

Sectoral Growth Drivers and European Competitiveness

Michael Peneder

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Keynote speech at the 2011 meeting of the Italian Association for Industrial Economics and Policy (SIEPI), Rome, 27 January 2011

WIFO Lectures, Nr. 114

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2011/309/V/0

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Medieninhaber (Verleger), Hersteller: Österreichisches Institut für Wirtschaftsforschung •
1030 Wien, Arsenal, Objekt 20 • Tel. (43 1) 798 26 01-0 • Fax (43 1) 798 93 86 •
<http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien
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SIEPI - Italian Association for Industrial Economics and Policy
Keynote speech, *Rome, 27-01-2011*



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- Competitiveness
 - A “dangerous obsession” ?
 - Firms, industries and the macro-level
- Sectoral growth
 - Performance
 - Drivers
- Industrial policy

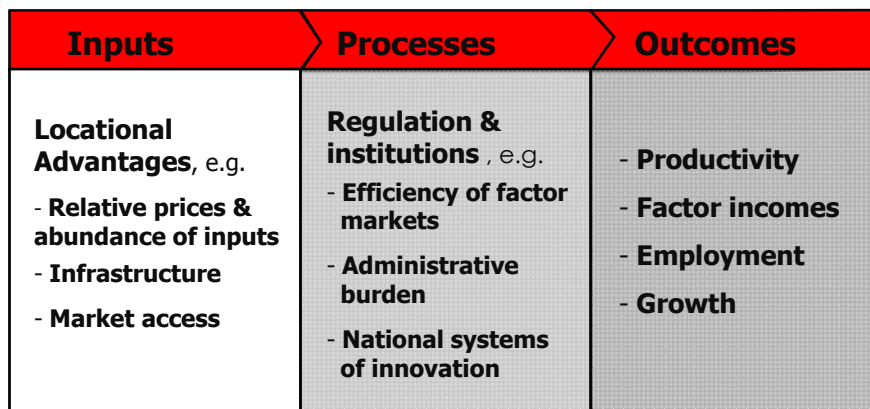
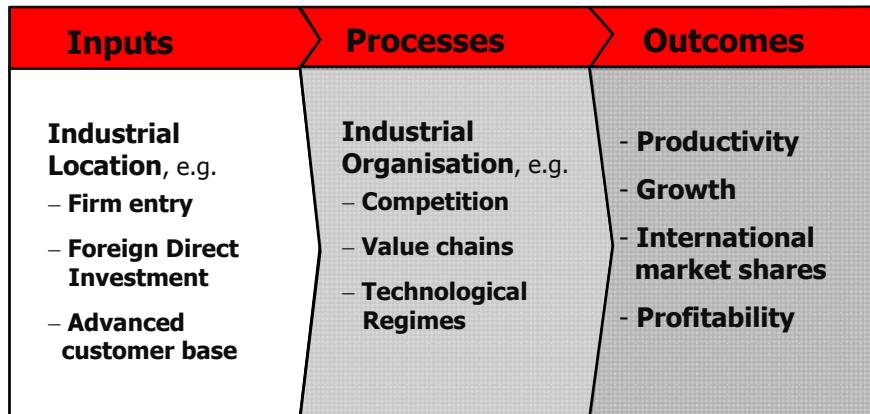
- **Paul Krugman** (MIT Press, 1996)
 - “So let’s start telling the truth: competitiveness is a **meaningless** word when applied to national economies. And the obsession with competitiveness is both **wrong and dangerous**”
- Valid arguments
 - **Illusion of conflict**; trade is no zero-sum-game
 - **Domestic spending** has larger impact than negative terms of trade effects
 - Wages rise with productivity: low **factor prices** indicate low competitiveness!

- Competition arises from **scarcity**, e.g. of
 - **Resources** (capital, labour/skills, raw materials)
 - **Access to markets** (EU integration; international trade agreements; transport)
 - **Knowledge & competences** (seeking rents from high-value production)
- Do these scarcities matter only for individual firms?
 - Sure, **enterprises are at the core**, but e.g.
 - relative abundance of inputs affect **industrial location**
 - differences in productivity and industrial structure affect aggregate income and the **standards of living!**

