

WORKSHOP The External Dimension of the Lisbon  
Agenda  
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**KEY ISSUES PAPER**

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**ON THE EXTERNAL IMPLICATIONS  
OF THE LISBON AGENDA**

**1. Knowledge societies in a globalised world  
– Key issues for international convergence**

**1.1. Knowledge economies in the world: race to the bottom or the top?**

The Lisbon agenda aims at shaping the European way for a knowledge society. Knowledge has become the main wealth of nations, companies and people, but can also turn into the main factor of social divide. Hence, investing in research, innovation and education, developing a knowledge-intensive economy society is now the key-leverage for competitiveness and prosperity.

Many other countries are making the same choice. Not only the USA and Japan, the first to start, but also India, China, South Korea, Brazil and many others. There is now a clear international movement in the same direction, as can be shown by some examples (references to be added later; see <http://www.ieei.pt/programas/estrategia-lisboa/>):

- Japan is preparing a very comprehensive Plan for Innovation focusing on citizens needs;
- India has created a Knowledge Commission which is elaborating a larger development agenda for India;
- China has adopted a new five-years Plan introducing new concepts such as the role of knowledge and innovation, the concern with social inclusion and environment in the framework of the Chinese concept of harmonious society, equivalent to the updated concept of sustainable development;
- Brazil, after an ambitious foresight exercise called “Brazil 3 Times”, has adopted an ambitious agenda for development emphasizing the role of knowledge, social inclusion and concern with the environment;
- the USA are launching a new initiative to keep the lead in a more competitive knowledge economy.

We can argue that, from a European view point, this international movement should be welcomed for two reasons:

- this is the right choice to make for the development of these countries and for a more balanced development at world scale;
- this also fits the European interest because Europe cannot implement this agenda isolated. It needs other partner countries to go in the same direction, otherwise too many international tensions would arise.

Nevertheless, a central question is now emerging: under which conditions can this international movement lead to a win-win game? How can this lead to a race to the top and not a race to the bottom concerning social and environmental dimensions in this transition to a knowledge intensive economy? It is now particularly relevant to identify the conditions which should be fulfilled, notably:

1. To develop our relationships as global partners facing common challenges;
2. To turn the strategy for a knowledge intensive economy into a more comprehensive development agenda.
3. To set global basic standards to define a level playing field;
4. To develop international cooperation for capacity building in order to spread these new better standards.

A strategic dialogue should be developed with these purposes. More particularly for the European Union, its external action should be updated in order to cope with these new tasks.

## **1.2. The international relevance of the Lisbon Agenda**

The ongoing experience of the Lisbon agenda in the European Union can provide a relevant contribution to this strategic dialogue.

In the year 2000, the European Union adopted a long term strategy to develop a competitive knowledge economy, with sustainable growth, more and better jobs and concern for the environment. Innovation, turning knowledge into added value, into growth and jobs was at the heart of this agenda requiring more entrepreneurship and innovative companies, stronger networks between companies, research and education institutions, knowledge infrastructures, venture capital and more creative people. Nevertheless, a broader agenda was needed to speed up this redeployment to a knowledge-intensive economy, exploit the scope of the European Single Market, reform the European social model to cope with the new challenges of globalisation, ageing and technological change. Moreover, new political instruments were necessary to coordinate the development and implementation of this agenda at the different levels of governance: European, national and local. This was the role of the open method of coordination combined with the other existing instruments, such as directives, community programmes and structural funds.

Hence, in 2001, the so-called Lisbon strategy was turned into a political agenda with many new measures in various policy fields: information society, research,

innovation, single market, education, employment, social protection, environment and macro-economic policies.

In 2002, this agenda was extended to the ten new accession countries. In 2003, this agenda was connected with the upcoming Constitutional Treaty and, in 2004, with the up-coming Community budget, though, in both cases, at an insufficient level.

In 2005, recognising mixed outcomes and a slow and uneven implementation at national level, the European Council adopted clearer political guidelines and launched the national reform programmes to be used by Member States when adapting the Lisbon guidelines to national conditions.

In 2007, we can say that a positive trend is emerging in growth and net jobs creation, but the sustainability of this trend depends on more growth potential to be created by structural reforms. Many structural reforms are now taking place in Europe in social protection, health systems, public administration, financial systems, research and education, labour markets but this is still insufficient and, most of all, imbalanced when comparing policy fields and countries. Nevertheless, it is already possible to conclude that the Member States which have been more effective in implementing the Lisbon agenda are also those reaping more benefits in terms of growth, jobs creation and sustainable development.

### **1.3. Key issues for a strategic dialogue**

From this European experience, we can already draw the following conclusions, which can be used in a strategic dialogue with EU partner countries, in the framework of either the *strategic partnerships* or the *partnerships for cooperation and development*.

1. We need to design and implement a new comprehensive agenda for sustainable development combining the economic, social and environmental dimensions. Synergies between these three dimensions should become more important than trade-offs.
2. We should neither sacrifice social conditions to competitiveness nor the other way round. In order to overcome this dilemma, we should renew both.
3. The triangle of knowledge (research, innovation and education) plays a central role in this agenda.
4. It is not enough to invest in research. It is crucial to turn knowledge into added value through innovation.

Innovation provides a new approach for capacity building, which overcomes the protectionist approach to industrial policy.

5. Innovation is:
  - not only in processes but also in products and services
  - not only technological but also in organisation, management, skills and culture

- not only for high-tech companies and high skilled workers but also for all companies and people
6. Entrepreneurship, taking the initiative to mobilise new resources to address new problems, should be encouraged everywhere, beginning in schools and universities, ensuring one-stop shop and seed capital for start-ups and supporting innovative companies to reach their markets.
  7. The information and communication technologies provide the basic infrastructures for a knowledge society. In order to overcome the risk of digital divide, they should provide better access to all citizens in schools, health care, leisure and all the public services.
  8. Social policy can become a productive factor provided that:
    - it equips people for change, to move to new jobs by providing new skills and adequate social protection
    - it increases equal opportunities
  9. A sound basic and secondary education is a key factor for better life chances. Nevertheless, learning opportunities should be provided for all over their life cycle.
  10. Social protection systems should be built and recalibrated to cope with the demographic change.
  11. Respecting environment is not against investment and jobs creation. It can rather turn into new opportunities for investment and jobs creation.
  12. Macroeconomic policies should ensure macroeconomic stability, but also a stronger focus on key investments for the future in research, innovation, education, infrastructures and social conditions.
  13. Multilevel governance should be reformed for a better implementation of this agenda at local, national, regional and international levels. In all of them, we need more horizontal coordination of the relevant policies and a stronger involvement of the relevant stakeholders.
  14. A cultural openness, initiative, participation and partnership are key ingredients for a successful implementation of this agenda.

This open list of key issues can be useful to inspire a new kind of strategic dialogue between partner countries in a globalised world. We are assuming that the method for this strategic dialogue will be more effective if it reverses the traditional sequence of many international dialogues and organises the discussion according to the following steps:

- first, a general discussion on common challenges;
- secondly, a general discussion on development strategies;
- thirdly, a discussion on some implications for internal policies;

- finally, a discussion on the implications for external policies and for global governance.

## **2. Implications for the external action of the EU**

### **2.1. A new phase of the external action of the Union**

What can be the specific role of the European Union in this process? The European Union can play a very relevant role in spreading new references for a new development agenda, by different means:

- first of all, by providing a positive example in implementing a new development agenda in its own Member States (see point 1.2);
- secondly, by intertwining this new development agenda with its enlargement and neighbourhood policies;
- finally, by connecting this new development agenda with the various components of its external action: cooperation policy, external projection of its internal policies, trade policy and foreign policy regarding countries, macro-regions and multilateral organisations.

This concern should be more systematically integrated in the new generation of the external action of the European Union for 2007-13, which is now being redesigned according to the following proposals recently presented by the European Commission:

- a broader approach should be developed for the external action of the Union, which combines CFSP, trade and cooperation policies with the external projection of the internal policies of the Union. This means that the external action of the EU should also integrate the external dimension of policies such as research, environment, education and employment, COM(2006) 278.
- a new generation of the EU cooperation programmes is being prepared, based on the new political orientations defined by the “European Consensus”, COM(2005) 311;
- a new approach is being developed in trade policy in connection to the Lisbon agenda, which aims at preparing Europe for globalisation using trade combined with basic standards as well as internal markets as a major lever for growth and more and better jobs, COM(2006) 278;

### **2.2. A new development agenda and the EU cooperation policy**

The next generation of the EU cooperation programmes can play a very relevant role in spreading a new development agenda, but a central dilemma can be identified: should the *strategy papers* and the *national programmes for partner countries* cover all the priorities or just address some of them? And, in this case, how to choose the priorities?

A third approach can be suggested to overcome this dilemma, based on two different steps:

- a. encouraging a preliminary step, by requiring a more comprehensive development strategy in this specific country, defining a *strategic framework for development*;
- b. focusing support on some concrete priorities, complementing other sources in the framework of this strategic framework. The other sources can have very diverse origins: multilateral organisations, non-European countries, EU Member States, other EU policies including the external projection of internal policies of the Union such as research, education, environment, employment.

A more effective programming of cooperation should also be able to combine the core cooperation measures with this external dimension of the EU internal policies, such as the policies for research, education, employment, environment, immigration or culture, which should be better coordinated for this purpose.

Nevertheless, this third approach requires improvements in the methodology for technical assistance in the programming phase regarding:

- the discussion of a more comprehensive strategy for development in the framework of the strategic dialogue mentioned in 1.3.;
- the choices for focalisation;
- the measures to enhance the knowledge base and the technical expertise to support the policy making process.

Moreover, regarding the implementation phase, new governance mechanisms should also be developed in order to:

- strengthen ownership of all the relevant stakeholders;
- build coalitions for change.
- monitor and evaluate the impact of public policies in economic and social change.

Further elaborations can lead to more policy coherence by formulating more comprehensive development strategies, beyond the traditional *poverty reduction strategies* or even the more recent *decent work strategies*. The following references built on the European experience can provide some useful inputs for this process of enriching the development agenda:

- a. the employment policy is, by definition, a central bridge between social and economic policies because it combines the factors influencing labour supply with those influencing labour demand, such as trade, industrial and macroeconomic policies. Hence, a stronger focus on more and better jobs is necessary.
- b. the social protection policy provides also a central bridge because it should be envisaged as a productive factor and also because it should take its financial sustainability into account;
- c. the implications of trade cannot be dissociated from capacity building policies such as infrastructures, innovation, industrial and education and health policies. The policies concerning the transition to a knowledge society should always play a central role, whatever the level of development.

