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Does export concentration matter in economic adjustment programs? Evidence from the euro-area

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Abstract

The recent crisis in some euro area countries is intensively fueling the political and economic policy debate about the effectiveness of the applied adjustment programs. This paper aims to contribute to explaining why the results of these programmes could be different across countries, flagging the crucial role of exports. In view of recent economic literature about substitution between domestic and foreign sales, helping exports when domestic demand is adjusting, this paper uses panel data techniques to assess the role of the export structure in explaining this substitution effect in the euro area countries. Building a novel indicator for product concentration, the results suggest that domestic demand developments are more relevant to explaining exports in countries with a lower product concentration index (that is, more diversified exports). This contributes to explain why euro area countries under stress registered different economic performance, in particular the clearly less favorable behavior of Greece, where exports structure is concentrated more strongly in some goods and services than in other euro area countries. With different export behavior the final evaluation of the Greek adjustment would be certainly different. These results suggest that export structure should be taken into consideration when designing or evaluating this type of adjustment programmes.

Keywords: Exports, domestic demand pressures, external adjustment.