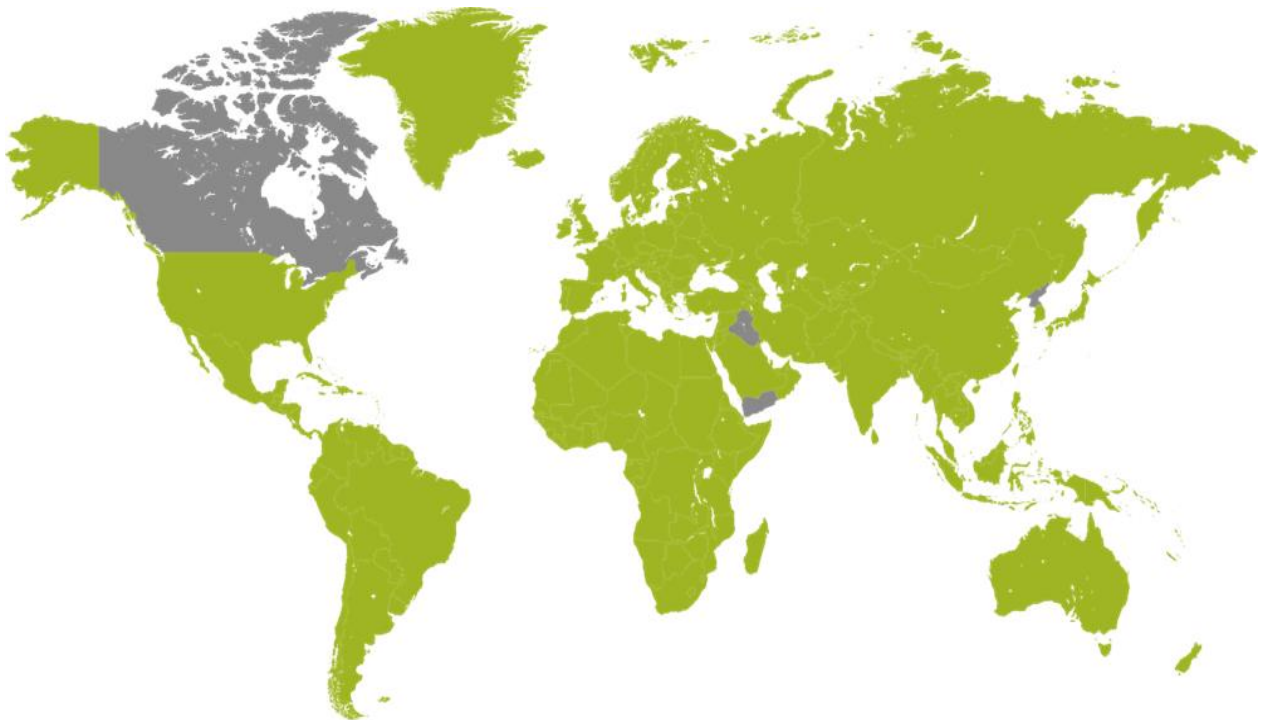


Report by EUROCHAMBRES
with the cooperation of the Global Chamber Platform

March 2018

Global Economic Survey 2018



Global Chamber Platform

The Global Economic Survey 2018 was conducted during the months of December until February 2018 among Members of the Global Chamber Platform. The Survey intends to gather a qualitative assessment from GCP Members on global economic developments, trade policy and other key policy challenges. Thus, conclusions drawn from the answers reflect the majority opinion of GCP Members, without prejudice to diverging opinions of single members, which are sought to be highlighted in the report where appropriate.

The Global Chamber Platform (GCP) brings together the 16 major national and trans-national Chamber organisations from the four corners of the globe. Its key objective is to facilitate trade and market access internationally as well as developing coherent and innovative answers to the challenges of globalisation that the shift in global economic realities brings about for all players involved.

