EU POLICY REGARDING THE COMPETITIVENESS ISSUE

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ABSTRACT: *This article deals with one of the most important, but also challenging economic issues nowadays, which is economic competitiveness. The literature is not unanimous in recognizing the importance of competitiveness, especially where it concerns the state level. However, the relevance of international competitiveness is increasingly brought into light by theory, specific policy measures and by periodical evaluations made by international organizations. Against this background, the EU is one of the main players whose position is still lagging behind the USA, and, according to recent evaluations, behind the other OECD countries. The European Council in March 2000, held in Lisbon, had launched a very inciting challenge – that of transforming the EU economy into the most competitive and dynamic knowledge-based economy in the world, by 2010. Such an ambitious target requires an evaluation of the competitiveness level and also new measures to be taken in order to accomplish this objective.*

The article presents opinions on the EU competitiveness issue, and on the main weak and strong points, concluding that even the target and especially the schedule seem to be unrealistic, the new direction of action, i.e. towards better business conditions for enterprises being correct.

KEY WORDS: *competitiveness, EU economy, Industrial policy, EU competitiveness policy, globalization*

Introduction

As we know, neither the concept, nor the meaning of international competitiveness are unanimously accepted. They are rather controversial issues.

In spite of disagreements, laying between denying the relevance of international competitiveness (Krugman, 1994) and the opinion of considering it of crucial importance to each country's standard of living and even to its future (Dunning, 1995; Porter, 1990), the international competitiveness issue is analyzed by international forums (see, Global economic forum reports on competitiveness), and is included in projects on future economic development (see, five EU Competitiveness Reports of 1998, 1999, 2000, 2001, 2002). Views on the competitiveness concept and on its meaning are to be found in hundreds of articles, research studies etc., and the interest on the competitiveness issue seems to be rising. Moreover, the idea of competitiveness is not limited to the level of states and companies anymore. Since the markets are increasingly global, and their competition rules are also global, competitiveness concerns even to natural persons who are employed by companies competing and operating on a global scale (Hirst and Thompson, 2002, p.137). Therefore, competitiveness is currently strongly connected to globalization, which compels economies to shift from comparative advantages, based rather on natural factors endowment and specialization of Heckshet-Ohlin type, to competitive advantages, based on new factors such as innovation, flexibility, location, institutional development etc. The above mentioned also explain, according to Hirst and Thompson, the two different approaches of the competitiveness idea: the classical approach, which takes into account the relative unit of labor cost and the 'ability of selling', being mainly based on comparative advantages; and the new approach, which takes into account the local attractiveness for investors, being mainly based on competitive advantages.

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Models of competitiveness analyses have been developed in order to stress upon factors that are relevant to competitiveness. Naturally, as in any explicative models, the comparative and competitive factors might act at the same time. The stress laid by one country on one or another of these factors is significant for its economic evolution and degree of openness towards the integration into the global economy. It is also a matter of understanding the challenges of globalization.

What is widely accepted is firstly the idea that competitiveness is not an aim per se, but rather a way of creating more jobs and income; secondly, the idea that two levels of competitiveness - national and of companies, or the macro and micro levels – can be approached; thirdly, a trade-off between the two levels may be brought forth.

Undoubtedly, national competitiveness, expressed by various macroeconomic indicators such as the GDP/inhabitant or by national productivity levels such as the GDP/employed person, the economic structure and the trade performance, is mainly based on the companies' competitive advantages in relation with other companies. How to become competitive at the micro level – it is essentially a marketing and management matter, and it is usually studied in that context. The results at the macro level, and the manner in which policy measures can contribute to better results obtained by companies are the other side of the coin. The general economic context – the economic structure, macroeconomic policies, sector strategies, performance incentives etc. – influences, sometimes decisively, the companies' external competitive position. Based on the above mentioned, comparisons are made not only between national economies (see, European Commission, European Economy No 3/97; World Economic Forum, Global Competitiveness Report 2002-2003), but between companies on the global market as well. What is strictly national in a world becoming more and more interdependent is a frequently asked question.

All these facts clearly indicate that the competitiveness issue matters for all countries – developed or less developed, EU members or candidate countries. For the new comers into the EU, competitiveness is the way of efficient integration into a more and more competitive economy, the way of making progress in catching-up or at least in reducing the development gap.

