EU competitiveness challenges: a recurrent concern and what is different now

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Panel: Europe facing an Existential Challenge

OFCE -LEAP workshop "(Missing) Productivity and the Growth Challenge", Paris May 23

Reviving European competitiveness (I)

- Recurrent priority
    - 80s. Single market (White paper, Single European Act, Cecchini report..)
    - 2000. Lisbon strategy
    - Post GFC. Competitiveness Pact, Europe 2020, European Semester, MIP
- Actual meaning changing over time (external competitiveness vs. productivity; single-country vs. EU-wide)
- Current emphasis: productivity, EU-wide, establishment of world presence in key expanding sectors with market failures
- Competitiveness challenges compounded by: persistent ICT gap, decarbonization, geopolitical tensions

Reviving European competitiveness (II)

What differs in the current context

- Challenges

  - Externalities at play (market failures, non-economic objectives linked to climate and security)

  - Global challenges perceived at EU-wide level + eroding global level playing field

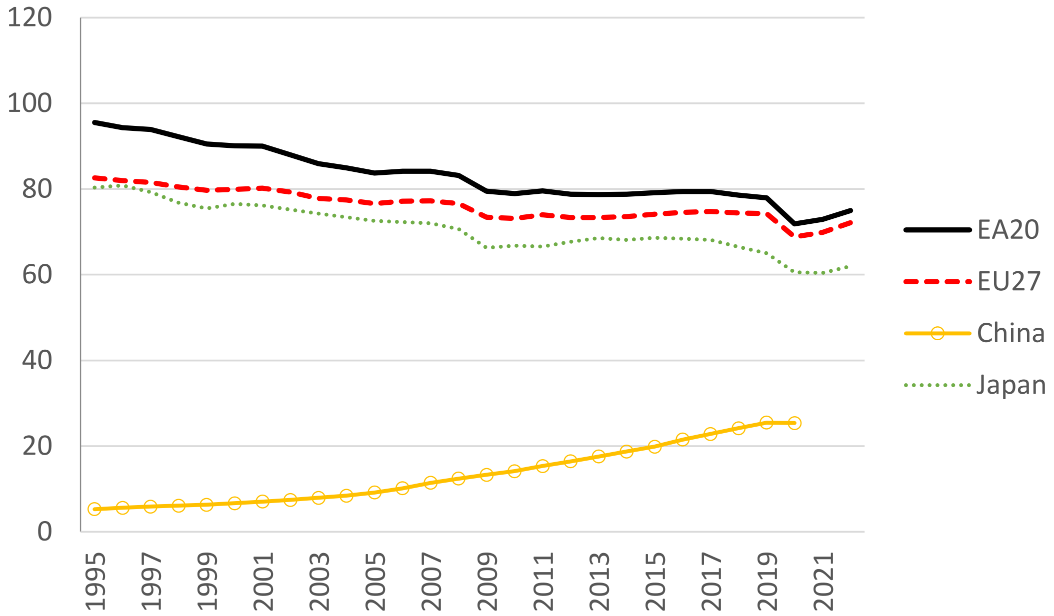
  - Urgency (energy, security,…)

- Solutions

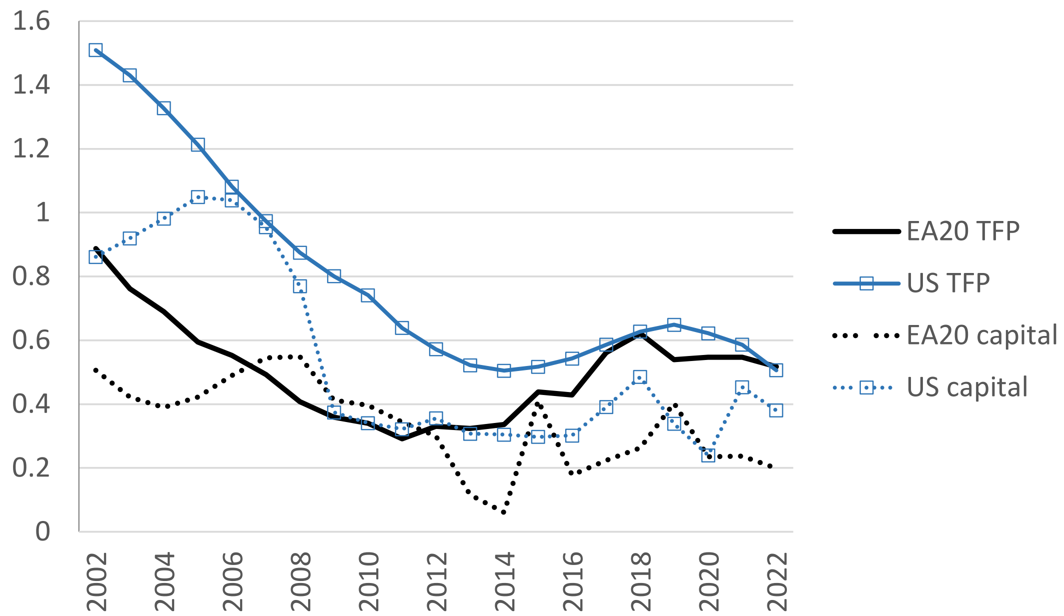
  - Productivity recovery + output re-composition
  - National + EU dimension
  - Need to overcome institutional failures + market failures

