QUALITY COMPETITIVENESS OF CENTRAL, EASTERN AND SOUTH EASTERN EUROPEAN (CESEE) COUNTRIES FOREIGN TRADE

Paper prepared for the eleventh ETSG conference in Rom (10 – 12 September 2009)

Preliminary draft version

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Abstract

Aiginger (2000) defines quality as “one or several additional characteristics of a good, which is valued by buyers”, leading therefore to a willingness of consumers to pay more for that good with such features. Following this definition, an environment of “quality competition” can be defined as an environment in which the price is not the only factor taken into account. To some extent, a higher price for a given product in a given market will reflect its higher quality. Taking this into consideration, one can construct indicators to measure quality based on the unit value of a product, which is defined as its value divided by a quantity unit. The main objective of this paper is to investigate how Central, Eastern and South Eastern European countries (CESEE) compete in terms of quality in foreign trade. This determination of the CESEE foreign trade quality position builds upon a set of quality indicators, based mainly on unit values. Besides the position as revealed by relative unit values, the share of industries in which quality competition plays an important role in exports is calculated by applying Aiginger’s taxonomy on Revealed Quality Elasticity (RQE). Another approach distinguishes between horizontal and vertical intra-industry trade, and analyses the specialization in different price segments in vertical intra-industry trade. Moreover, it is shown how the different quality strategies – measured by the above mention quality indicators – relate to each other. Finally the paper relates the quality strategies of the Central, Eastern and South Eastern

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1) This paper is an updated and slightly modified version of a study prepared for the World Bank together with Maria Silva-Porto. Main parts of the work have been done in the framework of a World Bank project, directed by the author, written together with Maria Silva-Porto and financed by World Bank. We are deeply grateful for the excellent cooperation with Jean-Louis Racine, the World Bank project leader and for his very useful comments. Furthermore I would like to thank Maria Silva-Porto for her remarkable contribution to the study on which this paper is based on. Additionally we thank specially Karl Aiginger, Michael Pfaffermayr, Gunther Tichy and Yvonne Wolfmayr for their valuable comments on earlier drafts. Last but not least, the author gratefully acknowledges the research assistance of Irene Langer.
European countries to certain country characteristics. The data source are the foreign trade statistic COMEXT provided by EUROSTAT. CESEE countries trade with the EU27 will be analyzed. The focus is on manufacturing trade, defined as NACE 15 to 36; unit values are calculated on the NACE 6-digit level.

Our results suggest rather robust differences across the country groups analyzed – to some extent independently of the set of indicators used. The EU New Member States (NMS) – and in particular the CEE5 (Central and Eastern Europe 5) – rank high in all of our quality indicators. Their exports have a higher quality content (shown by export unit values near or even above import unit values), on top of having engaged in an intra-industry quality upgrading process. The NMS are converging toward the sophistication of exports of the old European Union member states, which stands in particularly stark contrast to the European CIS countries. The Balkans, and specifically Turkey, are situated in an intermediate quality position. One possible reason for these cross-country disparities in the quality of their exported products to the EU27 is inter alia that the CESEE countries do not have the same incentives to adopt international quality standards. For instance, the NMS now have the task to harmonize their quality standards to those of the EU and therefore enjoy large investments from multinational firms. Turkey’s long and ongoing accession negotiations with the EU have pushed it to undertake reforms and adopt compatible quality standards, thus making them more open and competitive. In contrast, in some Balkan states the speed of reform and standards adoption has been slower. Hopefully, the “Stabilization and Association Process” in the western Balkans will result in similar positive spillovers, thus improving these countries’ national quality infrastructure. Our results showed that in the majority of cases the CIS Europe countries ranked worse in our set of quality indicators.

JEL Codes: F14 (Country and Industry Studies of Trade); 052 (Economy wide Country Studies – Europe)

Keywords: Trade and quality, quality indicators, unit values, competitiveness, intra-industry trade