

# **French Firms in Services Trade: a Detailed Comparison with Trade in Goods**

G. Gaulier, D. Mirza et E. Milet  
(Banque de France, CEPII)

# INTRODUCTION

- Paradox 1:
  - While services represent around 65-70% of advanced economies' GDP
  - Trade in services 5 times lower than in goods
- Most common reasons given by policymakers:
  - Trading services might be more costly than trading goods
  - (personal services)
- Policy implication: remove fixed costs type barriers to trading services (ie. GATS, EU Services Directive, etc...)

- Paradox 2:
- Trade in goods and trade in services thought to be complement in the literature
- Why then trade in services is so small: in the number of exporters and values?

- Paradox 3:
- Trade in services is obviously smaller than expected but why lack of research on this subject?
- 3 possible reasons:
  - Heterogeneity of services and patterns difficult to identify
  - Availability of databases on the subject is new and limited
  - Today, opportunity cost to work on services trade is high compared to well defined new firm level set-ups in trade in goods (Bernard et Jensen, 2000; Jean, 2002, Melitz, 2003)

# Our paper

- Uses a new firm level dataset on services
- Identifies similarities/differences v/s trade in goods
- Is the first to distinguish: type of products traded (good or service)/ types of producers (Manufacturing or Services)
- Identifies patterns of complementarity between services trade and goods' trade
- Attempts to respond to the paradoxes mentioned above

# Data

- We use information from 4 databases:
  - 1/ The Banque de France Services Trade dataset (keep essentially tradable business type services in Mode 1 )
  - 2/ Match with the French Customs' data (DOUANES);
  - 3/ use INSEE *Stojan* (or **January Stock** of firms) to compare to firms that do not participate in trade ;
  - 4/ Match with Enquêtes Annuelles d'Entreprises (EAE) .

- Literature:

- Gravity models at industry levels to study

- Determinants of services trade ( ie. Kox, Lejour (2004), Lennon, Mirza and Nicoletti, 2009; )
    - Complementarity/substitution between trade in goods and services (Bussière and Schwellnus (2009) , Lennon (2009), etc...)

- Firm level studies:

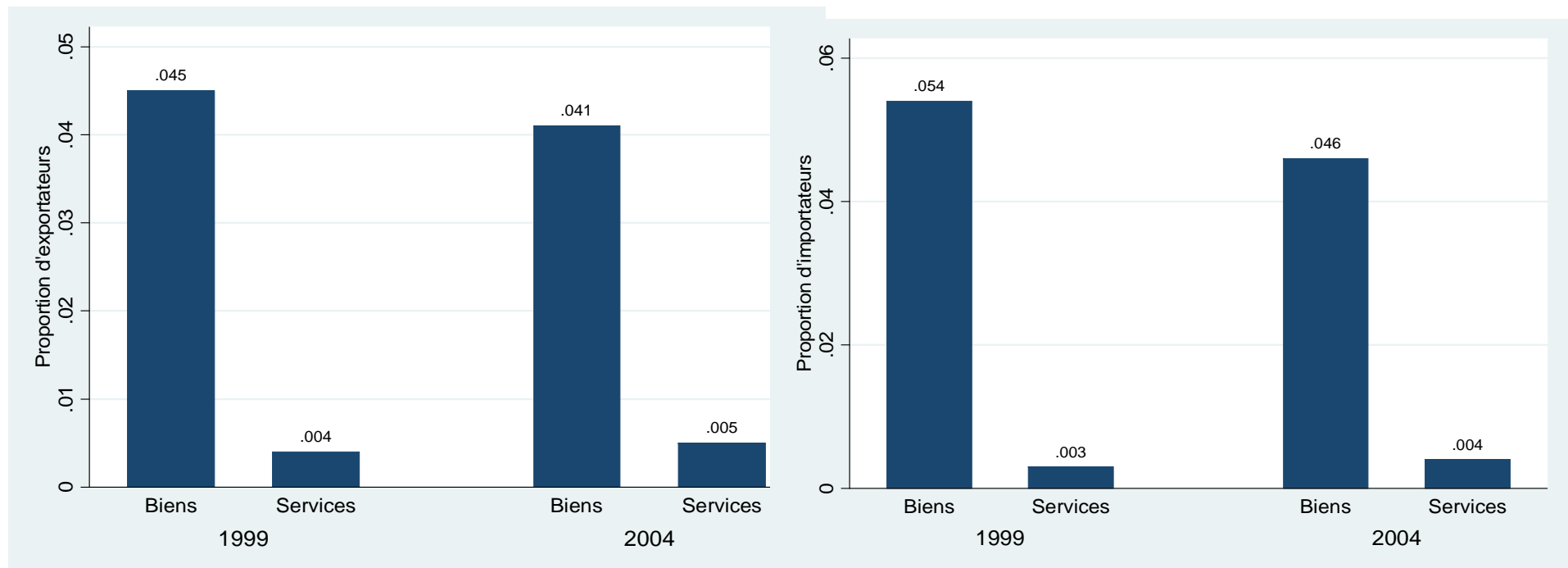
- Breinlich et Criscuolo (2008): describe UK firm level services trade
    - Irac (2008): investigates the impact of openness (in services and goods) on French firms performance

