The Global Operations of European Firms

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External imbalances:
The Euro area is not just one country

Dispersion of CA balances in the euro area

source: Barues, Lawson, Radziwill and Lane, OECD WP
Debate on ’competitiveness’: macro indicators

- Real Effective Exchange Rates (REER)
- Unit Labor Costs (ULC)
- Export shares
- Current Account (in % of GDP)

*Nations* and *sectors* do not produce, do not trade, do not compete; it is *firms* that produce trade and compete.

BUT

- Firms?
Responses to shocks
What do we learn from distributions?

Before/after the Euro
## Winners and losers

Table A1: Reaction of firms to the crisis

<table>
<thead>
<tr>
<th>Change of export volume in 2009 vs 2008</th>
<th>Observations</th>
<th>Share</th>
<th>Conditional mean increase/decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased</td>
<td>1456</td>
<td>18.85%</td>
<td>23.55%</td>
</tr>
<tr>
<td>No change</td>
<td>2240</td>
<td>29.00%</td>
<td></td>
</tr>
<tr>
<td>Reduced</td>
<td>4028</td>
<td>52.15%</td>
<td>-30.82%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7724</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>-11.63%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change of labour in 2009 vs 2008</th>
<th>Observations</th>
<th>Share</th>
<th>Conditional mean increase/decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>increased</td>
<td>1905</td>
<td>13.37%</td>
<td>11.90%</td>
</tr>
<tr>
<td>no change</td>
<td>5778</td>
<td>40.56%</td>
<td></td>
</tr>
<tr>
<td>reduced</td>
<td>6561</td>
<td>46.06%</td>
<td>-16.88%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14244</strong></td>
<td><strong>100%</strong></td>
<td><strong>-6.18%</strong></td>
</tr>
</tbody>
</table>

Source: Efige, III Policy Report
Before no statistical information on European firms harmonized across country.

Detailed information of international operations combined with all other key firm characteristics (including balance sheet data).

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUT</td>
<td>492</td>
</tr>
<tr>
<td>FRA</td>
<td>2,973</td>
</tr>
<tr>
<td>GER</td>
<td>2,202</td>
</tr>
<tr>
<td>HUN</td>
<td>488</td>
</tr>
<tr>
<td>ITA</td>
<td>3,019</td>
</tr>
<tr>
<td>SPA</td>
<td>2,832</td>
</tr>
<tr>
<td>UK</td>
<td>2,156</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,162</strong></td>
</tr>
</tbody>
</table>

2010 targeting year 2008 (some 2009)
THE EFIGE POLICY REPORT
“The Global Operations of the European Firms”?
MAIN FINDINGS

• Differences in country patterns:
  • German and French more sophisticated internationalisers
  • Spain and Hungary lagging behind
  • Italians, higher export propensity

• Patterns explained mostly by firm characteristics
• Firms characteristics affect internationalisation patterns in a remarkably similar way across countries
• Country differ because they have a different industrial structure
NUMBER OF DESTINATIONS OF EXPORTS
MANY FIRMS IN FEW COUNTRIES, FEW FIRMS IN MANY COUNTRIES

Policy: How to shift this distribution to the right?
WHAT EXPLAINS EXPORT STATUS?
FIRMS’ FEATURES

- Firm Characteristics: 64%
- Sector Effects: 29%
- Country Effects: 7%
HOW TO RECONCILE MICRO AND MACRO?

• What matters is mostly the industrial structure
  • Size, the *almost* catch all factor
  • It differs in each country
A SIMPLE DECOMPOSITION

• To quantify the importance of size and sector, apply to ITA, FRA and SPA the German structure (Germany only as benchmark; no suggestion to become German!)

• Keep fixed a country’s total employment in the manufacturing sector and shift workers across firms and sectors to replicate German structure

• How? Changing the weighting scheme as if sample firms in ITA, FRA and SPA were drawn from German population

• Importantly, keep a country’s export propensity and export share by size and sector classes
EXPORT RISE IF WE APPLY GERMAN INDUSTRIAL STRUCTURE, MORE IN ITALY AND SPAIN THAN IN FRANCE (Number of workers constant)

Italy: Most of the action is size

France and Spain, industry matters most
POLICY IMPLICATIONS

• **Caveat: export not necessarily Nirvana**

• Industrial structure: key factor affecting countries’ global performance

• Country factors/policies matter *indirectly* through industrial structure

• **Direct** support to internationalization is probably of second order importance

• Need structural reforms to strengthen **firm growth** (ITA, SPA) (do not mean forcing M&A) and **productivity** (ITA, FRA). Support to innovation and human capital

• Also welfare policies supporting job transitions across firms!

• **But nothing can be forced ……**
  => Forced aggregation; sectoral reallocations….wasteful and inefficient