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External dimension of the Europe 2020 strategy

Vytautas Kedaitis[a], Angele Kedaitiene[b]*

[a]*Vilnius University, Faculty of Economics, Saulėtekio ave. 9, LT-10223 Vilnius, Lithuania*
[b]*Vilnius Gediminas Technical University, Faculty of Business Management, Saulėtekio ave. 11, LT-10223 Vilnius, Lithuania*

Abstract

A Europe 2020 is the umbrella strategy of the European Union (EU) aiming at enhancing of the economic growth of EU over year 2010-2020. Apart of the headline indicators and flagship initiatives, the successful implementation of the Europe 2020 strategy depends from number of the framework polices of the EU, such as single market, budget, but also the external economic relations. The external economic relations depend directly to the theories of economic growth, in sense of the classical growth theory, inspired by two great economists Adam Smith and David Ricardo, which has considered internationalization and opening of the economies as one of the core growth factors. According to the survey of economic experts, implementation of Europe 2020 strategy will depend in equal parts, both from internal, but also from the external polices of EU. In this regard, external economic relations provide for very good framework continuous, as EU external trade grew over the years 2011–2012 significantly, the export increased by 71% and import – by 74%. Related to the EU external trade policies in general, they are manifold, starting from the negotiations of the international trade conditions within frames of World Trade Organization, stretching to the framework EU initiatives of Generalizes system of preferences (Everything but arms/EBA, GSP+) and bilateral trade agreements, which, as from year 2006 became the preferred international trade policy of EU. Recently, the free trade agreement between EU and USA are about to be negotiated, which will establish unique Trans-Atlantic free trade area, boosting the economic growth by at least 0,5% annually, thus, it will add significantly to implementation of Europe 2020 strategy.

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Keywords: European Union; Europe 2020; economic growth; external trade; free trade agreement.

* Corresponding author. Tel. +3-706-204-5118.
E-mail address: Angele.Kedaitiene@vgtu.lt

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1. Introduction

Economic growth is the increase in the amount of goods and services produced by an economy over the time, conventionally measured as the per cent rate of increase in GDP. The major sources of economic growth, explained in different theories are the increase in physical production capacities and intense use of the labor force, internationalization of the economy, more recently – research and technological development along with innovations as well as managerial capacities, marketing, networking and civil society.

Europa 2020 is the strategy of the global EU development over 2011–2020, taking into account recent theories of economic growth, with emphasis on the new economic growth theory, underlying importance of research and development along with innovations.

The article attempts at answering the research question related to the external effectiveness of the strategy, i.e. What impact does the external environment, i.e. economic growth in the World economies, would have upon implementation of Europe 2020 strategy, thus, upon EU economic growth? Different scientific research methods are used to answer the question, starting from the theory statements, spreading to the analysis of secondary statistical information, and ending-up with the expert survey, done by the author 2 years ago for the research related to Europa 2020 strategy.

The article has three interrelated parts, aiming at analysis of the EU external environment, starting with brief presentation of the theories related to openness of the economies in the first part, getting to the analysis of the external economic relations of the EU in general and with major external economic powers in the second part, and ending-up with presentation of the results of expert survey.

2. Importance of the external dimension in Europe 2020 strategy

The successful implementation of the Europe 2020 strategy depends from number of the framework polices of the EU, such as single market, budget, but also the external economic relations. The importance of the external dimension of Europe 2020 strategy has been underlined in the Communication of the European Commission “Trade, Growth and World Affairs: Trade Policy as a core component of the EU's 2020 strategy“, issued in November 2010.

