



Competitiveness in the European market: a comparative analysis of the Eurozone periphery and the non-Eurozone periphery

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Abstract

Competitiveness, a crucial factor determining the trade capabilities of national economies, becomes increasingly significant as the global economy evolves towards greater integration. This research compares different strategies applied to enhance competitiveness of the European markets within the global landscape. It employs an innovative methodology to analyse the array of instruments utilised to attain competitiveness: (i) *absolute competitiveness strategies*, which entail price adjustments on the components of production; and (ii) *relative competitiveness strategies*, typically, exchange rate appreciation and depreciation mechanisms. This methodology is applied to two distinct groups of countries within the European Union (EU): the Eurozone periphery (Greece, Ireland, and Portugal), which uses the euro as a single currency and adheres to a strict monetary framework; and the non-Eurozone periphery (Czechia, Hungary, and Poland), which possesses the autonomy to modify their currency and monetary policies independently. The paper demonstrates that the Eurozone periphery has refrained from *relative competitiveness strategies* and deliberately adopted *absolute competitiveness strategies*, resulting in specific implications for the labour market. The non-Eurozone periphery has effectively used both *absolute and relative competitiveness strategies*, the former remaining comparatively moderate with limited impacts on the labour market and the latter being mostly dominant. Based on the comparison of key economic indicators of competitiveness, the paper asserts that the presence of *relative competitiveness strategies* mitigates the pressure on *absolute competitiveness strategies*, whereas their absence intensifies the reliance on *absolute competitiveness strategies*.

Keywords Competitiveness · EMU · Eurozone · Exchange rate · Non-Eurozone · ULC

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Introduction

International political economy has long studied the complex term of competitiveness. Originating from Smith's (1776) theory of 'absolute advantage', which emphasises a nation's ability to trade goods based on the specialisation of labour as the primary factor of production, the concept has evolved to include various considerations such as natural resources, labour productivity, strategic importance, geographical advantages, human resources, and international factors in response to global developments. Competitiveness encompasses more than just growth, national/industrial strength, development, and productivity. It primarily refers to a nation's ability to create a favourable environment for its firms and industries to thrive (Bhawsar and Chattopadhyay 2015). Competitiveness, defined as the ability to enhance exports by reducing production costs in comparison with others, is a key factor in economic success (Connolly and Hartwell 2014).

The substantial shift in the global economy towards the globalisation of manufacturing and trading systems, characterised by vast investment opportunities, transnational production networks, supply chains, open markets, and free trade agreements, has heightened the focus on competitiveness in Western capitalist economies, newly industrialising countries (NICs), and developing regions (Free and Hecimovic 2020). The principles of market freedom, private property, capitalist rivalry, and market-based product circulation have established an implicit constitution for global capital, leading to a new global division of labour (Dunford and Qi 2020).

Within this context, competitiveness has gained growing importance for the European market, with the aim to take Europe to a leading position on a global scale along with its own values. The Lisbon Strategy (2000 and 2005) highlighted the goal of tackling "low productivity, unemployment, and economic stagnation across the EU" (Paterson 2015: 507) to "become the world's most competitive and dynamic knowledge-based economy on the basis of better job opportunities and social cohesion" (Eurofound 2017). The new growth strategy published in 2010, Europe 2020, expressed the intention to achieve a "smarter, sustainable, and inclusive" growth with a firm focus on liberalisation and privatisation policies (EC 2017). The European Green Deal (2019–2024) presented an inclusive approach to the previous strategies by incorporating an industrial policy for a just transition (Pianta and Lucchese 2020). Lastly, Draghi's recently published report on the future of European competitiveness highlighted the challenges faced due to slowing growth and productivity, technological change (digitalisation and decarbonisation), and geographical dependencies (Draghi 2024). It presented several policies, including investment in innovation, planning decarbonisation, and reducing dependencies, to move Europe forward in competing with its western counterparts as well as the emerging economies.

Scholars published a significant number of theoretical research articles on competitiveness. Enquiries mainly focused on different levels of conceptual analysis (Abbott and Bredahl 2019; Arthur 2023), competitiveness at the national, industrial, and firm levels (Bhawsar and Chattopadhyay, 2015), real



exchange rates, industrial policies, macroeconomic policy instruments (Aiginger, Bärenthaler-Sieber and Vogel, 2013; Guzman et al. 2018; Bussiere et al. 2020), and area-specific analysis (Huggins et al. 2014). These theoretical debates also had different regional focuses, ranging from the US and the EU economies to Asian tigers (Hong Kong, Singapore, South Korea, and Taiwan), newly emerging non-Western powers (BRICS + [Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, and the United Arab Emirates]), the Middle Eastern and Gulf region, and Latin American and African developing countries.

Enquiries on the European market environment mainly delved into the impact of the Eurozone membership (Franek and Postula 2020; Bruno and Estrin 2021), the Eurozone economies within the global market (Maniatis 2013), and the EMU (Gill 2001; Bukowski 2011; O'Rourke and Taylor 2013; Johnston and Reagan, 2016; Vermeiren 2017; Ioannatos 2018; Krugman, Obstfeld and Melitz, 2023). Within this, some highlighted currency devaluation (Talani 2017), productivity (Gros 2016), macroeconomic performances (Staehr and Vermeulen, 2018), trade (Bobeica, Christodolopoulou and Tkacevs, 2016), growth-related problems (Sinn 2014), the Eurozone crisis (Lapavitsas et al. 2010; Zemanek 2010; Buzaglo 2011; Overbeek, 2011; Hall, 2012; Kaelberer 2014; Jones, Kelemen and Meunier, 2016; Salvatore 2015), global and intra-Eurozone imbalances (Lallement, 2011; Clasen, Clegg and Kvist, 2012; Torres, 2013; Tridico, 2012; Tridico, 2013; Heins and de la Porte, 2015; Beckworth, 2017), and recovery policies (Begg 2012; Buti and Carn 2012; Keen and de Mooij, 2012; Sawicki, 2012; Varoufakis and Holland 2012; Wolf, 2012; Gocaj and Meunier, 2013; Basett, 2014).

