

# What Are the Different Strategies for EMU Countries?

By Patrick Artus\*

The answer to competition from emerging countries with low wage costs must be very different according to the affected sector. We need to draw a distinction between manufacturing industry and services that can be relocated and other sectors: consumer services, retail, construction, most business services and financial services. For the former, no obstacle to restructuring or the modernisation of companies can be efficient, even though this implies further relocations and job losses. For the latter, there is a crucial need to analyse and assess the various experiments that seek to stimulate job creation in said sectors, as this is indispensable if industry is to continue losing jobs. We complete the analysis of the strategy of the various countries in manufacturing by a research of the determinants of exports performance.

## 1 **The Exchange Rate Is no longer a Useful Instrument against Emerging Countries**

The question consists in determining the “best” response for EMU countries to competition from emerging countries with low wage costs, in Asia and Central Europe, which, moreover, practise tax and welfare competition.

Let us start off from the fact that this response cannot be provided by exchange rates: on the one hand, emerging countries have avoided an appreciation in their currencies, by currency interventions in Asia (central bank reserves in Asia increase by more than 300 bns \$ a year) on the other hand, the size of the required adjustments to equalize the extremely different producer costs between advanced countries and emerging countries, would be so considerable – the Chinese Renminbi would need to appreciate 500% to 700% – that such adjustments are unrealistic.

## 2 **One Must Differentiate between Sectors Facing International Competition and Sheltered Sectors**

The strategy of EMU countries can be absolutely different with regard to the sectors facing international competition from emerging countries, i.e. manufacturing industry and business services, and the sectors sheltered from international competition: consumer services, retail, construction, etc.

In the sectors facing international competition – for the sake of simplicity, we will say “industry” – the answer has to consist in cost-cutting and product differentiation, in compari-

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