

Discussion

Session I – The Triggers of Competitiveness (Altomonte, Crozet)

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Brussels, 6 December 2011

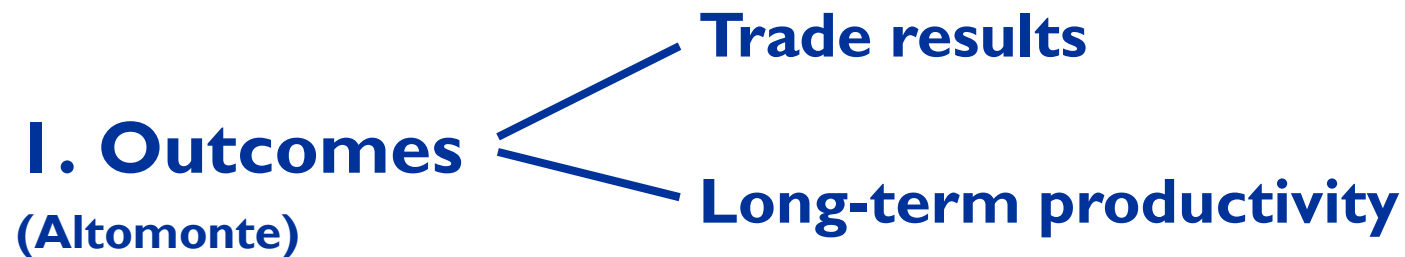
Main point

Macro assessments of competitiveness tend to focus on spurious correlations (e.g. CA vs ULC).

Problems:

- **Many other factors are not considered (e.g. globalisation);**
 - **Suggested policies focus on intervening on the “identified” link (e.g. lowering labour cost)**
 - **Other policies are treated as a residual (“non-price competitiveness”) and not specified;**
- we lack convincing link indicators vis a vis outcomes.
This is the task of firm level analysis**

Competitiveness definition





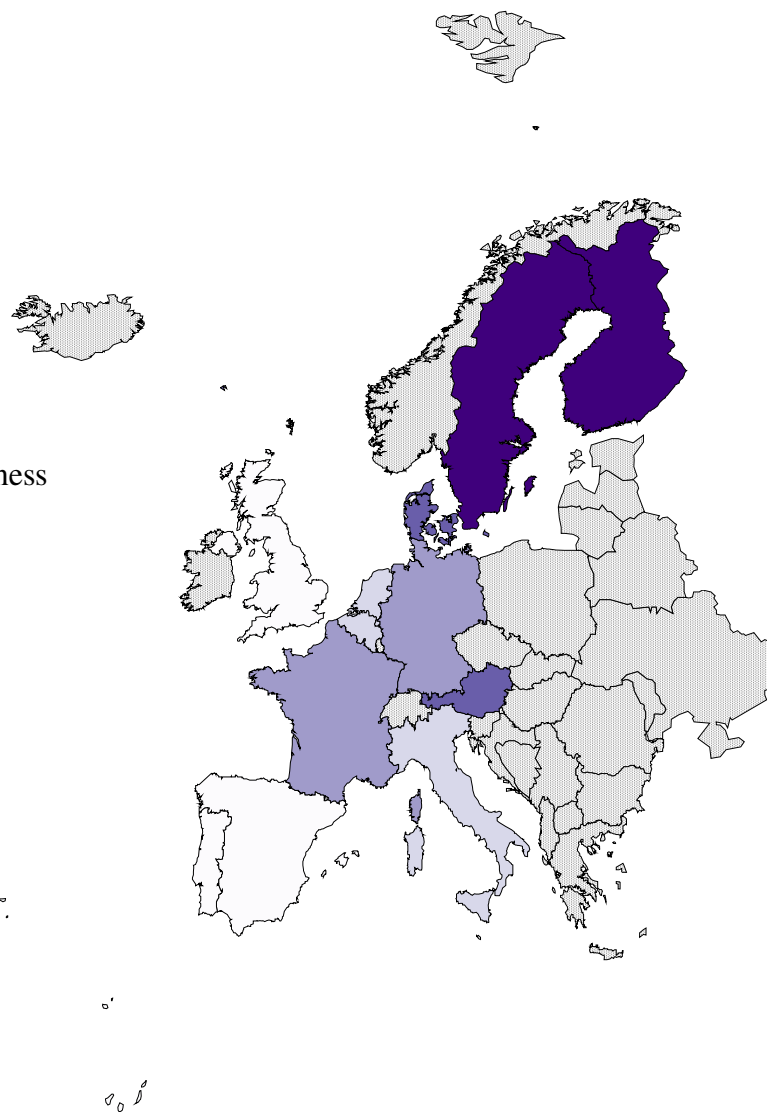
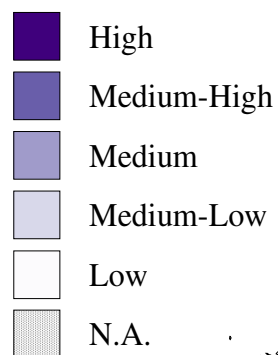
There is not necessarily contrast across definitions:

- e.g. high productivity is associated with good export performance (Ottaviano, Mayer)
- Competitiveness/productivity rankings derived from firm level-based assessment (see Ottaviano, Taglioni, di Mauro, EP 2009 [slide 5]) are in line with trade performance rankings

Producer competitiveness: country ranking

Country	Producer Competitiveness
Netherlands	14.9
Sweden	14.5
Finland	8.5
Denmark	8.1
Germany	7.5
Belgium	6.5
UK	5.8
Austria	5.7
France	3.5
Spain	2.9
Italy	1.6
Portugal	1.0

