Executive Summary

Rising powers are resetting the global economy. But they haven't done so yet. The European Union has a decade to position itself to prosper in an increasingly competitive and connected world. If it does not, the resulting strains could challenge Europe's very construction. The lingering economic crisis could be a watershed moment, either as the spur to a more competitive continent, or the time when Europe lost out decisively to more vigorous challengers.

The EU brings considerable strengths.[1] It is a world-class trader and investor. Five of the top ten and ten of the top twenty most competitive countries in the world are EU member states. The EU is among the most networked regions in the world, with deep financial assets and many pockets of innovation and high skilled talent. It is either the most important economic partner, or among the most important economic partners, for almost all other regions. But in the G20 world it is losing ground or has failed to reposition itself in some key markets, has suffered major financial shocks, is plagued by persistently low growth, has a high degree of energy dependence, and is a magnet for the unskilled at a time when its aging and shrinking population acutely needs a steady stream of high-skilled migration. By and large EU leaders have failed to convey the relevance of the European project to rising generations in a new world. In the words of former Hungarian Prime Minister Gordon Bajnai, many Europeans still view European integration as "half-finished, half-explained, half-considered, and half-hearted."[2] Perhaps most importantly, the EU itself is not a coherent competitor, but rather an often-ragged community of solidarity composed of an ever more disparate group of European countries. Too often its sum is less than its parts.

The EU's future economic performance depends on its ability and its propensity to utilize its extensive networks to leverage global growth, human talent and innovation while consolidating public finances, exploiting its considerable strengths and generating greater coherence and competitiveness among its constituent members.

Eight Priorities

8 priorities deserve immediate and sustained attention:

First things first. Get the recovery right. Policymakers urgently need to fix the financial system and advance fiscal austerity without undermining the EU's fragile return to growth. Fundamental reforms are needed, including a permanent crisis resolution mechanism to replace the temporary European Financial Stability Facility; fiscal and financial reforms that actually support—and enforce—growth and stability pact targets; and related efforts to improve economic performance.

Boost productivity to drive overall growth. The EU must raise its productivity if it is to deal with its demographic challenges and sustain its social welfare model. Failure to do so will mean a period of low or no growth, which is likely to generate greater domestic and intra-EU conflicts while leaving the EU behind in a world of high-growth competitors.

Complete the Single Market. The Single Market is the bedrock of European integration and the EU's most potent instrument to address the challenges of the G20 world. Completing the Single Market could produce growth of about 4% of GDP over the next ten years. It would provide EU countries and companies with a stronger geo-economic base in a world of continental-sized players.

Awaken Europe's sleeping giant: services—the EU's biggest untapped source of jobs and economic growth. Services account for 70% of Europe's output but just 23% of Europe's trade: there is room to grow. If the EU Services Directive were fully implemented, it could deliver more than 600,000 new jobs and economic gains ranging between €60-140 billion, representing an annual growth potential of at least 0.6-1.5% of GDP. It should also be extended to financial services, health, employment and social services. The EU should do more to capitalize fully on it strengths in trade and foreign direct investment in services.

Break the link between the production of wealth and the consumption of resources. The EU should lead in the transition to a low-carbon economy and promote itself as a showcase of energy efficiency and innovation. This will be neither quick nor easy. Fossil fuels are convenient, versatile, and in many cases cheaper than many renewables. But the EU has the capacity and the propensity to lead the great escape from fossil fuels.

Innovate. The EU's competitive advantage is increasingly as a knowledge economy. It must encourage entrepreneurs; focus on innovation outputs, not just inputs like R&D; pay more attention to social innovation, process innovation, services innovation, and user innovation; boost possibilities for continuous development of skills; introduce a unified EU patent system; protect intellectual property rights; and strengthen its innovation networks around the globe.

Power to the people. The EU must tap the potential of its people to manage demographic challenges, sustain social models, and develop skills for a knowledge-based economy. A pan-European talent strategy must attract skilled foreign labor; ensure free movement of people; facilitate business-education links; improve labor market access; promote education in key technologies; and boost overall skills training.

Become a critical hub in the G20 world. The EU should make itself a focal point for the intercontinental exchange of ideas, people, capital, goods, services and energy innovation. The more connected the EU is, the more competitive it is likely to be. It needs to complete the Single Market and extend its competitive networks throughout Wider Europe; create an open Transatlantic Marketplace; leverage high-growth opportunities in emerging markets; and reengage in neglected markets such as Turkey, Africa and Latin America.

Critical Connections

This study tracks the EU's competitive position in the world through six critical interdependencies: goods, services, money, energy, people and ideas. It maps the EU's connections in each of these areas with 12 other world regions: North America, Wider Europe, Japan, China, Rising Asia, India, Russia, the Middle East, Africa, Latin America, the Caribbean and Oceania. In each case we ask two questions: How connected is the EU? How competitive is the EU?

Goods

- The EU is the world's largest exporting entity and the world's largest trader in goods. It is the top supplier of goods to developing countries and is the largest trading partner of each of the BRICs.
- The EU has maintained world export share over the past 15 years; has gained market share in both high-tech and upmarket goods; and has withstood the competitive pressures of rising trading powers better than the U.S. and Japan, which have lost ground.
- The EU ranks #1 in export market share in 9 of 20 different product categories. Many emerging economies are demanding goods in which European companies specialize and in which the EU's comparative advantage is expected to continue.
- Two-thirds of EU goods trade is conducted with other EU member states.
- North America is the #1 regional market for EU goods (23% of EU total). The U.S. is the #1 country market (19%) for EU goods, but its share has declined 9% over the past decade.
- Wider Europe is the #2 regional market for EU goods, accounting for 21% of EU goods exports. EU goods exports to Wider Europe in 2009 were almost 3 times the value of EU goods exports to China.
- Between 1999 and 2008 total EU export shares to the old member states, the advanced OECD countries and Asia declined, while total EU export shares increased to the new member states, the BRICs and to the rest of the world outside the advanced countries and Asia.
- EU exports to China, Japan and India are strikingly low, and the EU has lost considerable ground in Africa to Asian competitors.
- EU goods exports to China are increasing 30% annually and China's share of EU goods exports has increased from 2.7% to 8%. But the EU exports more to Switzerland than to China.
- EU export growth rates are not keeping pace with some key emerging economies.
- Many EU companies are "overweight" in their export presence in developed countries and "underweight" in their exports to high growth developing markets. The key is to expand in new markets without relinquishing critical market presence in the EU itself, Wider Europe and North America, which still provide the primary base for EU export competitiveness.
- The EU is the world's largest importing entity. In 2009 China was the #1 source of EU goods imports (18.2%), followed by Wider Europe (18%), North America (16%) and Rising Asia (12%).
- The EU is challenged by China's rise as a high-tech exporter; the share of technology-driven industries in EU imports from China is higher than in intra-EU imports. Yet a

good share of these imports are produced or assembled by European and other foreign companies in China: "Made in China" does not necessarily mean "Made by China." Germany is poised to continue as a formidable manufacturing competitor, and France and Poland stand to gain as well. But other EU member states face sobering challenges to their manufacturing base as other powers rise.

