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"PROSPECTS FOR THE EUROPEAN ECONOMY"

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Introduction

Chairman Lo,
Secretary General Jang
Political Leaders, Excellencies,
Fellow Business Leaders,
Ladies and gentlemen, Dear Friends

I have come a long way to be with you on this special day. I bring you the congratulations of the European business community to the Chinese National Association of Industry and Commerce, Taiwan who celebrates its 60th anniversary.

I would like to thank especially Chairman Kenneth Lo and Secretary General Fritz Jang from the Chinese National Association of Industry and Commerce. Thank you also for inviting me to join this morning's 60th anniversary celebration and reception. It has been a pleasure and an honour.

Sixty years is a symbol of wisdom, your association has been through the 12 astrological signs (12 zodiac animals) and the 5 earthly elements (metal, water, wood, fire, earth). For a man, that age does not count so much – even though I will be turning 65 very soon. But for industry and commerce in today's global environment, it is an eternity. For your Association it also bears witness to great resilience. What do I mean by this?

Your Association has successfully evolved from the outset in tandem with modern Taiwan. Let us only think of progress since the middle of the last century. We will realise what an economic and technological roller-coaster this journey has been. Your country has long left simple manufacturing behind to become a byword for high quality products which are eagerly bought around the world. In the latest competitiveness report of the World Economic Forum, you rank 13th out of 144 countries! The country's stage of development is described as "innovation-driven". You can be proud of your achievements over the last 60 years. Acting as a full partner in your country's ascent to prosperity.



Your business organisation offers policy-makers economic and legal expertise. This development would certainly not have been so marked without your (CNAIC) existence.

Policies that contribute to growth, policies that create jobs. Business organisations help to shape the legislative environment. A business organisation is an integral part of society. It is an important actor in the democratic process.

Ladies and Gentlemen,

It is a great honour for me to be invited to the Chinese National Association of Industry and Commerce (CNAIC) International Business Forum. Thank you very much for giving me this opportunity again. I am very grateful that I can address such a representative audience today.

I have been in Taiwan several times during my professional life. And this is my second time at the Chinese National Association of Industry and Commerce. Last year in October [*on 27 October 2011*] we talked about prospects for industrial cooperation between Taiwan and Europe, and the future bilateral relations between our two economies.

On that occasion we touched upon the opportunities to increase trade and investment between Taiwan and European companies. This is also due to Taiwan's strategic position as a hub to China. We also pointed to a number of difficulties that European companies are confronted with. We experience it for example in the fields of standards and non-tariff barriers, services, or procurement.

Of course, we touched on the most topical issue for me: the economic situation in Europe. And on what had been done to solve the problem.

Today I would like to focus on this latter aspect in greater depth.

Before going further, let me remind you what BUSINESSEUROPE is and does. We represent more than 22 million small, medium and large companies employing some 120 million people in Europe, comprising 35 European countries through our 41 national members, all national confederations. Our main mission is to advocate for business-friendly and pro-competitive policies, not only in the EU but also globally. This is the reason why we value very much our relations and partnerships with non-European organisations overseas.

We "go for growth", we are defenders of open and free trade. We welcome foreign investments in Europe as European companies are the most important investors abroad.

Apart from this classical representation and agenda-setting, BUSINESSEUROPE is also an official partner in the social dialogue. Together with trade unions at European level, we can and do negotiate agreements on social issues. The European Social Dialogue has produced significant achievements. For example, agreements on parental leave, on harassment and violence at the workplace or on inclusive labour



markets. These negotiations are then transformed into framework legislation to be implemented flexibly at national level by EU Member States.

Crisis

My intervention today will focus on “Prospects for the European economy”. It is with the economy that I want to – and must – start. But I will go beyond Europe, and also comment the global situation.

When, in the summer of 2007, in the housing market, the crisis started in the US, the rest of the world still felt safe. One year later, September 2008, Lehman Brothers failed.

We faced a global meltdown and the financial and economic crisis started. It was ignited by excessive debt and by the irresponsible behaviour of some financial actors. It was the consequence of the failure in national supervision systems.

The financial crisis became an economic crisis, as low confidence in the financial sector quickly impacted on investment and employment. After a moderate recovery in 2010, a new financial crisis started in 2011. This time, it began in Europe.

