EU COMPETITIVENESS- COMPARATIVE ANALYSES AND TRENDS

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Abstract

Competitiveness is, in essence, the ability to activates and efficiently use all the necessary productive resources in order to successfully offer products or services in a world economic environment. In essence to be competitive means to export more in value added terms than to import. Competitiveness is expecting to lead to a raise of all standards of living and a sustainable gross domestic product growth.

A true competitive economy is one with a real trade surplus, few non-tariff barriers to imports, and with no significant subsidies addressed to exporters. Like we already said, the real test for competitiveness is the perspectives in term of economic well-being achievements and long-term development.

The challenge for today Europe is to maintain the paths, to reinvent itself, to adapt to the new challenges, not only by keeping up with the global market new facts, but actually to rebuild Europe former strength and to relaunch the innovation.

Keywords: EU competitiveness, GCI, bringing back EU competitiveness

JEL Classification: F15, O10, O30

Today, we are discussing in classes, at conferences or workshops about competitiveness. This concept has become almost a daily presence in our current activity.

Some economists are using the concept of competitiveness as synonymous with productivity. Even the most famous Harvard professor, ***Michael Porter*** states, "The only meaningful concept of competitiveness at the national level is productivity."[1]In most of the cases national prosperity is created. So, according with Porter's opinion, we can't harvest competitiveness, it does not be identified as one of the available natural endowments. But, a nation's competitiveness hangs on the capacity of a people to innovate, to constantly reinvent itself. In the same time, companies will gain competitiveness mainly because of pressure and challenge from outside the organisation.

The ***World Economic Forum***, in the well-known ***Global Competitiveness Report*** explains competitiveness as "the set of institutions, policies, and factors that determine the

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This paper has been developed within the period of sustainability of the project entitled "Horizon 2020 - Doctoral and Postdoctoral Studies: Promoting the National Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research", contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!

[1]https://hbr.org/1990/03/the-competitive-advantage-of-nations

level of productivity of a country."[2] The IMD's World Competitiveness Yearbook defines competitiveness basically in the same way.

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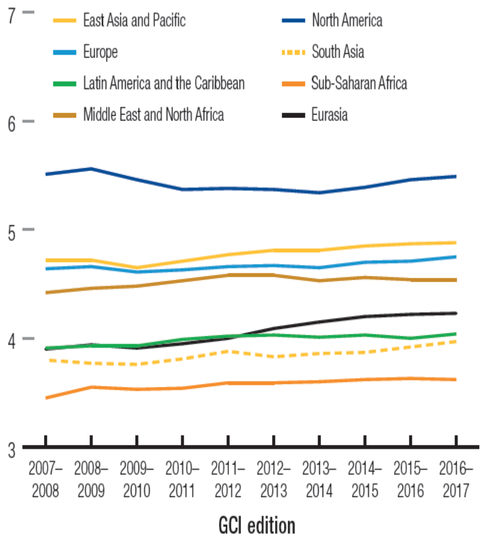


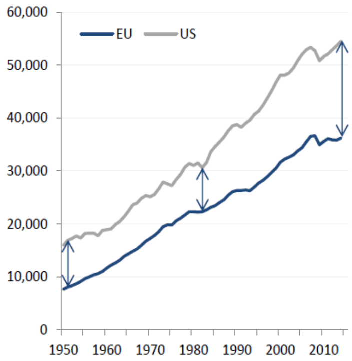
Figure 1. Regional competitiveness comparison 2007-2016

In this context, the EU's competitiveness will have to be defined in a specific context, because the EU is not about a single economy or a specific industry. The EU's competitiveness is built on the foundation of 28 national economies with many things in common but, in the same time, with so many differences. So, just to judge, for example, the trade volume of each EU member state in world exports or import volume can be misleading. Instead, when we have to evaluate the EU competitiveness, we have to take into consideration the need for a complex analysis which will rank each country contribution to some relevant indicators such: the enabling environment, the ability of companies to proactive adapt to change, and the productivity growth, GDP trends, research and economic welfare.