- d. The macroeconomic policy should aim at combining macroeconomic stabilisation with capacity building to increase growth potential.

These are some of the central ideas underlying the Lisbon strategy - meaning the European agenda for growth and jobs in a framework of sustainable development which are also relevant for less developed countries. That said, many conclusions of the European experience cannot be directly transposed due the wide range of national specificities. The specificities concerning the weight of the informal employment, the role of social entrepreneurship or the level of the thresholds regarding the basic social standards should be particularly underlined. This means that the general framework to be adopted should be flexible enough to take into account the national diversity.

### **2.3. A new development agenda and the EU trade policy**

According to the recent European Commission's communication, the EU should be engaged in developing a social dimension in trade policy. From this view point, it can be regrettable that basic labour standards were not included in GSP and in GSP plus, with implications for the Doha Round.

Nevertheless, the European Union can introduce them in its negotiations of bilateral agreements. The current perspective of negotiating agreements with macro-regions in process of regional integration can open important windows of opportunity, even if a special effort will be required to address new and specific problems regarding the social dimension of the regional integration. The main assumption to be taken is that regional integration can become an important leverage to promote trade with better social and environmental standards.

The EU approach should create an effective environment for this negotiation by combining incentives and sanctions. To improve this combination, it is particularly important to strengthen the coordination between trade, cooperation and the other components of the external action of the Union, including the external projection of the internal policies of the EU. The role to be played by European companies investing abroad in promoting better labour and environmental standards can also be emphasized as a basic component of corporate social responsibility.

### **2.4. A new development agenda and the need of a more consistent and coherent external action of the EU**

The development and the diffusion of a new development agenda depend crucially of a stronger initiative by the multilateral institutions and the European Union has a special responsibility about this. Therefore, a more effective action of the EU in this direction is required, notably:

- a. in the board of the World Bank and the IMF;
- b. in the UN system, more specifically in the ECOSOC and in the UN Commission for Social Development;
- c. in the interface between ILO and WTO;



The debate on a new development agenda is also a debate on basic rules for globalisation, to make it work for all. In fact, these rules are crucial to support the implementation of new development agendas. These rules are emerging in different policy fields such as finance, environment, intellectual property and labour. Nevertheless, they still lack clarification, enforcement and coordination.

For instance, for the coordination of labour rules with WTO rules, the following possibilities can be identified:

- a. to define how could WTO take into account the ILO role;
- b. to create a Committee on Trade and Decent Work in WTO;
- c. to define the role of specific indicators to introduce in the negotiation process;
- d. to go further by deciding that the ratification of the ILO core labour standards should be a pre-requisite for membership of WTO.

In conclusion, the implementation of a new development agenda is challenging the *consistency* and the *coherence* of the external action of the European Union.

The *consistency*, because, if the Union is trying to improve the consistency of its internal policies for economic, social and environmental in the framework of the Lisbon agenda, the degree of consistency between policies prompted by the EU external action in partner countries should also be improved. So far, there is an important gap between the internal and the external policies of the European Union.

The *coherence*, because the action of the EU to reform the multilateral system and to improve the basic rules for globalisation requires a much stronger coordination between the EU and its Member States in the multilateral arenas.

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In annex to this paper, you can find three other papers with contributions for strategic dialogues with partner countries, in this case with China and Brazil, as some relevant examples.

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## Other references

Website of the IEEI Project “The Lisbon Strategy in a Knowledge Society without Borders”: <http://www.ieei.pt/programas/estrategia-lisboa/>

## OPEN LIST OF KEY ISSUES FOR THE WORKSHOP

1. What are the main international trends concerning the transition to a knowledge-intensive economy?
2. What are the relative specificities and the international implications of the Lisbon agenda?
3. What should be the priorities for strategic dialogue on development agendas between the key international players? And with other partner countries?
4. What can be the implications of this strategic dialogue for the external action of the EU, including:
  - Common Foreign and Security Policy
  - Trade Policy
  - Cooperation Policy
  - The external projection of the EU internal policies (research, environment, employment, education, culture, etc.).



## **External implications of the Lisbon agenda – Comments to Key Issue Paper**

Bengt-Åke Lundvall, April 10 2007

### **Introduction**

In the following I present my comments in the form of ideas parallel and overlapping with those in the Key issue paper. The form is more direct than in the standard EU discourse and I raise issues suppressed in this discourse. At the end of the paper I refer specifically to China as a strategic challenger and partner. I have added a fact sheet that will be referred to in the text. I have also added an idea for an institutional innovation.

### **Recognition of political and economic diversity within EU – sustainable innovation systems as platform for common strategy**

There are major political and economic differences within the EU. Differences in view on strategic relationship to the US are fundamental and so are differences in the view on how to develop the EU (on a scale between common market and political union). A process aiming at compromises based upon transparency of positions may be fundamental for defining a coherent and effective external strategy.

On the other hand the Lisbon process has demonstrated that certain general themes such as the focus on a knowledge-based economy and innovation driven economic growth are helpful in building consensus across such differences. In the current conjuncture a focus on the environmental issues may be a key to further a common strategy for Europe. Linking environmental and social issues to innovation may be a way to broaden the Lisbon agenda. This would also constitute a basis for building strategic relationships with emerging economies such as China, India, Russia, South Africa and Brazil.

### **Economic Globalisation and the learning economy**

Globalisation exposes European economies to more intensive competition and to a stronger ‘transformation pressure’. At the level of the firm more and more activities have to be reorganised and new activities created just in order to survive. Old competences become obsolete more rapidly than before and the capacity to build new ones becomes critical for long term competitiveness. This is why European strategy must focus on efforts to design policies, institutions, organisational forms and skills in such a way that they facilitate rapid learning. The challenges will be different in the five major sub-regions of Europe (North, Continental, Anglo-Saxon, South and East). Such a perspective on institutional design is useful because it goes against the old EU-divides of more vs. less market and small vs. big public sector.

### **Globalisation as threat and opportunity**

Globalisation affects different layers of the population differently. Workers with routine jobs; poor qualifications and limited access to learning and training are negatively affected. Well-educated workers open for career shifts and with access to good learning and training opportunities have most to gain from the process. How far globalisation should be allowed to shape socio-economic development without government intervention is therefore a major issue. In the current era ‘the Nordic Model’ that combines little industrial state ownership, certain forms of flexibility (not wage flexibility but functional flexibility) and life-long learning with ambitious income redistribution policies seems to be the most robust when it comes to combine growth

with social cohesion. In the continental models and the South Models industrial transformation is hampered by certain rigidities while in the Anglo Saxon (and the East) models industrial transformation tends to result deep polarisation. The strength of the Nordic Model emanates from social cohesion, acceptance of and broad participation in processes of change and learning.

### **Globalisation increases the flow of people across regions and national borders**

But there is another side of globalisation that needs to be explicitly taken into account. Also in the future, living standards and conditions in most regions outside Europe will be less attractive than those within Europe. In some regions (not least Africa) global warming, aids, military conflict and other problems will make people desperate to enter Europe. Facing an aging population, Europe may make efforts to recruit only the intellectual elite from poor countries. But it will be difficult (and morally unacceptable) to keep all those with low qualifications out. Again it is Europe and workers with routine jobs; poor qualifications and limited access to learning and training that will be negatively affected by immigration of low-skilled labour. To build a capacity to integrate citizens with a different cultural background and with different levels of qualifications and to avoid a populist backlash against immigration are major challenges for Europe. This is where the Nordic Model, so far, has been the least successful.

### **On the exposure of countries and sectors**

Different European countries experience intensified global competition and increased immigration differently. To some degree this has to do with countries being more or less developed. But it also reflects national systemic specificities making it more or less painful to adjust to the increased transformation pressure.

Workplaces producing traditional industrial commodities for low price segments of the market are especially exposed and may easily be out-sourced to other parts of the world. Such workplaces are often characterised by a taylorist type of work organisation. Sectors characterised by many jobs of this kind may on the other hand be seen as entrance points for immigrant workers.

The sectors least vulnerable are parts of knowledge- and learning-intensive clusters where manufacturing and service firms are interconnected to knowledge institutions and based upon skilled labour. In these clusters, a big proportion of employees work according to principles of ‘discretionary learning’. To recruit immigrants to such jobs is highly demanding in terms of upgrading of social/cultural as well as technical skills.

In fact sheet one I introduce a characterisation of work organisation based upon the empirical material and analysis from Lorenz and Valeyre (see Lorenz and Lundvall, 2006). I propose that the proportion of taylorist jobs gives a good indication of the exposure to risks for job loss from outsourcing. On the other hand the smaller this proportion the more difficult it will be to absorb low-skilled workers with a different cultural background. The dismal experience in this respect in Denmark and Netherlands may be seen in this light.

*Those working in agriculture have so far been protected from the full impact of globalisation and it is a major issue to work out a long term strategy for the future transformation of this sector. An obvious option would be to gradually transfer*

*resources from CAP to support of catch-up strategy for regions depending strongly on the protection of agricultural products.*

### **European integration and cohesion in the context of the globalising learning economy**

It has been recognised as a legitimate objective for EU to reduce income inequality between regions. The regional funds have played an important role in raising the income level in some of the member countries in the South of Europe.

When combined with intensified global competition, raising the income level, including the minimum wage, will contribute to a strong transformation pressure and to the need for rapid and deep industrial restructuring. Without major efforts in promoting learning and training opportunities the outcome would be high rates of structural unemployment. Therefore it is fundamental that this cohesion strategy is focused on learning capacity and on the upgrading of skills and work. Without such efforts low-skilled workers in routine jobs would carry major part of the negative consequences of the combination of globalisation and European integration.

Investment in R&D, education and formal knowledge infrastructure is necessary but not sufficient. Without complementary *changes in how management, labour market policy and education are practised* the transformation will be difficult. Broader participation of workers and students is a pre-requisite for absorbing radical change without major disruptive effects. Managers need to establish workplaces as learning sites. Labour markets need to support skill upgrading. Education needs to teach students to learn. Currently there is too much emphasis on formal qualifications and PISA-tests.

### **The external implications of the Lisbon Agenda**

Above we presented ‘globalisation’ as an anonymous force. Today it has become obvious that behind the phenomenon lie specific bursts of industrial growth in different parts of the world. Currently the most obvious example is the rapid growth in China. In the 80s and 90s rapid growth in Japan and in South East Asia affected global competition and industrial restructuring in Europe. In the future, countries such as India, Russia and Brazil may enter extrovert growth trajectories that will impact upon the specialisation of European countries.

