Greek export potential as a driver of economic activity

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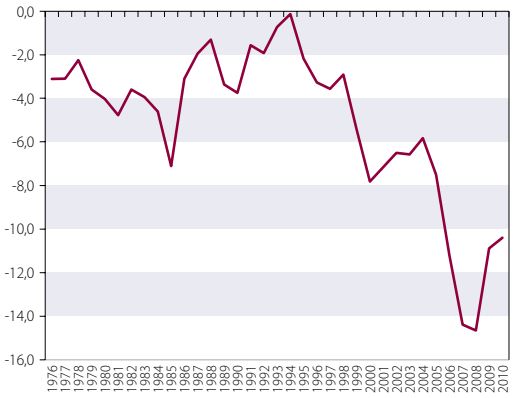
V poslednom čase sa Grécko dostáva do centra pozornosti, najmä kvôli svojim vnútorným problémom, ktoré sa šíria do ostatných krajín eurozóny a EÚ. Na vytvorenie optimálnej stratégie na odstránenie medzery bežného účtu krajín s rozsiahlymi vnútornými nerovnováhami je nevyhnutné preskúmať možnosti zvýšenia ich exportu. Článok analyzuje súčasné trendy v zahraničnom obchode, najmä v oblasti exportu, ale aj v sektoroch s rozvojovým potenciálom, kde sa predpokladá globálny dopyt. Dôkladnejšie využitie nedostatočne rozvinutého vonkajšieho sektora Grécka zohrá významnú úlohu v stimulovaní hospodárskej aktivity Grécka.

Balance of Payments

Greek current account deficits had been increasing until 2009 (Table 1), and then dropped significantly (mostly because of higher service receipts and slightly lower service payments). The deterioration in the current account balance in 2006 was mostly due to increased imports, without a corresponding increase in exports. In 2010 the current account deficit was nearly 11% of GDP, three basis points below its 2009 level. (15) The improvement in 2010 resulted largely from a contraction in imports (by more than 6% in real terms), while strong exports in the last months of 2010 have partially compensated for weak external demand in the first half of the year. The major reason for current account deficits was unbalanced trade: imports were much higher than exports. In addition, income payments were higher than income receipts. Receipts consisted mostly of portfolio investment and other investment, while compensation of employees accounted only for 5.7% of the receipts in 2010 (compared to 33% in 2003 and to an average of 13% since 2000). Debt service payments in the year accounted for 65% of the whole (45% in the ten-year average, an increase from 41% in 2003).

As shown in Chart 1, the current account deficit started to follow a significantly increasing trend in 2004. This abrupt change in 2004 can be related to the Olympic Games preparations. However, slightly positive changes occurred after 2007, when the current account deficit began gradually to decline.

Chart 1 Current account deficit (1976–2010)



Source: International Monetary Fund, Balance of Payments Statistics; World Bank, world development indicators.

Table 1 Greek Balance of Payments (2000–2010)

Euro millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account	-10 681	-10 585	-10 204	-11 264	-10 717	-14 744	-23 759	-32 602	-34 798	-25 819	-24 061
Goods	-19 275	-21 611	-22 709	-22 644	-25 436	-27 559	-35 286	-41 499	-44 049	-30 767	-28 280
Exports	11 099	11 545	10 434	11 114	12 653	14 201	16 154	17 446	19 813	15 318	17 082
Imports	33 026	33 156	33 142	33 757	38 089	41 759	51 441	58 945	63 861	46 085	45 361
Services	8 711	9 150	10 755	11 507	15 467	15 391	15 337	16 591	17 135	12 640	13 248
Receipts	20 977	22 076	21 131	21 430	26 742	27 253	28 364	31 337	34 066	26 983	28 478
Payments	12 266	12 926	10 376	9 924	11 276	11 862	13 027	14 746	16 931	14 343	15 229
Income	-955	-1 981	-2 073	-3 975	-4 377	-5 676	-7 209	-9 286	-10 643	-8 984	-9 228
Receipts	3 039	2 100	1 626	2 580	2 810	3 274	3 528	4 559	5 573	4 283	3 792
Payments	3 994	4 082	3 700	6 557	7 188	8 950	10 738	13 844	16 216	13 267	13 020

Source: IMF, Balance of Payments Statistics and Government Finance Statistics.

