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NOTE

From:	Trio Presidency
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Future of the external dimension of the EU competitiveness

Delegations will find in Annex a Trio Presidency note on the future of the external dimension of the EU competitiveness, in view of the meeting of the High Level Working Group on Competitiveness and Growth on 19 July 2019.

The external dimension of EU competitiveness

Strengthening the EU as a Global Trade Power

Trade plays a key role in supporting strong growth in the domestic and global economy. Trade openness and its underpinnings of competition and innovation are drivers of growth. Countries with open trade regimes have consistently demonstrated stronger, sustained growth and resilience in times of crises, in ways superior to closed and insular economies with high barriers and restrictions.

The EU is the world's largest free trade area and exporter of industrial goods and services.

International trade brings great benefits to European citizens increasing their wellbeing. Since the year 2000, the EU trade with the rest of the world has more than doubled and it equals one third of the EU's GNP. More than 36 million European jobs depend on exports, which account for added value of 2 300 billion euros to the EU.

Recent trends

The latest perspectives on European economic activity have turned less optimistic due to internal factors but above all, because of factors affecting external demand¹. This is not surprising since the EU's economic growth is highly dependent on external growth. European exports of goods and services have increased without interruption since 2009 although, in 2018, for the first time since 2013, the trade in goods balance was slightly negative reflecting the global slowdown. More concerning is the acceleration in the decline in the share of EU value-added in EU gross exports of both manufacturing goods and business services. Over the period 2005-2015, the share went down from 87% of total value-added to 85% while in business services, the share of EU content in EU gross exports of services decreased from 93% to 91% over the same period.

¹ European Economic Forecast, Spring 2019

The European economy also relies on international markets to support domestic investments. Despite the decline in official statistics of the overall amount of inflow of Foreign Direct Investment in the EU over the last years, the number of European companies under foreign ownership has continuously risen over that last ten years, mostly due to acquisitions of increasingly large, listed companies representing around 16 million jobs². This follows the trend observed in other developed economies.

The changes in the world order call the EU to step forward

World order is going through major changes. The unipolar world that was structured around the US after the cold war is increasingly turning into a multipolar one. The US position as the leading economy and technological forerunner is being challenged by the rise of China. This is reflected in the serious tensions in their trade relations. Security concerns have been raised and some Chinese companies have been declared as a national threat in the US. The US has taken steps to decouple the American value chains from those created in China. European interests are under strain more than ever before.

To provide a solid basis for growth and competitiveness for Europe in a challenging global environment, the global role of the EU needs to be strengthened. The EU should act stronger, using all the policies it has to strengthen its role as a global actor. The unity of the EU plays a crucial role in addressing the global developments.

A stronger global role requires combination of elements from different EU policies, such as foreign and security policy, trade policy, development policy and industrial policy. The agenda should combine elements from different EU policies so that they, together and separately, support the sustainable growth of the EU and strengthen the competitiveness of EU industry and EU economy in general. This should be done without sacrificing the fundamental principles of the EU such as competition, nor endangering the level playing field for all European companies including the SMEs.

² Commission SWD(2019) 108 on Foreign Direct Investment in the EU

EU should more strongly position itself as a global trade actor

The recent behaviour of other superpowers has led to a situation where the EU needs to take a firmer stance and proactively find ways to advance interests of EU companies. A more holistic approach to better meet the challenges of global competition is needed, in particular, as some global players do not comply with the rules of international trade.

The current global rivalry between the US and China is developing into a longstanding technological battle. In the worst case, this means that not just e.g. the US businesses, but also the European businesses looking for opportunities in China and other markets will be affected. The EU has to work towards the goal that the world is not heading for a two or more separated technological spheres or towards decoupling, as that would certainly have its impact on the external competitiveness of the EU and global growth as a whole.

The talks on intensifying trade relations between the US and the EU will continue. Also deepening of the EU-China trade and investment relations is an important goal, including promoting the negotiations for the comprehensive agreement on investment between the EU and China. The EU strives for a more balanced economic relationship with China. European companies' market access to the Chinese markets must be improved, and a more level playing field should be created.

It is important to persuade China to take a more positive approach on a wide range of issues: subsidisation and transparency, state-owned enterprises, technology transfers, services and investment, special and differentiated treatment, and other questions, many of which are linked to its own specific economic and industrial model.

Policy answers

Addressing EU companies' external competitiveness starts with having competitive companies on the on the EU internal market. Completing the Single Market, including the Capital Market Union is essential in this regard.

On the international front, the multilateral path remains a priority for Europe. This means agreeing on reforming the WTO and trying to gather comprehensive support to a rules-based global framework. In parallel, the EU is engaged in plurilateral negotiations such as the negotiations on e-commerce. The EU also continues negotiating bilateral free trade agreements with third countries to secure market access for our goods, government procurement and services, set an environment favourable for investments and promote our standards and regulations abroad.

In the field of public procurement, the EU is part of the Agreement on Government Procurement and is involved in the accession talks of new members. The EU is also reflecting on a more strategic approach to its procurement framework that could help to identify and address obstacles and loopholes that impede a level playing field in practice.

Our companies are faced with unfair competition from third countries not only in third markets, but also within the Single Market. The recent modernisation of trade defence instruments provides the EU tools to address unfair subsidies and dumping from third countries.

The new EU framework for the screening of foreign investment will reinforce cooperation amongst Member States and the European Commission to check those foreign direct investments affecting security and public order. The work has also started on ways to deal with the distortive effects of foreign state ownership and state financing of foreign companies on the EU internal market.

The role of regulation and standards in the EU's competitiveness

New technologies and digitalization are going to lower the traditional barriers to trade (distance, language, etc.) and the pressure coming from businesses outside the EU is just going to increase. Especially the US and increasingly Chinese companies are expanding their business in the EU at a rapid pace and are challenging, for example, the traditional European retail and leisure industry players with their advanced digital and logistical solutions.

With the new technologies and solutions come challenges, as there is a tendency of some large market players in the digital space, for example, to avoid paying their fair share of taxes within Europe. Thus, some regulatory measures have to be considered, and in the past, common regulations or standards have also been pushing the development of technology across the nations and industries such as in the field of ICT.

Still, the attention should be given to developing market-driven measures to achieve our goals. With too much or poorly directed regulation, the EU will only hurt its own competitiveness and the focus of identifying the real problems behind the weak competitiveness might be lost.

The key question is who sets the future standards? Strengthening the EU's role in setting global standards would have a positive influence on the EU's competitiveness. If the EU cannot enable the growth of its companies as first comers and leaders in their own respective fields and especially in the field of future technologies, it is very difficult for the EU to be a forerunner in setting the global standards.

Questions for discussion:

1. *What are the main actions that the EU should take to strengthen its global role and to support European businesses' external competitiveness?*
 2. *How could the EU Member States enhance their capacity to better deliberate issues pertaining to internal market, innovations and trade, and their interlinkages?*
 3. *What role can the Competitiveness Council play to contribute to a more efficient European policy in support of external competitiveness?*
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