*There is a need to make a clearer distinction in the Key Issue-paper between less developed countries in general and those countries that may be seen as actual or potential challenger countries.* In the case of challenger countries the strategic partnership may aim at promoting economic synergy to boost global economic growth while in the case of other poor countries (including Africa) the major objective may be the creation of job opportunities in these countries. This may be driven by humanitarian motives but also by obligations for countries that have contributed to the worsening of the climate via their CO<sub>2</sub>-contributions to global warming and the negative impact on poor countries. To this comes self-interest; it is the only way to weaken the pressure from emigration flows in the direction of Europe.

When specific ‘challenger countries’ can be identified the external strategy may have a more or less ambitious aim and be more or less farsighted. Trade restrictions in the form of quotas for certain commodities may be imposed to weaken the transformation

pressure for specific sectors, regions and groups of workers. Attempts to establish bilateral or global rules that have as primary aim to make it more costly for the external competitors may also be pursued. This might take the form ‘decent work’ or environmental protection principles.

But such limited perspectives may be insufficient in the era of the globalising learning economy and they forego dynamic advantages emanating from strategic alliances with challenger countries. One way to combine competition with co-operation is to engage in institutional learning between Europe and challenger innovation systems. This is what I see as being at the core of the idea of externalising the Lisbon Agenda.

### **If you cannot beat them - join them**

It is interesting to note that the most successful growth period in modern history 1945-1973 had at its origin a catching up mechanism where Europe and Japan emulated the US-advantage in technology and organisation. It is also interesting to note that this was a period of diffusion not only of technological knowledge but also of organisational practises and institutions emanating from the US. There was a transatlantic exchange of people and experts who brought back to Europe US-practises. This process may have been driven mainly by the logic of the cold war and fear of communism but the net economic outcome was positive for the US. Without the catch-up phenomenon it is quite possible that those who foresaw a post-war depression for the US-economy would have been proven right. The unique leader position of the US in the post-war era emanated not only from the leadership in the cold war era but also from the partial export of a socio-economic US-model.

Europe cannot replicate this experience when building strategic relations with challenger countries. The conditions for the post-war growth experience were quite unique. The war had destroyed both physical capital and old institutions and the political climate defining a common enemy were factors important for the outcome. But some lessons may be drawn from the experience. In a world where globalisation brings systems closer to each other systemic features outside the realm of the market and trade agreements become increasingly important both for potential friction and synergy between systems (Ostry and Nelson 1995). One way to reduce friction and enhance synergy effects is to stimulate a certain convergence in institutions and policies.

Therefore it becomes increasingly important how challenger countries design labour market, social security, education and research institutions.<sup>1</sup> This implies a much more ambitious agenda than setting social standards with the aim of enhancing the costs of the challenger producers.

### **Knowledge protection and knowledge sharing**

A key element in the interaction between Europe and major emerging economies is the protection and sharing of knowledge. In a simpler world it might be argued that all knowledge emanating from basic research should be public and shared while outcomes of ‘strategic research’ might be protected. At the level of the firm core capabilities need protection while there might be an interest to support the sharing of knowledge that

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<sup>1</sup> The awareness of diffusing ideas to the rest of the world has always been stronger in the US. In the thirties the Ford Foundation invited some of the most promising economists in China to study economics at Chicago University – today some of those economists are strong proponents of economic policies and institutional reforms that are close to US-standards.



relates to complementary capabilities. In real life the borderlines between these categories are becoming more and more blurred. In the area of biotech it is difficult to define what is basic research as distinguished from commercial development. What are complementary capabilities of secondary importance today may become strategically important for the firm tomorrow.

A basic principle for public financed knowledge production may be that all knowledge should be shared if there are no obvious arguments against sharing it. This seems to be the principle behind the 7<sup>th</sup> Framework program. Knowledge sharing may take on different forms. The movement of people is especially important for knowledge sharing. Student, scholars, policy makers and business managers that operate in different regions of the world bring with them both theoretical and practical knowledge. Other forms involve research collaboration and collaboration in mega-science where the efforts of need to be global.

For private firms the situation is different. Firms operating on the basis of 'branding' or specific technical knowledge in challenger countries with weak implementation of intellectual property rights will need to define carefully what knowledge may be shared and what needs to be protected through secrecy or through formal means. But attempts to make such distinctions may be seen as fundamental for successful knowledge management and they may open up for more generous knowledge sharing than in the current situation.

When it comes to protection of intellectual property rights and other regulations imposed through international agreements it is wise to set ambitions at a realistic level and to put strong emphasis on the implementation of the rules. Very ambitious rules with weak implementation create constant friction and undermine the credibility of international rule sets. Levels of ambition may be raised as the mutual acceptance and understanding evolves and as the necessary institutional framework and competence base is built in emerging economies. Bilateral discussions between Europe and emerging economies may be useful in the efforts to set the level of ambition at realistic levels.

### **Harmonious development and system export – the case of China**

The growth process in China over the last decades is not sustainable in the long term perspective. There is a need to change the trajectory in several different dimensions. There are serious negative ecological consequences and the use of energy is inefficient. Social problems related to health and old age remain unsolved and social and regional inequalities are growing. This is reflected in the current 5-year plan where 'harmonious development' refers to a change both in the social and the ecological dimension.

Europe has a wide experience in combining economic growth with the use of environmentally sound and energy-saving technologies. Europe has also developed well functioning welfare states and institutions. A major market for such solutions is now opening up in China. But it is important to understand that the good intentions laid out in the current 5-year plans (harmonious) may not be easy to implement within the current system for public/private governance. The decentralisation of power and the incentive system makes it difficult to enforce a new strategy.

Therefore it might be at least as important to support institutional learning as technological learning. Currently public policy training at Tsinghua University involves collaboration with the Kennedy School in the US.

### **Independent innovation**

The other major element in the next five-year plan (and as well in the 15-year plan for science and technology) is the emphasis on *independent innovation*. The focus on innovation is very strong and much of the literature on innovation system is now being translated into Chinese. The idea with promoting *independent* innovation is to move away from strategies of imitation. The understanding in China is that the strategies followed by Japan and Korea are much less valid for China in the current era and that it is fundamental that China develops the capability to introduce 'home-spun innovations'.

To some degree it may be seen as reflecting a nationalist turn based upon mixed experiences from the 'open door'-policy and rather limited knowledge spill-over from FDI in China. To avoid that this policy undermines the current dynamics where the rest of the world can benefit from China's high growth rates it is urgent to develop policies of knowledge sharing both in relation to public research and private proprietary knowledge as outlined above.

A major weakness of the plans seems to be that the emphasis is mainly on science-driven technology and that the demand side is not taken fully into account.<sup>2</sup> This will reduce the impact on the economy and may lead to disappointments (we will hear in the future of a Chinese paradox?). To reform the education system and the management style in Chinese firms so that they become more creative and flexible may be more important than just increasing the R&D-intensity in the economy.

There are good reasons for supporting such changes in China. One important reason is that it would create a pressure to make both schools and workplaces more open and democratic. Therefore it might be seen as gradual steps towards a more democratic China. Finally, as pointed out in the introduction, it is a good idea to link 'independent innovation' to 'harmonious development' both in the further development of the Lisbon agenda and in the context of building strategic relationships with China (Gu and Lundvall 2006).

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<sup>2</sup> At first sight this may be regarded as a heritage from the period of central planning. But actually the debate and the policy is akin to what has been adopted in Europe, cf. the Barcelona-objective on R&D-ratios. China has been much more successful when it comes to link science to industrial development than the former USSR (Gu and Lundvall 2006).

### Fact sheet 1: National patterns in Work Organisation<sup>3</sup>

The table below originates from paper by Lorenz and Valeyre (2006). The four organisational models were on the basis of factor analysis of responses to surveys addressed to employees in 15 European countries.

1.	Discretionary learning	Lean production learning	Taylorist organisation	Simple organisation
2. North				
Netherlands	3. 64,0	4. 17,2	5. 5,3	6. 13,5
Denmark	7. 60,0	8. 21,9	9. 6,8	10. 11,3
Sweden	11. 52,6	12. 18,5	13. 7,1	14. 21,7
Finland	15. 47,8	16. 27,6	17. 12,5	18. 12,1
Austria	19. 47,5	20. 21,5	21. 13,1	22. 18,0
23. Center				
Germany	24. 44,3	25. 19,6	26. 14,3	27. 21,9
Luxemb.	28. 42,8	29. 25,4	30. 11,9	31. 20,0
Belgium	32. 38,9	33. 25,1	34. 13,9	35. 22,1
France	36. 38,0	37. 33,3	38. 11,1	39. 17,7
40. West				
United Kingdom	41. 34,8	42. 40,6	43. 10,9	44. 13,7
Ireland	45. 24,0	46. 37,8	47. 20,7	48. 17,6
49. South				
Italy	50. 30,0	51. 23,6	52. 20,9	53. 25,4
Portugal	54. 26,1	55. 28,1	56. 23,0	57. 22,8
Spain	58. 20,1	59. 38,8	60. 18,5	61. 22,5
Greece	62. 18,7	63. 25,6	64. 28,0	65. 27,7
EU-15	66. 39,1	67. 28,2	68. 13,6	69. 19,1

Source : Lorenz and Valeyre (2006)

The table shows that people working in different national systems of innovation and competence building have different access to learning by doing. It also shows that at lower income levels the bigger proportion of the work is in either simple or Taylorist organizations. The richer the country the more workers are employed in learning contexts. But it is also important to note that countries at similar income levels – Germany and the UK – have different distributions of workers between the four forms. While the proportion of workers operating in the learning context is more than 40% in the UK, it is less than 20% in Germany. The micro foundation of national systems of innovation is not only because of levels of income but also because of other systemic features.

<sup>3</sup> The data originate from a survey of workers in 15 European countries on working conditions gathered by the Dublin Institute for Working and Living conditions. Discretionary learning refers to work situations where workers say that they learn a lot and that they have some freedom to organise their own work. Lean production-learning refers to work situations where workers learn but where there is little discretion left for the worker to organise his/her own activities. Taylorist organisation offers little learning and very little freedom for the worker while simple production gives more autonomy in solving simple tasks that offer little learning opportunities.

***A proposal for some institution building in connection with the Lisbon Agenda***

The Lisbon agenda states that knowledge is the most crucial asset in the current economy. But standard economic theory as it dominates at US and more and more also at European universities is not sufficient to understand and manage a knowledge-based economy.

