

Hungary's competitiveness in the light of Europe 2020 strategy

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Abstract: In this article we summarize the views of the most important stakeholders concerning the new long term program of the European Union: 'Europe 2020 A strategy for smart, sustainable and inclusive growth which determines the next few years of all of the European countries and their citizens. The strategy was launched in the middle of the world economic crises, that is why the implementation seems to be uncertain. We shall focus on the Hungarian viewpoints and planned actions and targets of EU2020.

Key words: competitiveness, SMEs, Europe 2020, policy making, Lisbon Strategy

Introduction

Before showing the structure and most important goals of Europe 2020 strategy, we should first have to analyse, based on European documents, the consequences of the Lisbon Strategy was the predecessor of the Europe 2020. The Lisbon Strategy was valid between 2000 and 2010. The program was relaunched in 2005 after a mid-term review. In previous articles gave an analysis on "Small Business Act for Europe" and its review. (Borbás 2009, Borbás-Kadocsa 2010, Borbás 2011). Other authors gave comprehensive assesment on European SME's position.(Horváthová 2009, Maková 2008, Mikusová 2008, Mustafa-Michelberger 2005). In this paper our basic goal is to give a broader picture,based on EU documents, about European future in which enterprises have to live and compete.

1 Evaluation of the Lisbon Strategy

In February 2010, the Commission of the EU launched a working document on Lisbon strategy evaluation. The Commission summarized its opinion about the ten years of the Lisbon Strategy. (SEC 2010)114 final) Below we focus on the competitiveness issues of this document.

The European Council defined the objective of the strategy for the EU "to become the most dynamic and competitive knowledge-based economy in the world by

2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment". Underlying this was the realisation that, in order to enhance its standard of living and sustain its unique social model, the EU needed to increase its productivity and competitiveness in the face of ever fiercer global competition, technological change and an ageing population. Because of the original strategy's diverse goals and actions and an unclear division of responsibilities and tasks between the EU and national levels, it was re-launched in 2005 after being reviewed. The relaunched Strategy focused on growth and jobs.

1.1 Main findings of the Commission evaluation

The Commission emphasized that the Lisbon Strategy has had a positive impact on the EU although its main targets (70% employment rate, and 3% of GDP spent on R&D) will not be reached. The EU employment rate reached 66% in 2008 before it dropped back again as a result of the crisis, while it was targeted to reach 70% until 2010. Concerning the most important competitiveness factors, EU has failed to close the productivity growth gap with leading industrialised countries: Total R&D/GDP expenditure in the EU only improved from 1.82% in 2000 to 1.9% in 2008. In contrary to hard facts, according to the Commission's opinion it would be too simplistic to conclude that the strategy has failed because these targets were not met.

Among others the Strategy has broken new ground by promoting common actions to address the EU's key long-term challenges.

1.2 Main conclusions drawn by the Commission

- The Lisbon Strategy has helped build broad consensus on the reforms that the EU needs
- It has delivered concrete benefits for EU citizens and businesses
- Increased employment has not always succeeded in lifting people out of poverty

- Structural reforms have made the EU economy more resilient and helped us weather the storm
- The Lisbon Strategy was not sufficiently equipped to address some of the causes of the crisis from the outset
- Whilst much has been achieved, the overall pace of implementing reforms was both slow and uneven
- The importance of interdependence in a closely integrated economy, particularly in the euro area, has not been sufficiently recognised
- A stronger link between the Lisbon Strategy and other EU instruments and sectorspecific initiatives or policy measures would have improved its effectiveness
- Earmarking of Structural Funds has helped mobilise considerable investments for growth and jobs although there is further to go
- The partnership between the EU and Member States has generally been a positive experience
- Implementation has suffered from variable ownership and weak governance structures
- The impact of country-specific recommendations has been variable
- Policy learning and exchange of good practices has been stepped up
- Communication has been an Achilles' heel of the Strategy
- More could have been done to strengthen the euro-area dimension
- The external dimension could have been stronger.

As far as progress in specific areas, connected with competitiveness are concerned the following outcomes seem to be the most important:

In the macro-economic area there were 4 priority areas:

- more research, development and innovation;
- unlocking business potential, especially for SMEs;
- investing in people; and
- a greener economy.

