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 POLITECNICO DI MILANO



Global Trends and the Economic Crisis: Future alternative European Growth Strategies

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The rationale of this paper (1)

- Some institutional and economic events have taken place which no longer allow EU15 countries to grow without a clear manufacturing strategy:
 - higher competition from outside Europe (especially emerging countries);
 - the contraction of the internal European demand;
 - the process of European integration that fostered increases in both wages and inflation in Eastern countries.
- The same macro trends force CEECs to no longer rely on attracting off-shored manufacturing plants mostly coming from Western EU countries and foreign direct investment from all over the world.
- Both previous development patterns were more a way to adapt to the worldwide globalizing trends, rather than a conscious choice translated into a full-fledged growth policy.



The rationale of this paper (2)

- The crisis, and the change in the nature and extent of globalization, imposes to both blocks of countries to **choose new growth strategies**, no longer remaining on their old growth trajectories.
- The effects of possible alternative strategies in reaction to this structural break are difficult to be envisaged.
- A **scenario exercise** is useful in this respect, and this is the aim of this paper: to build scenarios under different assumptions of EU productive strategies.



Methodology for building scenarios: a sketch

- The methodology for building scenarios is made on the following steps:
 - starting from a 'seminal idea' about the **driving forces** believed to characterize future economic-territorial development (**industrial strategies**),
 - the basic characteristics of a scenario are built, together with the relevant **conditional elements**, the most likely bifurcations in the driving forces (**qualitative assumptions**);
 - these conditional elements are plugged **into the econometric model**, as assumed values of the independent variables of the model (**quantitative assumptions: levers of the model**);
 - identifying the magnitude of the most likely effects on European regions through a simulation procedure (**scenarios**).

The simulation period runs from 2012 through 2030.



CEECs can choose either a renewed industrial growth strategy or a modernization strategy.

- *Renewed Industrial CEECs strategy*
 - CEECs can regain productivity increases, by attracting again FDIs and by reaping all the benefits that FDIs can generate, thus **developing endogenous manufacturing activities through FDI spillovers**.
- *Modernizing CEECs strategy*
 - In alternative, CEECs can embark into a long-run, virtuous process of industrial reshuffling. Such process encompasses the growth of high-tech firms, and, consequently, the **emergence of high-value added industrial activities**.



EU15 can choose either a post-industrial growth strategy or an industrial strategy.

- *Post-Industrial EU15 strategy*
 - EU15 turn into an economy fully based on advanced services. The continuation of increasing the service process does not imply a passive extrapolation of the pre-crisis trends, but rather the conscious policy to **invest in high-value added services**, fully embarking into a knowledge economy.
- *Industrial EU15 strategy*
 - This strategy involves the restructuring of the manufacturing industries towards higher order, high-tech oriented productions. Because the existing productive infrastructure in the EU is mostly concentrated in medium-tech manufacturing activities, the choice to stimulate manufacturing industries implies the future growth of high-tech manufacturing. This strategy follows the **EU call for an Industrial Renaissance** as means to fully recover from the present crisis.



Scenarios of European development strategies

CEECs play the role of the EU's manufacturing belt, while EU countries provide the services needed for such production. Does Europe take advantage from a dual economy?

Traditional industrial CEECs

Advanced manufacturing in the Western part and traditional endogenous industries in the Eastern part. Does Europe take advantage from a geographical segmentation of production?

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Would CEECs countries take advantage from a clear and distinct division of labour between Eastern and Western countries?

Scenario B

Modernizing CEECs

An industrial Europe

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Industrial EU15

Similar industrial specialization in the two blocks of countries. Competition between the two?



Qualitative assumptions

Post-Industrial EU15

- Increase in service activities (growth of service industries);
- Increase in high-value functions, especially in core areas (increased share of high-level professions);
- Increase in skilled labour force;
- Geographical diffusion of R&D activities.

Industrial EU15

- Increase in R&D activities (especially in strong areas);
- Increase in advanced manufacturing activities;
- Increase in share of blue collars;
- Increase in industrial competitiveness of EU15 countries on world markets.



Qualitative assumptions

Modernizing CEECs

Increase in skilled labour force;

Increase in manufacturing activities, especially in second rank cities;

Stability on international financial markets;

Increase in quality of public services financed through public resources;

Increase in CEECs' competitiveness on world markets.

