The Competitiveness of the Spanish Economy in the Euro Area: some explanations for an ambivalent evolution

Ramon Xifré
ESCI – Universitat Pompeu Fabra

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Introduction

• Competitiveness is widely considered a key economic policy priority, particularly in the European Union and the Euro Area.
• However, beyond its prominence, there is no univocal concept of the competitiveness of an economy but two main approaches: (a) price-cost competitiveness and (b) external competitiveness.
• In the case of the Spanish economy, headline indicators of both notions have evolved in opposing ways since 1999 wrt EA: there has been real appreciation together with an increased export share.
• The purpose of the paper is to provide a bird's-eye view on several facts that may partially explain this dual behaviour.
• Relevance for policy making: which is the best way to close the Spanish competitiveness gap?
Price-cost and external competitiveness
1999 – 2011, index 1999 = 100

Real Effective Exchange Rate (REER) vis-a-vis the rest of EA, based on ULC for the total economy.
Source. European Commission (DG Ecfin.)

Share in Euro Area world exports; merchandise trade, current prices.
Source. Eurostat (Comex).
### Partial explanations

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<th>Demand side</th>
<th>Supply side</th>
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<tr>
<td>Low productivity growth</td>
<td>(1) Domestic demand growth model</td>
<td>(2) Interaction of firm-size effects</td>
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<td>High export growth</td>
<td>(3) Emerging markets biased export growth</td>
<td>(4) Product quality upgrading</td>
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Explanation 1. Domestic demand growth model

Domestic and external demand contribution to real GDP growth

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<tr>
<td></td>
<td>GDP</td>
<td>Domestic</td>
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<tr>
<td>Germany</td>
<td>1.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6%</td>
<td>1.7%</td>
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<tr>
<td>Spain</td>
<td>3.7%</td>
<td>4.9%</td>
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Source. Eurostat.

• Spanish growth model pre-2008 relied heavily on domestic demand, particularly in the bubble in the construction sector; this needed large credit inflows and a long, severe deleveraging process is under way.
• It also detracted domestic resources (human, financial) from other, more productive activities and tradable sectors.
• This explains aggregate productivity low growth.
Explanation 2. Interaction of firm-size effects

- Does the poor aggregate performance result from widespread, micro inefficiencies?
- Data on firm heterogeneity and the distribution of firm size suggest it’s not the case.

**Export performance conditional on firm-size**

Source EFIGE (G4 : Germany, France, Italy, UK)

- Percentage of exporting firms
- Exports as % of turnover

**Share of EU’s Value Added and number of firms**

Source Eurostat.

- Share in value added
- Share in number of enterprises
• In geographical terms, Spain’s export growth in Extra-UE27 markets is remarkable.
• In contrast, there is no evidence of major changes in the Spanish export specialization structure in *broad* terms.
Explanation 4. Product quality upgrading

**Average relative price (ARP) of Spanish exports**

**ARP of Spanish exports to the world wrt average competitors**

**ARP of Spanish exports to the EA wrt selected individual competitors**

Source: Cuadras, Puig and Xifré (2009) based on UVR analysis on Comext.

- At the disaggregate level (CN-8), preliminary analysis suggests quality upgrading of Spanish products with respect to certain EA competitors from 1999 to 2007.
Conclusions

• There has been a marked divergence in the evolution of *aggregate* indicators of competitiveness of the Spanish economy. Quite specific to Spain but a robust and not unique phenomenon.

• This dual behaviour is better understood by looking at the micro level:
  – Evidence of a dual population of firms in the Spanish economy in terms of export performance and, probably, productivity growth.
  – Spanish exporting firms over time dispatch mainly the same products in *broad* terms, target emerging markets and *may be* moving up the quality ladder.