

European
Firms
In a
Global
Economy



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EUROPEAN
COMMISSION



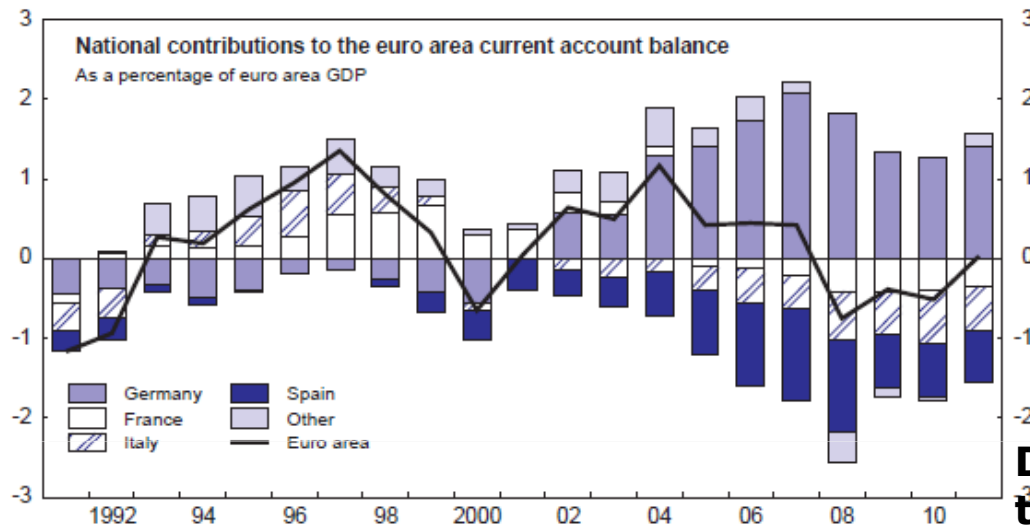
The Global Operations of European Firms

**Giorgio Barba Navaretti,
Matteo Bugamelli, Fabiano Schivardi,
Carlo Altomonte, Daniel Horgos,
Daniela Maggioni**

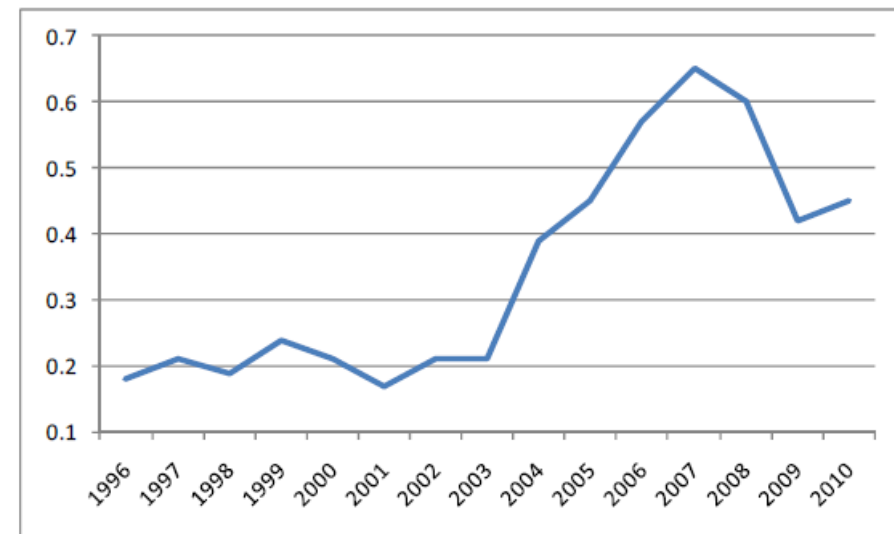
Geneva ILO
June 24, 2011



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



Macro Macro and then??

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?