The European Commission in its third review of the Greek Economic Adjustment Programme estimated that the country's current account deficit, expressed as a percentage of GDP, would decline to about 9% in 2011, 6% in 2012 and 5% in 2013. However, according to the actual trends, this is hardly probable. The net external debt-to-GDP ratio is projected to increase further in 2012 and probably stabilise thereafter. (14)

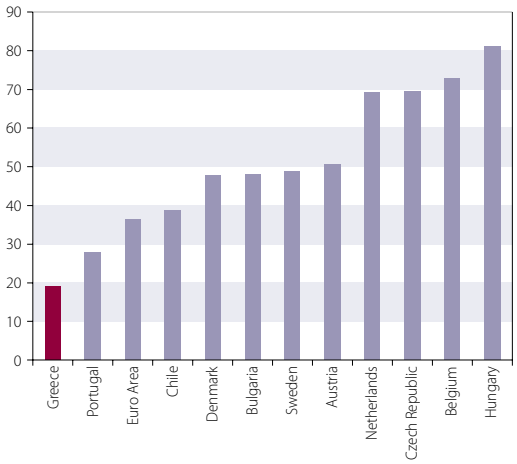
In order to support economic activity and raise confidence in the economy, the current account deficit should be significantly reduced and eventually become balanced. To ensure sustainable growth and provide for a shift in the current account deficit into surplus, the country should radically increase exports and possibly decrease the level of imports. Below we will take a look at the export potential of the Greek economy.

Export performance

Export performance is an essential factor to be considered, especially during the financial crisis, since external trade may become a primary driver for the Greek economy. The Greek balance of trade has been historically negative. After joining the European Union and abandoning trade restricting measures, the situation improved slightly, however, with the trade balance remaining negative. These trade imbalances were financed by EU loans, remittances, shipping and tourism, which actually helped Greece to collect foreign exchange, and contributed to its GDP to a significant extent as well. (5)

GDP growth rates have been negative since 2008 and the total output is expected to contract even more also in 2011 mostly because of expected private and public consumption declines and a lack of investment. The only output component that appeared to be growing in 2010 is net exports, which include sharply decreasing imports and slightly growing exports, compared to a drop of nearly 20% in the previous year. It is predicted that exports will rise by around 5% in real terms by the end of 2011 (5), as demand increases and the country gradually restores its competitiveness. Taking into consideration the accumulated losses in the export market before the crisis, exploiting the potential of the underdeveloped external sector of Greece would play an important role in driving economic activity. (12)

Chart 2 Exports of goods and services in 2009 (% of GDP)



Sources: World Bank; world development indicators.

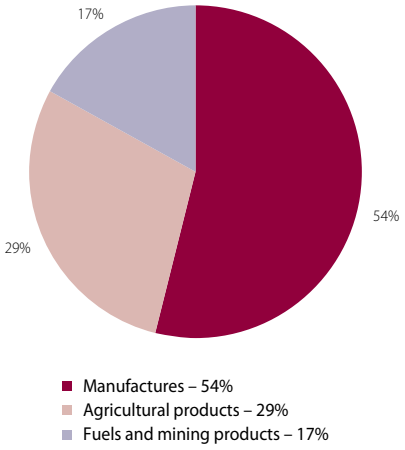
Major trends in Greek trade and particularly in exports

Greece's export share in GDP was 19% in 2009, which was not enough for such a small country. Chart 2 shows that Greece reported the worst export performance among selected small open economies.

Manufacturing exports accounted for 54% of the exports of goods (Chart 3), while fuel and mining products and agricultural products accounted for 17% and 29%, respectively.

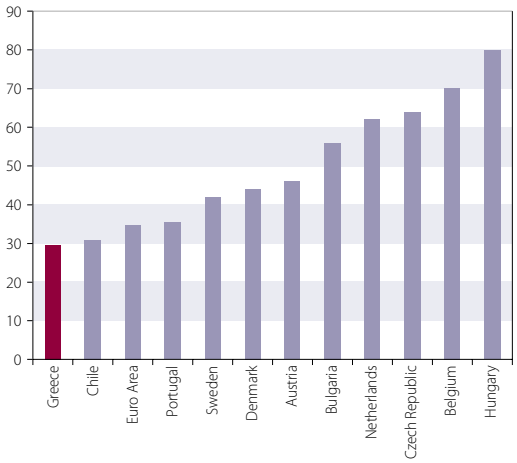
The top five export destinations were as follows: EU (63% of total exports), the US (5%), Turkey (4.2%), and FYR Macedonia and Albania (both near 3%).

