WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

The Lisbon Review 2010

Towards a More Competitive Europe?

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REF: 130410

ISBN-13: 978-92-95044-82-1
ISBN-10: 92-95044-82-7

Preface

Ten years ago, Europe's leaders set an ambitious goal of becoming "the most competitive and dynamic knowledge-based economy in the world" by 2010 through a programme of policy initiatives known as the Lisbon Strategy. This included competitiveness-enhancing measures such as the creation of an information society for all, reinforcing European research and development activities, developing a business-friendly start-up environment, promoting social inclusion and enhancing sustainable development.

The recent economic crisis has underscored the importance of a competitiveness-supporting economic environment to better enable national economies to absorb shocks and ensure solid economic performance going into the future. To this end, the World Economic Forum has published The Lisbon Review every two years since the European Union first articulated the Lisbon Strategy, assessing Europe's progress towards meeting its ambitious goal. The present – and final – edition takes stock of where Europe stands in this, the deadline year.

As this Review indicates, there is much variation in performance across the EU member states, with some countries performing very well in all areas and others still lagging behind. While bringing many economic benefits, the accession of 12 new members since the middle of the decade has increased this variation. The results show that, while some progress has been made, much remains to be achieved in order to fully harness Europe's economic potential.

Europe's leaders are well aware of the need to keep up the momentum of the reform process beyond the original deadline of 2010. Therefore, the new Europe 2020 Strategy will continue to place great emphasis on improving Europe's competitiveness and delivering sustainable, inclusive growth through innovation, education and improvements to the enterprise environment.

As Europe and the world emerge from the most significant economic crisis in a half century, accelerating the reform process articulated through such strategies will be critical for ensuring that the region gets back to growth. The World Economic Forum will continue to monitor and assess Europe's progress through its ongoing competitiveness research.

I wish to thank the authors of The Lisbon Review 2010, Jennifer Blanke and Stephen Kinnock, for their energy and commitment to producing this study. Appreciation also goes to Robert Greenhill, Managing Director and Chief Business Officer at the Forum, and members of the Global Competitiveness Network and Europe and Central Asia Teams: Thomas Berglund, Carl Björkman, Ciara Browne, Sebastian Bustos, Margareta Drzeniek Hanouz, Thierry Geiger, Danil Kerimi, Irene Mia, Sandrine Perrolaz, Carissa Sahli, Pearl Samandari and Eva Trujillo Herrera.

Finally, we would like to convey our sincere gratitude to our network of Partner Institutes worldwide, without whose enthusiasm and hard work the annual administration of the Executive Opinion Survey and this Review would not be possible.

Klaus Schwab
Founder and Executive Chairman
World Economic Forum

The Lisbon Review 2010: Towards a More Competitive Europe?

By Jennifer Blanke and Stephen Kinnock, World Economic Forum

Introduction

The past decade has been an eventful one for the European Union (EU) from both a political and an economic perspective. Between 2004 and 2007, the number of member countries almost doubled from 15 to 27, prompting efforts to improve the EU's efficiency and democratic legitimacy. Following the failure to adopt a European Constitution in 2005, political reform finally materialized in the form of the recently adopted Lisbon Treaty.[1]

The economic landscape has also seen booms and busts over the decade, with Europe plunged over the past two years into the most significant global economic crisis since the Great Depression. The recent economic difficulties have highlighted the importance of the EU's "other" Lisbon effort: the Lisbon Strategy for economic reform.

The Lisbon process has been a decade-long effort. At the March 2000 European Council in Lisbon, Portugal, Europe's heads of state and government set a 10-year timeline to make the European Union "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion." The economic crisis has clearly underscored the importance of a competitiveness-supporting economic environment to better enable national economies to weather these types of shocks and to ensure solid economic performance going into the future.

The objective of the Lisbon Strategy was to improve Europe's productivity and competitiveness through various policy initiatives, building on a number of earlier goals. These included the creation of an information society for all, establishing a European area of research and development, developing a business-friendly start-up environment, completing the single market, establishing efficient and integrated financial markets, building a knowledge society, ensuring more and better jobs for Europe, modernizing social protection, promoting social inclusion and enhancing sustainable development.

The World Economic Forum has been carrying out a review of Europe's progress towards these goals every two years since the Strategy was articulated. The present study – the final one in the series – carries out three types of comparisons. First, it compares the performance of individual EU members to provide a sense of which countries are making the most progress and which are lagging behind. It also takes stock of the change in relative performances of individual countries since the last Lisbon Review in 2008 to gauge the countries' relative progress.

Second, it assesses the extent to which the 27 EU member countries are competitive vis-à-vis an international standard. The United States provides one key benchmark, as it is widely seen as among the world's most competitive, particularly with regard to market efficiency, entrepreneurship and innovation, all critical elements of the Lisbon Strategy. In addition, we compare the EU's performance with the average performance of five of the most competitive economies in East Asia – Hong Kong SAR, Japan, Republic of Korea, Singapore and Taiwan, China – a highly competitive region attracting increasing attention given the rising importance of Asia in the global economy.

Third, the study assesses the economic competitiveness of the EU candidates and potential candidate countries, providing a sense of the challenges they currently face. In addition, we take an enlarged approach, going beyond the likely future accession countries to encompass a number of countries that have adopted European Neighbourhood Policy Action Plans. Our reason for doing so is that economic development in these countries is of critical importance for the stability of the EU's greater economic neighbourhood, both on economic and security grounds.

This study differs from those that have been regularly carried out by the EU or other organizations, such as the Centre for European Reform[2] and the EU itself in that it is largely based on the results of the World Economic Forum's Executive Opinion Survey (EOS). This survey is carried out among CEOs and top executives in each of the countries under analysis. The results can therefore be interpreted in large part as the business community's perspective on European countries' relative performances in meeting the Lisbon goals. Since business leaders make many of the investment decisions in their economies, their perceptions are clearly related to the prospects for economic development and competitiveness.

Evolution of the EU's Growth Strategy

The pursuit of the Lisbon goals over the past decade has been complicated by a number of economic and political realities. To begin, the goals were formulated during a time of economic exuberance, just prior to the dot.com crash at the beginning of the decade. In this light, some of the goals as initially formulated were perhaps not entirely realistic within the initial time frame of one decade.

Second, the accession of 12 new countries since 2004, while offering many economic benefits, raised additional challenges in meeting the goals given the less advanced state of many of the more recent members. Yet, the main challenge in meeting the Lisbon goals has arguably been a lack of political action across many of the key priority areas. The apparent lack of political will to push through the necessary reforms has resulted in the Lisbon Process being perceived by many as a failure.

Indeed, already in 2005, the EU carried out a detailed midterm review of the Lisbon Process, which showed that not nearly enough progress had been made in most areas in great part due to a lack of political action and commitment at the national level. The general assessment was that the agenda had been overloaded, with poor coordination and conflicting priorities.[3] This led the Commission and the European Council to streamline the Lisbon Strategy in the spring of 2005 to focus specifically on those elements that increase growth and jobs, relaunching the process as the "Partnership for Growth and Jobs"[4] with the social and environmental aspects seen as longer- term goals.[5]

Further, member states would need to become more involved in the Strategy to ensure ownership of the project at the level at which many of the reforms would need to take place, based on three-year cycles.[6] Related to this point, they also stressed the importance of communicating better with the EU's citizens to galvanize popular support for the reform process. This process has become known as Lisbon II.[7]

Having arrived at the 10-year deadline at the beginning of 2010, the Commission carried out its own assessment of the overall successes and failures of the Lisbon Strategy. Since the goal has been to enhance growth and jobs, the Commission noted that it is a difficult moment to assess the Strategy given the effects of the economic cycle and, specifically, the present economic crisis.

The report therefore noted that any assessment would need to also consider whether the Lisbon Strategy had a positive impact on "the pace and quality of reforms at national and European level … whether the Strategy shaped reform agendas by forging greater consensus among stakeholders on challenges and policy responses."[8]

Overall, the Commission found that the Lisbon Strategy has had a positive impact on Europe despite the fact that its main targets will not be reached.[9] Specifically, it found that the Strategy helped to build a general consensus on the reforms needed in the EU in key priority areas, and that it has delivered concrete benefits for citizens and businesses, such as increased employment (before the present crisis), a less bureaucratic environment for doing business, greater choice for consumers and a more sustainable future (e.g. through lower energy intensity). More generally, the report asserted that structural reforms carried out within the context of the Lisbon Strategy have made the EU economy more resilient and better placed to weather the present economic storm.[10]

On the other hand, the Commission noted that increased employment has not always translated into reducing poverty and, indeed, the gap between the best and the worst performing countries is arguably wider in 2010 than it was in 2000. In addition, the report reiterated its concern that reforms were implemented at a "slow and uneven" pace across issue areas and member states.[11]

It also found that its effectiveness would have been improved through a stronger link between the Lisbon Strategy and other EU instruments and strategies such as the Stability and Growth Pact. Finally, in line with the 2005 assessment, the report found that communication of the Strategy has been a strong weakness, and that a greater focus on articulating the benefits of the reform programme to the general public would have reinforced the reform process.[12]

The Commission carried out this assessment in the context of preparing its growth strategy for the next decade, dubbed "Europe 2020". The idea was to identify the strengths of the Lisbon Strategy so these could be included in the new growth strategy, as well as to highlight the weaknesses that should not be repeated. Europe 2020 will focus even further on employment and environmental sustainability aspects of development. The Europe 2020 Strategy is summarized in Box 1.

Box 1: Europe 2020: Europe's New Growth Strategy

Given that the Lisbon Agenda is set to expire this year, the EU has been preparing a new 10-year growth strategy to replace it in an effort to improve the process this time around. This has been termed "Europe 2020", which seeks to enhance the delivery of growth and jobs for the next decade. At the heart of the agenda is a goal of "smart, sustainable, inclusive growth brought about through greater coordination of national and European policy."

The three priorities of the strategy are:

- Smart growth: developing an economy based on knowledge and innovation
- Sustainable growth: promoting a more resource-efficient, greener and more competitive economy
- Inclusive growth: fostering a high employment economy delivering social and territorial cohesion

Europe 2020 thus places a stronger focus on sustainability than was the case in the Lisbon Agenda, and continues to stress the development of skills and the digital economy. Specifically, it aims to promote low-carbon industries, invest in efforts to develop new products, unleash a digital economy and modernize education and training.

Within the plan, five specific targets have been proposed, as follows:

1. Increasing the employment rate to 75%
2. Boosting spending on research and development to 3% of GDP
3. Attaining the EU's "20/20/20" climate/energy targets (including an increase to 30% of emissions reduction if the conditions are right)
4. Lifting 20 million people out of poverty
5. Cutting the school dropout rate to below 10% from the current 15% and expanding the share of younger people with a university degree (from 31% to 40%)

To reinforce the ability to meet these targets, the strategy also identifies seven flagship initiatives the EU should take to boost growth and employment:

1. "Innovation union" to improve framework conditions and access to finance for research and innovation to ensure that innovative ideas can be turned into products and services that create growth and jobs
2. "Youth on the move" to enhance the performance of education systems and facilitate the entry of young people into the labour market
3. "A digital agenda for Europe" to speed up the roll-out of high-speed Internet and reap the benefits of a digital single market for households and firms
4. "Resource-efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low-carbon economy, increase the use of renewable energy sources, modernize the transport sector and promote energy efficiency
5. "An industrial policy for the globalization era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally
6. "An agenda for new skills and jobs" to modernize labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility
7. "European platform against poverty" 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

With regard to implementation, the strategy proposes that governments should agree on national targets that would take account of conditions in each country while helping the EU as a whole achieves its goals. The Commission plans to monitor progress and will issue warnings in cases of "inadequate response". By focusing on fewer areas and setting clear goals, the hope is that Europe 2020 will be more successful than the strategy of the last decade in moving Europe to a higher competitiveness level.

