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Lisbon Strategy – Closing Europe's Innovation Gap

About 200 hundred years ago, capital, in the form of machines, together with energy began to replace manpower and land as a source of wealth. It has been claimed that in the future economy, information and knowledge, will replace capital and energy.

Technology and knowledge have already become key factors of production. This is a global trend, which means that greater focus will be placed on them in all parts of the world. In order to maintain its competitiveness in this development, Europe should have ability to generate knowledge and rapidly apply skills and competence within industry, services and society as a whole.

Another important factor is mobility. Today, information moves fast from one corner of the world to another. The workforce is also becoming more movable. As a result of this, knowledge and expertise are not bound to a certain place. This means that the competitive advantage of a company could very fast be lost. In future, the main source of competitive advantage is continuous control over the innovation process combining the technological expertise with marketing and business know-how.

Several indicators show that the European Union has not been able to achieve its objective of becoming the most competitive knowledge-based economy in the world. On the other hand, individual countries like Finland, Denmark and Sweden seem to be doing very well. The Nordic countries should thus have something to give to the rest of the European Union.

The factors behind the Nordic success in international benchmarking, of which the latest was published by World Economic Forum in September, are a high level of education, great inputs into research and development (R&D), well-functioning institutions, safety and honesty, and also good economic performance. Measured even by the indicators of information society, the Nordic countries are top class in the world.

The Nordic countries, as well as many other industrialised countries of today, may, however, be in danger of stagnation. Emerging economies, such as China, India and South Korea, are rapidly entering the innovation-oriented phase. Many of the industrialised countries of today are, on the contrary, in danger of ending up in a prosperity-oriented phase, which is characterized by excessive complacency about the present level of competitiveness and standard of living.

All competitiveness comparisons are claimed to have a weakness – the fact that they are unable to predict future developments – in other words, an economy that is successful today might not necessarily be successful tomorrow.

In future competition, business success is based on enterprises' capability for innovation and for creating solutions, which bring added value to customers and which are difficult to copy by others. Being able to create a strong innovation culture and to utilize one's own unique core competences is the issue.

A report published recently reveals that the success of the Nordic countries is based on commonly shared values, and I hope that it will be the case in future, too. These values comprise, among other things, equity, trust, low hierarchy, flexibility, respect for nature and strong work ethics.

These values create the social capital on which the strengths of the Nordic countries, such as welfare products, innovations, leadership style and capability of re-organisation, can be built. An important factor of success is well-functioning institutions, such as the welfare system and labour markets.

One of the greatest strengths of Finland has been the ability to agree on strong investment in R&D. We have built institutions that have served as examples for many other countries.

The Science and Technology Policy Council of Finland is one of these. It is chaired by the Prime Minister and consists of the relevant Ministers, public R&D financing institutions and representatives of universities, research institutes and business.

The recommendations of the Council have contributed significantly to the public sector and the private sector increasing inputs into science and technology. This joint commitment has been vital for making Finland one of the leading nations with the level of 3,5% of R&D investments in relation to GDP.

At the same time we in Finland are facing new challenges. The innovation process is not producing enough in terms of economic success. The efforts are not sufficiently generated into new products, and enterprises in Finland. One of the key problems is the lack of early-stage venture capital. As a result of this the investment-flow is towards areas of the world where the financial and commercial facilities are more favourable. I believe that all countries that have invested a lot in R&D share this concern.

Looking at the EU in general I would like to emphasise the need to focus on a more rapid national implementation of the Barcelona target of 3% for R&D. The picture is however not very encouraging. I see more and more state aid being channelled into attracting industrial investment based on innovations made elsewhere. At the same time European R&D investment remains at low level.

Despite the fact that the Finnish innovation system is gaining higher and higher international reputation, it is still being blamed to be too much focused on narrow segments of technology. Innovations relating to design, business models and markets have played a minor role in it. In future, they will, however, have a more important role as sources of economic growth and competitiveness. This needs to be recognised in Finland, too.

The insufficient number of growth-oriented and innovative enterprises is a major challenge for Finland. The entrepreneurial activity and growth-orientation are not reaching the average level of the OECD countries. This depends on structural and business environment-related factors, such as culture.

The Finnish Government endeavours in many ways to improve the innovation system and remove obstacles to growth-oriented entrepreneurship. Examples of these measures include removing the bottle-necks for venture capital funding as well as supporting business-skills and internationalisation. The public business service system is also being reformed. In the field of education efforts are made in order to allow entrepreneurial subjects to be included in various degrees.

Moreover, there is still a lot to be done in Finland for exploiting new technology in business activities and elsewhere in society. The possibilities provided by the information and communications technology (ICT) to develop services, to improve productivity and to increase global communication have been exploited only to a minimum, so far.

The service sector accounts for 70 percent of the total employment, which has a great effect on the productivity of the economy. In Finland, industry's share of production is one of the biggest in Europe, but also with us the share of the service sector is close to 70%.

It is foreseeable that the industry's share of production will be reduced even further. For a country like Finland this means that the service sector should improve its productivity very radically. The present level of productivity is about the average of the EU15, which is not enough in the international comparison. This is true of both the private and the public service sector.

Finland is one of the leading nations in the world as a producer of ICT, but as concerns the exploitation of ICT in business, and in particular in services, we are only around the average.

It is important to note that the main tools for promoting services are the same as above. We are taking currently measures to gear R&D and innovation activities as well as measures supporting entrepreneurship in particular to services.

I believe that the success the service sector determines to a large extent how well Finland, and Europe as a whole, is going to manage on the way towards a knowledge-based economy.

The Lisbon Strategy was a couple of years ago considered to be the buzzword. Just mentioning it aloud was thought to turn Europe into the most competitive knowledge-based area in the world. Everything looked good on paper.

We have now quite rightly re-focused the Strategy and emphasis is put on implementation. National Reform Programmes are being drawn up. Again things look good on paper.

I must say that I am a bit worried, if I, for example, look at what is happening with one of the major reforms proposed - the Services Directive. The fact that this proposal is stuck in the European Parliament and in some Member States is not very promising.

Even if we in Finland accept that the proposal needs to be revised in details, we are strongly for opening up the services market in line with the original proposal. Only a strong Directive can bring about the badly needed efficiency and productivity to the service sector. - The Services Directive is the real-life test of the renewed Lisbon Strategy.

Ladies and Gentlemen,

In my address, I have described the long way towards a knowledge-based economy. What we absolutely need, in my opinion, is a common vision that could serve as a basis for tackling the present problems in maintaining our competitiveness, at both national and EU level.