Producer competitiveness



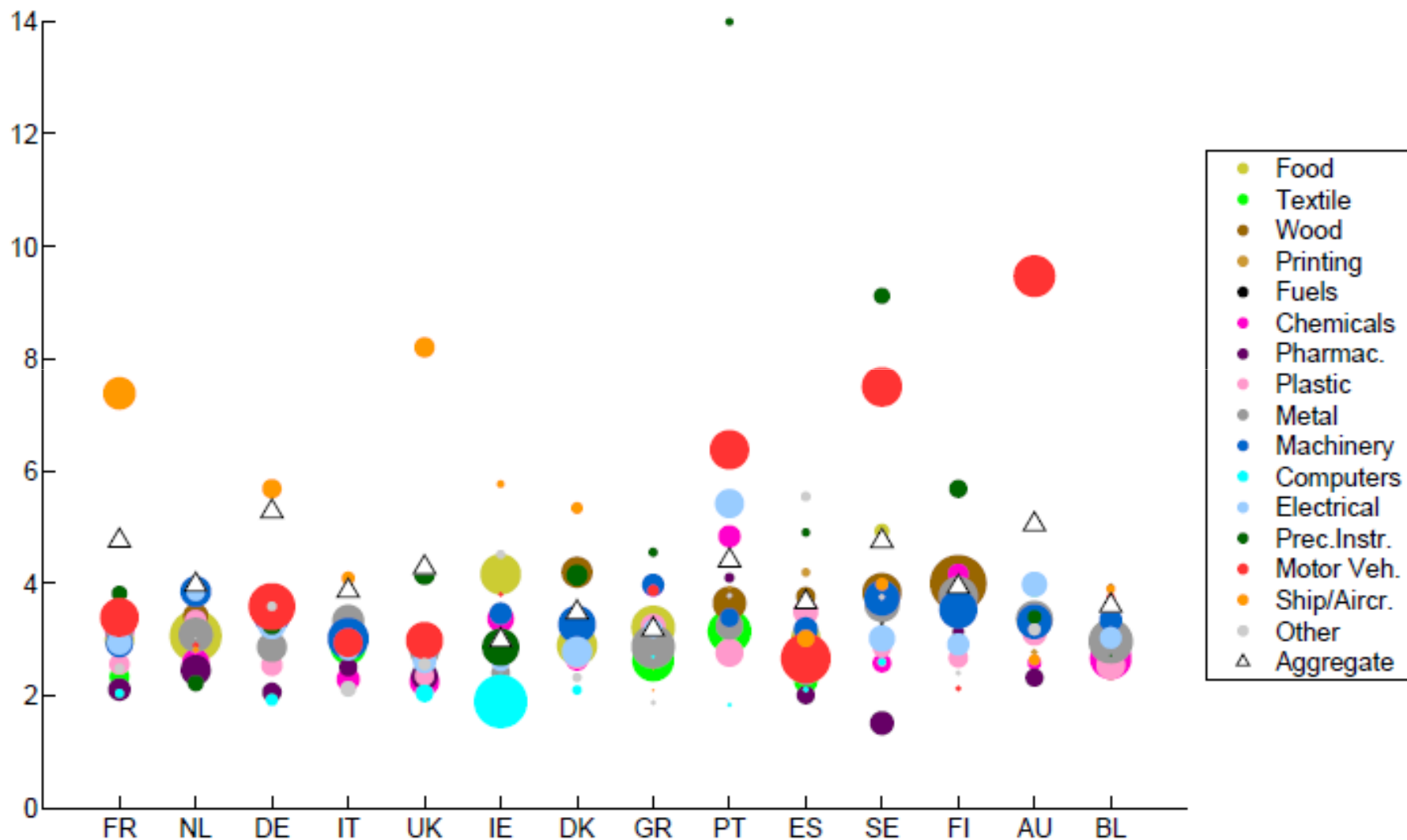
Source: Ottaviano et al. (2009)

2. Indicators

- a) Price/cost indicators (e.g. ULC)
- b) Non-price → Institutional, technology, sector specialisation

- Indicators are treated as if we knew how they relate to outcomes (e.g. price elasticities biases (slide 6))
 - Measurement of ULC subject to aggregation bias (Altomonte reference to Kumar and Felipe)
 - On 2a) at best we are able to establish spurious correlations [Reserve slides 16, 17]
 - On 2b) we have just “a priori”, e.g. high-tech is better, more research and development... although Altomonte/Ottaviano and Crozet provide good firm level evidence, supporting basic intuition
- As we lack good connection between indicators and outcomes, we risk concentrating on the wrong indicators as we pursue a specific policy objective

Figure 2: Sector level export elasticity estimates for the “old” member states



Firm level data must be used more systematically

- **Identifying determinants of trade performance at firm level**
 - ➔ now we have the computer and data capacity to do so
 - ➔ **Academic research needs to be more proactive (Bruegel Policy Contribution, Nov 2011) and provide indicators**
- **Encompassing macro conditions (price, all economy costs) and firm level characteristics (size, technology...)**
- **Also considering international production organisation/complexity of the firms (Altomonte et al on French data, ECB Working Paper, Dec 2011, forthcoming)**

The new Competitiveness Research Network

- **Approach must be broad-based, pursuing individual “views” (macro/aggregate, firm level) but also fostering interaction between micro and macro.**
- **Three workstreams, relating competitiveness to:**
 - **Aggregate measures**
 - **Firm level**
 - **Global Value Chains**

Workstream I – Aggregate Measures

I. Detailed product level on

- i) Deflators;**
- ii) RCA;**
- iii) Trade elasticity;**
- iv) Quality adjustment**