1.3 Macroeconomic resilience and financing

In the Commission's view several Member States wages have systematically outpaced productivity growth, leading to a steady loss in competitiveness. They consider the situation most acute for some euro area Member States.

Competitiveness positions are seen different, with some Member States accumulating large external imbalances. In some countries these imbalances have become so urgent as to require balance of payments support from the EU and the International Monetary Fund (IMF).

The Commission expressed its concern about the gradual widening of the gap between competitiveness positions of countries within the euro area.

In Commission's view, a good deal of progress could still be made in terms of allocating funds in support of jobs and growth and EU budget financing for innovation remains inadequate, in spite of Competitiveness and Innovation Framework Programme.

1.4 More research, development and innovation

In the Commission's approach, the EU's key challenge remains making it more attractive for the private sector to invest in R&D in Europe rather than in other parts of the world. They urge to improve the so called framework conditions such as the single market, education and research systems, reinforcing the knowledge triangle (knowledge, education and innovation).

According to the working document, since 2005 the EU policy pushes non-technological innovation with a particular emphasis on joining up the three sides of the knowledge triangle.

They accuse EU with a persistent inability to "get innovation to market" and turn new ideas into productivity gains.

1.5 Unlocking business potential, especially for SMEs

As a result of reducing the regulatory burden and supporting entrepreneurship EU is considered to be now a better place to do business than in 2000.

EU's working paper refers to World Bank's evaluation ranking one third of Member States in the top 30 of its Doing Business Report, and two thirds in the top 50. Beyond these one-stop shops to start a business, the average time of 8 calendar days for founding new firms and the average cost of € 417 to register them are mentioned as competitiveness factors.

The Small Business Act is referred to as a first step towards a comprehensive SME policy framework for the EU and its Member States. Reduced VAT rates giving possibilities to boost economic activity, the Late Payment Directive and the proposal on a European Private Company Statute are both vitally important for the competitiveness of SMEs, says the paper.

1.6 Investing in people

According to Lisbon Strategy European Union should have 70% of the working age population in employment by 2010, while as secondary targets a 50% employment rate for workers aged 55 and above and 60% for women. In contrary to the progress made between 2005-2008, due to the economic and financial crisis more than seven million job were lost in 2009-10 and unemployment reached over 10% by the end of 2010.

In the Commission's opinion one of the most important policy developments under the Lisbon Strategy since its 2005 relaunch has been the development, adoption and progress with implementation of common flexicurity principles introduced in 2007 which is a new way of looking at flexibility and security in the labour market. This new approach, instead of protecting a job, starts from the assumption that it is the worker who needs protection and assistance to transition successfully in his existing job or move to a new job.

Youth unemployment continues to be a severe and increasing problem, says the paper. Young people's unemployment rates are twice the rate for the rest of the work force.

Education and skills policy is at the heart of creating a knowledge-based economy, but e.g. the level of adult participation in lifelong learning has remained stable or even decreased in 12 out of 27 Member States.

1.7 A greener economy

The importance of addressing climate change and promoting a competitive, and efficient energy sector with particular attention for energy security has become apparent since 2005.

Member States progress towards the Kyoto target was monitored by the Committee. In the energy sector, there has been a shift from national approaches towards a European approach, with the objectives of competitiveness, sustainability and security of supply.

2 Consultation on the future of Europe 2020

2.1 Current position of the EU

In its working document titled Consultation on the future „EU2020” strategy (COM(2009)647 final) the Commission of the European Union declared the most important objectives that should be achieved until 2020 by the community.

In the preface „This is a time of deep transformation for Europe” they characterized the economic and social position of the European Union.

The possible way as the exit from the crisis they considered an entry into a new sustainable social market economy, a smarter, greener economy, where our prosperity will come from innovation and from using resources better, and where the key input will be knowledge.

The Commission stated that the successful delivery of the 2020 vision relies on a partnership for progress, combining Member States' commitment to take action at national level, and the harnessing of Community instruments to make the most of the potential at EU level. In its working document the Commission set out both the action it considers needs to be taken at national level, and the detailed proposals for action that it will propose at Community level.

Recognising constraints and facing new challenges, the key priorities for EU 2020 to achieve a sustainable social market economy, a smarter and greener economy.