Services

- The services sector is the sleeping giant of the European economy—its greatest source of untapped growth and the source of all net job growth in the EU.
- Services account for over 70% of EU GDP but only 23% of global exports: there is room to grow.
- The EU is the world's largest regional trader in services. The EU15 almost quadrupled their services trade balance over the past decade; the EU in 2009 had a trade surplus in services with every world region except North America and the Caribbean.
- Europe registered 10% annual average growth in commercial services exports between 2000 and 2009, 1% more than the global average, 1% less than Asia, but 4% more than North America.
- 18 EU member states ranked among the top 40 exporters of services in 2009, accounting for 43.4% of world market share. The EU ranked #1 in the world in 8 of 11 categories.
- Two-thirds of EU services trade is conducted among EU member states. The EU Single Market has boosted intra-EU services trade by 35%.
- The most important external services partner for the EU by far is North America, and in particular the United States, accounting for roughly a third of all EU services exports and imports.
- Wider Europe accounted for 19% of extra-EU services exports and 17% of EU services imports from outside the Union in 2009—the second most important services trading partner for the EU.
- EU services trade is quite important for each of the BRICs, but less significant to the EU. The BRICS in 2009 accounted for less than 12% of EU services exports and 10.3% of EU services imports.
- FDI, not exports, is the main means for EU services companies to access BRIC markets. Services account for about 60% of total EU FDI stocks in the BRICs, manufacturing only 33%.
- Overall the EU is failing to capitalize on its strength in services, and lagging services productivity is the primary source of the EU's gap in GDP and productivity gap with the U.S. EU15 productivity could be boosted 3% by improved services sector productivity, and by 20% by reaching European best-practice levels per sector.

- Full implementation of the EU Services Directive could deliver more than 600,000 new jobs and economic gains ranging between €60-140 billion, representing an annual growth potential of at least 0.6-1.5% of GDP. And if competition in the eurozone was raised to U.S. levels, service sector output could be increased by 12%.
- EU decision-makers must avoid a false choice between services and manufacturing. The two sectors are increasingly symbiotic; if services win, so does manufacturing.

Money

- Europe is the largest provider and recipient of FDI among all world regions. EU countries accounted for 51% of global FDI outflows and nearly 40% of global FDI inflows between 2005 and 2009.
- The EU is the largest source of FDI in the United States as well as in the BRICs, and its position as an investor in these countries is even stronger than as a trader.
- 55 of the 100 largest non-financial multinational corporations are domiciled on EU territory.
- 62% of EU FDI outflows in 2008 remained within the EU, 2.5% more than in 2000. Intra-EU investments have increased much more rapidly than outward FDI – further evidence of the importance of a larger Single Market.
- The EU invested 35% more in the rest of the world than vice versa 2000-2009. The EU records net positive income from FDI with the rest of the world of around €75 billion a year.
- Outward FDI boosted EU GDP by more than €20 billion between 2001 and 2006; EU workers increased their income by almost €13 billion.
- 38% of EU FDI went to North America (32.5% to the U.S.). EU FDI outflows to the U.S. were more than the next 6 destinations combined.
- 22.5% of EU FDI went to Wider Europe—almost 6% more than in 2001.
- EU FDI to developing nations has accelerated, but from a very low base. Still, the EU provides more FDI than North America or Japan in each of the BRIC countries. EU FDI outflows to the BRICs are directed primarily to Russia and Brazil, rather than China or India.
- Almost half of FDI into the EU came from North America. The U.S. remains the principal source (44.4%) of FDI in the EU; the EU is the top destination of U.S. global FDI. In 2008 U.S. FDI in the EU totaled €1.05 trillion, more than the next 20 investors combined.
- About 63% of corporate America's total foreign assets is in Europe. U.S. companies in Europe employ millions of European workers and are the largest source of onshored jobs throughout the EU.

- Switzerland is a distant 2nd as an investor in the EU, with 29% of the U.S. total. Japan ranks 3rd.
- FDI by the BRICs in the EU is miniscule, accounting only 3.5% of EU FDI inflows 2002-2007—about the same as Norwegian FDI in the EU, and only about 9% of U.S. FDI in the EU.
- In 2008 the EU was the largest portfolio investor in North America, Wider Europe, Russia, India and Oceania; the second largest portfolio investor after North America in Africa, the Caribbean, Rising Asia, Japan, Latin America, and the Middle East; and the third largest portfolio investor in China, behind North America and Rising Asia.
- 68% of the $15.28 trillion in outward EU private portfolio investment in 2008 remained in the EU.
- 55% of outward extra-EU portfolio investment in 2008 went to North America (U.S.: 51%), compared with 20% to all of the Asia-Pacific and 11% each to the Caribbean and to Wider Europe.
- EU private portfolio investment in North America was 50 times that in China, and more than 65 times that in Russia.
- North America accounted for 45% of all portfolio investment into the EU in 2008, compared to 27% from the entire Asia-Pacific region and 24% from Wider Europe.
- Although EU private portfolio investment flows to China increased from only $4.5 billion in 2001 to $53.1 billion in 2008, they still remained miniscule, going from one-hundredth of 1% of the EU total in 2001 to one-third of 1% in 2008.
- Even following the financial crisis, U.S. and EU financial markets continue to account for well over two-thirds of global banking assets; three-quarters of global financial services; more than 70% of all private and public debt securities; almost 80% of all interest-rate derivatives; almost 75% of all new international debt securities; and 70% of all foreign exchange derivatives transactions.
- Nonetheless, over the past decade Asia's share of investment banking revenues has risen from 13% to more than 20%. The transatlantic share in global stock market capitalization has declined substantially from 78% to just over 50% today, and its share in stock trading has fallen from 86% to just over 70%. BRIC stock markets grew more than 40% per year in the past decade, while EU and U.S. markets contracted. The BRIC share of listed companies worldwide has jumped from just over 2% in 2000 to 22% today. More than half of the world's IPOs in 2009 were listed in China alone.
- Secondary European financial centers are losing ground to other advanced and emerging financial centers. The EU has only 4 of the top 20 financial centers worldwide.
- Despite the euro's woes, it has increased its role as a legitimate alternative to the dollar. In mid-2010 the euro accounted for 26.5% of total allocated global foreign exchange holdings, up from 18.3% at the end of 2000. Sterling's share increased from 2.8% to 4.2%,

while the dollar's share declined from 71.1% to 62.1% and Japanese yen's share declined from 6.1% to 3.3%. Developing country demand for the euro and pound sterling is even higher.

