

S.Guichard, C.Cheung and J.Brézillon
**The Role of International Competitiveness
and Other Factors in Explaining Export
Performance**

discussion by **Luca De Benedictis** (University of Macerata)

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Competitiveness

It is an **institutionally relevant topic**:

- ▶ The **EU Lisbon strategy**: "... to become the most dynamic and most competitive knowledge-based economy by the year 2010".
- ▶ Countries are increasingly looking at their competitiveness on global markets. The US (1986, Council on Competitiveness), Ireland (1997), Greece (2003), Croatia (2004), Bahrain (2005), the Philippines (2006), Guyana (2007) and the Dominican Republic (2007) are some examples of countries that have **advisory bodies or special government agencies** that tackle competitiveness issues. Even regions or cities, such as Dubai or the Basque Country, are considering the establishment of such a body.
- ▶ In 2009, €12 billion of the **EU budget** (9%) will go on projects to boost Europe's competitiveness (financing investments in education, research, innovation and technological infrastructures).
- ▶ **International** (mostly qualitative) **comparisons of national competitiveness** are conducted by the World Economic Forum, in its Global Competitiveness Report, and the Institute for Management Development, in its World Competitiveness Yearbook. At the **national** level, in Italy, Unioncamere is producing an Atlas of competitiveness at the provincial level.

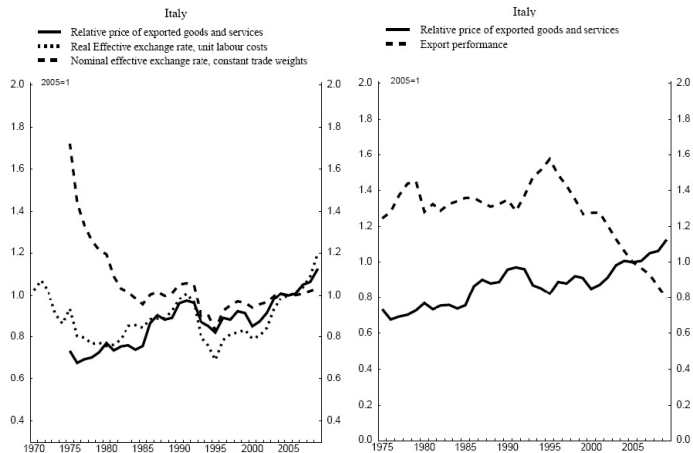
Competitiveness (2)

As far as measurement, competitiveness is a elusive concept:

- ▶ (OECD, 2) It is associated to the notion of the **real effective exchange rate** (based on relative Unit Labor Costs);
- ▶ (OECD, 1) to **price and cost comparisons** (using ratios between domestic and competitors' weighted average value of exports)
- ▶ (Neary, IMF wp, 2006) to **index numbers**, providing an estimate of the real effective exchange rate, that differs from standard measures in that it is based on marginal rather than average sectoral shares in GDP or employment;
- ▶ (EU-Cepii, 2009) it is interpreted 'at large' (export volumes, sectoral specialization, technological content).
- ▶ or (Krugman, 1994), it is just dismissed as a meaningful concept, and opposed as a dangerous obsession. What matters is productivity, just **productivity!**

In my comments I will take the OECD measures of competitiveness face value; look at some of the components of the indices and relate them to the dynamics of international market shares. I will focus only on Italy as a case study.

Competitiveness in Italy: the evidence of the paper



(1) Competitiveness has deteriorated in Italy; (2) in the 1990s movements in relative prices and costs have amplified the negative impact of currency appreciation on competitiveness; (3) market shares have shrunk.

Competitiveness in Italy: what can we take out of it?

Uniqueness ?

- ▶ **Exchange rate.** In the 1970s and the 1980s, in spite of the huge depreciation of the exchange rate, *export performance* (market shares) has been sort of stable. In 1992 the depreciation gave a boost to market shares. We can extrapolate that the effect of a change in the exchange rate is **conditional on international demand**, it is **not uniform at the sectoral level** (depending on sectoral unit labor costs; i.e. Ricardian models with learning by doing), and it induces a **selection** related to firms' price strategies (pass-through and pricing to market).
- ▶ **Prices.** An increase in prices is negatively effecting the competitiveness index, but an increase in prices can be also related to an increase in average **quality of exports**, higher **technological content** of exports or an increase in **market power** (terms-of-trade effect and the 'cost of imports').
- ▶ **Unit labor costs.** An increase in Unit Labor Costs is negatively effecting the competitiveness index, but it can also be related to a change in the **composition of labor** in production (skill-bias).
- ▶ **Productivity.** An increase in productivity is positively related to the competitiveness index, but it can also induce firms to **reduce exports and increase FDI**, as in trade models with heterogeneous firms.

Competitiveness \equiv HDL

- ▶ To make OECD measures of **competitiveness operational** the non uniqueness of the effect of its inner components should be explored.
 - ▶ Simple **conditional correlations**: $E(\text{Export performance}_{it}) = \alpha_i + \alpha_t + \text{Competitiveness}_{it} + \text{FDI}_{it} + \text{Competitiveness}_{it} \times \text{FDI}_{it} + \epsilon_{it}$
 - ▶ A more proper causal model.

What is **Competitiveness** all about ?

I would look at **Competitiveness** as 'good cholesterol'.

Not something good *per se*, that has to be maximized. But something that - depending on the **interplay between firms' choices and systemic characteristics (institutions)** - is necessary for the economic body of a country, or of an integrated market, to act as it should do.

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