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Recent Changes in Europe's Competitive Landscape: How the Sources of Demand and Supply are Shaping up

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Recent Changes in Europe's Competitive Landscape
and Medium-Term Perspectives: How the Sources
of Demand and Supply Are Shaping Up

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A new grouping of countries emerging from supply and demand side trends

1. Integrated value chain

- Germany and Central & Eastern Europe (incl. Austria) have created a strong value chain amongst themselves, and tied into global value chain, providing potential for strong innovation
- But demographics are projected to be weak and growth is coming from external sector.

2. Global niche players: an arc of small economies in northwestern Europe

- Nordic, Baltic and Benelux countries and Ireland have narrow but highly competitive export sectors, but more strength in services sector of economy



A new grouping of countries emerging from trends?

3. Deindustrialisation model: the United Kingdom

- Larger range of services activities that isn't making up for the smaller impact of growth from manufacturing
- Low share of employment dedicated to foreign production

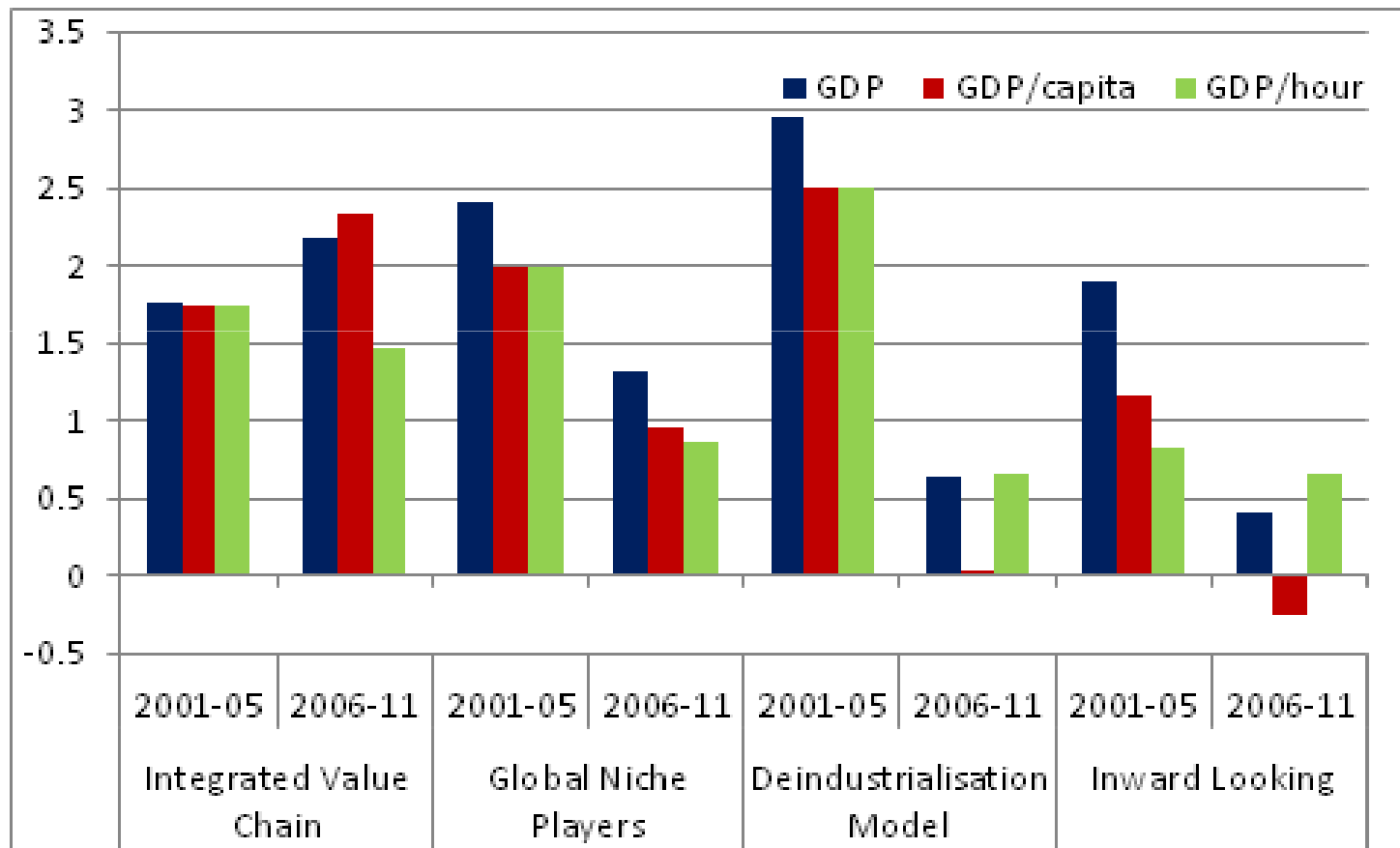
4. Inward looking: the Mediterranean group

