Third Edition

EUROPEAN BUSINESS

DEBRA JOHNSON
AND COLIN TURNER

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ROUTLEDGE

European Business

The third edition of *European Business* is published at a time of turbulence in Europe. This uncertainty puts Europe's unique business environment at risk.

Key features of the new edition include:

- assessments of how individual member states affect the integration process and bring diversity to European business;
- new material on the links between Europe and the world's other main regions, including emerging economies;
- new case studies on topics such as the rise of the BRICs, the energy crisis, enlargement and the Euro.

The book retains popular pedagogical features to help students make sense of a confusing and complex environment. A unique and accessible text, the book is ideal reading for students of European and International Business and important additional reading for those interested in European politics and economics.

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European Business

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Abbreviations

ACER	Association for the Cooperation of Energy Regulators
ACP	African Caribbean Pacific
ADR	Alternative dispute resolution
ALMP	Active labour market policy
ASEAN	Association of Southeast Asian Nations
ATM	Air traffic management
BIT	Bilateral investment treaty
BOT	Build-operate-transfer
BRIC	Brazil, Russia, India, China
BSE	Bovine spongiform encephalopathy
BTIA	Bilateral trade and investment agreement
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CD	Community Dimension
CEE	Central and Eastern Europe
CEES	Common European Economic Space
CEF	Connecting Europe Facility
CEFIC	European Chemical Industry Council
CET	Common External Tariff
CFI	Court of First Instance
CETA	Comprehensive Economic and Trade Agreement
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CJEU	Court of Justice of the European Union
CO_2	Carbon dioxide
CoR	Committee of the Regions
Coreper	Committee of Permanent Representatives
CTP	Common Transport Policy
DAE	Digital Agenda for Europe
DG	Directorate General
DSM	Dispute Settlement Mechanism
DSM	Digital Single Market
EAC	East African Community
EAP	Environmental Action Programme
EBA	Everything but Arms
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
ECMR	European Community Merger Regulation
ECOWAS	Economic Community of West African States

ECSC	European Coal and Steel Community
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EED	Energy Efficiency Directive
EESC	European Economic and Social Committee
EFSA	European Food Safety Authority
EFSF	European Financial Stability Mechanism
EFTA	European Free Trade Area
EIB	European Investment Bank
EIF	European Investment Fund
EMAA	European-Mediterranean Association Agreement
EMAS	Eco-Management and Audit Scheme
EMCF	European Monetary Cooperation Fund
EMI	European Monetary Institute
EMP	Euro-Mediterranean Partnership
EMS	Environmental management system
EMS	European Monetary System
EMU	Economic and monetary union
ENP	European Neighbourhood Policy
ENTSO	European Network of Transmission System Operators
EP	European Parliament
EPA	Economic Partnership Agreement
EPC	European political cooperation
ERA	European Railway Agency
ERM	Exchange Rate Mechanism
ERRU	European Register of Road Transport Undertakings
ESA	Eastern and South Africa
ESCB	European System of Central Banks
ESF	European Social Fund
ESI	Electricity supply industry
ETS	Emissions trading scheme
EU	European Union
EUSFTA	European Union–Singapore Free Trade Agreement
FCT	Fiscal Compact Treaty
FDI	Foreign direct investment
FECC	European Chemical Distributors Association
FIE	Foreign invested enterprise
FSU	Former Soviet Union
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GC	General Court
GDP	Gross domestic product
GHG	Greenhouse gas
GI	Geographical indications
GM	Genetically modified (as in food)
GNI	Gross national income
GPA	Government Procurement Agreement
GSP	Generalised System of Preferences
GVA	Gross value added
HFO	Heavy Fuel Oil
ICN	International Competition Network
ICT	Information and communication technology
IEA	International Energy Agency
IEM	Internal energy market
IGC	Intergovernmental conference
ILO	International Labour Organisation
IMO	International Maritime Organisation
IPR	Intellectual property rights
ISDS	Investor state dispute settlements
ISP	Internet service provider
IT	Information technology
LCC	Low cost carrier
LDC	Least developed country
LNG	Liquefied natural gas
LSE	Large scale enterprise
MARPOL	International Convention for the Prevention of Pollution from Ships

MAS	Market Access Strategy
MCF	Multilateral Competition Framework
MCR	Merger Control Regulation
MEP	Member of the European Parliament
MFN	Most favoured nation
MGO	Marine Gas Oil
MINT	Mexico, Indonesia, Nigeria, Turkey
MNC	Multinational corporation
Mtoe	Million tonnes of oil equivalent
NAMA	Non-agricultural market access
NATO	North Atlantic Treaty Organisation
NCA	National competition authority
NGO	Non-governmental organisation
NHS	National Health Service
NTB	Non-tariff barrier
OBD	On-board diagnostic
OCA	Optimal currency area
ODR	Online Dispute Resolution
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Organisation in Europe
PCA	Partnership and Cooperation Agreement
PGM	Platinum group metal
PPP	Polluter pays principle
PSO	Public service obligation
QMV	Qualified majority voting
R&D	Research and Development
RASFF	Rapid Alert System for Food and Feed
REACH	Registration, Evaluation and Authorisation of Chemicals
SAA	Stabilisation and Association Agreement
SADC	South African Development Community
SAP	Social Action Programme
SARS	Severe acute respiratory syndrome
SBA	Small Business Act
SBM	Single buyer model
SCP	Structure-conduct-performance
SEA	Single European Act
SECA	Sulphur Emissions Control Area
SEM	Single European Market
SEPA	Single Europe Payment Area
SES	Single European Sky
SESAR	Single European Sky Air Traffic Management Research
SGP	Stability and Growth Pact
SME	Small and medium-sized enterprise
SNP	Scottish National Party
SO_2	Sulphur dioxide
SOE	State-owned enterprise
SPE	Special purpose entity
SPS	Sanitary/phytosanitary
STP	Strategic trade policy
TADCA	Trade and Development Cooperation Agreement
TBR	Trade Barriers Regulation
TBT	Technical barriers to trade
TDI	Trade defence instrument
TENs	Trans-European Networks
TEN-T	Transport TENs
TEU	Treaty on European Union
TFEU	Treaty on the functioning of the European Union (the Lisbon Treaty)
TJ	Terajoules
toe	Tonnes of oil equivalent
TPA	Third party access
TRIPS	Trade-related intellectual property rights
TTIP	Transatlantic Trade and Investment Partnership
UN-ECE	United Nations Economic Commission for Europe
VAT	Value added tax
WEF	World Economic Forum
WTO	World Trade Organisation

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Preface

When we wrote the first edition of this text in 1999, Europe was still in the aftermath of the single market and a general sense of 'Europhoria' prevailed. As a consequence, European Business was able to embed itself across many business schools as a key programme of study. By the time the second text was written in 2006, the EU had undergone substantive changes as it has both deepened and widened, with the process of EMU becoming established alongside the expansion of the group into Central and Eastern Europe. Arguably, this was the high-water mark of Europhoria. The study of European Business – though an embedded topic in the study of business – had less of the novelty factor as the region was increasingly viewed as one group of states in an ever-deepening global economy. Since then such complacencies have given way to rising 'Euroscepticism' as civil society has begun to doubt both the logic of the rapid expansion and the move towards monetary integration. These internal challenges have been compounded by the rise of hyper-globalism, notably through the rise of new competitors such as China. These factors in combination have led many to contest the consensus that economic integration was the most effective method of meeting the challenge of the political and economic reality of the evolving global economy.

