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Assessing competitiveness in an increasingly borderless world

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Introduction

- Global fragmentation of production is challenging the relevance and the accurateness of **traditional indicators** of competitiveness
- Complex global value chains (GVCs) have reconfigured world trade in terms of **participants** and **comparative advantages**
- To assess a country's degree of competitiveness it is fundamental to take into account the **cross-border dimension** of the production processes (*about 60% of global trade consists of trade in intermediate goods and services*)



Drawing on the work of **CompNet** – *the Competitiveness Research Network of the European Central Bank* – we will provide some **empirical evidence** with important policy implications, focusing on:

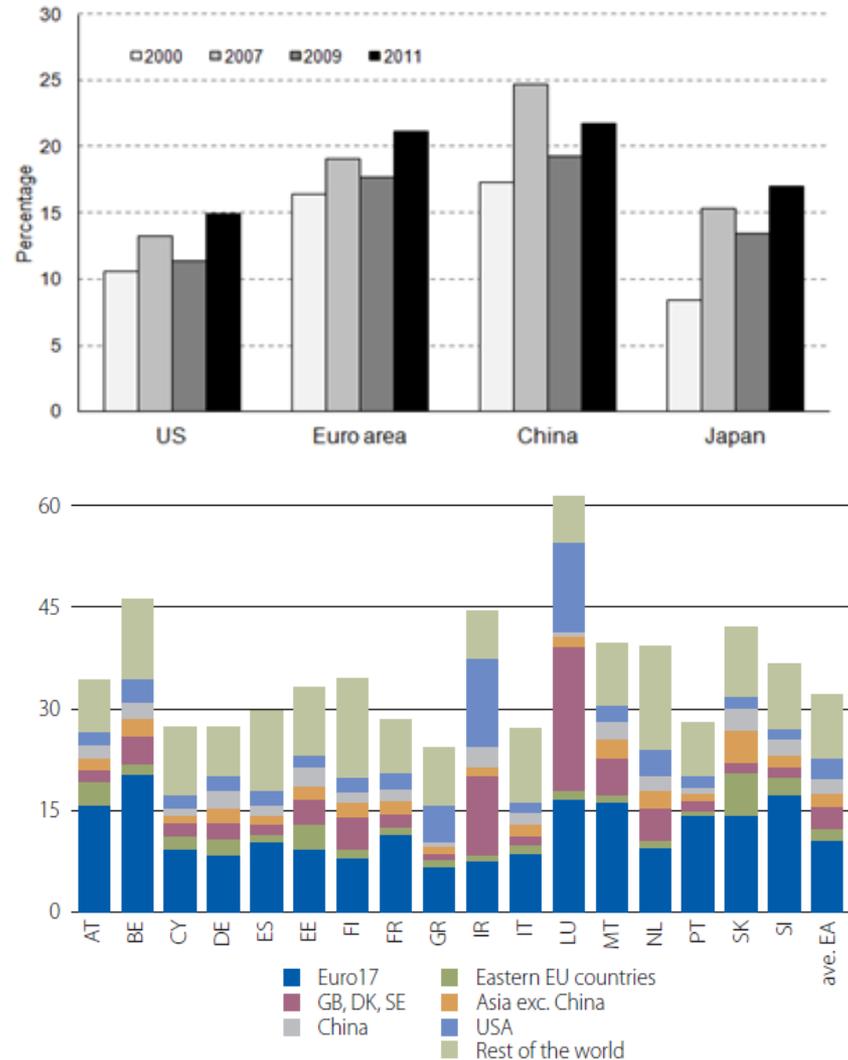
1. **Status** of euro area integration into GVCs
2. **Alternative indicators** to measure the impact of GVCs on RCA and jobs creation/destruction

Status of integration in the euro area

During the last years there has been an **increasing trend** in the share of foreign value added in exports in the euro area

Three facts are worth noticing:

