

The Future Development of EU Industry in a Global Context

Robert Stehrer

The Vienna Institute for International Economic Studies (wiiw)

www.wiiw.ac.at

THE FUTURE OF EUROPE

CENTRAL AND EASTERN EUROPE IN A COMPARATIVE PERSPECTIVE

CASE — Center for Social and Economic Research

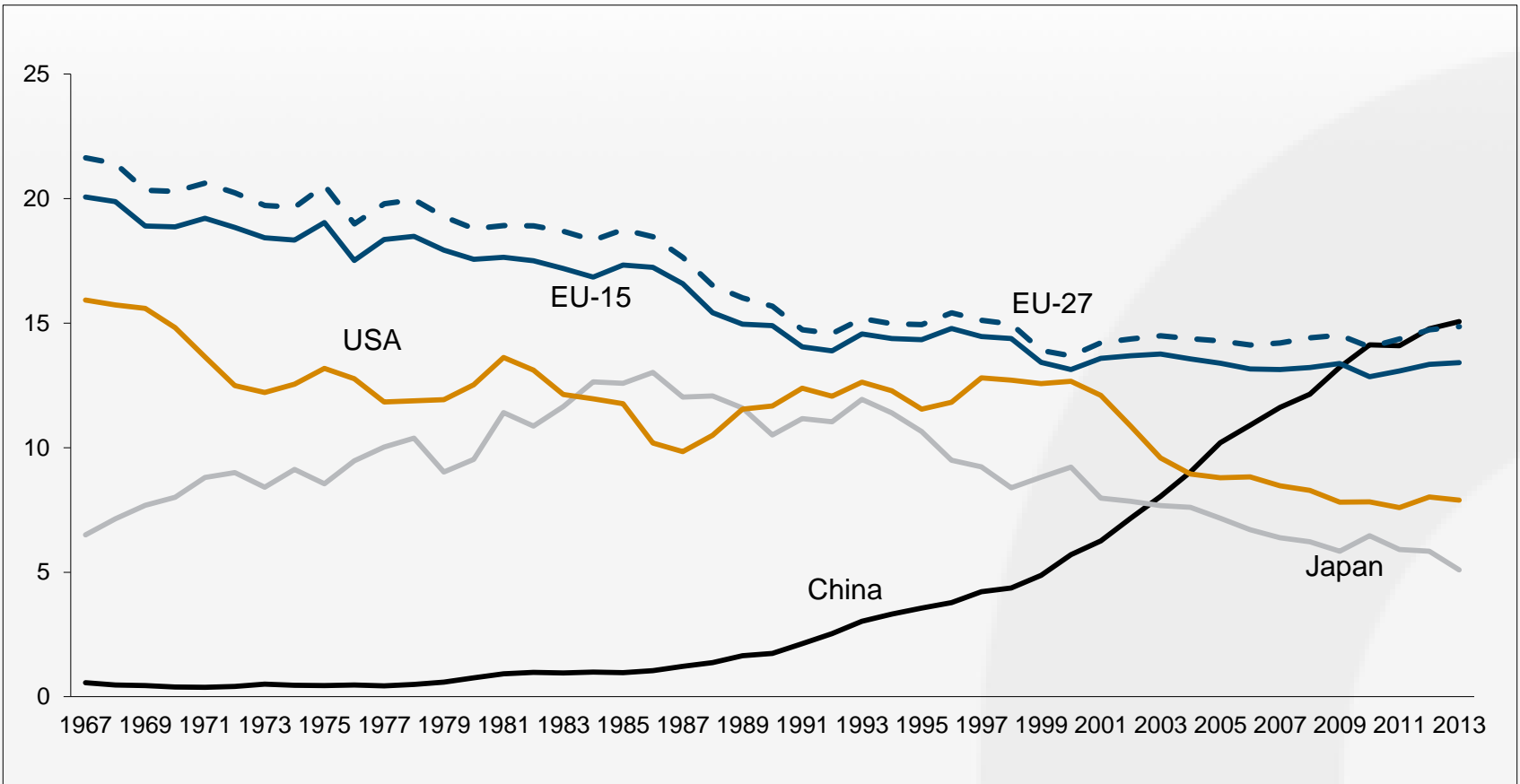
25th Anniversary Conference

17-18 November 2016

World trade dynamics

Changing landscape of world trade

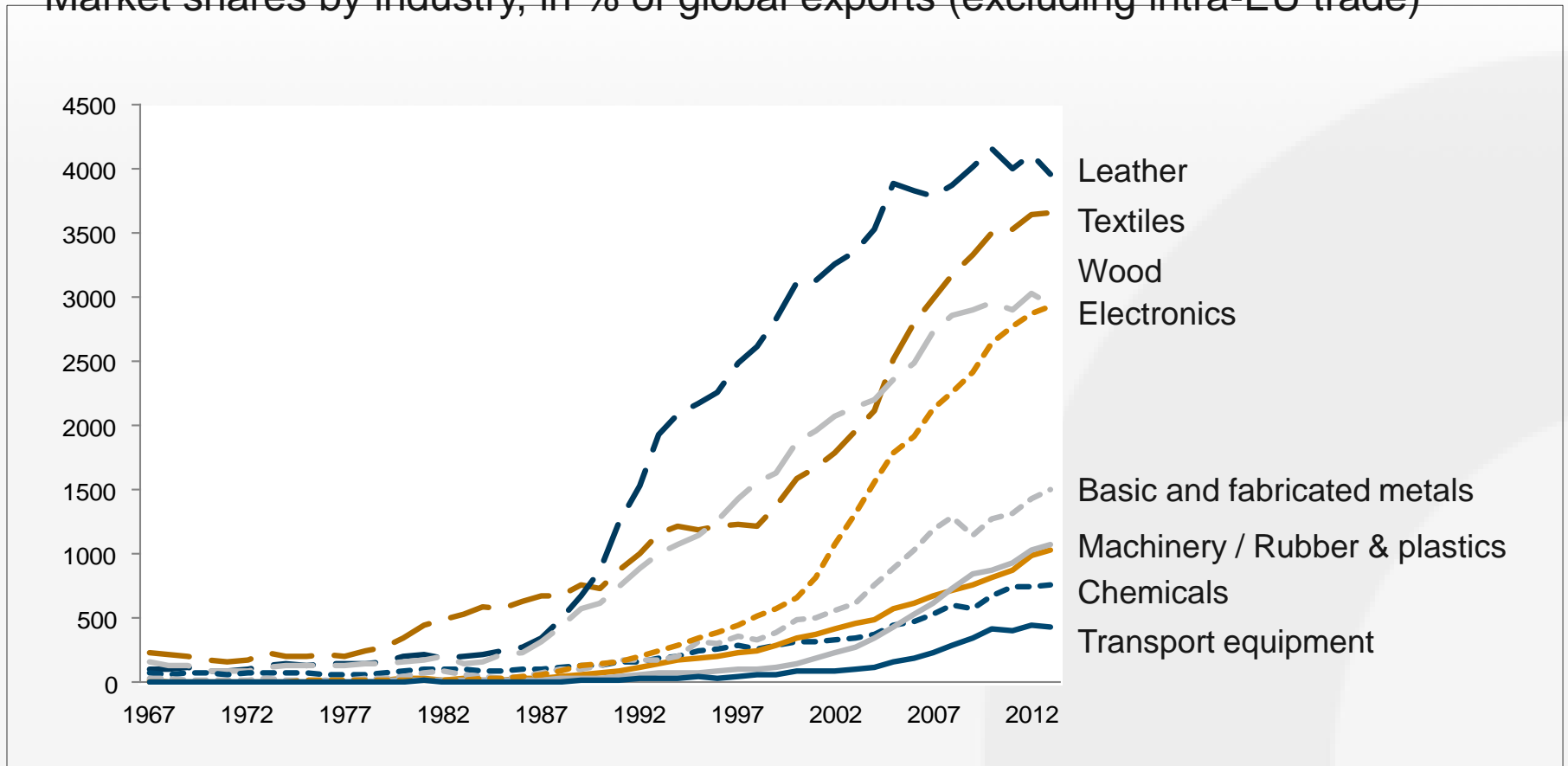
Market shares, in % of global exports (excluding intra-EU trade)



Source: CHELEM; CEPII-CIREM calculations.

