

EXECUTIVE SUMMARY IV



Can European business compete in global markets?

This year, the UPS Europe Business Monitor explores the position of European business in a highly competitive world economy.

Although there are signs that recession in Europe is beginning to lift, European business continues to face difficult economic conditions within Europe itself. The Single Market is almost two years old, and the European Union (EU) continues to develop and exercise influence over businesses. At the same time, the 'global village' becomes an ever more potent reality, and overseas competition – particularly from South East Asia (SE Asia) and China – has an ever-increasing impact on European companies.

Questions this year were designed to investigate the position of Europe in a changing and challenging global economic environment. What are the attitudes of Europe's business leaders towards the economic situation in Europe? Is the developing EU helping or hindering their efforts to compete globally? What do they think about the growing threats from world competition, and how are they responding to those threats? Do they think they are investing enough in R&D and workforce training to compete successfully on the world stage? How should such investments be funded?

We also asked our panel to look into the future and say which world region they thought would be the most powerful in ten to fifteen years time.

The fourth UPS Europe Business Monitor investigates these and many other questions and reveals some remarkable opinions. It again provides a forum for those men and women who run Europe's largest organisations, offering a unique barometer of opinion founded on solid experience of life in the worlds of industry and commerce.

UPS commissions and produces the UPS Europe Business Monitor in the belief that it provides a valuable contribution to the understanding of opinion and attitudes among Europe's business leaders, and the widespread attention it receives supports this view. The survey also provides UPS with essential understanding of local markets and business attitudes to guide us as we expand our distribution infrastructure within Europe and throughout the world.



A note on the research

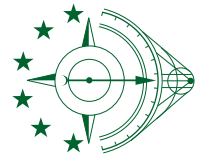
The Harris Research Centre carried out a total of 1,509 interviews among European business leaders between 5 September and 17 October 1994. The following countries were included in the survey:

*Interviews **Belgium – 109, France – 264, Germany – 258, Italy – 260, Netherlands – 105, Spain – 256, UK – 257.***

Respondents were at director level in businesses selected from Europe's top 15,000 companies by revenue. Average turnover of the companies interviewed is US \$1.54bn (1.21bn Ecu).

Interviewing was conducted in the respondents' native tongue by interviewers working from the Harris International Telephone Research Centre in Richmond, London. Interviewing for previous surveys was conducted during February & March 1992 (Spring 1992), September & October 1992 (Autumn 1992) and September & October 1993 (1993).

Graphics shown are abstracts of key findings from the full survey results. Figures may total less than 100% where only partial data are shown, or more than 100% where more than one response was allowed.



Main Findings

The most dramatic finding this year concerns SE Asia and China. This area, especially China, is not only thought to offer the best potential for investment in manufacturing; it is also expected to become the most powerful economic region in the world in ten to fifteen years time, surpassing North America and far outstripping Western Europe. The implications for these two economies are profound. A large majority of European companies favour the forging of closer links with the Asia Pacific region, rather than trying to win back US connections that have also turned in that direction.

In spite of this long-term view, confidence in the short-term prospects for Europe's companies reached the highest levels since the UPS Europe Business Monitor began. In particular, confidence in prospects for the German economy surged ahead right across Europe. Worries about the short-term effects of German reunification, which were affecting confidence last year, appear to have receded completely. Particularly significant is the fact that Germany's confidence in its own economic prospects has risen strongly, and 65% of German business leaders now believe their own economy will show the strongest growth. This upsurge in the confidence of German companies appears to be driving confidence levels across Europe to record heights.

However, employment prospects, although improved, again fail to reflect business confidence. 32% still expect to decrease employee numbers over the next twelve months, while an additional 46% will maintain current staff levels. This reinforces last year's conclusion that the traditional link between economic prosperity and high employment appears to have been broken.

Business confidence is also reflected in companies' optimism about Western Europe's ability to compete in world markets through the development of a high-tech, high added-value, service based economy. This optimism is perhaps surprising given the fact that a majority of businesses feel they are not investing enough in R&D (70%) or in workforce training (56%). When asked how these defects should be remedied, a majority felt that the EU should work with companies and provide direct financial support for their R&D and training programmes. This view contrasted with answers to other questions which tended to indicate an apathy towards, or even resentment of, the EU. For example, 57% think the EU hinders their efforts, or at least does not help.

Remarkably, Western Europe is favoured by only 2% of respondents for manufacturing investment, revealing a lack of faith in their own region.

Other findings relating to the EU show that VAT and taxation are seen as the biggest barrier to free trade within Europe; that 80% support the concept of a 'two-speed' Europe, either in the short or long-term; and that a large majority (69%) believe more flexible labour laws would provide the best defence of employment levels in Europe.

The current economic climate in Europe

1 What are your company's economic prospects over the next twelve months?

- Record levels of corporate optimism across all countries
- Spain now most optimistic; dramatic revival of German confidence

Optimism about economic prospects has risen to the highest levels ever recorded by the Business Monitor.

The net optimism score (72% 'better' minus 2% 'worse') fell from +49% in Wave I to only +19% in Wave II (1992). It then revived to +49% last year, and has now risen to an overwhelming +70%.

