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**FEP**  
ECONOMIA E GESTÃO



# Understanding export performance: beyond cost-competitiveness

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*A Economia Portuguesa – Ensaios sobre alterações estruturais”, 25 de Janeiro, 14h30 - 18h15,  
Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais | Ministério das Finanças*

## Aim of the short essay

1. To assess the drivers of Portuguese export performance in the last 20 years (1996-2016).
2. Provide a detailed account on non-cost competitiveness factors:
  - Position on the quality ladder
  - The participation in Global Value Chains
  - Quality and availability of infrastructure
  - Institutional factors.

## General comments

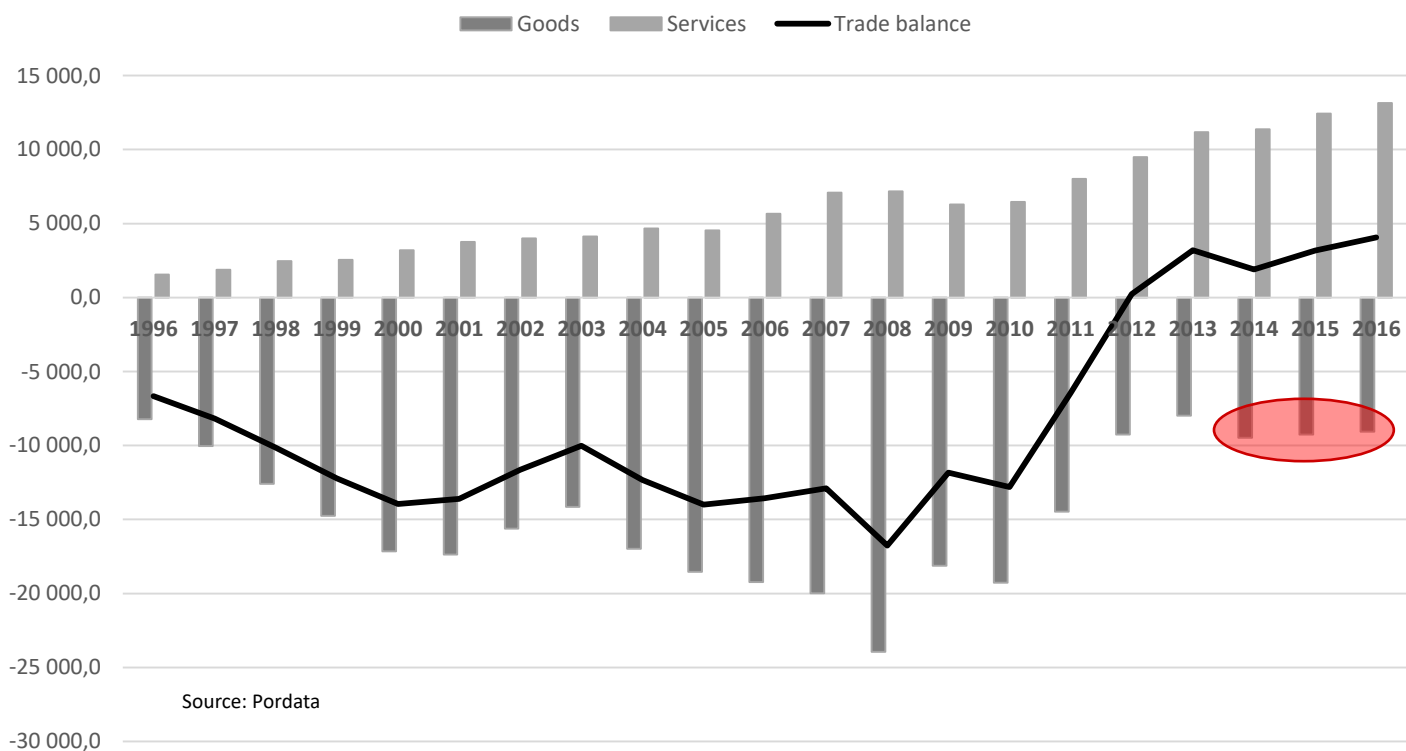
1. It is an interesting short essay.
2. It has the merits of:
  - highlighting a still underexplored empirical stream – the role of non-competitiveness factors in the evolution of export performance of a country.
  - exploring an issue with very relevant policy implications.