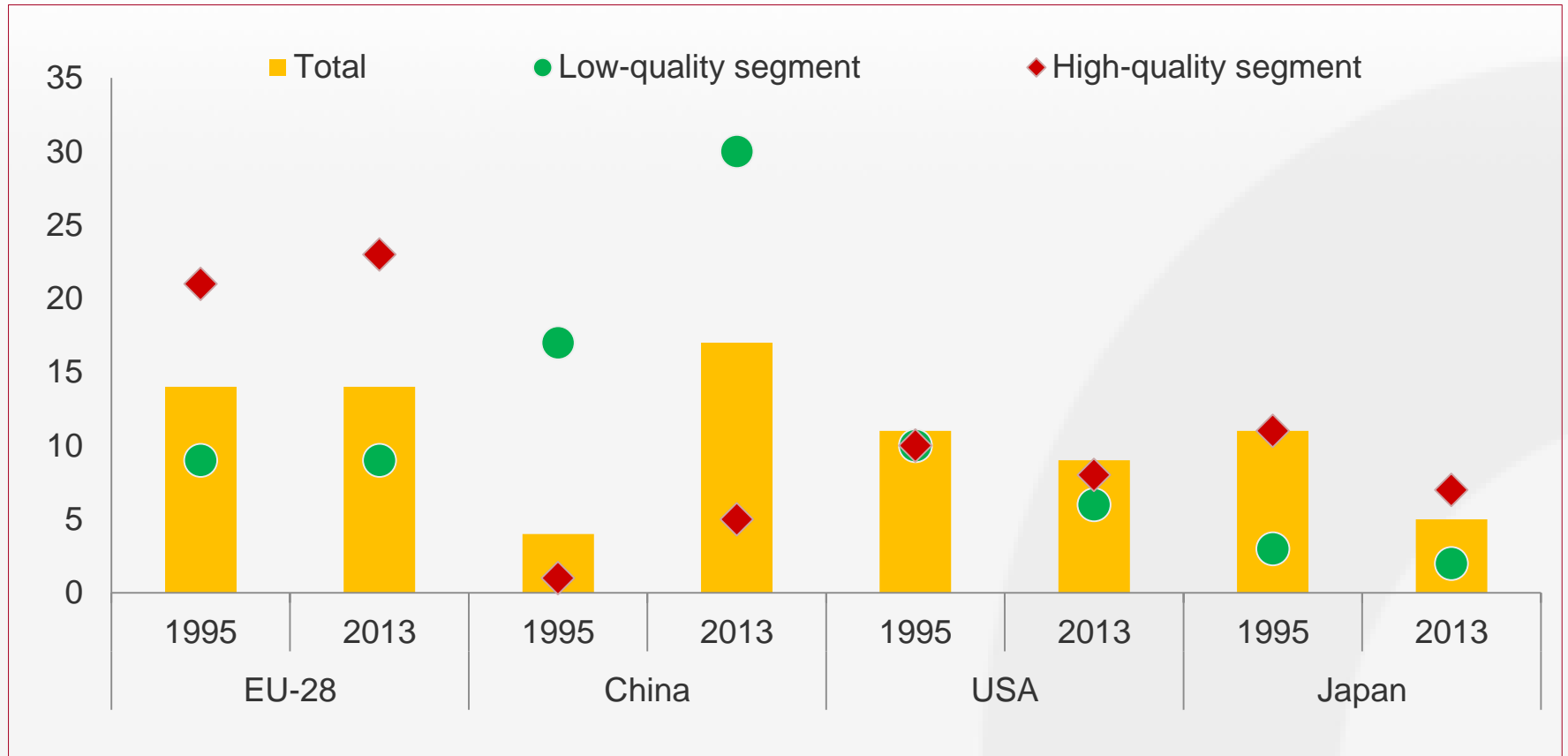
China: Climbing up the ladder?

Market shares by industry, in % of global exports (excluding intra-EU trade)



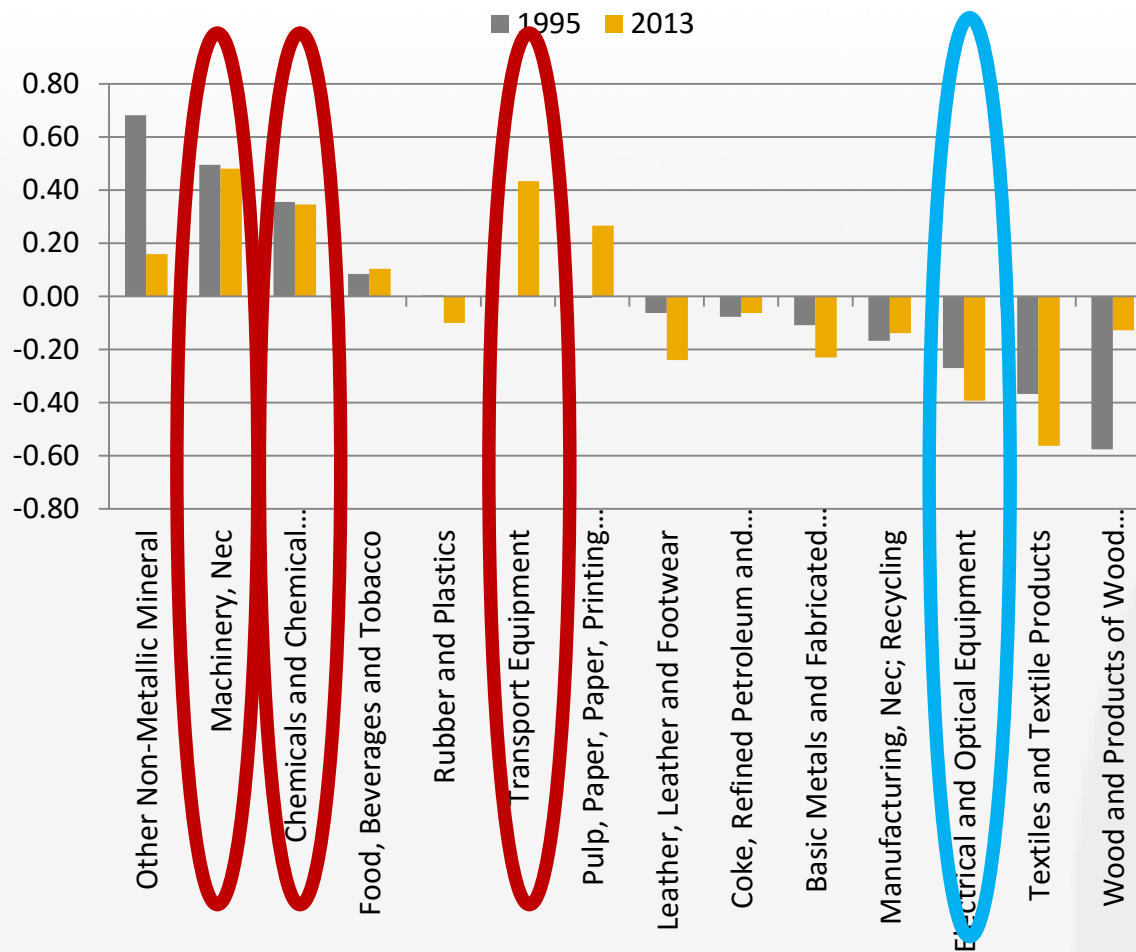
Source: CHELEM; CEPII-CIREM calculations.