How does the picture of a competitive economy generally look nowadays? Evaluations made by means of the so-called "Growth competitiveness index" (see Global economic forum, Report on 2002-2003) show that a country is really competitive only if it was successful in moving from the specialization of Hecksher-Ohlin type - which is based on comparative advantages in cheap labor, in rich but cheap natural resources, therefore in primary goods, or based on comparative advantages in exports supported by a depreciated currency -, to competitive advantages which should be based on the high quality of goods, innovative capacity, high salaries but also high productivity, therefore on manufactured and complex goods, or to competitive advantages based on a strong currency, but compensated through other advantages such as unit costs reduction. Competitive advantages imply macroeconomic stability, strong competition, but an attractive business environment as well.

The Growth competitiveness index is evaluated taking into account three broad variables, which are growth drivers on medium and long term. They are technology, public institutions, and the macroeconomic environment. All these factors, according to Porter (Porter, 2003), increase productivity, which is the only solution for sustaining prosperity and a high standard of living. Actually, the list of competitiveness factors and their action in a given country clearly express the attractiveness of the respective country. Enterprises play an essential role in providing innovation, quality of goods, in increasing productivity etc. The level of national competitiveness indicators is nothing else than the result of enterprise competitiveness. An active role of the Government cannot be denied, but this role refers especially to support for education, training, support for research and innovation, to the improvement of the business environment through appropriate measures such as education, legal framework for consumer protection, rules for setting up and running businesses, environment protection etc.

The competitiveness issue has usually been approached as part of what is called "industrial policy". An overview of the long list of industrial policy meanings as it has been developed in the literature can be found in Jovanovici (see Jovanovici, 1997, pp.172-174). The industrial policy, as any other economic policy, cannot be conceived but as a direct or indirect intervention to achieve a certain objective. The most synthetic objective is the increase of the income/inhabitant. To this expression we might add the increased income in circumstances of sustainable development, a concept that is widely promoted nowadays, and is also the core of the EU Lisbon strategy. This is a generic definition only. What makes the difference between industrial policies is the philosophy on means of intervention – from the most strict forms of direct protection of certain economic activities, invoking the well-known arguments such as jobs creation and maintaining or balancing the external trade etc., to the limitation of intervention to setting up competition rules, releasing the market forces to lead activities towards reaching the objective. Hence, the various types of industrial policies were discussed as direct or indirect measures. The industrial policy has never been promoted in a "pure" type, but rather as a combination of two approaches, one of them being dominant. The notion of "strategic industries" has often been used to designate what sectors should be primarily developed. Such a notion is certainly associated to rather direct intervention in favor of "selected" strategic sectors. Which sectors are "strategic" in a country and in a certain development stage is something to be well defined according to economic evaluation and world development trends. The political philosophy regarding the economic policy is certainly the essential base in tailoring which should be the sectors to be promoted and which should be the most appropriate means to do so. However, as experience had clearly shown, intervention in favor of generally declining sectors diminishes the chances of supporting the "strategic sectors". More and more, the meaning of industrial policy is that of measures oriented mainly on enterprises, on the business environment, and less if not at all on "running and directing" the sectors and branches from the center.

When an accession country enters a new business environment, this raises the problem of survival chances for already existing industries. There were voices in the candidate countries stating that a kind of "de-industrialization" is massively taking place in these countries. Indeed, the former industries, which had been created in very different conditions, are to be restructured. The candidate and acceding countries are currently approximating and implementing the "acquis", which implies an internal reform according to this legislation. This is the point in which we must consider the role of a new industrial policy which, on the one hand, has to create fair conditions for the business environment – the only one capable to change things from the "bottom" and, on the other hand, must provide indirect support through policies of macroeconomic stability, through so-called "intangible investments" – education, research, infrastructure, including IT -, and provide equal opportunities to all those who wish to compete, instead of spending public funds in declining sectors. This means creating free and fair market conditions.

All the abovementioned clearly show that the competitiveness issue matters for all countries – developed or less developed. It matters very much to the EU, and certainly to the ten acceding countries that are about to conclude the accession formalities or to the candidate countries such as Romania and Bulgaria, which have to continue their preparations for accession hopefully in a few years. The degree of efficiency of their integration into the EU economy depends, beyond any doubt, on their competitiveness.

Which is, in this context, the link between the industrial policy and competitiveness? Attaining the objective of industrial policy implies increasing competitiveness. The world economy is not a "no man's land", but rather an "occupied" room, a space in which every participant tries to locate as well as possible, to obtain economic growth at national level, to reach profitability at the enterprise level. The two sides can use different means to reach the objectives, but they can beneficially inter-link or, on the contrary, undermine one another.