2.2 Key drivers and priorities

The Commission considers that the key drivers of EU 2020 should be thematic, focused on the following priorities:

- *Creating value by basing growth on knowledge.*
- *Empowering people in inclusive societies.*
- *Creating a competitive, connected and greener economy*

The Commission was seeking views on these priorities which it considered to be the key drivers of EU 2020.

2.3 Scenario for making it happen

For the delivery of the above priorities the Commission proposed a scenario for the community and the Member States.

-Making it happen: starting with a successful exit from the crisis

The first task for the EU is obviously to make a successful exit from the crisis, promoting overall exit strategies designed to secure balanced and sustainable growth and sound fiscal policies. The recession and financial strains have had a bigger impact on those countries

-Making it happen: Harnessing existing instruments in a new approach. The challenge of becoming a sustainable social market economy, i.e. an inclusive, smarter, greener economy, will require increased policy co-ordination, better synergies through effective subsidiarity, and strengthened partnership between the EU and Member States in the design and delivery of public policies. The integration of different policy instruments is necessary, linking institutional

reforms, better regulation, new initiatives and public investment.”(COM(2009)647 final pp.10)

2.4 Tasks to carry out

To carry out these the following tasks were defined:

- Fully exploiting the single market
- Setting EU 2020 in a global context
- Supporting growth through full use of the Stability and Growth Pact
- Reflecting political priorities in our public budgets
- Establishing clear governance to make the new strategy effective.

The Commission promised that the strategy would be pursued through a partnership approach to deliver a limited set of key objectives, because only through partnership can its specific actions and objectives be achieved. Based on partnership approach, the Commission invited comments and suggestions on the ideas outlined in the working paper.

3 The Hungarian point of view

The official Hungarian comments, written by the National Lisbon Coordinator of Hungary(Contribution of Hungary to the consultation on the future EU 2020 strategy 4 January 2010) can be summarized as follows:

Hungary welcomed the Commission's working document considering it a proper starting point for the preparatory works of the EU 2020 Strategy, emphasizing that it is not detailed enough to be the basis of the next strategy. According to the Hungarian viewpoint the headline objectives and the governance mechanism are still missing, although they are crucial in transforming the principles into concrete actions.

3.1 Principales and concrete actions

Hungary shares the view that focus should be kept on growth and jobs, the proposed three priorities are in line with our expectations, but headline objectives are still missing.

The challenges and thus the targets of the Lisbon Strategy remain to be relevant; the former priorities are to be maintained. Knowledge has a privileged role as the engine for sustainable growth. The strategy has to coordinate research, innovation and education in order to fully exploit the opportunities of a knowledge economy. Innovation needs to be interpreted in the widest sense. The enhancement of digital

literacy and the role of e-governance in better quality of life, social inclusion and competitiveness are emphasized, while services, relevant ICT solutions can be important drivers for integration, growth and competitiveness of the EU.

Empowering people in inclusive societies will require that employment related policies focus on activation, increasing labour supply and facilitating transitions in the labour market. Facilitating entrepreneurship and self-employment while avoiding the segmentation of labour markets, while investing in green jobs. Greening of the economy and the improvement of competitiveness are to be managed in a coordinated way. EU competitiveness requires infrastructure, competition and market to be organized on European level.

Hungary considered the following aspects particularly important:

- Widening and deepening the internal market
- The special role of small and medium-sized enterprises
- The improvement of business environment
- Innovation-related aspects of the eco-efficient transformation
- Mobility of workers is a crucial element of this priority.
- Smart specialization on EU level
- Greener and more sustainable agriculture and eco-friendly technologies
- Energy challenges and climate change problems.

3.2 Horizontal aspects

The horizontal aspects should be channeled into all priority areas of the EU 2020 according to the Hungarian coordinator's paper, which means among others the following:

3.2.1 External dimension of the strategy requiring common external actions in different policy areas such as global trade and economic issues.

- Comprehensive measures covering different policy areas, in order to address the challenge of an ageing population in Europe.

3.2.2 Urgent reform in the area of governance.

For the interest of this Hungary propositions are as follows:

- To achieve the overall aims by 2020, on European level a commissioner should be appointed to manage EU 2020 as high-level representative of the strategy.
- For a successful national level coordination Member States should appoint the national coordinators at least on ministerial level with the necessary competences.

