



ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

# The role of international competitiveness and other factors in explaining export performance

Stéphanie Guichard, Calista Cheung and Jérôme Brézillon  
OECD - Economics Department

***CONFERENCE ON ITALY'S EXTERNAL  
COMPETITIVENESS***

***November 2009***



# Motivations

- OECD countries have been differently affected by the emergence of major new players (ie important differences in export performance)
- This cannot be explained by exchange rate movements => important to look at the drivers of competitiveness i.e. of the ability of countries to sell their product abroad.
- For policy recommendations: important to identify what is due to price/cost competitiveness and what is due to non price competitiveness



## Outline

- 1. Definition and measurement of competitiveness**
- 2. The position of Italy**
- 3. Price competitiveness and export performance**
- 4. Ideas for further research**



## OECD measures of price/costs competitiveness

### Definitions and measurement

#### 3 main indicators of price/cost competitiveness

- Relative export prices (RPX)
- Real exchange rate based on unit labour costs in the manufacturing sector (ULCMDR)
- Real exchange rate based on consumer price inflation (CPIDR)

#### Common principles

- Very aggregated level
- Measure the evolution in relative competitiveness
- Double weight approach taking account the structure of competition in export and import markets

### Example: relative export price

**country's  $i$  relative export price** = domestic export price / export price of competitors (all expressed in common currency)

**where the price of competitors** is a weighted average of the price of competitors on each export market  $p$  with weights based on country  $i$ 's export pattern. On a given export market  $p$  the competitors' export price is a weighted average of all competitors' export prices with weights based on country  $p$ 's import pattern.



## OECD measures of price/costs competitiveness

### Definitions and measurement

Main differences	RPX	ULCMDR	CPIDR
Price/cost variable	Export prices for good and services	ULC manufacturing	CPI
Countries/Zones	OECD countries, China, non OECD zones	OECD countries +17 non members	OECD countries+17 non members
Weights	2005 (updated every 5 years)	Moving	Moving
Local producers	No	Yes	Yes

## The limits of each type of indicator

Each of them has some advantages and limits

- PRX: also reflects impact of changes in product quality, only reflect prices of exporters able to export
- ULCMDR: does not reflect other costs, including imported inputs, nor changes in export margins
- CPIDR: non tradable also included

**But they are still quite correlated**



## OECD measure of export performance

### Definitions and measurement

**Export performance measures the extent to which countries gain and lose market share on foreign markets. If a country's exports are growing faster than the weighted average demand (imports) from its partners it is gaining market share.**

