

Europe

Europe in Global Competition

vbw

Position

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Bavarian Industry Association



Foreword

Europe must demonstrate self-confidence on the global market

A shift in the balance of forces is underway in global economy - moving away from the traditional industrialized nations and towards the emerging economies, particularly in the Asia-Pacific region. This shift is accompanied by an increasing trend towards bi-polarization of the global economy with a US-dominated bloc on one side and a Chinese-dominated bloc on the other. The rivalry between China and the USA for supremacy in the global economy is jeopardizing the world trade order.

The EU is closely intertwined with all regions of the global economy and will be more dependent than ever on free trade and the international division of labor in the future. Europe must therefore oppose decoupling and bi-polarization of the global economy. At the same time, the EU must reduce one-sided dependencies by setting the right framework for diversifying its trade relations.

Europe must act as an independent and stabilizing player on the global market and advocate a world trade order based on free trade. As a strong economic center and an internally consolidated community, the EU can take on this role with confidence.

Bertram Brossardt
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Content

Position at a Glance	1
1 The EU as a Business Location	3
2 The Integration of the EU in the Global Economy	5
2.1 Foreign Trade	5
2.2 International Value Chains	5
3 The Position of the Bavarian Industry Association	7
3.1 Europe must strengthen its location and competitiveness	7
3.2 Europe must become stronger as an economic area	8
3.3 Europe must focus on free trade and globalization	8
3.4 Europe must stand up for rules-based global trade and fair competition	9
3.5 Europe must press ahead with bilateral trade partnerships	9
3.6 Europe must counteract the bi-polarization of the global economy	10
Contact / Imprint	11

Position at a Glance

A strong European economic area stabilizes the global economy.

Europe is a strong economic area, but is gradually losing importance globally, both as a production location and as a sales market. The countries of the EU are still important industrial locations, but they are losing international competitiveness - not only compared to the dynamically growing emerging markets, but also in comparison to other industrialized countries. Integration in the European single market is of great importance for the European economies. In addition, the EU is also closely networked with other regions of the world, which secures value creation and employment in Europe.

The global economic balance of power will continue to shift. Europe will lose economic significance simply due to demographic trends. Nevertheless, the EU must embrace international competition and seize the major opportunities in markets that have so far been largely untapped. The EU must maintain proven partnerships and at the same time enter into new co-operations in order to diversify its trade relations. By the same token, it must resolutely defend global free trade. The EU can only tackle all of this with self-confidence and from a position of strength. To do so, it must intensify the unification process in a targeted manner and improve its competitiveness with a policy that favors business and innovation.

In concrete terms:

- **Europe must strengthen its location and competitiveness:** In order to continue to benefit from globalization, Europe needs a competitive environment where value creation, investment and innovation are possible, especially in the industrial sector.
- **Europe must become stronger as an economic area:** Only a united and internally consolidated EU can appear strong and self-confident to the outside world. To achieve this, the internal market must be deepened and further developed.
- **Europe must focus on free trade and globalization:** Free trade and the international division of labor lead to prosperity and employment. Europe in particular, which is losing growth potential due to demographic change, is dependent on free trade in goods and services.
- **Europe must stand up for rules-based global trade and fair competition:** The EU must work with as many partners as possible to reform the World Trade Organization (WTO) in order to restore a reliable and fair multilateral trading system. Where unfair trade practices distort competition in the EU internal market, the EU can take unilateral measures that are proportionate and WTO-compliant.
- **Europe must press ahead with bilateral trade partnerships:** In parallel with a reform of the WTO, the EU must also promote bilateral agreements with important economic areas in order to benefit from free trade and minimize dependencies through diversification.

[Position at a Glance](#)

- **Europe must counteract the bi-polarization of the global economy:** It is in Europe's interest to maintain good and stable economic relations with both the USA and China. The EU must counteract the increasing bi-polarization of the global economy and act as an independent economic area.

1 The EU as a Business Location

A strong location facing major challenges.

