



## FULFILLING THE GOALS OF EUROPE 2020 STRATEGY IN THE CONTEXT OF COMPETITIVENESS GROWTH

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**Abstract:** Competitive economy is the economy that is able to create a high and sustainable level of living standards, enabling all the members of society to contribute and to benefit from the level reached in prosperity. In the context of competitiveness analysis on a global level, The World Economic Forum has been studying Europe's competitiveness for more than three decades. Over the years, the WEF has carried out a number of Europe-specific competitiveness reports covering Member States and enlargement countries that assess overall Europe's progress in accomplishing its competitiveness agenda. The recent WEF publication: "The Europe 2020 Competitiveness Report: Building a More Competitive Europe"(2012) has focused attention upon creation of The Europe 2020 Competitiveness index following proposed development goals from new European competitiveness agenda adopted in 2010. This paper provides an analysis and evaluation of the approach taken by the WEF in measuring level of competitiveness of the EU, its Member States and selected enlargement countries. All countries of the region, including Montenegro, by fulfilling the overall institutional conditions for EU accession, especially economic criteria of readiness for membership, i.e. dealing with competition coming from the large market - are required to define the vision of socio-economic development, its development directions through which they would harmonize with the framework Europe 2020 strategy.

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## **1. Introduction**

High level of the EU economic prosperity cannot be sustained without high level of competitiveness. Therefore, defining a comprehensive reform agenda that identifies key measures to address the main competitiveness weaknesses of the EU is needed. The recent World Economic Forum publication: "The Europe 2020 Competitiveness Report: Building a More Competitive Europe"(2013) has focused on creation of The Europe 2020 Competitiveness index following proposed development goals from ten-year growth strategy – The Europe 2020 adopted in 2010. Following the well-established methodology the Forum uses to analyse and measure competitiveness, this Report researches and monitors to what extent the EU is making progress to achieve the competitiveness goals set in its "Europe 2020" Strategy to achieve "smart, sustainable and inclusive growth". Therefore, this paper provides an analysis and evaluation of the approach taken by the WEF in measuring level of competitiveness of the EU, its Member States and selected enlargement countries. The aim of this paper is to look more closely to the Europe 2020 strategic goals, priorities and initiatives in Section 2, the WEF report on the Europe 2020 competitiveness index in Section 3 and Montenegro development direction 2013 – 2016 in Section 4 as case of a national development strategy. Section 5 provides concluding comments.

## **2. Europe 2020 as Development Strategy for the EU Member States and Countries of Enlargement**

The European Commission in March 2010 prepared and the Council in June 2010 adopted the European Union's ten-year growth strategy – Europe 2020. It is a development vision of the EU, which also should be a strategic framework for the next decade development of a potential candidate and candidate countries for the EU membership. Therefore, the development framework of the EU and its Member States at the same time is a development framework of Montenegro and other Western Balkans countries (Đurović 2012, 277).

Europe 2020 sets out a vision of Europe's social market economy for the 21<sup>st</sup> century that will deliver high levels of employment, productivity and social cohesion. Europe 2020 defined three priorities, five goals and seven initiatives for the next decade focused on long-term growth of the Union's competitiveness. Three mutually reinforcing priorities to deliver comprehensive growth are the following: a) smart growth as development of an economy based on knowledge and innovation (more effective investments in education, research and innovation); b) sustainable growth as promotion of a more resource efficient, greener and more competitive economy (towards so-called low carbon economy); and c) inclusive growth as fostering of a high employment economy delivering economic, social and territorial cohesion (job

creation and poverty reduction). In order to measure progress in meeting the Europe 2020 goals, the document is focused on five ambitious **headline targets** agreed for the whole EU and each Member State in the areas of employment, innovation, education, poverty reduction and climate/energy:

1. The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%, including the greater involvement of women, older workers and the better integration of migrants in the work force (this indicator for US and Japan is over 70%);
2. 3% of the EU's GDP should be invested in R&D with focus on improvement of conditions for private R&D investment and development of an indicator which would reflect R&D and innovation intensity (R&D spending in Europe is below 2%, compared to 2.6% in the US and 3.4% in Japan, mainly as a result of lower levels of private investment);
3. Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30%, if the conditions are right; increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency (so-called "20/20/20" climate/energy targets);
4. A target on educational attainment which tackles the problem of early school leavers by reducing the drop out rate to 10% from the current 15%, whilst increasing the share of the population aged 30-34 having completed tertiary education from 31% to at least 40% in 2020 (this indicator in US is 40% and over 50% in Japan);
5. The number of Europeans living below the national poverty lines should be reduced by 25%, lifting over 20 million people out of poverty (80 million people were at risk of poverty prior to the crisis, 19 million of them are children; 8% of people in work do not earn enough to make it above the poverty threshold); related to this indicator, unemployed people are particularly exposed including problems with fast-growing youth unemployment (Europe 2020, 2010, pp. 8-10);

Above-mentioned set of the EU-level targets is translated into **national targets** in each EU country, reflecting different situations and circumstances. Despite disparities in levels of development and standards of living, the Commission considers that the proposed targets are relevant to all Member States, old and newer alike, so that each Member State can check its own progress towards these goals. Achieving the EU-level targets through proposed national targets is the common goal, which has to be pursued through a mix of national and EU action. Finally, the strategy includes seven "**flagship initiatives**" providing a framework through which the EU and national authorities mutually reinforce their efforts in areas supporting the Europe 2020 priorities such as innovation, the digital economy, employment, youth, industrial policy, poverty, and resource efficiency.