# Outline

- Trade in goods vs trade in services
  - Differences in numbers
  - Differences in characteristics
  - Differences of export distributions
  - Differences in dynamics of entry/exit into export markets
- Types of products vs types of producers
  - Manufacturing producers and trade in services
  - Services producers and trade in goods
- Implications for policy

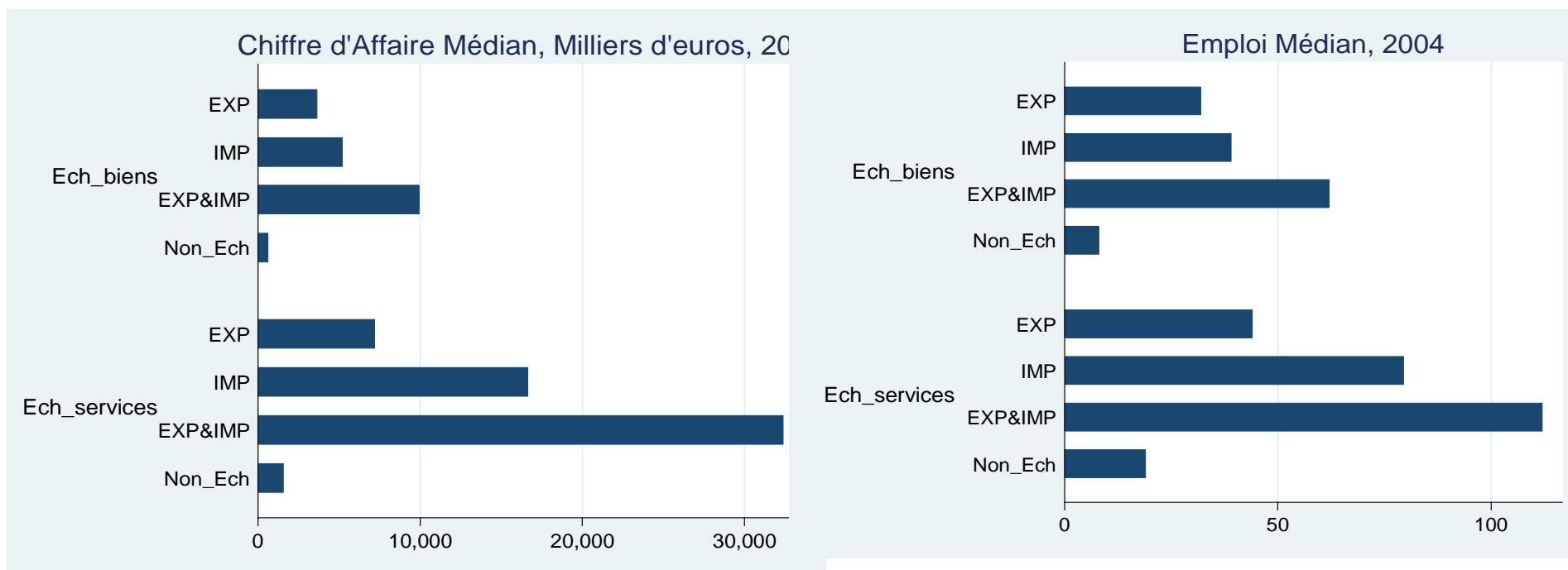
# Goods vs services: differences in numbers

