

# Shaping a More Innovative, Inclusive and Prosperous Future: A New Manifesto for Europe

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This is the report on a meeting of the World Economic Forum's Global Future Council on Europe, which was organized in partnership with the European Political Strategy Centre and co-hosted by Jyrki Katainen, Vice-President of the European Commission for Jobs, Growth, Investment and Competitiveness.

## Background

The meeting held on 15 May 2019 at the European Commission headquarters was part of the deliberations of the World Economic Forum's Global Future Council on Europe (GFC Europe), a group of thought leaders from government, business, academia and the media with a mandate to produce ideas and policy innovations for Europe in the form of a "New Manifesto for Europe". The discussion drew on the GFC's white paper Reflections on the Future of Europe.

In addition to GFC members, participants included senior representatives of the European Commission and representatives from other Forum communities, including the Digital Leaders of Europe, Europe Regional Business Council and Young Global Leaders. To allow for a candid discussion the meeting was held under the Chatham House Rule of non-attribution. This note summarizes the main conclusions from the discussion as well as its key recommendations.

## Pragmatic integration

Europe and its institutions are facing unprecedented challenges, driven by internal shocks and an unpredictable and volatile global environment. There is still room for some optimism, despite these unfavourable conditions, when considering what the European project has achieved in recent decades. For example, in terms of integration, much progress has been made in capital market integration,

security and defence, energy and the circular economy as well as in driving Europe's leadership on climate change. The next leadership of the European Commission should build on these achievements and use them as examples of European resilience to show that pragmatic integration is possible even in the midst of crisis and increased divergence on core European values.

That said, coming decades cannot simply offer more of the same. Europeans need a new vision that will engender enthusiasm for the region's future combined with measurable progress for its citizens. In this spirit, the members of the GFC on Europe have convened in recent months to produce a New Manifesto for Europe, which presents a multistakeholder vision for the region and concrete action to achieve these goals.



The draft document is based on three underlying principles:

1. Europe needs to deliver on its original promises. Before coming up with new ideas there is a need to address the gaps and shortcomings that separate aspirations from achievements.
2. Europe needs to learn how to prioritize. Europe cannot be everything for everyone. The EU has spread itself too thin too often, and focused on issues that extend beyond core European interests. The shift towards defining a set of European Common Goods where the EU can deliver better than member states alone, offers a way forward.
3. Europe needs a people-centric agenda. For many Europeans the future looks turbulent and uncertain. Leaders must take these anxieties seriously and better explain how European institutions add to citizen's livelihoods and their economic and social situation in an increasingly volatile world.

### **Increasing Europe's global leadership role in a multipolar world – what values should define the region's future?**

Participants agreed that despite the last decades of crisis management and internal divisions, Europe has been able to increase its global leadership role in key areas such as climate change, energy and social policies, but that the region is falling behind in other areas such as digitalization, innovation and industrial policy. A successful strategy for the next leadership should involve clearly defining the policy areas where Europe should stay the course, and those where it needs more radical approaches to scale up its global impact.

In the shifting geopolitical landscape, Europe must do a better job in defining its global role and recalibrating its relationship with global powers as well as its neighbours. The lack of a collective European strategy towards the People's Republic of China, Russian Federation and the United States has not only led to a loss of political influence, but it has also opened up the opportunity for global powers to use Europe as a region in which they can play out their own strategic agendas. A divided EU vis-à-vis its neighbours – particularly the Western Balkans and Turkey – has resulted in important momentum being lost in reaching progress on peace and stability as well as the rule of law in these strategically important areas for the EU. It is, therefore, vital for the next leadership to reassess these relationships and form a clear engagement strategy moving forward.

Participants also agreed that despite the continued attacks on the liberal rules-based order, people from all over the world still look towards Europe as a place where human, economic and social rights are protected. This trust and respect for core European values is a real strategic asset in building Europe's relationships. Using Europe's role as a "normative superpower" could help promote standards and norms that can be of value to societies beyond Europe.

It was also underlined that a new approach to the rule of law is needed where the linkages between strong institutions, a rules-based order and long-term economic growth, investments and innovation are made more evident.

European institutions should work with the private sector to develop a multistakeholder strategy towards stating the business case for the rule of law.

In addition to a continued focus on Europe's hard powers as well as its security and defence capacities, strategy should look towards the capacities of a range of European institutions to expand its interests and use its soft and economic power to build strategic alliances. One example is the European Bank for Reconstruction and Development (EBRD), which is currently owned by 67 countries and active in 38 economies, from the Southern and Eastern Mediterranean to Central and Eastern Europe, Central Asia and the Middle East and North Africa (MENA). This and other institutional platforms should be considered as key strategic outposts for expanding Europe's global leadership and influence.

Finally, leaders should not wait for another crisis before acting to strengthen Europe. Risk sharing needs to be combined with market discipline. This includes completing the banking union, mitigating the "doom loop" of banking and sovereign crises, and establishing a European Deposit Insurance. Establishing a common safe asset, which does not require mutualization but prevents destabilizing capital flows, should also be considered.