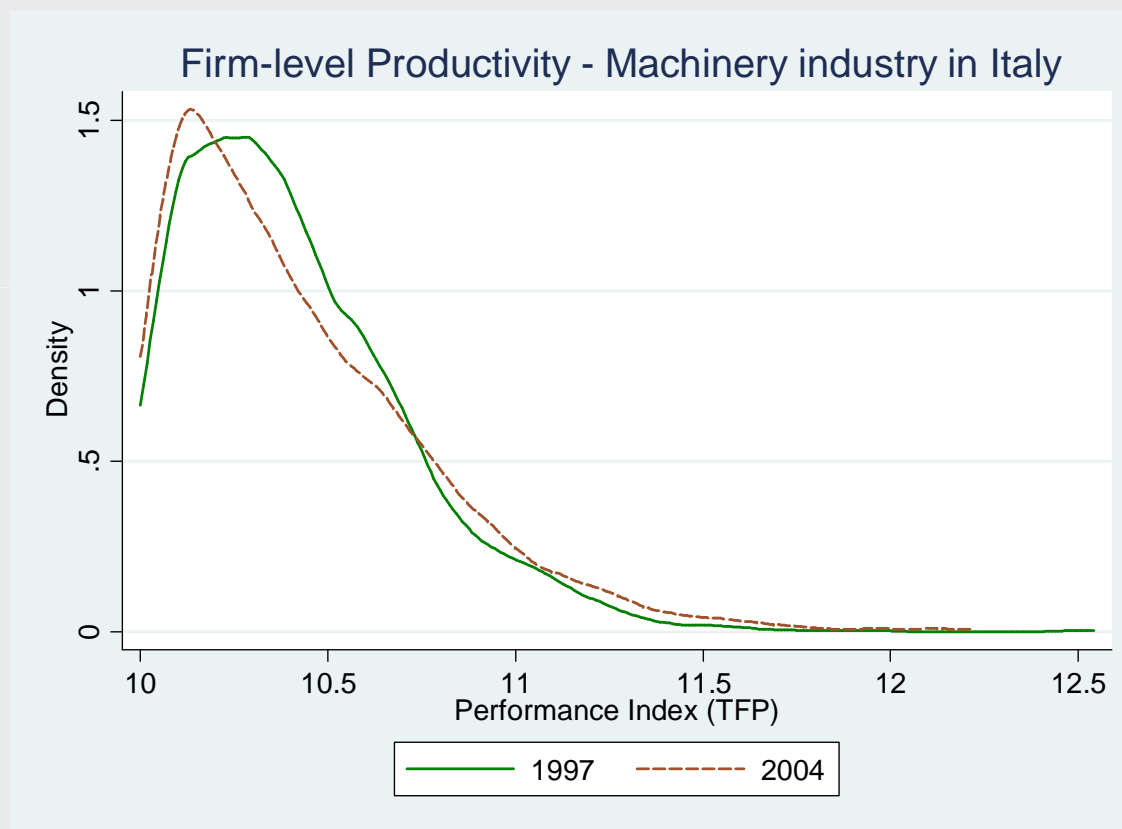




Responses to shocks

What do we learn from distributions?

Befor/after the Euro





Winners and losers

Table A1: Reaction of firms to the crisis

Change of export volume in 2009 vs 2008	<i>Observations</i>	<i>Share</i>	<i>Conditional mean increase/decrease</i>
Increased	1456	18.85%	23.55%
No change	2240	29.00%	
Reduced	4028	52.15%	-30.82%
<i>Total</i>	<i>7724</i>	<i>100.00%</i>	<i>-11.63%</i>
Change of labour in 2009 vs 2008	<i>Observations</i>	<i>Share</i>	<i>Conditional mean increase/decrease</i>
increased	1905	13.37%	11.90%
no change	5778	40.56%	
reduced	6561	46.06%	-16.88%
<i>Total</i>	<i>14244</i>	<i>100%</i>	<i>-6.18%</i>

Source Efige, III Policy Report



EU-EFIGE/BRUEGEL-UNICREDIT DATASET

- 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)

Country	Number of firms
AUT	492
FRA	2,973
GER	2,202
HUN	488
ITA	3,019
SPA	2,832
UK	2,156
Total	14,162

2010 targeting year 2008 (some 2009)