Analysis of the old enlargements of the 1980s versus the new enlargements of 2004, 2007, and 2013 was conducted to highlight the economic and social convergences and divergences within and between the EU member states (Karamessini 2024). National divergences within the region triggered significant research, particularly on the Eurozone periphery, PIIGS economies, and austerity mechanisms in the aftermath of the Eurozone crisis (Callinicos 2012; Chen, Milesi-Ferretti and Tressel, 2013; Talani 2015; Currie and Teague 2017; Sarıme Mehmet Duman 2018; Sarıme Mehmet Duman 2020). Research on the non-Eurozone economies of the EU, on the other hand, remained limited specifically to the UK, Denmark, and Sweden (Ihnatov and Capraru 2013; Connolly and Hartwell 2014; Özcan 2023). Dandashly and Verdun (2016) made an important exception on the non-Eurozone periphery by analysing Czechia, Hungary, and Poland to comparatively evaluate their domestic politics of euro adoption, with an emphasis on the effects of the Eurozone crisis. Nonetheless, within this extensive literature, comparative research on the Eurozone and the non-Eurozone peripheries of the EU was not encountered.

This paper aims to address this significant gap in the literature by asking the following research questions: Do the peripheral economies of the Eurozone and the non-Eurozone employ entirely different strategies to boost their competitiveness, and if so, what are the similarities and differences between these strategies? In response to these questions, it offers a comparative analysis of two sets of countries that struggle to achieve comparable levels of competitiveness with their Western capitalist counterparts. The first group consists of three economies from the Eurozone periphery, namely Greece, Ireland, and Portugal, which have used the euro



under a common monetary policy for over twenty years. These were also significantly affected by the Eurozone crisis and participated in European Stability Mechanism (ESM) programmes with varying durations, coverage, and conditions. The second group consists of three economies from the non-Eurozone periphery, namely Czechia, Hungary, and Poland, which became members of the EU in the 2004 enlargement but have not yet accepted the euro. These countries have maintained their national currencies with complete autonomy on their exchange rate regimes.

The paper introduces a new categorisation¹ to examine the various policies used to enhance competitiveness in the Eurozone periphery and the non-Eurozone periphery. It distinguishes between two types of strategies: (i) *absolute competitiveness strategies*, which alter the prices of the components of production; and (ii) *relative competitiveness strategies*, which incorporate exchange rate appreciation and depreciation. The paper demonstrates that the Eurozone periphery, which has refrained from the use of *relative competitiveness strategies*, actively implements *absolute competitiveness strategies*, making important changes to the labour market. In contrast, the non-Eurozone periphery vigorously employs both *absolute and relative competitiveness strategies*, the former remaining comparatively moderate with limited impacts on the labour market, and the latter being particularly prominent in its pursuit of greater levels of competitiveness. The paper asserts that the existence of *relative competitiveness strategies* alleviates the strain on *absolute competitiveness strategies*, whereas their absence exacerbates dependence on *absolute competitiveness strategies*, as evidenced by a comparison of important economic indices of competitiveness.

Methodology: defining absolute competitiveness strategies and relative competitiveness strategies

There are several methodological tools widely used to analyse the competitiveness of an economy. *First*, the current account balance is efficiently engaged to assess the level of international transactions and export capacity, which is a direct indicator of competitiveness. It reveals “all the transactions (other than those in financial items) that involve economic values” and reflects the economies’ potential to offer a conducive environment (OECD 2024a). A positive current account balance (surplus) means the country is a net exporter, whereas a negative current account balance (deficit) means the country is a net importer.

Second, exchange rate fluctuations, purchasing power parity (PPP), and unit labour cost (ULC) are comparatively analysed. Exchange rate is a significant instrument in international trade, with an impact on the price of goods and services. Exchange rate appreciations increase imports and decrease exports (with a

¹ This novel categorisation of competitiveness is derived from the Marxist conceptualisation of absolute surplus value strategies and relative surplus value strategies. Absolute surplus value strategies indicate introducing changes in the length of the working day, wages per hour, and the intensity of work, whereas relative surplus value strategies refer to improving the machinery, skills of workers, and technology. Both strategies aim to diminish the cost of production and hence increase the rate of profit.



negative impact on competitiveness), and exchange rate depreciations decrease imports and increase exports (with a positive impact on competitiveness). PPP marks the change in the standards of living. The modern theory of international trade confirms the strong relationship between ULC and export growth (Gros 2016), and ULC measures international price competitiveness as “the ratio of total labour compensation per hour worked to output per hour worked” (OECD 2024b). Changes in competitiveness are measured by changes in ULC (Staehr and Vermeulen 2019: 68).

Third, the relationship between inflation and labour compensation per hour worked is used to investigate the impact of both on international trade competitiveness. Increasing inflation negatively impacts the exchange rate, boosting the level of competitiveness, whereas decreasing inflation positively impacts the exchange rate, worsening it. Labour compensation per hour worked, which is defined as “the sum of gross wages and salaries and employers’ social security contribution ... in national currency divided by total hours worked by employees” (OECD 2024c), has an ultimate influence on competitiveness by pushing prices upward or downward. It solely focuses on the employer’s costs, disregarding the hourly output and, consequently, the efficiency and productivity of labour. When labour compensation per hour worked increases faster than labour productivity, unit labour cost also increases. This investigation offers a chance to assess the shift in the proportion of labour costs, which is not only the primary but also the most flexible element of production. A comparison with the inflation rate, on the other hand, provides a more solid perception of trade competitiveness, as divergences in inflation are “a decisive factor for divergences in nominal ULCs” (Burgeot 2013: 6). Increasing inflation with decreasing labour compensation signifies a rise in competitiveness, whereas decreasing inflation with increasing labour compensation implies a decline in competitiveness. Their parallel move upward or downward fails to convey any specific results without deeper analysis.

Finally, the real effective exchange rate (REER) is utilised to assess competitiveness. Nominal effective exchange rate (NEER) measures nominal depreciation and potential competitiveness, which can be eroded by inflation. REER is introduced to eliminate “this factor by correcting effective nominal exchange rates for differences in inflation rates” (OECD 2012). An upward movement in REER signifies a rise in the cost of exports and a decrease in the cost of imports. Consequently, the aforementioned increase suggests a decline in trade competitiveness, whereas a decline in REER signifies an increase in trade competitiveness.

