UNICE

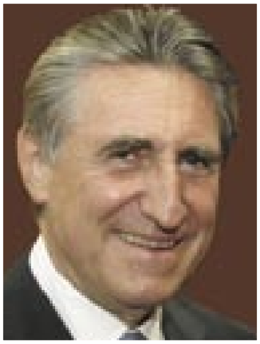
THE VOICE OF BUSINESS IN EUROPE

COMPETITIVENESS DAY
20 OCTOBER 2005

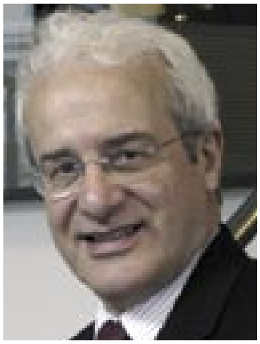
CROSSING FRONTIERS

AS THE WORLD GOES GLOBAL

Ernest-Antoine Seillière
President



Philippe de Buck
Secretary General



As the world goes global Europeans must cross frontiers!

The world is going global. Emerging countries – China, India, and Brazil, among others – are major competitors for our industry, services and agriculture. This is a chance for us, Europeans. But we must not sit back. We have to adapt. Everyone will have to cross frontiers!

Let's first implement a real and fully integrated internal market for goods and services: the larger the domestic market, the stronger European companies will be and the more jobs will be created.

Let's be more optimistic about the future: many companies of all sizes prove every day that they are world class competitors, but for them the European dimension is not enough.

Let's become a more open society by embracing the opportunities in Europe and in the world instead of being excessively risk-averse.

Let's invest in our youth: their talents and strengths will be the success stories of the future. With improved education, research and training, they will be able to shift into high gear to be more globally competitive. Will the EU create a world class business environment? We badly need this because only then will our future be guaranteed.

Prime Minister Blair has opened the debate on the future of the European social model. UNICE is ready to participate in this very timely discussion. As the future of the social model will depend on the success of European companies, it is vital that the 'Voice of Business in Europe' is heard and that we push our agenda forward with the support of all companies in Europe.

Philippe de Buck
Secretary General

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President

THE EU IN A CHALLENGING WORLD ECONOMY

EUROPE CAN RETAIN GLOBAL LEADERSHIP...

...BUT EMERGING COUNTRIES ARE CATCHING UP...

...IT IS IMPERATIVE FOR THE EU TO ENHANCE COMPETITIVENESS TO FOSTER GROWTH AND JOBS

EUROPE CAN RETAIN GLOBAL LEADERSHIP...

→ The EU is the world's largest exporter of goods and services and biggest investor abroad. (see Fig.1 & 2)

- Thanks to its open market for trade and investment, the EU is both affected by competition and responsible for shaping globalisation.
- The EU needs to continue to show leadership in the global economic system.

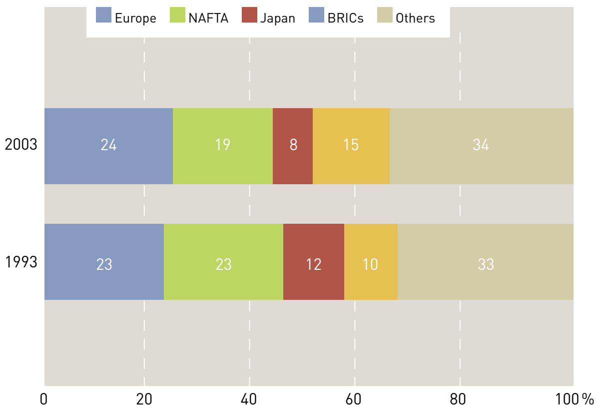
→ The EU must fight against short-sighted protectionism.

- By playing a pro-active role to help developing countries integrate into the global economy.
- By ensuring that trade remains an essential driving force for balanced economic development in the world.
- By making Europe more attractive to new investors.

→ European business is taking up the challenge of global competition.