- Proportions of exporters
- Proportions of importers

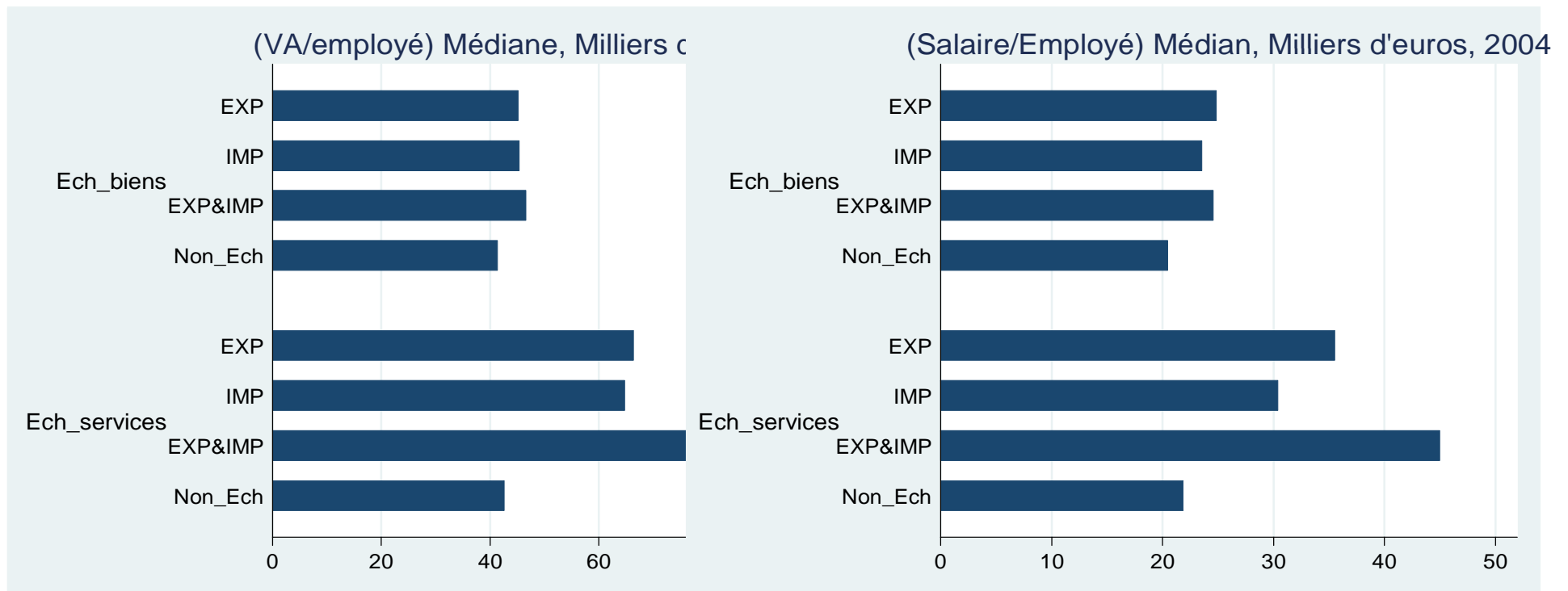


# Goods vs services: differences in characteristics

