EU competitiveness: what has gone right, What has gone wrong?

Warsaw, October 15, 2015

1. Competitiveness: external and internal

The puzzle:

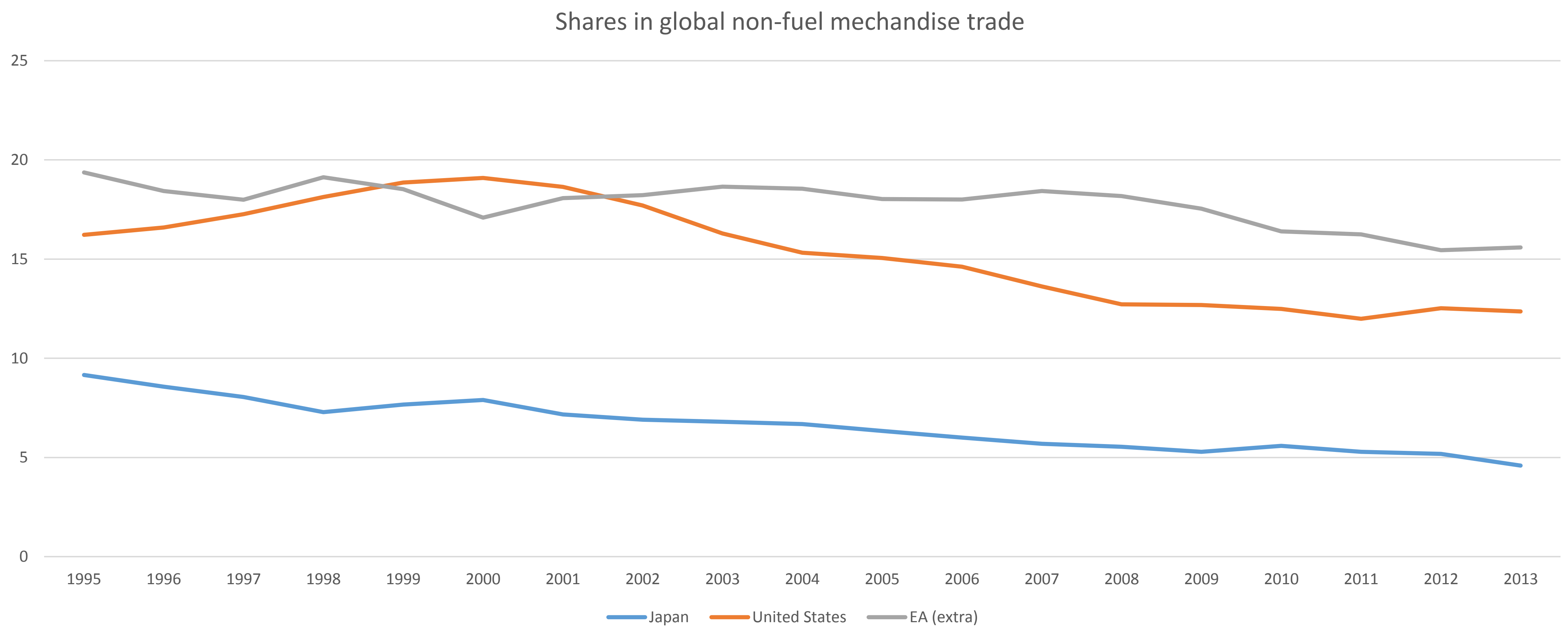
EU, external competitiveness looks good (measured by export shares, current account surplus irrelevant).

What has gone wrong:
Internal competitiveness looks bad (for old EU(-15) productivity measured have deteriorated both absolutely and relative to US). New member states catching up.

