In Search of Lost Market Shares

Maria Bas\textsuperscript{2} - Lionel Fontagné\textsuperscript{2345} - Philippe Martin\textsuperscript{14} - Thierry Mayer\textsuperscript{136}

1 Sciences Po
2 University Paris 1 Panthéon-Sorbonne
3 CEPII
4 CAE
5 Paris School of Economics
6 Banque de France

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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

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<tbody>
<tr>
<td>France</td>
<td>6.1</td>
<td>5.1</td>
<td>4.2</td>
<td>3.5</td>
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<tr>
<td>Germany</td>
<td>9.4</td>
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<td>Italy</td>
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<td>Spain</td>
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<td>United Kingdom</td>
<td>4.9</td>
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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):

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

\[ \rightarrow \sigma \text{ from Broda & Weinstein (QJE 2006)}, \ D \text{ a vector of bilateral characteristics}, \]
\[ \text{time subscript omitted, price is unit value} \]

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

<table>
<thead>
<tr>
<th>The French top ten</th>
<th>Market share within the OECD as a %</th>
<th>Sector share of total country exports as a %</th>
<th>Non-price competitiveness</th>
<th>OECD Ranking</th>
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</thead>
<tbody>
<tr>
<td>Aeronautics</td>
<td>10.2</td>
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<tr>
<td>Leather goods</td>
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<td>7.3</td>
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<td>Wine</td>
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<td>Electrical distribution equipment</td>
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<td>Automotive spare parts</td>
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<td>Dairy products</td>
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<td>Clothing</td>
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<td>Plastics</td>
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<td>Other metal products</td>
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<tr>
<td>Plastic products</td>
<td>6.4</td>
<td>2.8</td>
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<table>
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<th>The German top ten</th>
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<tr>
<td>Automotive spare parts</td>
<td>22.6</td>
<td>8.0</td>
<td>3.4</td>
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<td>Non-ferrous metals</td>
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<tr>
<td>Plastic products</td>
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<td>Automotive vehicles</td>
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<td>Other metal products</td>
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<td>Machinery, other</td>
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<td>Machine-tools</td>
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<td>Precision instruments</td>
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<td>Electronic components</td>
<td>17.1</td>
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Measuring non-price competitiveness

Number of sectors by country in the “top 10”
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

![Graph showing market share, price, and non-price competitiveness for different countries from 2000-07.](image-url)
Measuring non-price competitiveness

Market Share  | Price  | Non-price  
---|---|---
Japan  |  |  
France  |  |  
United Kingdom  |  |  
Italy  |  |  
United States  |  |  
Germany  |  |  
Spain  |  |  

2008-13
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.