- Exporters and Importers of services usually larger

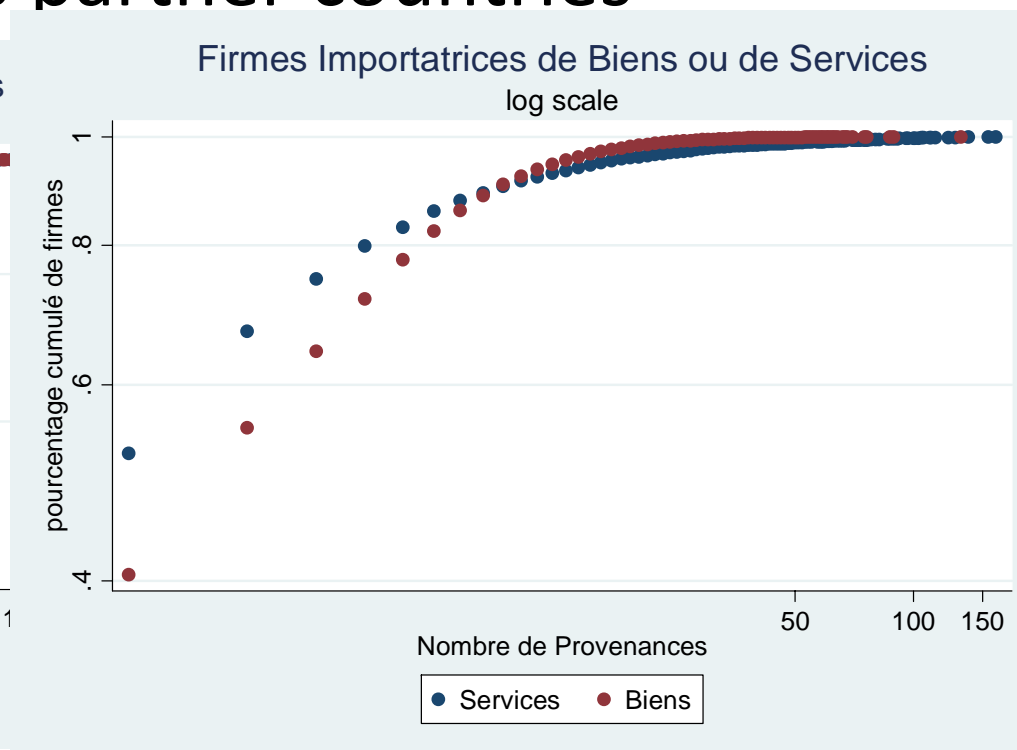
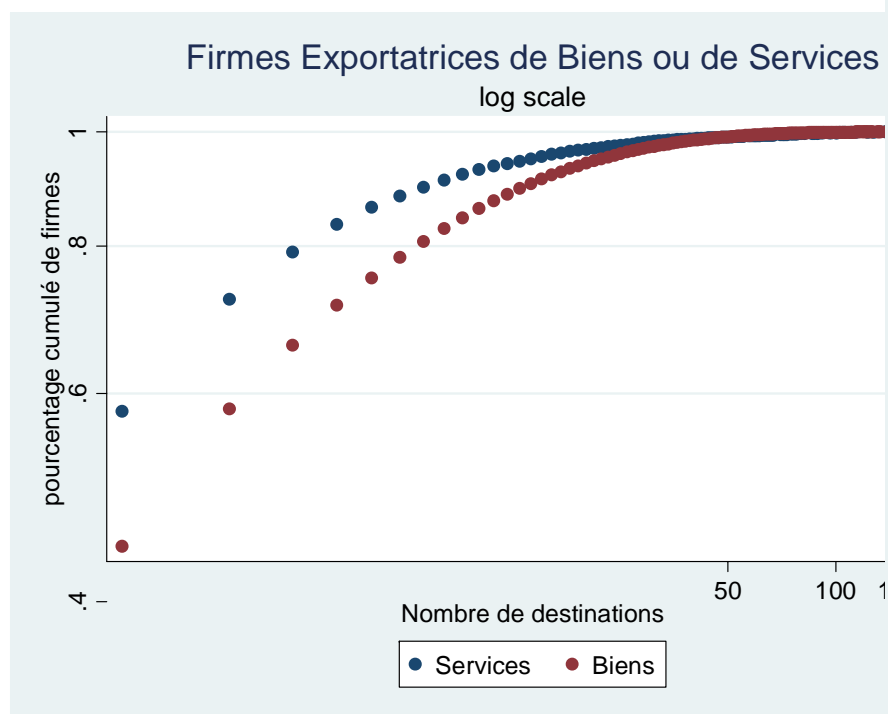