Keeping this general context in mind, this article aims to analyze the EU policy on competitiveness: the evolution from industrial policy to enterprise and competitiveness policy, the main measures being taken or recommended to the member states and/or by the EU, the present EU concern regarding competitiveness at EU level in the context of globalization and increased competition.

The methodological approach consists in a general overview on main EU documents, declarations and measures regarding competitiveness, which have been promoted over the past 10 years, i.e. from January 1993, the moment considered as the general completion of the Internal/Single market, to 2003, when the issue of competitiveness became even more present in the official speeches and measures.

In the first part, the article includes a short presentation of the shift from the old industrial policy to a new industrial and competitiveness policy. An overview of the EU legal framework for the competitiveness policy is included in this part. Since the efficiency of the EU policy in the competitiveness field can be evaluated only by comparing the EU competitiveness level with those of its competitors, the article pursues with the analyses of the EU position in this field, and with the presentation of its strong and weak points. Concluding remarks underline the main findings and also offer a possible explanation for such findings. The main directions of future developments can easily be understood.

1. The EU competitiveness policy

1.1. From protection of the classical sector industry to a new industrial policy

The EU concern with competitiveness is not of recent date. It can be noticed in the framework of industrial policy during the 60s and 70s. What has changed in time is the approach and the means implemented in order to promote the competitiveness of certain sectors or goods. Initially, the industrial policy was seeking to protect sectors in difficulty (see Sarfati, 1998), which involved thus the promotion of an anti-competitive role. Along with the world trade liberalization and, especially with the trade liberalization and integration of markets in the process of setting-up the Internal Market, a new industrial policy became necessary, and it has been directed towards developing free competition. The old protectionism, especially as the "infant industry" argument, could not be promoted anymore by developed countries. Still, the "new industrial policy" didn't give up the old approach completely from the very beginning. Several branches, important for employment in certain developed countries, were kept under protection for a while (steel, textiles, shipbuilding etc.). On the other hand, in the framework of WTO, openness has been widely encouraged not only among developed countries, but towards world trade as well.

However, an important step forward was taken with the establishment of a Community Enterprise Policy by the 80s. A new Directorate General in charge of developing enterprise policy was set up in 1989. This Directorate has worked closely with the Directorate for Competition policy, in order to contribute to the creation of conditions for fair competition and to discourage the abuses of dominant position. On the other hand, the Directorate for Enterprise Policy promoted encouraging measures aiming to sustain the setting-up and functioning of SMEs. A real strategy in favor of growth, competitiveness and employment was tailored in the document entitled White Paper on Growth, Competitiveness and Employment, in 1993, which was followed by an Integrated Program and a Multi-annual program for SMEs, for the period 1997-2000. It should be mentioned that Community regulations provided for support as state aids for SMEs. Where the large companies are concerned, the idea of encouraging the setting-up of "national or European champions" was widely promoted.

A real shift from the old approach of industrial policy to a new industrial and competitiveness policy has been developed after 1994, with the evaluations and proposals made in favor of a new industrial policy by the Bangemann Report (Commission, 1994). This new industrial policy consisted in reorientation from promoting sectors supporting measures to policies supporting general conditions for development and competition that are also called "horizontal measures". They are meant to secure an appropriate framework for business. The state aids have been reconsidered, and more strict rules of awarding this kind of support have been elaborated and implemented. The enterprise policy focused on pursuing market liberalization inside the Internal Market (telecommunication services, public procurement), which brought along more free competition. For the first time, the EU enterprise policy clearly put on the agenda the need of enforcing the development of the R&D policy. Programs such as the European Strategic Program for Research and Development in Information Technology (ESPRIT), the Research and Development Program in Advanced Communications Technologies and Services (ACTS), especially in the top fields of information and biotechnology, were aimed at enforcing the international competitiveness of European enterprises between 1995 and 2000. Obviously, the research activity in these fields needs strong, large companies, able to undertake research activities and to implement the research results in practical actions. Measures in favor of SMEs – seen as an engine of growth and job creation – have also been more strongly promoted.

The objectives of the EU industrial and competitiveness policy appeared as contradictory: on the one hand, the need for so-called "European champions", able to compete with the "giants" on the world market, was evident; on the other hand, the need to develop the SMEs, and their important role in the economy was also pressing. Actually, the two types of companies might cooperate well on a subcontracting basis. Still, in the EU policy, the emphasis began to fall more on enterprise policy, on the business environment for SMEs.