Although German net optimism (at +58%) is still the lowest among the countries, this figure shows a very strong recovery from -11% two years ago. This perhaps suggests that worries about the short-term effects of reunification are now fading – a conclusion borne out by later findings.

Spanish business leaders now show the most confidence in the future economic performance of their companies (+83%), with the Netherlands coming second (+79%). The UK is the only country to record a drop in net optimism compared to the previous year (from a record +73% to +70%).

2 Will companies increase or decrease their workforces over the next twelve months?

- Despite economic confidence, unemployment set to rise

Companies still expect an overall decrease in workforce numbers, though pessimism on this issue is not as deep as a year ago. 32% foresee reductions in the size of their workforce, compared with 43% last year. Likewise, an increase is predicted by 21% compared to a more gloomy 12% last year.

However, there are no signs that these large companies expect to make any real impact on European unemployment levels, despite increased optimism regarding performance. This suggests that continuing core unemployment will still present a serious challenge to governments.

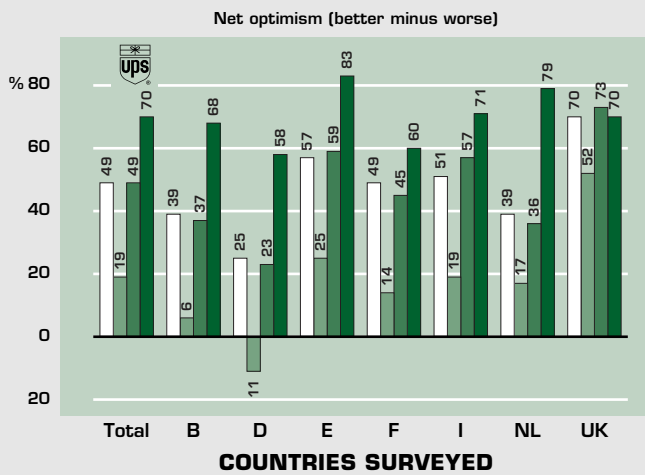
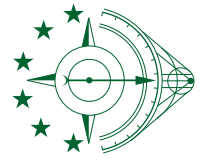
3 Which Western European countries will show the strongest growth?

- Confidence in Germany surges across Western Europe
- France rallies; UK stumbles

Overall confidence in Germany, which rose 20% in the last year to 71%, has recovered to levels shown in earlier waves of the Business Monitor. 65% of German business leaders (compared with 47% last time) also believe their country will show the strongest growth.

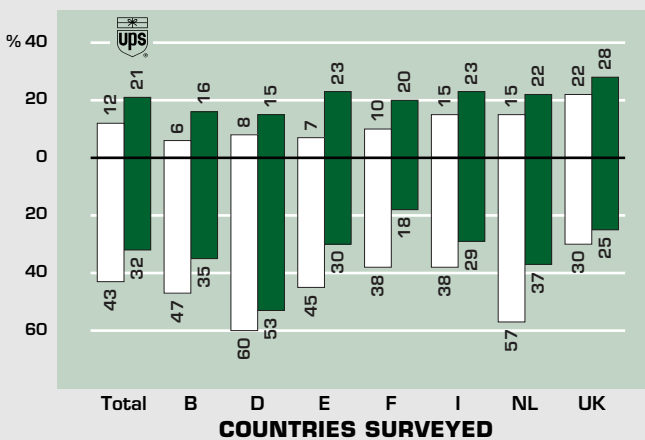
This finding supports the response to question one. It suggests that heightened confidence throughout Europe is rooted in renewed optimism regarding Germany's prospects. Short-term nervousness about reunification has been replaced by strong expectations of growth in the German economy which will reflect upon the success of other countries.

France (41%) has replaced the UK in second position. Meanwhile, despite optimism among its own business leaders, the UK has fallen to third place from 43% to 34%.



■ 1994
 ■ 1993
 ■ 1992 Autumn
 □ 1992 Spring

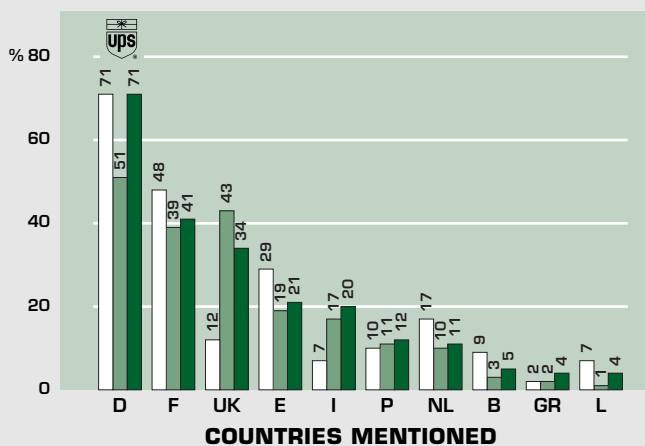
1 Twelve months from now, will your company's economic position be worse or better than it is now?



■ 1994
 □ 1993

Decrease
Increase

2 Do companies plan to increase or decrease their workforces over the next twelve months?



■ 1994
 ■ 1993
 □ 1992 Autumn

3 Which Western European countries will show the strongest economic growth in the next three years?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom
GR Greece **L** Luxembourg **P** Portugal

4 Which Western European country offers the best potential for manufacturing investment?

- **Germany seen to offer the best potential; Spain second**

28% of European business leaders now believe Germany offers the best potential compared with 17% last year. Spain has risen to second position with 18% overall, up from 14% last year. The UK has fallen behind Germany and Spain, with 13% support compared with 18% last year.

