

In Search of Lost Market Shares

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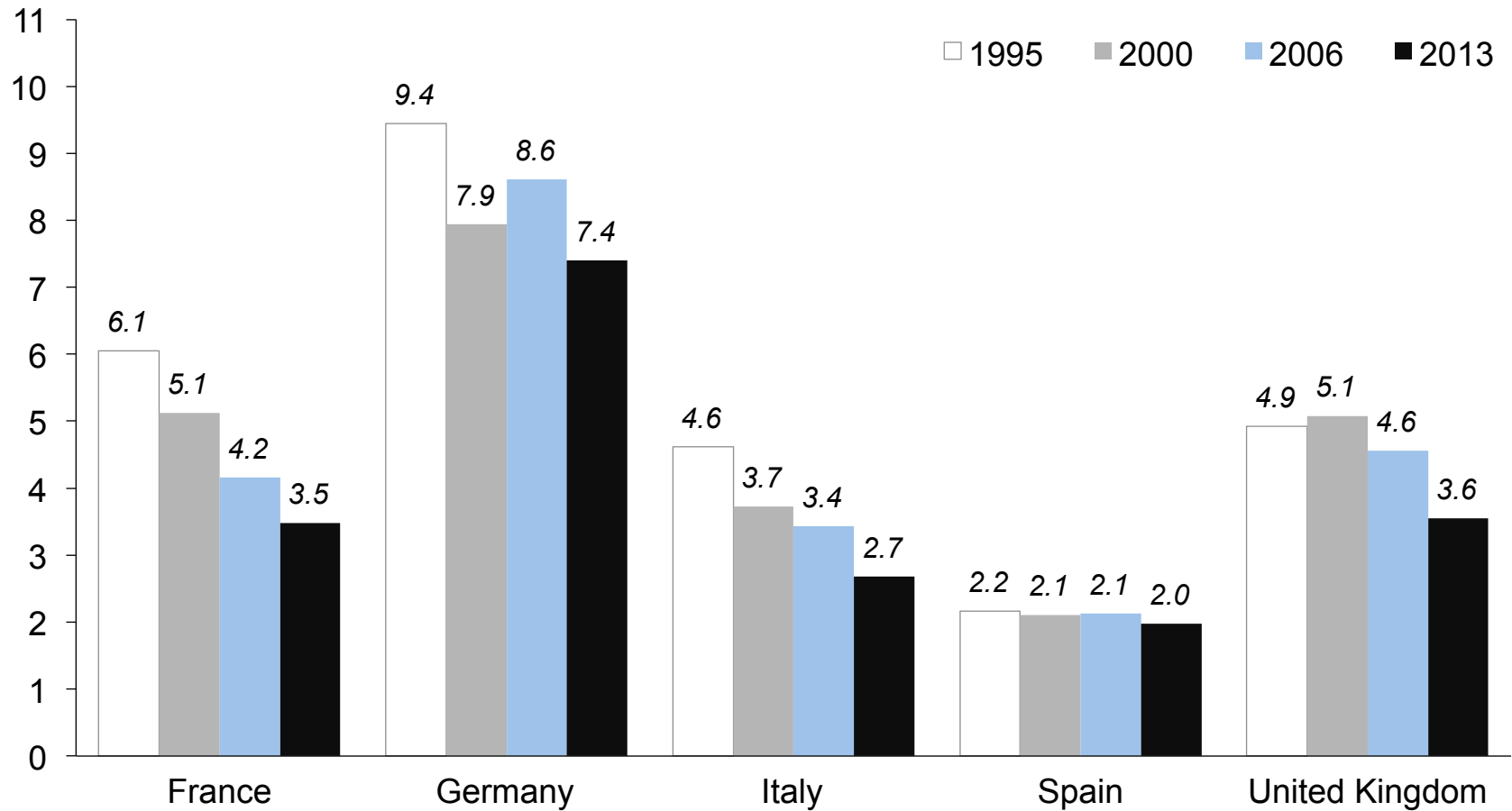
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The lost market shares

- France is losing market share...
- ... as all advanced countries (there are new players in the world economy)
- ... but faster than most EU countries
- For goods
- True for services too

Market share for goods and services for the five largest EU countries



The lost market shares

- In the report we focus on goods
- Detailed trade data: Product, partners, unit value, quantities
- Universe of exporting / importing countries
- Important distinction:
 - **composition effects**
 - **price/non-price competitiveness**