Source: http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/20100303_1_en.pdf

The Lisbon Agenda: Dimensions of Reform

The present analysis is based on the same methodology used in the past four editions of this study, breaking the Lisbon Strategy into eight distinct dimensions that capture the areas highlighted by Europe's leaders as critical for reaching the goal of becoming the world's most competitive economy. The eight dimensions are:[13]

1. Creating an Information Society for All

This dimension measures the extent to which an economy has harnessed information and communication technologies (ICT) for sharing knowledge and enhancing the productivity of its industries. ICT has evolved into the "general purpose technology" of our time,[14] given the critical spillovers to other economic sectors 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. In other words, to create a true information society, all stakeholders in the economy (individuals, businesses and governments) must use these tools.

Given the importance of creating an information society, the Lisbon European Council in 2000 stressed that "businesses and citizens must have access to an inexpensive, world-class communications infrastructure and a wide range of services" facilitated by a regulatory framework allowing electronic commerce and the Internet to flourish. Governments were expected to make "real efforts […] to exploit new technologies to make information as accessible as possible." In the index used in this review, this first dimension is captured by variables such as the prioritization of ICT by the government, ICT penetration rates (Internet, mobile phones), Internet usage by business and the extent to which students have Internet access in schools.[15]

This dimension of the Lisbon Agenda provides for information exchange between the strong and weak performers. The Europe 2020 Strategy offers an excellent opportunity to enable governments and companies with real strengths in this area to advise and guide those with weaker performances.

2. Developing a European Area for Innovation, Research and Development

Innovation is critical, especially for those countries that have moved very close to the technology frontier, as is the case of most EU countries. As well as making maximum use of existing technologies, as discussed in the first dimension above, these countries must have the necessary framework to ensure that they are at the forefront of innovation in products and processes.

The Lisbon Strategy includes a variety of policy measures to enhance innovation. In particular, the Council highlighted the need to "improve the environment for private research investment, R&D partnerships and high technology start-ups." Better integration and coordination, and concerted efforts for research programmes among member states were also seen as critical. Further, it was stressed that efforts should be made to retain the EU's "best brains" and to attract high-quality researchers from abroad, as well as to facilitate the mobility of researchers within the EU.[16]

In addition, the Council advocated a favourable regulatory environment including a comprehensive and inexpensive EU-wide patent system. This second Lisbon dimension is captured in the index using measures such as business investment in research and development (the EU has set a goal of 3% of GDP for R&D spending, which has been maintained in the new Europe 2020 Strategy),[17] the quality of scientific research institutions, the extent of collaboration in research between universities and industry, patenting per capita, and the protection of intellectual property and innovation stimulation through government procurement.

In this area, a root-and-branch reform of the EU's Framework Programmes would be extremely helpful. The Framework Programmes are fragmented into a proliferation of projects, making it difficult to have a strong impact. A smaller number of larger-scale projects could be more effective for meeting this particular Lisbon goal.

3. Liberalization: Completing the Single Market/State Aid and Competition Policy

The "four freedoms" protect the free movement of goods, services, capital and labour within the internal market of the European Union. This particular dimension captures aspects related to the free flow of goods and services, which is critical for the competitiveness of European industry. Although much progress has been made in completing the single market for goods, the market remains fragmented, particularly with regard to services and protected industries.

A reduction in the impediments to trade in services was proposed, which would have followed a "country of origin" principle. However, concerns raised by some countries about its impact on Europe's social model led Europe's leaders to water down the Services Directive that was ultimately adopted in December 2006, and was meant to be fully implemented by December 2009, although it has not yet been achieved in all countries.[18] Ensuring a level playing field for local and foreign investors and carrying out a proper competition policy are key elements of liberalization.

In this regard, the Council particularly recognized the importance of reducing state aid to national industries (still practiced in many EU countries, particularly large ones such as Italy and France) and of "shifting the emphasis from supporting individual companies or sectors towards tackling horizontal objectives of Community interest, such as employment, regional development, environment and training or research."

The Internal Market is generally acknowledged to be the jewel in the crown of EU policy, and Professor Mario Monti's eagerly awaited review of the internal market will provide important recommendations about the future of the single market as the cornerstone of Europe's competitiveness strategy.

4. Building Network Industries: In Telecommunications, Utilities and Transportation

Among the Lisbon Strategy's measures for improving the functioning of markets are actions aimed at liberalizing and building network industries. These industries, like services discussed above, continue to be fragmented. The telecommunications and aviation markets have been liberalized. More recently, after a 15-year process to open up the postal services sector, the third Postal Directive was passed in February 2008, placing the deadline for member states to abolish existing legal monopolies on postal services for most countries at the end of 2010, and for some countries by 2012.[19] The successful implementation of this directive will be crucial in increasing efficiency in the sector.

With regard to electricity, European consumers have in theory been able to freely choose their energy supplier following the entry into force of EU directives in 2004 and 2007, but many obstacles remain, with a single European energy market not yet a reality. Building up these industries at an EU level would promote greater efficiency and quality of service, and better support a competitive economic environment. The index separately assesses two dimensions of the EU's network industries: in telecommunications and in the area of utilities and transportation.

While policy reform and investment in infrastructure have an important part to play in this dimension, it will also be critical for European business to recognize and act on the need to restructure business models to better compete in the globalized market place.

5. Creating Efficient and Integrated Financial Services

The recent turmoil in financial markets around the globe and the ensuing economic crisis has focused particular attention on this sector. Despite recent concerns about the excessively high risk-taking of some actors, the financial sector remains critical for the proper functioning of a dynamic economy. An efficient financial sector makes capital available for business investment from such sources as credit from a sound banking sector, well-regulated securities exchanges or venture capital.

An integrated and properly regulated financial services market would reduce the cost of accessing capital and improve the allocation of capital across the EU, giving firms increased opportunities to access markets in other member states and carry out business effectively on a cross-border basis. The EU has a number of policy objectives and specific measures designed to improve the single market for financial services.

Some progress has been made across Europe, most notably within the context of the Financial Services Action Plan, which set out specific objectives for developing a single market in financial services. However, the quality of financial services continues to vary significantly across EU countries. A report by the European Central Bank looking specifically at the euro area countries found "that there is a fair amount of heterogeneity in financial system performance across euro area countries … suggest[ing] that there appears to be further scope for structural reforms of financial sectors."[20]

6. Improving the Enterprise Environment: Business Start-ups/ Regulatory Framework

Improving the prospects of growth and employment in the EU also requires improving the overall enterprise environment for budding businesses. Critical for achieving this goal is the overarching regulatory environment. For example, the Lisbon Strategy aims to stimulate entrepreneurship by reducing the administrative impediments to doing business in the EU and reducing distortionary or burdensome taxes.

Another key objective is to facilitate business creation by improving the business start-up environment, in particular by making it cheaper and easier to start a business and ensuring access to capital for new businesses. The EU has taken an important step in this area by recently 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.

7. Increasing Social Inclusion: Bringing People to the Workforce, Upgrading Skills and Modernizing Social Protection

Creating jobs and bringing more people into the workforce was one of the main tenets of the refocused Lisbon II Strategy, with the EU's target of 70% employment (compared with an EU average of 65.9% in 2008, according to Eurostat). This target has been made even more stringent in the Europe 2020 Strategy with a goal of 75% employment. With a rapidly ageing European population, this is critical for ensuring the ability to pay for growing pension liabilities. This will require high-quality formal education and on-the-job training to ensure that the population has the necessary skills to compete in the rapidly changing business environment.

The recent focus on "flexicurity" is an interesting model, with the EU learning from the Danish experience of combining labour market flexibility with generous unemployment benefits and retraining. Facilitating the ability of women and older people to remain in or re-enter the workplace by providing services such as sufficient and affordable childcare and training programmes is also vital. Finally, modernizing social protection and dealing directly with issues of social exclusion and poverty are critical to increasing social inclusion.

8. Enhancing Sustainable Development

Ensuring sustainable growth and development is a long-term Lisbon goal, which was added to the Lisbon Agenda at the Stockholm European Council in March 2001, and has taken on key importance in the new Europe 2020 Strategy. This takes account of the extent to which countries ensure that improvements in the quality of life for the present generation proceed steadily and do not come at the expense of future generations.

The goals were elaborated in the Council conclusions of June 2001, singling out four priority areas for attention: climate change, transport, public health and natural resources. The Council invited the business community "to take part in the development and wider use of new environmentally friendly technologies in sectors such as energy and transport." Efforts were to be focused both at the country level and the centralized EU level. Member governments were asked to elaborate their own sustainable development plans, while at the global level, the EU would "seek to make sustainable development an objective in bilateral development cooperation and in all international organizations and specialized agencies."[21]

In the index presented in this review, we assess this dimension by taking into account the stringency and enforcement of environmental legislation, the ratification of international environmental treaties and the actual quality of the natural environment.

The multidimensionality of the Lisbon reform programme reflects the multiple forces driving economic growth and development.

Data and Methodology

Country Coverage

At the core of the analysis are the 27 current member countries of the European Union, which are meant to be striving towards the Lisbon goals. These are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. Their performance according to the Lisbon criteria is compared among each other to assess which are the leaders in achieving the Lisbon goals, and which are the countries lagging behind.

As in past years, the United States is used as a key benchmark against which to place the performance of the EU countries in an international context, as it is considered one of the most competitive economies in the world by a variety of assessments.[22] In addition, the average performance of five very competitive East Asian economies – Japan, Hong Kong SAR, Republic of Korea, Singapore and Taiwan, China – is also included. This second comparison provides a sense of how Europe measures up to this highly dynamic and competitive region, which has been able to greatly increase its productivity and prosperity over recent decades.

As explained above, the competitiveness of non-EU Eastern European economies has also been analysed to assess how their performance compares to each other, as well as to the EU average. This analysis concerns 11 countries: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Macedonia, Montenegro, Serbia, Turkey and Ukraine.[23] For this group, we make comparisons with the EU 27 average as well as two of its components: the average of the 15 EU member countries prior to 2004, and that of the 12 countries that joined more recently.

As shown in Table 1, some of these countries are already official accession candidates for joining the European Union in the coming years, including Croatia, Macedonia and Turkey. Others are potential accession countries, such as Albania and Montenegro.[24] Still others are not scheduled to join the EU but have entered into European Neighbouring Policy Action Plans, such as Armenia and Georgia. Yet, the analysis provides valuable insights regarding the competitiveness of the large majority of the countries critical for the prosperity and sustainable security of the greater European region.

Table 1: Lisbon Review 2010 Coverage

European Union membership and relationships with selected countries

Economy	EU code	Status/ Relationships with EU	Since
EU15			
Austria	AT	Member €	1995
Belgium	BE	Member €	1952
Denmark	DK	Member	1973
Finland	FI	Member €	1995
France	FR	Member €	1952
Germany	DE	Member €	1952
Greece	EL	Member €	1981
Ireland	IE	Member €	1973
Italy	IT	Member €	1952
Luxembourg	LU	Member €	1952
Netherlands	NL	Member €	1952
Portugal	PT	Member €	1986
Spain	ES	Member €	1986
Sweden	SE	Member	1995
United Kingdom	UK	Member	1973
EU Accession 12			
Bulgaria	BG	Member	2007
Cyprus	CY	Member €	2004
Czech Republic	CZ	Member	2004
Estonia	EE	Member	2004
Hungary	HU	Member	2004
Latvia	LV	Member	2004
Lithuania	LT	Member	2004
Malta	MT	Member €	2004
Poland	PL	Member	2004
Romania	RO	Member	2007
Slovak Republic	SK	Member €	2004
Slovenia	SI	Member €	2004
Croatia		Candidate country	2004
Macedonia, FYR		Candidate country	2005
Turkey		Candidate country	1999
Albania		Potential candidate[1]	2006
Bosnia and Herzegovina		Potential candidate[1]	2008
Montenegro		Potential candidate[1]	2007
Serbia		Potential candidate[1]	2008
Armenia		ENP[2]	2006
Azerbaijan		ENP[2]	2006
Georgia		ENP[2]	2006
Ukraine		ENP[2]	2005

€ Member of the Eurozone
[1] Signed a Stabilization and Association Agreement (SAA)
[2] Adopted a European Neighbourhood Policy (ENP) Action Plan

Source: European Commission

Calculating the Lisbon Scores

The assessment of Europe's competitiveness is based on publicly available hard data from respected institutions (such as Internet penetration rates, unemployment rates, etc.) and data from the World Economic Forum's Executive Opinion Survey (EOS). The EOS is a survey of business leaders, conducted annually in over 130 countries, which provides data for a variety of qualitative issues for which hard data sources are scarce or frequently nonexistent (e.g. the quality of the educational system, the government's prioritization of information and communications technologies, etc.).