The most noticeable change is Germany's increase in its own internal support from 20% last year to 47%. 27% of French respondents this year cited Germany (up from 9% a year ago), compared with just 17% who favour investment in France.

Attitudes to the European Union

5 Does the EU help European companies to compete in global markets?

- **More than half think the EU either makes no difference or hinders their efforts**

Responses suggest a sense of indifference to the EU among business leaders, despite the EU's attempts to create better conditions for European business.

Overall, 45% feel that the EU makes no difference to Europe's global competitiveness. The idea that the EU is neither helping nor hindering companies is supported most strongly in the Mediterranean countries (Italy 59%, France 58%, Spain 52%).

A further 12% feel the EU actually hinders them.

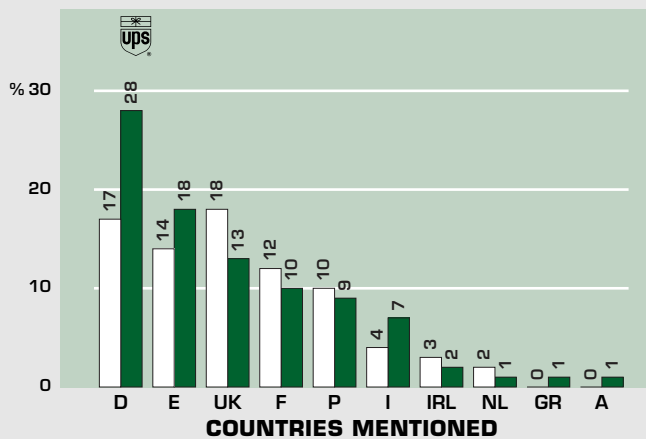
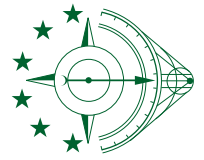
42% of companies feel the EU assists competition. The majority of German and Dutch companies interviewed believe the EU helps them to compete globally (Germany 79%, the Netherlands 55%).

6 What are the remaining barriers to free trade within the EU?

- **Taxation/VAT now seen as main barrier**

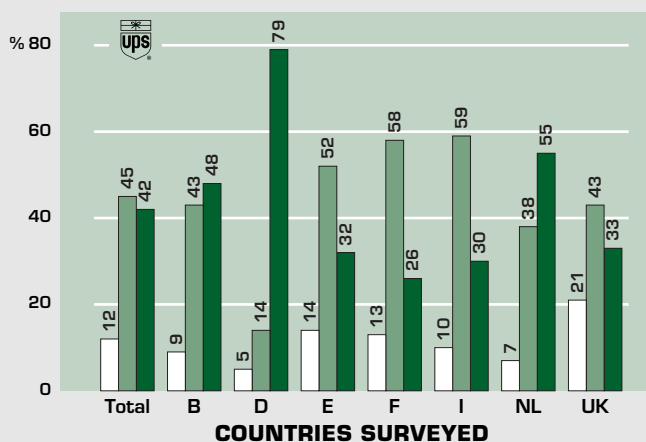
The importance of taxation/VAT (21%) is up 11% over last year, and is now seen as the biggest obstacle to free trade. This may be due to growing awareness of the administrative burden caused when VAT was introduced to intra-Community exports in January 1993.

Nationalism or consumer preferences for their own country's products (19%), problems caused by having different currencies and rates of exchange (18%) and protectionism (17%) also remain as major barriers.



■ 1994
□ 1993

4 Which Western European country offers the best potential for investment in manufacturing?



■ Helps to compete
■ Makes no difference
□ Hinders them

5 Does the EU help European companies compete in global markets?

Per cent response from countries surveyed

	Total	B	D	E	F	I	NL	UK
Taxation/VAT/Tariffs	21	10	44	17	34	13	9	5
Nationalism/consumer preferences	19	16	14	9	37	16	21	11
Currency	18	15	33	17	13	14	11	11
Protectionism	17	18	28	16	18	25	23	20
Bureaucracy	11	13	22	7	17	20	5	11
Government policies/politicians	10	13	17	14	17	21	6	7
Technical standardisations	10	8	26	7	7	7	10	23
Culture	9	10	13	6	2	4	9	9
Different economic situations	6	5	12	5	6	5	10	11
Language	5	8	10	12	4	7	5	6

6 Remaining barriers to free trade within EU? 1994 1993

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom
A Austria **GR** Greece **IRL** Ireland **P** Portugal

7 What should be the main priorities for EU President Elect, Jacques Santer?

● Lukewarm and fragmented response

Our business leaders often complain that their views are not listened to in the European political arena. As Jacques Santer takes over the presidency of the EU, we asked respondents which single issue he should pursue as his main priority.

The business issue most frequently mentioned – the need to tackle unemployment in the EU – is cited by 17% of respondents overall. Belgium (36%) gives this as its highest priority. Establishing a common currency is seen as the second priority, mentioned by 11% overall.

No single issue dominates, perhaps suggesting that business leaders see no clear connection between the activities of the EU and the day-to-day realities of commercial life. The EU, it seems, still needs to work at winning the support and enthusiasm of business.