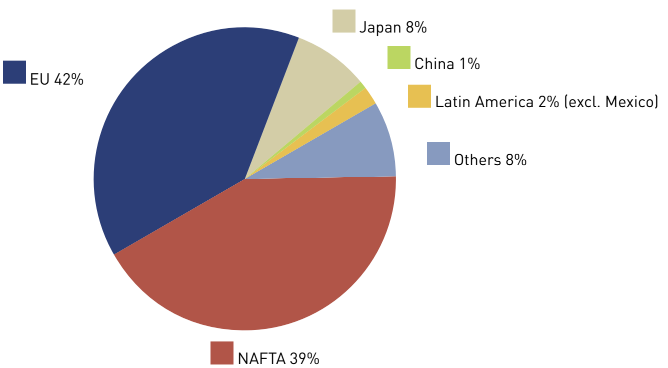
- Business needs a strengthened, open, rules-based system to foster international trade and investment.
- The EU must sharpen its trade strategies to open new markets for goods, services and investment.

Fig.1 : Share of world exports in goods and services



Source: World Trade Organisation (WTO), intra-EU15 excluded, BRICs = Brazil, Russia, India, China

Fig.2 : Share of world FDI outflows, 2001-2003



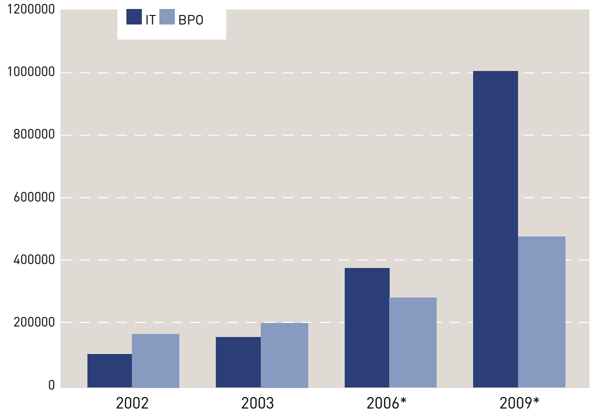
Source: United Nations Conference on Trade And Development (UNCTAD), Eurostat, computed by European Commission, intra-EU15 excluded

→ "Making Europe a globally attractive place to invest has to become a political priority with a much stronger focus on the international competitiveness of the European capital market and financial services."

Olivier Lefebvre, Member of the Managing Board of Euronext N.V.

...BUT EMERGING COUNTRIES ARE CATCHING UP...

Fig.3 : Information Technology (IT) and Business Process Operations (BPO) employment in India



Source: National Association of Software and Services Companies (NASSCOM, India), computed by The Economist, A world of work, November 13 2004.

** projections*

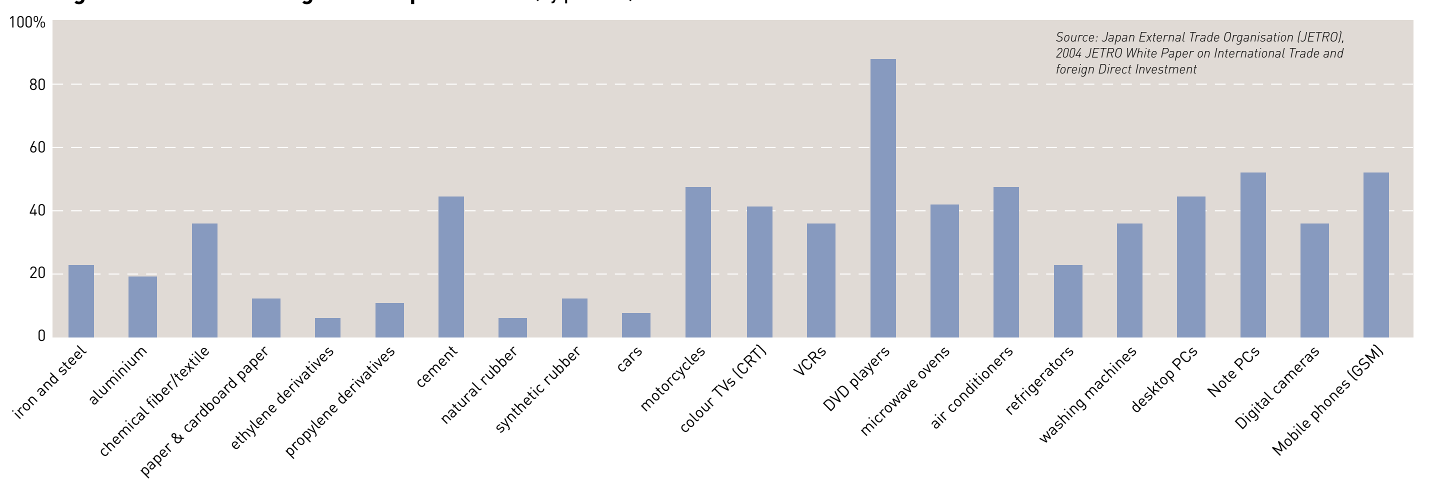
→ **Economic growth in large emerging countries, such as China and India, is accelerating.**