THE EFIGE POLICY REPORT

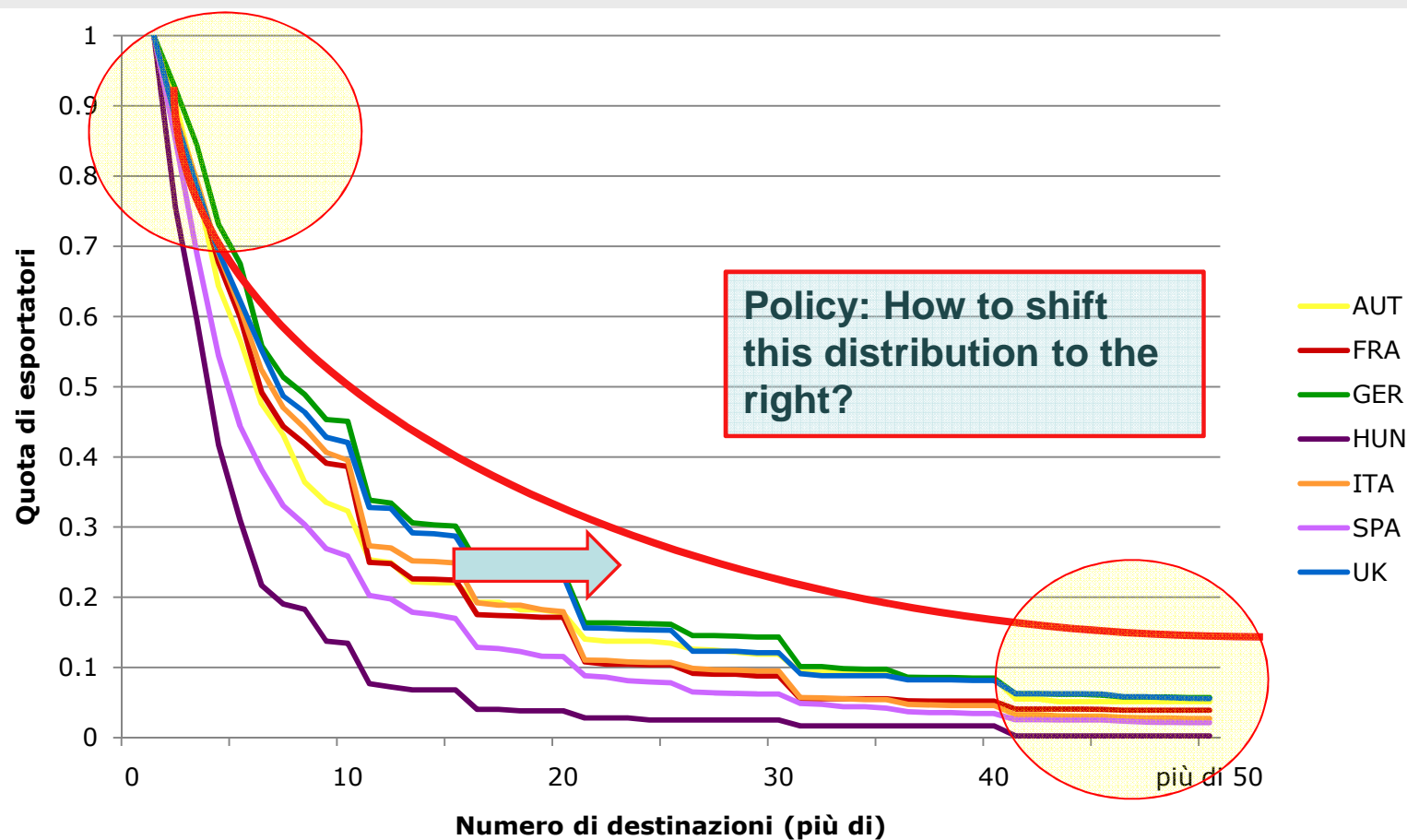
“The Global Operations of the European Firms”?

