



Policy suggestions for boosting *Greek export performance*

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Introduction

Greece's External Trade Performance

Comparative Advantage vs Export Performance

Structural Reforms vs Export Performance

BETWEEN 2010 AND 2014, in parallel to the ongoing fiscal consolidation efforts, a number of **structural reforms** were introduced, targeting the following:

- First and foremost, **the liberalisation of the labour market**
- Second, an increase in transparency and **competition in product markets**

THE AIM OF THESE REFORMS was threefold:

- to bring the chronic **external trade deficit under control**
- to improve competitiveness
- to boost export growth.

While the main target of balancing external trade has been achieved, **NO EFFORT HAS BEEN MADE** to do the following:

- examine areas of **unexploited comparative Greek advantage**
- evaluate the **effects of structural reforms** on Greek competitiveness and exports.

THE AIM OF THIS PRESENTATION is to address the following two issues:

- Does Greece, with its **current** economic and social **structure**, have any **comparative advantages** and if so, in which sectors?
 - **Is this structure adequate**, or does Greece need a **change of direction** in its trade, industrial and export policies?
- What is the link between competitiveness and export performance?
 - Have the **recent structural reforms** successfully **boosted export competitiveness**?

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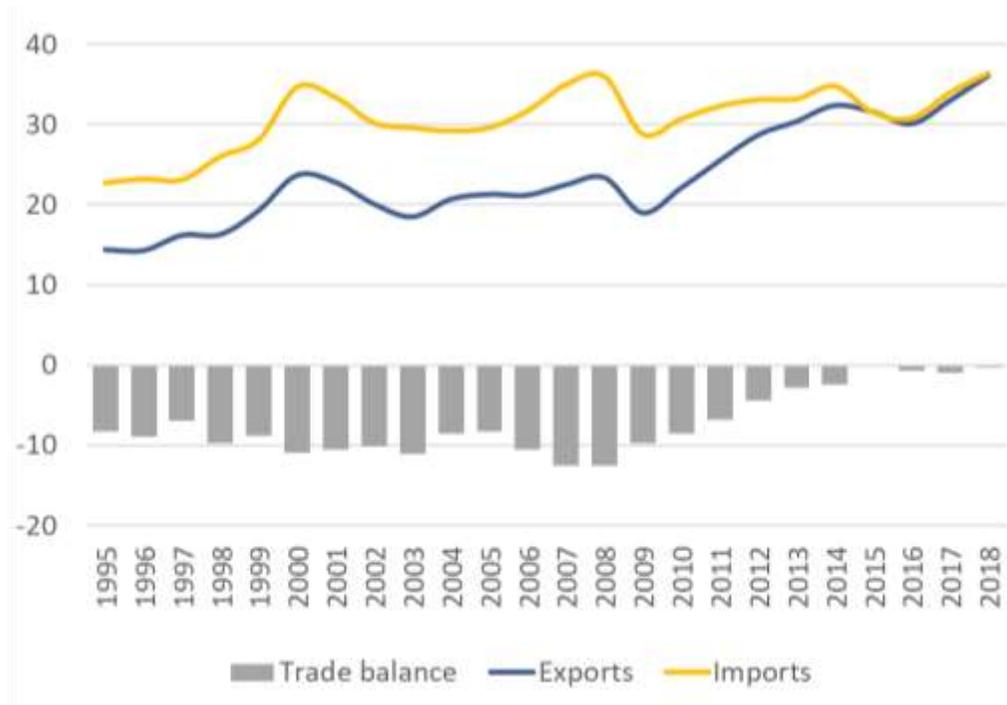
Structural Reforms vs Export Performance

Imports and exports have contributed to external sector balance ...