- China is an industrial powerhouse not only in labour-intensive goods like textiles. It has also specialised in a broad range of high technology manufacturing. (Fig.4)
- India is a growing market for business services – especially in information technology. (Fig.3)

→ **As these countries become major competitors in the liberalised EU domestic market, they can also offer tremendous growth opportunities for European business.**

- EU trade and investment policies should focus on achieving substantially increased market access, improved legal certainty for EU companies in third countries and defending EU economic interests when rules are not respected.
- The European economy can rise to the challenge of competition from major emerging countries and increase market shares but only if the EU improves productivity and labour skills and boosts investment in technology.

Fig.4 : China's share of global output in 2003 (by product)



→ "We cannot compete with emerging economies like China or India on labour costs. Our key to success is innovation – which the EU must do more to foster."

Dr Jürgen Hambrecht, Chairman of the Board of Executive Directors of BASF

...IT IS IMPERATIVE FOR THE EU TO ENHANCE COMPETITIVENESS TO FOSTER GROWTH AND JOBS

→ The EU and the US are each other's biggest trade and investment partner. But the growth gap between the EU and the US is on the increase once again.

- Over the last ten years, GDP per capita has declined in Europe compared with the US. (Fig.5)
- Without bold social security and pension policy reforms, ageing populations will reduce the EU growth potential even further.

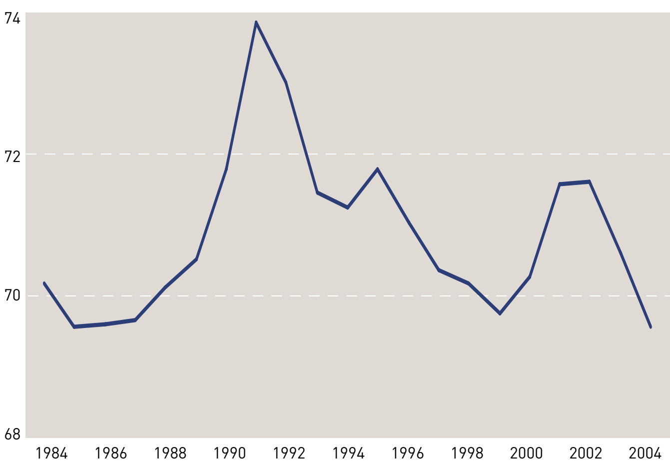
→ International competition is blamed too often for poor growth and job prospects.

- The EU alone is responsible for shaping a system that causes sluggish growth and leaves more than 20 million people unemployed.
- The EU is paying the price for not implementing structural reforms to boost growth potential.
- Without immediate action, the EU will remain a low-growth and low-employment area compared with its main competitors and especially the US.

→ Reform options for the EU social model can be found in Europe.

- Nordic countries and the UK have been able to improve their competitiveness and maintain their welfare standards despite ageing populations. The new member states have shown strong dynamism in embracing reforms. (Fig.6)
- Other countries have not reformed and are dragging down growth prospects in the Union as a whole.
- With its ageing population, the EU is unlikely to restore confidence in its ability to improve standards of living in the future unless it acts now.

Fig.5 : EU GDP per capita compared with the US (US=100)



Source: Rexecode (Centre de Recherche pour l'Expansion de l'Economie et le Développement des Entreprises), Paris.

Fig.6 : Growth Competitiveness Index ranking

1 Finland	12 Netherlands	27 France	44 Latvia
2 US	13 Germany	30 Ireland	47 Italy
3 Sweden	14 Australia	32 Malta	59 Bulgaria
4 Taiwan	15 Canada	33 Slovenia	60 Poland
5 Denmark		36 Lithuania	61 Croatia
6 Norway	17 Austria	37 Greece	63 Romania
7 Singapore	20 Estonia	38 Cyprus	66 Turkey
8 Switzerland	23 Spain	39 Hungary	
9 Japan	24 Portugal	40 Czech Republic	
10 Iceland	25 Belgium	43 Slovak Republic	
11 UK	26 Luxembourg		

Source: World Economic Forum, Global Competitiveness Report 2004-2005

→ "The competitive decline of the EU must be reversed through an active policy to restore European competitiveness. Only then will European companies be able to play their central role in growth generation and job creation."

