

The Competitiveness Vision of the European Union (The Lisbon Process)

by

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Topics

- 1.The Initial (2000) and the Renewed (2005) Lisbon Strategy
- 2.The Integrated Guidelines for Growth and Jobs (2005-2008), Community Action Programme (2005-2008) and the National Reform Programmes (Example of Germany)
- 3.The “Better Regulation” Initiative of the EU and parallel initiatives in EU Member States (Germany)
- 4.The Reform Program of the Turkish Government for the Improvement of the Investment Environment (the “YOIKK Process”)

Pre-Lisbon

- Globalisation and the knowledge-driven economy
- Growing awareness of productivity gap with US
 - US moving to knowledge economy more rapidly
- Need for a radical transformation of the EU economy but retaining European values and social model
- Need to harness the benefits of the opportunities presented – economic growth and employment
- Economic and Monetary Union
 - Stability and Growth Pact 1997
 - Fiscal discipline to encourage sustainable growth
 - Budget deficits maximum of 3%

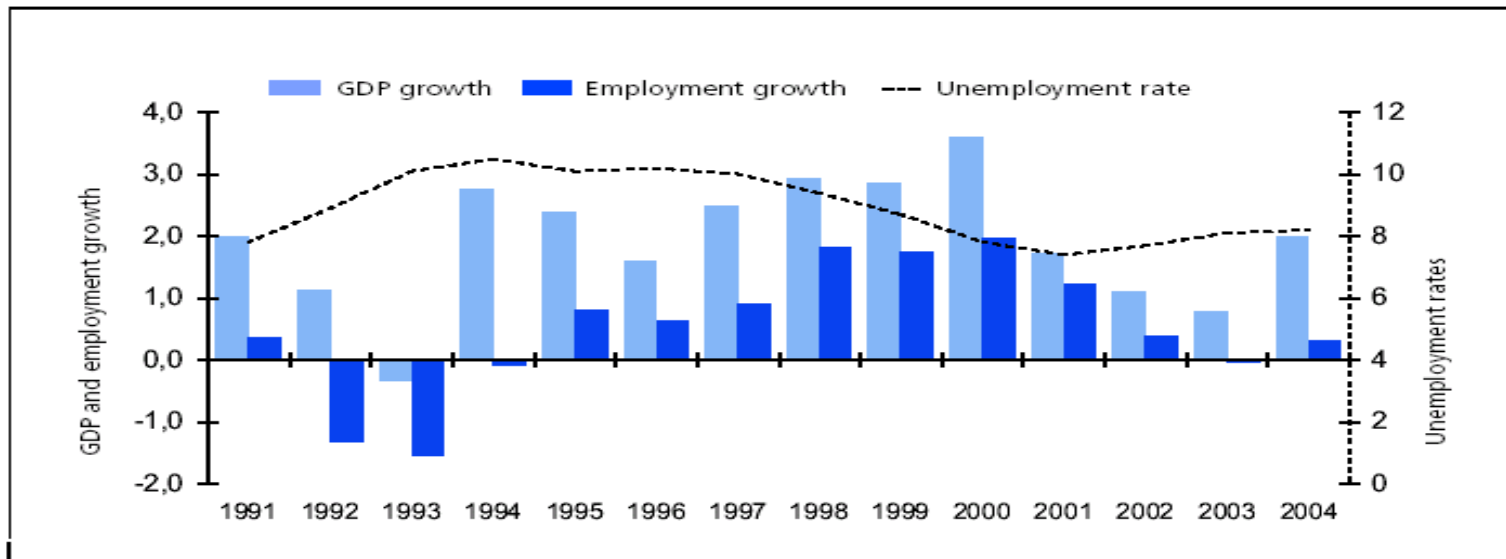
EU productivity - key problem

The slowdown in EU manufacturing productivity growth in recent years is also reflected in the substantial opening of the productivity gap against the US



GDP and employment growth

CHART 1. GDP growth, employment growth and unemployment rates in EU15, 1991- 2004



Source: Commission Services DG ECFIN Ameco database, latest updates (Nov 2003), Unemployment rate, Eurostat definition. Estimates for 2003 and 2004.

