1. Boosting European competitiveness

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The topic of competitiveness is more relevant today than ever, for a number of reasons. First, in the years prior to the crisis that emerged in 2008, macroeconomic imbalances built up in several euro area countries. When the crisis erupted, these imbalances aggravated the depth of the recessions and laid bare flaws of the institutional architecture of the monetary union. This raised also the awareness of addressing the underlying competitiveness gaps. Today, competitiveness plays a critical role in returning to a sustainable growth path. In this specific context, ‘boosting European competitiveness’ refers to the short-term policies necessary to restore a sound mix of strong domestic demand and a high level of external competitiveness.

The second, medium-term challenge is to advance the European integration process so that past experience of diverging economic developments and unbalanced growth models does not repeat itself. ‘Boosting European competitiveness’ in this context implies the deepening of monetary union, which may involve aspects of economic, fiscal and capital markets union. Given the special role of the banking system in absorbing shocks and in transmitting monetary policy to the economy, the completion of the banking union also plays a crucial role in this respect. While competitiveness is largely a challenge for national policymakers, European policies can and need to deliver their contributions to this overall aim. These policies must also include strong preventive and correcting mechanisms in response to unbalanced growth models. After all, national imbalances threaten the competitive position of the entire region.

Third, at a more global level, we are moving from a bipolar monetary system with two major currency blocs – the US dollar bloc and the euro bloc – to a tripolar world, with China emerging as a new global player. In this context, ‘boosting European competitiveness’ refers to the challenge of creating a win-win situation in which European producers benefit from integrated production chains that involve Asian economies. This may

imply focusing on quality segments in which Europe has a clear competitive advantage.

And finally, in a world of full financial market integration, financial flows move in and out of countries within short periods of time. Countries are potentially confronted with unpredictable exchange rate movements and sudden stops with possibly enormous consequences also for competitiveness. From this perspective, 'boosting European competitiveness' also implies making the export sector of the European Union (EU) more resistant to currency fluctuations. This may call for a high level of diversification of export markets, both in terms of products and geographical regions.

A timely and accurate assessment of the competitive position of regions is a fundamental prerequisite for tackling all these policy challenges. However, traditional, well-established indicators such as macroeconomic price or cost measures alone are unable to provide a comprehensive explanation of recent trade developments. Recent research has led to two quantum leaps in the trade literature, though.

The first finding is that with the increasing technical sophistication of products, quality and customer orientation have become just as important factors of competitiveness as relative costs and prices. In particular, small and open economies in close proximity to their destination markets benefit from their ability to quickly adapt production to changing demands. This allows them to develop quasi-monopoly positions in small niches. Unfortunately, non-price competitiveness is unobservable and hard to express in numbers; often, it is just the residuum, that is, part of export performance that cannot be explained by price factors. Recent research in this area is a welcome step that helps to better understand export patterns.

The second finding is that in an increasingly interconnected world, participation in global production chains is vital. Traditional gross trade data, however, are unable to capture the increasing import content of exports and thus provide a biased picture of trade patterns. Newly developed databases that extract the national value added to exports provide a promising supplement to traditional trade analysis. Again it is especially small and open economies that benefit from division of labour through trade integration, because their size would not allow them to exploit economies of scale. However, the academic dispute on the potential negative side effects and longer-term costs of outsourcing is not yet settled. Many recent examples show that the advantage of close economic ties may quickly turn into risk factors due to contagion effects. Again, recent research has the potential to identify the benefits and risks of global trade integration.

Boosting competitiveness is an issue at the top of the EU's economic policy agenda today. As emphasized above, it is so important because of the challenges facing the EU: both internal ones, linked with the

macroeconomic imbalances accumulated in the euro zone and the imperfect institutional construction of the European economic and monetary union (EMU); and external ones, stemming from globalization and financial market integration.

Nevertheless, it is difficult to define and measure competitiveness, in particular when one refers to the competitiveness of the entire economy (not to mention a group of economies, such as the EU). In the online *Concise Encyclopedia of Economics*, Robert Z. Lawrence (1993) compares the notion of competitiveness of the economy to the notion of love or democracy: they all have several meanings and interpretations. When discussing the competitiveness of a given country, one may understand it as the economic performance of this country in comparison to others. Alternatively, the notion of competitiveness could be related to its performance in international trade. Another possible interpretation of competitiveness is the efficiency of the use of the available resources.

The lack of a single, common definition makes discussing competitiveness interesting and multilayered. It is also challenging. The chapters in this volume are the finest proof of the complexity of the subject. Their authors presented their different perspectives and points of view on the issue during the conference entitled 'Boosting EU Competitiveness', organised jointly by the Oesterreichische Nationalbank and Narodowy Bank Polski in Warsaw on 15–16 October 2015. The discussions that took place during the conference led to the conclusion that there was no simple answer to the question: 'What can we do to boost EU competitiveness?' In order to provide a comprehensive answer, it is necessary to dig deep and try to distil the factors influencing the competitiveness not only of every EU member state, but also of sectors of their economies and particular enterprises. This is an extremely challenging task, if not impossible. The conclusion is that observations and studies concerning competitiveness are usually not as multidimensional as they should be in order to grasp the whole picture. The chapters reflect this complexity, shedding light on some important factors that should be taken into consideration when analysing competitiveness, not only in the EU.

The first factor is a good understanding of non-price competitiveness. This is an example of a concept that cannot be analysed thoroughly enough on the 'macro level', without going down to the 'micro level'. In particular, it is important to carefully analyse what the attributes of the products are (other than their prices) that make them competitive. It is quality, but also taste and the preferences of the individual customers, that may drive the international success of some products and sectors of the market.

This problem is related to the issue of the difficulties of applying the right data when analysing competitiveness in today's globalized,

interconnected world. This refers, for example, to measuring different aspects of the above-mentioned non-price competitiveness, such as finding the best way to quantify innovations and their diffusion. The challenge also concerns the right measurement of the international trade performance, while taking into account the country of origin of value added.

A detailed analysis of the particular countries and industries is therefore a prerequisite for a good understanding of the problems linked with competitiveness and for applying the right policy measures. Consequently, from the point of view of the EU as a whole (which is right to worry about its competitiveness, as the above-mentioned challenges negatively influence its effectiveness and legitimization), it is important to avoid applying the one-size-fits-all approach. In particular, it is clear that a distinction should be made between the challenges regarding competitiveness in the Central and Eastern European (CEE) countries and the competitiveness of the euro zone countries. In fact, in the euro zone, another distinction is needed: between the ‘periphery’ countries, where the wage increases were higher than productivity growth during recent years, and Germany or the Netherlands, where wages increased less than productivity. The elimination of these misalignments is a priority. In turn, in the CEE countries, the challenge is, in general, the low level of non-price competitiveness that is caused, *inter alia*, by the low level of innovation and weak diffusion of technology and knowledge.

While pondering on possible ways to boost EU competitiveness, we should also bear in mind that the EU as a grouping lacks enough competences in this area to truly influence national economic policies. Another well-known problem concerns the optimal design of the structural reforms that are implemented by the EU member states, as well as difficulties with the proper evaluation of the effects of those reforms.

In conclusion, one needs to be very cautious when analysing EU competitiveness and designing policies aimed at boosting it. The best opportunity to make our own analyses better informed and come up with the best possible conclusions is to get to know the different possible approaches to these issues, such as those presented in this volume.

REFERENCE

- Lawrence, R.Z. (1993), ‘Competitiveness’, in D.R. Henderson (ed.), *The Concise Encyclopedia of Economics*, 1st edition. <http://www.econlib.org/library/Enc1/Competitiveness.html> (accessed 22 January 2016).