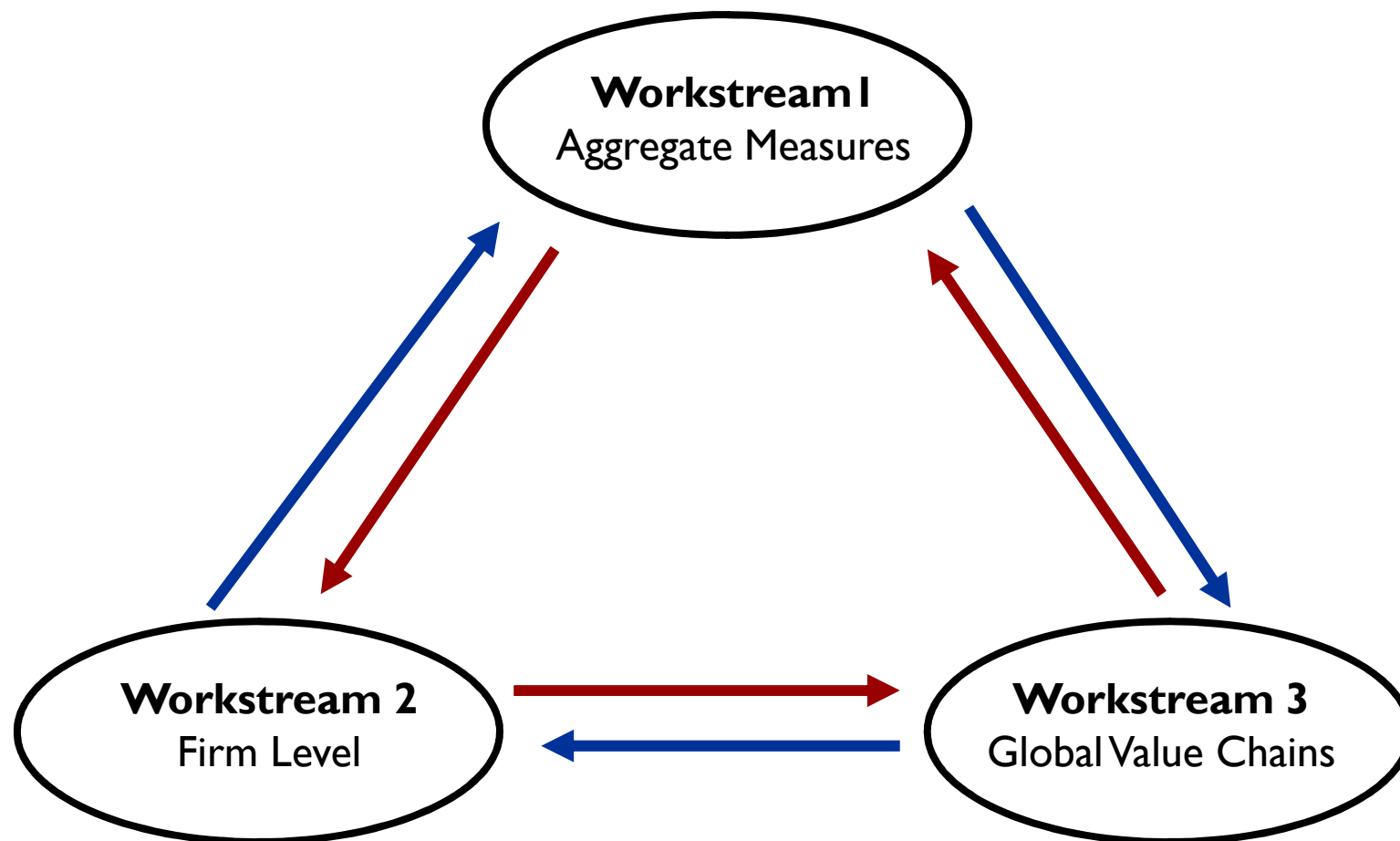
2. Non-price competitiveness

Workstream 2 – Firm Level

- 1. Aggregation of microdata for less biased macro analysis**
- 2. Determinants of firm performance**

Workstream 3 – Global Value Chains

- 1. Impacts of the internationalisation of production on trade and competitiveness assessment (conceptual)**
- 2. Develop homogeneous measures of trade value-added**