### **Achieving Europe's potential in the Fourth Industrial Revolution**

Europe is going into the Fourth Industrial Revolution with great optimism and a vibrant debate on the region's industrial and technological future. As the global race for investment, knowledge, talent and research intensifies Europe must stay competitive vis-à-vis China and the United States at the same time as it develops its own signature approach to digital development.

Participants agreed that any future pan-European Fourth Industrial Revolution strategy needs to put European values front and centre of its framework. By doing that Europe can offer a Third Way between a more liberal US and a more authoritarian and surveillance-oriented Chinese model of digital development. This is particularly relevant in the area of artificial intelligence (AI) where Europe still lags far behind China and the US. The largest AI fund in the world today is Chinese, while in the US universities, including MIT, are investing \$1 billion to establish an AI centre. This is close to what the EU spends annually on AI in its entirety.

Four areas were outlined as key to a successful future European Fourth Industrial Revolution strategy:

1. Funding: Getting seed funding to start a business in Europe is easier than ever before (via the Enhanced European Innovation Council (EIC) and the increasing number of venture capital funds), but the region still suffers from a shortcoming in funding for mid-caps companies. This holds Europe back and prevents it from scaling up good business ideas to the global level. A European tech venture fund specifically focused on mid-caps companies was discussed. Such an initiative could bring together European governments and institutional investors to not only increase funding, but also remove policy and regulatory obstacles to reaching scale. Europe

also needs to considerably increase its investment in applied research and in R&D to support the growth of European companies in an increasingly competitive global environment.

2. **Talent:** Europe needs to become better at scouting for, and cultivating talent at, an early stage by establishing a talent tech pipeline for next generation European technology pioneers. This requires a shift in thinking in the relationship between major universities and industries, as well as a targeted strategy to create business opportunities and platforms for cross-fertilization between research and industry actors. To keep Europe growing it also needs to step up its ambition in Science, Technology, Engineering and Mathematics (STEM) education. Alongside this, a more focused approach is required to bring back European talent from Silicon Valley by establishing attractive professional top- and mid-level opportunities in this category.
3. **Infrastructure:** The importance of investing in the right digital and physical infrastructure to support the digital transformation of Europe cannot be underestimated. This includes physical railway connections as well as gold standard broadband connectivity. Centres of excellence should be created around Europe focusing on leveraging the specific comparative advantages of different member states.
4. **Creating the right policy and regulatory environment:** The General Data Protection Regulation (GDPR) did not result in a “tech-lash” against regulators, but Europe struggles to strike the right balance between protecting privacy, setting standards and offering a business environment that is attractive and sufficiently flexible for start-ups. How to achieve a balance between these issues is one of the key factors that will affect the level of success of Europe’s digital transformation.
5. **Understanding how technological disruption will transform industries:** The reality is that Fourth Industrial Revolution technologies such as AI, blockchain and automation will affect not only value chains and production patterns, but will transform entire industries producing ripple effects throughout multiple sectors. Industry actors need to become more agile and better anticipate how new technologies will affect their industry structures and how this should be factored into their strategies.

## Raising Europe’s economic growth and competitiveness

European integration has made great strides the past 10 years, incrementally increasing economic integration throughout the block, but much remains to be done before the completion of the Single Market, including the Digital Single Market. The European economy consists of 27 different markets with businesses faced with navigating multiple regulatory frameworks, which is far away from the seamless markets offered by China and the United States. European economies are also growing at different speeds and employing different strategies to adapt to the digital revolution. Five European economies are currently ranked in the top of the latest World Economic Forum Competitiveness Report (Denmark, Germany, Netherlands, Sweden and the

United Kingdom) whereas several other EU-27 are ranked at 50 or below. This shows the continued fragmentation of the European market where the greatest disparities lie in national innovation ecosystems. Countries in Eastern Europe and the Balkans lack basic innovation infrastructure, while countries such as Germany set the global standards in this area. Fully reaching Europe’s competitiveness potential necessitates all EU member states supporting the Single Market and, in particular, removing barriers to the completion of the Digital Single Market.

Increasing the region’s competitiveness and growth necessitates a shift in thinking about the engines of growth. Twenty years ago, start-ups were considered a small part of the economy. Today, they form an integral element of the European economy and are having a profound impact on the region’s industries and public and private sectors. Today opportunities are greatest for those actors who have a more systemic presence across sectors. Data is particularly core to their success. These two factors will be important as Europe considers its next industrial strategy and how the region can become truly competitive in the digital age.

The changes sweeping the region require a change in mindsets, which will mean that public and private actors need to become less risk-averse and better at navigating uncertainty. Mirroring this, financing mechanisms will need to adapt and reliable venture capital funding will be required, particularly in later stages and in “patient” capital. In terms of financing it was also noted that the origin of funding makes a difference, including whether investments come from European or US funds. Two-thirds of European companies with international investors are sold abroad. Therefore, the role of public financing to create, keep and build Europe’s start-up ecosystem should not be underestimated.

Finally, as the region’s population ages and its overall numbers fall, and there are further demographic shifts due to immigration, there is a need to ensure that parts of the population don’t fall behind in the digital revolution. Europe should launch a massive reskilling programme, specifically targeting those excluded from the tech-market and build their hard and soft technology skills so that they are better suited to the digital labour market.

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