Productivity trends

Labour productivity relative to US (constant PPS)



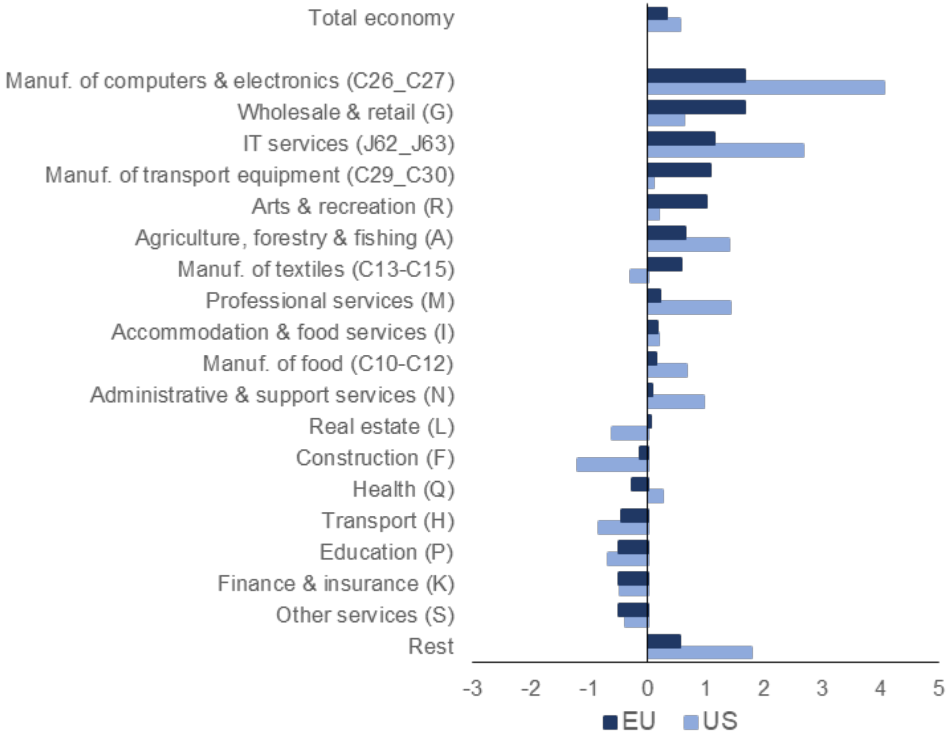
Potential labour productivity growth (%)



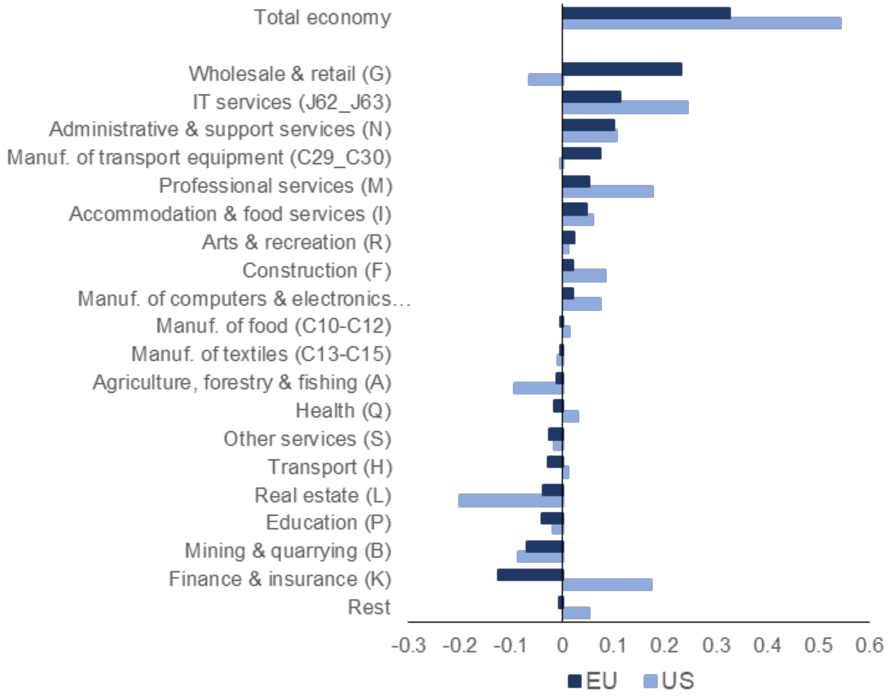
Note: Labour productivity is GDP per hour worked (GDP employee for China). Sources: AMECO, EUCAM