Evaluations made by the end of 90s on the progress in developing the research activity and in implementing it in the economic activity have indicated shortcomings to be eliminated: low expenditure on R&D, and hence an insufficient number of researchers; limited funding sources for new technologies in Europe; insufficient links between university research and the business environment; many barriers to setting-up new enterprises. Even if the situation has changed for the better, many of these shortcomings continue to exist and to undermine the competitive power of European enterprises. This can be seen in the state of competitiveness resulting from the most recent evaluations.

1.2. EU legal and institutional framework for actions in the field of industrial and competitiveness policy

The EC Treaty clearly stipulates in Article 2 that the task of the European Community is to promote "…a harmonious, balanced and sustainable development …and a high degree of competitiveness". Economic development and high competitiveness were to be strongly connected to the promotion of free competition and open market economy. By regulating the meaning of free competition in the EU economy, the Treaty involves implicitly the enterprise policy. In the same context, the Treaty regulates the conditions of awarding state aids – as derogation from the general prohibition of state aids. Conditions for enabling companies to obtain state aids concern aid for environment protection or for restructuring companies, regional objectives, but also for certain industries in difficulty. This provision, in spite of the stipulation that state aid is not to affect the trade between Member States, was meant to provide the basis for the industrial policy in the very classical meaning of the concept. It also involved protection against non-members states.

More than thirty years after the Treaty of Rome or the Treaty on the European Communities, the Treaty of Maastricht, also addresses to the competitiveness issue in several articles.

The European Commission was assigned the obligation of evaluating the EU competitiveness, and of initiating the appropriate measures at the EU and state levels. Reports on competitiveness have been issued since 1998, the sixth report being currently completed. The last two reports were complemented by the Enterprise Policy Scoreboard, and the 2001 report by an Innovation Scoreboard as well.

The European Council in Lisbon from March 2000 set forth a very high objective. It focuses on turning the European Union into “the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth, with more and better jobs and greater social cohesion”. Such an objective required more specific targets, and measures to reach these targets (see Lisbon Strategy: Dimension of Competitiveness, in the Lisbon Review 2002-2003). A roadmap for the implementation of the Lisbon Strategy in 2001-2009 was also elaborated. The steps to be taken are actually those of completing the Internal Market and making it more effective for business – from simplifying the regulatory system, continuing liberalization in fields such as public procurement, electronic commerce, electricity and gas, postal services, all financial services, to the creation of Single European Sky. It should be noted that some of these targets were not reached in due time and others were not fulfilled at all.

A Competitiveness Council (CC) has recently been set up to replace the former Industry, Internal Market and Research Councils. The CC aims at promoting an integrated approach of Competitiveness to be developed by the Commission. Periodically, the CC shall provide reviews of EU competitiveness policies especially on microeconomic reforms, it shall provide policy guidelines, and “push” policy makers into the best directions of competitiveness improvement measures. Obviously, the new body was created to contribute to the speeding up of the rise of the EU competitiveness level in the world economy.

2. The present state of EU competitiveness

The level of competitiveness cannot be evaluated otherwise than by comparison with the competitiveness levels of the competitors in the world economy. In order to have a picture of the EU position on the global competitive scale, we took into

Table 1. Ranking the EU competitive positions on GCI in 2002

Country	GCI Ranking	Technology Index	Ranking Public Institution Ranking	Macroeconomic environmentIndex Ranking
1. Finland	2	3	1	14
2. Sweden	5	4	15	34
3. Denmark	10	11	2	31
4. United Kingdom	11	15	6	16
5. Germany	14	12	14	22
6. Netherlands	15	15	10	19
7. Austria	18	23	11	23
8. Spain	22	24	26	15
9. Portugal	23	13	21	40
10. Ireland	24	31	18	9
11. Belgium	25	22	22	26
12. France	30	28	29	28
13. Greece	38	39	44	47
14. Italy	39	39	37	27

Note: Data on Luxembourg is not included.
Source: Cornelius, P.K., Executive Summary, in Global Competitiveness Report 2002-2003.

consideration the two categories of indices that were measured and published by the Global Economic Forum in its latest report (see Global Competitiveness Report 2002-2003). They are as follows: GCI (Growth Competitiveness Index), which takes into account the factors that are considered growth drivers nowadays, i.e. technology, public institutions and the macroeconomic environment, and MICI (Microeconomic Competitiveness Index), which takes into account company operations and strategy, and the quality of the national business environment. The representation of the EU countries looks as follows:

In the table included in the Report, the USA is placed at the top of the list, followed by Finland for 2002. First of all, the data indicates an important gap between the USA and the EU as a whole; unfortunately, a certain gap also exists between the EU countries: the best-placed are the Northern countries, at a significant distance from the worst placed in this group.