Energy

- The EU holds about 0.6% of the world's oil reserves, 2% of its natural gas reserves, and 4% of coal reserves; and accounts for 18% of electricity generation capacity and 17% of total world energy consumption.
- Oil accounts for 40% of total EU energy consumption, natural gas 24%, nuclear 14%, coal 13%, hydroelectric power 4%, and other renewables 2%.
- EU dependency on foreign sources of energy rose from 46.8% in 2000 to 53.8% in 2008, and could rise to 70% over the next 20–30 years. Except for Denmark, all EU member states are net importers of energy; some are extremely dependent on foreign sources of energy.
- The EU is one of the most energy efficient economies. The EU15 needs only half as much energy per unit of economic output as the U.S., and 20% less than Japan. Europe is better positioned than most to break the link between the production of wealth and the consumption of resources.
- EU companies account for 13 of the world's top 15 R&D companies dedicated to clean energy technological development, and the EU leads all world regions in patents for air and water pollution control, renewable energy and solid waste management.
- Russia has displaced the Middle East as the EU's #1 regional oil supplier, followed by Wider Europe. Russia is also the EU's major supplier of coal, followed by Latin America. Africa is the EU's largest regional supplier of natural gas, followed by Wider Europe and Russia.
- EU imports of solar power parts grew from €1.4 billion in 2000 to over €10 billion in 2009—a 65% average annual growth rate, and over 7 times more than EU solar exports. Asian countries, led by China, account for almost all EU solar imports.
- EU solar exports are starting from a relatively low base but grew to €1.25 billion in 2009. The EU's main regional solar customer is Rising Asia.
- EU windpower imports are still relatively small, but with a high growth rate. China has become the EU's largest regional windpower parts provider, supplying over half of EU total imports, followed by Rising Asia and Latin America.
- EU windpower exports rose seven times from 2000-2006, but have fallen since. Top 3 EU exporting countries: Denmark, Germany and Spain. Biggest clients: North America, Middle East, and Japan.

- The EU is the #1 biodiesel producer in the world, accounting for about 95% of global production, and the #3 bioethanol producer (after the U.S. and Brazil), but with only 4% of production.
- EU biofuels exports posted average annual growth of 5.3% since 2000, but crashed after 2006. Primary customer: Wider Europe. Top supplier: Brazil.
- Germany is the world's leading exporter of environmental goods, ahead of the U.S., Japan and China. But nearly 60% of Germany's exports of environmental goods go to other EU member states.

People

- In 2009, 31.9 million foreign citizens lived in the EU, of which 11.9 million (37%) were citizens of another EU country. The remaining (63%) were citizens of countries outside the EU, in particular from Wider Europe (7.2 million), Africa (4.9 million), Asia (4.0 million) and North, South and Central America (3.3 million). Foreign citizens accounted for 6.4% of the total EU population.
- Of the 164 million migrants in the world, the largest number is in Europe—69.8 million, or about 42.6% of the total. More than half of the migrants coming to the EU in 2006 were from Wider Europe (27%) and Africa (26%), followed by Latin America (14%), North America (7%), and China (7%).
- Migrants also leave the EU for other world regions, particularly Oceania (33%), North America (32%) and Wider Europe (26%).
- The EU's labor force comprises 235 million people; 21 million (about 9%) are foreign-born. Between 1995 and the eve of the financial crisis, migrants filled 1/3 to 2/3 of all new jobs in the EU.
- The EU has rich human resources; compared with most other world regions, its citizens are well-educated and its workforce well-trained. Yet the EU is aging, shrinking, and has become a net importer of labor. Europe will lose 60 million workers over the next decade. Absent structural reforms, aging populations alone could reduce EU output growth by nearly half by 2040.
- Europe needs to double current net immigration to halt its population decline, triple it to maintain the size of its working-age population, and quintuple it to keep worker/elderly ratios at today's levels.
- Europe needs a large influx of skilled immigrants to help fill holes in the job market, maintain European living standards and the continent's economic well-being, and support its aging population. Yet Europe has become a magnet for the unskilled.
- Highly skilled foreign workers account for only 1.7% of all workers in the EU, compared with 9.9% in Australia, 7.3% in Canada and 3.5% in the United States.

- 85% of unskilled labor goes to the EU and 5% to the U.S., whereas 55% of skilled labor goes to the U.S and only 5% to the EU.

Innovation and Ideas

- Innovation is essential to Europe's ability to recover from the economic crisis and to prosper in today's highly competitive and connected global economy. EU prosperity will also be increasingly dependent on the strength of its knowledge links to other global hubs of innovation and ideas.
- Foreign R&D sources doubled their share of EU15 GDP from about 4% in 1981 to close to 9% in 2007; for the UK the share climbed to 18%. In Hungary, Belgium, the Czech Republic and Austria foreign affiliates accounted for over half of R&D investments by enterprises.
- The U.S. continues as the leading non-EU R&D investor in the EU; U.S. affiliates accounted for 71% of all industrial R&D in the EU by non-EU actors in 2007.
- EU-based companies account for 30.6% of the top R&D companies in the world, compared to 34.3% for the U.S. and 22% for Japan.
- The EU accounted for over 75% of all foreign R&D investment in the U.S. in 2007.
- California shared 64% of its foreign co-inventions with Europe and only 16% with other non-U.S. regions in North America in 2005.
- The Southeast of England, the Southern and Eastern region of Ireland, Lisbon, Portugal and the western Netherlands each share 40-50% of their foreign co-inventions with regions in North America.
- Globally, EU research networks are less thick or productive than U.S. networks: in Canada, China, India, Israel, Korea, Mexico and Taiwan the share of patents co-invented with the U.S. is at least twice as high as the share co-invented with the EU.
- The share of the BRICs in all patented inventions of the EU is just 1%, but rising fast, mainly because of China. Russian, Indian and Brazilian shares remain marginal.
- The EU is home to some of the most competitive knowledge-based economies in the world, including Denmark, Finland, Germany, Sweden and the UK. Yet there are great discrepancies within the Union, both among countries and among sub-regions within countries.
- Overall the EU risks being squeezed between high-performance innovation economies, such as the U.S. and Japan, and rising innovation performers from other world regions.
- Inadequate attention has been paid to social innovation and services innovation.
- EU innovators are relatively less effective than Americans at taking their ideas to market.

- The U.S. performs better than the EU in 11 innovation performance indicators, while the EU performs better than the U.S. in 6 areas.
- Japan performs better in 12 indicators; the EU performs better in 5 indicators.
- EU innovation performance growth, however, is growing faster than that of either the U.S. or Japan.
- The EU has a strong lead in innovation performance compared to each of the BRIC countries. But growth performance by China and India is 5 times better than that of the EU.
- The EU has failed to increase R&D investments as a share of GDP to catch up with the U.S., has fallen behind other key countries, and now could be eclipsed by China.
- Meeting the EU's target of boosting R&D investment to 3% of GDP from its 2008 level of 1.87% could create 3.75 million jobs and increase annual EU GDP by up to €795 billion by 2025.
- European metro areas lag significantly behind their U.S. counterparts as competitive world knowledge regions, as well as in per capita R&D expenditures and labor productivity.
- In 2007, one out of every two tertiary-level students studying in another country went to only four countries: the U.S. (19.7% of all foreign students worldwide); UK (11.6%); Germany (8.6%); and France (8.2%).

