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How does Europe chart its course in the World?

As my time as Chair of the European Round Table for Industry (ERT) comes to an end, **European business leaders find themselves in a far more turbulent world than when my tenure began.**

Worsening relations between the West and China have highlighted the difficulties of navigating a competing set of rules and regulations for European firms operating in these markets.

The COVID-19 pandemic exposed key supply chain dependencies and bottlenecks that corporates have rushed to mitigate. Most recently, the terrible war in Ukraine has underlined the vulnerability of Europe's energy supply, testing the resolve of European values and unleashing new waves of market volatility.

Europe has proved resilient in the face of these challenges, showing solidarity during the COVID-19 crisis and unity in its responses to Russia's violent invasion of Ukraine. The European Commission plans to pursue 'open strategic autonomy' by, for example promoting home-grown capabilities in critical technologies. Initiatives like the Chips Act aim to reduce dependencies abroad while protecting EU firms against unfair practices in third countries.

At the same time, European ambitions to drive the twin transition to a greener and more digital economy will boost long-term growth and bolster the EU's greatest strengths, namely high living standards for the many, not just a few, and its role as a global standard-setter and driver of sustainable innovation.

First, however, we must get our own house in order.

It should be a priority for Europe's policymakers and industry to restore our global competitiveness.

This is a condition for both strategic resilience and a successful twin transition in the medium-to-long term.

Over the last number of years, our competitiveness has suffered from declining productivity growth and subdued investment. Global competition is becoming tougher, eroding the market share of even some of the best-known European companies.

At the start of the 21st century, for example, 41 of the world's 100 most valuable companies were headquartered in Europe. Last year, that number had shrunk to just 15. IMF forecasts project the EU's share of global GDP will decline to just 14% by 2026, down from 20% in 2000, while China will have gone from 7% to a forecasted 20% by 2026. The decline in Europe is also matched by an equally stark fall in the region's corporate wealth.

In part, this is a natural consequence of the rise of China and its companies – and of course we can only welcome that China's economic development brings prosperity to the largest population on the planet. That said, **there is a difference between sharing prosperity and being pushed out of the game. Europe must avoid the latter.**

US companies have also consolidated their position at the top of industry league tables in technology and other sectors, particularly during the pandemic. The US economy far outpaced that of Europe between 2008 and 2018, recording cumulative real growth of 19% over the period, compared with 11% in our own region. And in the last two years to the end of 2021, the S&P 500 advanced three times as much as Europe's Stoxx 600.

Getting Fit to Compete Again

Faced with such challenges, what should Europe do to retain its competitive advantage and drive its strategic agenda? I believe we must start by looking to strengthen the single market and deepen regional integration. Building resilience begins at home.

Central to its economic success and geopolitical influence, the single market is perhaps Europe's greatest asset and one of its most notable achievements to date. But we have hardly realised more than maybe half of its potential, due to a **continued lack of policy harmony within the bloc.**

Companies still need to produce their products in too many variations, sometimes even up to one per EU member state. Differences in approval processes, testing and labelling create additional national barriers that hinder corporate expansion, stifle innovation and hamper competitiveness.

As a result, productivity suffers, consumers pay more, SME's cannot compete with Asian suppliers and job opportunities gets lost. Compare this with US and Chinese firms who operate from true harmonised home markets.

Consider for a moment how a start-up based in Paris seeking to establish operations in Rome faces far more red tape than one from Chicago opening up in Los Angeles, or a company from Shanghai, trying to get established in Shenzhen.

These factors make it harder for European corporates' to expand and in an agile world of tech and fast-moving green solutions, the ability to scale-up is critical to competitiveness.

And maybe also we, the European companies, big and small, are part of the problem by seeing our domestic market as our home turf rather than looking at it from a European perspective.

This lack of focus on the single market's deficiencies may explain why intra-EU trade in goods has been stagnant since the global financial and eurozone crises.

Removing these barriers to stimulate growth and facilitate the twin transition is a matter of shared interest and urgency.

The European Commission projects that removing these barriers will unleash more than €700 billion in additional growth by 2029, all through budget-neutral means. Used appropriately this could create a virtuous circle that would truly strengthen Europe's place in the world.

Getting the Bedrocks Right: Digital and Energy

Digital

Nowhere has this fragmentation been more pronounced than in Europe's digital divide. While some countries have highly developed digital infrastructures, others – including some of the largest EU Member States – are vastly underdeveloped relative to global leaders.

This is becoming an acute drag on European competitiveness and growth, as well as Europe's long-term ambitions for digital sovereignty and ability to transition to a decarbonised economy. Investment in digital innovation, research, skills and deployment of cutting-edge technologies must therefore continue to rise up the political and economic agenda.

