

# **Europe – strengths and weaknesses, competitiveness**

**Europe in International Economy**

**2016**

# Research and development spending

2014	Bill. USD (PPP)	Percent of GDP (PPP)	Spending per capita (PPP)
<a href="#">South Korea</a>	91.6	4.292%	<b>1,518.47</b>
<a href="#">Israel</a>	11.2	4.109%	<b>1,361.56</b>
<a href="#">Japan</a>	<b>170.8</b>	3.583%	<b>1,344.31</b>
<a href="#">Finland</a>	7.0	3.174%	<b>1,290.58</b>
<a href="#">Sweden</a>	14.2	3.161%	<b>1,460.98</b>
<a href="#">Denmark</a>	7.6	3.051%	<b>1,361.51</b>
<a href="#">Taiwan</a>	32.4	3.006%	<b>1,383.84</b>
<a href="#">Austria</a>	10.9	3%	<b>1,416.14</b>
<a href="#">Switzerland</a>	13.1	2.967%	<b>1,647.90</b>
<a href="#">Germany</a>	106.5	2.842%	<b>1,313.46</b>
<a href="#">United States</a>	<b>473.4</b>	2.742%	<b>1,442.51</b>
<a href="#">Belgium</a>	11.9	2.465%	<b>1,063.38</b>
<a href="#">Slovenia</a>	1.5	2.386%	712.63
<a href="#">France</a>	58.4	2.256%	914.54
<a href="#">Australia</a>	23.3	2.12%	986.86
<a href="#">China</a>	<b>344.7</b>	2.046%	270.56
<a href="#">Singapore</a>	8.7	2%	<b>1,608.86</b>
<a href="#">Czech Republic</a>	6.3	1.997%	600.04
<a href="#">Netherlands</a>	16	1.973%	946.25
<a href="#">European Union</a>	<b>334.3</b>	1.94%	657.48
<a href="#">Iceland</a>	0.27	1.891%	832.59
<a href="#">Norway</a>	5.9	1.705%	<b>1,145.18</b>
<a href="#">United Kingdom</a>	43.7	1.701%	677.44
<a href="#">Canada</a>	25.7	1.612%	724.87
<a href="#">Ireland</a>	3.6	1.519%	779
<a href="#">Estonia</a>	0.53	1.432%	399.24
<a href="#">Hungary</a>	3.4	1.371%	343.01
<a href="#">Italy</a>	27.4	1.287%	452.14
<a href="#">Portugal</a>	3.6	1.285%	347.84
<a href="#">Luxembourg</a>	0.67	1.256%	<b>1,226.35</b>
<a href="#">Spain</a>	19.2	1.222%	413.46
<a href="#">Russia</a>	42.6	1.187%	290.21

# Weaknesses of Europe (Eichengreen)

- **R&D spending** + limited cooperation between industry and academia;
- **Small, new firms** (tend to pioneer new niches, e.g. **IT**) – greater difficulties to cope with the complexity of European **regulation**;
- Europe: **immigration-unfriendly policies** (less attractive for H-T specialist from Asia);
- Lower **hiring and firing costs** make it easier for US entrepreneurs to **experiment** with unproven technologies (...of great promise but uncertain commercial potential);
- European **financial system** – well suited to mobilizing saving and deploying it for investment by **incumbent firms** - does not go to the **start-ups** and small firms (engines of output and productivity growth);
- **IT producing sector** is where US excels – but only 6% GDP – **cannot explain** differences in productivity trends:
  - **US productivity** advantage since 1990s centered in **retail trade**, wholesale trade, financial services – **ICT using activities**;
- Europe has faster productivity growth in **telecommunications** (**privatization** and uniform product standards);
- Higher **cost** etc. computer hardware in Europe (**localizing costs**) – itself a barrier;