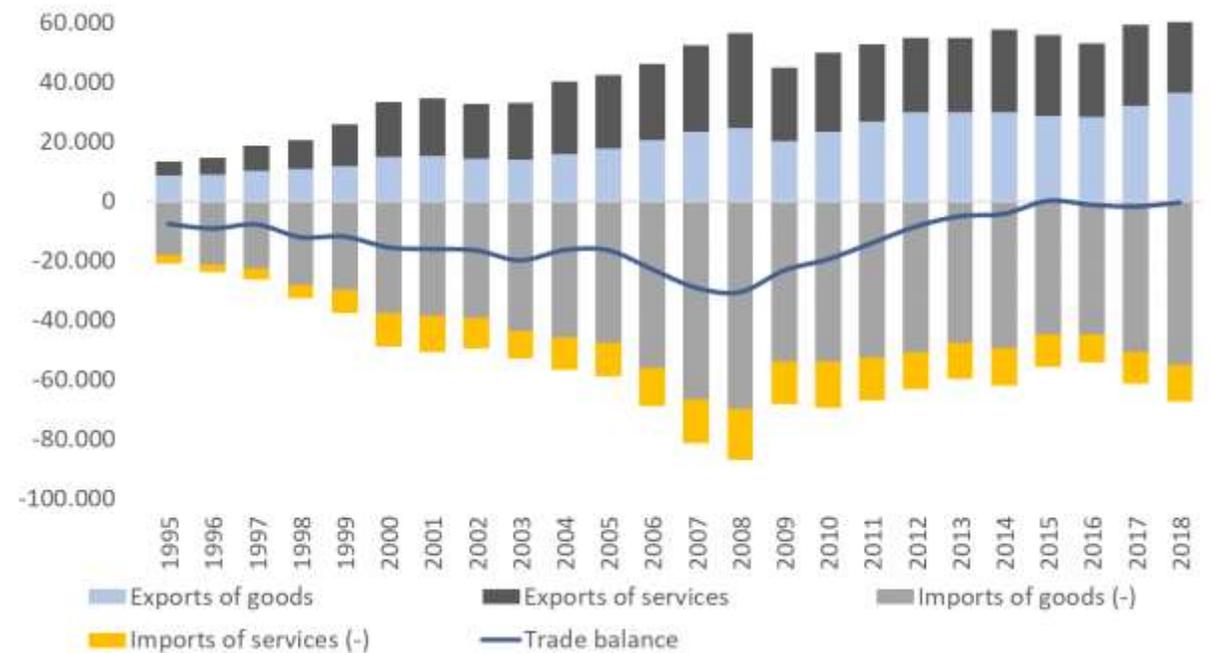
In a rapidly shrinking economy, the **RETURN OF BALANCE TO THE EXTERNAL SECTOR** was the result of the following:

- a **decline in imports** from €87bn in 2008 to €67bn in 2018
- a **stabilisation in exports** to approximately €67bn.

External trade, Greece
(of goods and services and as % of GDP)



Trade balance – Goods and services, Greece
(current prices, € mn)



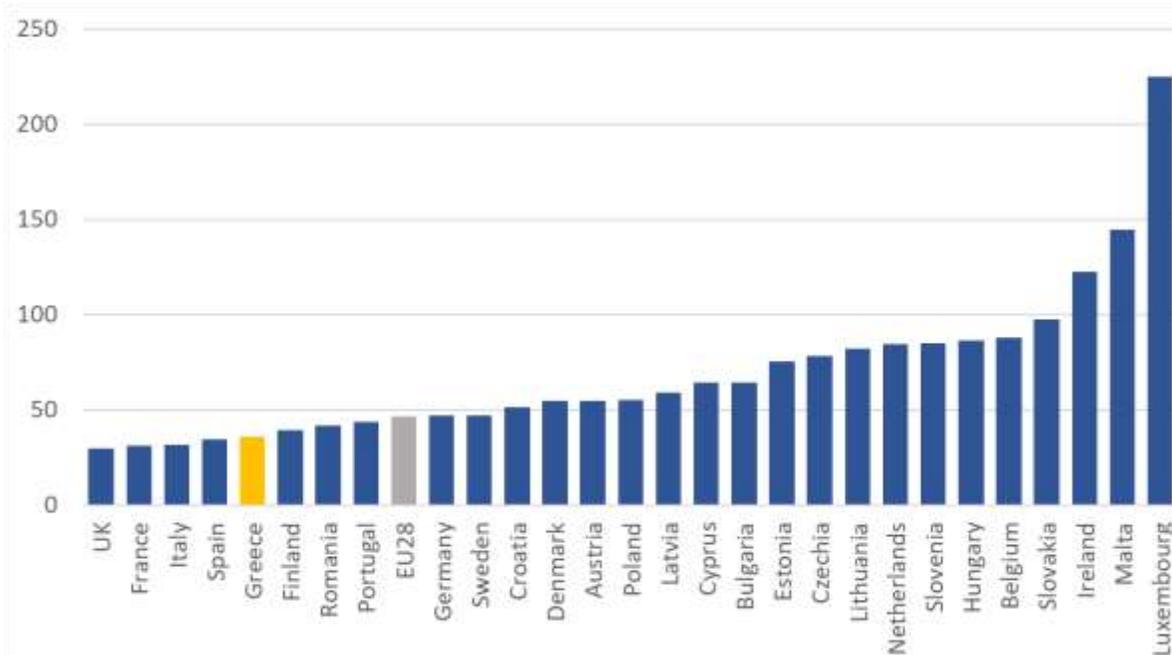
... but Greece remains a “closed” economy