Traditional Industrial CEECs

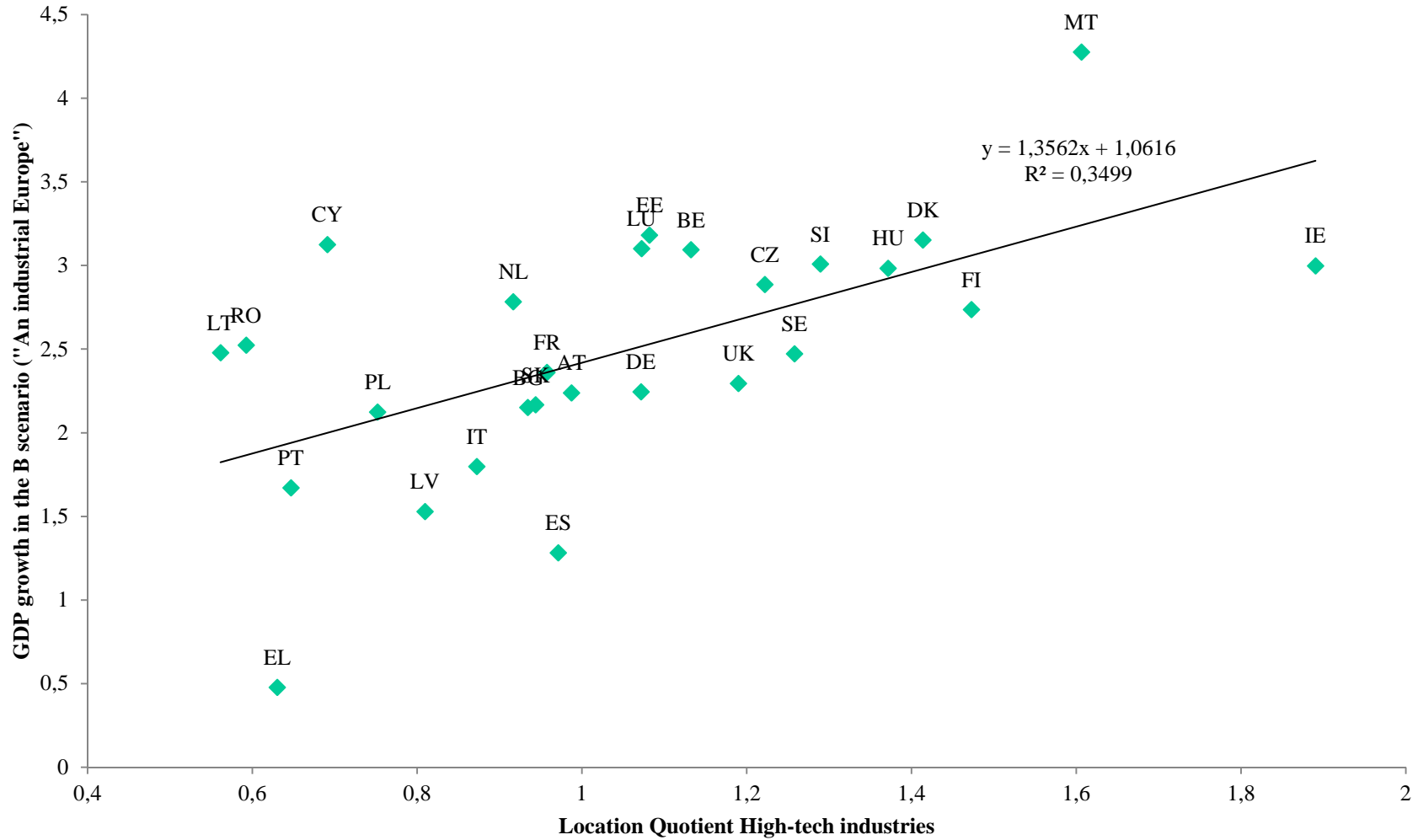
Increase in the share of blue collars;

Increase in the specialized traditional productive activities;

Pre-crisis FDI attractiveness capacity.