It happened because some euro area’s countries cumulated too much debt in the years before the crisis. In addition, some countries cumulated new debt during the crisis, because they needed to inject resources to sustain some key sectors of the economy.

As a consequence, investors became reluctant to lend money to some countries, the availability of credit for businesses and households became scarce and companies started holding back investment. The effects of this crisis are visible also beyond Europe, with recent projections of the IMF indicating that the global economy will also slow down, because international trade

The current instability is the result of years of indulgence and poor governance. The financial crisis and the sovereign debt crisis share important features in this regard:

- easy money (as markets barely differentiated risks among countries),
- excessive leverage and lack of prudence in good time,
- poor accounting (Greece misreporting) and
- insufficient supervision (failure to enforce the Stability and Growth Pact effectively).

This has changed the European and worldwide landscape.

After almost five years the crisis is still present. Forecasts for economic growth are far from rosy: BUSINESSEUROPE’s members estimate real GDP growth in the EU 27 in 2012 of 0.1% and 1.4% in 2013. And these forecasts may still be adjusted downwards.

So what is at the top of the EU agenda?



What are the lessons learned from the crisis:

1. The first lesson is about the banking sector: **we need a sound and effective banking sector.**

The experience we went through is obvious: if the financial sector fails, the real economy collapses. That was what happened after the 15th September 2008.

We have to accept a better regulation of the financial activities. A lot has been achieved at global level. Better regulation does not mean “over-regulation”. Better regulation in our view, means “smart regulation”. To have the right balance between what needs to be fixed and the incentives to continue to develop banking activities.

2. The second lesson is about the non-financial sector. We have learned that non-financial **companies have reacted very effectively**. They were able to **adjust their organisations whilst maintaining the work force.**

This is remarkable. I have been through a lot of economic crises during my career. I have seen the differences: companies can no longer afford to let their people go. They have to keep as many people as possible on their payroll because of the scarcity of skilled workers.

3. The third lesson “on a national level” is that **some economies are more resilient than others. Some are stronger and better prepared** to face adversity.

Germany is the country that could recover the fastest. Because of the reforms they have put in place in good time, namely in the labour market.

Germany has a lot of strengths: its research and development, its education systems, its network of SMEs and, to a certain extent, its social dialogue system. By making those efforts, they have improved their competitiveness substantially. By improving their competitiveness they have maintained their market share globally. Germany, and many other EU countries, are export champions. They benefit from the economic growth in emerging economies.

Other countries are not that well prepared. They have let things go from good to worse. They **lost competitiveness by not making important structural reforms or by letting the wages increase far beyond the productivity improvements.**

Those countries are facing a huge trade deficit and a dramatically high unemployment rate. This is important.

All this means that we do **not have a short term problem only**. It means that we have to **adjust our economies for the longer term goal of competitiveness.**



Over the last ten years, economic growth in Europe has an average of 1.25% a year, significantly below other G8 economies. In Europe, the situation needs serious action!

We may not fail to focus on delivering a long-term sustainable growth! If we fail, it will have negative impact on business, workers and households.

The failure has a cost:

- an unemployment rate over 10% and 20 million people without a job;
- a youth unemployment rate above 20% with more than 5 million young people waiting for a first work experience;
- more than 600,000 businesses that have disappeared.

But there is a way out which need engagement of everybody. It is worth doing it.

At this point of my intervention, I have to tackle the **Euro issue**.

The Euro problems – as they are called – make the front pages of all the newspapers. The Euro problems are the centre of all the economic debate today.

What happens – or what doesn't happen – is of essence for all of us. Because it concerns the currency and the monetary systems that function in the largest economy of the world.

A little bit of history! The euro is a political miracle, a technical feat and was – at least during the first 10 years – an economic success.

A political miracle because it was decided through a very complicated decision-making process since the nineties. The idea was to strengthen the EU through better integration of the national economies.

A technical feat because it was started in 1999 and finalised on the 1st January 2002. The change of currency in 12 countries – and now 17 – is an extremely complicated undertaking.

It was an economic success because the euro has delivered unprecedented price stability. We had an inflation that was maintained at just under 2%.

The euro **boosted trade** amongst the Eurozone members because there was **no longer any exchange risk!**

The euro reduced significantly – if not eliminated – transaction costs.

