

EUROCHAMBRES time-distance study: China catching up and the US still well ahead

Not only is European economy still lagging behind the United States' by an average of 20 years, but if China's current GDP growth levels will continue, it will take about only 15 years for it to catch up with the EU current level of wealth.

EUROCHAMBRES rings the alarm bell on the future of Europe's economy on the basis of its latest "Time-Distance Study" – released today – comparing the EU, US and, for the first time this year, Chinese economies in terms of years*.

"Despite a sustained economic growth in 2006 and for most of 2007, Europe did not fully exploit the window of opportunity opened by the economic upturn of the last years," commented Arnaldo Abruzzini, EUROCHAMBRES' Secretary General. "We are especially worried by the very negative performance of the EU in terms of R&D investment. Even under the highly optimistic (and rather unlikely) scenario in which the EU R&D spending would outpace the US' of 5% yearly, the catch up would only materialise in 2023!"

Indeed, R&D spending in GDP appears as the worse indicator in the analysis, with the current EU level (1.84% yearly, well below the 3% target set within the Lisbon Strategy) being already reached by the United States in 1989. But the EU suffers from time lags with the US for all economic indicators considered: GDP per capita: -22 years, Productivity (GDP per employed): -18 years, Internet users per capita: -4 years.

Compared to the 2007 edition of EUROCHAMBRES' study the results remain broadly unchanged, except for R&D in GDP, where the gap continues widening (from 28 to 30 years).

As far as China is concerned, the EU is well ahead for all indicators (GDP +48 years, Productivity +50 years, R&D: +50 years, Internet +6 years), but China's pace of growth is cutting this time-distance dramatically. It is significant to note that China's investment in R&D has almost doubled in the last 7 years (from 0.7% yearly in 1999 to around 1.4% in 2006).

Mr Abruzzini said: *"Of course the current economic scenario – characterized by financial markets' turmoil, high commodity prices, an extremely strong Euro and raising inflation – does not make things easier. But this should not be an alibi to sit back and renounce to act. On the contrary: it should be a stimulus to carry out the necessary reforms that will allow Europe to remain a global economic force."*

A priority: fostering SMEs innovation capacity

When it comes to giving impetus to European competitiveness, policies should concentrate on enhancing the innovation capacity of businesses, and in particular of small and medium-sized enterprises (SMEs), which are the real driving force of the EU economy.

“An effective and coherent patent system and simplified application procedures for Community programmes for research and innovation are examples of urgent actions needed to help the EU bridge the innovation gap with its main competitors,” stressed Mr Abruzzini. *“But it is also crucial to encourage a more risk-taking attitude, which is a precondition for companies to develop their innovation skills.”*

EUROCHAMBRES therefore calls on leaders gathering at the Spring European Council in Brussels this week, to give their unequivocal support to measures fostering the innovation capacity of SMEs, and to make sure these will be among the cornerstones of the future Small Business Act.

“A Small Business Act which is ambitious, binding, concrete and integrated into the framework of the Lisbon Strategy would represent the ideal tool through which SMEs’ growth potential can be realised,” concluded Mr Abruzzini.

* The ‘Time-distance’ methodology shows the time gaps for the EU in relation to the United States and China. Using ‘what-if’ scenarios, it also shows how many years the EU would need to catch up with the US for a number of indicators, as well as under what conditions of growth China could cut the time distance gap. This methodology was developed by Pavle Sicherl, Professor of Economics at the University of Ljubljana and founder of SICENTER (Socio-economic Indicators Center), Ljubljana, Slovenia.

**[EUROCHAMBRES’ full Time-Distance Study can be downloaded from
www.eurochambres.eu/content/default.asp?PageID=1&DocID=877](http://www.eurochambres.eu/content/default.asp?PageID=1&DocID=877)**