Export market shares by unit value segments



Source: BACI; wiiw calculations.

EU Revealed comparative advantages and export structures

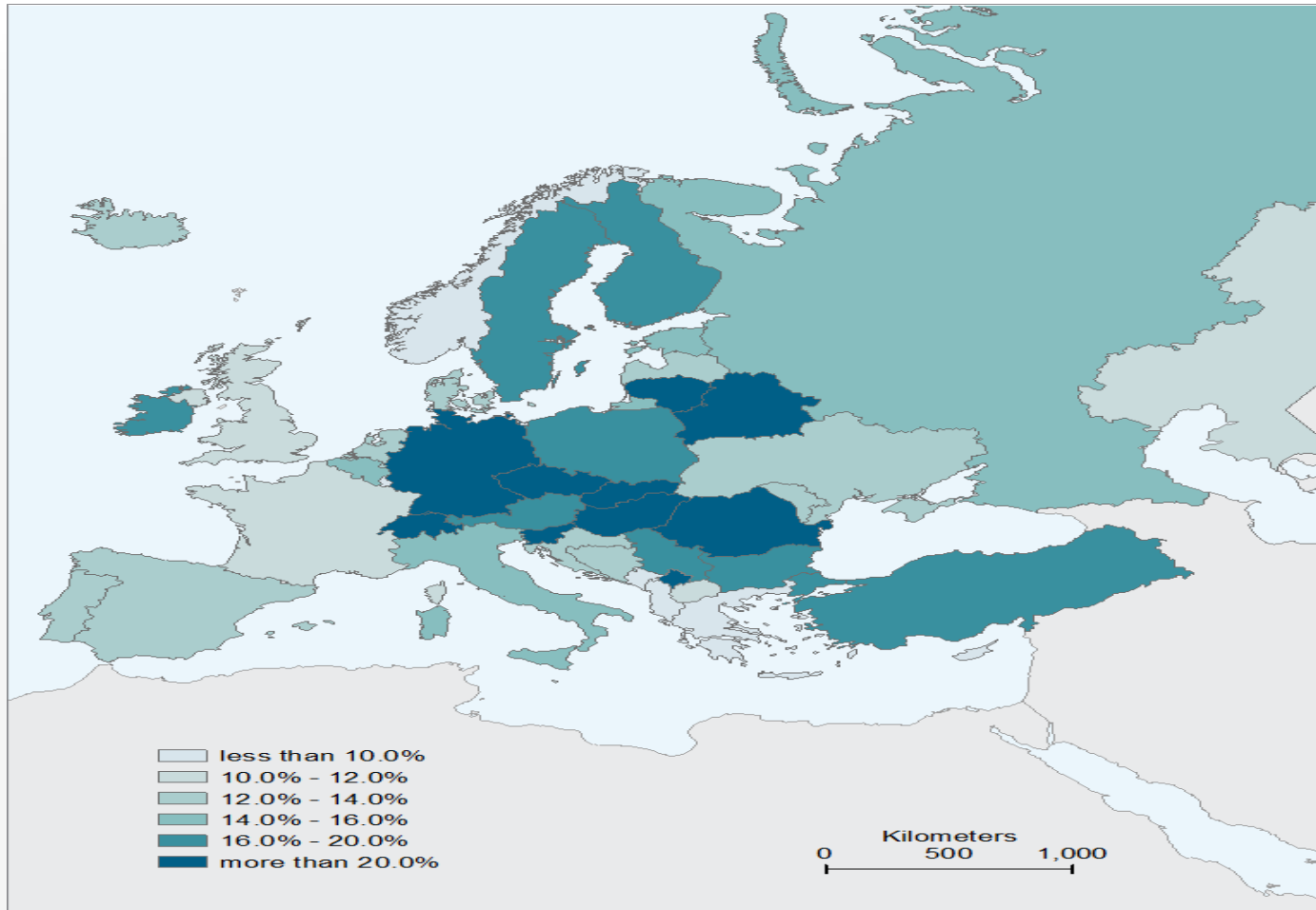


Stylized facts of EU integration before the Global Trade Collapse

EU integration before crisis 1995-2008: Stylized facts

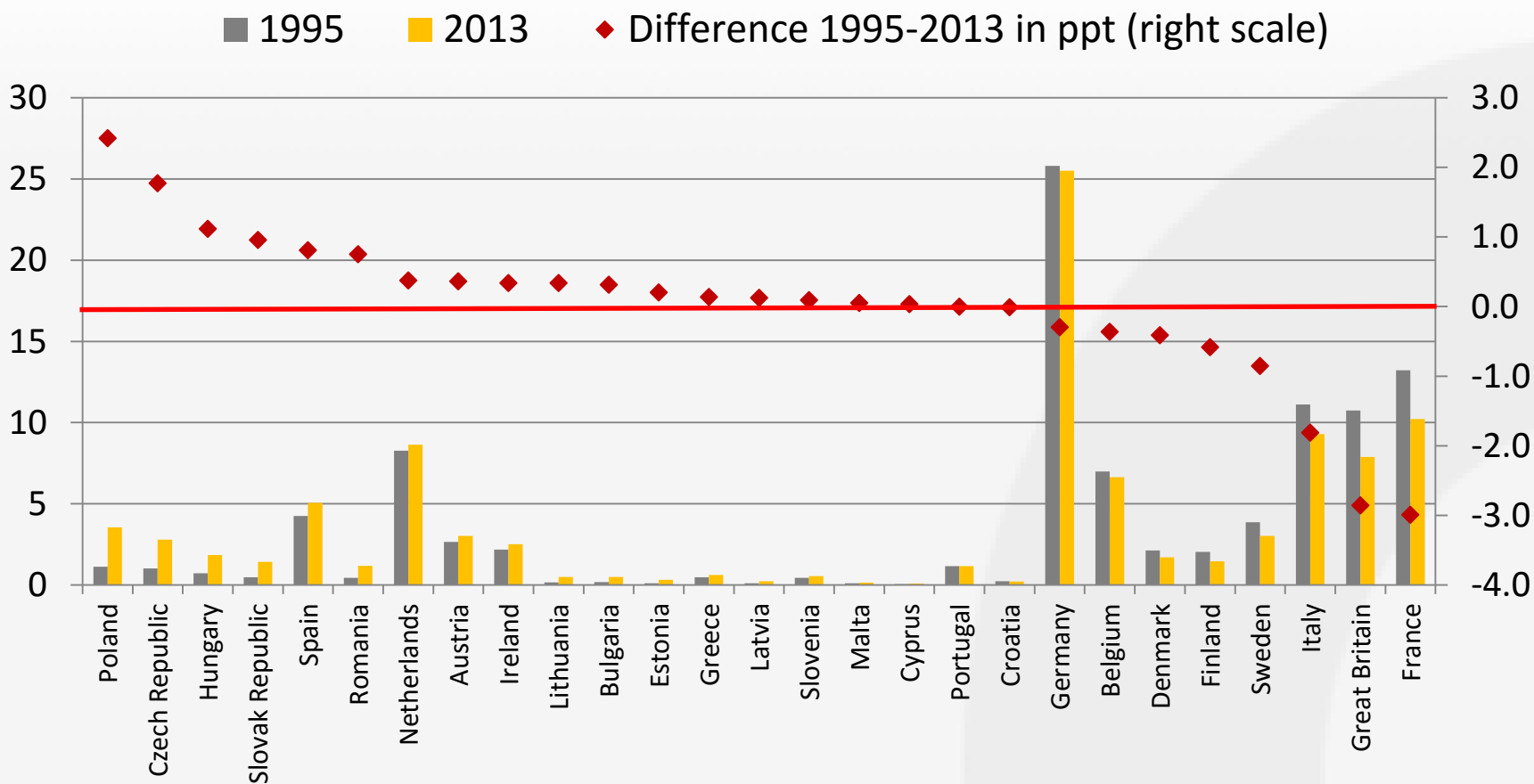
- West-East integration of production particularly in medium-high and high-tech industries
- Technology spillovers via FDI and intermediates trade and favourable conditions for catching-up processes in CEECs
 - Production and quality upgrading
 - Export upgrading in medium-quality segment
 - However, CEECs show low share of business related services (KIBS) of which large shares are imported
- EU as a whole could maintain rather strong manufacturing base
- Strong specialisation patterns in Europe
 - Emergence of „EU manufacturing core“ and „EU services core“
 - ‚Left-outs‘ (with no clear specialisation patterns); mostly peripheral countries
- Imbalances problems in EU