# Employment (%)

	1970	1980	1990	2003	2014
<b>EU 15 (2014: EU28)</b>					
<b>Overall employment</b>	59	60	62	64	65
Employment male	80	78	74	73	70
Employment female	39	43	49	56	60
Employment 15–24	51	45	45	40	33
Employment 25–54	65	70	73	77	76
Employment 55–64	47	44	39	42	52
<b>US</b>					
<b>Overall employment</b>	64	67	72	71	67
Employment male	83	80	81	77	78
Employment female	46	55	64	66	62
Employment 15–24	53	59	60	54	48
Employment 25–54	70	74	80	79	84
Employment 55–64	60	54	54	60	61

EU: SWE 75% (AUT, UK, DEN, NETH, GER) vs. GRE 49% (SPA, ITA, CRO)

# Strengths of Europe

- Europeans have greater amounts of **leisure time** (Vs. **US**);
- Higher level of **earnings equality** - more people with **health insurance**, infant mortality rates are lower, **poverty rates** are **lower**, rates of **violent crime** are lower;
  - Number of prisoners is only 128/100k vs. 716 in US (2013, 22% of world total); homicide (per 100k) 2,7 vs. 5,9;
- Rigidities have not stood in the way of rapid **export growth**;
  - European **exporters** dominate in **quality** HVA, H-T; premium goods; **precision manufactures**;
- Moving into **H-T** and **premium** goods is potential source of **insulation** from high **competition** of **EM**:
- Europe has not been subject to the kind of great **financial scandals**;

## Worked hours per head (hours/year)

	1950	1973	1998
UK	871	753	682
France	905	728	580
Germany	974	811	670
Italy	800	669	637
US	756	704	791

	2003	2014
UK	1674	1677
France	1484	1473
Germany	1425	1371
Italy	1816	1734
US	1800	1789
Greece	2091	2042
Japan	1799	1729

# Output per head and hour of work (%)

	1913	1929	1938	1950	1973	2003	2014
<b>Product per WORKER as a % of US level</b>							
France	66	68	73	55	79	73	-
Germany	69	59	82	41	72	64	-
Italy	48	45	54	37	64	66	-
UK	93	80	102	73	72	72	-
EU15 (aver.)	57	55	66	47	65	72	-
<b>Product per HOUR as a % of US level</b>							
France	56	-	-	46	74	102	96
Germany	59	-	-	32	79	98	94
Italy	42	-	-	35	78	85	75
UK	84	-	-	63	60	81	76
EU15 (aver.)	61	-	-	44	71	-	-
Japan	-	-	-	-	-	65	63

# Critique of competitiveness concept

- Clinton (Tyson, Thurow 1992) – **states as big corporations** competing on world market (US vs. JAP);
- Krugman 1994 (De Grauwe 2010):
  - **Corporations** (almost) completely competing - selling vs. **states** produce (80%) for own citizens;
  - **Rival** corporations are consuming only fraction of their respective production vs. States are important consumers (of each others products);
  - States: much important source of improvement in standard of living is **productivity** growth (not larger sales at someone's expense); they are **mutual** consumers (trade) and employers (FDIs);



# Lisbon Agenda

- Lisbon European Council **2000**: new **strategic goal** till **2010** – to become the **most competitive** and dynamic **knowledge-based** economy in the world capable of **sustainable** economic **growth** with **more and better jobs** and greater **social cohesion**;
- Strategy **aimed to**:
  - transition to a knowledge-based economy by better **policies** for the **information society** and **R&D**;
  - **structural reform** for **competitiveness** and innovation and by completing the **internal market**;
  - **modernize** the European **social model**, **investing in people** and **combating social exclusion**;
- **All-embracing** - result of **bargaining process** + **disagreement** how economic performance should be improved;
- **Open method of coordination**:
  - **Council** agreeing **guidelines** that contain **targets** and **recommendations** which are adopted at the discretion of **member states** (**intergovernmental** process);
  - policy operates **via reports** – containing the policy, objectives and **progress**;
  - „**enforcement**“ is **by recommendation**, peer pressure and **benchmarking**;
  - **no penalties** – government implement policies in line with their **own priorities**;