The EOS also allows us to capture the critical perspective of business leaders on the state of their operating environments on a variety of issues. Most of the hard data dates from the end of 2009, which is the most recent end-of-year data available. The EOS was carried out in the springs of 2008 and 2009.[25]

The overall Lisbon scores for each country are calculated as an unweighted average of the individual scores in the eight dimensions. We have maintained the same overall index model as in the 2008 *Lisbon Review*, which makes it possible to carry out inter-year comparisons. The scores and rankings of the countries covered by the review are extracted from a database covering a total of 133 countries. The precise structure of the index, including details on the specific hard and survey data used in making the calculations, is shown in Appendix A of this review.

Table 2: Rankings and Scores of EU Countries 2010 and 2008

Lisbon Review Index

Economy	Rank 2010	Score	Rank 2008
Sweden	1	5.83	1
Finland	2	5.72	3
Denmark	3	5.61	2
Netherlands	4	5.51	4
Luxembourg	5	5.43	7
Germany	6	5.39	6
Austria	7	5.39	5
France	8	5.22	8
United Kingdom	9	5.15	9
Belgium	10	5.15	10
Ireland	11	5.00	11
Estonia	12	4.96	12
Cyprus	13	4.83	13
Slovenia	14	4.79	15
Czech Republic	15	4.71	16
Portugal	16	4.70	14
Malta	17	4.58	18
Spain	18	4.53	17
Slovak Republic	19	4.45	20
Lithuania	20	4.39	19
Hungary	21	4.28	22
Latvia	22	4.21	21
Greece	23	4.18	23
Poland	24	4.07	26
Italy	25	4.03	24
Romania	26	3.96	25
Bulgaria	27	3.77	27
EU 27 average		4.81	
United States		5.27	
East Asia		5.28	

The Lisbon Review Rankings 2010

Performance of the EU27

Table 2 shows this year's rankings and scores of the 27 EU member countries, as well as their 2008 rankings for comparison.The scores are on a scale from one to seven, with larger values indicating stronger performance.

The Nordic countries continue to dominate the rankings, with Sweden holding the leading position for the second year in a row, followed by Finland and Denmark. Finland has displaced Denmark this year for the second-place spot. The Nordic countries have always been the top three performers in all five editions of the *Lisbon Review*, as shown in Table 3.

This stability is also seen among the top-10 performers as a whole, which have been the same since 2002, with some slight movements among the ranks.[26] Specifically, this year Luxembourg has moved up by two places to 5th, while Austria falls to 7th, with the two countries in effect swapping places. All other top-10 rankings have not changed since the 2008 edition.

Outside the top 10, among the pre-2004 accession wave countries, we see a slight weakening in the performance of the southern European countries with Portugal (down by two places) and Spain and Italy (each down by one place), placed at 16th, 18th and 25th, respectively. Indeed, among the more recent members, it is notable that the top performers such as Estonia, Cyprus, Slovenia and the Czech Republic outperform not only most other recent members, but also the southern European longer-standing members.

This year there has been a slight improvement among a number of the more recent member countries, with Slovenia, the Czech Republic, Malta, the Slovak Republic and Hungary each moving up by one rank, and Poland moving up by two ranks to 24th, notably displacing Italy in the overall ranking. On the other hand, Lithuania, Latvia and Romania see a slight weakening, each going down by one rank since 2008.

More generally, the table shows a wide disparity in performances across the 27 member countries, with scores ranging from 3.77 out of a maximum of 7 for Bulgaria, up to 5.83 for Sweden.

Figure 1: Score Dispersion among EU Countries

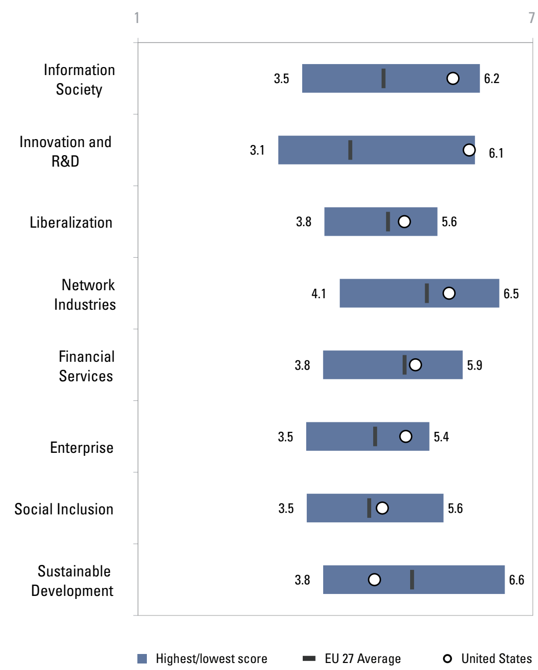

Table 3: Historical Top 10 in the Lisbon Review (2002-2010)

Lisbon Review Ranking

Country	2010	2008	2006	2004	2002
Sweden	1	1	3	3	2
Finland	2	3	2	1	1
Denmark	3	2	1	2	3
Netherlands	4	4	4	5	5
Luxembourg	5	7	8	7	n/a
Germany	6	6	5	6	6
Austria	7	5	7	9	7
France	8	8	9	8	9
United Kingdom	9	9	6	4	4
Belgium	10	10	10	10	8

Source: Lisbon Review, various editions.
Note that Luxembourg was not included in the 2002 edition for lack of survey data that year.

This disparity is clearly shown in Figure 1, which presents the score dispersion between the best and worst performing EU member countries on each of the eight dimensions that comprise the index. The black dash represents the EU average and the white dot represents the US score.

The figure shows that there is a large range in performances, particularly in four areas: information society, innovation and R&D, network industries and sustainable development. This is of significant concern given that these areas remain critical for the EU even in its more recent Europe 2020 Strategy, as described in Box 1. The narrowest gaps are found in liberalization and the enterprise environment, areas where EU rules on the single market seem to have had a stronger consolidating effect in terms of performances.

The figure also shows that the best performers in the EU consistently outperform even the US. Further, in the sustainable development dimension, an area that will continue to receive strong focus in the new Europe 2020 Strategy, even the average EU27 performance is better than that of the US.

Table 4 presents the details driving the overall ranks and scores of the 27 EU member countries in each of the eight Lisbon dimensions. As the table shows, the countries at the top of the overall ranking tend to do well across all dimensions measured. Table 5 provides an overview of the top-three performers in each pillar, which highlights the areas where individual countries do particularly well.

Sweden is ranked 1st in five dimensions and is among the top three ranked countries in three other dimensions. Similarly, Finland is ranked among the top three five times, and Denmark does so three times. These countries do particularly well as a group in the areas of developing an information society, innovation and R&D, social inclusion and sustainable development, and they are never ranked below 8th in any of the Lisbon dimensions.

In terms of developing an information society, the Nordics have achieved very high ICT penetration rates with strong use by individuals and businesses, buttressed by supportive government policies prioritizing ICT use. Their innovative capacity is also a clear strength, with strong comparative performances on a European as well as a world scale in areas such as company spending on R&D, the aggressiveness of the private sector in adopting new technologies and the extent of collaboration between universities and companies in innovation and discovery.

Table 4: Rankings and Scores of EU Countries

	Final Index		Subindexes															
			Information Society		Innovation and R&D		Liberalization		Network Industries		Financial Services		Enterprise Environment		Social Inclusion		Sustainable Development	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Sweden	1	5.83	1	6.20	2	5.64	1	5.55	2	6.19	1	5.93	4	5.15	3	5.42	1	6.57
Finland	2	5.72	5	5.51	1	6.12	7	5.26	8	5.96	3	5.86	2	5.27	2	5.59	3	6.19
Denmark	3	5.61	3	5.74	3	5.33	5	5.39	4	6.09	6	5.60	7	5.05	1	5.64	5	6.07
Netherlands	4	5.51	2	5.81	5	4.94	2	5.54	7	5.98	7	5.54	6	5.06	4	5.31	6	5.91
Luxembourg	5	5.43	7	5.43	12	4.17	6	5.29	5	6.08	2	5.90	1	5.43	5	5.31	7	5.87
Germany	6	5.39	9	5.27	4	5.10	4	5.39	1	6.49	9	5.36	17	4.50	9	4.85	2	6.19
Austria	7	5.39	6	5.45	8	4.65	3	5.42	6	6.08	4	5.70	10	4.79	8	4.91	4	6.14
France	8	5.22	10	5.21	9	4.62	11	5.10	3	6.17	5	5.61	12	4.78	13	4.71	9	5.54
United Kingdom	9	5.15	4	5.61	7	4.71	10	5.12	9	5.77	14	5.10	11	4.78	14	4.61	10	5.48
Belgium	10	5.15	14	4.71	6	4.78	8	5.22	11	5.76	11	5.28	8	4.88	6	5.08	11	5.46
Ireland	11	5.00	13	4.78	10	4.47	9	5.20	18	5.24	17	4.87	5	5.08	11	4.72	8	5.64
Estonia	12	4.96	8	5.33	14	3.99	14	4.84	13	5.47	10	5.33	3	5.17	16	4.47	14	5.07
Cyprus	13	4.83	16	4.44	21	3.71	13	4.91	10	5.76	12	5.28	13	4.73	7	5.03	18	4.77
Slovenia	14	4.79	12	4.84	11	4.28	18	4.49	15	5.37	19	4.75	15	4.61	15	4.56	12	5.43
Czech Republic	15	4.71	17	4.43	13	4.02	12	4.96	20	5.11	15	5.00	19	4.47	10	4.73	16	4.96
Portugal	16	4.70	15	4.64	16	3.92	19	4.47	12	5.69	16	4.97	16	4.50	17	4.18	13	5.20
Malta	17	4.58	11	5.15	23	3.50	16	4.73	16	5.30	8	5.49	23	3.99	12	4.71	27	3.80
Spain	18	4.53	20	4.21	15	3.93	15	4.73	14	5.37	13	5.10	25	3.94	21	3.92	15	5.06
Slovak Republic	19	4.45	18	4.42	25	3.46	17	4.70	23	4.64	20	4.75	9	4.81	18	3.98	17	4.86
Lithuania	20	4.39	19	4.38	20	3.76	24	4.15	19	5.11	21	4.58	18	4.49	20	3.93	19	4.73
Hungary	21	4.28	22	4.12	18	3.79	21	4.35	21	4.85	23	4.42	20	4.40	23	3.79	22	4.50
Latvia	22	4.21	21	4.15	24	3.48	22	4.21	24	4.57	26	4.27	14	4.72	26	3.61	20	4.68
Greece	23	4.18	25	3.55	17	3.81	25	4.10	17	5.25	18	4.81	26	3.62	24	3.75	21	4.54
Poland	24	4.07	26	3.50	22	3.64	20	4.44	26	4.12	22	4.46	24	3.95	19	3.96	23	4.49
Italy	25	4.03	23	3.74	19	3.78	23	4.16	22	4.81	24	4.31	27	3.54	25	3.64	24	4.28
Romania	26	3.96	27	3.48	26	3.37	26	4.04	27	4.05	25	4.30	21	4.38	22	3.89	25	4.19
Bulgaria	27	3.77	24	3.63	27	3.12	27	3.82	25	4.23	27	3.80	22	4.22	27	3.55	26	3.82
EU 27	-	**4.81**	-	**4.73**	-	**4.23**	-	**4.80**	-	**5.39**	-	**5.05**	-	**4.60**	-	**4.51**	-	**5.16**
United States	-	**5.27**	-	**5.79**	-	**6.03**	-	**5.05**	-	**5.73**	-	**5.22**	-	**5.07**	-	**4.71**	-	**4.59**
East Asia	-	**5.28**	-	**5.56**	-	**5.24**	-	**5.10**	-	**6.06**	-	**5.41**	-	**5.17**	-	**4.93**	-	**4.74**