# Specific comments 1

The content that Portuguese **trade/export performance has been positive** needs **further elaboration**:

- It is **positive** when we use indicators such as **trade balance, trade openness and exports in percentage of GDP**.
- When we correct for import value added (i.e., consider the Domestic value added in gross export), the **overall export performance is negative**, and between 2009 and 2011 there was signs of **some downgrade in the Global Value Chain position**.
- Revealed Comparative Advantages (RCA) indicators provide **mixed results**: the export performance is positive in MHT and Intermediate Goods (IG) exports but negative for HT exports.

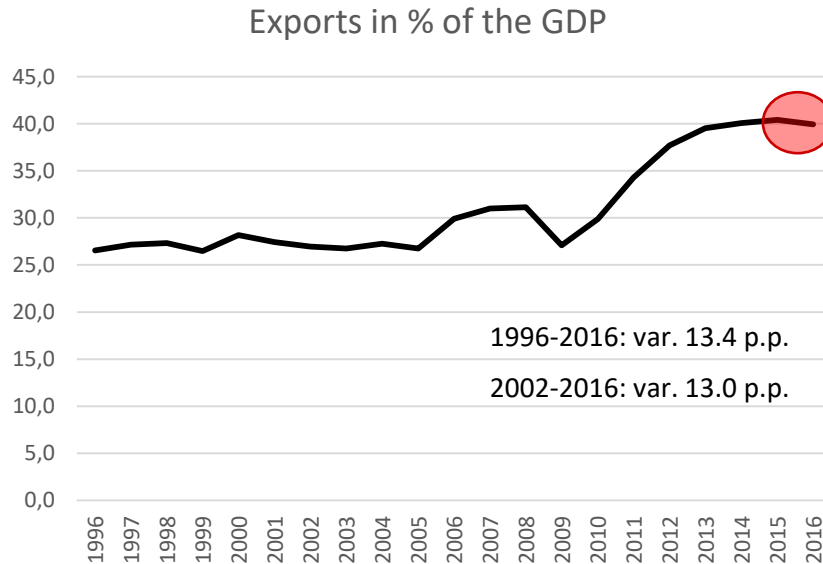
## 2. Trade/Export performance – Portugal, 1996-2016



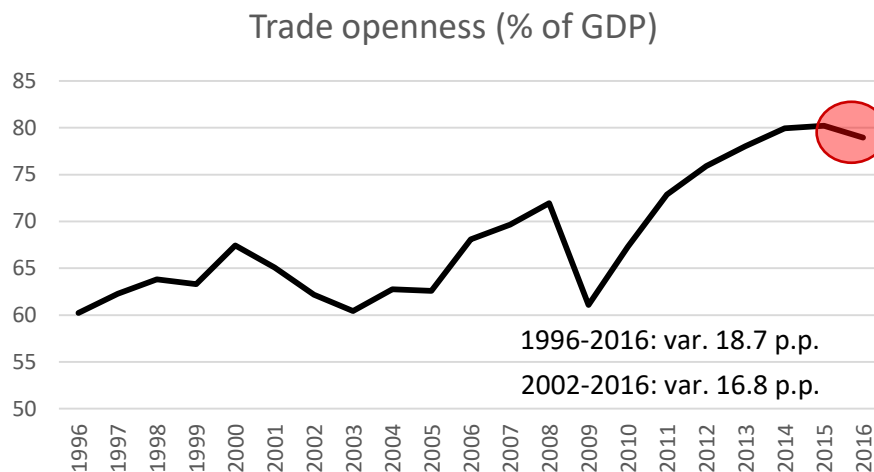
**Indisputable evidence based on the depicted indicators:** between 1996 and 2016, the Portuguese trade/ export performance improved.

The improvement is particularly evident **after the 2008-2009 crisis**.

Some recent signs of **slowdown** of that improvement.



Source: World Bank Indicators

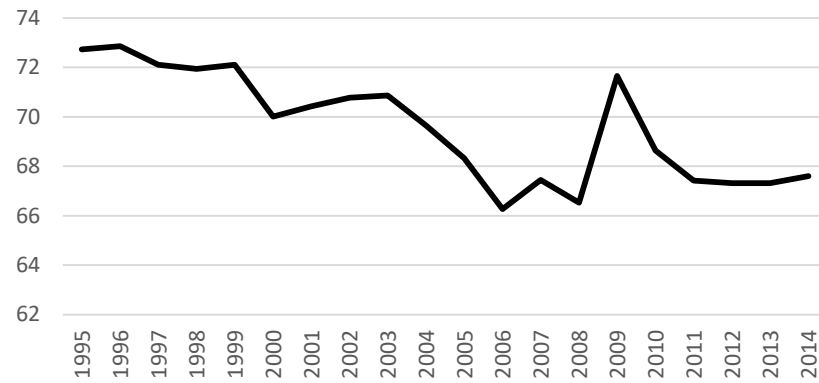


Source: World Bank Indicators

## 2. Trade/Export performance – Portugal, 1996-2016

Based on DVA and GVC indicators **the export performance does not seem so positive.**