Relationships between aggregate qualitative assumptions and results





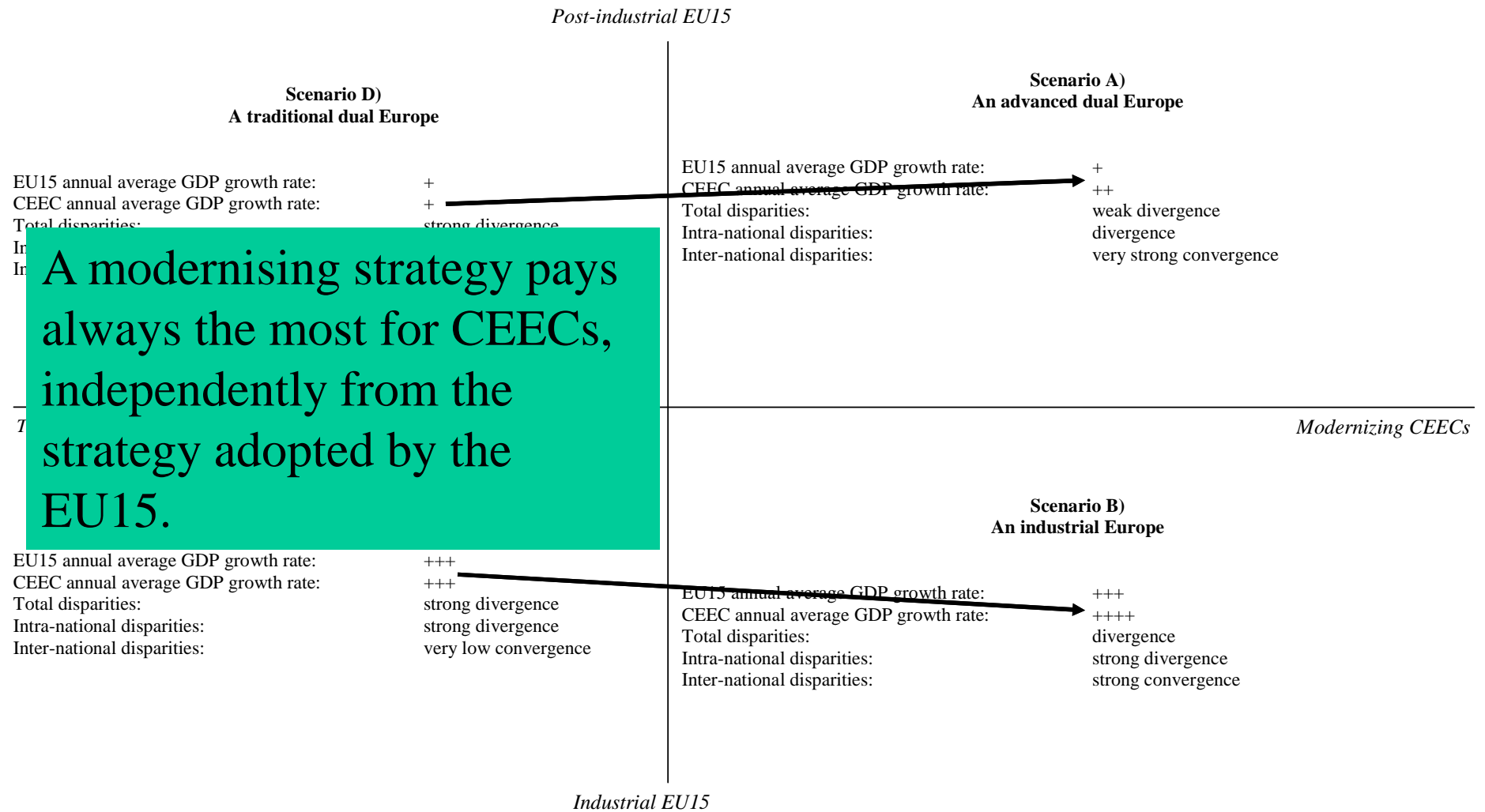
Growth and regional disparities in Europe in the four scenarios (1)

	Annual average GDP growth 2012 - 2030			
Scenario	A	B	C	D
EU28	1.70	2.20	2.18	1.68
EU15	1.67	2.18	2.18	1.67
CEECs	2.07	2.43	2.17	1.78
	Annual average GDP growth with respect to scenario A 2012 - 2030			
Scenario	-	B	C	D
EU28	-	0.50	0.48	-0.02
EU15	-	0.51	0.51	0.00
CEECs	-	0.36	0.10	-0.29

1. The scenario of an Industrial Europe is the most expansionary
2. A traditional dual Europe strategy does not pay off
3. An Industrial segmented strategy does not pay off for the CEECs



Growth and regional disparities in Europe in the four scenarios (2)

