Paper "Exporters and importers of services: firm-level evidence on Italy" by Stefano Federico and Enrico Tosti (Banca Italia)

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The paper presents a descriptive analysis of exporters and importers of services in Italy, it decomposes growth in services trade across margins of trade and provides an assessment of differences between exporters and FDI. The descriptive analysis is modeled on Breinlich and Criscuolo (JIE, 2011), which in turn checks the validity for services of well-known stylized facts from the literature on goods. The paper concludes that broadly speaking services behave in a way akin to goods. Moreover most of the growth of services exports originates from the intensive margin. Finally, the paper concludes that FDi providers are more productive than export providers: only firms productive enough face the fixed costs of establishing a subsidiary abroad, as suggested for goods trade by the Helpman, Melitz and Yeaple (AER, 2004).

My comments originate all from the fact that most of the micro-economic literature around services tends to analyze service providers as if they were a surrogate of goods. Their analysis requires instead thinking carefully about the specific features of service providers.

This implies two sets of reflections. First, to carefully design descriptive statistics. Second, to be careful in applying concepts and models developed for goods trade(e.g. Helpman, Melitz and Yeaple, AER 2004) to services trade.

Starting with descriptive statistics, my suggestions is to try to characterize the service providers as follows.

- Assess who exactly are the service providers/exporters/importers. Are pure service providers different from companies producing and/or exporting also manufacturing? Within the group of exporters of both manufacturing and services, is there a difference between exporters predominantly of services and those predominantly exporting manufacturing?
- What do exporters of services import? Is there a difference between those importing and exporting the same type of services and those whose imports and exports are different?
- Exports of franchises, royalties, and license fee deserve special attention. Recent analysis has found that this category takes a large bulk of services trade. It is an important category not only quantitatively but also qualitatively: it is the mean through which intellectual property is transferred.
- One area where it is particularly important to divert from goods trade analysis is in assessing multi-service exports.
    - In goods looking at the number of products a firm export is a useful synthetic measure of the ability of the firm to diversify its offer. This is the case because the statistics on goods exports used at the firm level usually contain several thousand products. In services there are only 30 categories. Moreover, the ability of service providers to

diversify is much more dependent on the specialization of the firm: there are four different categories of insurance services, while there is only one for legal or architectural services. This suggests that the probability that insurance companies export in more than one service category is much higher than in legal or architectural services.

  - For services, given the relatively small number of categories, it would be possible to do an interesting exercise of mapping, a bit following the concept of "trees and monkeys", popularized by Rodrick and Hausmann. Namely, one could map which service categories are most commonly associated with each other, e.g. what other services do exporters of legal services also export?

On applying concepts and models developed for the goods sector, there are two sets of issues on which I would be more careful in this paper.

- First, productivity differences across firms may be driven by (or closely associated to) sector specialization. This is much less the case in goods. Sector-specific features are likely to be more important in driving productivity differences across firms. One reason for this is the way productivity is measured in services: labor productivity instead of TFP. This means that characteristics such as the level of IT innovation dominant in one sector drive productivity. As a consequence it is likely that firms from a sector in which this innovation tends to be high (such as banking or insurance) tend to rank high on productivity rankings.
- Second, models such as Helpman et al. (2004) are not necessarily well adapted to assess the services sector. This model suggests that the most productive firms opt for FDI over exports. This is due the fact that they can afford high fixed costs but lower their variable costs. However for services, can we really say that FDI (mode 3) is the mode chosen preferably by the most productive firms? Two sets of issues make this statement problematic:
  - Like earlier, sector-specific features are likely to drive partly results: can one say that a R&D powerhouse such as MIT – that sells R&D services worldwide – is less productive than an international chain of hairdresser services.
  - Second, can we really say that Mode 3 is a substitute – and not a complement – to modes 1,2 and 4? Take for example a company such as Vodafone. This is a highly successful company with local presence (FDI) in most countries in which it is present. It is also a company with highly sophisticated organizational strategies. It is therefore very likely that it uses a combination of FDI and exports for different product lines and services. For example, while it maintains a commercial presence in countries, it is also likely to sell some services from abroad locations. After-sale services are likely to take place, for example, both through FDI (in the shop) and imported from abroad (online service). One could think of similar cases for a place like Ryanair.

A final remark is about the specification of the econometric exercise on exports vs. FDI. If fixed costs are the main reason for firms opting for one or the other, the dependent variable cannot be one where the separation is between majority exports vs. majority FDI. Majority exports still implies some level of FDIs. If this is the case, it means that the firm has already faced the fixed costs to establish commercial presence abroad. Hence a better separation should be between only exports vs only FDI. For reasons outlined earlier I would further suggest to check the relative performance of firms that do run FDI and exports on the same market and service category vs. others, in particular exporters only.

In conclusion, this paper provides many interesting facts that need however to be reorganized and interepreted thinking specifically of the features of service providers.