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BUSINESSEUROPE



# GOING GLOBAL THE WAY FORWARD

OCTOBER 2008

# WHO ARE WE?

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BUSINESSEUROPE's members are 40 central industrial and employers' federations from 34 countries, working together to achieve growth and competitiveness in Europe.

BUSINESSEUROPE, the Confederation of European Business, represents more than 20 million small, medium and large companies.

BUSINESSEUROPE missions:

- Actively promote the role of enterprises in Europe
- Advocate a competitive business environment
- Be a recognised social partner in the European Social Dialogue
- Be the voice of business for building the future of Europe

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## FOREWORD



Openness to the international economy is at the heart of Europe's prosperity. International trade accounts for 15% of EU GDP and Europe is the world's largest exporter. However this strong position should not lead us to complacency. If the EU does not continue to focus on the competitiveness of its goods and services, companies in other regions of the world will overtake our leading position. What is more, economic integration with other regions of the world will only intensify in the coming decades as companies' production and service delivery models become ever more globally integrated. Europe's future growth depends on remaining fully engaged with the world economy.

The European Union's answer to this challenge has been the Lisbon Strategy, whose external dimension was fleshed out in the Global Europe Strategy of 2006. Global Europe focuses on securing market access for the EU's goods and services through trade agreements, reinforced diplomacy and international regulatory cooperation. In addition it refers to an implicit element of Lisbon: that export competitiveness must also be taken into account in the EU's domestic policies.

This brochure, which summarizes a longer study BUSINESSEUROPE has prepared (for further information see the rear inside cover), asks just how well these strategies are working for Europe. A preliminary look at the headline figures shows that while Europe has had relative success in maintaining its share of world exports, there are reasons for concern: This share has slightly but noticeably declined from 20.8% in 1995 to 19.5% in 2005. Also, the EU trade deficit has increased continuously, reaching 185.7 billion euros in 2007. Finally a look across different sectors and geographical regions shows that, in some areas, deeper problems exist.

The objective of this document is not, however, to lament a European decline. In absolute terms the EU's exports are increasing and constitute an increasing contribution to growth and jobs. European investment abroad means that many emerging country exports are produced by subsidiaries of EU companies. But Europe is not taking full advantage of the continuing expansion of world trade. BUSINESSEUROPE therefore seeks to assess why this is the case and put forward coherent policy recommendations to guarantee the EU's competitive position in global markets into the future.

## EUROPE'S EXPORT MARKET SHARE

Europe is the world's leading exporter and managed largely to maintain its share of world exports from 1995-2005. This fact is remarkable in light of the rising share of emerging countries in world trade and all the more so as Europe's traditional competitors, Japan and the United States, saw their share in world trade substantially diminish during the same period.

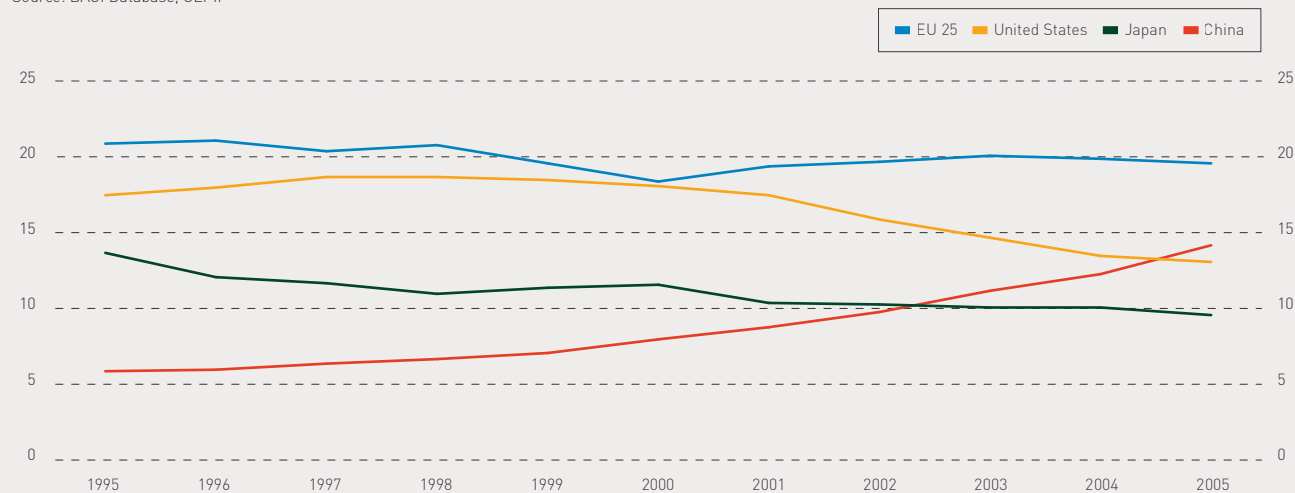
Nonetheless a slight but noticeable decline has taken place with market share falling from 20.8% in 1995 to 19.5% in 2005 (see chart 1). In addition, the EU trade deficit has increased continuously, reaching €185.7 billion in 2007.