Luc Vandewalle, CEO of ING Belgium

GLOBAL CHALLENGES REQUIRE GLOBAL APPROACHES

BOOST EDUCATION AND INNOVATION

ENCOURAGE FLEXIBILITY TO TURN OUTSOURCING INTO AN OPPORTUNITY

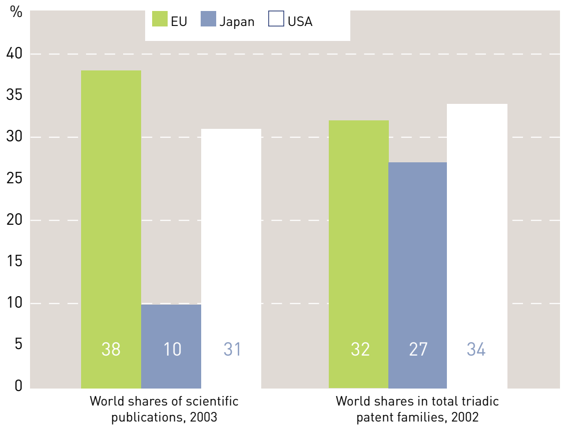
PROVIDE SMEs WITH EASIER ACCESS TO GROWING MARKETS

STRENGTHEN THE MULTILATERAL TRADE AND MONETARY SYSTEMS

DEVELOP INNOVATIVE AND GLOBAL APPROACHES TO ENVIRONMENTAL CHALLENGES

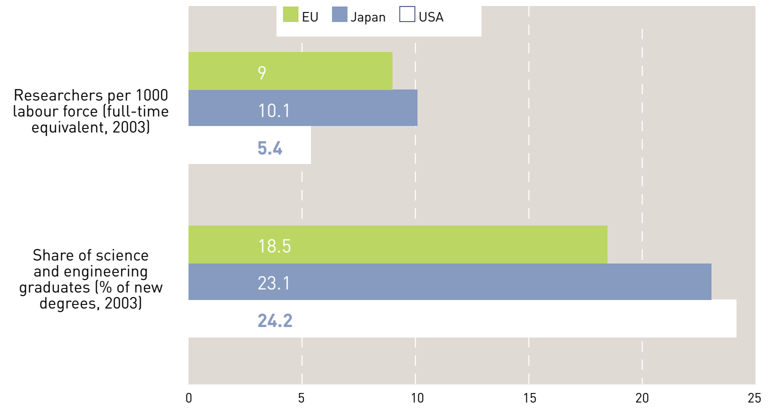
BOOST EDUCATION AND INNOVATION

Fig.7 : World-class scientists, weak market applications



Source: European Commission

Fig.8 : Attracting researchers



Source: European Commission

→To compete in global markets, the EU must be able to specialise in higher added value through increased use of innovation and education.

- Europe has good scientists but is slow to transfer research into commercial applications. The EU is the world's biggest contributor to academic research, but the US and Japan commercialise more. (Fig.7)
- Some 400,000 Europeans with scientific degrees are currently living in the US. The EU is not doing enough to encourage research in Europe. (Fig.8)
- More cooperation between companies and research centres must be encouraged, for instance by improving the State Aid regime to facilitate the interface between research and technological innovation.

→The backbone of a high-tech economy is a skilled and knowledgeable workforce but Europe lags behind Japan, the US and Canada in post-secondary education. According to the European Commission, EU investment in higher education accounts for only 1.1% of GDP, below the level of key competitors such as the US (2.7%) or Canada (2.5%) in 2004.

- Governments should invest at least as much as major competitors in education and should encourage more private investment to allow business to contribute to increasing quality in human resources. Companies are interested in investing more in higher education but this will only happen if conditions are favourable for private investment.

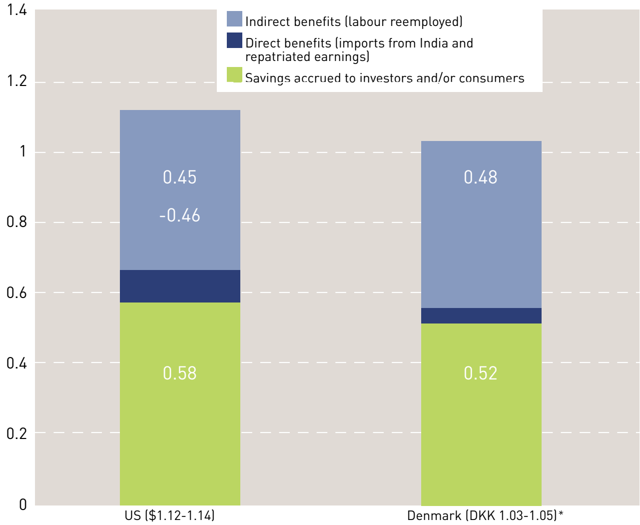
→Companies will invest more in innovation under a favourable legal framework.