The respondents that participated to the 2018 Global Economic Survey were:

- Federation of **Indian** Chambers of Commerce and Industry (FICCI)
- Chamber of Commerce and Industry of the **Russian Federation** (TPPRF)
- **US** Chamber of Commerce
- Association of **European** Chambers of Commerce and Industry (EUROCHAMBRES)
- **Ibero-American** Association of Chambers of Commerce (AICO)
- Confederation of **Asia-Pacific** Chambers of Commerce and Industry (CACCI)
- Union of Chambers and Commodity Exchanges of **Turkey** (TOBB)
- **Iran** Chamber of Commerce, Industry and Mines (ICCIMA)
- **SAARC** Chamber of Commerce and Industry
- **Silk Road** Chamber of International Commerce

For its responses, EUROCHAMBRES could count on the following 10 contributions from its Members:

- Association of **German** Chambers of Industry and Commerce (DIHK)
- Unioncamere – **Italian** Union of Chamber of Commerce
- CCI France - **French** Chambers of Commerce and Industry
- **Spanish** Chamber of Commerce
- **Portuguese** Chamber of Commerce
- **Austrian** Federal Economic Chamber (WKÖ)
- Federation of **Belgian** Chambers of Commerce
- **Hungarian** Chamber of Commerce and Industry (MKIK)
- **Czech** Chamber of Commerce
- **Cyprus** Chamber of Commerce and Industry (CCCI)

[EXECUTIVE SUMMARY & RECOMMENDATIONS]

I. Global Growth and Business Confidence

With world growth being in full swing after a strong 2017 that brought notably recoveries in investment, manufacturing, and trade, the GCP are confident on the outlook of the global economy for 2018, which is set to expand by 3.1% according to the World Bank. Despite a volatile political environment, most GCP respondents are either agreeing to World Bank forecasts for their region or are being more optimistic regarding their growth prospects, such as Turkey, Russia or in Europe, where the Euro area is in its best shape since the financial crisis. Less optimism, when compared to regional growth forecasts by the WB, was merely expressed by GCP representatives from the LAC region, although those differences remain small and growth still positive. The optimistic economic outlook is confirmed by GCP representatives' favourable view with regards to business confidence with no negative trends to be observed for the upcoming year.

For the first time since the global economic survey was conducted, the GCP have signalled **protectionism and insufficient access to foreign markets** as the number one challenge for the global economy in a given year. They have done so by a considerable margin which goes to show that the increase in trade restrictive measures across the global economy and perceived risks of trade confrontations, are seen as a real danger to maintain the positive global growth levels to be expected in 2018. Political instability, the usual front runner in the GCP survey, was ranked second, while tightening of global financial conditions, stability of the financial system, as well as the effects of climate change were considered as the other main challenges ahead.

In order to effectively combat protectionism and better secure access to foreign growth centres, the GCP were of the opinion that the most viable solution is for governments to more actively engage in the negotiation of trade agreements either at bilateral, plurilateral or multilateral level. Positive examples to this end can be found in the active trade policy of the European Union or recent conclusion of the Comprehensive and Progressive Transpacific Partnership Agreement (CPTPP). The GCP also encourages governments to do more to promote the adoption of international standards, as compliance with divergent sets of standards implies significant extra costs for businesses, especially SMEs who can ill afford them. Voices within the GCP calling for greater reciprocity as a means to better combat trade restrictions and open markets were also noted.

II. A trade agenda for the 21 century:

At the last G20, the group renewed its overall commitment to fair, open, global trade during the summit in Hamburg. However, according to the B20, it missed the opportunity to agree on a modern trade agenda fit for the 21st century. Asked to weigh in on the question, the GCP ranked a better insertion of Small and Medium Sized Enterprises (SME's) into the world trading system and its rules as the top priority for governments. The answers for the GCP should give a boost to the very few outcomes at MC11 in Buenos Aires, where over 80 countries from all levels of development agreed for the first time on a workplan for MSMEs at the multilateral level.

Moreover, the increasing digitalization and servification of the global economy needs to be better reflected in modern day trade rules, with the GCP ranking rules for digital trade and e-

commerce as well as services liberalization as the second and third most important topics for the 21 century trade agenda.