Table 5: Top Three EU Performers in the Lisbon Dimensions

Country	Final Index	Number of times ranked in top three	1. Information Society	2. Innovation and R&D	3. Liberalization	4. Network Industries	5. Financial Services	6. Enterprise Environment	7. Social Inclusion	8. Sustainable Development
			Lisbon Review Dimensions							
Sweden	1	7	**1**	**2**	**1**	**2**	**1**	4	**3**	**1**
Finland	2	5	5	**1**	7	8	**3**	**2**	**2**	**3**
Denmark	3	3	**3**	**3**	5	4	6	7	**1**	5
Netherlands	4	2	**2**	5	**2**	7	7	6	4	6
Luxembourg	5	2	7	12	6	5	**2**	**1**	5	7
Germany	6	2	9	4	4	**1**	9	17	9	**2**
Austria	7	1	6	8	**3**	6	4	10	8	4
France	8	1	10	9	11	**3**	5	12	13	9
Estonia	12	1	8	14	14	13	10	**3**	16	14

These innovation "inputs" provide a clear return in terms of the level of patenting per capita, an area where the Nordics outperform most of the world (with Finland, Sweden and Denmark ranked worldwide at 6th, 8th and 15th, respectively).

They also do well in the human resources and environmental areas. With regard to social inclusion, they hold the top three spots in the EU. They have achieved relatively low levels of unemployment and have high female participation rates in the workforce. Their workforces are supported by formal educational systems as well as professional training programmes that ensure ongoing upgrading of the skills needed to perform in a rapidly changing environment.

Their economic systems have been the most effective worldwide in reducing income inequality and poverty over the years. The Nordics are also world leaders in terms of working towards sustainable development, with strong and enforced environmental legislation effectively protecting the environment, and placing these countries in a natural leadership position amid international discussions on environmental issues.

The Netherlands follows closely in the ranking at 4th overall, with particular strengths in its information society, and the extent of liberalization (with the economy characterized by significant competition), ranked 2nd in both areas.[27] Luxembourg, Germany and Austria follow in the rankings, holding the 5th through the 7th places.

Luxembourg is ranked 1st for its enterprise environment and a strong 2nd for financial services, while Germany has particularly strong network industries (ranked 1st) and an environment that is conducive to ensuring sustainable development (ranked 2nd). Austria's performance remains somewhat more mixed, with the extent of liberalization the economy's greatest strength.

France maintains its position at 8th place, ranked among the top-three countries only for its network industries, with excellent transport, energy and telecommunications infrastructure. France's financial services are also ranked among the top five of all EU members. On the other hand, the country is ranked outside the top 10 in three key areas: liberalization, the enterprise environment and social inclusion, where it is ranked 11th, 12th and 13th, respectively.

The United Kingdom and Belgium round out the top-10 ranking at 9th and 10th, respectively. As shown by their absence from Table 5, these two countries are not ranked among the top-three countries in any of the eight dimensions, although they do, of course, have comparative strengths in specific areas. Belgium's main strengths are in the areas of innovation and R&D, and social inclusion (ranked 6th in both dimensions), with its greatest weakness the development of an information society (ranked 14th).

Belgium's performance stands in some contrast with that of the United Kingdom, receiving the highest mark for its information society (ranked 4th), and with its weakest performances in the areas of social inclusion and financial services (ranked 14th in both dimensions).

The UK's low rank in financial services has become increasingly pronounced over the past few years, falling from 1st in this dimension in the 2006 *Lisbon Review* to 11th in 2008 and finally to 14th in the present assessment, no doubt related to weaknesses revealed and exacerbated by the recent financial crisis. In particular, there have been deteriorations in the access to capital and the perceived soundness of the banking sector over recent years. This has been an important contributing factor to the UK's fall in the overall *Lisbon Review* rankings over the years, falling from 4th position in 2002 eventually down to its present 10th position.

Table 5 also includes Estonia among the countries demonstrating a top-three performance, the first time that one of the more recent members has been included on this list, based on its strong enterprise environment. Estonia's information society is also ranked among the top-10 countries (8th), which has been the result of a targeted government effort over many years to provide the population with easy access to the Internet and related services.

Among other recent members, many are found in the middle of the ranking, and there are some clear areas of strength in individual countries. For example, Cyprus and the Czech Republic are ranked 7th and 10th, respectively, for social inclusion based in large part on their high-quality educational systems. Malta is ranked 8th for financial services and the Slovak Republic a very reasonable 9th for the quality of its enterprise environment.

Among the southern European countries, there is some divergence between Portugal and Spain on one hand, which are found at the lower middle of the ranking at 16th and 18th, respectively, and Greece and Italy on the other hand, which are among the poorest performers, at 23rd and 25th. In particular, Portugal is rated among the top half of countries for its network industries (12th) and efforts towards sustainable development (13th), while Spain is ranked 13th for its financial services.

Greece and Italy tend to do more poorly across the board with slightly better performances in areas such as innovation and R&D, but with notable weaknesses in both countries in the areas of liberalization, the enterprise environment and social inclusion. Greece has notably seen a weakening since the past edition in measures of social inclusion, dropping from 22nd to 24th in this area.[28]

Romania and Bulgaria, the two most recent members of the EU, round out the bottom of the ranking, with weaknesses across most areas, most particularly innovation and R&D and liberalization, where they hold the bottom two places out of all countries, with low R&D spending, companies that are not aggressive in adopting new technologies, significant regulatory burdens and government policy-making that is considered among the least transparent in the world.

Comparing the EU to the United States and East Asia

At the bottom of Table 4 are the scores and rankings for the United States and the average of five competitive East Asian economies, which are included for comparison. As the table shows, the EU27 overall score of 4.81 lags behind both those of the United States (5.27) and East Asia (5.28). Indeed, the EU27 score lags behind that of the others in all eight Lisbon dimensions with one exception – sustainable development.

As Table 6 shows, the EU27 on average is outperformed by the US and East Asia in seven of the eight dimensions and most subdimensions, with the largest gap in the area of innovation and R&D, a critical driver of growth and competitiveness for countries at more advanced stages of development. The one overall dimension, as mentioned above, where the EU27 on average outperform the US and East Asia is in sustainable development. Beyond this area, the EU27 outperforms the US in just two subdimensions: modernizing social protection, and telecommunications by a small margin.

However, while the EU as a whole is outperformed by these comparators overall, the detailed performance of individual countries across specific dimensions provides a more nuanced picture. Indeed, the significant diversity in competitiveness levels within the EU27 is shown both in Figure 1 and in the "diamond" charts in Appendix B of this review.

The charts provide a visual representation of the scores shown in Table 4, comparing individual country performances with the US and East Asia benchmarks. A country with a perfect performance in any of the eight

Table 6: Lisbon Scores: Comparing the EU with the United States and East Asia

Lisbon Dimension	EU 27 average	United States	East Asia	EU 27 average relative to the US	EU 27 average relative to East Asia
1. Information society	**4.73**	**5.79**	**5.56**	**-1.06**	**-0.83**
2. Innovation and R&D	**4.23**	**6.03**	**5.24**	**-1.81**	**-1.01**
3. Liberalization	**4.80**	**5.05**	**5.10**	**-0.25**	**-0.30**
4. Network industries	**5.39**	**5.73**	**6.06**	**-0.34**	**-0.67**
Telecommunications	5.62	5.54	5.89	0.07	-0.27
Utilities and transport	5.16	5.91	6.24	-0.75	-1.07
5. Financial services	**5.05**	**5.22**	**5.41**	**-0.17**	**-0.36**
6. Enterprise	**4.60**	**5.07**	**5.17**	**-0.47**	**-0.56**
Business start-up environment	4.80	5.31	5.14	-0.51	-0.33
Regulatory environment	4.41	4.83	5.20	-0.42	-0.79
7. Social inclusion	**4.51**	**4.71**	**4.93**	**-0.20**	**-0.42**
Returning people to the workforce	4.97	5.39	5.41	-0.42	-0.45
Upgrading skills	4.47	5.09	5.09	-0.62	-0.61
Modernising social protection	4.10	3.66	4.30	0.44	-0.19
8. Sustainable development	**5.16**	**4.59**	**4.74**	**0.57**	**0.42**
Final Index Score	**4.81**	**5.27**	**5.28**	**-0.46**	**-0.47**

dimensions would have a score of seven. Since an ideal country would have a diamond reaching all the way to the edges of the figure, the smaller a diamond is, the less competitive it is as measured by the Lisbon dimensions.

In each figure, the individual country's performance is represented by a blue line, that of the US in grey and that of East Asia in black. Dimensions in which the individual country's line extends further out than that of the US or East Asia indicate areas where the country outperforms these benchmarks.

Specifically, Table 4 and the Appendix figures show that the US and East Asia are outperformed by the top-seven ranked countries in the EU, namely Sweden, Finland, Denmark, the Netherlands, Luxembourg, Germany and Austria. They are also outperformed across every issue area by the top-performing EU countries. For example, the US, despite being a powerhouse in innovation, is outperformed by Finland in this area, and its highly touted information society is less well developed than that of Sweden and the Netherlands. Across the other dimensions, even larger groups of EU members outperform the US and East Asia, particularly with respect to sustainable development and social inclusion.

Taking stock of the performance of the EU over the decade, it is encouraging to note that there has been a slight improvement in the EU's performance since the first *Lisbon Review* in 2002. Figure 2 shows the progression in scores for the EU15, the EU27, the US and East Asia for the periods for which the data is available. The figure shows that, over the period, the EU has slightly improved its scores for both the EU27 and EU15 groupings.

Improvements in the EU's performance can be traced mainly to the development of its information society, stronger innovation, greater liberalization and efforts towards sustainable development. Less progress seems to have been made in other dimensions, such as strengthening network industries, the development of financial services and increasing social inclusion.

The East Asian performance remained somewhat stable over the period for which data is available, while the US saw a small decline in performance. This indicates that, on both an absolute and a relative basis, there has been some improvement in the EU's competitiveness as measured by the Lisbon dimensions, thus supporting claims by the Commission of such progress. Yet, progress has not been sufficiently strong to realize the full vision of Lisbon.

Lisbon Looking Further East

The previous section analysed how well the existing 27 EU members are meeting the Lisbon goals and highlighted the challenges that remain to be addressed in a variety of areas. This section applies the Lisbon criteria to 11 other countries from Eastern and South-Eastern Europe. As mentioned above, and as shown in Table 1, they range from official candidate status to potential candidates, and also include some countries that have adopted a European Neighbourhood Policy (ENP) Action Plan. This provides a sense of the competitiveness of the greater European region, including a number of countries that may one day join the EU.[29]

Table 7 shows the ranks and scores of these countries and, for comparison, also includes the average scores for the EU27, the EU15 members prior to 2004 and the 12 countries that have joined the EU since 2004 (the "Accession 12"). As in the case of the EU27, there is considerable variation in performances among these countries overall and across the various dimensions.