Lisbon Agenda

- Lisbon Strategy - by 2010 the EU is to “...to become 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”

Lisbon European Council March 23rd-24th 2000

Lisbon Agenda – three key objectives

1. Preparing the transition to a knowledge-based economy and society
 - better policies for the information society and R&D
 - stepping up the process of structural reform for competitiveness and innovation
 - completing the internal market
2. Modernising the European social model, investing in people and combating social exclusion
3. Sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

Lisbon Agenda – Sub-objectives

- Building an information society for all based on a shift to a digital, knowledge-based economy, prompted by new goods and services, which would be a powerful engine for growth...
- Establishing a European Area of Research and Innovation that would make research activities at national and Union level better integrated and coordinated to make them as efficient and innovative as possible,
- Creating a friendly environment for starting up and developing innovative businesses, especially SMEs,

Lisbon Agenda Sub-objectives

- Pursuing economic reforms for a complete and fully operational internal market...
- Coordinating macro-economic policies: fiscal consolidation, quality and sustainability of public finances,
- Improving education and training for living and working in the knowledge society,
- Creating more and better jobs for Europe and developing an active employment policy,
- Modernising social protection and promoting social inclusion,
- Implementing a new open method of coordination.

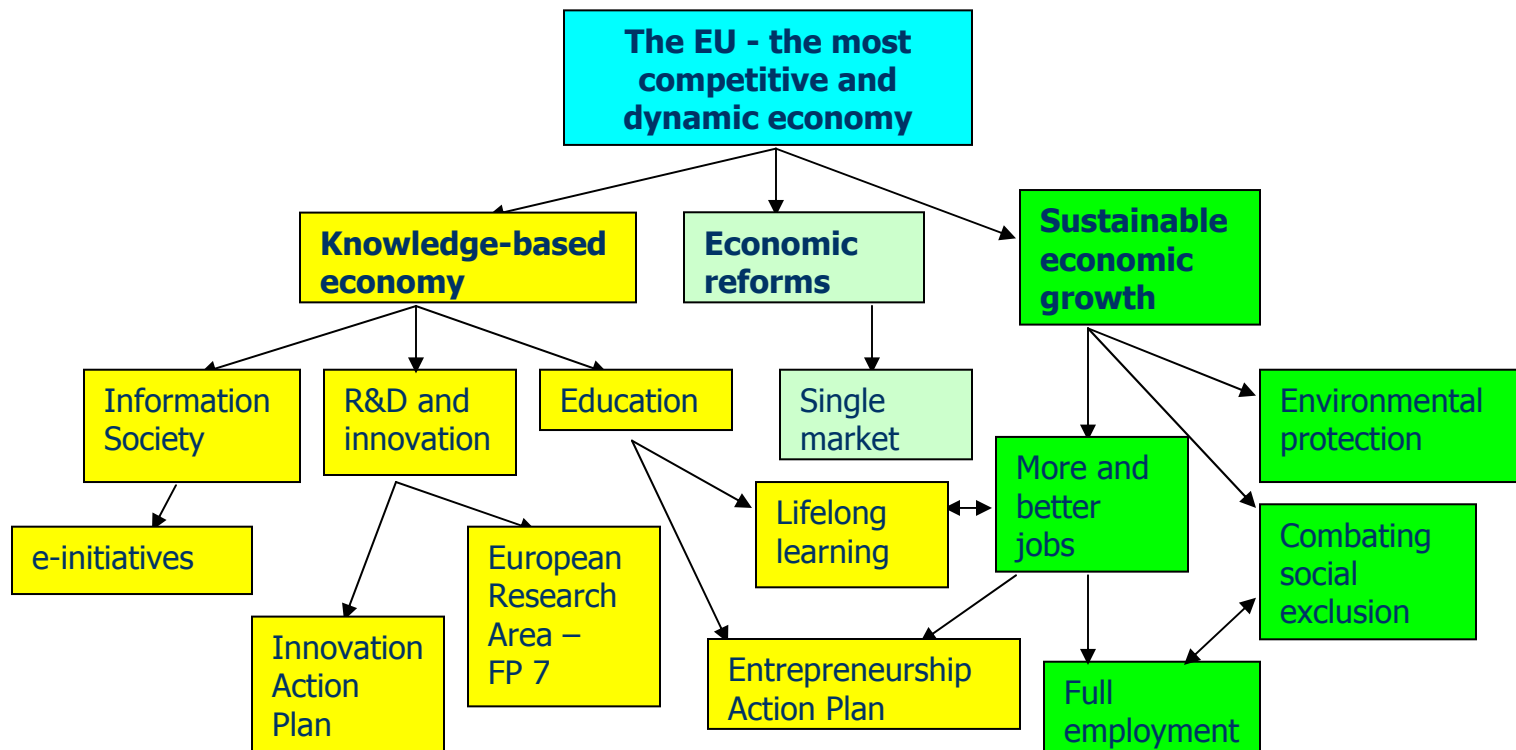
Governance

- European Council to play a stronger role as coordinator (e.g; Spring Council will monitor the strategy)
- Broad Economic Policy Guidelines will improve the synergy between macroeconomic policies, structural policies and employment policy
- Using the Open Coordination Method
 - Guidelines, timetable
 - Shared indicators, benchmarks
 - Exchange of best practice
 - Monitoring, evaluation and peer review