Composition effects

- Product and destination dimensions
 - Product specialisation
 - Geographic orientation of exports
- Everything equal in terms of competitiveness, favourable orientation of exports increases exporter's market share
- **Policy recommendation:** identify high-growth countries and sectors
- → *Analyse prospective des marchés à l'export, par secteur et par pays*, French Ministry for the Economy and Finance, October 2014

Composition effects

- Simple decomposition of changes in market share
- Shift share econometric method:
 - Cheptea, Fontagné & Zignago (RWE 2014)
 - Gaulier, Santoni, Taglioni & Zignago (WB wp 2013)
- **Product effect – destination effect – exporter effect (pure competitiveness)**
- Quarterly data
- Export Competitiveness DataBase
- 200+ countries, HS6, 2006q1 -> 2014q3

Composition effects

- « Pure competitiveness »
- What would the variation in exports for France be if the geographic and sectoral structure of its exports were the same as that of its competitors?
- Two periods, before/after trade collapse
 - Results: poor French export performance is linked to an inadequate “quality/price ratio”,
not to poor country or product positioning

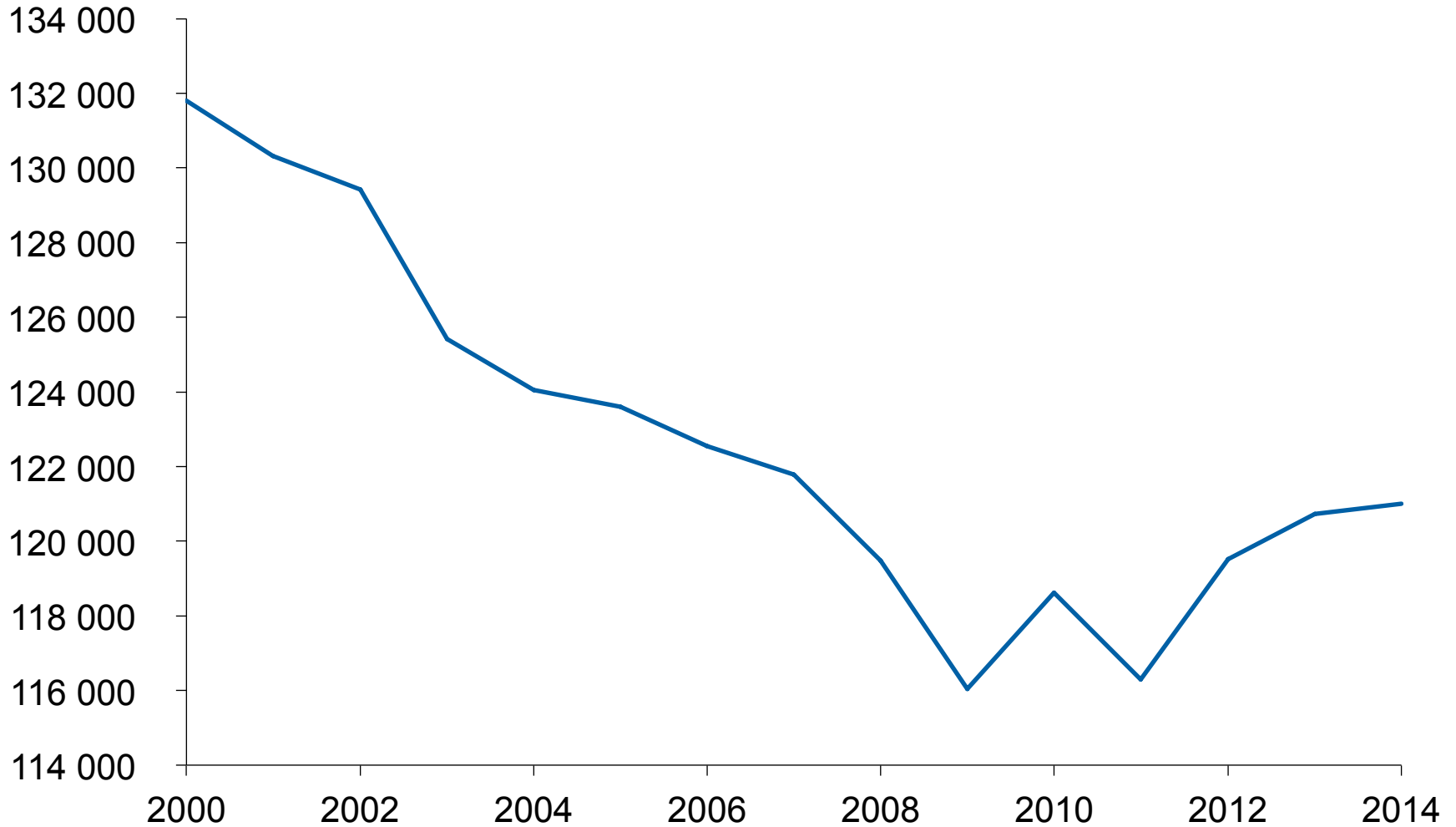
A bad quality/price ratio?

