and development (R&D) should become a driving force behind economic growth, job creation, innovation of new products, and increasing quality of products. In March 2000, European leaders committed the EU to become by 2010 'the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment'.

On 14 September 2006 the European Commission launched an ambitious **10 point innovation plan**, calling for urgent action at regional, national and European levels. The plan was produced following a request from Heads of State or Government for an innovation strategy that would 'translate investments in knowledge into products and services'. The 10 points in full are:

- establish innovation-friendly education systems;
- establish a European Institute of Technology;
- develop a single labour market for researchers;
- strengthen links between researchers and industry;
- nurture regional innovation through new cohesion policy programmes;
- reform State aid rules for R&D and innovation and provide better guidance for R&D tax incentives;
- improve protection for intellectual property rights;
- introduce copyright levies for digital products and services;
- develop a strategy for innovation-friendly lead-markets;
- stimulate innovation through public and private procurement.

The current paper suggests a minimum set of 3 indicators to assess the competitiveness potential of the EU economy in the spirit of the Lisbon Strategy for growth and jobs:

(1) gross domestic expenditure o R&D;

(2) tertiary graduates in science and technology per 1000 inhabitants aged 20-29 years;

(3) the employment rate, calculated by dividing the number of persons aged 15 to 64 in employment by the total population of the same age group.

The findings are the following ones:

(1) Unless properly financed, R&D is less likely to foster economic growth and job creation. If comparing the gross domestic expenditure on R&D in the EU, USA and Japan, one can easily notice that further investements should be made in this direction in the EU in order to achieve the goals of the Lisbon Strategy.

(2) Huge disparities persist between different countries in the EU, which brings on the top of the agenda the need to ensure homogenous priorities for higher education in the field of science and technology accross Europe. The European Union needs to train and use on the labor market as many high-skilled graduates as possible. This has been included among the priorities of the Bologna process and the financing priorities of the European Social Fund.

(3) In the spirit of the Lisbon Strategy for growth and jobs, there can be established a correlation between the amounts of investments dedicated to R&D and the employment rate.

Progressive **trade opening** is an important source of productivity gains, growth and job creation. It is an essential factor in reducing poverty and promoting development, with the potential in the longer term to help address many of the underlying factors which drive the global challenges the EU is facing, from security to migration to climate change.

Rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad. This improves the global business environment and helps spur economic reform in other countries. It reinforces the competitive position of EU industry in a globalized economy and is necessary to sustain domestic political support for the openness.

There are two core elements in pursuing this agenda: stronger engagement with major emerging economies and regions; and a sharper focus on barriers to trade behind the border.

Major emerging economies, especially China, India and Brazil, are rightly reaping the benefits of their growing role in world trade. Together they now represent 15% of global trade flows. This growth, based on progressive liberalization, has been essential to their historic achievement in lifting millions out of poverty.

The EU is already very open to exports from these emerging and other developing countries and is ready to go further. More than ever, Europe needs to import in order to export. Tackling restrictions on **access to resources** such as energy, metals and scrap, primary raw materials including certain agricultural materials, must be a high priority. Measures taken by some of its biggest trading partners to restrict access to their supplies of these inputs are causing some EU industries major problems. Unless justified for security or environmental reasons, restrictions on access to resources should be removed.

Energy will be particularly important. As global demand increases and Europe becomes more dependent on external energy sources, the EU needs to go further in developing a coherent policy for competitive, secure and sustainable energy. Internally, this means completing a competitive, EU-wide energy market and promoting a sustainable, efficient and diverse energy mix. Externally, it should seek to improve transparency, governance and trade in the energy sector in third countries through non-discriminatory conditions of transit and third party access to export pipeline infrastructure; and by helping to improve production and export capacities and develop energy transportation infrastructure. Diversity of source, supply and transit is essential to EU internal and external policies.

The pursuit of economic growth through trade can have environmental implications, particularly for biodiversity and climate. EU external competitiveness policies will need to encourage energy efficiency, the use of renewable energies including bio fuels, low emission technology and the rational use of energy in Europe and globally, both to reduce the growth in global energy demand and strengthen security of supply.

The European Union will require a sharper focus on market opening and stronger rules in **new trade areas of economic importance** to us, notably intellectual property, services, investment, public procurement and competition.

The value of new market access for EU businesses is seriously reduced without sufficient intellectual property protection provided by the countries concerned. Intellectual property violations deprive right-holders of the revenue from their investment and ultimately put at risk the viability of the most innovative and creative companies. The biggest challenge at present is the enforcement of existing commitments, particularly in emerging economies. The Commission has devoted considerable resource to fighting counterfeiting and improving intellectual property enforcement in key third countries such as China. It also has stepped up co-operation with partners like the US and with Japan on intellectual property and has worked to protect EU geographical indications.

Services are the cornerstone of the EU economy. They represent 77% of GDP and employment, an area of European comparative advantage with the greatest potential for growth in EU exports. Gradually liberalizing global trade in services is an important factor in future economic growth including in the developing world. The EU will need to negotiate to liberalize trade in services with key trading partners, especially where market access is poor.

Improving investment conditions in third countries for services and other sectors can make an important contribution to growth, both in the EU and in the receiving countries. As supply chains are globalized, the ability to invest freely in third markets becomes more important. Geography and proximity still matter. Establishing a “physical” presence in a foreign country helps EU companies realize business opportunities, makes the flow of trade more predictable, and consolidates the image and reputation of the firm and of the country of origin.

Public procurement is an area of significant untapped potential for EU exporters. EU companies are world leaders in areas such as transport equipment, public works and utilities. But they face discriminatory practices in almost all of the trading partners, which effectively close off exporting opportunities. This is probably the biggest trade sector remaining sheltered from multilateral disciplines.

The absence of competition and the presence of state aid rules in third countries limit market access as it raises new barriers to substitute for tariffs or traditional non-tariff barriers. The EU has a strategic interest in developing international rules and cooperation on competition policies to ensure European firms do not suffer in third countries from unreasonable subsidization of local companies or anti-competitive practices.

In most countries there is little transparency over the granting of aids. In all these areas, transparent, effective and respected rules are essential. The proper enforcement of such rules at home is the foundation of EU competitiveness.

Conclusions

The European Union should strengthen its role as one important global player by increasing competitiveness and cohesion of its regions and, in the same time by enforcing its strategy as competitor on an international scale.

This means that competitiveness of the European Union as a whole should be a synergic effect of competitive potential of the regions, under the auspices of an efficient strategy. The drivers of its endogenous competitiveness include but are not limited to: establishing innovation-friendly education systems; developing a single labour market for researchers; strengthening links between researchers and industry; nurturing regional innovation through new cohesion policy programmes; improving protection for intellectual property rights; stimulating innovation through public and private procurement.

Among the main factors influencing its exogenous competitiveness we can mention: trade opening; access to resources; new trade areas of economic importance; the services sector; the public procurement and state-aid regulations.

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