THE ATLANTIC CENTURY II

Benchmarking EU & U.S. Innovation and Competitiveness

www.itif.org/files/2011-atlantic-century.pdf | www.EABC.org

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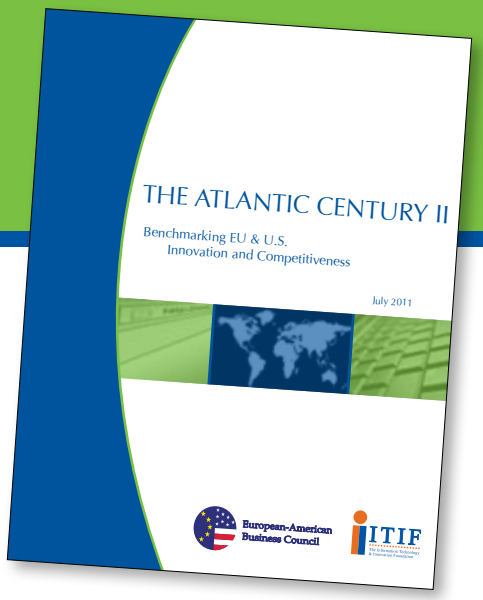

Executive Summary

The Great Recession was a shock to the global economy. It was a tremor that exposed the fault lines of economic weakness in many nations, including the United States and Europe. These fault lines reflect a declining ability of Western nations to effectively engage in innovation-based global competition.

At the height of the Great Recession in 2009, ITIF and the EABC published *The Atlantic Century.* The report assessed the global innovation-based competitiveness of 36 nations and 4 regions (the EU-15, the EU-10, the EU-25, and NAFTA) as they stood in 2007 as well as their 1999-2007 trend lines. The report used 16 metrics within 6 categories: (1) human capital, (2) innovation capacity, (3) entrepreneurship, (4) IT infrastructure, (5) economic policy, and (6) economic performance.

The results were a surprise to many and a wake-up call for the U.S. and Europe. The U.S. did not rank #1, as many assumed. Rather, it ranked 4th out of 40 nations and regions.[1] And the EU-15 ranked 16 percent below the United States. The results regarding trend lines were even more disconcerting. The U.S. ranked last in improvement in international competitiveness and innovation capacity over the past decade, and the EU-15 ranked 28th behind 14 nations, including China, Singapore, Japan, Russia, and South Korea.

In July 2011, we revisited these metrics of competitiveness, adding Argentina, Chile, Indonesia, Malaysia, South Africa, and Turkey to our study. The U.S. and EU-15 ranks remain unchanged—4th and 18th. But in terms of progress over the past decade the picture is even more troubling. Of 44 countries and regions, the U.S. ranks second to last, ahead of only Italy. The EU-15 ranks 36th in the rate of change.

These findings have significant implications for Europe and the U.S. Both continue to lose ground in the race for global innovation advantage. The two regions making the fastest progress are Eastern Europe and Southeast Asia. The EU-10 still lags behind the U.S. and EU-15, with overall scores just 60 percent of the U.S. score. China and South Korea are the top two nations in their rate of improvement over the last decade, while Singapore ranks eighth.

Some of this reflects a simple process of catch up by countries that have been less advanced. But some of the nations that have shown faster progress than the U.S. and EU-15 are advanced nations such as Australia, Canada, Japan, and South Korea.

So where does this leave the U.S. and Europe? The simple answer is that unless they change course, the economic path they are on is a downward one. Regaining global innovation-based competitiveness means moving aggressively into next-generation industries, including advanced IT, robotics, nano-technology, biotechnology, and high-level business services, while at the same time maintaining output in highly efficient and competitive traditional industries and continually raising productivity in service sectors such as retail and health care, particularly through enhanced use of information technology.

There are two key steps Europe and the U.S. must take to increase the odds of a successful outcome. First, they need to join together in a robust free-trade/zero-tariff alliance, in part to increase commercial linkages, but also to put real pressure on innovation mercantilists, particularly in Asia. Innovation mercantilism hurts both the U.S and Europe, and unless they band together to take a much tougher stance against it, both will continue to lose competitiveness and wealth creation capacity. The U.S. and Europe should engage in a Trans-Atlantic Partnership modeled after the Trans-Pacific Partnership.

