Globalisation et évolutions récentes de la géographie économique européenne.

par

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Objective of the presentation

- To look at the changing economic geography of the EU in light of the recent changes related to:
  - European economic integration
  - Globalisation

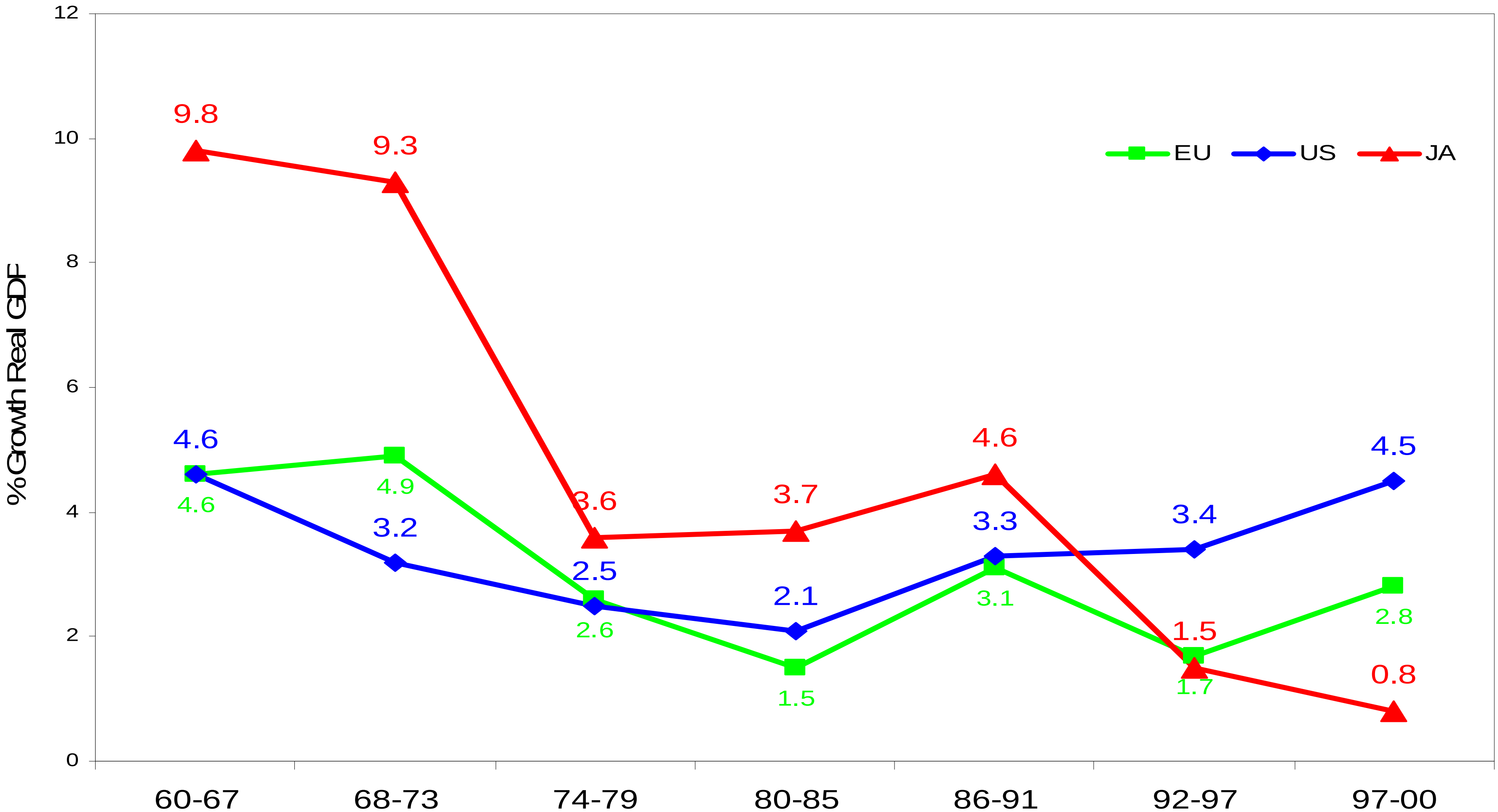
Structure of the presentation

- The ‘problem’
- The ‘solution’: economic integration
- The impact:
  - Economic restructuring
  - Economies of scale
  - Trade
  - Productivity
- Conclusions

The ‘problem’

- Europe strong economic performance till late 1970s
- From 1980s, weakening economic performance
- Belief that market fragmentation (**nationally divided markets**) had something to do with this