It is against this background that this third edition has been written. When first approached to write the latest edition, we felt that the writing would be straightforward but, with the uncertainty of the Euro crisis looming large across so many of the themes within the book, the process was anything but. The result was perpetual delays as we waited for events to play themselves out. As such, the material presented comes with the caveat that it reflects our best understanding of events and processes up to the first quarter of 2015. Given such uncertainties, we would like to thank the staff at Taylor and Francis for their patience and hope they find the text worth the wait. We would also like to extend our thanks to our two guest contributors: Dr Leigh Davison and Ms Josephine Bisarce who have both written excellent chapters on their respective areas of expertise – competition policy and the European citizen and consumer.

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Part I

A portrait of Europe

Squaring the circle of continuing diversity and greater integration?

Why European business? What is different about European business or business in Europe from American business or Asian business or business in any other part of the world? Clearly, businesses have much in common whatever their origin. They are all trying to find the best way to compete in a world which is becoming increasingly open and competitive. However, although their overall objective may be similar, business strategies are shaped and influenced by the culture, traditions, economies, political and institutional frameworks and general context of their home base. These contexts vary tremendously from country to country and from region to region. European business is no different and the first part of this volume establishes the context in which European business operates and which provides it with the platform from which it engages with the rest of the world. Part I also provides a context for the more detailed chapters that follow in Parts II to IV.

Chapter 1 opens with a broad-brush portrait of Europe which sketches the scope and main characteristics of the European economy and markets. In the process, some of the main similarities and differences among European countries are highlighted, particularly, but not only, in terms of the major social and economic models that co-exist in Europe. The chapter then discusses the nature of competitiveness in general and what measures various authors claim are necessary for nations to be competitive. The chapter concludes by discussing the European Union's latest long-term initiative, *Europe 2020*, to boost Europe's competitiveness and to enhance its place in the world economy.

Chapter 2's focus is on European business in general terms, providing a profile of its structure, composition and measures of its competitiveness and the ease of doing business on its territory. What really makes European business unique, however, is the depth, level and ambition of the regional integration which shapes its operating environment. Indeed, in international business literature, regional integration is an important factor in business location: the example and experiences (both good and bad) of European integration can help other regions that are not so far down the integration road or even individual countries that are struggling to overcome market fragmentation.

Chapters 3 and 4 outline how Europe has reached its current stage of integration. Chapter 3 discusses the theoretical and historical background to European integration while Chapter 4 sets out the institutional and decision-making process in which European integration takes place. Although it is not essential for those studying European business to know the ins-and-outs of the history of the EU and its decision-making process, it is extremely useful to have an overarching knowledge of these matters to help them understand the context in which European integration is taking place and to understand where and how the important decisions that affect European business are taken.

Chapter 1

A portrait of Europe

I think he bought his doublet in Italy, his round hose in France, his bonnet in Germany, and his behaviour everywhere.

William Shakespeare, *Merchant of Venice,*
(Act 1, Scene 2, line 78)

This chapter will help you to understand:

- key features of modern Europe;
- different European social models;
- conditions that can foster competitiveness;
- Europe's priorities going forward.

Much of the focus of regional interest in the field of international business is on the rapidly growing emerging economies, particularly of India and China. For business practitioners, academics and students, these markets have attracted considerable attention, primarily because of their tremendous trade and investment potential; because they encompass two-fifths of humanity and because they are behind the shifting power within the global economy. Thus, the emergence of these states and the intensified economic rivalry this has provoked represent a serious strategic challenge for the 28 relatively small states of the European Union (EU) which occupy a comparatively small area of land at the far end of the Eurasian plate.

A cursory examination of the business press highlights the essence of the challenges facing Europe. It is not uncommon for Europe to be portrayed as the 'old continent', refusing to face up to the reality of relative decline, bereft of ideas and unwilling to make the necessary reforms to enable it to compete. Whatever the truth in these allegations, Europe remains a pivotal player in the global economic system as a market, a producer, an exporter and an investor – and is likely to remain so.

In historical terms, one cannot overstate the significance of the 'old continent'. For centuries, Europe has been the source of ideas that have shaped the world and its business practices. The spread of Europeans throughout the globe has been pivotal in shaping the contemporary environment to which Europe must now respond. The challenge for Europe is that it must be and remain a good place to do business. To this end, Europe has to undergo a process of adjustment. This means a transformation of how it creates and sustains employment; the types of jobs it creates; how it innovates; how it enables its businesses to expand and develop and how it engages with the rest of the world.

Within the context of the rest of this text, this chapter addresses a number of objectives. The first is to offer a portrait of contemporary Europe and to examine its economic structures. The second is to elaborate upon the various European social models – models which are both controversial and important in terms of setting the context within which businesses operate. The chapter then examines the core competitive challenges for Europe before moving on to outline how the EU seeks to address these challenges through its *Europe 2020* strategy.

CONTEMPORARY EUROPE

The bulk of contemporary Europe's business environment is organised within the framework of European integration in the form of the EU, an arrangement which is the main focus of this text. In 2015, in Western Europe, only Switzerland and Norway plus a few smaller independent nations such as Andorra and Liechtenstein stand outside this framework. The 2004 EU enlargement absorbed eight Central and Eastern countries plus the two island states of Cyprus and Malta and two more – Bulgaria and Romania in 2007, followed by Croatia in 2013. The situation is more complex in South-east Europe where several Balkan states are at varying stages of applying and negotiating to join the EU (see Chapter 16). Further eastwards, Turkey has been in accession negotiations with the EU for a number of years.

The EU in 2015 is composed of 28 nation states with a combined population of over 500 million people (see Table 1.1). Europe's main traditional economic rivals – the United States and Japan – have populations of 316 million and 127 million respectively whereas the two largest emerging economies – China and India – have populations of 1.4 and 1.3 billion respectively and great potential as markets and labour forces.

A major thrust of Europe's integration process has been to create a Single European Market (SEM) (see Chapters 3 and 5) within which European businesses can compete with each other on equal terms and which creates a strong domestic market for European business to use as a platform from which they can compete with businesses in the rest of the world.

Figures 1.1 and 1.2 go some way to explain why a key thrust of European integration is to end the fragmentation of the European market place. Europe's economies range widely in terms of their size. The big four are Germany, France, the UK and Italy. Their economic dominance helps explain their centrality in many EU policy debates: Germany's GDP, for example, is bigger than the combined GDP of the 21 smallest EU economies. This dominance by a few states also explains why smaller states are so anxious for their concerns to be heard. However, in an international context, the US economy is over 4.5 times bigger than that of Europe's biggest economy – Germany. It is, therefore, only through acting as an integrated unit that

Table 1.1 Portrait of the EU, 2013 (unless stated otherwise)

	Population in millions	Population density – inhabitants per km^2	GDP per head – PPS[a] (EU-28 = 100)	Social protection expenditure as a % of GDP – 2012	Labour productivity per person employed (EU-28 = 100) – 2012
Austria	8.5	103	128	30.2	110
Belgium	11.2	340	119	30.8	129
Bulgaria	7.3	370	45	17.4	45
Croatia	4.3	76	61	21.2	81
Cyprus	0.9	124	89	23.1	74
Czech Rep.	10.5	136	82	20.8	73
Denmark	5.6	132	124	34.6	112
Estonia	1.3	31	73	15.4	70
Finland	5.4	18	113	31.2	109
France	65.6	121	107	34.2	116
Germany	87.0	231	122	29.5	107
Greece	11.1	86	73	31.2	92
Hungary	9.9	109	66	21.8	71
Ireland	4.6	67	130	32.5	142
Italy	59.7	203	99	30.3	109
Latvia	2.0	32	64	14.0	66
Lithuania	3.0	47	73	16.5	76
Luxembourg	0.5	210	257	23.3	162
Malta	0.4	1323	86	19.4	92
Netherlands	16.6	498	131	33.3	108
Poland	38.5	126	67	18.1	76
Portugal	10.5	114	79	26.9	76
Romania	20.0	87	65	15.6	
Slovakia	5.4	113	75	18.4	82
Slovenia	2.1	102	82	25.4	81
Spain	46.7	94	94	25.9	110
Sweden	9.6	24	127	30.5	114
UK	63.9	265	109	28.8	100
Eurozone	334.6		107	30.4	109
EU-28	507.2	117.5	100	29.5	100

Notes

a PPS = Purchasing Power Standards – a form of measurement that is expressed in a common currency and corrects for differences in price levels.