In 2018:

- *Greek exports stood at 36% of GDP vs 46% in EU28*
- *Trade openness of Greece stood at 73% of GDP vs 89% in EU28*

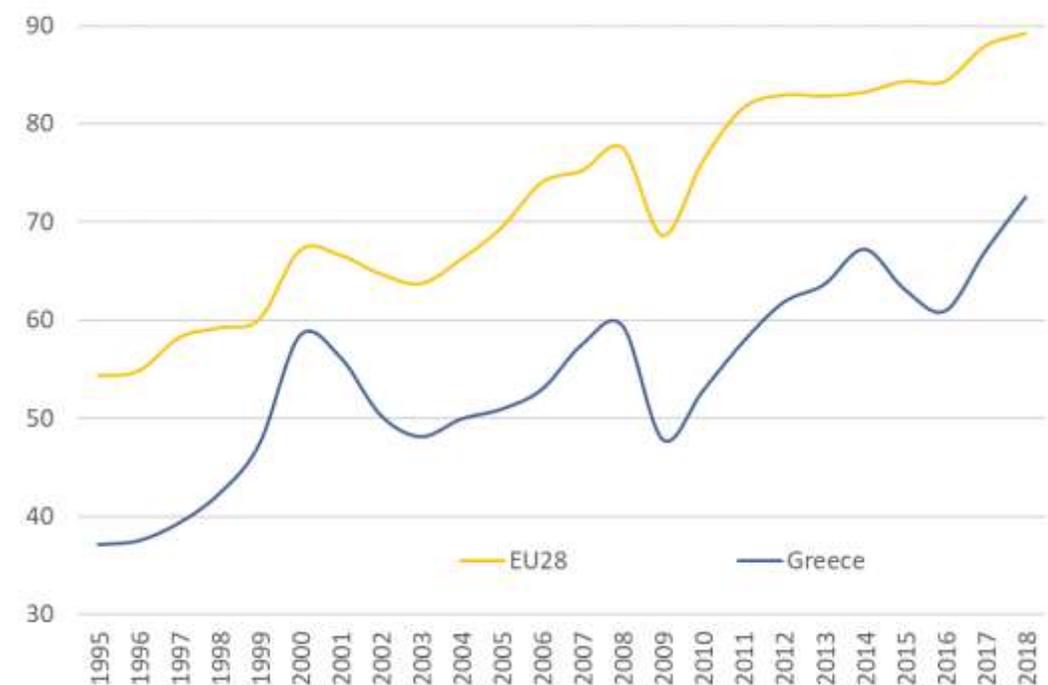
Export performance, 2018

(exports of goods and services as % of GDP)