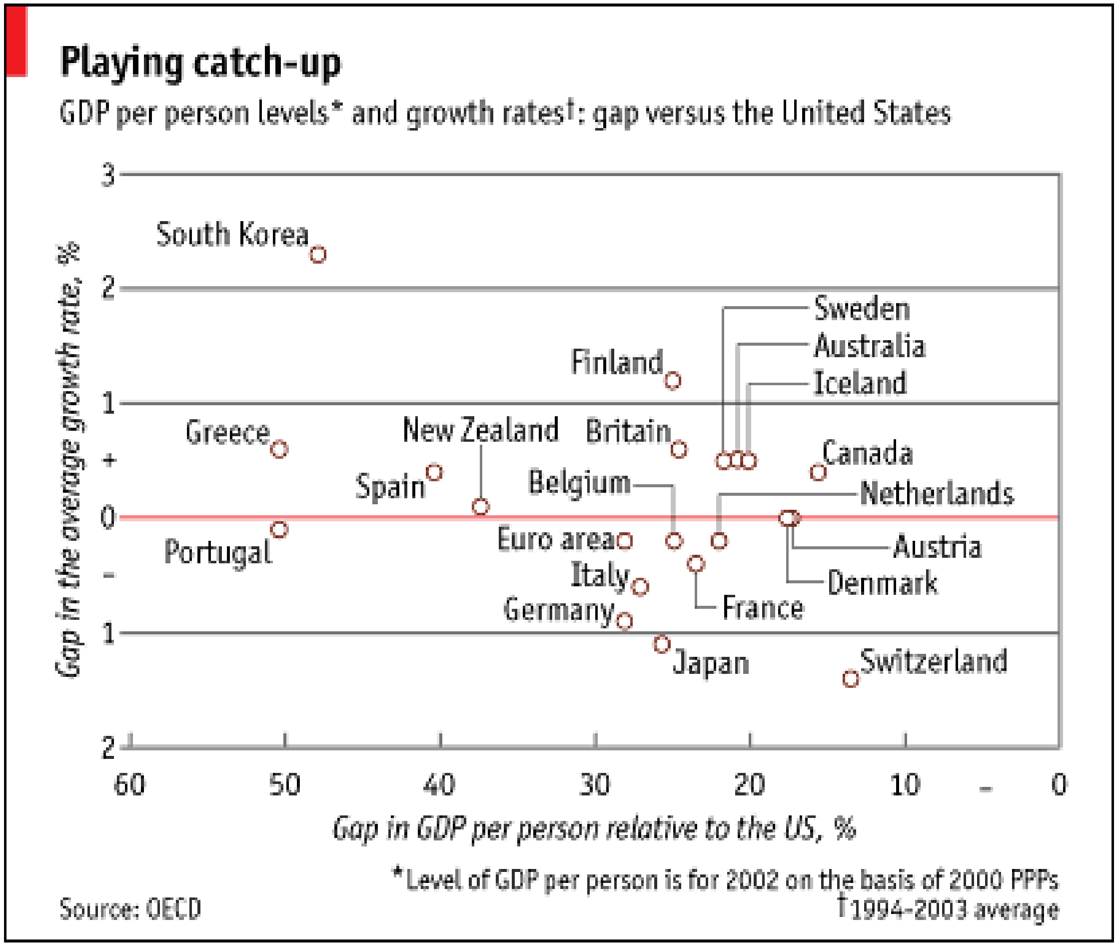
Growth rates 1960-2000



Source: OECD (2001) and Tsoukalis (1997)

EU vs. US

- WWII-1980s : club convergence among OECD members
- 1994-2003: gap ↑ (euro area/US=70%)
  - EU fare especially bad in participation rates
    - US=74%, EU=64%
    - Cohort 55-64 y.old, US=58%; EU15=39%



‘Fragmented markets’

	2006	% EU27
eu27 European Union (27 countries)	11597118	100.00
de Germany (including ex-GDR from 1991)	2322200	20.02
es Spain	980954	8.46
fr France	1791953	15.45
it Italy	1475401	12.72
uk United Kingdom	1912154	16.49
us United States	10508681	90.61
jp Japan	3485311	30.05

12 EU27 countries below 1% of total

The ‘solution’: integration

- Single market
  - Basic elements

    Goods Trade Liberalisation
    - Streamlining or elimination of border formalities
    - Harmonisation of VAT rates within wide bands
    - Liberalisation of government procurement
    - Harmonisation and mutual recognition of technical standards in production, packaging and marketing

    Factor Trade Liberalisation
    - Removal of all capital controls, and deeper capital market integration
    - Liberalisation of cross-border market-entry policies

The 'solution': further integration

"The Union has today set itself a new strategic goal for the next decade: to become *the* most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion."

Presidency conclusions, Lisbon European Council, March 2000 (italics added)

The expected benefits of economic integration

- **Cecchini report (1988). Cost saving effects:**
  - **'Static trade effect'**: benefits reaped from allowing public to buy from the cheapest suppliers
  - **'Competition effect'**: Downward pressure on prices as a result of greater competition
  - **'Restructuring effect'**: Reorganisation of industrial sectors and individual companies as a result of greater competition
- **Other possible benefits:**
  - Benefits on investment, innovation (rationalisation of R&D expenditure) and growth
  - Savings for the public sector (lower government subsidies for inefficient firms

The expected benefits of economic integration (II)