Looking at the major markets for EU exports there is also some cause for concern: while in the US, our largest market, the EU's share rose by 15% to 20.8% between 1995 and 2005, in high growth emerging markets this is not the case. In Russia, our share has fallen by 9% - though the EU still produces 54% of Russian imports. Europe has also lost market share in China: from 15.8% to 14%.

By sector, the EU's export position in services and automobiles is in a relatively strong position. However, falloffs in market share are noticeable in non-pharmaceutical chemicals, textiles, clothing, electronics and metals (see chart 2).

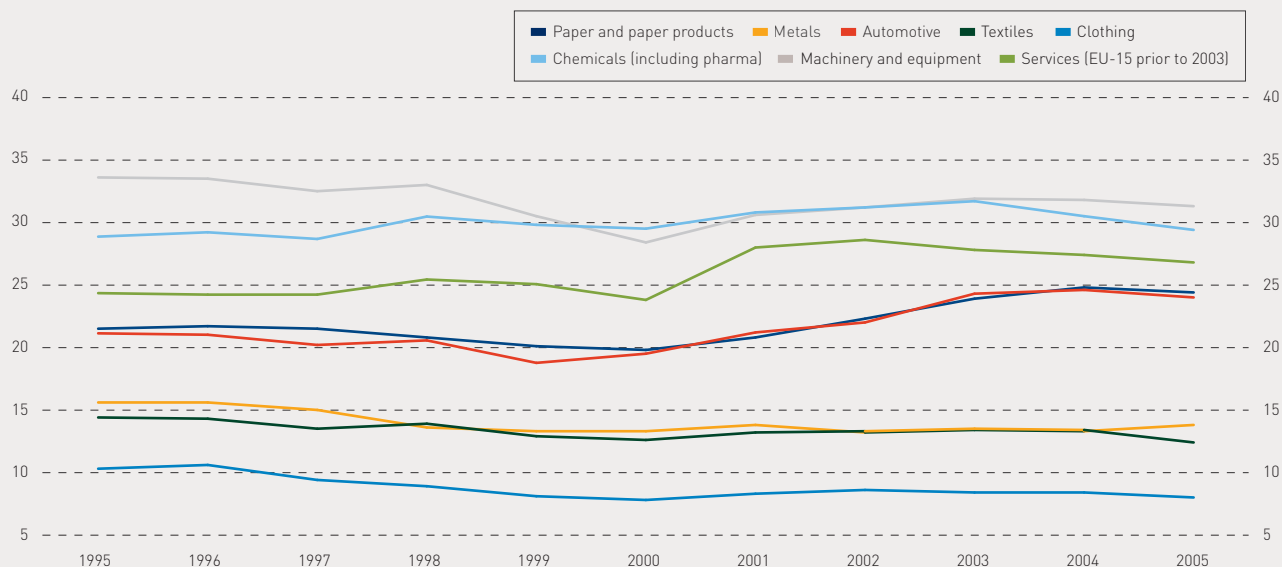
**Chart 1** World market share [% of total world exports by value]

Source: BACI Database, CEPII



**Chart 2** EU share of world exports by sector

Source: BACI Database, CEPII



Finally, there are notable differences between member states – German market share is stable at 10% between 1995 and 2005 – carrying other countries such as Slovakia along with it – while France and Italy fell to 4.9% and 3.9% in 2005, declines of nearly a fifth of their respective totals ten years previously.