- EU is continuing to **lag behind** – also in **amount of inputs** used: slower population growth and **rigid labor markets** (*late from school, less hours, early retirement + higher benefits and less part-time jobs*);
- Lisbon is about everything and thus nothing (**Kok's Report 2004**);
  - commitments are **rhetorical** (agreed at the height of the Dotcom boom);
  - states are committed only to **parts of agenda**;
- **Mid-term review (2005): Barroso's Commission's plans** – three **priorities** for the policy concentrating on **growth and jobs** (**Revised Lisbon Agenda**) :
  - **more attractive** place to **invest and work** – completing the **Single Market** and **business-friendly** regulation;
  - **knowledge and innovation** for growth: raising **expenditure on R&D to 3%** of GDP;
  - creating **more and better jobs** – increase employment by making the labor force more **adaptable** through raising the level of **education and skills**;
- **Concerns** that slimmer agenda downgraded the **environmental** and **social aspects** of agenda;

# Strategy Europe 2020

- **Global crisis** destroyed progress reached in last years (20 years of attempts for **fiscal consolidation** – in 2009 average fiscal deficit 7% and public debt 70%) + there have to be careful **management of exit** fiscal **stimulus's**;
- **Goals:**
  - **intelligent growth** → economy based on knowledge and innovations;
  - **sustainable growth** → support for more **competitive** and **ecological** economy less **energy** intensive;
  - growth supporting **social inclusion**;
- **Targets - 2020:**
  - **Higher employment** for 20-64 year old (from 69% to 75%);
  - **Increase investment** into **RD** up to 3% GDP EU (US 2,9% vs. EU 1,7%);
  - In **energetic policy** reach the goal **20-20-20** (less greenhouse gases, more renewable, more energy efficiency);
  - Share of **tertiary educated** from 31% to 40%;
  - 25% less people living in poverty (from 20 mil.);

# The top 10 most competitive global economies



COMMITTED TO  
IMPROVING THE STATE  
OF THE WORLD

Country	Global rank*
Switzerland	1
Singapore	2
United States	3
Germany	4
Netherlands	5
Japan	6
Hong Kong SAR	7
Finland	8
Sweden	9
United Kingdom	10

Source: The Global Competitiveness Report 2015-2016

\* 2015-2016 rank out of 140 economies

# The 10 most competitive European economies

Country	Global rank*
Switzerland	1
Germany	4
Netherlands	5
Finland	8
Sweden	9
United Kingdom	10
Norway	11
Denmark	12
Belgium	19
Luxembourg	20

Source: The Global Competitiveness Report 2015-2016

\* Europe 2015- 2016 rank out of 140 economies

# The 10 most competitive Emerging & Developing European economies

Country	Global rank*
Poland	41
Turkey	51
Romania	53
Bulgaria	54
Macedonia, FYR	60
Hungary	63
Montenegro	70
Croatia	77
Albania	93
Serbia	94

Source: The Global Competitiveness Report 2015-2016

\* Emerging & Developing European 2015- 2016 rank out of 140 economies



## Higher Education & Training Top 10

The Global Competitiveness Index 2014-2015

Global rank\*

Finland	1
Singapore	2
Netherlands	3
Switzerland	4
Belgium	5
United Arab Emirates	6
United States	7
Norway	8
New Zealand	9
Denmark	10

Source: The Global Competitiveness Report 2014-2015

Note: \* 2014-2015 rank out of 144 economies



## Infrastructure Top 10

**The Global Competitiveness Index 2014-2015**

**Global rank\***

Hong Kong SAR	1
Singapore	2
United Arab Emirates	3
Netherlands	4
Switzerland	5
Japan	6
Germany	7
France	8
Spain	9
United Kingdom	10