Partners and Competitors: The EU and Other World Regions

The EU and North America: Deep Integration

- The EU and North America are more deeply integrated across more economically relevant areas than any other two regions of the world. Ties are particular thick in foreign direct investment, portfolio investment, banking claims, trade in goods and services, and flows of ideas in terms of mutual R&D investment; patent cooperation; technology flows; and sales of knowledge-intensive services.
- North America is the largest regional destination of EU FDI and the largest regional source of FDI in the EU. The EU is the top destination of U.S. FDI around the world. In 2008 U.S. FDI in the EU totaled over €1 trillion, more than the next 20 investors combined.
- The EU had a total of €1.25 trillion in FDI in North America in 2008, more than the next 6 destinations combined, and 1.7 times more than in Wider Europe; 4½ times more than in Rising Asia; 5 times more than in Latin America; over 9 times more than in Africa; over 13 times more than in Russia; 16 times more than in Japan; 18 times more than in the Middle East; over 26 times more than in China; and 65 times more than in India.

- EU firms are the largest foreign employers of U.S. workers, and U.S. firms are the largest foreign employers of EU citizens, accounting together in the transatlantic economy for 14 million jobs.
- 92.8% of global foreign exchange holdings are in dollars (62.1%), euros (26.5%) or sterling (4.2%).
- The two regions account for 65% of global banking assets, three-quarters of global financial services, 77% of equity-linked derivatives, more than 70% of all private and public debt securities, almost 80% of all interest-rate derivatives, almost three-quarters of all new international debt securities, 70% of all foreign exchange derivatives transactions, 65% of the top R&D companies and 56% of all global R&D, and 18 of the top 20 knowledge regions in the world.
- North America is the largest regional destination of EU portfolio investment and the largest regional source of portfolio investment in the EU. 50% of overall foreign portfolio investment in North America in 2008 came from the EU, and another 15% came from Japan.
- EU portfolio investment in North America in 2008 was 5 times more than in the Caribbean and in Wider Europe; 6.5 times more than in Japan; 11 times more than in Rising Asia; 28 times more than in Latin America; 50 times more than in China; 54 times more than in India; 68 times more than in Russia; 74 times more than in the Middle East; and 78 times more than in Africa..
- European capital accounted for 71% of total U.S. inflows in Q1 2010.
- North American private portfolio investment in the EU in 2008 of almost $2 trillion was about double that from Wider Europe; 2.3 times more than from Japan; 8 times more than from Rising Asia; 20 times more than from the Caribbean; 85 times more than from Latin America; and 115 times more than from Russia.
- North America was the largest destination for EU goods exports (23%) in 2009. EU goods exports to North America were about 7% more than to Wider Europe; 2½ times more than to Africa; 2.2 times more than to Rising Asia; about 3 times more than to China (U.S. share 2.4 times more than to China); almost 4 times more than to Russia; almost 7 times more than to Japan; almost 9 times more than to India.
- The EU exports about the same amount of goods to North America as to the entire Asia-Pacific region, with each region accounting for about 23% of EU exports.
- North America was the #3 source of EU goods imports (15.9%), behind Wider Europe and China. EU goods imports from North America were 87% of EU goods imports from China (U.S. share 70% of that coming from China) and 88% of EU goods imports from Wider Europe; 40% more than from Russia; 74% more than from Rising Asia; almost 2 times more than from Africa, over 3 times more than from Japan; and over 7 times more than from India.

- The EU has withstood trade competition by emerging countries better than the U.S. The EU has maintained its 19% world export share of world exports over 15 years; the U.S. lost around 6% and now accounts for 12.5%.
- The EU registered close to a 1% gain in global market share in high-tech products between 1994 and the onset of the recession; the U.S. recorded an 11% loss.
- Between 2000 and 2007 the EU gained market shares in "upmarket" goods; the U.S. lost shares.
- North America was the largest destination for EU services exports (30%) and the largest source of EU services imports (37%) in 2009.
- EU services exports to North America were in 2009 were 31% higher than to Wider Europe; over 3.5 times more than to Rising Asia and Latin America; 4 times more than to the Middle East and to Africa; almost 5 times more than to Oceania; over 7 times more to Russia, China and Japan; almost 15 times more than to India; and 29 times more than to the Caribbean.
- EU services imports from North America in 2009 were 43% more than from Wider Europe; over 4.5 times from Rising Asia; over 5 times from Africa; over 6 times from the Middle East; over 9 times more than from Oceania, China and Latin America; over 12 times more than from Japan and Russia; over 18 times more than from India; and 37 times more than from the Caribbean.
- The EU was #1 in the world in 8 of 11 categories of services exports; the U.S. leads in the other 3.
- Leading EU services exporters such as the UK, Germany and France lag the U.S. when it comes to key markets such as Japan, India, China and Rising Asia.
- The EU15's per capita GDP lags that of the United States by about 24%—$4.5 trillion in total, or about $11,250 per inhabitant—reflecting lower labor utilization and lower hourly productivity.
- The core of the U.S. competitive advantage is a large pan-continental market, flexible labor markets, and strong innovation. The EU trails in all three.
- The U.S. performs better than the EU in 11 of 17 indicators of innovation performance and the R&D intensity of U.S. companies is larger than that of EU companies in 9 of 15 sectors.
- U.S. companies invest nearly five times more than EU companies in semiconductors, four times more in software and eight times more in biotechnology.
- North America accounts for 13 of the top knowledge regions in the world, compared to only 5 in the EU, and 53 of the 100 most competitive cities, compared to 30 for the EU.
- The EU has failed in its goal to catch up to the U.S. in the share of GDP it devotes to R&D, and continues to lag in labor productivity, particularly in services.

- Younger EU companies also tend to be less R&D intensive than their U.S. counterparts; this difference alone accounts for over half of the EU-U.S. R&D intensity gap.
- North America is the EU's largest export market for windpower parts and oil, and is the EU's third largest solar client, fourth largest solar provider, and fourth largest source of coal.
- North America received one-third of all emigrants from the EU; 7.2% of all emigrants from North America go to the EU.
- The EU is Canada's second largest investment partner after the U.S., and Canada is the fourth largest country investment partner for the EU.
- The EU is Canada's second most important trading partner, after the U.S., with a 10.5% share of its total external trade. Canada is currently the EU's 11th most important trading partner, accounting for 1.8% of the EU's total external trade in 2009.
- A U.S.-EU zero-tariff agreement on trade in goods alone could boost annual EU GDP by up to .48% and 1.48% for the U.S.; generate welfare gains of up to $89 billion for the EU and $87 billion for the U.S.; and increase EU exports to the U.S. by up to 18% and U.S. exports to the EU by up to 17%.
- A 75% reduction of U.S.-EU services tariffs would yield almost $13.9 billion annually for the EU and $5.6 billion for the U.S.
- Aligning half of relevant U.S.-EU non-tariff barriers and regulatory differences would push EU GDP .7% higher in 2018 (€122 billion/yr) and EU exports 2.1%; and boost U.S. GDP .3% in 2018 (€41 billion/yr) and U.S. exports 6.1%.
- An EU-Canada economic agreement promises to boost EU exports to Canada by 24.3% and Canadian exports to the EU by 20.6% by 2014. Annual real income gain would be approximately €11.6 billion for the EU and €8.2 billion for Canada.

The EU and Wider Europe: The China Next Door?