The external economic relations depend directly to the theories of economic growth, in sense of the classical growth theory, inspired by two great economists Adam Smith and David Ricardo, which has considered internationalization and opening of the economies as one of the core growth factors. They do have direct impact on the economic growth of the countries, not just through GDP income from the external trade, but also through various spill over effects from the partner countries related know-how, innovations and technologies, exchange in research, capital and labour force, diversity of goods, demand creation, etc. The Communication underlines the triple benefits from trade opening, belonging to the economic growth (progress in the trade relationships related to liberalization of the trade could boost the EU GDP more than 1% by 2020), consumer benefits (wider variety of goods and services along with lower prices can provide for €600 a year additional gains for every EU consumer), labour effects (international trade directly provides employment for around 18% of the EU labour force and generates a 7% wage premium for European workers).

Openness of the economy is measured by a set of indicators, reflecting upon participation of the countries in the international exchange of goods, servicers, ideas, persons, technologies, etc. Regarding economics, these are share of international trade (export/import), share of GDP created by the export activities, value of incoming and outgoing foreign direct investments, participation in the international production networks, measured as share of intra-industry trade, non-tariff barriers to trade, average tariff rates, etc. What are the criteria to distinguish between an open and the closed economy? According to Sachs & Warner (1995) the economy is closed if it is closed according to any one of the following five criteria:

- its average tariff rate exceeded 40%
- its non-tariff barriers covered more than 40% of imports
- it has a socialist economic system
- it has a state monopoly of major exports
- it has significant share of black economy

Process of opening of the economies started with the industrial revolution at the end of 19-th century, and intensified significantly after the World War Two. For example, many researchers believe that rise of the Japanese economy over the 20-th century was to the large extent due to participation of it in the international economic relations, what boosted the technology level, thus, the productivity, as the source of economic growth. By the end of the 19-th century, Japan was not a rich country. The real GDP per person was well behind Argentina's and only a third of the levels of the United States and the United Kingdom. But during the ensuing 100 years, Japan maintained an average growth rate of GDP per capita of 2.81% implying that today, Japan is among the richest countries of the world with a GDP per capita that is higher than that of the United Kingdom.

According to Andersen & Babula (2008) from United States International Trade Commission, openness of the economy may, first of all, affect the economic growth through productivity increase by three main channels – access on the external markets to intermediate goods, especially technologies and innovations; expansion of the market size for products and services on the external markets complementary to domestic ones; facilitation of the international diffusion of general knowledge, what boost the level of knowledge worldwide providing for the framework conditions for economic growth.

The statements above have been confirmed in 2011 by the Department for Business, Innovation and Skills (UK), which also considers that impact of openness upon the economic growth gets though improvements in innovations and productivity, due to:

- Access to the larger markets and the possibility to benefit from increasing returns of scale and specialization as well as benefiting from the widest range of inputs at the highest quality and lowest prices
- Higher competition leading to improved productivity of domestic firms through allocative efficiency, i.e. reallocation of resources across firms; productive efficiency, i.e. reduction of managerial bias and increases in efforts of employees; and dynamic efficiency, i.e. increase in innovations
- Removed distortions in domestic industries that would happen otherwise, since economic openness reduces the rents and wasteful rent-shifting activities of local firms, etc.
- Dissemination of knowledge and innovation through exchange of goods, services and investments

All these effects of openness can have impacts upon the consumer choices. According to Francois, Manchin & Norberg (2007), in 1996–2006, the import prices on some of the consumer goods, such as household textiles, clothing and consumer electronics, felt in EU as much as even up to 50%. These are huge financial gains for the consumers, which could boost their welfare at lower costs. Furthermore, some studies estimate the gains to USA consumers of the growth in global variety during the period 1972–2001 to be about 2.6% of GDP (Broda & Weinstein, 2006). Translating these "variety gains" into an EU context suggests that the average European consumer benefits are in the range of 600 € per year, in addition to the gains due to lower prices (Mahle & Seitz, 2010).

On the other hand, openness of the economy could have the adverse effects, related to vulnerability to the external chokes, what have happened during the recent financial and economic crisis; necessity to adjust the business structures, costs and wages; possibly increasing inequality, etc. However, these do not overweigh the benefits in most cases. Furthermore, effects of openness are more visible in the developing countries, and decreases as country gets to the level of advanced economy, as well as effects of openness are greater for the small countries in size, which simply haven't another choice just to become increasingly open.