- Public-Private Partnerships can flourish where ownership, access and exploitation of intellectual property rights (IPR) are ensured.
- Many emerging countries do not seriously combat counterfeiting and piracy, costing EU companies billions of euros in lost sales. The EU must work harder to make IPR better understood and to enforce IPR at a global level by strengthening international cooperation in the fight against piracy and counterfeiting.

> → "Europe's place in the global economy can only be secured if it goes back to its historical roots of innovation, education, technological development and the early adoption of newly developed technologies."
>
> Klaus Kleinfeld, CEO of Siemens

ENCOURAGE FLEXIBILITY TO TURN OUTSOURCING INTO AN OPPORTUNITY

Fig.9 : Gains from outsourcing due to flexibility



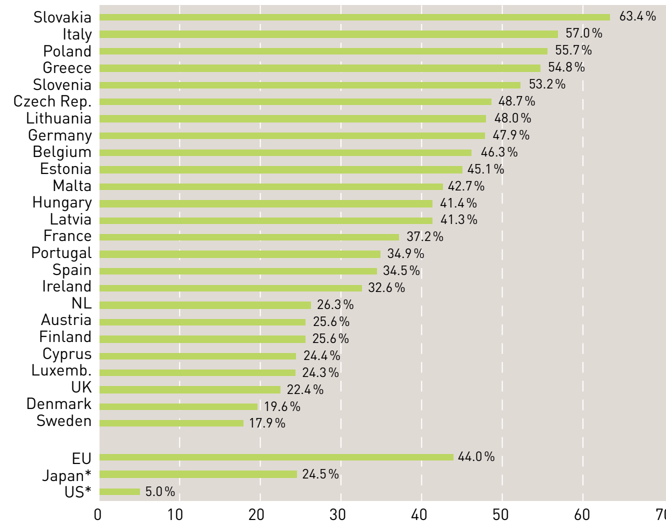
Net return to 1$/1DKK outsourced to India

Source: Mc Kinsey Global Institute (2003) "Offshoring: Is it a Win-Win game?"

**Dansk Industri (2005) "The Global Challenge, the case of Denmark"*

Fig.10 : More needs to be done to help the unemployed find new jobs.

Long-term unemployment as a % of total unemployment, 2003



Source: UNICE calculations using data from Eurostat

→ Outsourcing economic activity to regions where labour is cheaper has been portrayed in the media as a harmful symbol of globalisation. But relocation to low-wage countries and its employment impact remain limited in aggregate terms. Relocation can actually be beneficial for all parties involved, provided that the cost savings are used to create new and better jobs, and displaced workers can find new jobs in the home country.

- Studies show that countries with more labour market flexibility benefit much more from outsourcing activities. Denmark, which has one of the most flexible labour markets in the EU, generates wealth for the Danish economy for every Kroner invested abroad. (Fig.9)

→ Rather than yielding to protectionist pressure, governments should focus on flexibility and aptitude for change, both of which are needed to enable companies to get more out of outsourcing.

- Protectionism will only make social costs higher in the long run. We must establish the proper business conditions to create new and better jobs in the EU and equip workers with the right skills to be employed in higher-productivity jobs. Sweden, Denmark and the UK lead the way in ensuring that unemployed people find new jobs. (Fig.10)
- To ease necessary adjustments, governments must also focus on flexible labour markets, dissemination of technology and know-how and lifelong learning programmes to minimise potential social costs of relocation.

→ "We must stop blaming globalisation for Europe's unemployment problem. Instead let's focus on adopting the right policies to promote competitiveness and thereby growth and jobs in the EU."

Birgit Nørgaard, Group CEO of Carl Bro

PROVIDE SMEs WITH EASIER ACCESS TO GROWING MARKETS

Fig.11 : Why are European SMEs going international?

