

Trade Similarity Across the Mediterranean Basin

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ABSTRACT:

In this paper we look at the role of export composition in the growth process, assessing whether similarity in trade structure among countries that trade intensively with each other can induce faster catching-up in income levels within the observed group of countries.

In a previous paper, we considered the export patterns of the CEECs by industry, comparing them to those of the older members of the EU, focusing on countries' specialization as suppliers for the EU market. In the analysis we used a particular index to measure the similarity between the CEECs and the EU export patterns. The chosen index displays a number of useful properties compared with the more commonly used correlation index when the dynamics of the observation set considered is high. We introduced the export similarity index as explanatory variable in a regression modelling the CEECs' catching-up process. Our main result was that similarity in export composition has a positive, significant and nonlinear impact on catching-up, and is driven by the growth of the main export market more than by other factors.

Here we replicate a similar exercise for ten Mediterranean countries, which signed partnership agreements with the EU in the late 1990s-early 2000s, in the prospective of eventually forming a free trade area. For this group of countries, the EU is the reference market for their exports, similarly to what happens for the CEECs. Therefore, the hypothesis that an export structure well-suited for the European market could ease their overall exports and spur industrial production and growth can be tested also in this case.

In the regression, the Mediterranean countries growth rate in the past decade is explained in terms of the export structure index, of an overall openness index, and controlling for country-size, investment, schooling. The results obtained for the Mediterranean basin are compared and contrasted with the ones for the CEECs.

Finally, an important variable in explaining the relationship between similarity in export composition and catching-up for the CEECs was the extent of delocalization of production from the EU15, which significantly affects the CEECs' export structure. Delocalization of some productive activities from the EU is very relevant also for the Mediterranean countries, therefore the role of this type of trade is assessed for them as well.

Keywords: specialization, trade, growth.

JEL Classification: F3, F42.