- Exporters and importers of services more productive



# Goods vs services: differences in export distributions

- Services exports and imports are more concentrated across partner countries

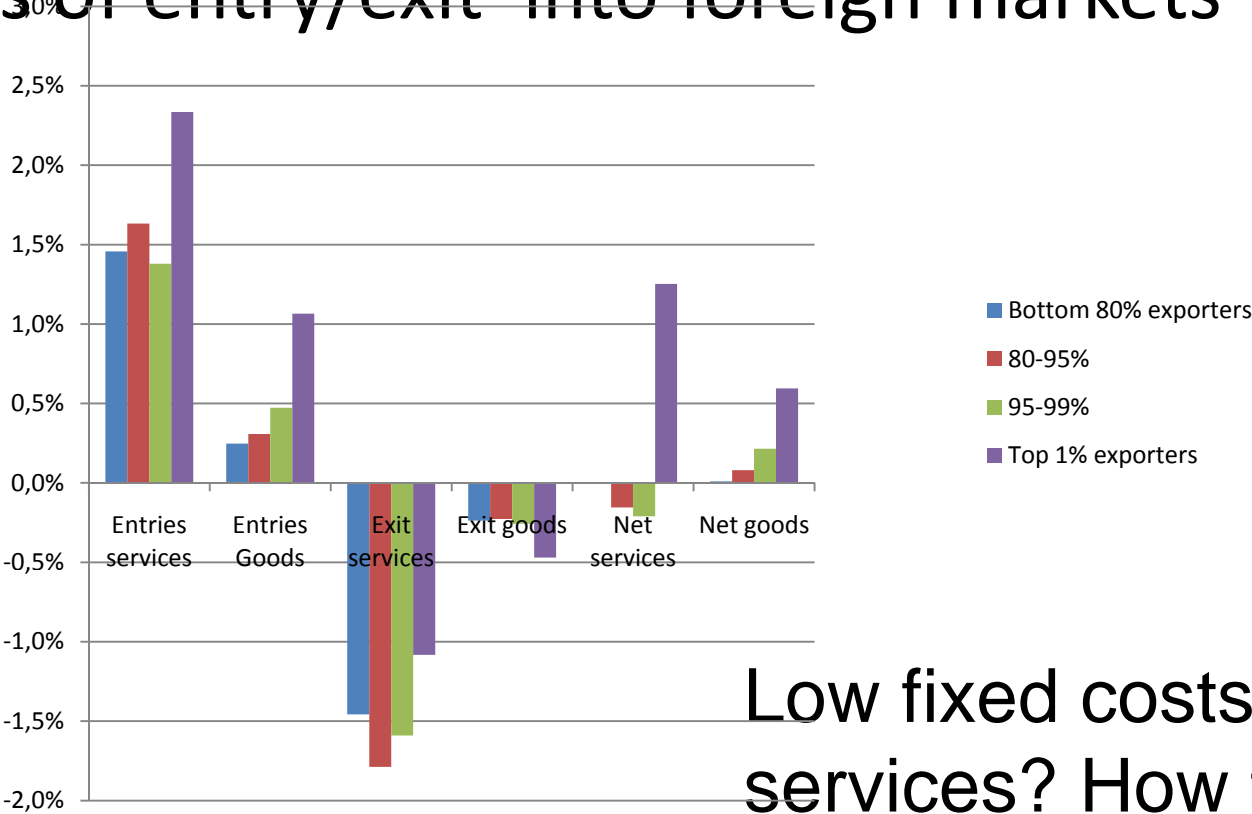


# To sum-up

- Firms that export services seem bigger, more performant and more concentrated
- At first view, fixed costs of exporting services seem larger
- So far policy recommendation could be:  
« bring down fixed costs of exporting services »