However, which countries of the World are the most open economies? We are used to think of USA, China, or EU, but looking to the data of the World Bank, to the indicator of trade integration, which measures the share of export and import value to GDP value, – this is far away from being the truth (Fig. 1). According to the World Bank, the most open economies are to be found in Europe, Africa, South East Asia, Middle Asia (Mongolia, Kazakhstan), Middle East, and in South America. The USA, China, Brazil and India, which are sought to be the among leading economic powers of the World, trade much less, compared to the geographical conglomerate of the European Union, North Africa and Saudi Arabia, the regions being very close each to other, which we can label as centre of World economy openness. However, even these cannot overcome the Hong Kong and Singapore, leading the World by openness of the economy, measured in terms of international trade.

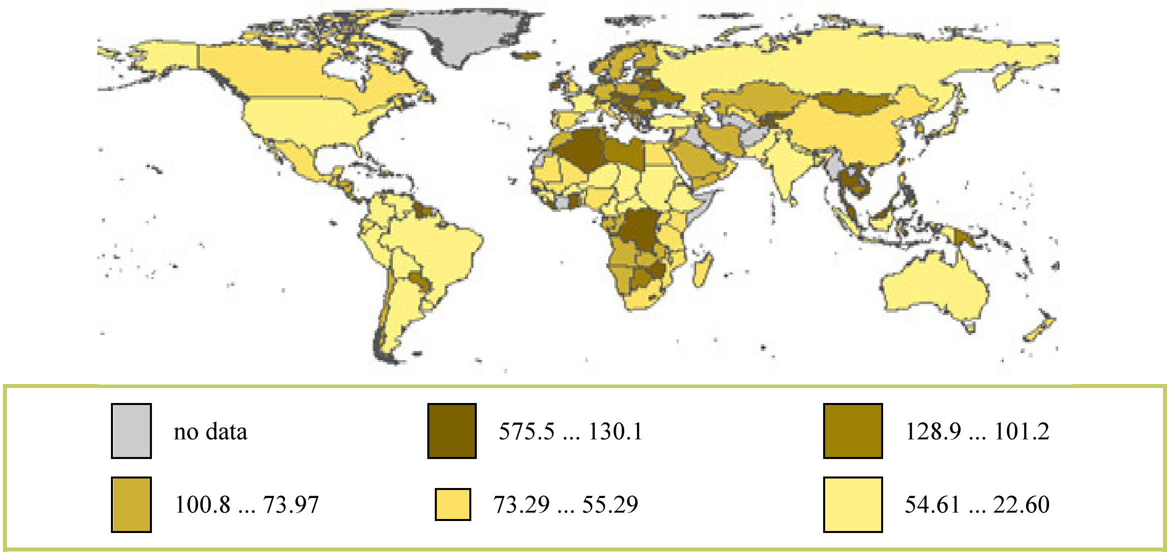


Fig. 1. Trade integration indicator, value of foreign trade as % of GDP, in 2006–2009

