


# CompNet The Competitiveness Research Network



## CompNet Newsletter No.13 - March 2015

### HIGHLIGHTS

► *The Methodological Paper on the new firm level database (WP 1764) is out, available at the following link:*

<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1764.en.pdf?e5290ecaa38afc922508d9646d4a008d>

► *The CompNet Conference in June is shaping up nicely. Confirmed participants include: Carlo Altomonte, Richard Baldwin, Eric Bartelsman, Andrew Bernard, Jan de Loecker, Fabio Ghironi, Robert Johnson, Marc Melitz, Gianmarco Ottaviano, Chad Syverson, Marcel Timmer, Bart Van Ark, John Van Reenen. Panellists will include: Vítor Constancio, Peter Praet, Paolo Pesenti, Athanasios Orphanides, Boris Vujcic.*

*A draft version of the agenda is now available at the following link:*

[https://www.ecb.europa.eu/events/conferences/html/150625\\_methis.en.html](https://www.ecb.europa.eu/events/conferences/html/150625_methis.en.html)

► *An article was published on VoxEU on the use for structural policy analysis on CompNet micro data: "Euro Area Rebalancing: are we on the right track for growth? Insights from the CompNet micro-based data", available at the following link: <http://www.voxeu.org/article/impact-structural-reforms-eurozone-firm-level-data>*

► *The "Compendium on the diagnostic toolkit for competitiveness" will soon be published as an Occasional Paper and will be available in early April.*

### News from the Workstreams

#### **Workstream 1 (WS1) - Aggregate-macro indicators**

The "Compendium on the Diagnostic Toolkit for Competitiveness" to be published soon (see before) will also include:

- (i) Trade Weighted Unit Labour Cost Indicator (TWULC) by Kirsten Lommatzsch and Maria Silgoner, and
- (ii) Export Assortativity Metrix by Andreas Joseph.

#### **Workstream 2 (WS2) - Firm-level**

In addition to the methodological paper (WP 1764) four module-specific papers are being finalised. They cover more in detail the CompNet database related to trade, financial, mark-up and labour modules. A number of micro-indicators will be included in the compendium.

#### **Workstream 3 (WS3) - Global value Chains (GVC)**

The WS3 research output will also be published in the CEPR e-book by June 2015 (edited by R. Baldwin and F. Di Mauro).

### WORKING PAPERS

#### **Assessing European competitiveness: the new CompNet microbased database**

Authors: Paloma Lopez-Garcia, Filippo di Mauro and the CompNet Task Force

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1764.en.pdf>

► *Drawing from confidential firm-level balance sheets for 17 European countries (13 Euro-Area), the paper documents the newly expanded database of cross-country comparable competitiveness-related indicators built by the Competitiveness Research Network (CompNet). The new database provides information on the distribution of labour productivity, TFP, ULC or size of firms in detailed 2-digit industries but also within broad macrosectors or considering the full economy. Most importantly, the expanded database includes detailed information on critical determinants of competitiveness such as the financial position of the firm, its exporting intensity, employment creation or price-cost margins. Both the distribution of all those variables, within each industry, but also their joint analysis with the productivity of the firm provides critical insights to both policy-makers and researchers regarding aggregate trends dynamics. The current database comprises 17 EU countries, with information for 56 industries, including both manufacturing and services, over the period 1995-2012. The paper aims at analysing the structure and characteristics of this novel database, pointing out a number of results that are relevant to study productivity developments and its drivers. For instance, by using covariances between productivity and employment the paper shows that the drop in employment which occurred during the recent crisis appears to have had “cleansing effects” on EU economies, as it seems to have accelerated resource reallocation towards the most productive firms, particularly in economies under stress. Lastly, this paper will be complemented by four forthcoming papers, each providing an in-depth description and methodological overview of each of the main groups of CompNet indicators (financial, trade-related, product and labour market).*

#### **Global value chains: a view from the euro area**

Authors: João Amador, Rita Cappariello, Robert Stehrer

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1761.en.pdf>

► *This paper describes the main features of Global Value Chains (GVCs) in the euro area taken as a whole and compares with other large trade players like the US, China and Japan. In addition, the perspective of individual euro area countries is considered, with a focus on intra euro area linkages. The analysis relies primarily on the concept of foreign value added in exports, as a way to assess the pervasiveness of GVCs, it covers the period 2000-2011 and bases on the World Input-Output Database (WIOD). The paper finds that GVCs are important for the euro area as whole and they have rebounded after the great trade collapse. Moreover, there is a strong relevance of regional production linkages in Europe, with Germany playing a key role.*

#### **How do exporters react to changes in cost competitiveness?**

Authors: Stefaan Decramer, Catherine Fuss, Jozef Konings

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1752.en.pdf>

► *Policy-making institutions such as the European Commission, the ECB and the OECD often use unit labor costs as a measure of international competitiveness. The goal of this paper is to examine how well this measure is related to international export performance at the firm level. To this end, we use Belgian firm-level data for the period 1999-2010 to analyze the impact of unit labor costs on exports. We use exports adjusted for their import content. We find a statistically significant negative effect of unit labor costs on export performance of firms with an estimated elasticity of the intensive margin of exports ranging between -0.2 and -0.4. This result is robust to various specifications, including firm, time and sector fixed effects and estimation approaches. We find that this elasticity varies between sectors and between firms, with firms that are more labor-intensive having a higher elasticity of exports with respect to unit labor costs. The micro data also enable us to analyze the impact of unit labor costs on the extensive margin. Our results show that higher unit labor costs reduce the probability of starting to export for non-exporters and increase the probability of exporters stopping. While our results show that unit labor costs have an impact on the intensive margin and extensive margin of firm-level exports, the effect is rather low, suggesting that passthrough of costs into prices is limited or that demand for exported products is not elastic. The latter is consistent with recent trade models emphasizing that not only relative costs, but also demand factors such as quality and taste matter for explaining firm-level exports.*