This fundamental weakness becomes even more obvious when we change the focus to the dynamics of knowledge creation, innovation and learning. It is a paradox that standard economics abstracts from the process that is the most fundamental in the knowledge-based economy. If neo-classical models include learning, the process is understood either as getting access to more information about the world or it is treated as a black-box phenomenon as in growth models assuming ‘learning by doing’.

The very fundamental fact that agents – individuals as well as firms – *are more or less competent* (in terms of know-how and know-why) and are *more or less integrated in knowledge-based networks* (know-who) is abstracted from in order to keep the analysis simple and based upon ‘representative firms’ and agents. *This abstraction is most problematic in an economy where the distribution of competence becomes more and more uneven and the capability to learn tends to become the most important factor behind the economic success of people, organizations and regions* (Lundvall and Johnson 1994).

On this basis we might discuss if there is not a need to establish an institutional basis for a more relevant approach. I propose that we consider how to establish: The European Institute for Knowledge and Innovation Economics. It would be a relevant research center for strengthening the basis of the Lisbon agenda. But it would also constitute a meeting point and learning site for economists from other parts of the world. The domination of US-versions of standard economics is strong even in countries such as China and this dominance makes it difficult to establish institutional learning between Europe and China.

# Between China and USA

## Which Future and Strategies for the EU based Enterprises

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*Paper prepared for the Lisbon Agenda Group*

*Lisbon, April 26<sup>th</sup>, 2007*

*(Draft, Comments welcome)*

In the last 25 years the surge of China as a new global player has placed all its partners in a new situation. To face the challenges posed by the new giant, appropriate strategies need to be designed and implemented. This is especially the case for the EU (and country members) which occupy *vis à vis* China specific positions.

This paper is intended to contribute to better understand what can be done in front of the new giant. For this purpose the argument is divided in two sections. In a first section we recall some basic facts and data regarding the relative position of USA and EU *vis à vis* China. Some of the specificities of the European situation are highlighted. The second section (largely based on previous work done in this field) is dedicated to a short assessment of the competitiveness of capabilities of the EU based firms. Finally some conclusions are drawn.

### **1.**

#### **USA and EU vs. CHINA : starting points**

*The Chinese Macro-Economic Performance : some key starting points*

3 traits of the recent Chinese economic process of growth have to be recalled;

First of all, with an average of 9,5 % rate of GDP growth in the last 20 years, the impressive performance of the Chinese economy force to recognize that we are in front of an exceptional experience, even if we refer to precedents “Tigers” and other Asian “Dragoons”

*Another key point of the Chinese experience is that these performances were achieved through a process of continuous reforms aiming at ensuring a transition from a fully centrally planned economy to a so called “socialist market based economy”.*

In this process, each of the previous decades has experienced a series of major economic reforms.

- The 1980's saw the first changes in agriculture, soon followed by the development of the TVEs and the opening of the Special Economic Zones dedicated to foreign investors.

- The 1990's were the years of the installation (and/or consolidation) of Stock Exchange Markets along with the process of privatization of former SOE's; during the same period was achieved the de-assembling of the price control systems, a pillar of the former economic regime...
- Finally the 2000's were the years of the entry of China into the WTO regime whilst significant amendments were introduced in the Constitution in order to, -among other things- guaranty property private rights.

*A last key feature is the growing and impressive opening to the world economy. During the last 25 years the country enjoyed massive FDI's from foreign companies (from Chinese to Japanese and Western firms...). A key result is an increasingly high level of opening to the world economy, with external trade relations reaching 35 % of GDP (2003),*

#### *Chinese Exports and International Trade*

A first distinctive trait of the Chinese foreign trade lies in the preeminent role played by Foreign based Companies : ½ of the total exports come from FMNs located in China, and one can easily establish clear correlations between the *growth of FDI's and the growth of exports*

*Another major trait of the Chinese international trade is that Chinese exports are highly concentrated on low-tech, low added value sectors or products. According to a recent detailed study by CEPPII : “The analysis of the international trade by product range reveals that China is strongly specialized in the export of products which are situated in the lowest price segments. In 2004, 72 % of its exports belong to this place, only 17 % in the average and 12 % in the high segments. In the exports of the Asian “Tigers”, the corresponding proportions are 36 %, 21 % and 28 %; in those of India: 49 %, 28 % and 23 %. The structure of the exports of China seems deformed downward, even in the products of high technology exported largely by the subsidiaries of foreign firms. So at the beginning of 2000s, ¾ of the Chinese exports in the segment of high technology electronic products are in the lowest range and only 8 % in the high*

*range, proportions which have not varied since the middle of the 1990s. By contrast, the exports of the Asian Tigers in high-tech electronic products contain a stronger proportion of products high unit added value (42 %), that of products with weak unit added value (34 %)". (CEPII 2006; Gaulier et al, 2006).*

*Nevertheless due to foreign investments and acquisition by Chinese based firms, we are presently witnessing the birth of the first Global products covered with Chinese brand names (Lenovo, Haier...)*

If we consider the process of division of labor at the world level, China is and remains primarily an *Asian Commercial & Economic Power*. Asian countries account for 51 % of total exports, and 68 % of total imports of the Chinese economy

*A closer look to the Chinese Asian partners allow to identify 3 key players*

- Japan as a provider of high tech products, machines and equipments...
- Hong Kong, Taiwan, Singapore (the “Chinese world”) as key investors especially in the first phases of the take off of the Chinese economy as a global actor
- More recently South Korea, appears as a growing partner

*The UE and the US vs. China : two very different patterns of trade*

*The USA and the EU exhibit very different pictures.*

i) If we concentrate first on the patterns of trade between China and the US, some key features should be exhibited

- *There is already very significant levels of exchanges between the two countries : 21 % of Chinese exports are directed to the US market, against 8 % of total imports from US based firms*
- *Huge deficits for the USA (around US \$ bi 50-60 a year from 2000 to 2003) and these deficits are rapidly growing.*

ii) *If we turn to EU- China patterns of trade the picture is quite different*

- *Still low levels of exchanges (3% of EU imports, 1,2 % of EU exports...)*
- *Small and manageable (even if growing) deficits for EU*

In practice it seems that China occupies a very different position for the two players.

If we first consider EU and China, it appears that the EU based firms are exporting mainly *final and finished goods*<sup>4</sup>. China is thus considered by the EU firms, firstly as a *marketplace*, ie a place where to sale finished goods

*If we turn to the relations between USA and China, a key feature is that China is a place of massive investments of US large corporations. Thus, it can be assumed that*

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<sup>4</sup> This point is convincingly argued in Gaulier G; Lemoine F. Unal-Kesenci D., (2006).

*for the US firms China is regarded mainly as a production site : a place where to manufacture at low costs components to be assembled in the home country and re-exported*

### ***Provisional Conclusions***

***Two provisional conclusions are arising from this quick investigation.***

#### ***i) Take China seriously...***

Obviously, China has to be taken seriously. Not only because of its impressive macro-economic performance, but also because of its changing patterns of trade.

Starting with huge relative advantages in labor-intensive products and industries, China is moving along the learning curve, with a some technological catching up in many sub-segments of advanced industries. In the same way the first Chinese based multinationals are arising in the world market, selling for the first times, their own brand names.

#### ***ii) ...Keeping in mind the serious unbalances and disequilibrium affecting the Chinese transition process***

The limits and the threats on the Chinese mode of growth should not be underestimated. They have to be taken fully into account by the EU payers in the design of their strategies.

Among the limits, the following may deserve special attention

- Lack of raw material and energy
- Impressive social and spatial inequalities
- Fragile Banking and financial systems
- IPRs enforcement
- Doubts about the sustainability of the political regime ...

## **2.**

### **Which Future and Strategies for the European Industry ?**

As it appears from the above description, if China is not a “white page” for the European firms, the low level of exchanges with this partner as well as the low level of sophistication of division of labour between the two economic areas, mean that the future of the relations between the two partners is still largely open. Nothing irreversible has, for the moment, happened. As a consequence, the nature of the relations between the two giants is a matter of strategic thinking, and still a matter of conjectures.

To contribute to a reflection on what could be at the same time realistic and wishable economic relations between the two economic areas, we propose to start with an



assessment of the competitiveness of the European firms. This assessment<sup>5</sup> is conducted on the basis of a methodology that was designed to be on line with the “Lisbon Agenda” vision. The two basic questions that were addressed were a) how European firms were facing the rise of the « Knowledge based Economy, and b) how they were adjusting to the rise of new emerging activities and technologies.

A key finding of our investigations is that European firms are facing difficult challenges in “new sectors” and activities, where emerging disciplines are an opening door to new products and services (biotech, internet, some sub-segments of ITC). On the contrary Europe has relatively good performances in sectors where the products derive from established disciplines (chemical, aeronautics), where user-supplier interaction is important (as in the cases of machine tools), where “non price” elements of competitiveness are important (as in the case of top of the line and luxury cars). In fact the picture looks different according to the angle from which it is envisaged. We have thus chosen to look to European firms from two different but complementary views. And, if considering the things from the point of view of *product life cycles and the role of science* EU firms clearly face real difficulties in most of the new science based sectors, the picture is quite different if we look to the performances from issues related to *product differentiation and product range*.

*Product Life Cycles and the Role of Science. : The painful situation of European industries in new science based sectors*

Whilst European performance appears to be good or relatively good in “mature” industries and products (see the following paragraph) for the most sophisticated parts of these industries, in emerging industries and fields of activities – biotechnology, internet and important segments of IT’s - , European industries clearly are facing some difficulties.

Many factors can here be evoked to explain this situation. Each one by itself does not provide a full and satisfactory explanation. However the combined effects of a series of elements seems to provide some convincing way of understanding the situation. The main issues at stake here seem to be the following.

*i) First there is a lack on investment on R&D in the new emerging fields of science and basic research.* This is obvious for Life Sciences for example, if the European investment is compared with the US one. Some recent analyses recall that in the case of UK biotech sector, the main problem was not the lack of venture capitalists ready to embark on new biotech start-ups, but *the lack of good scientists able to promote this type of firms*. When the scientific capacities exist, they seem to be too highly dispersed throughout European universities and territories. Thus no network effect can emerge and structure the type of division of labour and efforts able to ensure the promotion of these new activities. One here has to remember that in the USA some 80 % of Venture Capitalists’ investments are concentrated in two regions: California around Silicon

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<sup>5</sup> In the following we present some key findings from 2 « TSERs » (« Targeted Socio-Economic Research ») research projects (DYNACOM : Dynamic Competencies and Long Term Growth of the Firms and ESSY : European Sectoral Systems of Innovations). Sponsored by the European Commission these two studies are combining research at Micro level and Sectoral level and have involved 16 European research teams. More detailed on this issue in Dosi, Coriat, Pavitt (2002) and in Malerba (2004), especially the last chapter (Coriat, Malerba, Montobio : “The International Performance of European Sectoral Systems of Innovation »).