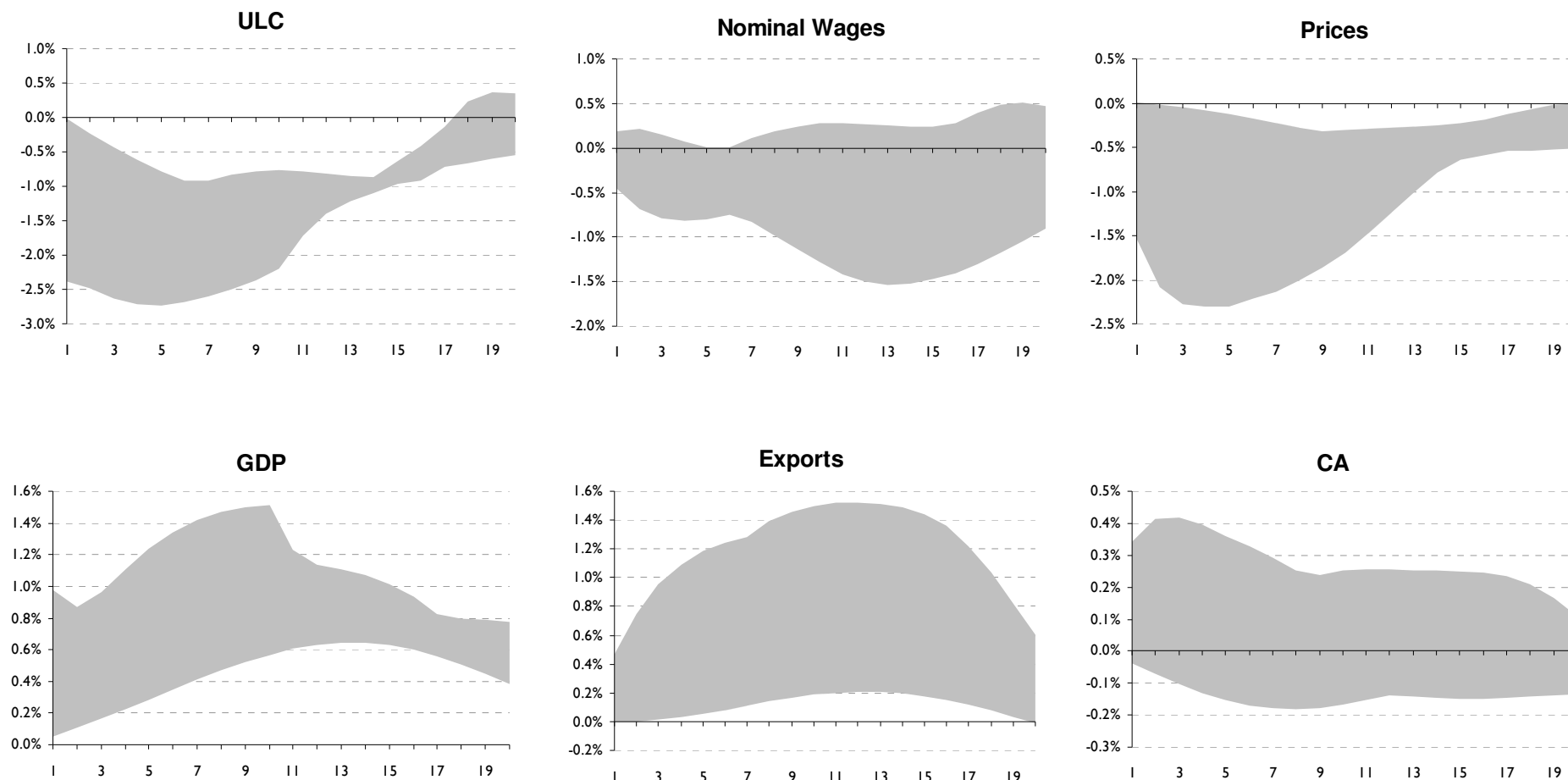


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Reserve slides

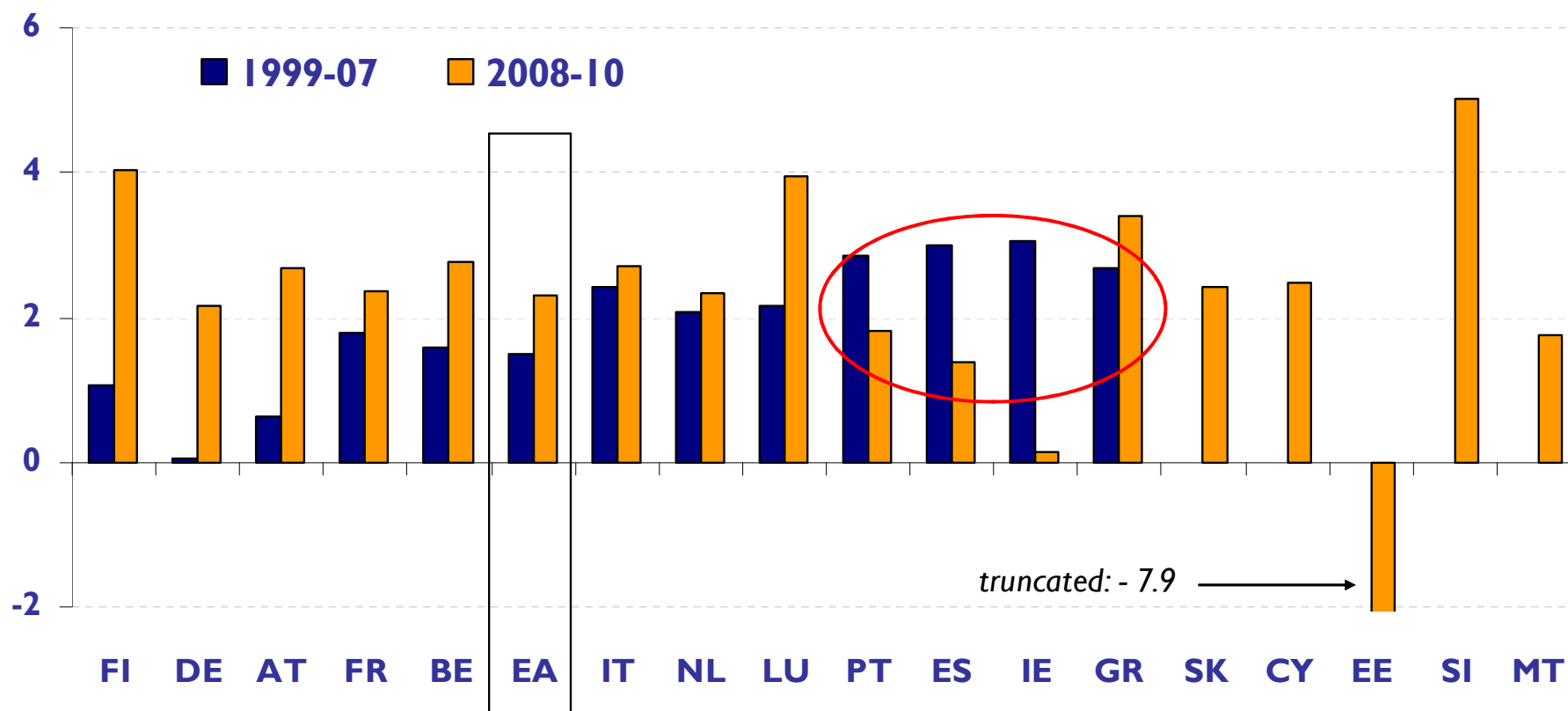
Productivity shock can improve Current Account...

