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EVOLUTION OF EU AND ITS MEMBER STATES'COMPETITIVENESS IN INTERNATIONAL TRADE

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NON-TECHNICAL SUMMARY

Countries of the South are today playing a major role in the development of international trade: whereas the North was the strongest driver of world trade from 1995 to 2000, since 2000 the South has accounted for 60% and 50% of the growth in world exports and imports of goods respectively. These countries and China in particular, are gaining world market shares to the detriment of industrialised countries: between 1995 and 2005, China has almost doubled its world market shares. This evolution is all the more worrying that developing countries specialise in technological goods, hitherto considered as a comparative advantage of developed economies.

This work looks in detail at how the EU has coped in this rapidly changing context. In recent years, many analysts and politicians have compared the performance of EU industry unfavourably with its key competitors on world markets. They have bemoaned the lack of investment in research in the EU, the bureaucratic hurdles to innovation and investment... All of these weaknesses certainly exist in some or even all Member States. However the following detailed and rigorous analysis paints a somewhat brighter picture than might be expected. It shows that, compared to its key competitors, the EU has shown remarkable resilience in its capacity to export relatively expensive and technology-intensive goods to the rest of the world.

The figures show that the EU has performed particularly well in the more up-market, expensive levels of the market, where it has a world market share of 31% (compared to 20% in all non-energy goods). This analysis of export performance by market level enables us to put the overall gains of emerging countries into perspective. The latter are clearly specialised in low market products. Although they are making progress on all fronts, they are making little headway in the up-market sector. Here the Chinese case is particularly striking – the expansion of the export capacities of its industry over the period 1995-2004 was almost exclusively in low market products. These findings indicate that developed countries in general, and the EU in particular, retain a clear advantage over the emerging countries of the South; for the moment the latter are only making a significant impact on the low end of the market.

This report also shows that EU enlargement has had important positive impacts on EU trade performance. The analysis indicates that, although the EU10 (new member states) are clearly evolving in the direction of greater homogeneity with the EU15 over time, the two regions have important complementarities. The growing presence of EU10 companies in up-market products was the key driver of the increased market share of the EU25 in this sector, while their strong performance in high tech products helped mitigate EU15 losses. However it is in the division of labour within the Union that the effect of enlargement is most clearly felt. The new member states have become important suppliers of intermediate goods to EU 15 industry, particularly German firms, whose competitiveness in export markets seems to have benefitted from these inputs.

*J.E.L. Classification***:** F1

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