8 What is your attitude to the development of a ‘two-speed’ Europe?

● Eight out of ten in favour

When asked to give their views on a ‘two-speed’ Europe, 8 in 10 find it acceptable as either a short-term (58%) or long-term (22%) solution.

Support for the short-term option, with social, political and monetary union remaining the ultimate goal of all members, is strongest in Belgium and France (69%) and Germany (65%).

A further 22% feel that a ‘two-speed’ Europe is acceptable even as a long-term solution – a view held most strongly in the UK (44%) and the Netherlands (29%).

Only 19% believe that a ‘two-speed’ Europe is not possible and that all member states must move towards closer union at the same pace. Italy gave this option strongest support (34%).

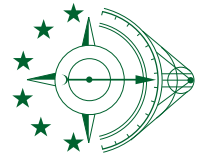
9 Would Swiss business benefit from EU membership?

● Less than half believe that Swiss business would benefit

● Germans most inclined to see benefits for Swiss companies

Overall, only 47% of respondents think that Swiss business would be better off if their country joined the EU.

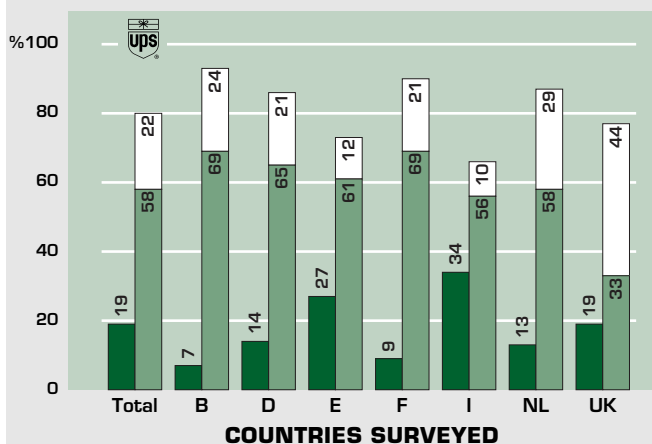
Germany believes most strongly in the benefits to Swiss business (66%), no doubt reflecting both self-confidence and the strong cultural and business connections between the two countries. The UK is the only country where the balance of opinion is that Swiss business would be worse off (33%).



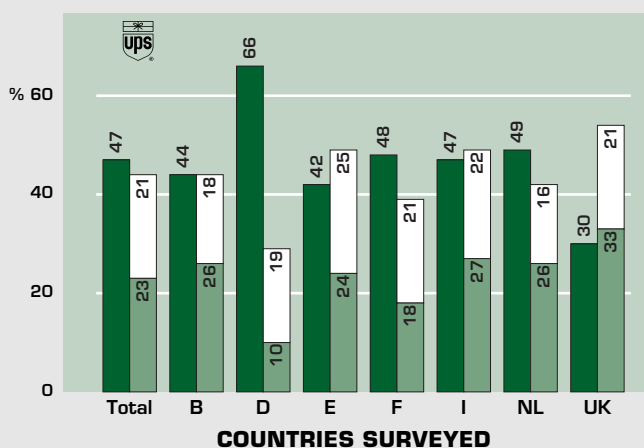
7 What should be the main priority for EU President Elect, Jacques Santer?

Per cent response from countries surveyed

	Total	B	D	E	F	I	NL	UK
Tackle unemployment	17	36	5	24	22	16	25	9
Establish a common currency	11	13	12	10	11	15	14	4
Closer political ties	10	9	15	10	7	13	6	6
Common social and labour laws	6	15	7	4	6	7	2	2
Reduce EU bureaucracy	6	3	9	2	7	3	4	10
Make EU more competitive	5	6	5	5	4	5	8	4
Encourage economic growth	4	2	2	7	4	3	1	8
Harmonise regulations & economies	4	-	5	5	5	5	3	3
Reduce burden of EU regulations	4	1	8	1	3	3	9	2
Harmonise taxes/VAT	2	4	4	3	1	1	5	2
Aim for single speed/market	2	-	1	4	-	6	2	3



8 What is your attitude to the development of a 'two-speed' Europe?



9 Would Swiss business benefit from EU membership?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

The threat from world competition

10,11 Which will become the most economically powerful world region and which will show the greatest economic decline?

- SE Asia and China expected to surpass North America as world's most powerful economic region in 10-15 years
- Central and South America expected to show greatest decline, followed by Western Europe

A remarkable 45% believe that SE Asia and China will become the world's most economically powerful region in 10-15 years. This compares with 41% who think it will be North America, and only 11% who think it will be Western Europe.

Support for SE Asia and China is strongest in Germany (61%) and the UK (57%). Of those giving support to North America, highest is Spain (66%) followed by Italy (53%).

Central and South America (34%) is expected to show the greatest economic decline in 10-15 years, a view strongly supported by Italy (47%). Next is Western Europe (26%) where Belgian business (41%) is most pessimistic. Western Europe is followed by Eastern Europe (16%) and North America (8%).

