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NOTE

From: Presidency
To: The High Level Working Group on Competitiveness and Growth
Subject: Global Competitiveness of the EU vis-à-vis third countries

Delegations will find in Annex a paper on the Global Competitiveness of the EU vis-à-vis third countries in view of the High Level Working Group on Competitiveness and Growth meeting on 4 May 2017.

Global Competitiveness of the EU vis-à-vis third countries

Introduction

The EU's competitiveness since the late 1990s has been maintained in particular because of the extension of the single market and the possibilities for European companies to take advantage of the integration of value-added at regional level. The financial and economic crisis of 2007 and the internationalization of value-chains outside EU borders have impacted EU's external trade competitiveness.

The EU's global relative economic weight is shrinking as illustrated by the EU's share in world GDP which fell from 21.7% in 2005 to 16.9% in 2015¹. The weight of Asian countries is increasing and market opportunities in emerging economies are growing. At the same time, some countries and people are tempted to seek refuge in protectionism policies. However, international markets are increasingly a source of economic growth. The share of extra-EU exports in total EU extra- and EU intra-exports grew from 33% to 37% between 2009 and 2015. External trade is also important in creating employment opportunities in Member States: over 30 million jobs in the EU are supported by our exports of goods and services to the rest of the world, two-third more than in 1995². Globalisation is at the crossroads. In light of the opportunities and challenges it offers, reflection and action are required at global, European and national level to develop an economic ecosystem conducive to more inclusive growth.

¹ Source: Eurostat and WTO. The source of the data used is Eurostat unless otherwise mentioned

² European Commission based on Arto et al. (2015)

An uneven presence on international markets

Not all Member States are present in the same way on world markets. This inevitably impacts the economic priorities set at domestic level. Economies like Malta, Ireland and Luxembourg, with shares of extra-EU exports as a percentage of GDP above 50%, are much more dependent on external markets than countries like Poland, Romania or Portugal whose extra-EU exports do not account for more than 12% of their GDP³. This greater focus on external markets reflects on the one hand the small size of their domestic markets and, on the other hand, the high level of competitiveness of domestic companies which are export oriented.

Member States also differ in the degree of participation in global flows of foreign direct investments (FDI), be it as host countries of businesses investing outside of the EU, or as destination countries of investors based in the third countries.

Additionally, Member States' abilities to attract foreign direct investments (FDI) vary to a great extent, suggesting variations in the capacity of each Member State to take advantage of globalisation. Countries like Ireland, Belgium and Bulgaria have been very successful in attracting FDI despite their relatively small size (Share of Inward FDI above 80% of GDP) whereas countries like Italy, Germany and France are performing comparably less well (share of Inward FDI in GDP between 20 and 30%)⁴.

Furthermore, changes in the global economic environment result into a shift in geographical and sectorial patterns of global FDI flows, including cross border mergers and acquisitions. Emergence of new actors raises new questions as to how to continue attracting FDI and promoting FDI outflow to non-EU countries.

³ Competitiveness Scoreboard based on Eurostat

⁴ Competitiveness scoreboard

Deteriorating external competitiveness

The EU's competitiveness on the external scene has been deteriorating over the last decade while over the same period competitors have increased their presence reflecting improved competitiveness of their companies but also in certain cases, China in particular, an expansion of their domestic market. As a result, in 2015, 16.3% of world trade in goods and services was with the EU and 13.7% with China whereas in 2005 EU trade represented 18.8% of world trade and China only 8.1%.

FDI stock and GDP have followed similar paths historically. Following the global economic and financial crisis, global FDI stocks fell abruptly (by 15.7% in 2007)⁵. Since then the recovery has been uneven. In the EU the share of global foreign direct investment fell from about 50% before the crisis to 20% in 2014. The reduction in the amount of FDI flows into the EU in recent years is probably also related to the end of a period of large-scale privatization operations which attracted large inflows of intra-EU FDI during the 1990's and 2000's. The observed increasing protectionist discourse within the EU and the ensuing risk of fragmentation of the Single Market could undermine the attractiveness of the EU as a destination for investment.

Our main partners

With about 21% of all EU exports, far above China and EFTA countries (11.5%), the United States are by far our main export destination for goods. Our trade surplus with the United States has increased over the period 2005-2015 to reach 122 billion euros in 2015. On the other hand, our competitiveness vis-à-vis China has further deteriorated between 2005 and 2015 with a trade deficit progressing by 65% to reach 180 billion euros in 2015.

When it comes to services, the United States are once again by and large Europe's main partner. Exports to the US represent 26% of total EU exports of services whereas the Chinese market account for only 5% of European exports. Contrary to goods, Europe's competitiveness in services has progressed with all our main trade partners (US, China, Japan, Russia). Manufacturing remains important for EU's competitiveness however, as more and more goods include services.

⁵ Copenhagen Economics based on WIR(2015) and Eurostat's Balance of Payments Statistics

In which sectors are we the most competitive

The EU is mainly exporting medium-high and high-technologically intensive goods: road vehicles and other transport equipment, pharmaceuticals, machinery and electro-machinery products, food products and mineral fuels. These account for almost 50% of extra-EU exports. Food products (5%) and mineral fuels (5%) are also important exporting sectors. Between 2002 and 2016, the share of machinery and transport equipment exports in total extra-EU exports fell moderately (from 45% to 43%) while the share of extra-EU exports of chemicals and related products increased from 16 to 18% over the same period. Over the same period, other manufactured goods suffered the biggest loss in extra-EU export share (by 3.5% to 23% in 2016).

In terms of services, apart from the export of travel (14%) and transport (18%) services which constitute a major share of services' exports worldwide, the EU predominantly and increasingly exports knowledge intensive services: telecommunication, computer and information services; financial services and business services. These sectors account for 38% of EU exports.

Global value chains

One of the reasons which could explain the observed trade pattern is the increasing international organisation of production. Our manufacturers rely more and more on inputs coming from third countries. In 2011, the latest figures available for this type of analysis⁶, just under 18% of the value-added in European exports originated from third countries. In 2005, as a comparison, the value-added from third countries accounted for 11%. All manufacturing sectors are characterized by this pattern although not all to the same extent. Services exports, less tradable by nature, are less affected by the phenomenon.

⁶ OECD TiVA

Outlook

Projections from the IMF World Economic Outlook based on the expected evolution of demand in destination markets point to the USA, the countries of the ASEAN, India and Mexico as the most dynamic export destinations for EU goods by 2020. For services, the most significant increases in demand for European services are projected to be in the region of Central/South Africa, the USA and countries of the ASEAN. Some of these countries and regions are experiencing strong demographic pressure which, coupled with further development in their economies, represent strong potential markets for EU exports of goods and services.

Questions

1. Which are the main geographical / sectorial / other trends that Member States observe as determinants of EU's external competitiveness? What are the main challenges from a 'COMPET' perspective?
2. On this basis, how do Member States think the EU can act to foster the competitiveness of its economy in order to thrive on international markets?
3. How do Member States think about the role of FDI in increasing the EU's growth potential? What actions do Member States take or envisage to increase the attractiveness for FDI and what challenges do Member States encounter with inward FDI? What are the factors that are hindering companies from investing in Europe?