

Export Quality in CAREC Countries

CAREC Trade Policy Coordinating
Committee
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Outline of the Presentation

- I. Export Diversification versus Export Quality
- II. How to Measure Differences in Export Quality
- III. Convergence of Export Quality and Per Capita Income
- IV. Position of CAREC Members on Export Ladders
- V. Conclusions

Export Diversification Versus Export Quality

Export diversification

- Defined as a change in a country's existing export product mix or export destination.
- Can be as simple as increasing the number of product lines.
- **Intensive margins** (sell more existing products to existing markets)
- **Extensive margins** (existing to new markets; new products to new markets; new products to existing markets).

Export quality

- Defined as improving or “upgrading” the quality of existing exports.
- Builds on existing comparative advantages.
- To tap into new markets and enter global supply chains, need to upgrade quality sophistication.
- Key way to get into middle income status.

How to measure differences in export quality?

Most people first think of **unit values**. “Higher price product must be of better quality”. Not always true.

Price differences in simple prices may reflect:

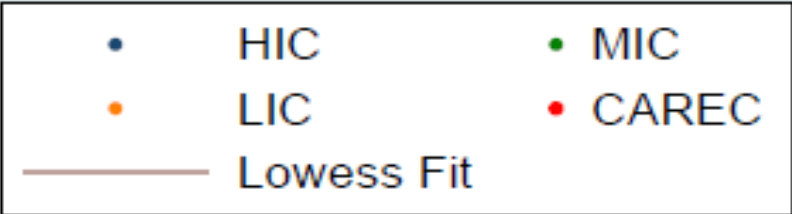
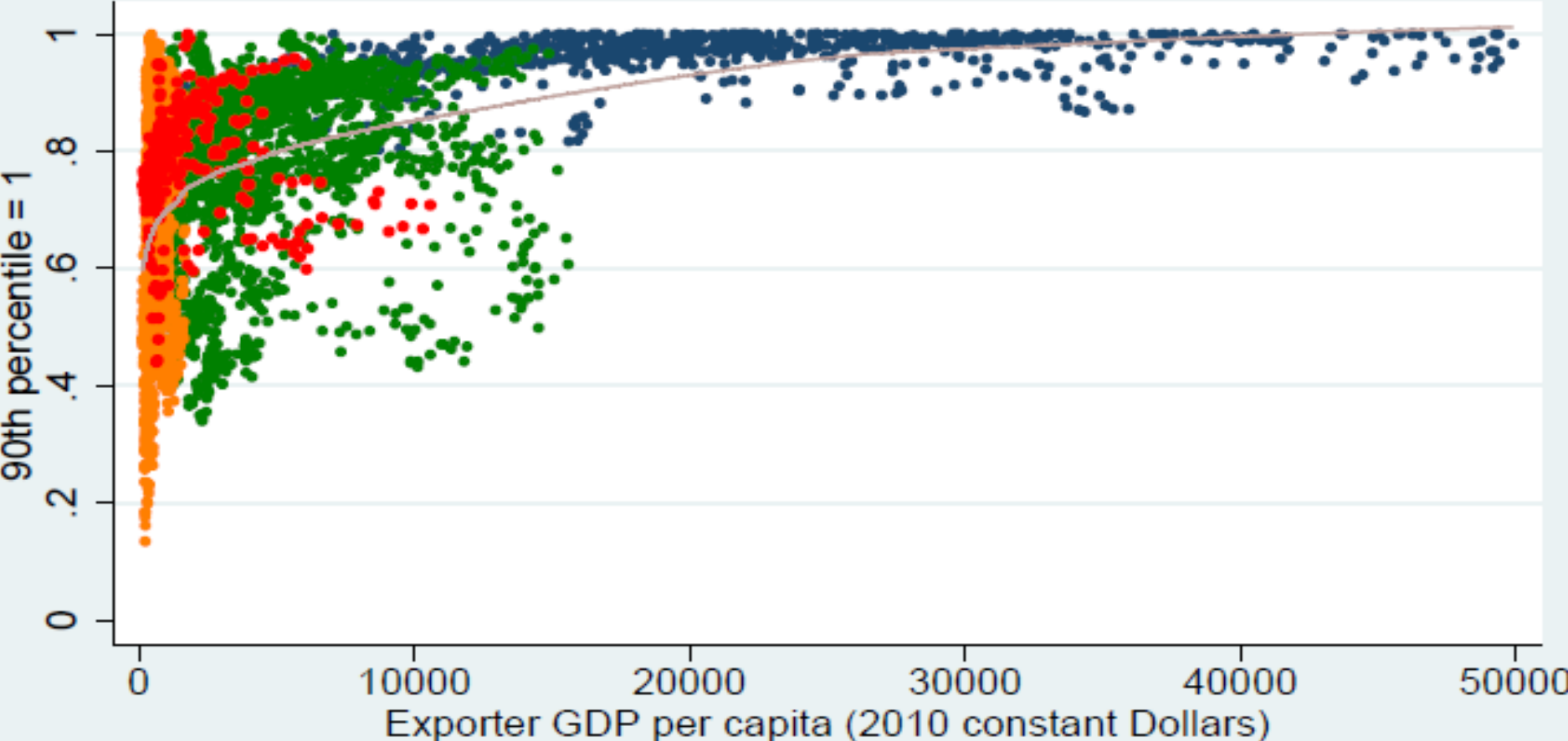
- Different **composition** within product category rather than quality.
- Different **production costs** or pricing strategies.
- Demand / supply **shocks** (e.g., electronics quality improves but prices decline).