# Dynamics contradict this fact

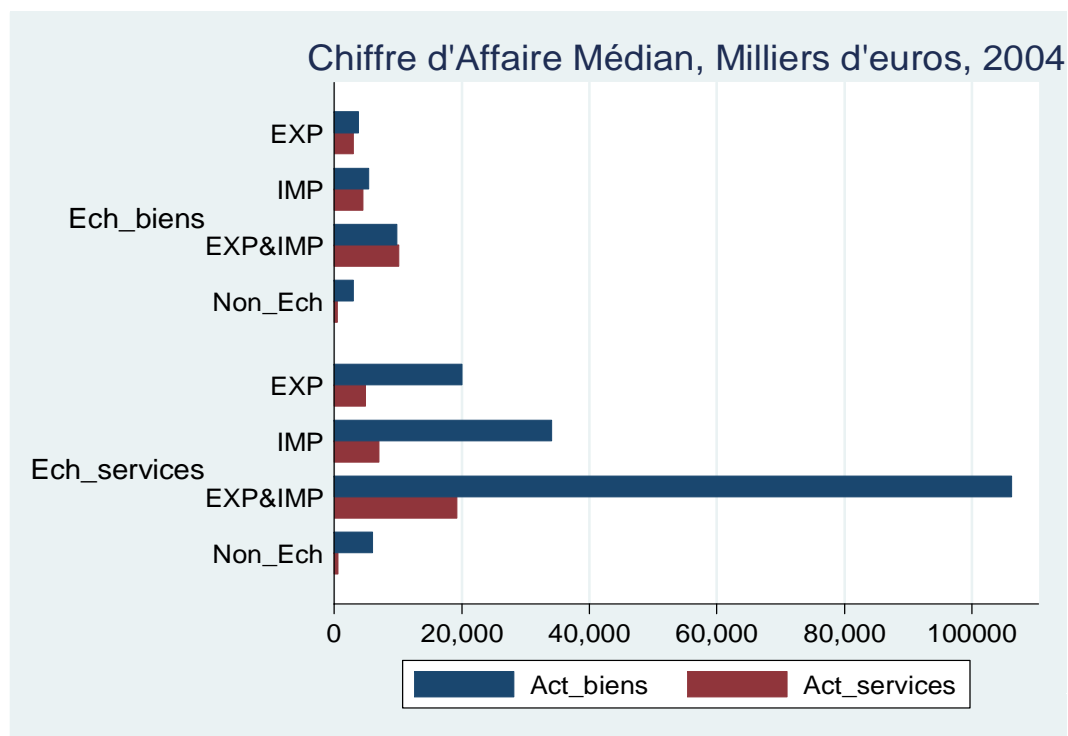
- Contribution to growth rates, indicate high rates of entry/exit into foreign markets



Low fixed costs in services? How to reconcile both facts ?

# Type of products vs types of producers

- Existence of compositionnal effects across types of producers



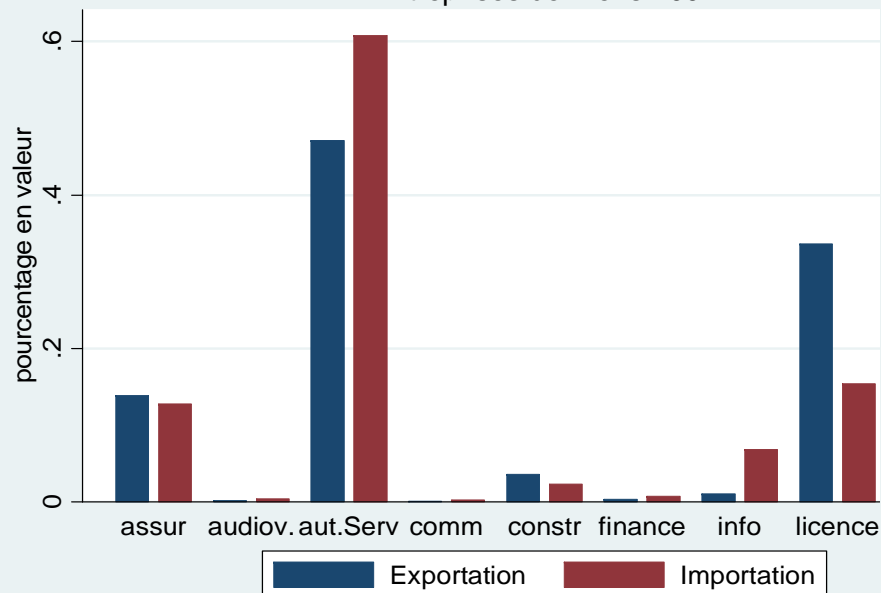
Higher turnover related to export services mostly related to 'Manufacturing' traders  
-In service industry: smaller firms export services