Source: Eurostat.

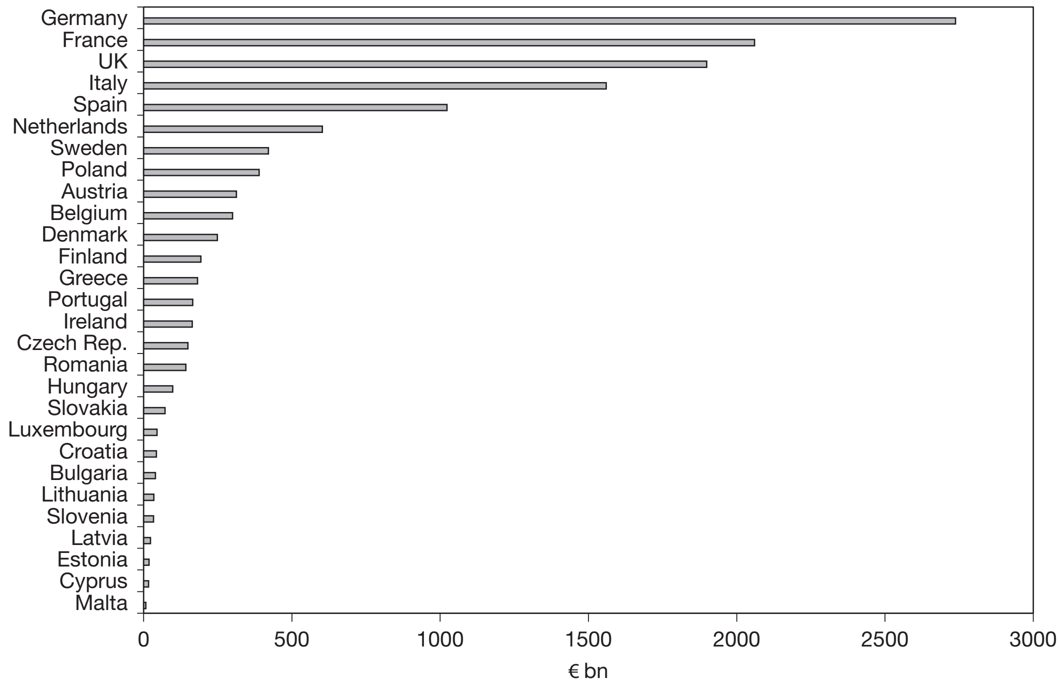

Figure 1.1 *GDP of EU economies, 2013*

Source: Eurostat.

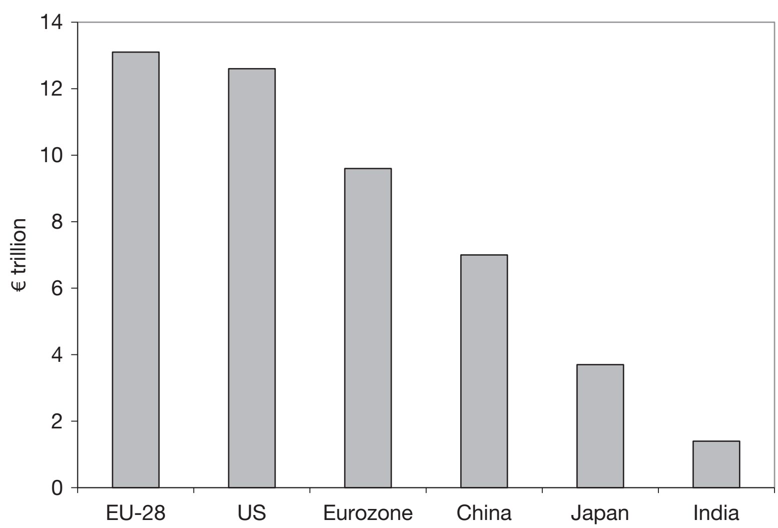

Figure 1.2 *Relative size of EU GDP compared to other major economies, 2013*

Source: Eurostat.

Europe begins to match the US (see Figure 1.2) in terms of market size, influence, potential for economies of scale and the other benefits claimed for a unified single market.

In order to understand European business and its environment, it is important to acknowledge the different units which make up this trading bloc – the individual nation states – which, although having much in common, also exhibit factors which give Europe significant diversity in terms of culture, organisation, tradition, history, economic structures and interests, etc. These can lead to major differences at EU level in relation to the determination of policy and the future direction of Europe. Moreover, diversity within Europe also continues to exercise an influence over the business environment. Thus an abiding theme in the creation of modern Europe is the constant tension between convergence and divergence among EU member states.

In terms of convergence, Europe shares much in terms of a broad common history and intellectual traditions going back several centuries. More recently, there has been a convergence of political and economic ideology and of commercial structures. After the Second World War, economic policy in Western Europe was based on Keynesian economics in which there was a clear role for the state in managing economic demand. The dominance of Keynesianism started to diminish in the 1970s when the simultaneous existence of high levels of inflation and unemployment began to undermine its key assumptions. Neo-liberalism – that is, an economic ideology that limits the role of the state to more or less creating an environment in which market forces determine resource allocation – began to replace the demand management approach, albeit with more enthusiasm in some member states than others, and provided the underpinning economic philosophy of the SEM.

Similarly in the 1970s, the twin systems of political dictatorship and economic isolationism in Greece, Spain and Portugal gave way to convergence with Western European norms and, indeed, EU membership in the 1980s for all three countries. By 1989–90, it had become clear that the era of Soviet domination, both economically and politically, over Central and Eastern Europe was rapidly drawing to a close. The former Soviet satellites, without exception, chose the model of democracy and market economics to guide their social, economic and political transformation. Moreover, the goal of EU accession required them to adopt the institutions of a market economy and all existing EU rules and regulations (the *acquis communautaire*) which essentially gave them a detailed roadmap to help them achieve their transition goals. In short, by the turn of the century, after over 50 years of division, Europe's nations had converged on a broad common economic and political framework. However, many differences remained among Europe's nations in relation to the details of this framework.

All European states are currently examples of mixed economies. Most have privatised some of their state-owned enterprises (SOE), although many still retain full or partial control of some SOEs, especially in the utility and transport sectors (see Chapter 2).

The size and role of the welfare state also varies considerably within Europe (see Table 1.1 and the section below on European economic and social models). This reflects differences not only in the ability of states to support such spending, but also different priorities in terms of the implicit bargain between the state and its citizens. For example, as Table 1.1 shows, those countries with a tradition of flexicurity (see Case Study 14.1) and of following a version of the Nordic model tend, unsurprisingly, to have some of the largest shares of social protection spending (that is, expenditure on pensions, unemployment, disability payments, etc.) in the EU. These countries also have some of the highest GDPs per head. Countries falling into the category of the Continental model, such as Belgium and Germany, also spend a large proportion of their income on social welfare. Although not spending such a large share of their national income on social protection, member states that have been badly affected by the eurozone crisis have seen their share of social spending rise. This is particularly noticeable in the case of Greece where, despite austerity and falling GDP growth, social spending is up almost five percentage points since the beginning of the crisis – a function of the rapid rise in unemployment and poverty in Greece. At the other end of the spectrum, the share of social spending in GDP in the Baltic states and Romania is about half that of spending in the Nordic states and some of those in Northern Europe. In the case of the Baltic states, at least, this stems from the adoption of a development approach based predominantly on reliance on the market as the main source of income allocation.