**Table 1 Europe 2020: An Overview of Priorities and Initiatives**

<b>SMART GROWTH</b>	<b>SUSTAINABLE GROWTH</b>	<b>INCLUSIVE GROWTH</b>
<p><b>INNOVATION</b> EU flagship initiative "<b>Innovation Union</b>" to improve framework conditions and access to finance for research and innovation to strengthen the innovation chain and boost levels of investment throughout the Union</p>	<p><b>CLIMATE, ENERGY AND MOBILITY</b> EU flagship initiative "<b>Resource efficient Europe</b>" to help decouple economic growth from the use of resources, by decarbonising our economy, increasing the use of renewable sources, modernizing our transport sector and promoting energy efficiency.</p>	<p><b>EMPLOYMENT AND SKILLS</b> EU flagship initiative "<b>An agenda for new skills and jobs</b>" to modernise labour markets by facilitating labour mobility and the development of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand.</p>
<p><b>EDUCATION</b> EU flagship initiative "<b>Youth on the move</b>" to enhance the performance of education systems and to reinforce the international attractiveness of Europe's higher education</p>	<p><b>COMPETITIVENESS</b> EU flagship initiative "<b>An industrial policy for the globalization era</b>" to improve the business environment, especially for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.</p>	<p><b>FIGHTING POVERTY</b> EU flagship initiative "<b>European platform against poverty</b>" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.</p>
<p><b>DIGITAL SOCIETY</b> EU flagship initiative "<b>A digital agenda for Europe</b>" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.</p>		

Source: Europe 2020, EC, 2010, p. 30.

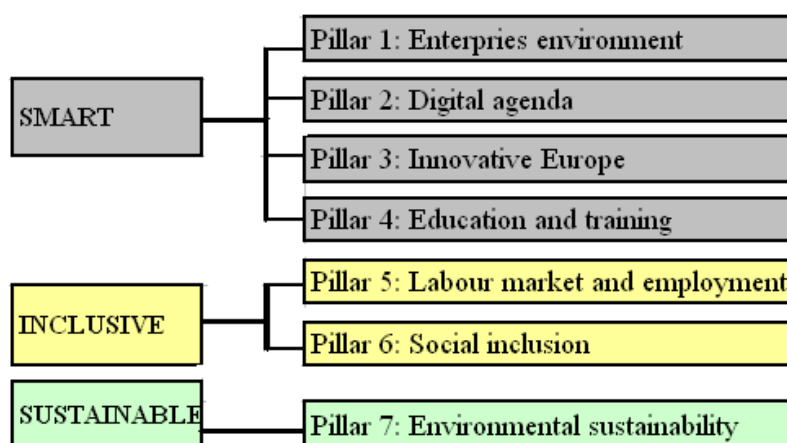
### 3. WEF's Europe 2020 Competitiveness Report

Further analysis related to the Europe 2020 strategy implementation leads us to the analysis of the EU competitiveness, i.e. competitiveness of the EU member states including candidate countries from group of the so-called enlargement countries (Milović 2012, 237). Recently published analysis of the World Economic Forum: "The Europe 2020 Competitiveness Report: Building a More Competitive Europe" (hereinafter WEF Competitiveness report) is the first in a series that will assess Europe's competitiveness progress based on the Europe 2020 Strategy every two years until the end of the present decade. The goal of this Report is to provide a platform for ongoing dialogue between business, civil society, governments and European institutions in the areas requiring attention in order to improve Europe's competitiveness. The aim is to

encourage positive policy reform and the necessary investments required to further Europe's economic and social progress. In the following part of this paper, we will present main findings and recommendation from this analysis, including estimation of Europe 2020 Competitiveness Index.

According to WEF Competitiveness report, the seven key dimensions of the Europe 2020 Strategy, described above as flagship initiatives, with some adjustments for presentational purposes, can be presented in a seven-pillar framework, as follows in the figure below.

**Figure 1 "Europe 2020" Competitiveness Report Framework**



Source: WEF Competitiveness report 2012

Each pillar is populated by a number of variables that helps measure Europe's progress along this key dimension. Combined, these seven pillars create the Europe 2020 Competitiveness Index. The Index is organized around three sub-indexes that monitor Europe's progress towards becoming an increasingly (1) smart, (2) inclusive, and (3) sustainable economy. Each of these sub-indexes is composed of a number of pillars that reflect the spirit of the seven flagship initiatives (WEF Competitiveness report, 2012, p. 9).