Source: The Global Competitiveness Report 2014-2015

Note: \* 2014-2015 rank out of 144 economies





## Innovation Top 10

**The Global Competitiveness Index 2014-2015**

**Global rank\***

Finland

1

Switzerland

2

Israel

3

Japan

4

United States

5

Germany

6

Sweden

7

Netherlands

8

Singapore

9

Taiwan, China

10

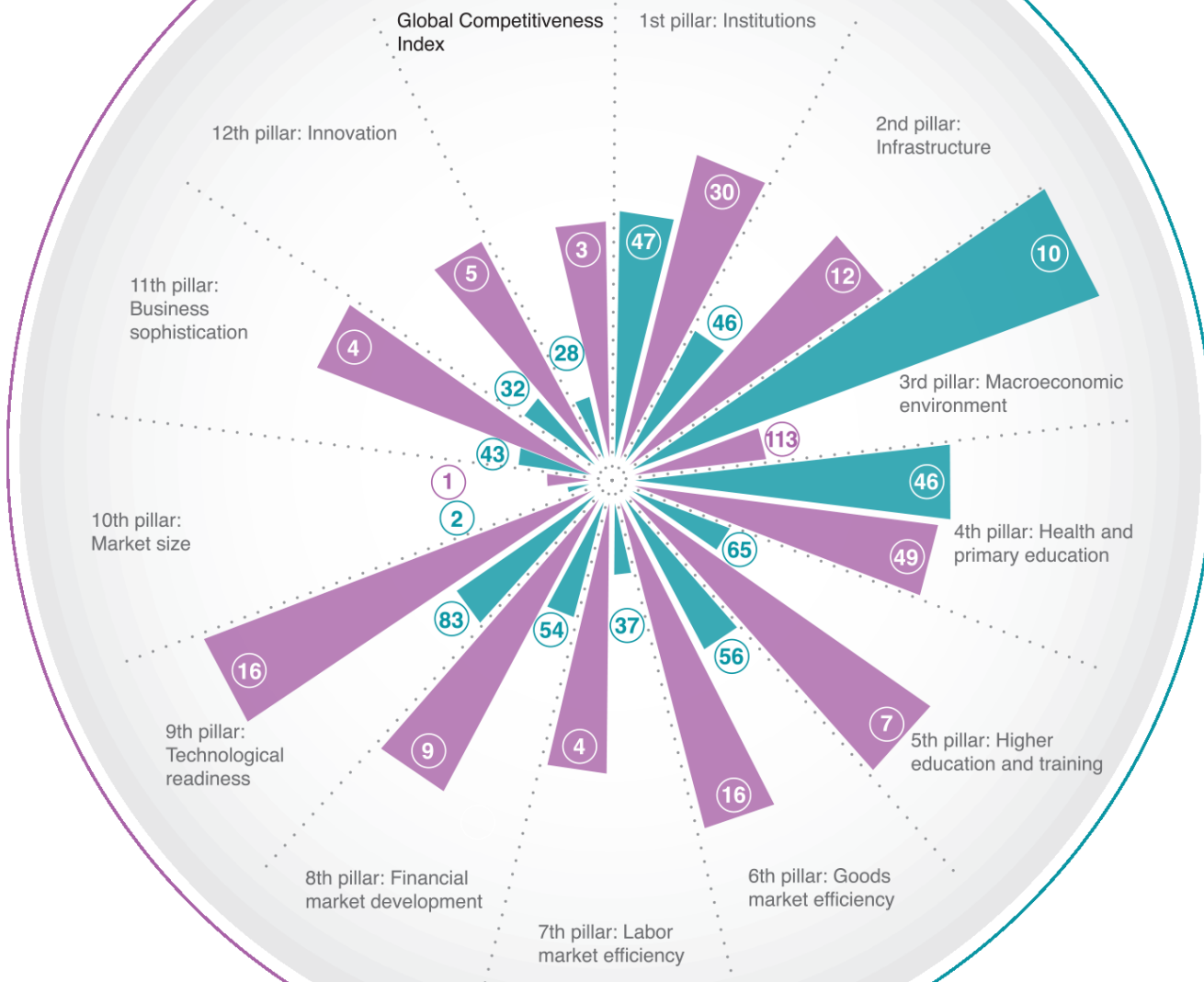
Source: The Global Competitiveness Report 2014-2015