Trends in terms of economic structure (see Table 1.2) are broadly similar in Europe. When the Treaty of Rome establishing the European Economic Community (EEC) was signed in 1957, agriculture's share of gross value added (GVA) (GVA measures the difference between output and intermediate consumption – that is, it assigns a value to the goods and services produced minus the cost of all inputs and raw materials and, as such, quantifies the value of goods and services produced in a particular region, industry or company) and employment was much bigger than at present. Agriculture has subsequently declined in relative importance throughout Europe, comprising only 1.7 per cent of GVA in the EU-28 in 2013. Agriculture's current share ranges from less than 1 per cent of GVA in Belgium, Germany, Luxembourg and the UK to 6.4 per cent in Romania. In general, agriculture makes a bigger relative contribution to the economies of Southern Europe and of those states that acceded to the EU in 2004 and beyond.

Table 1.2 *Share of Gross Value Added by sector, 2012 (%)*

	Agriculture	Industry	Services
EU-28	1.7	25.0	73.3
Austria	1.6	28.6	69.8
Belgium	0.7	21.8	77.5
Bulgaria	6.4	30.4	60.3
Croatia	5.0	26.2	68.8
Cyprus	2.5	14.9	82.6
Czech Rep.	2.4	37.3	60.3
Denmark	1.4	21.8	76.8
Estonia	4.1	29.0	66.9
Finland	2.8	25.9	71.3
France	2.0	18.8	79.2
Germany	0.8	30.5	68.7
Greece	3.4	16.2	80.4
Hungary	4.7	30.6	64.7
Ireland	1.6	27.9	70.5
Italy	2.0	24.3	73.7
Latvia	5.0	25.7	69.3
Lithuania	4.0	31.1	64.9
Luxembourg	0.3	12.9	86.8
Malta	1.8	17.3	80.9
Netherlands	1.7	24.3	74.0
Poland	3.9	32.4	63.7
Portugal	2.3	23.6	74.1
Romania	6.0	42.3	51.7
Slovakia	3.1	35.2	61.7
Slovenia	2.7	31.1	66.2
Spain	2.5	26.0	71.5
Sweden	1.6	25.2	73.2
UK	0.2	20.7	78.6

Source: Eurostat.

Industry has also declined in relative importance throughout the Union, accounting for

25 per cent of EU GVA in 2013 and ranging from 14.9 per cent in Cyprus to over 30 per cent in several Central and Eastern European states and Germany. The former are still in transition to a post-Soviet economy and shifting to a more service-based economy whereas Germany, uniquely among developed countries, has seen its share of industrial GVA increase (see Box 2.1).

Services dominate contemporary European economies and – for the majority of member states – contribute two-thirds or more of GVA. As Chapter 15 shows, Europe is also the world leader in trade in commercial services – a dominance which is becoming less emphatic as a result of the growth of services in many emerging markets. Services themselves include a range of activities, including distributive trades; transport and communication; accommodation and food services; information and communication technology (ICT); financial and insurance services; real estate; professional, scientific, technical and administrative support services; public administration, defence, education, health and social service; and arts, entertainment and recreational services. Within services, individual member states have their own strengths: financial and insurance services are particularly important to Luxembourg and the UK, for example, whereas Malta and Cyprus (which also has had a relatively large banking sector) rely heavily on tourism and related activities and Ireland has the largest ICT sector in relative terms.

Member states are also subject to – and have to respond to – the same domestic and international challenges. They are, for example, all subject to the problems arising from an ageing population (see Chapter 14). The problem is more acute in some countries: the 2004 accession states, for example, currently have a less marked problem in this regard than the states of Western and Southern Europe but their position is forecast to decline fairly quickly. Consequently, all member states will have to re-examine their welfare systems and their funding in the coming years. EU members are also subject to the same environmental imperatives and are vulnerable to energy supply insecurity (see Chapter 11). They are also facing increased competition from the emerging economies of Asia (see Chapters 18 and 19) and are subject to international economic cycles, increased economic mobility and need to find a positive response to increasing economic interdependence or globalisation.

Despite the convergence in economic ideology, economic structure and the challenges facing European countries, significant differences remain which influence their response to these challenges and lead to different business and policy concerns. This diversity emerges from the interaction of economics, politics, history, social preferences and culture. Different organisational structures persist in European countries, whether of government (the Belgian and German states are organised along federal lines, for example, whereas the French state is highly centralised) or of legal and financial structures.

EUROPEAN SOCIAL MODELS

The development of competing European social models is a useful device to highlight similarities and differences among European countries. However, care needs to be taken in interpreting these models. First, the term 'social model' is misleading as the implications of the models stretch far beyond the social and into production, productivity and employment: that is, into areas which can have profound effects on growth, competitiveness and the ability to prosper within a more interdependent global economy. Second, the models themselves are stylised: in reality, individual countries will fit more or less with a particular model but on some criteria, they may show more elements of a different model.

Social models can be developed in a number of ways but one influential version, and one which has much in common with other models, has been developed by André Sapir. Sapir's analysis was first presented to the Union's Finance Ministers at an informal meeting in September 2005. It is used here as an example of how European countries can be classified according to key dimensions. One drawback of Sapir's approach, as is the case with others, is that it is concerned with the EU-15 and does not incorporate the 2004 and later accession states.

Figure 1.3 provides an overall representation of the four social models identified by Sapir. The main characteristics of each model are:

1 The Nordic model (Denmark, Finland, Sweden and the Netherlands): these countries have the highest levels of social protection and welfare in the EU. The protection offered to employment by legislation is rather muted but much emphasis is placed on active labour market policies to keep people in work and to ensure that those out of work can gain the necessary training and skills to get them back into work (see Case Study 14.1). Trade unions are strong and the range of incomes is relatively compressed. Political and economic decisions rely greatly on consensus and relations between the social partners are based on a high level of trust. High technology and the associated skills are regarded as key to future economic success with large investments being made in education. This emphasis is demonstrated by Figure 1.4, according to which Finland, Sweden and Denmark are the leading EU member states in terms of R&D expenditure as a share of GDP.

2 The Anglo-Saxon model (the United Kingdom and Ireland): this is the most market-oriented model of the four with little employment protection afforded to the workforce. Social transfers tend to be smaller and more targeted than in other models and unions are generally weak. There tends to be a bigger pool of low paid workers than in other models and there is a wide spread of wages. In general, there is a preference for competition and deregulation. In many respects, the Baltic states have the most in common with this grouping, having adopted a clear market approach with a lesser emphasis on welfare.

3 The Continental model (Austria, Belgium, France, Germany and Luxembourg): often categorised as 'social market' economies in which the market is used as the major source of resource allocation but is regulated to attain socially acceptable outcomes. This model has come under scrutiny because its emphasis on equity has, according to some, derailed its quest for efficiency. This model relies heavily on insurance-based benefits, non-employment benefits and pensions. Although declining, the influence of unions remains strong and the social partners play an important role in industrial relations. However, in the German case, the model has proved to be adaptable with the social partners demonstrating a flexible approach so that the German economy can continue to grow and the state can sustain the major part of the social bargain (see Box 2.1).

4 The Mediterranean model (Greece, Italy, Portugal and Spain): social spending is traditionally relatively low with extensive family networks sharing the burden and much of the expenditure is directed towards pensions.

		EFFICIENCY Low	EFFICIENCY High
EQUITY	High	Continental	Nordic
	Low	Mediterranean	Anglo-Saxon

Figure 1.3 *European social models*

Source: Sapir, 2005.

> Collective bargaining determines wages and the wage structure is highly compressed. Employment protection tends to be strong in this model and early retirement has been used extensively to keep employment down. Table 1.4 shows the yawning gap between employment levels of 20–64 year olds and the achievement of their *Europe 2020* targets which has to cast doubt on the sustainability of the model unless some way is found of getting more of the population into work – an urgent but challenging priority in view of the economic stagnation of these states that are at the heart of the eurozone crisis.

