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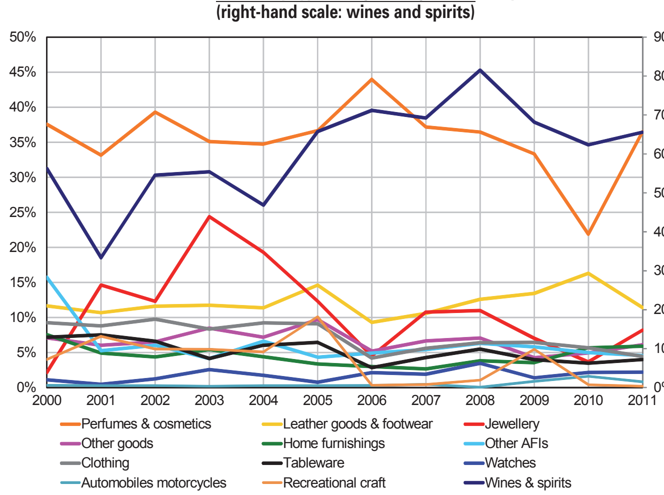
TRÉSOR-ECONOMICS

Do high-end goods represent a comparative advantage for Europe?

- To cope with competition from emerging countries, developed countries have a tendency to specialise in the manufacture of high-end goods. This activity - which includes the very highest segment of so-called "luxury" goods - is strategic for these countries' exports, particularly at a time when domestic demand is weak.
- It is difficult to accurately and objectively determine which goods should be considered high-end goods. To do so, we base our assessment on unit export values by country, for each exported good.
- Most world exports of high-end consumer goods, which were estimated to have topped €53bn in 2011, are from developed countries. European countries alone represent more than three-fourths of this amount; the top spots are occupied by Germany, Switzerland, Italy and France, whose market share has remained relatively stable over the past decade.
- Developed economies also dominate imports, which were estimated at 61% in 2011. However, the share of emerging and developing countries grew sharply, rising from 21% in 2000 to 39% in 2001. The BRICS, the Persian Gulf countries and Hong Kong have now joined the ranks of the major importing countries.
- France exported €6bn worth of high-end goods in 2011, which represents an 11.2% share of the world market. The country's exports were buoyed by the agri-food industries (including wines and spirits) as well as by perfumes and cosmetics. France is the world leader in high-end goods in these two sectors, and can boast consequential market share (52% and 36% respectively). French exports are primarily directed at developed countries (70%, including 44% to non-EU countries), but exports to the BRICS (including Hong Kong) have grown at a good pace - roughly 26% annually since 2000.
- Despite the overall trade deficits of certain developed countries, most of them can boast of trade surpluses when it comes to high-end goods. These surpluses are very often due to a single specialised sector (for example, transport equipment for Germany, or jewellery and watches for Switzerland). France is one of the rare countries whose high-end production is diversified in terms of sectors, all of which represent trade surpluses.

France's world market share by type of high-end good for the period 2000-2011 (right-hand scale: wines and spirits)



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

MINISTÈRE DU COMMERCE EXTÉRIEUR

1. Exports of high-end goods, a difficult-to-define category, are more dynamic than world trade as a whole

1.1 The sector of high-end goods is strategic for developed countries, but its scope is not rigorously defined

Developed countries pay close attention to the high-end goods sector, which is generally considered to be a mainstay of their competitiveness[1]. A recent working document by the European Commission[2] stressed that the European Union was responsible for 70% of world production of high-end goods and services, which represented 3% of the EU's GDP in 2011.

This sector includes so-called "luxury" goods. These are extremely high-end goods in sectors having to do with personal care (clothing, fashion accessories, shoes, perfumes and cosmetics, leather goods and jewellery) and interior decoration (tableware, home furnishings, lamps, etc.). In a broader sense of the term, luxury goods can also include the hospitality industry, fine dining, wines and spirits, top-end automobiles and pleasure craft, etc. They involve both traditional crafts and high-technology activities, with a strong emphasis on innovation and design, in which savoir-faire and creativity are embodied in internationally-known brands.