- Exception: high-end products / luxury goods
- Professional association: Comité Colbert
- Evidence (Fontagné Hatte CEPIIwp 2015; Martin Mayneris JIE2015):
 - advanced countries less disadvantaged
 - exports less sensitive to distance
 - lower price elasticity
 - higher income elasticity
 - Brands are key for those goods

Usual suspects

- Lack of exporters?
- Extensive and intensive margins of exports:
 - short run: mostly intensive (90%)
 - long run: more than 50% extensive (half new exporters, half new products/markets) over 10 years
 - *Happy Few* phenomenon not restricted to France
 - but how to interpret the drop in the number of exporters ? Cause or consequence?

Number of exporters of goods (France 2000-14)



Source: French customs

Usual suspects

- Deficient export promotion policies?
 - Justifications for public policies in this domain:
 - Externalities (eg informational): clustering
 - Fixed cost of exporting: subsidies
 - Imperfections in the credit market: finance
 - Weak evidence of their effect in the literature (mostly intensive margin, and short term effect)
 - Complexity of the system is a cost
- **Not the primary answer** to the erosion of French market shares

Back to fundamentals

- (Pure) competitiveness -> ability to cope with competition for a given good on a given market
- **Price:**
 - labour cost, energy cost, cost of capital
 - productivity, mark ups, exchange rate
 - but also indirect costs (intermediate consumptions)
- **Non-price:**
 - variety
 - quality, reputation
 - > should act as a *demand shifter*, once prices are controlled for

Back to fundamentals

- **Non-price competitiveness is not observable**
 - Bas, Martin & Mayer (wp mapcompete 2014) adaptation of the method developed by Khandelwal, Schott & Wei (AER 2013)
- Demand shifter approach (in logs):

$$\text{quantity}_{ijkt} + \sigma_k \cdot \text{price}_{ijkt} = \alpha \cdot \text{GDP}_{it} + \beta \cdot D_{ij} + e_{jkt} + \varepsilon_{ijkt}$$

-> σ from Broda & Weinstein (QJE 2006), D a vector of bilateral characteristics, time subscript omitted, price is unit value

$$\text{Non-price compet} = \varepsilon_{ijkt} / (\sigma_k - 1)$$

Measuring non-price competitiveness

- Results on products aggregated within 100+ sectors
- e.g. Aircraft leading French sector for non-price compet. (Germany: automotive parts)
- Prices should be divided by two in absence of deviation of French non-price competitiveness from the mean of the reference group (benchmark OECD)