12 Which world region offers the best and worst potential for manufacturing investment?

- SE Asia and China seen to offer by far the best potential
- Only 2% vote for Western Europe

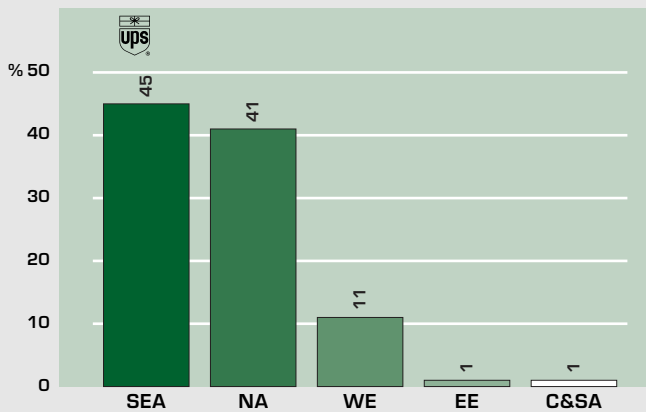
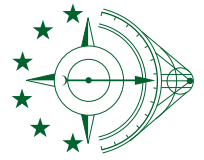
SE Asia and China are seen to offer by far the best potential for investment in manufacturing over the next 3-5 years (75% overall). Eastern Europe rates as second best region (14% overall). Only 6% think that Central and South America offers the best potential, with North America at 2% and Western Europe surprisingly no higher.

Central and South America (33%) is seen to offer the worst opportunities and German business leaders are most inclined to support this view (41%). Western Europe (28%) is also thought to offer very poor opportunities for investment, with Belgium the most pessimistic (50%) along with Spain (39%) and the Netherlands (36%).

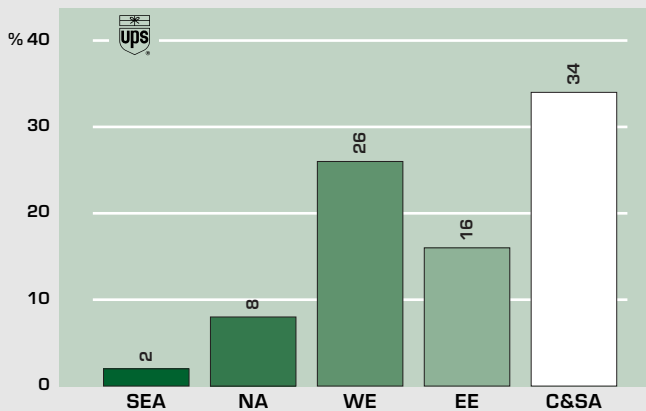
13 Which Eastern European country offers the best potential for manufacturing investment?

- The Czech Republic seen to offer best potential

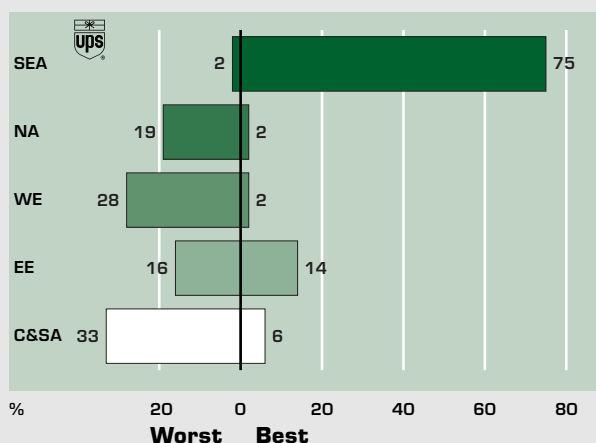
32% support the Czech Republic, followed by Poland (22%), Hungary (20%) and Russia (13%). Support for Russia is much stronger in Germany (31%) than in the other countries researched.



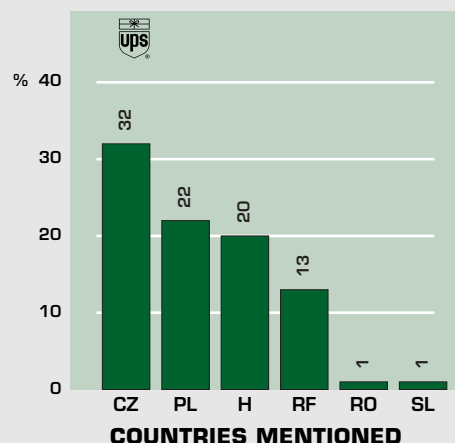
10 Which world region will be the most economically powerful within 10-15 years?



11 Which world region will show the greatest economic decline within 10-15 years?



12 Which world region offers the best/worst potential for manufacturing investment?



13 Eastern European countries seen to offer best potential for investment in manufacturing.

SEA SE Asia and China **NA** North America **WE** Western Europe
EE Eastern Europe **C&SA** Central & South America
CZ Czech **PL** Poland **H** Hungary **RF** Russia **RO** Romania **SL** Slovakia

Europe's response to world competition

14 How should employment in Europe be defended long-term?

- Large majority favours more flexible labour laws
- French respondents narrowly favour levying duties over flexibility

The overall majority of respondents (69%) feel that the long-term defence of employment in Europe should be based on more flexible labour laws to reduce the risks employers face when increasing their workforce. This finding reinforces concerns expressed in Wave III of the Business Monitor, when more respondents felt that the Social Chapter would reduce jobs in Europe (27%) than believed it would increase them (19%).

