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The Role of International Production Sharing in EU Productivity and Competitiveness

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Overview

- Is international production sharing associated with stronger 'competitiveness'?
- We find that international production sharing is associated with stronger 'competitiveness' not only at the firm level but also at the industry level.

Overview

- From the viewpoint of firms, stronger 'competitiveness' gives access to a larger number of more complex options when it comes to the design of international operations.
- From the viewpoint of industries, stronger 'competitiveness' arises from the possibility of reallocating resources from less to more productive firms.

Overview

- For both firms and industries stronger competitiveness arises from the possibility of exploiting a richer set of internationalization strategies to deal with the challenges and the opportunities of globalization.

Data

- EU-EFIGE/Bruegel-UniCredit dataset
- Survey on the international operations of EU firms in 2009
- Statistically representative samples: 2973 firms for Germany; 2973 firms for France; 3021 firm for Italy; 2832 firms for Spain; 2142 firms for the UK; 482 firms for Austria and 488 firms for Hungary.

Internationalization and firm competitiveness

- Correlation patterns between the range of international activities (imports, exports, FDI, international outsourcing) of firms in the biggest EU economies (France, Germany, Italy, Spain, UK) and their 'competitiveness' measured as total factor productivity - TFP.

Internationalization and firm competitiveness

	N. of firms	Avg. turnover (in 1,000 EUR)	Total Factor Productivity
Non Active abroad	1,514	5,298.51	0.872
Active abroad	5,921	24,623.51	1.024
Exporter	5,201	26,104.12	1.033
Importer of services	1,900	50,004.76	1.159
Importer of materials	3,939	31,647.82	1.058
FDI	387	98,554.23	1.293
Passive outsourcer	2,965	20,763.66	1.06
Active outsourcer	306	32,991.62	1.066
Global exporter	2,211	28,345.27	1.094
Whole sample	7,435	20,303.82	0.991

International status and TFP premium

Dep. variable: TFP	OLS	OLS	N
Active abroad	0.0906***	0.0353***	7,259
Exporter	0.0999***	0.0399***	6,563
Importer of services	0.171***	0.0626***	3,334
Importer of materials	0.118***	0.0449***	5,320
FDI	0.257***	0.0980***	1,862
Passive outsourcer	0.122***	0.0558***	4,372
Active outsourcer	0.134***	0.0477	1,777
Global exporter	0.156***	0.0699***	3,652
Country fixed effects	Included	Included	–
Industry fixed effects	Included	Included	–
Firm size	Excluded	Included	–