Figure 1.3 places the four models in an equity/efficiency matrix. The ideal position to be in is that of the Nordic model – one of high equity and high efficiency. The worst position is that of the Mediterranean model which is neither equitable nor efficient. The Continental model is regarded as high on equity but low on efficiency – although recent German performance appears to belie this. If they can increase their efficiency levels, the Continental model countries could well find themselves in the position where they can continue to fulfil their equity goals and perhaps even improve their performance in this area. Without improved efficiency, however, it is clear that the sustainability of their high levels of equity will be undermined. The Anglo-Saxon model provides an efficient but inequitable system.

The Continental and Mediterranean models have become inefficient and reliance on strict employment protection laws has rendered their systems resistant to change, rigid and bad for overall employment levels. Activity rates tend to be higher in the Nordic and Anglo-Saxon countries. Pressures from globalisation, ageing populations and low activity rates make these models unsustainable in the medium to long term and in serious need of reform. The Anglo-Saxon model is more sustainable but is demonstrably less equitable than the Nordic model. Whether reform takes place in this model is a political matter.

The Nordic model appeared to be in serious trouble in the 1980s and early 1990s with serious doubts emerging about the long-term affordability of their generous welfare states. However, the Nordic model countries embraced elements of the Anglo-Saxon model to boost their growth rates: product markets have become as deregulated as those in Anglo-Saxon countries and labour markets are less heavily regulated than those in France and Germany. Increased labour market flexibility has been matched by an emphasis on active labour market policies which help with re-skilling and strict fiscal prudence. Trust and consensus are important watchwords in the Nordic models. The Nordic countries have also emphasised technology, R&D, education and growth – factors which align the Nordic countries fully with the targets and objectives of *Europe 2020*. This combination has, for example, facilitated the emergence of leading global telecommunications companies from within their midst. Although it is unlikely that other member states will be able to follow the example of the Nordic countries in all aspects because of different social bargains and different economic starting points, lessons can be learned from the Nordic experience in terms of securing a future which combines equity and efficiency. It is upon this basis that Europe can begin to address its competitiveness problems while not undermining its desire for social cohesion.

EUROPE'S COMPETITIVENESS PROBLEM

The assumptions surrounding the concept of competitiveness can be misleading, especially when they extend the basic principles of competitive advantage to the level of the state. The implication is that the same analytical principles can be applied to both the state and the firm. However, it would be misleading to extend the analogy of the 'state/region as a firm' too far. The notion of 'EU plc' is misleading as it makes certain assumptions which can lead to misunderstandings about the different pressures on states and firms. Krugman (1994) disputes the notion that states – like firms – are in competition with each other for the following reasons.

- Firms are not like states: the firm is motivated by profit whereas the latter is motivated by a broader range of economic, social and political issues, which can and do interact to influence the performance of business but which have other dimensions as well. Moreover, firms can go out of business whereas states can perform badly or even fail: in these cases, the political and economic systems and even boundaries can change but the territory remains.
- Trade is not a zero sum game. The metaphor of the state as a firm is based on the premise that the state will only prosper by winning market share from other states. However, trade liberalisation is expected to work to the benefit of all states. Thus, if the EU prospers in global markets, it may not necessarily be at another state's expense.

Nevertheless, the spectre of competitiveness is raised time and time again. Indeed, it was concerns about Europe's competitiveness in relation to the US and Japan that led to the single market initiative (see Chapter 5) and much of the ongoing debate about globalisation and Europe's response to the rise of the BRICs and other emerging markets (see Chapters 18 and 19) is expressed in terms of competitiveness – so what exactly is the 'competitiveness' problem faced by the EU?

In part, the answer lies not at the macro level but at the micro level. The barometer of competitiveness is not how well the economy per se does but how well those firms located within that economy are performing (see Chapter 2 for a more applied view of competitiveness). Thus being competitive is based on the ability of the firm to preserve and enhance its presence within the globalising market place. This means that competitiveness is not primarily about states or government, although government actions can clearly help or hinder firms. As a consequence, firms must be the focus of policy and, in the context of the EU, the notion of competitiveness is based upon the ability of all firms located within the region (both EU and non-EU owned) to thrive and prosper within the framework of a favourable business environment. Again, the single market was essentially about removing barriers to business activity (that is, to improving the supply-side of the economy) rather than direct government intervention in production.

Porter (1990), while not taking an extreme view on the 'states as firms' perspective, nonetheless believes that states do compete with each other. In this context, Porter argues that the competitiveness of nations is based on the characteristics of the domestic environment. It is the combination of a series of conditions (and their mutual reinforcement) within states that have a large influence upon the performance of business on both domestic and foreign stages. Nevertheless, these conditions are a necessary but not sufficient condition for good firm performance: firms must still respond to these conditions and take advantage of them – it is, however, easier to perform well if the appropriate conditions are in place. Porter's conditions are:

- *Factor conditions*: all states have a combination of given and created factors of production. The former include energy, raw materials whereas the latter include infrastructure, skills, labour, technology, etc. and can be shaped to varying degrees by public policy. Historically, Europe's competitive strength was derived from its natural factor endowments in terms of energy supply, raw materials, etc. It was no coincidence, for example, that the first industrialising countries, for example, were the UK and Germany which both had large reserves of coal that enabled them to power the first factories and early railroads and steam ships. In the modern world, however, created factors are generally regarded as more important than given factors and these are firmly embedded in the key themes and targets of *Europe 2020*.

- *Demand conditions*: demand is important in understanding user needs and requirements, especially within the home market. The higher and more sophisticated the level of demand, the greater the scope for economies of scope and scale as well as assorted marketing skills that could be valuable in overseas markets. It was to end the fragmentation of the European market and to create a bigger domestic market, thereby reaping these economies of scale and scope, as a platform for exporting to the rest of the world that lay behind the single market programme (see Chapter 5).
- *Related and supporting industries*: these industries (if they are internationally competitive) when working closely with firms are able to spur innovation and change. One potential impact of the SEM was expected to be greater specialisation resulting in greater clustering of related and supporting industries in locations around Europe. In essence one of the key problems facing Europe is the continuing absence of world-class supporting industries to aid the competitiveness of firms elsewhere in the EU economy. The dearth of such supporting industries has been driven by the relative absence of entrepreneurialism, a limited advanced scientific research base and the scarcity of venture capital. The most evident example of this is the weakness of an indigenous ICT sector within the EU. Across this industry value chain, the interlinkages between hardware and software firms that drove the emergence of the US as a 'new economy' power are absent. This is despite the development and sourcing by Europeans of many of the core technologies within the new economy.
- *Firm strategy, structure and rivalry*: how firms compete and are managed is influenced by the home environment. The education system, commercial cultures and competitive structures are just three factors that can influence the form and the nature of firm behaviour within internationalising market places.

However, Porter places the greatest emphasis on the intensity of competition as a driver of change. Under pure market conditions, the intensity of rivalry creates a distinction between those firms that have successful strategies and those that do not. In these conditions, economies are subject to dynamic change which leads to a process of renewal both within firms and across whole industries. These pressures should breed excellence in products, services and innovation. However, within the EU, the intensity of competition has been limited by the ongoing and incomplete process of building the single market (see Chapter 5) and by the actions of states driven by a suspicion of market forces that has caused them to resist the full forces of competition. The result is that firms are restricted in using the benefits derived from intense competition in national markets to deliver competitive advantage at the international level. In short, how can firms be expected to compete internationally when they are not allowed to compete domestically?

In addition to the four primary determinants discussed above, Porter's framework for explaining national competitiveness is supported by two other factors of secondary importance – chance (the potential for a random innovation or historical accident to create change) and government (the ability of government policy to influence outcomes via the primary determinants). Despite its relative downplaying by Porter, government has an important facilitating role through its action and inaction to remove or create impediments to competitiveness. In the European context, the EU and national governments together have played a major role in shaping the factors determining Europe's business environment.