Which are the most dynamic and innovative sectors? According to the above-mentioned report, the information and communication technology – hard and soft data- mainly explains this competitive position. Comparative data on the number of researchers in the total workforce also places Finland – 10,92/1000 - on the first rank in Europe (John de Boer, Glocom Platform, 2002).

One might notice that the EU countries are not first ranking neither in terms of the general GCI, nor of the component indices, except for the Public institutions in the case of Finland. Even in this latter case, there was a decline as compared to the previous year, when Finland ranked first according to the GCI index. Since the level of this index is seen as the perspective for growth on medium term, i.e. five to eight years, the above-mentioned statement is an alarming one. It also implies that the competitive gap between the USA, which is the top country, and the EU will not disappear in the next five to eight years, unless drastic changes take place in the European economies.

The macroeconomic competitiveness depends essentially on microeconomic operations. The EU ranking according to the microeconomic index and components is shown in the following table.

Table 2. EU ranking in microeconomic competitiveness in 2002

Country	MICI Ranking	Company operations and Strategy Ranking	Quality of the National Business Environment Ranking
1. Finland	2	4	1
2. United Kingdom	3	3	2
3. Germany	4	2	4
4. Sweden	6	5	8
5. Netherlands	7	8	10
6. Denmark	8	9	9
7. Austria	12	12	12
8. Belgium	13	11	15
9. France	15	10	21
10. Ireland	20	15	22
11. Italy	24	18	24
12. Spain	25	22	25
13. Portugal	36	41	32
14. Greece	43	47	41

Note: Luxembourg was not included in the Global report.
Source: Cornelius, P.K., Executive Summary, in *Global Competitiveness Report* 2002-2003.

The findings are very similar to those based on MCI: the USA ranks first, while the EU countries are not placed on the very top positions, except, again, Finland, but for only one indicator, which is the quality of the national business environment. However, several EU countries are better placed and quite close to the top positions based on the Microeconomic competitiveness index. This might be an encouraging sign concerning the improvement of the general business environment in the EU countries, and also the expression of a new attitude regarding the "industrial policy".

The Lisbon Council set out the EU economic and social areas requiring actions in order to reach the objective of the EU becoming the most competitive economy. These areas are the Information Society, Innovation, Research and Development; Liberalization (Completing the Single Market and the issue of State aids), Network industries (telecommunications, utilities and transportation), Efficient and Integrated Financial Services; Enterprise environment (conditions for start-ups, regulatory burden); social inclusion (life-long learning; modernizing social protection), Sustainable development (environment, climate change). Comparisons made on Lisbon Scores between the EU, the USA and the other OECD countries (see Lisbon Review 2002-2003) clearly show that the EU is lagging behind on all "indicators" except modernizing social protection. Surprisingly, the EU has a poor standing even concerning climate change - one of the two components of sustainable development that is seen as the core of the Lisbon process. Again, there are well-performing countries inside the EU, which are the same countries as in the world forum report, and less performing countries. Finland appears as the best performing country in all the fields of the Lisbon Strategy, and Greece as the worst performing country in every respect.

It was not for the first time that such rather pessimistic findings were revealed. In its report "An industrial competitiveness policy for European Policy"(Bulletin of the European Union, Supplement 3/94), the Commission identified a kind of contradiction in the EU situation: on the one hand, the EU had made significant progress as compared to the beginning of the period, and positive results do exist even by comparison with its competitors; on the other hand, the industry as a whole and the macroeconomic factors show the loss of competitiveness in the EU. There were several countries in the EU which had performed better, and countries which had performed worse. One "explanation" was that the comparisons were made on a narrow number of indicators, and that competitiveness is a very "complex" problem (see the above mentioned report, p. 41), or that the comparison was made in a recession year. Another remark was that there were countries and companies in the EU which were performing at the international level of competitiveness. Moreover, the reproach was that the analysis neglected the service sector in the EU economy, which stands for a considerable amount in the national product and is also an innovative one. To put it differently, the EU would have had many assets and conditions for being able to compete successfully. The objective for the EU economy set out by that time was of becoming "more competitive" on the world economy stage.