New data set on export quality

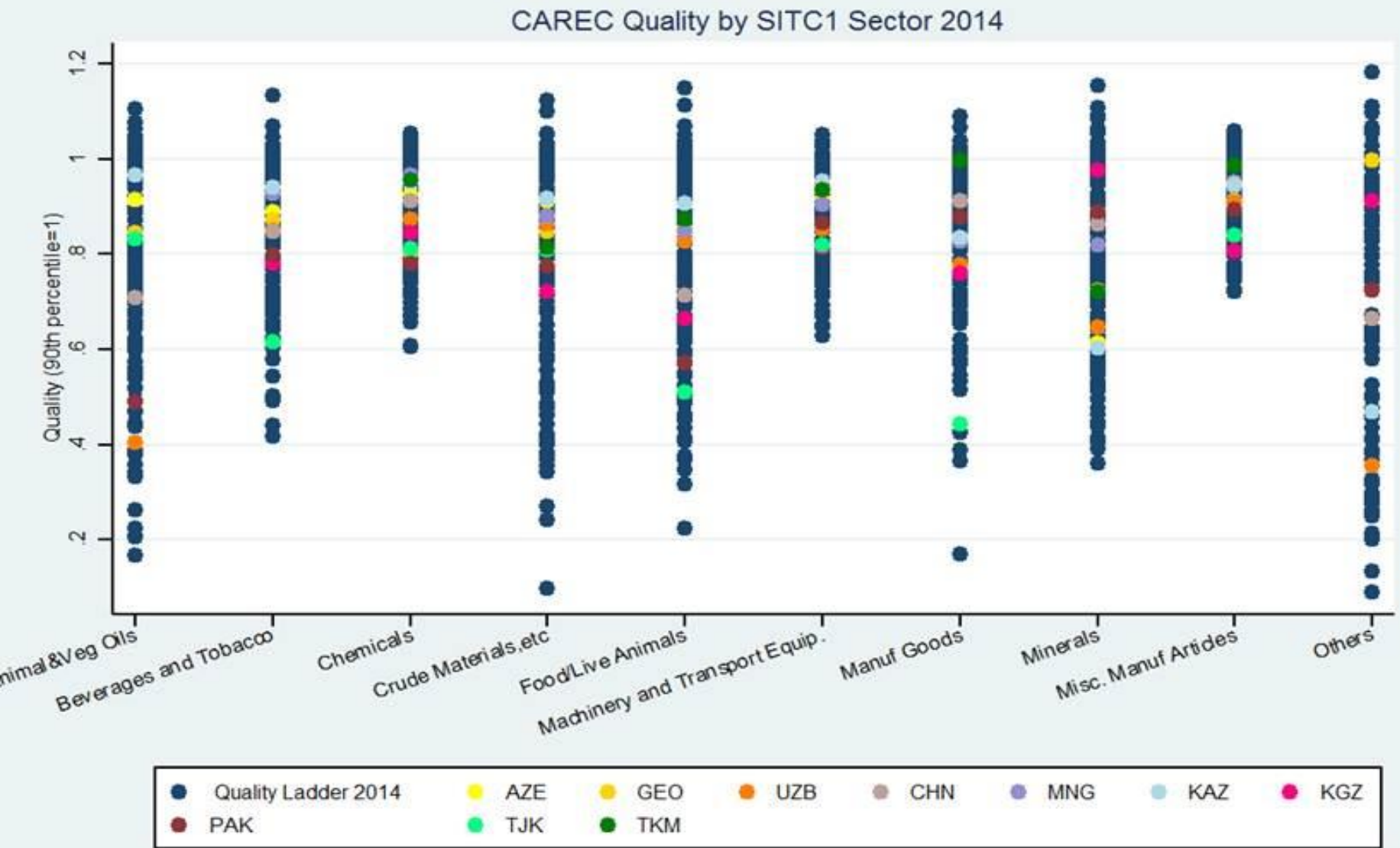
- Take unit values of exports by **SITC 4-digit categories**.
- Adjust for **distance** (higher prices for farther distance), **income per capita** of exporters (production costs), and **common trade determinants** (common border, PTA, etc.).
- The result is a **yearly quality estimate** for each product that each country exports. Each one is **normalized by their 90th percentile** in the relevant product-year combination.
- Quality values **range between 0 and 1.2**. Aggregate them by trade weights as you move up (SITC 4, 3, 2, 1 digits).