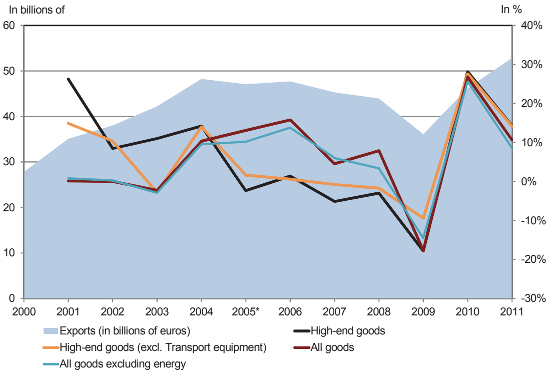
The exact parameters of the sector, however, have not been accurately defined[3]. In the present study, we use a methodology developed by Hatte and Fontagné (cf. box 1), which **offers a new approach to world trade in high-end goods while attempting to define them as objectively as possible.**

1.2 World exports of high-end goods, which reached €53 billion in 2011 (0.5% of all exports combined) are thriving, but have been serious affected by the current economic climate

High-end goods are a niche sector, **accounting for less than 0.5% of world exports on average**, a percentage that remained unchanged throughout the period 2001-2011. **Their export value nearly doubled in that timeframe, rising from €28 billion in 2002 to nearly €53 billion in 2011** – an amount similar to that for world exports of sugar (€51 billion) or machine tools (€54 billion).

For the period 2000-2011, growth in exports in this sector slightly outpaced that of total exports excluding energy (6% average annual growth for 2000-2011, against 5.7%). Nevertheless, exports of high-end goods displayed greater volatility. They experienced greater surges (average annual growth of 15% during 2000-2004, against 2% for all goods excluding energy; 21% for 2009-2011, against 18%) as well as deeper plunges (–11% for the period 2007-2009 against –5.8% for all goods excluding energy). This instability can be partly ascribed to fluctuations in exports of transport equipment (cf. Chart 1), which is more sensitive to economic swings. If we exclude transport equipment, the falloff in high-end exports during 2007-2009 is comparable to that for all goods (–5.6%).

Chart 1: Value of world exports of high-end goods and annual growth in world exports for 2000-2011 (by type of good)



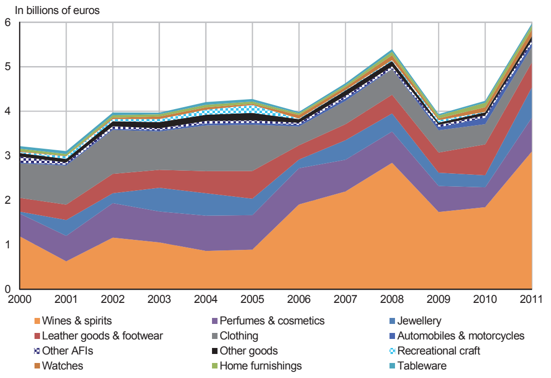
Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

1.3 French high-end exports are driven by wines and spirits

For 2000-2011, French exports of high-end goods experienced average annual growth of 9.8%, compared with 6.2% for all other French exports excluding energy. The share of these goods in total French exports fluctuated between 1% and 1.5%.

French exports of high-end goods is dominated by agri-food industry goods, notably wines and spirits, which represented more than half of all high-end French exports in 2011 (cf. Chart 2). France is the world's top exporter of high-end agri-food goods, with a global market share of 52% in 2011. This represents a sharp increase over 2000 (+8 points and an additional €2bn in exports).

Chart 2: Breakdown of the primary sectors in French exports of high-end goods for the period 2000-2011



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

(1) European Central Bank, "Competitiveness and External Imbalances Within the Euro Area", *Occasional Paper Series* no. 139, December 2012.

(2) European Commission, "Competitiveness of the European High-end Industries", June 2012. This working document provides the results of a study carried out by Frontier Economics ("The value of the cultural and creative industries to the European economy").

(3) In France, for the purposes of defining the luxury sector, the Directorate General for Competitiveness, Industry and Services (DGCIS) use the perimeter defined by the Colbert Commission (www.industrie.gouv.fr/portail/secteurs/luxe/enjeux.php). The Colbert Commission is an association founded in 1954 that promotes the French luxury industry both in France and abroad. Website: www.comitecolbert.com.