The results obtained more than seven years later reported indeed a more competitive EU economy, in comparison with the initial year, but not more competitive if we compare the EU with its competitors in the world economy. This latter comparison reveals the real meaning of competitiveness. Moreover, one might notice that, based on the most recent figures, the situation is rather similar.

Certainly, no one would deny that the EU economy has a huge development potential. Still, it is quite obvious that the EU keeps having a problem in the competitiveness field.

Based on the above findings, we went further and tried to pick up from EU official evaluations and other sources the strengths and weaknesses in the EU situation concerning competitiveness, to put these findings in a comparative sheet, and then to formulate some remarks. We took only certain aspects that characterize the EU area as a whole even if, as it was noticed, the situation of the indicators might substantially differ from the states at the top to those at the bottom in this ranking. Certainly, there are many factors explaining the lower competitiveness in the EU, and they are taken as weaknesses. Some other factors act in the right direction, namely of improving competitiveness, and they are considered as the strengths.

The outcome of this exercise is shown in Table 3, and several remarks are made in the text following the table.

The evaluation carried out in the five EU Competitiveness Reports between 1998-2002, and other comparative evaluations (see Global Economic forum, Glocom Platform etc.) reveal the weaknesses in the EU economies, which mainly explain the slow comparative growth.

a) The productivity level is the main indicator of national competitiveness. From this point of view, there is a competitive gap between the EU and the USA Thus, the GDP/capita of the EU was only 70% of the USA's in 1990, and this gap has not dropped

Table 3. Main EU economic weaknesses and strengths concerning the competitiveness factors

Weaknesses	Strengths and future perspectives
a)Low productivity: too low innovation rate; low amount of venture capital; slow improvement in the business environment; weakness of entrepreneurship	Rapid growth sectors: office and computer equipment; medical, surgical and telecommunication equip.; pharmaceuticals; export of high quality products
b) High level of unemployment and low level of job creation: low level of private investment; high cost of job creation; labor market rigidity and labor market imbalances; differences in social protection schemes; quality of business environment for SMEs; slow business reaction to the opportunities offered by openness	Recent adoption of better, simplified general business regulations regarding: public procurement, consumer protection, insurance intermediaries; better match of skills and jobs, and plans of raising the level of labor force education and skills; increased number of highly-educated workers
c) Much emphasis on macroeconomic management: fiscal burden, but budgetary imbalances; strong monetary policy to face any inflation pressure, but discouraging investments	Advantages of one single currency; Competitiveness Council will promote more integrative policies, mainly policies that should link enterprises and innovation; much emphasis on "eco-efficiency"
d) Market openness and its consequences: market liberalization in the telecom sector not followed yet by price reduction; slow liberalization of gas, electricity and postal services; percentage of businesses' Internet connection much lower than in the USA; high proportion of European Directives not translated yet in member state law;	Positive examples of Finland, Sweden, the Netherlands; National Information Society Action Plans; Commission: e-Europe Program of integrating the Europea financial market; Common accounting and reporting rules; modernization of competition policy and strengthening the link with enterprise policy
e) Research activity: researchers number /1000 workforce; investment in R&D in GDP and in budget expenditure; low market share of export in high-tech; fragmentation inside the EU; slow introduction of new technologies; failure to achieve the Community patent	Rate of increase in total number of researchers; number of PhDs; high rate of employment in high-tech industries; developing of research activity networks in the top fields (the 6th framework program); network of IT clusters in the EU;

Source: Syntheses developed by the author based on EU official evaluations and other sources since, but quite the opposite. The GDP/capita dropped to 65% in 2001 (Lemonidis, 2002) or to 69% (European competitiveness report 2002, p.19). According to the 2002 report, the gap increased because the growth rate of the real GDP was only 2.4% in the EU while in the USA it was 3.6% in1995-2001. The explanation consists in the higher rate of productivity and of employment in the USA than in the EU. Lower productivity and lower employment rate in the EU are alarming issues, according to the EU Commissioner Liikanen (see Liikanen, p.2, 3rd December 2002).