A flexible 'hiring and firing' approach is supported most strongly in Germany by an overwhelming 91%, perhaps reflecting the frustration felt by German business which works under very restrictive labour laws.

Only France gives slight majority support to the option of levying duties on goods produced in countries which the EU views as having unacceptably low labour and environmental standards (45% compared to 40% for flexible labour laws). A minority of 12% overall feel that positive intervention policies to create more jobs in Europe would be a solution.

15 Who should own the key service sectors and should they be open to competition?

- Overwhelming support for competition
- Only France prefers state to private ownership

87% feel services such as rail, energy, telecommunications and postal services should be open to competition; the only debate is about ownership. Those favouring competition comprise 51% for private ownership and 36% for state ownership. Support for private ownership in a competitive environment is strongest in Germany (67%), the Netherlands (65%) and Belgium (60%).

However, state ownership is not condemned out of hand, provided state owned services are open to competition. A strong overall minority (36%) supports this option, with France (48%) and Italy (43%) giving it strongest support.

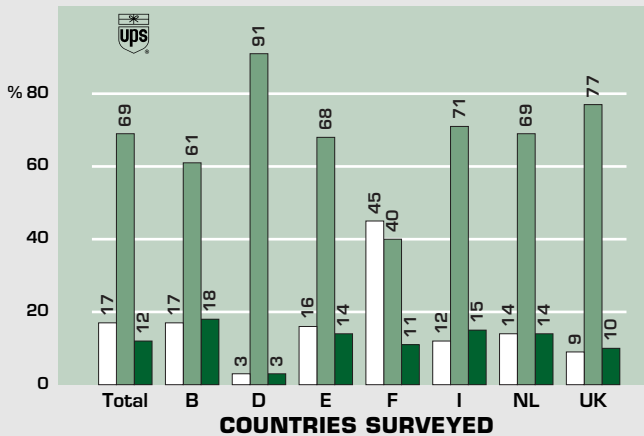
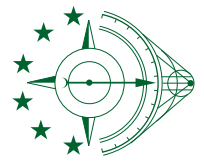
16 How should Europe react to the US shift in trading priorities from Europe to Asia Pacific?

- Large majority want closer trading links with Asia Pacific
- Only one in four favours move to regain trade with the US

A large majority (67% overall) feel that Europe should concentrate on establishing closer trading relationships with Asia Pacific in response to the shift in US economic priorities from Europe to that region. The French support this view most strongly (78%).

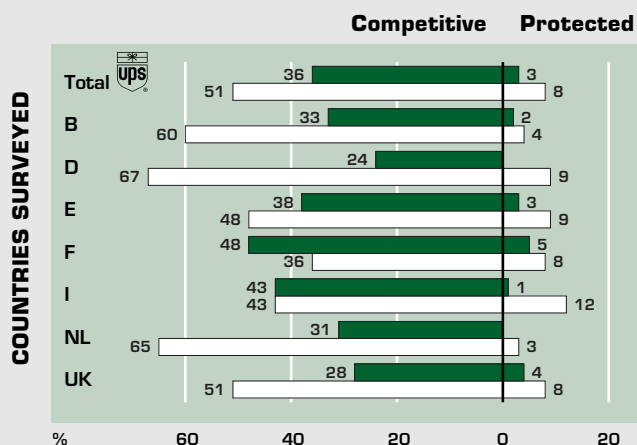
Only 25% overall feel that the best solution would be to reduce trade barriers with the US in order to regain the attention of American business. The Dutch give fairly strong support to this option (44%, compared to 54% believing they should court Asia Pacific).

Only 7% overall feel that barriers to US imports into Europe should be increased in order to encourage trade within Europe.



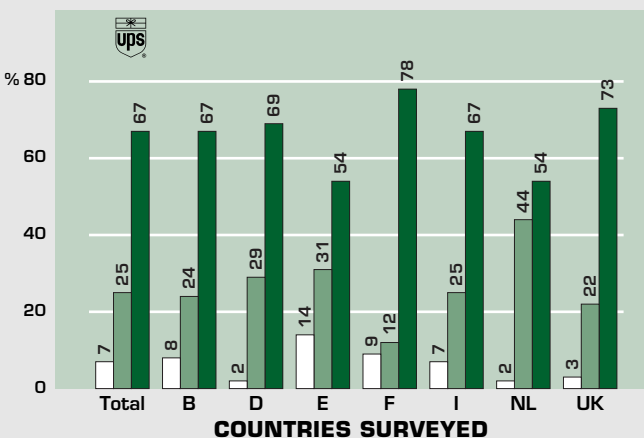
- Intervene to create more jobs
- Have more flexible labour laws
- Levy duties on goods from countries viewed as having low standards

14 How should employment in Europe be defended long-term?



- State owned
- Privately owned

15 Who should own the key service sectors and should they be open to competition?



- Establish closer trading relationships with Asia Pacific
- Reducing trade barriers with US
- Increase barriers to US imports to encourage trade within Europe

16 How should Europe react to US shift in trading priorities from Europe to Asia Pacific?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

17 Will information technology (IT) help or hinder Europe's competitiveness, and will it cause loss of jobs?

- **Majority think IT will aid competitiveness without job losses**

In spite of the increasing ease with which IT can be transferred to developing nations, the majority of respondents (68%) believe that continuing technological innovation will mean that Europe can remain competitive and need not fear an export of jobs. Support for this view is held most strongly in Germany (77%) and France (72%). This is perhaps surprising given both the extent to which respondents expect SE Asia and China to outstrip Europe, and their own pessimism regarding employment levels.