### Smart Europe

The Smart Europe sub-index aims to measure the extent to which European countries are developing economies based on knowledge and innovation. It is made up of four pillars that capture various aspects of Europe's ability to develop smart economies: the enterprise environment, digital agenda, innovative Europe and education and training. Each is described below.

***Pillar 1: Enterprise environment*** - A prerequisite for improving the prospects of growth and employment in the EU is improving the overall enterprise environment. Critical to achieving this goal is enhancing competition through channels such as effective antitrust policy and appropriate regulation. Another key objective is to stimulate entrepreneurship and facilitate business creation by improving the business start-up environment. This can be achieved by reducing the administrative impediments to doing business in the EU and reducing burdensome taxes, as well as by making it cheaper and easier to start a business and ensuring access to capital for new and growing businesses. The EU has taken an important step in this area by making it possible to start a business within a week in most EU countries, and facilitating the process through a one-stop shop. Yet, the enterprise environments vary greatly across member countries and much remains to be achieved in this area.

***Pillar 2: Digital agenda*** - This dimension measures the extent to which an economy has harnessed information and communication technologies (ICT) to share knowledge, and enhance the productivity of its industries. ICT has evolved into the “general purpose technology” of our time, given the critical spill-over to other economic sectors, their capacity to transform business practices and economic activities, and their role as efficient infrastructure for commercial transactions. Countries with companies that aggressively integrate these new technologies into their production processes tend to see better productivity improvements than others. Further, countries with governments that strongly prioritize the adoption of ICTs have often leapfrogged in this direction. To create a true information society that ensures maximum productivity gains from ICT adoption, all stakeholders in the economy (individuals, businesses and governments) must use these tools. This dimension of the Europe 2020 Strategy offers an excellent opportunity for exchange in information and experience between the strong and weaker performers.

***Pillar 3: Innovative Europe*** - Innovation is critical, especially for those countries that have moved very close to the technology frontier, as is the case of most EU economies. As well as making maximum use of existing technologies, as discussed in the pillar above, these countries must have the necessary framework to ensure that they are at the forefront of innovation. Firms in these countries must design and develop cutting-edge products and processes to maintain a competitive edge. This progression requires an environment that is conducive to innovative activity, supported by both the public and the private sectors. In particular, it entails sufficient investment in research and development (R&D), especially by the private sector; the presence of high-quality scientific research institutions; extensive collaboration in research between universities and industry; and sophisticated business practices. In light of the recent sluggish recovery and rising fiscal pressures faced by advanced economies, it is important that public and private sectors resist pressures to cut

back on the R&D spending and other innovation-driven activities that will be so critical for sustainable growth going into the future.

***Pillar 4: Education and training*** - Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products. In particular, today's globalizing economy requires countries to nurture pools of well-educated workers who are able to adapt rapidly to their changing environment and the evolving needs of the production system. This pillar measures secondary and tertiary enrolment rates as well as the quality of education provided. The extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training—which is neglected in many economies—to ensuring a constant upgrading of worker skills.

While the Report portrays the results for these four dimensions separately for presentational purposes, it has to be noted that they are closely interconnected. The capacity of an economy to shift towards more knowledge intensive, higher value added activities, will depend on its capacity to generate new knowledge through better performing innovation and educational systems and the effective use of technologies, including ICT, as much as on the business conditions that facilitate or hinder the ability to bring this new knowledge into the market in a timely and effective manner.

## **Inclusive Europe**

The Inclusive Europe sub-index captures the extent to which every member of society can contribute to and benefit from Europe's growth and development. This is captured through two pillars, one measuring the labour market and employment conditions, and the second measuring social inclusion more generally.

***Pillar 5: Labour market and employment*** - This pillar gauges the capacity of an economy to mobilize all human resources to contribute to the economic growth of a society. The efficiency and flexibility of the labour market are critical to ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs. Labour markets must therefore have the flexibility to shift workers from one economic activity to another rapidly and at low cost, and to allow for wage fluctuations without much social disruption. The importance of the latter has been dramatically highlighted by the recent events in some southern European countries, where rigid labour markets are an important cause of high youth and long-term unemployment, the root cause of the recent unrest. Efficient labour markets must also ensure a clear relationship between worker incentives and their efforts to promote meritocracy in the workplace, and they must provide gender equality in the business environment.

***Pillar 6: Social inclusion*** - This pillar aims to capture the extent to which all members of society have the opportunity to benefit from economic growth in their country. This is critical because higher median disposable incomes create demand and savings pools for investment, and inclusive societies, which allow opportunities for all, will tend to be more stable and thus more conducive to economic activity and prosperity. It is measured here by the extent of inequality in the economy as reflected by the Gini coefficient, the government's efforts to reduce poverty and inequality, including the existence of effective social safety net protection, as well as access to healthcare services within the country. Largely, this sub-index reflects the capacity of an economy to provide security of employment rather than security of jobs and is closely associated with the concept of "flexicurity" that several Nordic countries have been successfully promoting in the past years.

