

*Despite the issues facing the European project, many European countries are well-positioned to perform in the emerging global economy and have policy insights to share*

## The European project is under pressure

Europe seems increasingly to be regarded as belonging to the past not the future. The more ambitious parts of the European project, from currency union to the free flow of people, are under real pressure. And there are clear issues relating to collective decision-making across Europe. Europe's sovereign debt issues are serious, and the Eurozone may not survive in its current form. The notion of Europe as an exemplar of a post-modern world of shared sovereignty, popular over the past two decades, has much less strength today.

But implicit in much of the commentary on Europe is a view that Europe's current problems also reflect a fundamental weakness in the approach of European countries to economic policy. In this view, the Eurozone crisis demonstrates the failure of a European policy model characterised by high taxes and government spending, a generous welfare state, and heavy regulation.

There is clearly something important in this view. There are undoubtedly issues around inefficient tax and regulatory systems, inflexible labour markets, and unproductive public sectors. But we should take care not to conflate the economic and political difficulties facing Europe as a collective with a view that many of the economic policy approaches in European countries are also seriously flawed. There are obvious policy deficiencies in some of the southern European countries, but this is much less true of the other European countries.

Indeed, the policy approaches of many European countries are arguably even more relevant in the

more complex global environment that we are entering than has been the case over the past decades. A key challenge for governments in the years ahead will be to create the domestic conditions to enable sustained, successful engagement in a global economy that is likely to be more competitive and more turbulent.

## But many European countries are well-positioned

Many of the characteristics of the core European countries are particularly well suited to perform in this emerging global context, and accordingly they may be in a position to offer policy insights to other advanced economies. And perhaps to some rapidly growing emerging markets as well. There is a more interesting story than simply an acceleration of the transfer of power from the sclerotic old world to the dynamic emerging economies.

One reason for confidence in this regard is Europe's performance in the global economy. Average levels of exporting and outward direct investment from many European countries are much higher than in other parts of the developed world. European countries make up five of the world's 10 largest exporting nations. This partly reflects the deeply integrated nature of the European market. But an examination of Europe's economic relationship with Asia also shows high levels of exporting and direct investing activity.

And European countries produce a disproportionate number of multinational companies. The Scandinavian countries, Switzerland, and the Netherlands, produce more companies on the Forbes Global 2000 per head of

population than the US. Companies like Unilever, Shell, Ikea, Maersk, and Nestle, are well known. And it is not just large companies. Europe is famous for its intensely competitive mid-sized companies from the German Mittelstand and the clusters in Northern Italy.

Indeed, European countries routinely rank at the top of competitiveness rankings. Six of the top 10 places in the World Economic Forum's global competitiveness rankings belong to European countries. The top two places are held by Switzerland and Sweden, who beat out Singapore in third place and the US in fourth.

This strong competitiveness performance helps to explain why European per capita income growth has exceeded that of the US over the past 15 years. Many European countries have good intrinsics, and are at least as well positioned as the US – and probably better positioned – to perform strongly in the emerging global economy.

## And many European countries have policy insights to share

This history of deep global engagement also means that European governments understand what is required to sustain both competitive advantage and public support for global engagement. There are three areas that are worth highlighting.

First, many European countries have been able to manage pressure on income inequality that has come from the growing global presence of emerging markets, technological innovation, and the like. A strong focus on vocational education, innovation, and the creative design of labour market and social policies, in many European countries have provided a source of real competitive advantage, as well as mitigating some of the adverse effects on income distribution.

Second, Europe is well positioned to manage the risk exposures that are inherent to engagement in the global economy – and which seem likely to become even more pronounced. Europe is relatively resilient by virtue of its thoughtful allocation of risk within the economy. There is a good social safety net, a common feature of more open economies, as well as more established mechanisms to share risk across employees, corporations, and the government. This was a particular asset during the recent global crisis, when there were coordinated initiatives between companies, unions, and the government to keep staff employed.

Third, Europe has generally well-functioning political systems and relatively high levels of social consensus. Many European countries are small, with effective decision-making systems and highly rated public governance. These countries have a track-record of policy innovation in response to the challenges of globalisation that they have faced.

Europe therefore provides real guidance in terms of how advanced economies can successfully engage in a competitive and complex global economy. And for emerging markets that face new challenges as they continue to develop, the European experience may offer lessons in terms of how to grow sustainably. A recent report from the Asian Development Bank, for example, noted that inequity posed a real risk to the growth prospects and social cohesion of Asian economies and that, to capture the potential of the Asian Century, many Asian countries will need to focus on 'growth with inclusion'.

## The old world still has much to teach

Overall, many European countries have policy approaches that are well-suited to relatively strong economic performance in the years ahead, based on an impressive record of global expansion

by European companies. The conventional wisdom seems rather too gloomy about the medium-term prospects of many of the European economies. And from a policy-makers' perspective, Europe has many policy insights to offer in terms of how to successfully engage with

the global economy. Reforms are needed to be sure, but there is also much to learn from policy approaches in Europe.

We should not write Europe off, either as a source of economy growth or of policy insight. The old world still has much to teach.

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