The determinants of export quality in the euro area

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Abstract
Export quality is an important component of external competitiveness on the non-cost side. First of all, quality significantly affects the global patterns of trade. Moreover, increasing the quality of existing products can strengthen existing comparative advantages while boosting export revenues. Furthermore, products with more potential for quality improvement are less exposed to low-wage competition. In this section, we analyse the determinants of export quality in the euro area. Using sectoral data on manufacturing exports for euro area countries over the period 2005-2015, we confirm the finding of a growing literature suggesting that a prime determinant of export quality is the level of income of the exporting country. Higher incomes mean domestic demand for high-quality product and go together with higher skills of the labour force and higher supply of capital. In addition, however, our results looking more in-depth at supply side channels show that the use of a higher share of high-tech inputs (both services and manufacturing products), as well as better institutions are positively related to export quality. These results are especially true for sectors with higher technological intensity, and where the potential for quality improvements is also higher. Policies to increase efficiency in product markets and to strengthen institutions therefore matter for fostering export quality and improving resilience of the economies.