

Discussion of:  
**Import Competition and Firm Performance:  
Evidence from Belgium**

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# Summary

- ▶ The paper studies the effects of international competition on firm performance in Belgium
- ▶ It adds to the literature that distinguishes between TFPR and TFPQ
- ▶ To do so, it exploits a dataset with firm level prices
- ▶ It uses theory to construct measures of marginal costs and markups: performance is declined in a comprehensive way

# Competition measures

- ▶ Chinese import penetration at the sectoral level
  - ▶ Arguably the most important change in the international competition landscape in the last two decades
- ▶ Relative wage competitiveness vis-a-vis the main EU trading partners: Germany, France and the Netherlands
  - ▶ Wage determination in Belgium explicitly takes into account wage developments in these countries
  - ▶ Key policy concern given the large increase in relative competitiveness of Germany within the EU: how can it be reabsorbed?
  - ▶ Also exploit distance from the border in the food sector

# Main results

- ▶ Distinguishing between price and costs developments (and TFPR vs. TFPQ) crucial to understand firm responses to increased **Chinese competition**
  - ▶ Firms decreased prices and reduced costs
  - ▶ Cost reductions came both from increased efficiency (TFPQ) and lower input prices
  - ▶ Margins actually increased
- ▶ Results harder to interpret when considering **wage developments in neighbouring countries**

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  - ▶ Margins actually increased
- ▶ Results harder to interpret when considering **wage developments in neighbouring countries**
- ▶ Super interesting and relevant project!

# Methodology

- ▶ Nothing to declare! State-of-the-art technology employed.
- ▶ I have some comments on the effects

# Endogeneity of import penetration

- ▶ Import might be higher in sectors that experience a negative productivity shock
- ▶ Downward bias in the estimated effects of competition on productivity
- ▶ Possible instrument: share of Chinese exports over total world exports (possibly excluding Belgium)
- ▶ It measures the Chinese "push factor" (Bugamelli Schivardi and Zizza, 2010)
- ▶ It satisfies the conditions for begin a good instrument
- ▶ See Bloom, Draka and Van Reenen (2013) for other measures

# Increase in the markup

- ▶ Interesting, counterintuitive result
- ▶ One would expect that increased competition increases price elasticity and reduces markups
- ▶ My guess is that firms are responding in a way that actually reduces demand elasticity
- ▶ It would be great to have measures of R&D, advertising and other activities that contribute to increasing the degree of product differentiation



## Marginal cost effects

- ▶ Use the relation

$$\log(MC) = \log f(w) - \log(TFP)$$

- ▶ Does it hold in general or only under CRTS? Otherwise, do you need a measure of output?
- ▶ Firm level wages included in some specifications, but likely endogenous: rent-sharing models of wage determination. Sector level wages better?
- ▶ Penetration measured at two digits capture the effect on intermediate input prices, at 3 digits direct effect on TFPQ  $\Rightarrow$  use them both contemporaneously in the MC regression

# Heterogeneity of the effects

- ▶ It makes sense that low productivity firms responded the most
- ▶ Still, the *negative* effect on high productivity firms is counterintuitive
- ▶ Justified conjecturing that these are the firms more likely to compete on prices and that moved into more expensive market segments
- ▶ Again, it would be great to see some direct evidence of this

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- ▶ Again, it would be great to see some direct evidence of this
- ▶ Not clear to me how to interpret the effects by export status: motivate more

# The relative wage measure

- ▶ Based on the idea that expected wage growth in Germany, France and the Netherlands cap wage growth in Belgium
- ▶ Controlling for own wage, foreign wage variations are due to unanticipated salary changes abroad
- ▶ But a lot might be going on with own wage:
  - ▶ Let wages grow in sectors where productivity growth is stronger and vice-versa (and they do recognize this)
  - ▶ Again, consistent with bargaining models of wage determination: rent sharing
- ▶ More details about the wage determination process

## The relative wage measure, 2

- ▶ Indeed, results are not always consistent with expectations
- ▶ Higher wages abroad lead to lower prices, higher TFPQ
- ▶ Interpreted in terms of reverse causality: higher wages abroad derives from higher efficiency, so increased competition
- ▶ It means that the relative wage is not enough: needed a measure of unit labor cost (productivity over wages)

# Sum up

- ▶ Very interesting paper on the effects of competition on firm performance
- ▶ Firm prices key
- ▶ Convincing evidence from the Chinese penetration measure, less from the external wage regressions
- ▶ The paper uses theory to dig deeper in what goes on at the firm level: derive MC, markups
- ▶ Complementary way is to get more data: what do firms exposed to competition actually do?
- ▶ This is where I encourage Jan, Catherine and Johannes to go