Domestic Value Added (DVA) in gross exports

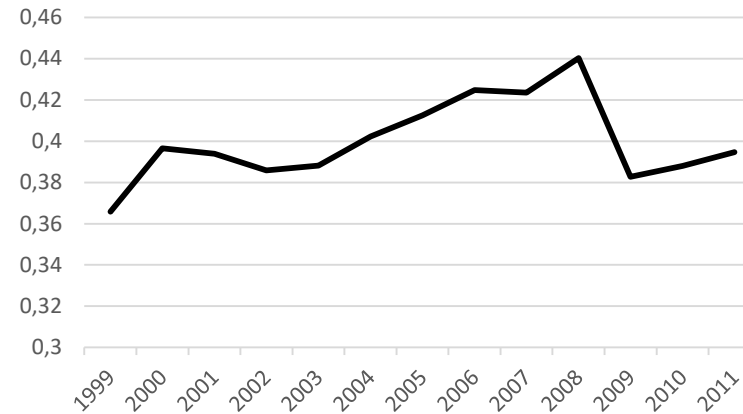


Source: CompNet Diagnostic Toolkit for competitiveness

When we correct for import value added, the **overall export performance is negative.**

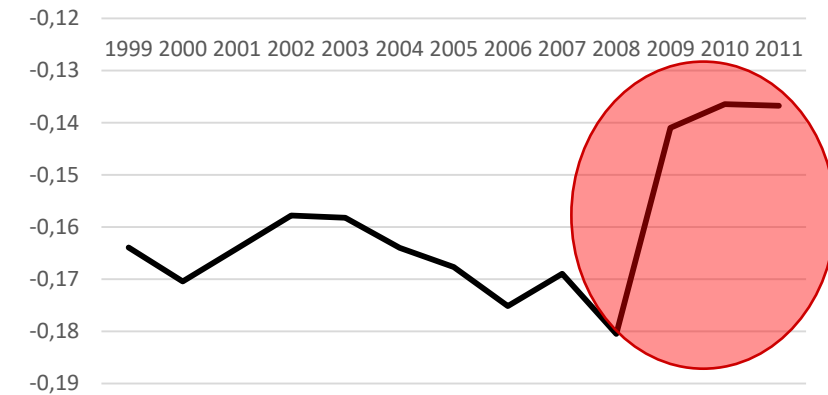
Exception: Export performance corrected for import value improved in **high tech sectors** after 2009.

Global value chain (GVC) participation



Global Value Chain (GVC) participation is an indicator of trade openness → higher values mean deeper integration in GVC.

GVC position



Global Value Chain (GVC) position

[log(country's supply if IG used in other countries' exports/use of imported IG in its own production)] →

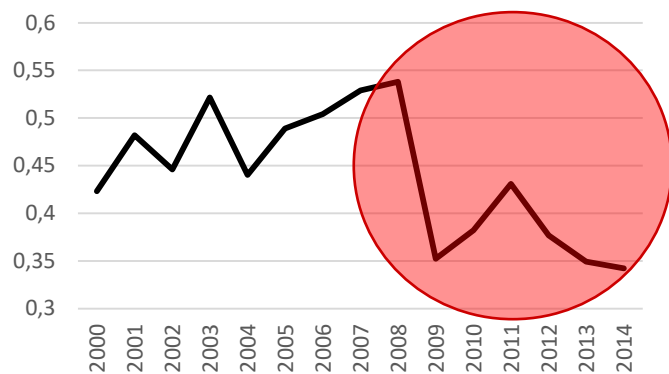
high values mean that a country operates mainly in providing inputs to be processed above.