- Mediterranean economies (France, Italy, Spain, Portugal, Greece) are more dependent on slower growing domestic economies
- Faster demographics and domestic sector are main drivers of growth but slow productivity will create consistently slower growth environment



Only “Integrated Value Chain”-group has improved per capita income between first and second half of decade

Growth GDP, GDP per Capita and GDP per Hour, 2001-2005 and 2006-2011

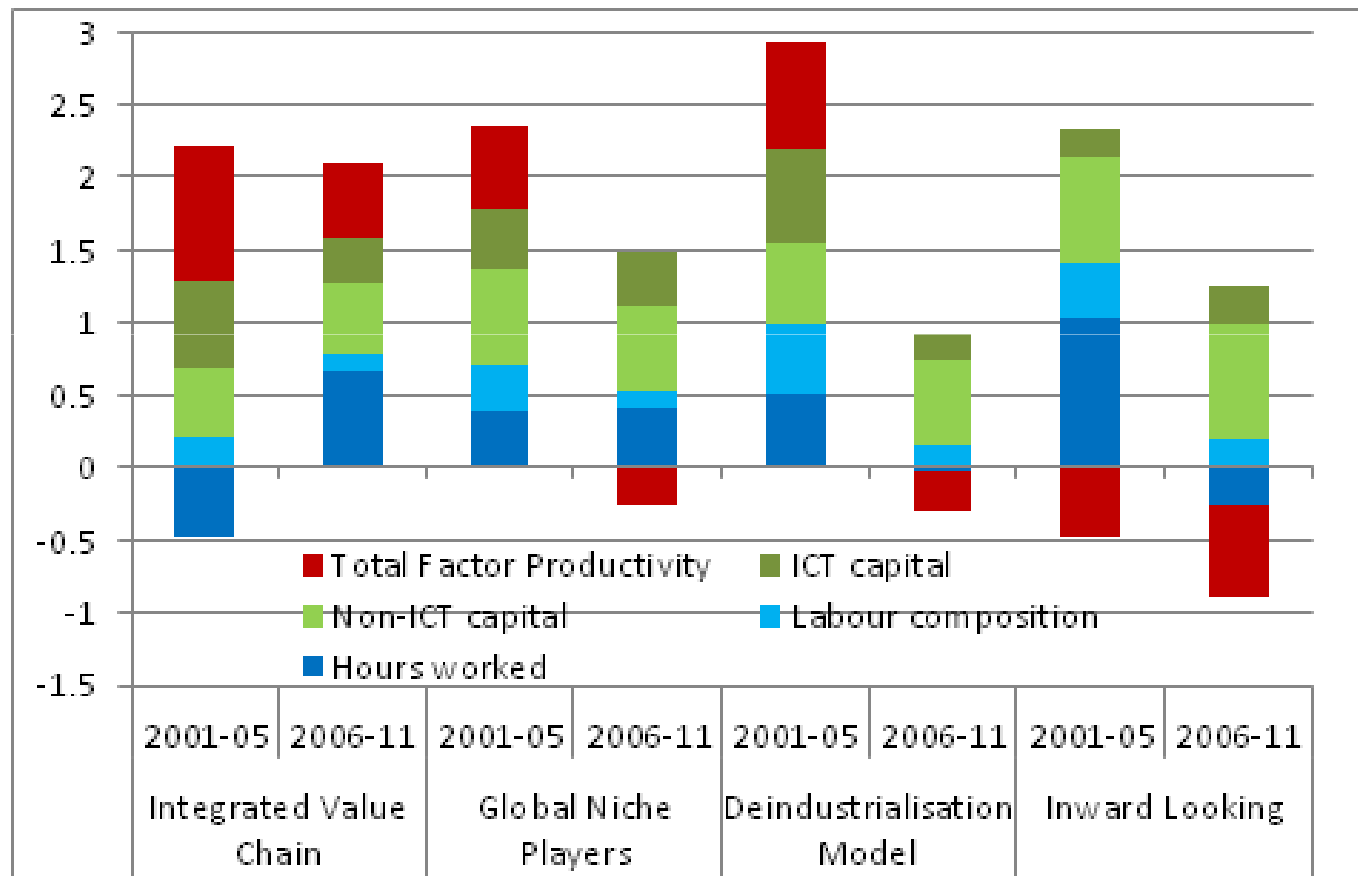


Source: The Conference Board Total Economy Database (<http://www.conference-board.org/data/economydatabase/>)