External competitiveness

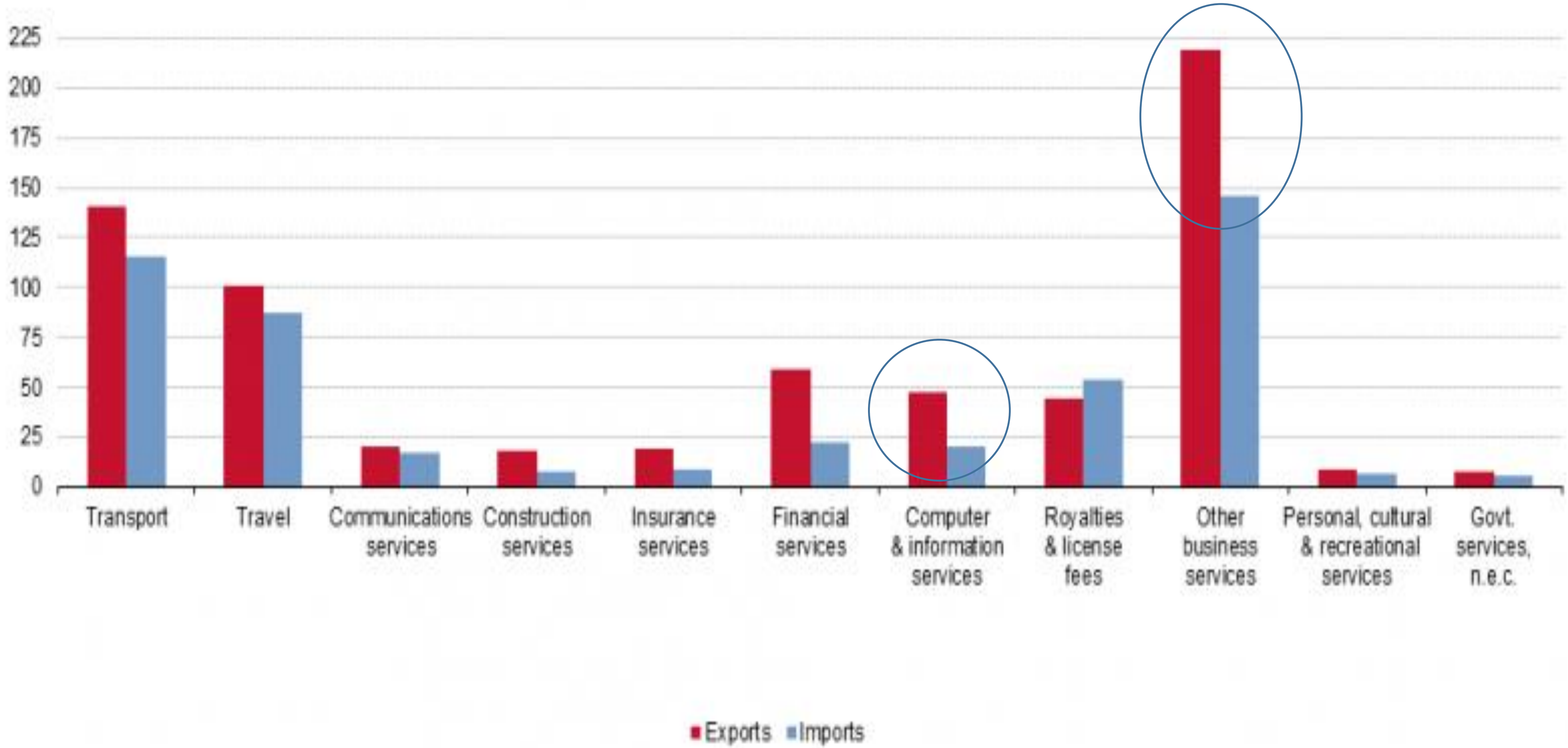
- Competitiveness = ability to compete on global markets – measured roughly by export market shares.
- Difficult to measure over long run:
- Extra- versus intra-EU trade data.
- Changing composition of EU.

Europe holding up well in global markets



External competitiveness

- Market shares maintained relative to key high income competitors.
- Better if export performance is also in high value added sectors. Many studies show EU specializes in medium to high technology products. Little change over time in this respect.
- Goods versus services, unexpected successes.