**Downgrade in the Global Value Chain position.**

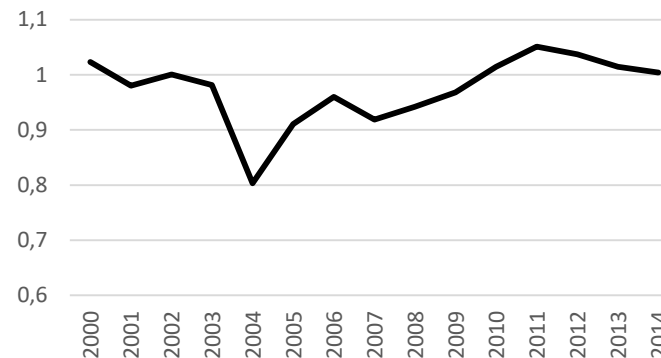
Source: World Bank Indicators

## 2. Trade/Export performance – Portugal, 1996-2016

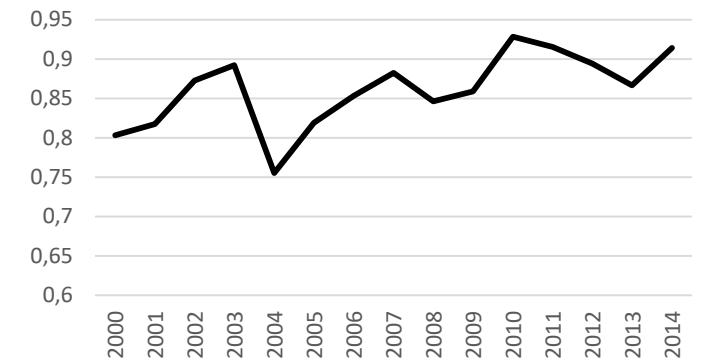
Revealed comparative advantages (RCA) in HT exports



Revealed comparative advantages (RCA) in MHT exports



Revealed comparative advantages (RCA) in intermediate goods



Based Revealed Comparative Advantages (RCA) indicators **the export performance is positive in MHT and IG but negative for HT exports.**

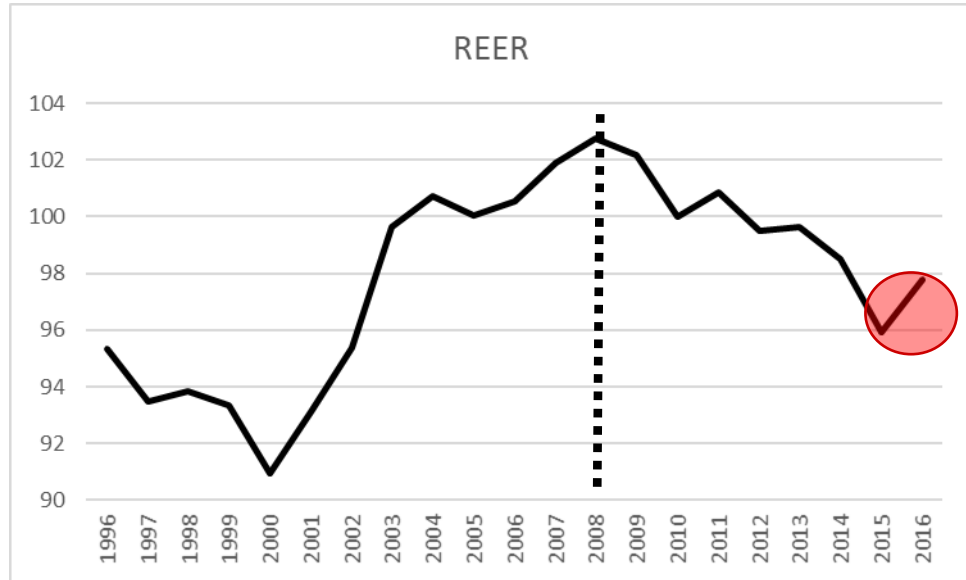
## Specific comments 2

The statement that “In light of most traditional indicators, such as Unit Labour Cost (ULCs) and Real Effective Exchange Rate (REER), there are **no major cost-competitiveness changes** in recent years” (p. 67) should be revised:

- Both variation differential of ULC and REER evidence considerable gains in cost-competitiveness.
- After 2015 there seems to be a slight inversion in this trend.

