



# Compnet Output: Policy Discussion

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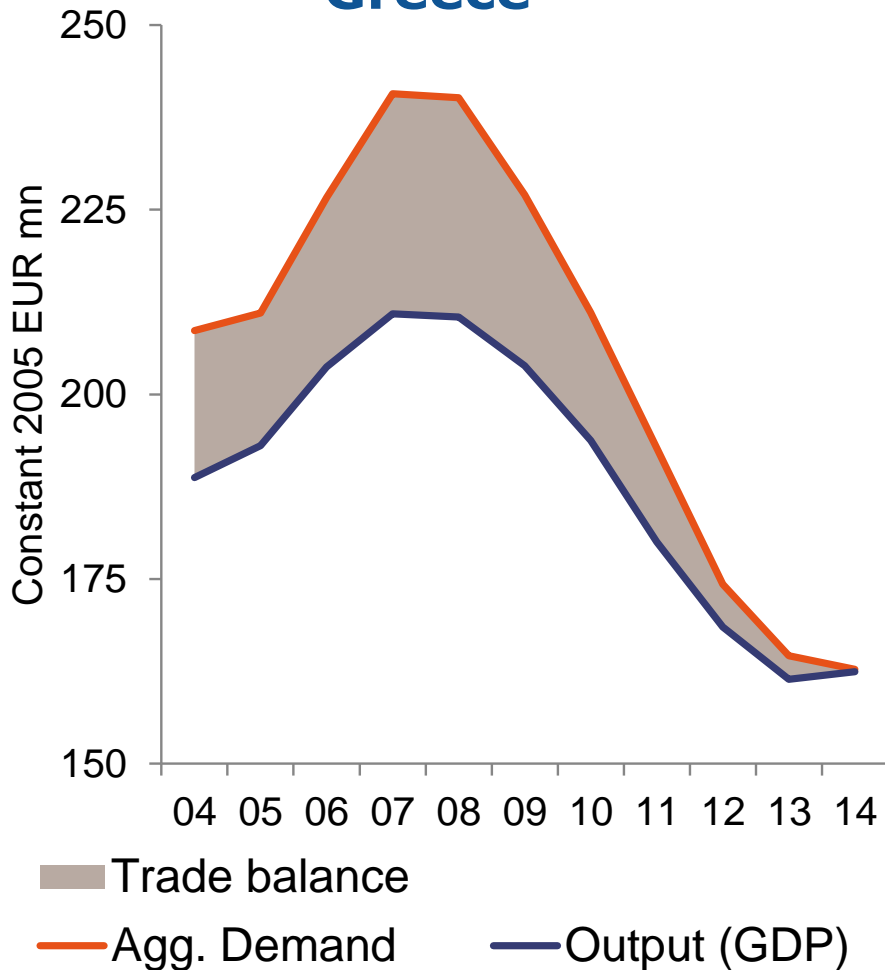
- Pressing concern: More exports instead of less imports in periphery
- → Resource reallocation
- → Fostering productivity in an integrating world