Europe is an important and competitive location. However, there are competitive disadvantages compared to other economic regions. In addition, its lead over many emerging economies is diminishing.

In the vbw study Industrial Location Quality of Bavaria in International Comparison (available in German), the relevant economies of the world are compared annually in terms of their location quality. Although five EU countries - Denmark, Germany, Sweden, the Netherlands and Finland - as well as Switzerland are among the top 10 in the [level ranking](#), the European industrialized countries achieve a lower location quality index overall than the non-European industrialized countries. In the group of emerging markets, the European economies perform slightly better than the Asian economies.

Figure 1
Level ranking of location quality by region

Country	Score	Most significant strengths
Developed economies	116.0	
Europe	114.9	State, infrastructure
Other	119.1	State, resources, infrastructure
Emerging economies	84.7	
Europe	92.6	Costs
Asia	86.1	Costs, market
Other	75.6	(Costs)
Ø 45 Countries	100.0	

Source: Bavaria's industrial location quality in international comparison, Level ranking (vbw, IW Consult; 2024)

At the same time, Europe as a business location is losing international competitiveness. This is shown by the [dynamic ranking](#) of the vbw study. This global comparison reflects how the quality of industrial locations has developed over the last few years. As expected, the emerging economies perform better than the advanced economies due to their lower starting level. However, the location quality of the European industrialized countries developed worse than that of their non-European competitors. In addition, the

European emerging markets achieved a noticeably lower index value than the emerging markets in Asia. This means that the Central and Eastern European economies are catching up more slowly than the dynamic countries of Asia.

Figure 2
Dynamic ranking of location quality by region

Country	Score	Most significant improvements
Developed economies	92.7	
Europe	92.2	
Other	94.1	Resources
Emerging economies	107.0	
Europe	105.3	Infrastructure, costs, state
Asia	118.3	State, market, costs
Other	98.8	Resources
Ø 45 Countries	100.0	

Source: Bavaria's industrial location quality in international comparison, Dynamic ranking (vbw, IW Consult; 2023)

2 The Integration of the EU in the Global Economy

Strong domestic market that is closely intertwined with the global economy

2.1 Foreign Trade

The internal market plays a decisive role in the foreign trade of EU countries. In 2023, EU countries exported goods worth 4.114 trillion euros to other member states. This corresponds to a share of almost two thirds of all exports by EU countries. European exports to the rest of the world are broken down as follows: Almost a quarter went to the American-Western region and a good 15 per cent to the Asian-African region. In terms of imports, around one fifth each came from the American-Western and Asian-African regions.

Given the great importance of the EU as a trading area, the exchange of goods and services within the EU ensures a high level of added value and employment. At the same time, however, foreign trade with other partners also secures value creation and jobs to a not inconsiderable extent. According to the vbw study [Consequences of a bi-polarization of the global economy](#), an estimated 7 million employees in Germany alone depend on the value added that went to countries outside the EU.

2.2 International Value Chains

As with foreign trade, a large proportion of European direct investment activity takes place within the EU. At 45 per cent, almost half of European direct investment stocks are located in other EU member states. Outside Europe, the USA plays the largest role as an investment location. It accounts for 16 per cent of European direct investment, while other countries in the American-Western region account for a further 30 per cent. China and the countries of the Asia-Africa region account for only 9 per cent.

Conversely, a similar picture emerges with regard to foreign direct investment in the EU. At 47 per cent, almost half of the foreign direct investment portfolio comes from other EU countries. The USA accounts for 18 per cent and the other countries of the American-Western region for a further 27 per cent. Direct investments from China and other countries in the Asia-Africa region only play a subordinate role.

Direct investments also have an impact on cross-border research activities. Patent analyses show that 40 per cent of cross-border research by EU companies takes place within the European Union. The United States follows as the most important single market. China has so far played a subordinate role as a research location for European companies.

The international division of labor is of great relevance to the EU when it comes to the supply of raw materials. As a region poor in natural resources, Europe is dependent on raw material supplies from other regions of the world. The supply of energy raw materials is of particular importance. The EU also regularly relies on non-European suppliers for so-called critical raw materials - raw materials that are difficult or impossible to replace. For example, almost 60 per cent of the EU's demand for rare earths comes from countries outside Europe.