TFP growth turned negative in all groups except “Integrated Value Chain”, but investment held up until 2011

Sources of Growth in Total Economy, 2001-2005 and 2006-2011

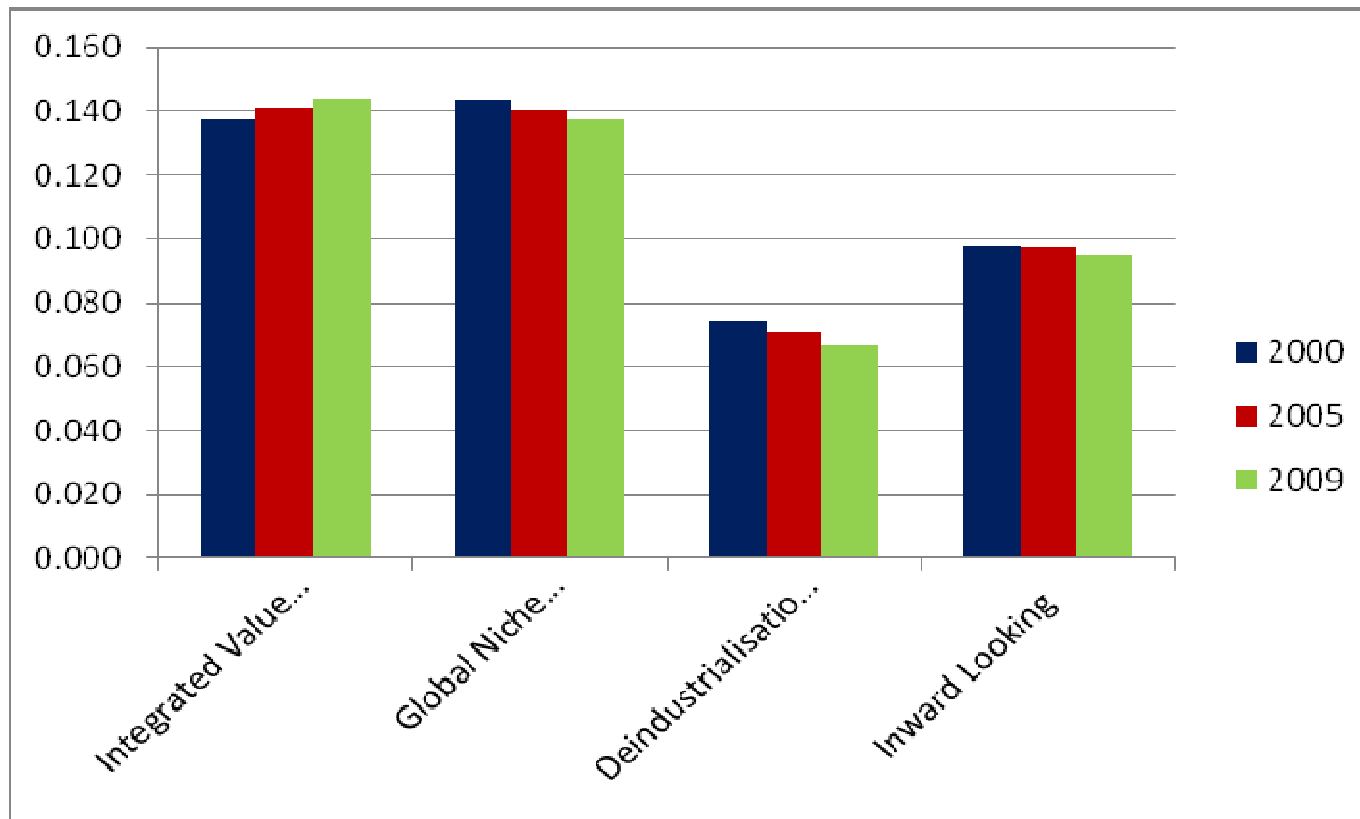


Source: The Conference Board Total Economy Database (<http://www.conference-board.org/data/economydatabase/>)