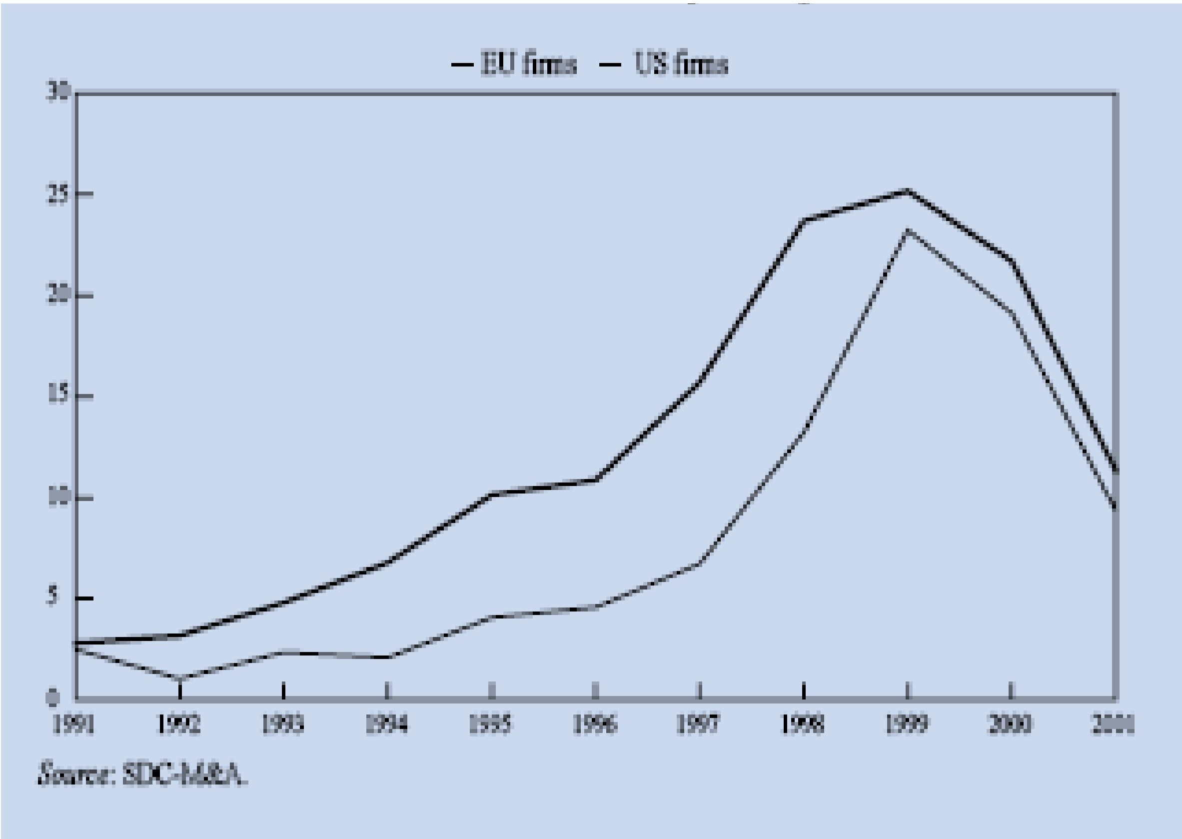
- **Combination of cost saving effects results in two kinds of benefits:**
  - **Direct benefits:** from the eradication of economic borders
  - **Indirect benefits:** from economic restructuring, increases in trade and competition and greater economies of scale
- **Result:**
  - The emergence of virtuous cycles of innovation and competition
  - Lowering of prices for consumers
  - Greater job creation

Economic Restructuring

- **Ex-ante reports highlighted that economic integration was to bring about a more efficient concentration of resources**
- **And a restructuring of companies**
- **Several waves of mergers and acquisitions:**
  - 1980s wave: total value amounted to an equivalent of 0.3% of world GDP
  - between 1987 and 1998 the number of mergers and acquisitions has increased by more than two and a half times (1990 value equiv to 2% of world GDP).
    - The bulk of this happened in anticipation of the Single Market between 1987 and 1990
  - Then M&A activity peaked in 1999 when its total value equivalent of 8% of world GDP
  - Transnational M&As have taken off after the Single Market and in anticipation of EMU.

M&As in the EU & US

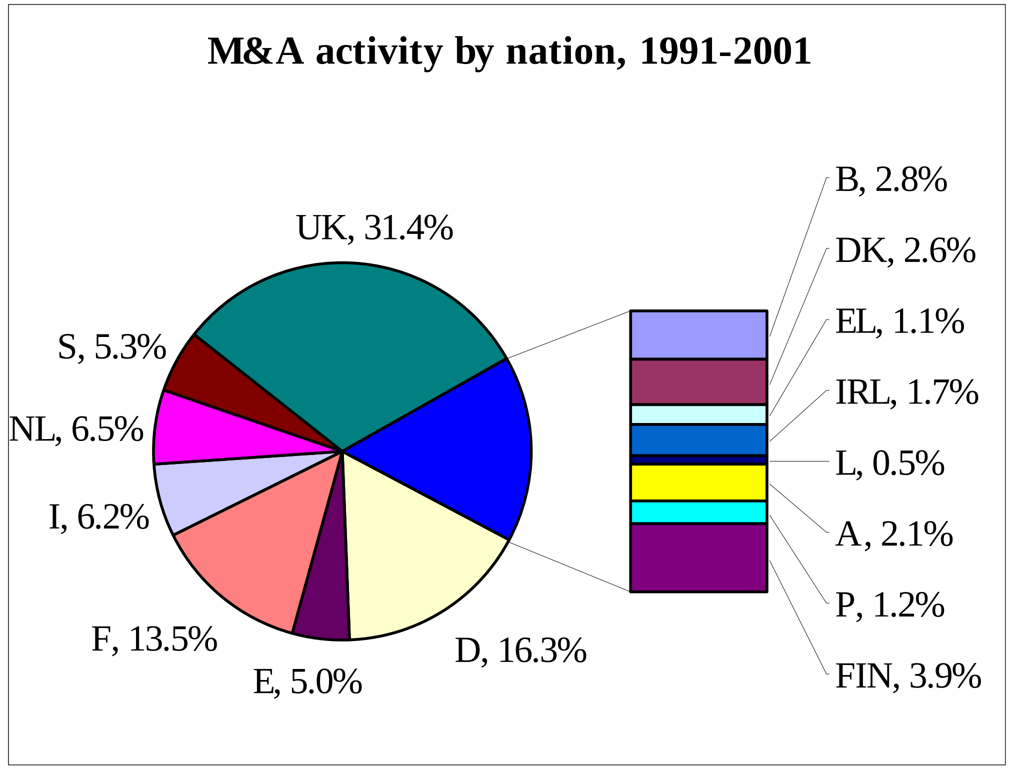
Total value of M&A as percentage of GDP



Source:"Mergers and Acquisitions" European Economy, Supplement A, No.12, Dec.2001
http://europa.eu.int/comm/economy_finance