Valley and Route 128. No “regional advantages” has yet emerged in Europe in these fields.

ii) Another argument has to do with *the type of educational systems and labour markets prevailing in Europe, specially in the field of high skilled engineers, researchers and the like...* Here the relative advantage of European systems (largely based on internal labour markets...) seems to turn into a series of relative disadvantages. Insufficient mobility and flexibility in these specialised labour markets makes it difficult for firms engaged in the new emerging fields to find the right skills and to be able to gather the necessary assets to launch new products or services. This is the case of Multimedia and Internet, where innovative firms often face shortages in the supply side of the labour markets. This, in a way, can be analysed as an institutional failure, despite of their evident qualities, of many of the European educational systems. (More on this in Coriat, Petit, Scmeder, 2006).

### **Product Differentiation and Product Range : Three Domains of “European Excellence”**

Envisaged through the angle of product range and product differentiation the studies conducted at “sectoral” level have highlighted an ensemble of domains in which European products are recognised in the world for their quality and image. A list of three group of activities is here clearly emerging<sup>6</sup>:

i) *A group of diversified industrial products covered by strong ‘brand names’*. This is the case of products and sectors like top-of-the-line luxury cars (e.g. Rolls Royce, Bentley, BMW, Mercedes, Ferrari, Saab...) and machine tools (German, Italian or Swiss), not to speak of top-of-the-line products in diversified traditional sub-segments like ‘Haute Couture’, select jewellery, watch-making industry, fashionable clothing, shoes or cosmetics...

ii) *Another domain of ‘European Excellence’ covers a number of sub-segments of short production runs of customised products, integrated complex systems and prototypes.*

These types of products are centred on projects based on high-tech (often complex) product systems, where competitiveness depends less on price than on quality. These activities are dependent on high levels of technology and skilled labour force. They include aeronautics (Ariane-Espace, Airbus, etc.), key segments of telecommunications (for example digital exchanges equipment); ‘key in hand’ delivery of different types of complex product systems – networks of high-speed trains (French, German or Italian...), nuclear power stations, services of water management, etc.

iii) More recently (and perhaps more unexpectedly) Europe has demonstrated a proven ability to assert itself *in some markets of mass-produced products in high R&D-intensive industries*. This is the case of mobile telephony. During the last few years, Ericsson and Nokia (the latter being now the world market leader) demonstrated a

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<sup>6</sup> This, not to speak of a fourth group, based on agricultural products characterised by the *franchising of brand goods associated with a specific traditional knowledge*, often covered by ‘labels’ and ‘appellations contrôlées’. Included here are wines and spirits, from Irish Whiskies through French and Italian wines to Portuguese Porto, and high quality foods, from Parma Ham to Nordic Salmon, for example....) Overall, some 2000 European products benefit from well known ‘labels’, which serve to provide a guarantee of brand image and quality to exports.

European capacity to achieve a dominant share of the world market in small high-tech products. Also, in the semiconductor industry, after many failures, SGS-Microelectronics has gained a significant presence in world markets for some customised products

Notwithstanding the variety of sectors which they incorporate, the activities listed above do share some common denominators. A common characteristic of the products mentioned is the relative advantage gained by products and services that are *vertically differentiated* and which involve a number of different partners and competencies. Whether it be a seemingly ‘simple’ product (e.g. a luxury perfume), or a more complex one (an airplane), *European competitiveness results from a capacity to combine different know-how’s along the chain*, which converge in the delivery of the final product. The later result from complex arrangements which combine: institutional dimensions, large and complex organisational networks (between firms and connecting them to different institutions and regulatory agencies -e.g. high-speed train systems, management of Utility Networks, etc.). In most of these domains, coordination between complementary activities is a key condition underlying the production of quality. Thus, specific networks of agents based on a highly skilled diversified labour force and competencies seem to be a crucial dimension of the European distinctive capabilities.

### 3.

#### **Conclusions and policy implications**

Finally the argument presented in this paper is twofold

First, we conclude that there is *not* for European firms a general weakness in science based sectors. The European difficulties are much more focused. The European problem is: *new disciplines, new emerging fields of knowledge and new firms’ capabilities for the industrial and commercial exploitation of this type of knowledge*. One has to notice, that in many respects, these difficulties were worsened since the European (or national) authorities have failed to provide “on time” the right non market resources and institutions required to ease the entry into these new fields<sup>7</sup>. If clearly these deficiencies could be at the origin of difficult relations with the USA, they present no danger for what regard EU-China relations.

On the other side the strength of EU firms in products based on quality and non price competitiveness always has been and continue to be nothing less than impressive.

The other question addressed in these notes, is to what extent the surge of the new Asian giant may undermine or on the contrary contribute to the competitiveness of the EU economies. The answer to this question is not written. Much will depend on how firms and actors will react and deploy their strategies. But what is emerging from the type of data and analyses provided in this paper is the idea that if the cards are played in the right way, there seems to have more complementarities than contradictions between the two economies. One can observe that the strong dimensions of the European firms (top of the range products and products based on non-price competitiveness) are precisely the ones where the Chinese performances are poor and need to be

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<sup>7</sup> More on this issue in Coriat, Petit, Scmeder (2006)

strengthened. It thus can be argued, that the idea of a “strategic partnership” between the two economic areas, appear to be grounded on some solid shared interests.

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Table 1  
China : Main trading Partners (2003)

	Total Trade		Exports		Imports	
	Amount (mds \$)	%	Amount (mds \$)	%	Amount (mds \$)	%
<b>TOTAL</b>	<b>851,2</b>		<b>438.4</b>		<b>412.8</b>	
<b>Total ASIA</b>	<b>495,5</b>	<b>58,2</b>	<b>222,6</b>	<b>50,8</b>	<b>272,9</b>	<b>66,1</b>
Japan	133,6	15,7	59,4	13,6	74,2	18,0
Hong Kong	87,4	10,3	76,3	17,4	11,1	2,7
South Korea	63,2	7,4	20,1	4,6	43,1	10,4
Taiwan	58,4	6,9	9,0	2,1	49,4	12,0
Malaysia	20,1	2,4	6,1	1,4	14,0	3,4
Singapore	19,4	2,3	8,9	2,0	10,5	2,5
Thailand	12,7	1,5	3,8	0,9	8,8	2,1
<b>United States</b>	<b>126,3</b>	<b>14,8</b>	<b>92,5</b>	<b>21,1</b>	<b>33,9</b>	<b>8,2</b>
Germany	41,9	4,9	17,5	4,0	24,3	5,9
Netherlands	15,4	1,8	13,5	3,1	1,9	0,5
UK	14,4	1,7	10,8	2,5	3,6	0,9
France	13,4	1,6	7,3	1,7	6,1	1,5

Source : Hay and Yunnan (2005)

Table 2 : EU -CHINA

(1) Evolution of EU exports 1995-2002  
(US \$ billions and %)

	2002 (Amount)	% 2002	% 1995
<b>World</b>	<b>2449,0</b>	<b>100,0</b>	<b>100,0</b>
<b>Western Europe</b>	<b>1650,6</b>	<b>67,4</b>	<b>69,7</b>
<b>United States</b>	<b>223,9</b>	<b>9,1</b>	<b>6,4</b>
<b>Asia</b>	<b>188,9</b>	<b>7,7</b>	<b>9,3</b>
• Japon	39,1	1,6	2,0
• <b>China</b>	<b>31,9</b>	<b>1,3</b>	<b>0,9</b>
• Hong Kong	18,5	0,8	1,0
• South Korea	16,0	0,7	0,8
• Singapore	13,3	0,5	0,7

Source : Hay and Yunnan (2005)

Table 3 : EU - CHINA  
 (2) EUROPEAN IMPORTS 1995-2002  
 (données en milliards de dollars et en %)

			%	% 20	% 20
<b>World</b>	<b>2446,7</b>	<b>100,0</b>	<b>100,0</b>	<b>- 2</b>	<b>4</b>
<b>Western Europ</b>	<b>1642,3</b>	<b>67,1</b>	<b>69,3</b>	<b>- 1</b>	<b>5</b>
<b>United States</b>	<b>163,3</b>	<b>6,7</b>	<b>6,8</b>	<b>- 4</b>	<b>- 6</b>
<b>Asia</b>	<b>281,8</b>	<b>11,5</b>	<b>10,9</b>	<b>- 8</b>	<b>4</b>
• <b>China</b>	<b>77,1</b>	<b>3,1</b>	<b>1,8</b>	<b>5</b>	<b>14</b>
• Japan	64,4	2,6	3,6	- 15	- 5
• South Korea	21,0	0,9	0,7	- 16	9
• Taiwan	19,9	0,8	0,8	- 11	- 6
• Malaysia	13,5	0,6	0,6	- 11	9

Source : Hay and Yunnan (2005)

GULBENKIAN FOUNDATION, LISBON

THE INTERNATIONAL DIMENSION OF THE LISBON STRATEGY

THE LISBON STRATEGY AS A GLOBAL STRATEGY OF THE EU

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to the key issue paper by M.J.RODRIGUES

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#### Abstract

Talking about the external dimension of the “Lisbon strategy” means not only observe its objective external implications but also consider the EU as an international cooperative power. In the troubled context of the “globalization malaise”, namely following the failure of the Doha-WTO agenda, a win-win cooperation will not result out of the invisible hand, but of strengthened institutional cooperation: a renewed block to block interregional arrangements or comprehensive partnerships agendas with distinctive features according to the partners. A new generation of EU external action is necessary, combining internal and external policies, increasing horizontal and vertical coherence, parallel with new Treaty provisions.