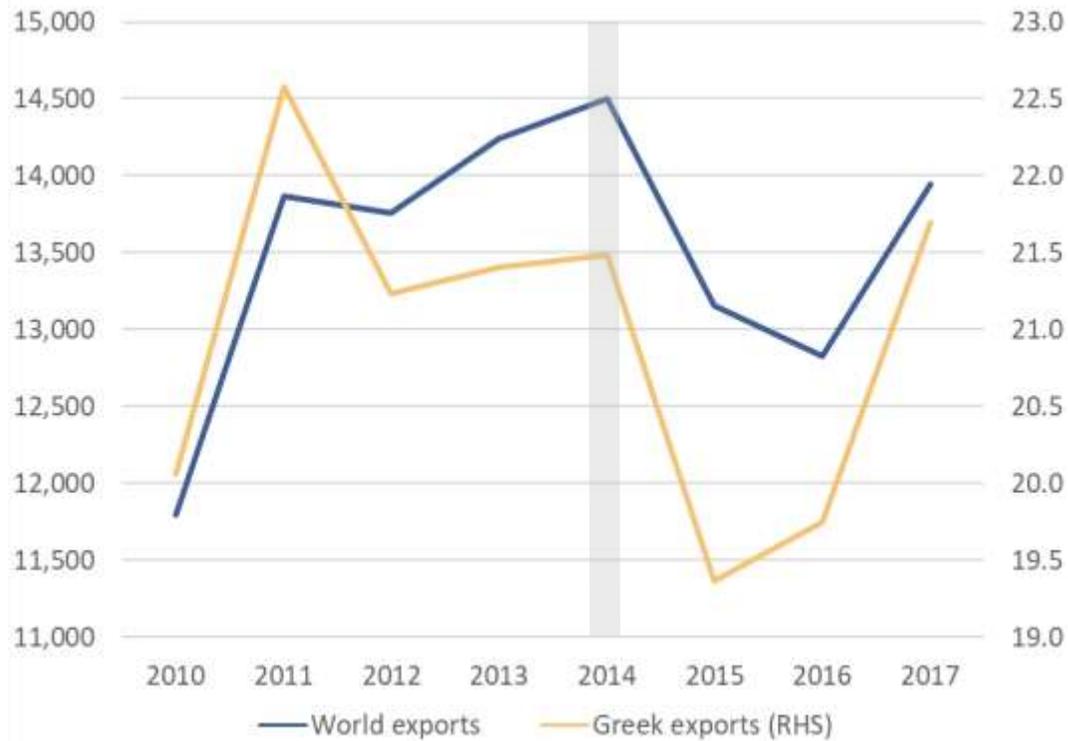
Trade openness

(exports + imports of goods and services as % of GDP)



... with Greek merchandise exports highly correlated with global trade growth

Total exports of goods, 2010-2017
(current prices, bn \$)



Growth rates of Greek and World exports of goods, 2010-2017



*excluding petroleum products

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To evaluate Greece's sectoral comparative advantages and their effects on Greek exports, we proceed in three stages:

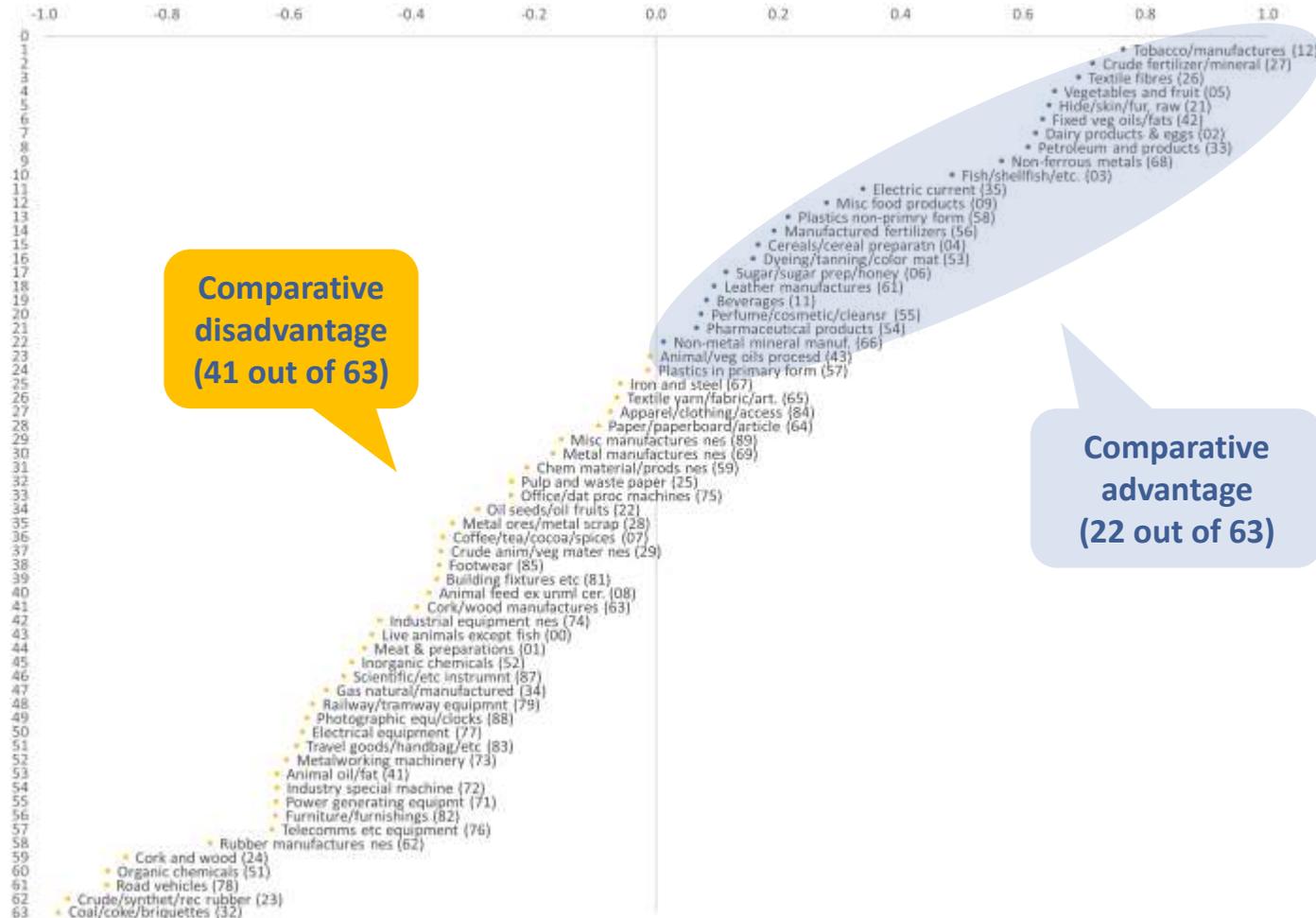
- a) First, we use the well-known Balassa Index to **identify the product categories** in which Greece enjoys **competitive advantages** compared to the rest of the world.
- b) Then, we employ the so-called PRODY Index (introduced by Hausman et al., 2007*) **to rank the main product categories** according to each product's **degree of sophistication and quality**.
- c) Finally, we combine (a) and (b) to establish **a link between** Greece's main **"export champions"** and their **degree of complexity and (technological) sophistication**.

* Hausman R., Hwang J. and Rodrik D. (2007), "What exports matters", *Journal of Economic Growth*, Vol 12, Iss 1, pp. 1-25.

Despite popular belief, Greece has a significant comparative advantage in a number of products

Out of 63 product groups, Greece has a global **comparative advantage in 22**, which account for **69.5% of Greek exports**. If petroleum products are excluded, the contribution of the remaining 21 sectors falls to 40.4% of exports.