The Central European Manufacturing Core



Source: wiiw Handbook, 2014

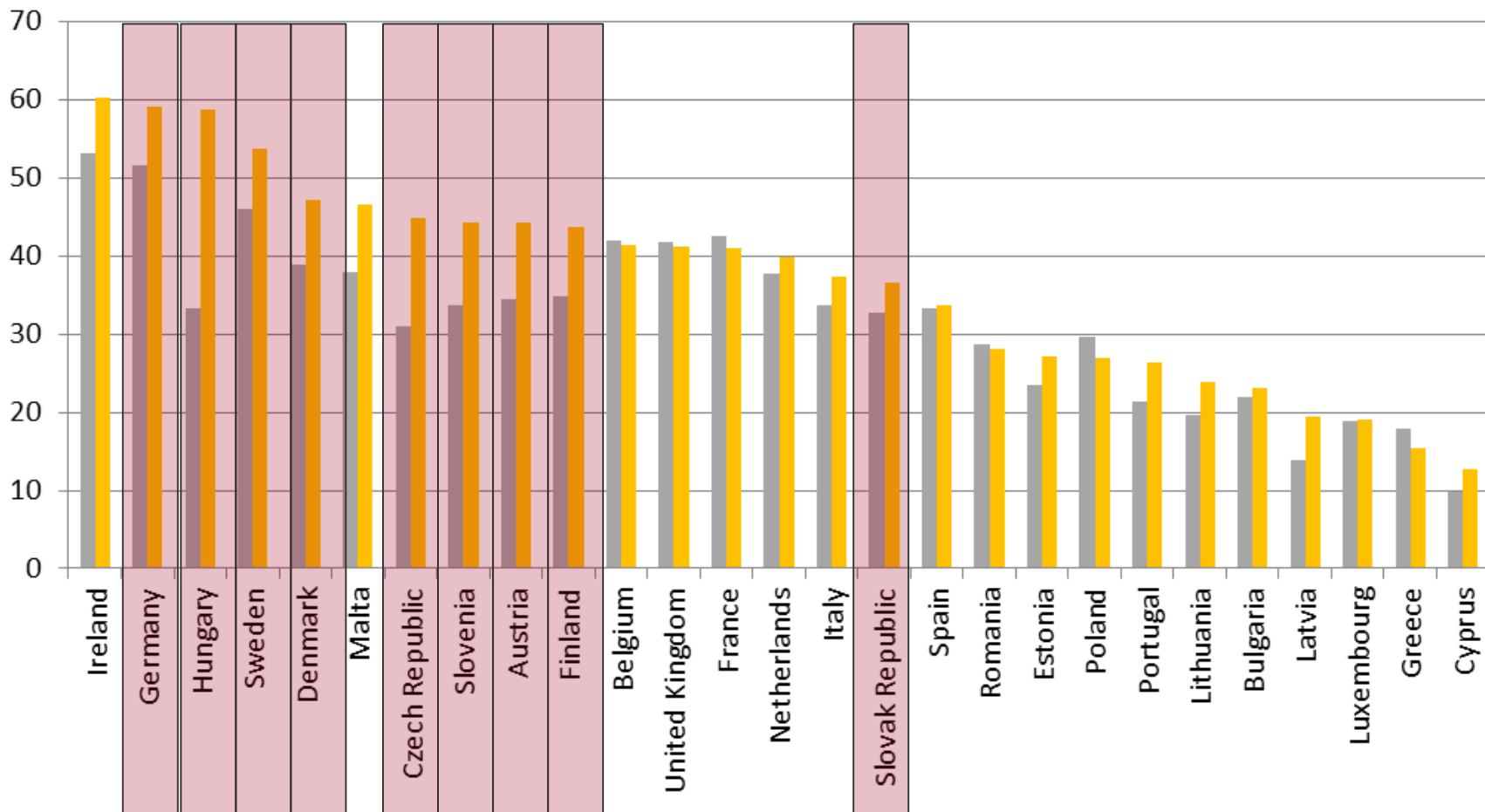
Contribution to EU exports (incl. intra- EU) by member state, in %



Source: Stehrer, et al. 2016

These „manufacturing core „ countries have also managed to specialise in high-tech industries

■ 1995 ■ 2011



Production integration contributed to the ‘industrial divergence’ in the EU

Dependent variable:	$\Delta sh^{\text{manufacturing}}$
initial manuf share	-0.0057
initial GDPcap	-0.0602
initial GDPcap - sq	0.0030
CEMC	0.0060 *
GVC participation	-0.0335 *
GVC participation x CEMC	0.0644 **
Δ labour costs	0.0387 *
Δ real FX	-0.0852 **
R^2 -adj	0.170
Obs.	103

Integration in global value chains intensifies ‘de-industrialisation’ for EU-MS

...but supports manufacturing specialisation in the CE manufacturing core

Source: WIOD, wiiw-calculations (FIW Research Report 2014: The Central European Manufacturing Core)

Note: Pooled panel regression including a constant and time fixed effects. Δ manufacturing share are 4-year differences. Specifications including interaction terms are estimated using centred values (with zero mean) of the variables forming the interaction terms. ***,** and * indicate statistical significance at the 1%, 5% and 10% level respectively.