Göteborg Summit 2001

- Supplements Lisbon
- Integrating the environment into Community policies,
- Examining the economic, social and environmental effects of all policies in a coordinated way and taking them into account in EU decision-making.

Lisbon – diagrammatic overview



Key Lisbon Targets

- Increase competitiveness of the EU
 - 3% growth rate by 2010
- Reduce the productivity gap with the US
 - Innovation
 - Entrepreneurship
- R&D – 3% of EU GDP
 - Currently EU 2%, US 2.7%, Japan >3%
- Retain European social model
- Employment 70% by 2010
- Sustainable development (Göteborg)

Lisbon Mid-Term Results 2005-

The good news

- European Forecasting Network
- Positive points - according to the Commission,
 - More than 6 million jobs have been created since 1999
 - Employment rate up from 62.5% in 1999 to 64.3% in 2003
 - Several key markets have been completely or partially opened up to competition,
 - The knowledge-based economy is becoming a reality, the sustainable development approach is being taken more fully into account in policymaking
 - Some one hundred regulations, directives and programmes have been adopted in different fields, all pursuing the Lisbon goals...

Lisbon Mid-Term Results 2005-

The bad news

- European Competitiveness Report 2003
- Growth gap between EU and U.S/Asia had widened
 - 2000-05 GDP increased only 1.7% annually vs. 2.7% in USA (but GDP increase per capita 1.6% vs. 1.7% in U.S)
 - Only 7 EU Member States will hit 67% employment by 2005
 - Targets for women (60%) and older workers (50%) out of reach
 - EU 70% of US productivity level – key factors
 - 13% productivity
 - 4% to higher hours in US
 - 12% to lower EU employment rate
 - Enterprise reorganisation
 - Need to exploit ICT and organisational capital – new working methods between EU and

Mid-term review of Lisbon 2004-05

- Kok Report published November 2004
- Problems
 - Progress inadequate due to lack of commitment and political will
 - EU/US productivity gap has widened in the last 5 years
 - ‘Greying Europe’ - how to pay future pensions and health care (5-8% of GDP increase by 2050)?
 - China and India – future competitors
- Enlargement 2005 (+20% population but only +5% GDP)

Lisbon key for European society

- The sustainability of the European society and its civilisation are at risk
 - Welfare, public institutions, regulation is a high cost model
- Lisbon is about everything and thus about nothing. Everybody is responsible and thus no-one
- A clear narrative is needed – why and who is responsible

Proposed solutions

- No magic bullet
- Five by priority areas:
 - Knowledge economy
 - Completion of the single market
 - Favourable climate for business and enterprise
 - More adaptable labour market
 - Win/win environmental and economic strategies

2005 Relaunch of Lisbon Strategy (Lisbon II)

- Adopted by European Summit in March 2005
- Established Joint Action Programme of EU and Member States
- Key documents
 - Integrated Guidelines for Growth and Jobs (2005-2008)
 - Community Action Programme (2005-2008)
 - National Action Programme of Member States
- Focus on 4 Priority Areas
 - Education and Research: Knowledge Economy
 - Freeing up SMEs and Unlocking Business Potential
 - More and Better Jobs
 - Efficient, Secure and Sustainable Energy Supply
- Concentration on 2 key targets for 2010
 - 70% Employment
 - 3% of GDP to be invested in R&D

Joint EU-Member State Action Programme: Integrated Guidelines for Growth and Jobs

- Reflect Consensus of EU and Member States
- Provide Guidance to EU and Member State on Macro- and Micro-economic Policies
- Serve as Instruments of Economic Policy Coordination and basis of Member States' Strategy National Programmes
- Set out
 - Macro-economic objectives and targets (Section A)
 - Micro-economic reforms to be taken by Community and Member States (Section B)
 - Employment Policy objectives and priorities for action (Employment Guidelines)

