

2015-12-18

PRESS RELEASE

Main CompNet research results

(Article for the December 2015 Economic Review)

This article presents the results of the Competitiveness Research Network (CompNet), set up by the European System of Central Banks in 2012. The network has concentrated on identifying the factors determining the competitiveness of European countries and firms (measured in terms of economic performance such as exports or growth), and analysing the development of global production chains. A particular effort has been devoted to establishing new competitiveness indicators.

One of the network's various contributions is the development of two new tools for diagnosing a country's competitiveness, namely the diagnostic toolkit on competitiveness and the CompNet database. The diagnostic toolkit on competitiveness is a database encompassing 80 new competitiveness indicators, both at macroeconomic level (such as indicators of comparative advantages by type of products or intra-branch trade indicators) and at microeconomic or also transnational level (in particular measures of participation in global value chains) for EU countries. The second tool, solely accessible under certain conditions, is the CompNet database covering 17 European countries, including 13 euro area Member States, and comprising a series of indicators relating to the average and the distribution of variables such as productivity or unit labour costs per country, sector of activity and type of firm.

Other work done by CompNet indicates that competing on price may prove an essential strategy for withstanding international competition, even though alternative strategies based on quality enhancement also play a considerable role. Moreover, price competitiveness depends not only on labour costs but also on the costs of intermediate products, and where costs are the same, firms can make a difference by improving their productivity. That therefore implies that boosting the competitiveness of a country or firm requires a multi-pronged approach using various instruments and measures, and involving not just labour costs but also non-cost factors. These include both innovation and the quality of goods and services, organisational, managerial and technological capability, the ability to absorb new technologies, workforce adaptability and cumulative experience on export markets.

One of the current macroeconomic issues analysed by CompNet has been the correction of macroeconomic imbalances. It appears that the use of traditional instruments such as exchange rates will not be sufficient on its own to eliminate the imbalances without very big changes in exchange rates. The reason is that, in the case of large firms which are the major contributors to trade flows, exports are not very sensitive to exchange rate fluctuations. It is therefore necessary to rethink other economic policy measures in order to rectify this imbalance, notably by influencing the extensive margin of export growth.

Using the existing databases, CompNet also contributed to recent studies concerning value chains. Since value added of exports may be low, only using data on exports of goods and services to diagnose external competitiveness may give a false picture. By taking account of the globalisation of production processes, the concept of exported value added can be used to provide a more relevant measure of a country's competitiveness, in particular because that makes more sense when it comes to determining the impact on employment. Value chain analysis also permits a better understanding of how shocks spread from one economy to another. It likewise provides a better description of the background to any economic policy measures, such as import barriers or the readjustment of the trade balance.