# Flash Economics

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# Can Europe be re-industrialised?

Announcements of plant closures are multiplying in Europe (Volkswagen, Michelin, Schaeffler, etc.), and manufacturing output has fallen by more than 6% since the start of 2023.

The problems are well known: the attractiveness of the United States (with the Inflation Reduction Act and strong growth), high energy prices in Europe, inadequate R&D by European companies, and competition from Chinese manufacturers. The election of Donald Trump will add another problem: tariffs on US imports.

How can Europe react?

- A change of strategy on decarbonisation of industry is not desirable: the rules that have been announced must be maintained;
- Protect nascent industries (electric batteries, electric cars, quantum computers) to enable them to grow;
- Increase the R&D budgets of European companies; increase the links between fundamental research and applied corporate research;
- Accelerate the development of renewable energies and associated technology (grid management, peak load management, electricity storage);
- Provide better training for young Europeans in scientific subjects.

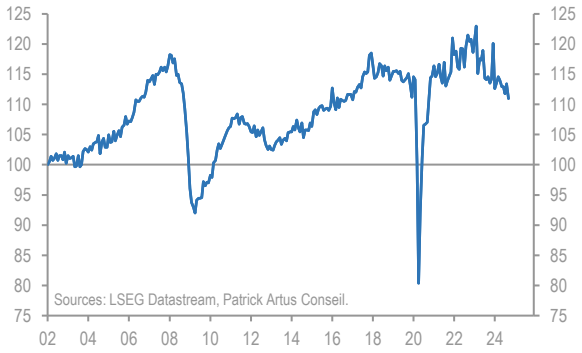
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## Causes of the decline in European industry

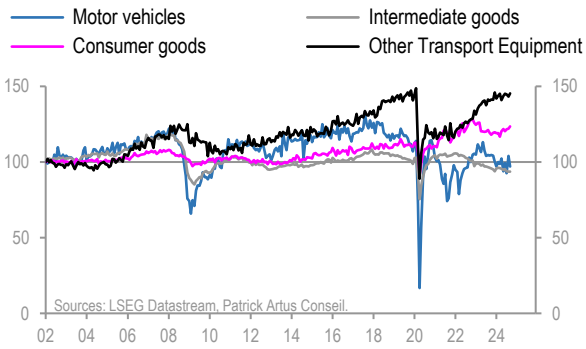
**Either Manufacturing has been contracting in the eurozone since the beginning of 2023** (**Chart 1**), and factory closures are increasing in 2024, particularly in the automotive and automotive parts sectors.

**Chart 1**
**Euro zone: Manufacturing production (2002.M1 = 100 )**




The decline in manufacturing output has particularly affected the automotive and intermediate goods industries (**Chart 2**).

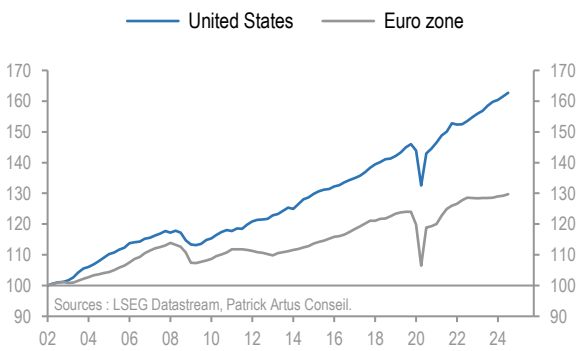
**Chart 2**
**Euro zone: Manufacturing production (01.01.2002 = 100)**




There are many reasons for **this decline in European manufacturing**:

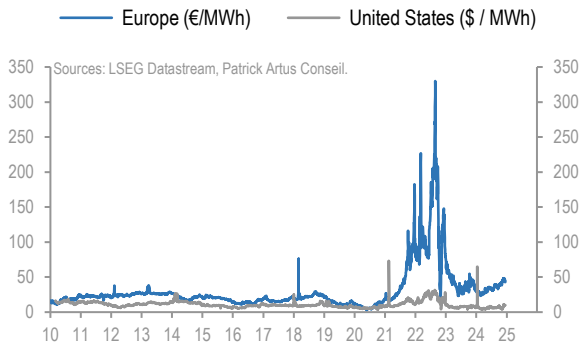
- **The strong attractiveness of the United States**, with the Inflation Reduction Act and stronger economic growth in the United States (**Chart 3**);