Joint EU-Member State Action Programme: Community Action Programme

- Sets out around 100 measures at Community level in pursuit of Lisbon II for revising EU policies, laws and funding mechanisms over 2005-2008
- Concentrates on 8 key areas
 - Support to research and innovation in Europe
 - Reform of State Aid policy
 - Improvement and simplification of European regulatory framework for business operations
 - Completion of internal market for services
 - Completion of Doha round in WTO
 - Removal of obstacles to cross-border mobility of workers within EU
 - Common approach to economic migration
 - Support to efforts of dealing with social consequences of globalization and economic restructuring

Community Action Programme: Highlights

Knowledge Economy

- New model of Research Support: clusters between universities, research institutes and industry
- Creation of a European Institute of Technology

● State Aid

- New state aid policy to facilitate private-public R&D partnership and leverage R&D investments (1:2 public/private ratio targetted)
- Extended support for innovative SMEs

● Business/SME Framework

- Reduce regulatory burden
- Ease access to risk capital for SMEs (Community guarantees and risks capital)

● Internal Market

- Draft Directive on Services
(to reduce blockages for transborder services in EU (services account for 70% of economic activity in EU and 96% of jobs created in 1997-2002 but only for 20% of intra-EU trade))
- Remove barriers to competition, especially in energy and financial services
- Legislation adopted to create a “Single Payment Area” (could save EU economy (150-100 bn € p.a.))

● Lisbon II Strategy linked with Structure and Cohesion Funds

Islamabad, 15 May 2006

Joint EU-Member State Action Programme: National Action Programmes

- All 25 Member States have adopted National Reform Programme on basis of Integrated Policy Guidelines
Parliaments, social partners and civil society involved. Assessed by EC
- All Member States have appointed National Coordinators for Lisbon II

National Action Programmes: Key Recommended Member State Actions

- **Knowledge Economy**
 - more investments in R&D especially in form of state aid (double from present 12 to 25%)
 - more investments in higher education (at present 1.28% of GDP in EU vs.3.25% in U.S)
 - Removal of barriers to complementary private financing of universities
 - Creation of technology transfer offices in all technical universities
 - 2% of GDP to higher education by 2010
- **Better Business Conditions**
 - one-stop shops in all Member States by end where business operators can (electronically) fulfill administrative requirements all in one place
 - Reduction of administrative procedures for setting up a business to one week at most
 - Adoption by all Member States by 2007 of a methodology for measuring administrative costs of laws and regulations (legislative impact assessment)
 - **Responding to Globalization and Aging**
 - (Ratio workforce/elderly will decline from present 4:1 to 2:1 by 2050)
 - Labour regulation reforms to balance flexibility and employment security (“flexicurity”)
 - Financial incentives for companies, esp. SMEs, to employ young and elderly unemployed
- **Moving towards an efficient and integrated EU energy and policy**

Highlights of the German National Action Programme

Knowledge Economy

- High Tech Strategy for Germany to be launched in Summer 2006 with focus on support for cooperation between science and business as well as venture capital financing
- Additional €6 bn budgeted for R&D projects in 2005-2008
- “Excellence Initiative”: €1.9 bn in 2006-2011 for top research institutes and excellence clusters”
- Creation of special venture capital funds to support high tech-ventures, especially in biotechnology, nanotechnology and telecom

Highlights of National Action Programme (2)

- **Business Framework**

- Reduction of Red tape and better Regulation (see below)
- Launching of “startotheks” in 2006, i.e. websites comprising systematically arranged laws, regulations and ordinances related to the start of business operations in Germany
(Conterparts: French “centers for business formalities” at chamber and Spanish “Ventanillas Unicas Empresariales)
- Promotion of SMEs
 - Draft “Small Companies Net” pending to ease regulatory burdens on SMEs
 - Comprehensive Government programme (“Mittelstandsinitiative”) including support programmes for business start-ups, capital increases, and venture capital financing for innovative projects

Open Questions:

- The Lisbon II Agenda dominates current EU policy but how far has it soaked into the national and regional agendas?
- Is the Open Method of Coordination (peer review, benchmarking, etc.) robust enough?
- How far can the EU social model compete against the US and Asian models?
- How can the EU increase mobility and deal with the migration debate?
- What is the best way of stimulating the 'knowledge economy'?