**⇒ Ex-post measure of competitiveness in a broad sense**

**⇒ How well can it be explained by the evolution of price competitiveness?**

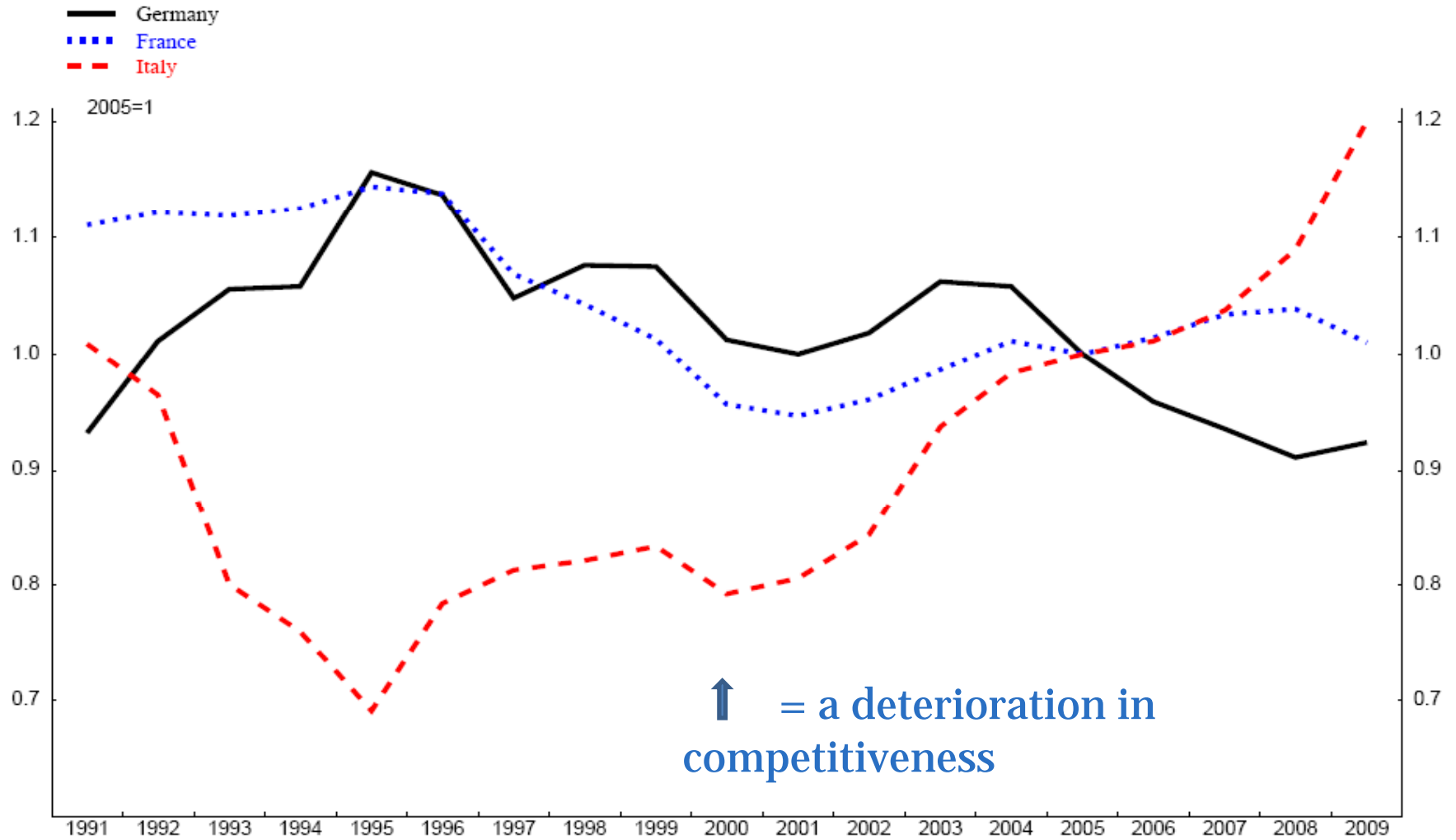