### **Competition in the Portuguese economy: estimated price-cost margins under imperfect labour markets**

Authors: João Amador, Ana Cristina Soares

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1751.en.pdf>

► *This article estimates price-cost margins for the Portuguese markets in a context of imperfect competition in the labour market. The database used includes virtually the universe of Portuguese firms for the period 2005-2009. The results strongly reject the hypothesis of perfect competition in both labour and product markets. Estimated price-cost margins are very heterogeneous across markets and the average for the overall economy ranges between 25 and 28 per cent, depending on the variables used to weight each market. In addition, the tradable sector presents a lower price-cost margin than the non-tradable sector. According to the methodology used, workers' bargaining power in the Portuguese economy is approximately 13 per cent, without a clear distinction between tradable and non-tradable sectors. Finally, workers' bargaining power is highly and positively correlated with price-cost margins across markets.*

### **Enterprise productivity: a three-speed Europe**

Authors: Andrea Dall'Olio, Mariana Iootty, Naoto Kanehira, Federica Saliola

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1748.en.pdf>

► *Between 2003 and 2008 productivity patterns diverged between the fast growing, newest members of the European Union and the slower paced, elder ones – as would be expected. However, there are also striking divergences within the latter group, with productivity in Southern Europe going into reverse. This paper analyzes which factors - whether country-level or firm-specific ones - contributed more to the emergence of a three-speed Europe. The analysis combines firm-level data with country-level inputs. Among the newest members of the European Union, country characteristics including the stock of inward foreign direct investment, the availability of credit, and the quality of the business environment and the skills of the workforce prove to be the most important*

drivers. Firm specific characteristics are shown to matter as well, notably that small firms and firms which are part of international groups realize more productivity gains than larger domestic competitors. Among the more advanced member countries, firm-level characteristics are most important, with larger firms and firms with international affiliation demonstrating faster productivity gains. Country specific factors, such as the quality of the business environment, the size of outward FDI and the skills of the workforce, do matter as well. These explanations of diverging productivity patterns suggest that European Union nations can realize significant benefits from low cost policy interventions such as improving business regulations and encouraging firms' internationalization.

### **Exports and capacity constraints - a smooth transition regression model for six euro area countries**

Authors: Ansgar Belke, Anne Oeking, Ralph Setzer

Paper available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1740.en.pdf>

► This paper argues that, under certain conditions, firms consider export activity as a substitute of serving domestic demand. Our econometric model for six euro area countries suggests domestic demand pressure and capacity constraint restrictions as additional variables of a properly specified export equation. As an innovation to the literature, we assess the empirical significance through the logistic and the exponential variant of the non-linear smooth transition regression model. We find that domestic demand developments are relevant for the short-run dynamics of exports in particular during more extreme stages of the business cycle. A strong substitutive relationship between domestic and foreign sales can most clearly be found for Spain, Portugal and Italy providing evidence of the importance of sunk costs and hysteresis in international trade.

### **RESEARCH PIPELINE**

An updated version of the **CompNet Research Pipeline**, which contains a list of on-going projects, is now available for each worksteam separately:

WS1: [http://www.ecb.europa.eu/home/pdf/research/compnet/ongoing\\_research\\_pipeline-WS1.pdf?f4ee63a060722cd6dfdadc263fc6fe39](http://www.ecb.europa.eu/home/pdf/research/compnet/ongoing_research_pipeline-WS1.pdf?f4ee63a060722cd6dfdadc263fc6fe39)

WS2: [http://www.ecb.europa.eu/home/pdf/research/compnet/updated\\_research\\_pipeline-ws2.pdf](http://www.ecb.europa.eu/home/pdf/research/compnet/updated_research_pipeline-ws2.pdf)

WS3: [http://www.ecb.europa.eu/home/pdf/research/compnet/ongoing\\_research\\_pipeline-WS3.pdf?fa3fef3e258ad6f740194562f63941d8](http://www.ecb.europa.eu/home/pdf/research/compnet/ongoing_research_pipeline-WS3.pdf?fa3fef3e258ad6f740194562f63941d8)

In case of any additional project to be included or any information to be updated, please e-mail us at [compnet@ecb.europa.eu](mailto:compnet@ecb.europa.eu).

### **CompNet Workshops and Events**

► Forthcoming Events include:

26-27 March 2015: CompNet workshop in Madrid, agenda available at the following link

[https://www.ecb.europa.eu/home/pdf/research/compnet/agenda\\_madrid.pdf?d8629bed5f55ca4c8af665183febd59c](https://www.ecb.europa.eu/home/pdf/research/compnet/agenda_madrid.pdf?d8629bed5f55ca4c8af665183febd59c)

25-26 June 2015: CompNet Conference on “Enhancing competitiveness and fostering sustainable growth: methodological issues and empirical results” (Presentation of CompNet final report to the academic and policy community at the European Central Bank).

Additional information available at the following link:

[https://www.ecb.europa.eu/events/conferences/html/150625\\_methis.en.html](https://www.ecb.europa.eu/events/conferences/html/150625_methis.en.html)

### **Further Information**

- All relevant information and documents on objectives and output of the network can be found on the **CompNet website** at: [http://www.ecb.europa.eu/home/html/researcher\\_compnet.en.html](http://www.ecb.europa.eu/home/html/researcher_compnet.en.html).

For further information or suggestions, please e-mail us at [compnet@ecb.europa.eu](mailto:compnet@ecb.europa.eu) .