Convergence of export quality and per capita income.

Quality across all Exports

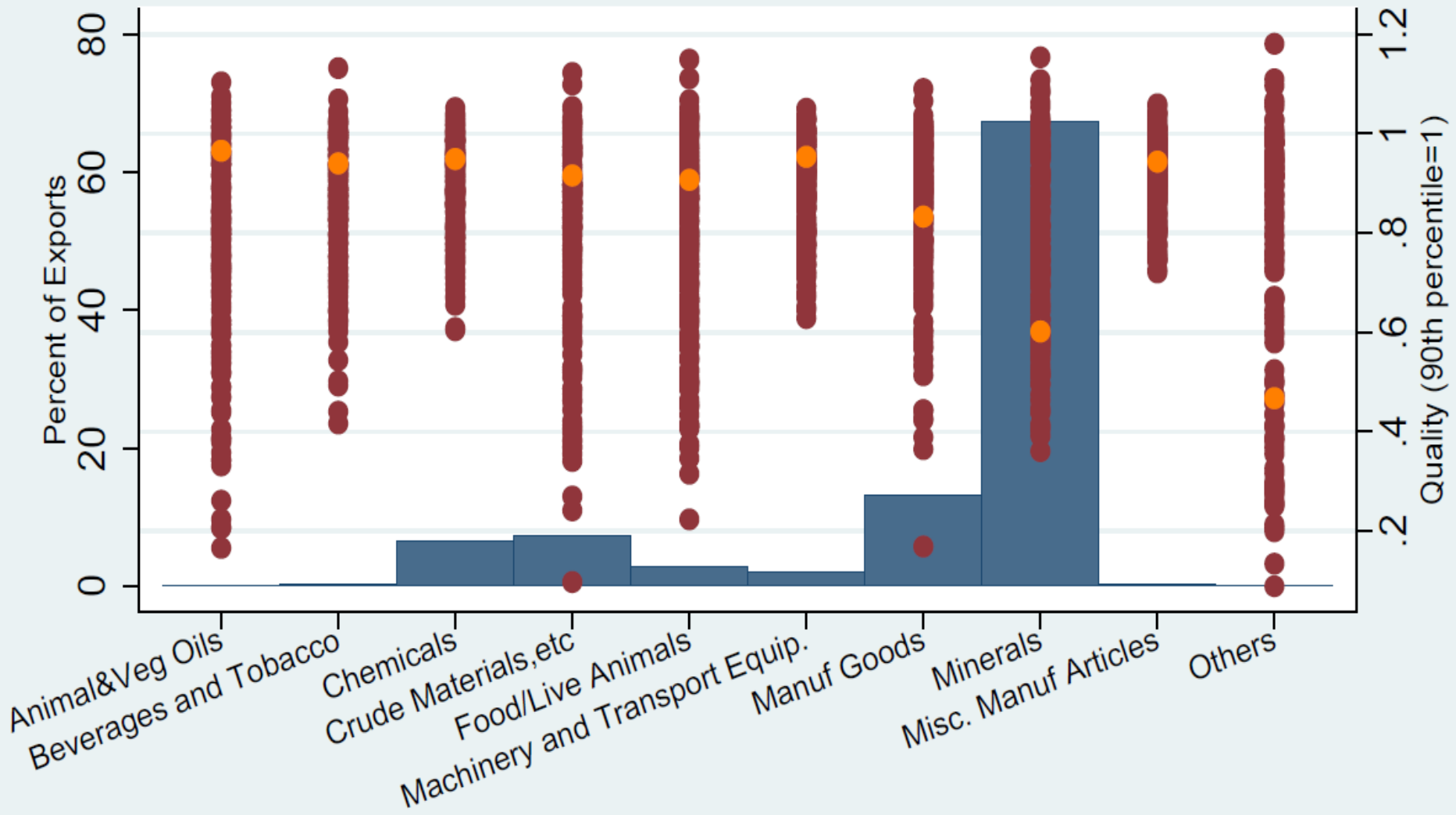


Position of CAREC Countries on Export Quality Ladders.