Large Deficit country



ULC and imbalances/competitiveness

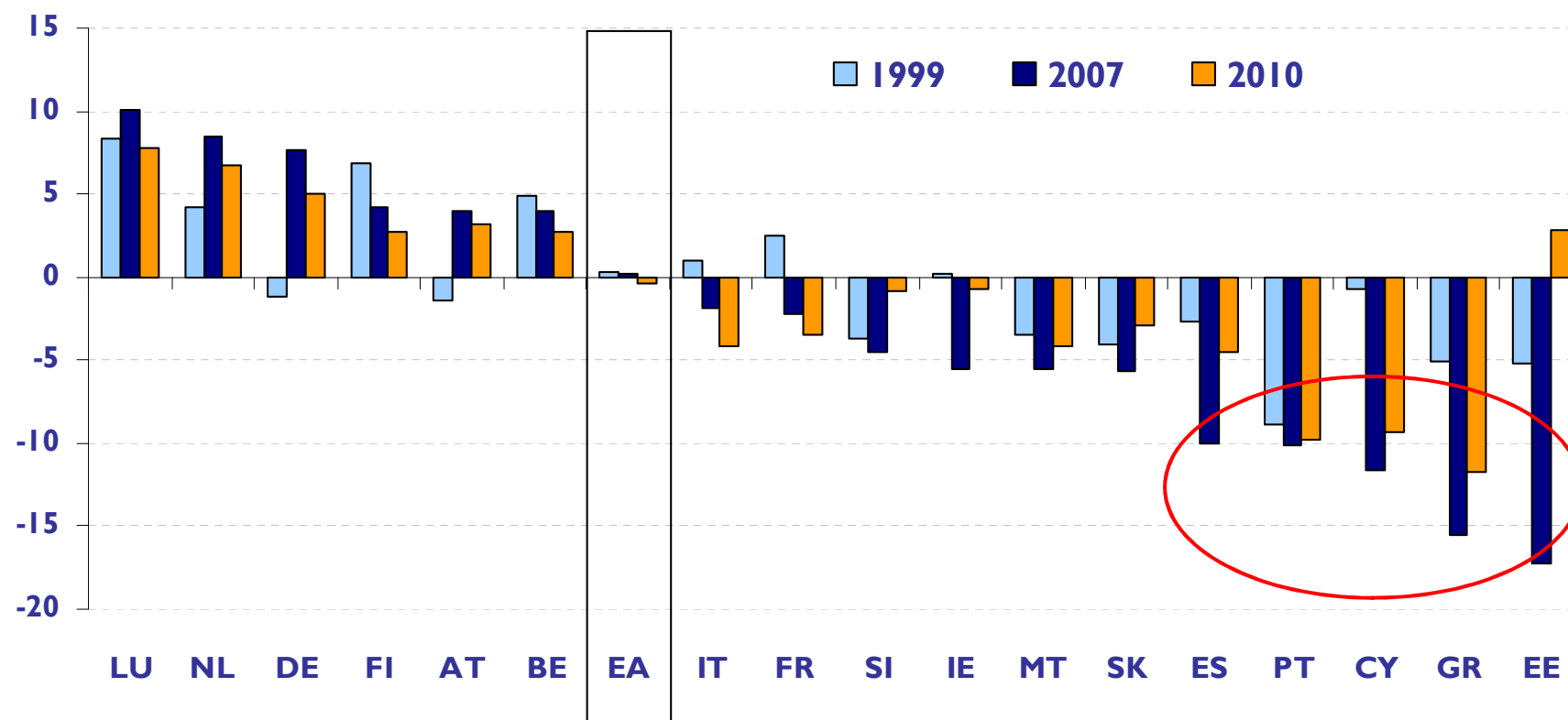
ULC growth, annual averages



Source: Eurostat. Notes: Countries are ranked in ascending order according to the average HICP inflation in 1999-2007 (2001-2007 for GR). See previous slide. The new euro area countries have been added at the end of the chart. In the case of SK average 2009-2010 is shown, in the case of EE only 2010 is shown.

Current account and imbalances/competitiveness

Current account balances (% of GDP)