## 1. THE “LISBON STRATEGY” EXTERNAL DIMENSION: IMPLICATIONS, INFLUENCE AND POWER

The “key issue paper” provided by M.J.Rodrigues is very worthy in addressing in a new way the perennial question of the consistency and coherence of the European Union external relations. The “Lisbon agenda group” is already unanimous in asserting that, contrary to its inward looking understanding, the “Lisbon strategy” should be conceived as a strategy of the EU coping with the partially globalized world. However, next step is to take care not only of the external implications of the LS, but also to implement it as a crucial part of the global role of the EU, as the very soul of its vision of the globalized world of the XXI century. In other words my comments will firstly focus on the distinction between three degrees of global actorness starting with the first stage:

a) the concept of “world’s Scandinavia”(G.Thorborn, 2007) means that European states have an external influence as such, as a kind of example of advanced balance between social cohesion and economic competitiveness, on the way toward a knowledge society ( see the paper by Lundvall and the reference to the Nordic models). Europe takes stock of internal capitalist diversity to better cope with globalization (V.Schmidt 2006) I underline that at this stage we are talking about influence not of power.

b) Secondly, according to Susan Strange, we should pay more attention to the change of the very notion of power: “structural power” means that accumulation of knowledge and economic/trade weight increasingly matter as the “wealth of nations” and as the power relations among states and macro-regions are concerned while military power is decreasing in relevance. This notion is also relevant for the Lisbon strategy external implications: see, for instance, the external implications of “Galileo satellite system” and its by-products regarding EU-China, EU-India and, in negative terms, EU-US relations.

c) Thirdly, the notion of “civilian power” includes both the previous ones, while adding the notion of united global actor asserting its own interests within a troubled external environment and providing solutions for near and far abroad. On the one hand, the fact is that the EU is already moving beyond the simple “set of regimes between member states”(A.Moravcsik 1998), even if it is keeping two relevant differences with a classical state actor : a) foreign and security policies are not the first to be shared and pooled (as in the history of USA) but the last ones ; b) the EU decentralized decision making process is very far from a state, including a federal state. However, the EU is no longer a simple intergovernmental regime, or a simple regional entity, but a growing actor, exercising external influence and power ( if we take into consideration the achievements of 30 years of research in international relations, making the bridge between low politics and high politics evident: see for example, R.O.Keohane 1970-2000). The EU is an incipient civilian power to the extent it is also able of changing by peaceful means not only the preferences of its member states but also the environment where other actors play and their behaviour. It not only limits internal fragmentation and competition by increasing coordination and cooperation among MS, but acts as a “cooperative power” as its external relations are concerned, both in the near and far abroad.

All in all, we should be aware that, when dealing with the external dimension of the Lisbon strategy, we are not only talking about “implications” and “influence”, but also of a *sui generis* form of cooperative power which is interested in limiting conflicts through and enhanced and multilevel institutionalization of international cooperation.



## 2. CONVERGENCE AND DIVERGENCE WITHIN THE PARTIALLY GLOBALISED ECONOMY: REGIONAL STRATEGIES AND MULTILEVEL GLOBAL GOVERNANCE.

Already at its early start, the Lisbon strategy was fostering a deeper regional cooperation/integration, what is confirmed by the key comprehensive idea of “an European model of knowledge society”, entailing common policies and new governance methods. However, the dominating climate of the Nineties was to some extent influential in the EU Council statements and namely in the Commission approach: a too optimistic prevision of a continuous international booming, making the target of 3% EU growth easy to achieve; the idea of harmony between regional development of the EU and globalization. On the one hand, the awareness that “we are lagging behind the US” was the pre-condition of a regional strategic regionalism, calling for more regulation, asserting the interests and competitiveness of the European region within the globalized economy; on the other hand, the Commission was strongly focusing on mere international liberalization and namely the Lamy-Bagwathi (1999-2006) priority of the trade agenda of global trade-deregulation at level of WTO, in the context of the liberal ideology of the globalization benefiting everybody .

This framework explains to some extent the controversies emerged at the eve of every Spring European Council after 2000 and the ambiguities of the implementation as well: between the supporters of a true regional strategy (broadening and deepening the Lisbon agenda) and the influence of the large and strong alliance of “hyperglobalists”. While the second stream conceived and still understands the Lisbon strategy a mere “negative integration”(F.W.Scharpf) , or a step towards global liberalization, the firsts are looking a European Knowledge society, combining negative and positive integration, openness to the global competition with a regionalist strategy. At international level, hyperglobalists understand global convergence as a mere import of the US “new economy”, while the firsts assert a pluralistic understanding of the globalized economy, where regional diversities matter. This cleavage obviously provoked some consequences on international cooperation and dialogue with other regional entities (MERCOSUR, ASEAN...) or countries (China, Brazil, South Africa..), because asserting the primacy of the US model of knowledge economy, makes of the EU a non relevant partner.

Already dangerous before 2006, after 2006 this ambiguity may delete the Lisbon strategy appeal for external partners. Why? Because of the implications of what even A.Sapir calls the “globalization malaise”. After the failure of the WTO Doha round in summer 2006, the US mid-term elections of 2006, and the next end (June 2007) of the “fast track provision” allowing the US-President to quickly and easy bargain international trade agreements, the “globalization malaise” will become more serious than before and its consequences both internal and international will be very relevant for the Lisbon strategy.

The previous balance between regionalism and globalization is definitely over and a new balance is needed.

A) On the one hand, contrary to the past, EU has to better combine the call for a global governance with its consciousness of a controversial globalization where the win-win game will not be the result of the A.Smith’s invisible hand, but only possible though multilevel regulation and institutionalized cooperation. Since cosmopolitanism is not

around the corner, the best way to fight against nationalism and fragmentation, and against the model of the “competitor state” (competing with your own neighbours) is strengthening regionalism, inter-regionalism and, on this new basis, global regulation. The question is which regional strategy can cope with an increasingly conflicting globalization.

B) On the other hand, the global and internal challenges are similar and to some extent common (sustainable development, protection of human rights, fight against proliferation of WMD, poverty, climate change, defensive protectionism...) which underpins our plea for a common support for global regulation. As the Rodrigues paper argues, the EU could play as a vanguard role in strengthening the coordination between WTO, ILO and other global multilateral organization like the OCDE (and I would like to stress the relevance of the DAC), without neglecting the creation of new eventual multilateral organizations, as a global agency for environment. EU can also contribute to improving the efficiency gap by setting a kind of Open method of coordination at level of global regulation. Moreover, only an enhanced role of regional associations, within the UN system and global organizations, beyond the current consultancy, could increase their legitimacy and efficiency.

What kind of regionalism is needed? As the future of European regionalism is concerned and its relationship to globalization three possibilities are open.

a) Fears of globalization are underpinning a wave of *protectionism*. However, even if globalization is more fragile than in the Nineties, and a part of Europeans feel not protected enough from its negative effects, national or European *protectionism* is not a viable way for the EU. The post-referendum France and other countries are witnessing a growing up of populist anti-global tendencies and of defensive understanding of social Europe; on the other hand, some MS, namely Germany would never accept such inward looking way, and not only because of its tremendous success as export country. The divide between France and Germany would become deeper and broader. To understand regionalism as a protectionist shield against the globalization is not new (R.Gilpin 2001). In a context where some nations prove unable to adjust, the EU as a whole could react by strengthening the supranational regulating framework and better combining negative and positive European integration. Finally, if protectionism wins, developing countries risk to be the first victims.

b) *Second scenario: if the previous hyperglobalist trend further prevails*, it would be a suicide for Europe, in a context where even US are already shifting to bilateralism and no longer giving priority to global multilateralism. Not only the Doha round but also FTAA and APEC are worse than declining. How is Europe reacting? Very relevant symptoms of change seem the positions recently taken by G.Brown and P.Mandelson. Even the “Gordon Brown paradox” (Financial Times, 9/06), a typical example of “hyperglobalist ideology” is much weaker than some months ago : the next Labour Prime Minister looks to many observers (A.Duff, “Financial times”, April 2007) ready to a bargain for a “regionalist” trade-off with France including EU-budget reform, British ‘rebate’ and CAP reform, already under German or Portuguese Presidency.

Furthermore, there is a second argument for a break with hyperglobalist ideologies (A.Gamble 2007): the years between 2001 and 2006 provided several examples of link between the civilian/trade agenda and the security agenda at international level: while one of the basic belief of hyperglobalists is that global economic convergence is making political cleavages marginal, EU was negatively affected by the US refusal of some political international implications of the Lisbon agenda (for example: the open EU-US

conflict about the Chinese participation into the “Galileo” trust). If EU ignores the political dimension of the Lisbon agenda and its international dimension, it will play the role of “Candide” of Voltaire, instead the one of a new kind of global cooperative power. The eventual coming back in office of Democrats in 2008 will certainly improve EU-US cooperation, while not fundamentally change transatlantic diversity of geopolitical interests and the *longue durée* dimension of the “divided West” (J.Habermas 2005).

c) *Strategic regionalism*. A third way between hyperglobalist regionalism and defensive inward looking regionalism is possible. However, we should answer the question whether only the Lamy-Bagwathi vision is failing or also the classical alternative concept provided by L.Summers, and apparently revived by the “new EU commercial policy” of P.Mandelson (October 2006, which underpins ongoing bi-regional or bi-lateral trade negotiations with East-South Asian and Latino-American partners), as “steps towards the previous vision of the primacy of the global convergence (namely the Doha Round which remains the top priority). This version could share the illusions of the old “Open regionalism”, suggested in the early Nineties by F.Bergsten, while this optimist scenario could be challenged by a increasingly conflicting globalization. In other words, re-launching the Doha round and a quite globalization could take a while. We should be aware that the two possible versions of strategic regionalism. The weakness of the first alternative explains the transatlantic activism of A. Merkel and the rhetoric of the 2007 EU-US summit.

### 3. STRATEGIC REGIONALISM AND LISBON STRATEGY

“Strategic regionalism” looks as the best way indeed, if EU really wants to grow up as a regional and global actor, as a distinctive knowledge society, and not only *influence* other’s behaviour. Strategic regionalism is the best way for both a successful implementation of the Lisbon strategy and for a productive dialogue/cooperation with external partners. It will be possible only through a new model of multilevel governance combining several levels and kinds of multilateral and bilateral partnership<sup>8</sup>:

1. Supporting and consistently diffusing regional cooperation elsewhere, in other continents: the main research networks agree that not only regional entities already are established, structural and multidimensional features of the globalized world but that “in the 21<sup>st</sup> century we will have more regionalism than in 20<sup>th</sup> century” (R.Higgott, Presentation of Garnet network of excellence-6thFP 2005-09- first research achievements, Paris, January 2007).

-Whatever we like or not, regionalism is spreading and deepening ( including trade, currency, policy cooperation, political dimension, social cohesion, identity needs). Every macro-region is developing its own path to a regional knowledge society, within a pluralist understanding of globalization, respecting diversities and variations.