# Nominal effective exchange rate

Italy's relative position



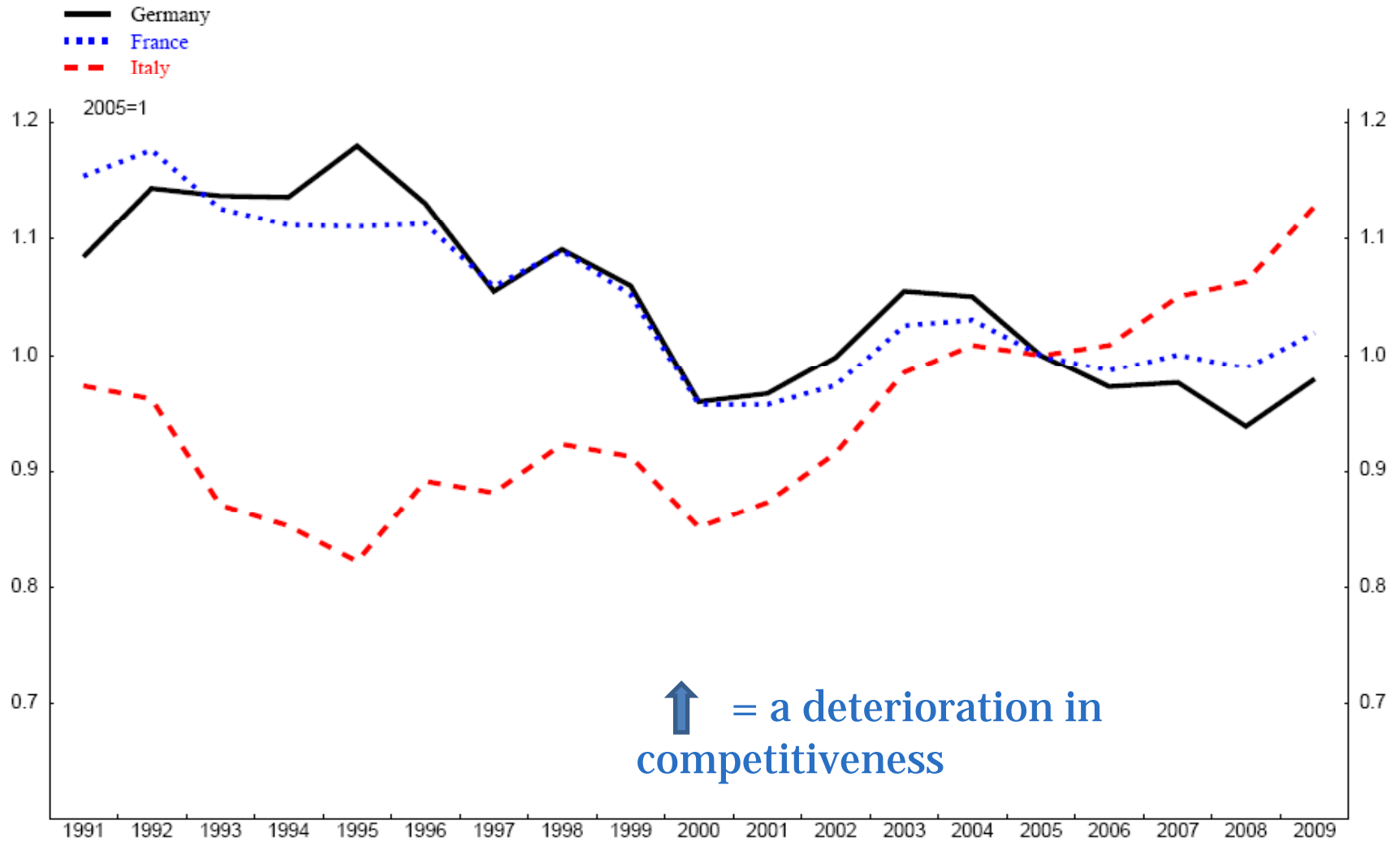
# Real effective exchange rate (ULC)