III. Brexit

As trade negotiations between the EU and UK are getting closer after the successful conclusion of phase I of Brexit, GCP members were asked to rank the priority areas that need to be tackled in a future trade agreement between the UK and the EU. In this respect GCP Members have a clear preference for tariff reductions and market access for services as top priorities for negotiators on both sides to tackle. Alignment of customs procedures among the two trading partners were ranked as the third most important area. Investment protection, on the other hand, was not ranked as a priority issue in the future negotiations. According to EUROCHAMBRES alignment of customs rules and procedures, tariffs and regulatory alignment, was considered a top priority.

IV. The Global Financial Environment

This year's survey reveals that GCP respondents were mostly of the view that enough has been done to ensure the stability of the financial sector worldwide and to prevent further crises. This constitutes a noteworthy improvement compared to previous editions of the survey, where doubts among GCP were more pronounced regarding the stability of the financial sector in preventing future crises.

In terms of the pace of global coordination in financial matters, which was identified in previous reports as the most viable option to stabilize the financial system globally, the GCP was equally optimistic. Efforts to maintain global coordination on financial matters should remain constant, if not increase. Only a small number of respondents see a decrease in the future.

With regards to price bubbles in the receptive markets, the GCP remains equally optimistic on an overall scale. However, a noteworthy number of representatives, point towards an increasing uneasiness about prospects of price bubbles building in their respective regions. While this is not acutely endangering the global economy, the GCP do express a degree of caution for the future.

In more micro terms, access to finance is still considered problematic for companies of all sizes by the vast majority of GCP. The challenge for business to access to finance remained an unchanged in the past years and has been considered this year, once again, as the most important tool that governments should look at in order to increase competitiveness.

V. Competitiveness and Skills

While access to finance remains a major hurdle for improving the competitiveness of businesses' competitiveness, this year's questionnaire has placed significant attention to the element of skills, and the GCP very much agrees with regards to its importance, ranking it as the second most important challenge for businesses in increasing competitiveness. Furthermore, the vast majority of GCP responded that in their respective regions, there is currently a lack of skilled labor, which equally applies to digital skills, except for GCP representatives in Southern Asia, India or the United States who feel more confident in finding skilled staff for the economy of tomorrow.

Quasi *unisono*, GCP respondents are of the view that in order to remedy the skills gap, strengthening vocational and educational training as well as apprenticeship schemes are very effective measures to be considered by governments. In particular the experience gained in

Europe by relevant public and private actors, such as Chambers of Commerce, could be considered towards a global best practice exchange and benchmarking.

VI. Climate Change

For the first time, this year's survey also took into consideration in a targeted manner the adverse effects of climate change as a challenge for growth. It is estimated that man-made and non-man-made disasters causing \$136bn of insured losses in 2017, the third highest on record. In this respect, it is not surprising that the GCP have ranked it as one of the most important challenges to the global economy also for 2018. In the search for viable global solutions and in order to guarantee an effective follow up to COP 23 in Bonn, the GCP was asked which policy instruments should be prioritized by governments with regards to climate change mitigation efforts. In this regard, investment programmes to increase substantially the share of renewables in the national energy mix, including the provision of adequate infrastructure were the top priority according to the GCP. Increased public support for low-carbon innovation (R&D), and strengthening energy-efficiency performance standards for buildings, industry and transport were amongst the other most prioritized policy fields by GCP respondents.

I. Macroeconomic outlook of the global economy

1) GDP growth expectations

The global economic upturn is in full swing. Growth is positive on every continent and the World Bank expects the world economy to keep its momentum in 2018 at around 3% growth, despite an unstable geopolitical situation and potential trade offs looming.

The recovery in developing economies and emerging markets is robust, helped by a supportive global environment. In this year's GCP Global Economic Survey, growth expectations of CACCI, FICCI and ICCIMA are in line with the positive World Bank estimates.

The TPPRF and SRCIC stand out through their optimism, both outpacing the World Bank growth forecasts for 2018.

With the Euro area being in the best economic shape since before the financial crisis, most European countries' growth expectations for the Euro area exceed the World Bank's. Their forecast is more in line with the IMF (1.9%), but falls below the most recent prediction of 2.3% by the European Commission.

2) Business confidence expectations

Due to good economic conditions, business confidence is rather high. Expectations for 2018 do not break with this trend in the sense that no region predicts a decline. In fact, three out of seven regions (FICCI, AICO & EUROCHAMBRES) expect confidence levels to rise further in 2018. This represents an improvement compared to last year, notably when it comes to EUROCHAMBRES & CACCI.