Having an economic zone without any exchange rate threat must still be considered a great success.

So, what did go wrong? What went wrong – to say it bluntly -: is that governments only took the benefits and forgot the **difficult parts**.

Already before the crisis, we pointed out the challenges to improve the economic performances of European Monetary Union.



We did it through our publication entitled “Fit with the euro” in which we warned the governments: *“less flexible and fiscally imprudent members states not only reap fewer benefits... but contribute to cyclical and competitiveness divergences which come at a collective cost for all countries sharing the euro”*.

What is needed? And by the way, what is true for the Euro is true for all economies:

1. ensure that **national budgetary policies increase their focus on issues of fiscal long term sustainability**;
2. ensure that **wage developments are consistent** with productivity trends;
3. **boost productivity** through improved **Research and Development and education systems**;
4. **complete the internal markets** also in the services sector;
5. **raise labour market flexibility** based on the flexicurity principles.

On top of all this, we asked for improved governance of the euro area.

Ladies and gentlemen this was May 2007. The euro crisis started in the beginning of 2010. And we are still struggling with it.

I will not dwell on the details of the euro-zone crisis, on what has to happen in Greece, on how to tackle the Spanish case.

This will lead us too far and if you read your newspapers, you know everything about it.

What I wanted to discuss with you on this occasion are what we see as solutions.

Because there are solutions. There is a way out!

The message that I want to bring to you is that Europe is and can remain a very strong partner.

So, how to **“Grow out of the crisis”** as we said recently addressing all the European leaders? How to become even stronger than we are?

We have identified 5 steps, 5 steps to restore confidence. Because amidst all the political difficulties we face, amidst all the economic challenges we have to face, we, in Europe, are confronted with a lack of confidence:

- lack of confidence in the political institutions;
- lack of confidence in the financial sector;
- lack of confidence in the economy.



So, the **urgency is clearly to restore confidence.**

Step 1: safeguarding the euro for all the reasons I mentioned before.

The safeguard of the euro is a must because the crisis is not a euro-crisis. This currency is still a reference and – believe me – is resilient in other words, the Euro remains an advantage.

The crisis concerns some weak Euro-zone countries because of a lack of competitiveness.

But it is not only the Euro that has to be safeguarded; it is the Euro-zone as such. We are for the safeguarding of this zone because the contrary would mean that we start the unravelling of what I have called the political miracle!

Safeguarding the euro, safeguarding the euro-zone and for sure safeguarding also the financial sector.

You will ask: what is the link? It is obvious today: there is a link between the sovereign debt of a country and the solvency of the banking sector.

Sovereign bonds were the safest investments for banks and this has been questioned.

The banks were the main players on the sovereign bond markets. This is today - at least in some countries - considered as a risky business. This means that the strength of a bank depends also on the strength of its home country.

Therefore the important role that the European Central Bank has to play in assisting monetary and financial stability. To act as a lender of last resort.

Important decisions were taken recently

- to strengthen the euro;
- to safeguard the Euro-zone;
- to reinforce the financial sector;
- to reinforce the key role of the European Central Bank.

We have to applaud it.

Step 2: public finances must be improved. This has to be done by structural reforms.

Yes, governments, have to **better balance the expenses and the revenues of the public sector.**

Each country must look at its own situation. And each country must put in place **coherent and credible fiscal consolidation plans to reduce the deficits.**

The focus should be put – in order to be credible – on reducing governments' expenditures.

The main target for structural reforms is the labour market.



We face a lack of labour mobility in the European Union. Too high cost of labour, too high taxes. A lot can be done and I must admit that a lot has been done since the crisis.

To quote the European Central Bank president, Mr Mario Draghi: *“We are certainly on a good path. We see extraordinary progress in reforms in Spain and Italy, particularly if you consider what they have done over the last six months in comparison with what they did not do for many years.”*

The same is true in many other countries;

The way forward to **make the labour market more flexible is to accept the principles of flexicurity**. This is the combination of flexibility and security.

Flexibility for companies which have to adjust their organisation according to all the external and internal evolutions that they have to face.

Security for workers. Not necessarily by staying in the same job. Not necessarily by working for the same company.

Security for them in order to be prepared to change their job and to find a new one as soon as possible.