## **Sustainable Europe**

The sustainable Europe sub-index is made up of just one pillar, measuring the extent to which the natural environment is contributing to overall national competitiveness and the preservation of a pollution-free environment.

***Pillar 7: Environmental sustainability*** - A high quality and well-managed physical environment, through a variety of channels, is important for competitiveness. The efficient use of energy and other resources lowers costs and directly boosts productivity by virtue of making better use of inputs. Further, a high-quality natural environment supports a healthy workforce, avoiding the illness and lower human capital productivity that can be brought about by pollution and other environmental degradation. Finally, related to the last point, environmental degradation can also directly reduce the productivity of sectors such as agriculture, which in turn lowers output and potentially the ability for a country to meet the food needs of the population. In the index this dimension is assessed by taking into account the share of renewable energy consumption, the enforcement of environmental legislation, the ratification of international environmental treaties and the quality of the natural environment, including through the level of air pollution as measured through CO2 intensity and PM25 emissions (WEF Competitiveness report, 2012, pp. 7-9).

### ***3.1. Europe 2020 Competitiveness index: Member States and Comparator Countries***

The assessment of Europe's competitiveness is based on publicly available hard data from respected institutions (The World Bank, UN, ITU, ILO, etc.) and data ranged from 1 to 7 from the World Economic Forum's Executive Opinion Survey, EOS (survey of business leaders, conducted annually in over 140



countries, that provides data for a variety of qualitative issues). The overall scores for each country are calculated as non-weighted average of the individual scores in the seven pillars (65 individual components divided in 7 pillars). Each pillar has the same weight (1/7). The scores are calculated for 2010 and 2012. Considering the fact that the Europe 2020 is defined as a new competitiveness strategy, calculation of the Europe 2020 competitiveness index represents continuation of measuring competitiveness after the Lisbon strategy (Lisbon Review series). Therefore, this index has become very important analytical instrument for measuring of competitiveness and defining economic policy measures at the EU and national level.

Performances of EU 27 according to the Europe 2020 Competitiveness Index are compared among each other to assess which countries are leading in achieving the goals, and which are trailing behind. EU 27 is also compared with other advanced economies such as US, Japan and Canada, and large emerging economies, i.e. Brazil, The Russian Federation, India and China (BRICs). In addition, Croatia as candidate country in 2012 (today 28th EU member), such as Montenegro, FYROM, Iceland, Turkey and Serbia are involved in analysis and calculation of the Europe 2020 Competitiveness Index. It is important for these countries to measure and compare their level of competitiveness as they may become full members at some point (by the end of this decade in optimistic scenario) and must then abide to the EU's overall goals.

Calculation of the Europe 2020 Competitiveness Index for 2010 and 2012 is presented below. All the scores are presented on a scale from one to seven, where higher values indicate stronger performance. According to calculated scores, the EU is not a homogeneous entity in terms of competitiveness. The fact is that while some European economies are among the most competitive in the world, the weaker performance of others is negatively affecting the bloc as a whole. If global market confidence in Europe is to return, then top priority must be given to supporting the weaker performers through their reform and investment programmes.

Calculated differences in competitiveness performance across Member states divide them in four groups: a) Nordic Europe (SE, FI, DK), b) Western Europe and Estonia (NL, AT, DE, UK, LU, BE, FR, EE, IE), c) Southern and Eastern Europe (SI, PT, ES, CZ, ZY, MT, LV, LT, IT, SK, PL, HU), and d) Southeast Europe (EL, RO, BG). The Nordic countries hold the top three place in the index, with Sweden market first, maintaining the lead also held in 2010. Score of five countries is slightly improved in 2012 (AT, EE, PT, ES, and LV).

With an average value of 4,94 on the Competitiveness Index (also slightly improved in 2012), the EU fares better than BRICs (3,95), almost the same as US (4,95), although it performs not that well as Japan (5,04) and especially Canada (5,22). At the same time, Sweden holds the first place in total calculation, in comparison with mentioned advanced economies (CA, US, JP) and BRICs.