Future developments

Assessing future developments based on gravity regressions

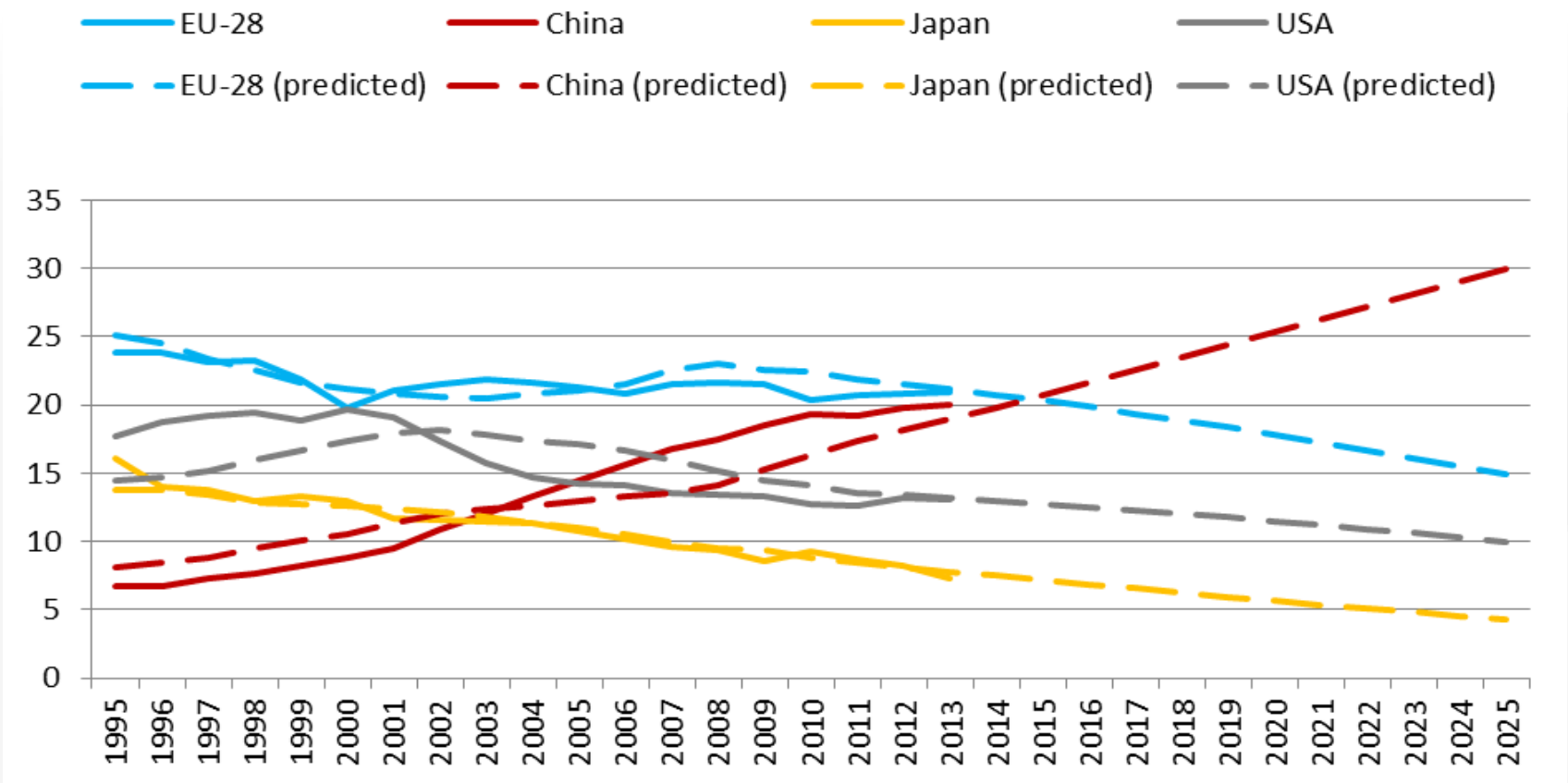
Gravity regressions

$$\ln \text{Exp}_{\text{REPPARjt}} = \alpha_0 + \beta_1 \ln \text{TOTVA}_{\text{REPt}} + \beta_2 \ln \text{POP}_{\text{REPt}} + \beta_3 \ln \text{TOTVA}_{\text{PART}} + \beta_4 \ln \text{POP}_{\text{PART}} + \beta_5 \ln \text{HC}_{\text{REPjt}} + \beta_6 \ln \text{HC}_{\text{PARjt}} + \beta_5 \ln K_{\text{REPjt}} + \beta_6 \ln K_{\text{PARjt}} + \text{Dummies} + \epsilon_{ijt}$$

- Penn world tables and WDI
- Forecasts for explanatory variables based on trends (adjusted)

World market shares (predictions)

(based on gravity estimations)