([1]) Preliminary figures based on annualised quarterly data.
Source: Eurostat (online data code: bop_its_det)

Conclusion I: What has gone right:

The external side of competitiveness:
China and other EMEs have increased market shares (Industrial goods), that of OECD countries has gone down.
But less for EU than for US (of Japan).

In services substantial surpluses in unexpected sectors

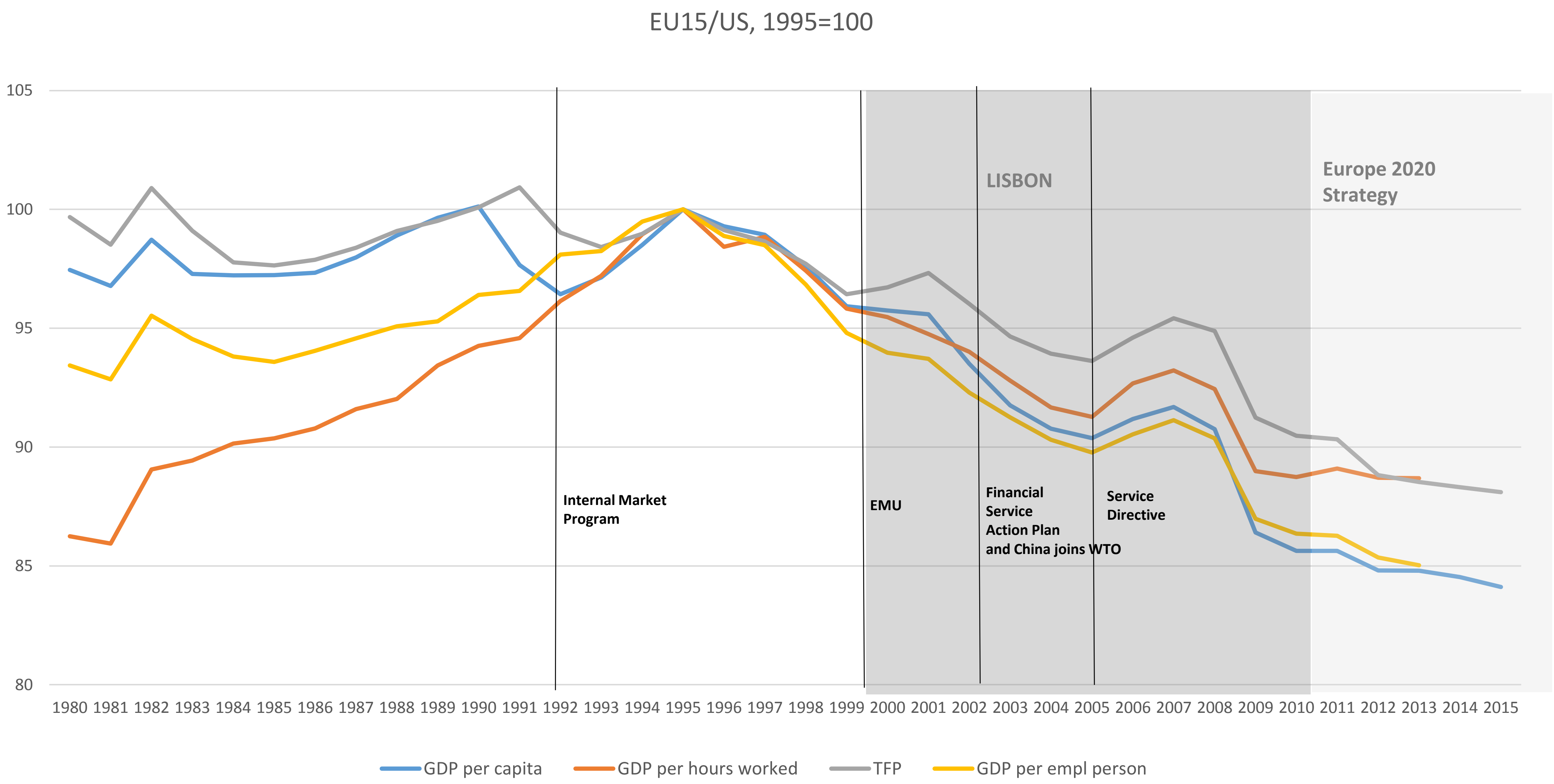
What has gone wrong: Domestic side (= productivity)