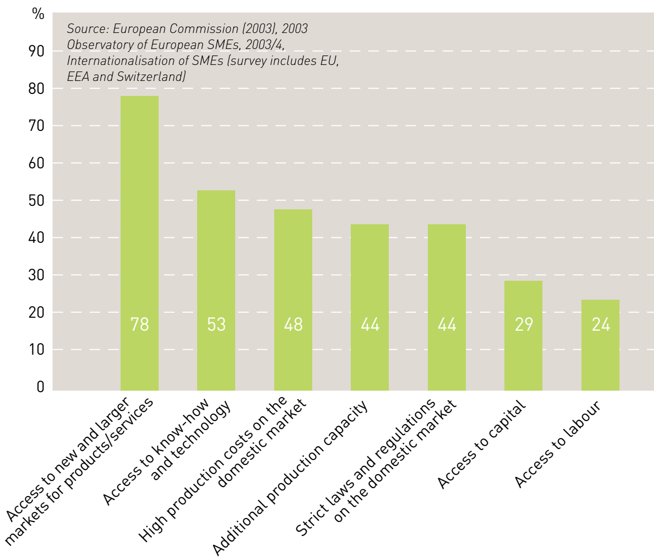
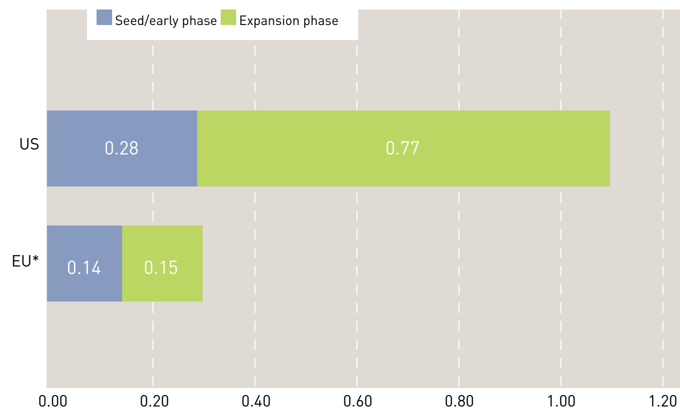


Fig.12 : Venture capital needs to develop



**Data do not include Estonia, Luxembourg, Cyprus, Latvia, Lithuania, Malta and Slovenia*
Source: European Commission.
Per 1000 GPD, 2003

→ **European SMEs are increasingly internationalised through foreign supply, trade and investment. Many of them are looking abroad to expand, invest, grow and thus create new jobs in foreign as well as domestic markets. A survey by the European Commission shows that SMEs go international to search for new market opportunities rather than, for instance, to look for lower labour costs.** (Fig.11)

- The EU therefore needs to make sure that international policies, such as export credit insurance, help SMEs go global by addressing trade and investment risks.
- The EU must ensure that SMEs gain much needed access to finance to foster growth and create jobs in Europe. US firms have much more access to venture capital. (Fig.12)
- The EU should also strengthen its capacity to enforce international trade commitments (IPR, trade defence instruments, etc.) to ensure that European SMEs are not harmed by trade violations.

> → “The internationalisation of SMEs improves their performance and competitiveness. If European entrepreneurs are to continue to be the engine for growth and jobs in Europe, policy-makers must take steps to reduce international risks for SMEs and help them take the leap forward into the global arena.”
>
> Arndt G. Kirchhoff, Chairman of UNICE’s Entrepreneurship & SME Committee
> (Chairman and CEO of Kirchhoff Automotive GmbH & Co. KG)

STRENGTHEN THE MULTILATERAL TRADE AND MONETARY SYSTEMS

→ The EU must play an active role in the WTO DDA negotiations which, if ambitious, will provide far-reaching economic benefits for all countries. The World Bank estimates that income gains from the DDA could be $518 – of which $349 billion would be for developing countries alone.

- All WTO members need to substantially liberalise markets. While developed countries must do more on agriculture, the emerging countries need to lower their industrial tariffs. (Fig.13)
- The WTO Hong Kong Ministerial Conference should set the path for concluding the DDA by the end of 2006 by moving the most important negotiating issues forward.
- To deliver on the DDA promise, the WTO needs to vastly increase access for goods and services, make far-reaching progress on trade facilitation and provide real new market access in agriculture for all countries but especially for developing countries.