Note: \* 2014-2015 rank out of 144 economies

US

China

### How the two countries rank against each other and the world\*



\* 2014-2015 rank out of 144 economies

# Germany

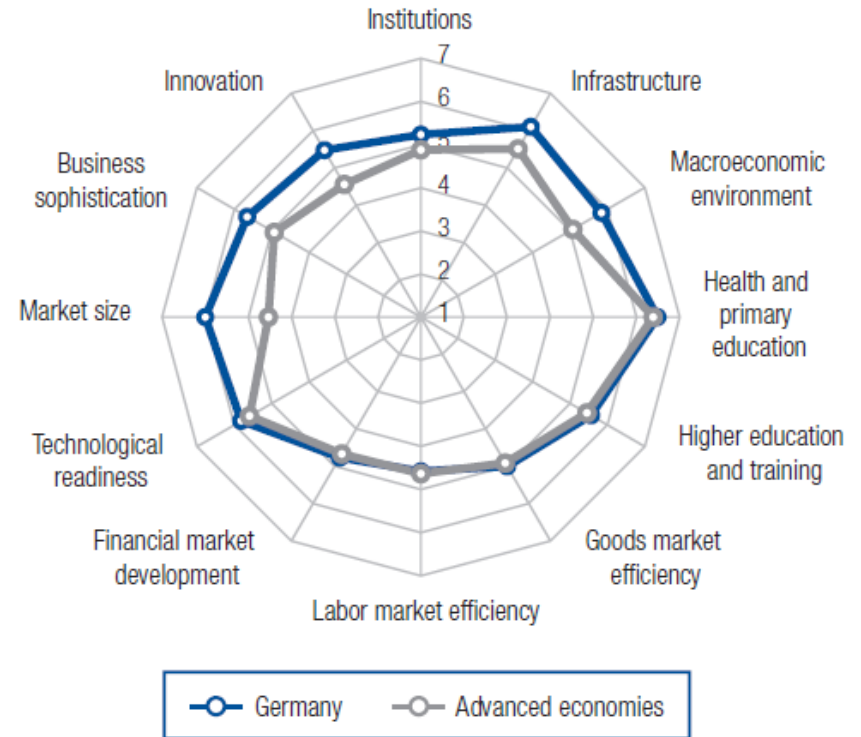
	Rank (out of 144)	Score (1–7)
<b>GCI 2014–2015</b> .....	<b>5</b>	<b>5.5</b>
GCI 2013–2014 (out of 148).....	4	5.5
GCI 2012–2013 (out of 144).....	6	5.5
GCI 2011–2012 (out of 142).....	6	5.4

<b>Basic requirements (20.0%)</b> .....	<b>11</b>	<b>5.9</b>
Institutions .....	17	5.2
Infrastructure .....	7	6.1
Macroeconomic environment .....	24	5.8
Health and primary education.....	14	6.5

<b>Efficiency enhancers (50.0%)</b> .....	<b>9</b>	<b>5.3</b>
Higher education and training.....	16	5.6
Goods market efficiency .....	19	5.0
Labor market efficiency .....	35	4.6
Financial market development .....	25	4.8
Technological readiness.....	13	5.8
Market size.....	5	6.0

<b>Innovation and sophistication factors (30.0%)</b> .....	<b>4</b>	<b>5.6</b>
Business sophistication .....	3	5.6
Innovation.....	6	5.5

