“The competitiveness of CEE in a global context“

Marianne Kager, BA-CA Chief Economist
Julia Wörz, WIIW

29 March 2006
Fast growth in productivity

- Over the past decade, the new EU member states from Central Eastern Europe (NMS) increased productivity by an average 4% per year (measured as GDP per capita) compared with only 2% for the EU-15 and 3% for the Asian tiger economies\(^1\).

- The increase was faster only in China (8%).

- The NMS move away from cheap selling.

\(^1\) Tiger 1 countries = Hong Kong, Korea, Singapore  
Tiger 2 countries = Indonesia, Malaysia, Philippines, Thailand
The NMS gain market share and price setting power in manufacturing.

Change in import price relative to EU-15 average

Change in market share

Candidates

Tiger 1

Tiger 2

Mexico

Turkey

India

China

NMS

advanced OECD

EU 15

Bank Austria Creditanstalt
The NMS gain markets and price setting power faster than anyone else in ...

... medium-high tech industries

Change in import price relative to EU-15 average

Change in market share

Advanced OECD
EU 15
NMS
Tiger 1
Tiger 2
Candidates
Mexico
Turkey
China
India
More high-tech, more quality, a hub for the automotive industry

- The NMS increasingly produce more high-tech and higher value added products.

- They increasingly compete on quality.

- The main advantages of the CEE countries are in engineering, including the automotive industry and machinery.
From relatively low tech to ...

Relative market shares in EU15 by industry groupings, 1995-1997
... significantly more high-tech

Relative market shares in EU15 by industry groupings, 2002-2004

- low
- medium-low
- medium-high
- high
CEE – a strong European industry basis

- Western Europe will retain its advantage in business services.
- Moving towards more sophistication and quality will further strengthen the position of CEE as a basis for industrial activities.
FDI play a major role in the integration and catching-up process
Diminishing goods trade deficit despite currency appreciation and weak demand in major trading partners

Goods Balance

- EU15
- advanced OECD
- NMS
- Candidates
- Turkey
- Mexico
- Tiger 1
- Tiger 2
- China
- India

In % of GDP
Decreasing services surplus reflects integration into European production networks
Trade integration with EU15 has increased sharply

Manufacturing imports excluding intra-advanced EU-trade

1990

2004

USD bn

EU 15

USA

Japan

adv. OECD

Turkey, Mexico

Eastern Europe

dynamic Asia

EU 15

USA

Japan
Increasing presence on the EU15 market

Change in market shares in %pts

Manufacturing

1995-2004
Market share gains less dynamic since 2000

Change in market shares in %pts

Manufacturing

-5 -4 -3 -2 -1 0 1 2


EU11 Advanced OECD IRL Cohesion NMS 8 Candidates Turkey Tigers 1 Tigers 2 China India
... especially in low tech industries

Change in market shares in %pts

Low tech industries

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<tbody>
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<td>EU 11</td>
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<tr>
<td>Advanced OECD</td>
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<td>Ireland</td>
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<td>Cohesion</td>
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<td>NMS 8</td>
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<td>Candidate</td>
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<td>Turkey</td>
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<td>Tigers 1</td>
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<td>India</td>
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Strong gains in high tech industries

Change in market shares in %pts

High tech industries

EU 11  Advanced OECD  Ireland  Cohesion  NMS 8  Candidates  Turkey  Tigers 1  Tigers 2  China  India

The NMS rank high on infrastructure indicators

<table>
<thead>
<tr>
<th>Rank</th>
<th>Infrastructure</th>
<th>Ease of doing business</th>
<th>Economic freedom, institutions, corruption</th>
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<tbody>
<tr>
<td>1</td>
<td>Advanced OECD</td>
<td>Advanced OECD</td>
<td>Advanced OECD</td>
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<td>2</td>
<td>EU 15</td>
<td>1st Tigers</td>
<td>1st Tigers</td>
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<td>1st Tigers</td>
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<td>4</td>
<td><strong>NMS 8</strong></td>
<td><strong>NMS 8</strong></td>
<td>Mexico</td>
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<td>5</td>
<td>CC -3</td>
<td>Turkey</td>
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<tr>
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<td>2nd Tigers</td>
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<td>9</td>
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<td>10</td>
<td>India</td>
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The gap between the EU-15 and the NMS in the ease of doing business is relatively small...
... but more needs to be done when it comes to corruption and quality of institutions.
The successful and speedy process of structural catching-up in the NMS is testimony that the CEECs have successfully embarked upon a cumulative developmental process and are – so far – successfully facing the competition from other catching-up regions.
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