The security of the people is not only financially, through unemployment benefits. This is necessary but the best main security is to increase the level of skills by vocational training.

Step 3: is to promote private investment in making the EU an attractive place to invest.

Countries today compete for foreign direct investment.

But the first target is to **push your own companies to invest and to develop**. Therefore there is a need for a:

- supportive business environment;
- a world-class infrastructure;
- top-level communication networks.

Those choices should be reflected in the budgets of the countries and in the budget of the EU. How to improve education systems? How to develop infrastructures? How to create the right legal frameworks?

Those are the responsibilities of the authorities at regional, national and EU level.

If the conditions are right, if the predictability of the legal frameworks is guaranteed, you increase the level of confidence. By doing so, you invite business people to invest. And they will.



There are two **areas where high investment opportunities already exist: the energy sector and the digital business.** The good news is that in these sectors, private money is available.

Step 4: the single market is the way forward.

We will celebrate the 20th anniversary of the start of the single market in the European Union next October.

For the business community, it is a key priority: namely to create one single European domestic market of 500 million consumers.

You can imagine the benefit for companies of complying with one single set of legislation instead of 27?

- to be able to apply for public procurement contracts worth 18% of the EU GDP?
- to have their patents protected in the whole European Union?
- to be able to benefit from an increased labour mobility?
- to secure energy supply through a continental interconnected electricity grid?

This is not a small thing!

It is an important development made up of a lot of a lot of small things. Hundreds of pieces of legislation in order to make it all happen.

But again, the single market is the way forward!

Step 5: the external trade must be expanded because we are already the champions in trade.

As my last field of action, I would like to focus on, perhaps, one of your favourite topics: trade.

The recent past has again confirmed it: the strength of EU companies is measured by their exports.

International trade represents a priority for BUSINESSEUROPE. As the EU Trade Commissioner Karel De Gucht puts it: *"We know that in the future **90% of the world's growth will come from outside our borders**, and more importantly in this part of the world"*.

Trade is a strong pillar for boosting EU competitiveness and growth. A study by a renowned Brussels-based think tank (Bruegel) has stressed that the more export-oriented a company is, the stronger, the larger and the more competitive it will be.

A successful trade policy must therefore deliver **real market access for companies**, enabling them to grow and boost employment.



Open markets are a key driver for investment and job creation. But **EU companies still face many barriers** in accessing foreign markets.

It is crucial to build a strong presence in global markets by engaging in closer trade and investment relationships with strategic trade partners. And trade is, we should not forget, one of the key elements to get out of the crisis.

This is not only good for Europe. We all know the importance of having access to new markets! How important is Europe for Taiwan, and how important Taiwan and the whole Asian continent are for Europe!

Europe needs to engage in closer bilateral trade relationships with key trade partners. This is why we value our relationship with Taiwan.

Trade relations between European Union and Taiwan have always been very close. **Taiwan is EU's fifth largest export market in East Asia.** And the 14th overall. Taiwan is also EU's fourth largest source of imports in East Asia. **EU's exports to Taiwan have been growing constantly** (70% in the past 10 years). Total trade volume in 2010 between Taiwan and EU amounted to 37 billion euro.

We like trade because it is a very dynamic field, where things change constantly. Let us take the last 10 years as an example.

Taiwan has been a member of the WTO since 10 years. You joined the organisation on 1 January 2002. The world economy has changed in this decade and so has Taiwan. In June this year, Pascal Lamy, WTO's Director General, commemorated your anniversary.

In his speech he rightly underlined some of Taiwan's features. Over the last decade your growth performance has exceeded the world average, which was below 4 per cent. You had 4.4 per cent average GDP growth in real terms and this made you in 2011 the 17th in world merchandise exports.

And you have done particularly well in **information technology products**, being ranked 5th in the world and accounting for over 7 per cent of global exports and **doing even better in niches such as semi-conductors** where you rank as 3rd largest world exporter (WTO sources).

These are great achievements!

Concerning bilateral relations, I know that your government has asked the European Union to have an Economic Cooperation Agreement (ECA).

Taiwan is fairly open to Europe. It is **important that you maintain this openness.** This will allow a prosperous situation for both economies.

Our economies already enjoy a good cooperation, and we can create or reinforce this cooperation above already existing levels. Therefore, a lot can still be done.