# Type of products vs types of producers

-Few services are exported from Manufacturing

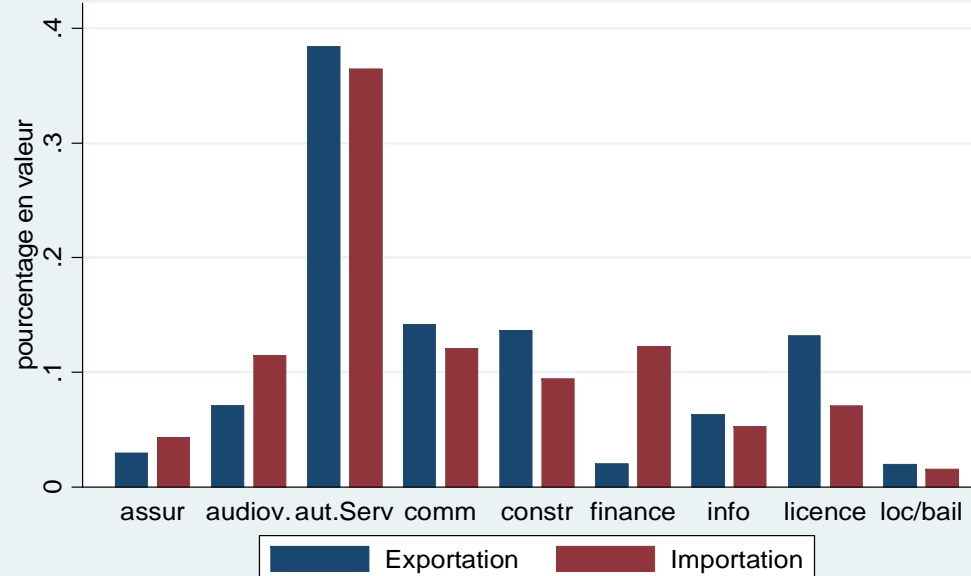
## Manuf sector

Répartition du commerce par type de service  
Entreprises de Biens 2004



## Services sector

Répartition du commerce par type de service  
Entreprises de Services 2004



# Type of products vs types of producers

Manufacturing sector		
	Freq %	Value
Only Goods	96.2	73.2
Only Services	0.18	0.05
Both	3.62	26.75
Total	100	100