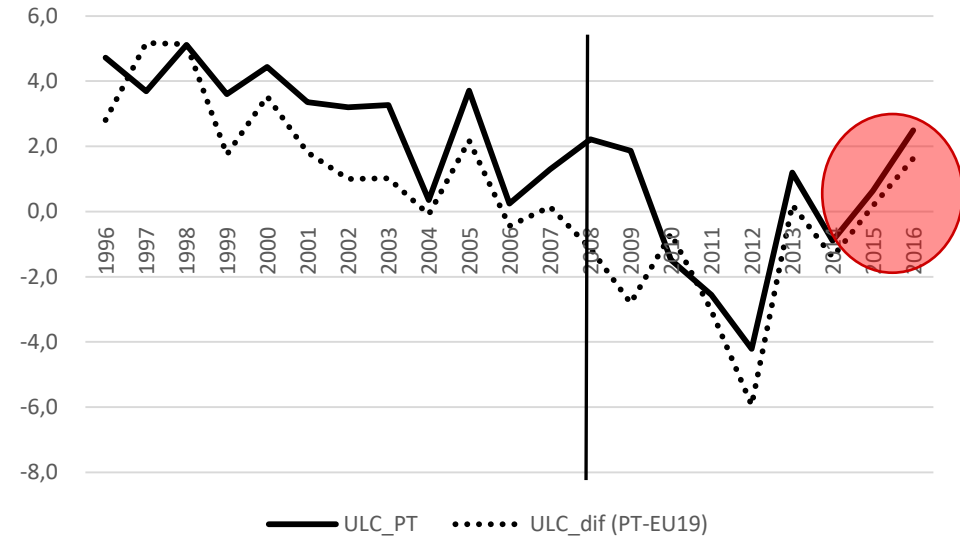


### 3. Cost vs non cost competitiveness – Portugal, 1996-2016



Word Bank indicators.

From 2008 until 2015, there was a depreciation of REER – **gains of price competitiveness.**



Word Bank indicators.

Negative differential between PT and UE18 regarding the variation in ULC – **gains of price competitiveness.**

Inversion of this tendency in after 2015, which is in accordance with the trade/export performance indicators, most notably trade balance, exports in GDP and trade openness.

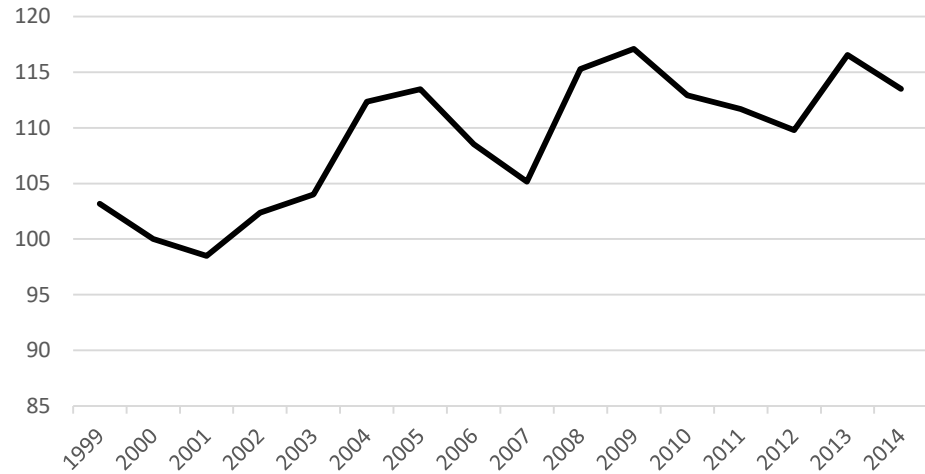
## Specific comments 3

I agree that evidence exists that sustain the importance of non-cost competitiveness factors:

- Decreasing trend of Relative export prices adjusted for quality (despite de increasing trend of Relative export prices).
- Increasing trend of terms of trade.

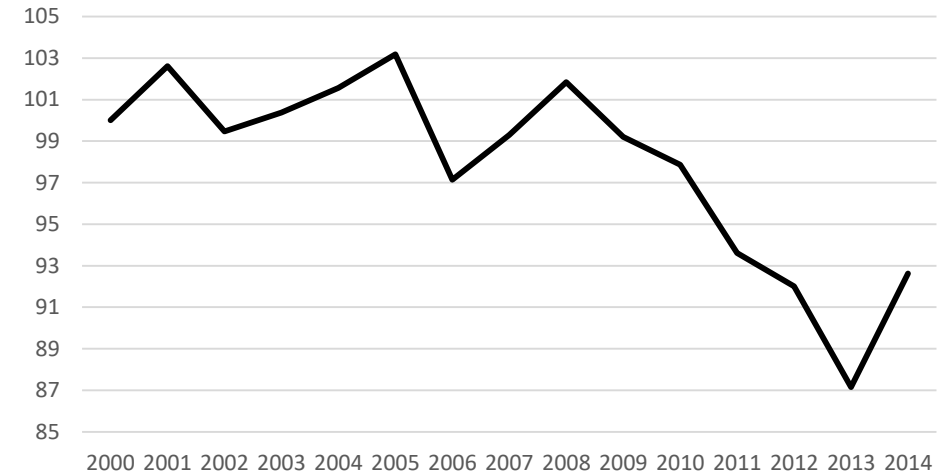
# 3. Cost vs non cost competitiveness – Portugal, 1996-2016