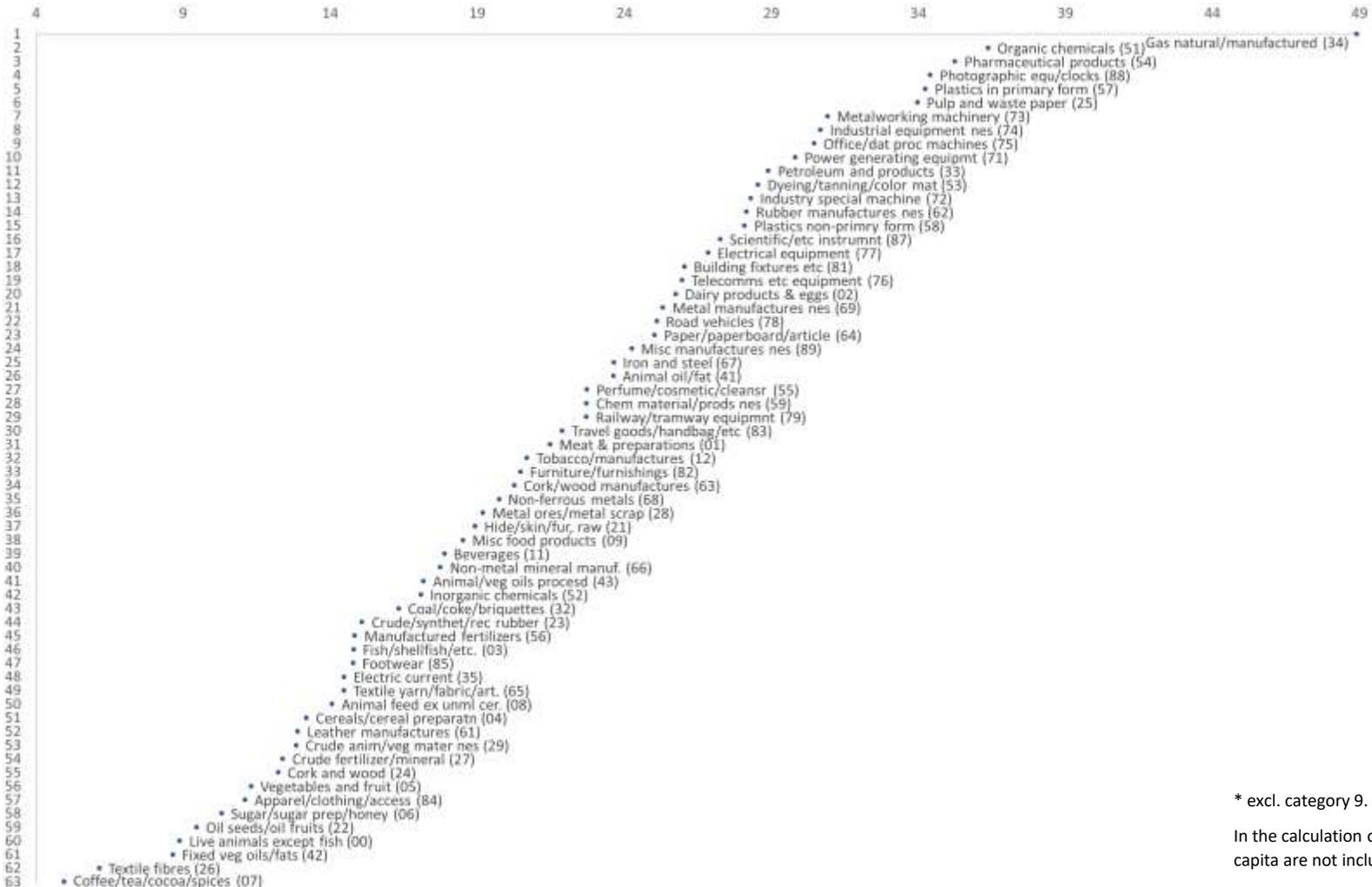
Revealed Symmetric Comparative Advantage (RSCA), Greece, avg 2016-2017



A global products ranking based on “productivity” level

The **PRODY Index** is a proxy of the **global implied productivity level of exported products** based on the revealed comparative advantage and the GDP per capita of the countries that export them.