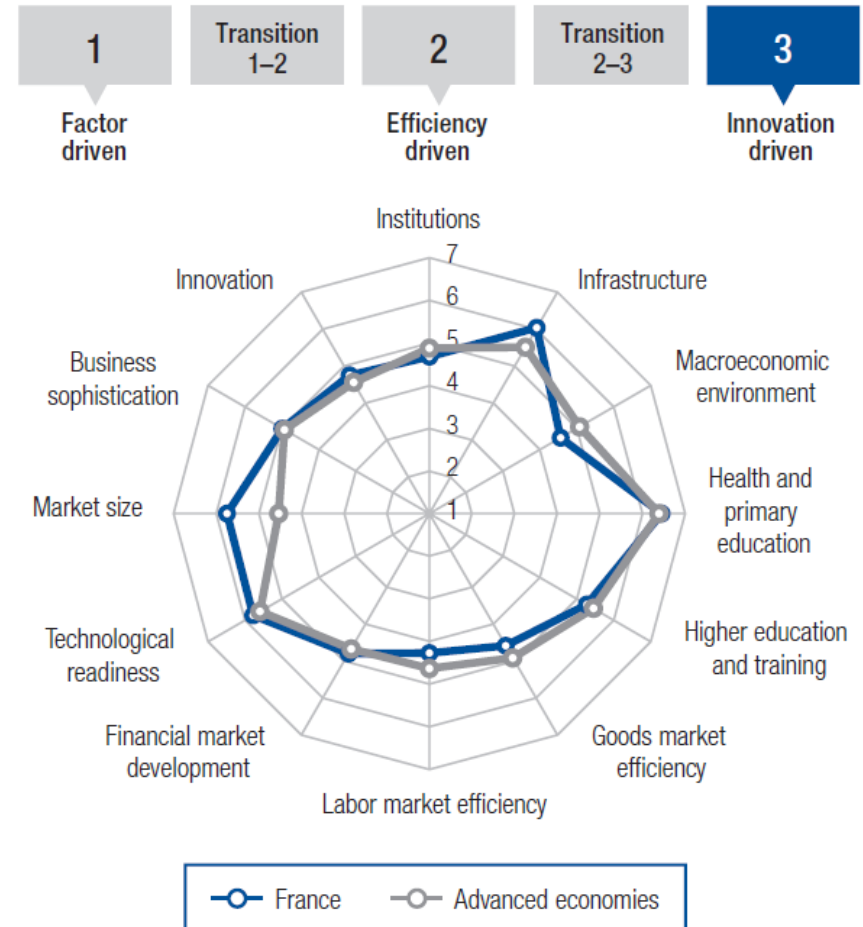
## Stage of development



# France

	Rank (out of 144)	Score (1–7)
<b>GCI 2014–2015</b> .....	<b>23</b> .....	<b>5.1</b>
GCI 2013–2014 (out of 148).....	23.....	5.1
GCI 2012–2013 (out of 144).....	21.....	5.1
GCI 2011–2012 (out of 142).....	18.....	5.1
<b>Basic requirements (20.0%)</b> .....	<b>26</b> .....	<b>5.4</b>
Institutions.....	32.....	4.7
Infrastructure.....	8.....	6.0
Macroeconomic environment.....	82.....	4.6
Health and primary education.....	18.....	6.4
<b>Efficiency enhancers (50.0%)</b> .....	<b>19</b> .....	<b>5.1</b>
Higher education and training.....	28.....	5.3
Goods market efficiency.....	46.....	4.6
Labor market efficiency.....	61.....	4.3
Financial market development.....	23.....	4.8
Technological readiness.....	17.....	5.8
Market size.....	8.....	5.7
<b>Innovation and sophistication factors (30.0%)</b> .....	<b>19</b> .....	<b>4.9</b>
Business sophistication.....	22.....	5.0
Innovation.....	19.....	4.7

