

Research Fellowship Programme – Economic growth perspectives for Europe

Essay on Role of globalisation in explaining shifts in the relative growth performances of EU Member States

Background

It is very clear, looking at current growth patterns across the EU, that the growing divergences in growth performances are not only being driven by the imbalances / deleveraging issues but also by how well EU countries are able to benefit from growth outturns being experienced elsewhere around the globe¹.

Over the last two decades, one observes dramatic shifts at the world level not only towards more knowledge based products (e.g. ICT related goods and services) but also towards the emergence of new countries on the world market, which offer the prospect of increases in external demand for the products of a number of key European sectors (e.g. cars, chemicals and pharmaceuticals) and, at the same time, increase the competitive challenge faced by those same sectors. The combination of these 2 factors (i.e. more knowledge intensive products allied to the emergence of new market players) are likely to pose significant challenges to Europe's traditional areas of comparative advantage, probably generating the largest structural upheaval in EU economies since the industrial revolution².

This dramatic intensification of the globalisation process is already transforming the economic structures of many EU economies, with some countries adapting better than others. Many EU countries have recognised the seismic nature of the change and are responding positively by embracing an open-economy, innovation-based, growth model which emphasises the importance of world class educational establishments; higher levels of, excellence driven and better targeted, R&D; more market based financing systems; and the need for a range of policies aimed at delivering a more dynamic and competitive business environment. Other Member States appear to be underestimating the growth importance of knowledge creation / absorption and the need for flexible regulatory and institutional frameworks. In overall terms, the EU as a whole does not appear to be benefitting from this shift towards knowledge based growth to the same extent as other regions around the globe (e.g. productivity convergence to US levels has stopped and is even reversed) but also within the EU (in particular the old Member States), where the speed of convergence has slowed down (and is even being reversed) over the last two decades.

Aim of the essay and key questions to be tackled

A key aim of the essay will be to establish how individual EU countries have adapted to the competitiveness challenges posed by the intensification in globalisation and to provide

¹ Access to fast growing emerging markets has also the added advantage of offsetting the dependence of EU based companies on slower growth patterns in domestic / more mature EU economies.

² At the same time, emerging markets are also facing their own set of challenges as they approach the global technology frontier and face rising cost levels, with the result that the drivers of growth and competitiveness cannot automatically be extrapolated into the future. Indeed, recent anecdotal evidence about "reshoring" and the re-industrialization of manufacturing activities back to mature, but knowledge-intensive, economies, leads to searching questions for policy makers as to whether Europe can reinvent itself as a global source of growth and innovation.

concrete indicators of the extent to which countries have failed or succeeded in exploiting the opportunities and benefits offered by a more integrated world. In particular, the essay must address the extent to which there is a link between the acceleration in globalisation in recent decades and shifts in the relative growth performances of specific EU countries (with, for example, the relative decline of the southern EU economies being offset by an acceleration in growth elsewhere in the EU). Within these overall terms of reference, two specific sets of questions should be addressed:

- A first set of questions could relate to the historical drivers of the convergence process in Europe (sectoral shifts; capital accumulation etc) and whether the shift over the last few decades to a more knowledge based growth process has been responsible for the growth differentials and for the stalling / reversal of the convergence process in the southern EU economies.
- A second set of questions could examine the extent to which the comparative advantages of different countries around the EU have been affected by the fragmentation of the value added chain at the global level, with factors such as the vulnerability of low tech manufacturing sectors in southern Europe being considered, as well as an assessment of the success / failure of the different EU countries in moving up the value added chain.

In providing answers to the above sets of questions, the successful applicant should analyse, if possible, the income generated by EU countries from their involvement in global production structures / global value added chains (both in the manufacturing and service sectors), rather than simply measuring their success in terms of shifts in export market shares³. The applicant should also explicitly study the implications of changes in the global value added chain for the level of demand for the driving forces of growth, in particular physical capital, including ICT, and human capital, especially with respect to different skill levels. The aim would be to see to what extent a country can compete with other nations in terms of the activities related to globally organised production structures, including the elements necessary to ensure overall gains for EU countries from external outsourcing processes. It is already abundantly clear that the future success of EU economies will be closely linked to how successful they are in participating in, and exploiting, regional and global value added chains.

³ The analysis of global value added chains is now being made possible by the emergence of a number of innovative, EU financed, datasets, such as EU KLEMS and WIOD. These new datasets offer more up-to-date, and possibly more comprehensive, measures of the overall competitiveness of certain industries / countries. These datasets can be used to answer a number of interesting questions such as: how have countries and industries responded to globalisation and what shapes their "limiting factors" in terms of their response. Any analysis should go beyond the descriptive indicators included in EU KLEMS / WIOD in order to try to explain, using for example regression analyses or structural decomposition techniques, what are the underlying drivers / limiting factors (e.g., skill composition of the labour force, sectoral structures, existing patterns of comparative advantage, specific market structures, regulatory frameworks) which can explain the relative growth performances of the different EU countries. We would also like the applicant to explicitly take a forward looking perspective by identifying the key sources of potential growth that can alter the growth trajectory for European economies in the future. This could also include scenario analysis for the medium term outlook for the EU's Member States. Given the differences in demand growth in various regions in the world and the involvement of the EU in serving that demand through global value added chains, forward looking sectoral or macro level scenarios could be considered.