3) The key challenges for the global economy



The answers to the global economic survey this year unequivocally point to the persistence of protectionist policies and perceived lack of market access on a global level. In fact, "Insufficient access to foreign markets" rose from fourth place to first since the last edition of the Global

Economic Survey. This could be attributed to populist parties and politicians still being influential in many countries, calling into question existing and planned trade agreements as well as the benefits of open markets in general.

The second most voted challenge of “Political instability” by the GCP this year could arguably also be linked to the first identified challenge regarding political tendencies, but could also find its root in current and looming international conflicts in certain affected regions of the globe. Said element of unpredictability is unnerving companies worldwide, especially in Europe, Russia and the Iran. Being displaced from first place in the last edition of the economic survey by protectionism and insufficient market access does not mean this subject has lost any relevance for companies in 2018.

With prudent regulatory measures taken after the global financial crisis, significantly less companies seem to be concerned about the health and stability of the financial sector (from #2 in 2017 to #5 in 2018). In fact, a high concern about the “Tightening of global financial conditions” (#3 challenge) could suggest a regulatory overshoot leading to eventual shortcomings in terms of access to finance for businesses.

With the global economy running at full steam, none of the survey participants are concerned about price levels or debt crises.

II. Financial services

4) Suitability of current global financial regulation

According to the Global Economic Survey 2018, the majority of respondents are content with the current status of the global financial regulatory environment, with a certain number of GCP arguing that it is too strict for their companies.

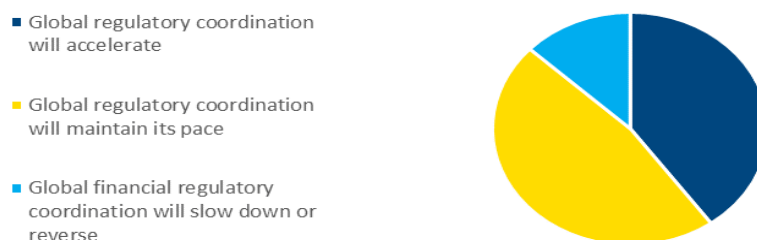
The answer to this is very much in line with the previous question in that GCP respondents are broadly of the view that enough has been done to ensure the stability of the financial sector worldwide and to prevent further crises.



Unsurprisingly, GCP respondents from countries and regions with comparatively low levels of access to finance (e.g. CACCI, AICO, SRCIC) are mostly concerned about excessive regulation, since it makes it even harder for businesses to find necessary funds. Pluralism and competition among ways of financing are essential elements to reduce the dependence on traditional bank loans.

5) The evolution of global financial regulatory coordination

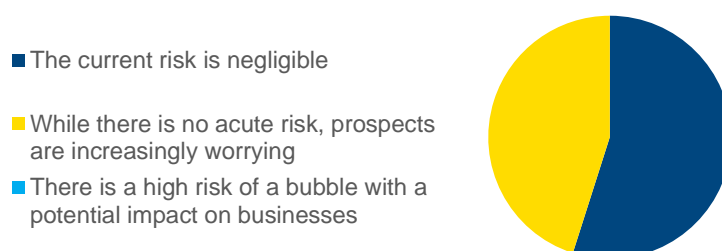
With increasing differences of opinion on global financial regulatory coordination, this survey aims to reveal the expectations for future developments in the matter. The results show that the majority expects little change in the level of ambition within the regulatory coordination process in 2018.



An important part of respondents also foresee an acceleration of global financial regulatory coordination, with only a minority expecting it to slow or reverse. This is particularly the case for GCP respondents from the US. In light of the fragmented landscape of views and the varying degrees of ambition across the world when it comes to financial regulation, this is an optimistic assessment by the GCP.

6) The risk of price bubbles

GCP respondents to global economic survey are reasonably optimistic about risks of price bubbles forming in their respective regions, yet a noteworthy degree of respondents do acknowledge a growing uneasiness in that respect, but none fear an acute risk.