Unfortunately, Europe, till now, did not manage to efficiently use the available potential of improving the region competitiveness. Just comparing a single indicator, the GDP per capita, with that provided by the United States, we

[2]http://reports.weforum.org/global-competitiveness-report-2015-2016/methodology/

will immediately see the Europe's unachieved potential. After 1950, the Europe's GDP per capita has always been lower than that declared by US. And the gap was not shrinking in recent decades. The trend is just opposite, the gap between those two regions is widening.



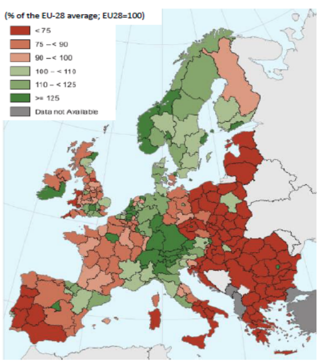
Source: The Conference Board Total Economy Database, May 2015

Figure 2. GDP per capitaEU28 against the US, PPP (constant 2014 USD)

In a recent report, entitled "***Restoring EU competitiveness - Is Europe achieving its potential?"*** the income disparities between all 28 member states shows a much serious situation. The most competitive EU state members are situated in the N and NW-ern part of the continent. The less competitive states are situated in the E and SE-ern area of the EU. So Europe is facing right now not a single fracture in term of competitiveness but two main fissures, the "North-South" gap and the "North-East" gap.[3]

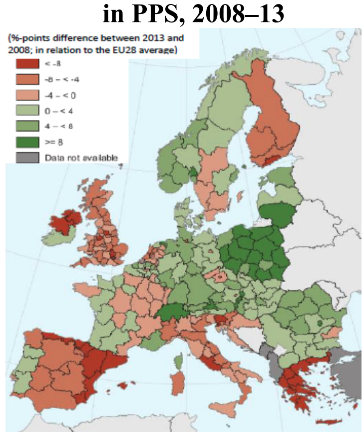
The EU race in terms of convergence between all member states lost the breath after the 2008 economic crisis. Till 2008 all regions with a lower GDPper capita reported an average growing rate better that the one declared by the developed countries. This was not the case after 2008, as the figure 3 and 4 are showing to us.

Figure 3. GDP per capita, in PPS, 2013



Source: Eurostat, Data at regional NUTS 2 level

Figure 4. Variation of GDP per capita, in PPS, 2008–13



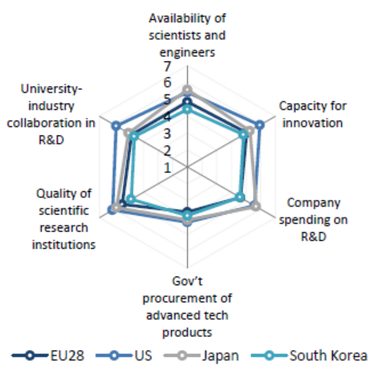
[3]http://www.eib.org/attachments/efs/restoring_eu_competitiveness_en.pdf.

In the same time the available statistical data are suggesting that the 2008 economic crisis has had a painful impact manufacturing industries than other productive. Poland was the only member state who avoided to face the classic recession negative effects, and that's because of her solid domestic demand. Germany and other relevant exporters were also, let's say in a decent situation at the end of the recession period, thanks to the extra-EU demand. The rest of the EU member states, which were not placed in those trade patterns, suffered serious negative effects caused by the financial and economic crisis

As Porter said, in terms of competitiveness, beside strategy and differentiation, we have to analyze the productivity and the capacity for change. Productivity is seen as production efficiency, a classical approach, but in the same time as innovation translated in terms of product sophistication. Unfortunately, we have to admit that Europe's R&D performances are far behind US, at international level, and the urgent need for innovation is a key challenge for today Europe.