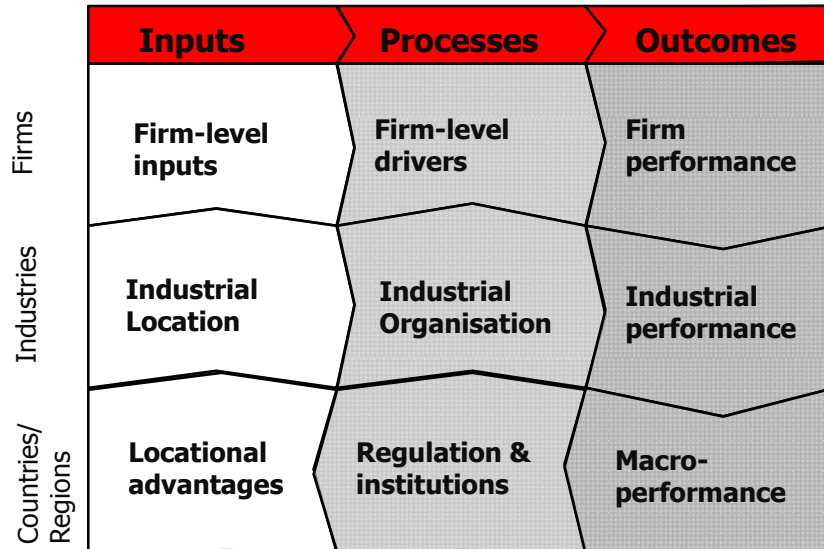
- Forget about country rankings !
- **Openness**: the very notion of “competitiveness” implies the willingness and ability to face competition, being domestic or from abroad
- Focus on **productivity**: the objective is to raise incomes, not lower wages !
- Policy must define the preferences and constraints to account for interdependencies with other **goals of society**, e.g.
 - Social cohesion
 - Sustainable environment

- "Competitiveness refers to the overall economic performance of a nation measured in terms of its ability to provide its citizens with **growing living standards** on a sustainable basis and broad access to **jobs**"
- "... refers to the institutional and policy arrangements that create the conditions under which **productivity** can grow **sustainably**"
- "**external** competitiveness refers to the ability to export goods and services in order to **afford imports**"

Inputs	Processes	Outcomes
<ul style="list-style-type: none"> - Labour & skills - Capital - Intermediates - Raw materials (incl. energy) 	<ul style="list-style-type: none"> - Entrepreneurship - Management - Organisation - Technology 	<ul style="list-style-type: none"> - Productivity - Survival - Profits - Growth - Market shares



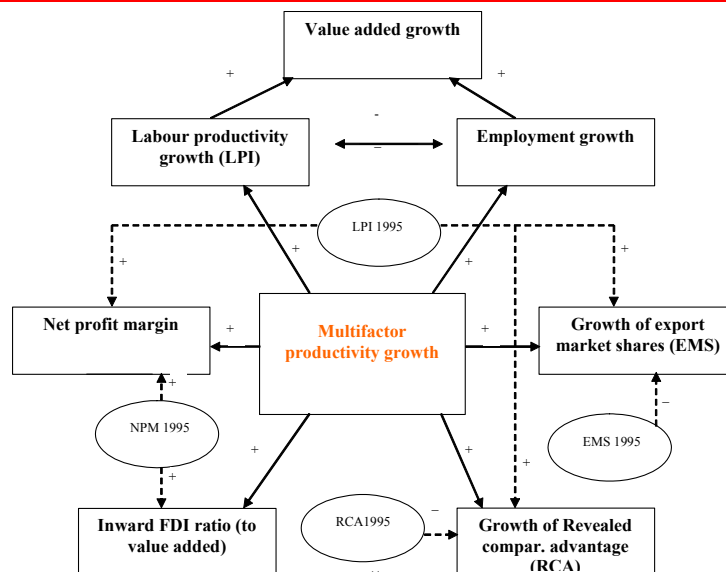
Competitiveness An integrated puzzle



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Sectoral performance Estimated interdependencies



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Sectoral growth drivers

Summary characteristics (a)

Table II.12a — Summary of selected sectoral characteristics – manufacturing 1 = very high, 2 = high, 3 = intermediate, 4 = low, 5 = very low

