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Trends and drivers of competitiveness in an integrated world

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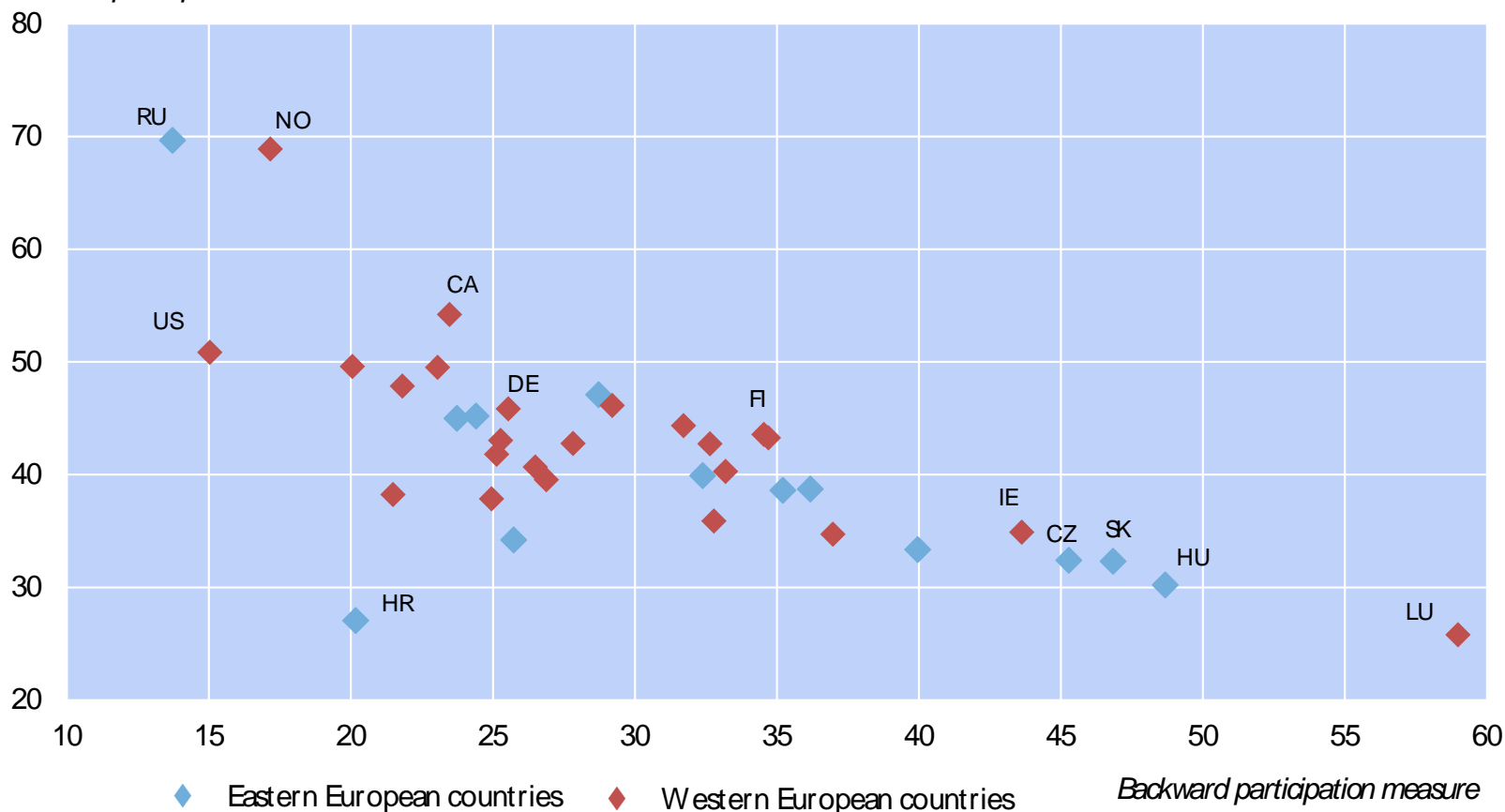
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UN ECE members show strong integration in international production networks

