

As indicated in Table 3, Germany is the largest producer among the EC Member States in mechanical and electrical equipment and in electronic engineering equipment. The United Kingdom follows in second place, although its production has declined significantly in the past three years.

The industrial M&E sector in Europe is in a stronger position than its counterpart in Canada, even though the recession of 1981-83 brought the level of production down by 7.8 per cent in real terms (Table 4) from its 1980 value.

If one looks more specifically at certain subsectors, the mechanical engineering products have been maintaining this trend while the electrical and electronic engineering products have slightly decreased in sales. The agricultural equipment sector has also pursued a downward trend that seems unlikely to stop.

To remain competitive in a more specialized market, the European industry has focused on technological development and product innovation. Companies and governments have been investing heavily in R&D. In some subsectors, Europeans have injected up to 5 per cent of their sales in the research and development of products that could compete well internationally. Rationalization has been another major point of attraction. Companies have tried to increase productivity through large investments (Figure 3). Annual investment has increased from 1980 to 1986, and it seems unlikely that companies will alter this trend in the near future.

These changes in the European industrial sector have kept these companies internationally competitive. European companies have been able to keep their positive trade balance at a high level (Figure 4), even though other countries, such as the U.S. and Japan, are trying to penetrate the European market.

TABLE 3

Total Production by Category in the European Community, 1987
(Percentage of total)

<u>Country</u>	<u>Mechanical Engineering</u>	<u>Electrical and Electronic Engineering</u>
Germany	42.0	39.5
United Kingdom	18.0	18.2
Italy	16.0	10.3
France	12.0	14.8
Netherlands	30.0	5.8
Spain	30.0	5.8
Belgium	20.0	2.3
Denmark	20.0	1.2
Portugal	0.2	0.5
Ireland	0.2	0.5
Luxembourg	0.2	0.1
Greece	0.1	0.4