Box 1: **Defining trade in high-end goods**

Standard foreign trade statistics do not distinguish ranges of goods, since customs classification codes are based on the nature of goods, rather than their quality. Without direct access to data on the price of each exported good, academic research[a] has traditionally relied on the unit exports value (value of the export compared to the quantity exported, in tons) to determine the range to which each good belongs. In this way, "high-end" goods, which generally speaking involve more innovation (technology, marketing, processes, etc.) and whose production costs are higher (use of skilled labour and scarce raw materials) are traded at higher unit values than the same goods in a lower range. The unit export price was calculated using the BACI[b] database maintained by CEPII (Centre d'Études Prospectives et d'Informations Internationales, a Paris-based economics institute). This methodology was developed by Hatte et Fontagné as part of the study carried out for the Colbert Commission[c].

1. Identification of goods included in the scope of the study

The selection was limited to finished consumer goods, excluding hi-fi equipment and household appliances. Thus, textiles were not included in the study. We used several criteria to narrow down the initial selection. The final group of goods thus included:

- Goods marketed by companies that are members of the Colbert Commission, a list used by Sophie Hatte and Lionel Fontagné in their study;
- Goods whose price per ton is, on average, quite high and very variable, according to the BACI database for the year 2010. This choice is based on the assumption that a highly variable unit value can be ascribed to the existence of several ranges for a given good;
- Other goods that can be considered as containing high-end goods, without any specific quantitative criteria (e.g. cigars).

The use of the three above-mentioned criteria resulted in the selection of 523 goods as defined by the WCO's HS6 nomenclature (1996 version)[d]. These goods were grouped into eight sectors: agri-food industries (AFIs), perfume and cosmetics, clothing and leather goods, jewellery and watches, tableware, Home furnishings, transport equipment (automobiles, motorcycles and pleasure craft) and other goods (including musical instruments, books, etc.).

2. Definition of a high-end segment

HS6-level goods include several price and/or quality ranges. These ranges can be identified by differences in the unit export values - for the same good, a higher unit value may be the result of higher quality or increased marketing intensity, characteristics that apply to high-end goods.

For the purposes of identifying high-end segments for each good, only the top 10% of unit values for all exports of that good in a given year were included. All flows whose unit value fell within this 10% range were considered to be in the high-end segment. This methodology, which was used by Hatte et Fontagné, was applied to the BACI databases for the years 2000 to 2011, for each of the 523 goods selected[e].

3. Handling of missing or outlying observations

An analysis of the data from the BACI database revealed several outlying values, which may be due to entry errors that the CEPII's statistical data processing was unable to correct fully. Outlying values were eliminated by applying one of two methods for identifying extreme values: elimination of 5% of observations with the highest/lowest unit value, by year and by good, or limitation of observations whose unit value falls outside the maximum/minimum value as determined by the Tukey method[f], by year and by good, if this method eliminates fewer observations.

Moreover, prior to 2005, a significant number of observations concerning exported quantities are missing[g], make it impossible to calculate unit values. The share of missing values varies greatly depending on the good, but could have significant impact on the value of exported high-end goods. For the purposes of homogenising data for the period 2000-2011, CEPII's Trade Unit Value database[h] was used to fill in the missing unit values. The few remaining missing values (primarily for the year 2011, for which the Trade Unit Value database was unavailable at the time of the study) were placed, by good, by the median unit value of exports for each country for the period 2000-2010 (for example, the quantity of sunglasses exported from France to the US for 2003 is missing; the unit value of this export was thus estimated to be the median unit value of exports of sunglasses by France for the period 2000-2010).

The top 10% of traded finished goods (corrected for outlying and missing values) thus makes up the market of high-end goods considered in the study.

a. Greenaway, D., Hine, R., Milner, C. (1993), "Vertical and Horizontal Intra-Industry Trade: A Cross Industry Analysis for the United Kingdom", *The Economic Journal*, Vol. 105, No. 433, pp. 1505-1518.
Aiginger, K. (2000), "Europe's position in quality competition", *Enterprise DG Working Paper*, European Commission.
Fontagné L., Freudenberg, M., Gaulier, G. (2006), "A Systematic Decomposition of World Trade into Horizontal and Vertical IIT", *Review of World Economies.*

b. The BACI database was developed by the CEPII using COMTRADE data from the United Nations Conference on Trade and Development (UNCTAD). It includes export and import declarations for more than 200 countries for each HS6 category good (see footnote below). The database provides bilateral trade data (amounts in dollars and quantities in tons) by good. In addition, it attempts to match importer and exporter declarations for each good, using a statistical method.

c. L. Fontagné, S. Hatte, "European top-end products in international competition". Article in preparation. The authors would like to thank Lionel Fontagné and Sophie Hatte for their valuable assistance.

