

# In Search of Lost Market Shares

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October 6 2015

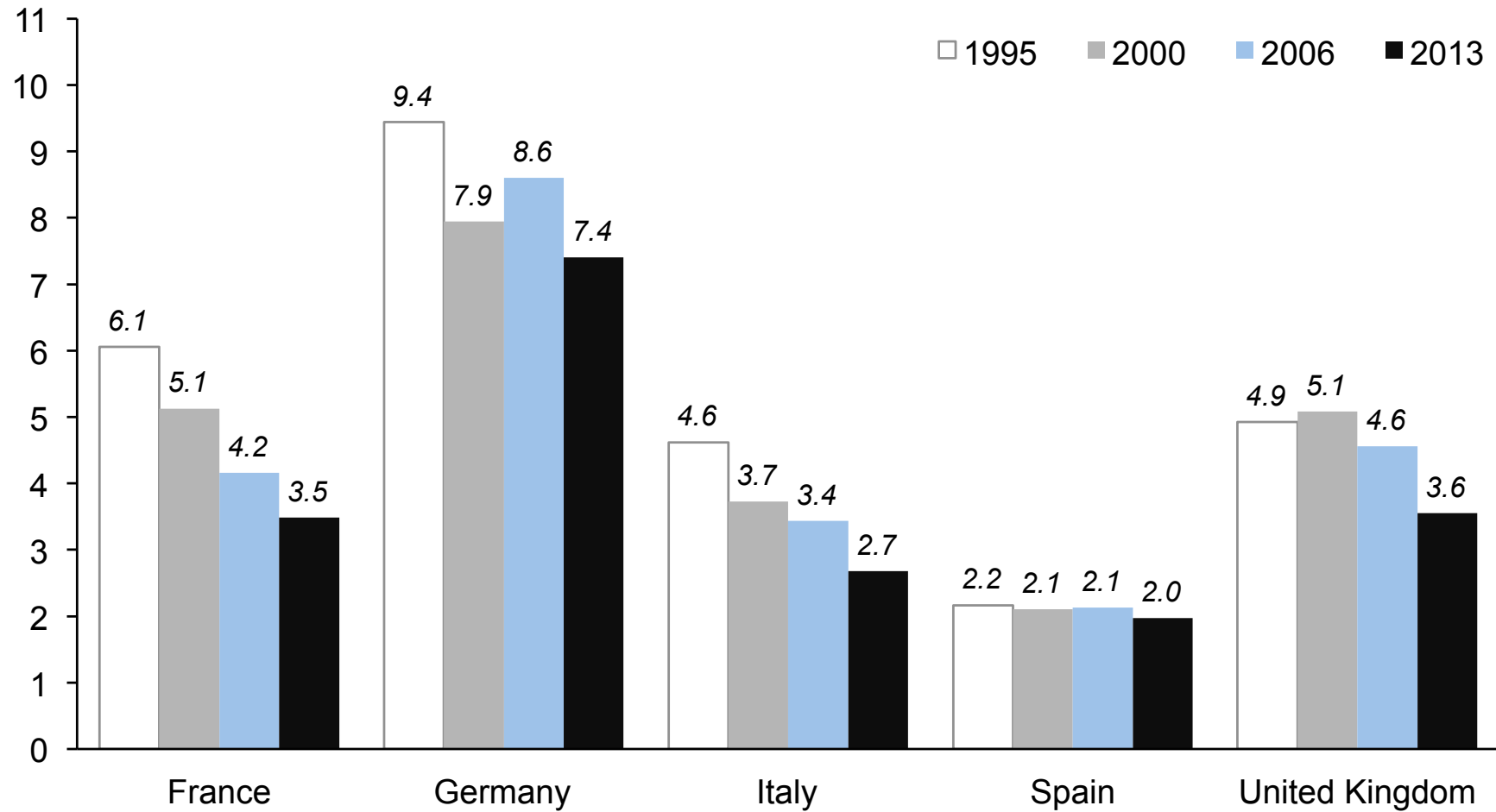
# The lost market shares

- France is losing market share...
- ... as all advanced countries
- Role of new players
- But faster than most EU countries
- For goods
- True for services too