- Wider Europe was the second largest regional destination for EU goods exports (21%) and the second largest source of EU goods imports (18%) in 2009. The EU exported €226.4 billion of goods to Wider Europe, 93% as much as to North America but more than twice as much as to Rising Asia and to Africa; 2.8 times more than to China; over 3 times more than to Russia; over 6 times more than to Japan; and over 8 times more than to India.
- The EU imported €213.1 billion of goods from Wider Europe in 2009, marginally less than from China, but 12% more than from North America; over 1½ times more than from Rising Asia; almost twice as much as from Russia and from Africa; almost 4 times more than from Japan; and over 8 times more than from India.

- Wider Europe was the second largest regional destination for EU services exports (19%) and second largest source of EU services imports (17%) in 2009.
- EU services exports to Wider Europe in 2009 were 69% of its services exports to North America, but 2.5 times more than to Rising Asia and to Latin America; almost 3 times more than to the Middle East and to Africa; over 3 times more than to Oceania; 5 times more than to China, Russia and Japan; 10 times more than to India; and 20 times more than to the Caribbean.
- EU services imports from Wider Europe in 2009 were 57% of EU services imports from North America, but over 2.5 times more than from Rising Asia; 3 times more than from Africa; 3.5 times more than from the Middle East; over 5 times more than from Oceania, China and Latin America; 7 times more than from Japan and Russia; over 10 times more than from India; and 21 times more than from the Caribbean.
- Wider Europe is the second largest regional destination for FDI from the EU. The EU had a total of €732 billion in foreign direct investment in Wider Europe in 2008, only about 60% of EU FDI in North America, but almost 3 times more than in Rising Asia; over 3 times more than in Latin America and the Caribbean; over 5 times more than in Africa; 8 times more than in Russia; over 9 times more than in Japan; over 10 times more than in the Middle East; over 15 times more than in China; and 38 times more than in India.
- Wider Europe is also the second largest regional source of foreign direct investment in the EU. Wider Europe had a total of €464 billion in foreign direct investment in the EU in 2008, only 40% of FDI coming into the EU from North America, but 69% more than from the Caribbean, 4 times more than from Japan; over 6 times more than from Rising Asia; 6½ times more than from Latin America; over 9 times more from the Middle East; over 16 times more than from Russia; 22 times more than from Africa; 33 times more than from China; and 66 times more than from India.
- 52% of overall foreign portfolio investment in Wider Europe came from the EU. Another 30% came from the United States, and 7% came from Japan.
- The EU had a total of $543 billion in portfolio investment in Wider Europe in 2008, slightly more than in the Caribbean and 25% more than in Japan; over twice as much as in Rising Asia; almost 6 times more than in Latin America; over 10 times more than in China; 11 times more than in India; 14 times more than in Russia; 15 times more than in the Middle East; and 16 times more than in Africa.
- Wider Europe had a total of $1.034 trillion in private portfolio investment in the EU in 2008, only slightly more than half that from North America, but 82% more than from Japan; 4 times more than from Rising Asia; over 10 times more than from the Caribbean; 45 times more than from Latin America; 60 times more than from Russia; and 64 times more than from the Middle East.

- Wider Europe is the EU's second largest regional source and buyer of natural gas; the second largest buyer of EU oil and third largest source of oil; and largest buyer of coal and seventh largest source.
- Wider Europe is the EU's #1 regional purchaser of biofuels and #3 provider; and second largest buyer of windpower parts and fourth largest provider.
- Wider Europe is the largest regional source of both refugees (39.7%) and migrants (28.1%) into the EU, and the third largest regional destination of EU emigrants (26.3%).

The EU and Japan: Fading Ties?

- The EU and the Japan are major exporters of goods and competitors in a range of products, particularly upmarket, manufacturing and capital-intensive goods.
- The EU accounted for 15.2% of world market share in automotive parts, compared to Japan's 13.9% share.
- The EU has withstood competitive pressures from rapidly emerging economies better than Japan. The EU has maintained its 19% market share of world exports over 15 years; Japan lost around 6%, and now accounts for 8.6% of world market share.
- The EU registered close to a 1% gain in global market share in high-tech products between 1994 and the onset of the recession; Japan recorded a 13% loss.
- The EU enjoys significant advantages over Japan in services, with much higher market shares across every commercial sector.
- The EU also leads Japan in energy efficiency and sustainability: the EU15 need only 80% as much energy per unit of economic output as Japan, and rival Japanese companies in terms of patents in renewables and environmental goods.
- The EU compares favorably to Japan when it comes to young innovative companies.
- Bilateral trade in goods and services has weakened in recent decades. EU imports of goods from Japan fell 40% and the EU trade deficit with Japan fell 57% this past decade. Much intermediate trade in goods has shifted from Japan to China.
- With a share of 3.3% of EU exports in 2009, Japan is the EU's seventh largest regional export market. With a 4.6% (2009) share of the EU import market, Japan is the sixth largest source of imports into the EU. The EU trades more with Norway than with Japan.
- Japan accounted for 3.6% of EU FDI inflows in 2008 and 4.51% of the stock of EU inward FDI.
- Japan had a total of €117 billion in foreign direct investment in the EU in 2008, only 10% of that from North America, 4 times less than that from Wider Europe and almost 3 times less than from the Caribbean, but 38% more than from Rising Asia; 39% more than from

Latin America; 58% more than from the Middle East; 76% more than from Russia; 82% more than from Africa; 88% more than from China; and 17 times more than from India.

- Only 1.7% of the EU FDI outflow went to Japan in 2008, and Japan accounted for only 2.36% of the stock of EU outward FDI, less than in Russia, about half of that in Africa, around a third of that in the Caribbean and in Latin America, a fourth of that in Rising Asia, a tenth of that in Wider Europe and 16 times less than EU FDI in North America.
- Even at low levels, the EU has been the largest source of FDI into Japan in recent years.
- The EU accounted for 43% of overall foreign portfolio investment in Japan, slightly more than the U.S. investment share of 41%.
- Japanese private portfolio investment in the EU is 2.3 times less than from North America and 82% less than from Wider Europe, but over 3 times more than from Rising Asia; almost 9 times more than from the Caribbean; 37 times more than from Latin America; 50 times more than from Russia; 53 times more than from the Middle East; and 60 times more than from China.
- EU-Japan connections in the realm of innovation and ideas are stronger than between most regions, but still pale in comparison with those between the EU and North America.
- The EU consistently lags Japan in terms of innovation performance, but registers better growth rates.
- In terms of global foreign exchange holdings, over the past ten years there has been a boost in the role of the euro (26.5%) and pound sterling (4.2%) whereas the yen's position has slipped (3.3%).

The EU and China: Shaping the Future?

- EU ties to China are weak in terms of services, investment, energy, people and ideas, but strong in terms of Chinese exports of goods.
- China is the EU's #1 goods supplier, accounting for 17.9% of EU imports in 2009. The EU is China's single most important export market: 20.4% of Chinese exports, slightly more than the U.S.
- EU goods imports from China of €214.7 billion in 2009 were slightly greater than good imports from Wider Europe of €213.1 billion and 13% greater than goods imports from North America, but 1.5 times more than from Rising Asia; almost double goods imports from Russia, and more than double goods imports from Africa.
- The EU is challenged by China's faster export growth rates and the growing share of technology-driven industries in Chinese exports to the EU.
- China is only the sixth largest regional destination for EU goods exports; the EU exports more to Switzerland.