- Inter-regionalism ( block to block relations) is an “identity marker” of EU external relations: it not only includes trade liberalization but also cooperation for development, political dialogue and cultural cooperation. One of the distinctive aim is fostering regional cooperation elsewhere, by several distinctive conditionalities. However, the last

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<sup>8</sup> Multilateral arrangements, regimes and organizations should be given priority on bilateralism. But multilateral we absolutely don’t mean “global” or “universal ”; by contrary, regional and interregional arrangement can be defined as multilateral to the extent they include more than three partners. However, they should entail the classical criteria of multilateralism: “diffuse reciprocity”(strengthening reciprocal trust) and “general principle of conduct”(against coalition of willing, or “ad hoc” multilateralism).

interregional summits ( Vienna with LA and Helsinki with east-Asian...) have been considered as pure media events, or rhetoric fora. That is why interregional agendas should be more comprehensive and substantial, dealing with the issues included in the Lisbon strategy.

2. Supporting the evolution of the current individual “strategic partnership” include between the EU and several single big partners (namely China, Russia, India, Canada, Japan and the US Some of this countries (plus Brazil) are moving towards “strategic thinking” comparable with our concept of “strategic regionalism”, even if in a State-centred version : “Brazil 3 Times”, “Japan innovation 25”, India’s “knowledge commission”..... They are setting new agendas characterised by many similarities with the EU Lisbon agenda which is already making dialogue and cooperation possible, as well underlined by the M.J.Rodrigues paper, regarding not only common challenges but also similar policies (as areas of exchange and cooperation): by comparing the two “long term” and comprehensive reform agendas, including intermediary steps and monitoring; dealing with knowledge society, growth, sustainable development, welfare reform , education, energy, and other policies; finally, major world entities may show themselves able of providing an input to global governance in a challenging context where US is often the third corner of an ideal triangle.

Bilateral dialogue has to be enhanced with each of the members of the informal network of BRIC (Brazil, Russia, India, China) and IBSA ( India, Brazil, South Africa). However, this bilateral dialogue should be improved, deepened and broadened: for instance, EU has interest in situating bilateral cooperation and partnership within a multilateral framework at interregional level.

a) Latin America : The Lisbon agenda has absolutely to be included within the “Rio process”, namely the inter-regional dialogue between EU and Latin America; of course, this comprehensive framework ( started in Rio in 99 and continuing next year in Lima), in spite of the disappointments of the last Vienna meeting of 2006, needs to be articulated in to several narrower partnership : EU-Community Andean Nations, EU-MERCOSUR, EU-Caribbean countries, and so on. We are facing a challenge, because bilateralism looks in the short term more efficient and easy to get: after the successful EU-Chili and EU-Mexico agreements whereas EU-MERCOSUR agreement looks hard to achieve, EU is tempted by a EU-Brazil free trade agreement, while a new “EU-Brazil strategic partnership” has to be conceived and implemented as a contribution to an EU-MERCOSUR agreement.

b) East-Asia: it is urgent to react to US activism in East Asia ( free trade agreement with South Korea and with Singapore, 2006,2007) by supporting ASEAN and also the Chinese fledging regional multilateralism: institutionalizing the “6 parties talks” on Korean peninsula, strengthening ASEM and cooperation with ASEAN which is already linked to China by a free trade agreement before 2010, without forgetting the Shanghai Cooperation Organization, which includes Central Asian countries and our neighbour Russia. The EU-Japanese partnership is suffering because of conflicts within WTO among other: comprehensive dialogue with Japan (including the Lisbon agenda) should be parallel to a wise support to all which can make of Japan an active factor of East-Asian regional cooperation (fight against poverty, monetary coordination, namely) . All in all, EU has not to neglect bilateral partnership with emerging giants, while providing consistent institutional resources for inter-regional comprehensive cooperation agendas in Asia-Pacific, Latin America and elsewhere.

c) India. The EU-India “Strategic partnership” established in 2004 has been the positive result of a long process<sup>9</sup> and currently entails a multidimensional framework for enhanced cooperation. In September 2005 an “Action plan” was able of setting concrete measures. The “Strategic partnership” and the “Action Plan” are already partially implemented, according to the monitoring summit of Helsinki (Oct . 2006) and includes 4 chapters: 1) a political chapter, enhancing the political cooperation, in the framework of UN and allowing a dialogue on the very notion of pluralism, social diversity, human rights, effective multilateralism, strengthening the UN role. Cooperation in training forces for peace keeping missions and post-conflict reconstruction tasks. The common fight against terrorism is situated in a global and regional security dialogue perspective, including disarmament and non proliferation. Furthermore, UE is becoming an observer in SAARC summit (New Delhi, April 2007) and India is becoming member of ASEM ( Asia-Europe Meeting). 2) Trade bilateral partnership is becoming central, aiming at promoting trade and investments: will a bilateral free trade area overcome past mistrust and the current limits of bilateral trade cooperation<sup>10</sup>? (see the controversial “EU-India Business summit” and the critical declarations of the Indian part, among others the Minister Kamal Nath in 2005). From EU side, free trade and capital investment negotiations should be accompanied by dialogue on human rights, labour rules<sup>11</sup>, environmental standards. 3) As part of the economic policy chapter, the EU will take part as advisor into Indian economic reform, strengthening cooperation in space research and the direct Indian participation in the satellite recognition project “Galileo” (which is the most advanced project as knowledge and ICTs are concerned, including a very broad spillover effect as technological cooperation is concerned). New joint working groups have already been set regarding science and technology: biotechnologies, genomics, nanotechnologies, transports, energy policy ( including alternative energies and all what matters for energy security), food, climate change, sustainable development, and agrarian policy ; 4) a cultural cooperation program, base on the famous “EU-India cultural declaration” of 2004. Inter-parliamentary and civil society dialogue is fostered. In this framework, Indian migration flows should be seen as an extraordinary opportunity for EU countries, making cultural dialogue a broader issue ( as argued by the mixed High level group settled by the EU-India summit of 2000 wishing among other an easier visa policy). Second concrete issue: the student exchange programs in the framework of “Erasmus mundus”. Third, networking EU and Indian universities, for example by opening the 6<sup>th</sup> and 7<sup>th</sup> research framework program of the EU commission and adapting existing bilateral relations within the new ERA Net initiative.

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<sup>9</sup> A positive step has been accomplished at the Lisbon bilateral meeting in Spring 2000 during the Portuguese EU presidency , prepared by the Commission expertise ( see EU Commission communication of 1996 on India). However, on the one hand ,the decision of India and Pakistan to build up a nuclear military capacity, the *coup d’Etat* in Pakistan, the anti-Pakistan evolution of SAARC, and, on the other hand, the European Agricultural Policy and its protectionist effects on trade, have been the major obstacles.

<sup>10</sup> In 2005, EU exports of goods and services account for 25 Bn Euros (only 2% of EU exports). Foreign Direct Investments from EU to India account for 1Bn (1.4% of the total of EU direct investments and focus on telecommunications, energy and transports. However, already with this limited numbers EU accounts for one fourth of total FDI, higher than from USA and japan put together (see G.Sadcheva, *Rising India. Working with Europe to shape globalization*, Transcultural network conference, Brussels, nov. 2006)

<sup>11</sup> In this framework, European trade unions are supporting the campaign “Stop child labour. School is the best place to work”, which fosters on the one hand a constructive dialogue with Indian parliament (ratification of ILO convention) and on the other hand, a financial support by the EU.

Generally said, the various bilateral “Strategic partnerships” and “Action plans” may constitute frameworks and road maps for fostering broader and inclusive inter-regional cooperation. They may be the starting point of a dramatic change in the EU external relations. Of course, skepticism is justified by previous disappointments. Once a year summits should be charged of monitoring the progress of the Action plans implementation and the involvement of civil societies would complement top level arrangements and prevent from failures. Very much will depend upon the EU external relations coherence and consistency.

### 3. Lisbon strategy and Neighbourhood strategy, namely the Mediterranean.

The new Neighbourhood policy , (started by president Prodi in 2004 and continued by president Barroso, see Commission Communication, Nov. 2006), is also included in the 2004 Treaty (art 56) and is addressed to the border countries ( Eastern European and Mediterranean) which are not candidate to full membership: according to the Treaty provisions (mentioned by the Commission communication of 2006), it opens the possibility of cooperation through “specific agreements”, “founded on the values of the Union”, containing reciprocal rights and obligations “as well as the possibility of undertaking activities jointly”. Ukraine, Belarus the Caucasian and Moldova are concerned, but let’s concentrate on the crucial area of the southern rim of Mediterranean. The failure of the “Barcelona process”(1996-2006) risks to provoke a shift back from multilateralism towards bilateral conditionality in the framework of the new EU “neighbourhood policy”. The Lisbon agenda was not included, while precisely the failure confirms the Lisbon idea of a link between socio-economic reform and stability. The consequences of the failure are on the one hand the increasing North-South divide and, on the other hand, the deepening of the social and territorial divisions within Maghreb countries, with only the cities of the Southern rim of Mediterranean (from Agadir to Istanbul) enjoying some marginal benefits of globalization. Disappointments and fears are paving the way not only to wild migration flows towards the European rim, but also to the diffusion of populist radicalism and Islamic extremism. EU has interest to be more than a spectator of such a downgrading and show that the failure of the liberal ideology of “globalization for all” and the priority of foreign trade, has an European alternative model of globalization based on a pluralistic understanding of the Lisbon strategy including 8 issues, which can underpin the EU model of democratization: sustainable growth and co-development, social cohesion and fight against poverty, research/education, spirit of enterprise, tourism, agriculture, infrastructures, health. Finally, a global, multilateral, ambitious Euro-Mediterranean framework should frame again the partnership agreements against bilateral temptations.

4. A new development agenda and the EU cooperation policy. Against a further marginalization of Africa and ACP within the new post-Doha context a strategic framework for development should be set for each partner country. The Rodrigues idea of focusing on priorities complementing other sources ( States, II OO) is correct . The agenda is very well précised: employment, education, social cohesion, capacity building, macro-economic policy Regarding the crucial issue of governance, African regional organizations (SADC, ECOWAS, COMISA) could not only strengthen the social dimension of regional integration but also be of some help by implementing regionally coordinated Action plans , providing technical assistance, monitoring the impact.

Conclusion. All in all, it would be foolish to oppose to a US-centred global knowledge society an EU-centred one. The comparative advantage of EU is precisely to take stock of the internal pluralism in suggesting a pluralist vision of global convergence, where diversities are respected

EU is neither a model of knowledge society, nor a counter-model. Given the existence of several paths to a knowledge society in Europe, EU can assert itself as a “workshop” of a pluralist regional knowledge society in the making, particularly brilliant in managing national and sub-national (regional) differences towards increased convergence (instead as a federal state in the making as it used to do in the past). Its internal multilateral coordination of diversities might be proposed as a possible suggestion for others.