d. The Harmonised Commodity Description and Coding System (HS) is an internationally standardised system of names and numbers for classifying traded goods. It was developed by the World Customs Organization (WCO). To provide as much accuracy as possible a six-digit numbering system is used.

e. All observations in which Singapore and Hong Kong are listed as exporters have been removed, as both serve as re-export platforms for the Asian market.

f. This method defines outlying observations as those greater than the third quartile +1.5 × the interquartile, and less than the first quartile - 1.5 × the interquartile. This is the method used for representing box and whisker plots.

g. Starting in 2005, the UNCTAD introduced a procedure for filling in missing values.

h. This database supplies an average unit trade value for each good at the HS6 level, by year and for each bilateral relation.

Perfumes and cosmetics are the second-largest export sector of French high-end goods. With a market share of some 36% over the past decade, France is the world's number one exporter, ahead of Germany and Japan. Sales of cosmetics, which represent three-fourths of sales in this sector, are nevertheless not as dynamic (+6.3% on average per year since 2000) as those of perfumes (+21.5%).

Clothing and leather goods are the third-largest group. With a market share of close to 11% since 2000, France is the world's second-largest exporter of leather goods, lagging far behind Italy (49% market share).

Finally, jewellery is one of France's strong points. The country has enjoyed an average annual market share of 11% between 2000 and 2011, in a sector that is largely dominated by Switzerland (27% market share in 2011).

2. High-end consumer goods represent an important source of export growth for developed countries

2.1 Only a small number of developed countries export high-end goods

Exports of high-end goods are the work of only a few stakeholders. Between 2000 and 2011, the top five exporters of high-end goods were responsible for nearly 70% of total exports. The top ten exported more than 82%, and the top twenty more than 90%. By comparison, the world's top five exporters (all goods combined) were responsible for only 30% of total world exports.

As we can see in Table 1, the leading exporting countries are developed economies, with the exception of China and India. **The top five are European countries**, proof of Europe's high level of specialisation in these goods.

Exports of high-end goods account for 2.5% of the EU's total exports[4], and 5.3% of Switzerland's exports, compared with only 0.3% for the US, 0.2% for Japan and less than 0.1% for China. For developed countries, these figures are a low-end estimate of foreign consumption of their high-end goods, because a non-negligible share takes the form of purchases by foreign tourists[5].

Table 1: From key countries in world exports of high-end products for the period 2000 and 2011

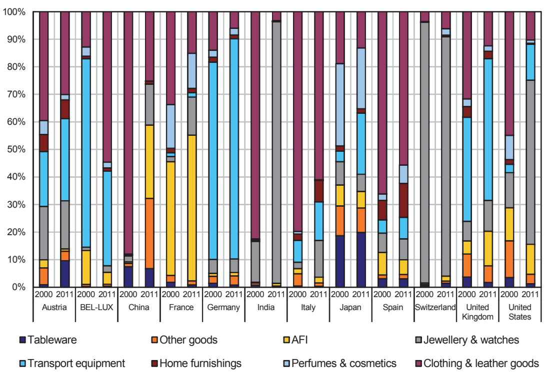
Exporter	Rank 2000-2011	% of world exports 2000-2011	Rank 2011	Total 2011 exports (in billions of euros)	% of world exports 2011
Germany	1	26.2%	1	10.3	19.4%
Italy	2	16.3%	3	8.7	16.4%
Switzerland	3	11.3%	2	8.9	16.9%
France	4	10.0%	4	6.0	11.3%
United Kingdom	5	4.7%	6	2.1	4.1%
United States	6	3.6%	5	2.7	5.1%
China	7	2.9%	13	0.6	1.2%
Belgium-Luxembourg	8	2.9%	7	1.7	3.1%
Japan	9	2.3%	9	1.1	2.1%
Spain	10	2.1%	12	0.6	1.2%
Austria	11	2.1%	10	0.9	1.7%
India	13	0.9%	8	1.4	2.6%

Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

Most major exporters of high-end goods specialise in a specific area. Germany specialises in transport equipment (which represented nearly 80% of the country's high-end exports in 2011), in connection with its revealed competitive advantage (RCA)[6]. Italy focuses on clothing and leather goods (nearly 60% of its high-end exports in 2011) and Switzerland specialises in jewellery and watches (87%). Conversely, France and the UK are more diversified, but still retain a dominant sector (agri-food industry for France, and transport equipment for the UK - cf. Chart 3).