NACE	Industry	Capital income share	ICT share in capital income	High skilled labour	Innovation intensity *	Firm turnover ¹	Firm net entry ¹	Average firm size ¹	Firm Concentration HHI	Firm Concentration HHI2	Trade openness Exports Imports
15-16	Food, beverages, tobacco	2	4	4	4	4	4	3	3	3	-
15	Food and beverages	2	-	5	4	-	-	3	4	3	4
16	Tobacco	1	-	5	4	-	-	3	1	1	4
1711B	Textiles and clothing	4	2	5	-	2	4	3	3	4	-
17	Textiles	4	-	5	2	-	-	3	3	5	2
18	Clothing	4	-	5	5	-	-	3	3	5	2
19	Leather products	3	5	5	5	3	4	4	3	4	2
20	Wood, wood products	4	4	3	3	3	4	4	4	3	4
2122	Pulp, paper, publishing	3	2	2	3	3	3	3	3	2	-
21	Pulp and paper	2	-	5	3	-	-	3	2	2	3
22	Publishing and printing	3	-	4	4	-	-	4	3	3	5
23	Crude, refined petroleum	1	4	2	2	5	4	2	1	1	5
24	Chemicals	1	4	2	2	5	3	2	2	3	2
25	Rubbers, plastics	3	4	3	2	4	3	3	3	3	3
26	Non-metallic mineral prod.	2	4	3	2	4	3	3	3	2	4
272B	Basic metals and products	3	3	3	3	3	3	3	3	4	-
27	Basic metals	3	-	5	2	-	-	2	2	2	3
28	Fabricated metal products	4	-	5	3	-	-	4	4	4	4
29	Machinery and equipment	4	2	3	1	4	4	2	4	4	2
303B	Electrical and optical equip.	3	2	2	1	4	3	2	2	3	-
30	Office machines, computers	2	-	1	1	-	-	4	1	2	1
31	Electric machinery	3	-	5	1	-	-	2	2	3	2
32	Radio, TV, electronic equip.	3	-	3	1	-	-	2	1	2	1
33	Precision instruments	4	-	3	1	-	-	3	3	3	2
3405	Transport equipment	3	3	3	2	4	3	1	2	2	-
34	Motor vehicles, trailers	2	-	5	2	-	-	2	3	2	2
35	Other transport equip.	5	-	4	2	-	-	1	1	2	2
3632	Furniture, recycling	4	3	4	-	3	3	4	3	4	-
36	Furniture, other manufact.	4	-	5	3	-	-	4	4	4	3

NB: Relative importance is calculated as the mean of the quintiles of the sector ranking by countries, except for *, where the classification was produced by multivariate cluster analyses based on microdata from the Third Community Innovation Survey (see Penabaz, 2008).

¹ Employment weighted.

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Sectoral growth drivers

Summary characteristics (b)

Table II.12b — Summary of selected sectoral characteristics — market services 1 = very high, 2 = high, 3 = intermediate, 4 = low, 5 = very low

NACE	Industry	Capital income share	ICT share in capital income	High skilled labour	Innovation intensity *	Firm turnover ¹	Firm net entry ¹	Average firm size ¹	Supplier Concentration (HHI)
4041	Electricity, gas and water supply	1	4	2	4	4	3	1	2
40	Electricity, gas, steam and hot water	1	-	5	4	4	3	-	2
41	Water supply (cool, purification, distrib.)	2	-	-	4	4	3	-	2
45	Construction	4	4	5	-	2	2	4	5
50	Sale and repair of motor vehicles, fuel retail	3	3	4	-	2	3	5	4
51	Wholesale trade	2	2	3	5	2	3	4	5
52	Retail trade	4	2	4	-	2	4	3	5
55	Hotels and restaurants	4	3	4	-	1	2	4	5
6063	Transport services	3	3	5	-	-	-	-	-
60	Land transport	4	-	5	5	3	3	2	4
61	Water transport	3	-	5	5	3	3	4	2
62	Air transport	3	-	4	3	4	3	3	1
63	Auxiliary transport activities	2	-	5	5	3	2	3	4
64	Post and telecommunications	1	1	2	2	4	2	1	1
6567	Financial services	2	1	1	4	-	-	-	-
65	Financial intermediation	2	-	2	3	4	3	-	-
66	Insurance and pension funds	4	-	3	4	5	3	-	-
67	Auxiliary financial services	3	-	-	5	1	2	-	-
70	Real estate	1	5	1	-	1	2	5	5
7174	Business services	3	1	1	2	-	-	-	-
71	Renting of machinery and equipment	1	-	4	-	1	2	5	3
72	Computer & related services	4	-	1	-	1	1	4	4
73	Research & development	5	-	1	1	2	2	4	2
74	Other business services	4	-	1	3	1	1	3	5

NB: Relative importance is calculated as the mean of the quintiles of the sector ranking by countries, except for *, where the classification was produced by multivariate cluster analyses based on microdata from the Third Community Innovation Survey (see Penabaz, 2008).

¹ Employment weighted.

Sources: WIFO calculations.

- Study provides much detail by sector on what the most important determinants are !
- Differential impact of various growth drivers on *heterogeneous* sectors substantiates the case for the **New Industrial Policy** approach
 - Get over the dichotomy between *vertical* and *horizontal* policies (state activism vs. laissez-faire)
 - Start from horizontal measures, then adjust and **fine-tune the meso-environment** of particular sectors

Thank you for your attention!