

FOREWORD

Economic globalisation is posing great challenges for Europe, but it also provides brand new opportunities. The production of China and other rapidly-developing countries, not only in industry but also in the service sector, is increasingly competing with European production.

However, the growing markets of these countries also mean immense export opportunities. The recent strong growth in European exports is an indication of this.

Success in the increasing competition and the utilisation of new, unfolding opportunities call for great economic dynamics, which can only arise from the ability to create new – in other words, from innovation and efficiently functioning markets.

Europe has a good starting point in many respects. We are a continent of a high level of education and a strong science tradition. Cultural diversity is a good basis for new ideas. We have been successful in numerous branches of industry, and many European companies are in the van of development in the world.

However, we have not been able to utilise our strengths in full. The rate of unemployment is far too high, and productivity is modest in many fields. The Lisbon process, which was launched by the European Union six years ago, has not achieved its objectives. Europe is not turning into the most competitive knowledge-based economic area in the world by 2010. For this reason, the Union decided last year to focus its efforts on the promotion of growth and employment even more clearly than before. The national reform programmes, which are currently being revised, are a visible sign of this re-orientation.

Nevertheless, the reformed process and the recent, fairly strong economic growth must not lull us into thinking that the problems of European economic growth have been solved and that we can rest on our laurels and wait for the fruit to ripen. That is not the case. We still cannot create a sufficient amount of new innovative production to replace the production that is diminishing due to competition and technological development. We still cannot create a sufficient number of workplaces to replace those that are disappearing.

It is not an issue of not knowing our faults and what should be done on the general level. The problem is that we do not have sufficiently extensive consensus about the implementation of necessary reforms. This applies to many issues to be decided on the national level, but especially to matters that require a common will on the Union level.

The practical implementation of the Lisbon agenda is a key focus area during Finland's EU Presidency. In our view, innovation policy (in a broad sense of the word) that is implemented in a determined way is the key to European success in the face of global competition. This view is strongly supported by, for example, the report of the so-called Aho working group, which was completed last winter. In the report, the demand-side innovation policy was raised to an equal position with more traditional policy actions that emphasise supply. The Commission's recent Communication on innovation strategy is based on the same idea.

One important milestone in our efforts during the Presidency is the informal meeting of Heads of State or Government to be held in Lahti on 20 October. We have chosen 'Innovation policy as a source of European growth' as the main theme of the summit.

It is my understanding that the preconditions for a useful policy discussion are the better, the better we are informed and the more we have well argued policy views on the table. A project on the challenges of globalisation for Europe and Finland carried out by the Secretariat of the Economic Council of Finland provides useful new material for that purpose. We have invited several acknowledged experts to write analyses on globalisation, the challenges posed by it, and on Europe's competitiveness policy. The results are published in this collection of articles, in part to promote debate prior to the Lahti informal summit.

In the first article, Professor Richard Baldwin examines the phenomenon of globalisation and its implications for Europe. It is not just summing up old truths. In his analysis, Baldwin comes to a conclusion that we are now in a new stage of a long globalisation development, with production being unbundled at a fine level into phases taking place in different parts of the world. The new stage is characterised by poor predictability of changes, suddenness and an importance of task level reallocation at the expense of company and branch level changes. If his analysis proves to be correct, we will have to rethink some of the policy outlines that we have taken for granted.

Policy analyses can be divided into four themes: European competitiveness and the achievements of its structural policy, the development and development needs of the internal market, innovation policy in a wide sense, and finally, political governance. In all these areas, the articles make important and partly also rather critical points on the need for policy reforms.

The views presented in the articles are those of the authors and do not necessarily represent the opinions of the Finnish Government. However, I believe that, as such, they are most useful to inspire discussion prior to Lahti and also in a wider context.

Naturally, there are sceptics who have doubts about the utility of analyses and policy papers. They are wrong. I am convinced that careful analysis combined with practical, target-oriented action provides the best results when making and implementing difficult decisions. Without good analysis, wise solutions are born only by chance, and without practicality and result orientation decisions are not made at all.

Matti Vanhanen
Prime Minister