Chart 3 Breakdown of Greek exports of goods



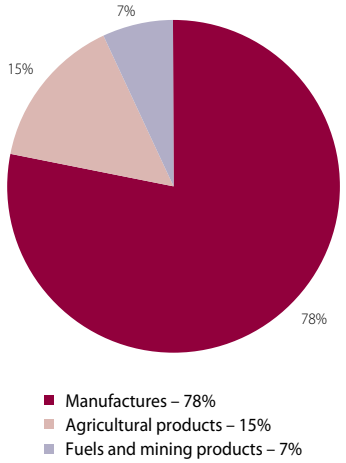
Sources: World Bank; world development indicators.

Chart 4 Imports of goods and services in 2009 (% of GDP)



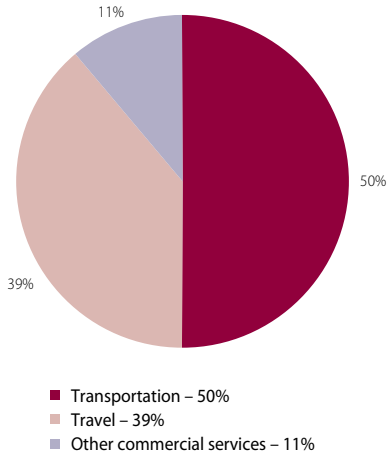
Sources: World Bank; world development indicators.

Chart 5 Breakdown of Greek imports of goods



Sources: World Bank; world development indicators.

Chart 6 Breakdown of Greek services exports



Sources: World Bank; world development indicators.

The share of Greek imports in GDP was larger then that in exports and equalled 30%. However, compared with other small countries, this share is still rather low.

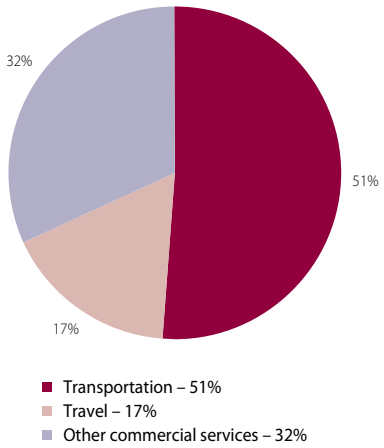
In the breakdown of Greek imports by country of origin, the EU again ranked first (58%), followed by China (6%), South Korea and Russia (both 5%), and the US (3%). (6)

Services played an important role in Greek exports. In terms of their shares of exports, transportation and travel accounted for almost all of the exported services (50% and 39% of total exports). (Chart 6)

In services imports, the category of other commercial services prevailed over travel services (Chart 7), with a share of 32%; this is quite understandable, since Greek exports of services other than travel and transportation are still not very developed. However, transportation's share of total imports was 51%, which is quite a high proportion.

The Greek economy is relatively closed, considering its size and volume of trade. In 2009, imports accounted for around 30% and exports for only 19% of GDP. Greek export performance is weak, even though the country is a member of the EU and the euro area. The insufficient competitiveness of Greek goods, inadequate differentiation of these goods, and low penetration into international markets, all contribute to the country's unimpressive export performance. (12) The goods and services deficit has regularly exceeded 10% of GDP during the last several years. (15) The goods trade deficit of almost 17% of GDP in 2009 was only partly offset by a 5% surplus in services. Such a weak export performance of the country implies that very dynamic growth rates are essential to put the economy on a growth path.

Chart 7 Breakdown of Greek service imports



Sources: World Bank; world development indicators.

Export price competitiveness

We can use estimates of export (price) competitiveness calculated by the Bank of Greece in its paper entitled "Export performance, competitiveness and commodity composition". (12) The paper evaluated Greek export performance from 1996 to 2006 and used detailed data in terms of the products included and markets covered (280 exported products, 95 countries), representing approximately 95% of total Greek exports. This research is considered to be the most extensive with a detailed data set spanning a substantial period of time.

All the methods used to measure the elasticity of competitors prices showed that the price competitiveness of Greek exports is defined mostly by the pricing policies and costs of Greek exporting companies and less by the performance of their competitors. The long-run price elasticity is pretty low and equals 0.68. The price elasticity for each commodity was estimated by the random coefficients method; the resulting price competitiveness elasticities are greater than 1 in nearly 70 cases, mostly in chemical, machinery and other manufactured products. These results indicate that such categories of exporters deal effectively with competition in international markets. (12)

The research shows that Greek exports are less competitive in European Union markets. However, the elasticity of price for 58 products is higher than

one. The five commodities with the highest elasticity exported to the EU-15 area are in the categories of machinery and other manufactured products.