M&As in Europe

- Distribution of M&A quite varied:
  - big 4: share M&As much lower than share of the EU GDP.
  - I, F, D 36% of the M&As, 59% GDP.
    - Except UK
  - small members have disproportionate share of M&A.



M&As by origin

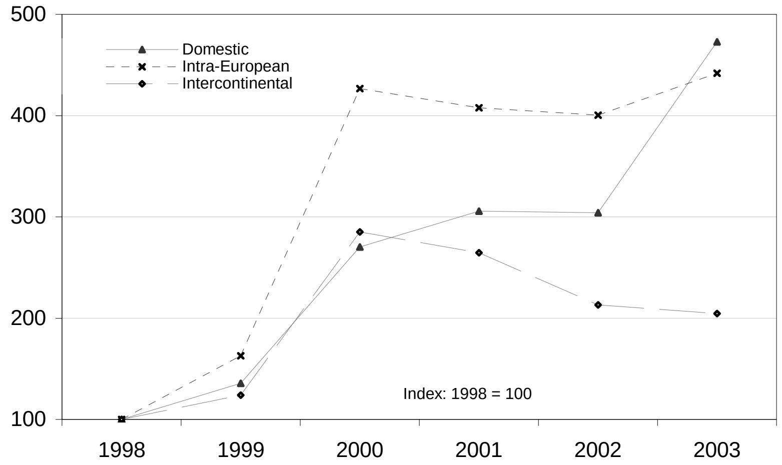


Fig.1a. Trends in M&A activities involving European firms (1998-2003, by number of events)

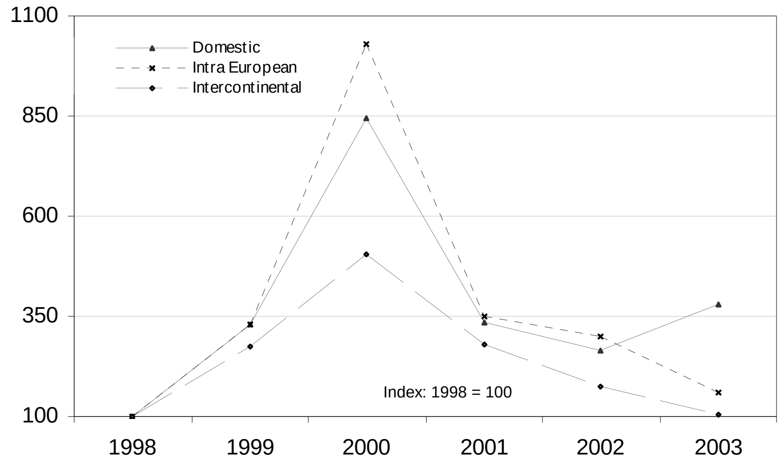
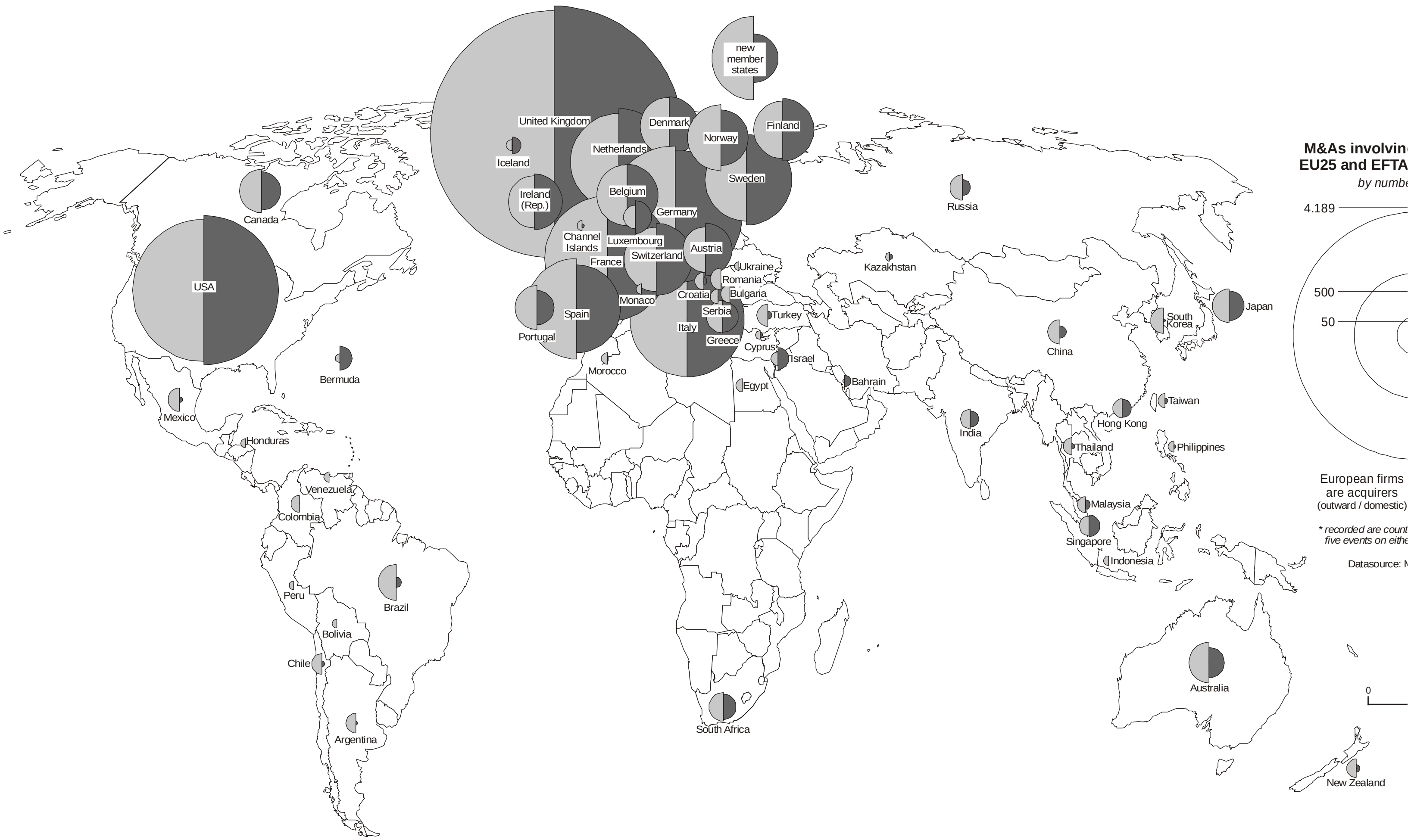