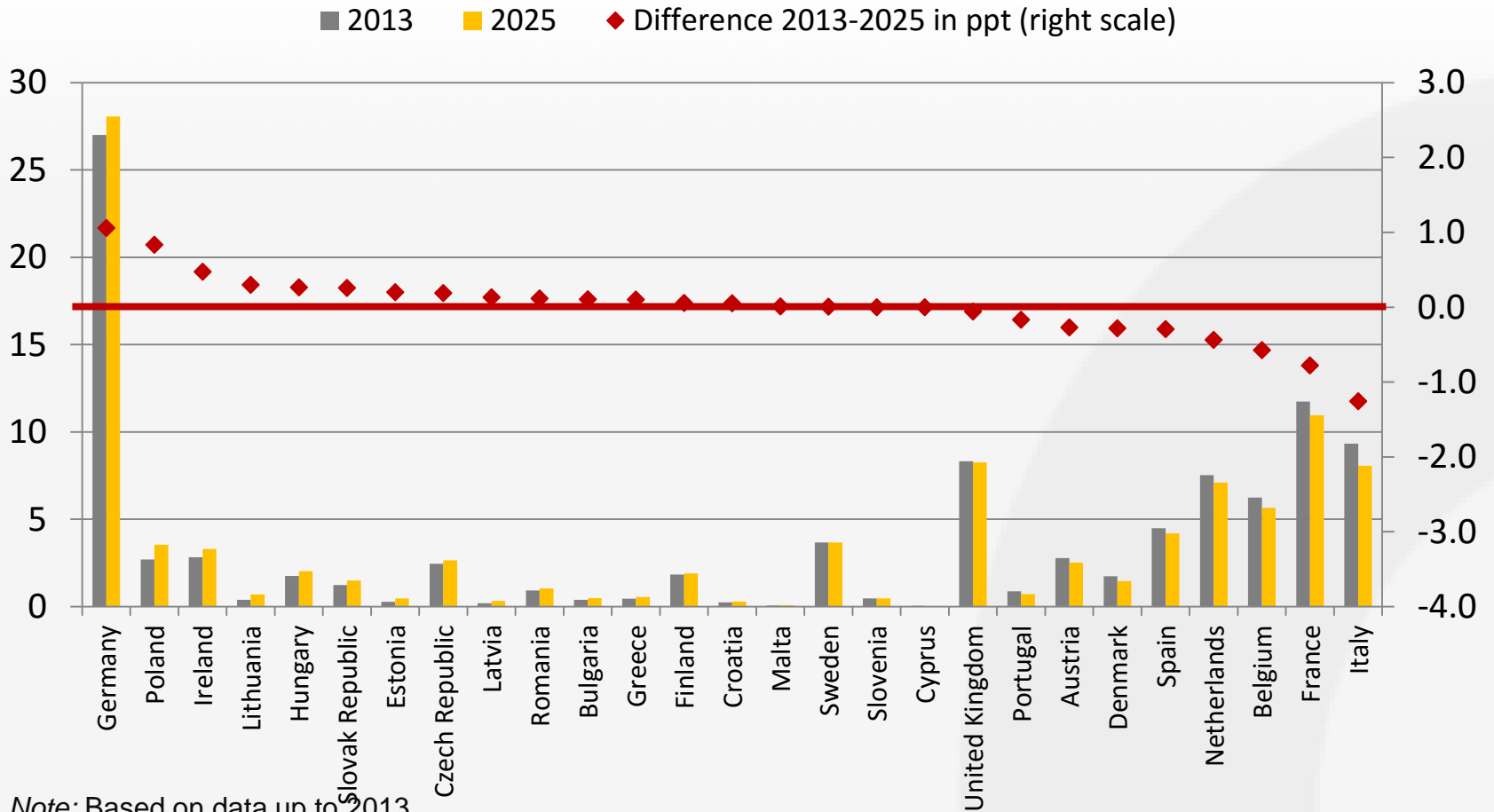


Note: Based on data up to 2013

Source: Stehrer, et al. 2016

Contribution to EU exports (incl. intra- EU) by member state, in %

Results from predictions based on gravity estimations



Note: Based on data up to 2013

Source: Stehrer, et al. 2016

Implications

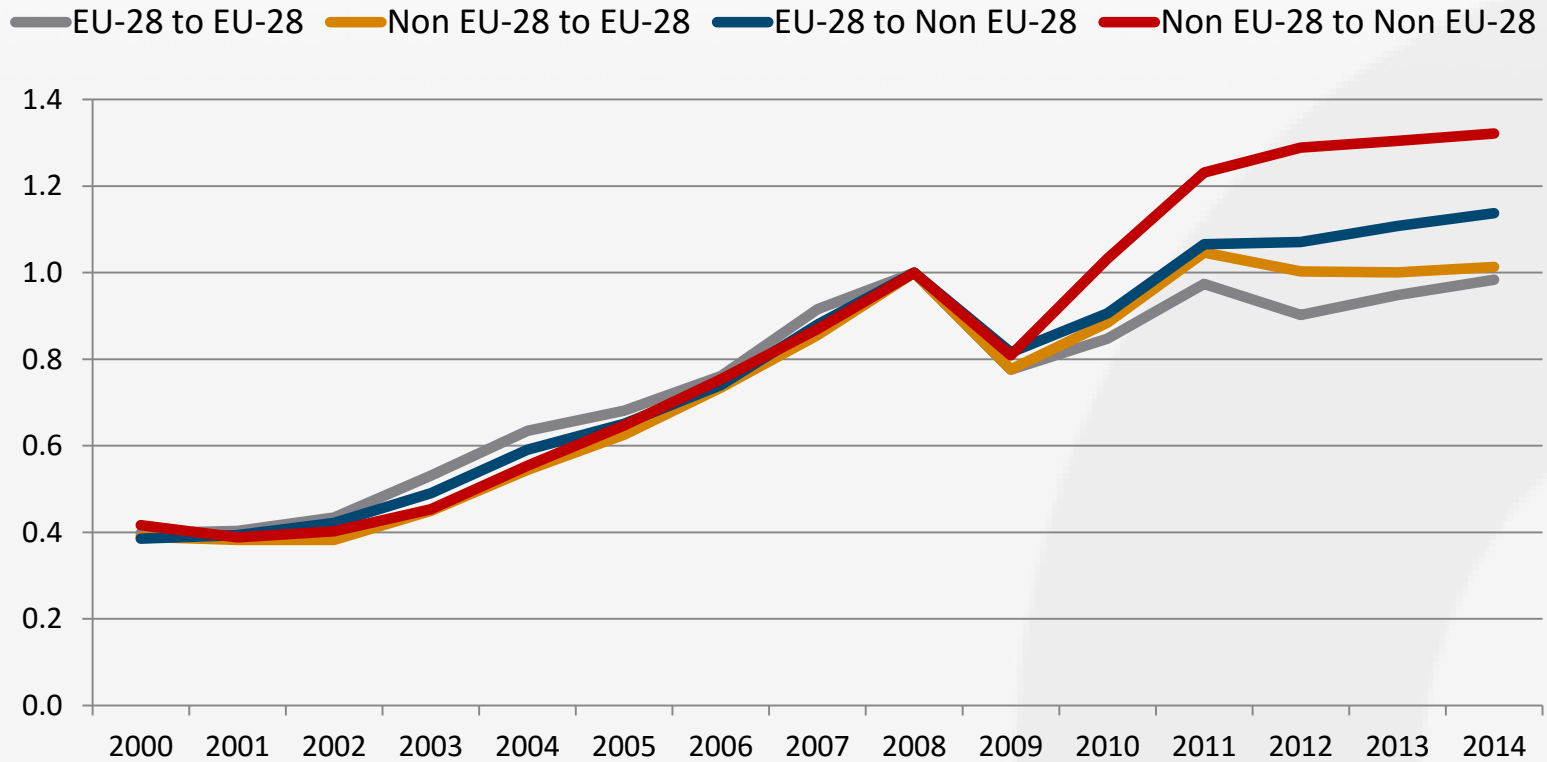
- EU as a whole is rather well positioned to maintain competitiveness in manufacturing
- The ‘EU manufacturing divide’ poses a formidable challenge as
 - leading to erosion of national manufacturing systems in part of the E
 - Reduced long term growth prospects for EU-MS outside the manufacturing core (except maybe those with strong business services sector)
 - Recurring current account imbalances
- Diverging specialisation patterns hard to counteract (even with targeted policy measures)
- Several policy options but politically difficult to implement
 - European industrial policy initiatives is the least likely policy option
 - Fiscal transfers
 - Increased EU internal labour mobility

Stylized facts of EU integration after the Global Trade Collapse

(see Nagengast and Stehrer, 2016, for an analysis of the trade collapse)

Global trends in goods and services trade

Export dynamics, 2008=1



EU-28 trade elasticities for imports and exports by region

(for manufacturing goods trade)

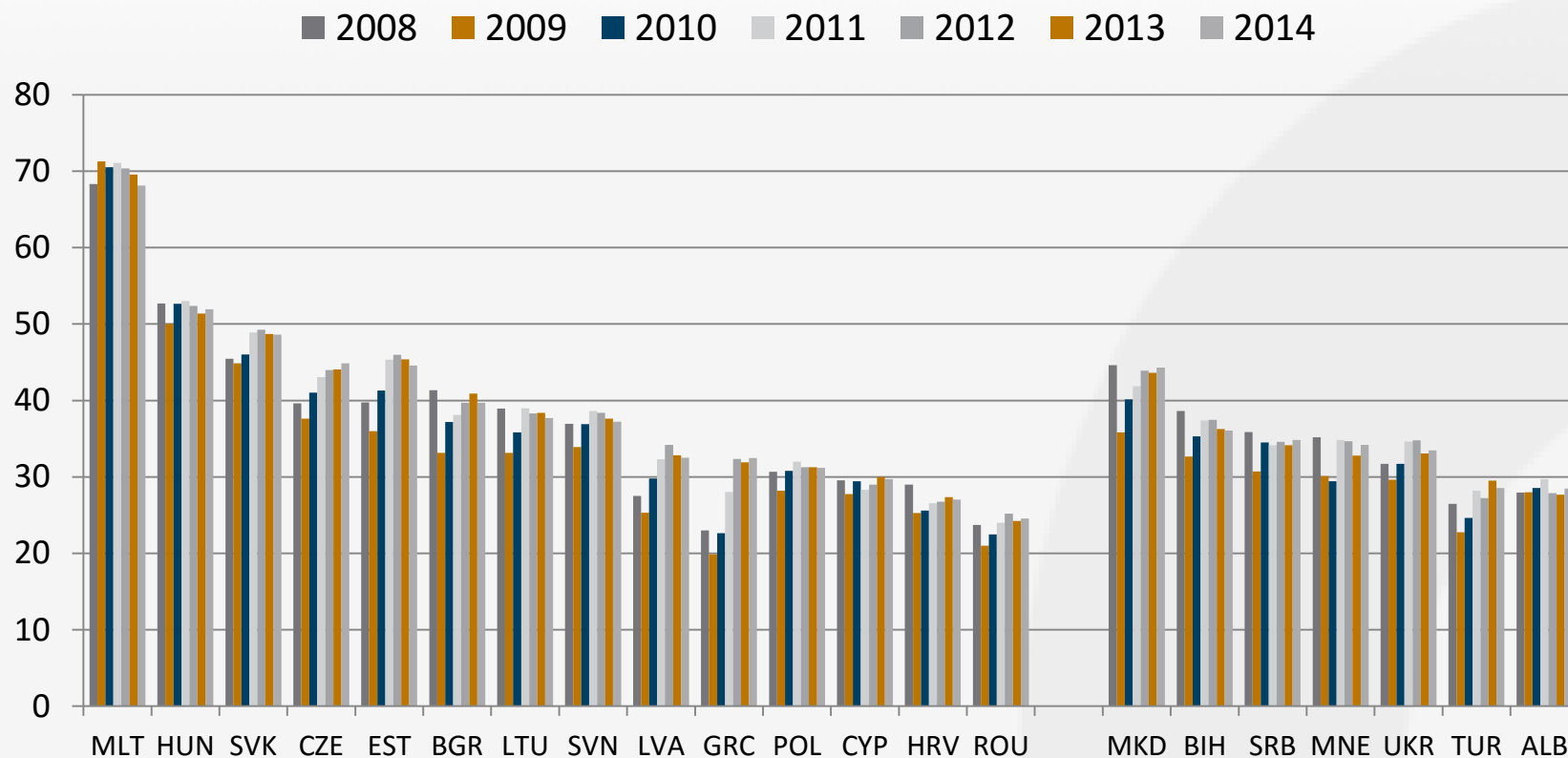
	Total EU28 exports	Extra-EU28 exports	Intra-EU28 exports
log GDP exporter	0.557*** (27.823)	0.573*** (24.793)	0.456*** (15.147)
log GDP importer	0.703*** (42.340)	0.665*** (35.794)	0.873*** (30.371)
Change in export elasticity 2009	-0.015* (-1.652)	-0.013 (-1.201)	-0.027** (-2.529)
Change in export elasticity 2010-2011	-0.045*** (-6.198)	-0.043*** (-5.162)	-0.052*** (-6.089)
Change in export elasticity 2012-2014	-0.064*** (-9.617)	-0.062*** (-8.097)	-0.070*** (-8.661)
Change in import elasticity 2009	0.011 (1.641)	0.018** (2.387)	0.017* (1.716)
Change in import elasticity 2010-2011	0.026*** (5.253)	0.032*** (5.881)	0.010 (1.364)
Change in import elasticity 2012-2014	0.030*** (6.707)	0.039*** (7.787)	-0.008 (-1.037)

