

Malta's Export Competitiveness

*Simon Bugeja and Kevin Vella**

1. The Shift Share Analysis

In order to assess Malta's competitiveness at an industry level, the shift share analysis is adopted. This is a technique used to evaluate the competitive gains or losses of an economy based on the performance of its industries relative to their international counterparts. In turn the competitiveness of an economy is the sum of the competitiveness of every industry within an economy. The main intuition behind the shift share analysis is to extract the change in the output (or some other summary measure such as employment or exports) which is originating from the global industry itself and that which is originating from the increase in global economic activity. The remaining change in output is construed as a measure of industry competitiveness. In this context the analysis decomposes the change in output, export or employment in each sector in three main components:

1. **The National Share** component is the change in output, export or employment which is due to global demand conditions.
2. **The Industry Mix** component is the change in output, export or employment which is due to the global performance of the industry in question.
3. **The Regional Shift** component represents the change in output, export or employment which is due to domestic performance and which cannot be explained by exogenous global conditions and therefore reflecting the gains in competitiveness.

For such an analysis data on exports for the services sector was gathered from the UNCTAD database, whilst for the product market, the export data is based on the COMEX data using the HS2 classification

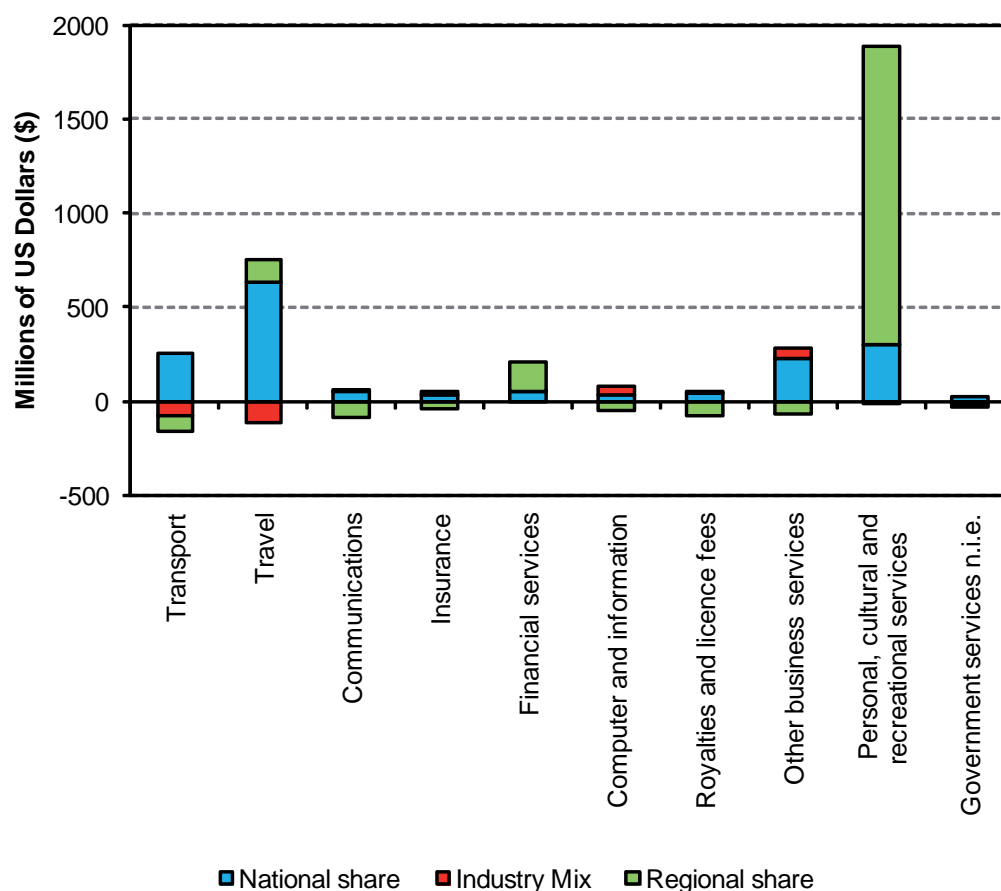
for the period 2005-2013. As a result of the separation of our analysis between goods and services, global trade activity for services is also distinguished in the analysis from the global trade in goods.

Inherently, the analysis for goods is in Euro (€) whilst the analysis for services in US Dollars (\$).

2. Competitiveness of Services

Over the eight-year period until 2013 exports of Services increased by \$3bn (or an average of 12 per cent per annum) of which \$1.7bn is attributable to exogenous global trade in services whilst the remaining \$1.3bn is attributable to gains in competitive advantage in services. Most of the competitiveness gain in services is attributable to the emergence of the remote gaming industry (which forms part of the Personal, Culture and Recreational Services) during this period. Further important gains were also registered in financial services and in tourism activity. These gains offset losses in competitiveness in other service industries, namely in transport, communications, IT, royalties and in other business services. It is interesting to note that in the other business services industry which is considered as one of the fastest growing industries in Malta, the evolution of export appears to be explained primarily by gains in global services trade and to a lesser extent by the international developments in this industry and not by domestic gains in competitiveness. Figure 1 below shows the contribution of each component of the shift share towards export growth in the services industries.

Figure 1: Shift Share Components: Services for period 2005/13



Over the period 2011-2013 the rate of growth in services exports stabilised at an average of 2 per cent per annum. This increase was entirely attributable to exogenous gains in international trade in services whilst the shift share analysis indicates that Malta has lost competitiveness in service exports over this two-year period. With the exception of tourism and insurance, most industries recorded declines in their competitiveness.

