'12 minutes europe
meeting global challenges

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QUO VADIS EUROPE?

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Business location Europe under pressure

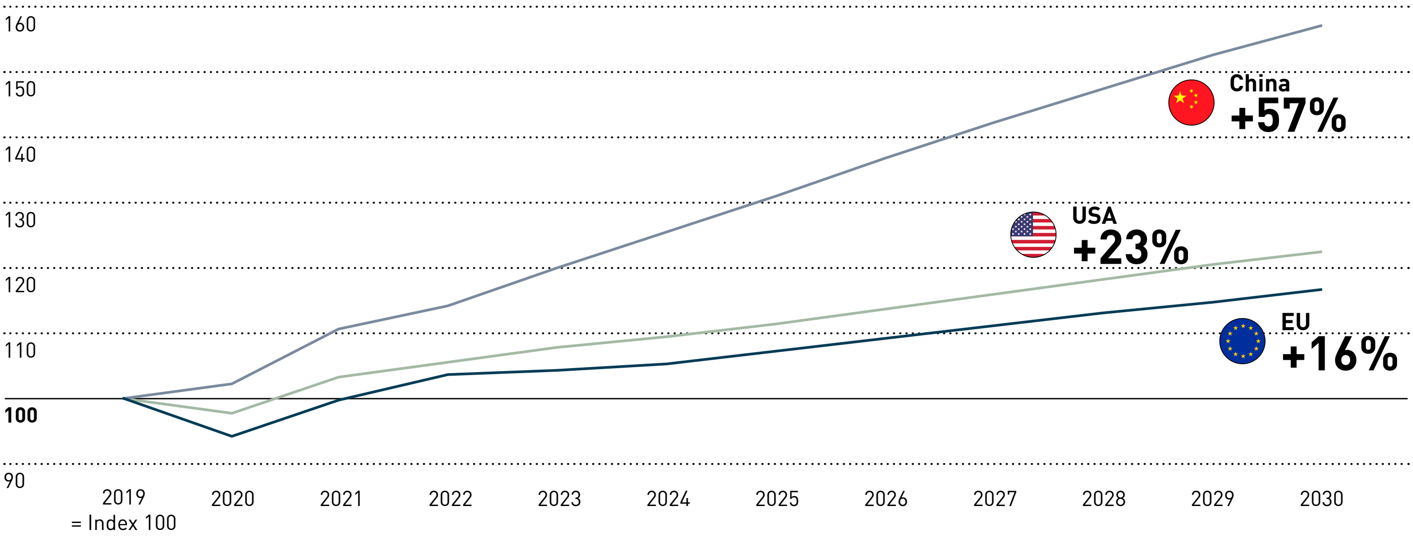
Europe is under pressure in a new global environment. Geopolitical crises and protectionist policies are becoming growing risks. Against this backdrop, the aim is to identify **opportunities and challenges** that make Europe resilient as a business location and strengthen its standing in international competition between economic regions.

	EU	USA	China
Share of global GDP (2022)	16.6	25.2	17.8
GDP growth 2024	0.9	2.1	4.7
GDP growth 2025, change from previous year in %	1.7	1.7	4.2
GDP/capita (2022, PPP)	54,636	76,330	21,483

Sources: World Bank, OECD Interim Report February 2024, EC Winter 2024 Economic Forecast

Top 3. The USA is the world's biggest economy ahead of China, although China's GDP growth has developed extremely dynamically in recent years. According to the OECD, the much weaker trend will continue until 2030.

GDP growth



Source: OECD

Internal market as the mainstay of European competitiveness. The internal market has contributed to the EU becoming one of the world's most powerful trading blocs. Apart from the internal market for goods in the USA, the EU is significantly more integrated when it comes to trade in both goods and services than the other large economic regions, whose main source of trade lies mainly outside their own territory. According to the European Commission, the European internal market offers a **growth potential of 713 bn euros between now and the end of 2029**. And competition is the critical tool to generate prosperity.

This is the one political areas of action for the EU to achieve greater economic benefit: a deepening and completion of the internal market. Its depth, strength and expansion are vital for Europe.

Industry competitiveness on the test bench

European industry accounts for 18.5% of the EU's GDP (2022) and for 20.6% of gross value added, and employs around 33 million people. Yet, as a location for industry, Europe runs the risk of falling behind in global competition.