Since early 1990s many EU initiatives:

- Internal market
- EMU
- Lisbon!
- Europe 2020

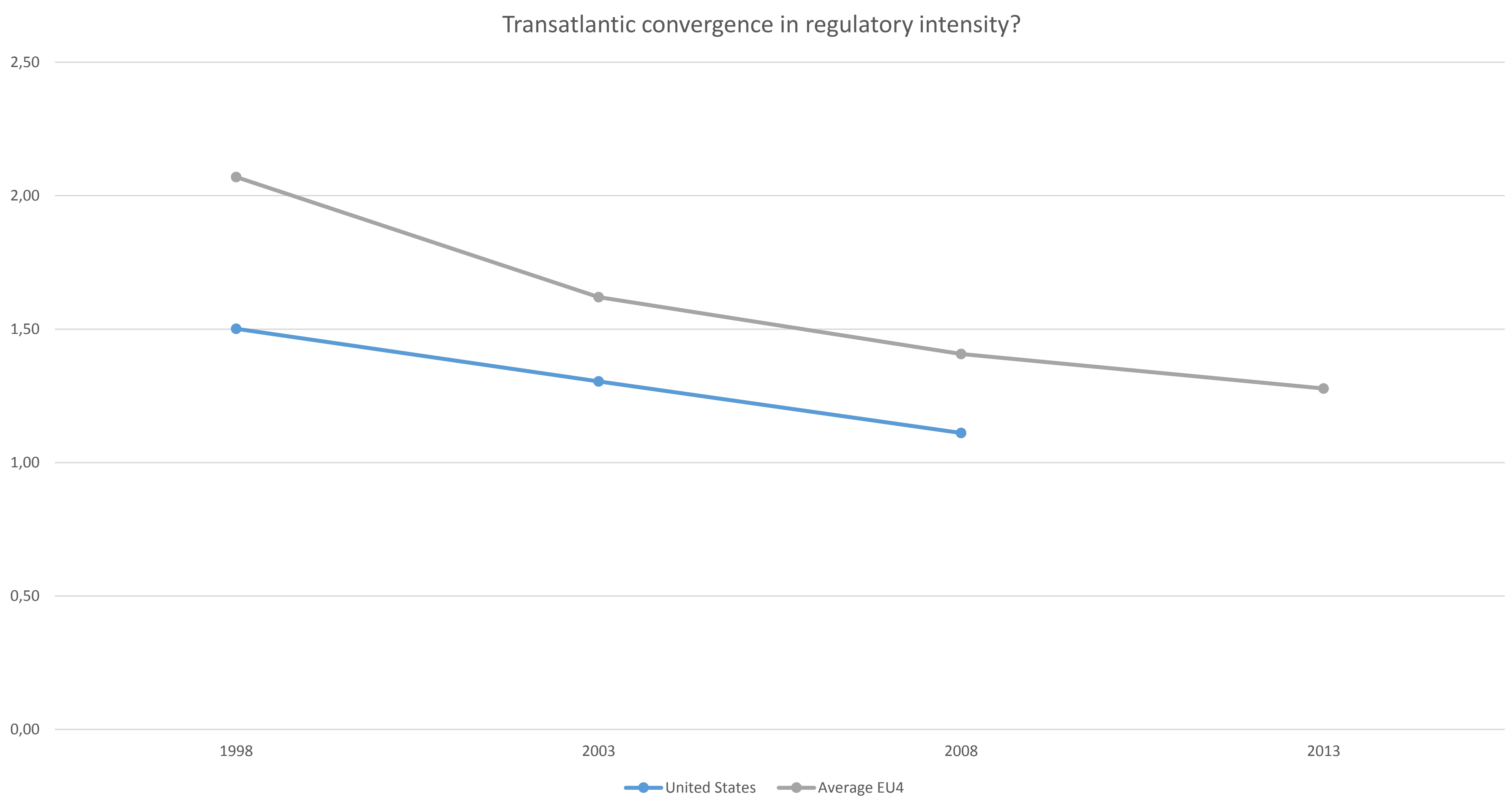
Outcome? Continuous deterioration of performance (absolute and relative to US).