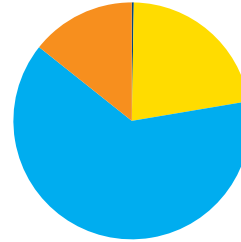


These results could be interpreted as surprising in regions like Europe for instance, where the search for yield – caused by the long-lasting low-interest phase – has driven up real estate prices significantly. Results could also be interpreted as an indirect sign of trust in central banks and their ability to keep prices stable.

7) Access to finance

When asked about the situation regarding access to finance in their region, respondents attest to problematic conditions for all companies. A minority even considers it as a structural problem that seriously hampers businesses' ability to receive funding. This is consistent with answers to previous questions about financial conditions in previous surveys.

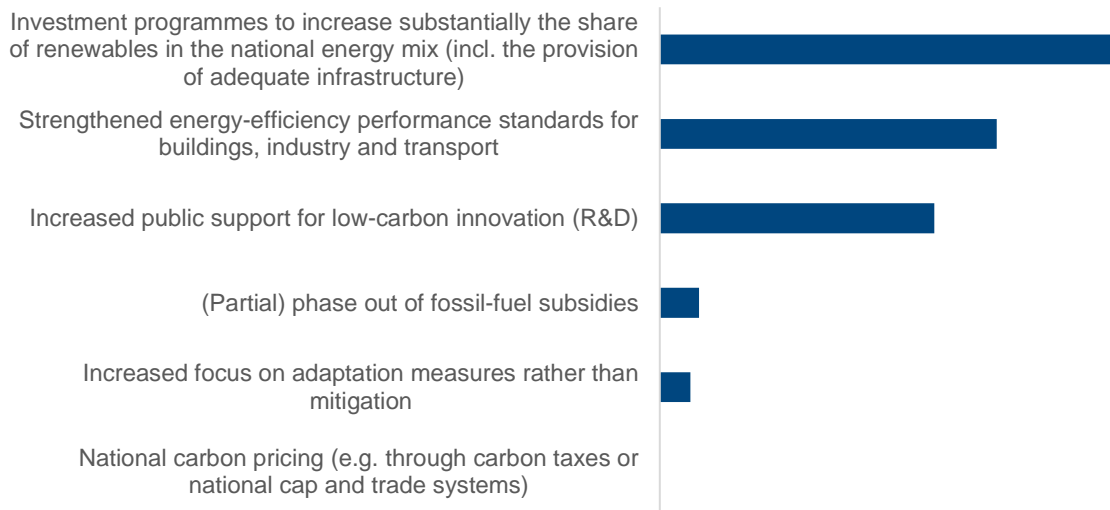
- Access to finance poses no challenge at all
- Access to finance poses a challenge for a rather small proportion of the companies
- Access to finance poses a challenge for a large proportion of the companies
- Access to finance constitutes a structural problem



III. Climate change

8) Policy instruments for climate change mitigation

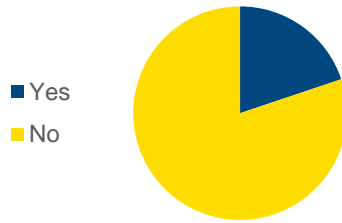
Following the entry into force of the Paris Climate Agreement in 2016, COP 23 focused on establishing effective implementation guidelines for climate change mitigation efforts. Many policy instruments are on the table, but some of them are more popular with businesses than others.



In this year's Global Economic Survey, GCP ranked investment programmes targeted at increasing the share of renewables in the national energy mix as the clear favourite. The second and third places are occupied by energy efficiency-improving measures and the sensitisation of the public to low-carbon innovation. From a European businesses perspective, the latter is actually the most important. Overall, the answers are very close to last year's results, mirroring the ranking of preferred measures in previous editions.

9) Is there enough domestic funding available for investment in renewable energy production?