Based on these indicators, market competitiveness is mainly dependent on two factors: (i) the cost of production with all its components, such as the prices of labour power, raw materials, rent, energy, technology, and logistic expenses; and (ii) the value of a national currency in comparison with other currencies. The former refers to the input prices that encompass all the expenses involved in the production of a good or service. The latter, on the other hand, characterises the unit in circulation as a means of exchange. This paper builds its analysis on the major difference between these two factors, introducing two new conceptualisations: *absolute competitiveness strategies* and *relative competitiveness strategies*.



Absolute competitiveness strategies aim to generate a comparative advantage for a specific economy, industry, and/or product in the international market by promoting a downward movement in input prices and ultimately in the cost of production. These strategies involve purchasing labour power, raw materials, rent, energy, technology, and logistic utilities at lower prices in order to decrease the overall cost of manufacturing. They significantly impact overall production costs by reducing them in real terms and promoting cost competitiveness. Therefore, in a free-market economy that is exposed to foreign competition, it is crucial to manufacture things at the lowest possible cost. This “internal devaluation” mechanism functions “to stimulate [the countries’] exports and replace some imports with domestic production” simply by “reducing wages and other costs and expenses, and restructuring their economies” (Salvatore 2015: 447).

As a part of this analysis, it is crucial to note that ULC plays a significant role in the total cost of production for two main reasons. *Firstly*, ULC is a major component within the total cost of production, and its upward and downward movement has a direct impact on productivity and growth, and hence, on competitiveness. As an indication, reliable databases also offer data on ULC under the broader category of GDP per capita and productivity, which is also defined as the key driver of international competitiveness.² A decrease in ULC is directly related to decreasing levels of labour compensation and/or increasing levels of labour productivity per unit of output, leading to a rise in GDP growth and competitiveness. *Secondly*, prices of other components of production, namely raw materials, rent, energy, technology, and logistics, are not as flexible as ULC. While a decrease in the prices of these components also lowers the total cost of production, it appears less likely to occur. The price of technology has a higher potential to change, with an ultimate impact on the prices of energy and logistics. However, it mainly depends on invention, innovation, and research and development (R&D) initiatives, which require capital investment and bring an additional cost. Overall, price change in ULC is more likely to be attained than any other component of production.

Relative competitiveness strategies, on the other hand, are based on changing the value of a currency in the international market. These strategies “promote competitiveness and external borrowing realignment through nominal exchange rate depreciation/devaluation and appreciation/revaluation” (Johnston and Regan 2016: 326). Exchange rate appreciations increase the price of goods and services, leading to cheaper and higher levels of imports, whereas exchange rate depreciations decrease them, leading to cheaper and higher levels of exports. Hence, the exchange rate stands as “an important adjustment instrument” by simply offering price competitiveness against other goods and services in the market (Ihnatov and Capraru 2013: 96).

² “Productivity is a key driver of economic growth and changes in living standards. Labour productivity growth implies a higher level of output for a unit of labour input (hours worked or persons employed). This can be achieved if more capital is used in production or through improved overall efficiency with which labour and capital are used together, i.e. higher multifactor productivity growth (MFP). Productivity is also a key driver of international competitiveness, e.g. as measured by unit labour costs (ULC)” (OECD 2024).



On that account, the real exchange rate stands as a crucial element in international trade. A competitive exchange rate “makes investment and production in the tradable sector more profitable” and contributes to sectoral development by reallocating domestic demand and increasing foreign demand towards local products (Guzman et al. 2018:53). Monetary autonomy offers countries the benefits of exchange rate adjustment in managing their levels of competitiveness and, eventually, growth in market share.

The Eurozone periphery: a domain solely for absolute competitiveness strategies?

European integration had started with the initial aim of “considering new levels of regional cooperation, pooling the interests of their states, and helping give the region new confidence and influence” (McCormick 2022: 65). The Economic and Monetary Union (EMU), which introduced a European currency and a unified monetary policy, has accelerated the process of economic liberalisation since 1999 (Ladi 2014). To mitigate the risks associated with fluctuating exchange rates in the global market, the euro emerged as a stable currency to ensure market stability, provide security for foreign investors, and reduce transaction costs in intra-EU commerce.³

The EMU’s institutional and technical design inactivated the strategy of regaining competitiveness through exchange rate regulations (Overbeek 2012: 38; Talani 2015: 359). The single currency mechanism limited “the political intervention of national governments to use currency devaluations for competitive realignment” (Johnston and Regan 2017: 327). The Eurozone members resigned from their exchange rate adjustment mechanisms and monetary policies “as an instrument of macroeconomic stabilisation” (Bukowski 2011: 275). Their monetary autonomy was transferred to the European Central Bank (ECB) (Krugman, Obstfeld and Melitz, 2023: 692), which does not set the exchange rate of the euro but exerts indirect impact through its monetary policy.

For over two decades, the ECB has built its monetary policy primarily on a strict inflation mandate, that is, anti-inflation policy to secure price stability, in line with various secondary objectives such as balanced economic growth, a highly competitive social market economy, full employment, and social progress (Hartmann and Smets 2018: 5). It has actively used interest rates to maintain price stability in the Eurozone, which has ultimately influenced inflation and “affect[ed] households’ and firms’ consumption, saving and investment decisions” (Banco de España, 2024). Hence, the centralisation of monetary control ended the role of exchange rate adjustment in “productivity growth to globally competitive levels” (Bonefeld 2002: 133). Although the narrow inflation range increased the ECB’s credibility in the international markets and strengthened the euro as an invoicing currency for global trade (Georgiadis, Le Mezo, Mehl and Tille, 2021), it also proved to be particularly

³ The majority of research suggests that joining the EMU resulted in an increase in commerce among its members and a considerable rise in foreign direct investment flowing into the region (Bruno and Estrin 2021).



ill-suited for a global context where other central banks possess more adaptable mandates (Stiglitz 2016: 110).