Porter's framework for national competitiveness, often referred to as 'Porter's diamond', has become increasingly popular. In prescriptions for aiding the development of competitiveness, this framework has been widely accepted. While it can be criticised for its simplicity and for the low priority given to policy makers and MNCs, the framework is a useful benchmark for addressing and examining issues of national and regional competitiveness. Taking each of the determinants in turn, it can be argued that the competitiveness problem is created by the interaction and mutual dependence between the primary factors identified by Porter and between these factors and government policy.

Porter's perspective on competitiveness merely reflects a belief that it is the external environment that shapes a firm's competitive position and therefore enables an economy to prosper. The message is get the environment right then competitiveness will result. However this only represents one view of what enables firms to develop competitive advantage. Others suggest that competitiveness is based on the internal environment (see Fahy, 2001) and comes from the interaction between firm (finance, skills, etc.) and country (education systems, infrastructure, etc.) specific resources. The policy implications are that government should seek to ensure that country specific resources are as valuable as possible to maximise the yield from firm specific resources.

Other theories suggest that competitiveness is based upon the institutional framework (Peng, 2000). This perspective argues that the ability of firms to develop competitive advantage is derived from the form and nature of institutional constraints and freedoms created. These can be formal institutions such as laws, regulations etc., and informal institutions such as culture and ethics. Clearly there is scope for overlap between these different views.

A LONG-TERM GROWTH STRATEGY FOR EUROPE: *EUROPE 2020*

In 2010, *Europe 2020* was launched, a ten year growth strategy which was the successor to the Lisbon Strategy and its predecessor the 1993 White Paper *Growth, Competitiveness, Employment*. This initiative provides an overview of what the European policy elite consider the overarching long-term priorities for the EU and its member states.

The ambitious Lisbon Strategy aimed to make the EU the world's most competitive economy by 2010. This was to be achieved by a wide range of interdependent market-driven reforms to stimulate more intense competition from internal and external sources and to facilitate the development of the knowledge economy. The Lisbon Strategy was important as a long-term vision into which several governments, previously sceptical about market-driven liberalisation, bought. However, the initiative was rapidly undermined – in part by its over-optimism but also by events. Enthusiasm for reform started to wane: this was exemplified by the intense debates about the ultimately watered down Services Directive and the conclusion in the 2010 report on the single market by former EU Commissioner Mario Monti (2010) that the EU was suffering from 'integration fatigue'. However, it was the financial and economic crisis that hit just halfway through the lifetime of the Lisbon Strategy that finally put paid to its chances of even minor success.

The starting point of *Europe 2020* was acknowledgement of the damage done by the financial and economic crisis which it was claimed had:

> wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify.
> (European Commission, 2010a)

The aim of *Europe 2020* was to identify, develop and pursue a strategy that would enable Europe to put the crisis behind it and to emerge from it as a reinvigorated, highly competitive economy. In order to achieve this, the following three, mutually reinforcing priorities were identified:

1 Smart growth: that is, growth based on knowledge and innovation arising from improved quality in education; strengthening of Europe's research performance; promoting innovation and knowledge transfer; maximising the use of information and communication technologies and facilitating the transformation of innovative ideas into products and services that create jobs and address some of the key global challenges.
2 Sustainable growth: that is, growth that leads to a more resource-efficient, greener and competitive economy. This links into the smart growth theme, for example, by requiring innovation in greener technologies which, in turn, have the potential to create new jobs, especially if Europe can develop a leading position in some of these technologies (see Chapter 12).
3 Inclusive growth: that is growth that results in high levels of employment, reduces poverty and creates social and territorial cohesion. In the knowledge-based economy envisaged by *Europe 2020*, this requires investment in skills, education, and training and connects with both the above priorities. Inclusive growth also implies that the benefits of economic growth should reach all parts of the EU, including its peripheral regions.

In order to move these priorities from being purely aspirational into something real, five headline targets have been set to measure progress towards achieving these priorities (see Table 1.3). These targets are for the EU as a whole: each member state has its own individual target which reflects its starting position and circumstances.

Table 1.3 Europe 2020's *five priority targets*

Employment	75% of 20–64 year olds to be employed
Research and development (R&D)	3% of GDP to be invested in R&D
Climate change and energy sustainability	20:20:20 strategy (see Chapter 11): ■ greenhouse gas emissions to be at least 20% below 1990 levels ■ 20% of energy to come from renewables ■ 20% increase in energy efficiency
Education	Early school leavers rate to fall below 10% At least 40% of 30–34 years old to have a tertiary education
Fighting poverty and social exclusion	20 million fewer people to be in or at risk of poverty and social exclusion

Underpinning these targets are seven, more detailed flagship initiatives designed to underpin the targets and push forward the main themes. Each plan identifies strategies to be followed at EU and at member state level. Themes contained in some of these initiatives are raised in subsequent chapters of this text. The flagship initiatives are:

1 'Innovation Union': the overarching aim of this initiative is to refocus R&D and innovation policy on the main challenges facing Europe, namely climate change, energy and resource efficiency, health and demographic change. The Commission's role is to create the European Research Area with a strategy to meet the above challenges; to improve the framework conditions for business innovation, including creation of a single EU patent and a specialised Patent Court; to upgrade trademark and copyright regulations; and making it easier for SMEs to benefit from intellectual property protection; to strengthen EU instruments that support innovation (i.e. the Structural Funds, R&D framework programmes, rural development funds etc.); and to strengthen links between education and business. Member states will need to develop their own innovation schemes with a focus on encouraging cooperation between universities and business, on prioritising R&D expenditure and on ensuring an ample supply of good quality maths, science and engineering graduates.

2 'Youth on the move': in order to tackle the problem of youth unemployment (see Chapter 14) and to foster the creation of a knowledge-based economy, the aim of this initiative is to improve the performance and attractiveness of Europe's higher education institutions. EU measures will include enhancement of mobility schemes for students and researchers; exploration of methods of promoting entrepreneurship through mobility programmes for young professionals and the launch of a youth employment framework, along with member states and social partners, aimed at easing the entry of young people into the workplace through apprenticeships and work experience. Member states are responsible for financing all levels of education and training and improving educational outcomes.

3 'A Digital Agenda for Europe': the aim of this flagship initiative is to contribute to the creation of ultra-fast internet for all. The Commission will work to provide the legal framework to stimulate investments in an open and fast internet structure and related services and to create a single market for online content. These issues are discussed more fully in Chapters 13 and, to a certain extent, in Chapter 9.

4 'Resource-efficient Europe': the overarching aims of this initiative, aspects of which are touched upon in Chapters 10 to 12, are to create a resource-efficient, low-carbon economy and to de-couple economic growth from resource and energy use. The Commission's plans to achieve this include developing the use of market-based instruments such as emissions trading; revision of energy taxation, etc. (see Chapter 12); the presentation of proposals to modernise and decarbonise the transport sector (see Chapter 10); to complete the internal energy market and promote the use of renewables (see Chapter 11) and to upgrade energy infrastructure. Member states are to phase out environmentally harmful subsidies; to use market-based instruments to promote the aims of this initiative and to develop their infrastructure accordingly.

5 'An industrial policy for the globalisation era': a range of measures are to be brought forward to promote competitiveness and facilitate entrepreneurship across all sectors of Europe's economy and all elements of the increasingly international value chain (see Chapter 7). This

will include measures to improve the business environment, especially for SMEs – work which will be supported by member states.

6 'An agenda for new skills and jobs': the intention of this flagship initiative is to modernise the workforce through developing the flexicurity agenda (see Case Study 14.1); to promote intra-EU labour mobility; to introduce legislation to support evolving work patterns and to promote training, especially lifelong learning. Some of these issues are discussed more fully in Chapter 14.