3 The Position of the Bavarian Industry Association

Standing up for free trade as a strong, self-confident economic area.

In the coming years, the global economic balance of power will increasingly shift. Europe's economic importance will diminish due to demographic trends alone. Nevertheless, the EU must embrace international competition and seize the major opportunities in the new markets. The EU must maintain proven partnerships and at the same time enter into new co-operations. By the same token, it must resolutely defend global free trade. It can only tackle all of this with self-confidence and from a position of strength. To do so, it must intensify the unification process in a targeted manner and improve its competitiveness with a policy that favors business and innovation.

3.1 Europe must strengthen its location and competitiveness

In order to continue to benefit from free trade and globalization, Europe needs a competitive economy and, above all, a strong industry. If European companies want to be successful in the dynamically growing markets, they need location conditions that promote investment, innovation and value creation in Europe.

Against this backdrop, it is to be welcomed that the European Commission sees industry as an essential part of the European economy and wants to strengthen its weight. The EU must secure the future economic viability of the location just as resolutely and comprehensively as the Green Deal aims to do in terms of ecological viability. We need European companies that not only survive on the internal market, but also on the global market.

A strong and competitive industry also helps to achieve greater European sovereignty in critical areas. However, this is not to advocate a protectionist policy. Nevertheless, the coronavirus crisis and the Russian war of aggression in Ukraine have exposed the vulnerability of global supply chains.

In our view, the decisive points of a European industrial policy are:

- Further development of the single market,
- Further simplification of state aid law in order to be able to respond appropriately to the challenges of transformation and acute crisis situations in particular,
- Conclusion of further free trade and investment agreements,
- Less bureaucracy, intelligent regulation,
- Promotion of key technologies and support of cross-border cooperation,
- Consideration of the impact of new legislative initiatives on the industry.

3.2 Europe must become stronger as an economic area

The single market with its four fundamental freedoms is the engine of the European economy, the guarantor of prosperity and stability and the basis of peace in Europe.

It has helped to integrate EU companies into international value chains and increase their competitiveness. It also ensures that the EU, which accounts for 15 per cent of global trade flows, is perceived as a trading bloc and can exploit its negotiating power. The EU internal market must be completed. Only an internally united Union can present a strong and self-confident image to the outside world.

A number of hurdles still need to be removed in order to advance European integration.

- One way to further develop the internal market is to reorient the priorities of EU tax policy. On the one hand, this includes abandoning the recurring debate on new sources of taxation for the EU. On the other hand, it is a matter of consistently turning away from the focus of recent years on combating abuse - which is now far too excessive - and consistently reducing tax bureaucracy in order to facilitate cross-border investments and strengthen the EU in international tax competition.
- A digital single market is necessary in order to develop successful products and business models on a larger scale. The EU's ambitious Digital Agenda with additional investment in information and communication networks and the promotion of harmonized cyber security standards is to be welcomed. Research and development require European strategies. However, there must be no over-regulation and legislative actionism, especially when it comes to handling data and algorithms. In this respect, the Data Act and the AI Act must be viewed critically. From the outset, implementation must focus on identifying and consistently curbing obstacles to innovation.
- The implementation and digitalization of the single energy market must be driven forward. As part of the Green Deal, climate protection and competitiveness must be successfully combined and the economy must be supported in the transformation process. The rapid expansion of renewable energies and efficient trans-European networks for energy (electricity, natural gas, hydrogen), the transport of CO₂ and storage, to which all industrial centers are connected in good time, are essential. The expansion of telecommunications and transport networks must also be driven forward at full speed. When developing the infrastructure for alternative drive systems and fuels, the forces within the EU must be pooled.

3.3 Europe must focus on free trade and globalization

There is no alternative to free trade and the international division of labor. They create prosperity and employment for all countries involved. This applies not only to trade in goods and services but also to the internationalization of value chains. Globalization boosts innovation, opens up sales opportunities and secures the supply of raw materials.