→ The euro is increasingly recognised as a credible international currency while the US dollar has declined in value in recent times due to expanding trade and budget deficits. In addition, several major trading partners have pegged their currencies to the declining dollar, thus creating stronger price competition for European exporters on world markets. (Fig.14)

- The EU, together with its largest trading partners, should work to continue stabilising the international monetary system by ensuring that currencies can adjust on the basis of economic fundamentals.
- US deficits should be reduced to ease adjustment to international currencies.
- The July 2005 Chinese revaluation of the Renminbi is an important signal. The shift to a more flexible regime should continue to promote global growth and stability.
- Full implementation of the Lisbon Strategy is needed to strengthen confidence and to raise internal demand in the EU so that Europe can be an engine for global growth and prosperity.

Fig.13 : Tariffs on industrial products

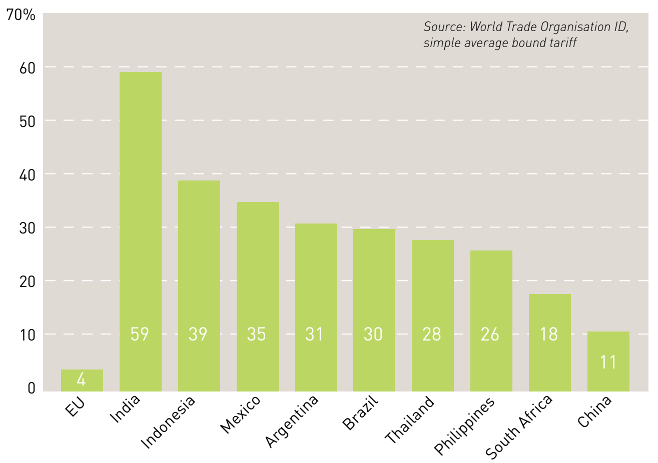
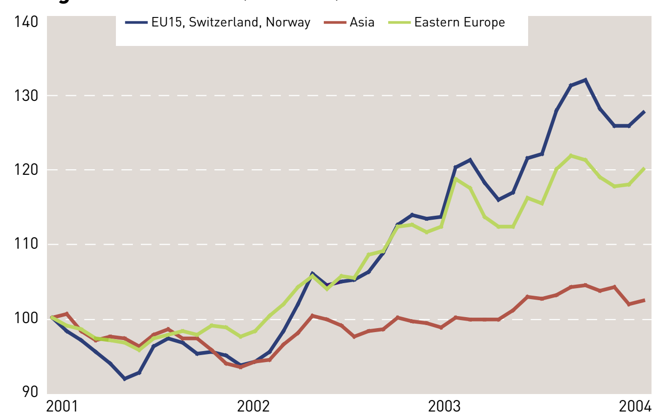


Fig.14 : European and Asian baskets of currencies against the dollar (2001 = 100)



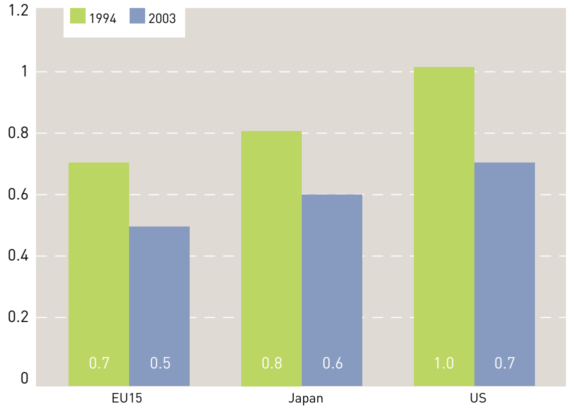
Source: WTO, Currency baskets weighted by trade values. EU15 without Denmark; Eastern Europe includes Bulgaria, Czech Rep, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak Republic; Asia includes Japan, China, Rep. of Korea, Chinese Taipei, Singapore and Hong Kong.

→ "The EU can compete in an open and fair world economy. We are simply too big to turn our back to the world, nor can we ignore that economic growth depends on our competitiveness."

