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PRESS RELEASE

Gross job flows and firms' international activities
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This article summarises the results of an empirical study on the link between firms' presence in the international markets – via international trade and direct investment – and the evolution in employment in Belgium. The main original feature of the analysis is that it was conducted using a microeconomic database containing individual data on non-financial corporations located in Belgium. In particular, these data permit analysis of the trend in employment by distinguishing between job creation due to certain firms and, simultaneously, job destruction due to others.

Within the population of firms, three main industries are considered separately in view of their significant involvement in trade and/or direct investment links that Belgium has with other countries. They are manufacturing, wholesale and retail trade – which together account for around 90 p.c. of exports and imports of goods – and other market services which, including the coordination centres, are the source of most of Belgium's direct investment.

The data reveals that only a relatively small proportion of Belgian firms is involved in international trade, and that an even smaller percentage of them have direct investment links with other countries. Those active only at local level in fact represent 58.7 p.c. of the total number of firms in manufacturing and 65.4 p.c. in the wholesale and retail trade. They are also dominant in other service activities – where they represent 92.8 p.c. – notably because of the importance of personal and business services. Conversely, firms active in the international markets employ more staff, on average. That applies more particularly to the Belgian subsidaries of foreign firms which, although accounting for only 1.3 p.c. of the total number of firms, employ 25.3 p.c. of the workers.

The fact that a few firms are involved in international activities is also reflected in the high concentration of the volume of Belgium's exports and imports; in both manufacturing and the trade sector, 90 p.c. of foreign trade in goods is attributable to less than 10 p.c. of firms. In each of these two industries, it is also the most productive firms that are active in this area.

The reason is that these firms are better able to afford the costs entailed in entering foreign markets. In the case of exports, such costs include those arising from market research, the search for partners to establish a distribution network, the need to adapt the products according to local preferences or to make them conform to foreign quality standards, etc. In the case of imports, fixed costs result, for example, from the search for foreign suppliers. Apart from these various fixed costs, international trade in goods involves a number of variable costs relating in particular to freight transport and customs duties. Direct investment obviates these costs by establishing production units close to the markets to be served.

As a general rule, the costs associated with direct investment are higher than those relating to exports since they concern either the creation of one or more foreign subsidiaries or the acquisition of shares in existing companies. For that reason, the most productive firms with the greatest financial resources will usually enter foreign markets via direct investment, while those whose productivity is at an intermediate level will engage in international trade. The least productive firms will continue to operate on a purely domestic level. This hierarchy in terms of productivity is borne out by the data, particularly in manufacturing.

In addition, firms having trade or direct investment links with other countries exhibited stronger employment growth between 1997 and 2005, even after adjustment for the effects of other factors such as the industry, the general business situation or the firm's size. This difference is more marked in the case of importers, whether they operate in manufacturing or in the trade sector. Thus, import firms curbed somewhat the decline in employment in Belgian industry. One possible explanation is the use of international outsourcing which enables firms to focus their production on higher value added products for which they have greater competitive advantages.

This study also reveals a link between the international activities of Belgian firms and a lower rate of employment turnover. On average, multinationals and firms active in foreign trade record lower job creation and destruction rates than firms focusing solely on domestic markets. This lower employment volatility could be attributed to the scope for diversification available to firms present on foreign markets as well as on their domestic market. As a result of that diversification, both foreign trade and direct investment provide employees with more stable jobs.

In all, the results indicate that firms participating in international markets obtain better results than those ignoring them. However, the initial costs associated with international openness require them to have first attained an adequate level of productivity. To foster foreign expansion and hence to anchor activities and employment in the economy, firms and governments should therefore endeavour both to augment productivity and to reduce the barriers to foreign trade.