

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

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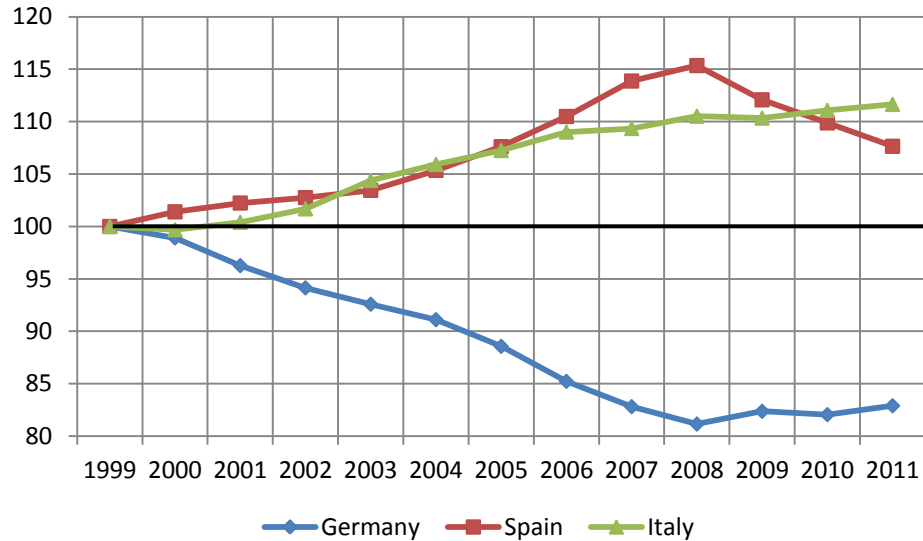
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Introduction

- 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?

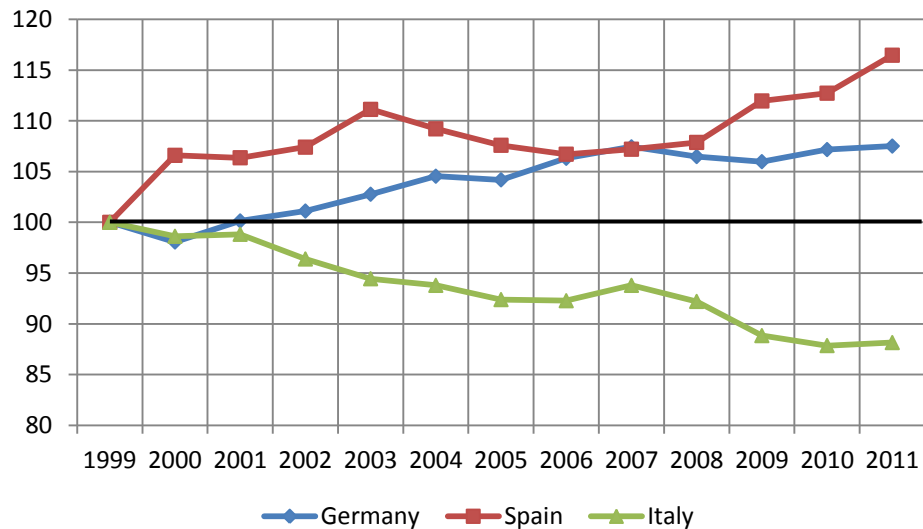
Price-cost and external competitiveness

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 Ecfm.).



Share in Euro Area world exports; merchandise trade, current prices.

Source. Eurostat (Comex).

Partial explanations

	Demand side	Supply side
Low productivity growth	(1) Domestic demand growth model	(2) Interaction of firm-size effects
High export growth	(3) Emerging markets biased export growth	(4) Product quality upgrading

Explanation 1. Domestic demand growth model

Domestic and external demand contribution to real GDP growth

	Average annual growth 1999 - 2007			Average annual growth 2008 - 2011		
	GDP	Domestic	External	GDP	Domestic	External
Germany	1.6%	0.8%	0.8%	0.7%	0.9%	-0.2%
Italy	1.6%	1.7%	-0.2%	-1.1%	0.0%	-1.1%
Spain	3.7%	4.9%	-1.2%	-0.6%	-2.7%	2.1%

Source. Eurostat.