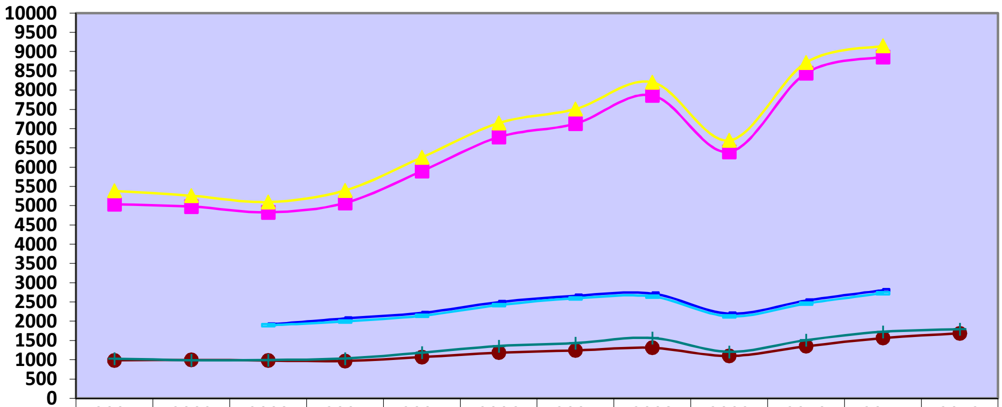
Of course, a lot depends from the country size and value of GDP. Indicators of trade integration for very big countries, such as USA, China, Brazil, and to some extent – India, will naturally be lower because of the high value of GDP, as well as due to the fact that large countries could have well diversified industry, thus, are less export-import dependable. On the other hand, member states of the European Union, again, mainly the smaller ones, got high indicators of trade integration to the large extent because of intra-European trade, which expands because of the single market. The foreign trade of the EU as the region accounted to about 31% of GDP, in 2010.

2. The state of play in EU external economic relations in area of international trade

Global trade has grown rapidly in the last decade. From 2001 to 2011 the value of World merchandise trade in the export section grew by 76%, and in import section – by 70%[†]. The EU external trade grew at a similar pace, especially high growth has been registered in 2011–2012. The export increased by 71% over 2001–2012, and import – by 74%. The EU intra trade, although we will not analyse it in this section, however, makes the higher values, compared to the EU external trade (Fig. 2).

Following the opinion from the European Commission (2010), this growth has occurred largely independently of trade policies and reductions in tariff and non-tariff barriers. It was driven mainly by growth in incomes and demand, especially in emerging market economies, by falling transport and communication costs, improvements in economic policies and the investment climate in emerging market economies, and by the competitive pressures that drive the search for innovation, cost cutting, outsourcing and economies of scale in many industries.

[†]EU internal trade is excluded.



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export World	5035	4976	4828	5070	5895	6779	7129	7862	6394	8439	8861	
Import World	5383	5257	5095	5394	6253	7143	7508	8205	6693	8713	9148	
EU export	985	997	979	969	1071	1183	1240	1309	1097	1349	1562	1686
EU import	1028	989	993	1032	1184	1356	1435	1565	1206	1509	1727	1791
EU intra export			1914	2071	2215	2494	2660	2716	2196	2534	2804	
EU intra import			1894	1993	2142	2419	2594	2642	2128	2458	2728	

Export World Import World EU export EU import EU intra export EU intra import

Fig. 2. Major World trade indicators in 2001–2012, billion Euros

European Union is the major World trader. In 2010, its export accounted for 17% of World export value of goods and services, and import – for 17.5% of World import value (Fig. 3). Although, the rapid economic growth and increasing involvement in global trade of the emerging market economies, especially the major players such as China, Russia, India and Brazil, is sometimes perceived as a threat to economic position of the EU, the EU export share with slight changes remains stable over the years.