As the EMU completely eliminated the *relative competitiveness strategies* and devaluation ceased to be a policy instrument of national central banks and the ECB (Talani 2017: 354), the European Commission (EC) acknowledged that securing the competitiveness of the Eurozone may turn into a problem and developed several policies, including the Lisbon Strategy, Europe 2020, and the European Green Deal. This growing focus on the competitiveness of Europe had a direct impact on increasing the role of *absolute competitiveness strategies*. Adjustment of wages and prices (Kaelberer 2014: 427), also known as internal devaluation and structural labour market reforms (Armington and Baccaro 2012; Buti and Carnot 2012; Regan 2017; Sarimehmet Duman 2020), remained as the sole mechanisms for enhancing the competitiveness of the Eurozone economies.

However, despite the policies introduced to address these issues with the EMU, the existing asymmetries and imbalances could not be eliminated (Ioannatos 2018: 1389). The diverse market structures between “domestic export-led countries with current account surpluses and domestic demand-led countries with current account deficits” (Johnston and Regan 2016: 320) generated core and peripheral economies that differed in their levels of competitiveness, investment, ULC (Varoufakis and Holland 2012: 241), and current account balances (Johnston and Regan 2016: 320).

These internal disparities led the US-originated economic crisis spreading in the region from the 2010s. The Eurozone crisis further revealed that the use of the euro led to imbalances in the current account (Regan 2017) and made the economies of the Eurozone more susceptible to economic crises (Sarimehmet Duman 2018). It indicated that the euro was designed for well-functioning markets, where the exchange rate risks could be managed relatively easily, and exchange rate adjustments had a distinct level of significance on divergent economies (Stiglitz 2016: 42). Hence, the crisis affirmed the incompetence of the ECB’s strict inflation mandate in sustaining market competitiveness both within and beyond the Eurozone.

The EC approached the crisis recovery process “through austerity and ‘internal devaluation’” (Talani 2017: 361) not only to overcome the asymmetries and imbalances between the core and peripheral economies but also to solve “issues of long-term competitiveness” (Clasen, Clegg, and Kvist, 2012: 8–9). As devaluation was not a viable option (Milios and Sotiropoulos 2010: 236), the ESM was created to promote a competition-driven approach to economic growth within the framework of crisis management (Sarimehmet Duman 2020). It mainly aimed to improve price competitiveness to “strengthen macroeconomic performance, avoid imbalances accumulating in countries in the monetary union and reduce the risk of financial instability” (Draghi 2012; Sinn 2014, cited in Staehr and Vermeulen 2019: 68). The major policy mechanisms for economic recovery appeared as *absolute competitiveness strategies* in the Eurozone.



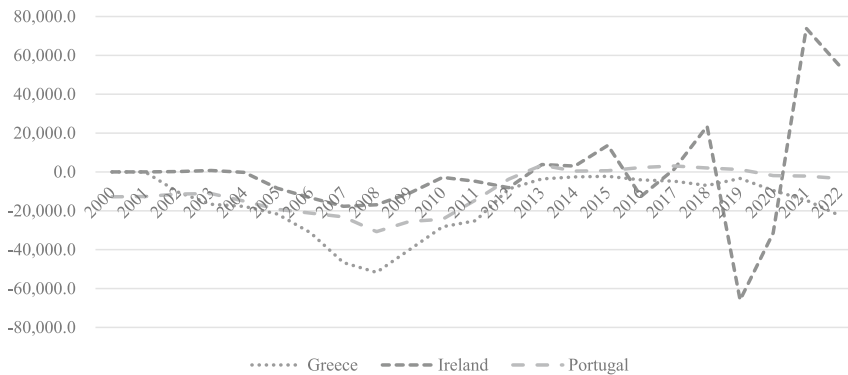


Fig. 1 Current account balance (USD, million): Greece, Ireland, and Portugal, 2000–2022. Source: OECD [2024a](#)

Greece, Ireland, Portugal, and Cyprus benefitted from the ESM at different levels based on the length, scope, coverage, and conditionalities of the programmes.⁴ With the exception of Cyprus, where the economic crisis stemmed from the rapid expansion of the financial sector and the oversizing of the banking sector due to significantly poor lending practices in the past (ESM [2016](#): 2), the bailout economies experienced current account deficits (Begg [2012](#): 115).

Figure 1 reveals data on the current account balances of the three peripheral bailout economies of the Eurozone, namely Greece, Ireland, and Portugal, to analyse their levels of competitiveness in the global market. With the exception of Ireland, all economies experienced substantial current account deficits soon after joining the Eurozone, which resulted in considerable declines before the 2008 global economic crisis. Their financial performance started to improve in the following years, stabilising in 2012–2013. After that, they experienced consistent fluctuations, primarily maintaining a current account surplus. European Financial Stability Facility (EFSF) and ESM reviews, annual reports, and programme exit summaries stressed the tight connection between the crisis resolution mechanisms (austerity programmes and structural reforms) and their positive implications on economic indicators (EFSF [2013](#); ESM [2014](#), [2018](#), [2019](#)).

Within the unique conditions of a single currency mechanism and the absence of exchange rate regulations, measures to lower ULC became a key policy instrument to stimulate the GDP and improve the current account balance. Figure 2 shows comparative data in the variations in ULC in the Eurozone periphery and the Euro Area 19 (EA-19) countries. It presents a comparison to the exchange rate, which is strictly subject to the monetary operations of the ECB and has had only minor fluctuations in the last decades. It also delivers data on purchasing power parity (PPP) to comprehend the changes in the purchasing power of the euro.

⁴ Three programmes in Greece (2010–2011; 2012–2015; 2015–2018) for a total amount of 288.7 billion Euros; a three-year programme in Ireland (2010–2013) for a total amount of 67.5 billion Euros, and a three-year programme in Portugal (2011–2014) for a total amount of 76.3 billion Euros (ESM [2024](#)).