This year, Montenegro has overtaken Croatia to be the top performer among these countries, albeit just slightly. More generally, there is much consistency in the comparative performances. In particular, the four Balkan countries continue to constitute both the two best performers of the group (Montenegro and Croatia) as well as the two worst performers (Albania and Bosnia and Herzegovina), with the other countries remaining in between, with some small changes in rankings.

Figure 2: Europe's Comparative Performance on the Lisbon Scores (2002-2010)

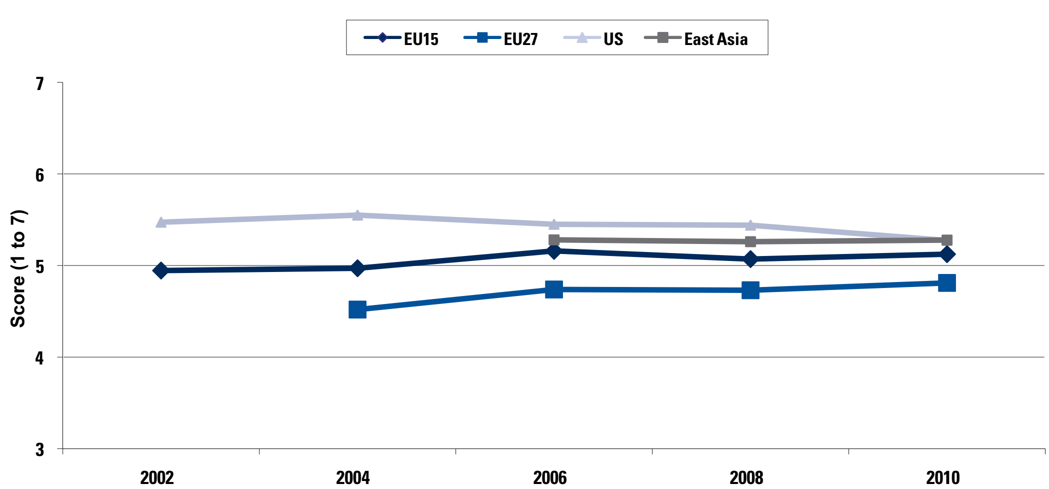

Table 7: Rankings and Scores of Non-EU Eastern European Countries

	Final Index		Subindexes															
			Information Society		Innovation and R&D		Liberalization		Network Industries		Financial Services		Enterprise Environment		Social Inclusion		Sustainable Development	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Montenegro	1	4.19	2	3.95	3	3.32	2	4.34	2	4.60	1	4.74	6	4.32	2	4.28	2	3.94
Croatia	2	4.18	1	4.04	2	3.36	5	3.85	1	5.23	3	4.34	7	4.16	7	3.72	1	4.70
Azerbaijan	3	4.02	4	3.67	4	3.26	3	4.15	6	4.16	4	4.13	2	4.68	1	4.50	4	3.57
Turkey	4	3.85	5	3.61	5	3.24	1	4.39	3	4.38	2	4.39	5	4.46	10	3.19	9	3.12
Macedonia, FYR	5	3.79	3	3.86	7	2.93	4	3.95	5	4.16	5	4.08	3	4.58	9	3.39	6	3.33
Georgia	6	3.78	6	3.35	9	2.79	6	3.82	8	3.93	7	3.69	1	5.01	6	3.77	3	3.89
Ukraine	7	3.62	9	3.04	1	3.59	10	3.48	4	4.32	11	3.22	9	4.08	4	3.89	5	3.33
Serbia	8	3.51	7	3.29	6	2.95	8	3.66	9	3.83	8	3.68	10	4.01	8	3.45	7	3.19
Armenia	9	3.50	11	2.70	8	2.82	7	3.74	7	3.94	6	3.88	8	4.15	5	3.79	10	2.98
Albania	10	3.47	8	3.13	11	2.52	9	3.65	11	3.46	9	3.41	4	4.48	3	3.94	8	3.13
Bosnia and Herzegovina	11	3.07	10	2.86	10	2.54	11	3.43	10	3.73	10	3.32	11	3.28	11	2.69	11	2.73
EU 27	-	4.81	-	4.73	-	4.23	-	4.80	-	5.39	-	5.05	-	4.60	-	4.51	-	5.16
EU 15	-	5.12	-	5.06	-	4.66	-	5.06	-	5.80	-	5.33	-	4.69	-	4.78	-	5.61
Accession 12	-	4.42	-	4.32	-	3.68	-	4.47	-	4.88	-	4.70	-	4.49	-	4.19	-	4.61

The averages at the bottom of Table 7 show that all countries score lower than the various EU groupings on the overall index, including the average of the 12 more recent members by a reasonable margin. However, top-ranked Montenegro outperforms the five lowest-ranked EU members of Greece, Poland, Italy, Romania and Bulgaria. Croatia is on a par with Greece and ahead of the four countries ranked below it. Azerbaijan outperforms Romania and Bulgaria, and Turkey and Macedonia outperform Bulgaria. In other words, the top-performing non-members receive better assessments overall than a number of present members.

As mentioned above, the non-EU Balkan countries are spread throughout the ranking of the 11 comparators, occupying the first two positions as well as the last two. Montenegro and Croatia are ranked 1st and 2nd of the group. Montenegro's greatest strengths are in the dimensions of financial services and social inclusion, both areas where it scores above the average of the Accession 12 group of countries.

Croatia's main strengths are its network industries and efforts toward sustainable development, where it does better than the Accession 12. With regard to weaknesses, both countries require efforts in improving their enterprise environment, with burdensome regulation and an onerous process required to start businesses, especially in Montenegro.

Within the middle of the ranking are two other Balkan countries: Macedonia (5th) and Serbia (8th). Macedonia's enterprise environment is its greatest comparative strength, with a score ahead of the Accession 12 countries and just behind that of the EU27, characterized by a good business start-up environment and a relatively supportive regulatory structure. Serbia's greatest strength is also the quality of the enterprise environment as measured by its score. On the other hand, both countries demonstrate weaker performances in measures of social inclusion and sustainable development.

At the bottom of the table are Albania (10th) and Bosnia and Herzegovina (11th). Albania's comparative strength is in the enterprise environment, where it is just barely behind the Accession 12 average and not far behind the EU27 score. It is also ranked 3rd out of the 11 countries for efforts towards social inclusion, although its score of 3.94 is well below those of the two strongest performers of the group, Azerbaijan and Montenegro.

Beyond these few areas, both countries receive very poor assessments across most other areas, with Bosnia and Herzegovina ranked among the bottom two countries (ranked 10th or 11th) for all eight dimensions, and always well below the various EU averages shown for comparison. Given that these countries are potential candidates to join the EU, significant efforts must made to bring their performance more in line with EU levels.

Turkey is ranked 4th in the table, with some relative strengths balanced by weaknesses in a number of dimensions. Turkey is ranked 1st out of all countries in the table and not far behind the Accession 12 average for the extent of liberalization, with the economy characterized by high levels of competition. Financial services are also relatively well developed, ranked 2nd behind Montenegro out of the 11 countries and ahead of EU members such as Latvia and Romania. The country's enterprise environment is rated close behind that of the Accession 12 average, due to the relative ease of setting up a business in the country.

On the other hand, Turkey's competitiveness is held back by its performance in a number of other areas. It has not yet developed an information society that is sufficiently supportive of productivity enhancements, and measures of innovation and R&D remain below EU standards. More strikingly, it is ranked 9th for efforts towards sustainable development (followed only by Armenia and Bosnia and Herzegovina), and 10th for social inclusion (followed only by Bosnia and Herzegovina), with high unemployment, one of the lowest female participation rates in the workforce, and some concerns about the quality of the educational system. These are areas requiring attention to bring Turkey's competitiveness up to EU standards.

Among the countries not yet on the list of candidate or potential candidates, Azerbaijan tops the list, just behind Montenegro and Croatia and with a stronger performance than Romania and Bulgaria. Azerbaijan ranks 1st in Table 7 for social inclusion, in line with the EU27 average. This is attributable to a low official unemployment rate in the country accompanied by a high female participation rate in the workforce, in strong contrast to Turkey, discussed above.

The country's enterprise environment also gets good marks, following significant efforts in recent years to streamline the business start-up environment. Yet, challenges remain in developing a thriving information society and strengthening network industries in the country.

Georgia moves ahead of Ukraine this year, with the best assessed enterprise environment of all countries in Table 7 and, indeed, better than even the EU15 average, characterized by significant ease in starting new businesses in the country and a supportive regulatory environment. On the other hand, a lack of innovation remains the country's greatest weakness among the eight dimensions.

Ukraine provides a mirror image of Georgia with stronger innovation capacity than all other countries in Table 7 and, indeed, better than several EU members, but with an enterprise environment that is not strongly conducive to business activity.

Finally, Armenia, while receiving some middling scores in areas such as social inclusion and the quality of financial services, displays competitive weaknesses across most areas, particularly the lack of development of its information society and insufficient success in promoting sustainable development.

Conclusions

This review has assessed the competitiveness of the 27 European Union countries according to eight dimensions of the Lisbon goals. The results show that, 10 years after setting the goals, there continues to be much variation in performance across EU countries, with some countries performing very well across all areas, and others still lagging behind. The accession of 12 new members since the middle of the decade, while bringing many economic benefits, has increased this variation.

Steps towards reform in a number of areas have indeed been made in the EU over the past few years. While it is quite clear at this point that the EU has not fully achieved the ambitious goals first articulated in 2000, our results indicate that some progress has been made in dimensions such as the development of an information society, stronger innovation and efforts toward sustainable development. On the other hand, less progress seems to have been made in other key dimensions, such as strengthening network industries, the development of financial services and increasing social inclusion.

A lack of progress in several areas is seen by many as the result of the Lisbon Agenda being too broad in scope and thus spreading itself too thin. The sense is that the Lisbon Agenda suffered from a lack of focus, transparency and, ultimately, implementation. The success of the new Europe 2020 Strategy will depend greatly on Europe's ability to learn from these shortcomings.

The EU institutions and the member states failed to engage the European business community in the design and development of the Lisbon Agenda. It will therefore be essential to ensure that the Europe 2020 Strategy is based on a stronger sense of partnership between the public and private sectors about what needs to be done to generate the will to take action.

In our view, this debate needs to be structured around key questions such as the following:

- Is it possible to protect the European social model while attempting to compete effectively in the globalized marketplace?
- How can Europe make the necessary investments in innovation, education and skills while simultaneously tackling record-breaking levels of public debt?
- Will the EU 27 hold firm to their commitment to protect and expand the regulatory framework that underpins the internal market and, if so, will the business community wholeheartedly support that position?
- Will European political, business and labour leaders make objective decisions about companies and operators that run on the basis of apparently unviable business models?

Europe's political and business leaders must address such questions and then identify the key impediments to reform. For this to happen, Europe's leaders must engage in a fundamental debate about what sort of Europe they wish to build for future generations. This will involve taking some difficult policy choices and business decisions on a range of issues, such as climate change, retirement age and pension entitlements; investment in education and skills; and combating protectionism/strengthening the single market.

Finally, it will be critically important to ensure that some compliance mechanisms are built into Europe 2020. Support for this seems to be growing in the context of the Greek debt crisis, with some asserting that tougher fiscal oversight might have prevented the difficulties. As President Barroso has declared, Europe 2020 cannot be a "pick and mix" strategy. The dimensions are interrelated, and if reforms are not implemented consistently across the piece, then the strategy will fail. Spanish Prime Minister José Luis Rodriguez Zapatero has even called for "corrective measures" to be taken against underperforming countries. Is Europe prepared to go that far?

If Europe's leaders can make the necessary commitment to reform in these and a number of other areas, then it should be possible for them to generate the political will that is a pre-condition for realizing the Europe 2020 vision and, through it, Europe's full competitiveness potential.