In another research Athanasoglou and Bardaka estimated non-price competitiveness; they concluded that even though exporters from Greece are less competitive in international markets, they could achieve more impressive performance if they develop non-price competitiveness (factors affecting export performance, such as variety and quality, technological content and innovation, foreign direct investment and foreign demand structure and the structure of the domestic economy). (1)

Export potential

In order to investigate Greek export potential as the key factor in externally driven economic growth of the country, attention is to be paid not only to the potentially developing sectors, but also to global demand for the products of these sectors. The analysis of sectoral market shares and global export demand suggested that the biggest export potential is to be found in pharmaceuticals, the petroleum sector, and transport services, while the tourism sector is not sufficiently explored, and the current demand for this type of services has even decreased. (15)

Dynamic world demand and comparatively large market shares account for the most promising Greek sectors, which include: pharmaceuticals, iron and steel, miscellaneous manufactures, manufacturing of metals, and insurance services. Petroleum products, non-ferrous metals, computer and information services, construction, and financial services are the sectors of the Greek economy that have growth potential and also enjoy above-average world demand; however, the market shares are weak and have a scope for an expansion. There are also sectors which are developed, but have low growth opportunities due to sluggish world demand, which are: fish, textiles, electrical machinery, non-metallic minerals, other transportation equipment, cereals, transport services, and travel services. These sectors are well-represented in country's exports and could bring considerable earnings, but world demand for such products is currently not very dynamic. Finally, the least promising sectors which represent low world demand and have weak market shares are: tobacco, other business services, communication services, personal culture and recreational services. (15)

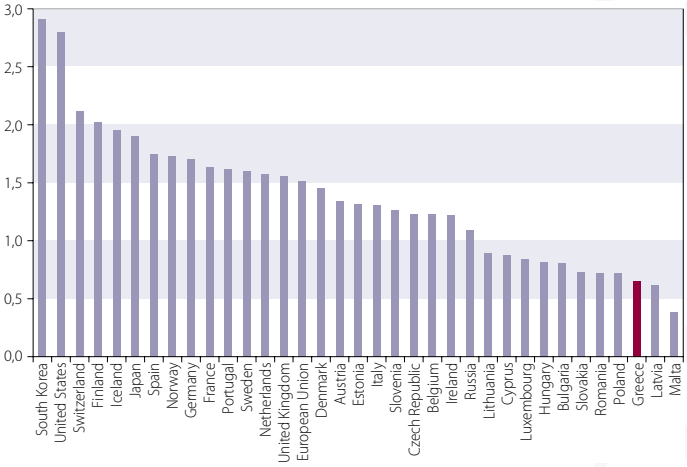
Pharmaceuticals is one of the most promising export sectors. As previously mentioned, this industry has a growing market share in Greek exports and dynamic world export potential. Multinational pharmaceutical companies in Greece promote knowledge spill-overs and better access to research and development resources, which historically have been limited in the country because small and medium-sized businesses are much more developed than large enterprises. The pharmaceutical sector receives considerable amount of investments. Promoting foreign direct investment and improving the research and development structure would improve the country's competitiveness.

The petroleum sector in Greece is expected to grow further thanks to a new pipeline construction project. In 2013 the new oil pipeline connecting Greece and Russia through Bulgaria would boost the sector. Greece operates 10 oil terminals and 4 refineries with a total refining capacity for crude oil of 490 000 barrels a day, 1/3 of which is exported. (14) From 2004 to 2009 Greek oil product exports grew by nearly 57%. The overwhelming majority of raw materials is exported, which diminishes the exporting capacity of petroleum products.

The market share of **transport services** is growing fast in Greece and is further increasing its dominant position, especially in sea transport industry (even though global demand for this service has been sluggish). The Greek container shipping maritime fleet has the largest capacity in the world, accounting for nearly 16% of all world container shipping. However, because of the current oversupply in this industry, any further growth in global markets is hardly probable. Greece should firmly establish its role as a leader in this industry in medium and long term horizon. The infrastructure of the shipping industry and other means of transportation should be sufficiently improved to ensure high quality services and stable growth of this industry in future. The growing Asian export-oriented economies are interested in close cooperation with Greece in transportation services. For example, China, which accounts for a quarter of world total containerized exports, has already announced its willingness to invest in this industry and showed its interest in further cooperation. Such partnership would benefit both economies, particularly Greece, by exploiting its potential in shipping and other transportation services.

The tourism sector has historically accounted for close to 15% of GDP, but even though the country has a potential for further development in this sector, it is currently losing its positions to its biggest rivals. In the last ten years tourist services

Chart 8 Research and Development Expenditures (% of government expenditures)



Source: OECD, Government finances statistics.

