Policy suggestions for boosting *Greek export performance*
Introduction

Greece’s External Trade Performance

Comparative Advantage vs Export Performance

Structural Reforms vs Export Performance
Introduction

**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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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)

Source: Eurostat, Piraeus Bank Research
... 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**

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### Export performance, 2018
(exports of goods and services as % of GDP)

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<table>
<thead>
<tr>
<th>Country</th>
<th>Exports as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>36%</td>
</tr>
<tr>
<td>EU28</td>
<td>46%</td>
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</tbody>
</table>

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

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Source: Eurostat, Piraeus Bank Research
... with Greek merchandise exports highly correlated with global trade growth
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Structural Reforms vs Export Performance
Comparative Advantage vs Export Performance

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 Haussman 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.

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**

**Comparative disadvantage** (41 out of 63)

**Comparative advantage** (22 out of 63)
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.

* 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:

I. **Improving** the export sophistication of the **low productivity goods** with comparative advantage and make up 32% of its exports.

II. **Switching** production to **high productivity goods** with comparative disadvantage that make up 16% of its exports.

Source: World Bank-WITS, Piraeus Bank Research
Introduction

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Structural Reforms vs Export Performance
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.

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:


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