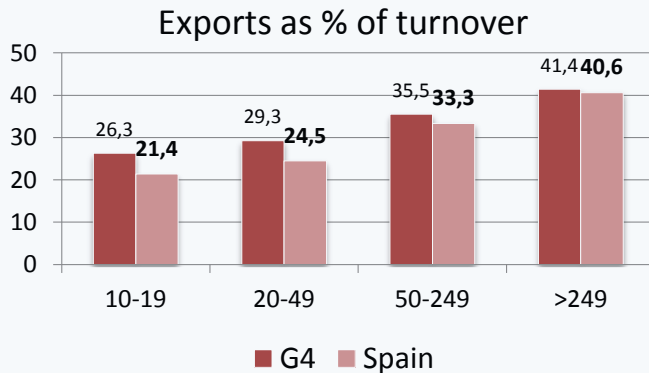
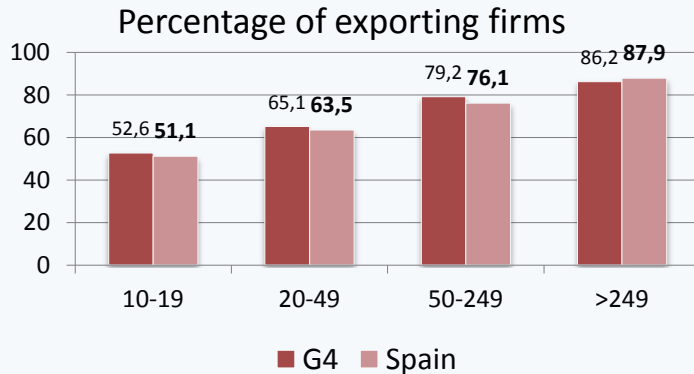
- Spanish growth model pre-2008 relied heavily on domestic demand, particularly in the bubble in the construction sector; this needed large credit inflows and a long, severe deleveraging process is under way.
- It also detracted domestic resources (human, financial) from other, more productive activities 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.

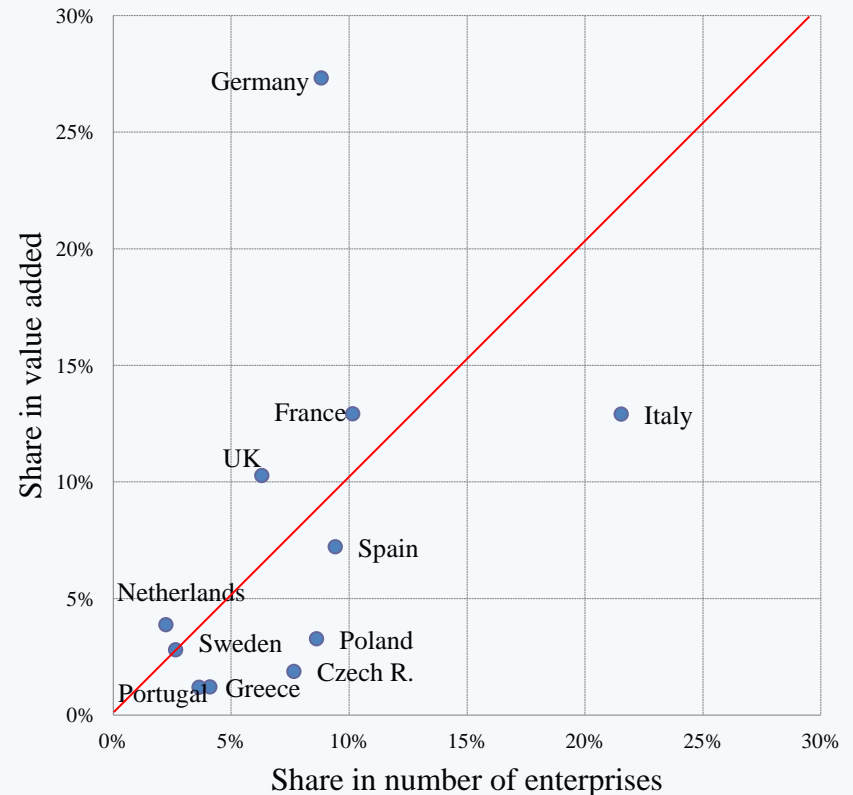
Export performance conditional on firm-size