Compnet has Lego pieces for better answers

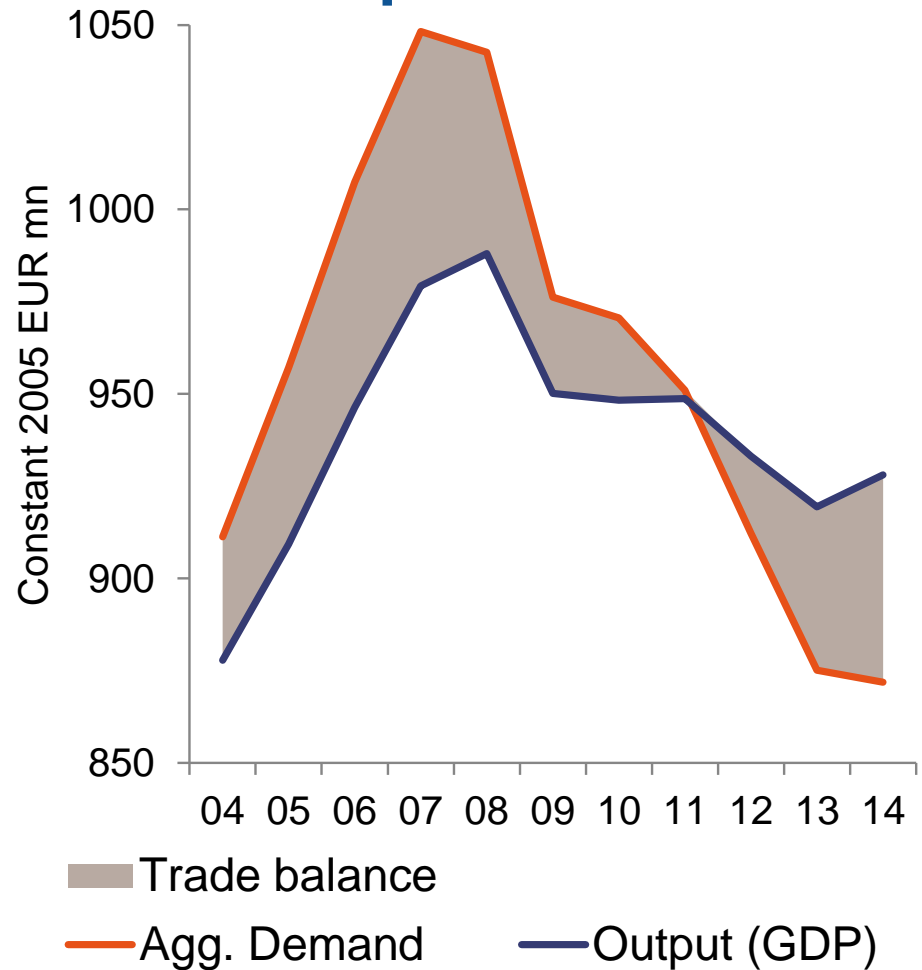
These go beyond (relative) competitiveness to (absolute) productivity – Stealth Prodnet?

# TB = Output - Demand

## Greece



## Spain



Data source: Ameco

# Why do I care?



- External constraints matter: periphery trade deficits turned into surpluses
- But instead of reducing demand, we'd need to expand exports – this helps GDP and may be only source of potential growth over medium term
- ULCs have improved already – which comes from freeing less productive L & K
- But freed-up resources are not used. Exports are merely declining slower than imports.
- → reallocation is not working (much)
- → price competitiveness is a side issue

# If ULCs mattered, Compnet would already be closed



- Cherished price comp'ness indicators don't explain much (WS1, Christodouloupoulou & Tkacevs, Benkovskis & Wörz, Osbat, Ozyürt & Karlsson, etc. etc.)
- → Important non-result. At odds with what we learnt in school, but today's data much richer
- Still: better price indicators can be made (WS1, WS2/do.file quartiles, WS3/I-O adjusted,...)
- However, price ind. likely not the prime determinant of trade outcomes

# Reallocate to improve trade



- Reallocate from non-tradable/construction to tradable – for exported value added (WS3)
  - Restart firm churning: Reallocate from unproductive firms to productive firms (WS2 dispersion)
- ...and this without trying to pick winners

## **Impediments**

- Labour market frictions (we know that)
- Financial constraints. E.g. loan evergreening is picking losers  
(here monetary transmission comes in)

# "Competitiveness" [Productivity]



Actually, Compnet looks a lot into what affects *absolute* competitiveness by the Draghi definition (i.e. productivity)

Role of:

- trade
- sectors, firms, reallocation
- GVCs, climbing the GVC
- innovation and human capital
- etc.