Index for participation in global value chains, 2011

Forward participation measure

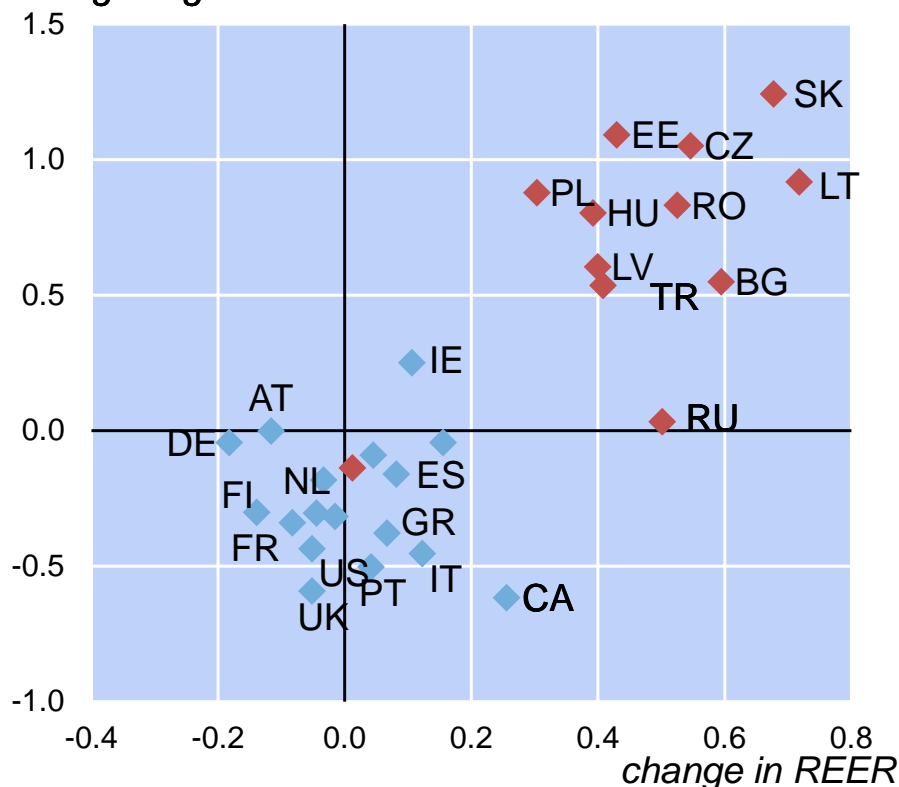


Source: TIVA-OECD.

This changes our view on drivers of competitiveness

Changes in competitiveness, 1995-2011

change in global market share



Notes: REER = real effective exchange rate.