**Table 2 Europe 2020 Competitiveness Index: Ranking and Scores of the EU Member States 2010-2012**

Country	Code	2012		2010		Change
		Rank 2010	Score	Rank 2010	Score	
Sweden	SE	1	5.77	1	5.77	→
Finland	FI	2	5.71	2	5.61	→
Denmark	DK	3	5.60	3	5.52	→
Nederland	NL	4	5.46	4	5.34	→
Austria	AT	5	5.33	6	5.25	↑
Germany	DE	6	5.28	5	5.25	↓
Great Britain	GB	7	5.23	7	5.10	→
Luxembourg	LU	8	5.13	8	5.05	→
Belgium	BE	9	5.04	9	5.02	→
France	FR	10	4.98	10	5.00	→
Estonia	EE	11	4.74	13	4.67	↑
Ireland	IE	12	4.66	11	4.71	↓
Slovenia	SI	13	4.59	12	4.69	↓
Portugal	PT	14	4.59	15	4.52	↑
Spain	ES	15	4.52	16	4.50	↑
Czech Republic	CZ	16	4.49	14	4.54	↓
Cyprus	CY	17	4.40	17	4.47	→
Malta	MT	18	4.39	18	4.38	→
Latvia	LV	19	4.36	21	4.20	↑
Lithuania	LT	20	4.31	20	4.22	→
Italy	IT	21	4.30	19	4.23	↓
Slovakia	SK	22	4.13	22	4.17	→
Poland	PL	23	4.08	23	4.06	→
Hungary	HU	24	4.06	24	4.04	→
Greece	EL	25	3.95	25	3.92	→
Romania	RO	26	3.79	26	3.84	→
Bulgaria	BG	27	3.76	27	3.79	→
	<b>EU</b>	<b>4.94</b>		<b>4.88</b>		<b>↑</b>

Source: WEF Competitiveness report 2012, p. 12.

### **3.2. Europe 2020 Competitiveness Index: Acceding Country Croatia and Candidate Countries (IS, ME, MK, RS, TR)**

Are the acceding country Croatia (member since 1 July 2013) and other candidate countries getting ready to join the Union in terms of competitiveness? Answer on this question is presented in the following analysis and table below.

**Table 3 Europe 2020 Competitiveness Index: Ranking of Croatia and Other Candidate Countries 2010-2012**

Country	Code	2012 Score	2010 Score	Change
Iceland	IS	5.34	5.38	↓
Montenegro	ME	4.39	4.24	↑
Croatia	HR	4.01	4.01	→
Turkey	TR	3,75	3.63	↑
Macedonia, FYR	MK	3.60	3.67	↑
Serbia	RS	3.53	3.48	↑
<b>EU 27</b>	<b>EU</b>	<b>4.94</b>	<b>4.88</b>	↑

Source: WEF Competitiveness report 2012, p. 12.

According to WEF Europe 2020 Competitiveness index, Croatia and mentioned candidate countries, with the exception of Iceland (above EU average level of competitiveness), mostly depict a competitiveness profile that is similar to that of the least competitive countries in Europe. However, the competitiveness profile of each of these countries is quite different. Excluding Iceland, we can notice a significant leg in all observed areas, i.e. seven pillars of competitiveness as it is presented in the following table.

**Table 4 The Europe 2020 Competitiveness Index: Seven Pillars of Competitiveness in 2012**

Country / score per pillars	Enterprise Environment	Digital Agenda	Innovative Europe	Education and Training	Labour Market and Employment	Social Inclusion	Environmental Sustainability
Croatia	3.30	4.72	3.14	4.27	3.55	4.24	4.83
Iceland	3.82	5.31	5.43	5.56	5.54	5.55	6.15
FYRoM	3.70	4.17	2.72	3.84	3.98	3.36	3.47
<b>Montenegro</b>	<b>3.95</b>	<b>4.74</b>	<b>3.62</b>	<b>4.37</b>	<b>4.67</b>	<b>4.79</b>	<b>4.60</b>
Serbia	3.12	4.10	2.79	3.81	3.53	3.85	3.49
Turkey	3.90	4.27	3.29	4.01	3.42	4.01	3.32
<b>EU-27</b>	<b>4.26</b>	<b>5.44</b>	<b>4.90</b>	<b>5.30</b>	<b>4.33</b>	<b>5.43</b>	<b>4.90</b>

Source: WEF Competitiveness report 2012, pp. 13-15.

The competitiveness profile of each of these countries is shortly described below.

An official candidate country since 2010, **Iceland** distinguishes itself from the other candidate countries through its membership in the European Economic Area, through which the country has been participating in the European single market since 1994. As a result, a large number of community laws have already been incorporated into the country's legislation. The score of Iceland for 2012 is **5.34**. Since the official start of the negotiation meetings in June 2011, 27 chapters of the EU *Acquis* have been opened, out of which 11 are officially closed (Iceland, EC, 2012). In spite of excellent European integration dynamic, Iceland decided in June 2013 to slow down accession negotiation with the EU. The new euro-sceptic government in Iceland has announced a halt to the country's EU accession talks, until Icelanders vote in a referendum within the next four years on whether they want membership negotiations to continue (Iceland, 2013).