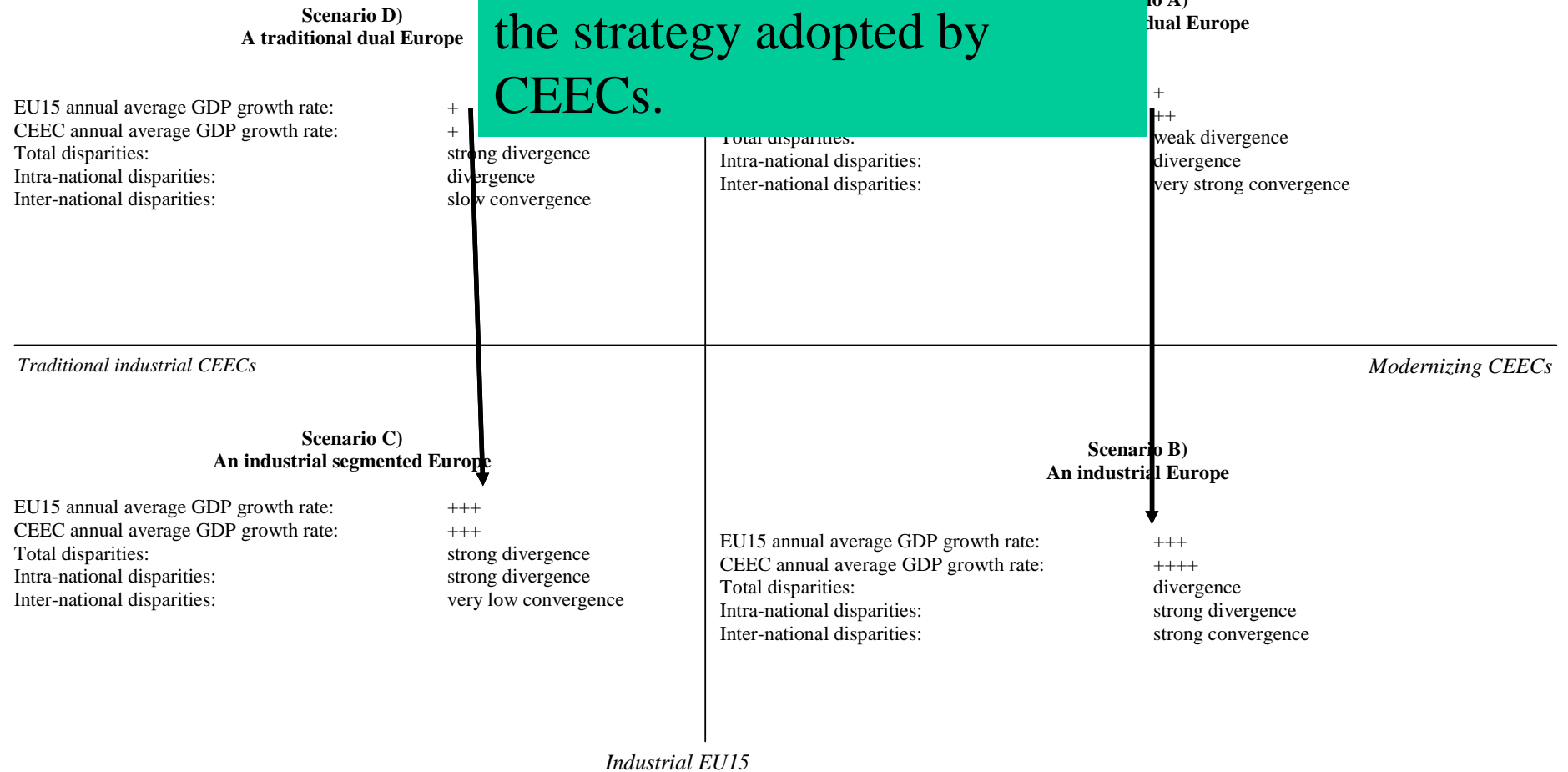


A modernising strategy pays always the most for CEECs, independently from the strategy adopted by the EU15.



Growth and regional disparities in Europe in the four scenarios (3)

A manufacturing strategy pays always the most for EU15, independently from the strategy adopted by CEECs.





Growth and regional disparities in Europe in the four scenarios (3)