- EU goods exports of €81.6 billion to China in 2009 were only one-third EU good exports to North America, 36% of good exports to Wider Europe; 75% of EU goods exports to Rising Asia, and slightly less than EU goods exports to Africa. Still, the EU has a 13.4% export market share in China, ahead of the United States, Japan and South Korea.
- The EU has a large and chronic trade deficit with China.
- EU goods exports to China have been growing at a 30% annual average growth rate over the course of the past decade—faster than any other goods export destination, but still relatively low.
- Accounting for purchasing power, China's GDP per capita was 11% of that of the EU in 2009. 150 million Chinese still live on less than €2 a day.
- European companies lose out on an estimated €20 billion a year due to China's many non-tariff barriers and regulatory discrimination, its preferential treatment of Chinese companies and indigenous technology for government procurement, its undervalued currency, its weak enforcement or implementation of existing regulations in many areas, and its lack of protections for intellectual property rights. Roughly 50% of counterfeit goods in the EU come directly from China.
- China accounts for only 4% of both EU services exports and imports. The EU tripled its services trade surplus with China over the past five years.
- EU services exports to China in 2009 were 7 times less than those to North America; 5 times less than to Wider Europe; half of EU services exports to Latin America, and slightly less than EU services exports to Russia.
- EU services imports from China were 9 times less than from North America; 5 times less than from Wider Europe; half from Rising Asia, but more than from Russia and from India.
- The EU's FDI links to China are also weak, due in particular to Chinese barriers. EU FDI in China in 2008 was 26 times less than in North America; over 15 times less than in Wider Europe; almost 6 times less than in Rising Asia; almost 5 times less than in the Caribbean and in Latin America; almost 3 times less than in Africa; and half of EU FDI in Russia.
- Chinese FDI in the EU is also miniscule, less than 1% of all foreign FDI in the EU.
- China accounted for only 1% of EU portfolio outflows; EU portfolio investment accounted for 22% of overall foreign portfolio investment in China.
- The EU accounted for 24% of global R&D in 2007, China for 9%.
- China's share of global R&D is less than half that of the EU. But China accounted for almost a third of the global increase in R&D between 2001 and 2006, as much as Japan and the EU combined.
- China accounts for only 1.3% of the top R&D companies in the world, compared to 30.6% for EU companies.

- The EU outperforms China in all innovation indicators except ICT expenditures and high-tech exports. Of the top 100 most competitive cities, 30 were from the EU; none from China.
- International use of China's currency, the renminbi, is still marginal, but growing.
- China accounts for less of global clean tech investment than the EU as a whole, but spent four times more than EU leader Germany and surpassed the United States for the first time in 2008.
- China offers the world's largest solar manufacturing capacity and a leading wind manufacturing industry. It is the EU's largest supplier of wind and solar components and the 2nd largest buyer.

The EU and Rising Asia: Opportunity Knocks

- Rising Asia was the fourth largest regional destination of EU goods exports (10%) and is a larger export market for the EU than China. Rising Asia was also the fourth largest source of EU goods imports (11.7%) in 2009.
- Overall goods trade with Rising Asia has been growing only slowly over the past decade. This has sliced the EU's goods trade deficit with the region by 42%, and is another reflection of the shift in inter-Asian production patterns from Rising Asia and Japan to China.
- Rising Asia was the third largest destination for EU services exports (8%) and the third largest source of EU services imports (8%) in 2009. The EU has a services trade surplus with Rising Asia.
- The 2010 EU-South Korea trade agreement promises to create about €19 billion of new exports for EU producers and about €12 billion of new exports for South Korean companies.
- The EU had a total of €270 billion in foreign direct investment in Rising Asia in 2008, making the region the third largest regional destination for FDI from the EU—4.6 times less than FDI in North America and 2.7 times less than in Wider Europe, but slightly more than in Latin America and in the Caribbean, twice as much as in Africa, 3 times more than in Russia, in Japan and in the Middle East, and almost 6 times more than in China.
- Rising Asia's €73 billion in FDI in the EU in 2008 made it the fifth largest source of FDI in the EU—but 16 times less than from North America, 6 times less than from Wider Europe, over 4 times less than from the Caribbean, and 63% of FDI from Japan; but about the same as from Latin America, 67% more than from the Middle East, 38% more than from Russia, and over 3 times more than from Africa, 5 times more than from China, and 10 times more than from India.
- 33% of overall foreign portfolio investment in Rising Asia came from the EU. Another 33% came from the United States, and 6% came from Japan.

- Rising Asia was the #1 purchaser of EU solar parts and second largest seller in 2009; the EU's number two provider of windpower parts and fifth largest windpower client in 2009.
- Rising Asia is the second largest regional source of EU biofuel imports in 2009 and fifth largest destination for EU biofuels—although imports from Rising Asia have declined 50% and exports have suffered a 99% decline since 2004, and overall totals are but a fraction of those from Brazil.
- The EU has fallen further behind South Korea and Singapore in terms of the share of GDP devoted to R&D.
- Rising Asia has a much larger share of young firms than the EU, and companies from Rising Asia have increased their share of high- and medium-high R&D intensive sectors.

The EU and India: Surprisingly Weak Links

- The EU's economically relevant links to India are relatively thin in most areas.
- The EU is India's largest trade partner, accounting for 21.1% of Indian exports and 17% of Indian imports. But India accounted for only 3% of overall EU goods exports and 2.1% of EU goods imports in 2009. EU trade with China is 6 times greater than with India.
- India is the only BRIC country with which the EU has a trade surplus.
- India's rapid development has been essentially service-led and supported by services exports. India has become the world's top country exporter in computer and information services, but the EU fares better in all other services categories.
- India's direct services ties to the EU are extremely weak; India accounts for only 2% of EU services exports and imports. Essentially, India is building its growing prowess in computers, information and communication services in third markets rather than in the EU, and competing with EU companies in those third markets.
- India ranks 11th of 12 regions both as a destination and source for EU FDI and as a source of FDI into the EU. The EU total of €19 billion in FDI in India in 2008 was 40% of its FDI in China; 28% of its FDI in the Middle East; 25% of its FDI in Japan; about 20% of its FDI in Russia; 14% of its FDI in Africa; 8% of its FDI in Latin America and in the Caribbean; 7% of its FDI in Rising Asia; less than 3% of its FDI in Wider Europe; and less than 2% of its FDI in North America.
- 44% of the foreign portfolio investment in India came from the EU in 2008. Another 29% came from the U.S., and 3% came from Japan. The EU total of $49 billion in private portfolio investment was 73% more than in the Middle East and 69% more than in Africa, 35% more than in Russia and roughly the same as in China, but only 53% of its investment in Latin America; 21% of that in Rising Asia; 12% of that in Japan; 9% of that in the Caribbean and in Wider Europe; and less than 2% of that in North America. India had only $1 billion in private portfolio investment in the EU in 2008.

