Export price strategies of developed countries and Chinese price competition. A focus on Italy

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The exceptional economic growth experienced by China over the last three decades has been at the center of a large number of recent studies. Against this background, one of the most debated argument, i.e. that China's rise in the world economy has influenced global terms of trade, lowering the prices in the manufacturing sector, has so far received little empirical support. Kaplinsky and Santos-Paulino (2006) use imports of EU (at the 8-digit HS from Eurostat) to test for recent trends in unit values, finding that prices of manufactures are likely to decrease more in those sectors where China is a relevant exporter.

More recently, this hypothesis has been further explored by Fu et al. (2010), who show that over the last twenty years Chinese export competition has influenced not only the export prices of low- and middle-income countries in sectors at different levels of technology, but also the prices of high-income countries in low-technology sectors.

The aim of this paper is to elaborate further on this issue, exploring in details the impact of China's growth on developed countries' export prices . The focus is on Italy, but in comparison with main manufacturing exporters from the group of high income countries.

In a framework where large economies export more at the extensive margin and at highest unit prices (Hummels and Klenow, 2005), Italy is a case of interest, given its high persistence in traditional low tech sector specialization (Di Maio and Tamagni, 2008). This has resulted in a rising similarity with the export structures of major emerging economies, one of the factors contributing to large losses of Italy's market shares over the last years (Cheptea et al., 2010), despite the fact that recent research did not find evidence of "adverse export elasticity" compared to other main manufacturing exporters (Feletthigh and Federico, 2010).

In light of the above considerations, the specific objective of this paper is twofold.

On the one hand, the analysis will inquire whether in sectors with the highest competitive pressure from China, Italy and other developed countries have reduced markups. This could complement the findings by Bugamelli et al. (2010), showing that the competitive pressure by Chinese exports in the domestic market has contributed to a decrease in output prices of Italian firms, especially the smaller and those specialized in traditional sectors.

On the other hand, the main goal of the paper is that of examining whether competition from China has led developed countries to upgrade the quality content of their export for any given couple of markets (including low-, middle- and high-income ones) and sectors (including the main sectors within the manufacturing). In the case of Italy, there is indeed some evidence supporting the view that the country has increased the quality of goods exported, especially in traditional sectors (Lanza and Quintieri, 2009; Bugamelli, 2007). However, no direct evidence shows that this has occurred as a consequence of increasing competition from lower income countries.

The empirical analysis consists of estimating Italian export prices, measured by unit values of export at the 6 digit level of the harmonized system (HS) classification, in a comparative focus with other developed countries. Along the lines of Fu et al. (2010), we determine the prices of internationally traded goods taking into account both demand and supply factors.