China

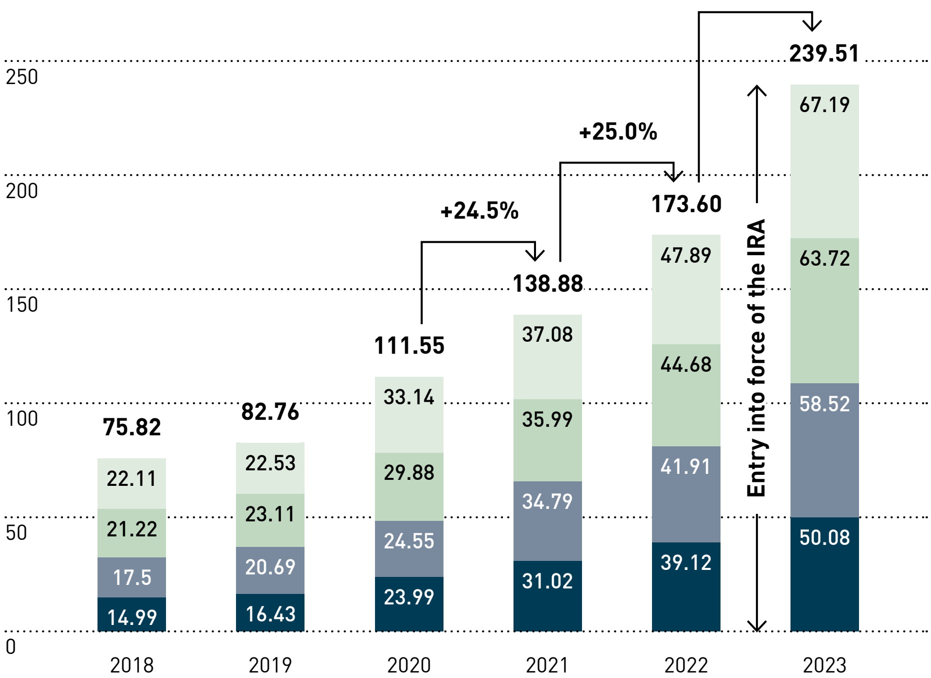
In the course of its Twin Transition, China is massively supporting its industrial base, which already accounts for around 30% of global industrial production, although the country represents only around 18% of global GDP or 12% of global consumption.

USA

The Inflation Reduction Act (IRA) is a huge funding and subsidy programme intended to accelerate the transition to a green economy in the USA. In 2023, 33.7 bn USD in federal funds (98% of which in the form of tax credits) triggered green investments worth 220 bn USD. That corresponds to a multiplier of 5.5. The US measures are working – and are even exerting a pull effect on foreign investments, increasing also on those from Europe.