Fig. 2 Exchange rate (USD), PPP (euro per USD), and ULC (%): Greece, Ireland, Portugal, and EA-19, 2000–2022. Source: OECD [2024a](#)

In the initial years of the euro, the ULC had sharp increases and continuous fluctuations in Greece, Ireland, and Portugal, developing into a major loss of international competitiveness (Salvatore [2015](#): 447). Figure 2 shows that ULC has been actively used as an adjustment mechanism for boosting competitiveness, especially during the implementation of the ESM programmes. The exchange rate and PPPs, on the other hand, had a steady level in the last two decades.

The figure illustrates the inability to implement *relative competitiveness strategies*, i.e. ‘external devaluation’, as the exchange rate remained comparatively stable. PPP also marked minimal change in economic productivity and standards of living. On the other hand, the Eurozone economies actively engaged in *absolute competitiveness strategies*, i.e. ‘internal devaluation’, to make a change in



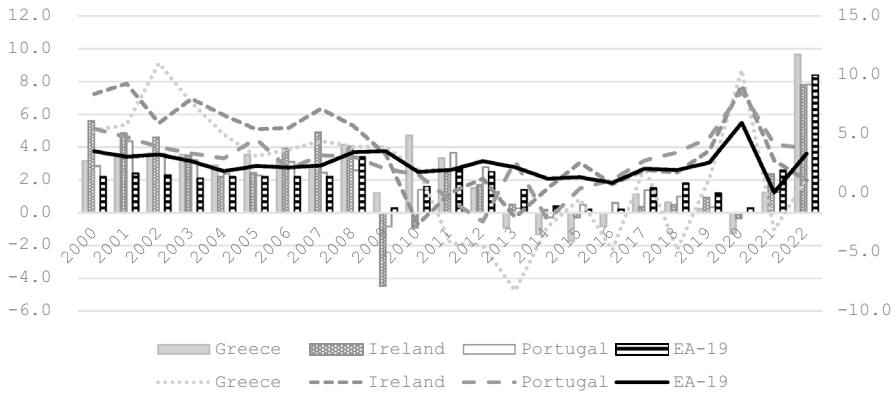


Fig. 3 Inflation (growth on the same period of the previous year) and labour compensation per hour worked (annual growth/change, %): Greece, Ireland, Portugal, and EA-19, 2000–2022. Source: OECD 2024c

their levels of competitiveness. ULC fluctuated with sharp decreases and steady increases in the last two decades, proving that labour market policies turned into effective *relative competitiveness strategies*.

The asymmetries in the Eurozone are also visible through an analysis of inflation and labour compensation per hour worked in the Eurozone periphery in comparison with the EA-19 countries (Fig. 3). The average statistics for the inflation rate and labour compensation per hour worked in the EA-19 countries suggest that both variables have generally exhibited stability over the past few decades. Following the Eurozone crisis, there was a decrease in inflation, which was accompanied by a decline in hourly labour compensation. In 2020, the year of the pandemic, there was a notable deviation from the norm with decreases in inflation and labour compensation levels, resulting in a decline in trade competitiveness across the Eurozone.

Examining the peripheral economies of the Eurozone reveals differences from EA-19. In the early 2000s, Greece witnessed relatively low levels of inflation and labour compensation. Early in the crisis, the economy experienced significant inflation and a substantial decline in labour compensation, which led to an increase in competitiveness. Greece had negative inflation with negative (and lower) labour compensation throughout the 2010s, with descending inflation and ascending labour compensation in 2020 and the exact opposite in 2021. Put simply, the level of competitiveness fluctuated in the recent years.

Ireland had comparatively higher levels of inflation with fluctuating labour compensation per hour worked in the early 2000s. Interestingly, these two indicators were not always in parallel that higher levels of inflation were met by lower levels of labour compensation, and hence, increasing levels of competitiveness in 2000 and 2002. Both inflation and labour compensation significantly declined starting in 2009. After the introduction of the recovery programme, the inflation rate remained at low levels, and labour compensation also dropped below the moderate rise in inflation, with an ultimate tendency to increase. To sum up, the



first decade of the millennium witnessed high levels of inflation and labour compensation, posing a cenge to the competitiveness of the Irish economy. It was followed by low or even negative inflation rates with comparatively higher levels of labour compensation; signalling further decreases in competitiveness throughout the 2010s.

Portugal had the lowest level of inflation with comparatively high labour compensation, which significantly reduced its level of competitiveness in the first decade of the millennium. Inflation remained the same with sharp drops in labour compensation, which indicated an increase in competitiveness during the initial years of the recovery programme. Very low inflation rates and increased labour compensation from the mid-2010s onward brought falling levels of competitiveness to the Portuguese economy.

Figure 3 denotes that the inflation rate and labour compensation per hour worked had less of a tendency to be balanced in the Eurozone periphery. The anti-inflationary monetary mandate weakened the elasticity of the economy. Inflation and labour compensation were less responsive to each other in Greece, Ireland, and Portugal that the tendency to keep the inflation at lower rates brought the necessity to decrease the labour compensation per hour worked to escalate the level of competitiveness. Recovery programmes functioned to keep labour compensation low, but these continued to fluctuate in the rest of the decade.

On this basis, REER is important to counteract inflation. Table 1 indicates that the peripheral economies of the Eurozone met the economic crisis with increasing levels of REER, that is, loss in competitiveness. The recovery mechanisms had a downward impact on their REER values as well as in the Eurozone average, having an increase in competitiveness. All the economies saw some upward movement in 2016, followed by a slight decline in 2017, indicating a coherence between the Eurozone periphery and the EA-19 average.

In sum, the analyses of the current account balance, exchange rate fluctuations, PPP, ULC, inflation, labour compensation per hour worked, and REER in Greece, Ireland, and Portugal indicated that these economies with no currency adjustment mechanism have actively used labour market strategies to improve their indicators. As the Eurozone crisis hit these economies, the bailout programmes increased the role of *absolute competitiveness strategies* to enhance the markers. Current account balances significantly improved in all three countries compared

Table 1 REER (ULC relative to rest of a group of industrialised countries, USD, % change on preceding year): Greece, Ireland, Portugal, and EA-19, 2009–2018. Source: EC 2024b (Economic Forecasts 2013, 2014, 2017, 2018 and 2019 combined)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Greece	3.6	−2.5	−1.4	−9.8	−5.3	−0.6	−4.5	1.2	0.7	1.8
Ireland	−6.2	−9.8	−4.5	−5.4	4.8	−0.7	−7.0	1.0	0.3	1.3
Portugal	0.5	−2.7	−1.2	−5.6	2.6	−0.5	−2.8	1.7	0.7	0.8
EA-19	4.5	−7.4	0.3	−4.3	6.3	0.7	−7.5	2.7	1.3	3.9

No later data available



to their pre-crisis levels and reached a value of 54.7 million USD for the current account surplus in Ireland. Based on this, it would be plausible to argue that the lack of *relative competitiveness strategies* has triggered the implementation of *absolute competitiveness strategies* in the Eurozone periphery.