#### 4. TOWARDS A “NEW GENERATION OF EXTERNAL ACTION”. THE CHALLENGE OF COHERENCE

For more than fifty years the EC/EU was looking to overcome or limit the tremendous gap between its remarkable international economic relevance and the limits of its external political role. In 2006, while the EU-25 member states GDP (12.000 billions Euros) is comparable with the one of the US and the EU is the first global trade power (20%) and the second monetary power, the EU impact on global governance and world order is still typical of a political dwarf. Bridging between EU economic strength and political role is urgent after the securization of the international agenda following September 11<sup>th</sup>. The Maastricht Treaty provision, establishing a second pillar (CFSP) even if “within the common institutional framework of the EU” (art 3 TEU) eventually increased the problems of coherence and consistency of external relations: on the one hand the external policies depending on the community pillar and on the other hand the political relations depending upon the intergovernmental unanimous agreement within the CFSP. What is needed is a dramatic change both in governance and in institutional provisions (Treaty reform).

The Commission Communication of 2006 on the EU external relations is a first step in the right direction, but no more than a first step. A “new generation of EU external action” needs to overcome two inconsistencies:

- a) First, what is urgent is to overcome the missing coherence between the internal side of the Lisbon strategy and its external implications
- b) second, the open lack of horizontal coherence between the three pillars of the Treaty (namely the II and III with the first one) and even between the various DG of the Commission charged of external relations (for example, during the last 6 years, at international level, we made the practical experience of the difficult balance between trade policy and Lisbon agenda. Very often the trade agenda is overwhelming and the Lisbon agenda risks to be marginal).
- c) Third, what could be improved is the lack of vertical coherence and solidarity between States external relations and EU.

The new Treaty would be the best way: however it is far and legal provision don't compensate the lack of political will and of know how neither. That's why, precisely the II semester 2007 offers a window of opportunity to make some progress among other, by avoiding the divergence of 2000 between reform of governance (Lisbon strategy) and of institutions (Nice-IGC).

While the next IGC should absolutely maintain the achievements of the Constitutional treaty of 2004 (legal personality, Minister of foreign affairs, strengthened provision regarding “solidarity clause” of member States, art 42), improvements should be implemented as the practical governance is concerned: Art 3 of TEU charges both

Commission and Council of the responsibility of implementing the coherence of external relations<sup>12</sup>. In our opinion, the Presidency of the Council and of the EU Council is allowed to foster both horizontal and vertical coherence, at least regarding relevant event and international meetings. A kind of OMC could improve the coordination of national external actions towards shared objectives.

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<sup>12</sup> Art 3 : « L’ Union veille, en particulier, à la cohérence de l’ensemble de son action extérieure dans le cadre de ses politiques en matière de relations extérieures, de sécurité , d’économie et de développement. Le Conseil et la Commission ont la responsabilité de assurer cette cohérence et coopèrent à cet effet. Ils assurent, chacun selon ses compétences, la mise en oeuvre de ces politiques ».



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# LISBON AGENDA GROUP

## Workshop on

## “The External Dimension of the Lisbon Agenda”

Synthesis Paper

Maria João Rodrigues

### 1. International convergence and the external action of the European Union

The European Union has an ambitious agenda for sustainable development comprising its economic, social and environmental dimensions, but it cannot achieve it in isolation. The implementation of **this internal agenda needs to be supported by an international movement of convergence** in the same direction, able to create a win-win game, to avoid risks of race to the bottom and to strengthen collaboration to face common global challenges.

This should be the one of the main goals of the new generation of external instruments of the action of the European Union, when defining **partnership and cooperation agreements** with Third countries. A new approach to strategic dialogue on development issues should be used to identify the agenda for these partnership agreements.

This concern should be more systematically integrated in the **new generation of the instruments of external action** of the European Union for 2007-13, which is now being redesigned according to the following proposals recently presented by the European Commission:

- a broader approach should be developed for the external action of the Union, which combines CFSP, trade and cooperation policies with the **external projection of the internal policies of the Union**. This means that the external action of the EU should also integrate the external dimension of policies such as research, environment, education and employment, COM(2006) 278.
- a new generation of the **EU cooperation programmes** is being prepared, based on the new political orientations defined by the “European Consensus”, COM(2005) 311;
- a new approach is being developed in **trade policy** in connection to the Lisbon agenda, which aims at preparing Europe for globalisation using trade combined with basic standards as a major lever for growth and more and better jobs, COM(2006) 278.

### 2. The need of a new kind of strategic dialogue

A strategic dialogue on development issues should be organised between partner countries in a globalised world in order to frame a better use of all these instruments of

external action. We are assuming that the method for this strategic dialogue will be more effective **if it reverses the traditional sequence** of many international dialogues and organises the discussion according to the following steps:

1. First, a general discussion on **common challenges** we are facing together as global partners;
2. Secondly, a general discussion on **development strategies** and on some implications for **internal policies** to meet these challenges;
3. Thirdly, a discussion on **new ways of cooperation for capacity building** in order to spread better standards;
4. Finally, a discussion on the **implications for international relationships**, mutual opening of markets, for global standards and global governance.

This process of strategic dialogue should be developed at:

- **high level**, involving top representatives of the Council and the Commission, who should meet on a regular basis, define the agenda and discuss selected topics;
- **multi-stakeholders level**, involving key stakeholders of civil society, meeting in different arrangements (workshops, conferences, fora).

Some key assumptions should underlie this dialogue:

- the dilemma between globalisation and protectionism should be overcome by an effective multilateralism combined with a strategic regionalism;
- Europe as a civilian power, should use its external policies to project its internal policies;
- in the exchange with partner countries, access to knowledge and institutional learning should play an increasing role;
- a typical example of win-win game can be created by combining mutual opening of the markets and access to knowledge on the conditions of raising standards in the environmental, social, intellectual property rights and political fields.

### **3. Preparing a strategic dialogue for sustainable development**

The organization of this strategic dialogue for sustainable development should be based on two main strands:

- Promoting a more systematic identification of all the **initiatives of international cooperation** between the EU and these partner countries in the fields covered by the Lisbon Agenda, notably:
  - science and technology
  - education and training
  - entrepreneurship and innovation
  - environment and energy
  - market integration
  - employment and social affairs
  - regional development

- Developing a strategic dialogue for sustainable development, dealing with the following kind of issues

**Key issues for a strategic dialogue.** This open list of key issues can be useful to inspire a new kind of strategic dialogue between partner countries in a globalised world.

#### DEVELOPMENT STRATEGY

- Do you have a political agenda defining a long term development strategy ?
- Which are the main challenges to be faced by this strategy ?
- What is your approach on globalisation, its challenges, its opportunities ? How should you compete in a global economy ?
- Is this development strategy combining the economic, social and environmental dimensions ?

#### KNOWLEDGE

- What is the place of knowledge, involving research, innovation and education, in this strategy ?
- What is your approach on a knowledge based society ? How can you build an inclusive knowledge society ?
- Which are your main goals in research policy ?
- Which are your main goals in innovation policy ?
- Which are your main goals in education policy ?

#### INDUSTRIAL POLICY

- Which are your main orientations in competition policy ?
- To what extent can you speak of industrial policy ?
- Which are your main competitive advantages and how can you improve them ?

#### SOCIAL POLICY

- What are your main problems of employment and what are your main priorities to cope with them ?
- What are your main problems of social exclusion and how are you dealing with them ?
- How are you building your social protection system ?
- How are you building your health system ?

#### ENVIRONMENT AND ENERGY

- What are your main problems of environment and how are you dealing with them ?
- What are your main problems of energy and how are you dealing with them ?

#### MACRO-ECONOMIC POLICY

- Which are the main goals of your macro-economic policy ?
- How is your macro-economic policy supporting your development strategy ? Are there some trade-offs ?

#### NATIONAL GOVERNANCE

- Which are the main coordination procedures in the government and public administration regarding this development strategy ?
- Which are the main mechanisms to involve civil society in its implementation ?

- What is the role of local authorities ?
- Which are the main political and financial means to implement this strategy ?

## GLOBAL GOVERNANCE

What are the implications of this development strategy for the international coordination of economic, social and environmental policies? What can be the role of WTO regarding these issues ? And the role of UNDP ? And the role of ECOSOC ?

From this European experience, we can already draw the following conclusions, which can be used in a strategic dialogue with EU partner countries:

8. We need to design and implement a new comprehensive agenda for sustainable development combining the economic, social and environmental dimensions.  
Synergies between these three dimensions should become more important than trade-offs.
9. We should neither sacrifice social conditions to competitiveness nor the other way round. In order to overcome this dilemma, we should renew both.
10. The triangle of knowledge (research, innovation and education) plays a central role in this agenda.
11. It is not enough to invest in research. It is crucial to turn knowledge into added value through innovation.  
Innovation provides a new approach for capacity building, which overcomes the protectionist approach to industrial policy.
12. Innovation is:
  - not only in processes but also in products and services
  - not only technological but also in organisation, management, skills and culture
  - not only for high-tech companies and high skilled workers but also for all companies and people
13. Entrepreneurship, taking the initiative to mobilise new resources to address new problems, should be encouraged everywhere, beginning in schools and universities, ensuring one-stop shop and seed capital for start-ups and supporting innovative companies to reach their markets.
14. The information and communication technologies provide the basic infrastructures for a knowledge society. In order to overcome the risk of digital divide, they should provide better access to all citizens in schools, health care, leisure and all the public services.
15. Social policy can become a productive factor provided that:
  - it equips people for change, to move to new jobs by providing new skills and adequate social protection
  - it increases equal opportunities

16. A sound basic and secondary education is a key factor for better life chances. Nevertheless, learning opportunities should be provided for all over their life cycle.
17. Social protection systems should be built and recalibrated to cope with the demographic change.
18. Respecting environment is not against investment and jobs creation. It can rather turn into new opportunities for investment and jobs creation.
19. Macroeconomic policies should ensure macroeconomic stability, but also a stronger focus on key investments for the future in research, innovation, education, infrastructures and social conditions.
20. Multilevel governance should be reformed for a better implementation of this agenda at local, national, regional and international levels. In all of them, we need more horizontal coordination of the relevant policies and a stronger involvement of the relevant stakeholders.
21. A cultural openness, initiative, participation and partnership are key ingredients for a successful implementation of this agenda.