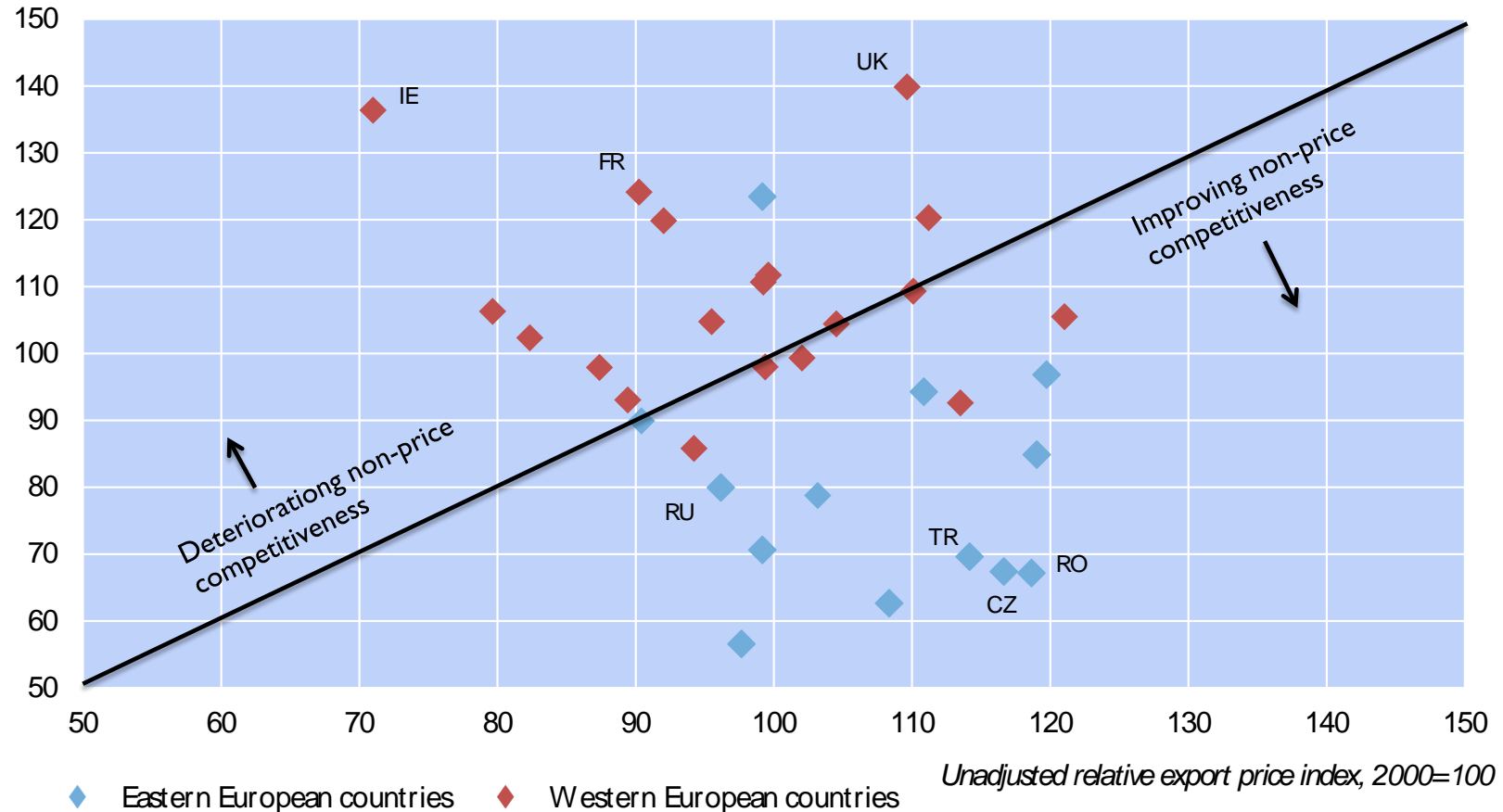
Sources: Eurostat, UN Comtrade, authors' calculations.

- Commonly used indicators for competitiveness: market shares, REER, ULC...
 - Rising price competitiveness (fall in REER) expected to lead to rising market shares
 - We observe the opposite for many European countries
 - Traditional price/cost indicators alone cannot explain trade outcomes
- So, what drives market share gains in CESEE?

Higher “quality” of goods exported by Central, Eastern and South-Eastern European (CESEE) economies...

Changes in export prices relative to the world average, 1995-2014

Relative export price index adjusted for changes in quality and taste, 2000=100



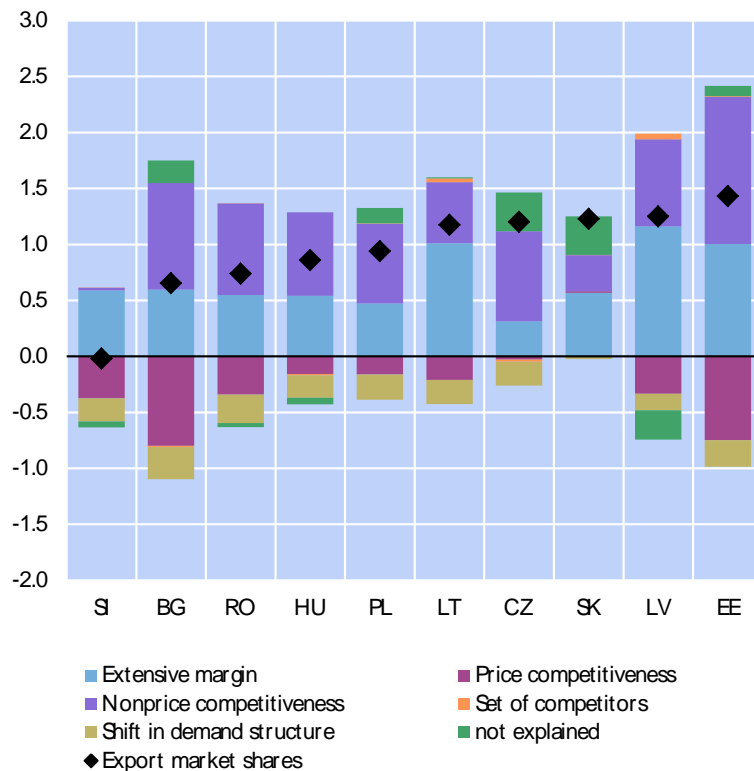
Source: Benkovskis, K. and Wörz, J. (2015) "Non-Price Competitiveness of Exports from Emerging Countries", *Empirical Economics*.

