“The Triggers of Competitiveness”

National Bank of Belgium, 6 December 2011

“The Impact of the Crisis on European Firms”
3rd EFIGE Policy Report

by

Gábor Békés, László Halpern, Miklós Koren and Balázs Muraközy (IEHAS)

Discussion

by

Gianmarco I.P. Ottaviano, LSE and Bruegel

A lot of firm-level heterogeneity

The Third EFIGE Report reveals some important facts about the crisis that would have been impossible to establish without the EFIGE firm-level data.

Any moment some firms expand (in output, sales, profits, trade), others contract. When the economy grows, the aggregate net effect (weighted by size) is expansionary. In downturns the aggregate effect is contractionary.

Crisis? What crisis?

The Report clearly shows this churning during the crisis. It also reveals that (someway surprisingly) the aggregate effect really materializes “on net”: several firms thrived during the crisis.

Starting from this finding, the Reports looks for the source of such heterogeneity of fortunes and concludes that it has a lot to do with the specific international status of firms and the way they manage their international activities.

Who has won and who has lost

Internationalized firms have suffered more than purely domestic ones. But this is in relative terms as they were bigger and better performing to start with.

Of particular interest is the role firms play in the global value chains that have been emerging as the production process is unbundling through the international fragmentation of production stages and tasks.

Balls and (value) chains

Among internationalized firms, those participating to global value chains have performed better. However, the exact position along the value chain has played an crucial role.

Downstream positions closer to final demand have borne a premium as the contractionary effects of falling demand have been transmitted (and amplified) up the value chain to intermediate inputs producers.

These are typically firms rely on skilled workers, do not make specific products ordered by large customers, rely on a network of suppliers (importing /outsourcing), controlling other companies at home or abroad.

Long live the "bazaar economy"?

To sum up, contrary to previous worries, running the "bazaar" currently seems to be the right strategy for advanced economies.

Competitiveness is no more about horizontal specialization *across* sectors targeting the "right" industries.

It is rather about vertical specialization *within* sectors targeting the downstream production stages, where value added and market power reside, by fostering the firm-level characteristics required to master those stages.