- EU-India energy ties in traditional energy sources are marginal. India's solar trade with the EU has grown quickly, but from very low levels.
- The EU far outperforms India in all indicators of innovation performance except ICT expenditures and knowledge-intensive services exports, but India's innovation growth performance is more than 5 times better than that of the EU.
- Despite its surging prowess in a select number of services, essentially India has failed to improve significantly on most basic drivers of its competitiveness.

The EU and Russia: Stormy Weather

- The EU's economically relevant ties to Russia center on Russian energy flows of oil, gas and coal. There is also considerable trade in capital-intensive goods.
- Russia holds around 6.4% of the world's oil reserves and around 25% of the world's gas reserves. It is also the world's biggest gas producer and the second biggest oil producer.
- Russia is the EU's #1 supplier of oil and coal, and its third largest regional provider of natural gas. A number of EU member states rely on Russian energy imports, and some are critically dependent on such flows.
- Russia is not a significant partner for the EU in renewables.
- The EU's ties to Russia are relatively thin in terms of mutual portfolio flows, FDI, services, people and ideas, even though the EU is Russia's largest trading partner and leading source of FDI and portfolio investment.
- The EU is by far Russia's major commercial partner, accounting for 52.3% of its overall trade turnover in 2008. It is also by far the most important investor in Russia, accounting for up to 75% of FDI stocks in Russia.
- The EU accounted for just over half of foreign portfolio investment in Russia in 2008, compared with 32% from the U.S. and 2% from Japan. The EU total of $39 billion was 13% more than its investment in Africa and 8% more than in the Middle East, but only 80% of that in India; 74% of that in China; 42% of that in Latin America; 17% of that in Rising Asia; only 9% of that in Japan; 7% of that in the Caribbean and in Wider Europe, and 1% of that in North America.
- Russia had a total of $17 billion in private portfolio investment in the EU in 2008, 74% of that coming from Latin America and about the same as from the Middle East, but only 17% of that from the Caribbean; 7% of that from Rising Asia; 2% of that from Japan; less than 2% of that from Wider Europe, and less than 1% of that from North America.
- Russia was the seventh largest regional destination for EU goods exports (6%) and fifth largest source of EU goods imports (9.8%) in 2009. EU exports to Russia roughly tripled over the course of the past decade, but fell 37.6% between 2008 and 2009.

- Traditionally the EU's main export destination among the BRICs, Russia has now lost that distinction to China. But Russia remains the EU's third largest country trading partner, after China and the U.S.
- Medium-skill industries, particularly refined petroleum, dominate EU imports from Russia.
- Russia was the eighth largest regional destination for EU services exports (4%) and the tenth largest source of EU services imports (3%) in 2009. The EU's services trade surplus with Russia increased six-fold between 2004 and 2008.
- Russia is the seventh largest regional destination for of FDI from the EU and the eighth largest source of FDI into the EU. EU FDI of €92 billion in Russia in 2008 was almost 5 times more than in India; about double that in China; a quarter more than in the Middle East; 18% more than in Japan; but only 60% of EU FDI in Africa; 40% of that in Latin America and in the Caribbean; 34% of that in Rising Asia; 8 times less than in Wider Europe; and 13 times less than in North America.
- Russian FDI of €28 billion in the EU in 2008 was four times more than Indian FDI in the EU, double China's FDI in the EU, and a quarter more than FDI from Africa; but only 57% of that from the Middle East; 40% of that from Latin America; 38% of that from Rising Asia; 24% of that from Japan; 11 times less than from the Caribbean; 16 times less than from Wider Europe; and 41 times less than from North America.
- Migrant flows from Russia accounted for 4.6% of the total migrant flows to the EU in 2006, making it the seventh largest of the ten regions for which data is available, although migrant flows from Russia decreased by 22.1% from 2000 to 2006.
- Russia's competitiveness continues to worsen, and it faces considerable hurdles in terms of keeping up with other rapidly developing economies.

The EU and the Middle East: Energy and People

- The Middle East was the third largest regional destination of EU goods exports (10%) and the ninth largest regional source of EU goods imports (4.6%) in 2009. The EU has run large trade surpluses in goods every year since 2000 with the Middle East, despite EU energy needs.
- The Middle East was the fifth largest regional destination for EU services exports (7%) and the fifth largest source of EU services imports (6%) in 2009.
- The Middle East is the ninth largest regional destination for FDI from the EU, and the seventh largest regional source of FDI in the EU.
- Although the Middle East has been the EU's second largest regional source of oil since 2000, oil exports from the region to the EU have declined by 44% over the last ten years.
- The Middle East was the EU's third largest regional destination for natural gas and fourth largest source of natural gas.

- Refugees from the Middle East accounted for 18.3% of the total refugees in the EU, making it the second largest contributing region of the twelve regions examined.
- Migrant flows from the Middle East accounted for 3.8% of total migrant flows to the EU in 2006.

The EU and Africa: Energy, People, and Neglected Opportunities

- Africa was both Europe's largest regional source of and destination for natural gas and Europe's second largest source of and destination for oil in 2009. It is growing as a partner for the EU in renewables.
- Africa accounted for 26.8% of the total migrant flows to the EU in 2006, making it the second largest contributing region, sending slightly less than Wider Europe, but accounting for 6 times more migrants to the EU than the Middle East.
- Refugees from Africa accounted for 17.6% of the total refugees in the EU, making it the third largest contributing region of the eleven regions examined, sending less than half of those coming from Wider Europe, slightly less than those from the Middle East, and slightly more than Rising Asia.
- Africa was the fifth largest regional destination for EU goods exports (9%) in 2009 and the sixth largest source of EU goods imports (8.5%). EU goods exports to Africa exceed EU goods exports to Russia, Japan and China, but EU goods imports from Africa are less than half of EU goods imports from China and slightly less than from Russia.
- EU goods trade with Africa is nearly double its trade with Latin America.
- The EU is losing ground in Africa; between 1990 and 2008 its share of Africa's trade shrank to 28%, from 51%, while Asia's share doubled to equal the EU share at 28%.
- The EU is South Africa's most important economic trade partner, accounting for over 40% of its imports and exports, as well as for 70% of foreign direct investment. Yet China has become South Africa's #1 country trading partner.
- EU FDI in Africa is also of only medium importance, although larger than some other major world regions. The flow of ideas between the EU and Africa is weak. EU R&D expenditure in Africa is negligible in all countries except South Africa. The EU is the largest aid donor to African countries.

The EU and Latin America: Commodities, Services, Energy, and People

- The EU is Latin America's leading regional trade partner and largest regional source of FDI. Latin America is the 3rd largest source of migrants into the EU, a relatively important supplier of coal, and Brazil is the EU's primary supplier of biofuels. Other flows are of less significance.