Why is productivity lower in the EU? The explanation can only be the lower use of factors that are feeding productivity and the increase of employment nowadays, i.e. the speed of technological progress – innovation, diffusion of knowledge and implementation of innovation. It is the "new economy" that has to be more present in all EU countries, not only in a few of them. Much support seems to be needed to encourage innovation. This factor is connected to the number of researchers that is much lower in the EU than in the USA, but also with the lack of or too low amount of venture capital in the EU countries (see European Commission, Competitiveness and benchmarking, p.7). Slow development in the quality of the business environment, especially for SMEs - access to finance, open market, entrepreneurship, administrative environment, business legislation (Lemonidis, 2002, p.3) – might also partially explain the situation.

b) The EU had always strongly connected competitiveness with its commitment to create jobs. The Lisbon Council set out the target of creating about 20 million new jobs or an increase from a 60% employment rate to 70% by 2010. Unemployment was caused by specific reasons in different periods (see the European Commission, 5 December 1993). At the beginning of the 90s, the high interest rate, monetary instability and budgetary unbalances were identified as the main causes. One expected that the creation of the Single/Internal Market as the widest market in the world, based on free competition and harmonized rules, should have been accompanied by the creation of new jobs, as a result of increased structural change and higher economic growth. Usually, the jobs were created in conditions of structural change and high growth. Now, the problem is that the new structural changes are not necessarily accompanied by an increase in the total number of jobs (see Growth, 1993, p.1), but rather by the creation of jobs in the new non-classical sectors such as IT, replacing the lost jobs in classical sectors. What has really been noticed in the EU is the shortage of labor in the IT field, together with the unemployment generated by other sectors. Therefore, there is a "normal" structural unemployment, generated by the mismatch of the supply and demand of labor in the ICT sectors. Economic recession added extra pressure in the same respect. The solution seems to be re-launching economic expansion accompanied by more emphasis on new directions of professional training. The labor market rigidity is certainly another factor blocking new job creation. A European flexible labor market could absorb unemployment, at least partially.

c) Macroeconomic equilibrium and stability are very important conditions for economic growth. They involve the inflation rate and the interest rate, external balances and exchange rate fluctuations, budgetary equilibrium, and the public debt. The Maastricht Treaty stipulates several convergence criteria for participation to the monetary union. In spite of obvious improvements of the macroeconomic stability in the euro area, some imbalances such as budget deficit and high public debt are still present in certain countries. Keeping the inflation rate at the limit of 2% in circumstances of inflationary pressure required a higher interest rate, which discouraged investments. Therefore, much interest has been shown to ensuring more balance where it was missing. Macroeconomic equilibrium is a necessary support for a single monetary policy and a favorable macro environment for growth, but it is not per se a factor of economic growth. Growth is generated by a combination of growth factors at the enterprise level. Therefore, more emphasis would have also been needed on improving the conditions for enterprises.

d) The beneficial effect of market liberalization on business is beyond any doubt. In the EU, the main concern focused primarily on the goods market liberalization, which has generally been achieved successfully. The most and often excessively regulated were the service sectors. In this field, the process of harmonization and liberalization was delayed, and positive effects are still to produce more evidence. Fragmented markets continue to exist in business services such as legal counseling, consulting, computer services, employment law, advertising etc. (EU competitiveness report, 2002, p. 72). Therefore, in spite of progress being made, the process of market integration is not completed, thus affecting the competitiveness.

e) Undoubtedly, becoming the most competitive knowledge-based economy, as the EU stipulated in the Lisbon Council, depends mainly on the research activity, which "produces and exploits knowledge". The number of researchers is the starting indicator. According to the EC evaluation (quoted in Boer de, 2002), the number of researchers in the total workforce is only 5.3/1000 in the EU, whereas it is 9.0/1000 in Japan and 8.1/1000 in the USA. At the same time, the increase rate of the number of researchers is higher in the EU than in Japan and the USA. The number of science and technology PhDs is also higher, and this shows the potential for future researchers.

The number of researchers and the quality of the research activity are closely connected with the level of public and private investments in R&D, expressed by the share of R&D expenditure in the GDP. The figures in this field were 1.92% for the EU, 2.91% for Japan, and 2.61% for USA (Boer de, 2002, p. 2). The EU has recorded the highest share of total employment in industries of high technology, which is also a promising situation. Also strongly connected to competitiveness is the market share of exports in high-tech. Thus, the EU high-tech's share of exports is only about 60% of the USA's (Lemonidis, 2002, p.3). The situation is similar in what concerns the percentage of the industry's contribution to the research funding, and the share of government budget allocated to R&D: only 1.99% of EU government budget expenditure, but 3.86% in the case of Japan, and 4.2% in the case of the USA. The EU is lagging much behind the USA and Japan. The causes might be, as the latest competitiveness report admitted (2002 report, p.26), more deeply rooted and they concern the comparative numbers of schooling years and the level of education in the development of human capital.