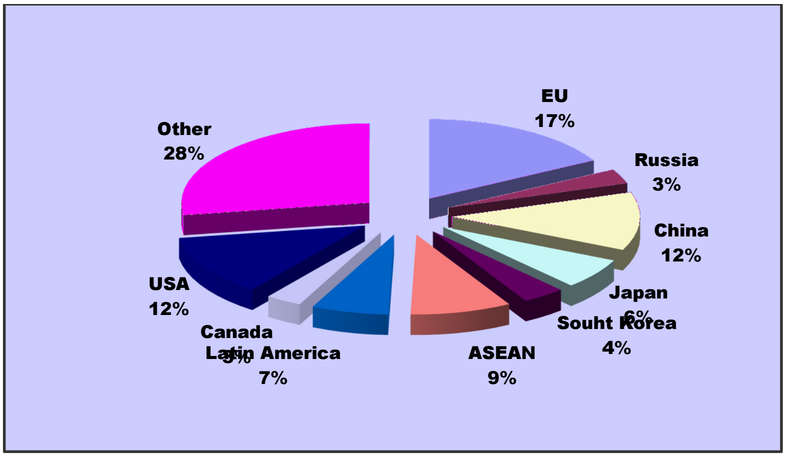
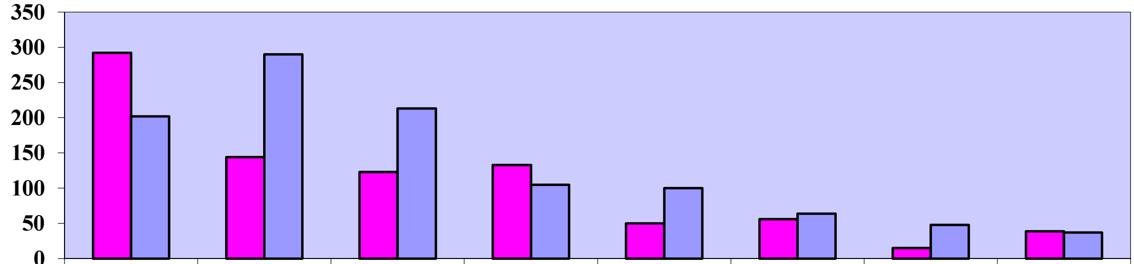


Fig. 3. Export shares of goods and services, worldwide, in 2010, in %

This demonstrates success of the EU foreign trade policies and high competitiveness of EU economy as the whole. According to the European Commission (2010), in the last decade EU did succeed in increasing the share of high-tech products international trade, while USA and Japan lost some of these shares for China increase. In 2007, EU export of high-tech products accounted for 16.9% of the World shares, following the China, which in the same year took 21.2% share, USA – 13.7% share.

The EU trades with almost all countries in the World, however, the main trading partners for export operations are USA, China and Russia, especially – USA, accounting for almost 17% of EU external export in 2012 (Fig. 4). The fact, that EU is able to trade well with the World's largest economic power tells on competitiveness of the EU goods and services. On the other hand, the import of EU gets mainly from China, taking above 16% share in 2012, with USA and Russia each above 11%.



	USA	China	Russia	Switzerland	Norway	Japan	Turkey	India
Export	292	144	123	133	50	56	15	39
Import	202	290	213	105	100	64	48	37

Fig. 4. Main trading partners of the European Union, in 2012, in billion Euros

These data, especially on export, tells on necessity to make EU external trade relations more balanced, especially between the major global powers of USA and China while expanding the export of EU goods and services to China, which has very huge market, high consumption potential and growing economy even in times of crisis. India, as rapidly emerging global economic power, could also be regarded better in terms of international trade, especially taking into account the on-going Free trade agreement negotiations between EU and India.

What relates to the EU external trade policies in general, they are manifold, starting from the negotiations of the international trade conditions within frames of World Trade Organization, stretching to the framework EU initiatives of Generalizes system of preferences (Everything but arms/EBA, GSP+) and bilateral trade agreements, which, as from year 2006 became the preferred international trade policy of EU.

Recently, the historical Free trade agreement negotiations between EU and USA is about to start to be concluded by year 2014. The idea for such agreement has been given by USA President Barack Obama in his annual State of the Union address of February 12, 2013. Soon after that, EU Commission President Jose Manuel Barroso announced that European Union supports this initiative and negotiations about to start as soon as possible. Mr. Peter Chase from the USA Chamber of Commerce office in Europe, remarked during his presentation at *Madariaga – College of Europe* foundation on 24 of June 2013 that such the agreement would be great booster of economic growth, both in EU and in USA, and that free-tariff trade volumes would increase by about 17% compared to the recent low-tariff trade. Particular benefits would be in trade of goods and services, FDI investments, public procurement, intellectual property rights, mobility in different areas, regulatory convergence. According to the United States-European Union High Level Working Group on Jobs and Growth (2013) from that agreement, EU economy could benefit by €119 billion a year – equivalent to an extra €545 for a family of four in the EU, and US economy could gain an extra €95 billion a year or €655 per US family. On the other hand, Prof. Zaki Laidi from Science-Po Paris considers the Free trade agreement between the EU and USA as bringing not just exclusive benefits, but also reducing the intra-European trade, as some studies suggests due to this German-French bilateral trade could reduce even by 23%.