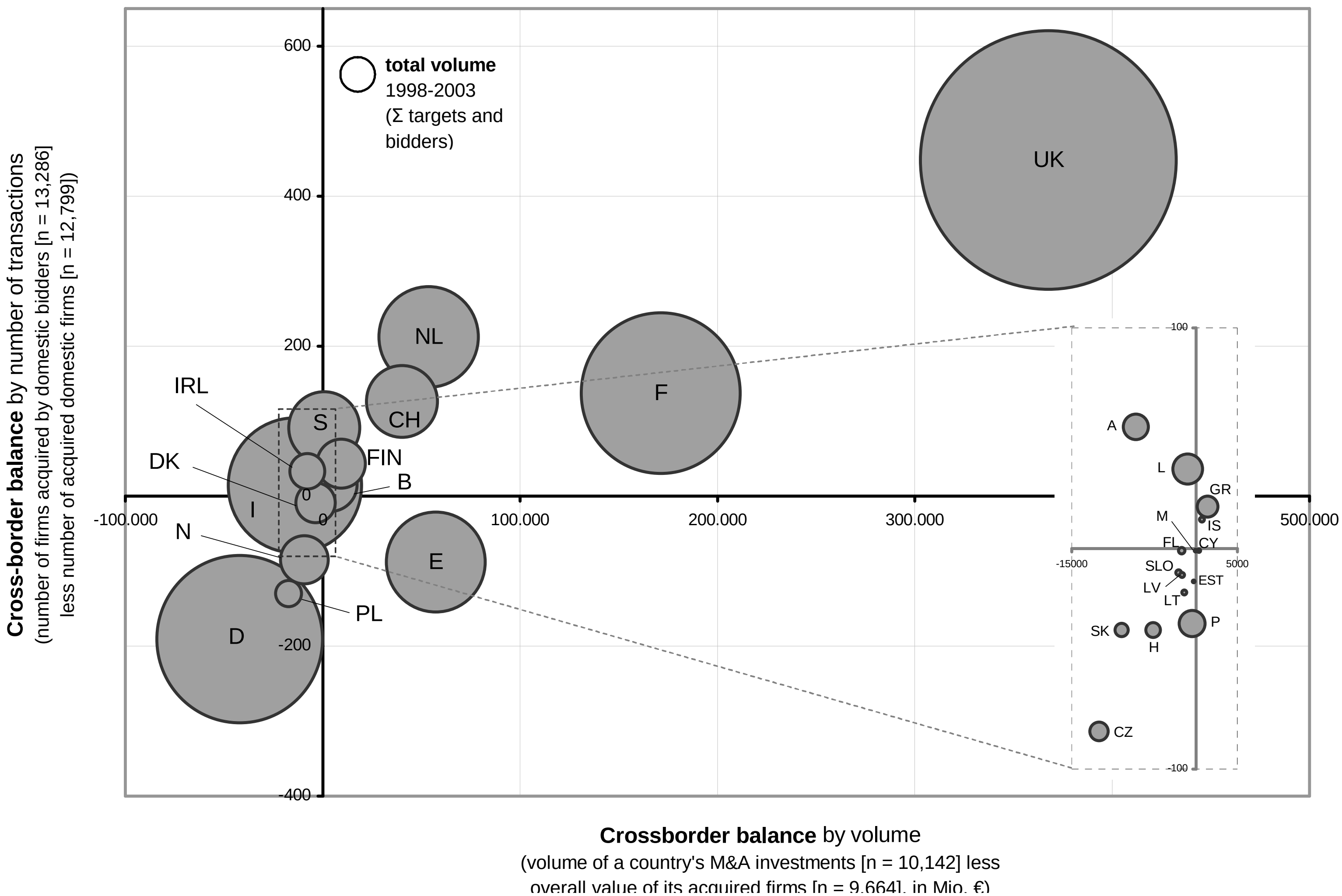
Fig.1b. Trends in M&A activities involving European firms (1998-2003, by deal volume)