Only “Integrated Value Chain”-group has managed to raise employment in goods sector for foreign production

Employment Share in Good Sectors in Producing for Foreign Demand, 2000-2009 (proportion of total employment)

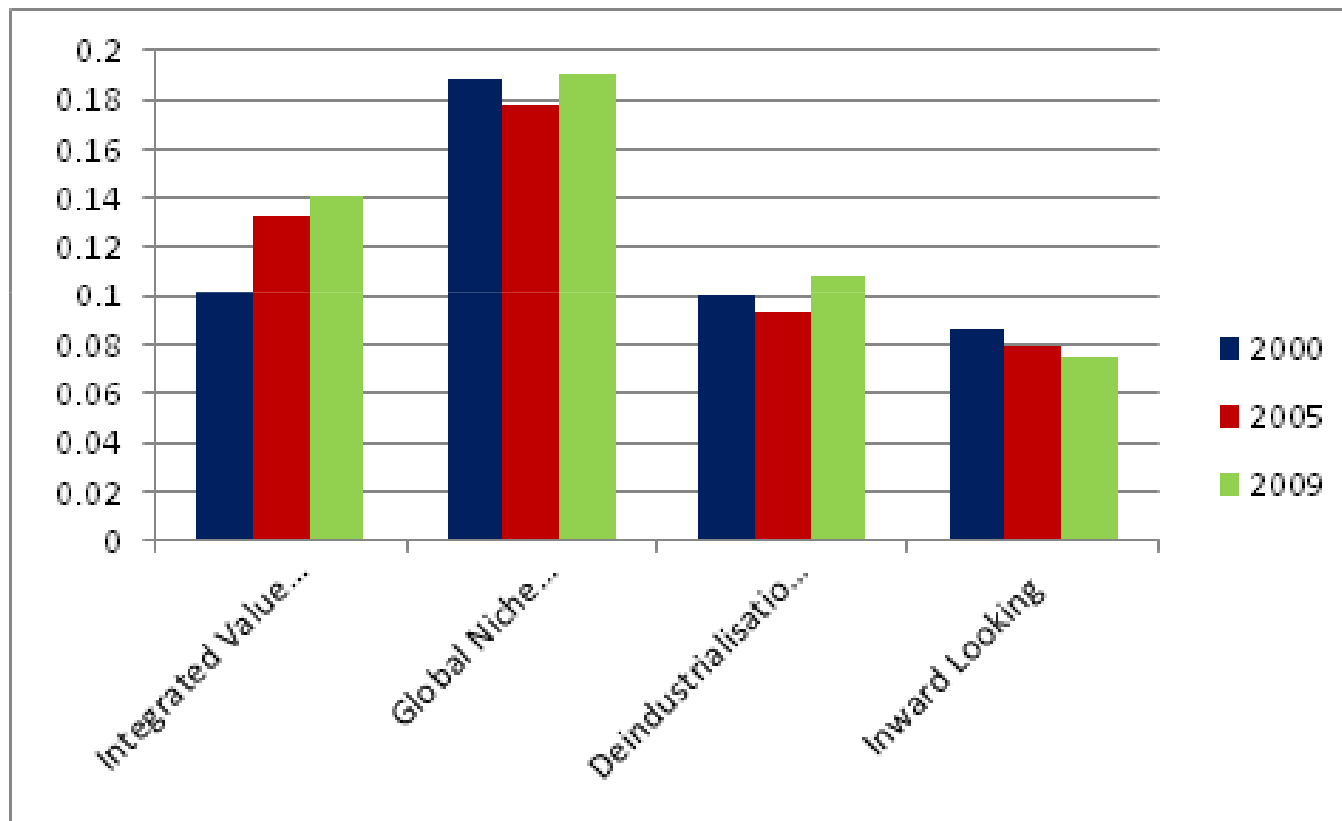


Source: World Input-Output Database (WIOD)



“Global Niche”-group has highest employment share in non-goods sector, but “Integrated Value Chain” is catching up