# The lost market shares

- Between 1995 and 2013
  - France's market share dropped by 42% for goods and services
  - Similar for Italy
  - 27% for the United Kingdom
  - 21% for Germany
  - Spain surprisingly stable market share

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



# The lost market shares

- In the following: goods only
- Detailed trade data
- Product, partner, 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

- Shift share
- Simple decomposition of changes in market 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?
- Results for two periods, whole period/after trade collapse



2006-Q1 to 2014-Q3 Annual % change	exports	world market share	of which		
			Geographic Effect	Sectoral Effect	Pure performance
EU-28	4.4	- 1.9	- 0.8	- 0.1	- 1.0
Euro area at 17	4.3	- 2.0	- 0.8	- 0.1	- 1.1
France	3.0	- 3.2	- 0.8	0.7	- 3.1
Germany	4.5	- 1.7	- 0.5	- 0.2	- 1.0
Italy	4.0	- 2.2	- 0.5	- 0.6	- 1.1
Spain	4.5	- 1.7	- 1.1	- 0.1	- 0.5
United Kingdom	2.3	- 3.9	- 0.9	0.4	- 3.3
<i>World</i>	<i>6.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

Source: World Bank, Export Competitiveness Database.

2009-Q1 to 2014-Q3 Annual % change	exports	world market share	of which		
			Geographic Effect	Sectoral Effect	Pure performance
EU-28	0.3	- 2.3	- 1.8	0.5	- 1.0
Euro area at 17	0.1	- 2.5	- 1.8	0.5	- 1.3
France	- 1.0	- 3.5	- 1.5	1.5	- 3.5
Germany	0.5	- 2.0	- 1.3	0.5	- 1.2
Italy	- 0.3	- 2.8	- 1.4	0.2	- 1.6
Spain	1.1	- 1.4	- 1.9	0.7	- 0.1
United Kingdom	- 0.2	- 2.7	- 1.6	0.7	- 1.8
<i>World</i>	<i>2.5</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

Source: World Bank, Export Competitiveness Database.