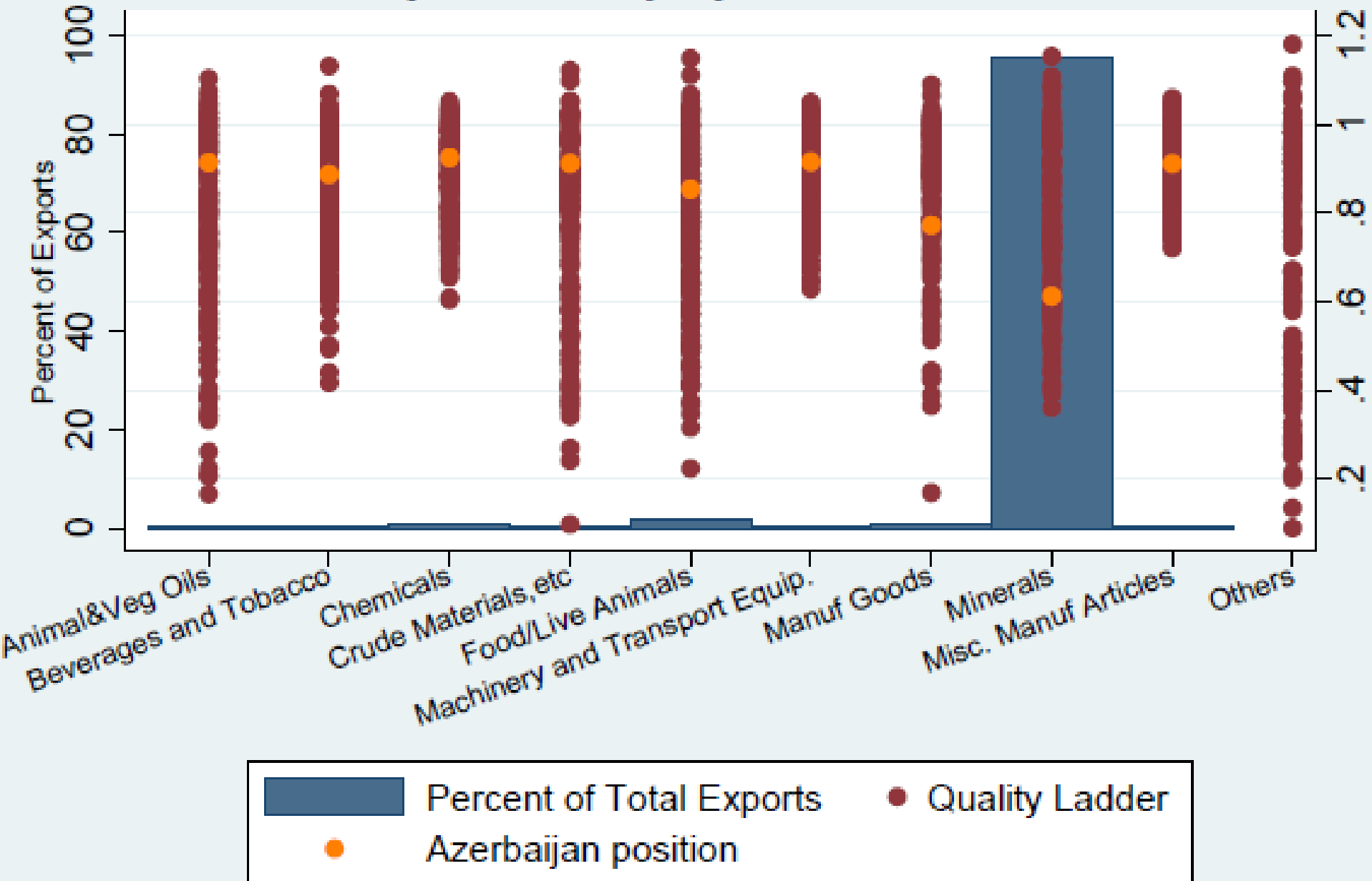


Source:IMF staff calculations