1. The **relevance** of GVCs was as important in the **euro area** as in **China** and more important than in the US and Japan (*first figure*)
2. GVCs in the euro area were fairly **resilient** to the crisis, since the increase in foreign value added stopped only temporarily in 2009 to then subsequently rebound (*first figure*)
3. The euro area is the **main source** of foreign value added in exports for most member countries and its share is more stable than that of other trade blocks (*second figure*)



Call for new measures of competitiveness

- The rise of GVCs is posing **new challenges** to **analyses** of international trade and countries' competitiveness.
- **Traditional measures** do not account for the fact that:
 1. There is an increasing **fragmentation of production** across borders and an increasing use of foreign inputs
 2. Nowadays international competition is at level of **activities** rather than at level of products: it is no longer about what you sell, but what you do



Two **new measures** have been recently introduced

GVC income

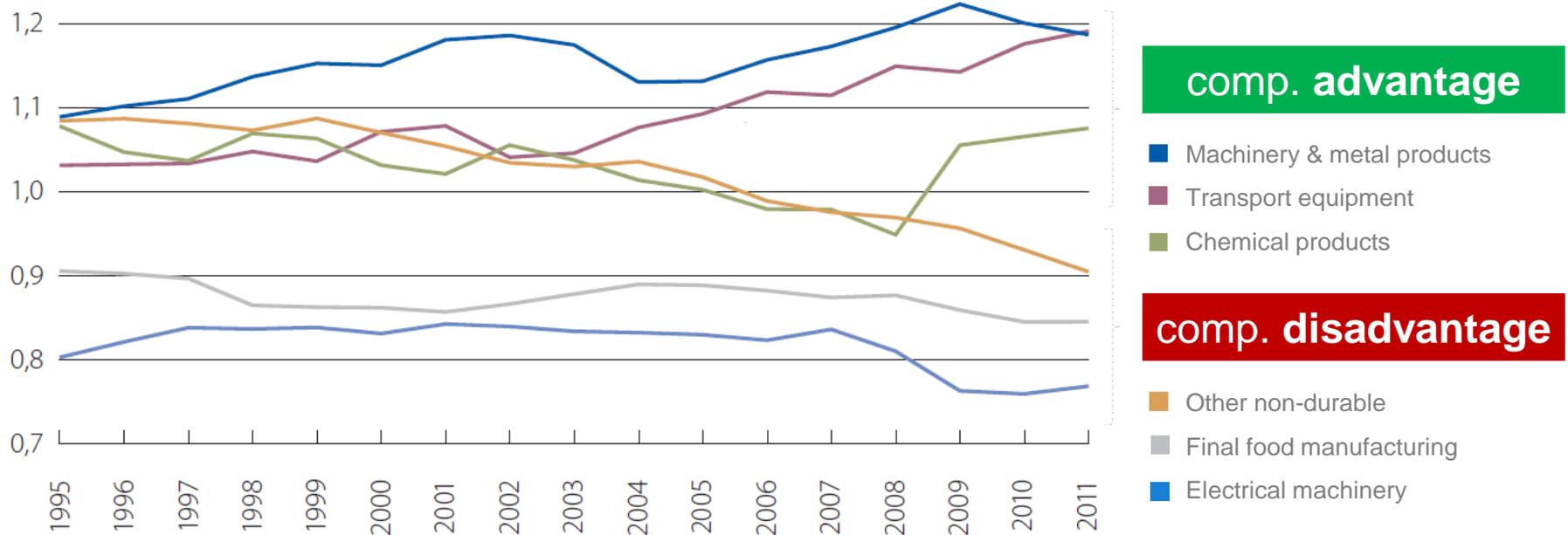
**manufactures
GVC jobs**

provide an ex-post accounting framework of the **value added** and **number of workers** that are *directly* and *indirectly* related to the production of final manufacturing goods

Impact on RCA

- **Traditional analyses** of revealed comparative advantage (RCA) based on gross exports suggested that the EU was stuck in low- and medium-tech industries
- In contrast, when RCA is computed in terms of our GVC income, we find **strong changes in EU's comparative advantage** in activities carried out in global production networks:
 - increase of non-electrical machinery and transport equipment
 - decline in the production of non-durables