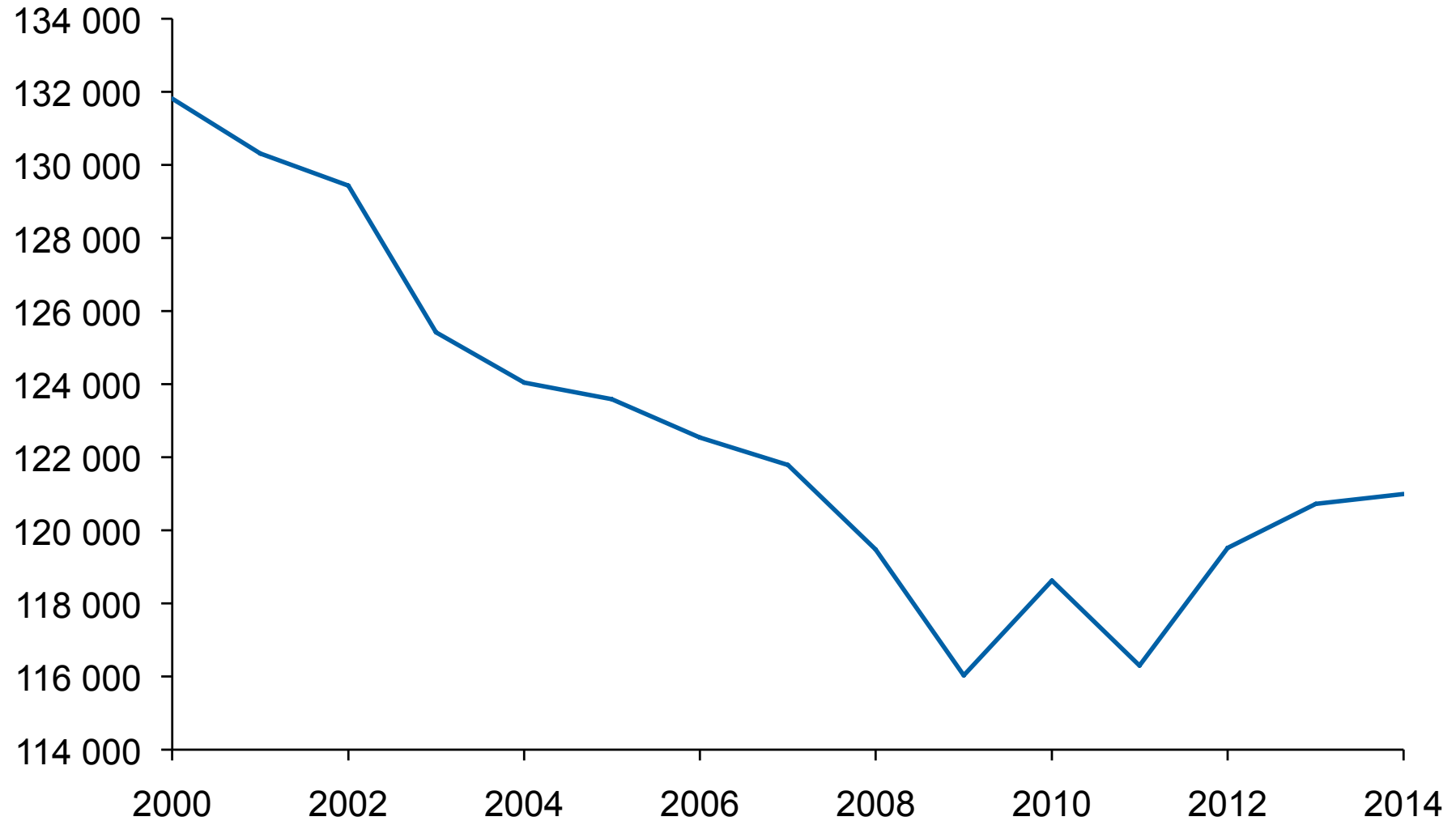
# Composition effects

- Poor French export performance is linked to an inadequate “quality/price ratio”, not to poor country or product positioning
- Exception: high-end products / luxury goods
- Professional association: Comité Colbert
- Evidence (Fontagné Hatte CEP II wp 2015; Martin Mayneris JIE 2015):
  - advanced countries less disadvantaged
  - exports less sensitive to distance
  - lower price elasticity
  - higher income elasticity
  - brands
  - first mover advantage

# Usual suspects

- Lack of exporters?
- Extensive and intensive margins of exports:
  - short run: mostly intensive (close to 90%)
  - long run: 50% extensive (25% new exporters, 25% new products/markets). 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
  - 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 and non-price component
- **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

- Firms are heterogenous
- Not all have productivity above export threshold
- Aggregate productivity
  - innovation
  - resource allocation between firms
- Non-price competitiveness is not observable
  - Bas, Martin & Mayer (wp mapcompete 2014)  
adaptation of the method developed by Khandelwal, Schott & Wei (AER 2013)



# Measuring non-price competitiveness

- Demand function, CES
- *In log terms:*

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

->  $\sigma$  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)