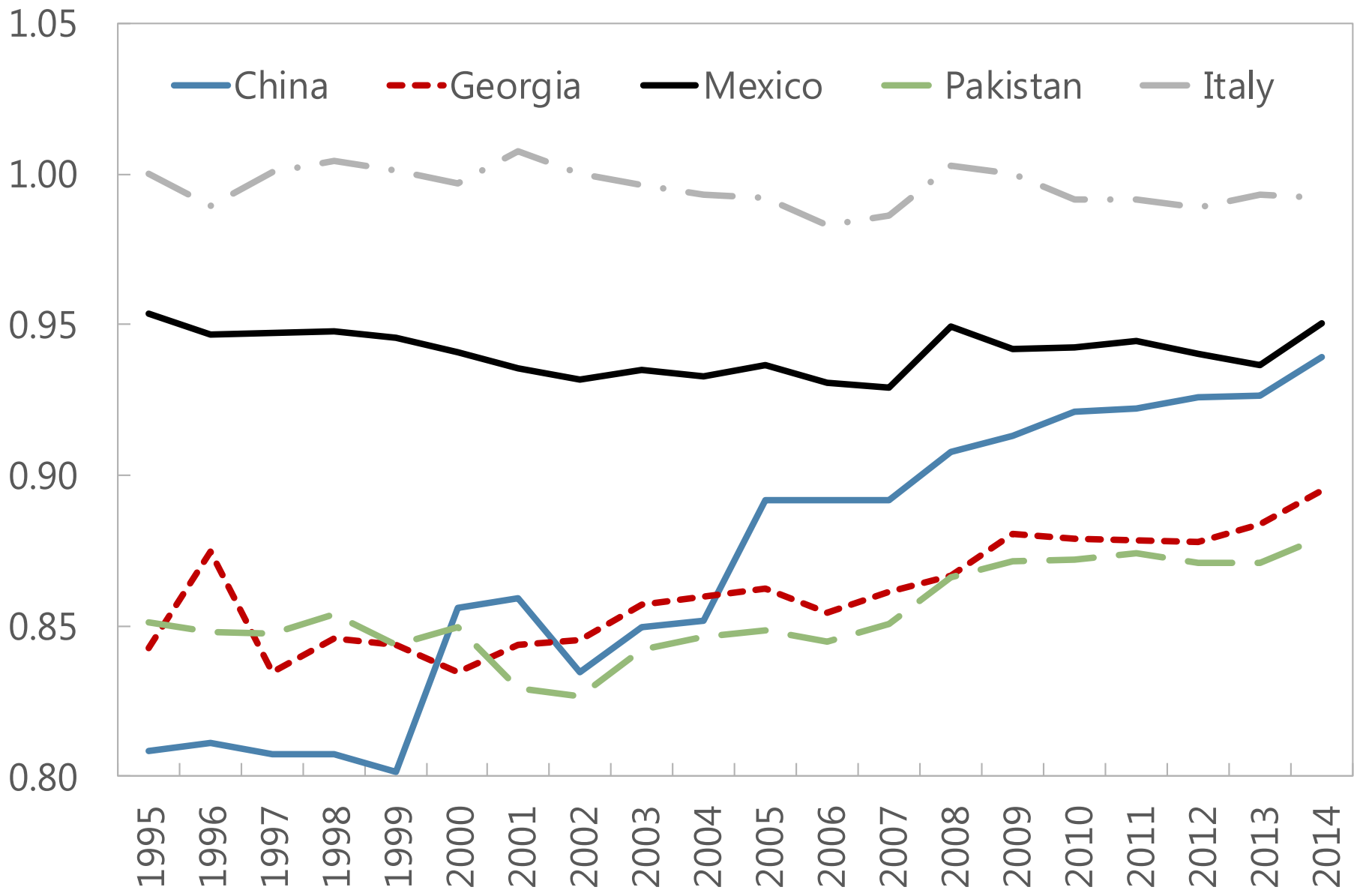
Kazakhstan: Quality by SITC1 Sector, 2014