**Chart 3**
**Real GDP (2002.T1 = 100)**



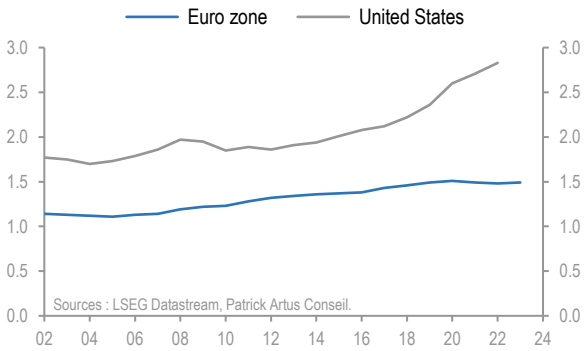
- **High energy prices, particularly for natural gas in Europe** (**Chart 4**) since 2022;

**Chart 4**
**Natural gas price**




- Insufficient **R&D spending by European companies** (**Chart 5**) ;

**Chart 5**
**Corporate R&D spending (as % of nominal GDP)**




- **Competition from Chinese manufacturers** (**Charts 6A/B**), for electric batteries, electric cars, active ingredients in medicines, wind turbines, solar cells, etc..

**Chart 6A**
**Euro zone: Imports from China (monthly, EUR bn)**

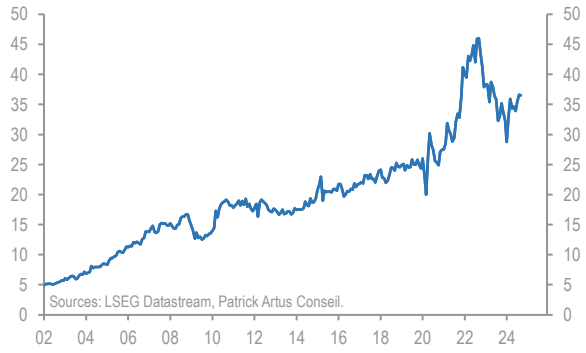
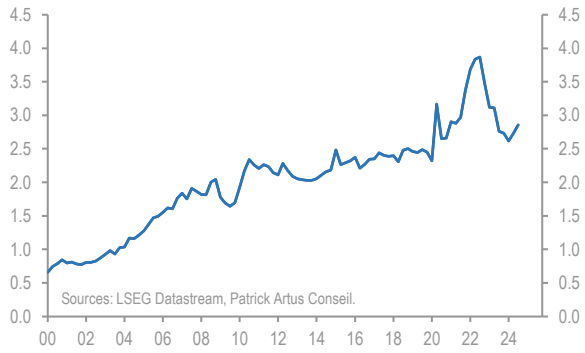



**Chart 6B**
**Euro zone: Imports from China (as % of nominal GDP)**




**The election of Donald Trump** will create an additional problem for Europeans if he implements the additional customs duties (10% to 20%) he has announced on products imported into the United States.

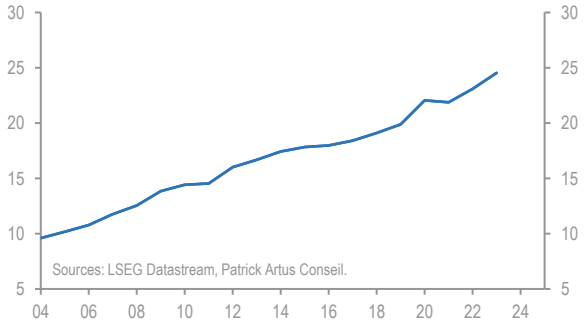
## Summary: how can Europe react?

**Changing the strategy of decarbonising industry is not desirable**, since changing the rules would be destabilising, and since having a decarbonised industry will be a competitive advantage for Europe in the medium term.

Instead, it is important to:

1. **Protect nascent industries** (electric batteries, electric cars, semiconductors, quantum computers, etc..) so that they can reach critical mass whilst benefitting from protection (customs duties, subsidies, etc..);
2. **Increase the R&D budgets of European companies** (see Chart 5, above), and strengthen the links between basic research, which is of high quality in Europe, and applied corporate research;
3. **Accelerate the development of sustainable energies (Chart 7)**, and associated technologies (electricity storage, grid management, peak load management, etc..) to develop Europe's competitive advantage in terms of energy transition;

Chart 7
European Union: Share of energy from renewable sources (as %)




4. **Provide better training for young Europeans**, particularly in scientific subjects (**Table 1**).

**Table 1: Results of OECD PISA surveys (numeracy score, by decreasing score in the 2022 survey)**

| Country | Score |
|---|---|
| Singapour | 575 |
| Japan | 536 |
| Korea | 527 |
| Switzerland | 508 |
| Canada | 497 |
| Netherlands | 493 |
| United Kingdom | 489 |
| Sweden | 482 |
| Germany | 475 |
| France | 474 |
| Spain | 473 |
| Italy | 471 |

Sources : OECD

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