M&A by volume



The European market of corporate takeovers at global scales: M&As involving firms located in EU25 and EFTA states, 1998-2003 (by number of events)

Cross-border balance



Cross-border interactions in the markets of M&As in Europe

Economies of scale

- **European companies have become more ambitious and aggressive:**
  - Probably in connection to the launch of the Euro
  - But also as a result of the emergence of new TNCs in Europe resulting from previous mergers
- **New mergers increasingly involve companies from two different European countries:**
  - Orange and Mannesman
  - Vodafone and Mannesman
- **And also truly global M&As:**
  - Daimler-Chrysler
  - Glaxo SmithKline Beecham

Economies of scale: Large companies

World's Largest Corporations (2007)			
Rank	**Company**	**Revenues ($ mil.)**	**Profits ($ mil)**
1	**Wal-Mart Stores (USA)**	351,139.0	11,284.0
2	**Exxon Mobil (USA)**	347,254.0	39,500.0
3	**Royal Dutch Shell (NLD)**	318,845.0	25,442.0
4	**BP (UK)**	274,316.0	22,000.0
5	**Genaral Motors (USA)**	207,349.0	-1,978.0
6	**Toyota Motors (J)**	204,746.4	14,055.8
7	**Chevron (USA)**	200,567.0	17,138.0
8	**Daimler Chrysler (GER)**	190,191.4	4,048.8
9	**ConocoPhillips (USA)**	172,451.0	15,550.0
10	**Total (FRA)**	168,356.7	14,764.7

Fortune Global 500

Greater participation of EU companies in the world stage

4 in the top 10

Biggest Money Loosers (2007)	
1	**Ford Motors (USA)**
2	**Vodafone (UK)**
3	**Delta Air Lines (USA)**
4	**Delphi (USA)**
5	**GM (USA)**

Economies of scale: Banks

Five European Banks in top 10

Bank	Assets
Fuji—IBJ—DKB (J)	1,267
Deutsche Bank (G)	899
UBS (CH)	686
Citigroup (USA)	668
BankAmerica (USA)	618
Bank of Tokyo—Mitsubshi (J)	599
ABN—AMRO (NL)	518
HSBC (UK)	485
BNP/Paribas (F)	447

Trade

- **Sizeable increase in trade across the EU**
  - Greater expansion in absolute terms than in other developed areas of the world
  - But not in relative terms, where the US has expanded more (but not Japan)
  - This means that in a world context the evolution of European trade has been rather disappointing, especially in comparison with countries like Canada or Mexico, which have undergone milder processes of integration

Trade at national level

- **Several countries have experienced significant increases:**
  - Countries with relatively open economies: Ireland
  - Countries which were relatively closed: Finland, Sweden, Spain, or Italy
- **The trend is far from universal:**
  - Germany, Greece, and Portugal have seen their exports as a share of GDP decline
  - Luxembourg, Greece, and Portugal have seen a decline in their import share
  - The lack of a clear pattern in the evolution of trade suggests that no greater territorial specialization is evident

Changes in trade patterns

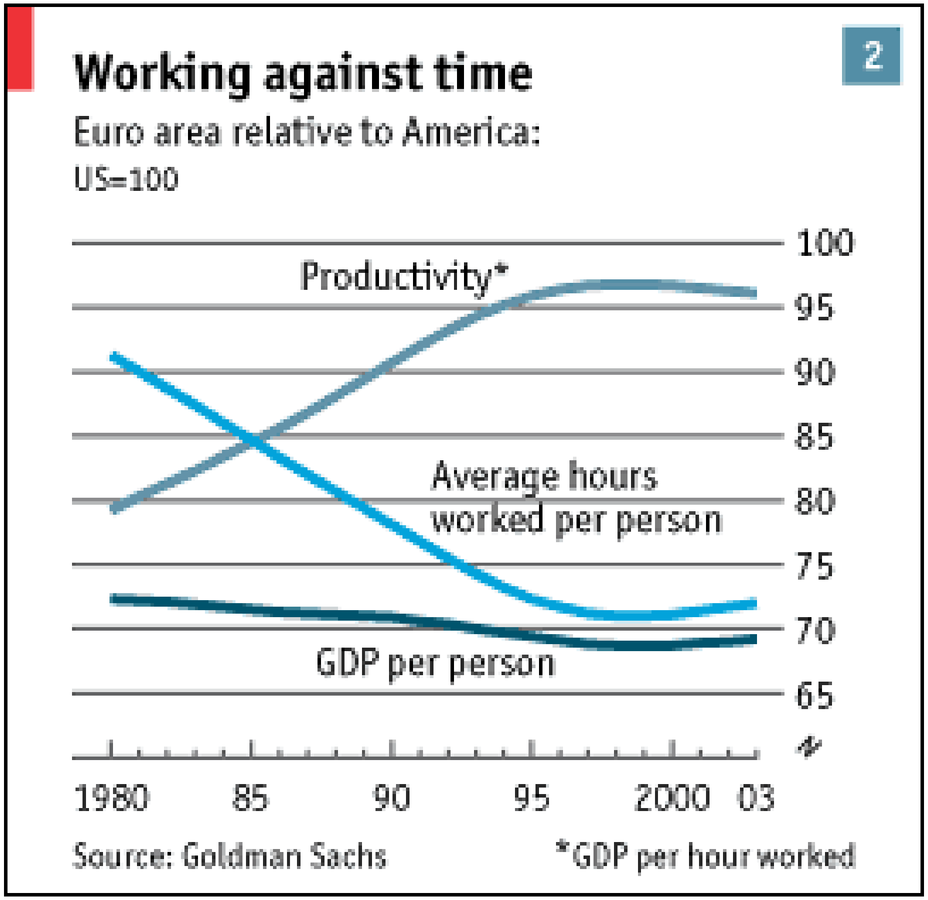
- **Increase in intra-industry trade…**
- **But, stability of inter-industry trade**
  - This has prevented a further concentration of capital intensive industries in core countries to the detriment of the periphery
  - Former lagging countries such as Ireland and Spain have profited from integration to expand trade and attract capital intensive industries…
  - Portugal and Greece have been less successful
- **The level of intra-industry trade suggests that the expected specialization may be starting to happen but within sectors not between**