Azerbaijan: Quality by SITC1 Sector, 2014

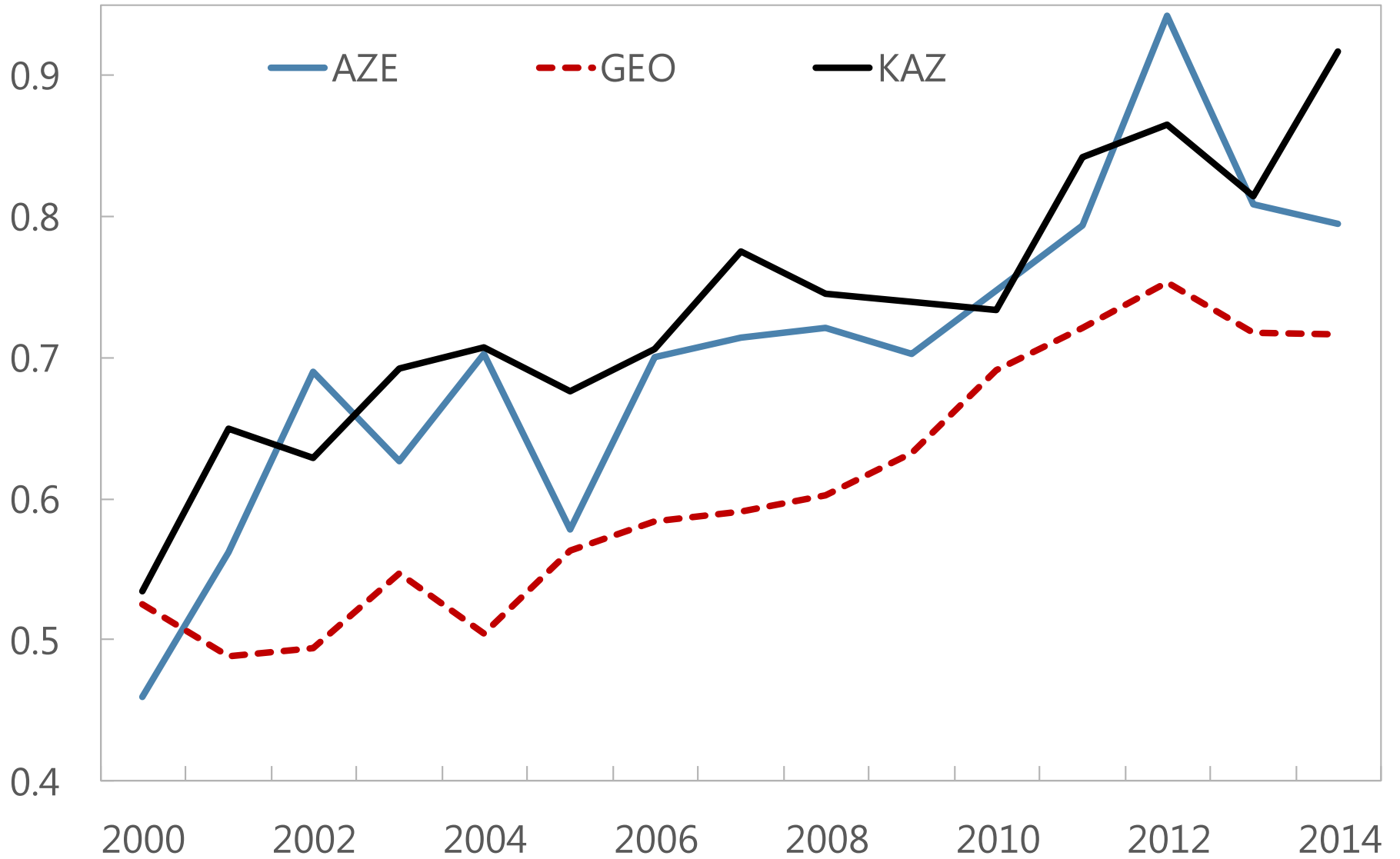


Export Quality Values: Clothing (SITC 4 digit)



Sources: IMF staff estimates.