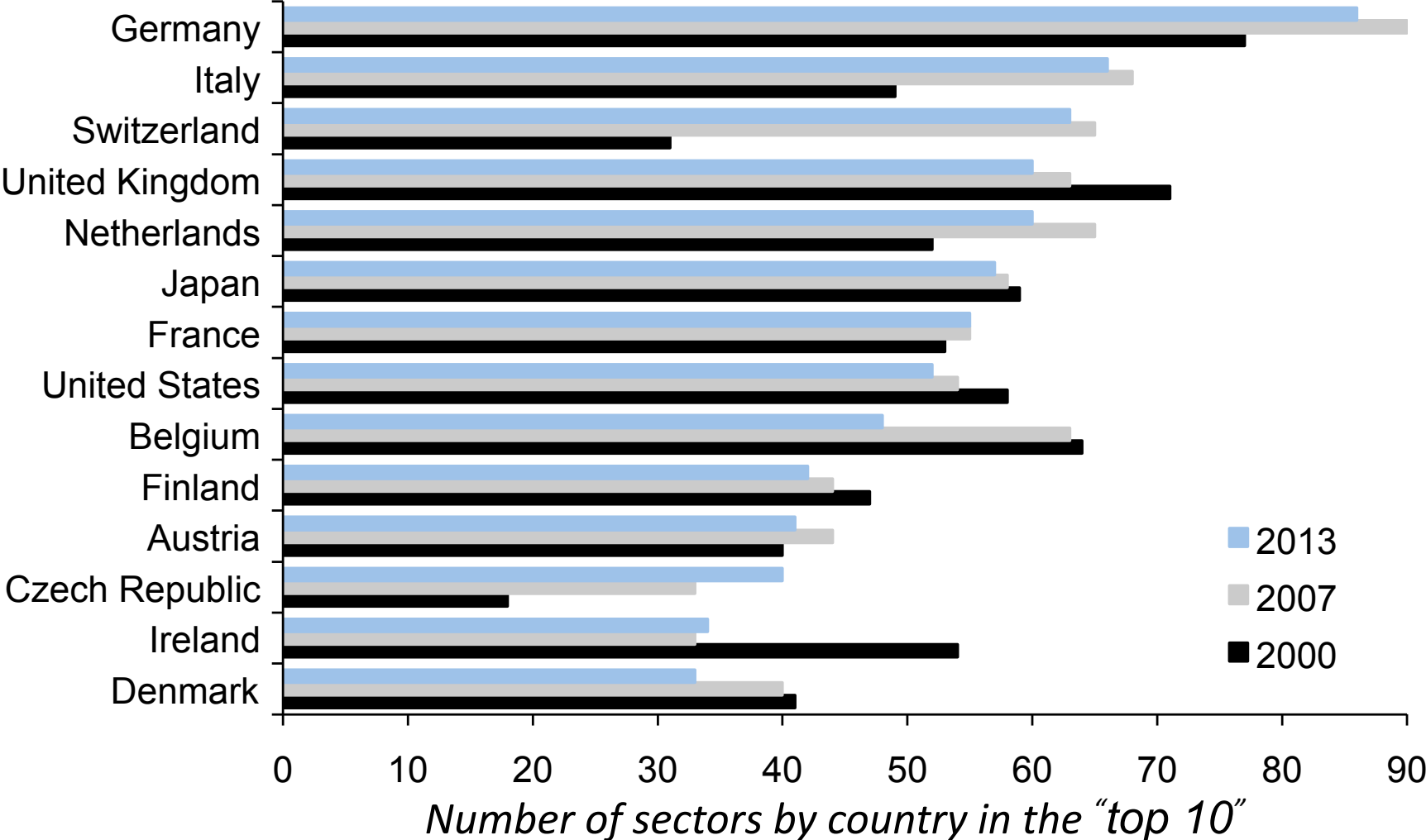
# Measuring non-price competitiveness

The French top ten	Market share within the OECD as a %	Sector share of total country exports as a %	Non-price competitiveness <sup>a</sup>	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 <sup>a</sup>	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