Better Regulations and Regulatory Impact Assessment in the EU and her Member States

- Since 2003 initiatives pursued in EU and Member State towards improving and simplifying Economic Regulations (“Better Regulations”)
 - Simplicity, clarity, and stability of regulatory framework crucial to competitiveness of an economy
 - Better Regulations process therefore part of the Lisbon Growth Strategy
- “Regulatory Impact Assessment” (RIA) at core of Better Regulations

Regulatory Impact Assessment (RIA)

- RIA stands for set of logical steps to appraise likely impacts of (envisaged) regulatory policy in accordance with established method:
 - identity problem
 - define objectives
 - develop main policy options
 - analyse their impacts
 - compare options
 - outline policy monitoring and evaluation
- RIA extends to economic, social and environmental impacts
- See "Impact Assessment Guidelines" of the European Commission of 15 June 2005 (SEC (2005) 791)

RIA: Competitiveness Test

- “Competitiveness test” is crucial parts of RIA
- Compares (envisaged) EU policy with pertinent conditions in other economies and appraises likely impact of policy on international competitiveness of EU enterprises
- Is monitored by “Competitiveness Council”, i.e., high level expert group promoting competitiveness-friendly EU policies

RIA: Standard Cost Model

- Measurement of compliance cost to business (reporting, notifications, etc.) is crucial part of RIA
- Studies in NL suggest that compliance costs amounted in NL to € 16 bn p.a or 3.5 % of GDP
- Dutch “Standard Cost Model” is generally accepted methodology in EU

RIA: EU and Member State Practice

- From 2005 onwards systematic RIA of pending Community Legislation, including competitiveness tests (ex ante- RIA)
- From 2003 onwards systematic action programmes towards rolling back and simplifying existing Community Legislation (ex post- RIA)
- Better Regulation/RIA programmes increasingly pursued in EU Member States as part of National Lisbon Programme
 - -Lead countries: UK, NL,DK
 - -Most recently : G
- Pending: European Consultation Model for involving SME representatives in preparation of SME- friendly policies

German Program towards De-bureaucratization and Better Regulations of April 2006

- Creation of a Regulations Control Council (“Normenkontrollrat”) of independent experts to ensure state of art RIAs of (envisaged) regulations
- Adoption of a procedure for measuring compliance costs of (envisaged) regulations on the basis of the Standard Cost Model
- Appointment of a State Minister in the Chancellery as co-ordinator of the Program and institution of a permanent committee of state secretaries as well as an expert task force in the Chancellery for this programme
- Adoption of “Small Companies Act” to cut red tape for SMEs

The Turkish “Reform Program for the Improvement of the Investment Environment” (the “YOIKK Process”)

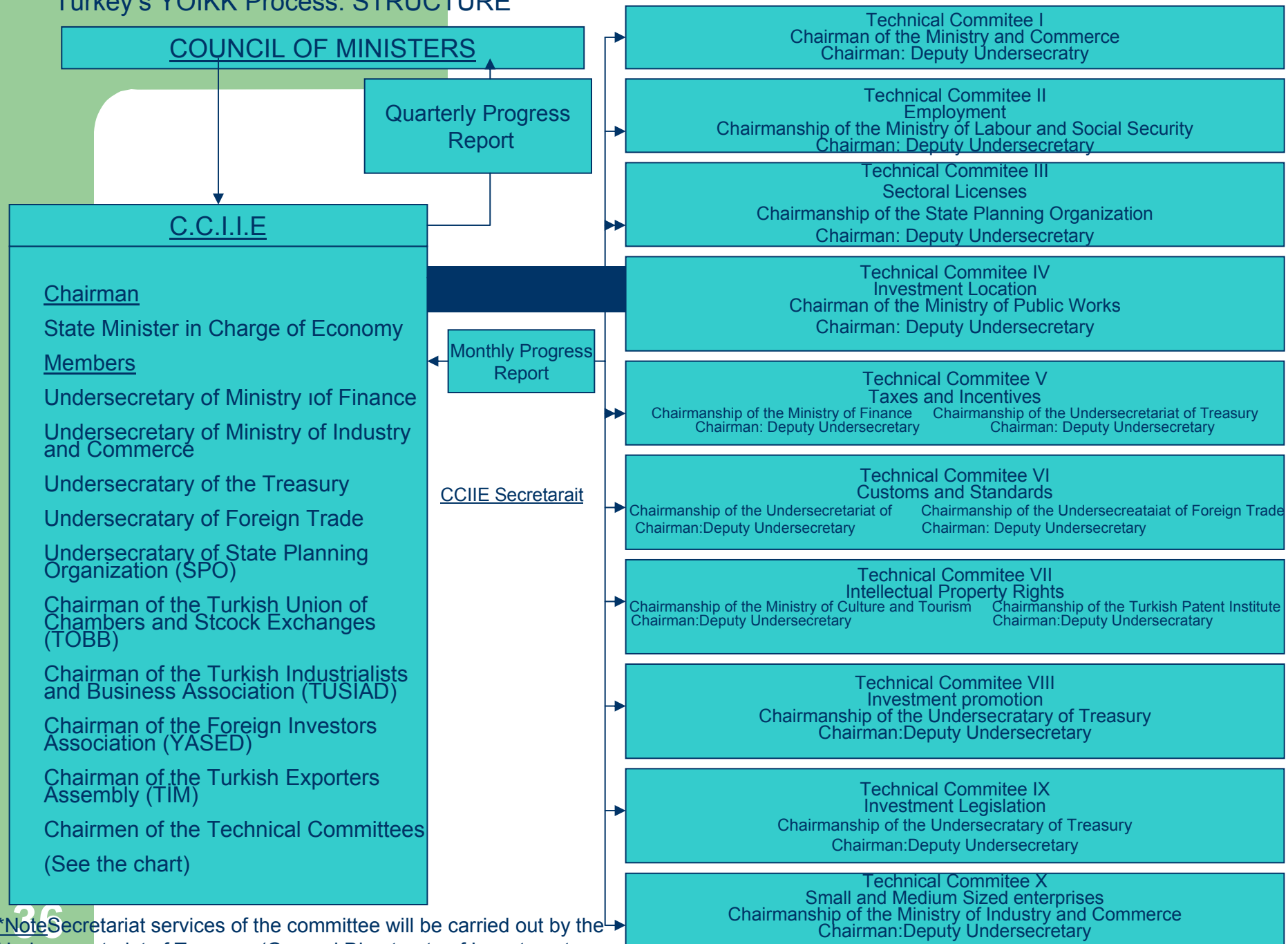
- Launched in December 2001 to Improve Competitiveness of Turkey in Attracting FDI
- Reaction to inadequate FDI flows to Turkey
- Reponse to 3 FIAS Studies
- Comprehensive action plan for reforming regulatory framework for doing business in Turkey rather than incentive program for foreign investors
- Approach reinforced by June 2003 FDI Law replacing previous system of discretionary investment permissions by modern investment regime founded on “National Treatment” and “Freedom to Invest”
- YOIKK Program hence akin to Turkish National Action Program under Lisbon