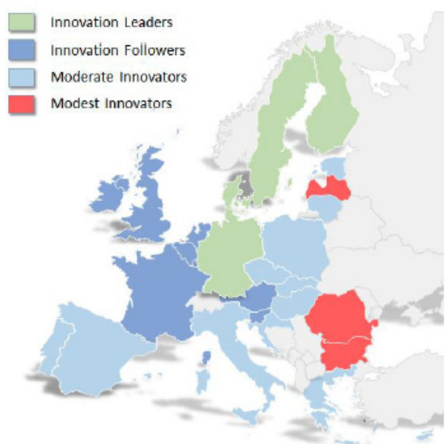
Indicators assessed by the World Economic Forum (WEF) in the last year report are showing us that the EU actually performs worse not only relating it to US, but also Japan and in some instances with South Korea, in terms of capacity for innovation, industry spending on R&D or government procurement of advanced tech products. The largest and painful gap only comparing the Europe and US ranks is in company spending on R&D and university-industry collaboration[4].

Figure 5. Competitiveness trough Innovation, EU against other economies- WEF GCR Report 2015-2016



Source: World Economic Forum, Global Competitiveness Report 2015-2016
Note: Innovation Pillar (12th Pillar). Scores from 1(worst) to 7(best).

Figure 6. EU Innovation Scoreboard 2015



Source: Innovation Union Scoreboard, 2015

An improvement of the EU rank in terms of capacity of innovation or R&D spending is unlikely to be seen in the next years, mainly because large disparities can be identified across the EU itself. While member states like Finland or Germany are

[4]http://reports.weforum.org/global-competitiveness-report-2015-2016/

comparable in terms of performances with the scores like that of the US, the innovation and the research in general is an absolutely catastrophic in some southern members and in almost all new member states. There are basically two reasons which are responsible for the present gap: Europe's high technology sectors are less significant compared with US; secondly, the R&D intensity in many sectors is minor.

This situation can be considered as one of the main factor which is influencing the EU competitiveness on long term. It is based on the Europe average lack of highly industry innovation capacity, poor marketability of research results or products and the lack of capability in improving and perfecting the elsewhere created knowledge.

The effective movement of people, goods, services and information was, still is and it will be a criterion for achieving and maintaining the desired competitiveness. If some recent trends persist, Europe's economy will face a significant shortage of highly skilled workers. According with the available data, the largest gaps between the supply and demand are specifically in the engineering, IT and healthcare sectors. Forced to adapt to a new situation, with an imminent Brexit and some numerous other crises situations emerging both from inside and outside of the region, Europe finds itself in a delicate situation.

The UK is still one of the most targeted European countries for top skilled persons, but the Brexit decision proved a significant impact of uncertainty over the future participation of the UK to the EU economy and competitiveness.

Another weighty gap with many consequences on the present and, especially, the future competitiveness of the EU is in the macroeconomic environment, clearly a consequence of the fact that the region has recovered from the global financial crisis with big differences between each member states.

One zone where the EU has shown a great opening and a prospect to further improve its competitiveness is through the EU Single Market. Thought it, all EU companies will benefit from the access to a large internal market like in the US case, and that situation can and must trigger an incentive for innovation.

The challenge for today Europe is to maintain the paths, to reinvent itself, to adapt to the new challenges, not only by keeping up with the global market new facts, but actually to rebuild Europe former strength and to relaunch the innovation. In this context, I think that a further evolution in the sense of integration of the EU Single Market will be crucial, despite recent UK actions.

Rebuilding the competitiveness means to boost the innovation performance and to guarantee a sufficient access to finance for the necessary investments.

Structural reforms, reducing bureaucracy, promoting only appropriate regulation, driving facts into a normal evolution spin in order to ensure competitive, flexible and efficient markets for goods and services, is another critical part of this approach.

The scale of the structural challenge that Europe faces should not be underestimated. Restoring EU competitiveness is perhaps, right now, one of the few available EU success story of cohesion and prosperity. For the good of Europe and the Union we'd better not waste this chance.

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