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



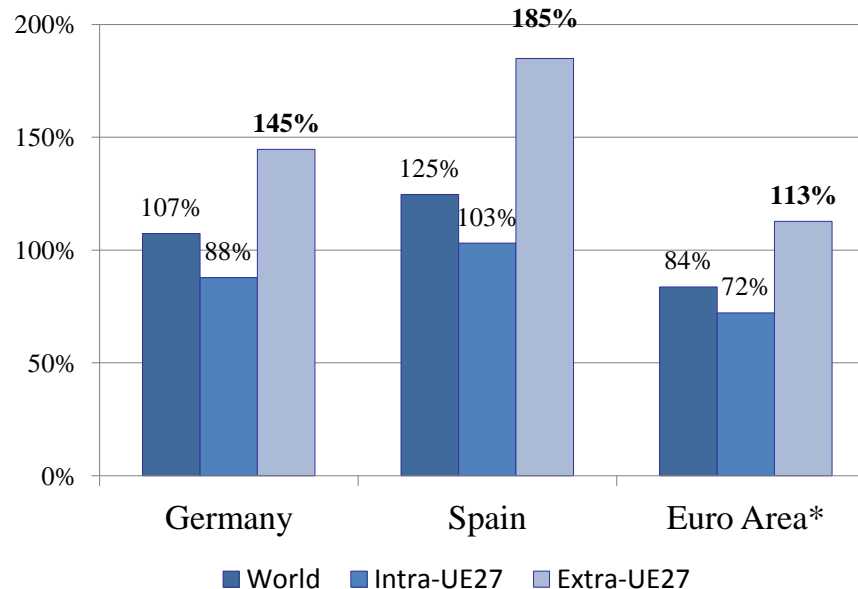
Share of EU's Value Added and number of firms

Source Eurostat.



Explanation 3. Emerging-markets biased export growth

Exports of goods by destination, variation 1999 - 2011



Source. Eurostat (Comext).

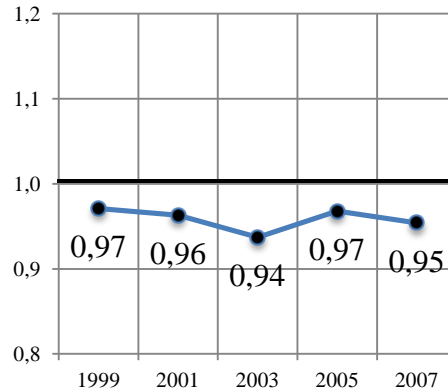
Note. EuroArea* excludes Germany and Spain.

- 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

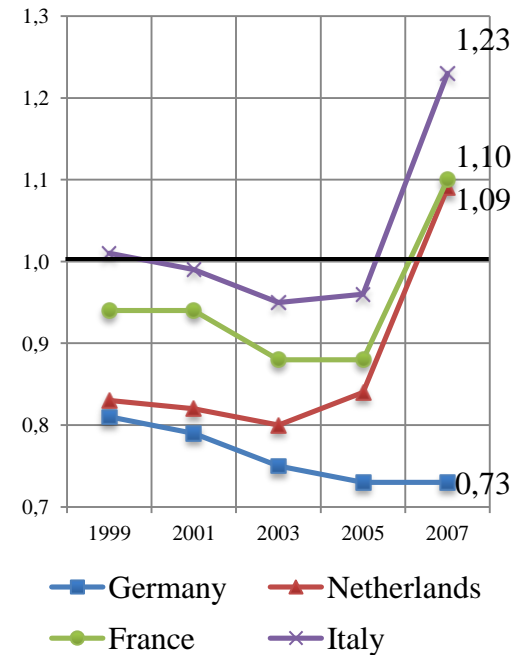
Average relative price (ARP) of Spanish exports

ARP of Spanish exports to the world
wrt average competitors



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

ARP of Spanish exports to the EA
wrt selected individual competitors



- 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.