This specialisation by developed countries (and more specifically European countries) correlates with economic theory. According to the comparative advantage theory, countries specialise in the manufacture of goods for which they enjoy the highest relative productivity, itself dependent on their endowment in factors of production (cf. box 2). Recent empirical research[7] posits that this specialisation by countries has more to do with range levels (vertical specialisation) than with goods (horizontal specialisation).

Chart 3: Breakdown of sub-sectors in exports of high-end goods between 2000 and 2011 for the leading export countries



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

(4) These figures for the EU are noticeably lower than those issued by the European Commission (for whom top-end goods represent 10% of total EU exports) as the scope in question is narrower.

(5) In its June 2012 study entitled "Luxe Redux: Raising the Bar for the Selling of Luxuries", the Boston Consulting Group (BCG) estimates that half of spending on luxury goods by Brazilians and Chinese takes place abroad.

(6) See Fortes, M., (2012) "Export specialization of France and four other leading countries of the European Union between 1990 and 2009" *Trésor-Eco no. 98*, February.

(7) E.g. Schott, P. K., (2004), "Across-Product Versus Within-Product Specialization in International Trade", *The Quarterly Journal of Economics*, 119(2), p.646-677.

Box 2: **Comparative advantage theory and vertical specialisation**

According to the classic theory of international trade, which was first formulated by Ricardo in the early 19th century and greatly expanded thereafter, countries specialise in the manufacture of goods for which enjoy the highest relative productivity. Following on from these efforts, neoclassical theory posits that countries specialise in the manufacture of goods for which they have factors of production (capital, skilled labour, unskilled labour, etc.) in sufficient quantity (the Heckscher-Ohlin-Samuelson model). Thus, countries that are better equipped in terms of labour will be best served by specialising in the manufacture of labour-intensive goods, whereas those who enjoy more capital will be best served by specialising in capital-intensive goods.

According to this theory, developed countries should specialise in the manufacture of capital-intensive goods, inasmuch as they enjoy higher amounts of capital than emerging countries, whereas emerging countries should specialise in the production of labour-intensive goods. However, one of the basic tenets of neoclassical theory is the immobility of capital between countries. Starting in the late 1990s, the tendency to shift activity to low-wage countries, combined with a sharp rise in direct investments in these countries, increased the capital intensity of labour-intensive countries, which, at the same time, are better endowed in terms of labour than developed countries. According to neoclassical theory, emerging countries should, given their endowments of factors of production, be the focus of a large share of world production of manufactured goods.

And yet, we observe that the production of manufactured goods in developed countries has continually risen since 2000, with the exception of 2009), which runs counter to neoclassical theory. Schott (2004) demonstrated that the US imported the same goods from developed countries and emerging countries but at different unit values (higher for developed countries), thus revealing developed countries' specialisation in "higher ranges" of traded goods (the range being estimated by the unit value). A more recent study byFontagné, Gaulier and Zignago (2008)[a] using data from OECD countries supported this analysis. Despite the strong similarity between goods traded by developed and emerging countries (around 50% in 2004), the similarity in terms of ranges was much lower (an average of 20% in 2004). These results, which are in line with neoclassical theory, suggests vertical differentiation of production (within a sector) rather than horizontal differentiation (between sectors).

Differentiation of goods was initially modelled by Chamberlin (1933) in his monopolistic competition theory, according to which each firm has some monopoly power. Businesses are driven to differentiate in order to achieve market power that allows them to generate additional profits. This differentiation takes three main forms:

- Spatial differentiation - goods and services are differentiated only in terms of their geographic location (identical price and quality) and firms differentiate themselves through transportation costs to consumers
- Variety differentiation (or horizontal differentiation) - goods with a similar or identical use but with a different appearance are offered within the same market
- Qualitative differentiation (or vertical differentiation) - two variants of the same good are differentiated vertically when, if they are sold at the same price, all consumers prefer to purchase the first rather than the second. This is the range effect.

a. Fontagné, L., Gaulier, G. & Zignago, S., (2008), "Specialization Across Varieties and North-South Competition", *Economic Policy 23*, p. 51-91.

Competition from low-cost countries drives developed countries to enhance the quality of their output (an increase in range)[8] and improve their trade performance while fending off competition from emerging countries.