The non-Eurozone periphery: a domain for both absolute and relative competitiveness strategies?

The EU has simultaneously continued its processes of integration and enlargement in the last few decades. Although European economic integration has moved to a relatively federal phase with the introduction of the EMU and single currency (Matthijs et al. 2019), some member states put certain reservations to adopting the euro as a common currency. Denmark and the UK⁵ stayed in the EU, holding full autonomy on their national currencies and monetary policies. Whereas the enlargements towards the Eastern European countries widened the EU's not only geographical⁶ but also political scope, the economic integration process has not been completed by most of the new member states.

The EU introduced certain mechanisms for the adoption of the euro by its member states. The economic convergence criteria included price stability, sustainable public finances, exchange rate stability, and long-term interest rate threshold. Moreover, the EU initiated an exchange rate mechanism (ERM II) to oversee if an economy can function without excessive currency fluctuations. The ERM II served to tie a national currency to the euro at a central rate to observe its stability. From the 2004 enlargement countries, Slovenia became a Eurozone member in 2007, Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014, and Lithuania in 2015. Croatia and Bulgaria included their national currencies in the ERM II in 2020. Whereas Croatia has successfully adopted the euro in 2023, Bulgaria has remained committed to not devaluing "its central rate against the euro for at least two years before it can qualify to adopt the euro" (EC 2024a).

Sweden, Romania, Czechia, Hungary, and Poland abstained from entering the ERM II (Dandashly and Verdun 2018: 386) and continued to use their national currencies, with full monetary controls on their exchange rate policies. These economies have continued to employ exchange rate regulations as a key policy instrument with "important consequences at the microeconomic level, on individuals, companies, financial intermediaries" (Ihnatov and Capraru 2013: 96), and consequently, had "unsteady and multispeed recoveries" from the global economic crisis (Conolly and Hartwell, 2014: 202). They have held the ability to improve their competitiveness by devaluation as a "short-term mechanism" (Conolly and Hartwell, 2014: 206), simply making domestic products cheaper abroad and providing cost advantages for domestic producers (Györfy 2022). In a nutshell, the non-Eurozone

⁵ As a result of a referendum in 2016, the UK officially exited the EU in January 2020.

⁶ The 2004 enlargement included Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia; the 2007 enlargement received Bulgaria and Romania, and lastly, the 2013 enlargement included Croatia in the EU.



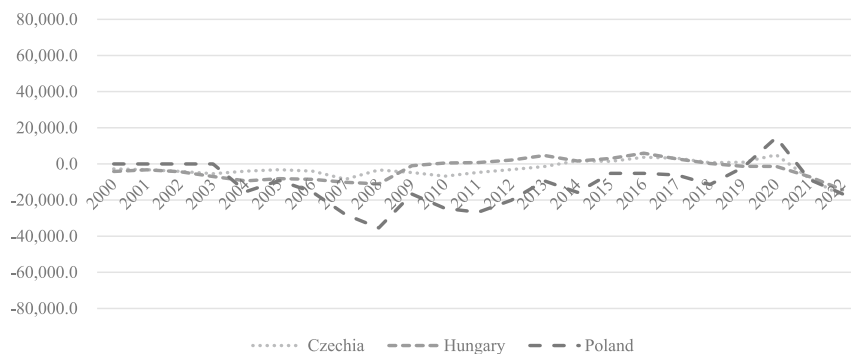


Fig. 4 Current account balance (USD, million): Czechia, Hungary, and Poland, 2000–2022. Source: OECD 2024b

economies have implemented *relative competitiveness strategies* that significantly influence competitiveness.

An analysis of the non-Eurozone periphery of the EU during the global economic crisis shows striking divergences from their Eurozone counterparts. The non-Eurozone peripheral economies, signifying the three 2004 accession countries using their national currencies, i.e. Czechia, Hungary, and Poland, showed steady levels of current account balance (Fig. 4). Among these, Czechia and Hungary generally exhibited relatively low levels of current account surplus, with the exception of the latest years, while Poland experienced a current account deficit, albeit not as severe as some Eurozone economies such as Greece. This analysis demonstrated that the non-Eurozone periphery exhibits greater competitiveness than the Eurozone periphery.

An examination of the variations in national currencies in Czechia, Hungary, and Poland with respect to the USD, considering PPP and ULC, provides insights into the levels of competitiveness. Figure 5 indicates that the exchange rate depreciated until 2009 in all three economies, with a trend for appreciation until 2015 and then 2021. PPP has stayed comparatively steady in all three economies since the early 2000s. Czechia and Poland experienced severe ULC variations. They experienced sharp declines until 2015, followed by continuous fluctuations with a tendency to increase in the second half of the 2010s. Throughout the last two decades, ULC has remained fairly balanced in Hungary.

Compared to the stable outlook of exchange rate levels in the Eurozone periphery (Fig. 2), Fig. 5 shows that Czechia, Hungary, and Poland effectively benefitted from exchange rate adjustment mechanisms, i.e. *relative competitiveness strategies*. On the other hand, the fluctuations in ULC, especially in Czechia and Poland, remained very mild in comparison with the sharp waves experienced in the Eurozone periphery. This indicated that the non-Eurozone periphery did not completely overrule *absolute competitiveness strategies*, but their use remained relatively moderate.

