Beata K. Bierut

Instytut Ekonomiczny, Narodowy Bank Polski
E-mail: Beata.Bierut@nbp.pl

Kamila Kuziemska-Pawlak

Instytut Ekonomiczny, Narodowy Bank Polski
E-mail: Kamila.Kuziemska-Pawlak@nbp.pl

Competitiveness and export performance of CEE countries

Extended abstract

We analyse export performance of selected Central and Eastern European (CEE) countries and their competitiveness over the last two decades, trying to draw some conclusions for the future. We attempt to explain countries' market shares in world exports with their (both price and non-price) competitiveness. Regarding non-price factors, we take into account technological advancement and institutional environment.

Export performance of the CEE region has improved markedly since the fall of the socialist system. Between 1995 and 2013 the share of the region's exports in world exports of goods more than doubled. This trade expansion is related to the inclusion of the CEE countries in the European and global value chains, due to two factors: their price competitiveness (relatively low production costs) and direct proximity to the largest European markets.

Participation in the global value chains (GVCs) has significantly influenced the geographical and product composition of the region’s exports. Exports are dominated by intra-GVCs trade (within Europe) and the share of non-European markets remains low. The product composition of exports reflects the concept of the GVCs (the international division of the production process) and the position of the region in the GVCs as the supplier of mainly machinery and transport equipment (medium-tech goods), with a low share of high-tech manufacturing exports. Both the geographical and the product structure of exports are also indicative of low non-price competitiveness.

Both theory and the empirical literature show that, at some point, price competitiveness is no longer sufficient for a country to compete successfully in international markets. In the long run competitiveness and growth depend on non-price factors. Indeed, we find that the increase in the CEE countries’ share in world exports over the last decades took place despite appreciation of their real effective exchange rates. Price competitiveness therefore cannot be the only factor explaining the region’s improved export performance. Over the analysed period, the level of technological competitiveness increased markedly. The institutional environment, especially in the areas covered by the EU harmonization requirements, has also become more supportive of business activity and exports.

To assess the determinants of the CEE countries’ export performance, we estimate an econometric model explaining export market shares with variables that measure price competitiveness, technological advancement, institutional environment and economic potential. The adopted methodology follows broadly the paper by Carlin et al. (2001) and the analysis covers 28 EU countries over the years 1995-2014. The results confirm that increases in relative export market shares of the EU countries were associated with a deterioration in price competitiveness, in line with the Kaldor paradox. Our findings also confirm the previous theoretical and empirical results that technological competitiveness has a significant positive effect on export market shares. However, not all aspects of technological capability appear equally important. Our analysis is suggestive of greater importance of innovative outputs (patent applications) in increasing export market shares, relative to innovative inputs (R&D expenditure) or embodied technology (investment rate). Finally, we extend the model to include indices of institutional quality. Again, our findings confirm the theoretical argument that high institutional quality should be conducive to better export performance. The most relevant institutional factor appears to be the overall regulatory quality, covering the regulation of credit, labour and business markets in a particular country. Its positive impact is higher than the impact of the general institutional environment as well as the separate measures of product and labour markets regulation.

The positive impact of technological competitiveness and institutional environment on export performance implies that further improvements in these areas should help CEE countries compete successfully in international markets, thereby also enhancing their overall economic performance. Improving non-price competitiveness is all the more important for the region, as in the future most of the countries should enter the euro area. Adopting the common currency implies the loss of independent exchange rate policy; hence, maintaining price competitiveness would be possible only through internal devaluations (price and labour cost cuts).

References:

- Carlin W., Glyn A., van Reenen J. (2001), *Export Market Performance of OECD Countries: an Empirical Examination of the Role of Cost Competitiveness*, The Economic Journal, 111 (468), pp. 128-162.