While the European Union should be encouraged by the degree to which European companies are holding their own, there is a need to take action to ensure that incipient declines do not become a long-term pattern. This is particularly important for those sectors and Member States that are performing below the average.

## FACTORS AFFECTING EUROPE'S COMPETITIVENESS

What factors are leading to these new trends in EU export competitiveness?

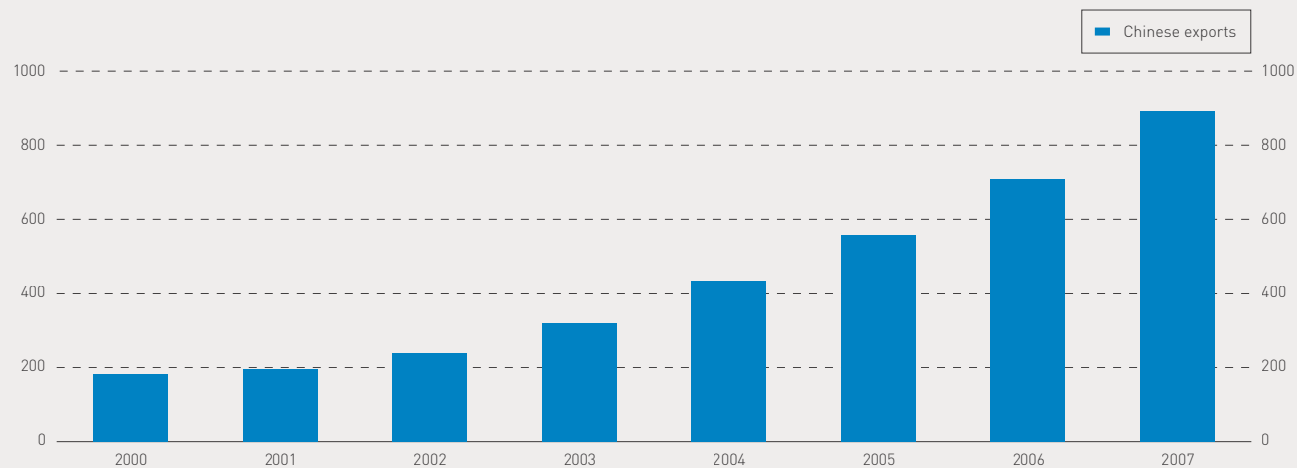
### → International Economic Environment

The high growth of emerging country exports, the vast majority from China, is the most important factor in understanding reductions of European export market shares. China alone has been doubling its exports every three and a half years (see chart 3). The growth of emerging economies is also, of course, a major opportunity. However, while EU exporters are taking advantage of the new high

growth destinations for exports and investment, they often face high tariffs – as high as 100% of the value of the product – and non-tariff barriers, as well as barriers to services exports and investment that keep them from fully accessing the markets of the US, Russia, Brazil, Japan, India, China and others. Furthermore, the international macro-economic environment, with the currencies of emerging Asia pegged to the dollar, has serious implications for many European sectors, as the appreciation of the euro is often very sharp and unpredictable.