Both Europe and the U.S. also need to ensure that domestic policies support investment, innovation, and productivity through smarter regulation, increased government investments in basic research, and competitive corporate tax policies to spur innovation.

But each region has special challenges. For Europe, it's to fully embrace innovation. As much as EU leaders proclaim their support for innovation, they often want the benefits of a knowledge-based technology economy without the "creative destruction" that is required to achieve it. Unless Europe can accept that innovation entails plant closures and job losses, new technologies with uncertain social or environmental impacts, and new kinds of business models and organizations, it's not likely that it will be able to keep up in the race for global innovation advantage.

America's challenge is different. Its major challenge is not timidity, but torpidity. Too many in America believe that since the U.S. has been #1 for so long, it will continue to lead. Our study shows that, indeed, the U.S. is on a path of decline if it does not act decisively. The U.S. must develop and implement a national innovation-based competitiveness strategy that not only supports smarter regulation and a more competitive corporate tax system, but also increased investments in the building blocks of innovation and productivity. This relates to a second American challenge, the neoclassical economic idea that countries don't compete—they do! The U.S. must embrace a fresh set of policies that advance innovation, manufacturing, and world-class services.

If the 21st century is to remain an Atlantic Century, major changes must be made. We are sure of one thing: it will not be the Atlantic Century if Europe and America continue on the policy paths they are on today. If they can form an anti-mercantilist alliance, adopt policies to spur investment in innovation and productivity-enhancing activities, and embrace innovation they can insure this will be an Atlantic Century after all.

Endnotes

1 In the 2009 report there were forty countries and regions; however Luxembourg and Malta were omitted from the 2011 report due to data difficulties relating to size of these countries' financial transactions.

European-American Business Council

ITIF The Information Technology & Innovation Foundation

Overall Scores

Ranking Today

Country	Rank
Singapore	1
Finland	2
Sweden	3
U.S.	**4**
S. Korea	5
UK	6
Canada	7
Denmark	8
NAFTA*	9
Netherlands	10
Japan	11
Australia	12
Belgium	13
France	14
Ireland	15
Germany	16
Austria	17
EU-15**	**18**
EU-25**	**19**
Czech Rep.	20
Estonia	21
Hungary	22
Spain	23
Slovenia	24
Portugal	25
Slovakia	26
EU-10**	**27**
Latvia	28
Russia	29
Italy	30
Malaysia	31
Lithuania	32
Chile	33
China	34
Cyprus	35
Poland	36
Greece	37
Brazil	38
Turkey	39
Mexico	40
South Africa	41
Argentina	42
India	43
Indonesia	44

10-Year Trend

Country	Change Rank 1999-2011
China	1
S. Korea	2
Cyprus	3
Slovenia	4
Estonia	5
Czech Rep.	6
Latvia	7
Singapore	8
EU-10	**9**
Portugal	10
Hungary	11
Lithuania	12
India	13
Austria	14
Chile	15
Greece	16
Japan	17
Slovakia	18
Finland	19
Denmark	20
Australia	21
Indonesia	22
Ireland	23
UK	24
Brazil	25
Mexico	26
Poland	27
EU-25	**28**
Netherlands	29
Turkey	30
Spain	31
Argentina	32
Russia	33
Canada	34
Malaysia	35
EU-15	**36**
France	37
Germany	38
Sweden	39
Belgium	40
NAFTA	41
South Africa	42
U.S.	**43**
Italy	44

*** North American Free Trade Agreement region, which encompasses Mexico, Canada, and the United States.**

**** The European Union is a supranational organization that consists of 27 countries across the European continent. The EU-15 consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The EU-10 consists of the 10 new member states that joined the EU in 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. The EU-25 consists of all member states however Bulgaria, Romania, Malta and Luxembourg were not included because of a lack of sufficient data for analysis.**