Turkey's YOIKK Process: Reform Areas

Program covers 11 reform areas:

- FDI Legislation
- Investment Promotion
- SME Promotion
- Taxation, Tax Administration and State Aid
- Foreign Trade, Customs and Technical Standards
- Sector Licenses
- Company Registration
- Land Access and Site Development
- Employment of Expatriates
- Intellectual Property Protection
- Corporate Governance

Turkey's YOIKK Process: STRUCTURE



*Note: Secretariat services of the committee will be carried out by the Undersecretariat of Treasury (General Directorate of Investments)

Turkey's YOIKK Process: Accomplishments

- New FDI Regime (2003)
- Investment promotion capacities strengthened
 - Investment Promotion Network established with Turkish and international organizations
 - Website page opened: www.investinturkey.gov.tr
 - Draft law on establishing Turkish IPA reporting directly to PM pending in Parliament
- SMEs,
 - 2004 Strategy and Action Plan adopted
 - 2005 Facility set up with EIB to launch € 250 mn low interest loans to SMEs through designated banks
- Taxation
 - Tax reform January 2006 (corporate tax down to 20% from 30%)
 - Review of overall to and regime pending with aim of simplification
 - Tax Council established with business associations and civil society

Islamabad, 15 May 2006

Turkey's YOIKK Process: Accomplishments (2)

- State Aid
 - Draft legislation pending aligning state aid regime with EU requirements and setting up central state aid monitoring authority
- Customs and Technical Standards
 - Over 90% of legislation brought in line with EU and WTO standards
- Sector Licenses
 - Legislation adopted in 2004/05 to cut red tape and simplify procedures
 - Law on creating development agencies with one-stop shops adopted in 2006
- Company Registration
 - FDI Law 2003: all special requirements for foreign investors dropped
 - Company Registration Law July 2003:
previous multiple registration requirements replaced by establishing Trade Registry as central registration office that forwards information and documents to other authorities
Average registration process cut to less than 9 days from 38 days in 2002
- Intellectual and Property Protection
 - New legislation adopted in line with WIPO/EU Standards
 - Turkish Patent Institute established
- FDI to Turkey in 2005: USD 9.6 bn vs USD 1.1 to 2.7 bn in 2002-04
- Real Growth in 2002-05 5.9 to 9.9%