Productivity

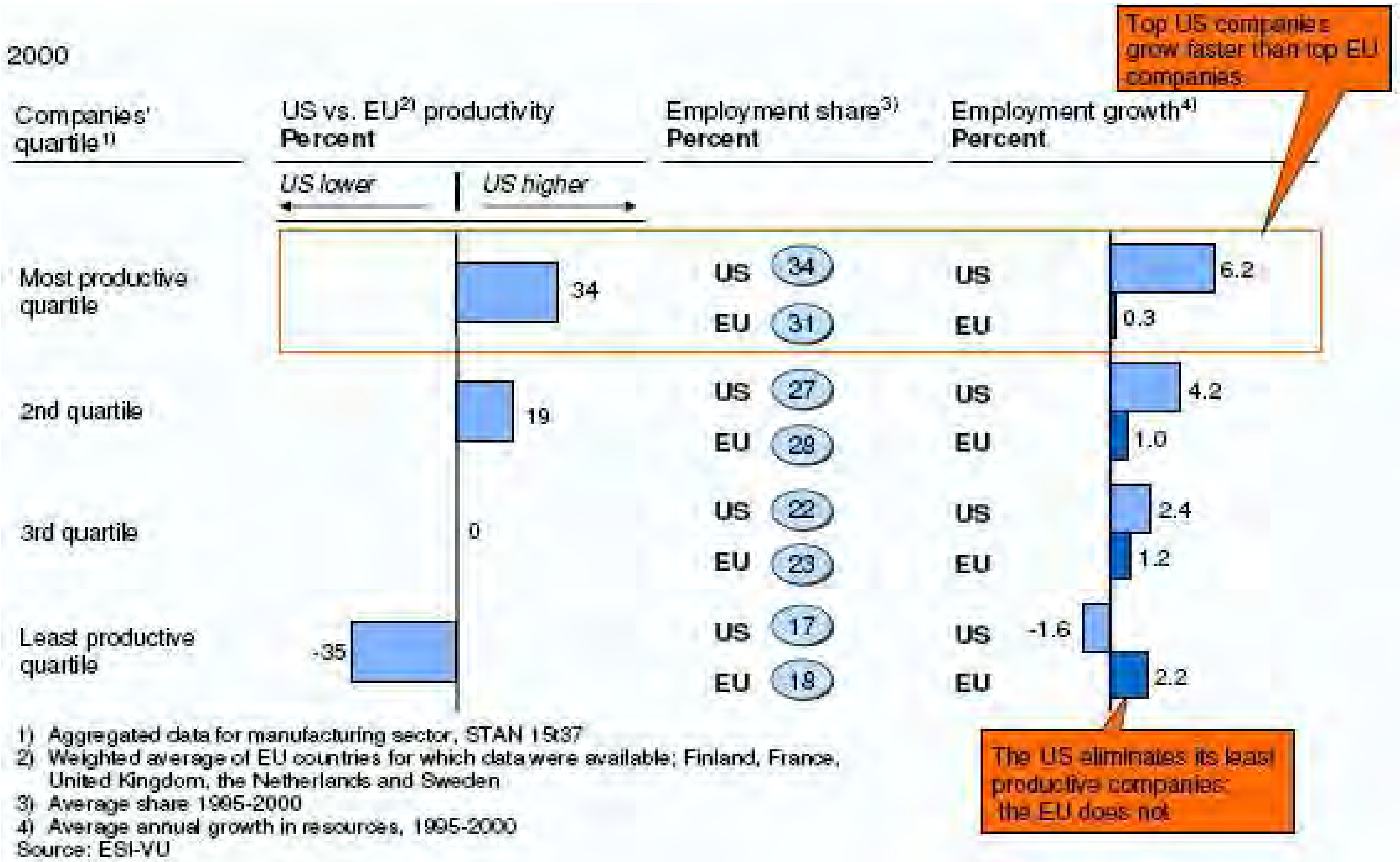
- **European labour productivity has been reducing the gap with the US in the post-war decades but some GDP/capita gap due to different activity rates**
- **Convergence came to an end in the second half of the 1980s**
  - Increasing technology gap between the US and the EU
  - Permanence of fragmented markets in Europe (monopolies which prevented access to new technologies)
  - Rigidity of European labour markets (which kept the young out of work)
- **Productivity has grown faster in US in the 1990s**
  - Some encouraging signs for EU (advantage in mobiles)

Productivity: EU vs. US

- Employment
  - + 1.3% p.y. in US
  - + 1.0% p.y. in euro area
- Total employment since 1997
  - + 8% Euro\G (50% in Spain)
  - + 6% America
- More unskilled enter workforce in Europe
- Europeans are buying their time off
  - – ... or are they forced out of their jobs?