2.2 The geographic structure of world trade in high-end goods remains unchanged, as emerging countries are not yet in competition with developed countries

World trade in high-end goods has not witnessed the emergence are disappearance of any major players over the past decade, as the share of the primary exporters has remained relatively stable (cf. Chart 4). Germany's market share, after levelling off around 30% between 2002 and 2008, dropped to 20% in 2011, in line with global trade trends in transport equipment. Conversely, Switzerland's market share rose sharply starting in 2008, reaching 70% in 2011, in line with its specialisation in jewellery.

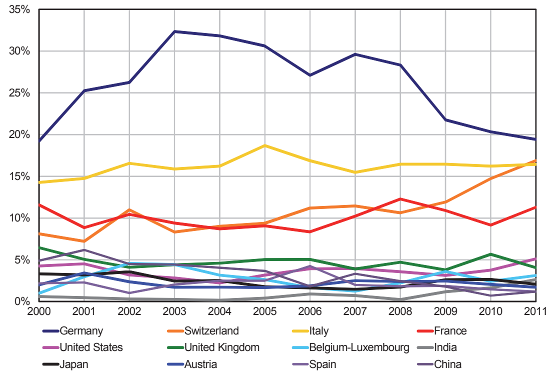
The presence of China and India among the top exporters, along with the contrasting trends in their exports of high-end goods (China's share fell continuously between 2000 and 2011, whereas India's exports have been on the rise since 2008) can be partly attributed to shifts in these countries' industrial specialisations. **The sharp drop experienced by China (fifth place in 2011, thirteenth place in 2011) is primarily caused by its steady loss of market share in high-end textiles.** This shift could signal China's inability to move upmarket, due to a lack of high-end facilities for producing high-tech goods[9], as well as to the absence of major luxury firms that are either Chinese or that manufacture in China[10]. International luxury goods firms are not present in China, primarily due to issues of counterfeiting, and the few Chinese luxury goods firms do not yet have a sufficiently developed brand image to be part of China's exports. The same is true for India, whose share in textile exports fell dramatically in recent years in favour of exports of jewellery, which now lead India's high-end exports, in connection with the country's specialisation in transforming precious stones (primarily diamonds).

(8) Schott, Peter K.b, (2008), "The Relative Sophistication of Chinese Exports", *Economic Policy*, CEPR, CES, MSH, vol. 23, issue 53, pp. 5-49, 01.

(9) Artus, P. and Xu B., (2012), "Changement du modèle de croissance de la Chine : nécessité, difficultés", *Flash Economie*, no. 481, (http://cib.natixis.com/flushdoc.aspx?id=64965).

(10) Study by KPMG, "Luxury Brands in China", 2007.

Chart 4: Principal exporters of high-end goods between 2000 and 2011



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

This apparent inability of emerging countries to move upmarket, compared to developed countries, was also a result observed by Schott (2008). Schott emphasised that the ratio of unit export values of OECD countries to those of emerging countries increased over the last five to ten years, and posited that the "quality" of exports by OECD countries grew faster than those by emerging countries.

2.3 Consumption of high-end goods remains focused on developed countries, but the share of emerging countries is increasing

In addition to being leading exporters of high-end goods, **developed countries are also the primary consumers of these goods - more than 60% of world imports in 2011**. Nevertheless, emerging and developing countries are increasingly turning into consumers as well, with 39% of world imports of high-end goods in 2011, against 21% in 2000. Hong Kong, which acts as a platform for Southeast Asia, was the world's number one importer in 2011. China was in sixth place, Russia in seventh and the United Arab Emirates in ninth place (cf. Table 2). This may be attributed to the emergence of affluent classes in most of these countries, but also to the fact that developed countries consume locally-manufactured high-end goods, and thus have less need to import them. Two major markets - India and Brazil - are missing; this is in all likelihood due to the high import duties that these countries impose on luxury goods.