3. Competitiveness of Manufactured Products

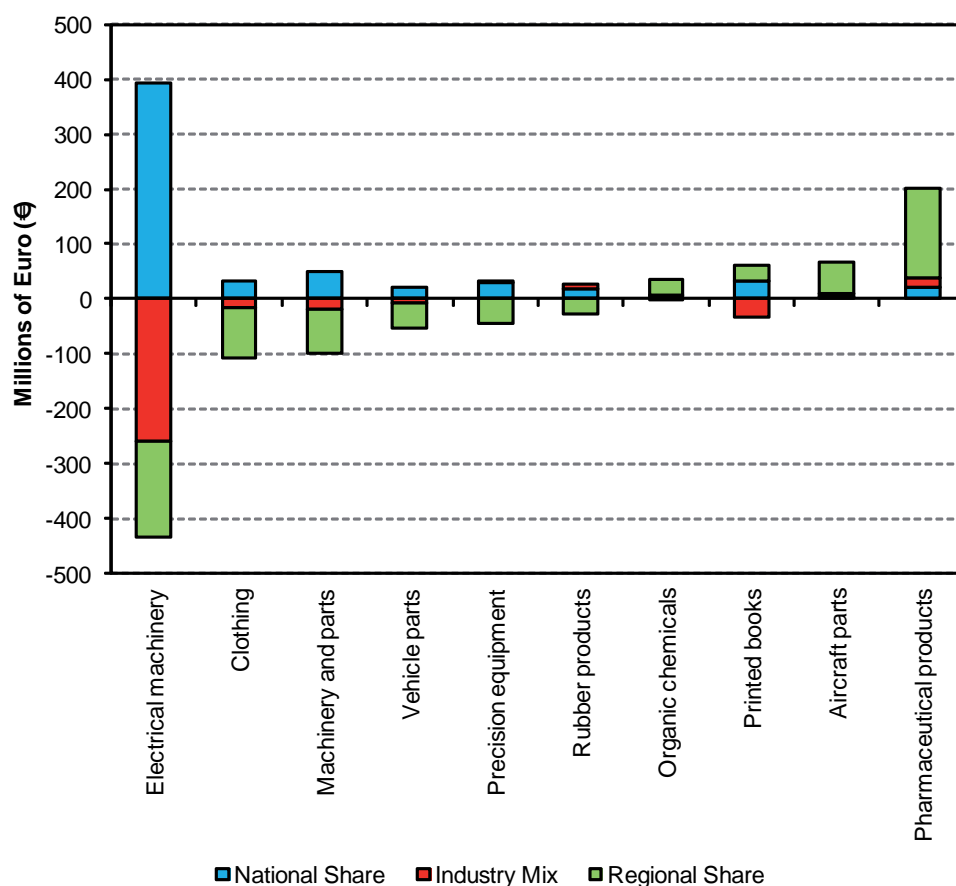
Over the eight-year period until 2013 exports of Goods increased by €810mn (or an average of 1.2 per cent per annum) of which €758mn is attributable to exogenous global trade in manufactured goods whilst the remaining €52mn is attributable to gains in

competitiveness in manufactured goods.

In the product markets Malta's strength mainly lies in the pharmaceutical sector. Other sectors which gained competitiveness include the fisheries, and the toys and games, printed media and the export of aircraft parts. On the other hand Malta registered a significant loss in competitive advantage in electrical machinery (primarily electronics), machinery and parts, precision equipment, clothing, rubber products and vehicle parts.

Over the period 2011-2013 the rate of growth in goods exports deteriorated by an average of 7 per cent per annum. This decline of €412 million was attributable to an aggregate loss in competitiveness amounting to €559 million which was only partly mitigated by

Figure 2: Shift Share Components for goods: 2005/13



exogenous gains in international trade in goods of €147 million.

Nevertheless this development is primarily due to developments related to re-exports of fuel which registered a loss in competitive advantage amounting to more than €600 million. Total exports net of fuel rose by an annual average of 1.4 per cent over this period. If we exclude the developments in fuels, whose contribution to gross value added is relatively minor; Malta would have registered a marginal gain in competitiveness. This was underlined by major gains in competitive advantage in fisheries (+€43 million), chemicals and pharmaceuticals (+€56 million) and toys (+€19 million) which mitigated losses in textiles and clothing (-€13 million), precious materials (-€16 million), electrical machinery (-€36 million) and aircraft parts (-€54 million).

4. Conclusion

Overall Malta has made significant competitiveness gains over the period 2005-2013, yet such gains were partly offset by competitiveness losses over the period 2011-2013. It is interesting to note that over the 2011/13 period and excluding fuel re-exports, manufacturing exports have not lost competitiveness with losses in some industries such as electronics, clothing and aircraft parts being mitigated by gains in industries such as pharmaceuticals, toys and fisheries. Malta lost competitiveness in services in the 2011-2013 period and the growth in services is mostly attributable to international or industry developments during this period. Only tourism and insurance registered gains in competitiveness during this period. Whilst the findings of this analysis are consistent with the results of a similar analysis published by the IMF (IMF; 2014 Article IV consultation-

Staff Report) and the European Commission (European Commission; Staff Working Document 2015), this analysis delves deeper at a commodity level.

References

- European Commission. (2015). *Commission Staff Working Document: Country Report Malta 2015*. Brussels: European Commission.
- International Monetary Fund. (2015). *Malta: 2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALTA*. Washington D.C.: International Monetary Fund.
- Ministry For Finance. (2013). *Pre Budget Document 2014: Stabbilta' biex noħolqu l-Ġid għal Kulhadd*. Ministry for Finance.

Endnote:

* The views expressed in this research article are those of the authors and do not necessarily reflect those of the Economic Policy Department, Ministry for Finance. The authors are grateful to the staff of the Economic Policy Department for helpful comments and suggestions.