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The determinants of export performance of firms in selected MENA countries. Comparison to CEE countries, Israel and Turkey*

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1. Summary

While focussing mainly on the export performance determinants of firms in selected MENA countries, both jointly and separately, this brief draws some useful policy recommendations after comparing the MENA firms performance with that of firms from countries in Central and Eastern Europe (CEE). Empirical results obtained for Middle East and North Africa (MENA) and CEE countries indicate that productivity, firm size, spending on research and development (R&D), the share of university graduates in productive employment and the internationalization of firms all have a positive relation vis-a-vis the probability of exporting.

2. The Issue

Is the transition of firms in MENA countries in order to meet the requirements of globalized market economies already completed or not yet? Do firms from MENA countries, where trade liberalization has taken place relatively recently, behave as expected, according to existing trade theories? Do they behave like firms in OECD countries (including Turkey and Israel)?

To cope with these questions it is very rewarding as shown below to compare the export behaviour of firms from selected MENA countries with that of firms from CEE, Israel and Turkey. The latter can then be taken as a sort of benchmark, since there are many similarities, in terms of transition, between the countries selected (MENA and CEE countries, Turkey and Israel). Moreover, recent reports (e.g., IMF, 2014) demonstrate that the transition process in CEE countries has already been completed successfully. And happily the export performance of CEE firms in various regions has already been analysed, compared to the behaviour of firms in the EU-15 countries (e.g., Cieřlik, Michałek and Michałek, 2014; Cieřlik, Michałek, Michałek and Mycielski, 2015).

The usual research questions that must be answered and that are also pertinent in the case of MENA countries are the following: i) Is it true that only the most productive companies are able to export their products and that less productive firms only sell them in the domestic market? ; ii) To what extent is productivity determined by expenditure on R&D, and to what extent by other factors?; iii) Do

economies of scale, as measured by the number of employees, have a significantly positive impact on the exports?; iv) What is the impact of the quality of human capital (skilled workers, university graduates) available to companies on their export competitiveness? v) Does the internationalization of firms facilitate export performance (relationships with licensors, parent companies, foreign investment)? vi) Is the set of factors relevant to the export development for firms of MENA countries different from the factors affecting the competitiveness of companies from Turkey, Israel, CEE and other EU countries?; vii) Do firms in the MENA region have different propensities towards exports?; viii) What should be the role of government in raising the export competitiveness and internationalization of domestic enterprises?

3. Approach and Results

The aggregated analysis covers **eight MENA countries**: Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia, Turkey, and the West Bank and Gaza. However only the behaviour of firms in selected larger MENA countries (i.e. Egypt) is studied, when the number of observations allowed for an econometric analysis. The behaviour of firms in Israel and Turkey is studied separately as both are the most developed countries among the analysed countries.

Our inquiry is based on a **comparable database collected as part of a joint project between the EBRD and World Bank BEEPS (2013)**, which includes all the countries above and all countries of CEE simultaneously. The BEEPS data offer information on various characteristics of firms. We estimate the relationship between the characteristics of firms and the probability of exports. The sample includes data covering the period 2011-2014. The BEEPS surveys cover both manufacturing and services sectors and are representative of the variety of firms according to sector and location within each country.

The econometric exercise we conduct leads to quite interesting conclusions. The empirical results obtained for MENA countries indicate that **the probability of exporting is positively related to the level of productivity, firm size, spending on research and development (R&D), the share of university graduates in productive employment and the internationalization of firms**. State ownership and the perception of corruption by firms are mostly not significant as a determinant. But the determinants of export performance are clearly heterogeneous among firms from individual MENA countries. In the majority of cases, foreign ownership and spending on R&D are significant determinants. Other variables, including labour productivity, are also significant in individual MENA countries.

The role of product concentration and multi-product firms in exporting deserves some separate attention. We find that there are differences between MENA and CEE countries. In particular, **multi-product firms in MENA countries are more likely to export, while this characteristic is not significant in the case of exports of firms from CEE countries**. Finally, the estimation results for Egypt are quite satisfactory given that the number of observations is relatively large (2,177), and the results are similar to those obtained for the group of eight MENA countries. A puzzling result appears in the case of the corruption variable, which displays a positive sign.

Interestingly, the estimation results for Turkey (based on 719 observations) are different to those obtained for the group of eight MENA countries. Only firm-size and firm-age are significant and appear to be positive determinants.

4. Conclusions and recommendations

Research confirms that the productivity of labour affects firms' propensity to export in MENA and CEE countries alike once country and sector-specific effects are taken into account. However productivity of labour does not seem to have an influence on exports in the case of MENA when taken as a whole. Also while other variables, such as the size of the company, the use of human capital and the level of firms' internationalization contributed to an increase in the propensity to export among firms in CEE countries, that was less so in MENA countries. More specifically :

- labour productivity is a significant determinant in CEE countries but not in MENA countries. The use of foreign technology (foreign licences) is also significant in the case of CEE countries, but not in all eight MENA countries.
- Quite unexpectedly, the age of the company is not significant in CEE countries, while it is significant in a majority of MENA countries (usually, older companies are more export-oriented).
- Finally, the measures reflecting a non-market economy legacy, i.e., the engagement of state ownership and corruption, are significant determinants in some groups of CEE countries, but very rarely in the case of individual MENA countries.

What are the preliminary policy implications of the above?

- Oddly, if the aim of MENA governments is to improve export performance, **fighting corruption does not seem to be particularly helpful**. It seems also that a policy of **privatizing firms**, such as the one practised after 1989 in CEE, is **not going to help much in improving export performance** (maybe with the exception of Egypt). From the research summed up above, it appears that **corruption and state ownership do not result in serious barriers to exports at present for the countries under focus here**. Also the fact that firms' age is a significant variable in the case of the MENA means that, over time, **export performance should improve as a result of accumulated experience**.
- Given that many firm-level determinants of exports are sometimes dissimilar in CEE and MENA countries, it also follows that the **export competitiveness of the analysed MENA countries can be improved by the development of modern education systems and the facilitation of the accumulation of human capital**.
- **Financial support for R&D and innovation should have a positive impact on export performance**. MENA countries should also seek to attract export-oriented foreign direct investments. On the other hand, transfers of technology via licences does not seem to work as well as in CEE countries (with the exception of Egypt).
- **The specificities of MENA countries, with respect to product concentration, should also be taken into consideration**. Multi-product firms in MENA countries are more likely to export, while this characteristic is not significant for exports in the case of CEE firms. This could mean that firms from the MENA do not concentrate their exports on products that correspond to where they are most efficient.

More in-depth studies, based on broader databases, and research on the additional determinants of exports are needed in the future. It would also be desirable to study the direction of causality between exporting and productivity using firm-level panel data, which are not available from BEEPS V.

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Its main objectives are:

- to contribute to the reinforcement of dialogue on economic and financial issues in the Euro- Mediterranean partnership, within the framework of the European Neighbourhood Policy and the Union for the Mediterranean,*
- to improve the understanding of priority stakes in the economic and social spheres, and their repercussions on Mediterranean partners in the framework of implementation of EU Association Agreements and Action Plans,*
- to consolidate the partners of the network of research institutes capable of North-South and South-South interactions, while it sets into motion a transfer of know-how and knowledge between members.*

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