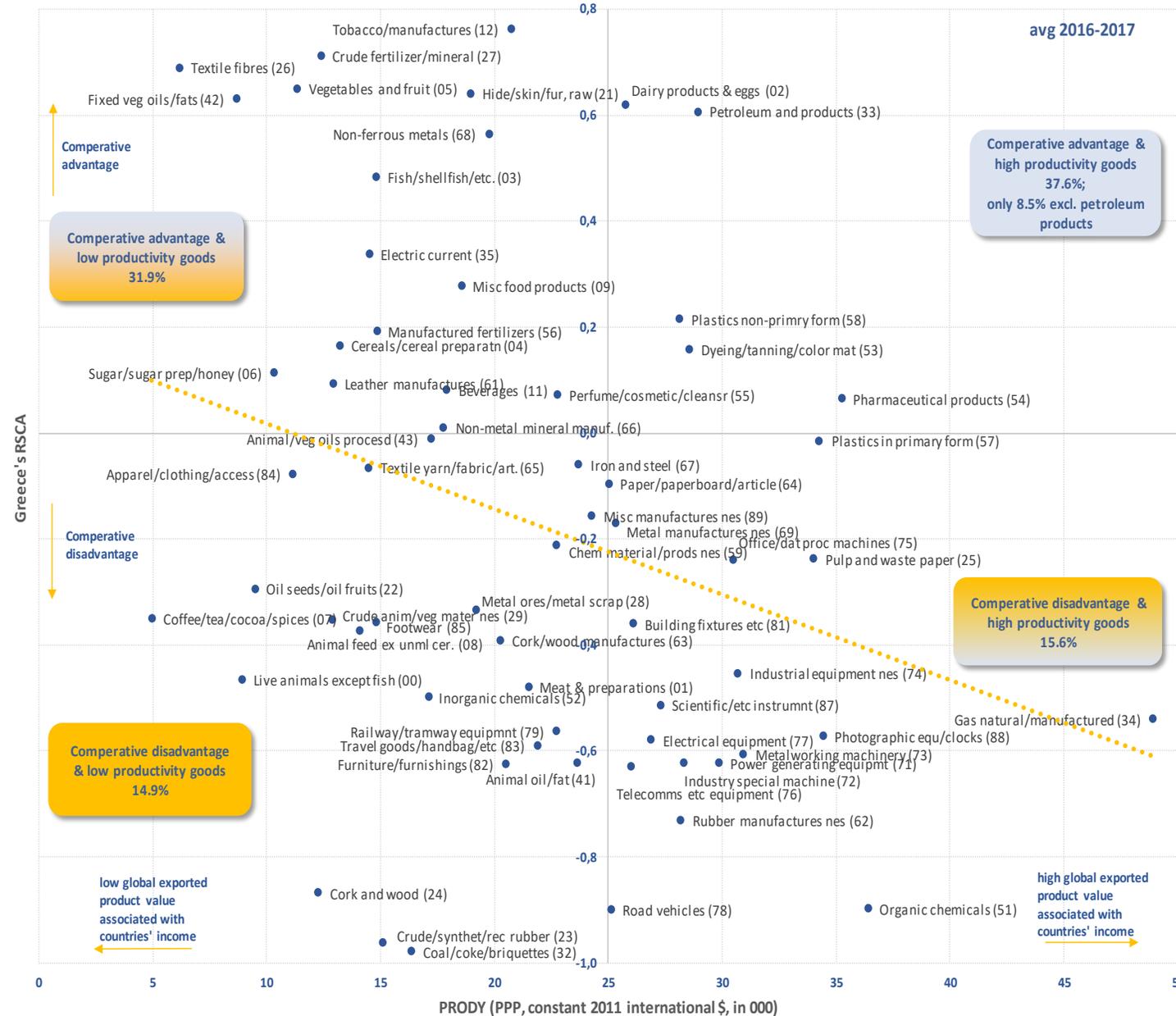
PRODY Index, PPP, constant 2011 international \$ in thousand, World, avg 2016-2017



* excl. category 9. Products in 2-digit analysis SITC rev.4.

In the calculation of PRODY index, the countries with no available GDP per capita are not included, accounting to only 1% of the world's total exports.

POLICY QUESTION I: *What change of direction needs to be made?*



Greece could increase its export potential by:

- improving** the export sophistication of the **low productivity goods** with **comparative advantage** and make up 32% of its exports
- switching** production to **high productivity goods** with **comparative disadvantage** that make up 16% of its exports

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Based on the methodology of the Constant Market Share Analysis*, we decomposed the changes in Greek exports into three effects:

$$\Delta(\text{Greek exports}) = \text{Global effect} + \text{Structure effect} + \text{Competitiveness effect}$$

- **“Global effect”**: How were the Greek exports affected by the **changes in global trade**?
- **“Structure effect”**: Given that the demand of each product in each destination was evolving differently (increasing or decreasing, strongly or mildly), how **did the structure of Greek exports** affect the changes of Greek exports?
- **“Competitiveness (residual) effect”**: The above two effects are computed under the assumption that the country’s export shares in all product destinations remained constant. The remaining change (residual) is thus attributed to changes in Greece’s exports shares or, in other words, **changes in Greece’s competitiveness**.

* Buitelaar, Pieter, and H. A. M. van Kerkhoff. *The performance of EU foreign trade: a sectoral analysis*. No. 801. Netherlands Central Bank, Research Department, 2010.