7 'European platform against poverty': the overall aim is to reduce poverty and combat social exclusion. More specific EU initiatives include training for vulnerable groups; anti-discrimination measures and assistance for the integration of migrants.

In order to further *Europe 2020* goals, the intention is also to utilise the full range of EU policies and instruments, including the SEM (see Chapter 5); the budget and external trade policy (see Part IV).

Progress to date and prospects for 2020

Attainment of the goals of the Lisbon Agenda was patchy to say the least. Indeed, in many respects the Lisbon Strategy was a failure. Will *Europe 2020* be any different? Certainly Lisbon was damaged by the economic and financial crisis, the effects of which Europe continues to experience halfway through the *Europe 2020* programme. After a relatively quiet period in the eurozone, early 2015 finds Europe wrestling with the fall-out from the eurozone crisis following the election of an anti-austerity Greek government that would ideally like to achieve cancellation of a significant part of its debt. This is strongly opposed by its European partners, partly, but not only, on the grounds of the precedent it would set for other fiscally imprudent eurozone members. Moreover, European citizens generally are less enthusiastic and optimistic about the European project (see Figures 3.1–3.3) than previously and in the UK, a referendum on whether the UK should remain a member of the European Union will take place by the end of 2017.

Europe 2020 is not helped by the above trends but the five targets it has set itself (see Table 1.3) provide a basis on which to begin assessment of how near or how far away the EU is from achieving its targets. The energy 20:20:20 targets are covered in Chapter 11 but the R&D and social targets (employment, education and fighting poverty and social exclusion) are discussed below.

Research and Development

The Lisbon strategy aimed for 3 per cent of EU GDP to be invested in R&D by 2010. The fact that the target remains the same for 2020 tells its own story. Although the overall EU target is 3 per cent, each member state has its own individual target (see Figure 1.4).

According to Figure 1.4, Finland, Denmark, Germany, Malta and Cyprus appeared in 2013 not to be too far from achieving their target. The first three in this group already had relatively high R&D intensity and the target appears to be within their grasp whereas the opposite was the case in Malta and Cyprus. However, it could be argued that the targets set by Denmark and Germany are not terribly ambitious given their relatively high starting point which, already more or less met the 2020 targets at the onset of the initiative. At the other extreme are Bulgaria, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania and Slovakia who have ambitious targets which will require acceleration of their R&D expenditure

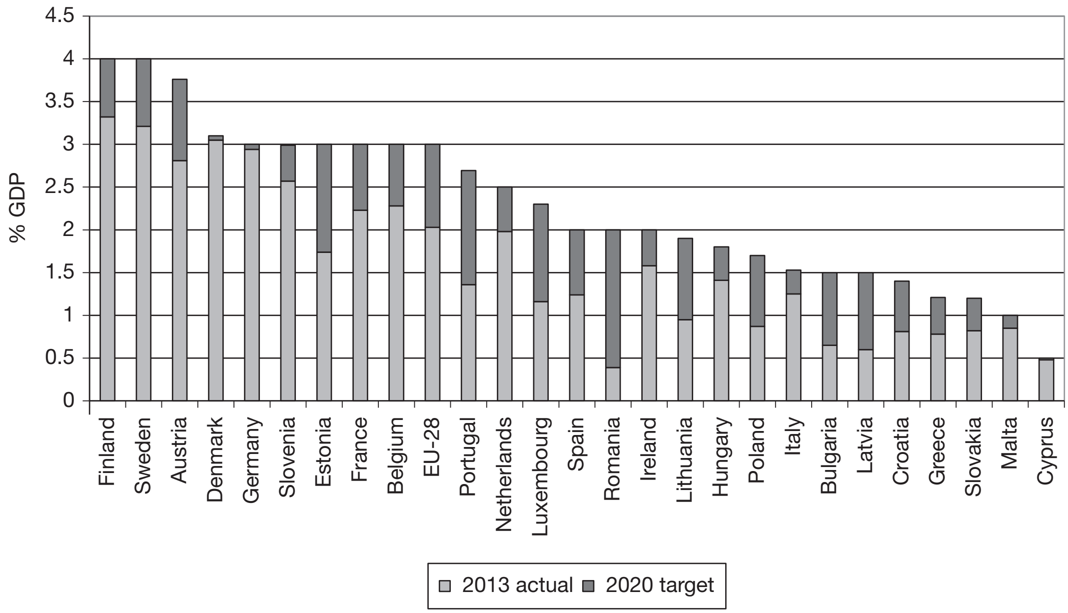

Figure 1.4 Europe 2020 *R&D targets compared to actual 2013 levels*

Note: UK and the Czech Republic are not presented as they are not strictly comparable.
Source: Eurostat – *Europe 2020* indicators.

growth and above average growth compared to the rest of the Union.

Each member state has its own set of specific contextual factors affecting its R&D performance but there are some causes of poor performance that are common across some or most states, These include inadequate public funding of the science base and higher education which, in the long run, can lead to home-grown scientific talent moving abroad; an inadequate pool of science and engineering graduates to serve the needs of business and limited opportunities for fruitful cooperation between universities and business.

Social targets

The social targets in *Europe 2020* link directly into the strategy's main themes. If Europe is to become and maintain a status as a leading, high technology provider in both manufacturing and services (and is to achieve its R&D objectives), it needs a highly educated and skilled workforce. The Lisbon Agenda's social objectives were more explicitly aimed at raising employment in response to the ageing population, setting explicit targets for overall employment as well as for older workers and the percentage of women in the workforce. *Europe 2020* certainly acknowledges the importance of increasing the share of the population in the workforce, aiming for at least 75 per cent employment rates for the adult population aged 20–64 by 2020 – an achievement which would help, among other things, the *2020* target of poverty alleviation (which will also be helped in the longer run by attainment of the education targets). However, this overarching employment target, which essentially relates to the quantity of the workforce, is augmented by educational targets which are intended to boost the quality of the workforce and to help the EU achieve its broader economic objectives.

Table 1.4 sets out *Europe 2020*'s social targets for the EU as a whole and for individual member states and sets them against actual figures for 2013. In the process, this gives some idea of how much progress member states need to make to achieve their targets.

The EU's employment target is ambitious: in 2004, 67.4 per cent of the EU population aged 20–64 were in employment. By 2013, this had risen only slightly to 68.4 per cent, requiring a 6.6 per cent increase in employment levels if the EU is to meet its 2020 targets, which represents an increase in employment not seen in Europe for some time.

There are two types of changes that will enable Europe to achieve its 75 per cent employment goal for 20–64 year olds – cyclical and structural changes. Cyclical changes depend on what is happening to the economy generally – economic growth promotes employment and poor economic performance has the reverse effect. Since 2010, when the European economy has struggled to pick up after the 2007–8 crisis, many EU members have experienced stagnant or limited growth. The impact of restricted growth and cyclical factors has been demonstrated most notably in Greece, which famously has endured the worst economic situation of all European economies: in 2010, 63.8 per cent of the Greek adult population in the 20–64 age group were employed but by 2013, this had fallen to 52.9 per cent.

However, several member states exceeded the 75 per cent target in 2013, although not necessarily their own national targets which are higher than 75 per cent in some cases. These higher performing countries tended to be in Northern European states and fall into one of two categories – the Nordic and Continental models – as described above. These countries also tend to have the characteristics of flexicurity as outlined in Case Study 14.1. Member states that are the furthest from achieving the EU and their national targets may be experiencing a mix of cyclical and structural factors. In 2013, in Italy, for example, almost 60 per cent of 20–64 year olds were employed but only 49.9 per cent of females were employed compared to 62.6 per cent of this age group and 74.9 per cent of Italian males. In short, in this case cultural differences relating to gender roles have a big impact on employment rates.