...strongly related to international production sharing

Decomposition of changes in world market shares

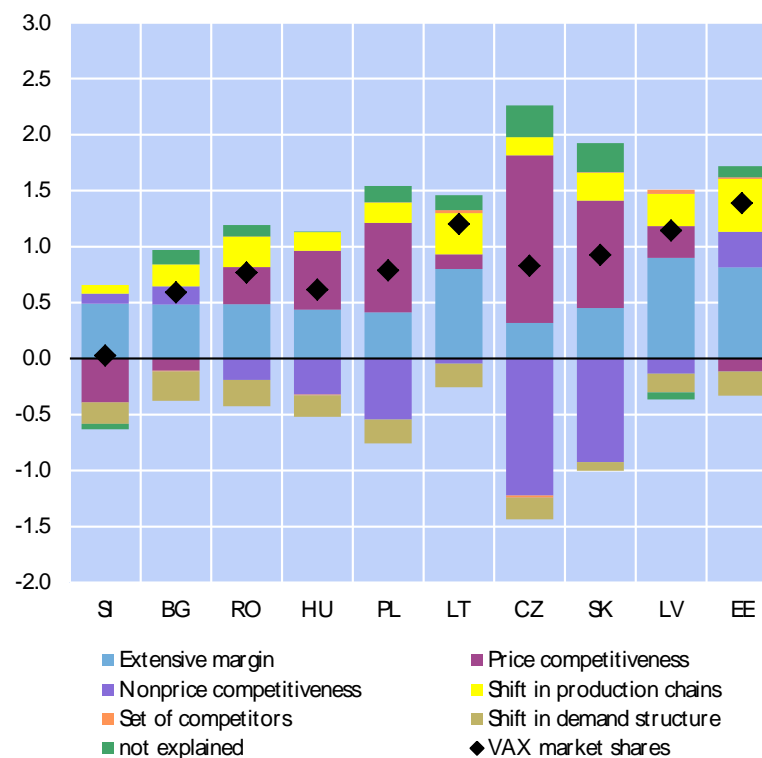
Based on gross exports, 1996-2011

Percentage points, market share in %



Based on value added in exports, 1996-2011

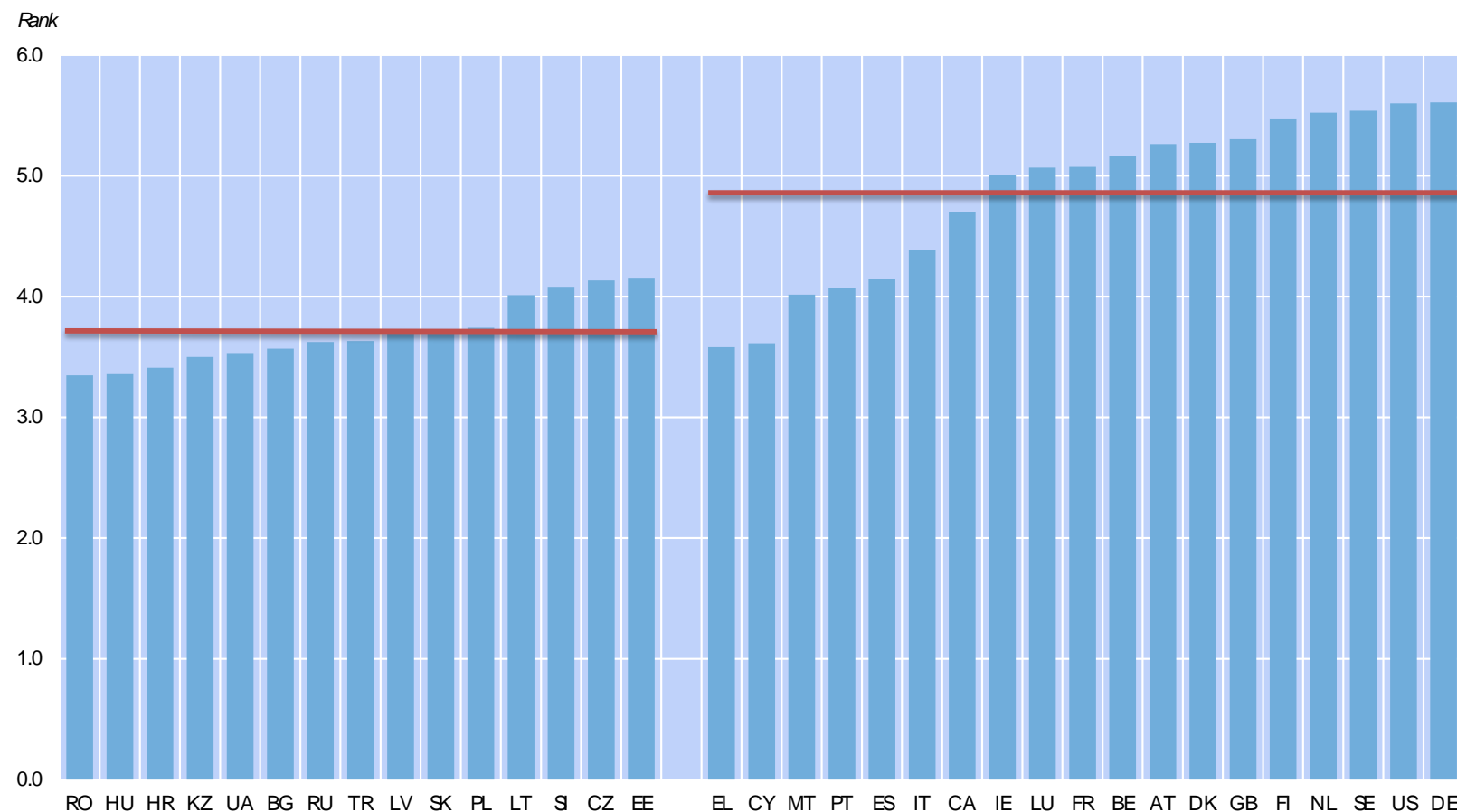
Percentage points, market share in %



Source: Bankovskis and Wörz, 2015,

CESEEs still lag behind in innovation and sophistication factors

Global competitiveness report: Ranking of innovation and sophistication factors, 2016-2017 edition



Source: World Economic Forum.

Note: Values are on a 1-to-7 scale (7=best)

Conclusions

- **Integration in global production networks can have a positive influence on competitiveness**
- **But focus on domestic value added is important in order to draw the right policy conclusions**
- **For CESEE, apparent gains in non-price competitiveness often reflect gains in price competitiveness in certain production stages**
- **CESEE show a comparative advantage in processing higher quality inputs, but not in producing higher quality goods**
- **Need to foster innovation and business sophistication**
- **Importance of sound institutional and macroeconomic conditions**