**Chart 3** Growth of Chinese merchandise exports (bn €)

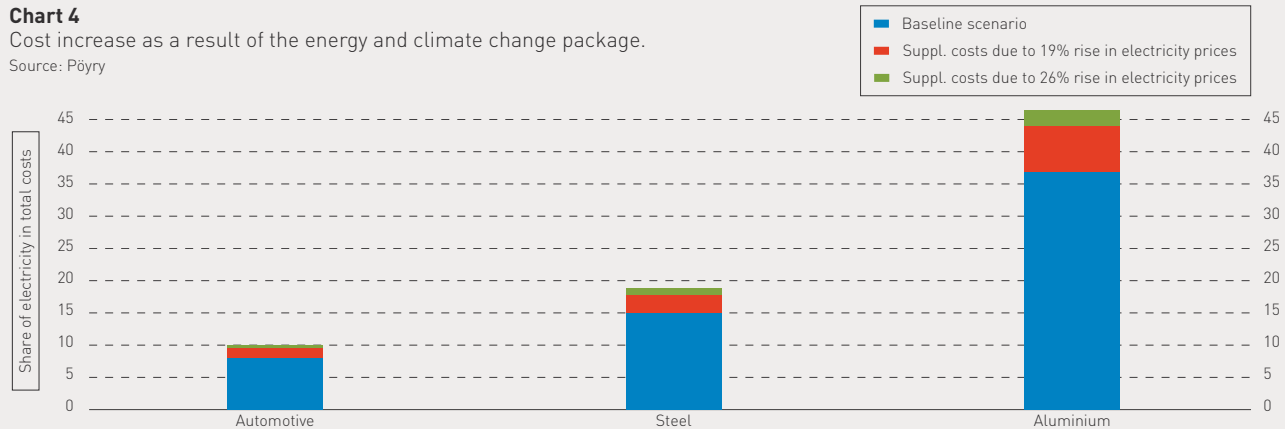
Source: WTO



**Chart 4**

Cost increase as a result of the energy and climate change package.

Source: Pöyry



### → The Cost Challenge

European exporters face a number of important challenges related to their cost base. Regulatory costs include lack of implementation of the EU Single Market – for goods, services or infrastructure – and the burden of the EU regulatory regime. For instance, proposals for tackling climate change could cost industry as much as €90 billion a year by 2020. For some sectors (see chart 4), the increase will be a significant percentage of their costs. Labour costs are also an important factor in determining competitiveness and it is notable that the EU Member State which has had most export success in recent years – Germany – has achieved a substantial reduction in unit labour costs (see chart 5). Finally, European companies face higher

raw materials costs and difficulties with supply of raw materials as a result of interventionist practices – such as export restrictions and dual pricing – by emerging country governments and restrictions on access to materials available in Europe.

### → Capacity constraints

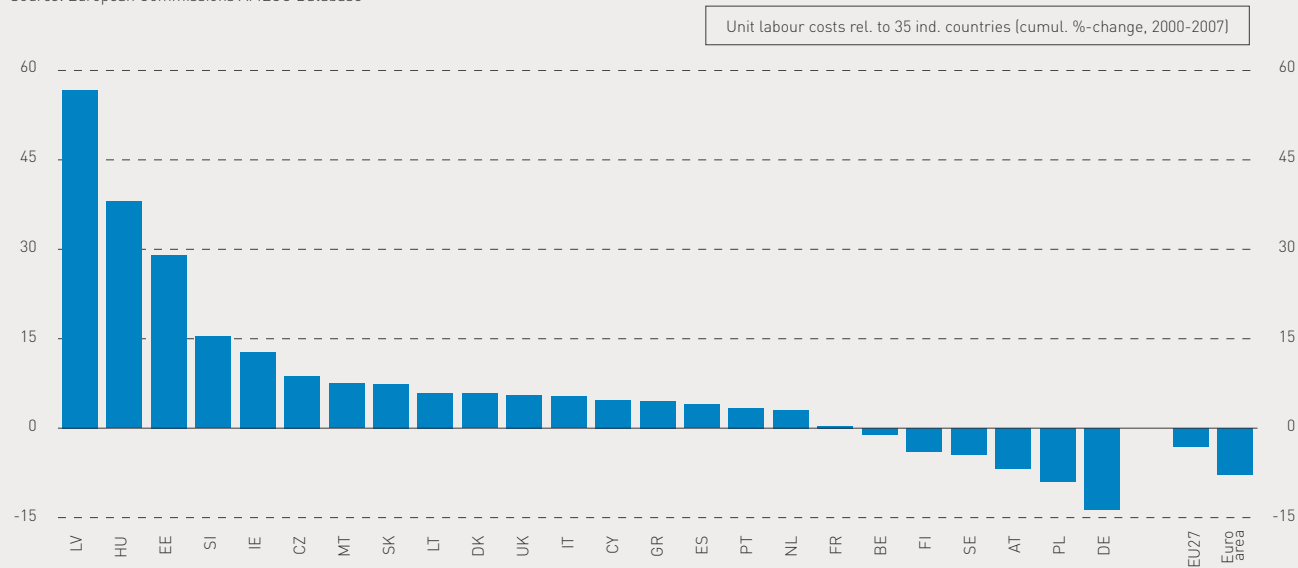
Even when Europe's exports are highly competitive companies are often unable to respond to the stimulus of growing world demand due to capacity constraints. Inflexibility of labour markets is one problem area: despite significant recent improvements, labour market laws continue to hamper inter-sector labour movements and companies' ability to match their labour force in accordance with specific needs.