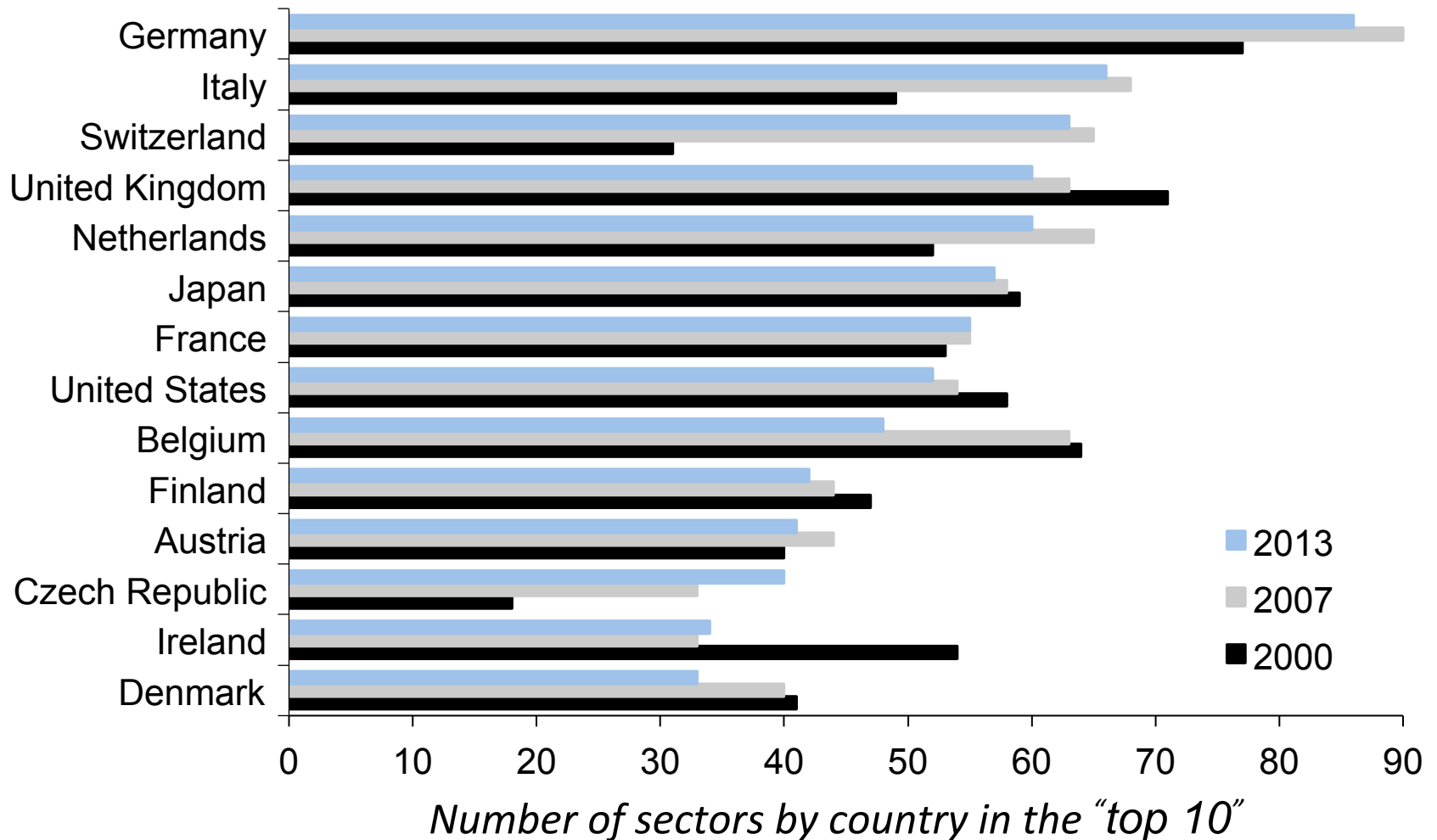
Measuring non-price competitiveness

The French top ten	Market share within the OECD as a %	Sector share of total country exports as a %	Non-price competitiveness ^a	OECD Ranking
Aeronautics	10.2	3.4	2.4	1
Leather goods	25.6	1.3	7.3	2
Wine	28.0	2.4	2.2	3
Electrical distribution equipment	6.0	1.7	4.5	3
Automotive spare parts	6.2	6.0	1.4	5
Dairy products	14.6	2.2	1.2	5
Clothing	9.3	1.1	1.2	5
Plastics	7.5	3.9	1.1	7
Other metal products	5.8	2.2	1.2	7
Plastic products	6.4	2.8	1.3	8

Measuring non-price competitiveness

The German top ten	Market share within the OECD as a %	Sector share of total country exports as a %	Non-price competitiveness ^a	OECD Ranking
Automotive spare parts	22.6	8.0	3.4	1
Non-ferrous metals	16.4	3.6	1.4	1
Plastic products	20.4	3.3	2.8	1
Automotive vehicles	16.8	3.0	1.6	1
Other metal products	21.5	3.0	2.2	1
Electrical distribution equipment	24.2	2.5	34.2	1
Machinery, other	20.7	2.3	3.7	1
Machine-tools	27.4	2.3	2.1	1
Precision instruments	21.1	2.2	21.4	1
Electronic components	17.1	1.8	25.6	1