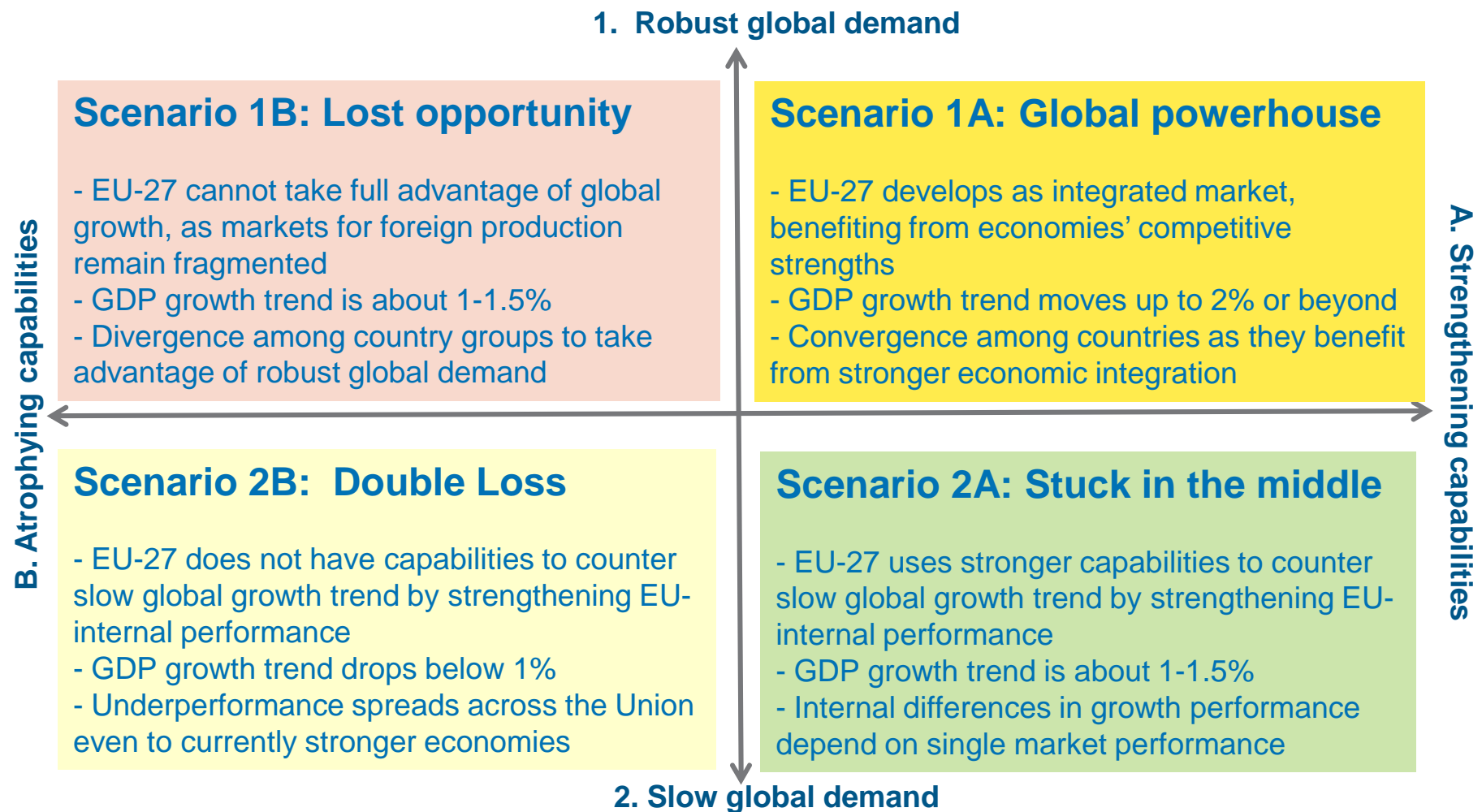
Employment Share in Non-Goods Sector in Producing for Foreign Demand, 2000-2009 (proportion of total employment)



Source: World Input-Output Database (WIOD)



European growth scenarios evolve around acceleration in global demand and stronger investment and productivity



Growth effects on country groupings suggest a strongly diverging Europe

Country Group \ Scenario	1.A: Global Powerhouse (strong global demand, strong capabilities)	2.A Stuck in the Middle (weak global demand, strong capabilities)	2.B Double Loss (weak global demand, weak capabilities)	1.B: Lost Opportunity (strong global demand, weak capabilities)
Integrated Value Chain (Germany/ Core CEE)	+++	++	+	++
Inward Looking (Mediterranean)	0	-	---	--
Global Niche Players (small NW European economies)	++	+	-	+
Deindustrialisation Model (UK)	+	0	--	-