In a customs union with the EU since 1995, **Turkey** holds strong trade ties with the EU: half of its trade takes place with the EU and there is already some alignment with EU policies, especially in areas of competition and intellectual property law. Since the beginning of the accession negotiations in October 2005, 12 chapters have been opened, including those on company law, enterprise and industry, and one – Science and Research has been closed. In terms of the Europe 2020 strategy, the score for Turkey in 2012 is **3.75**. Turkey performs close to the EU average in the area of enterprise environment, driven by intense local competition and low barriers to the creation of new businesses, as evidenced by a low number of procedures and limited amount of time it takes to start a business. The country has also experienced a notable improvement in its digital agenda since 2010, driven by increased government prioritization of ICT as further reflected in its progress in the use of government online services since 2010. However, important steps remain to be taken to catch up with the EU average. Turkey needs to build its human resource base by advancing its education and training system as well as improving its labour market efficiency and raising opportunities for its citizens to participate in the labour market, particularly for women and youth. In parallel, additional efforts with regard to environmental sustainability are critical, particularly the ratification of environmental treaties as well as lowering its CO<sub>2</sub> emissions and improving its air quality in order to converge to the EU average (WEF Competitiveness report, 2012, p. 28).

**Croatia** is the 28th member state since 1 July 2013 after six years of negotiations. The score of Croatia in 2012 is **4.01** (the same as in 2010). While the country's performance is close to the EU average in terms of environmental sustainability, it faces many challenges to strengthen its competitive environment and to converge towards the EU along all other pillars. This holds particularly true for the smart Europe sub-index. Increased competition is particularly hampered by a weak enterprise environment that is characterized by difficulties in obtaining finance and weak competition in the local market. The private sector considers cumbersome government regulation and an inefficient tax system and

labour market as among the many impediments, indicative of the myriad reform efforts that will be needed to increase Croatia's competitiveness. The education and training system will also require reforms in order to develop the country's human resources base. As well as addressing inefficiencies in the labour market, as evidenced by the high level of youth unemployment and low overall participation rate, Croatia must work towards improving its overall accessibility to healthcare services and ramp up its social safety net in order to achieve not only smart, but also inclusive growth (WEF Competitiveness report, 2012, p. 29).

**Montenegro** has been a candidate country since December 2010. Since the negotiations were open in June 2012, two chapters of the EU Acquis, related to science and research, and education and culture, have been opened and temporarily closed (Montenegro, EC, 2013). In terms of its performance along the Europe 2020 Competitiveness Index, Montenegro performs on par with Malta and Cyprus and ahead of most members of the EU12 with score of **4,39** in 2012. Its economy is characterized by an enterprise environment almost at par with the EU average and well ahead of other candidate countries, fostered by few administrative procedures and little time required to start a business. The country has also advanced its digital agenda, along all sub-dimensions compared with 2010, and has performed slightly above the EU average in the labour market and employment pillar. Going forward, further steps towards building its knowledge-base economy would be needed, including improvements captured by the "innovative Europe" pillar, where it registers the largest difference to the EU average, as well as the education and training pillar (WEF Competitiveness report, 2012, p. 29). EU financial assistance achieved 1, 1% of GDP at annual level and focused mostly on institutional capacity and co-financing of some infrastructural projects in environment and transport (Đurović, Jaćimović, 2012, pp. 122-123).

**Serbia** is the most recent candidate country as of March 2010. On 28 June 2013, the European Council endorsed the Council's conclusions and recommendations of 25 June 2013 and decided to open accession negotiations with Serbia. The first intergovernmental conference will be held in January 2014, at the very latest. Prior to this, the negotiation framework will be adopted by the Council, and confirmed by the European Council at its usual session on enlargement (The European Council conclusions, 2013, p. 12). Related to increase its competitiveness, significant efforts along all pillars of the Europe 2020 Competitiveness Index will be needed. Serbia scores lower than its neighbouring peers (**3.53**), including the member states of Bulgaria and Romania, in all areas captured by the index. While the country made notable improvements in its digital agenda compared to 2010, raising its performance to a level comparable to those of Bulgaria and Romania, comprehensive reform efforts are required to improve the enterprise environment and education and training as a basis for smarter growth. Nonetheless, a first priority will be to build the institutional capacity in the country, an area to which the largest part

of EU financial aid is being allocated. Considerable room for improvement also remains along the “inclusive Europe” dimension in view of severe rigidities in the labour market (characterized by a mismatch between productivity and pay, weak labour-employer relations and a high youth unemployment rate) as well as within the environmental sustainability pillar.

For **Macedonia**, FYR, a candidate country since 2005, accession negotiations have yet to be opened. Similar to its neighbouring peers, the country’s most imminent challenge will be to advance its institutional capacity as a basis towards a knowledge-based economy. The country achieves scores similar to its candidate peers for its enterprise environment, where the private sector has seen slight improvements in obtaining financial resources since 2010. Improvements in ICT infrastructure, such as mobile phones and Internet bandwidth and use, have helped the country advance its digital agenda. However, Macedonia faces multiple challenges in the areas of education and training, innovation and environmental sustainability. It is also notable that Macedonia registered deterioration along the inclusive Europe sub-index, driven by a dramatic rise in youth unemployment and the business sector perceiving a worsening in labour-employer relations and pay and productivity alignment since 2010 (WEF Competitiveness report, 2012, p. 29).