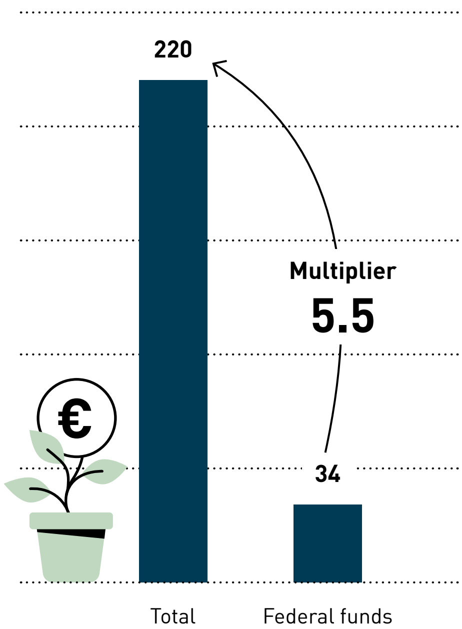
IRA: green investment boom in the USA

Green investments by quarters
in bn USD

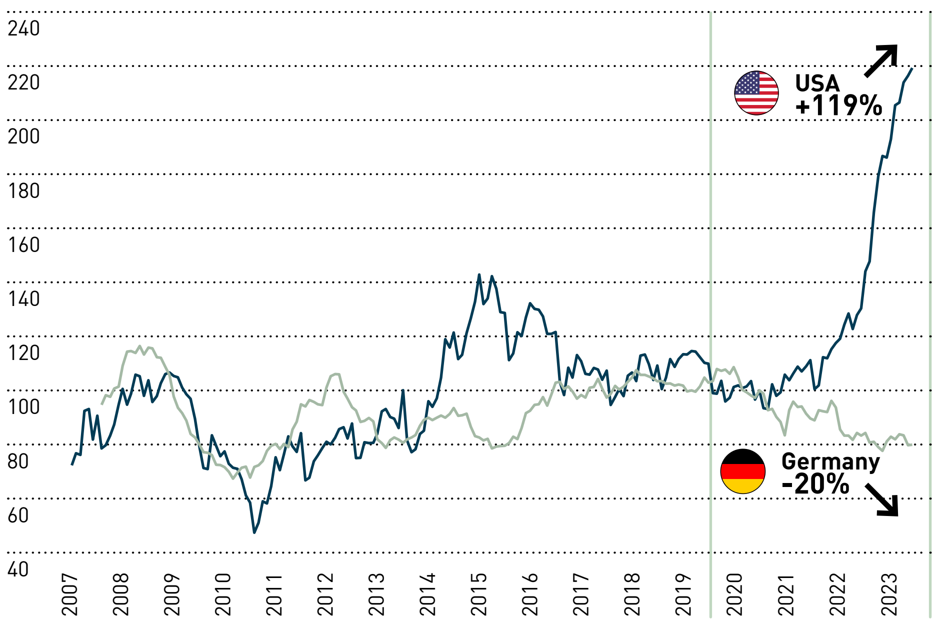


Source: MIT CEEPR / Rhodium Group

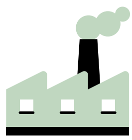
Green investments triggered by federal funds in 2023
in bn USD



Real construction investment in factories, index 2020=100



Source: DESTATIS, Federal Reserve St. Louis



Factory buildings as an indicator. While the danger of deindustrialisation is growing in the EU, the USA is expanding its industrial capacities at a rapid pace. This can be seen in a comparison of construction investments in factories for the USA and Germany.

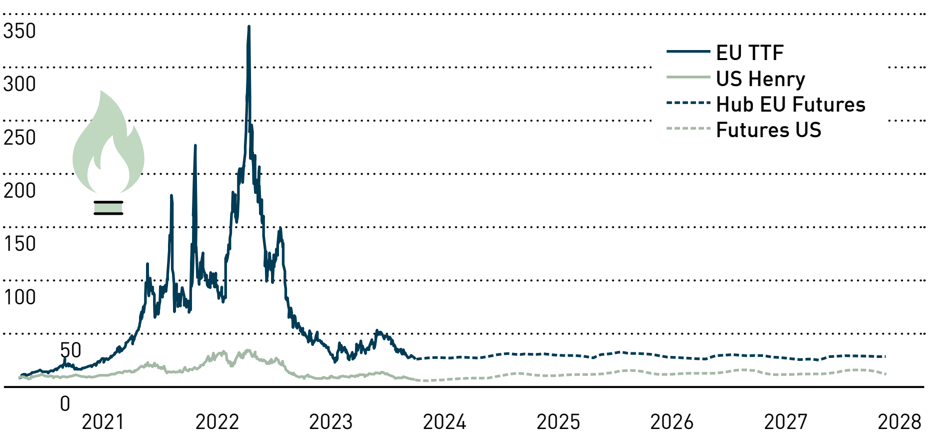
Economically successful energy future

An affordable and secure supply of energy and raw materials has increasingly come into focus. The conversion to LNG imports means not only **more volatile, but also higher prices** for European companies. Energy prices in Europe are and will remain higher than those in the USA over the medium term.

At one point, gas futures in the EU were ten times as expensive as in the USA; currently, they are still three times as expensive. Alongside gas prices, electricity prices also multiplied in 2022. This results in cost disadvantages, especially for energy-intensive industries.

To secure Europe's gas supply for the future, a start was made on increasing European port capacities for the arrival of LNG carriers.
In 2020, before the Russian invasion of Ukraine, LNG made up just 22% of the gas supply of the EU-27. By the end of November 2023, this had risen to 42%, while imports of Russian natural gas fell in the same period from 43% to 9%.

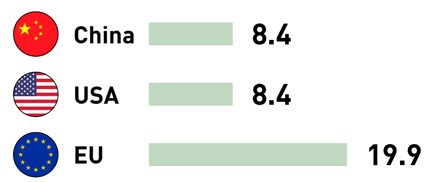
Gas price trend: comparison between EU and USA, in EUR/MWh



