

Non-technical Summary

“Are unit export values correct measures of the exports’ quality?”
by Krzysztof Szczygielski and Wojciech Grabowski

Abstract

It has become common to measure the quality of exports using their unit export value (UEV). Applications of this method include studies of intra-industry trade (IIT) and analyses of industrial ‘competitiveness’. This literature seems to assume that export quality and export price (the most natural interpretation of UEV) are not merely correlated but that they follow each other one-for-one. In the article this assumption under scrutiny from both a theoretical and empirical point of view. In terms of theory, this assumption is formalized as a hypothesis of the proportionality of equilibrium prices and equilibrium qualities. Several cases for which this hypothesis is theoretically doubtful (non-linear utility- and cost functions; strong and asymmetric horizontal product differentiation) are discussed. Two methods of verifying the hypothesis for cases in which it cannot be easily rejected theoretically are suggested. These two methods are then applied to German imports in the period of 1994-2006 (as recorded by the COMEXT database) and a cross-country- and panel-data analysis is conducted. The conclusion is that the implications of the proportionality hypothesis are largely contradicted by the data. Consequently it is not recommended that unit export values are used as a measure of exports’ quality.