Sectoral patterns of TFP growth, EU vs. |US

Sectoral annualised TFP growth (%) EU vs. US 2013-2019



Sectoral contributions to total TFP growth (%) EU vs. US 2013-2019



EU is the GDP weighted average of AT, BE, DE, DK, ES, FI, FR, IT, NL, SE. Elaborations on EUKLEMS data. Source: Nikolov et al. (2024).

Debate and policy process

- Eurogroup discussions in 2023 / 2024. Joint statement

  - need to overcome innovation gap to revive productivity growth. Gap mostly in private R&D. Role of reforms to boost incentives to invest and innovate. Business environment. Regulatory burden. Venture capital. Skills supply.

  - energy grids, energy markets

  - Leveraging single market to reap scale economies. Industrial policy: risk that national state aid jeopardises level-playing field, need of careful design.

  - Relevant financing needs for green and digital transition, to be covered mainly by private capital although public capital also key where markets fail. Synergies public-private. Role for CMU. Role for de-risking via EIB, investEU.

- Draghi report (sept 24). Wake up call. Relevant elements on top of points above:

  - Investment needs: refocusing of EU budget, role of public budgets, common EU debt

  - Eu-wide industrial policy supported by aligned competition and trade policy

  - Improved governance, coordination

Competitiveness Compass (jan. 25)

A COMPETITITVENESS COMPASS FOR THE EU

3 PILLARS

- **CLOSING THE INNOVATION GAP**
- **A ROADMAP FOR DECARBONIZATION AND COMPETITIVENESS**
- **REDUCING DEPENDENCIES AND INCREASING SECURITY**

5 HORIZONTAL ENABLERS

- **REGULATORY SIMPLIFICATION**
- **SINGLE MARKET**
- **FINANCING OF INNOVATION**
- **SKILLS AND QUALITY JOBS**
- **BETTER COORDINATION**

Competitiveness Compass

- 39 flagship initiatives tables over 2025 and 2025.

- Implementation underway, e.g. :
  - Clean Industrial Deal & Affordable Energy Action Plan (ren. energy, demand, circularity, skills, trade)
  - Omnibus I and II (simplification)
  - Union of Skills ….

- Investment financing, industrial policy:
  - Private capital (expanded scope of EIB, InvestEU, Savings and Investments Union agenda to raise access to finance via new financial products, securitization, incentives for risk capital…)
  - Next MFF: refocused budget
  - Competitiveness Fund. Financing of cross-border projects in key sectors, “whole investment journey”
  - State aid framework (Clean Industrial Deal)

A key challenge: changing industry patterns

- More needed than ever
- TFP growth can be revived only if output grows in high-growth industries, but happening at a very slow pace
- There is a EU-US productivity and profitability gap in high-growth industries
- Limits to what the removal of reallocation bottlenecks and improved access to finance can achieve