Source: Trading Economics, Barchart

Industrial electricity prices on average in 2022

in cents/kWh



Source: Prognos, vbw

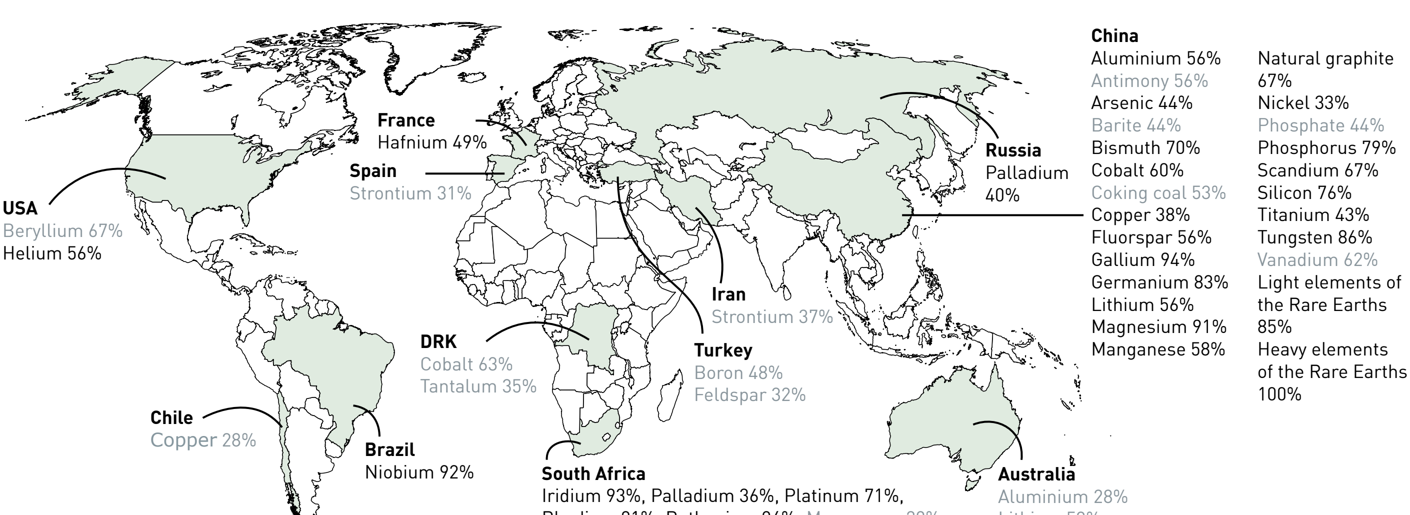
Europe remains heavily dependent on energy imports. In 2022, the EU's net import share of its primary energy consumption stood at 63%. Some member states, such as Germany and Austria are even more heavily dependent on energy imports, at 69% and 74% respectively.

At the same time, **the expansion of renewable energy** in the EU is proceeding only slowly, accounting for just 23% of gross energy consumption in 2022 and 14% in 2010. Although some countries are posting faster progress, like Austria with a share of 33.8%, the overall level of expansion remains insufficient.

The **dependency on critical raw materials** is also becoming a decisive factor in international competition. According to the OECD, worldwide demand will more than double from 79 bn tonnes at present to 167 bn tonnes in 2060. China is the biggest supplier of several important raw materials.

Countries that account for the biggest share of the global supply of critical raw materials

Raw material mining (grey) ● Raw material processing (black)



Source: European Commission 2023

A concentrated European approach in the areas of energy policy and raw material procurement is needed not only to reduce costs to the economy and to promote efficiency, but also to open up entrepreneurial opportunities through the energy transition.

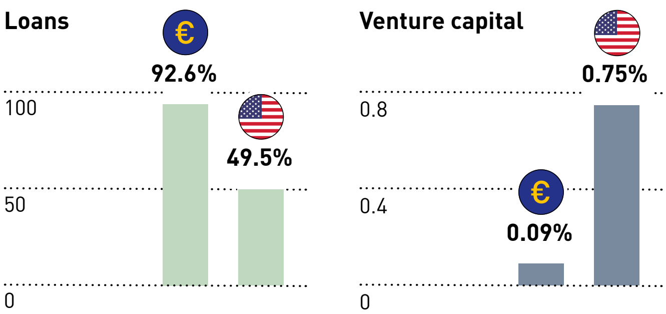
Corporate financing and investments

Efficient capital markets play a key role in overcoming obstacles to growth. However, the capital markets in the EU are currently fragmented: European companies finance themselves only to a small extent via capital market instruments such as exchange-listed securities, bonds or venture capital, while these traditionally play a bigger role in the USA. A **further development of the capital market union** would strengthen Europe's competitiveness.

Strengthening the risk capital market could be one point of focus here. According to the OECD, only a few EU states rank among the countries with the highest venture capital investments (measured against GDP).