In these lines, the economic structure after the economic crisis strikingly differed in the non-Eurozone periphery of the EU, with a certain level of heterogeneity in their recovery policies (Conolly and Hartwell, 2014: 203). Depreciation of nominal exchange rate with non-accompanying ULC increases resulted in increasing cost



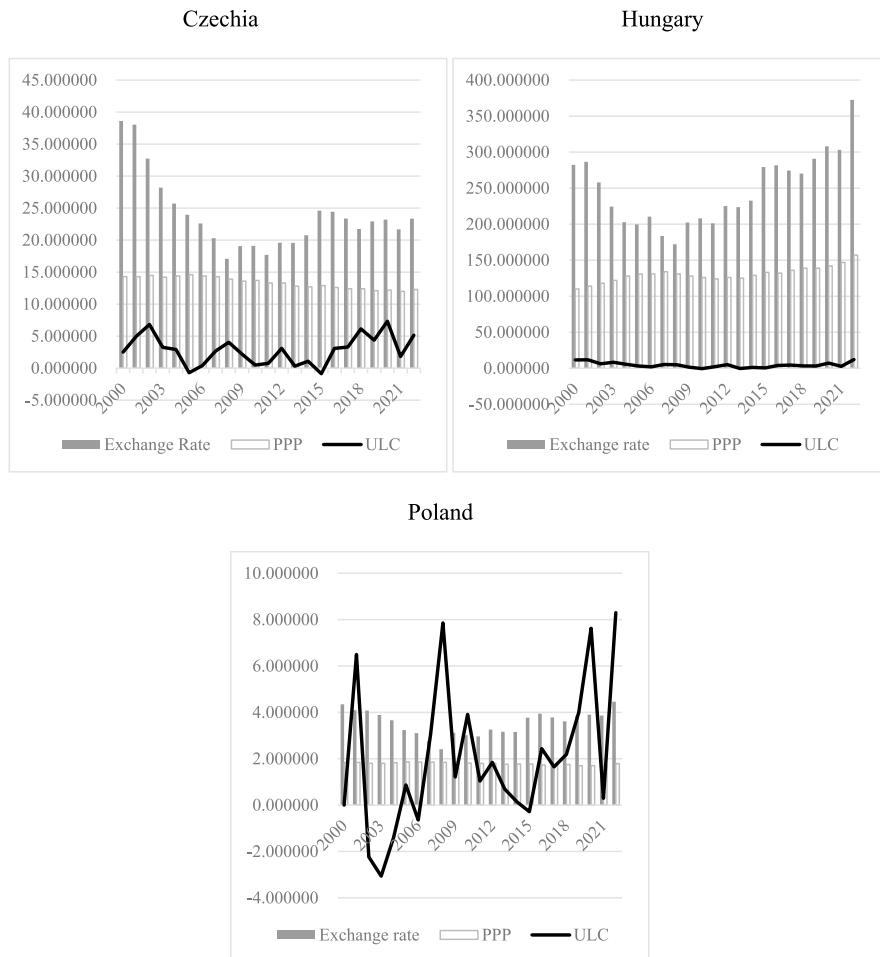


Fig. 5 Exchange rate (USD), PPP (national currency per USD), and ULC (%): Czechia, Hungary, and Poland, 2000–2022. Source: OECD [2024a](#)

competitiveness in Croatia,⁷ Czechia, and Hungary in the short term (Conolly and Hartwell, 2014: 206). That is to say, the rise in cost competitiveness relied on nominal exchange rate depreciation with non-increasing ULC.

The disparities between the two sets of countries are also apparent in the relationship between inflation and labour compensation per hour worked (Fig. 6). During the early years of the millennium, Czechia experienced relatively low inflation rates and high labour compensation, indicating a lack of competitiveness. Both of these indicators showed a downward trend leading up to the economic crisis. From the beginning of the crisis until 2015, there was a consistent level of inflation and labour

⁷ Croatia was a non-Eurozone economy during the economic crisis. It adopted the euro in January 2023.



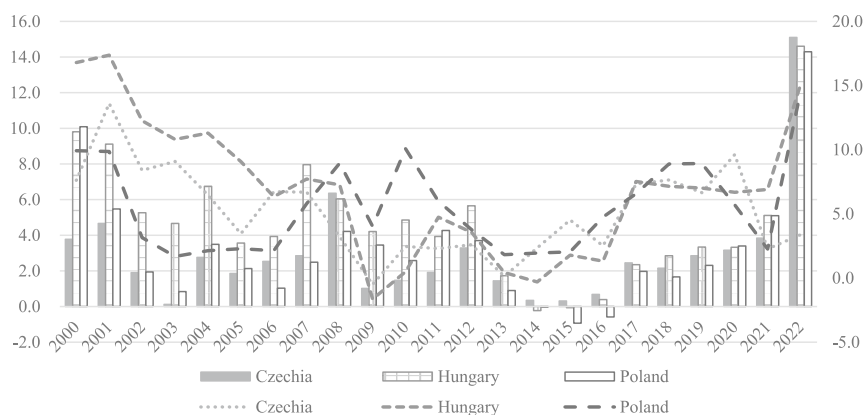


Fig. 6 Inflation (growth on the same period of the previous year) and labour compensation per hour worked (annual growth/change, %): Czechia, Hungary, and Poland, 2000–2022. Source: OECD 2024c

compensation. However, in 2015, there was a sudden decrease in inflation as labour compensation surged, resulting in a temporary decrease in competitiveness. In the latter half of the 2010s, there was a consistent and constant level of inflation and labour compensation, thereby reversing the previous trend of declining competitiveness. Hungary, on the other hand, entered the millennium with very high inflation and labour compensation per hour worked, which started to decline during the economic recession, leading to a short-term increase in competitiveness. Inflation and labour compensation had periodic increases during the 2010s, resulting in a rather modest level of competitiveness. Poland, as opposed to Czechia, had very high inflation, comparatively low labour compensation, and hence higher levels of trade competitiveness in the first years of the 2000s. Fluctuations during the economic crisis were followed by very low inflation accompanied by moderate labour compensation per hour worked in the subsequent years. Both inflation and labour compensation exhibited a rising trend during the latter half of the 2010s. However, the increase in labour compensation did not keep pace with the rise in inflation, leading to a boost in trade competitiveness.