- Reporter (Export) elasticities lower
- Partner (Import) elasticities higher
 - Particularly for non-EU partners

GVC integration in the wider Europe

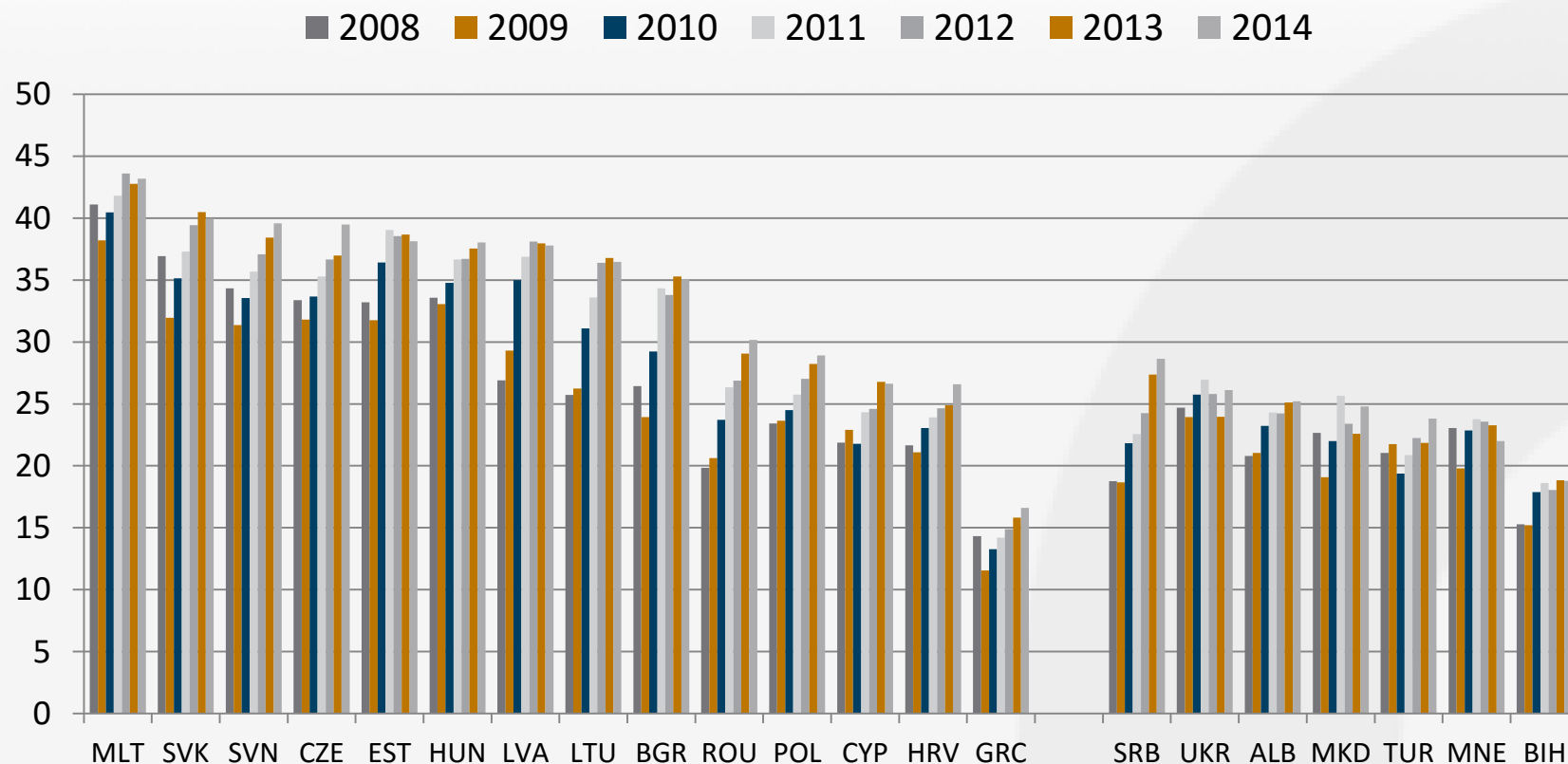
Production integration in the Wider (Eastern) Europe: stalled after the crisis

Share of foreign value added in exports, in %



Production integration in the Wider (Eastern) Europe: Value added exports show increasing importance