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

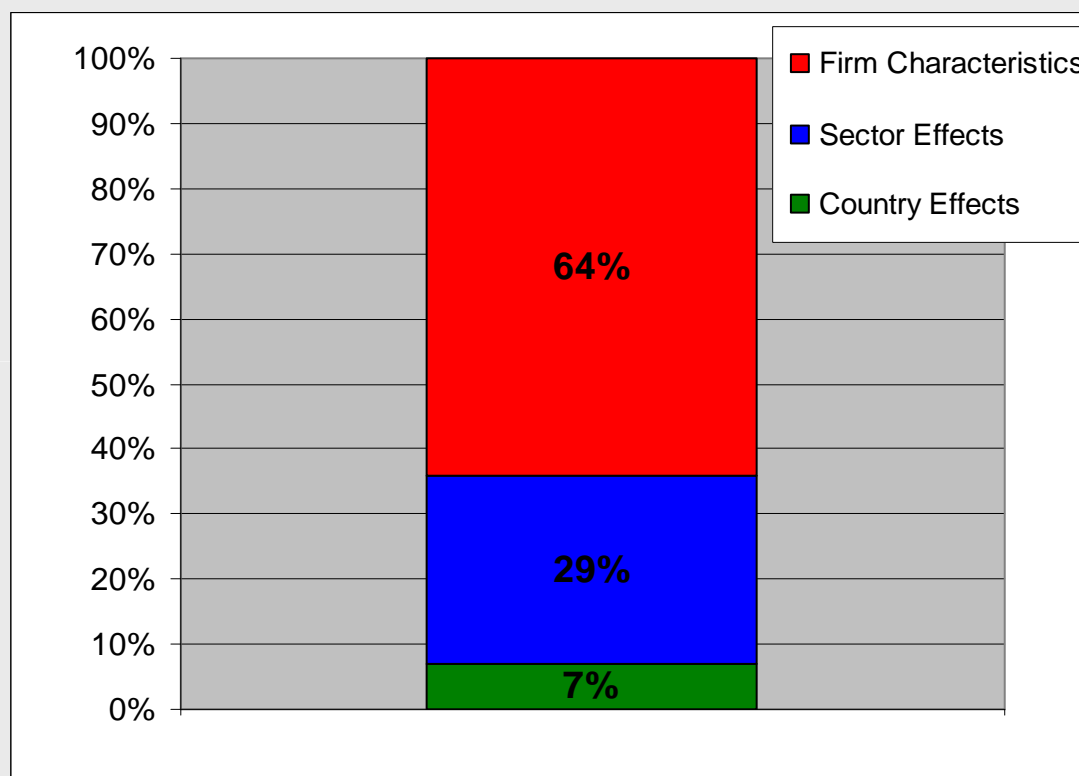


NUMBER OF DESTINATIONS OF EXPORTS MANY FIRMS IN FEW COUNTRIES, FEW FIRMS IN MANY COUNTRIES





WHAT EXPLAINS EXPORT STATUS? FIRMS' FEATURES





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HOW TO RECONCILE MICRO AND MACRO?

- What matters is mostly the industrial structure
 - Size, the *almost* catch all factor
- It differs in each country



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A SIMPLE DECOMPOSITION

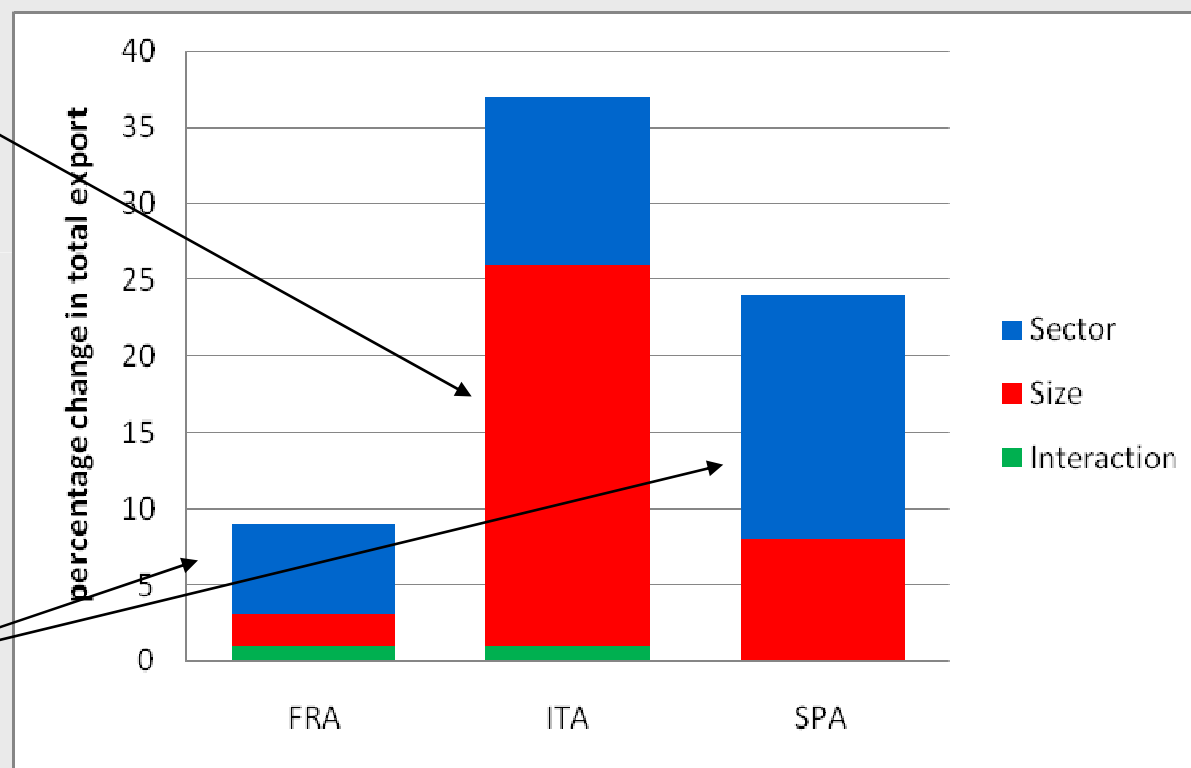
- To quantify the importance of size and sector, apply to ITA, FRA and SPA the German structure (Germany only as benchmark; no suggestion to become German!)
- Keep fixed a country's total employment in the manufacturing sector and shift workers across firms and sectors to replicate German structure
- 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





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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