Innovation capacity is another area where the EU is facing difficulties. The EU is not meeting its Lisbon target of 3% of GDP by 2010; it has a relatively cumbersome patent system and is not investing sufficiently in higher education.

These challenges for the European Union risk undermining our highly successful record on world export markets. Swift action is needed to put the EU on track for success.

**Chart 5** Evolution of unit labour costs

Source: European Commissions AMECO Database



## RECOMMENDATIONS

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The following steps present a strategy for securing the European Union's competitiveness on world export markets.

### 1 RECOMMENDATIONS TO THE EUROPEAN UNION

#### Action on the international front

##### → Follow through on the Global Europe Strategy

- Maintain the competitiveness focus in international trade policy.
- Conclude trade negotiations to achieve real new market access for European companies.
- Enhance company and Member State involvement in the Market Access Strategy.
- Take a robust stance towards China in particular on intellectual property rights, public procurement, market access barriers, subsidies and export restrictions.
- Enhance our regulatory alignment efforts with major trading partners.

##### → Look ahead to new post-2010 actions

- Consider new bilateral trade negotiations with OECD countries on a case-by-case basis.
- Improve enforcement of WTO rules by modifying the EU's Trade Barriers Regulation.
- Address the challenges of the falling US dollar.
- Develop a coherent strategy on raw materials covering all relevant fields of policy, including trade, development and environment.

##### → Take global action on climate change

- Negotiate a global climate framework for the post-2012 regime that involves fair burden-sharing between developed and emerging countries.

#### Action on the EU domestic front

##### → Complete the Single Market

- Implement the Services Directive and the new Internal Market goods package.
- Ensure equal treatment for all on public procurement markets.
- Establish the European Private Company Statute.
- Remove double taxation and facilitate trans-EU tax compliance.
- Develop real European energy and other infrastructure networks.
- Create a genuine internal market for electronic communications.

##### → Lighten the regulatory load

- Enhance the weight given to competitiveness effects in EU impact assessments.
- Avoid unnecessary burdens on companies from energy and climate proposals, without resorting to detrimental trade restrictions.

## 2 RECOMMENDATIONS FOR MEMBER STATES

### → Promote competitiveness

- Place competitiveness at the heart of Member State regulatory policy making through Better Regulation.

### → Manage wage costs, increase employment rates and productivity

- Use wage moderation and boost productivity growth.
- Create more flexible labour markets based on the flexicurity model.
- Promote the employability of citizens.

### → Invest in innovation

- Increase public spending on R&D to meet Lisbon targets.
- Create tax incentives to develop private R&D investment.
- Encourage company participation in publicly funded research.
- Take comprehensive action on education for innovation:
  - 1 Reform education systems to foster innovation and entrepreneurship.
  - 2 Modernise universities to ensure better supply of relevant skills in the labour market.
  - 3 Promote enrolment in scientific and technical studies.



This brochure is an abbreviation of BUSINESSSEUROPE's detailed and extended study under the same title. The full study, in which references for all statistics cited in this brochure are included, is available for download at [www.businessseurope.eu](http://www.businessseurope.eu)

# BUSINESSEUROPE

**MEMBERS** ARE 40 LEADING  
NATIONAL BUSINESS FEDERATIONS  
IN 34 EUROPEAN COUNTRIES



Austria



Belgium



Bulgaria



Croatia



Cyprus



Czech Republic



Denmark



Denmark



Estonia



Finland



France



Germany



Germany



Greece



Hungary



Iceland



Iceland



Ireland



Italy



Latvia



Lithuania



Luxembourg



Malta



Montenegro



Norway



Poland



Portugal



Portugal



Rep. of San Marino



Romania



Slovak Republic



Slovenia



Spain



Sweden



Switzerland



Switzerland



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Turkey



Turkey



United Kingdom

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