Deterioration of EU performance sine 1995



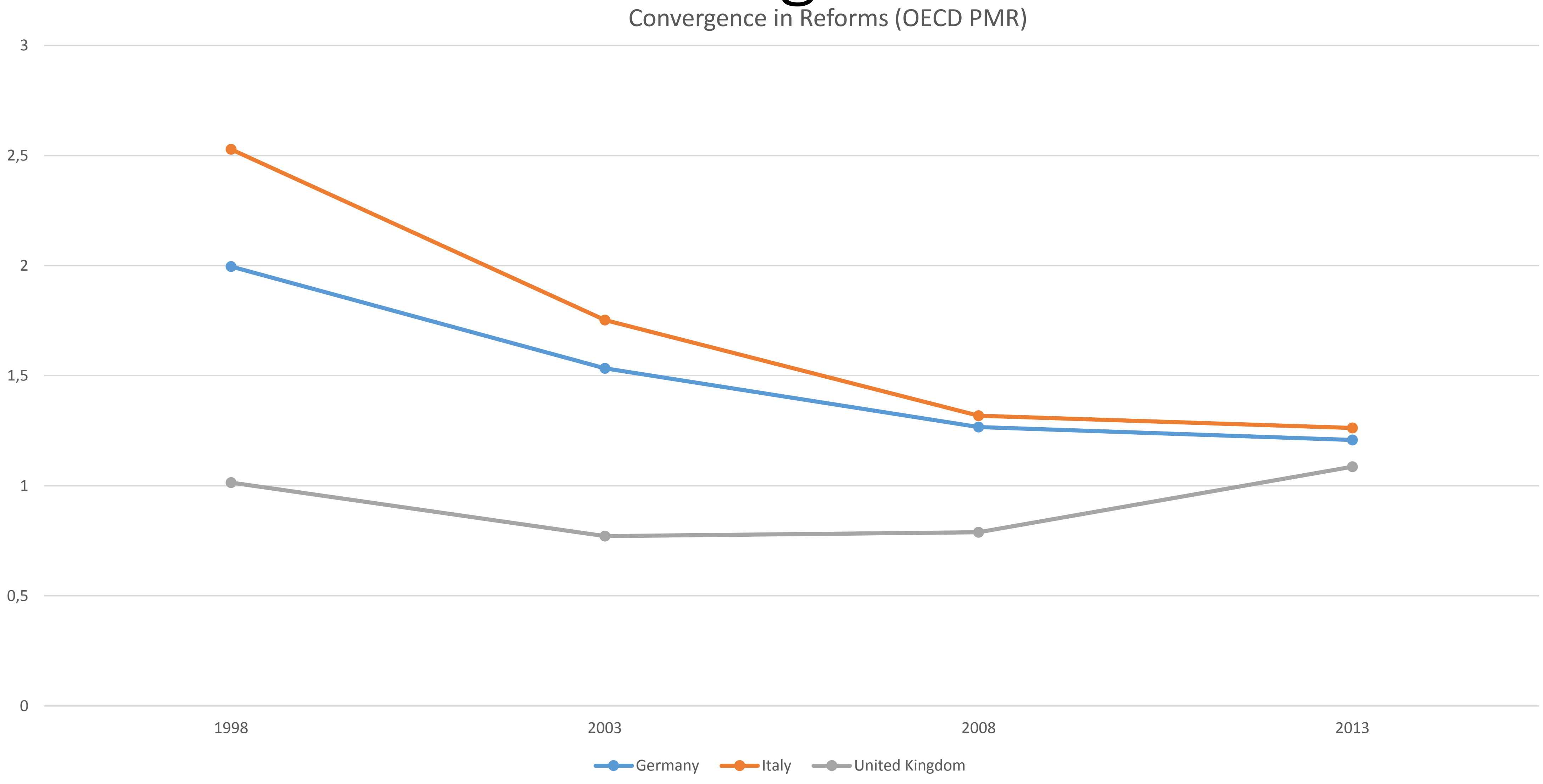
Do structural reforms make a difference?