Italy's relative position



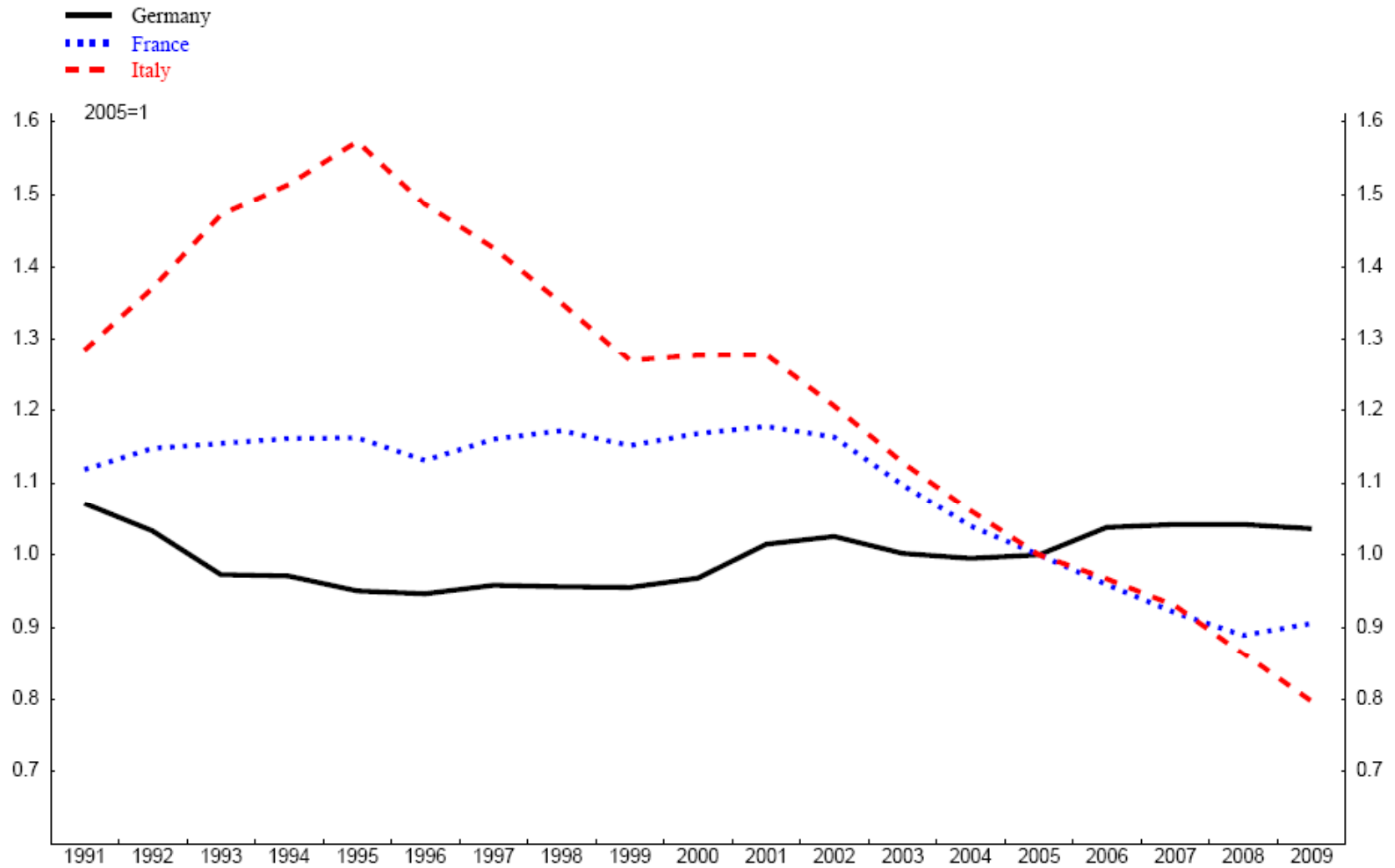
# Relative export prices

Italy's relative position



# Export performance

Italy's relative position



## Overview of the 3 big europeans

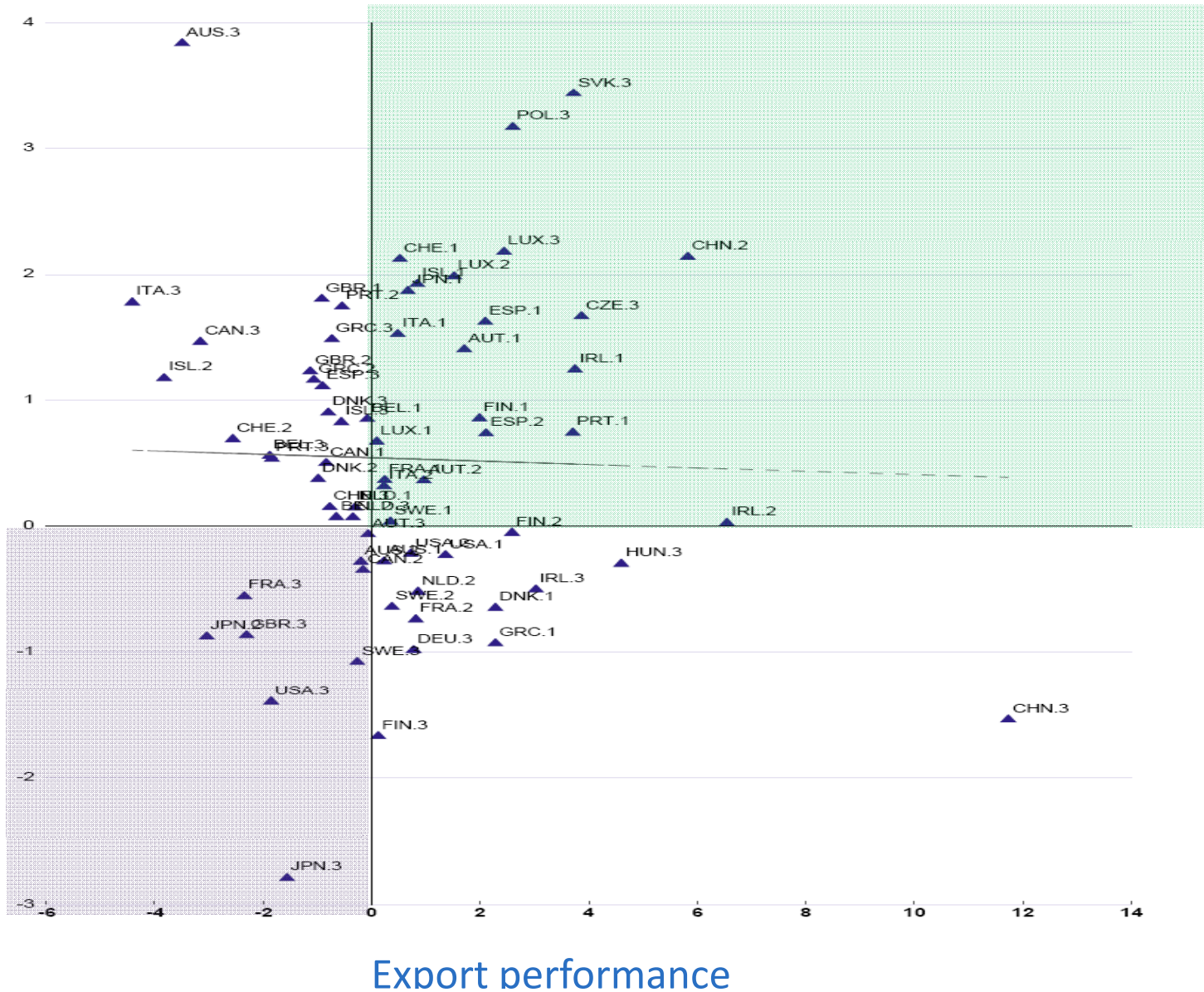
### Italy's relative position

- Germany has some gained world market share with some increase in prices competitiveness => price competitiveness factors
- France has lost market share with stable competitiveness => non price competitiveness factors
- Italy has lost market share which can be partly explain by losses in relative price competitiveness



# Export performance and price competitiveness: an apparently tenuous relation

Competitiveness and export  
performance



Relative export prices



# Export performance and competitiveness: a strong relation when non price factors are taken into account

## OECD export equations

- Based on long term relationship between export performance in relative export prices
- Include non linear time trends (negative and significant for G7, positive in lower income countries except Portugal) to represent non price factors (or error in price measurements)
- Impact of price competitiveness rightly signed and significant