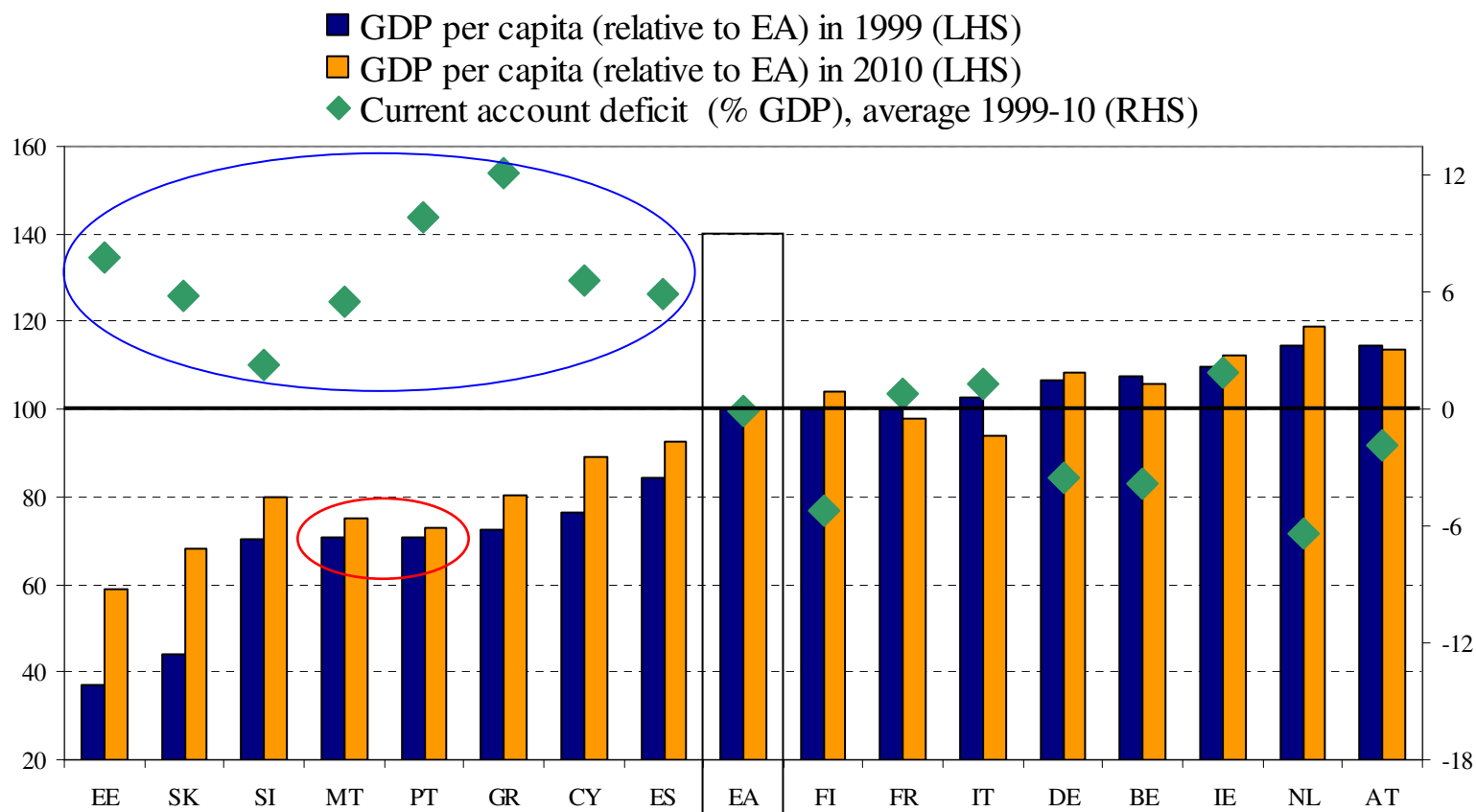


Source: European Commission. Note: Countries are ranked in ascending order according to the balances in 2007.

Current account and imbalances/competitiveness

Capital flows on average in “right” direction – but not necessarily used efficiently – competitiveness issue

GDP per capita (EA=100) in 1999 and 2009 and average current account in 1999-09



Sources: European Commission and Eurostat. Notes: Countries are ranked according to GDP per capita in 1999. GDP per capita, relative to the EA, in PPS. Figures for LU are distorted due to the large number of cross-border workers. In LU, GDP per capita in 2009 is estimated at around 250 (EA=100). Average current account over the period 1999-2009 in LU is 9.3% of GDP.

Checklist of primary factors impacting competitiveness

	Main challenges identified from the Trade Outcomes Analysis →	General Export Environment	Cost Competitiveness	Product extension and Quality	Market penetration	
Channels	Fixed entry costs	✓	✓		✓	
	Factor costs	✓	✓	✓	✓	
	Technology and efficiency	✓	✓	✓		
Market access	Tariffs and quantitative restrictions	✓	✓		✓	
	Non-tariff barriers	✓	✓	✓	✓	
	Preferential trade arrangements	✓			✓	
Supply side factors	<i>Incentive framework</i>	Macro-fiscal environment	✓			
		Exchange rates	✓	✓		✓
		Trade and investment policy	✓	✓	✓	
		Competition	✓	✓	✓	
		Regulatory environment and governance	✓	✓	✓	
	<i>Factor conditions</i>	Access to finance	✓		✓	
		Scale economies	✓	✓		
		Labor regulations and skills		✓	✓	
		Firm-level technical efficiency		✓	✓	
		Land and infrastructure		✓	✓	
		Intermediate inputs		✓	✓	
		Services inputs		✓	✓	
		Trade facilitation and logistics				✓
	Trade promotion infrastructure	Export and investment promotion	✓	✓		✓
Standards and certification		✓		✓	✓	
Special customs regimes and SEZs		✓	✓			
Industry coordination bodies		✓	✓	✓		
Innovation				✓		

Source: Trade Competitiveness Diagnostic Toolkit, 2011, World Bank

Linking supply side constraints to trade outcomes – econometric approaches

(I)

Cross country econometric analysis

Initial consideration has been given to developing a model to link supply side constraints to trade outcomes. The model starts by organizing the constraints around the three main channels through which they impact exporters: entry costs; factor and transactions costs; technology and efficiency. Building on the trade models of Melitz-Ottaviano (2008), Del Gatto et al (2006) and Ottaviano et al. (2008), one can model export performance as endogenously determined by a “selection process” in which market size and natural and man-made trade barriers play a role, given supply side determinants and constraints. Controlling for importer market size and dynamic trade costs one can then focus on the supply side, modeling producer competitiveness for each sector as a Cobb-Douglas function compounded by fixed costs and some level of technology/efficiency of production in the sector and country. This specification can be used as a basis to identify in one single framework the full set of constraints of competitiveness, by relating them to one or more of the determinants. It is then possible to link the analysis to the various dimensions of trade competitiveness (i.e. growth, diversification, sophistication, survival) mostly by means of interaction terms to the base regression.