This is even more evident in the lack of a coordinated European rollout of 5G. As an essential component of Europe's digital transition and driver of the next generation of industrial innovation, 5G is a step-change technology that presents unprecedented economic opportunities and positive externalities.

It will help increase productivity in key industrial sectors, as well as facilitate the digitisation of SMEs and support millions of jobs. It is also a fundamental enabler of the green transition, contributing to smart energy distribution, advanced mobility solutions and carbon tracking.

Europe has a sophisticated research base, industrial sector and consumer market. It is home to two world-leading mobile infrastructure suppliers, one of which I had the privilege to lead – providing for significant strengths that should underpin 5G's rapid deployment in the region.

Yet somehow, despite the initial lead we had as the pioneers of GSM mobile telephony, **Europe now lags far behind its international peers in both the commercialisation of 5G and the deployment of its infrastructure.**

How can we close Europe's digital gap? A combination of things is required. First, if policymakers develop and deliver a favourable and harmonised regulatory and policy framework, it would incentivise rapid digital investment and implementation on a pan-European scale.

The second part is trickier – but just as important: promoting trust in new technology itself. **With 5G expected to cumulatively yield €2.2 trillion in GDP between 2020 and 2034, for example, Europe must work together to seize this opportunity and emerge digitally competitive** – or risk being outcompeted.

Energy

As for the transition to clean energy, European industry remains a global leader. The Green Deal defines a strategy for sustainable growth that will profoundly transform Europe's economy, ensuring prosperity and high living standards for future generations.

The vision is there. As ever, the challenge is in making the change. **The EU is currently walking the tightrope of trying to balance new regulation without making the transition too burdensome for European companies, but rather enabling them to thrive.**

This is such a potent moment, yet also a delicate one. If we as Europeans get it right, we can become the reference, exporting sustainability solutions and allowing us to remain global market leaders.

To achieve this, a scale-up friendly environment with few barriers within the single market is needed, and companies should be incentivised to adopt new technologies that produce goods and services in a sustainable way.

Furthermore, **as Europe's energy security is increasingly brought into question, it must strive for both an interconnected Energy Union and a greater use of renewable sources in its energy mix, to hedge against future crises.**

The Opportunity from Unity

Potential headwinds to European coherence and integration lie ahead, however.

Challenges to open strategic autonomy are already emerging, driven by fears for the integrity of the single market and the prospect of impeding competition within the trade bloc. Tensions are also mounting between supporters of integration and those that seek to preserve national sovereignties.

I do not believe that more countries are likely to follow the UK and leave the EU. But political rows over constitutional issues and common policies may well become more frequent, raising the risk of political paralysis on key agenda items in the future.

Right now, though, the stakes are already rising – in real time. The war in Ukraine has provoked multiple disruptions and tensions that threaten to absorb political bandwidth and divert attention away from Europe's strategic agenda.

The energy crisis may yet drive a wedge between those governments that respond by accelerating the transition to clean energy, and those that turn to carbon-intensive energy sources to tame prices, threatening Europe's climate leadership in the world.

The unity of the response to Russia's invasion of Ukraine from the EU-27 has revealed a Europe that is asserting its core values. We see this across the companies led by Members of ERT as well – a comprehensively human response from people working in every facet of a firm.

This can be a galvanising moment for European unity, allowing for progress in many areas. But it will need to be managed carefully. Make no mistake, this will be a marathon, not a sprint. Even incremental gains will need to be acknowledged and appreciated, to keep everyone on the same page.

ERT's Future Focus, Underscored by What We Know We Can Do

As a passionate European, there is no doubt in my mind that Europe remains the greatest place in the world in which to live and work, for the many – not just for the fortunate few. We top the charts in education, social mobility, gender and income equality, as well as quality of life.

To retain that position, we cannot afford to indulge in a sentimental view of the past, but it can serve as a reminder of the innovation we are capable of. It's time to double-down on that.

After a slow start, the number of tech start-ups now scaling up from Estonia, Sweden, Ireland, France and elsewhere show that Europe is making progress in catching up in this important field – so let's nurture that spirit beyond tech.

The key thing is that, **for European innovation to go global, Europe must remain focused, united and most importantly, actively invested in its own future as a bloc.** A competitive industrial base is now more important than ever – without which, the transition to a green and digital economy cannot be achieved.

The role of European industry itself cannot be overstated. ERT's unique position as interlocutor between policymakers and stakeholders has been central to strengthening Europe's place in the world. ERT's engagement and cooperation with governments, united by a clear aim of promoting prosperity in Europe, has effectively carved out an impactful and trustworthy voice for business in every European capital.

I am proud of how together, we have been able to strengthen this close working relationship that is essential to Europe's success. My tenure may be coming to an end, but I know that ERT's work will continue to promote both the premise and the promise that Europe must remain competitive, united and a leader on the world's stage – both politically and economically.

To find out more about ERT, visit www.ert.eu