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Europe: Ready to rebound

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EUROPE: READY TO REBOUND

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Increasing trade, investment, and immigrant integration are keys to Europe's economic vitality

The European Union (EU) is ASEAN's second largest trading partner, trailing only China. In 2014, approximately €180 billion worth of goods and services flow between the two regions, with €100 billion flowing into the EU and 77 billion going the other way.

"Our trade has been growing at about seven percent per year on average for two decades now," says **Jyrki Katainen**, the European Commission Vice-President for Jobs, Growth, Investment and Competitiveness. "The EU is the number one provider of foreign direct investment in ASEAN, accounting for almost a quarter of the total."

This relationship is key to reviving the stagnant European economy, Katainen says, as the continent rebounds from zero real GDP growth in 2013 to a forecasted 1.8 for 2015. Low oil prices, a weaker euro and quantitative easing from the European Central Bank (ECB) have provided the impetus for regional growth although "(g)eopolitical tensions with Russia and high unemployment rates in some Member States continue to weigh on GDP growth" according to the European Commission's economic forecast for Spring 2015.

The forecast noted that the tailwinds are temporary, a fact not lost on Katainen who emphasised the need to build on the current momentum.

"We have to show that we can deliver," states the former Finnish Prime Minister. "The EU has been perceived to be slow to deliver on addressing challenges, and there is some truth in that. Part of the problem is that we have been dealing with overwhelming challenges, such as national crises. There are member states that need more assistance than others, and that can be hard to do when you're dealing with taxpayers' money."

Sharing risks, boosting economies

Katainen made those remarks at the recent SMU Presidential Distinguished Lecturer Series talk, "*Investing in Europe – the way forward*". In it, Katainen highlighted the role of the European Fund for Strategic Investments (EFSI) as a form of risk-sharing to promote investments in higher-risk ventures via private financing.

The plan, according to the EFSI website, is to "mobilise at least €315 billion in additional investment in Europe over the next three years". On October 26, the EC announced that, through EFSI, the European Investment Fund (EIF) had signed investment agreements worth over €1 billion to enable "fund managers to invest in promising start-ups, SMEs and midcaps, benefitting from early-stage to growth capital investments".

Another crucial part of the EU's plan was the idea of a single digital market, which Katainen says has been thwarted by unnecessary regulations across European borders.

"I am 100 percent sure that the circular economy will be a megatrend in the global economy in the future."

"For instance, we need to harmonise copyrights so that you can buy (digital content) in one place and cannot watch it elsewhere in Europe. This is hard to do because of geo-blocking – some copyrights are sold to specific territorial areas.

"It doesn't make any sense because we are always moving around, and you can always find illegal ways to consume digital content. But what if we created a legal framework? There are lots of consumers who are willing to pay for access."

While the EFSI seeks to address the financial needs of European businesses, the European man-on-the-street's attention is fixed on the employment situation. With unemployment rate in Spain and Greece breaching the 25 percent barrier – with youth unemployment at a staggering 50 percent – is there a way to create employment opportunities?

"One of big things on my desk is to create a framework for the circular economy," Katainen reveals, referring to the movement towards resource sustainability and the resulting business innovation. "I am 100 percent sure that the circular economy will be a megatrend in the global economy in the future. It's mostly about new business models – I see the circular economy as a phenomenon that is similar to globalisation.

"The question is: Can Europe take a leading position in this economy? Europe has a big need to do so not just because of the environment of the region but also because it adds value. Europe cannot possibly compete with having the lowest salaries. To run the European welfare model, we need new business models, and we need to be liberal and open to create those models."

Growth of immigrants, growth via immigrants

"Liberal and open", however, is perhaps an irony in light of the ongoing Middle East and Africa refugee crisis. Hungary has closed its southern borders with Serbia and Croatia, resulting in increased pressure on western neighbour Slovenia, a main transit for refugees attempting to reach Northern Europe. Slovenian prime minister, Miro Cerar, warned that the EU will "start falling apart" if it does not take decisive action in the next few weeks.

The United Nations estimates that at least 850,000 people fleeing from Syria, Afghanistan and other conflict areas will attempt to cross the Mediterranean Sea this year and next, despite thousands of drownings. The Economist magazine argued in August refugees who are willing to risk "deserts and stormy seas to get to Europe are unlikely to be slackers when they arrive", working hard to become "net contributors to the public purse".

For a rapidly ageing continent in need of population and tax contributions, surely it would be a win-win solution to admit these refugees?

"We need more labour," Katainen concedes before adding that more attention must be paid to integration policies. "The faster the newcomers can adapt and in the process go to school or find a job, the better.

"We could try to stabilise the situation in conflict areas but Europe has to be prepared for bigger amounts of immigration going forward. We need to share the burden and create a relocation scheme. Right now there are a few countries that are receiving most of the asylum seekers. The pressure is too high for these countries so we have had to relocate some of the refugees."

He concludes, "(The refugee influx) is not a completely negative thing. First of all, we must help people who need protection. But we have to make sure that as many of these refugees integrate into their adopted societies as possible."