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income rose by approximately 59% in Greece (12); it increased by 116% in Egypt, nearly 180% in Turkey and more than 200% in Croatia. (14) One of the reasons for lagging behind its competitors is the problem of overconcentration and strong seasonal demand – according to the European Commission 65% of popular tourist destinations are located in four geographical areas and the majority of arrivals occur during the summer. In order to increase Greece's potential in the tourism sector, the supply should be diversified both geographically and temporarily, according to the natural conditions of the country. The Greek tourism sector requires timely implemented strategic management measures to compete with alternative destinations and utilize in full the potential for this sector. For example, along with facilitating investment in this industry; Greece should create niche markets for seasons other than the summer, since it is a historically attractive destination; develop more co-interactions with other sectors, like food and beverages, position Greek resorts as a top tourist destination by improving quality and promotional activities. In addition, European low-cost airline networks and airline connections with distant emerging market countries could be used to vitalize the tourism industry.

Greece has a **food and beverage sector** of excellent quality, even though it is generally experiencing a slowdown. This sector is one of the biggest export sectors, accounting for 12% of goods exports. Because of the small size of Greek companies, low market prices and difficulties in finding foreign markets outside the European Union, Greece is again lagging behind its competitors. According to the European Commission, Greece's market share in the Turkish food industry has remained at 1.5% for nearly two decades, while Spain's share in Turkey increased to 2.5% in the same period. (14) Spain's presence in the German market has also increased to 17%, while the Greek market share has dropped to only 2%. Export opportunities for this sector can be utilized by promoting traditional Mediterranean cuisine combining healthy and good quality products, and possibly linking it to the tourism sector.

The **clothing industry** has been struggling with structural problems, generally related to Asian countries, most particularly China, as well as other countries specializing in labour intensive industries and competing on the basis of cheap labour. Despite slow global growth in the clothing industry, Greek exports in this sector rose by 12% last year, catching up after a sharp decrease. The Greek clothing and textile industry should shift its focus to high quality type products; otherwise, because of the harsh competition in low cost textile goods, notably from Asia, it is unlikely that the textile industry will regain structural competitiveness in the world markets.

There is potential for the **iron/steel and mineral industries**, but they are currently experiencing challenges. The steel sector is fairly small – approximately 1% of EU total steel output, and while global demand for steel is increasing, the Greek share of this industry is falling. The problem is that Greece does not develop markets outside the EU, while its close competitors, such as Turkey, are acquiring larger shares in emerging markets of the Middle East and Africa.

As regards the mining and quarrying sector, Greece is one of the EU's largest producers of bauxite, magnesium, nickel, perlite, chromite and zinc. Greece is a leader in the international marble market, because of the diversity of its products. More than 50% of the country's mineral production is exported. Nevertheless, the Greek mining industry has a rather small industrial base, insufficient investment and its links to EU markets are underdeveloped. The opportunities for further growth of the industry lie in intensive Balkan market penetration and substantial privatization of mining companies.

As far as specialization is concerned, Greek exports are still concentrated in low and medium technology sectors, and therefore unable to cash in on trends in foreign demand. Reserch and development expenditures in Greece are far below the average, as shown in the Chart 8. Military expenditures of the country stand at 4.3% of GDP, and are far higher than R&D expenditures (0.6%). In order to increase competitiveness and satisfy growing global demand for technologically intensive products Greek exporters have to intesify R&D activities; governmet spending on R&D expressed as a share of GDP should also be significantly increased. More development is required in this regard in order to fully exploit the growing global demand for technologically intensive goods.

Conclusion

The poor export performance of Greece is caused primarily by a lack of sufficient variety and quality of goods along with weak differentiation. But although the export performance is not very impressive, Greek exporting companies still have some competitiveness in a number of industries and goods, as mentioned above. Greece could perform better by developing non-price factors for increasing its export potential. (12) Consequently, innovation, differentiation, quality increase and research and development facilitation are essential, especially in already more or less competitive Greek industries.

As well as substantially increasing exports, the country needs to reduce imports. After breaking down the Greek trade gap by type of goods and making a comparison with potentially growing export sectors, a substitution by domestic production of imported iron and steel, pharmaceutical goods and some types of machinery appear to be possible, at least to a certain extent. With an increase in R&D spending and overall increase in high tech production there is a possibility to decrease electronics imports, too. Moreover, there is a large potential to cut government spending, especially in military services, subsidies, social benefits, and compensation of employees.