A significant minority (30%) believe that IT will increase the competition Europe faces from developing nations and cause jobs to be lost in Europe. The Dutch appear most pessimistic about this scenario (42%), although the majority of Dutch respondents still believe Europe will benefit from IT innovations (54%).

18 Will competition from developing nations threaten European living standards through wage restraints?

- **The majority has confidence in an added-value, service-based European economy**
- **Only in Spain does a majority foresee decline in EU living standards**

Answers to this question show that Europe's business leaders feel able to react to threats of competition from outside. A majority (61%) of respondents believe that Europe will be able to develop a high added-value, service-based economy which will keep living standards high. However, at least one third of respondents (36% overall) feel that European standards of living will decline as competition from developing nations restrains wages. The majority of Spanish (52%) feel that living standards will decline.

The optimism shown by the majority in response to this question may seem surprising in light of the answers to the next three questions, which show an overall lack of confidence in 'infrastructure' investments.

19,20 Is Europe investing enough in research and development (R&D), training and transport to enable it to compete globally?

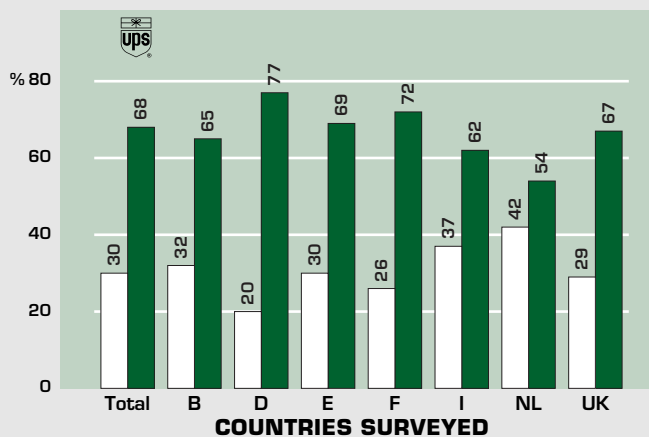
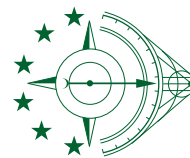
- **Majority says business investment in R&D and training is inadequate**
- **Half the panel says transport infrastructure is inadequate**

Respondents feel that European business is not investing enough in R&D nor in training its workforce to compete successfully in the global market.

Overall, 70% feel European business does not invest enough in R&D. This view is held by a clear majority in every country, led by the Netherlands (76%), Germany (74%) and the UK (72%).

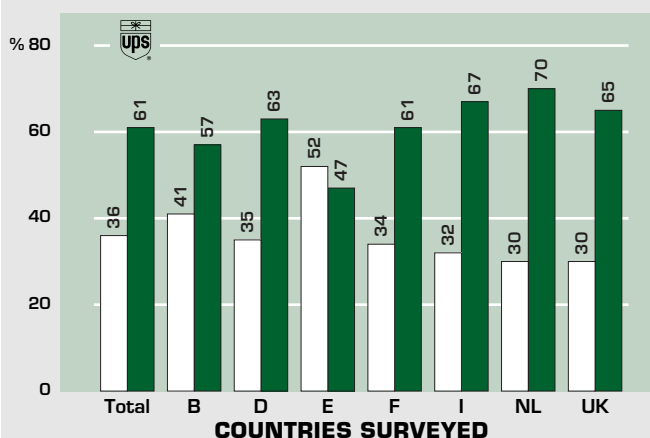
56% of all respondents feel that business is not investing enough in training the workforce. Again, this is a majority view in every country except Germany (45%) and the Netherlands (40%), with the UK (67%) holding the view most strongly.

Our panel records a split verdict when asked whether the transport infrastructure in their country is strong enough to enable it to compete in the global market place. Just under half the respondents think it is (49%) and half do not. Of those with confidence in their transport infrastructure, the



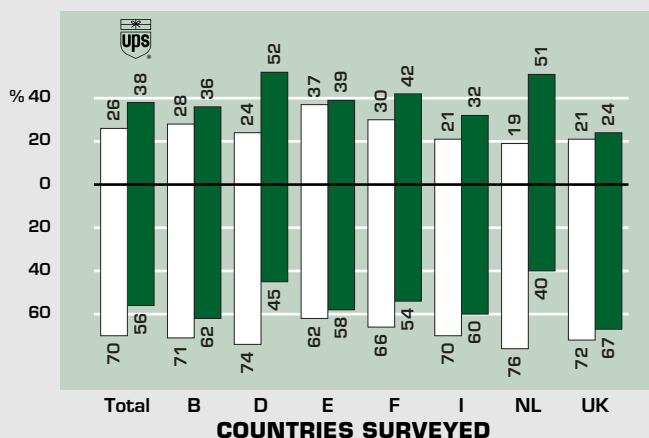
Europe can remain competitive without job losses
 Cause jobs to be lost

17 Will application of information technology increase competition or mean loss of jobs?



Living standards remain high
 Living standards decline

18 Will competition from developing nations threaten European living standards through wage restraints?



Training
 R&D

Not enough Enough

19 Is European business investing enough in R&D and training?

B Belgium **D** Germany **E** Spain **F** France **I** Italy **NL** Netherlands **UK** United Kingdom

Belgians (84%) and the Dutch (80%) rate theirs highest. The Italians (13%) have least confidence, followed by the Spanish (23%). Even with the new Channel Tunnel links, the majority of British (57%) also feel that the transport infrastructure in the UK is too weak.