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Notes

1 The Lisbon Treaty entered into force on 1 December 2009.

2 See Tilford et al., 2010 for the most recent such assessment.

3 Much of the analysis was based on the Kok Report of 2004. See European Communities, 2004.

4 The heads of state and government at the Lisbon summit set a 3% average economic growth target and the creation of 20 million jobs by 2010, identifying the main steps necessary to achieve this. Policy reforms at the European and national levels were elaborated in areas such as enterprise, research and development, the opening of markets and environmental sustainability. The streamlined version produced one set of policy guidelines from those existing previously, and set two main EU targets: an R&D investment rate of 3% and an employment rate of 70%. In addition, there were employment targets of 60% for women and 50% for older workers.

5 This is not to say that they dropped the environmental and social aspects but, rather, that they recognized that these goals would be achieved more readily once the growth and jobs issues had been tackled. In fact, they were clear to point out that the Lisbon Strategy still aimed for sustainable jobs and growth without sacrificing environmental protection. The Growth and Jobs Strategy, a medium-term strategy, was meant to be complemented by the EU's Sustainable Development Strategy, which took a wider and more long-term approach.

6 The integrated guidelines also include a series of macroeconomic measures to be achieved for growth and jobs, in line with the Maastricht criteria. Although the importance of fiscal responsibility and good macroeconomic management is clearly a continuing priority for EU member countries, this study continues to focus on the original microeconomic measures of the Lisbon Agenda to allow for a more focused analysis and to ensure continuity with our previous work.

7 To move the process along, the Commission proposed for the first time country-specific recommendations in its December 2006 Progress Report, which were endorsed by the Spring European Council in March 2007. This was an important development, as it required member states to agree on what each of them needs to do in the Lisbon process.

8 European Commission, 2010. Page 2.

9 Such as a 70% employment rate, and R&D spending of 3%

10 However, the assessment also notes that, while some of the reforms have been helpful in confronting the crisis, attention to issues such as better supervision and systemic risk in financial markets, for example, were not adequately addressed.

11 In particular, it found that progress in the more microeconomic aspects of the Strategy have lagged behind progress in the more macroeconomic and employment-related areas.

12 European Commission, 2010. Pages 2-9.

13 This is a slightly more granular categorization than the five dimensions included in the annually released Lisbon Scorecard by the CEPR (Innovation, Liberalization, Enterprise, Employment and Social Inclusion, Sustainable Development). Please refer to Appendix A for the detailed structure of the Lisbon Review Index.

14 A general purpose technology (GPT), according to Trajtenberg (2005), is one which, in any given period, makes a particular contribution to the overall economy's growth thanks to its ability to transform the methods of production in a wide array of industries. Examples of GPTs are the invention of the steam engine and the electric dynamo.

15 For a detailed analysis of the factors driving national networked readiness, see the World Economic Forum's *Global Information Technology Report 2009-2010*.

16 Continuing concerns about such restrictions led the Commission to more recently emphasize the importance of creating a "fifth freedom" of knowledge, by removing barriers to the cross-border mobility of researchers, students, scientists and academic staff, and a focus on developing skills.

17 The most recent country-specific targets would raise R&D spending to 2.7% of GDP, although evidence suggests that they are still far from reaching this goal.

18 European Communities, 2006.

19 The member states that joined the EU since 2004, as well as Greece and Luxembourg have until the end of 2012 to adhere to the Directive.

20 European Central Bank, 2008.

21 Council of the European Union, 2001b.

22 For example, internationally, the United States ranks second in the World Economic Forum's 2009-2010 Global Competitiveness Index and first in IMD's *World Competitiveness Yearbook 2009*.

23 Three other candidate and potential candidate countries have not been included for lack of Executive Opinion Survey data: Belarus, Kosovo and Moldova.

24 The EU has established the Stabilisation and Association process with all western Balkan countries, which aims to bring them progressively closer to the EU. It provides these countries with free access to the EU single market for almost all exports, as well as EU financial support in their reform efforts. The associated agreements focus on respect for key democratic principles and the development of market economies. More detailed information on this process can be found at: http://ec.europa.eu/enlargement/the-policy/countries-on-the-road-to-membership/index_en.htm.

25 We use a moving average of survey data collected over the two years. For more information on the EOS survey procedure and the calculation of country-level values, see Chapter 1.2 of *The Global Competitiveness Report 2009-2010*.

26 Luxembourg was not included in the 2002 *Lisbon Review* for lack of survey data that year.

27 The Centre for European Reform's most recent Lisbon Scorecard identifies the Netherlands as a star performer as it is the only economy that manages to combine high employment with high productivity.

28 Given that the Lisbon Agenda focused on factors of a microeconomic nature, the analysis does not pick up recent revelations about the difficult macroeconomic situation in the country.

29 One country that has recently reconsidered joining the EU, Iceland, is not included in the analysis as its accession plans are not yet clear, and given how its high-income status contrasts with the other countries discussed in this section. Iceland is, however, among the overall sample of 133 countries. With an overall score of 5.27, it would be ranked between Austria and France among EU countries. Its major strengths are in dimensions such as its vigorous information society, its strong network industries, the quality of the enterprise environment and social inclusion, all areas where it is a world leader. On the other hand, the country's greatest weakness by a large margin is in financial services, perhaps not surprising given recent developments in the country.

Appendix A: Composition and Weighting of the Lisbon Review Index 2010

This appendix provides details on how the Lisbon Review Index is constructed, based on hard data from various sources and data from the Executive Opinion Survey. The left column lists the variables used in each of the eight dimensions, separating them by whether they are of hard or survey data; in the right column are the specific weights of each group of variables within its parent category. These weightings are used to compute the overall Index. For further information on the dataset described here, please contact the Global Competitiveness Network at gcp@weforum.org.

1. Information Society	1/8
Survey data	**2/3**
How much priority does the government in your country place on information and communication technologies? (1 = weak priority; 7 = strong priority)	
How successful is the government in promoting the use of information and communication technologies in your country? (1 = not successful at all; 7 = extremely successful)	
To what extent are online government services (e.g. personal tax, car registrations, passport applications, business permits and e-procurement) available in your country? (1 = not available; 7 = extensively available)	
How would you assess your country's laws relating to the use of information technology (e.g. electronic commerce, digital signatures, consumer protection)? (1 = nonexistent; 7 = well developed)	
To what extent does competition among Internet service providers in your country ensure high-quality, infrequent interruptions and low prices? (1 = not at all; 7 = extremely well)	
To what extent do companies within your country use the Internet in their business activities (e.g. buying and selling goods, interacting with customers and suppliers)? (1 = not at all; 7 = extensively)	
How would you rate the level of access to the Internet in schools in your country? (1 = not accessible at all; 7 = widely accessible)	
Hard data	**1/3**
Internet users per 100 population, 2008 Sources: International Telecommunication Union; national sources	
Personal computers per 100 population, 2008 Sources: International Telecommunication Union; national sources	

2. Innovation and Research and Development	1/8
Survey data	**2/3**
To what extent are the latest technologies available in your country? (1 = not available; 7 = widely available)	
To what extent do businesses in your country absorb new technology? (1 = not at all; 7 = aggressively absorb)	
How would you assess the quality of scientific research institutions in your country? (1 = very poor; 7 = the best in their fields internationally)	
To what extent do companies in your country spend on research and development (R&D)? (1 = do not spend on R&D; 7 = spend heavily on R&D)	
To what extent do businesses and universities collaborate on R&D in your country? (1 = do not collaborate at all; 7 = collaborate extensively)	
Do government procurement decisions foster technological innovation in your country? (1 = no, not at all; 7 = yes, extremely effectively)	
How would you rate intellectual property protection, including anti-counterfeiting measures, in your country? (1 = very weak; 7 = very strong)	
In your country, how do companies obtain technology? (1 = exclusively from licensing or imitating foreign companies; 7 = by conducting formal research and pioneering their own new products and processes)	
To what extent are scientists and engineers available in your country? (1 = not at all; 7 = widely available)	
Hard data	**1/3**
Number of utility patents (i.e. patents for invention) granted between 1 January and 31 December 2009, per million population Source: The United States Patents and Trademark Office	
Gross tertiary enrolment rate, 2007 Sources: UNESCO Institute for Statistics; The World Bank; national sources	

3. Liberalization	1/8
Survey data	
Completing the Single Market/State Aid and Competition Policy	
How would you assess the intensity of competition in the local market in your country? (1 = limited in most industries; 7 = intense in most industries)	
How numerous are local suppliers in your country? (1 = largely nonexistent; 7 = very numerous)	
How would you assess the quality of local suppliers in your country? (1 = very poor; 7 = very good)	
How stringent are standards on product/service quality, safety and other regulations (outside environmental regulations) in your country? (1 = not stringent at all; 7 = among the world's most stringent)	
To what extent does anti-monopoly policy promote competition in your country? (1 = does not promote competition; 7 = effectively promotes competition)	
How would you characterize corporate activity in your country? (1 = dominated by a few business groups; 7 = spread among many firms)	
How prevalent is foreign ownership of companies in your country? (1 = very rare; 7 = highly prevalent)	
To what extent do rules governing foreign direct investment (FDI) encourage or discourage it? (1 = strongly discourage FDI; 7 = strongly encourage FDI)	
How would you assess the agricultural policy in your country? (1 = it is excessively burdensome for the economy; 7 = it balances the interests of taxpayers, consumers and producers)	
To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? (1 = Always show favouritism; 7 = never show favouritism)	
In your country, to what extent do government subsidies and tax breaks distort competition? (1 = significantly distort competition; 7 = do not distort competition)	

4. Network Industries	1/8
Telecoms	1/2
Survey data	**1/3**
How difficult is it to obtain new telephone lines for businesses in your country? (1 = very difficult; 7 = very easy)	
Hard data	**2/3**
Mobile telephone subscribers per 100 population, 2008 Sources: International Telecommunication Union; national sources	
Main telephone lines per 100 population, 2008 Sources: International Telecommunication Union; national sources	
Utilities, Transport and Postal System	1/2
Survey data	
How would you assess general infrastructure (e.g. transport, telephony and energy) in your country? (1 = extremely underdeveloped; 7 = extensive and efficient by international standards)	
How would you assess roads in your country? (1 = extremely underdeveloped; 7 = extensive and efficient by international standards)	
How would you assess the railroad system in your country? (1 = extremely underdeveloped; 7 = extensive and efficient by international standards)	
How would you assess passenger air transport infrastructure in your country? (1 = extremely underdeveloped; 7 = extensive and efficient by international standards)	
How does the quality of electricity supply in your country (lack of interruptions and lack of voltage fluctuations) compare to that of other countries? (1 = worse than in most other countries; 7 = meets the highest standards in the world)	
To what extent do you trust your country's postal system to have a friend mail a small package worth US$ 100 to you? (1 = do not trust at all; 7 = trust completely)	

5. Financial Services	1/8
Survey data	
How would you rate the protection of property rights, including over financial assets, in your country? (1 = very weak; 7 = very strong)	
How would you assess the level of sophistication of financial markets in your country? (1 = poor by international standards; 7 = excellent by international standards)	
How would you assess the soundness of banks in your country? (1 = insolvent and may require a government bailout; 7 = generally healthy with sound balance sheets)	
How easy is it to raise money by issuing shares on the stock market in your country? (1 = very difficult; 7 = very easy)	
In your country, how would you assess financial auditing and reporting standards regarding company financial performance? (1 = extremely weak; 7 = extremely strong)	