Peter Bakker, CEO of TNT

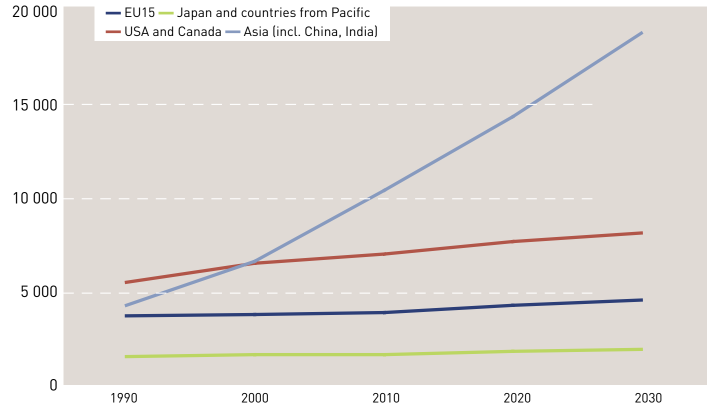
DEVELOP INNOVATIVE AND GLOBAL APPROACHES TO ENVIRONMENTAL CHALLENGES

Fig.15 : European firms have become more energy-efficient



Source: Own calculations based on BP Statistical review of world energy June 2004 and Eurostat. One unit of output = €1000 GDP at PPP. Includes crude oil, shale oil, oil sands and NGLs (natural gas liquids - the liquid content of natural gas where this is recovered separately) but excludes liquid fuels from other sources such as coal derivatives.

Fig.16 : Who releases CO_2? CO_2 Emissions (M/Tonnes) Projections



Source: European Commission

→ Europeans want to improve the European and global environment.

- But European business needs to adapt to competition from countries which engage less on environmental issues.
- The solution is to find innovative regulatory approaches which rely less on over-prescriptive legislation and give more flexibility for companies on the means of reaching objectives. This is fundamental to foster eco-efficient innovation.
- European firms have contributed significantly to eco-efficiency by reducing their energy consumption considerably compared with Japanese and American counterparts. (Fig.15)

→ A new model of international cooperation must be designed which ensures that all countries make a tangible contribution to the fight against climate change.

- The EU should facilitate the launch of a process for the definition of an effective strategy for international cooperation post-2012 at the next meeting of the Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC - December 2005 in Montreal). (Fig.16)

→ UNICE supports the objectives of REACH but looks for the EU to adopt a more cost-effective approach.

- Compliance costs for European companies – which are expected to fall disproportionately on SMEs – must be reduced.
- REACH must allocate resources most appropriately through proportionate information requirements, which should focus on substances of high concern while facilitating the registration of substances of low concern.

EUROPEAN INSTITUTIONS, MEMBER STATE GOVERNMENTS AND BUSINESS MUST TAKE ACTION:

EU INSTITUTIONS SHOULD

- Make use of community policies and budget to support a competitiveness agenda
- Complete the internal market, including services
- Pursue an ambitious trade and investment policy and conclude a comprehensive WTO DDA agreement at the end of 2006
- Ensure that internal and external policies are consistent and coherent

EU GOVERNMENTS SHOULD

- Implement with determination the growth and jobs strategy through their national action plans
- Create the right framework for innovation and investment
- Modernise social systems and reform labour markets
- Organise effective implementation of a lifelong learning system

EU BUSINESS IS READY AND WILLING TO

- Invest in innovation, research and training to strengthen EU competitiveness
- Contribute to strengthening the European economy by investing in Europe and Europeans
- Develop international activities from a strong EU base

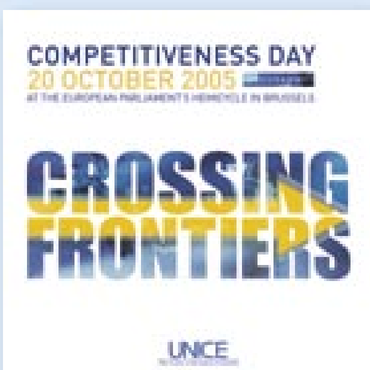
"Europe's global destiny is largely in its own hands. We can choose to cross frontiers and be world class or we can give up. European companies have no other choice than to take up the challenge of global competition and they will do it. Are EU political leaders ready to do the same?" UNICE President Ernest-Antoine Seillière

WHAT IS UNICE

UNICE represents more than 20 million small, medium and large companies. Active in European affairs, UNICE's members are 39 central industrial and employers' federations from 33 countries.

UNICE actively promotes and represents business interests in Europe. It advocates a favourable and competitive business environment to foster sustainable economic growth.

UNICE has been active in European integration since 1958. UNICE is also an active partner in the European Social Dialogue provided for in the Treaty on European Union since 1993.



This brochure has been produced for the 3rd Competitiveness Day, "Crossing Frontiers", held at the European Parliament's hemicycle in Brussels on 20 October 2005.

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