It is perhaps surprising that European business leaders record high levels of confidence in their ability to develop an added-value, service-based economy, while admitting inadequate investment in R&D, training and transport.

21,22 How should investment in R&D, training and transport be funded?

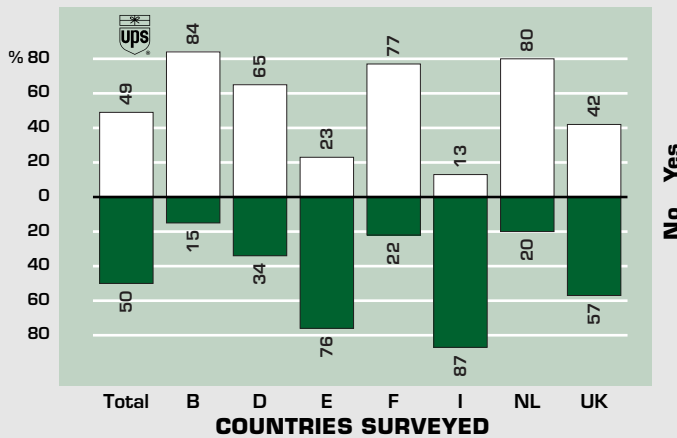
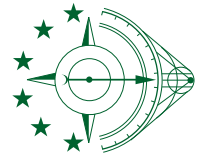
- **Clear call for joint funding between public/private sector partnerships**
- **Business willing to invest in transport infrastructure**

Of those thinking that investment in R&D is inadequate, 69% think the EU should provide additional funds and incentives to support the efforts of private business. Opinion is then split between those feeling that the level of investment in R&D should be left entirely to private business (15%) and that the EU should legislate to ensure minimum amounts are spent on R&D by European business (14%).

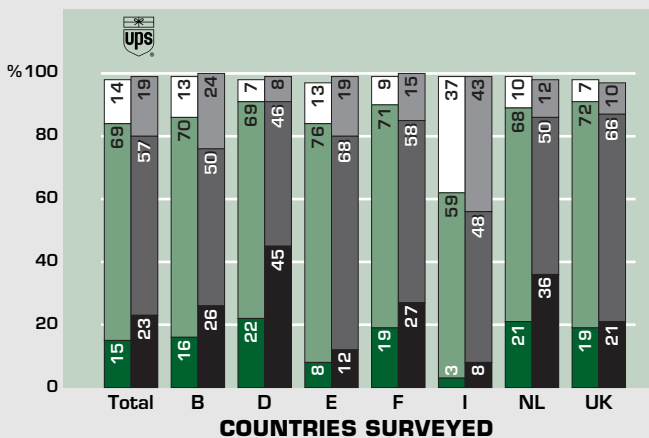
Of those thinking that investment in training is inadequate, the majority (57%) also feels that the EU should provide additional funds and incentives to support the investments in training made by private business. Again, views are split between the remaining alternatives, with 23% thinking that the level of investment in training should be left entirely to private business and 19% thinking the EU should legislate to ensure minimum spend by business.

An overwhelming majority (80%) feels that investment in European transport infrastructure should be jointly financed by government and private industry as opposed to being an entirely public responsibility (19%).

It is striking that businesses are calling for joint funding with the EU or their national government when it comes to investing in these three key 'infrastructure' areas. They see partnership as preferable to either private or public sectors acting alone.



20 Is your country's transport infrastructure strong enough to enable it to compete in global market?



(Based on respondents believing insufficient investment in training and R&D)

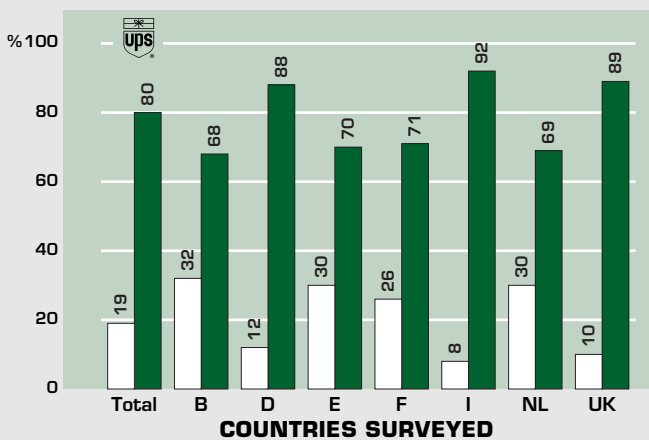
21 How to redress the low levels of investment in R&D and training?

Training

- EU should legislate
- Additional EU funds
- Left to private business

R&D

- EU should legislate
- Additional EU funds
- Left to private business



22 How should investment in European transport infrastructure be financed ?

- Jointly financed
- Publicly financed

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