6. Enterprise	1/8
Business Start-up Environment	1/2
Survey data	1/2
How easy or difficult is it to start a new business in your country? (1 = very difficult; 7 = very easy)	
How easy is it to obtain a bank loan in your country with only a good business plan and no collateral? (1 = very difficult; 7 = very easy)	
In your country, how easy is it for entrepreneurs with innovative but risky projects to find venture capital? (1 = very difficult; 7 = very easy)	
Hard data	1/2
Number of procedures required to start a business, 2009 Source: The World Bank, Doing Business 2010	
Number of days required to start a business, 2009 Source: The World Bank, Doing Business 2010	
Regulatory Environment	1/2
Survey data	1/2
How burdensome is it for businesses in your country to comply with governmental administrative requirements (e.g. permits, regulations, reporting)? (1 = extremely burdensome; 7 = not burdensome at all)	
What impact does the level of taxes in your country have on incentives to work or invest? (1 = significantly limits incentives to work or invest; 7 = has no impact on incentives to work or invest)	
How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting your industry? (1 = impossible; 7 = extremely easy)	
Hard data	1/2
Number of procedures required to resolve a contract dispute, 2009 Source: The World Bank, Doing Business 2010	
Number of days required to resolve a contract dispute, 2009 Source: The World Bank, Doing Business 2010	

7. Social Inclusion	1/8
Bringing People back to the Workforce	1/3
Survey data	1/2
To what extent is pay in your country related to productivity? (1 = not related to worker productivity; 7 = strongly related to worker productivity)	
Hard data	1/2
Female participation in the labour force as a percentage of male participation, 2007 Source: International Labour Organization	
Unemployment rate, 2009 Sources: EuroStat; Economist Intelligence Unit; national sources	
Upgrading Skills	1/3
Survey data	
How well does the educational system in your country meet the needs of a competitive economy? (1 = not well at all; 7 = very well)	
How would you assess the quality of primary schools in your country? (1 = poor; 7 = excellent, among the best in the world)	
How would you assess the quality of math and science education in your country's schools? (1 = poor; 7 = excellent, among the best in the world)	
Does your country retain and attract talented people? (1 = no, the best and brightest normally leave to pursue opportunities in other countries; 7 = yes, there are many opportunities for talented people within the country)	
To what extent do companies in your country invest in training and employee development? (1 = hardly at all; 7 = to a great extent)	
Modernizing Social Protection	1/3
Survey data	
In your country, how effective are the government's efforts to reduce poverty and address income inequality? (1 =very ineffective; 7 = very effective)	

8. Sustainable Development	1/8
Survey data	3/4
How would you assess the stringency of your country's environmental regulation? (1 = very lax; 7 = among the world's most stringent)	
How would you assess the enforcement of environmental regulations in your country? (1 = very lax; 7 = among the world's most rigorous)	
How would you assess the quality of the natural environment in your country? (1 = extremely poor; 7 = among the world's most pristine)	
Hard data	1/4
Environmental Treaty ratification, 2008 Source: International Union for Conservation of Nature (IUCN)	

Appendix B: The Lisbon Diamonds of Country Performance

This appendix displays the Lisbon Diamond charts, comparing individual EU country performances, vis-à-vis the US and East Asia benchmarks. As explained in the text, a country with a perfect performance in any of the eight dimensions would have a score of seven, so that the larger a diamond is, the more competitive is the country, as measured by the Lisbon criteria. In each figure, the individual country's performance is represented by a blue line, that of the US is in grey, and that of East Asia is in black. Dimensions in which the individual country's line extends further out than that of the US or East Asia indicate areas where the country outperforms these comparators.