## Stage of development

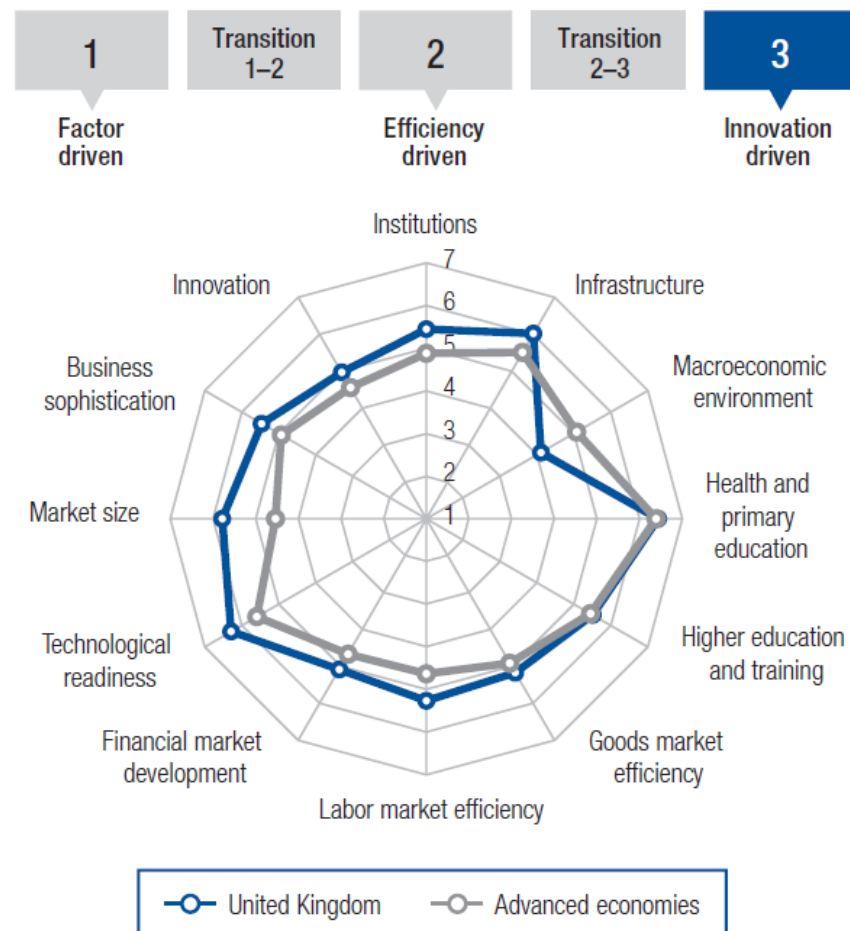


# United Kingdom

## Global Competitiveness Index

	Rank (out of 144)	Score (1-7)
<b>GCI 2014-2015</b> .....	<b>9</b> .....	<b>5.4</b>
GCI 2013-2014 (out of 148).....	10.....	5.4
GCI 2012-2013 (out of 144).....	8.....	5.4
GCI 2011-2012 (out of 142).....	10.....	5.4
<b>Basic requirements (20.0%)</b> .....	<b>24</b> .....	<b>5.5</b>
Institutions.....	12.....	5.4
Infrastructure.....	10.....	6.0
Macroeconomic environment.....	107.....	4.1
Health and primary education.....	21.....	6.4
<b>Efficiency enhancers (50.0%)</b> .....	<b>4</b> .....	<b>5.5</b>
Higher education and training.....	19.....	5.5
Goods market efficiency.....	13.....	5.2
Labor market efficiency.....	5.....	5.3
Financial market development.....	15.....	5.1
Technological readiness.....	2.....	6.3
Market size.....	6.....	5.8
<b>Innovation and sophistication factors (30.0%)</b> .....	<b>8</b> .....	<b>5.2</b>
Business sophistication.....	6.....	5.5
Innovation.....	12.....	5.0

## Stage of development



# GLOBAL COMPETITIVENESS INDEX

## Basic requirements subindex

- Pillar 1. Institutions
- Pillar 2. Infrastructure
- Pillar 3. Macroeconomic environment
- Pillar 4. Health and primary education



Key for  
**factor-driven**  
economies

## Efficiency enhancers subindex

- Pillar 5. Higher education and training
- Pillar 6. Goods market efficiency
- Pillar 7. Labor market efficiency
- Pillar 8. Financial market development
- Pillar 9. Technological readiness
- Pillar 10. Market size



Key for  
**efficiency-driven**  
economies

## Innovation and sophistication factors subindex

- Pillar 11. Business sophistication
- Pillar 12. Innovation



Key for  
**innovation-driven**  
economies