3. Results of the experts survey

The experts' survey, aimed at finding out both – ranking of the economic growth related factors, included in the Europe 2020 strategy and impact of the external environment. In total, 12 experts, the well-known economists, working in the area of European macroeconomic at the commercial banks, universities, foreign ministries, ex-European Parliament members, etc. were surveyed. This is of course non-representative survey, however based on the theory of non-probability convenience surveys, which in today's business research demonstrates very good results, under condition of immediate grasp of the experts opinion, who have something to say on the subject. The results would not reflect upon the global opinion, but rather the opinion, prevailing among certain professionals of the Northern Europe, which could be taken into account for policy conclusions.

The survey consisted of 2 major parts, with questions on Europe 2020 strategy and on global macro environment.

Taking Europe 2020 into account, all experts were aware of the strategy. The answers to the question on assessment of the headline targets of Europa 2020 strategy are provided in Table 1.

As we can see, 50% and more respondents regarded even 4 targets as being extremely relevant for EU economic growth – investments in R&D/innovation, 20% increase in energy efficiency, increase in employment and reduction of poverty and social exclusion. Educational targets and two remaining, related to energy and climate change, did also receive good points, although with lesser strengths. This means that experts consider the European economic growth will be driven by mix of the factors, related to few theories of economic growth, i.e. by new theory of economic growth (innovations) as well as by neo-classic theory (employment) and by theory of sustainable growth (poverty reduction and resource efficiency).

However, when ranking the headline targets by theirs input into economic growth of EU, the priority has been given to employment (20 points out of 100), followed by R&D and innovations (18 points out of 100). Increase in energy efficiency and reduction of poverty, both got 13 points out of 100. It's clear, that in times of economic crisis, even experts prefer higher employment to be the most relevant factor of economic growth.

Table 1. Answers to the question "How you would assess the headline targets of Europa 2020 strategy, in relation to theirs impact upon economic growth of the EU?", in % of all answers for the target

	Extremely relevant	Relevant	Few relevant	Not at all relevant	Neither	%
Employment – 75% of the 20–64 year-olds to be employed	50	33	17			100
R&D/innovation – 3% of the EU's GDP invested in R&D/innovation	67	33				100
Climate change/energy – greenhouse gas emissions by 20–30% lower than in 1990	33	67				100
Climate change/energy – 20% of energy comes from renewables	17	83				100
Climate change/energy – 20% increase in energy efficiency	67	33				100
Education – reducing school drop-out rates below 10%	17	50	33			100
Education – at least 40% of 30–34–year-olds shall be completing third level education	34	33	33			100
Poverty/social exclusion – at least 20 million fewer people in or at risk of poverty and social exclusion	50	50				100

On the other hand, experts did not think that Europe 2020 strategy would add towards EU economic growth significantly, as even 50% of them consider the influence of strategy to be somewhere between 10% and 30%, and 33% of experts – below 10%. It means that European economics would grew even without any strategy, although Europe 2020 helps to streamline this process, since 10–30% influence upon the growth can be considered as significant one, especially in a long-run. On the other hand, even 67% of respondents think that recent economic crisis, including the problems related to budgets and state debt, will affect implementation of Europe 2020 strategy very negatively.