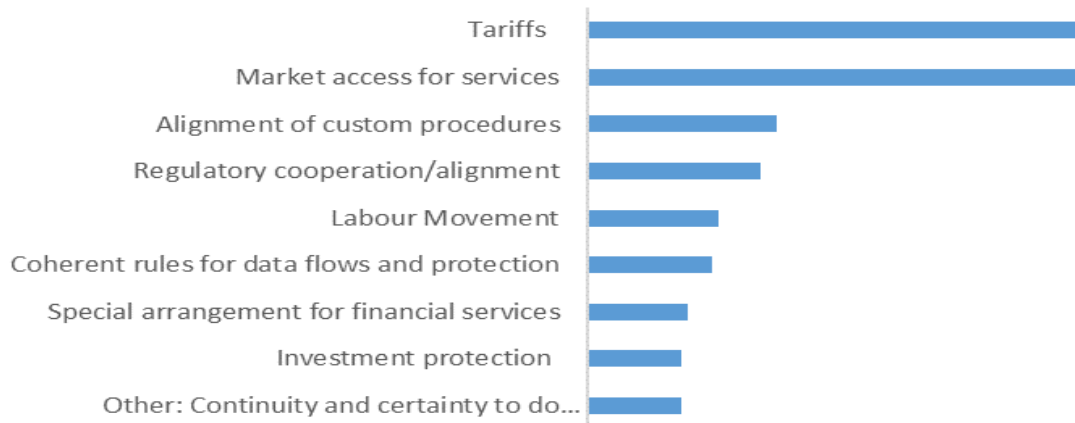
Keeping in mind the results of the previous question, the answers to this one are hardly surprising. With the bulk of respondents claiming a lack of domestic funding for renewable energy projects and an indirect appeal to governments to improve the situation.



IV. Brexit

10) Most important topics for a trade deal between the EU and UK

As trade negotiations between the EU and UK are getting closer after the successful conclusion of phase I of the Brexit negotiations, GCP members were asked about priorities for companies in their region, in view of a future trade deal between the EU and the UK. The absence of trade barriers for goods as well as services emerged as a clear winner. The remaining issues are somewhat evenly spread, with the exception of data protection rules, appearing to be a quasi-non-issue.



CACCI distinguishes itself in this part of the survey in that it cites labour movement as their main concern for post-Brexit UK relations. This could be attributed to the fact that there are many workers in Great Britain that originate from this region and benefit quite significantly from the current labour movement rules.

V. International trade and investment

11) A 21 century trade agenda

The G20 renewed its overall commitment to fair, open, global trade during the summit in Hamburg, but – according to the B20 – “missed the opportunity to agree on a modern trade agenda fit for the 21st century”. When asked about their priority topics for a future global trade agenda, an overwhelming majority of GCP participants mentioned the importance of having a strong MSME agenda in trade as the most important issue. Better integrating SMEs into the

world trade can make a huge contributions to global growth and employment on an aggregate level.

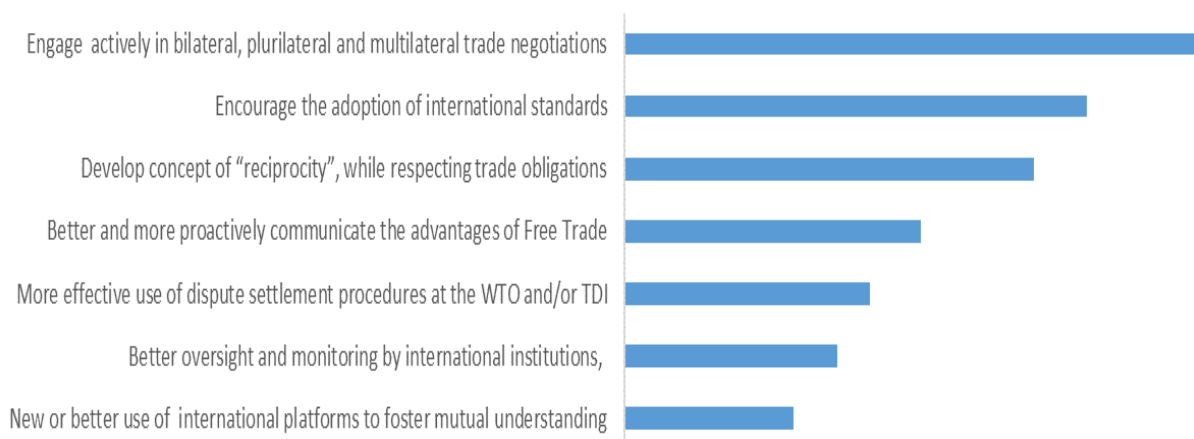


Many respondents also attach high importance to updating current trade rules to the already increasingly digitized economy. In this regard E-commerce and digital communication can facilitate internationalisation and improve efficiency in every domain. Despite an abundance of technology, digital capacity is still underdeveloped in many parts of the world, including developed countries.