Employment figures may not have shown much change in recent years for a number of reasons but there have been tremendous changes in *Europe 2020*'s educational indicators. As Table 1.4 shows, ten member states had already achieved their target of reducing the percentage of early school leavers by 2013 with several others also near to achieving their target ahead of 2020. What the table does not show is the tremendous fall in this indicator since 2004 in member states that remained a long way from achieving their 2020 target in 2013. Portugal, for example, has a target of 10 per cent but, as recently as 2004, 39.3 per cent of its young people left school at the earliest available opportunity which makes the fall by 2013 to a figure of 18.9 per cent remarkable. The trend has been similar in Spain and Malta to varying degrees.

Trends in tertiary education show a similar pattern: by 2013, 12 member states had met their individual targets for the percentage of 30–34 years olds with tertiary education (see Table 1.4). However, this does not tell the whole story. Since 2004, the percentage of 30–34 year olds across the EU with a tertiary education has risen from 26.9 to 36.9 per cent – an impressive rise in such a relatively short period of time.

Figure 1.5 shows how large the increase in the percentage of graduates in the 30–34 age group has been for many countries between 2004 and 2013. This growth has been particularly pronounced in the Baltic states and other member states that have joined the EU since 2004, enabling several of them to reach their targets ahead of 2020.

Table 1.4 *Europe 2020 social targets compared to actual performance in 2013*

	Employment		Education				Poverty and social exclusion	
	75% of 20–64 year olds to be employed		Early school leavers below 10%		40% of 30–40 years olds to have tertiary education+		At least 20mn fewer people to be in or at risk of poverty	
	Actuals 2013	National target	Actuals 2013	National target	Actuals 2013	National target	Actuals 2013 % of pop. under 60	National target % of pop. under 60
Austria	75.5	77	7.3	9.5	27.3	38	18.8	18.9
Belgium	67.2	73	11	9.5	42.7	47	21.6	20.8
Bulgaria	63.5	76	12.5	11	29.4	36	49.3	48
Croatia	57.2	63	4.5	4	25.6	35	32.6	29.9
Cyprus	67.2	75	9.1	10	47.8	46	27.1	27.8
Czech Rep.	72.5	75	5.4	5.5	26.7	32	15.4	14.6
Denmark	75.6	80	8	10	43.4	40	19	18.9
Estonia	73.3	76	9.7	9.5	43.7	40	23.4	23.5
Finland	73.3	78	9.3	8	45.1	42	17.2	16
France	69.6	75	9.7	9.5	44.1	50	19.1	18.1
Germany	77.3	77	9.9	10	33.1	42	19.5	19.3
Greece	52.9	70	10.1	9.7	34.9	32	34.6	35.7
Hungary	63.2	75	11.8	10	31.9	30	32.4	33.5
Ireland	65.5	69	8.4	8	52.6	60	30	29.5
Italy	59.8	67	17.9	16	22.4	26	29.9	28.4
Latvia	69.7	73	9.8	13.4	40.7	34	36.2	35.1
Lithuania	69.9	73	6.3	9	51.3	49	32.5	30.8
Luxembourg	71.3	73	6.1	10	52.5	66	18.4	19
Malta	64.8	70	20.8	10	26	33	23.1	24
Netherlands	75.5	80	9.2	8	43.1	40	15	15.9
Poland	64.9	71	5.6	4.5	40.5	45	26.7	25.8
Portugal	65.4	75	18.9	10	30	40	25.3	27.5
Romania	63.9	70	17.3	11.3	32.8	27	41.7	40.4
Slovakia	65	72	6.4	6	26.9	40	20.5	19.8
Slovenia	67.2	75	3.9	5	40.1	40	19.6	20.4
Spain	58.6	74	23.6	15	42.3	44	27.3	27.3
Sweden	79.8	80	7.1	10	48.3	40	15.6	16.4
UK	74.8	–	12.4	–	47.6	–	24.1	24.8
EU-28	68.4	75	12	10	35.9	40	24.7	24.5

Source: Eurostat – *Europe 2020* Indicators.

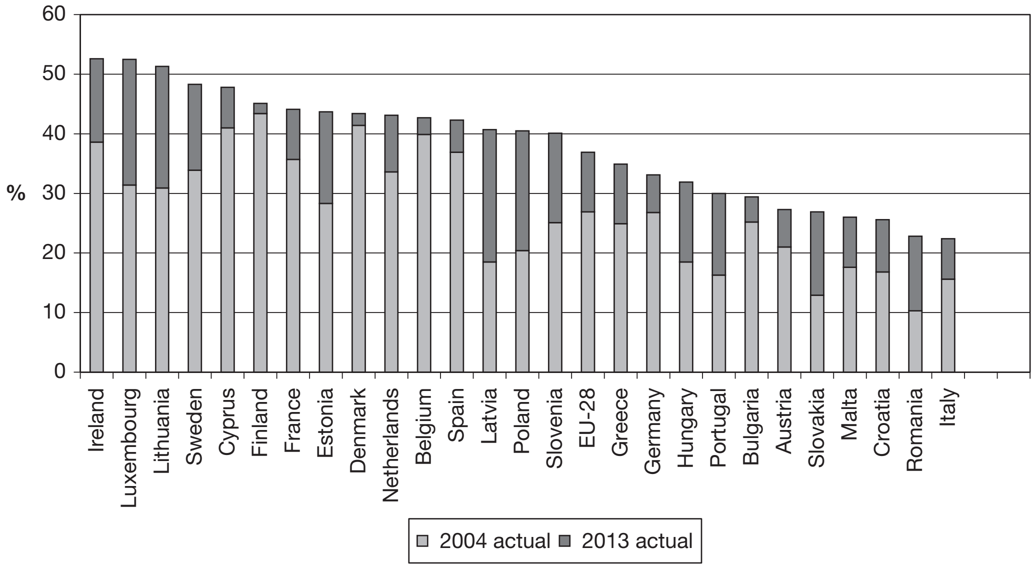

Figure 1.5 *Percentage of 30–34 year olds with tertiary education, 2004 and 2013*

Source: Eurostat – *Europe 2020* indicators.

KEY POINTS

- Europe shares much in terms of a common history and aspects of culture but the differences among European countries continue to manifest themselves in a variety of ways.
- Competitiveness is a complex issue which is open to various interpretations.
- The European Union through its *Europe 2020* initiative, which follows on from the Lisbon Agenda, is seeking to put Europe back on track after the economic and financial crisis and to help it thrive in the hyper-competitive world economy.
- The main themes of *Europe 2020* are Smart Growth, Sustainable Growth and Inclusive Growth. These themes are reinforced by five measureable targets and seven flagship initiatives. Progress towards achieving these targets is far from even.

ACTIVITIES

1 Research the Nordic model further. To what extent are the Nordic countries equipped to meet the twin challenges of globalisation and an ageing population? What can other member states learn from the Nordic model and to what extent can or should the Nordic experience be transferred to the rest of Europe?

2 Choose a European country and analyse it in the context of each of Porter's determinants of competitiveness. What conclusions do you draw from this analysis about the prospects for your chosen economy?

3 Choose one of the three overarching themes of *Europe 2020* and research how the flagship initiatives are intended to contribute to your chosen theme.

4 How do the various themes, flagship initiatives and targets of *Europe 2020* overlap and reinforce each other?

QUESTIONS FOR DISCUSSION

1 To what extent do the objectives of *Europe 2020* align themselves with the Nordic state model? What challenges do you envisage in transferring this model, even partially, to other EU member states?

2 What makes a nation competitive?

3 Assess the targets of *Europe 2020*. Would you have included any others?

4 Relative to the rest of the world, European states have much in common among themselves. Do you agree? Are the common factors sufficient to enable Europe to continue to search for a common future or is Europe too divergent for this to work?

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