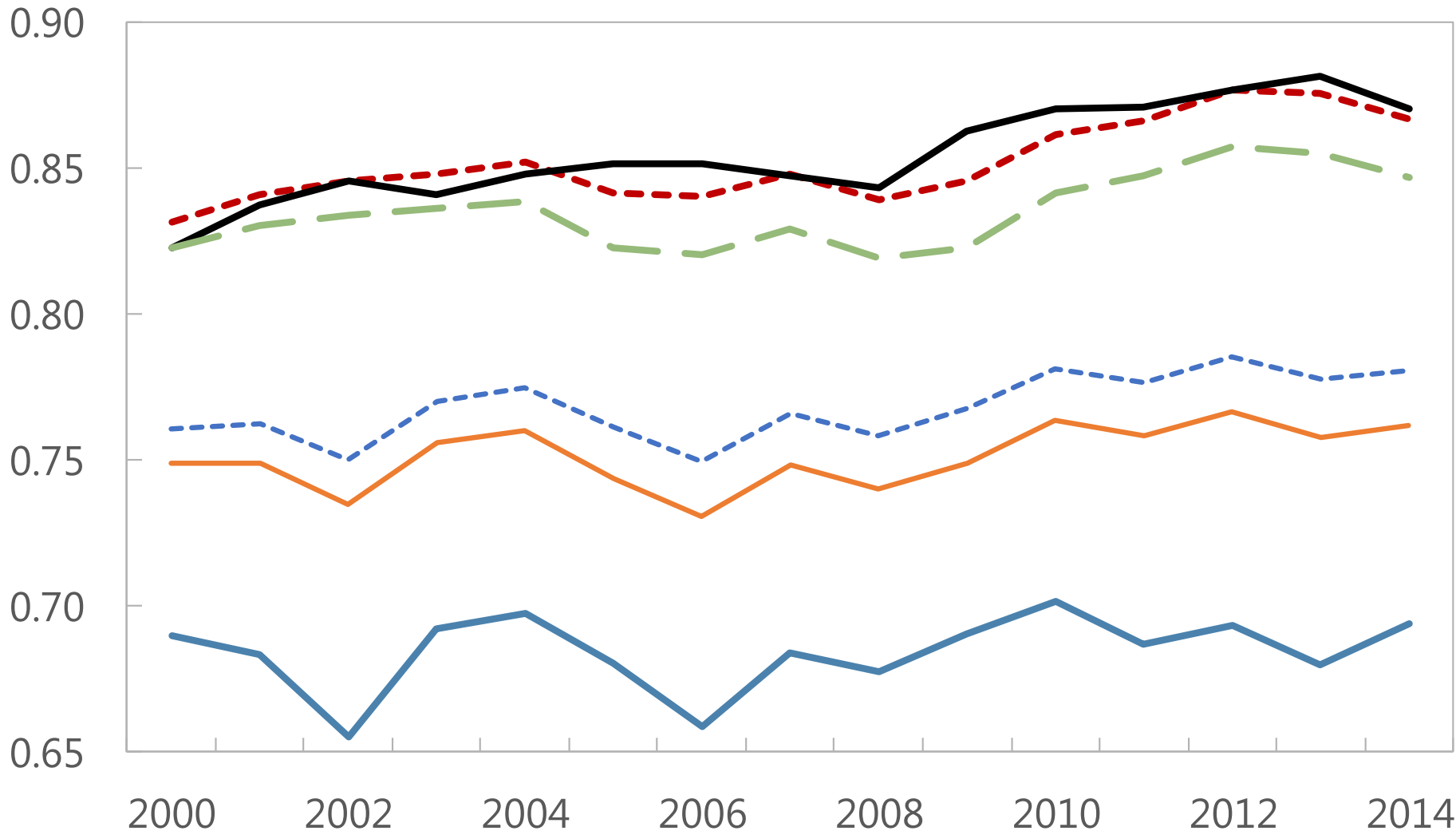
Export Quality: Prefabricated Buildings



Sources: IMF staff estimates.

Export Quality Over Time

— LV - - HV — ASEAN5 - - HV* - - CAREC — CAREC w/o CHN



LV = AZE, KAZ, KRZ, TAJ, and TKM.