Financing instruments of non-financial companies in the Eurozone and the USA

as % of GDP



Source: Annual report 2023/24 of the German Council of Economic Experts

Venture capital investments in 2022

as % of GDP

Israel 1.72% | **USA 0.75%** | **EU 0.09%**

Source: OECD

Foreign direct investments. According to the OECD, the highest monetary stock of foreign direct investments is to be found in the EU-27. However, a relative decline is evident: while the share of foreign direct investments in the global total remained constant in the EU-27 in the last ten years at 26%, this figure rose in the USA from 19.1% to 24.3%.

The overall share of foreign direct investments in the OECD countries has risen sharply since 2013 to 67.2%, while that of China reduced to 7.7%.

Investments are in an important driver of growth, enable impending structural changes to be overcome and create the conditions for long-term growth. In addition to providing incentives for the investment activity of companies, public investments are important for ensuring a modern and efficient infrastructure.

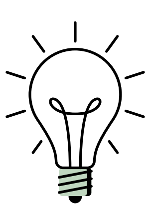
Global innovation competition

With 16 countries, Europe has the highest umber of innovation leaders in the Top 25 of the Global Innovation Index 2023. Also critical for competitiveness are the areas in which innovations are created and implemented.

Ranking of the global innovation leaders

1. Switzerland
2. Sweden
3. USA
12. China
18. Austria

Source: Global Innovation Index 2023

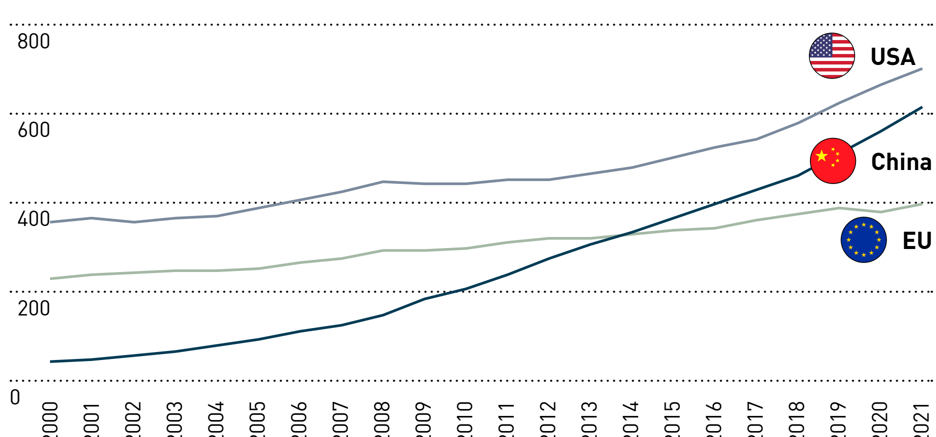


Digital innovations. Digital innovations in particular deliver a competitive edge. Europe needs to catch up in this area or runs the risk of developing dependencies on several critical technologies. In the fields of AI and Big Data, the EU lies well behind China (31%) and the USA (28%).

Accelerating R&D expenditure. European expenditure on research & development (R&D) is lagging behind other economic regions: R&D expenditure in the USA has almost doubled in the last 20 years, while it rose by only 73% in the EU. The comparison between the EU and China is similar.

Trend in gross expenditure on research and development

in bn USD



Source: OECD

Securing the labour force

Securing the supply of labour is another critical aspect of European competitiveness. However, it is becoming increasingly difficult for companies in the EU to meet their demand for personnel. Since 2015, the number of vacancies in the EU-27 has doubled from 1.8 to around 3.6 million (2023). Given that, according to the OECD, the total population in the EU will grow marginally until 2040 (+2% compared to 2015), but grow older and older at the same time, no relief is in sight. In the USA, on the other hand, the population is expected to grow by 16% by 2040, compared to 2015. The OECD average is thus expected to be +11%. China's population, in contrast, might actually shrink slightly by 2040 (-1% compared to 2015).

At the same time, the annual volume of work performed by each employed person in the EU is relatively low.

Average working time per employed person
in hours/year

EU	USA	CHINA
1.593	**1.681**	**2.136**

Source: Prognos Economic Outlook

The EU needs a strategy for securing skilled labour that ensures an optimal allocation of the European labour force potential while also focusing on international specialists.

SUMMARY: What Europe needs to boost competitiveness

1. **Deepening of the internal market and a proactive trade policy**
2. **Sustainable transformation with an affordable and secure energy supply**
3. **Increasing the competitiveness of industry and promoting research and innovation**
4. **Securing the labour force & raising productivity**
5. **Obtaining finance and strengthening the capital market**

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