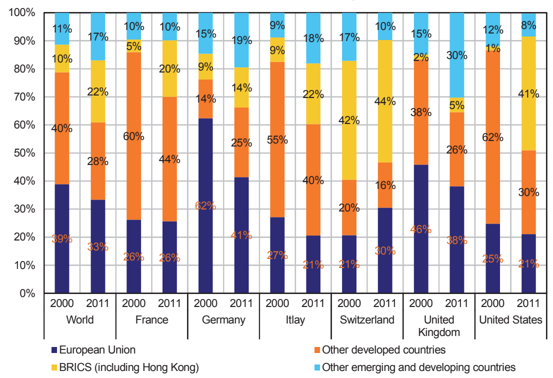
Table 2: Primary exporters of high-end goods between 2000-2011

Importer	Rank 2011	Value imported (in billions of euros) 2011	Share of imports 2011	Rank 2000-2011	Share of imports 2000-2011
Hong-Kong	1	4.9	9.4%	5	15.4%
Switzerland	2	4.6	9.6%	2	7.9%
Germany	3	3.0	5.7%	7	5.1%
United Kingdom	4	3.0	5.7%	1	8.5%
Japan	5	2.9	5.4%	3	7.4%
China	6	2.8	5.2%	12	2.5%
Russia	7	2.7	5.1%	6	5.3%
United States	8	2.3	4.4%	4	7.3%
United Arab Emirates	9	2.2	4.2%	13	2.4%
Austria Japan	10	1.5	2.9%	15	2.3%
France	12	1.3	2.5%	8	4.9%
Spain	14	1.3	2.4%	10	4.1%
Italy	17	1.1	2.0%	9	4.8%

Sources: CEPII (base BACI), DG Trésor and DGDDI calculations.

The leading exporters of high-end goods, with the exception of Switzerland, witnessed a sharp rise in their exports to emerging and developing countries (of which the BRICS[11], including Hong Kong) between 2000 and 2011. Nevertheless, the EU remains the primary market for Germany and UK, whereas France[12] and Italy enjoyed significant markets in the other developed countries (cf. Chart 5).

Chart 5: Breakdown by destination of high-end exports by the leading exporters in 2000 and in 2011



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

(11) Brazil, Russia, India, China and South Africa.
(12) For more detailed information about the structure of French exports, see *Études et éclairages n°38* (March 2013) by the Directorate General of Customs and Excise.

3. Trade in high-end goods is a mainstay for European economies

3.1 A recent study underscored the importance of the luxury goods sector for the European economies

A 2012 study by Frontier Economies (taken up by the European Commission) assesses the impact of the luxury-goods industry on the European economy[13]: **the EU represents 70% of the world market for high-end goods and services. In 2011, the sector accounted for 3% of the EU's GDP in 2011. It directly employs nearly one million people** (and another 500,000 indirectly) and generates €400bn in turnover. 60% of the sector's turnover comes from exports. Moreover, exports of luxury goods convey a positive image of "brand Europe", which provides a boost for exports in other sectors.

Finally, the estimated impact of the sector on public finances is extremely positive: the authors estimate that its budgetary contribution for 2010 was roughly €110bn (in VAT, corporation tax and income tax).

The study also showed that growth in this sector topped 10% in the EU in 2010 and 2011, and should remain above 7% in 2012 and beyond, which contrasts sharply with lackluster growth in trade overall (Source: Altagamma Monitor Update).

3.2 High-end goods help limit the erosion of market share and make a positive contribution to European countries' trade balance.

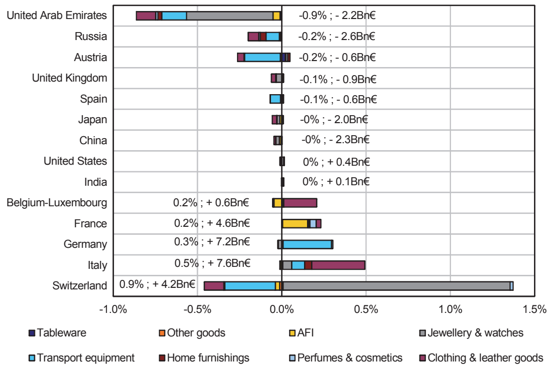
France's trade balance has fallen off sharply in recent years, and high-end goods can make a positive contribution to the goal of lowering the country's current account deficit. France is well-positioned in this sector and faces no competition from emerging countries. According to industry reports by KPMG and the BCG, **competition from emerging countries is expected to ramp up over the next ten years, primarily from the BRICS**.

Whereas European countries, specifically France, experienced noticeable reductions in their market shares over the past decade, Martin and Méjean (2010)[14] estimate that **France's specialisation in high-end goods had a positive impact on French exports by mitigating the falloff in its market shares abroad.** France's market share in the luxury goods sector remained above 10% throughout the period (11.3% in 2011), whereas its market shares for all goods combined gradually declined from 4.8% in 2000 to 3.4% in 2011 (Source: UN-COMTRADE). The same is true for Italy, as well as for most other European countries, whose market share in luxury goods remain stable. Germany experienced a sharp increase in its market share in this sector up until 2008, rising from 19% to 29% before shrinking back down due to the drastic falloff in automobile exports in the wake of the crisis.