## Export performance and competitiveness: a strong relation when non price factors are taken into account

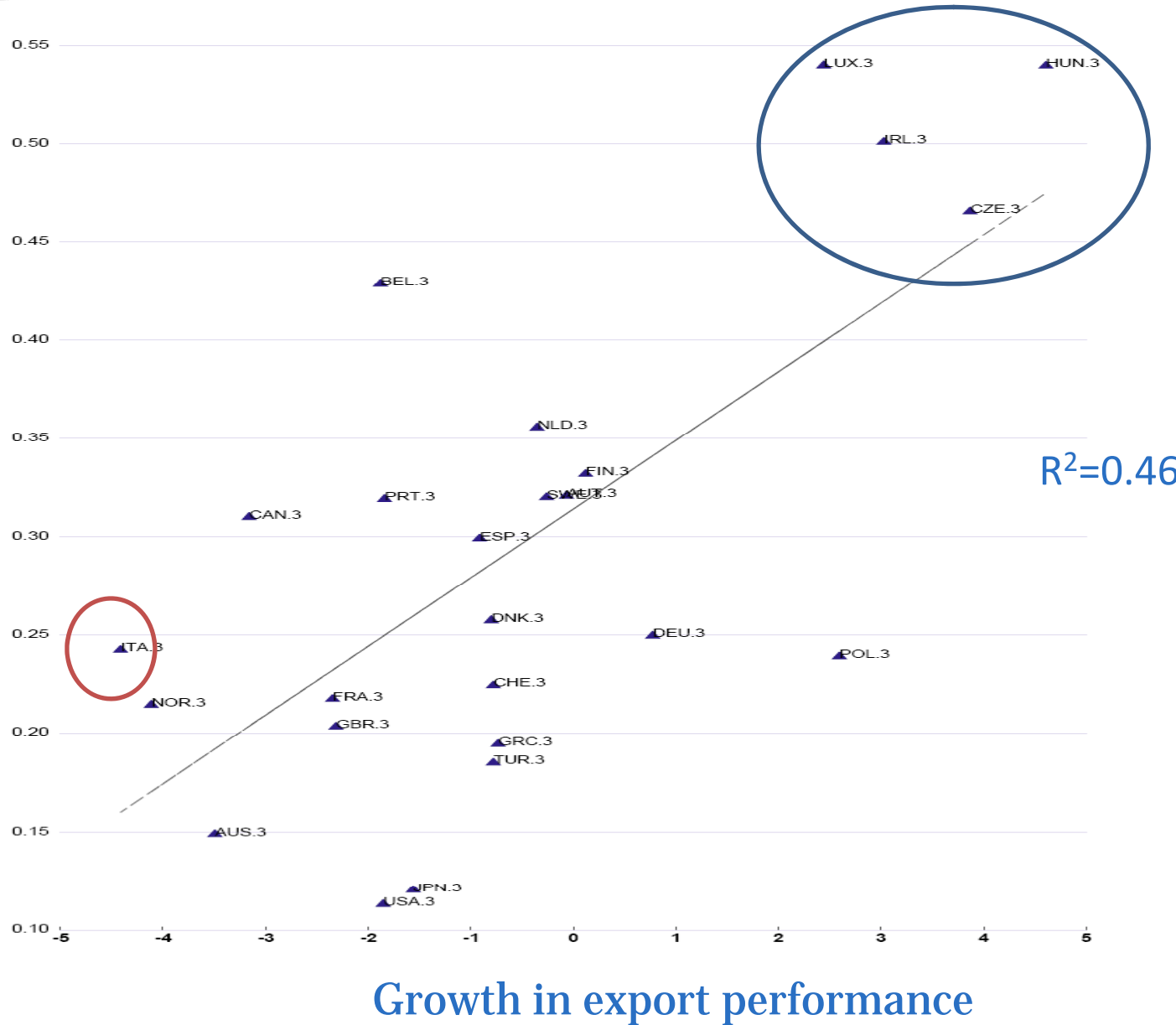
- Perform quite well on the out of sample period 2002-2008 in the G7 except for France and the US (over predict exports). Slight under prediction in Germany.
- Italy: losses in export markets reflect both deterioration in price competitiveness and continuation of past trend in non price factors (impact of trend larger than France and Germany in 2000s).

## Factors affecting non price competitiveness

- Specialisation: the range and the quality of the products exported
- R&D intensity in exporting sectors
- “structural competitiveness”: development of human capital and the business environment
- FDI inwards and outwards (countries with large inwards FDI tend to have positive trends. More complex relations for outward FDI).  
Need more work

# Vertical trade integration ?

Roads for further research



Share of vertical trade in total trade



**THE END**

**Thank you**

**Comments and questions welcome**