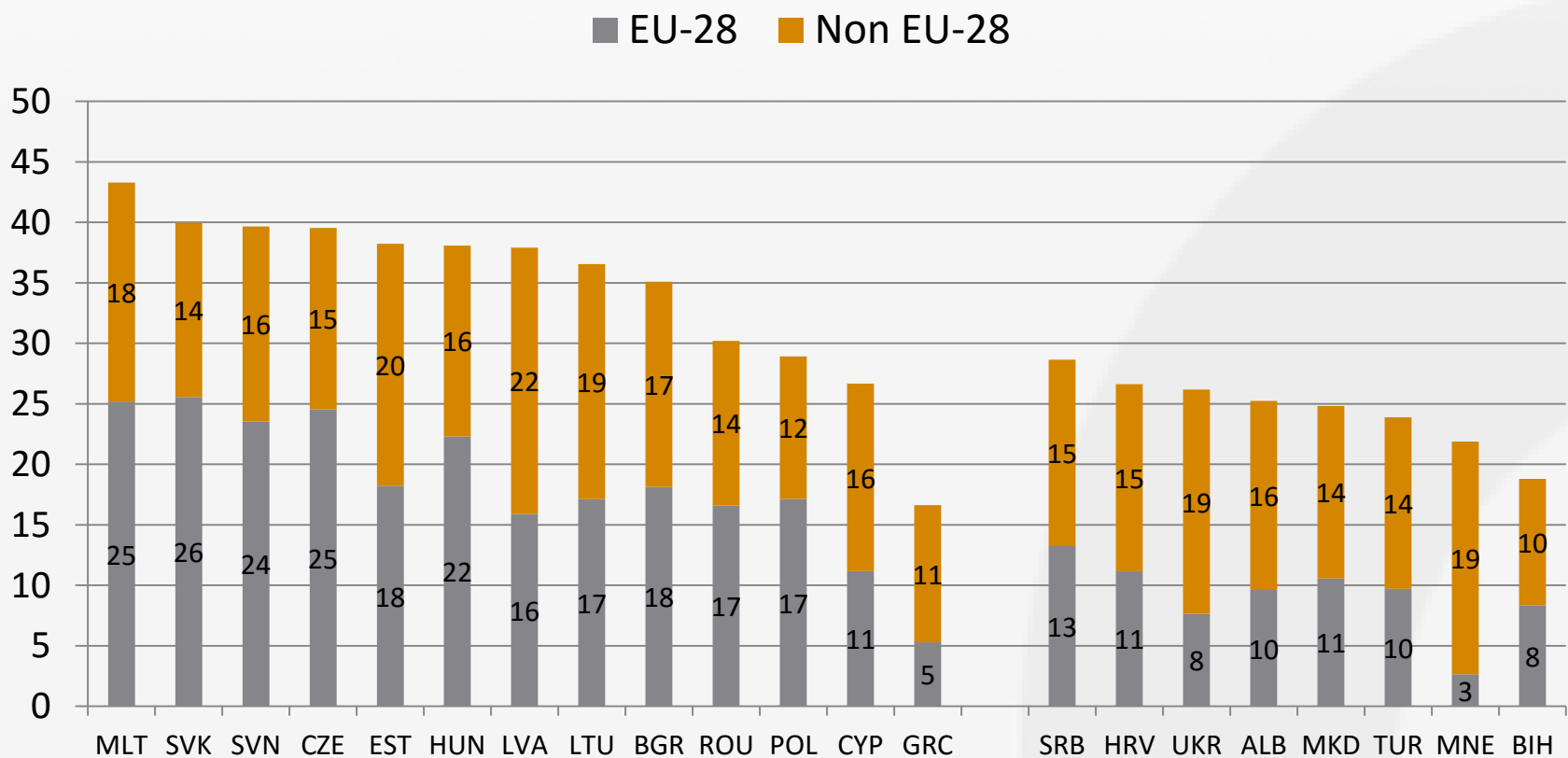
Share of value added exports in GDP, in %



23 Source: WIOD release 2016 and extension (preliminary); wiiw calculations

Production integration in the Wider (Eastern) Europe: EU-28 is (still) an important market

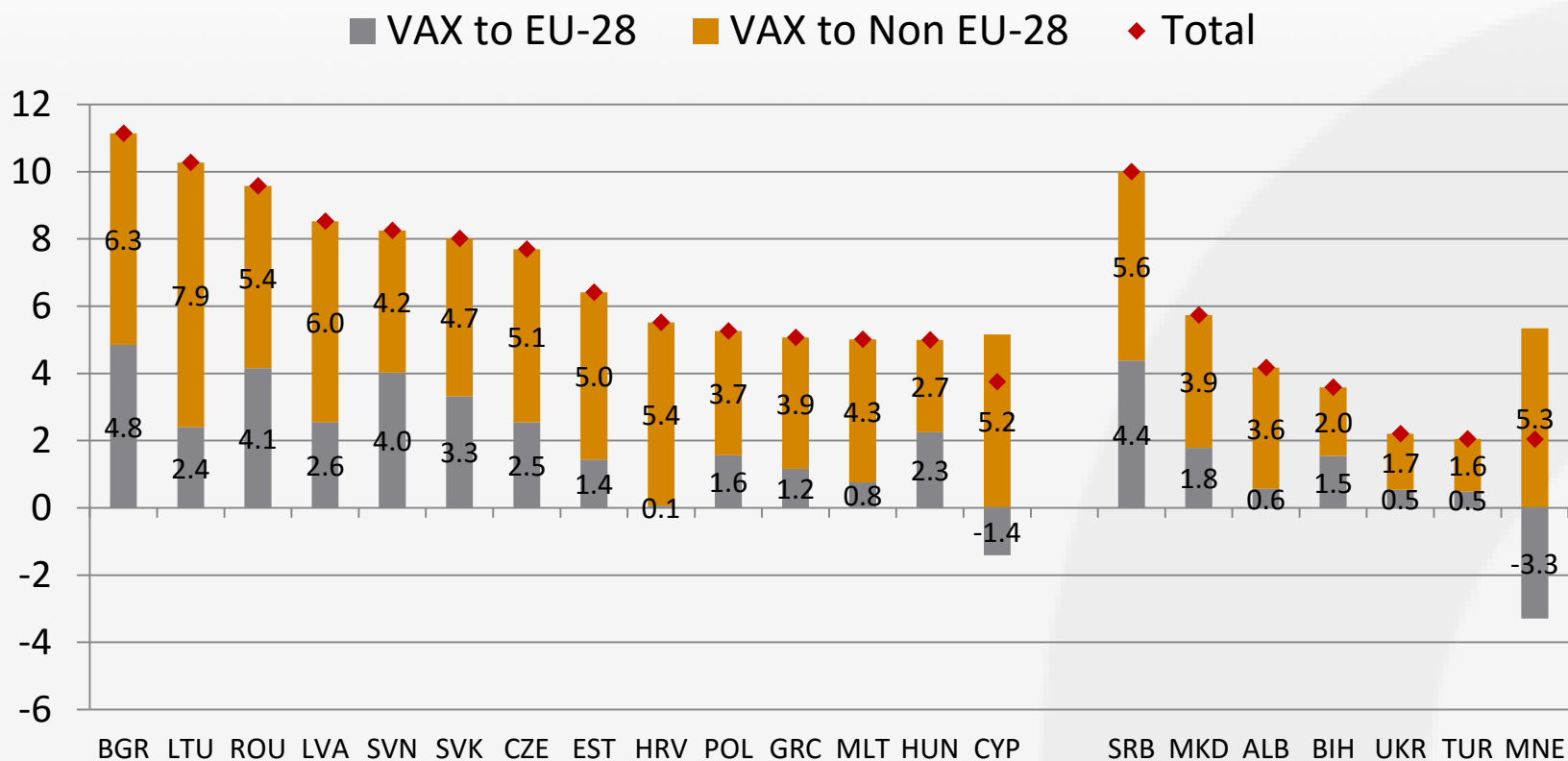
Share of value added exports by region in GDP 2014, in %



24 Source: WIOD release 2016 and extension (preliminary); wiiw calculations

Production integration in the Wider (Eastern) Europe: Non-EU markets becoming more important

Change in share of value added exports in GDP 2009-2014, in ppt



Source: WIOD release 2016 and extension (preliminary); wiiw calculations

Summary: The “New Normal”?

- The ‘New Normal’ characterised by significant break in GVC integration trends
 - At global level, but particularly in intra-EU patterns
 - Agglomeration tendencies and specialisation dynamics in EU likely to continue though at lower pace
 - For SEE countries less scope of GVC integration
- Low growth in EU-28 are part of the explanation of weak global trade growth
 - Is integration cause or consequence of growth?
- Sluggish EU growth partly compensated via significant shift towards non-EU markets
- Wider EU needs to regain growth

Thanks for attention!

Robert.Stehrer@wiiw.ac.at