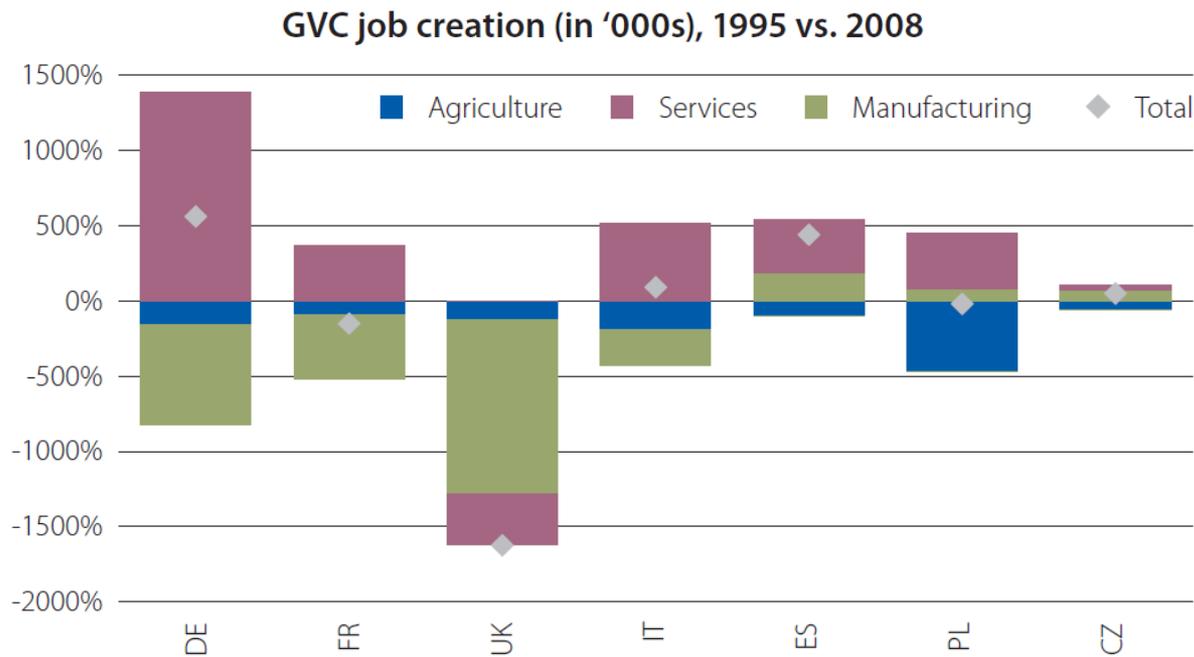
Revealed comparative advantage of EU-27, by group of final manufactures (%)



Impact on job creation/destruction

A **politically relevant** issue for the euro area is whether increasing integration into GVCs increases the risk of **job shedding**, as is often publicly claimed:

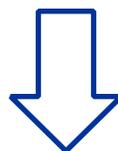
- There has been an overall **decline** in employment in manufacturing GVCs in Europe (**1.8 million** job losses)



Source: "Fragmentation, Incomes and Jobs. An analysis of European competitiveness", Timmer et al. (2013)

- **However**, in 11 of the EU15 member countries the **creation** of new GVC jobs in services was bigger than the **loss** of old GVC jobs in manufacturing

The increasing global fragmentation of production and the emergence of complex GVCs challenge the prevailing policy thinking on competitiveness



Drawing on the work of CompNet, we provide evidence that nowadays **integration into GVCs** should be definitely part of a broader **pro-growth agenda** as:

1. GVCs offer an **opportunity** to integrate in the world economy at lower costs
2. However gains from participation are **not automatic**.

→ is fundamental to take into account the **cross-border** dimension of the production processes to design adequate policies

Thank you !