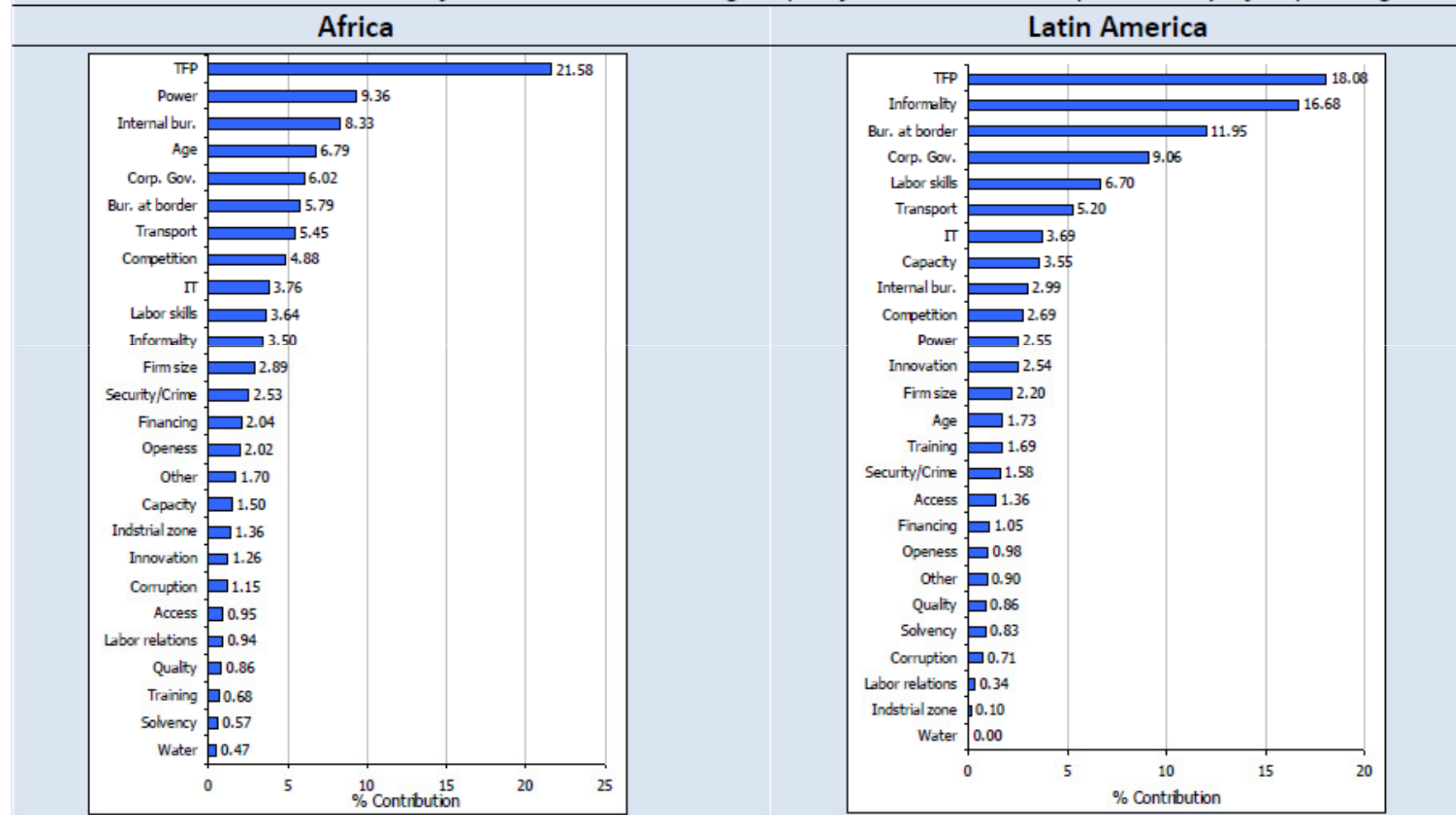
Country specific econometric analysis

In a background paper prepared for the development of the TCD, Escribano et al (2010) present additional empirical evidence on the relation between total factor productivity, export performance and FDI inflows in 18 developing countries⁶, based on firm level data from the World Bank Enterprise Surveys. Of particular value for use in the TCD are the country level findings on the percentage contribution of groups of investment climate variables to export and FDI performance – this provides an indication on their relative importance in determining competitiveness. A comparison of the consolidated summary results for African countries and Latin American countries is shown below. While TFP is most important for both, beyond that the factors vary considerably, with exporting by firms in African countries impacted most by factors like power and internal bureaucracy, while Latin American firms are impacted most by informality and bureaucracy at borders.

Source: Ottaviano G.I.P. D.Taglioni and F. di Mauro, 2009. The Euro and the Competitiveness of European Firms, Economic Policy, CEPR, and Ottaviano G.I.P., D.Taglioni and F. di Mauro, 2007 - Deeper, Wider and More Competitive? Monetary Integration, Eastern Enlargement and Competitiveness in the European Union, ECB Working Paper no. 847.

Linking supply side constraints to trade outcomes – econometric approaches (2)

% absolute contributions of investment climate groups of variables to the probability of exporting