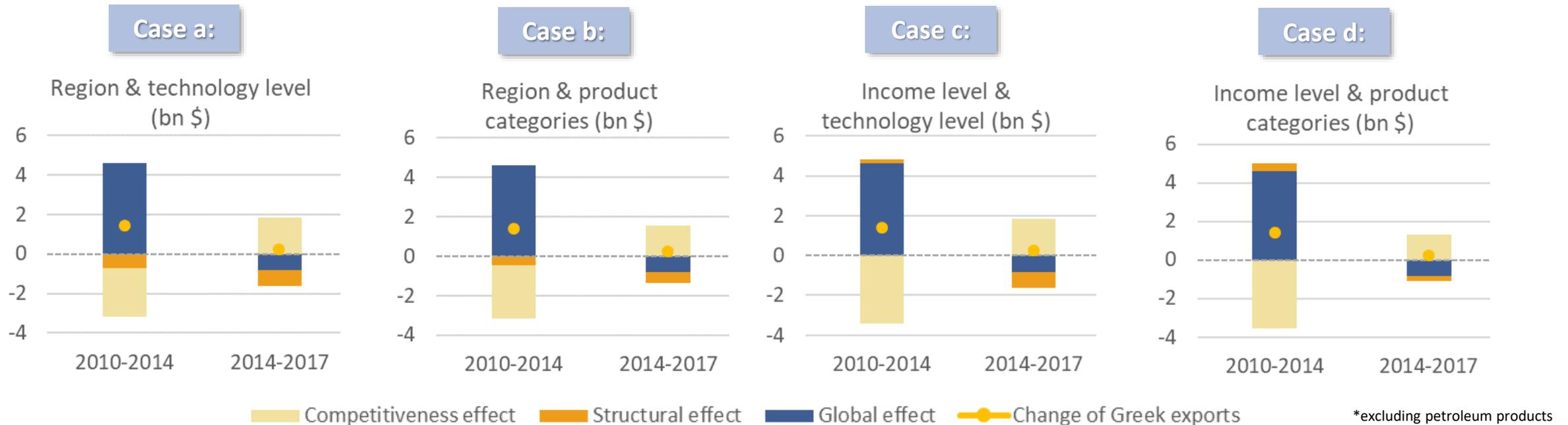
What were the drivers of Greek exports?

2010-2014: Greek exports **increased** by 7.1% (from \$20.1bn in 2010 to \$21.5bn in 2014).

- The **global effect** contributed by **3.2 times**.
- The **structural effect** had a mixed impact **between -0.5 and 0.3 times**.
- The **competitiveness effect** subtracted **between -1.7 and -2.5 times**.

2014-2017: exports **almost stagnated** (they increased only by about \$0.2bn).

- The **global effect** subtracted by **-3.9 times**.
- The **structural effect** subtracted **between -1.3 and -3.8 times**.
- The **competitiveness effect** contributed **between 6.2 and 8.8 times**.



WE HAVE DEMONSTRATED that exports are driven:

- not only by changes in **competitiveness** but also
- by developments in the **global** economic and trade **environment** as well as
- changes in the economic situation of our **trading partners** and
- changes in the **demand** for our exported goods.

Furthermore, **WE HAVE DOCUMENTED** that the effect of **these other “neglected” factors** can, at times, **be much greater** than that of competitiveness. As such, the perceived link between export performance and competitiveness can be **tenuous** at best.

If the positive effects of competitiveness prove to be permanent rather than transitory:

- then a **resolution of trade disputes** and global economic recovery could lead to a substantial recovery in Greek exports, and
- in the long run, a **redirection of Greek export trade to more dynamic regions** will be required.

Thank you for your attention!

The presentation is based on:

- Lekkos I., Vlachou P., Theodorakakis G., *Structural Reforms, Competitiveness and Greek Exports 2010-2017: Positive Impact Despite Global and Regional Headwinds*, Aug. '19, Piraeus Bank [link](#)
- Lekkos I., Vlachou P., Staggel I., Pilichos V., *Greek export performance: Tangible Signs of improvement but much more is required*, Mar. '19, Piraeus Bank [link](#)

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