
OPENNESS, FIRM EXPORTING AND WAGES IN THE GREEK ECONOMY¹

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Executive Summary

A. Openness of the Greek Economy

The ripple effect of the 2008 Global Financial Crisis showed the paramount importance of enhancing the export performance of Greek firms, an issue that became a focal point in subsequent economic adjustment programs. This need stems from the observed decrease in both volume and value of Greek exports with respect to the EU baseline persevering through the period 2008 – 2014. To illustrate this point, the present study compares the export activity of Greek firms with their constituents in Portugal, a country with similar levels of economic growth and population, subject also to economic adjustment programs. Contrary to Greece, in Portugal a 21% increase from 2008 in export activity had been achieved in only three years. The low competitiveness of the Greek economy is reflected both in the limited volume of outward Foreign Direct Investment and in the weak integration of Greek firms in the Global Value Chains. As such, it has been deemed a key contributing factor to the breakout of the debt crisis, as well as a deliberating circumstance for the prolonged inability of Greece to adjust to pre-crisis levels of economic activity.

B. Heterogeneity of Greek Export Firms

The transition of the Greek economy towards a more open “export-driven” paradigm requires a fundamental understanding of the role of the firms in its overall competitiveness. Though country-specific characteristics often dictate variations in

export behavior, firm heterogeneity is a basic indicator of export performance. In that sense, the present study attempts to examine closely which structural characteristics of Greek export firms are in correlation to their export performance. For this purpose, we use a large dataset of firm level data provided by ELSTAT, comprised of:

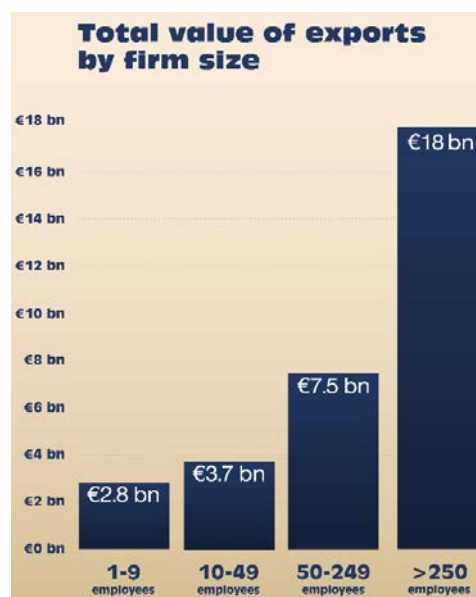
- statistical data on EU intra-state exports;
- statistical data EU to non-EU Member State exports;
- data regarding the activity of manufacturing firms reported in the Annual Industrial Report of ELSTAT.

Which structural characteristics of Greek export firms are associated with their export performance?

One of the main findings of our analysis is that Greek exports are highly concentrated, with firm size standing out as the dominant factor of export performance.

More specifically, the top 1%, in terms of value, of exporting firms displays 200 times more export activity, with 7 times the volume and 3 times the export destinations than the remaining 99%. Additionally, our research suggests that:

- The average value of exports increases exponentially with the size of the firm in terms of labor power.



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- The ratio of skilled workers to unskilled workers is greater for larger firms. Furthermore, there is a positive relationship between export performance and the skill level of the firms' workforce.
- Firms that organize training programs through the purchase of software also tend to exhibit better export performance levels.
- Firms that invest in R&D exhibit a greater volume of exports than firms that do not. This disparity becomes even more distinct in the case of large firms.
- There is a positive relationship between promotion activities and marketing and the value of exports. Namely, as the value of exports rises, the expenditures dedicated to promotion and marketing increase at an exponential rate.
- Export activity seems to be positively related to access in financing. Indeed, companies with a high loan rate exhibit higher value of exports and greater number of export destinations.

C. Reforms in Greek Export & Wage Environment

In 2012 the Greek Government devised a comprehensive *National Trade Facilitation Strategy & Roadmap* with the objective of enhancing growth and expanding Greece's export base. These initiatives include enhancing reforms such as the simplification of pre-customs and customs procedures, the revision of existing procedures that affect administrative costs for the exporting companies and the development of a single integrated information system in the form a one-stop-shop for export facilitation (Single Window). Moreover, in March 2016 the Greek government presented an *Export Promotion Action Plan*. However, these many of the included *export policy reforms have not, as of yet, fully come into fruition and significant gaps remain unaddressed*.

Does the wage environment affect export performance?

Furthermore, in the aftermath of the recession, the Greek government put forward a series of legislative reforms aiming at the reduction of labor costs. One of the flagship elements of these reforms was the reduction of the minimum wage.

Contrary to expectations, according to the empirical analysis carried out in the context of the study, *the reduction of the minimum wage in 2012 did not seem to have any direct impact on export behavior*. Nevertheless, it is noted that following the labor cost reforms in 2012, both the value of exports as well as the variety of exported goods increased. A plausible explanation for this would be that the reduction of the minimum wage expanded the range of wages. Under this regime, many firms reduced overall labor costs without losing competitive advantage towards non-exporting firms. In addition, the reforms regarding collective bargaining agreement allowed employers to deviate from any previously agreed-upon salaries.

D. Conclusions

The main conclusion that emerges from the present study is *that the size of the firm is the most decisive factor for its exporting performance*. Moreover, the reduction of labor costs is not enough to stimulate exporting activity to a desired level.

Given that the Greek economy is mainly composed of small and medium - sized enterprises (SMEs), it is important to create economies of scale in the export process. This can be achieved through the creation of inter-business networks (clustering). Another way to increase access of SMEs to foreign markets is to form export chains whereby SMEs will operate as suppliers for large export firms, which in turn will serve as intermediaries for the promotion of Greek products throughout the world.