Relative export prices

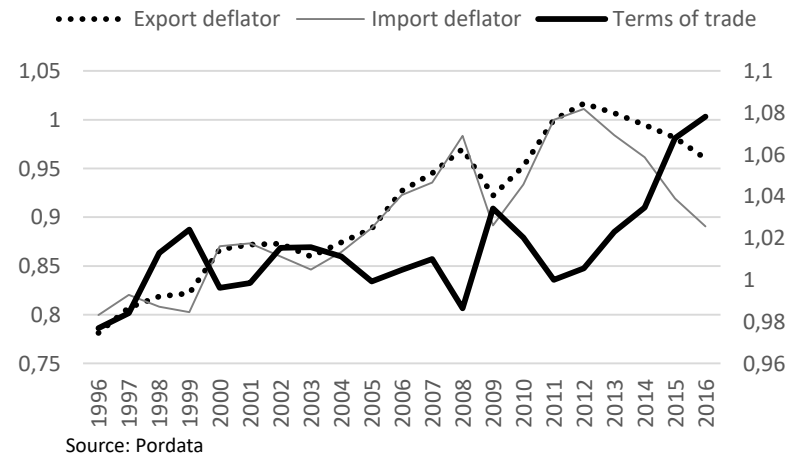


Source: CompNet Diagnostic Toolkit for competitiveness

Relative export prices adjusted for quality



Source: CompNet Diagnostic Toolkit for competitiveness



Source: Pordata

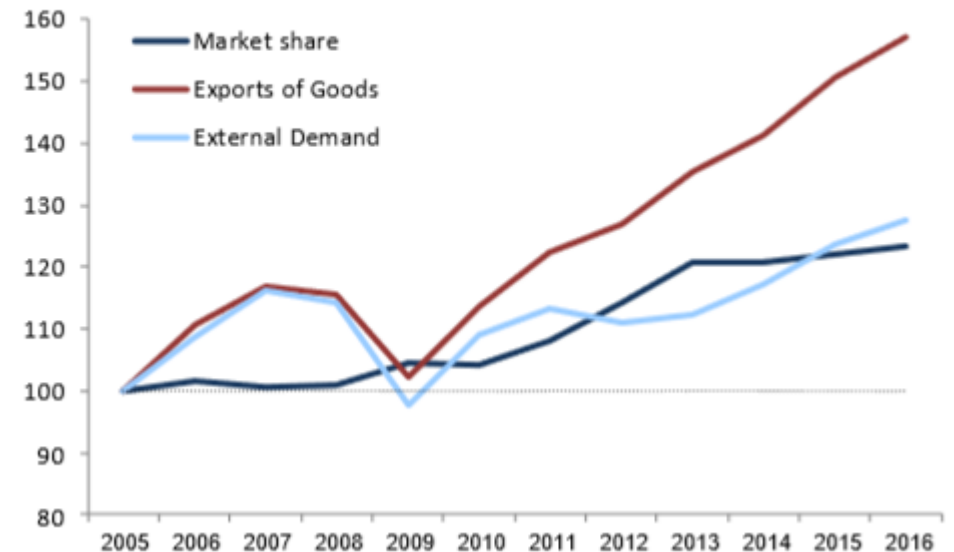
## Specific comments 4

But, you need to elaborate on/explain the differences between export market shares (downward trend) and market share of goods (which you compute as the difference between Portuguese exports and its external demand):



Source: CompNet Diagnostic Toolkit for competitiveness

Figure 47 - Market share of goods  
(2005=100)



Market share is a measure of the **consumers' preference for a product over other similar products**. A higher market share usually means greater sales, lesser effort to sell more and a strong barrier to entry for other competitors.

## Final comment

Both cost and non cost competitiveness factors are likely to play an important role on Portuguese trade/export performance.

To disentangle which of the factors play a more important role, you need to resort to more sophisticated techniques of analysis, going beyond descriptive and graphical comparisons of indicators.