A comprehensive view on competitiveness

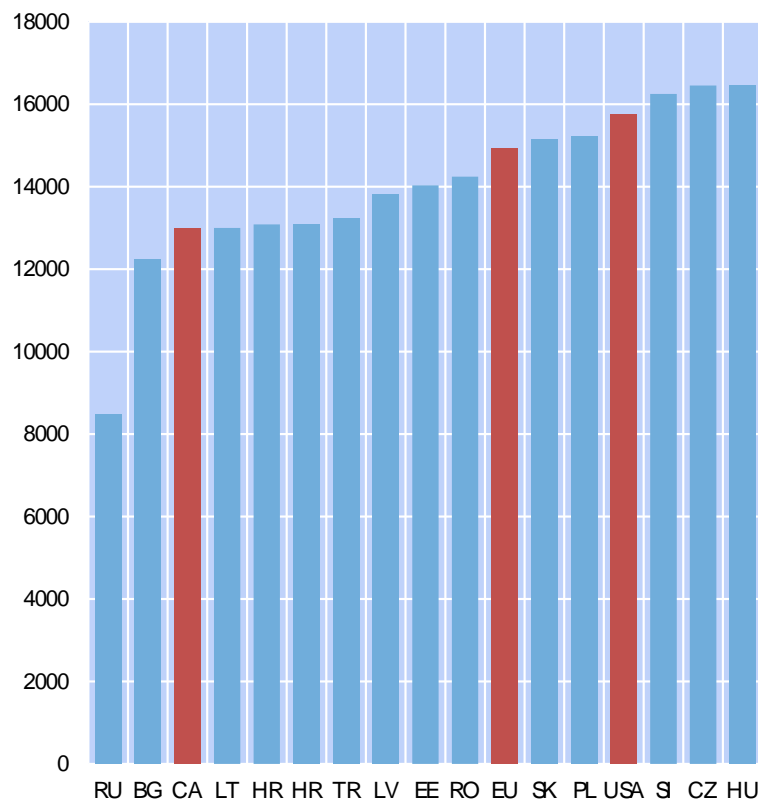
- **“A competitive economy, in essence, is one in which institutional and macroeconomic conditions allow productive firms to thrive. In turn, the development of these firms supports the expansion of employment, investment and trade”** (*M. Draghi: “Competitiveness: the key to balanced growth in monetary union”, November 30, 2012*)
- **“In the global economy the euro area cannot compete on costs alone with emerging countries... No amount of fiscal or monetary accommodation can compensate for the necessary structural reforms in the euro area”** (*M. Draghi: “Unemployment in the euro area”, August 22, 2014*)

Sophistication of export goods reflects position in international production networks

Exporting performance in high quality products

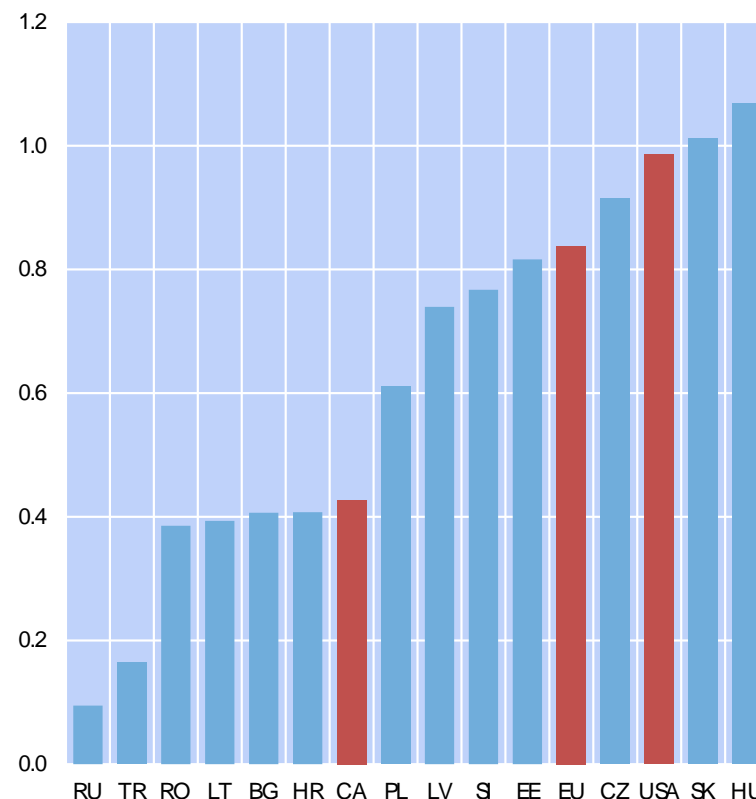
Export sophistication index for goods

In 2014, USD



Revealed comparative advantage in high tech industries

In 2014, values above 1 indicate an comparative advantage



Source: ECB COMPNET.