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THE EURO EFFECTS ON THE FIRM AND PRODUCT-LEVEL TRADE MARGINS: EVIDENCE FROM FRANCE

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NON-TECHNICAL SUMMARY

The macroeconomic impact of euro adoption on trade flows has been widely examined and quantified: the value of trade flows between insiders has increased by less than 10% since 1999. Though, a clear description of the adjustments that occurred between and within firms is still lacking. The New New Trade Theory is helpful to identify the micro-level adjustments that we should expect. These adjustments consecutive to a decrease in trade costs can occur through the selection of firms (the firm-level trade margins), through the within-firm section of products that are exported (the product extensive margin), and through the value of exports by product (the product intensive margin). This article addresses the following questions: did euro adoption affect the selection of exporters? Did the number of products exported by firm vary? Did the value of exports by product within incumbent exporters raise? What are the characteristics of the firms that have benefited from euro adoption?

Product-level trade databases do not allow to properly test the predictions of the New New Trade Theory. This paper makes use of the French firm-level export data provided by the French customs, over the period 1995-2003. We also make use of a French business survey ("Enquête Annuelle d'Entreprises, EAE") that reports the individual characteristics of French firms with more than 20 employees. This second database can be matched with the customs data to investigate how the euro effects on French exporters interact with their individual characteristics, in particular their size and productivity.

We successively estimate the effects of the introduction of the euro on the export decision, the number of products exported by firm, and the value of exports by product by firm, for the full sample of French exporters. Second, we investigate whether the estimation results for the full sample of firms are subject to a composition effect, since the majority of observation in the data relate to very small firms that export only occasionally. Finally, we control for productivity, and examine whether the euro effects interact with the productivity of the firm before the euro introduction.

Estimation results that rely on the full sample of exporters show that the effects of the euro on trade mainly channel through the number of products exported by firm in the French case. We note however a positive effect on the value of exports by product, when we restrict the sample of exporters to firms with more than 20 employees. This tends to support the existence of a composition effect. Finally, while results remain unchanged when we control for the productivity of the firm, we also find evidence that the euro effect is dramatically reduced for the 25% of firms reporting the lowest productivity level before its introduction.

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