Over and beyond this market share stabilisation, **the leading European exporters of high-end goods also experienced significant trade surpluses** between 2000 and 2011 in this category, with the exception of the UK and Japan.

If we examine the contribution of each sector to the trade balance of the primary countries (cf. Chart 6), we can see that - if we exclude the contribution of each country's specialty sector - Germany, Switzerland and Belgium reported trade deficits for high-end goods in 2011. France **is the only country with a trade surplus for all types of goods**, and Italy registered only two negligible deficits (for AFIs and high-end perfumes and cosmetics).

Chart 6: Contribution of high-end goods to the trade balance of the primary countries in 2011 (in % of GDP and in billions of euros)[15]



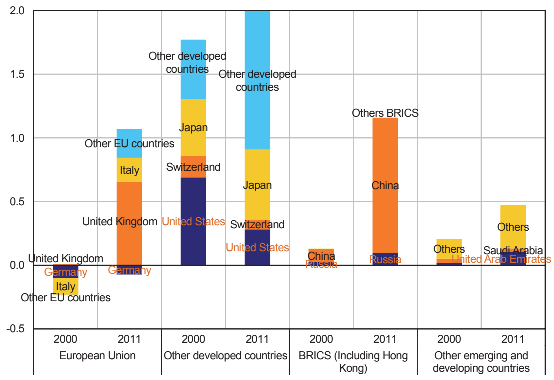
Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

How to read this chart: the United Arab Emirates had a €2.2bn trade deficit in high-end goods, which represented 0.9% of its GDP.

For France, expanding market opportunities in the BRICS (including Hong Kong) are reflected in its trade balance. Whereas it was in a deficit position overall with respect to the BRICS in 2011, **high-end goods enjoyed a trade surplus of more than €1.2bn** (compared with €0.1bn in 2000), **primarily due to trade with China and Hong Kong**.

Developed countries (excluding the EU) were the leading contributors to France's trade surplus in high-end goods, although France was in a deficit position with respect to these countries for other types of goods. Finally, the EU countries made a positive contribution to France's balance of trade in high-end goods (+€1bn in 2011), after a negative contribution for the period 2000-2005. France is still a deficit position with respect to Germany for the period in question (cf. Chart 7).

Chart 7: France's trade balance in high-end goods with respect to its leading partners, by geographic area, in 2000 and 2011 (in billions of euros)



Source: CEPII (base BACI), DG Trésor and DGDDI calculations.

(13) This report employs a broader definition of the luxury goods sector than we use in our study.
(14) Martin, J., et Méjean, I. (2011), "Low-Wage Countries' Competition, Reallocation Across Firms and the Quality Content of Exports", *CEPR Discussion Paper* 8231.
(15) Exports from Hong Kong and Singapore were re-integrated for the purpose of calculating these balances.

3.3 Future trade policy challenges include facilitating access to luxury goods in non-EU markets and providing intellectual property protection for them

The European commission would like to facilitate access to European high-end goods in all markets, with the help of **bilateral or multilateral agreements that would lower tariff and non-tariff barriers for this sector**, which is a bulwark for French and European foreign trade. To assess the impact of these barriers on trade, Frontier Economics estimates that an overall 20% increase in tariff barriers in China would eliminate 5,000 jobs in the high-end sector in Europe and result in a €2bn drop in turnover. In the same way, a 10% increase in non-tariff barriers would eliminate 7,600 jobs and cut turnover by €3.4bn. Market access in the major emerging countries is all the more strategic for firms that are specialised in high-end goods, given the sharp rise in the number of potential consumers in these countries, and a rapidly expanding middle class[16].

A vital part of these negotiations involves protecting intellectual property, inasmuch as they aren't important source of differentiation and thus drive profits for firms trading in high-end goods. Counterfeits cost to the French economy €6 billion in 2011[17].

Romain SAUTARD
Valérie DUCHATEAU and Jeannot RASOLOFOARISON*

(16) See in particular Homi Kharas (2010), "The emerging middle class in developing countries", OECD Development Center, *Working Paper* n° 285.
(17) Source: Union of manufacturers.

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