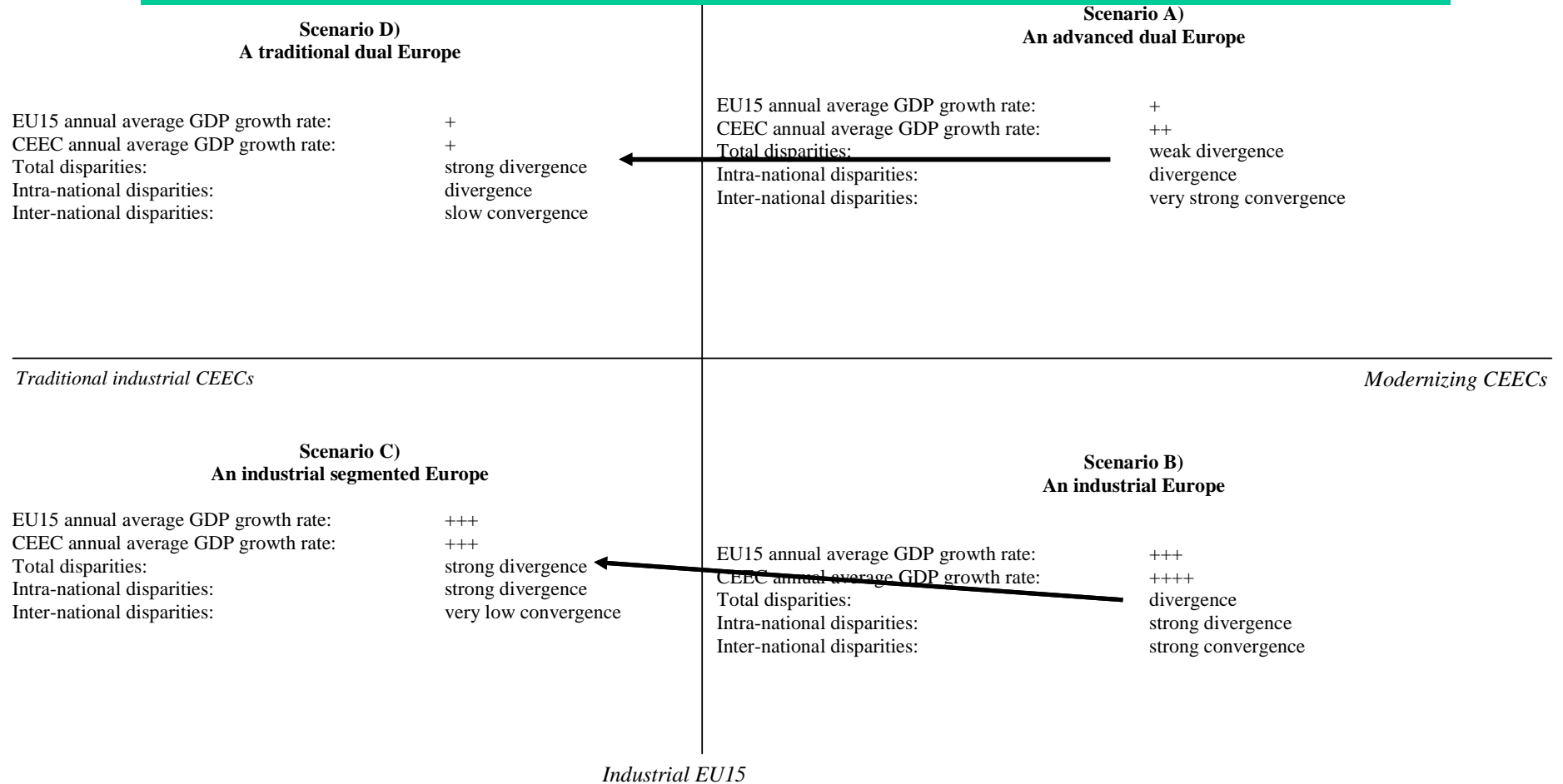


An industrial strategy pays the most for both blocks of countries. Complementarity rather conflicting effects exist.



Growth and regional disparities in Europe in the four scenarios (3)

A modernizing strategy for Eastern countries is associated to lower increases in regional disparities, whatever the choice of Western countries is.





Conclusions and policy implications

- The effects of Eastern countries development strategies are highly influenced by the strategies chosen by the Western countries, while the opposite does not hold.
- The least courageous scenario (in which both groups of countries increase the quality of their original strategies, but remain in their actual productive specialization trajectories) is the least expansionary.
- Even if their future trajectories are strongly dependent on what happens in the Western countries, a modernizing strategy is the most expansionary one for CEECs. If Western countries also move towards an industrial strategy, the result of the modernizing strategy pays off the most, but modernizing pays off even if EU15 countries do not revert to high-tech manufacturing.



Conclusions and policy implications

- A modernizing strategy for Eastern countries does not mean, as expected, higher increases in regional disparities.
- On the contrary, this choice is associated to lower increases in regional disparities, whatever the choice of Western countries is, thanks to the spillovers and positive effects that modernization generates in all sectors and regions that drive to higher GDP growth rates in CEECs, and a relatively lower inter-national disparity level.
- This is an important encouragement for moving towards an endogenous growth pattern in CEECs.



**THANK YOU VERY MUCH
FOR YOUR ATTENTION!**