#### **4. Montenegro Development Direction 2013-2016 as a Response to the Europe 2020 Strategy**

Montenegrin government prepared, in March 2013, and following the Europe 2020 Strategy, Montenegro Development Directions (MDD). As an EU membership candidate country, Montenegro is to establish a vision of socio-economic development, including specific required investments and development measures for their implementation. The Development directions together with specific projects and financial structure will be the base for programme budgeting and establishing of a direct connection between the funds and development priorities. It will enable efficient use of IPA funds in the mentioned period. An overview of main goals, priorities and directions of MDD is given in the following table.

In view of increasing employment and competitiveness of a national economy, it is necessary to resort to structural reforms, observe fiscal responsibility principles and enhance business environment. Only this can create the assumptions for increase of potential growth rates and ensure good life quality for all its citizens. Following the concept of the Europe 2020 Strategy, the MDD is structured in three directions: smart growth, sustainable growth and inclusive growth. The principles of the three growth directions in the Europe 2020 Strategy were the guidelines for selection of development investments and measures of Montenegro in the coming four-year period.

**Table 5 Montenegro Development Directions 2013-2016: An Overview**

<b>MDD Objectives</b>	<ol style="list-style-type: none"> <li>Detailed assessment of the existing economic, social and environmental situation in Montenegro in the context of the strategy of EU development and specificity of Montenegro;</li> <li>Formulation of strategic and operational development objectives;</li> <li>Identification of key policy areas for accomplishment of strategic objectives;</li> <li>Creation of a consistent matrix of measures and investments within financial possibilities harmonized with macroeconomic and fiscal scenarios.</li> </ol>		
<b>MDD Contribution to Economic Performance</b>	<ol style="list-style-type: none"> <li>Recovery of economic growth above the potential growth rate, i.e. the real growth of GDP by 3-4%;</li> <li>Decrease in public finance deficit and achievement of balanced budget by 2016; and</li> <li>Decrease in the share of informal economy.</li> </ol>		
<b>MDD are Basically Grounded on</b>	<ul style="list-style-type: none"> <li>The concept of “green economy“</li> <li>Four development priorities (priority development sectors) with relevant sectoral strategies, and</li> <li>Macroeconomic and fiscal framework 2013-2016</li> </ul>		
<b>PRIORITY DEVELOPMENT SECTORS</b>			
1. Tourism	2. Energy	3. Agriculture and Rural Development	4. Industry
<b>DEVELOPMENT DIRECTIONS</b>			
<b>Smart Growth</b>	<b>Sustainable Growth</b>		<b>Inclusive Growth</b>
Policy Areas	Policy Areas		Policy Areas
1. Business Environment	8. Agriculture, rural development		14. Labour Market
2. SMEs	9. Forestry		15. Education
3. Competitiveness	10. Energy		16. Sports
4. Science	11. Environment		17. Social Protection
5. Higher Education	12. Transport		18. Healthcare
6. Information Technologies	13. Housing and Construction		
7. Tourism			
<i>Three development directions, 18 policy areas of MDD with 72 specific and necessary investments/development measures</i>			

Within this framework, the MDD identify **18 policy areas** for investments and public sector reform. Within these policy areas, there were identified **72** specific and necessary investments/development measures. Those measures are connected to policy fields of smart, sustainable and inclusive growth in line with the Europe 2020 Strategy.

The objective of MDD is to establish a consolidated midterm investment and development plan, and thus launch the implementation of development

priorities, which would stimulate economic growth in the country. MDD financial plan is presented in the table 6.

**Table 6 Sources of Funding of Required Investments/Development Measures in the Period 2013 – 2016 (in million €)**

<b>Economic Growth Area</b>	<b>Total mil. €</b>	<b>Share in %</b>	<b>State Budget</b>	<b>Donation</b>	<b>Loans</b>	<b>EU/IPA</b>
Smart Growth	27,93	2,4	14,39	2,61	8,70	2,23
Sustainable growth	1085,69	93,2	272,0	24,18	751,	38,38
Inclusive Growth	51,09	4,4	36,60	1,14	10,00	3,35
<b>Total Investment/ Measures</b>	<b>1164,71</b>		<b>323,02</b>	<b>27,93</b>	<b>769,80</b>	<b>43,96</b>
<b>Share in %</b>	100,00		<b>27,70</b>	<b>2,40</b>	<b>66,10</b>	<b>3,80</b>

Source: Montenegro Development Directions, 2013, pp. 6-7.

Table 6 shows that nearly 93% of all required investments/development measures are identified in the area of sustainable development. Out of this, 80% of the amount of all required investments/development measures of the country is related only to two infrastructure sectors – transport and environment in the period 2013 – 2016. In the area of smart development – with the share of 2.4% of all required investments/development measures, most required investments/development measures are identified in the science sector. Identified required investments/development measures in the area of inclusive growth make 4.4% of all required investments/development measures.