It is important to focus on the existing channels we have created. I would say for instance to: investments policy, which is quite well developed; the procurement market



especially considering that Taiwan recently joined the General Procurement Agreement - GPA; and standards.

On procurement we need to think in a long-term economic perspective. For example, it would be important to **make Taiwan's procurement system as close as possible to GPA principles**. This would surely make it easier for Europe and Taiwan economies to cooperate.

On standards, I know that Taiwan has been looking at its main trading powers, I think it is **important for you to look at the standards worldwide** at the European ones for instance, and be forward-looking. Europe is your market, and it will be important to cooperate in this field.

Taiwan is trading more and more with China, but even more on international markets. And we should not forget that China is also more and more dependent on international markets. I think therefore that major attention should be paid to the international prospects.

If we turn to Europe, as representatives of European industry and business, we believe that strategic partnerships must also be at the centre of the action of the EU. Our President, Jürgen Thumann, discussed with the top diplomats of EU missions around the world. On that occasion, he has passed on the message to heads of EU trade missions about the importance that we attach to strategic partnerships and to economic diplomacy.

First of all, the emergence of new economic powers from outside of the OECD group of countries is reshaping the global economic system. The challenge for Europe is to position itself to play a key role among the major economies.

The **United States** remain our main trade and investment partner. Moreover, the failed WTO Doha Round attests to the need for greater transatlantic alignment on the objectives to be achieved multilaterally.

Russia remains one of the EU's biggest export and investment markets and the EU's largest supplier of energy and industrial raw materials. Russia's accession to the WTO will improve the business regulatory environment although enforcement will be a challenge.

Japan is one of the EU's important partners and it has demonstrated its commitment throughout the Eurozone crisis. As you know, Japan is also requesting the launch of free-trade negotiations with Europe. Businesses have different views on the issue with some industries positive, some neutral and others concerned. We will have the occasion to discuss this with the President of Keidanren on 11 October when he will be in Brussels.

Brazil will continue to be a major export and investment destination for European companies and this is why we have always strongly supported free trade with the Mercosur region. However, given the difficulties of advancing these negotiations with all Mercosur partners, the EU will need to emphasise closer bilateral cooperation with Brazil.



India is a rapidly growing economy with many strong, global companies. While recognising the difficulties, the free-trade negotiations with India remain a priority for our organisation. Unfortunately, no progress is being made.

Although I have focused on the large economies of the world, we also strongly support free trade negotiations with partners such as Canada, the ASEAN region countries which are key components to an external growth strategy.

Or, as the German Chancellor Angela Merkel puts it: *“All of us depend on free trade.”*

Conclusions

Ladies and Gentlemen,

Some are convinced that **Europe will emerge stronger from the financial crisis**. We are now slightly more optimistic because decisions have been taken but I cannot predict the future. What I can say for certain, is that if the **right decisions are taken at political level**, Europe can make it.

As business people, I am sure that you are as impatient as we are, in Europe, to see the end of the crisis. Once confidence is restored, investment and economic growth will quickly return to normal levels. The crisis was triggered by excessive borrowing in the USA and Europe – by households, by governments or by both. It has been prolonged in large part because Europe’s decision-making structures were incapable of responding rapidly to market situations which can change overnight.

Europe can do this and emerge even stronger if policy-makers acknowledge the central role of enterprises in driving growth and jobs. They must also recognise that **recovery will only come if private investment is encouraged and facilitated** in areas like energy, infrastructure or the digital sector.

In conclusion, the concrete actions outlined in our 5 step strategy will allow Europe to double its long-term annual growth rate from 1.25% to 2.5%. This would mean: 1.4 million new jobs created every year and full employment in Europe by 2020; and over 5,000 euro extra annual income for an average household by 2020. EU Member States would see an average additional improvement of their structural budget balance of 5% by 2020.

And this return to a trend of rising prosperity will enable Europe to start looking outwards again and playing its role as an important force in the world. And as trade and investment pick up, its partners will heave a sigh of relief that normal service is being resumed.

I would like to close on that note of hope. I can assure you that the European business community will do everything in its power to achieve this outcome. If this happens, I invite you to increase your business relations with Europe

Thank you once more for inviting me to speak to you, and thank you for your attention.