The happy few: the internationalisation of European firms

New facts based on firm-level evidence

European Firms and International Markets (EFIM) Report 2007

A Bruegel-CEPR initiative, coordinated by Gianmarco I.P. Ottaviano and Thierry Mayer

What is new in this report?

This is the first systematic, cross-country, firm-level research of the features of European firms that compete in international markets. The heated discussion about winners and losers in a globalised world economy has long been framed as a sectoral battle, but increasingly both winners and losers can be found within the same sector. By analysing firm-level data this report reveals new facts that are essential for future policy-making to foster competitiveness and for the ongoing process of trade liberalisation.

What are the main findings?

There is a striking consistency in the findings across the countries researched; the firms involved in international activities are few in number, bigger and more productive than other firms. Only a handful of firms account for the bulk of aggregate exports and foreign direct investment (FDI). For each country the columns of Table 1 report the contributions to the total export of the top 1%, 5% and 10% exporters.

Table 1: Share of exports by top exporters in 2003, manufacturing[1]

Country of origin	top 1%	top 5%	top 10%
Germany	59	81	90
France	44 (68)	73 (88)	84 (94)
United Kingdom	42	69	80
Italy	32	59	72
Hungary	77	91	96
Belgium	48	73	84
Norway	53	81	91

[1] Source: EFIM2007 Report. The data on Germany, United Kingdom, Italy, Hungary and France cover large firms only, Belgium and Norway samples are exhaustive. Numbers in parenthesis are percentages on the exhaustive sample, which is also available for France.

Why are these findings important?

The findings in this report can add to European policy makers' understanding of what it takes to improve the competitiveness of European firms. The facts presented in this report are not observable at an aggregate level, only when we analyse information collected from individual firms.

Firstly, international competition triggers a selection process where more productive firms replace less productive firms, which benefits countries' productivity, GDP and wages. Secondly, what matters most for a country's trade performance is how many firms engage in export, not the average amount exported per firm. Today governments put a lot of effort into promoting already big exporters to new markets. The findings in this report show that trade missions do not necessarily improve trade, policies to increase the number of firms competing internationally, by lowering barriers to export and fostering performance in terms of employment and productivity, are more important. Finally, small trade costs therefore matter since they reduce the number of exporters. Policies like the single market, that lower trade costs and favour access to export, are thereby beneficial for productivity and wages.

An interesting example of the importance of the firm-level data analysis is the comparison between France and Germany. The greatest contribution to German exports comes from firms exporting between 50% and 90% of their turnover. In France on the contrary a larger contribution to exports comes from either firms exporting from 10% to 50% of their production/turnover or entirely globalised firms which are exporting more than 90% of their turnover. These new data support previous research showing that one of the strengths of German industrial structure compared to France lies in the larger set of medium-size firms heavily involved in exporting.

What proposals does the report make to improve policy making for stimulating export and productivity?

The report gives six clear policy proposals:

1. Promote intra-industry competition

   Trade and FDI opening triggers a selection process whereby the most productive firms substitute the least productive ones within sectors. This is good for productivity, GDP and wages even when it does not lead to sectoral specialisations.
2. Increase the number of exporters

   What matters most for a country's trade and FDI performance is first of all how many of its firms engage in export and FDI. So governments should focus on policies that broaden the export base.
3. Forget the incumbent superstars

   To broaden the export base the existing superstar exporters and multinationals are less important. Instead of travelling far away with superstars, heads of government should rather work on lowering barriers to export and FDI.
4. Nurture the superstars of the future

   Governments should not only try to have more exporters and multinationals but should also create the conditions for small exporters to grow.
5. Keep up the fight against small trade costs

   Small (fixed) costs of internationalisation matter because they reduce the number of exporters.
6. Assess the export and FDI potential of your industries

   Some industries are more likely than others to expand the numbers of exporters and FDI-makers in response to improved policy conditions. Hence, governments should focus their efforts on industries which feature a large unexploited export and FDI potential.

What is EFIM?

In 2006 research centres from different European countries created a network under the coordination of Bruegel and CEPR. The aim of the project is to work on policy-relevant questions that are best treated using firm-level trade and FDI data: What are the features of European firms that successfully compete in international markets? What policies can further foster their performance? What policies can promote the participation of other European firms

that are currently excluded from international markets? How can European firms best cope with the adjustment required by globalisation? What policies can smooth that adjustment?

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