

EXTENDED ABSTRACT

Export Performance in Central and Eastern Europe. Price vs. Quantitative Measures of Competitiveness

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The export performance is of key importance for the macroeconomic developments in a country, including economic growth and the current account balance. It is therefore pertinent to understand the factors driving the export dynamics. Empirical studies have found that the explanatory power of various measures of price or cost competitiveness may be modest in many cases and often difficult to estimate precisely (Christodouloupoulou & Tkacevs 2016). This has led to renewed interest in non-price or quantitative measures of competitiveness and their importance for export performance (see e.g. Algieri 2015, Benkovskis & Wörz 2018).

A number of studies of export performance have shown that quantitative measures of competitiveness may have notable explanatory power. These quantitative measures are typically domestic demand shocks or various measures of capacity utilisation. Some studies using microeconomic data have found an effect of capacity constraints on the export decisions of firms (Bughin 1996, Demirhan 2016). Other studies have used macroeconomic data and have similarly shown that quantitative measures in addition to price measures may help explain the export performance of countries (Ball & Eaton 1966, Faini 1994, Esteves & Rua 2015, Bobeica et al. 2016).

The literature using macroeconomic data has hitherto focused on high-income countries or developing economies, while no studies have analysed the effect of quantitative competitiveness measures on export performance in the post-communist countries in Central and Eastern Europe. Moreover, the studies have typically considered price and quantitative measures separately without trying to model the mutual dynamics between the measures in the economy. This paper seeks to address these two research gaps.

The paper ascertains the importance of price-based as well as quantitative measures of competitiveness for the export performance of the EU countries from Central and Eastern Europe. The analysis uses annual panel data for the 11 countries from 1995 to 2018 (or 2019) and is built up in two interrelated steps.

The export market share is regressed on various proxies for price and wage competitiveness, various quantitative or non-price proxies for competitiveness

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(domestic demand pressure, capacity utilisation, output gap) and some control variables. The main purpose is to pinpoint the price and non-price measures of competitiveness that are most promising. Preliminary results suggest that the explanatory power of the price competitiveness variables is relatively modest while some non-price measures are of greater importance.

The preliminary analysis is meant to identify a limited number of variables that can be used in panel vector autoregressive (PVAR) models. These models with 3-5 variables are estimated and various identifying restrictions will be used for the construction of impulse response functions and variance decompositions. The aim is to understand how various shocks to price and non-price competitiveness affect the export performance over time taking into account the interactions of the economy. The aim is also to ascertain the relative importance of the shocks using variance decomposition methods.

Very preliminary estimations suggest that quantitative measures of competitiveness have some explanatory power in the EU countries from Central and Eastern Europe. The output gap seems to work best in most specifications while capacity utilisation in industry works in some specifications. The impulse responses in the PVAR models indicate that shocks to domestic demand affect the output gap and cost competitiveness and then export.

Literature

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