# Toolbox: prefabricated Lego pieces



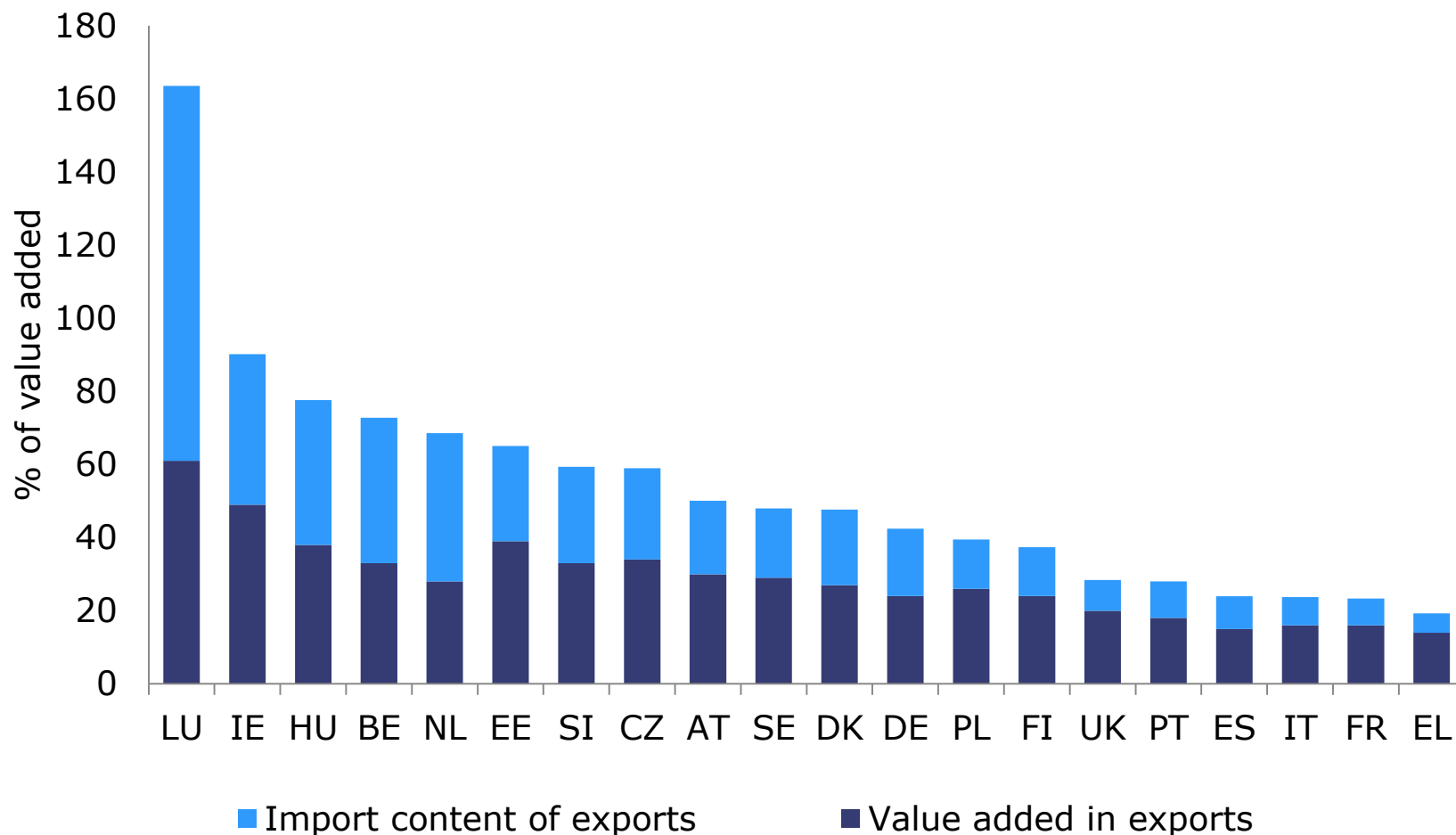
- Better indicators (price, comparative...)
- Informative decompositions (shift share, price/non-price, etc.)
- Large scale micro evidence, with link to macro
- Allows for custom-tailored indicator mix
- WIOD et al.: Generic innovation  
Many examples and projects show how they can improve comp'ness & productivity indicators



## Mock-country assessment based on the slides in this session

- Italy lost non-price comp'ness (prod'y growth)
- Low productive firms very heterogenous, and they don't die (smacks of protection/restrictions)
- Its exports aren't more sophisticated than those of CEE – but in contrast, Italy lost sophistication.
- Italy did hardly participate in GVC build-up (Am I mistaken, or wasn't this different in the past?)
- Not much integrated with CEE
- Hardly climbed the value chain in manuf. jobs

# I-O: great potential



**Integration in GVC – is there a link to productivity growth?**

Source: OECD TiVA (transformed)

# Wishlist: further Lego assembly



- Role of GVCs in transmitting productivity growth
  - What role in convergence of CEE and Asia?
  - Southern EA need FDI, and should integrate in GVC, right?
- Financial/capital factors:
  - Relative margins (e.g. T/NT) and productivity
  - Financial constraints
- Role of innovation (critique of Balassa index)
- Outcome assessment: e.g. on exported value added shares

- Compnet is perceived as basic research by many
- But the results are highly policy relevant
- How can the Lego pieces be tuned and packaged to reach the 'mass market'?  
I.e. economists who write country assessments
- (Websites: Worldbank is the marketing leader)

- We need more exports in the periphery
  - the alternative is structural impoverishment
- ➔ Determinants of Reallocation
- ➔ Determinants of Productivity
  
- Compnet results are very helpful
- Finetune policy prescriptions:
  - From "decrease wages by 20%" to "foster FDI business in services"
- But to get to policy prescriptions, marketing matters