Source: Trade Competitiveness Diagnostic Toolkit, 2011, World Bank

Figure I: Sector level import elasticity estimates for the “old” member states

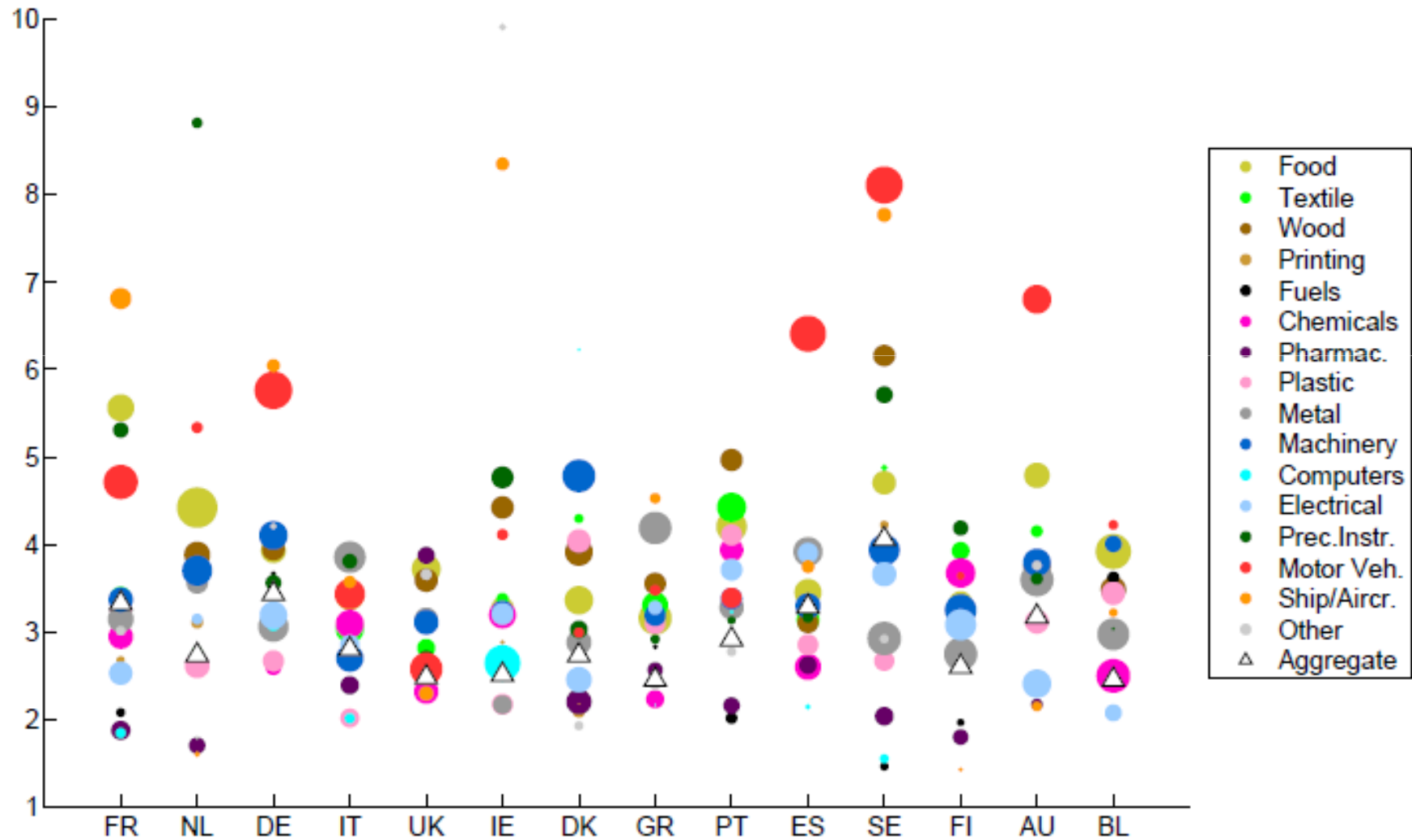


Figure 3: Sector level import elasticity estimates for the “new” member states

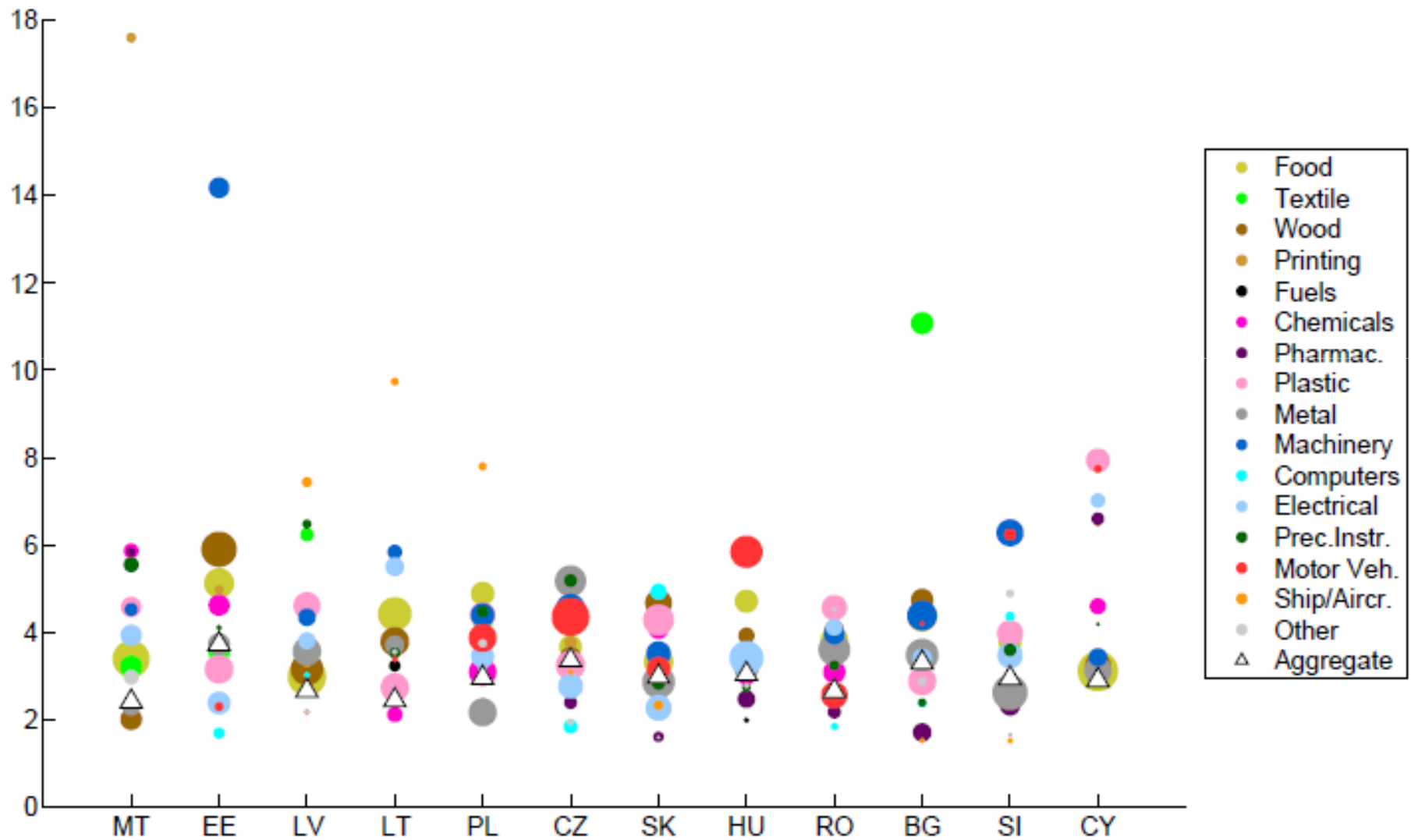


Figure 4: Sector level export elasticity estimates for the “new” member states