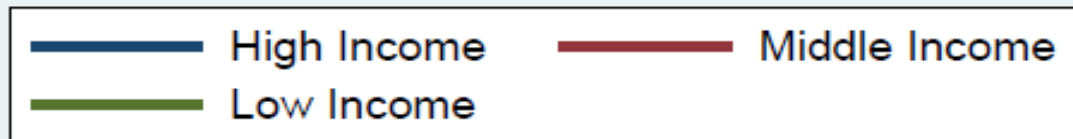
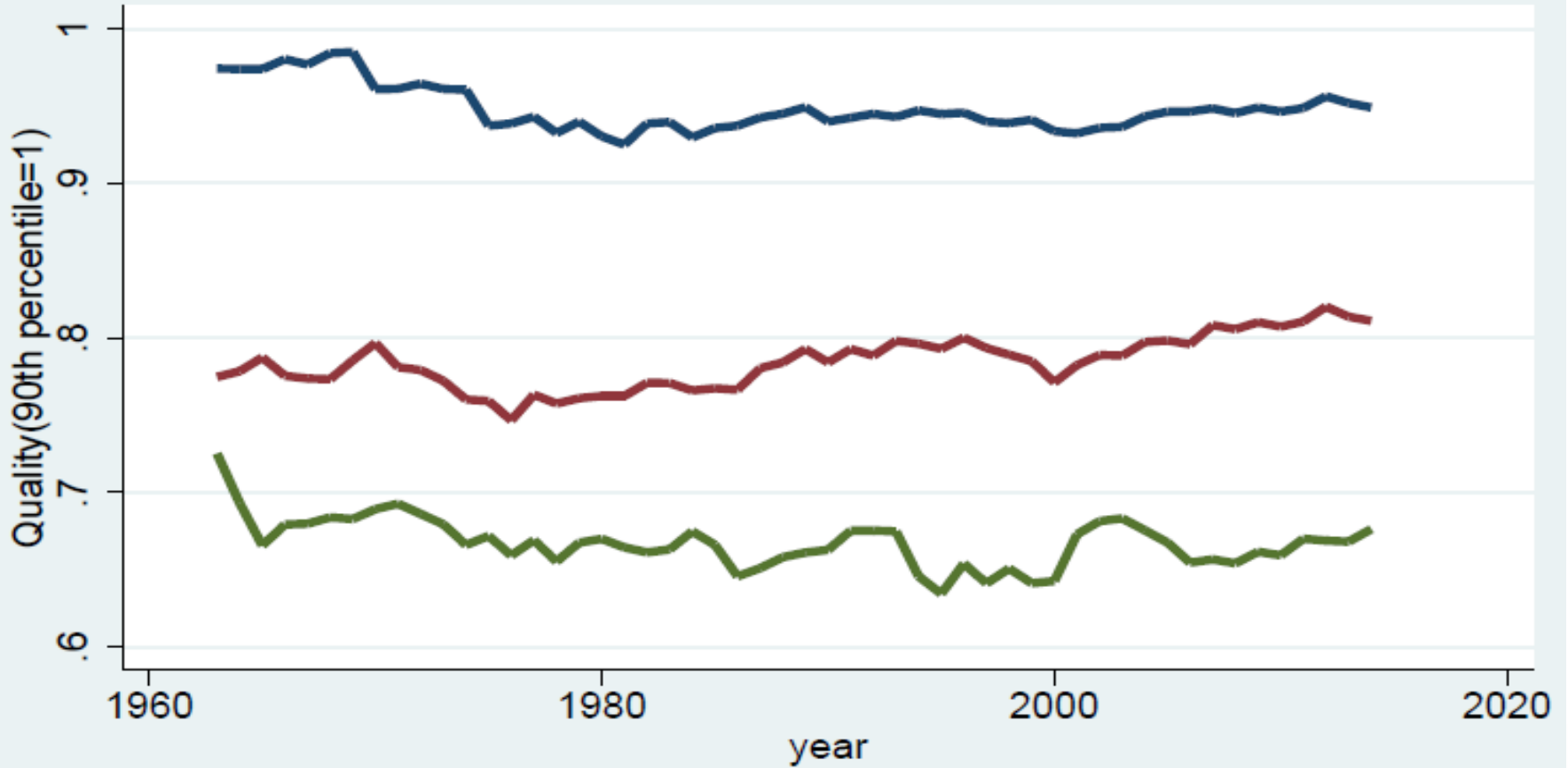
HV* = GEO, MON, PAK, and UZB

HV = CHN, GEO, MON, PAK, and UZB.

ASEAN5 = IND, MYS, PHL, THA, and VNM.

Export Quality Over Time by Income Level

All Sectors



Conclusions:

- For many CAREC countries there is space to go up export quality ladders. This would increase value added and growth.
- Climb ladders to generate more sophisticated and competitive exports. Diversify across categories to create new upgrading opportunities.
- For most products, export quality changes gradually. However, many examples of fast convergence to the frontier.

Move up the Quality Ladder

More Sophisticated Exports

More Value Added

Higher Growth

Thank You!