In an open question on “What are your suggestion for improving the Europa 2020 strategy?”, the experts provided few suggestions, cited below without editing:

- “I think the overall idea of the strategy is good because it indicates the main aim and targets for the economic development of the EU. Another question is how these targets can be achieved and whether they are the right ones to boost EU’s economy is the next 10 years. I think not all targets can be implemented because of weak economic and financial situation in the EU. Most of the targets need additional investments which are not very feasible for the next couple of years”
- “I believe the EU strategy should be much more oriented towards the targets which may bring bigger direct added value to the economic growth. This may include creation of a better competitiveness environment of SMEs, conclusion of free trade agreements (FTAs) with third countries, which should be based on balanced and reciprocal market access for the EU exporters. It is important that the FTAs and the whole external trade policy of the EU would bring actual economic benefits for the EU Member states’ business. This may be a very important aspect that can help to achieve other targets indicated in the strategy”
- “Modified list of targets: productivity, quality/costs of public services, red tape – innovation, job creation, financial services, income disparities”
- “The proposed strategy is unambitious. I believe more must be devoted to education and R&D, not just science and technology but also social research. Also the aims are very far from breaking the greenhouse effects with its disastrous consequences”
- “Improve the international competitiveness of Europe”.

In brief, experts think that Europe 2020 strategy shall be improved by emphasizing the polices and targets, which brings real value added to EU economic growth and increases its competitiveness as well as by adding new ones, related to on-the-ground economic realities and by giving more attention to disastrous effects of greenhouse emissions.

What relates to the balance between state-based and market-based regulation, the experts, although did not favoring clearly neither dominance of market-based, nor state-based regulation, nevertheless slightly emphasize state-based regulation. However, clear preference is given to balance between state-based and market-based regulation (100% of respondents), to European model of social economy (33% completely agree and 67% – agree), to the European model of economic governance (83% agree) and to the fact that further economic crises shall be prevented by surveillance (50% completely agree and 50% – agree). On the other hand, respondents have splited in two equal groups regarding if the Key areas of World economy shall be regulated centrally (50% completely agree and 50% – disagree), as well as they consider the market-based regulation failures to be more severe than the state-based regulation failures.

Further in the survey, the respondents were asked to answer several questions on the external environment of the EU. First of them has related to the performance of major economic powers over the recent economic crisis and further in the decade. (Table 2).

Table 2. Answers to the question “How would you estimate the leading economic powers, regarding theirs performance on the exit from financial and economic crisis, and further – maybe up to 2020? Accent – on further, up to 2020”, in % of all respondents

	Extremely well	Well	Not well	Not at all well	Neither	%
European Union		33	50		17	100
United States of America		50	33		17	100
People Republic of China		67	33			100
India		67	33			100
Japan		67	33			100
Brazil		83	17			100
Russia		50	17	33		100

Neither country was given grade of extremely well performance. Surprisingly, however the best points were given to Brazil as even 83% of respondents think that this country performs well, followed by China, India and Japan, with 67% of respondents thinking that these three countries perform well. The lowest points were given to the European Union (33% of well), to USA and Russia (50% of well).

Taking into account the visibility of EU and USA in the worldwide media and other sorts of discussions, this is logical, as well as that polices of these sophisticated and developed economies attracted most critics because of dependability of the global economic situation upon developed economies. On the other hand, emerging economies doing indeed well, as they have higher speed of economic growth because of the gap between the recent state-of-play and the potential of these economies. They could base theirs growth not just on innovations, but also on expansion, taking into account natural resources, physical capital, labor and other investments. This has been confirmed by the opinion of the respondents on growth factors, prevailing in the major global economies (Table 3).

Table 3. Answers to the question on the economic growth factors, affecting different global economies, in % of total respondents

	EU	USA	China	India	Japan	Brazil
Expansion of investments into physical capital	9	8	15	15	8	16
Expansive use of the labour force	8	7	10	10	8	9
Expansive use of natural resources	5	6	8	9	7	12
Research and development	13	14	10	9	14	10
Innovations and technological progress	12	14	9	10	13	10
Education of the society	7	8	9	9	7	8
Skilled work force	9	7	7	8	9	7
Managerial skills, including marketing, export promotion, etc.	8	10	6	7	9	5
Internationalization – use of the global market	11	11	12	12	12	12
Networking, social capital, civil society	8	6	6	5	6	5
Environmental protection, fight against climate change	7	7	6	4	5	4
Other (please write)	3	2	2	2	2	2
Total, %	100	100	100	100	100	100