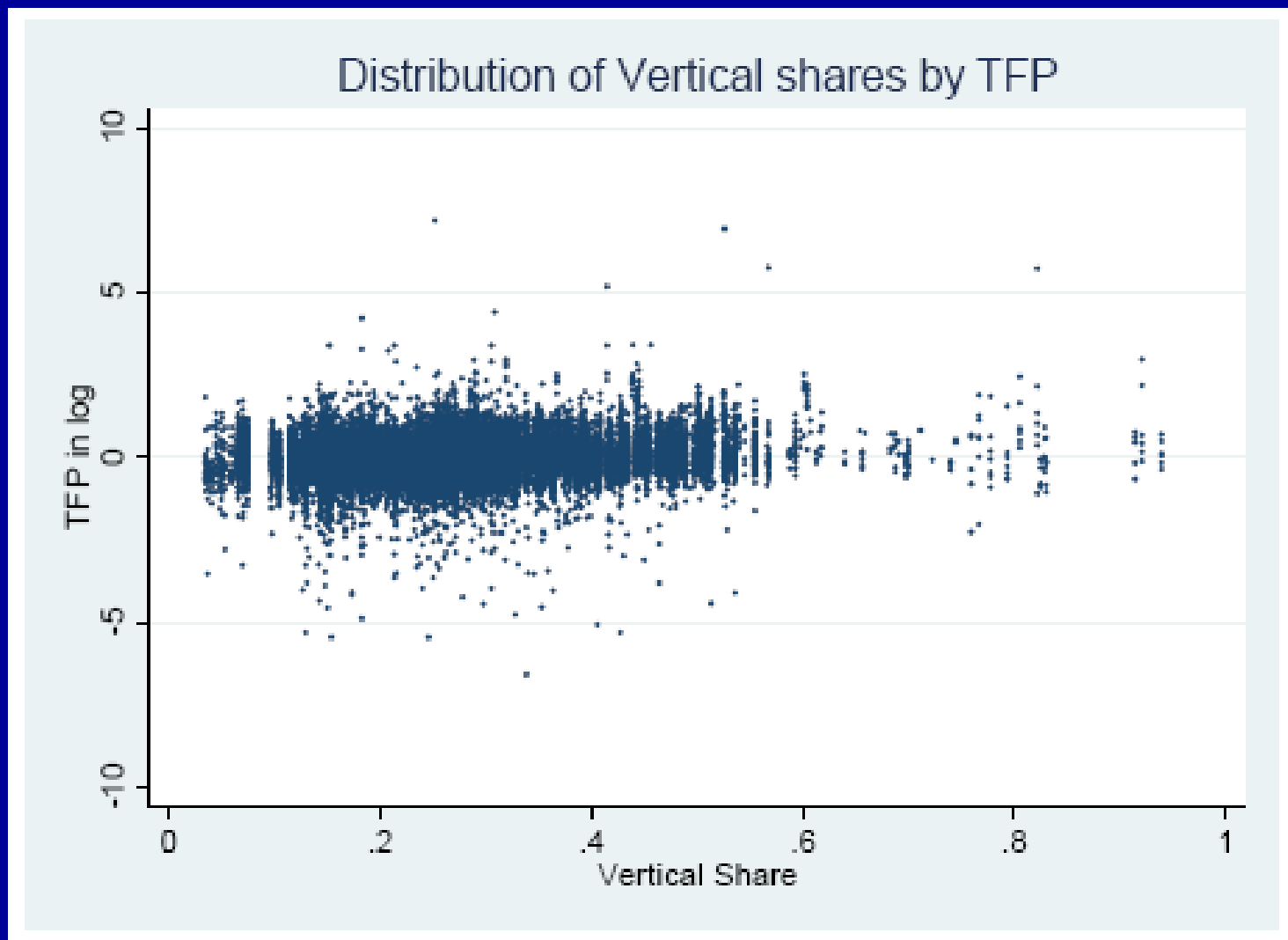
From Firms to Industries

- Firms with stronger competitiveness have access to a richer variety of more complex options when it comes to design their international operations.
- Is higher productivity at the industry level also associated with more complex internationalization patterns?

International exposure and industry competitiveness

- International exposure is measured as 'vertical share'
- Vertical share is computed as the ratio of the value of intermediate goods imported from abroad over the value of total output for each industry

International exposure and industry competitiveness



International exposure and industry competitiveness

Dep. Var.: Vertical share			
Variables			
TFP	0.00177***	-0.000732	0.00355*
TFP variance			-0.00810
TFP*(TFP variance)			-0.0191**
Sector FE	No	Yes	Yes
Country FE	No	Yes	Yes
Constant	0.253***	0.135***	0.136***
Observations	51,427	51,427	51,427
Number of firms	9,036	9,036	9,036

International exposure and industry competitiveness

- Average TFP increases and TFP variance decreases when resources are reallocated from less productive to more productive firms.
- Hence, within industries and countries, international exposure is associated with a reallocation of resources towards better performing firms.

Policy Implications

- As competitiveness is the cause rather than the consequence of internationalization, EU policies promoting internationalization per se would hardly affect competitiveness.
- Vice versa, policies that artificially reduce the ability of competitive firms to trade, outsource and invest abroad would also reduce their ability to exploit their full potential.

Policy Implications

- Rather than focusing on firms' internationalization, successful policies should instead promote healthy industry dynamics favouring the reallocation of resources from less to more competitive firms.
- International competition would then guide this reallocation process.