TFP growth and changing relative industry size, EU vs. US

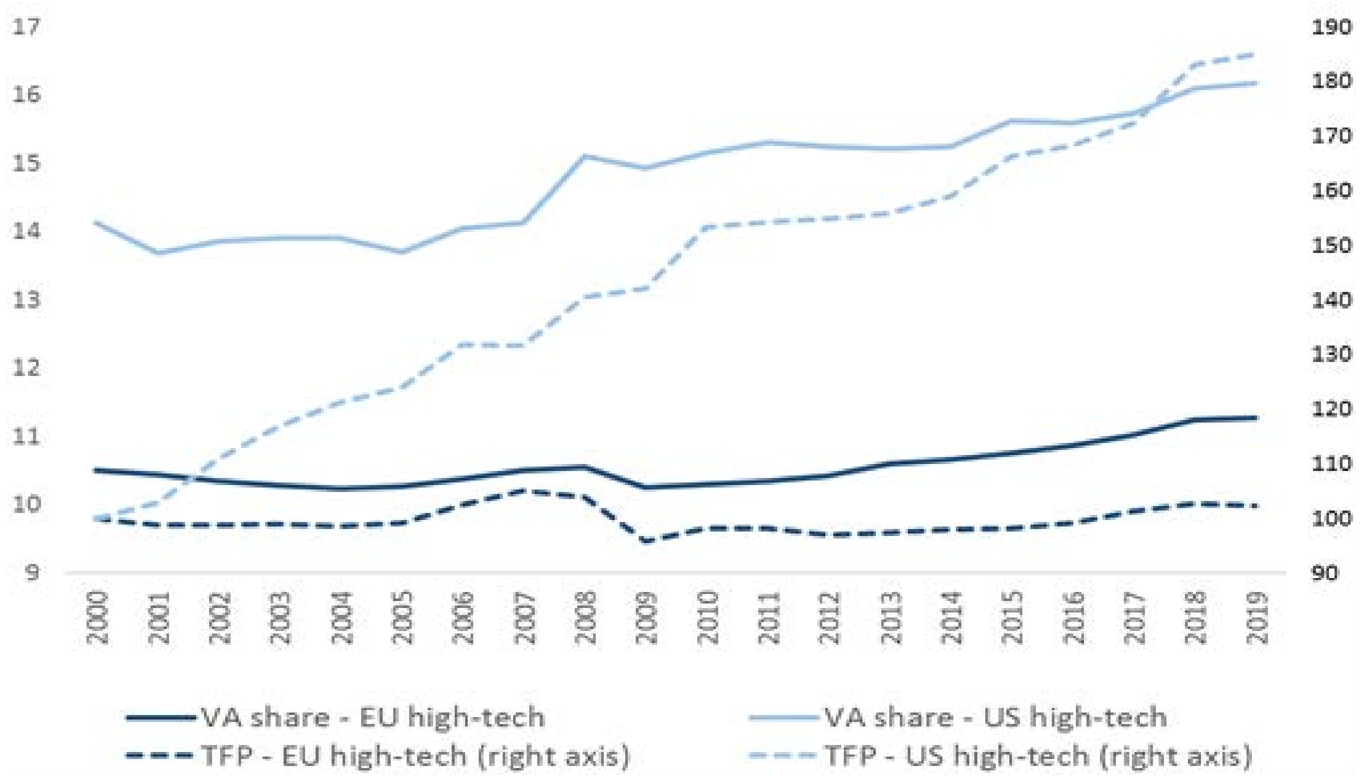
TFP growth and industry shares in total economy in the EU: results from between-regressions

Dep. var. *Δ* share of value added Explanatory variables	2000-2019	2013-2019	2013-2019
l.TFPg	-0.00532*** [-2.671]	0.0125*** [5.334]	0.0124*** [5.269]
Mid-tech			-0.000262** [-2.057]
High-tech			0.000419*** [2.725]
l.TFPg* mid-tech			
l.TFPg* mid-tech			
Country dummies	Yes	Yes	Yes
Observations	4,936	1,736	1,736
N. of sectors/countries	248	248	248
R-squared	0.029	0.107	0.160

T-statistics in brackets; *** p<0.01, ** p<0.05, * p<0.1. Results display between-regressions over the time period reported. Dummy middle tech and high tech are equal to 1 if the sector is considered, respectively, middle tech or high tech. The industries that are considered high-tech are: Manufacturing of computers & electronics (C26_C27), IT services (J62_J63), and Professional services (M). Mid-tech industries are defined as: Manuf. of chemicals & pharma (C20_C21), Manuf. of machinery (C28), Manuf. of transport equipment (C29_C30), Transport (H), Telecommunications (J61) and Finance & insurance (K). The sample includes the following countries: Austria, Belgium, Germany, Denmark, Spain, Finland, France, Italy, Netherlands and Sweden Source: Nikolov et al. (2025), forthcoming.

Sectoral patterns of TFP growth, EU vs. US

Evolution of TFP (indexed at 100 in 2000) and VA share over 2000-2019, high-tech industries



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Wrapping up

- Convergence of factors make addressing the current competitiveness challenges for the EU more vital than in previous crisis moments
- Sectoral dimension, output re-composition is key
- The post US elections global scenario raises difficulties but presents opportunities as well