- Latin America was the eighth largest destination for EU goods exports (4%) and the seventh largest source of EU goods imports (5.1%) in 2009. Brazil accounted for 47% of EU goods exports to the region and 42% of EU goods imports from the region. EU exports to Latin America averaged only 1.6% annual growth over the course of the past decade.
- The EU mainly imports primary products (70%) from Latin America, while it exports machinery and transport equipment (85%).
- Brazil is the EU's largest trading partner in Latin America, and the EU is Brazil's largest regional trading partner, accounting for 22.5% of Brazil's external trade. Brazil is the single biggest exporter of agricultural products to the EU, accounting for 12.4% of total EU imports in 2009, and ranks as the EU's 10th country trading partner.
- Latin America was the fourth largest destination for EU services exports (8%) and the eighth largest source of EU services imports (4%) in 2009.
- The EU has neglected Latin America and is losing ground as a trade partner. By 2014, China alone could displace the EU as a market for Latin American exports and by 2020 could account for more than 19% of Latin American exports, versus a EU share of less than 14%.
- Latin America is the fourth largest regional destination for FDI from the EU. The EU's €228 billion in FDI in Latin America in 2008 was 12 times more than its FDI in India, almost 5 times more than in China, over 3 times more than in the Middle East and 3 times more than in Japan; almost 2½ times more than in Russia; twice that in Africa; and about the same as in the Caribbean; but only 84% of EU FDI in Rising Asia; 3 times less than in Wider Europe and 5 times less than in North America.
- Latin America is the sixth largest regional source of FDI into the EU. Latin America's €71 billion in FDI in the EU in 2008 was 10 times more than that from India; 5 times more than that from China; over 3 times more than that from Africa; 2.5 times more than that from Russia; 31% more than that from the Middle East; and about the same as from Rising Asia; but only 60% of that from Japan; 4.5 times less than from the Caribbean; 6.5 times less than from Wider Europe; 16 times less than from North America.
- 31% of overall foreign portfolio investment in Latin America came from the EU, compared with 46% from the United States and 4% from Japan.
- Latin America accounted for 14.2% of the total migrant flows to the EU in 2006, making it the third largest of the ten regions for which data is available.

The EU and the Caribbean: Follow the Money

- The EU's financial ties to the Caribbean are extremely strong, reflecting the region's role as a money center. 75% of the world's hedge funds are in the Caribbean. Links are particularly intensive with the UK. New EU rules may hamper bilateral financial flows.

- The Caribbean was the EU's 3rd most important regional source of FDI in the world in 2008, accounting for €321 billion in foreign direct investment in the EU. Until the recession, Caribbean investment in the EU grew at an annual average of about 19% over the past decade. Caribbean FDI in the EU in 2008 was almost 1/3 of that coming from North America and 70% of that from Wider Europe. Yet it was about 3 times more than from Japan, 4½ times more than from Latin America and 6½ times more than from the Middle East, and more than from the entire Asia-Pacific region (China, Rising Asia, India, Japan, Oceania).

- The Caribbean is the fifth largest regional destination for EU FDI. Before the recession, EU investment in the Caribbean grew 32% on average annually over the past decade. The EU had a total of €226 billion in foreign direct investment in the Caribbean in 2008, almost 12 times more than in India, 5 times more than in China, 3 times more than in Japan and in the Middle East, 2½ times more than in Russia, roughly the same as in Latin America, about 40% more than in Africa, and about 90% more than in Rising Asia, but only 31% of that in Wider Europe and 18% of that in North America.

- 30% of overall foreign portfolio investment in the Caribbean came from the EU. Another 30% came from the United States, and 22% came from Japan.

- The EU had a total of $532 billion in private portfolio investment in the Caribbean in 2008, more than in any other region except North America, which held 5 times that amount, and Wider Europe ($543 billion).

- EU private portfolio investment in the Caribbean was 23% more than EU portfolio investments in Japan; almost 2½ times more than in Rising Asia; almost 6 times more than in Latin America; over 10 times more than in China and in India; over 13 times more than in Russia; and almost 15 times more than in the Middle East or in Africa.

- The Caribbean had a total of $97 billion in private portfolio investment in the EU in 2008—5th among regions, behind North America, Wider Europe, Japan and Rising Asia but far ahead of Latin America, Russia, China, India and Africa.

- The Caribbean has also become a growing source of natural gas for Europe. All other links are rather weak. Of the 12 regions surveyed, the Caribbean ranks as the EU's least important trading partner. The Caribbean accounted for 1% of EU exports and a negligible amount of EU imports.

The EU and Oceania: Distant Cousins

- Oceania is the largest regional destination for European emigrants leaving the EU (32.4%).

- Oceania is among the smallest goods trade partners for the EU, accounting for only 2% of EU goods exports and just 1% of EU goods imports in 2009.

- Australia and New Zealand constitute 90-95% of Oceania's goods trade with the EU.

- The EU exported €26 billion of goods to Oceania, about a third of EU goods exports to China, about the same as to India, and about three-quarters of EU goods exports to Japan, but only one-quarter of that to Rising Asia, 27% of that to Africa.
- Oceania was also a small services trade partner for the EU, accounting for 6% of EU services exports and 4% of EU services imports in 2009.
- Oceania's FDI links with the EU are also quite thin. The EU had a total of only €67 billion in foreign direct investment in Oceania in 2008, but still about 72% more than in India and 30% more than in China; about the same as in the Middle East.
- Oceania had a total of €22 billion in foreign direct investment in the EU in 2008, about one-third more than Chinese FDI in the EU; about the same as FDI from Africa; 78% less than FDI from Russia; and slightly less than half of FDI from the Middle East.

Four Scenarios

Europe's future economic performance depends on its ability and its propensity to leverage global growth, human talent and innovation while exploiting European strengths and consolidating public finances. These external and internal drivers define four possible scenarios for Europe's future:

- ***Competitive Europe.*** If the EU is to maintain and even advance its competitive position, it must not only build on its strengths and address its weaknesses, it must bolster its capacity to leverage the dynamism of other key regions and to absorb innovation and talent from beyond its borders. In the scenario dubbed *Competitive Europe*, the EU and its member states are successful in doing these things in a high-growth global environment.
- ***Losing Steam.*** Under this scenario the EU and its member states agree on ways to improve their competitiveness, but the promise dissipates due to persistently low European and global growth as the recovery from the financial crisis stutters. Opportunities falter in emerging markets, and EU integration itself comes under greater pressure as the divergences widen between high-performing member states and others who fall further behind. The EU fails to attract or nurture high-skilled labor as populations age and shrink, adding to pressures on workers, migrants, companies and governments.
- ***Europe Unhooked.*** Under this scenario the EU fails to leverage high global growth, the recovery is weakened, and confidence erodes in the euro and in sterling. Faster-growing and more innovative competitors capture market share in a variety of goods and services, and investment shrivels as high-growth opportunities beckon elsewhere. Divergences widen even further among member states, and social tensions rise.
- ***Europe Adrift.*** Under this scenario there is low global and European growth and the EU and its member states fail to advance efforts to advance their competitiveness. Debt levels remain stubbornly high and continual crisis management erodes the credibility of European integration and the European model, diminishing European influence in the world, prompting intense debate about the nature and relevance of the EU itself. Innovation and

productivity flag. The EU loses critical market share both in goods and services to faster-growing, more innovative competitors. Social divisions are exacerbated and the welfare state provisions of EU member states simply become unsustainable as a smaller workforce proves unable to support aging populations. Workers suffer, wages decline, and anti-migrant forces gain ground.