- The Commission should play a central role in the EU 2020 strategy as the owner of the Community dimension is the Commission.
- 3.2.3. The EU 2020 Strategy must have a clear and broad vision for the European Union for 2020, all elements should be derived from the common vision. Hungarian contribution puts stress on the need that the new strategy should be based on growth and jobs, competitiveness and sustainability with a view to achieve higher living standards and greater social cohesion.
- 3.2.4. Concrete, smart objectives shall drive the implementation of EU 2020 after careful discussion with stakeholders.
- 3.2.5. The next growth and jobs strategy should reflect the diversity of the Member States .
- 3.2.6. Better coordination with EU policies and seeking for synergies with open methods of coordination working in different fields emphasizing the importance of stronger and better coordination with the Sustainable Development Strategy, the next growth and jobs strategy and the Stability and Growth Pact.
- 3.2.7. The mobilization on regional and local level should be promoted, networking should be enhanced, while specific targets should be defined and efforts for European growth and jobs should be done.
- 3.2.8. Hungary supports the improvement of the methodological background of the growth and jobs strategy, that can promote the influence of the evidence-based factors instead of actual political trends on planning, monitoring and recommendations.
- 3.2.9. Communication must be a main aspect of the reform.

The Hungarian contribution called the attention on the next phase of the preparatory works for the Europe2020 strategy, in the framework of which the stakeholders should agree on the concrete actions to be implemented on community and country levels. The Hungarian contribution paper emphasized the inevitability of a wide and deep discussion about objectives and governance so as to be able to assure ownership and support of all stakeholders.

4 Europe 2020 A strategy for smart, sustainable and inclusive growth

After a series of discussions and debates European Commission launched the Europe 2020 Strategy to go out of the crisis and prepare EU economy for the next decade. (COM(2010)2020) in which the Commission identifies 3 key drivers for growth, to be implemented through concrete actions at EU and national level:

- smart growth
- sustainable growth and
- inclusive growth

This battle for growth and jobs requires ownership at top political level and mobilisation from all actors across Europe. Five targets are set which define where the EU should be by 2020 and against which progress can be measured and which Member States will be asked to translate into national targets:

- 75 % of the population aged 20-64 should be employed.
- 3% of the EU's GDP should be invested in R&D.
- The "20/20/20" climate/energy targets should be met.
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a degree or diploma. .
- 20 million less people should be at risk of poverty.

To be able to meet these targets, the Commission proposed an agenda with a series of flagship initiatives. Implementation of the initiatives is considered to be a common priority at all levels of EU organisations, Member States, regional and subregional authorities.

These 5 initiatives are as follows:

- Innovation union which combines R&D and innovation policies and wants to turn inventions into products.
- Youth on the move which among other goals promotes student and young professional mobility inside Europe.
- A digital agenda for Europe emphasizes the necessity and benefits of a Digital Single Market based on ultra fast internet.
- Resource-efficient Europe which urges a shift towards a resource efficient and low-carbon economy with considerably less gas and oil consumption.
- An industrial policy for green growth helping EU's industry to be competitive in the post-crisis economy, by promoting entrepreneurship and developing new skills required in the globalized economy creating millions of new jobs ;
- An agenda for new skills and jobs which is able for creating the conditions for modernising labour markets, with a view to raising employment levels and ensuring the sustainability of European social models.

- European platform against poverty which is hopefully able to ensure economic, social and territorial cohesion by helping the poor and socially excluded and enabling them to play an active part in European societies.

So as to be able to achieve such ambitious goals, leadership and accountability must be taken to a new level. That is why European Commission invited Heads of State and Governments to take ownership for this new Strategy.

5 Hungary's National Reform Plan and the Europe 2020 goals

Hungary undertook ambitious goals for the implementation of EU goals until 2020. Some of them seem to be too ambitious taking current economic and financial situation into consideration.

- Raising the employment rate up to 75% in accordance with the EU goals is a very brave initiative from the current rate of less than 60%. Although employment is given central importance in the government's plan, there are few evidence which could support this undertaking. It is not clear why we are in the current position and how could we get out of it.
- The European common goal for R&D/GDP is 3%, while we declared 1,8% for 2020. Starting from 1% it seems to be very ambitious to target 1,8%. At first sight it is not such a difference, but hard facts can be identified behind.

Other undertakings are less important from competitiveness point of view, while they have their own role in keeping up with the European standards.

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