- Difficult to measure reforms.
- OECD indicators (Product Market Regulation) improve.
- Labour market indicators (Strictness of Employment Protection) no change.
- Implementation key, but even more difficult to measure.



Transatlantic convergence in regulatory intensity?
2,50
2,00
1,50
1,00
0,50
0,00
1998
2003
2008
2013
United States
Average EU4

Structural reforms and growth?



Conclusions?

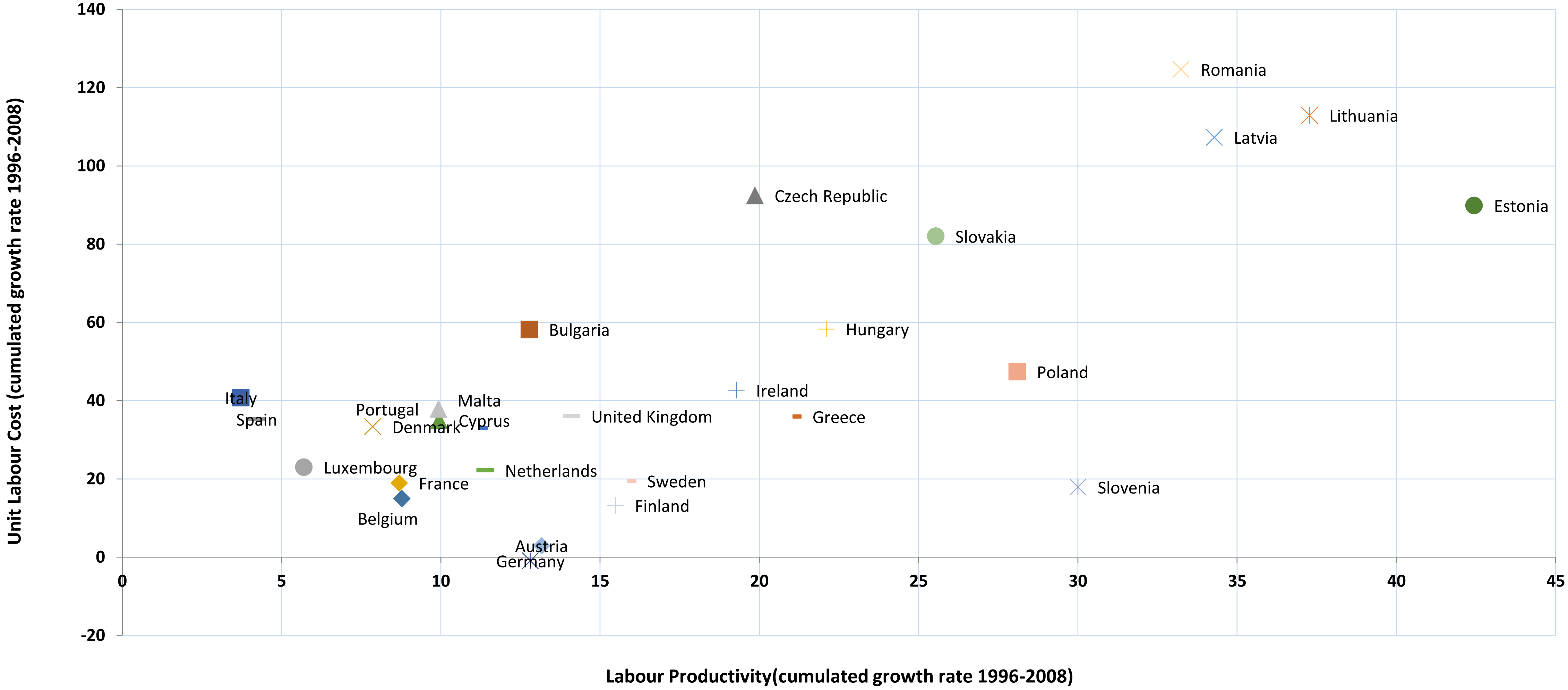
- Difficult to resolve puzzle.
- Externally EU companies compete with success in global markets.
- At home productivity deteriorates relative to comparators.
- Despite major EU integration steps and structural reforms.
- Productivity statistics suggest services productivity major difference t US, but why strong external performance in services.