According to survey, economic growth in all countries is affected by entire mix of factors, getting across the different theories of economic growth. Any country can rely on the single one. However, in the EU, USA and Japan, the major emphasis is done on R&D and innovations, i.e. about a quarter of all economic growth comes from this source (25% in EU, 28% in USA, and 27% in Japan), and in emerging economies – on the factors of expansion, i.e. expansion of investments in the physical capital, expansive use of the labor force and natural resources (33% in China, 34% in India, 37% in Brazil). The factor of internationalization, i.e. external use of the global market acts with similar strengths across all countries, about 11–12% of economic growth is determined by this. Unfortunately, education and skilled work force got lower points in all global economies, thus, taking into account importance of the quality of human resources, it shall be given more emphasis in the polices of all countries, what can boost the economic growth. Taking evolutionary growth theories into account, the related economic growth factors are still behind, as networking, social capital, involvement of the civil society, managerial and marketing skills got low points in all countries. Just in USA, managerial skills, export promotion, etc. got 10% of respondents' answers, thus, can be seen as the important growth factor. This means, that almost all countries of the world shall pay more attention to the soft qualitative factors of economic growth, especially to managerial and administrative capacities, to networking and society involvement, which as recent economic crisis show, are very important for overcoming the negative consequences. The factors of sustainable growth especially fight against the climate change and environment protection did also have very low estimates in context of the survey.

What relates to the impact of global macroeconomic environment upon implementation of Europe 2020 strategy, thus, 83% of respondents agreed that impact will be positive, with main positivity getting from USA followed by China and India. In general, any experts has stated on negative impact of global environment, of any global power, upon implementation of Europe 2020 strategy. While answering which polices, internal or external would make the highest impact upon successful implementation of Europe 2020 strategy, the experts have favored slightly the internal polices (52%) over external ones (48%). This means that although the headline targets of Europe 2020 relate exclusively to the internal polices of EU, the external polices, i.e. external trade, foreign direct investments are equally important, thus more emphasis shall be done on this.

Conclusions

The following conclusions may be drawn-up:

1. The successful implementation of the Europe 2020 strategy depends from number of framework polices of the EU, including external economic relations. In this regard, economy of EU is among the most opened economies in the World, besides – European Union is the major World trader. In 2010, the foreign trade of the EU as the region accounted to about 31% of GDP, its export accounted for 17% of World export value, and import – for 17.5% of World import value
2. Even 50% and more experts regarded even 4 targets of Europa 2020 as being extremely relevant for EU economic growth – investments in R&D/innovation, 20% increase in energy efficiency, increase in employment and reduction of poverty and social exclusion. Educational targets and two remaining, related to energy and climate change, did also receive good points, although with lesser strengths. On the other hand, experts did not think that Europe 2020 strategy would add towards EU economic growth significantly, as even 50% of them consider the influence of strategy to be somewhere between 10% and 30%, and 33% of experts – below 10%
3. According to survey, economic growth in all countries is affected by entire mix of factors, getting across different theories of economic growth. In the EU, USA and Japan, the major emphasis is done on R&D and innovations, i.e. about a quarter of all economic growth comes from this source (25% in EU, 28% in USA, and 27% in Japan), and in emerging economies – on the factors of expansion, i.e. expansion of investments into physical capital, expansive use of the labour force and natural resources (33% in China, 34% in India, 37% in Brazil). The factor of internationalization, i.e. external use of the global market acts with similar strengths across all countries, about 11–12% of economic growth is determined by this
4. While answering which polices, internal or external would make the highest impact upon successful implementation of Europe 2020 strategy, the experts have favoured slightly the internal polices (52%) over external ones (48%).

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