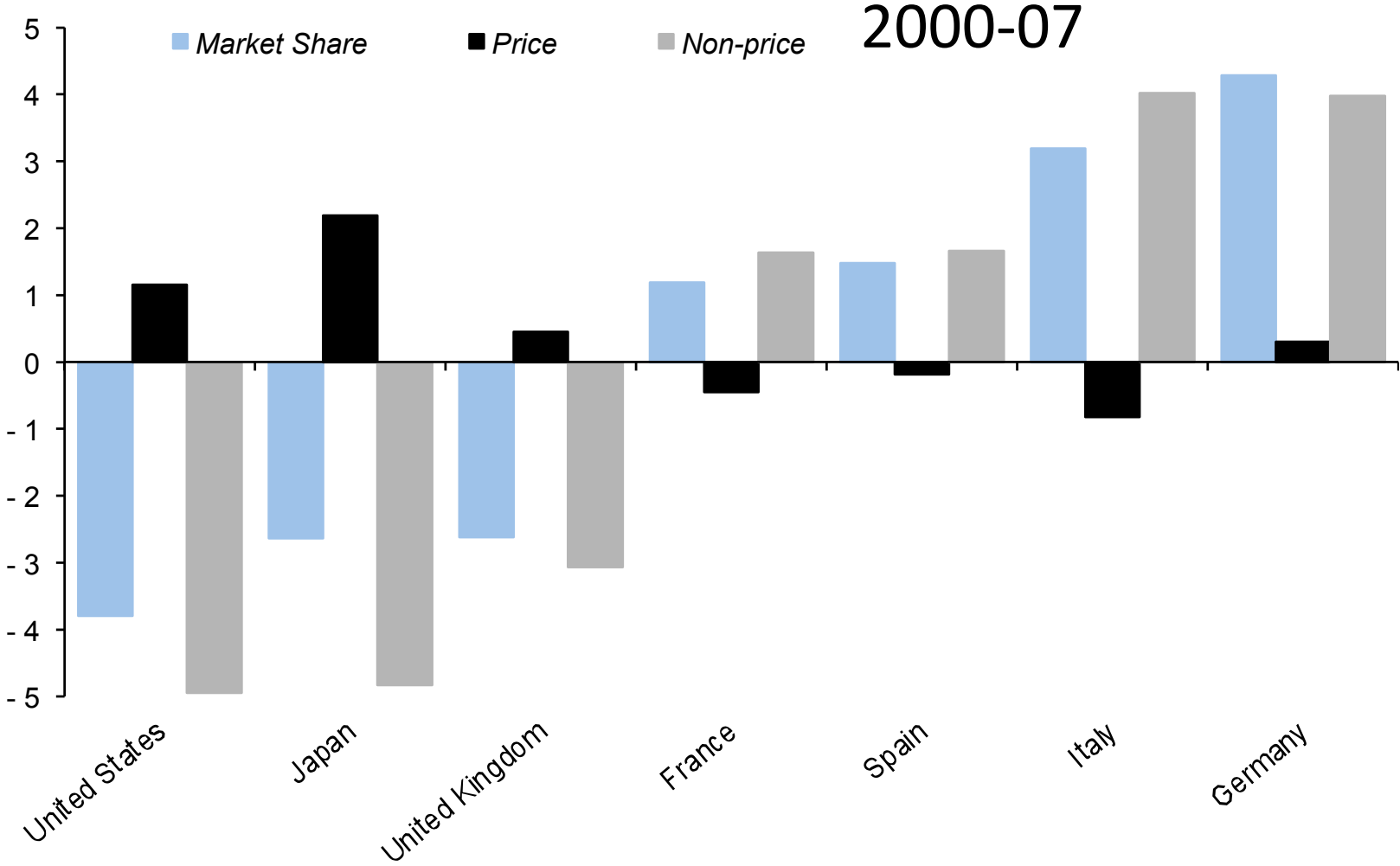
# Measuring non-price competitiveness



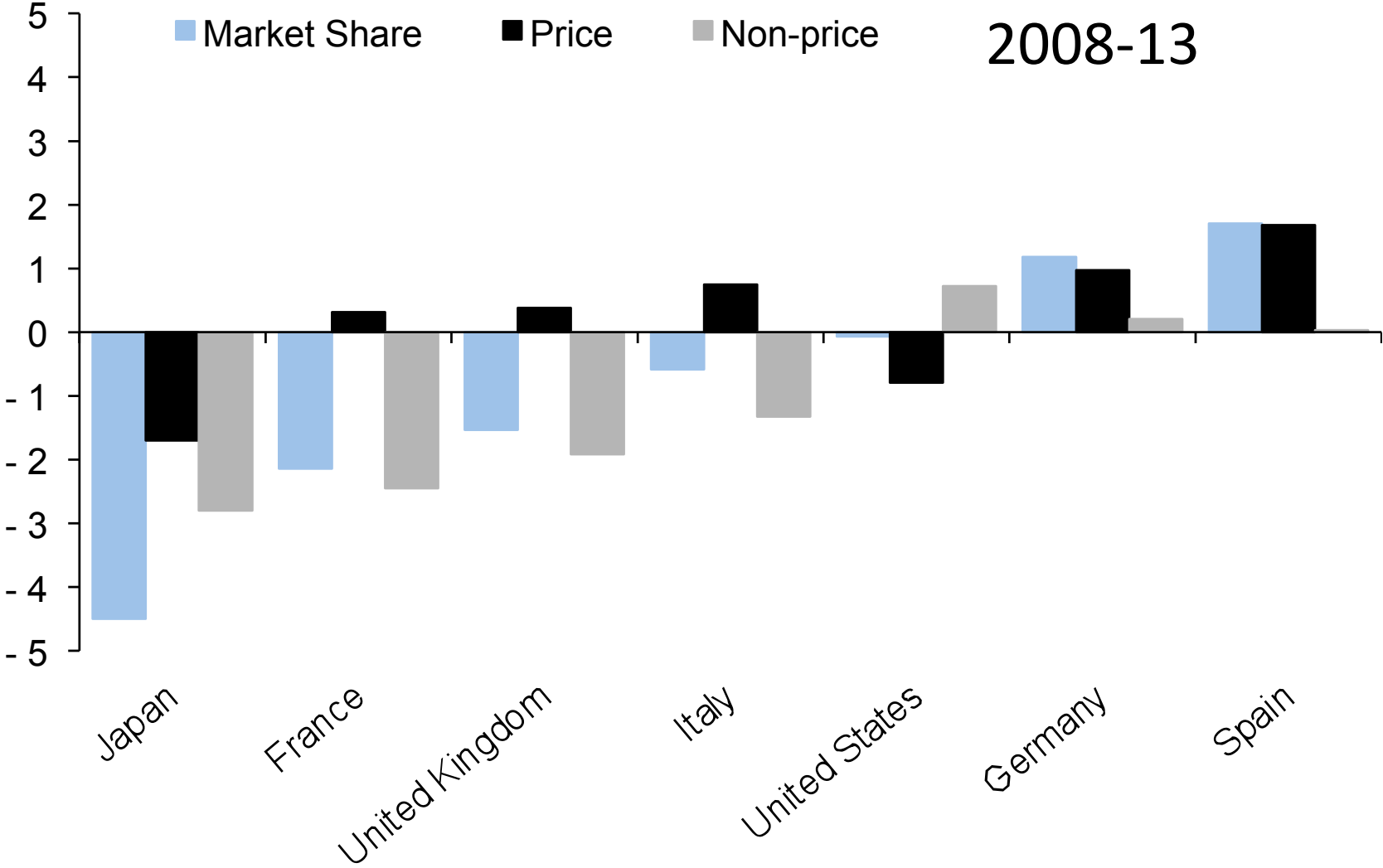
# Measuring non-price competitiveness

- 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 the fundamentals
  - Stop focusing on marginal issues (agencies' reform, selection of sectors and markets, pôles de compétitivité, etc.)
  - price:
    - Labour cost: reconsider design of *CICE* (*tax rebate = 3% of wage bill subject to threshold = 2.5 SMIC*)
    - Productivity: reallocation of resources among firms (Fontagné & Santoni, wp mapcompete 2015)
    - Indirect price effects (intermediate consumption), energy
  - non-price
    - Intellectual property
    - Investment

- Thank you