There is a gap, as we have already mentioned, not only between the USA, Japan and the EU, but among the EU countries as well. Based on the research indicators, the best placed are the two Nordic countries Finland and Sweden. This explains the progress made by these countries. Ireland is also a good example of progress coming from the wide expansion of Information and Communication Technology.

3. Launching a new debate concerning the EU industrial policy

There is a visible change of attitude from the Community institutions concerning the competitiveness issue. Nowadays, increasing competitiveness is seen as a challenge by the EU, especially in the circumstances of globalization and of strong competition from the USA and Japan. The competitiveness gap is an alarming issue, and the measures being taken until now proved to be either inefficient, or insufficient.

Therefore, a new debate on the industrial and competitiveness policy (see Conference-debate January 2003) was launched. The debate is seen as necessary because the conditions for competitiveness are different now from those existing at the beginning of 90s, in many respects (see Conference debate, January 21, 2003). Such new conditions relate to the key role of globalization; increased integration of the EU financial market; changes in economic development induced by ICT; special emphasis laid on the issue of sustainable development; and the enlargement process, which is expected to have an impact on all EU components, including the industrial policy.

To overcome the situation, a "holistic" approach was strongly recommended (Liiken, 2002), which should include all factors – technological (innovation), economic and the human dimension.

Competitiveness is approached mainly in the framework of enterprise policy, and it related to economic growth and employment. The companies shall be the "target group" for policies aiming to increase the productivity level. Research projects being promoted by certain countries focused on what is important for those who want to increase productivity: innovation, flexibility in organization and life-long learning.

The recent re-launch of debates has naturally included the industry representatives that are the largest companies in Europe. Their opinions on the causes of slow progress in reaching the Lisbon objective converge essentially indicated the lack of or too slow implementation of the measures required to reach this objective (see, The European Challenge; Message from the European Round Table of Industrialists to the Spring European Council, March 2003). Thus, innovation and R&D, which are "crucially linked to competitiveness and in turn to creating jobs" (J. Ollila, Nokia), are suffering in Europe because of a too limited level of expenditure in R&D (only 1.9% of GDP, against more than 3% spent by competitor countries, and against 3% stipulated by the European Council in Barcelona); moreover, there is comparatively low expenditure in research in the top fields such as ICT, lack of skilled labour force, under-funded and under-motivated universities, low coordination in R&D among centres of excellence. There is an insufficient connection between universities and the economy, which actually means lack of entrepreneurial culture. The performance gap between the EU and USA is widening, and many European companies opted to invest outside the EU.

The solutions proposed by industrialists are derived from the above findings, and they refer to strong commitments and actions: increase in public spending in R&D, investments in centres of excellence, improved legislation on intellectual property; ongoing simplification of the legislation and improving the other policies involved (competition, enterprise policy etc.), the industrial and competitiveness policy being actually a cross-policy matter.

If failing to change dramatically the situation in the next few years, Europe is "condemned to playing an increasingly declining economic and political role", concluded the industrialists (The Europe Challenge, March 2003, p. 4)

Concluding remarks

The achievements of the EU economy are neither as they had been set out, nor as they could have been given the EU dimension or potential. The gap to be overcome is not only between the USA and the EU, but also between the two groups – high performers and low performers – of countries inside the EU.

The remark that must be made is actually rather a question, hopefully not a tabu one: might we really talk about one single EU economy? Has the economic integration process advanced so far to the point of completed integration of all the market components, and is it possible that not diversities, but differences are blocking factors? It is quite obvious that important markets are not well integrated and they are not functioning properly: labor market, financial services, e-economy etc. The legal framework provided by the EU Directives is not implemented at the same range in the EU Member states, thus indirectly generating market fragmentation. Therefore, waste of potential seems to come from the uncompleted integration process.

In spite of the important number of initiatives at EU level, the reaction of the member states is rather slow. This could be a signal that the European model of running too many economic dimensions from the top level might be less efficient. The principle of economic subsidiarity has very good grounds of implementation in the European great variety and diversity. The speed of changes depends essentially on the actors placed on three levels in the EU integration process: the EU institutions, the Member states, the companies and the local authorities. The promoters of new initiatives have to behave according to their position in this scheme.

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