Reallocation of resources

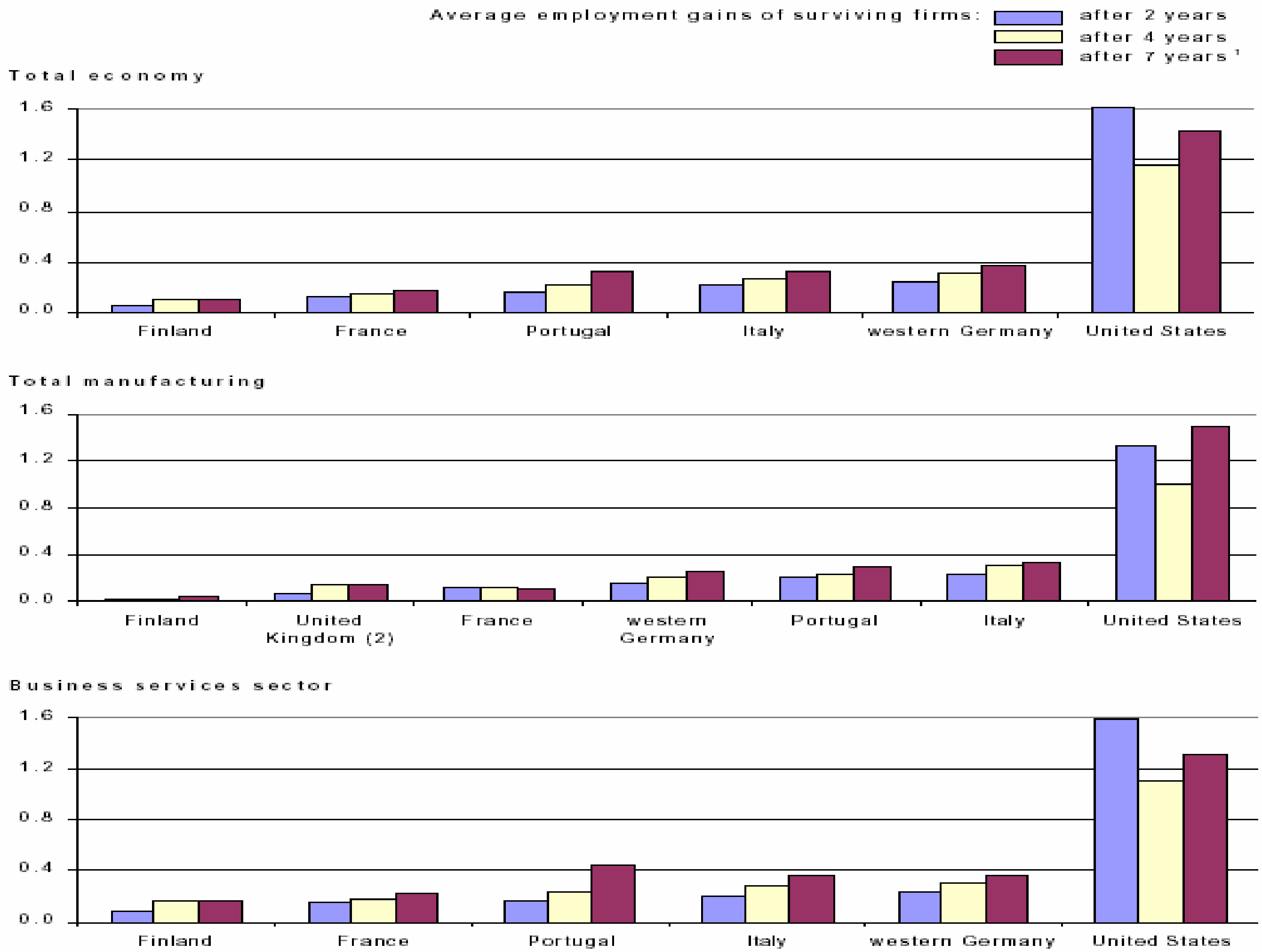


Source: McKinsey Global Institute, A road Map for European Economic Reform, Oct 2005

Dynamic evidence

Figure 11. Net employment gains among surviving firms at different lifetimes, 1990s

(net gains as a ratio of initial employment)



1. After 6 years for the United Kingdom.
2. Data for the United Kingdom refer to cohorts of firms that entered the market in the 1985-90 period.

Sources: OECD

Conclusions

- Economic geography changes related to European integration and globalisation present a mixed picture:
  - Huge economic restructuring, lead by mergers and acquisitions
  - But limited impact in terms of increases in trade and productivity
- Some countries seem to be reaping the fruits better than others:
  - Winners: UK, Scandinavia, Spain, New Member States
  - Lagging behind: Benelux, Italy, France, Germany
- Question marks about the viability of the European social model:
  - High employment protection
  - Low insertion of skills in the labour market
  - Wage rigidity
- But is the alternative more sustainable?