Legend

- EU country
- East Asia
- United States

Figure 1: Austria

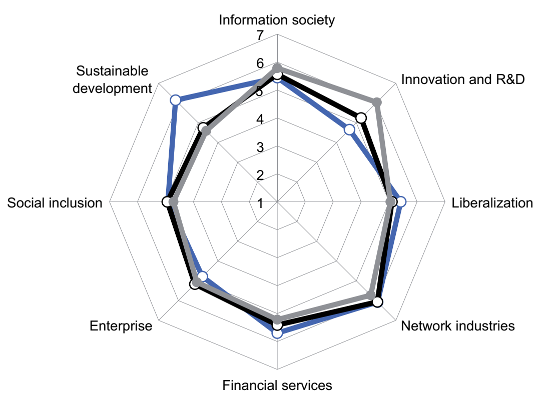


Figure 2: Belgium

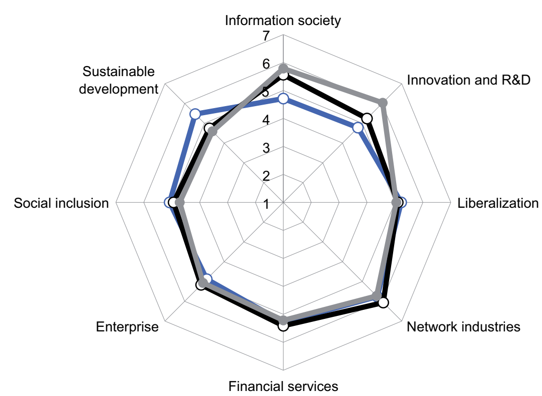


Figure 3: Bulgaria

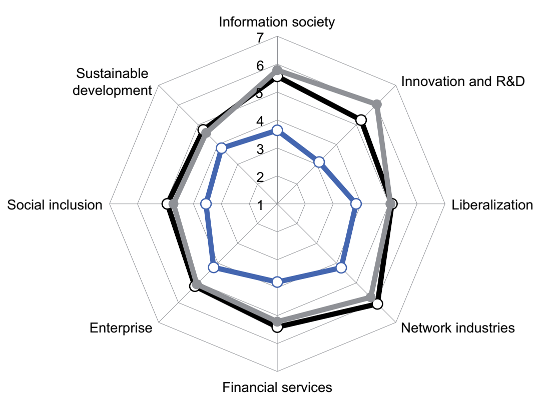


Figure 4: Cyprus

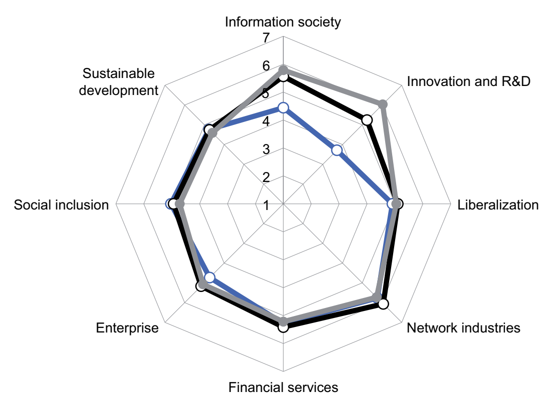


Figure 5: Czech Republic

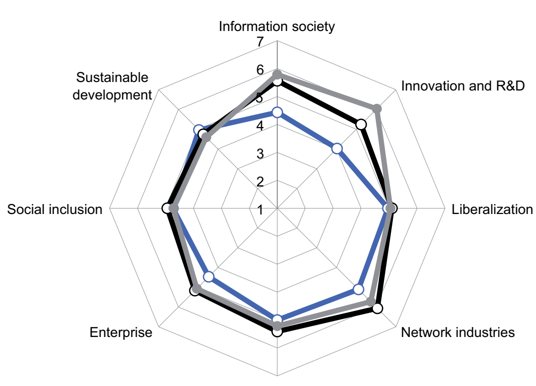


Figure 6: Denmark

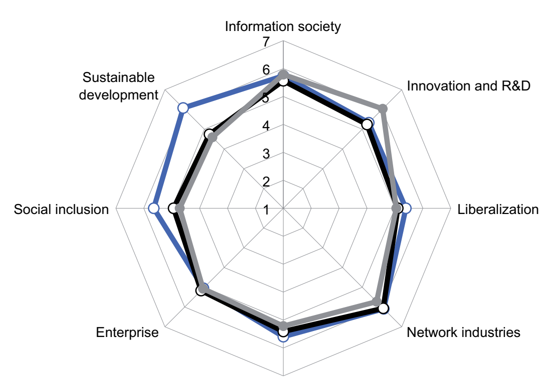


Figure 7: Estonia

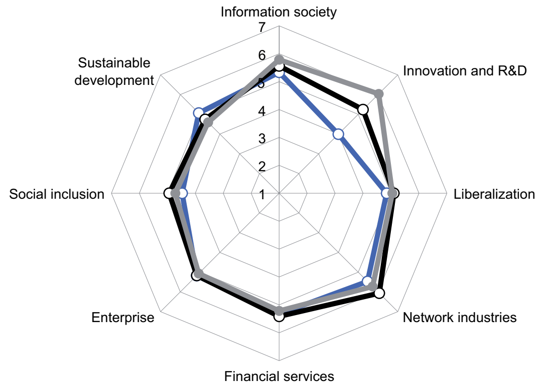


Figure 8: Finland

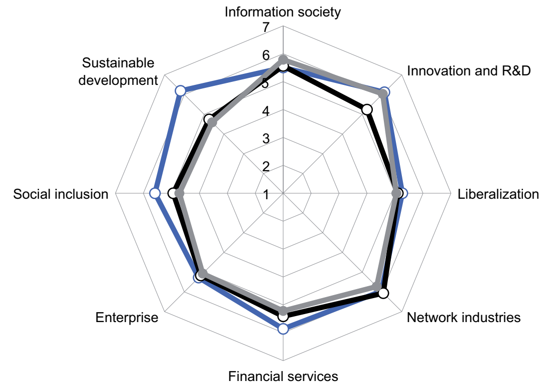


Figure 9: France

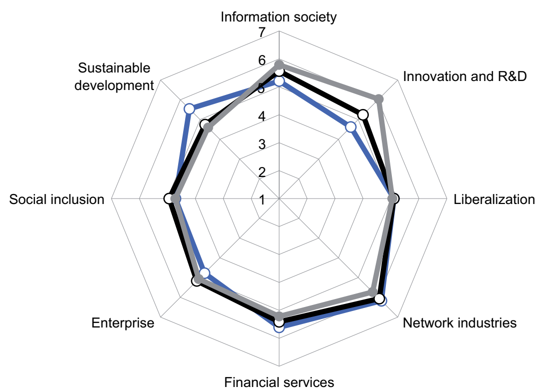


Figure 10: Germany

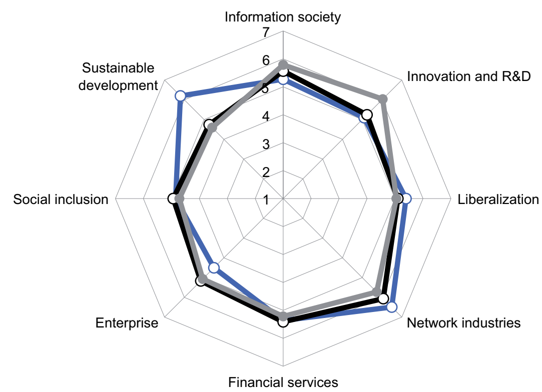


Figure 11: Greece

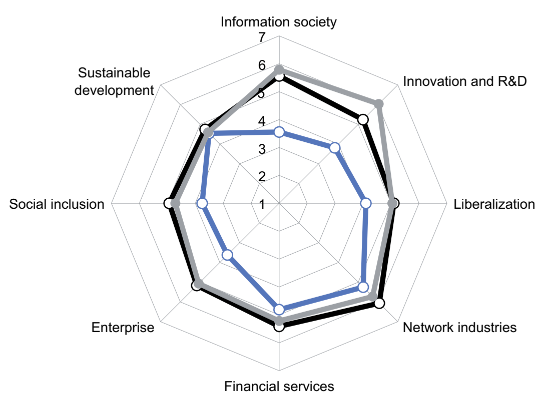


Figure 12: Hungary

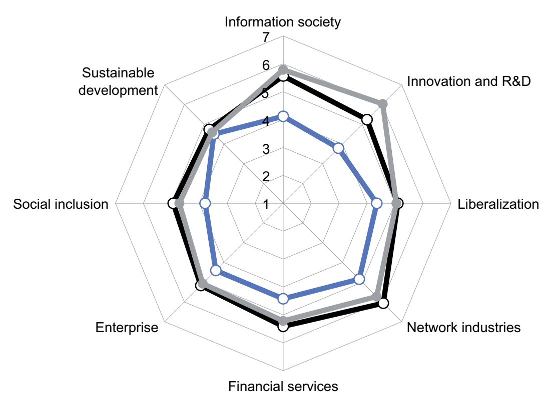


Figure 13: Ireland

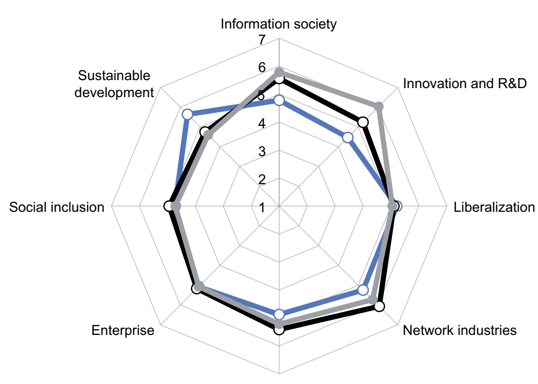


Figure 14: Italy

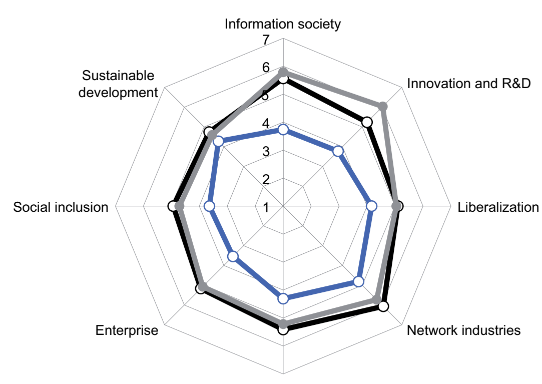


Figure 15: Latvia

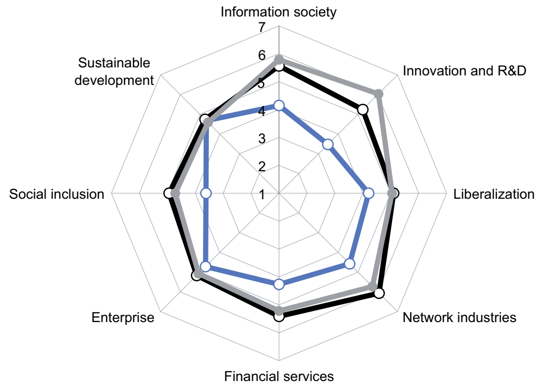


Figure 16: Lithuania

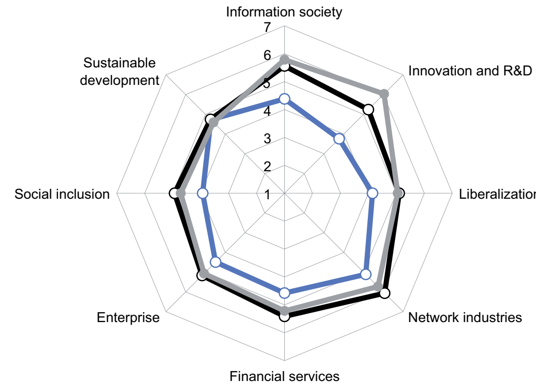


Figure 17: Luxembourg

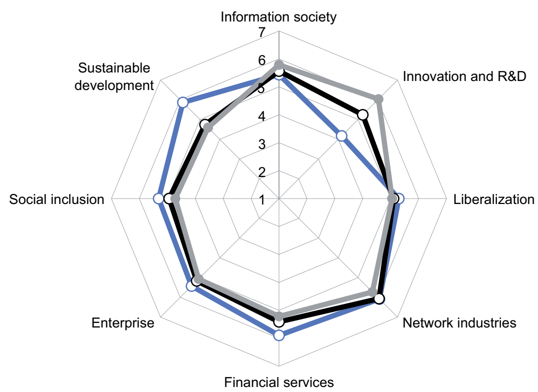


Figure 18: Malta

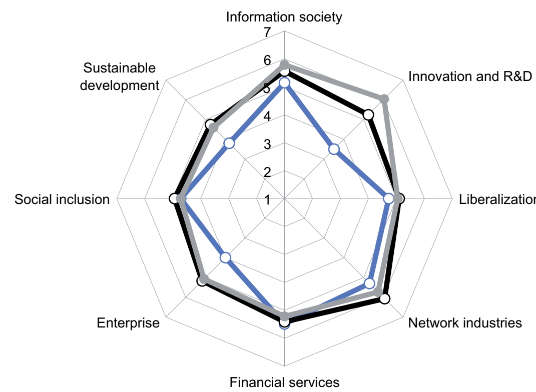


Figure 19: Netherlands

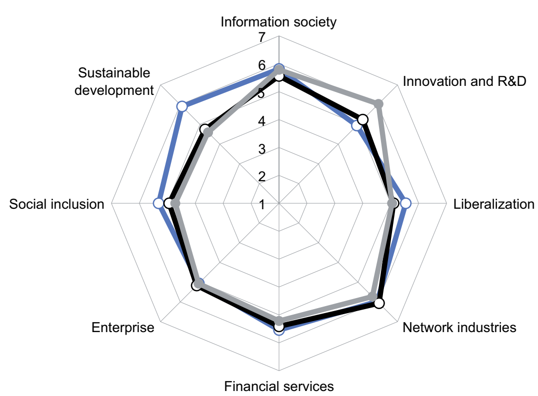


Figure 20: Poland

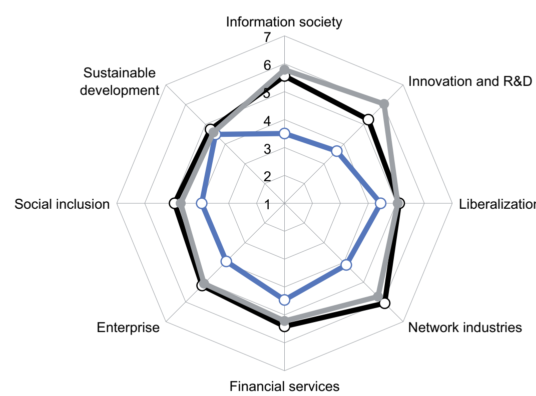


Figure 21: Portugal

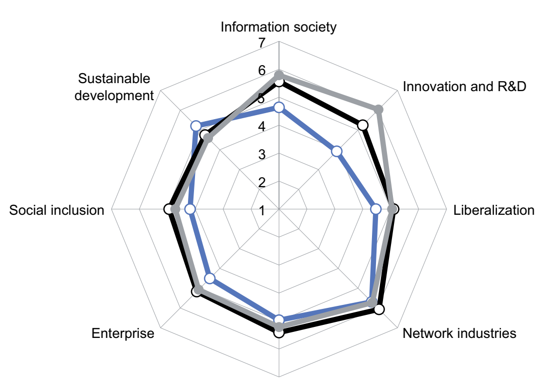


Figure 22: Romania

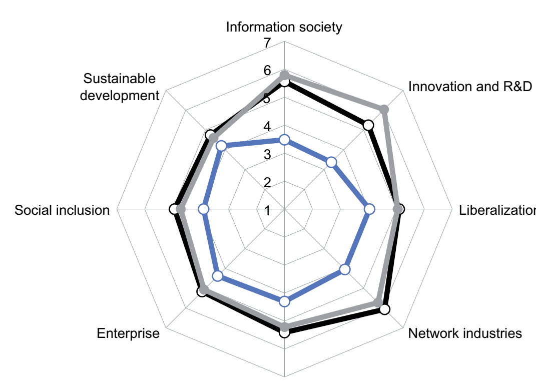


Figure 23: Slovak Republic

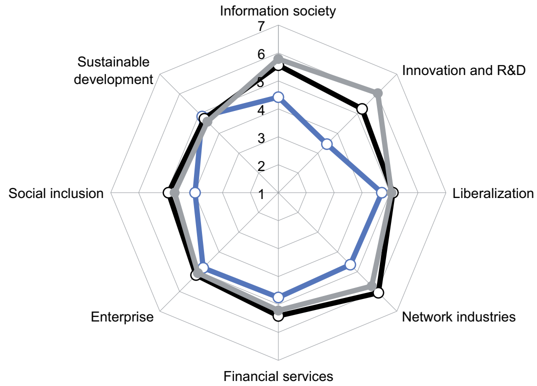


Figure 24: Slovenia

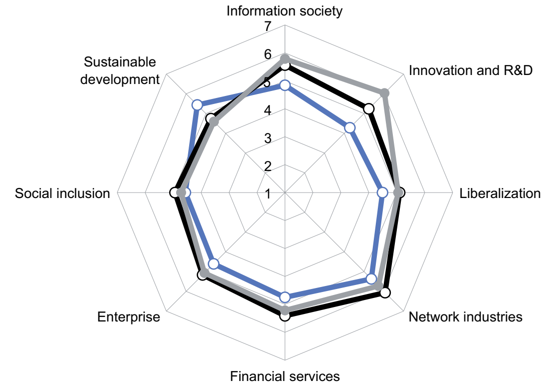


Figure 25: Spain

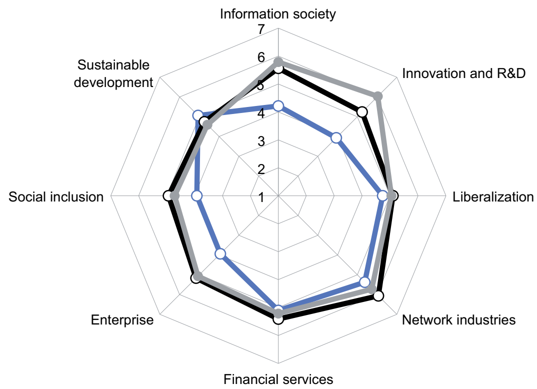


Figure 26: Sweden

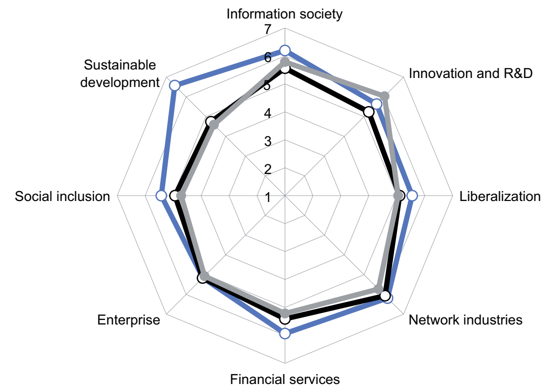
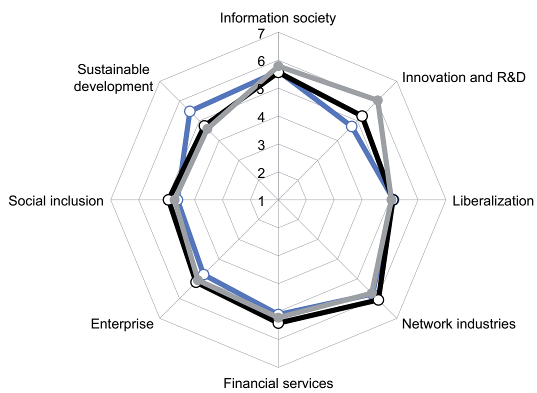


Figure 27: United Kingdom



The Lisbon Review 2010 is published by the World Economic Forum within the framework of the Global Competitiveness Network.

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We thank **Janet Hill** for her superb editing work, and **Kamal Kimaoui** and **Floris Landi** for their excellent graphic design and layout.

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