The total available public funds of Montenegro for financing 1164.71 million € of investments/development measures proposed in MDD in the period 2013 – 2016 are estimated to 599.33 million €. Financial gap between the required investments in MDD and available public funds for the entire period 2013 – 2016 is estimated to 565.38 million €, which on average annual level amounts to 141.34 million € or 3.7% of average projected GDP. This means that required investments/development measures identified in the Development Directions are on the level that is more than two times higher than envisaged scope of available public funds of Montenegro in the following four-year period. In other words, financial gap actually indicates the difference between the wishes for investments/development measures and actual financial potential, and the requirement to adjust to the same. We can conclude that financial gap could be the key limiting factor for implementation of required investments/development measures in the area of sustainable growth.

## 5. Concluding Remarks

The European Union (EU) is going through one of the most difficult periods since its establishment, with multiple challenges facing the Union's policy-makers in order to make European economies more competitive on a global



scene. For **better economic governance**, the EU adopted a new development strategy (Europe 2020) for smart, sustainable and inclusive growth in next decade. Smart growth refers to innovation, digitalization and mobility of young people. Sustainable growth refers to improved efficiency of using resources and industrial policy, while inclusive growth is aimed at better employment and poverty reduction. Following the well-established methodology in analysis of competitiveness level, the WEF continue to measure the Europe 2020 development results through creation of **the Europe 2020 Competitiveness Index** for Member States and selected candidate countries including Croatia.

Based on a country-specific analyses that points out individual competitiveness strengths and weaknesses for all 27 Member States and six acceding and candidate countries in 2012, the Report finds that **large disparities** exist among Member States in terms of competitiveness, with some countries performing much better than others and well above the EU average or other advanced economies. Based on the competitiveness analysis presented in this Report, a number of considerations can be highlighted going forward:

- The EU continues to lag behind in terms of creating a **smarter economy**. Further resources should be considered for those areas that aim to bridge this gap at the European level and create important European benefit by generating intra-European spillover effects. Education and training policies, research and innovation, the three corners of the knowledge triangle, fall under this category.
- **Regional policies**, including cohesion and structural funds, aimed at reducing the disparities across Member States and regions within the European Union **should follow a competitiveness agenda** in order to ensure sustained economic convergence. More emphasis on addressing the strong knowledge lag of these countries and regions by further supporting efficient investments in education and training, research and innovation should be considered.
- **Enlargement policy** aiming to facilitate accession of selected candidate countries should also be centered around addressing their competitiveness weaknesses, including institutional build-up, thus setting their economies on a more solid footing that can better facilitate their integration. Following mentioned recommendation, candidate countries are also obliged to define their own competitiveness agenda (**national Europe 2020 strategies**) and to participate in joint monitoring organized by the Commission.

Finally, in this paper, the case of **Montenegro** is presented as a case of candidate country which is obliged to create national development strategy as national Europe 2020 strategy. Montenegro development directions 2013-2016 are created to identify development measures and investments in Montenegrin economy in mentioned period adjusted to the EU 2020 Strategy.

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## ISPUNJAVANJE CILJEVA STRATEGIJE EVROPA 2020 U KONTEKSTU RASTA KONKURENTNOSTI

**Apstrakt:** Konkurentne ekonomije su one koje su u mogućnosti da stvore visok i održiv nivo životnog standarda, dozvoljavajući svim članovima društva da doprinesu i da imaju koristi od tog dostignutog nivoa prosperiteta. U kontekstu analize konkurentnosti na globalnom nivou, Svjetski ekonomski forum istražuje konkurentnost evropskih zemalja više od tri decenije. U tom periodu WEF je sproveo više izvještaja o konkurentnosti koje se odnose na Uniju i zemlje proširenja koji su ocjenjivali sveukupni progres evropskih zemalja u ostvarivanju svoje agende konkurentnosti. Nedavna WEF publikacija "Izveštaj o konkurentnosti Evropa 2020: građenje konkurentnije Evrope (2012) fokusira se na kreiranje Indeksa konkurentnosti Evropa 2020 u skladu sa predloženim razvojnim ciljevima iz nove agende konkurentnosti Evrope definisane 2010 godine. Ovaj rad analizira i ocjenjuje pristup Svjetskog ekonomskog foruma u mjerenju nivoa konkurentnosti EU, njenih država članica i izabranih zemalja proširenja. Sve zemlje regiona, uključujući Crnu Goru, kroz ispunjavanje sveukupnih institucionalnih uslova za pristupanje EU, posebno ekonomskih kriterijuma spremnosti za članstvo u odnosu na konkurenciju koja dolazi sa velikog EU tržišta – pozvane su da definišu svoje vizije socio-ekonomskog razvoja, svoje razvojne smjernice pomoću kojih će se uskladiti sa okvirom strategije Evropa 2020.

**Ključne riječi:** Evropa 2020, Indeks konkurentnosti Evropa 2020, EU, zemlje kandidati za članstvo, Razvojne smjernice Crne Gore