Table 2 REER (ULC relative to rest of a group of industrialised countries, USD, % change on preceding year): Czechia, Hungary, Poland, and EA-19, 2009–2018. Source: EC 2024b (Economic Forecasts 2013, 2014 and 2017 combined)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Czechia	−5.6	2.7	2.6	−1.9	−2.6	−5.2	−0.9	2.6	3.9	4.3
Hungary	−9.6	−0.4	0.8	−4.5	−1.7	−3.6	−2.4	0.8	1.8	−0.5
Poland	−19.3	8.3	−2.5	−3.7	0.2	1.0	−2.6	−3.5	2.8	1.0
EA-19	4.5	−7.4	0.3	−4.3	6.3	1.1	−7.7	2.7	1.3	3.9

No later data available



An analysis of the REER values helps to overrule inflation and reveals the potential competitiveness of these economies. Table 2 indicates that the non-Eurozone peripheral economies had REER depreciation in 2012, leading to increasing trade competitiveness after the economic crisis. REER continued to depreciate in Czechia and Hungary until 2014, with moderate increases in the following years. These increases, however, remained below the EA-19 average in all three economies in 2018.

The analysis shows that no country outside the Eurozone had a greater rate of REER appreciation than the average rate in the Eurozone (Conolly and Hartwell, 2014). The non-Eurozone periphery had a comparative advantage over the Eurozone periphery due to the fluctuating exchange rate mechanism and currency adjustment tools. This simply indicates that “the competitive position of non-Eurozone economies improved relative to their trading partners despite significant cost increases” (Conolly and Hartwell, 2014: 206).

A comparative analysis of these statistics with the Eurozone periphery indicates that the flexibility to operate the monetary policy offered the opportunity to balance inflation with labour compensation per hour worked in the non-Eurozone periphery. Adjustment policies managed the drops in competitiveness. Inflation and labour compensation became more responsive to each other in Czechia, Hungary, and Poland that the decreasing levels of trade competitiveness were reversed in favour of an increase or an equilibrium. A comparative examination of PPP-converted, hourly based ULC in the Eurozone periphery and non-Eurozone periphery (Fig. 7) reveals that the Eurozone periphery encountered slower increases prior to the economic crisis and more pronounced declines subsequent to the crisis. This indicates the mounting strain on *absolute competitiveness strategies* in the absence of *relative competitiveness strategies* in the Eurozone periphery, which in turn affects the labour markets.

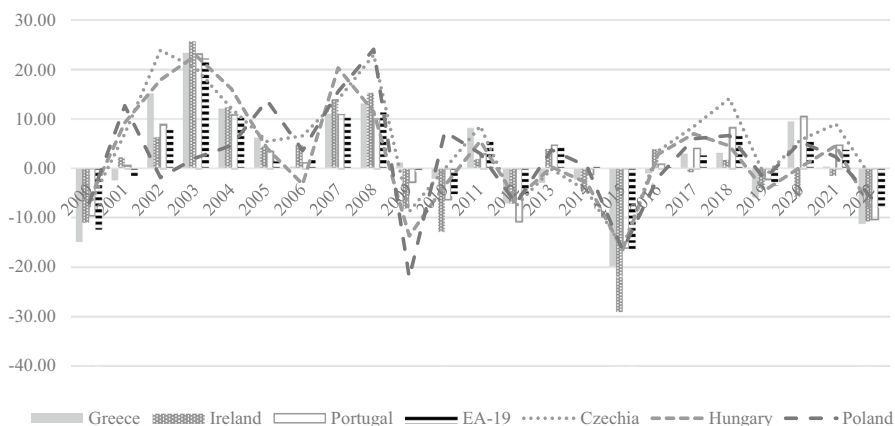


Fig. 7 PPP-converted ULC (hourly based, yearly %, current prices): Greece, Ireland, Portugal, EA-19, Czechia, Hungary, and Poland, 2000–2022. Source: OECD 2024d



Conclusion

Given the substantial shifts in the global economy towards tighter integration, competitiveness has grown into an ultimate target to get a bigger share in the international market by simply offering lower prices. The EU has actively participated in this rivalry, striving to achieve comparable levels of competitiveness with its Western capitalist counterparts and other developed and emerging economies in the global market. Due to its unique internal diversity, *absolute competitiveness strategies* and *relative competitiveness strategies* have become prominent in *either* lowering the production cost *or* pursuing exchange rate depreciation in two divergent groups of economies in the EU: the Eurozone periphery, featuring the countries that joined the EMU and refrained from their monetary policies, and the non-Eurozone periphery, including the economies that have pursued full autonomy on national currency and monetary policy.

This paper compared the Eurozone periphery (Greece, Ireland, and Portugal) with the non-Eurozone periphery (Czechia, Hungary, and Poland) to track whether these economies have used completely dissimilar competitiveness strategies. It adopted numerous methodological tools widely used in analysing competitiveness (including current account balance, exchange rate, PPP and ULC, inflation and labour compensation per hour worked, and REER) within a novel framework of the *absolute* and *relative competitiveness strategies* to signify the major differences between these policies. The paper revealed two main conclusions: (i) Having refrained from the use of *relative competitiveness strategies*, the Eurozone periphery has actively implemented *absolute competitiveness strategies*, which turned into essential policy instruments with significant repercussions on the labour markets; (ii) the non-Eurozone periphery has vigorously used both *absolute* and *relative competitiveness strategies*, the former remaining comparatively moderate with limited impacts on the labour markets and the latter having relative dominance in achieving higher levels of competitiveness. It asserts that the presence of *relative competitiveness strategies* mitigates the pressure on *absolute competitiveness strategies*, while their absence intensifies the reliance on *absolute competitiveness strategies*.

The paper has the potential to stimulate additional research on these innovative conceptualisations, aiming to better understand the challenges of Europe's declining productivity and slowing growth, particularly in light of the increasing pressure for global competitiveness from non-Western emerging powers. It may also provide an opening to examine the effects of the ECB's monetary policy on the Eurozone, market restructuring, changes in the European labour markets, core and peripheral economies, and the European economy's role in the global market.

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