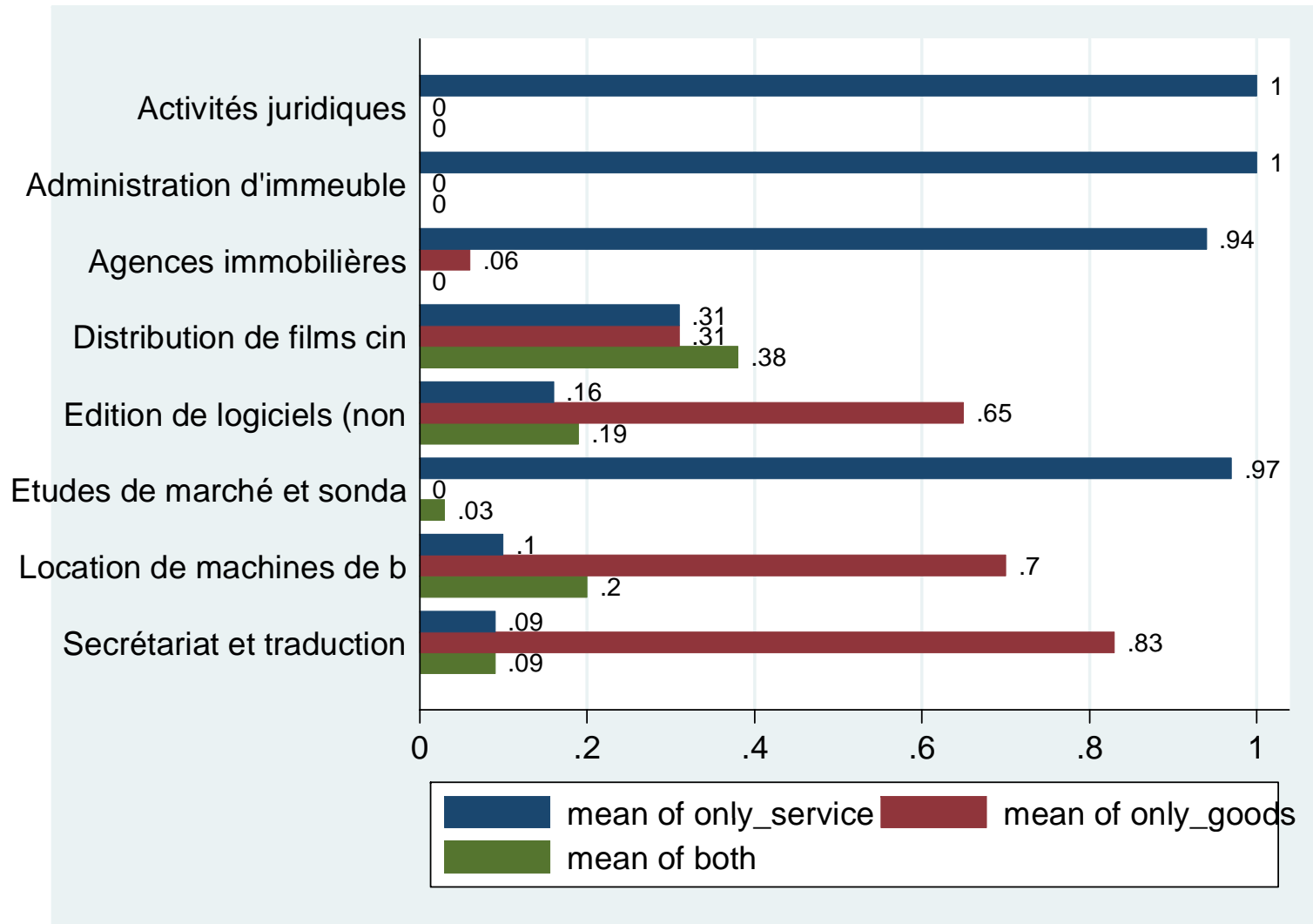
- Manufacturing: Services are exported mostly only when goods are

# Type of products vs types of producers

Service sector		
	Freq %	Value
Only Goods	58.76	12.24
Only Services	28.43	15.76
Both	13.8	72.99
Total	100	100

- Services: Number of Good exporters are twice as high
- $\frac{3}{4}$  of total exports value undertaken by firms exporting both products

# Examples of export distribution in the service industry



# Sum-up

- Fixed costs to export services in the services sector might not be as high as assumed
- In manufacturing: Services seem to be supportive to goods
- In service sector:
  - goods seem to be supportive to services (ie. cultural goods/softwares: production of services might be a fixed cost, and dissemination of services is realized via goods)

# Attempt to explain paradoxes

- Hence, services sector exports more than expected (it actually exports goods)
- Complementarity between goods and services explained by the fact that one type is supportive to the other
- In services sector: services produced/exported might be viewed, in some activities, as fixed costs by themselves, that are dissipated by higher exports of related goods

# Policy

- Barriers to trade in services might not be as high as expected (at least in the service sector)
- Complementarity is not symmetrical (a priori):
  - Liberalizing services increase goods export in services sector (not necessarily in manuf sector)
  - Liberalizing goods increases services exports in both sectors