Summary for non-specialists
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The Puzzle of the Missing Greek Exports

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Greece's export performance is dramatically lagging behind. This notorious export weakness predates the current crisis as Greece has long been the European Union member state with the lowest export share in GDP. And it has been exacerbated during the crisis, with Greek export performance deteriorating significantly and lagging behind the recovery in other programme countries.

At the same time, Greece's export potential could be enormous. Greece controls 16% of international shipping, making it the world's largest shipping nation. It is located along one of the world's busiest international shipping lanes – the Suez Canal and the Mediterranean – and at the crossroad between three continents. This makes it a natural gateway for trade between Asia and Central Europe. As part of the EU, it is a member of the world's wealthiest free trade area. It is plentifully endowed with sun, beach and culture, making it a prime tourist destination.

This paper estimates that Greece exports ⅓ less than what regular international trade patterns would predict on basis of Greek GDP, the size of its trading partners and geographical distance. This ranks Greek export performance at the 31st position out of the 39 EU/OECD export countries analysed in this study. We label this finding the puzzle of the missing Greek exports. The most affected sectors include electrical equipment and machinery while transport, tourism and agriculture perform relatively favourable. We document that, while Greek export under-performance has become more acute since the onset of the Greek sovereign debt crisis in light of high political uncertainty and the evaporation of trade credit, the Greek export puzzle has been a persistent phenomenon stretching back to at least the 1990s.

This paper then explores how much of the Greek export puzzle can be explained by weak domestic institutions. The competitiveness of a country cannot be summarised exhaustively by labour productivity and wage per employee, i.e. unit labour cost. Instead, competitiveness depends crucially on a more comprehensive notion of the cost of doing business – which in turn depends on the rule of law, property rights, the ability to enforce contracts, flexible labour market arrangements, the available transport infrastructure and many other factors besides the recorded cost of capital and labour. Customs formalities, administrative procedures, and regulatory transparency are directly linked to the trading process. All of these factors can impact trade performance through the cost channel. We estimate that structural reforms improving the Greek institutional framework to the EU/OECD average level would close between ½ and ¾ of the Greek export gap. Much of the Greek export gap can be traced back to the Greek institutional deficits.

These findings suggest that, while Greece has already achieved major improvements in cost competitiveness since the start of the Greek adjustment programme, structural reforms must also address non-cost competitiveness factors, such as the underlying institutional deficits, to unlock Greece's export growth potential. Significant progress has already been made. According to the World Bank Doing Business report for example, between 2010 and 2013, Greece reduced the steps necessary to start a business from 15 to 5. While it took 20 days to get clearance for export activities in 2010, the Doing Business report 2013 reports that clearance can now be obtained in 16 days. In this period, the number of days to gain a construction permit fell from 170 to 105. These encouraging steps need to be followed up with resolute further policy action.