Protectionism and trade wars, on the other hand, lead to a loss of prosperity worldwide. The isolation of individual economies, or even possible formation of blocs, for example on the part of China and the Asia-Africa region on the one hand and the United States and the

American-Western region on the other, would significantly impair the international division of labor. Production, income and employment would also fall significantly in the EU.

The EU is dependent on an economic order that enables economic exchange worldwide. This is particularly true for the coming decades, when the European economies will lose growth potential and the greatest market potential will be found in Asia and North America instead.

3.4 Europe must stand up for rules-based global trade and fair competition

A rules-based world trade order should ensure that global trade is not governed by the "survival of the fittest", but by common multilateral trade rules. The WTO is responsible for shaping international trade policy. The aim is to liberalize global trade by lowering tariffs and reducing non-tariff barriers and to make planning more reliable through common regulations. However, the WTO is in a crisis: negotiations on the continuous multilateral liberalization of global trade have remained without any significant results for years; the WTO rules are outdated, unclear in many places and often difficult to enforce; the dispute settlement mechanism has not been operational since 2019 due to the WTO Appellate Body's blockade.

The European economy is particularly dependent on reliable rules due to its strong integration into international value chains. The EU must therefore work together with the broadest possible alliance of partners to reform the WTO and strengthen rules-based global trade.

The need for enforceable WTO rules to prevent distortions of competition through subsidies or state-owned enterprises should be emphasized in particular.

A reform of the WTO Subsidies Agreement is necessary in order to come closer to a level playing field internationally. The vbw study [Effects of Chinese subsidy policy on Germany](#) (in German) shows that the overall level of subsidies in China is high by international standards. The results of the study indicate negative effects on production and gross value added in Germany if Chinese companies are put in a position to produce more and more cheaply than their international competitors through support measures.

In parallel to WTO reform efforts, the EU can rely on unilateral measures as second-best solutions if unfair trade practices distort competitive conditions on the internal market. Such unilateral measures must be proportionate and WTO-compliant so that they do not set off a spiral of retaliation, but instead strengthen rules-based trade.

3.5 Europe must press ahead with bilateral trade partnerships

In parallel to a reform of the multilateral trade system, the EU must promote bilateral trade and investment agreements with important and dynamically growing economic

regions. In this way, Europe can benefit from free trade and broaden its sales and procurement markets and the EU can set the right framework conditions for the economically desirable goal of diversification without interfering in business decisions.

In order to participate in the dynamic growth in many regions of the world, the EU must enter into further agreements. The priority here is to swiftly ratify negotiated agreements (e.g. with Canada, Mercosur, Mexico), conclude ongoing negotiations more quickly (e.g. with India and the Philippines) or resume them (e.g. with Australia). In addition, other countries, especially the dynamically growing ASEAN region, must be taken into account.

3.6 Europe must counteract the bi-polarization of the global economy

The EU has close economic ties with both the USA and China. The volume of trade between the EU and China is similar to the European-American trade volume. There are more intensive links with the USA in areas such as direct investment and cross-border research. China, on the other hand, is of above-average importance to the EU as a source of imports, particularly in critical raw materials and electrical engineering.

It must therefore be in Europe's interest to maintain good and stable relations with both states and with the economic areas dominated by these states. This is confirmed by the vbw study [Consequences of a bi-polarization of the global economy](#).

In the hypothetical scenario of a bloc formation in the global economy, the EU would lose out economically – in both cases, if it were to join the US-dominated economic area and if it were to join the Chinese-dominated bloc.

The EU must act as an independent economic area and thus counteract the increasing bi-polarization of the global economy. This will enable Europe to stabilize the global trade and economic system. Europe's importance as a sales market is still strong enough for it to confidently fulfil this role. For example, around 18 per cent of US exports and around 18 per cent of Chinese exports go to the EU. This shows that not only is the EU dependent on China and the USA, but that there are mutual dependencies.

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