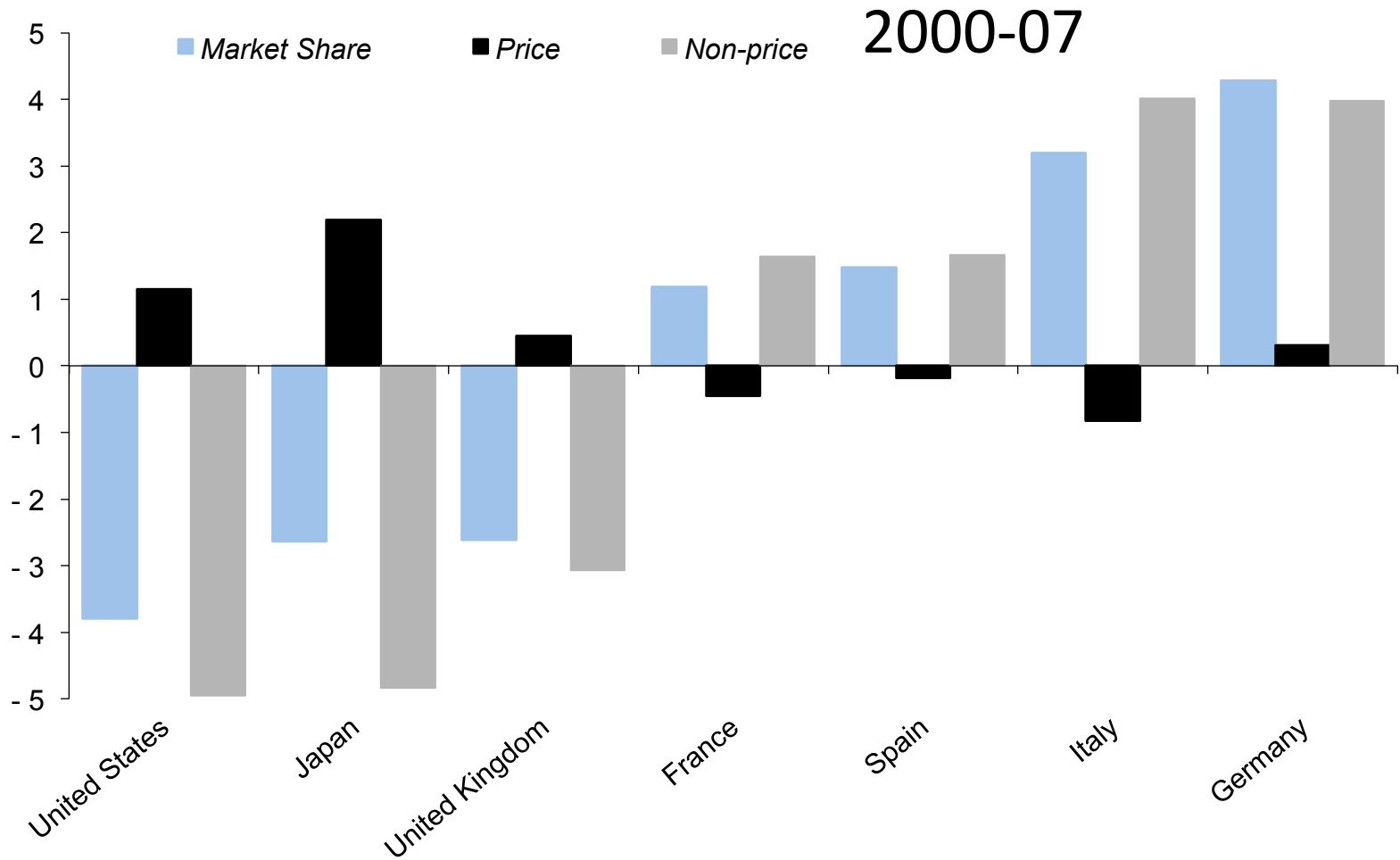
Measuring non-price competitiveness



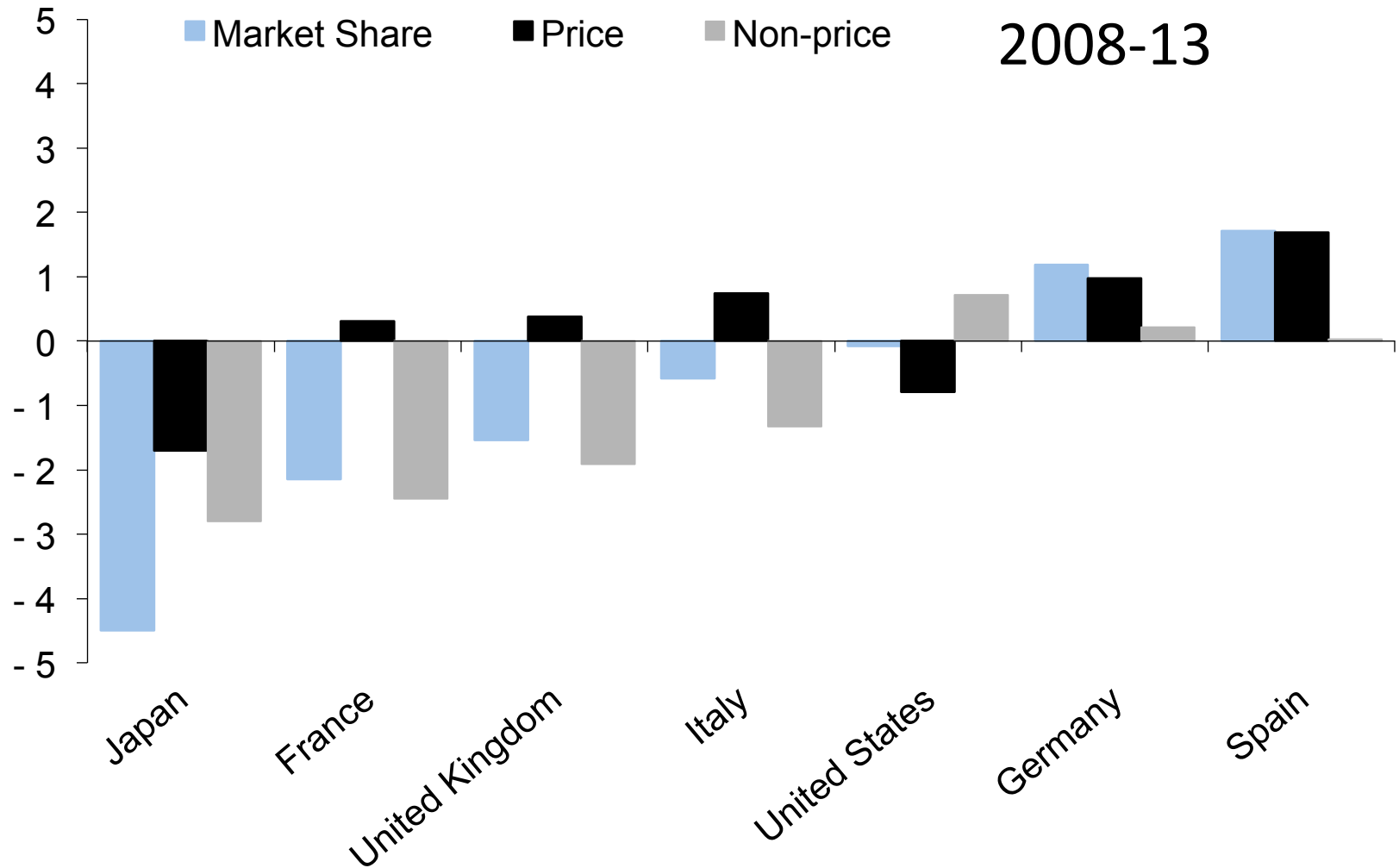
Measuring non-price competitiveness

- Contribution of non-price competitiveness?
- Compute annual changes in market shares and price and non-price competitiveness contribution, in %
- For two sub periods: 2000-07 & 2008-13
- Sheds new light on German performance
- **Points to selection effects in France**

Measuring non-price competitiveness



Measuring non-price competitiveness



Policy recommendations

- Back to fundamentals:

Stop focusing on marginal issues (agencies' reform, selection of sectors and markets, pôles de compétitivité, etc.)

1) “Delivered price” policies :

- Exchange rate elasticities: **.5/.6 at the firm-level. .8/.9 at the aggregate level. Note also that those vary across firms**
- *Labour costs* → *export prices*
- Other cost components are important too

Policy recommendations

– Labour costs:

- *CICE tax rebate equivalent = 3-6% of wage bill*

→ *The pass-through question is key*

- *The threshold (1.5/2.5/3.5 SMIC) will influence how cost changes are passed to prices.*
- We don't really know much about this pass-through.
- CICE and follow-ups will also have indirect price effects through services.

→ Evaluate wage response and if large, reduce threshold (double benefit)

Policy recommendations

2) Non-price policies?

- Policies favoring quality upgrading are “old news” (incentives to innovation, skill upgrading...)
- A particularity of French successful exporters is the importance of branding
 - Give importance to Intellectual Property protection in international negotiations.
- (Not so) recent research points to importance of the “Happy Few”. An important issue is whether institutions let the reallocation of factors operate towards those.
 - Reassess “structural” policies in terms of whether or not they are favoring such reallocation. Maybe more than simply ensuring drop in labor costs.