Topics like sustainable development, transparency and corruption have recently been gaining momentum on a global stage and equally appear in among the preferences but by quit a margin behind the top three: SME, Digital and services.

12) A global answer to the rise in protectionism?

With protectionism topping the ranking of upcoming challenges for the global economy this year, GCP members seem to agree that actions have to be taken to fight this worrying trend. This question aims to compare different ways of approaching this task.

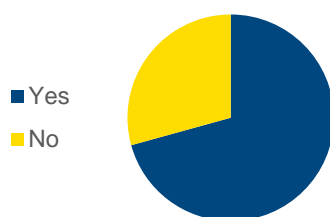


An active negotiations of trade agreements is the most preferred option by the GCP. The international coordination of standards is the second most preferred option while an increased focus on reciprocity was also noted.

None of the options were ruled out completely, suggesting the viability of a multi-faceted, combinative approach and the need for more international engagement in general.

13) Trade and investment with Africa

In light of the enhanced cooperation with Africa agreed upon during this year's G20, GCP members were asked about their expectations regarding trade and investment relations between their region and Africa in 2018. The high number of positive answers by the GCP is highly encouraging, while only CACCI and ICCIMA harbour a pessimistic view.



VI. Competitiveness and internationalization of companies

14) Policies to increase competitiveness

When asked about their preferred ways to increase the competitiveness of businesses in their region, most GCP members mentioned the need to promote innovation.



The second most voted measure points to the rising phenomenon of a lack of skilled workers. With a growing world economy, changing demographics and shifting labour market demands, it is unsurprising that companies attribute high importance to upskilling the workforce. Improving education and training is by far the best way to tackle a lack of skilled labour, but it is not a short-term measure.

Sensible topics identified earlier in this report make a reappearance in the form of 'attracting investment', 'facilitating SME internationalisation' and 'enhancing trade'. The former actually occupies the first rank in Europe, which could allude to the incomplete nature of the capital markets union.

15) Main local challenges

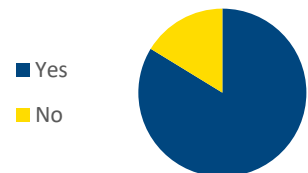
In addition to their predictions for global economic challenges, participants of the Global Economic Survey were asked about the main challenges businesses face in their respective region. Once again, access to finance and access to skilled staff figure among the most popular answers.



The high position of export sales is mostly due to its importance in the eastern hemisphere (SRCIC, FICCI, ICCIMA). It also highlights the importance these regions attribute to international trade.

16) Skilled labour and digital skills

To get a clear picture of the regions most affected by a lack of skilled labour, participants were asked a straightforward ‘yes or no’ question, which was overwhelmingly answered with a ‘yes’, once again confirming the growing relevance of this problem on a global scale. The only ‘no’ came from CACCI.



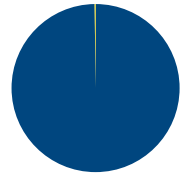
When it comes to digital skills, the picture looks slightly more positive. In this case, FICCI CACCI and the US Chamber attest to having no deficiency of digital skills in their region, but all other GCP respondents still see significant potential to improve.



17) The importance of vocational and educational training in tackling these shortages

As mentioned with regard to question 14, the lack of skilled labour is a significant source of concern, since it acts as a bottleneck to growth and development. In the cases where a skills shortage stems from a skills mismatch, it can even create unemployment because the demand for skills changes too quickly for the labour market to keep up. This is where vocational and educational training (VET) comes in as what is presumably one of the best remedies for this situation. Quasi unison the GCP agree on the effectiveness of VET as a measure to tackle skills shortages and mismatches.

■ Yes
■ No



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EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 44 countries and a European network of 2000 regional and local Chambers.

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