- => Only firm point: be careful in what you promise!

Within EU (across Member States) puzzle persists

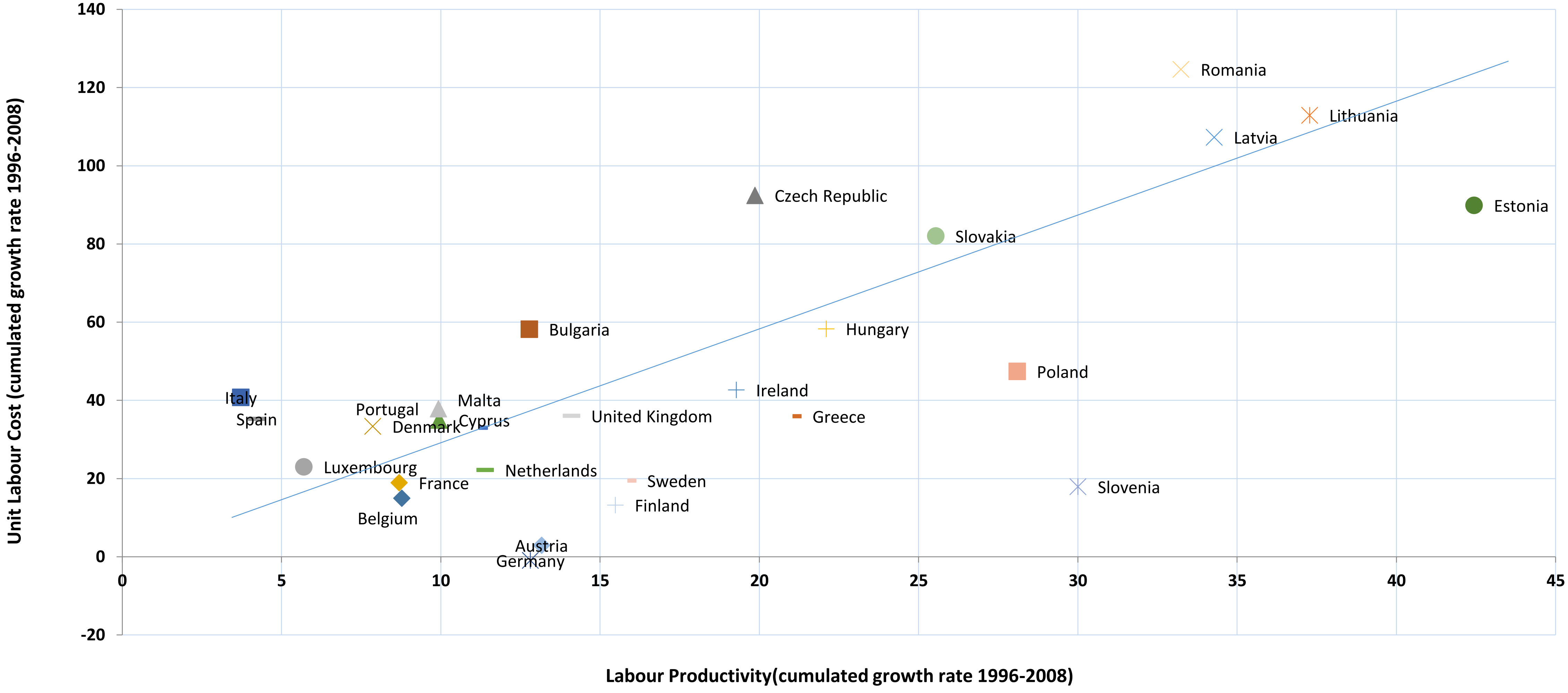
- Up to crisis: higher productivity = loss of competitiveness (measured by ULC).
- Capital flows into high productivity growth countries lead to domestic demand boom and thus increase in wages > than increase in productivity.
- But differences across groups of countries difficult.

