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PRESS RELEASE

Behaviour of Belgian firms in the context of globalisation: lessons from the conference on "International Trade: Threats and Opportunities in a Globalised World"

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On 14 and 15 October 2010, the National Bank of Belgium held its 6th biennial conference. The research work presented at this event focused on external trade and foreign investment. These papers formed part of a relatively recent wave of economic literature that analyses the behaviour of firms in the field of international business by using microeconomic databases.

The various contributions covered diverse issues that can be divided into five themes: (1) determinants and strategies facilitating firms' entry into foreign markets; (2) trade in services; (3) strategies to adopt in response to competition from emerging economies; (4) the consequences of internationalisation for domestic firms; and (5) impact of globalisation on the labour market.

Existing theoretical models generally start out from the principle that a firm's decision to move into a foreign market is determined by the relationship between the profitability it can expect from this market and the costs involved. One of the contributions presented expanded on this theoretical framework by incorporating uncertainty about the profitability of business on foreign markets. Both the theoretical and empirical findings suggest that firms use their exports as a means of assessing the viability of a given market, and then decide whether to pull out or to step up the volume of their exports to it, or make a direct investment there.

Various other contributions also broached the question of influence of tariff and non-tariff barriers, and illustrated certain strategies for reducing entry costs, such as the importance of commercial intermediaries.

Beyond the different arrangements for moving into foreign markets, one contribution took a close look at the strategies adopted by SMEs to expand their business activities on an international scale, and more specifically regarding the number of markets that they decide to go into and the moment chosen to do so. This study showed that young firms that move into a lot of markets very quickly also have faster growth rates than other SMEs. The risk of failure inherent in this strategic choice is nevertheless higher, something which argues in favour of a specific policy framework for these firms.

A paper was also devoted to international trade in services. It highlighted the considerable growth in the number of firms involved in trade in services, owing to the development of information technologies. However, the influence of new technologies varies considerably from one sector to another.

It was also shown that the presence of some firms on foreign markets could have positive effects on other firms, geared towards the domestic market, both in terms of productivity growth and on their decision to start exporting themselves. These spillover effects are likely to arise as a result of geographical proximity to exporting firms or multinationals, or through client-supplier relations.

It is an established fact that competition on external markets strongly affects firms' behaviour and, therefore, their characteristics too. More intense competition tends to strengthen the position of the most productive firms, both on external markets and the domestic market, to the detriment of the least productive firms. International competition also determines firms' strategies, notably with respect to the choice of products exported. One of the effects of more intense competition, already pointed up in the literature, is for a firm to concentrate its exports on its core product, for which its manufacturing is more productive. Another strategy consists of improving the quality of the products exported. Evidence of such behaviour was found for Belgian exporters in response to fiercer competition from the Asian countries.

Some contributions also examined the consequences of the internationalisation of firms on the labour market. These are by no means minor, as had already been illustrated by an earlier study on the impact of imports of Chinese goods on domestic employment which had shown that these imports lead to a reduction in labour demand for low-skilled workers. The findings of a research project presented to the colloquium seem to confirm that companies' trade relations are generally biased in favour of skilled employment, especially when they are geared towards low-wage countries. In the same line of thinking, another of the studies presented, this time on the impact of offshoring on employment in the United States, showed that relocation of production activities acts to the detriment of low-skilled jobs, without however affecting total employment.

Finally, a paper was devoted to the significant role that the foreign multinationals established in Belgium have in generating jobs. According to this analysis, a salient feature of the multinationals – whether Belgian or foreign – is the lower costs they face when adjusting the size of their workforce.

All in all, taking the dimension of the individual firm into account in the study of internationalisation provides a useful addition to the analysis of competitiveness. It should help improve policy-making in this area.