Productivity and competiveness in EU



NOTE: Unit Labor Cost is an inverse measure of competitiveness

Productivity and competiveness across Member States



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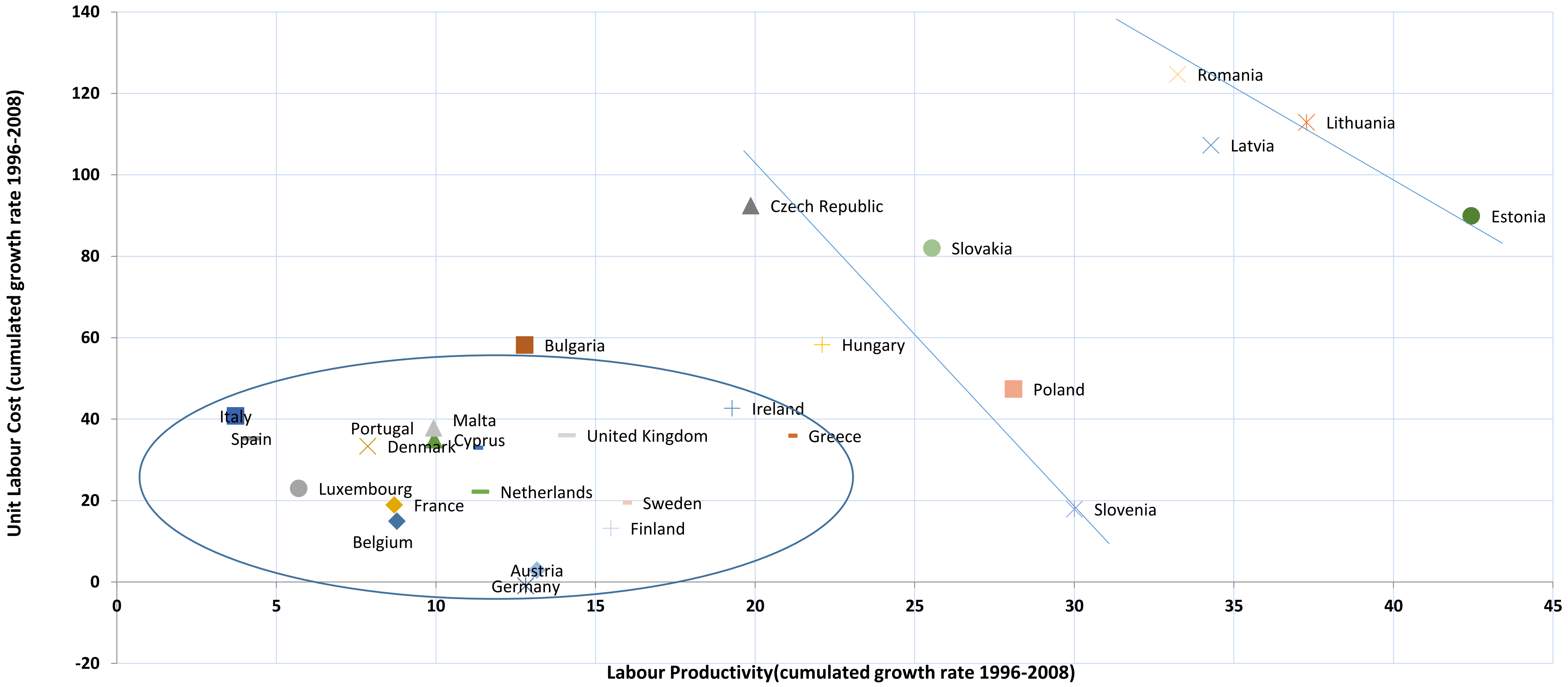

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